April 28, 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 April 2017 Proposed 15-Day Modifications to the Cap-and-Trade Regulation**

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 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 Section 95893 – Allocation to Natural Gas Suppliers for Protection of Natural Gas Ratepayers as released on April 13, 2017.

The proposed modifications continue the current 5% annual increase in the consignment requirement for natural gas suppliers to reach full consignment in 2030, and remove the previous proposal to begin full consignment in 2021. This change acknowledges the concerns related to accelerated consignment raised by the GUG in its previous comments to the ARB on September 19, 2016, November 4, 2016 and January 17, 2017 which are incorporated herein by reference. The GUG appreciates ARB's inclusion of a gradual transition to full consignment, which will protect natural gas customers from a sudden increase in rates in 2021. However, the GUG remains concerned with the long term rate impacts from an accelerated decline in the allowance allocation to the natural gas sector as discussed in more detail below.

**The GUG Maintains that Differential Treatment of Natural Gas for the Post-2020 Adjustment Factor to Allowance Allocation is Appropriate**

The Cap-and-Trade Amendments continue to decrease the amount of allowances for natural gas at a rate that is approximately double the current rate of decrease. As stated in previous comments, the GUG believes that a lower rate of reduction for natural gas is appropriate given the differences of the natural gas sector compared to others. These reasons are summarized as follows:

- *Different opportunities for efficiencies:* The opportunities for natural gas customers to reduce natural gas usage are considerably fewer in the near term given that the efficiency options available to them remain limited.
- *Different renewables markets:* The GUG supports the growth of renewable gas (RG) and believes it has an important role to play in achieving the state's emissions reductions goals, but the market is still nascent. While legislation such as Senate Bill 1383 will help to push the industry forward, the fact that the program is still at the stage of fostering pilot projects demonstrates the long path that still lies ahead. A less aggressive decline in allowance allocation will allow natural gas suppliers time to ramp up development and procurement opportunities. The cost of that market development will be reflected in retail gas rates, and a steeper decline in allowance allocation would exacerbate those rate increases.
- *Different elasticities of demand:* Historically, natural gas demand from residential, small commercial and small industrial customers has not been highly responsive to retail price signals.

**The GUG Requests Ongoing Consideration of Alternative Proposals**

While the GUG applauds the ARB's move to maintain a gradual transition to full consignment, this addresses only a short-term concern. Over the course of the ten years from 2021 to 2030, the cumulative impact of a doubled decline in allowance allocation (~4%) will lead to higher overall net GHG program costs for natural gas customers as fewer allowances are available to offset cost increases. For the reasons highlighted above, it will be difficult for natural gas customers to reduce or use alternatives as an option to minimize GHG costs. Therefore, a longer adjustment period for natural gas is critically important.

The GUG proposes maintaining the current rate of decline in allowance allocation of approximately 2% through 2030. The GUG's proposal would facilitate the introduction of renewable gas by keeping the overall net costs of achieving SB 32 goals lower.

In addition to this approach, the GUG will continue to develop other options that strike a balance between the ARB's goals to incentivize GHG reductions and spur the development of renewable gas, and protect natural gas customers from excessive costs during the transition to a lower GHG economy. We urge ARB to continue this dialogue with the GUG so that we can come to an optimal solution in the next opportunity for regulatory action prior to 2020.

In conclusion, the GUG believes that the viability and health of the post-2020 Cap-and-Trade program will be strengthened by the gradual consignment increase as currently modified in the 15-day changes but additional work needs to continue on defining the most appropriate rate of decline in allowance allocation for natural gas. 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,

Mark Krausse
Director
Pacific Gas and Electric

*Tim Carmichael*

Tim Carmichael
State Agency Relations Manager
Sempra Energy Utilities

*Leon Foster*

Leon Foster
Business Operations Manager
City of Long Beach

Debra Gallo
Director, Public Affairs
Southwest Gas Corporation

Kelly Nguyen

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

Jonathan Abendschein

Jonathan Abendschein
Assistant Director of Utilities, Resource Management
City of Palo Alto