

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

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

Rulemaking 06-04-009

(Filed April 13, 2006)

**REPLY COMMENTS OF LODI GAS STORAGE, L.L.C.
ON TYPE AND POINT OF REGULATION ISSUES
FOR THE NATURAL GAS SECTOR**

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Date: January 8, 2008

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Pursuant to the Administrative Law Judges' Ruling Requesting Comments On Type and Point of Regulation Issues for the Natural Gas Sector issued November 28, 2007 ("November 8, 2007 Ruling"), Lodi Gas Storage, L.L.C. ("LGS") hereby submits its reply comments to the Comments filed by numerous parties on or about December 17, 2007.

I. REPLY COMMENTS

A. LGS Supports An Exemption for Natural Gas Use Associated with Natural Gas Infrastructure

Numerous commenters raised concerns with additional regulation of the natural gas sector emissions in general and for infrastructure use in particular based on the low emission rates and the "clean" nature of natural gas vis a vis other fossil fuels. *See e.g.*, SDGE/SoCalGas Comments, Wild Goose Comments, Southwest Gas Comments, CMTA Comments. Beyond these industry comments, the Green Power Institute also noted the "disaster" which would occur if regulation provided a perverse incentive for consumption of more carbon-intensive fossil fuels over the use of natural gas.

The comments referenced above are consistent with LGS' opening comments. LGS supports the suggestion that infrastructure use and fugitive emissions be excluded from the

market-based program. LGS also agrees that the use of natural gas is part of the solution to emissions and that a regulatory approach should not unintentionally drive a choice of a more carbon-intensive fuel source over natural gas.

B. To the Extent that Infrastructure Users are Treated as Point Sources, LGS Agrees that a 25,000 Metric Tonnes Threshold Should Apply

As an alternative approach, various commenters have suggested that natural gas infrastructure use should be treated as a large end-user Point Source. Under current standards, ARB has set a reporting threshold of 25,000 metric tonnes and has limited compliance to those entities above that threshold. To the extent that infrastructure users are not excluded from a market system and treated as individual point sources, LGS supports the use of the 25,000 metric tonnes threshold.

In its comments, NRDC appears to contemplate using a lower threshold of 10,000 metric tonnes and/or combining infrastructure users as a single collective entity. NRDC Comments, pp. 9-10. NRDC fails, however, to reconcile such proposal with the ARB reporting requirements set at 25,000 metric tonnes and the lack of meaningful benefits from regulating entities with emissions below that level. NRDC also fails to suggest why infrastructure users, including interstate pipelines, independent gas storage providers, and smaller local distribution should be treated as one entity or, if so, how these completely unrelated businesses would comply. As such, NRDC's proposed lower threshold should not be adopted.

II. CONCLUSION

As a natural gas storage provider with low and already carefully regulated emissions, LGS supports the positions taken by many commenters that infrastructure users should be excluded from emissions regulation. To the extent that infrastructure users are treated as a Point

Source comparable to large electricity end-users, LGS supports a threshold of 25,000 metric tonnes such that individual users with CO2 emissions below that threshold are excluded.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing, **“Reply Comments of Lodi Gas Storage, L.L.C. on Type and Point of Regulation Issues for the Natural Gas Sector,”** by using the following service:

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Executed this 8th day of January, 2008, at San Francisco, California.

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