July 7, 2023

Rajinder Sahota
Deputy Executive Officer for Climate and Research
California Air Resources Board
1001 I Street – P.O. Box 2815
Sacramento, CA 95812

Subject: Comments on the June 14, 2023, Joint California-Québec Public Workshop on Potential Amendments to the Cap-and-Trade Regulation

Dear Deputy Executive Officer Sahota:

On behalf of Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E), we respectfully submit the following comments in response to the California Air Resources Board's (CARB) June 14, 2023, Workshop on Potential Amendments to Cap-and-Trade Regulation. CARB staff have been given a challenging task to align the Cap-and-Trade program with the goals outlined in CARB's 2022 Scoping Plan. Public review, comment, and engagement enhances the program update and supports the development of outcomes that advance the public interest.

SoCalGas and SDG&E support the Cap-and-Trade program and applaud CARB's role in helping to reduce California's greenhouse gas emissions (GHG) ahead of the schedule originally set forth in Assembly Bill (AB) 32. The program has set a steady price signal for decarbonization that steers larger institutional GHG emitters toward lower emissions while reducing unintended adverse impacts to utility customers.

As noted during the workshop, program evaluations determined that facilities subject to the program have reduced their emissions since its enactment.[1] The California Office of Environmental Health Hazard Assessment found in the 2022 examination, *Benefits and Impacts of Greenhouse Gas Limits on Disadvantaged Communities,* that "facilities subject to the Cap-and-Trade Program have reduced emissions of co-pollutants," and that "the greatest beneficiaries of reduced emissions from both [high density vehicles] and facilities subject to the Cap-and-Trade Program have been in communities of color and in disadvantaged communities in California."[2]

[1] California Air Resources Board, "Joint Cap-and-Trade Program Workshop," June 14, 2023, slide 6. Please see: https://ww2.arb.ca.gov/sites/default/files/2023-06/nc-CapTradeWorkshop_June142023_0.pdf.
[2] "Benefits and Impacts of Greenhouse Gas Limits on Disadvantaged Communities," California Office Environmental Health Hazard Assessment, Executive Summary p. 1, February 3, 2022. Please see https://oehha.ca.gov/media/downloads/environmental-justice//executivesummary020322.pdf

A well-designed Cap-and-Trade program supports utilities' role in advancing the transition to a carbon-neutral economy by 2045. This program can foster stable ratepayer expenses for necessary legacy energy sources as additional renewable energy comes online, bolster development of innovative clean fuels (including "drop in" fuels that have the advantage of transport through existing distribution and transmission infrastructure), and help to decarbonize hard-to-electrify sectors of the economy.

We offer comments on the following topics: 1) the importance of direct allocation of allowances and offsets designed to address cost containment; 2) support for continuation of exemptions for CO2 emissions from biomethane in alignment with Senate Bill (SB) 1440 goals and the Low Carbon Fuel Standard framework; 3) support for inclusion of carbon management technologies and incentives for CO2 removal and clean fuels[3], and; 4) requested clarification on the timeline for Cap-and-Trade regulatory development to facilitate robust stakeholder engagement.

I. The Importance of Direct Allocation of Allowances and Offsets Designed to Address Cost Containment

We understand that CARB is evaluating allowance allocation and offset policies, and we appreciate that these changes will incorporate market stability considerations. The 2022 Scoping Plan noted the need for an updated Cap-and-Trade regulation that will "avoid energy rate spikes."[4] Cap-and-Trade utility allowance allocation and offset policies have been crucial in maintaining a stable energy market. Both policies serve as key mechanisms for cost containment for Electrical Distribution Utilities (EDU) and Natural Gas Suppliers (NG Suppliers).

SoCalGas and SDG&E support CARB's exploration of Compliance Offset Program eligibility criteria. The Compliance Offset Program is critical for providing cost containment within the Cap-and-Trade Program and should be preserved. Verified, eligible offsets support program goals by bringing to market new and potentially innovative projects that benefit the environment in a variety of ways (biodiversity, air quality, etc.), while also helping reduce overall emissions. We encourage CARB staff to explore adjustments to the Compliance Offset Program that enable continued use of previously acquired offsets in-state and out-of-state and, to the extent cap reductions are considered, expand the percentage of offsets eligible to meet compliance obligations.

SoCalGas and SDG&E understand CARB staff's proposal to model allowance scenarios that extend beyond 2030 to further emissions reductions. The model should incorporate continuation of directly allocated allowances and offsets to maintain a stable Cap-and-Trade market. At the workshop, staff identified a goal of more "stringent" policy on Cap-and-Trade driven by the CARB 2022 Scoping Plan, which notes that "planning on a longer time frame for the new carbon

[3] Clean fuels are gases like clean hydrogen, renewable natural gas (also referred to as biogas and RNG), synthetic natural gas (also referred to as syngas and SNG), and biofuels, the production and combustion of which can be carbon-neutral or even carbon negative.

[4] California Air Resources Board, "2022 Scoping Plan for Achieving Carbon Neutrality," November 16, 2022, pg. 117.

neutrality target means we must accelerate our near-term ambition for 2030 to be on track to achieve our longer-term target."[5] If policies are implemented as proposed in the Scoping Plan, California will be on its way to achieving GHG emissions reductions 48% below the 1990 level by 2030.

An analysis that aligns these Cap-and-Trade program design elements with our state's 2045 carbon neutrality goal is a valuable and sensible exercise. Achieving this goal will require unprecedented investments in new infrastructure and resource development. Analyzing the costs of implementing proposed changes to the program and how those costs may vary depending on extended timeframes would provide an important perspective.

II. Support for Continuation of Exemptions for CO2 Emissions from Biomethane in Alignment with Senate Bill (SB) 1440 Goals and the Low Carbon Fuel Standard Framework

The June 14 workshop raised the issue of exemptions for biogenic CO_2 emissions. In 2018, SB 1440 required the California Public Utilities Commission (CPUC) to consider adopting biomethane targets for utilities. In 2022, the CPUC issued Decision (D.) 22-02-025 to implement SB 1440, while defining short-term and medium-term targets for the California investor-owned natural gas utilities. The short-term target was set to support the organic waste diversion targets previously established by SB 1383.[6] This target collectively totals 17.6 billion cubic feet (BCF) of annual biomethane production from eight million tons of landfill-diverted organic waste by 2025.

The medium-term target set by D.22-02-025 established the Renewable Gas Standard (RGS), equating to approximately 12.2% of annual bundled core customer natural gas demand for each investor-owned utility (IOU) as forecasted by the 2020 California Gas Report. This target was consistent with PUC Code 651, which promotes cost-effective means of achieving reduction of emissions of short-lived climate pollutants pursuant to the Health and Safety Code. By 2030 and beyond, the IOUs will collectively procure 72.8 BCF of biomethane annually in a bid to meet the broader goal of reducing methane and other short-lived climate pollutants by 40%.[7]

In addition, pursuant to D.22-02-025, all environmental attributes associated with the biomethane procurement will be exclusively owned by the IOUs and will be retired on the utility's behalf to prevent double-counting. Ultimately, the implementation of this program will be a cost-effective avenue to support reliability of the system and will reduce compliance obligations of core customers.

Exemptions for CO_2 emissions from biomethane support SB 1440 goals and are consistent with the Low Carbon Fuel Standard program design. They are critical for the development of

[5] CARB 2022 Scoping Plan, 113. https://ww2.CARB.ca.gov/sites/default/files/2022-12/2022-sp.pdf.
[6] SB 1383 requires California to reduce emissions of methane by 40% below 2013 levels by 2030.
[7] California Public Utilities Commission, "Order Instituting Rulemaking to Adopt Biomethane Standards and Requirements, Pipeline Open Access Rules, and Related Enforcement Provisions," February 24, 2022. Please see: https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M454/K335/454335009.PDF.

biomethane and a crucial aspect of achieving carbon neutrality in California. Exemptions for biogenic emissions under Cap-and-Trade further support a variety of biomethane production sources. This energy source is especially important for California's 2045 goals because it employs existing pipelines and other distribution infrastructure. Although adding ever more renewable energy sources to the electric grid is critical, transmission and grid capacity will require a significant increase by 2045 while navigating obstacles with supply chain, permitting, siting, and more. Biomethane is thus a vital component of California's renewable energy mix.

III. Support for Inclusion of Carbon Management Technologies and Incentives for CO_2 Removal and Clean Fuels

At the workshop CARB noted the addition of carbon capture, utilization, and sequestration (CCUS) to the Cap-and-Trade program and expressed interest in identifying additional strategies and incentives to support decarbonization of the hard-to-electrify industrial sectors. We wholeheartedly support these efforts. Incentives for CCUS and clean fuels like hydrogen are needed to support further industrial decarbonization.

As the Scoping Plan observes, 2045 goals are not achievable without direct removal of GHG emissions from hard-to-decarbonize industries. CARB specifically articulates the need for CCUS in electricity generation, cement production and refineries. The Scoping Plan reflects direction from Governor Newsom establishing ambitious targets to use both natural and working lands and engineered carbon removal to meet the State's carbon capture targets of 20 $MMTCO_2$ by 2030 and 100 $MMTCO_2$ by 2045.[8] CARB's recent workshop on strategies for net-zero emissions in the cement sector noted that the cement industry is a particularly strong candidate for CCUS. This is due to the difficulties associated with abating chemical process emissions and the relative efficiencies of carbon capture from stationary sources.[9] Both CCUS and cement decarbonization are processes in relatively early stages of development that will require government support to achieve the results and timelines outlined in the Scoping Plan.

Additionally, clean hydrogen provides low carbon solutions for hard-to-electrify sectors and will be a critical component of the decarbonized energy mix. The Scoping Plan notes that clean hydrogen can be produced via electrolysis with renewable electricity or by steam methane reformation of biomethane. CCUS can be used in conjunction with steam methane reformation to generate low carbon hydrogen and biomethane sourced from forest and agricultural waste management processes to facilitate carbon negative outcomes.[10]

In 2022, the CPUC granted SoCalGas the authority to establish the Angeles Link Memorandum Account to record the costs of performing Phase One feasibility studies for the Angeles Link Project. Angeles Link aspires to transport clean, renewable hydrogen to decarbonize hard-to-

[8] CARB 2022 Scoping Plan at 83-87.
[9] California Air Resources Board, "Cement Sector Net-Zero Emissions Strategy Workshop: Identifying Barriers," May 31, 2023, slides 13-15. Please see: https://ww2.arb.ca.gov/sites/default/files/2023-05/SB%20596%202nd%20workshop%20final.pdf
[10] CARB 2022 Scoping Plan at 88-89.

electrify sectors such as dispatchable electric generation, heavy-duty transportation, and commercial (e.g., high value manufacturing) and industrial processes. Angeles Link could also significantly decrease demand for natural gas, diesel, and other fossil fuels in the LA Basin, helping to accelerate California and regional climate and clean air goals.[11] Additionally, SDG&E is developing pilot projects that will test hydrogen for long-duration energy storage, electric generation, vehicle fueling and blending into an existing natural gas system.[12]

We urge CARB to utilize the Cap-and-Trade regulatory framework to further incentivize CCUS and clean hydrogen projects within the state. This could take the form of new offset protocols, the ability to use allowance consignment proceeds to fund these innovative projects, or accounting mechanisms akin to those employed for biogenic emissions exemptions.

IV. Requested Clarification on the Timeline for Cap-and-Trade Regulatory Development to Facilitate Robust Stakeholder Engagement

SoCalGas and SDG&E are keenly interested in the success of the Cap-and-Trade Program and will actively engage in workshops and other steps of the rulemaking process. To facilitate meaningful engagement in the process and allow CARB to move forward swiftly, we recommend that CARB staff provide additional information on the anticipated timeline and scope of specific workshops.

Conclusion

SoCalGas and SDG&E appreciate the opportunity to provide comments on the June 14 Workshop on Potential Amendments to Cap-and-Trade Regulation and look forward to continuing to actively engage in CARB's process as the regulatory development process continues.

Respectfully,

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[11] Please see https://www.socalgas.com/sustainability/hydrogen/angeles-link. The CPUC resource for Angeles Link is here: https://www.cpuc.ca.gov/news-and-updates/all-news/cpuc-acts-to-advance-understanding-of-hydrogen-role-as-decarbonization-strategy.

[12] Please see this page for more information: https://www.sdge.com/more-information/environment/sustainability-approach/hydrogen-innovation.