



November 30, 2018

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

Re: Gas Utility Group (GUG) Comments on the November 15th Modifications to the Draft Cap-and-Trade Program Amendments

Dear Ms. Sahota:

These comments are respectfully submitted on behalf of investor-owned, natural-gas distribution utilities (IOUs): Pacific Gas and Electric Company (PG&E), Southern California Gas Company (SoCalGas), San Diego Gas & Electric (SDG&E), Southwest Gas Corporation, and publicly-owned natural gas distribution utilities (POUs) serving the Cities of Long Beach, Palo Alto and Vernon. All of the above utilities are referred to collectively as the Gas Utility Group (GUG) or Utilities. The GUG appreciates this opportunity to comment on the California Air Resources Board's (ARB) draft Cap-and-Trade Regulation amendments as modified on November 15, 2018.

The GUG provides specific comments on the following topics: 1) Continued consideration for natural gas allowance allocation and 2) Equitable treatment of allowable uses of allowance proceeds.

1. Continued Consideration for Natural Gas Allowance Allocation

The GUG respectfully requests that ARB staff continue working on natural gas allocation in the next Cap-and-Trade rulemaking, in order to appropriately reflect efforts to decarbonize the natural gas sector. Staff acknowledged the need to revisit natural gas allocation if a renewable gas mandate or other changes to the sector occur in the Initial Statement of Reasons (ISOR)¹ report which was released on September 4, 2018. Shortly after the ISOR's release Senate Bill 1440 (Hueso) was passed by the legislature and signed by the Governor on September 23, 2018, requiring the California Public Utilities Commission (CPUC) to consider biomethane procurement targets for California's investor owned gas corporations. Therefore, the GUG requests that the intent of staff to revise the natural gas allocation be formalized and confirmed by the Board at the adoption of the current proposed Cap-and-Trade amendments in the Board Resolution. The GUG maintains that the natural gas sector in California is already making significant and material steps towards decarbonization, which require substantial investment and should be recognized in the natural gas allowance allocation as soon as possible.

The GUG looks forward to continuing to work with ARB staff on this issue.

2. Equitable Treatment for Allowable Uses of Allowance Proceeds

The GUG requests that staff specifically clarify that projects supporting renewable natural gas (RNG) projects (including infrastructure, procurement and near-zero emissions vehicles) can be considered as eligible uses for natural gas utility proceeds under Section 95893(d)(B) "Other GHG Emission Reduction Activities."

Although RNG-related projects do not have a separate category in the modified draft amendments in the same way that renewable electricity projects do (see Section 95892(d)(3)(A) "Renewable Energy or Integration of Renewable Energy"), it is the GUG's understanding that they could still be allowed. Given the disparity between how renewable electricity projects and RNG-related projects are included in the proposed amendments, the GUG believes additional clarification from staff would be helpful.

As the GUG has noted previously, RNG is an immediately available resource, representing a significant and unique opportunity to capture Short-Lived Climate Pollutants while at the same time displacing more carbon-intensive fuels at the end-use. Making sure that additional activities that reduce GHG emissions such as bringing RNG into the natural gas system and supporting

¹ ARB. Staff Report: Initial Statement of Reasons. Sept. 4 2018, page 67:
<https://www.arb.ca.gov/regact/2018/capandtrade18/ct18isor.pdf>

near-zero emission vehicles in the transportation sector would help meet the goals of AB 32 and SB 32. Therefore, the GUG supports the ability for natural gas utilities to pursue RNG-related projects as an allowable use of allowance proceeds.

Again, the GUG thanks ARB for this opportunity to comment on the modified draft amendments, and we look forward to additional dialogue. Please contact the members of the GUG if you have any questions or concerns about these comments.

Sincerely,

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