



January 20, 2017

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 Comments on the December 2016 Proposed 15-Day Modifications to the Cap-and-Trade Regulation
--

Dear Ms. Sahota:

These comments are respectfully submitted jointly 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 Utilities appreciate this opportunity to comment on the Air Resources Board's ("ARB") 15-day amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation ("Cap-and-Trade Amendments"), specifically the amendments related to the Post-2020 Natural Gas Supplier Allowance Allocation and Consignment. Our continued concern is with the amended Cap Adjustment Factor and Post-2020 Allowance Consignment requirements.

The GUG Requests Maintaining the Existing Cap Adjustment Factor for 2021-2030

The Cap-and-Trade Amendments continue to increase the cap adjustment factor for natural gas. As stated in previous comments, the GUG requests that ARB continue to apply the same cap adjustment factor for 2021-2030 that has been applied for 2015-2020. The lower cap adjustment factor for natural gas customers is appropriate for several reasons: first, natural gas suppliers did not become regulated until 2015, and the investor owned utilities (IOUs) still have not received authorization from the California Public Utilities Commission (CPUC) to pass on their costs to customers. Second, residential natural gas customers do not have the same suite of efficiency options available to them that electric customers have, so that opportunities to reduce natural gas usage are considerably fewer in the near term for households. Finally, natural gas suppliers currently have scant opportunity to procure renewable natural gas (RNG). Providing natural gas customers the less aggressive cap adjustment factor will allow natural gas suppliers time to ramp up development and procurement opportunities in a nascent market. The cost of that market development will be reflected in retail gas rates, and a steeper increase in the cap adjustment factor would exacerbate those rate increases.

Support Current Consignment Level Increases of 5% per year – The GUG maintains that the current 5% annual increase in required allowance consignment levels for natural gas suppliers is the most prudent way forward. The most recent changes to the Cap-and-Trade Amendments propose full consignment starting in 2021. While the GUG does not object to the goal of reaching full consignment earlier than 2030, the sudden and aggressive acceleration to 100% consignment would cause substantial rate increases, which would be punitive to our customers, without delivering the reductions in emissions that ARB anticipates.¹ In the supplemental material referred to as "Attachment D,"² ARB makes several arguments for starting 100% consignment in 2021. In the following paragraphs, we attempt to summarize and address them, and demonstrate why introducing a price signal with gradual consignment, the approach used between 2015 and 2020, is more sensible and effective.

Attachment D addresses post-2020 natural gas supplier consignment requirements and offers the following four major reasons to radically accelerate the consignment to 100%: 1) it will drive conservation, 2) it will lead to equitably distributed costs, 3) it will drive electrification, and 4) it will result in reduced fugitive emissions. ARB's arguments are not supported by the facts as demonstrated below.

¹ See page 3 of "Attachment D: First Notice of Public Availability of 15-Day Amendment Text. Post-2020 Natural Gas Supplier Allowance Allocation and Consignment." State of California Air Resources Board. December 21, 2016.

² Ibid

1. ARB acknowledges that higher consignment will lead to higher costs passed-through to consumers, but that this will result in less natural gas use thereby decreasing household emissions by “40 to 50 kg CO₂e” in 2021, the first year of the policy change. ARB argues that commercial and industrial sectors would reduce their emissions even more. As evidenced by well-respected energy efficiency studies and through the GUG’s own observations and resource planning activities, natural gas price increases appear to have little short-term effect on consumption behavior in the retail market.^{3,4,5}

The price elasticities that ARB used to derive the emission reduction values are four to fifteen times higher than existing national, regional and state-specific studies of the natural gas short-run price elasticity.⁶ For comparison, the CEC Demand Analysis Office used the following price elasticities for the 2014-2024 California Energy Demand Forecast:⁷

Table A-6: Price Elasticities of Demand by Sector, CED 2013 Final

Sector	Electricity	Natural Gas
Residential	-0.08	-0.035
Commercial	-0.15	-0.15
Industrial: Manufacturing	-0.17	-0.11
Industrial: Resource Extraction and Construction	-0.10	-0.02

Source: California Energy Commission, Demand Analysis Office, 2013.

The logic behind using *long-term* elasticities to calculate same-year demand changes is flawed (see footnote 7 of Attachment D), leading to inflated emissions savings supposedly realized beginning in year 1 of the policy change (year 2021). ARB’s analysis applied long-run elasticities to calculate short-term effects, vastly overstating the short-run impacts. A gradual change in consignment, if known in advance, should supply the same long-run effects, without the potential for rate shock.

2. Attachment D states that accelerating full consignment will achieve equitable GHG costs between consumers and across sectors. While the GUG can understand the intent behind this thinking, in practice full consignment will likely exacerbate the

³ California Climate Change Center, *Price Impact on the Demand for Water and Energy in California Residences*, (CEC-500-2009-032-F) (2009).

⁴ Bernstein, M.A., Griffin, J., *Regional Differences in the Price-Elasticity of Demand for Energy*, National Renewable Energy Laboratory, (Subcontract Report NREL/SR-620-39512) (2006).

⁵ U.S. Energy Information Administration, *Price Elasticities for Energy Use in Buildings of the United States*, (2014).

⁶ The CEC/CCCC paper (footnote 3 above) noted a price elasticity value in the Pacific census division to be -0.12; the NREL paper (footnote 4 above) found California residential short-run elasticity to be -0.098; EIA study found average short-run elasticities (avg. years 1-3) for residential sector to be -0.09; and the CEC Demand Analysis Office used residential elasticity of -0.035 for the California Energy Demand 2014-2024 Final Forecast (footnote 7 below).

⁷ See page A-9 of California Energy Commission. *California Energy Demand 2014-2024 Final Forecast. Volume 1: Statewide Electricity Demand, End-User Natural Gas Demand, and Energy Efficiency*. (CEC-20002013-004-V1-CMG). 2014.

disproportionate impact to residential vs. non-residential ratepayers. For example, Cap-and-Trade costs for the are imposed on all customer classes volumetrically; however, Cap-and-Trade revenues for the IOUs are returned to customers non-volumetrically through the Climate Credit, with the specific customer classes eligible to receive the Climate Credit currently being determined by the California Public Utilities Commission (“CPUC”).⁸ Therefore, a full consignment scenario increases the cost of compliance for everyone volumetrically then redistributes the consignment proceeds to certain customers non-volumetrically, thereby creating disproportionate rate impacts.

As stated previously, the GUG is supportive of gradually reaching full consignment, but jumping to 100% over-night may place a needless and severe hardship on the state’s non-residential ratepayers, such as small businesses, non-profits and industry, who will bear the cost burden, but will not benefit from consignment proceeds in the same way that residential customers will under a non-volumetric return of revenue regime, as proposed by the CPUC.

ARB also makes the assertion that partial consignment incentivizes fewer GHG emissions reductions from the natural gas supplied sector and leaves other sectors to accomplish those reductions. As stated in Item 1 above, increased cost pass-through resulting from full consignment will increase economic hardship on natural gas ratepayers while having little effect on short-run GHG reductions. The same long-run reductions can be achieved with a known path of consignment reductions.

3. ARB explains that full consignment is also a means to encourage fuel switching from natural gas to electricity. Increasing the costs of natural gas appliances would be harmful to customers using natural gas appliances, especially to those who do not have authority to make changes to building hot water and heating equipment, such as renting tenants. The Los Angeles County rentership rate is over 50%, the highest in the nation.⁹

Furthermore, it is far from a foregone conclusion that electric end-use appliances are lower GHG emitters than natural gas appliances in the near to mid-term. Currently, “end-use natural gas appliances most often represent a lower GHG emissions alternative because their efficiencies are higher than power plants, avoiding energy lost in the conversion of heat (from natural gas combustion at a power plant) to electricity and back to heat. End-use natural gas appliances also avoid the major transmission and distribution losses that are inherent in the electricity system.”¹⁰

Moreover, moving to electric appliances presupposes that renewable natural gas (“RNG”) will never materialize. The GUG is optimistic about the role RNG will play in

⁸ CPUC Decision 15-10-032 directs natural gas investor owned utilities to return consignment proceeds to residential ratepayers as an annual Climate Credit. Subsequently, the CPUC has granted a limited rehearing of the Decision in the GHG Natural Gas OIR Rulemaking 14-03-003 to discuss the California Manufacturers & Technology Association’s application for rehearing, resulting in a temporary suspension of Cap-and-Trade cost recovery and Climate Credit activity.

⁹ US Census Bureau, 2012 American Community Survey.

¹⁰ See page 43, 44 from: California Energy Commission. 2015. *2015 Integrated Energy Policy Report*. Publication Number: CEC-100-2015-001-CMF.

supporting the state's ambitious SB 32 GHG reduction target. As key stakeholders, many GUG members have also been actively engaged in the development of the 2030 Target Scoping Plan and in advocating for actions and policies to increase RNG utilization.

In addition to the environmental benefits of near-term natural gas appliances and long-term RNG, it has been documented that consumers prefer having natural gas in their home. A recent study concluded that mixed-fuel homes have cost and consumer preference advantages over electric-only homes.¹¹ ARB should not limit consumer choice, and should remain as technologically agnostic as possible.

4. A final argument that ARB provides for accelerating the consignment requirements to 100% in 2021 is to reduce fugitive methane emissions. ARB correctly acknowledges in Attachment D that fugitive emissions are not covered with a compliance obligation under the Cap-and-Trade Program. Therefore, since fugitive emissions are outside the scope of the Program, they should not be a foundational consideration for amending Program regulations, especially when they are addressed directly by other regulations. ARB's Greenhouse Gas Emission Standards for Crude Oil and Natural Gas Facilities, scheduled for adoption in Q1 2017, sets strict emission controls and continuous ambient monitoring of natural gas facilities to prevent fugitive methane emissions.

The GUG participants are committed to reducing methane emissions from their natural gas systems. For example, SoCalGas was one of the nation's first participants in the Environmental Protection Agency's Natural Gas STAR Program in 1993. This voluntary program to control methane emissions successfully identified emission sources and mitigation methods and has resulted in significant CO₂e reductions every year since the program began. To further these gains, SoCalGas is implementing a number of best practices and new technologies, which are described in detail in its Natural Gas Leakage Abatement Report filed with the CPUC.¹²

In conclusion, the GUG believes that the viability and health of the post-2020 Cap-and-Trade program will be strengthened by maintaining the current cap adjustment factors and the gradual consignment increase as currently mandated in the regulations. Again, the GUG thanks you for this opportunity to comment on the Cap-and-Trade 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,

¹¹ Navigant Consulting, Strategy and Impact Evaluation of ZNE Regulations on Gas-Fired Appliances and Phase 1 Technology Report, March 2015.

¹² Natural Gas Leakage Abatement Report, filed by Southern California Gas Company, on June 17, 2016, in partial fulfillment of (R.) 15-01-008 to Adopt Rules and Procedures Governing Commission Regulated Natural Gas Pipelines and Facilities to Reduce Natural Gas Leaks Consistent with Senate Bill 1371, Leno.
https://socalgas.com/regulatory/documents/r-15-01-008/R1501008_SoCalGas%202016_Annual_Report.pdf

Senior Director
Pacific Gas and Electric

Tim Carmichael

Tim Carmichael
Agency Relations Manager
Sempra Energy Utilities



Mark Krausse



Debra Gallo
Director, Public Affairs
Southwest Gas Corporation

Tony Foster

Tony Foster
Business Operations Manager
City of Long Beach

Kelly Nguyen

Kelly Nguyen
Director of Vernon Gas & Electric
Vernon Gas & Electric