

To: CARB Staff
From: Andy Katz, **Breathe California**
Tam Hunt, **Community Environmental Council**
Jason Barbose, **Environment California**
Derek Walker, **Environmental Defense Fund**
Kristin Grenfell, **Natural Resources Defense Council**
Cliff Chen, **Union of Concerned Scientists**
Re: Natural Gas under Cap and Trade
Date: August 4, 2008

We write as a broad coalition of environmental organizations to express our collective view that **residential, commercial and small industrial combustion of natural gas should be included in a well-designed cap and trade program at the outset in 2012, in addition to implementing other regulatory policies for the natural gas sector.**

We support the Draft Scoping Plan's recommendation to include residential, commercial, and small industrial combustion of natural gas in the cap and trade program (p.17; C-16). However, we urge CARB not to wait to include these smaller end-users of natural gas.¹ CARB should include them in the cap and trade program from the start in 2012, along with the electricity sector and large industrial sources. The most logical point of regulation that has emerged thus far is for Local Distribution Companies (LDCs) to be the point of regulation for smaller users of natural gas.²

CARB should develop a clear timeline for completing the steps necessary to include natural gas in cap and trade

The Draft Scoping Plan Appendix (pg. C-16) notes that "[a]dditional analysis is needed before making a specific recommendation on when to phase in" smaller users of natural gas. We believe that one of the steps that CARB needs to take before including this sector in a cap and trade program is to develop mandatory reporting protocols for the sector. The Proposed Scoping Plan should detail the analyses and steps (such as developing mandatory reporting protocols) needed for including natural gas in the cap and trade program. It should also lay out a timeline for completing those analyses and steps, and should commit to including natural gas in the cap and trade sector once those steps are taken.

One of the important benefits of using a well-designed cap and trade program to supplement other regulations is that it creates an enforceable cap on emitters. This cap enables regulators to

¹ Larger users who exceed CARB's reporting threshold will already be included as stationary sources under the industrial sector, and power plants that burn natural gas will already be included under the electricity sector.

² The Draft Scoping Plan Appendix C, page C-54, notes that 13.5% of natural gas is produced in state, and that 98 percent of in-state distribution gas to industrial, commercial and residential customers is provided by SDG&E, Southern California Gas Company and PG&E. Two of these three companies will already have compliance obligations within the cap-and-trade program.

enforce emissions limits against individual emitters and ensures that the capped sectors meet their emissions limit. The cap is a tool for regulators to push emission reductions even further than can be achieved through other regulations alone. CARB should utilize this tool for the natural gas sector to push emission reductions even further than will be achieved by regulatory policies already in place and those implemented as a result of the Scoping Plan.

Another key outcome of a cap and trade program is the creation of a price on carbon for all covered sectors. Including the natural gas sector will create a more level GHG emissions playing field across all covered sectors and a larger market, thereby making the price on carbon less vulnerable to price fluctuations. The flexibility provided by the cap and trade program allows capped entities to seek the lowest cost emission reductions, beyond those already required by other regulations, and the natural gas sector could yield some of those low-cost reductions if it is included in the program.

California should exhibit leadership on this issue

While the WCI has recommended including the natural gas sector in a cap and trade program in 2015,³ previously proposed federal approaches have included natural gas in a federal cap and trade program from the outset.⁴ California should exhibit leadership on this issue and the Scoping Plan should detail the steps that need to be taken, such as developing mandatory reporting protocols, and should then commit to taking those steps in order to include natural gas in a cap and trade program from the outset of the program.

³ Western Climate Initiative, *Draft Design of the Regional Cap-and-Trade Program*, (July 23, 2008), §1.2.4, available at <http://www.westernclimateinitiative.org/ewebeditpro/items/O104F18808.PDF>

⁴ S2171 - Lieberman-Warner bill