



October 22, 2018

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 (GUG) Comments on the Proposed Amendments to the California Cap-and-Trade Program

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 Company (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 GUG appreciates this opportunity to comment on the California Air Resources Board's draft Cap-and-Trade Regulation amendments as released on September 4, 2018.

The GUG provides specific comments on the following topics: 1) Continued consideration for natural gas allowance allocation; and 2) Equitable treatment of allowable uses of allowance proceeds.

The GUG also supports the consensus positions of the California electric utilities as outlined in the Joint-Utility Group letter on the following topics: 1) Establishing a Price Ceiling that allows for cost-effective reductions and a politically sustainable program, which can be achieved through approaches such as utilizing a fixed real adder of \$60 or below (in 2021 dollars) to the floor price; 2) Support for ARB's annual allowance budgets for the 2021-2030 period; and 3) Support of ARB's approach to Offset provisions.

1. Continued Consideration for Natural Gas Allowance Allocation

The GUG appreciates staff's acknowledgement of the need to revisit natural gas allocation if a renewable gas mandate or other changes to the sector occur, as noted in the Initial Statement of Reasons (ISOR)¹ released on September 4, 2018. The GUG maintains that the natural gas sector in California is already making significant and material steps towards decarbonization, which require substantial investment.

Most notably, Senate Bill (SB) 1440² was passed by the Legislature and signed by the Governor on September 23, 2018. This law requires the California Public Utilities Commission (CPUC), in consultation with the ARB, to consider adopting specific biomethane procurement targets or goals for California's gas corporations (IOUs). Many of the GUG members actively supported the passage of SB 1440 throughout the legislative session and are in favor of the CPUC setting up a program to foster cost-effective procurement of renewable natural gas (RNG) in California.

In the meantime, GUG members are not waiting for implementation of SB 1440 and have already taken many actions to support decarbonization, as noted below:

- SoCalGas and PG&E received approval from the CPUC to pursue Voluntary RNG Procurement Pilots that seek to purchase RNG to meet the compressed natural gas (CNG) vehicle fuel demand from utility-owned CNG fueling stations^{3,4}.
- The City of Long Beach's Energy Resources Department supplies RNG to Long Beach Transit (the city's bus system) to power 100% of its compressed natural gas (CNG) vehicle fleet. The City is also increasing the number of City vehicles that run on CNG, all of which will be fueled by RNG.
- The City of Palo Alto approved a Carbon Neutral Natural Gas Plan⁵, which sets in motion a strategy to achieve carbon neutrality for the gas supply portfolio. All Palo Alto

¹ ARB. Staff Report: Initial Statement of Reasons. Sept. 4 2018, page 67:

<https://www.arb.ca.gov/regact/2018/capandtrade18/ct18isor.pdf>

² SB 1440 (Hueso). Energy: biomethane: biomethane procurement program:

<https://www.socalgas.com/regulatory/tariffs/tm2/pdf/GO-BCUS.pdf>

³ SoCalGas Advice Letter #5295: <https://www.socalgas.com/regulatory/tariffs/tm2/pdf/5295.pdf>

⁴ PG&E Advice Letter 3961-G: https://www.pge.com/tariffs/assets/pdf/adviceletter/GAS_3961-G.pdf

gas customers pay a 4 cent-per-therm surcharge in addition to any Cap-and-Trade compliance charges.

- In January 2014, the CPUC approved SoCalGas' application to offer a Biogas Conditioning/Upgrading Services Tariff in response to customer inquiries and requests⁶. This service is designed to meet the current and future needs of biogas producers seeking to upgrade their biogas for beneficial uses such as pipeline injection, onsite power generation, or compressed natural gas vehicle refueling stations.
- Per SB 1383, the CPUC's dairy pilot biomethane solicitation program is also underway and will approve at least five dairy biomethane projects for pipeline interconnection to investor-owned utilities in California by the end of 2018.⁷

Staff duly noted in the ISOR that the electric utility sector allocation recognizes the additional cost burden from decarbonization policies, while the natural gas sector does not receive a similar allocation adjustment.

As the natural gas sector continues efforts to decarbonize, RNG will play an important role in achieving the State's climate goals by providing a lower-emission, beneficial use for Short-Lived Climate Pollutants (SLCPs) that are currently being released directly into the atmosphere as methane or flared. As the GUG has noted in prior public comments, an increasingly decarbonized gas supply can:

- Enable near-term GHG reduction of medium and heavy-duty transportation while also improving air quality and supporting successful implementation of the Low Carbon Fuel Standard,
- provide cleaner fuel for ongoing thermal electric generation which supports integration of renewable resources,
- provide cleaner fuel for customer end-uses, especially in difficult to electrify industrial applications, and
- play a critical role in furthering reliable deployment of renewable electricity by utilizing the natural gas pipeline as renewable storage, benefiting from its ability to firm intermittent power, provide storage capacity and scalability compared to other storage options.

The GUG looks forward to working with staff and the ARB Board to recognize the costs of these decarbonization efforts through adjustment to the natural gas sector allocation in future Cap-and-Trade rulemaking.

⁵ City of Palo Alto Carbon Neutral Natural Gas Portfolio Plan:
<https://www.cityofpaloalto.org/civicax/filebank/documents/54160>

⁶ SoCalGas Biogas Conditioning/Upgrading Services. Schedule No. GO-BCUS:
<https://www.socalgas.com/regulatory/tariffs/tm2/pdf/GO-BCUS.pdf>

⁷ As directed by SB 1383, CPUC instituted R.17-06-015 to implement the dairy biomethane pilot:
http://www.cpuc.ca.gov/renewable_natural_gas/

2. Equitable Treatment for Allowable Uses of Allowance Proceeds

ARB's draft amendments attempt to clarify how electric and natural gas utilities are allowed to use the revenue from their allocated allowances by specifying eligible categories of activities. As currently drafted, the amendments contain more allowable uses for the electric distribution utilities (EDUs) than natural gas utilities. "Renewable Energy" is a broad category that encompasses construction and procurement of energy from renewable electricity projects but there is no comparable category for natural gas suppliers with respect to RNG projects, which also reduce GHGs (see benefits noted above). Similarly, the EDU allowable uses also include infrastructure or other support for "active transportation, zero-emission vehicles, or public transportation" but there is no allowable use for near-zero emission vehicles or natural gas vehicles fueled by RNG which actually provide a zero-GHG transportation option, especially for medium- and heavy-duty vehicles. In the interest of equitable treatment and to ensure that important GHG reduction activities are not excluded, the GUG urges Staff to address this discrepancy.

To assist with remedying these concerns, the GUG makes the following suggested edits to the regulation text (edited sections are in red):

1) Revised Section §95893(d)(3)

(3) ~~Auction proceeds and a~~ Allowance value, including any allocated allowance auction proceeds, obtained by a natural gas supplier ~~must shall~~ be used ~~exclusively~~ for the primary benefit of retail natural gas ratepayers of each natural gas supplier, consistent with the goals of AB 32, and may not be used for the benefit of entities or persons other than such ratepayers. Allocated allowance auction proceeds ~~may~~must be used to reduce greenhouse gas emissions or returned to ratepayers using one or more of the approaches described in sections 95893(d)(3)(A)-~~(C)(D)~~ and may also be used to pay for administrative and outreach costs described in section 95893(d)(4). ~~Any allocated allowance auction proceeds returned to ratepayers must be done in a non-volumetric manner.~~

(A) Biomethane Projects or Integration of Biomethane Projects. Funding programs or activities in the following categories:

- 1. Construction of projects to develop biomethane (as defined in section 95802) that will directly interconnect with a common carrier pipeline in California, or procurement of biomethane by a natural gas supplier;*
- 2. Support for biomethane projects that are ratepayer-owned or located within the natural gas supplier's service territory; or*
- 3. Infrastructure projects or other projects supporting near-zero emission vehicles.*

~~(A)(B)~~ Energy Efficiency. Funding programs or activities designed to reduce greenhouse gas emissions through reductions in energy use in the following categories:

- 1. Energy efficient equipment rebates;*
- 2. Energy-efficient building retrofits;*

3. Other projects that reduce energy demand;

~~(B)(C)~~ Other GHG Emission Reduction Activities. Funding programs or activities other than energy efficiency, for which the natural gas supplier can demonstrate GHG emission reductions per section 95893(d)(5). This includes funding projects or activities that reduce emissions of uncombusted natural gas and that are not mandated by any federal, state, or local health and safety requirements, legal settlement, enforcement action, Senate Bill 1371 (Morrell, 2014), or the Greenhouse Gas Emission Standards for Crude Oil and Natural Gas Facilities (California Code of Regulations, sections 95665-95677).

~~(C)(D)~~ Non-Volumetric Return to Ratepayers. Distribution of allocated allowance auction proceeds to some or all ratepayers in a non-volumetric manner, either on- or off-bill.

2) Revised section § 95893(d)(4).

(4) Administrative and Outreach Costs. Allocated allowance auction proceeds may be used for administrative costs only in so far as those costs are solely limited to necessary costs for the implementation of sections 95893(d)(3)(A)-~~(C)(D)~~. Allocated allowance auction proceeds may be used for outreach that supports the implementation of the approaches described in sections 95893(d)(3)(A)-~~(C)(D)~~.

3) Revised section § 95893(d)(5).

*(5) Natural gas suppliers must demonstrate GHG emissions reductions, pursuant to section 95893(e)(4)(B), **as applicable**, for each use of allocated allowance auction proceeds described in sections 95893(d)(3)(A)-~~(B)(C)~~ that is undertaken.*

RNG is an immediately available resource, representing a significant and unique opportunity to capture SLCPs while at the same time displacing more carbon-intensive fuels at the end-use. Investing in RNG does not come at the expense of other approaches to GHG reduction and is found to be as cost-effective or better than many alternative methods of reducing GHGs.⁸ Including additional activities that reduce GHG emissions such as bringing RNG into the natural gas system and supporting near-zero emission vehicles in the transportation sector would help meet the goals of AB 32. Therefore, the GUG supports equitable treatment in the allowable uses of allowance proceeds and requests that Staff consider the suggested regulation language revisions above.

In conclusion, the GUG believes that the viability and health of the post-2020 Cap-and-Trade program can be strengthened through further consideration of natural gas allocation as noted in Board Resolution 17-21, providing equitable treatment of allowable GHG-reducing activities for both electric and natural gas suppliers, and setting a sustainable price ceiling level as noted above. Again, the GUG thanks CARB for this opportunity to comment on the draft 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.

⁸ https://www.socalgas.com/1443741887279/SoCalGas_Renewable_Gas_Final-Report.pdf

Sincerely,

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