

October 23, 2013

Honorable Mary D. Nichols, Chair

Steven Cliff, Ph.D
Chief, Climate Change Market Branch

Clerk of the Board
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: Comments on Proposed Revisions to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms and the Regulation for the Mandatory Reporting of Greenhouse Gas Emissions

Dear Chair Nichols and Dr. Cliff:

Inergy West Coast LLC (“Inergy”) appreciates the opportunity to comment on the proposed revisions to the California Cap on Greenhouse Gas (“GHG”) Emissions and Market-Based Compliance Mechanisms (“Cap-and-Trade Regulation”) and the Regulation for the Mandatory Reporting of GHG Emissions (“MRR”).

Inergy’s comments follow-up on prior comments regarding the definition of “product” and related terms.¹ As a natural gas liquids processor, Inergy continues to recommend that “product”, “product output”, “production” and related terms be clearly defined to ensure that that natural gas processing operations have reasonable certainty as to how the Cap-and-Trade Regulation and the MRR may apply to them and that they are equitably treated under those regulations. While the proposed revisions to the Cap-and-Trade Regulation, including the proposed modifications to the benchmark for natural gas processing facilities, begin to address some of Inergy’s concerns, additional revisions are needed to the both the Cap-and-Trade Regulation and the MRR to clearly specify what “product”, “product output”, “production” and related terms mean for purposes of reporting and allowance calculations.

¹ See Inergy Comments on July 18 Workshop Regarding Proposed Changes to the California Greenhouse Gas Cap-and-Trade Regulation (August 2, 2013).

Natural Gas Liquids Processors and the Product Output-Based Methodology

Inergy is a natural gas liquids processor. It is Inergy's understanding that its allowances are to be calculated using the product output-based methodology. Inergy reiterates here the unique characteristics of natural gas processing facilities, to demonstrate why it is critically important to clearly define the terms used for inputs to reporting requirements and allowance calculations.

As a natural gas liquids processor, Inergy does not "produce" natural gas from underground sources. Rather, it processes, stores, or distributes or resells unfractionated gas liquids delivered by others, typically natural gas producers. Processing may be minor, such as drying or odorizing, or it may involve fractionating and reforming natural gas liquids. With respect to the latter category, Inergy may process or fractionate the unfractionated liquids into a variety of "products", such as methane, ethane, propane, butane, mixed butane, normal butane, isobutene, and natural gasoline. After processing, natural gas generally is delivered by pipeline to a public utility, and liquids are shipped to customers by truck and rail. Inergy may also store gas and liquids for customers, and, from time-to-time, Inergy may purchase a "product" and resell it. Other natural gas liquids processors may undertake similar activities, or they may operate differently.

Given the potential range of activities that natural gas processing facilities may perform, it is critical that the California Air Resources Board ("CARB") clearly and precisely define "product", "product output", "production" and related terms for purposes of reporting requirements under the MRR and calculating allowances under the Cap-and-Trade Regulation. As currently drafted, the proposed revisions to the Cap-and-Trade Regulation, in Section 95891 and Appendix C, provide some guidance as to how to account for both gas and liquids under the product output-based methodology, but they do not define what constitutes "product," "production" or "product output" in the first instance. The proposed revisions to the MRR contain the same flaw (*see, e.g.*, Proposed Amendments to the MRR, Appendix A to Staff Report, Section 95156(c)). Thus, it is not possible to know what "output" reported to CARB will be used by the Executive Officer to calculate allowances, as contemplated in product output-based allocation methodology set forth in Section 95891(b) of the proposed revised Cap-and-Trade Regulation (*see, e.g.*, definition of " $O_{a, t-2}$ ").

In order to resolve this uncertainty, and to avoid the potential for disparate application of the product output-based allowance methodology to similarly situated natural gas liquids processing facilities, the terms "product", "product output," "production" and other relevant terms must be defined, both in the Cap-and-Trade Regulation and the MRR.

Honorable Mary D. Nichols, Chair
Steven Cliff, Ph.D
California Air Resources Board
October 23, 2013
Page 3

True-Up Allowances

Inergy supports replacing the November 1 date by which allowances will be annually allocated to eligible covered entities with the October 15 date (*see* revised Section 95870(e)(1) in the Cap-and-Trade Regulation), and recommends that CARB adopt the change. This change helps resolve the allowance timing issue Inergy described in its August 2, 2013 comments on the proposed revisions to the Cap-and-Trade Regulation.

Inergy appreciates CARB's consideration of these comments, and respectfully requests that the Cap-and-Trade Regulation and the MRR be revised consistent with the recommendations set forth herein.

Sincerely,



Ann L. Trowbridge
Counsel for Inergy West Coast LLC