SoCalGas
A Sempra Energy utility

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Rajinder Sahota
Chief, Climate Change Program Evaluation Branch
California Air Resources Board
1001 I Street – P.O. Box 2815
Sacramento, CA 95812

Re:	SoCalGas and SDG&E Comments on March 29, 2016 Workshop – Cap-and-Trade (C&T) Regulation 2016 Amendments: Setting Post-2020 Emissions Cap and Allowance Allocation

Dear Ms. Sahota:

On behalf of the Southern California Gas Company (SoCalGas) and San Diego Gas & Electric (SDG&E), the following comments are respectfully submitted in response to the California Air Resources Board (ARB) Public Workshop on March 29, 2016. Our comments address two issues: 1) Options for Post-2020 cap-setting and 2) Combined Heat and Power.

I. OPTIONS FOR POST-2020 CAP-SETTING

ARB staff discussed 1) how the cap level is critical to motivating emission reductions, 2) how long-term cap levels provide market certainty and inform covered entity compliance and financial planning and 3) that the cap trajectory supports a gradual path toward the final emissions target, and then presented two options for setting the post-2020 emission caps. "Option 1" was described as a linear decline between the established 2020 cap and forecasted-2030 cap level. "Option 2" is also a linear decline to a forecasted 2030 cap, but instead using an adjusted estimate of the 2020 cap level, thus a departure from current regulation.

SoCalGas and SDG&E support Option 1 for the following reasons:

A. Maintaining the established 2020 cap level is consistent with statements made by Governor Brown (see January 5, 2015 inaugural speech and Executive Order B-30-15[1]), the stated goals of AB 32, and the 2008 California Climate Change Scoping Plan, that is reducing greenhouse gas (GHG) emissions to 1990 levels by 2020. ARB has affirmed these goals, "staff has designed the program to be sufficiently stringent to spur GHG emission reductions to achieve AB 32 goals" (Staff Report: Initial Statement of Reasons

[1] https://www.gov.ca.gov/new.php?id=18938, and https://www.gov.ca.gov/new.php?id=18928

Proposed Regulation to Implement the California Cap and Trade Program. 2010[2]). Furthermore, current estimates show state emission reductions will achieve the 2020 target (Update to the Climate Change Scoping Plan. 2014[3]). Changing the current 2020 cap level is unwarranted as California is on target to meet or exceed the 2020 emission goals in AB 32.

B. Adjusting down the cap below a straight line from the current 2020 cap level as illustrated in Option 2 would not only affect the available allowances post-2020, but it will likely result in increased allowance prices before 2020 due to a perceived reduction in future C&T compliance instrument supply. The number of future compliance instruments will be lower if ARB retires those currently held in the Allowance Price Containment Reserve (APCR), which is approximately 2 percent of the 2020 cap. There was no analysis presented for how much of the APCR might be needed by 2020 for program success. We do not support retirement of any allowances that do not represent actual emission reductions from capped sectors. Decreased supply results in higher allowance prices, thus increasing cost of compliance. Without a proportional increase in cost-mitigating California Climate Credits, increased allowance prices will adversely impact utility ratepayers, including low-income communities.

C. Covered entities under C&T will continue to pursue emissions reductions with the existing cap level illustrated in Option 1; there has been no presented evidence to the contrary. Governor Brown's Executive Order B-30-15 directs all state agencies with jurisdiction over sources of GHG emissions to implement measures to achieve GHG emission reductions. Thus covered entities are now and will be subject to other climate reducing programs and regulations that increase the cost of doing business in California.

We believe it is crucial for ARB to consider cost impacts from the C&T regulation in light of <u>all</u> future customer bill impacts for both natural gas and electricity, and to take into account the totality of bill increases that natural gas customers will be facing, especially low income households and small businesses.

II. COMBINED HEAT AND POWER (CHP) EXEMPTION

Staff proposes that the "but for" exemption for combined heat and power (CHP) should end once the consignment percentage for natural gas utilities reaches 100 percent. The rationale is that facilities that would not exceed the 25,000 MMTCO2E/year threshold for direct participation in C&T, "but for" their CHP installations, will no longer be disadvantaged in comparison with below-the-threshold facilities at 100 percent consignment. While the benefit of utility allowances will disappear at 100 percent consignment, a requirement to participate directly in C&T may be a disincentive for facilities to install CHP.

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[2] http://www.arb.ca.gov/regact/2010/capandtrade10/capisor.pdf

[3] http://www.arb.ca.gov/cc/scopingplan/2013_update/first_update_climate_change_scoping_plan.pdf

Maintaining the exemption for facilities that would not be required to participate directly in C&T "but for" their CHP installation is important to both California and the nation to help us meet our leaders CHP goals. The potential environmental and economic benefits of CHP are recognized by state and national policy makers. The 2008 California Climate Change Scoping Plan called for 6.7 MMTCO2E in GHG reductions from the installation of 4000 megawatts (MW) of CHP. Governor Brown's Clean Energy Jobs Plan[4] calls for 6,500 MW of new CHP capacity in California by 2030 and President Obama issued an Executive Order[5] calling for deployment of 40 gigawatts of new CHP nationwide by the end 2020.

Again, SoCalGas and SDG&E thank you for this opportunity to comment on the March 29, 2016 Workshop – Cap-and-Trade Regulation 2016 Amendments: Setting Post-2020 Emissions Cap and Allowance Allocation, and we look forward to additional dialogue as the amendments move forward. Please contact me if you have any questions or concerns about these comments.

Sincerely,

Jerilyn López Mendoza
Environmental Affairs Program Manager – Air Resources Board
SoCalGas and on behalf of SDG&E

[4] https://www.gov.ca.gov/docs/Clean_Energy_Plan.pdf

[5] https://www.whitehouse.gov/the-press-office/2012/08/30/executive-order-accelerating-investment-industrial-energy-efficiency