

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA



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Order Instituting Rulemaking to Adopt  
Rules and Procedures Governing  
Commission-Regulated Natural Gas  
Pipelines and Facilities to Reduce Natural  
Gas Leakage Consistent with Senate Bill  
1371.

Rulemaking 15-01-008  
(Filed January 15, 2015)

**COMMENTS OF CENTRAL VALLEY GAS STORAGE, LLC,  
LODI GAS STORAGE, LLC, GILL RANCH STORAGE, LLC, AND  
WILD GOOSE STORAGE, LLC REGARDING ADMINISTRATIVE LAW JUDGE'S  
RULING ENTERING STAFF WORKSHOP SUMMARY AND  
WORKSHOP MATERIALS ON TARGETS, COMPLIANCE, AND  
ENFORCEMENT INTO THE RECORD AND SEEKING COMMENTS**

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July 15, 2016

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Central Valley Gas Storage, LLC, Lodi Gas Storage, LLC, Gill Ranch Storage, LLC, and Wild Goose Storage, LLC (collectively the independent storage providers, or “ISPs”) timely submit these comments in response to the Administrative Law Judge’s (“ALJ”) Ruling Entering Staff Workshop Summary and Workshop Materials on Targets, Compliance, and Enforcement Into the Record and Seeking Comments (“ALJ’s Ruling”). Each of the ISPs has been authorized by the California Public Utilities Commission (“Commission” or “CPUC”) to operate underground natural gas storage facilities and provide storage service at market-based rates.

**Introduction**

Senate Bill (“SB”) 1371 requires the Commission, in consultation with the California Air Resources Board (“CARB”), to adopt rules and procedures to minimize natural gas leaks and reduce emissions of greenhouse gases (“GHG”), including methane. The ISPs appreciate the effort of the CPUC and CARB in hosting the workshop on Methane Emissions and Leak Abatement Targets, Compliance and Enforcement (“Workshop”) in Sacramento, California on April 12, 2016. The ISPs also recognize the work of the CPUC and CARB in preparing the Staff Workshop Report. Finally, the ISPs appreciate the opportunity to comment on the Staff Workshop Report as outlined in the ALJ’s ruling.

## Comments on the Staff Workshop Report

Following are the ISPs' responses to the questions set forth in the ALJ's Ruling.

**1. *What suggested edits, clarifications, and comments do you have in response to the summary?***

The ISPs agree that there are significant important societal benefits to the reduction of methane emissions, however, there are various factors that must be considered when determining the best approach to meet the goals of SB 1371. The ISPs seek to ensure that cost-effectiveness is a consistent consideration throughout the development of rules and procedures to minimize leaks and reduce GHG emissions. The comparably recent infrastructure and effective technology and measures already being used at the ISP facilities needs to be taken into account when developing emission and leak abatement requirements. The ISPs recommend that emerging technologies that are not cost-effective and would likely result in only marginal decreases in emissions not be deemed a requirement for entities that are already low emitters. As the ISP group strongly recommended in its presentation at the Workshop, an effectiveness metric is necessary to ensure that for companies employing cost-effective best practices whose emissions fall below a certain emission threshold (*i.e.*, "small emitters"), there would be an exemption from enforcement.

The ISP group understands the difficulties in summarizing the complexities of the Workshop and accordingly takes this opportunity to clarify certain points in the Staff Workshop Report summary of the ISP presentation:

- At page 19 of the Staff Workshop Report, the description of slide 7 from the ISP presentation is "two trees with one full of apples, symbolizing many emissions to be reduced versus the other tree with a few apples, symbolizing few emissions to be reduced." The two apple trees depicted in slide 7 are meant to illustrate that the ISPs have far fewer opportunities to reduce emissions than larger utilities. In other words, for the ISPs there really is no "low hanging fruit" with regard to methane emission reductions and leak abatement. One significant factor is that as a result of decisions made regarding the initial construction of the ISP facilities, there are very limited opportunities for the ISPs to achieve further emission reductions. Additionally, the ISPs (unlike the investor owned utilities) do not have a captive rate base from which to recover costs. Accordingly, the ISPs strongly recommend that for the ISPs the

focus be on maintaining existing success in reducing emissions and on identifying meaningful methane reductions that can be implemented cost-effectively.

- At page 20 of the Staff Workshop Report, there is a reference to an ISP comment regarding real-time monitoring technology developed by the Division of Oil, Gas, and Geothermal Resources (“DOGGR”). The ISPs are not aware that DOGGR is developing real-time monitoring technology. Further, the ISPs emphasize their position that any monitoring best practice must be based on reliable, cost-effective technology; such real-time monitoring technology is not presently available.
- At page 20 of the Staff Workshop Report, the reference to the location of a sink hole is unclear. There is no sink hole at the ISP facility that is closest to the city of Madera.
- At page 21 of the Staff Workshop Report Ruling there is a statement that when someone asked about whether flaring could be undertaken at a lower pressure, such as 800 psi, no one responded. The ISPs submit that flaring is complicated. Generally, when flaring, pressure necessarily decreases so it does not really matter what the pressure is, because by the time it goes through the flare it will be reduced. Higher pressure may result in flaring a higher volume so if the pressure was reduced before flaring, that could ultimately result a lower volume being flared.

The ISPs would also like to take this opportunity to clarify the characterization of an ISP response to other presentations outlined in the Report. At page 18 of the Staff Workshop Report, there is a reference to an ISP comment regarding continuous monitoring. The ISPs reiterate that any monitoring best practice (including continuous monitoring) must be based on reliable, cost-effective technology; such real-time monitoring technology is not presently available.

***2. Explain your position on CARB’s statements at the workshop that a 40% reduction in 2015 emissions by 2025 is a reasonable target.***

With regard to an overall goal of reducing emissions by 40% by 2025, the reduction target seems to be consistent with Governor’s Executive Order B-30-15, which calls for a 40% reduction from 1990 levels, and CARB’s Short-Lived Climate Pollutant (“SLCP”) Reduction Strategy, which calls for a 40 to 45% reduction from 2012 levels. As targets are set, however, it is imperative to consider investments that already have been made in methane emissions reductions, and resulting emission reductions that occurred prior to 2015. Such investments that achieved methane emission reductions may have been made by a utility between 1990 and 2015,

or they may have been made by an ISP at the time its facility was constructed.<sup>1</sup> This approach is consistent with California Health and Safety Code Section 38562 which requires that CARB, in adopting GHG emission reduction requirements, “[e]nsure that entities that have voluntarily reduced their greenhouse gas emissions prior to the implementation of this section receive appropriate credit for early voluntary reductions.”<sup>2</sup>

Pursuant to the requirements of SB 1371, targets also need to be set such that additional expenditures required to meet them result in *cost-effective* avoidance, reduction, and repair.<sup>3</sup> If the assumption is made that California ratepayers and taxpayers are ultimately providing revenues for all activities identified and required<sup>4</sup> to meet the targets, then to obtain the best value for the ratepayers, the targets should result in various gas companies undertaking measures that will provide the greatest emissions reductions for the state as a whole at the lowest total cost. These measures will not be equally applicable to all companies or to specific functional components.

***If such a target (whether it is this one or similar) is established in the foreseeable future, should it be set:***

***a. Against a company’s total baseline reported emissions profile, allowing it to meet an aggregated reduction target?***

A “one size fits all” reduction target at the individual company level, applied against an individual company’s total 2015 baseline emissions, is not appropriate. If individual targets are set at a company level, they need to take into account prior investment and measures that have already been taken, the types of opportunities for meaningful additional reduction that exist, and the cost-effectiveness of implementing such measures.

***b. For specific functional components (i.e., emission source/equipment type) of the gas system operated by each individual company)?***

Reduction targets set for specific functional components are also not appropriate. Companies should be able to pursue measures that provide the best and most cost-effective result

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<sup>1</sup> ISPs agreed to make investments in technologies to minimize emissions as environmental mitigation measures in obtaining certification from the CPUC. All of the ISP facilities have been constructed since 1990.

<sup>2</sup> Cal. Health & Safety Code § 38562 (b)(3). Section 38562 is part of the California Global Warming Solutions Act of 2006 (Division 25.5 (commencing with Section 38500) of the Health and Safety Code).

<sup>3</sup> See, e.g., Cal. Pub. Util. Code § 975(c)(1).

<sup>4</sup> See, e.g., Cal. Pub. Util. Code § 977.

and not have to make “one size fits all” reductions for each type of functional component within their operations.

- c. On an industry-wide basis using information on potential emission reductions, emissions impact, costs by functional component, such that the total industry achieves a 40% reduction even though specific targets for each company may vary?***

***Please provide an explanation of how the method could be developed/implemented.***

Setting targets on an industry-wide basis using relevant information would lead to the most reasonable result. An overall target, adjusted for voluntary reduction measures already taken by industry participants, should be set at the industry level. Targets for each company (which would sum to the industry target) should take into account characteristics unique to different facilities, the relative magnitude of current emissions, measures already taken, the potential for incremental meaningful reductions, and the cost-effectiveness of remaining measures, as previously discussed. In determining cost-effectiveness, there should be a ceiling established for expenditures required per unit of methane emission reduced. No individual company reduction target should be greater than the amount that can be reached through making expenditures on available measures that can be accomplished within the ceiling. For very small emitters, like ISPs, cost-effective expenditures may be limited to implementing best practices designed to keep future emissions in check. Once a company target is set, each company should have the ability to make expenditures for the most cost-effective measures to reach their individual target without regard to functional area.

- 3. How could the proposed CARB target be coordinated with other emission targets and state policy (e.g., Governor’s Executive Order B-30-15 for a 40% reduction below 1990 levels by 2030, CARB’s Short-Lived Climate Pollutant (SLCP) Plan for a 40-45% GHG reduction level by 2025?***

As discussed in the response to the second question, the proposed 40% reduction target seems to be consistent with Executive Order B-30-15 and CARB’s SLCP Reduction Strategy. From an ISP perspective, it is important to note that none of the ISP facilities were in operation in 1990.

One potential reasonable approach for estimating ISP emissions reductions against a 1990 baseline would be to compare ISP 2015 emissions to 1990 emissions from storage facilities that were in existence at that time on a Mcf emitted per Mcf stored basis (if data for the 1990 storage facilities exists). The low level of ISP emissions in 2015 results from ISP expenditures for mitigation measures at the time they were constructed.

To the extent that 2015 statewide gas industry methane emissions are similar in magnitude to 2012 emissions, reducing 2015 methane emissions from the industry by 40% should make a contribution to SLCP reduction commensurate to the industry's share of statewide methane emissions. It should be kept in mind, however, that the entire natural gas pipeline industry accounts for only 9% of California's methane emissions<sup>5</sup>, and ARB should consider whether ratepayer/taxpayer-supported expenditures to effectuate pipeline industry reductions would be more effectively applied to reducing methane emissions from more substantial emissions sources. It might be that the most effective resource expenditures for the gas pipeline industry (and especially for gas storage facilities) will be for monitoring and ongoing integrity measures to mitigate risk stemming from anomalous large leaks.

***4. How should emission levels, if any are set, interact with the utilities' natural gas safety plans and other gas pipeline work?***

The best practices, repair standards, and emissions targets in any go forward compliance plan, can be incorporated as a separate section within the CPUC Natural Gas Safety Plan of each entity. However, safety should always be considered the priority, and not be compromised by procedures to reduce emissions. In addition, a company that performs projects and procedures in accordance with best safety practices that also result in emission reductions, should be credited for these reductions in relation to their target.

***5. How might technology-specific or work practice requirements interact with a target reduction amount?***

The ISPs have incorporated state of the art technology in the original design and construction of their facilities. This has resulted in lower emissions in comparison to companies utilizing older technology. Credit should be given to the ISPs, in any applicable emissions targets, to account for their having already spent capital up front to keep emission levels at a minimum. Further, flexibility is required with the timing of leak repairs. For example, in some instances it's best to coordinate leak repair with other facility/pipeline maintenance work to ensure that the leak repair does not emit more than the leak. Here also, safety should be the overriding consideration.

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<sup>5</sup> See Proposed Short-Lived Climate Pollutant Reduction Strategy, California Air Resources Board, April 11 2016, Figure 6: California 2013 Methane Emission Sources, p. 58.

6. *Explain your parties' position on establishing targets given the following concerns raised at the workshop:*

a. *How can targets be set when accurate and comparable emissions measurements are still in progress? Should the target-setting process wait until the June 2016 data reports (2015 inventories) have been vetted by CARB and the Commission anticipated late 2016?*

A major goal of the process over the last year has been to develop a reporting template that is more widely understood and based on reported data that is more consistent and comparable. While the process of refining the template will likely continue over the coming years, the ISPs believe that using the most consistent and comparable data available (that reported in June of 2016) would make the most sense in terms of developing targets.

Having said this, whether the baseline data is from 2014 or 2015 is less important than developing targets that recognize success achieved to date in keeping emissions at very low levels, *e.g.*, through the use of modern technology in the construction and operation of facilities. Put another way, a utility with facilities that are many decades old is much more likely to have greater emissions and, in turn, the capability to harvest the proverbial “low hanging fruit,” while those with more modern facilities are likely to have much lower emissions and little if any low hanging fruit. Thus, those with low hanging fruit will be more likely to have more cost-effective avenues available for reducing emissions than those with little or no low hanging fruit. As it would be manifestly unfair, impractical, and perhaps not even effective to require those who have invested in low-emissions technology to have to employ practices or invest in technology that will result in minimal emissions reductions, the ISPs expect that such differences will be considered and captured in individual utility compliance plans.

b. *Which functional component (i.e., emission source/equipment type) can utilize direct measurements of leaks and emissions for establishing targets?*

The ISPs generally support the use of direct measurement when this is technologically feasible and cost-effective. However, just because an emission is measurable, does not necessarily mean it should be measured.

The efficacy and cost-effectiveness of direct measurement will likely vary by functional component. For instance, leaks at meter sets, fittings, and on distribution system piping are not easy to measure or accurately calculate and are better estimated via industry emission factors. If an emissions factor is accurate on an average basis and the deviation from a norm is negligible, there would seem to be little or no benefit in the expenditure of resources to directly measure

each individual source of emissions if the application of an emissions factor will result in a very similar total. Direct measurements/calculations (as opposed to assumed emissions factors) are more appropriate for pipeline segment and compressor blowdowns, as well as compressor packing leakage. Once again, however, any determination of which measurement/calculation method is preferred should take into account the costs of measurement and the likelihood that whatever emissions are being measured can be cost-effectively reduced.

***c. Should interim targets be developed, as Environmental Defense Fund (“EDF”) suggests, based on the information gained in the reports from June 2016?***

Establishing interim targets is a worthy goal, but the Commission should be cognizant that, in so doing, it does not undermine the objective of SB 1371 to reduce emissions in a cost-effective manner. For instance, if an interim goal drives the expenditure of resources at a time when more cost-effective and efficient means of addressing a certain type of emission are in the development pipeline, it could well be better to wait until the new technology has been effectively deployed, rather than chasing an interim goal using more costly and less effective technology or practices. The ISPs recommend that any interim targets be for guidance only, as opposed to strict metrics for which failure to achieve the interim goal could be cause for the imposition of a non-compliance penalty.

***d. Before targets are established, to what extent should cost effectiveness and affordability (including consideration of rate impacts) methodologies and criteria be developed and implemented? What approaches should be used to account for the fact that technologies, tools, and information will improve over time, potentially quickly over the next few years? What options are there to ensure rate impacts are affordable, while achieving significant emissions reductions?***

The first question is answered in the affirmative by SB 1371. Just as emissions reductions produce societal benefits, their achievement will produce societal costs. By incorporating cost-effectiveness as a criterion for achieving success, SB 1371 sets a standard for achieving these societal benefits in a manner that recognizes that any technologies or practices should be deployed at an optimal societal cost. If certain utilities can significantly reduce overall emissions in a more cost-effective manner than others, then they should be required to do so.

In determining cost-effectiveness, the Commission and CARB should also take into account Section 977(b) of SB 1371, which contemplates providing revenues for all activities identified and required pursuant to Section 975. The ISPs provide a unique case because, unlike other utilities in the state, they provide competitive gas storage service, at market based rates,

and cannot recover any costs from captive ratepayers. Because they store gas that belongs to their customers, the ISPs have every incentive to make sure it remains in their storage facilities.

Since ISP rates are capped by the market and contractual terms, it is imperative that requirements and goals established through this proceeding take into account prior investment to achieve low emissions and each utility's cost of further reductions, and that success is rewarded, rather than inadvertently punished, so that societal benefits can nonetheless be maximized. By way of example, it may be practical and cost-effective for a large utility to deploy certain technologies due to economies of scale and/or the availability of low hanging fruit that can be cost-effectively "harvested." This might well *not* be the case for smaller utilities that, like the ISPs, have low emissions to begin with. Across-the-board emission reduction targets for ISP blowdowns (both from pipeline segments and from storage facility compressors) may not be realistic. As discussed below, compressor blowdowns are typically unplanned events, and ISP pipeline blowdowns are unlikely to be reduced significantly because the gas released cannot be readily captured and injected into another line, as might happen with a distribution operation.

While cost-effectiveness is a critical factor in determining what can be achieved by any particular utility, this does not mean that those utilities with already low emission levels cannot further reduce their emissions. Optimizing societal costs can be achieved through the sharing of information regarding new technologies and practices, and the identification of "low hanging fruit," such as has occurred in the workshop process. As noted, ISPs do not have captive ratepayers, and IOU ratepayers should not be asked to fund measures that are not cost effective and affordable.

The ISPs caution against the application of across-the-board goals and one-size-fits-all requirements, as they will invariably lead to unintended consequences and less-than-optimal results. Rather, the ISPs support using utility-specific metrics in developing compliance goals and plans and are especially concerned that, in so doing, the Commission and CARB look at each utility's contribution to overall emissions and their capabilities (or lack thereof) for achieving meaningful reductions in a cost-effective manner. The Commission and CARB should avoid asking ratepayers or ISPs to upgrade any time an improved technology, etc. is available in the absence of evidence that such improvements are both cost effective and will significantly reduce emissions. In any case, utilities should have an opportunity to phase in/transition to new technologies and best practices.

**7. Explain your opinion on the individual emission reduction projections illustrated on CARB’s “An Example of Compliance Plan” on Slide 19. Are they realistic? Why or why not?**

The emission reduction projections illustrated on CARB’s Slide 19 generally are very aggressive and potentially unachievable. With respect to ISP facilities, the blowdown projections are unrealistic, for both pipeline segment and compressor blowdowns. ISP pipeline blowdowns are not likely to be reduced by 80% (as shown in CARB Slide 19) because the gas that is released cannot readily be captured and injected into another line, as may likely occur within a distribution system. Unlike distribution systems, ISPs do not operate distribution lines that operate at a lower pressure and could receive the released and captured gas, nor would it be cost-effective to acquire equipment to compress and store blow-down gas simply because blowdowns occur with much less frequency on ISP facilities. Additionally, compressor blowdowns are typically unplanned events.

The theoretical emission reductions shown in CARB’s Slide 19 also do not appear to be cost-effective. Substantial capital would be required to develop the infrastructure and controls necessary to achieve the scope of reductions posited in Slide 19. In developing rules and procedures to minimize methane emissions from gas pipelines, the Commission is to provide for the maximum technologically feasible and cost-effective avoidance, reduction, and repair of leaks and leaking components.<sup>6</sup> Affordability of service is also a priority.<sup>7</sup> The Commission should not mandate aggressive emission reductions that are not cost-effective.

It is also worth noting that CARB’s Slide 19 is based on data from the May 2015 reports submitted by the gas utilities. As noted in the Staff Workshop Report, CARB identified key vulnerabilities in the 2015 reports. Specifically, CARB explained that “non-standardized emission factors (EFs) used and incomplete activity data from certain emission source category (*sic*), among other factors, make the reported EI [emissions inventory] difficult to interpret and emission comparison across utilities impossible.”<sup>8</sup> Thus, in light of the questionable data used in Slide 19, it appears that while the format might provide a basis for a framework for a compliance plan, the reduction projections are not reliable or realistic. The ISPs suggest that the information submitted in the 2016 reports, after appropriate vetting, may be a better source of data.

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<sup>6</sup> Cal. Pub. Util. Code § 975(e)(1).

<sup>7</sup> Cal. Pub. Util. Code § 975(b).

<sup>8</sup> ALJ’s Ruling, Attachment 1, Staff Workshop Report, p. 2.

In sum, the ISPs observe that CARB's Slide 19 emphasizes the importance of providing utilities with the flexibility they need to implement the technologically feasible, cost-effective measures that fit the specific characteristics of a particular facility.

**8. *How should the Commission structure incentives for reductions beyond a target level?***

As discussed above, any methane emission reduction program has to acknowledge and account for past investments that have resulted in emission reductions, consistent with laws governing GHG emission reductions.<sup>9</sup> In addition, it is appropriate to consider incentives for any reductions beyond an applicable target level. Any incentive structure must take into consideration the significant difference between the magnitude of methane emissions from larger distribution utilities and the ISPs.

It would be useful to have a workshop dedicated to considering an incentive structure. Options for incentives could include (1) allocating a pro rata share (*i.e.*, \$/Mcf) of any penalties collected in connection with target exceedances to entities that reduce emissions beyond a target level, (2) developing a market-based mechanism that would reward incremental cost-effective emissions reductions, or (3) banking credit balances for reductions beyond a target level, which credits could be applied to future target compliance periods.

**9. *What enforcement models might most effectively ensure reductions are achieved and maintained? Should the Commission revise GO 112-F to include a compliance and enforcement model to address SB 1371 requirements? Or should it establish a new general order specific to meeting SB 1371 requirements similar to the Commission's existing GO 167, Enforcement of Maintenance and Operation Standards for Electric Generating Facilities? What role, if any, should ARB or local air districts, or other entities, play in helping to ensure reductions are achieved and maintained?***

In order to provide clarity and certainty to industry, and maximize emission reductions, there must be consistency between CPUC, CARB, and DOGGR GHG emission reduction regulations, targets, compliance, and enforcement. All relevant requirements must be specific enough to ensure consistent application by the agencies and implementation by the regulated community.

Any system of financial penalties has to account for differences among regulated entities. This means that any financial penalties that might be considered must be based on a \$/Mcf of excess methane emissions standard. No ISP or other small utility should have to pay more on a \$/Mcf basis for excess methane emissions than a large utility pays. Further, for an ISP or other

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<sup>9</sup> See, *e.g.*, Cal. Health & Safety Code § 38562(b)(3).

small utility whose emissions are relatively minor, a single event in any given year could have a dramatic impact on a year-to-year comparison. Accordingly, any penalties should be calculated on an aggregated basis, rather than based on missing a target based on a single event in a given year. It would be particularly unreasonable and inequitable to ask an ISP or other small utility to pay a substantial fine when the investment required to achieve an additional de minimus emission reduction would not be cost-effective.

There likely are various approaches that could be used to effect a compliance and enforcement program, including incorporation into a new or existing General Order, or as set forth in a Commission decision. The ISPs reserve the right to address this point more fully in reply comments, as appropriate.

### **Conclusion**

The ISPs appreciate the Commission's consideration of these comments and respectfully request that it adopt the recommendations set forth herein.

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