



***Pacific Gas and  
Electric Company™***



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**SOUTHWEST GAS CORPORATION**



**September 19, 2016**

Clerk of the Board  
California Air Resources Board  
1001 I Street  
Sacramento, California 95814

**Re: Gas Utility Group (GUG) Comments on the Air Resources Board's Proposed  
Amendments to the Cap-and-Trade Regulation**

Dear Members of the Air Resources Board:

These comments are respectfully submitted jointly 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 and Vernon. All of the above utilities are referred to collectively as the "GUG" or "Utilities." The Utilities appreciate this opportunity to comment on the Air Resources Board's (ARB's) proposed amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms (Cap-and-Trade) Regulation.

**The GUG Supports Allowance Allocation for the Benefit of Natural Gas Customers**

Under the Cap-and-Trade Regulation, public and investor-owned gas utilities, as "natural gas suppliers," are the point of compliance for natural gas customers falling below the 25,000 metric

ton threshold for covered entities. These include residential, small commercial and industrial customers. The Cap-and-Trade Regulation Amendments propose continuing allowance allocation to natural gas suppliers for the benefit of these customers.

The GUG strongly supports the allocation methodology provided in the current regulation for natural gas, and the continuation of this approach to allocation in a post-2020 regime.

### **The GUG Supports Existing Cap Adjustment Factor for 2021-2030**

The Cap-and-Trade Regulation Amendments do not address the cap adjustment factor for natural gas. The GUG believes that it is appropriate for ARB to apply the same cap adjustment factor for 2021-2030 that has been applied for 2015-2020. The lower cap adjustment factor for natural gas customers is appropriate for several reasons: first, natural gas customers came under the cap three years after other sectors and so have had less time to adjust to carbon regulation. Second, natural gas customers do not have the same suite of efficiency options available to them that electric customers enjoy, so that opportunities to reduce usage are considerably fewer. Finally, unlike the electric sector where there is a range of greenhouse gas (GHG)-free sources available for electric distribution utilities, natural gas suppliers currently have scant opportunity to procure renewable natural gas (RNG). Providing natural gas customers the less aggressive cap adjustment factor will allow natural gas suppliers time to ramp up development and procurement opportunities in a market that is just beginning to be developed. The cost of that market development will be reflected in retail gas rates, and a steeper decline in the cap adjustment factor would exacerbate those rate increases.

### **The GUG Opposes an Accelerated Allowance Consignment Schedule**

The existing Cap-and-Trade Regulation sets forth a minimum consignment of natural gas suppliers' allocation of allowances that began at 25% in 2015 and increases by 5% per year, so that full consignment will be achieved by 2030. Allowances not consigned to auction may be retired for a natural gas supplier's compliance without the otherwise associated costs showing up in customer rates. This approach helps transition the cost of greenhouse gas-reduction (GHG) into natural gas rates so that no rate shock is experienced. The Initial Statement of Reasons (ISOR) supporting the Cap-and-Trade Amendments proposes to expedite the post-2020 consignment requirement for natural gas suppliers.<sup>1</sup> California's natural gas utilities worked closely with ARB in the 2013 – 2014 timeframe to develop the current consignment requirements. ARB's proposal to accelerate the rate of consignment does not address these documented reasons<sup>2</sup> for a gradual transition, which are still valid today. The GUG urges ARB to continue with the consignment rate that was developed three years ago as the most effective way to continue to reduce GHG emissions with minimal impact to California businesses and customers.

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<sup>1</sup> See page 45 of the August 2016 Initial Statement of Reasons-Proposed Amendments to the California Cap on Greenhouse Gas emissions and Market-Based Compliance Mechanisms

<sup>2</sup> See page 16 of the September 2013 Initial Statement of Reasons-Proposed Amendments to the California Cap on Greenhouse Gas emissions and Market-Based Compliance Mechanisms

## **The GUG Supports a Measured Transition to More Renewable Natural Gas**

Unlike the renewables market for the electricity sector, the RNG industry is still in the early stages of development. There is considerable uncertainty on the availability of feedstock sources in the state and the country, as well as competition from other sectors (such as transportation) for those same sources. The GUG supports the objective indicated in the ISOR<sup>3</sup> of converting to a more sustainable natural gas sector, but urges caution against moving faster than development of the RNG industry can keep up with. Rather than increasing carbon costs through accelerated consignment, the GUG advocates for more policy incentives and funding. This includes more State funds (such as from the Greenhouse Gas Reduction Fund, and other state programs) to help defray the initial capitals costs of RNG projects, funding for research on conversion technologies, and development of large scale, stable RNG supplies at affordable prices. Policy incentives such as streamlined permitting to ease barriers are also needed to help the industry develop, and will be more effective in advancing RNG.

The GUG looks forward to a continued dialogue with ARB as the amendment process moves forward. Thank you again for the opportunity to comment on ARB's proposed amendments to the Cap-and-Trade Regulation.

Sincerely,



Mark Krausse  
Senior Director  
Pacific Gas and Electric



Robert B. Anderson  
Director, Resource Planning  
San Diego Gas & Electric

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<sup>3</sup> See page 45 of the August 2016 Initial Statement of Reasons-Proposed Amendments to the California Cap on Greenhouse Gas emissions and Market-Based Compliance Mechanisms

*Jerilyn López Mendoza*

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