

HANNA AND MORTON LLP

A LIMITED LIABILITY PARTNERSHIP INCLUDING A PROFESSIONAL CORPORATION

LAWYERS

444 SOUTH FLOWER STREET, SUITE 1500
LOS ANGELES, CALIFORNIA 90071-2916
TELEPHONE: (213) 628-7131
FACSIMILE: (213) 623-3379
WEBSITE: www.hanmor.com

NORMAN A. PEDERSEN

DIRECT DIAL: (213) 430-2510

EMAIL: npedersen@hanmor.com

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Submitted to www.arb.ca.gov/capandtrade/comments.htm

Karin Donhowe
Office of Climate Change
California Air Resources Board
1001 I Street
Sacramento, CA 95812

**Re: Southern California Public Power Authority Comment on the June 23, 2009
Workshop on Point of Regulation for the Sources of Fuel Combustion
Included in the Second Compliance Period in a California Cap-and-Trade
Program**

Dear Ms. Donhowe:

The Southern California Public Power Authority ("SCPPA")¹ appreciates this opportunity to comment on some of the issues discussed at the June 23, 2009 workshop on "Point of Regulation for the Sources of Fuel Combustion Included in the Second Compliance Period in a California Cap-and-Trade Program." This comment addresses several points about incorporating the natural gas sector into the Air Resources Board ("ARB") cap-and-trade program at the beginning of the second compliance period.

First, contrary to suggestions made at the workshop by some representatives from California gas distribution utilities, there should be no postponement of the inclusion of the natural gas sector in the cap-and-trade program at the beginning of the second compliance period. If anything, there should be an acceleration of the inclusion of the natural gas sector in the cap-and-trade program.

Second, the California gas local distribution companies ("LDCs"), primarily, Southern California Gas Company ("SoCalGas"), San Diego Gas & Electric Company ("SDG&E,"), and Pacific Gas & Electric Company ("PG&E"), should be the point of regulation for gas-related

¹ SCPPA is a joint powers authority. The members are Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Glendale, Los Angeles Department of Water and Power, Imperial Irrigation District, Pasadena, Riverside, and Vernon. This comment is sponsored by Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Glendale, Imperial Irrigation District, Pasadena, and Riverside.

emissions except for emissions from what the ARB staff calls the “narrow scope” sources or from sources that receive gas through means other than the LDC transmission and distribution systems.

Third, the supposed problem of providing the LDCs with some ability to “net out” the “narrow scope” sources should be addressed by adopting a straight-forward exclusionary rule providing that LDC deliveries to any entity that is directly regulated under the cap-and-trade program will be excluded from the gas emissions for which the LDC is responsible.

Fourth, the costs incurred by the LDCs for purchasing allowances to cover gas-related emissions for which the LDCs are responsible should be passed through to LDC customers other than those that are directly covered by the cap-and-trade program as provided by the California Public Utilities Commission (“CPUC”).

I. THE INCLUSION OF THE NATURAL GAS SECTOR IN THE CAP-AND-TRADE PROGRAM SHOULD NOT BE DELAYED.

Several gas LDC representatives at the June 23, 2009 workshop appeared to contend that the natural gas sector should not be included in the cap-and-trade program. The ARB should not reconsider its December, 2008, determination in the Scoping Plan to include the natural gas sector in the cap-and-trade program. As found in the Scoping Plan, the arguments for excluding the natural gas sector have no merit. If anything, inclusion of the natural gas sector should be accelerated.

The basic contention of those who would like to have the Scoping Plan revised to exclude the natural gas sector from the cap-and-trade program is that the natural gas sector cannot respond to the burden of acquiring allowances by doing anything other than reducing consumption of natural gas. That claim is disingenuous. The argument ignores the fact that the natural gas sector can reduce its emissions in precisely the same ways in which the electricity sector and the transportation sector will reduce emissions: by adopting aggressive energy efficiency measures to reduce the use of fossil fuels as primary energy sources and by turning to low-carbon or zero-carbon sources of energy ranging from solar to fuel cells to hydrogen as substitutes for burning fossil fuels.

If any change were made to the Scoping Plan, the Scoping Plan should be revised to *accelerate* inclusion of the natural gas sector in the cap-and-trade program to the beginning of first compliance period in 2012. The vast majority of natural gas usage in California is served by the three major gas distribution utilities, SoCalGas, PG&E, and SDG&E. Through those three points of regulation, the ARB could reach most gas usage in California beyond usage by the “narrow scope” sources of emissions (usage by the directly covered industrial sector and electric sector entities that are included in the first cap-and-trade compliance period under the Scoping Plan).

Given that emissions reductions can be achieved by the natural gas sector in the same ways in which reductions can be achieved in the electric or transportation sectors, and given that

the gas LDCs would be convenient points of regulation, the ARB should consider including the natural gas sector in the cap-and-trade program for the first compliance period if any change is to be made at all in the treatment of the natural gas sector under the Scoping Plan.

II. THE GAS DISTRIBUTION UTILITIES SHOULD BE THE PRIMARY POINT OF REGULATION FOR THE NATURAL GAS SECTOR.

The gas LDCs should be the primary point of regulation for natural gas they deliver to usage beyond the “narrow scope” usage which is included in the first compliance period, 2012 to 2014. Under the Scoping Plan, in-state electricity generation and large industrial facilities that use more than 25,000 MTCO₂ e/year and imported electricity will be covered in the first compliance period. The LDCs should be the point of regulation for emissions from deliveries to burn by all LDC customers who are not included in the first compliance period. Similarly, owners or operators of intrastate pipelines could be points of regulation for their deliveries to sources other than the “narrow scope” sources of emissions.

Natural gas consumption in California by entities that are not supplied by the LDCs or intrastate pipelines, for example, consumption by entities that are supplied by interstate pipelines or through direct deliveries from natural gas production, should be covered by the cap-and-trade program directly. This is similar to the approach taken in the administrative fee regulation that was proposed for the Board’s June 25, 2009 meeting with “15 day” proposed modifications. The administrative fee regulation as proposed for the June 25, 2009 meeting makes end users of natural gas that is directly delivered through interstate pipelines, the owners or operators of facilities that consume natural gas that is produced on-site, and the owners or operators of facilities that consume associated gas that is produced on-site subject to the administrative fee. Resolution 09-36, Att. B, Section 95201(a)(1)(b)-(f).

III. “NETTING OUT” THE “NARROW SCOPE” SOURCES OF EMISSIONS FROM DELIVERIES OF GAS BY LDCs SHOULD NOT BE A PROBLEM.

The Staff seemed to be concerned at the June 23, 2009 workshop that it may be difficult for the California LDCs to “net out” deliveries of gas to the “narrow scope” entities that are directly covered by the cap-and-trade program. On Slide 17 of the Staff’s presentation, the Staff said they were concerned that “LDCs have some ability to ‘net out’ narrow scope sources.”

Under the Proposed Scoping Plan, the ARB will directly regulate all in-state electricity generation facilities and industrial facilities that consumer more than 25,000 MTCO₂e/year. The directly regulated entities will know who they are. If provision is made for them to inform the LDCs that they are directly regulated and the LDCs are required to exclude deliveries to such end-users in determining their cap-and-trade liability, the problem of “netting out” the “narrow scope” entities should be solved.

IV. THE PASS THROUGH OF ALLOWANCE COSTS INCURRED BY LDCs SHOULD BE ADDRESSED BY THE CALIFORNIA PUBLIC UTILITIES COMMISSION.

The Staff expressed concern that the LDCs be provided with some ability to pass through their cost of buying allowances if LDCs are designated as the point of regulation for the natural gas sector, excluding burn by the directly regulated entities. The California LDCs, including both large LDCs and smaller LDCs like Southwest Gas Corporation, are subject to rate regulation by the California Public Utilities Commission. The pass-through issue should be deferred by the ARB to the California Public Utilities Commission, which has jurisdiction over the LDCs. For any publicly-owned gas LDCs, pass-through issues should be left for resolution by their respective governing bodies.

V. SCPPA APPRECIATES THIS OPPORTUNITY TO PRESENT ITS VIEWS TO THE STAFF.

SCPPA urges the Staff to promulgate cap-and-trade program design recommendations that are consistent with SCPPA's recommendations above.

Respectfully submitted,

/s/ Norman A. Pedersen

Norman A. Pedersen, Esq.
HANNA AND MORTON LLP
444 South Flower Street, Suite 1500
Los Angeles, California 90071-2916
Telephone: (213) 430-2510
Facsimile: (213) 623-3379

Attorneys for the **SOUTHERN CALIFORNIA
PUBLIC POWER AUTHORITY**

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