SoCalGas
A Sempra Energy utility

George I. Minter
Regional Vice President
External Affairs & Environmental Strategy
Southern California Gas Company
555 W. 5th Street
Los Angeles, CA 90013

March 24, 2016

Mary Nichols, Chair
California Air Resources Board
P.O. Box 2815
Sacramento, CA 95812

Re: Aliso Canyon Methane Leak Climate Impacts Mitigation Program (Draft), dated March 14, 2016

Dear Chair Nichols:

Southern California Gas Company ("**SoCalGas**") appreciates the opportunity to comment on the California Air Resources Board's ("**ARB**") Draft Aliso Canyon Methane Leak Climate Impacts Mitigation Program ("**Draft Program**"), dated March 14, 2016. These comments are limited to a discussion of general principles that SoCalGas recommends the ARB follow as it finalizes its Aliso Canyon mitigation program ("**Mitigation Program**").[1]

As you are aware, the ARB explicitly decided not to regulate fugitive emissions, such as those from the leak at Aliso Canyon, a decision confirmed by the ARB on multiple occasions.[2] Thus, any proposed mitigation program from the ARB does not itself impose any legal obligations on SoCalGas. The Draft Program does, however, provide ideas as to how the company might mitigate the actual greenhouse gas emissions that were released as a result of the leak.

---

1 Due to pending litigation, these comments cannot specifically address the detailed provisions and suggestions contained in the Draft Program, including those applicable to quantifying full mitigation, program objectives, project criteria, recommended areas of concentration, additional considerations, or project selection and development. Therefore, any lack of comment herein should not be interpreted as either agreement or disagreement with such aspects of the Draft Program.

2 17 Cal. Code Regs. § 95852.2(b)(10); ARB, "Proposed Regulation to Implement the California Cap-and-Trade Program, Staff Report: Initial Statement of Reasons" (October 28, 2010) at II-9, IX-41, available at http://www.arb.ca.gov/regact/2010/capandtrade10/capisor.pdf; ARB, "Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms: Final Statement of Reasons" (May 2014) (the "2013 FSOR") at 201, available at http://www.arb.ca.gov/regact/2013/capandtrade13/ctfsor.pdf.

1. ARB Emissions Estimates

As SoCalGas has previously explained, it is not yet known how much natural gas was released to the atmosphere as a result of the leak. The ARB acknowledges this in the Draft Program, admitting that its own emissions estimates remain "preliminary" based on "rough estimates" from flyover data. To continue being transparent, SoCalGas plans to share our emissions methodology and emissions estimate and gather input from outside experts as we finalize this work. This emissions estimate will ultimately be used to determine the volume of emissions to mitigate.

2. Global Warming Potential

SoCalGas is aware that certain stakeholders have urged the ARB to use a global warming potential ("**GWP**") value based on a 20-year time-horizon in the Mitigation Program. The Draft Program adopts this recommendation. As set forth below, however, using the 20-year GWP in this situation is inappropriate as well as contrary to California and federal law. Therefore, we do not intend to use a 20-year GWP as we evaluate mitigation projects.

California and federal regulatory programs currently use, and consistently have used, the 100-year GWP values for greenhouse gases. Indeed, the ARB's own Regulation for the Mandatory Reporting of Greenhouse Gas Emissions[3] ("**MRR**") requires that covered entities report emissions in metric tonnes of carbon dioxide equivalent ("**MTCO$_2$e**") using the GWP contained in the U.S. Environmental Protection Agency's ("**EPA**") mandatory greenhouse gas ("**GHG**") reporting regulation in 40 CFR § 98 ("**GHGRP**").[4] It is no accident that all three of these regulatory regimes use 100-year GWP values, as the California regulations were intended to be consistent with one another and with the EPA GHGRP.[5]

The ARB's Low Carbon Fuel Standard ("**LCFS**") likewise uses the 100-year GWP value for methane. For example, when assessing the carbon intensity of certain alternative fuels (which are measured in grams of CO_2e per megajoule), the ARB grants credit for avoided methane emissions using the 100-year GWP value.

If the ARB were to use a 20-year horizon in the Mitigation Program, consistency and fairness would require it to conform its other AB 32 programs, including the Cap-and-Trade Program, MRR, and LCFS, by adjusting the myriad of calculations involving the potency of methane and

---

3 17 Cal. Code Regs. § 95100 et seq.

4 "For the purposes of this article, global warming potential values listed in Table A-1 of 40 CFR Part 98 are used to determine the CO2 equivalent of emissions." 17 Cal Code Regs. § 95102(66). Table A-1 lists the GWP of CH4 using a 100-year time horizon. In addition, the GWP used in ARB's own Cap-and-Trade Program (17 Cal. Code Regs. § 95800 et seq.) is determined by reference to the GWP used in the MRR and, therefore, similarly uses a 100-year GWP value. 17 Cal. Code Regs § 95802(56).

5 *See generally* ARB, Final Statement of Reasons for Rulemaking at 5 (Nov. 2, 2012), available at http://www.arb.ca.gov/regact/2012/ghg2012/ghg2012finalfsor.pdf ("The proposed revisions to the regulations are necessary to support California's cap-and-trade program, as well as further harmonization with the U.S. Environmental Protection Agency (U.S. EPA) federal mandatory greenhouse gas (GHG) reporting requirements").

other GHGs. Further, a move to a 20-year horizon would necessitate a review of offset protocols and LCFS credit quantification methodologies for existing and future activities.

In short, the Mitigation Program – which only applies to one discrete event – is not an appropriate vehicle for making such a dramatic change. Such a significant policy shift requires instead the full opportunity for notice and comment that the scoping plan process and subsequent rulemaking allow.

3. Mitigation Program Cost

It is unclear why the ARB addresses mitigation program costs in its Draft Program. SoCalGas' commitment to mitigate the GHG impact of the actual natural gas emitted from the leak will be executed, as you would expect, as economically as possible. Our intent is not to wastefully spend resources, but to deliver on our commitment to mitigate the impact of the leak.

4. Mitigation Project Timing

While SoCalGas agrees it is important for any mitigation program to be implemented in a reasonable timeframe, such an artificial timeframe placed on reductions is arbitrary at best, since the GHG reduction benefits of these projects would be ongoing. The ARB's declaration that all emission reductions must occur within ten years from the beginning of the Aliso Canyon leak means that projects with longer lifecycles would not be evaluated on an equal basis with projects that accomplish those reductions in ten years, albeit are more costly or resource-intensive. SoCalGas believes, instead, that all actual and verified emissions from the lifecycle of a project can be appropriately applied towards the total required emissions reductions.

5. Mitigation Project Siting

Since the effects of climate change are global, the specific location where methane or other GHG emissions reductions occur is irrelevant to their effectiveness in mitigating the impacts of such emissions. As there are a variety of opportunities to reduce GHG emissions both inside and outside of California, however, the Mitigation Program should not be artificially restricted to projects within the state.

6. Mitigation Project Sources

The Draft Program recommends that mitigation projects "[i]nvolve substantial direct and indirect reductions in emissions of short-lived climate pollutants ("**SLCPs**"), especially methane."[6] There is no basis for such a limited approach. Any mitigation plan should encourage flexibility to pursue an assortment of cost-effective and feasible emission-reduction measures and mitigation projects, even if those projects do not involve methane.

Indeed, ARB's Cap-and-Trade Program does not limit the type of GHGs used for registry offset credits. Rather, the Cap-and-Trade Program simply requires that a registry offset credit

---

6 Draft Program at 9.

"[r]epresent a GHG emission reduction or GHG removal enhancement that is real, additional, quantifiable, permanent, verifiable, and enforceable."[7] This flexibility acknowledges that so long as the offset removes a specified *amount* of GHG emissions, it does not matter what the *source* of those emissions might be. And, as the Intergovernmental Panel on Climate Change ("**IPCC**") Working Group 3 has noted, "[f]lexible market-based policies with maximal sectoral and geographic coverage are generally understood to deliver emissions reductions at the lowest economic cost."[8]

7. Allowance and Offset Use

The Draft Program would prohibit the use of allowances and offsets issued pursuant to the Cap-and-Trade Program. As support for this prohibition, the ARB provides the following rationale:

> Among them, the Cap-and-Trade Program, with its carefully calibrated annual emission caps, was not designed to capture fugitive emissions from sources such as Aliso Canyon. SoCalGas's purchase of compliance instruments commensurate with Aliso Canyon emissions, therefore, could tighten the markets for Cap-and-Trade allowances and offsets and potentially impact the cost and ability of regulated entities to comply with the Cap-and-Trade Program. Surrender of compliance instruments to mitigate Aliso Canyon emissions thus could hinder rather than facilitate the State's progress toward meeting its 2020 target for greenhouse gas emissions and may not represent emission reductions in addition to those that would otherwise be achieved by the Cap-and-Trade Program.

This rationale seems both mistaken and potentially inconsistent with other aspects of the Draft Program. First, it is highly unlikely that SoCalGas's purchase of allowances or offsets in the range currently estimated by the ARB (i.e., approximately 2.4 million metric tonnes) "could tighten the markets… and potentially impact the cost and ability of regulated entities to comply". As the ARB is aware, the combined triennial cap for California and Quebec is in the range of 1.3 billion tonnes (considering the combined cap of over 1.2 billion allowances plus a potential offset headroom in the range of 96 million tonnes). Relative to these massive volumes, an estimated additional demand in the approximate range of only 2.4 million tonnes, or less than 0.2% of the triennial cap, is immaterial. Furthermore, in the February 2016 auction, the ARB was unable to sell 3.5 million allowances, which clearly suggests that there is room in the market to accommodate an additional purchase in the approximate range of 2.4 million tonnes.

Second, the recommendation that the Mitigation Program concentrate on emissions from the agriculture sector is inconsistent with the recommended prohibition on the use of offsets from the Cap-and-Trade Program. Indeed, the agricultural sector (livestock) is already covered by the offset protocols currently in effect. These protocols, and comparable independently-developed quantification methodologies, offer a transparent and rigorous procedure to mitigate the

---

7 17 Cal. Code Regs., § 95970(a)(1).

8 IPCC, 2014: Climate Change 2014: Mitigation of Climate Change. Contribution of Working Group III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change, p. 464.

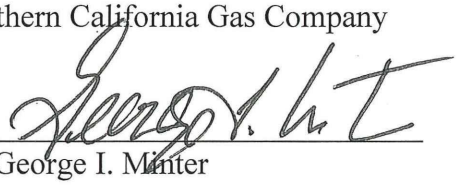
emissions. Such programs, including those administered by the ARB-accredited registries — the Climate Action Reserve, the American Carbon Registry and the Verified Carbon Standard — have a proven track record of delivering additional and permanent reductions in GHG emissions by establishing a rigorous, stringent baseline against which to measure emission reductions and by requiring third party verification to ensure accurate emissions accounting.

8. Closing

The ARB's Draft Program has many laudable goals, including consideration of opportunities for innovation and technology advancement, such as projects to generate significant reductions of methane emissions within the agriculture and waste sectors; measures to reduce emissions from methane hot spots and/or newly identified sources; and efforts to introduce and further deploy sustainable energy infrastructure and modes of transportation. We look forward to seeing the final ARB Mitigation Program.

Sincerely,

Southern California Gas Company

By: 

George I. Minter
Regional Vice President
External Affairs & Environmental Strategy

cc: Richard Corey, ARB Executive Officer
Ellen Peter, ARB General Counsel
Kyle Graham, ARB Senior Counsel