

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA AND THE CALIFORNIA ENERGY  
COMMISSION**

Order Instituting Rulemaking to Implement the  
Commission's Procurement Incentive  
Framework and to Examine the Integration of  
Greenhouse Gas Emissions Standards into  
Procurement Policies

AB 32 Implementation

R.06-04-009

07-OIIP-01

<b>DOCKET</b> <b>07-OIIP-1</b>	
DATE	OCT 31 2007
RECD.	OCT 31 2007

**COMMENTS OF THE INDICATED PRODUCERS ON  
ALLOWANCE ALLOCATION ISSUES**

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October 31, 2007

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**COMMENTS OF THE INDICATED PRODUCERS ON  
ALLOWANCE ALLOCATION ISSUES**

The Indicated Producers<sup>1</sup> (IP) submit the following comments on the Administrative Law Judge's ruling (ALJ Ruling) issued on October 15, 2007.

**I. OVERVIEW AND SUMMARY OF RECOMMENDATIONS**

Critical issues including the scope of inquiry, point of regulation, regulated gas, emphasis of programmatic measures, and use of emissions caps are still under consideration by the Commission. Given the open status of the natural gas inquiry (NG Inquiry), these comments are limited to the following broad recommendations:

1. Limit the scope of the NG Inquiry to ensure that entities will not be subject to duplicative regulation; and
2. Adopt a utility-based programmatic approach to effectively lower emissions.

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<sup>1</sup> Member companies include Aera Energy LLC, BP West Coast Products LLC, ConocoPhillips Company, Chevron U.S.A. Inc., and Occidental Energy Marketing, Inc.

## **II. SCOPE OF NG INQUIRY MUST BE LIMITED TO PRECLUDE DUPLICATIVE REGULATION**

The initial ruling on the NG inquiry and Staff recommendations appropriately propose a scope for the NG inquiry that avoids imposing duplicative regulation on entities. The initial ruling on the NG inquiry recommends that the scope be limited to addressing:

- (1) combustion of natural gas by non-electricity generator end-use customers and
- (2) all transmission, storage and distribution of natural gas within California.

Commission Staff goes further to recommend excluding the following from the scope of the inquiry: natural gas used in electric generation, industrial customers regulated by CARB, and emissions associated with transportation.<sup>2</sup> CARB defines smaller end-use customers, not regulated as point sources, to be those that emit 25,000 MTCO<sub>2</sub> or less per year.<sup>3</sup> Consistent with Commission Staff recommendations, the Commission should focus on developing regulations which lower GHG emissions arising from (i) combustion of natural gas by non-electricity generator end-use customers emitting 25,000 MTCO<sub>2</sub> or less and (ii) transmission, storage and distribution of natural gas within California. Limiting the scope in this manner will ensure that there is no overlap in regulation.

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<sup>2</sup> Staff Recommendations, at 15-16.

<sup>3</sup> Presentation of the CARB Workgroup Reporting General Stationary Combustion GHG Emissions, dated June 25, 2007, p. 19 ([http://www.arb.ca.gov/cc/ccel/presentations/GSCSlides\\_6\\_25\\_07.pdf](http://www.arb.ca.gov/cc/ccel/presentations/GSCSlides_6_25_07.pdf)).

### III. PROGRAMMATIC APPROACH WORKS BEST FOR NG INQUIRY

Given the source of emissions in the NG Inquiry, a programmatic approach should be adopted for the NG sector instead of incorporating the NG sector into the larger source cap-and-trade program. A utility-based programmatic approach is best for the following reasons:

- Majority of emissions arise from combustion of NG by smaller end-use customers served by one of the three largest California utilities;
- Due to numerous sources of GHG emissions in the NG Inquiry, regulation at each point of combustion is impractical;
- Inability to accurately quantify emissions weighs against incorporating the NG Inquiry into the larger cap and trade program; and
- Programmatic approach uses tools that can lower NG combustion by smaller end-use customers.

Since utilities already have energy efficiency programs in place, the focus of the NG Inquiry should be strengthening and building on existing programmatic efforts.

The bulk of emissions covered by the NG Inquiry arise from small end-use customer use. The NG Inquiry is designed to address approximately 14% of California's GHG emissions.<sup>4</sup> Of that 14%, about 13.87% is attributable to end-use combustion from residential, commercial and small industrial customers.<sup>5</sup> Relying on this data, Staff observes that, "*affecting end user consumption is the*

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<sup>4</sup> Preliminary Staff Recommendations for Treatment of Natural Gas Sector Greenhouse Gas Emissions (Staff Recommendations), attached to Administrative Law Judges' Ruling Regarding Comments on Staff Natural Gas Proposal and Notice of Prehearing Conference, issued July 12, 2007, at 6-7.

<sup>5</sup> Staff Recommendations, at 6-7.

*largest potential source of GHG emission reductions.”*<sup>6</sup> Also, Staff notes that “[o]ver 90% of end-users are served by the state’s three biggest investor-owned natural gas utilities . . . .”<sup>7</sup> Based on Staff’s observations, a utility-based programmatic approach can effectively target the emissions under the scope of this inquiry.

Given its numerous sources, regulating GHG emissions is infeasible. Commission Staff observes that residential and commercial end users combust NG for space heating, water heating, and operating appliances such as ovens, dryers, furnaces and stoves. As Commission Staff observes, “[t]here are millions of residential and commercial end users, so regulation at every point of combustion is impractical.”<sup>8</sup> To complicate matters further, unaccounted for emissions are released into the atmosphere in the process of transmission, storage and distribution. Due to the number of emitting sources, programmatic efforts monitored at the distribution level is more practical than regulating each individual source of emissions.

Various factors make it difficult to quantify NG combustion emissions with accuracy. The resulting inaccuracy makes it difficult for the NG sector to be incorporated into the larger cap and trade program. First, emissions can vary by the type of appliance used, the efficiency of the appliance and the weather conditions, among other things. While a utility may be able to monitor how much NG is consumed, emissions from the combustion of this NG will largely depend on how the NG is used. Second, there is no process to quantify the NG leakage

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<sup>6</sup> Staff Recommendations, at 9.

<sup>7</sup> Staff Recommendations, at 3.

<sup>8</sup> Staff Recommendations, at 3.

that occurs in the process of transmission, storage and distribution. Since emissions cannot be quantified with accuracy, the uncertainty surrounding NG emissions could compromise the larger cap and trade program. Given the narrow focus of the NG Inquiry, therefore, programmatic goals, rather than a cap and trade mechanism should be used to lower emissions.

A programmatic approach relies on tools that can best address the emissions covered by the NG Inquiry. Among other things, a programmatic approach could focus on “*setting rigorous building and appliance standards, weatherization of structures and replacing obsolete equipment.*”<sup>9</sup> These tools are more appropriate than regulations solely directed to lowering NG use because it may be difficult to directly limit consumption of NG by end-use customers.

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<sup>9</sup> Staff Recommendations, at 2.

#### **IV. CONCLUSION**

The emissions covered by the NG Inquiry require special treatment. First, as observed by Commission Staff's preliminary recommendations, NG regulations can create an overlap in GHG regulation. To avoid this result, the scope of the regulations for other sectors must determine and limit the scope of the NG Inquiry. Second, a utility-based programmatic approach to lowering emissions in this sector is appropriate given the source of GHG emissions and the inability to quantify these emissions accurately.

October 31, 2007

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Evelyn Kahl". The signature is fluid and cursive, with the first name "Evelyn" and the last name "Kahl" clearly distinguishable.

Evelyn Kahl  
Seema Srinivasan  
Counsel to the Indicated Producers

## **CERTIFICATE OF SERVICE**

I, Karen Terranova hereby certify that I have on this date caused the attached **Comments of the Indicated Producers on Allowance Allocation Issues** in R.06-04-009 to be served to all known parties by either United States mail or electronic mail, to each party named in the official attached service list obtained from the Commission's website, attached hereto, and pursuant to the Commission's Rules of Practice and Procedure.

Dated October 31, 2007 at San Francisco, California.

A handwritten signature in black ink, appearing to read "Karen Terranova", with a long horizontal flourish extending to the right.

Karen Terranova