October 26, 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: Gas Utility Group Comments on the October 5, 2023, California Workshop on Potential Amendments to the Cap-and-Trade Regulation

Dear Deputy Executive Officer Sahota:

These comments are respectfully submitted on behalf of investor-owned, natural-gas utilities (IOUs): Southern California Gas Company (SoCalGas), San Diego Gas & Electric Company (SDG&E), Pacific Gas and Electric Company (PG&E), and Southwest Gas, and publicly owned natural gas distribution utilities (POUs) serving the Cities of Palo Alto, Long Beach, and Vernon. The above utilities are referred to collectively as the Gas Utility Group (GUG or Utilities). The GUG appreciates the opportunity to provide comments on the California Air Resources Board's (CARB) October 5, 2023, Workshop on Potential Amendments to the Cap-and-Trade

Program. We understand that CARB aims to make the Cap-and-Trade (C&T) program more stringent to help attain California's goal of net-zero greenhouse gas (GHG) emissions by 2045, while maintaining stable energy costs for all Californians, and finding the right mix of electrification and complementary energy sources.

All entities covered by Cap-and-Trade are likely to face the reality of fewer allowances. We respectfully request that CARB keep utility allowance reductions to the minimum amount feasible while also structuring the Program to incentivize investment in biomethane and clean hydrogen. This approach will reduce cost impacts to our customers in the medium term while promoting build out of the resources California needs to complement electrification, minimize financial impacts to disadvantaged communities, and support decarbonization of hard-to-abate sectors by 2045.

GUG's comments highlight the following: 1) It is in the public interest for CARB to minimize reductions to natural gas suppliers' (NGS) allowance allocations given the direct benefits these provide for energy affordability; 2) Greater flexibility should be provided for NGS to optimize allowance auction revenues for affordable decarbonization strategies; 3) Reforms in the procurement and deliverability requirements for biomethane will help aggressively decarbonize the pipeline fuels network; 4) Low Carbon Fuel Standard (LCFS) and Cap-and-Trade should be aligned to accurately quantify biomethane throughput to third-party fuel dispensers; and 5) GUG encourages reforms to accounting of biomethane in the pipeline fuels network.

I. It is in the public interest for CARB to minimize reductions to natural gas suppliers' allowance allocations given the direct benefits these provide for energy affordability.

The 2022 CARB Scoping Plan targets reductions in GHG emissions that are 48% below 1990 levels by 2030. In the October 5 workshop, CARB staff estimated that a Cap-and-Trade update aligned with the Scoping Plan would remove 265 million allowances and posited an annual reduction of 11.1% in the cap adjustment factor (CAF) from 2025 to 2030. GUG appreciates the reality that covered entities of all types are likely to receive fewer allowances as CARB tightens the allowance budgets. GUG urges CARB to recognize that reduction of allowances to utilities will also reduce the California Climate Credit thereby resulting in higher energy costs for ratepayers.

There should be minimal reductions of allowances provided to NGS because they will translate directly into higher utility bills. Affordable natural gas benefits low-income customers who pay a higher proportion of monthly household income for energy costs and are less likely to exit the gas system in the near future. Concern regarding surges in energy costs was evident last winter when market forces in natural gas supply resulted in significant rate and bill increases. To help provide bill relief to NGS customers, the California Public Utilities Commission (CPUC) accelerated the subsequent payment of the Gas Climate Credit, illustrating the importance of maintaining NGS's ability to support customers through these credits funded by C&T allowances.

The current Cap-and-Trade regulation requires that NGS consign 100% of allowances to auction starting in 2030. Thus, allowance allocations from 2030 and beyond will no longer be able to directly reduce ratepayers' compliance obligations. Ratepayer impacts could be minimized by

CARB removing more allowances from the Price Ceiling and Auction pools. This approach would minimize the medium-term cost impacts to ratepayers and allow time for further investments in renewable energy projects to deliver affordable clean energy to customers across California.

II. Greater flexibility should be provided for natural gas suppliers to optimize allowance auction revenue for affordable decarbonization strategies.

A critical factor in achieving net-zero 2045 goals is investment in renewable energy that will transform energy systems in an equitable manner. Allowance auction consignment revenue for utilities can have an equal or greater long-term impact on ratepayer affordability as the California Climate Credit. The current Cap-and-Trade Program offers significantly greater flexibility to electric utilities than NGS regarding the use of that revenue for renewable energy investments. While both types of utilities are permitted to direct funds toward energy efficiency and GHG abatement programs, electric utilities are permitted greater opportunity to invest in renewable energy resources (or the integration of renewable energy resources) that can be used in their respective service territories.[1]

This distinction may have had some logic over a decade ago when the Cap-and-Trade Program was first implemented. In the years since, California and Federal GHG reduction policies have become more aggressive and sophisticated and NGS have made significant progress developing renewable clean fuels such as clean renewable hydrogen and renewable natural gas. As our utilities noted in previous comment letters, the GUG is committed to building a clean fuels network that supports and complements electrification by providing resiliency and reliability for the electric grid, energy sources for hard-to-abate sectors, and greater affordability to customers. Furthermore, as CARB's 2022 Scoping Plan illustrates, there is greater awareness among policymakers and regulatory entities that decarbonization requires an "all-of-the-above" approach to new clean energy sources, leveraging existing energy storage, and transmission capacity in a service territory where infrastructure is relatively difficult to build.

The GUG believes that NGS entities should be afforded the same renewable energy investment opportunities with auction revenues that electric utilities have. Revenue from consigned allowances could be used among other things for the procurement of biomethane, support for transitioning biomethane fuels currently incentivized through the LCFS to non-transportation and stationary end uses, and clean renewable hydrogen projects. It is an exciting time for hydrogen development, as CARB and other agencies have started the process to implement Senate Bill 1075. Scaling up hydrogen production and its delivery to a broad range of end-users can establish decarbonization pathways for the most difficult-to-decarbonize sectors of the economy, including transportation, hard-to-electrify industries, and firm power generation. Providing NGS with greater flexibility in permissible uses for auction proceeds will advance decarbonization at a lower cost for ratepayers. While the use of these funds must ultimately be approved by the California Public Utilities Commission, NGS could point to Cap-and-Trade regulations encouraging this activity to support CPUC approval.

[1] Cap and Trade Regulation, pp. 200-205 and 217-220. There are a few exceptions such as pyrolysis gasification projects under SB 1440.

III. Reforms in the procurement and deliverability requirements for biomethane will help decarbonize the pipeline fuels network.

The GUG appreciates the efforts of CARB staff to seek feedback on biomethane end-uses in non-transportation sectors, deliverability and matching requirements, and alignment with existing California programs. Biomethane furthers California's 2045 goals in so many useful ways. It is sourced from material that otherwise generates potent and uncontrolled emissions, blends seamlessly with pipeline-quality natural gas, utilizes existing distribution infrastructure, and generates energy that helps to decarbonize hard-to-abate sectors. Exemptions for biogenic CO2 emissions under Cap-and-Trade have already worked synergistically to stimulate expansion of biomethane production by investor-owned utilities.[2] Cap-and-Trade policymaking should continue to support and expand the market for biomethane.

Streamlined accounting practices between the LCFS and the Cap-and-Trade Program would be a significant boost for biomethane generation. Book-and-claim accounting is crucial for investments in and deployment of biomethane. Common carrier pipelines contain fuels of multiple providers and blend fossil methane and biomethane indistinguishably. The attributes of book-and-claim, which support the market for biomethane, include:

- Empowering biomethane producers and purchasers to decarbonize their value chains together despite operating in different geographic locations and operating environments.
- Incentivizing biomethane production without undue restrictions regarding physical traceability.
- Encouraging waste producers to capture fugitive methane for biomethane production.
- Providing flexibility in procuring biomethane across a wide range of locations, carbon intensities, and feedstock types.

CARB has considered eliminating book-and-claim under the LCFS and posed a question about the practice at the October 5 workshop. Policies should support the transition of biomethane to hard-to-decarbonize sectors and it would be premature to adopt counterintuitive policies that limit the procurement of available biomethane. The GUG believes that upending deliverability requirements by removing book-and-claim practices for biomethane could destabilize the energy marketplace for all end-use purchasers. Biomethane policies today should stimulate both production and demand by allocating funds for developer incentives and consumer programs for greater end-uses.

Biomethane is a clean decarbonized fuel that will replace fossil gas in the system and contribute to the growth of clean hydrogen. As the 2022 Scoping Plan acknowledges, hydrogen can be produced both through electrolysis with renewable electricity and through steam methane reformation (SMR) of biomethane. When coupled with carbon capture and storage (CCS), the hydrogen produced could potentially be low carbon.[3]

[2] See the Coalition for Renewable Natural Gas (RNG Coalition) July 7, 2023, comment letter to CARB on the June 14 Cap-and-Trade Workshop.
[3] CARB 2022 Scoping Plan, 87-89

IV. LCFS and Cap-and-Trade should be aligned to accurately quantify biomethane throughput to third-party fuel dispensers.

Several critical disconnects in current accounting practices between LCFS and Cap-and-Trade undercount the true volumes of biomethane distributed through common carrier pipelines. The GUG encourages CARB to examine which biomethane pathways under LCFS would qualify for Cap-and-Trade treatment. Specifically, when biomethane is procured for natural gas vehicle (NGV) refueling, it is transported to such NGV refueling facilities through pipelines owned and operated by NGS. As NGSs, these utilities are subject to the Cap-and-Trade program and are required to keep track of the volumes of natural gas flowing through their systems, as well as the volumes of biomethane. Under Cap-and-Trade, these biomethane volumes are used as exemptions to compliance obligations because they displace the fossil natural gas that would normally be flowing in these pipelines. Production pathways in California and out-of-state biomethane producers in new facilities are likely Cap-and-Trade compliant. Unfortunately, biomethane procured by third parties and carried by means of NGS common carrier pipelines is designated as fossil gas emissions under the current reporting structure.

Therefore, the utilities encourage CARB to identify data sharing opportunities between these two programs to more accurately identify Cap-and-Trade eligible biomethane volumes produced under LCFS pathways that are subsequently distributed through common-carrier pipelines. The GUG also recommends that CARB aggregate the volumes for those pathways (minus any volumes already claimed by entities with their own Cap-and-Trade compliance), eliminate the sharing of any confidential information, and then distribute the aggregated data to each respective NGS. Providing such data will foster more accurate emissions reporting by each NGS distributing biomethane procured by third parties and help resolve any potential discrepancies to support the intersectional success of both LCFS and Cap-and-Trade. Increased volume of biomethane in the pipeline system will also benefit ratepayers by reducing NGS Cap-and-Trade compliance obligations.

V. GUG Encourages Reforms to Accounting of Biomethane in the Pipeline Fuels Network

The GUG suggests that consistent with D.22-02-025, which implements SB 1440, CARB should consider the use of the Midwest Renewable Energy Tracking System (M-RETS) System or similar tracking systems for biomethane and hydrogen. Digital infrastructure designed to support renewable gas transactions could be paired with North America's Cap-and-Trade programs. Such systems are proven in Europe and are designed to replace the necessity of tracking "paper" records between a wide variety of counterparties involved in a high number of transactions. M-RETS is a renewable energy credit and renewable thermal credit platform which is currently tracking biomethane volumes for non-transportation markets, including California's renewable gas standard and for voluntary biomethane procurement, and will likely be used in other similar programs.

We suggest that CARB consider what it would take to use the M-RETS system or a comparable platform for renewable natural gas volumes procured for compliance under the Cap-and-Trade program to streamline the process and standardize biomethane tracking while eliminating concerns

related to double-counting, ensuring transparency in volume origination, and allowing integration with other programs and markets.

Conclusion

The GUG appreciates the opportunity to provide comments on the October 5 Workshop on Potential Amendments to Cap-and-Trade Program, is committed to a decarbonized energy system that is affordable for all Californians. The GUG looks forward to continued engagement in CARB's process.

Respectfully,

Southern California Gas Company
Pacific Gas and Electric Company
San Diego Gas & Electric Company
Southwest Gas
City of Palo Alto
City of Long Beach
City of Vernon