April 15, 2016

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

Re: Natural Gas Utilities Group Comments on March 29, 2016 Workshop – Cap-and-Trade Regulation 2016 Amendments: Post-2020 Allowance Allocation

Dear Ms. Sahota:

These comments are respectfully submitted jointly on behalf of investor owned, natural-gas distribution utilities (IOUs): Southern California Gas Company (SoCalGas), Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric (SDG&E), Southwest Gas Corporation, and publicly-owned natural gas distribution utilities (POUs): serving the Cities of Palo Alto, Long Beach, and Vernon. All of the above utilities are referred to collectively as the "natural gas utilities" or "Utilities". The comments address the California Air Resources Board (ARB) Public Workshop on March 29, 2016 ("March 29 workshop"). Our comments address two issues: 1) Post-2020 allowance allocation and consignment and 2) administrative costs.

I. POST-2020 ALLOWANCE ALLOCATION AND CONSIGNMENT

A. Post–2020 Allocation

At the March 29 workshop, ARB staff proposed to continue the current allocation methodology based on 2011-emissions. The natural gas utilities agree that allocating free allowances protects ratepayers from rising greenhouse gas-reduction (GHG) costs and offers transition assistance that gradually introduces a price signal across all portions of California's economy in the coming years. Therefore, the natural gas utilities support staff's proposal as it provides a fair allocation to help manage GHG-reduction costs for California's natural gas customers, but especially low-income customers who are disproportionally affected by rising energy costs in all sectors.

B. Post–2020 Consignment

ARB staff proposed three possible post-2020 options to escalate the percentage of allocated allowances that must be consigned to auction by natural gas suppliers. The above named Utilities oppose all three options for the following reasons.

Less than three years ago, California's natural gas utilities and other stakeholders worked together with ARB staff to determine the appropriate consignment rate of allowance allocations under the Cap and Trade regulation ("C&T regulation"). This effort included extensive policy discussions resulting in ARB's decision of starting with a minimum 25% consignment in 2015 and gradually increasing the minimum by 5% per year to 50% in 2020 with the goal of 100% consignment by 2030 (see page 16 of the September 4, 2013 Initial Statement of Reasons-Proposed Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms [1] and page 66 of the May 2014 Final Statement of Reasons-Proposed Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms [2]). ARB's proposed changes overlook the documented reasoning for a more gradual transition to a full price signal that remains sound today.

Additionally, the proposed change introduces regulatory uncertainty around procurement activities for all market participants by suggesting that ARB staff may suddenly modify allocation frameworks. The levels of consignment for natural gas suppliers were designed to provide a balanced transition to a full carbon price-signal, mitigate market risk, and manage costs for California's natural gas customers. Altering the rate of consignment, particularly some of the more aggressive options proposed, fails to recognize the time needed to implement carbon reduction activities by both utilities and consumers.

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[1] http://www.arb.ca.gov/regact/2013/capandtrade13/capandtrade13isor.pdf

[2] http://www.arb.ca.gov/regact/2013/capandtrade13/ctfsor.pdf

Further, no change in the consignment rate from 5% increase per year is needed to improve market health—current consignment rates do not significantly impact market liquidity.

Finally, the idea that full price pass through more closely aligns the natural gas utilities with the electric distribution utilities (EDU) allocations fails to recognize the fundamental difference in the assessment of compliance obligations between natural gas utilities and EDU; the compliance obligation is allocated directly to the gas utility based on retail sales, compared to point of generation or import in the electric sector. While the state's natural gas suppliers are working to increase the number and volume of natural gas alternatives, supply is still too low to replace conventional natural gas at any significant scale. This requires a longer transition period to full rate impact for consumers.

The natural gas utilities believe it is imperative 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. This is particularly important given that customers cannot currently distinguish between price increases due to California's greenhouse gas programs (no line-item cost) and other costs such as those imposed by other regulatory changes.

II. POST-2020 PROGRAM COSTS

ARB is proposing to disallow the use of allowance value to pay for certain program costs. The California Public Utilities Commission ("CPUC") Decision 15-10-032 dated October 22, 2015 states that "all necessary administrative costs to implement the natural gas supplier Cap-and-Trade program should be recovered from GHG allowance proceeds." [3] We would like clarification from ARB that program costs can be recovered as provided by the CPUC, or a POU's local regulatory authority, with no restrictions.

Again, the natural gas utilities 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 Jerilyn Lopez Mendoza with Southern California Gas Company if you have any questions or concerns about these comments.

Sincerely,

Jerilyn López Mendoza

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

[3] D.15-10-032, at 15.

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