

February 14, 2014

Honorable Mary D. Nichols, Chair

Rajinder Sahota
Chief, Climate Change Program Evaluation Branch

California Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: Comments on Discussion Draft Potential Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms

Dear Chair Nichols and Ms. Sahota:

Inergy West Coast LLC (“Inergy”) appreciates the opportunity to comment on the January 31, 2014 Discussion Draft Potential Amendments to the California Cap on Greenhouse Gas (“GHG”) Emissions and Market-Based Compliance Mechanisms. Inergy has previously submitted comments regarding the Cap-and-Trade Regulation and the Regulation for Mandatory Reporting of GHG emissions (“MRR Regulation”). Consistent with its prior comments, Inergy remains concerned about the lack of clarity regarding reporting requirements applicable to natural gas liquids processors, like Inergy. Without clear reporting requirements, it is not possible to know what “output” reported to the California Air Resources Board (“ARB”) will be used by the Executive Officer to calculate allowances, as contemplated in the product output-based allocation methodology set forth in Section 95891(b) of the Cap-and-Trade Regulation (*see, e.g.*, definition of “ $O_{a, t-2}$ ”). Accordingly, Inergy recommends that the Cap-and-Trade Regulation (and the MRR Regulation) be modified to clearly and precisely define “product”, “product output”, “production”, and related terms in the context of natural gas liquids processing operations, and/or that clear, formal guidance be issued by ARB.

Background

Inergy is a natural gas liquids processor. It is Inergy’s understanding that its allowances are to be calculated under the Cap-and-Trade Regulation 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.

“Product” and Related Terms Should Be Defined

Inergy has timely submitted its 2012 GHG emissions reports, pursuant to the MRR Regulation. ARB staff recently formally notified Inergy that it had identified issues with reported emissions, as well as problems in ARB’s reporting tool (Cal e-GGRT). Inergy has been in communication with ARB as staff has worked to identify the issues with Inergy’s reports and Cal e-GGRT. Inergy understands that its operations are uniquely situated and, as a result, do not squarely fall within the parameters of relevant reporting requirements. Inergy appreciates staff’s ongoing efforts to work toward a solution that will clarify MRR Regulation requirements as they apply to Inergy’s operations and address issues with Cal e-GGRT. In the meantime, however, the question of how Inergy’s allowances will be calculated under the Cap-and-Trade Regulation remains unresolved.

Given the potential range of activities that natural gas processing facilities may perform, it is critical that the ARB clearly and precisely define “product”, “product output”, “production” and related terms for purposes of reporting requirements under the MRR Regulation and calculating allowances under the Cap-and-Trade Regulation. As currently drafted, the Cap-and-Trade Regulation, in Section 95891, provides some guidance as to how to account for both gas and liquids under the product output-based methodology, but it does not define what constitutes “product,” “production” or “product output” in the first instance. The MRR contains the same flaw (*see, e.g.*, MRR Regulation, Section 95156(c)). Thus, as noted above, it is not possible to know what “output” reported to ARB 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}”).

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In order to resolve this uncertainty, and to avoid the potential for disparate application of the product output-based allowance methodology to covered entities, the terms “product”, “product output,” “production”, and other relevant terms must be defined, both in the Cap-and-Trade Regulation and the MRR, and/or clear, formal guidance must be issued by ARB.

Inergy appreciates CARB’s consideration of these comments.

Sincerely,



Ann L. Trowbridge
Counsel for Inergy West Coast LLC