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Henry Hogo
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Submitted via Email

RE: Comments on the Draft Financial Incentives Funding Action Plan for the 2016 AQMP

Dear Mr. Hogo:

Southern California Gas Company (SoCalGas) appreciates the opportunity to provide comments on the South Coast Air Quality Management District's (SCAQMD) Draft Financial Incentives Funding Action Plan (Funding Plan). SoCalGas strongly supports SCAQMD's efforts to supplement regulatory measures in the Air Quality Management Plan (AQMP) with financial incentives to achieve the real, near-term emission reductions necessary to attain federal ozone standards. We continue to offer our support, expertise, and partnership to SCAQMD to create a technically sound, and fuel and technology neutral AQMP. To that end, SoCalGas strongly supports SCAQMD's efforts to develop a Funding Plan and pursue the funding sources needed to implement the AQMP. SoCalGas respectfully submits the following comments on the Funding Plan.

The need for an innovative incentive program as part of this AQMP is readily apparent. Attainment of the 80 ppb ozone standard by 2023, just 6 years away, presents the District with one of its greatest challenges ever. Historical turnover rates for equipment, ranging from heavy-duty trucks to boilers, will fall short of the necessary replacement with zero or near zero emission equipment that is needed to attain this standard. An approach relying solely on rulemaking to achieve the necessary turnover rate would have to include a requirement forcing owners and operators to retire equipment before the end of its useful life. An incentive-based approach will lead more owners and operators to replace equipment with cleaner, and more energy efficient devices, thereby generating the necessary emission reductions.

I. Incentives for Near-Zero Heavy-Duty Trucks Should Be Prioritized to Maximize Near Term Emission Reductions

Mobile sources are responsible for the large majority of in-Basin NOx emissions. More than 80 percent of the region's NOx emissions come from mobile sources, with heavy-duty trucks as the single largest categorical contributor. Since SCAQMD has limited authority to regulate mobile source emissions, a fair-share, incentives-based approach is the appropriate solution. The AQMP makes clear that both SCAQMD and ARB recognize the need for dramatic NOx reductions from heavy-duty trucks by 2023. The key to these NOx emissions reductions is an accelerated transition to near-zero heavy-duty trucks.

As SCAQMD is well aware, the technology to transform the heavy-duty trucking sector is available today and ready to be deployed. In 2015, Cummins Westport Inc. (CWI) certified the world's first 8.9-liter heavy-duty engine at near-zero emission levels – ninety percent below the existing federal NOx standard, and certified to meet ARB's lowest-tier optional near-zero emission standard (0.02 g/bhp-hr NOx), while also reducing greenhouse gases (GHGs) by fifteen percent.[1] CWI has begun production of this "next generation" heavy-duty natural gas engine for transit bus, school bus, refuse, and medium-duty truck applications. And, CWI is now working on the development of a 12-liter, heavy duty engine, which is expected to be demonstrated next year with full-scale commercialization by the beginning of 2018.

Further, when paired with renewable gas, the CWI engines will provide a commercially proven, broad-based, and affordable strategy to achieve major reductions immediately in emissions of criteria pollutants, air toxins, and GHGs. Since ARB has acknowledged that Class 7 and 8 heavy-duty electric and fuel cell electric vehicles will not be available until the 2030 timeframe,[2] renewable gas presents an immediate opportunity for California to achieve its dual air quality and climate change goals in the heavy-duty transportation sectors.

SoCalGas applauds the efforts of all engine manufacturers who have reduced emissions from their heavy-duty engines below the current standard of 0.2 g/bhp-hr. However, the need for NOx emission reductions from the largest source of such emissions in the Basin, the heavy-duty trucking sector, requires that incentives be focused on the cleanest heavy-duty trucks available. Simply put, the NOx emissions from ten CWI Near Zero ISL G (0.02 g/bhp-hr) engines is equivalent to one CWI ISL G (0.2 g/bhp-hr) engine. Also, the NOx emissions from five CWI Near Zero ISL G (0.02 g/bhp-hr) engines would be equivalent to one 0.1 g/bhp-hr engine. SCAQMD has deemed the 0.02 g/bhp-hr emission level, as being "power plant equivalent," making this engine a valuable tool in planning beyond the important attainment date of 2023.

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[1] Game Changer Technical White Paper, Gladstein, Neandross & Associates, May 3, 2016. http://ngvgamechanger.com/pdfs/GameChanger_FullReport.pdf.

[2] See ARB Technology Assessment: Medium and Heavy Duty Battery Electric Trucks and Buses, October 2015, available at http://www.arb.ca.gov/msprog/tech/techreport/bev_tech_report.pdf and ARB Technology Assessment: Medium and Heavy-Duty Fuel Cell Electric Vehicles, November 2015, available at http://www.arb.ca.gov/msprog/tech/techreport/fc_tech_report.pdf

Several of the potential funding opportunities listed in the Funding Plan are clear opportunities to prioritize incentivizing near-zero heavy-duty trucks. SoCalGas urges SCAQMD to secure funding from the portion of the VW Settlement that is specifically set aside for NOx mitigation ($381 million). These funds should be restricted for use in the State's ozone nonattainment areas, so that they are used where most needed – in the South Coast Air Basin and in the San Joaquin Valley. Moreover, the VW Settlement funds are intended to "fund projects to replace older and dirtier heavy-duty diesel vehicles and equipment with cleaner vehicles and equipment to get immediate emission reductions" in order to mitigate the impact of the past and future environmental harm.[3] A large majority of these funds should be secured for near-zero heavy-duty trucks.[4]

Additionally, AB 118 funds for the Air Quality Improvement Program, as well as for the Alternative and Renewable Fuel and Vehicle Technology Program, should continue to be funded and be targeted for use in the heavy-duty transportation sector. The 0.02 g/bhp-hr engine provides the most viable path for cost-effective, real, and immediate emission reductions in the heavy-duty transportation sector. SoCalGas supports the use of incentive funding from the AB 118 programs to pursue substantial emission reductions from the most polluting mobile source sector.

Further, SoCalGas encourages South Coast to work closely with the ports on the development of a Cargo Container Fee. We urge the District to ensure that any such fee does not negatively impact port operations, and that if a fee is adopted, it should exempt zero and near zero heavy-duty trucks (at ARB's lowest-tier optional near-zero emission standard of 0.02 g/bhp-hr NOx). As currently proposed by the ports, the recently released Clean Air Action Plan (CAAP), allows trucks that purchase the 0.1 g/bhp-hr engine to avoid paying a container fee. When considering a Cargo Container Fee, SCAQMD could implement a sliding scale of fees based on truck emissions.

SoCalGas also recommends that SCAQMD explore additional opportunity for incentivizing sustainable goods movement. Los Angeles County's Measure M was passed with overwhelming support this past November, and it includes funding allocated specifically for clean transit. We encourage SCAQMD to work with Metro's Board to explore opportunities to optimize incentives for additional criteria pollutant reduction co-benefits, in keeping with Guiding Principle number 6.

Incentivizing the widespread deployment of near-zero heavy-duty trucks is the single most impactful emission reduction strategy. SoCalGas strongly supports the appropriation and

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[3] "Federal Court Approves $14.7 billion Settlement in VW Cheating Case," ARB News Release, Oct. 15, 2016, available at: https://www.arb.ca.gov/newsrel/newsrelease.php?id=870.

[4] Notably, more settlements of this kind may occur. EPA is working in coordination with the California Air Resources Board (CARB), and both have issued (January 12, 2017) a notice of violation to Fiat Chrysler Automobiles N.V. and FCA US LLC (collectively FCA) for alleged violations of the Clean Air Act for installing and failing to disclose engine management software in light-duty model year 2014, 2015 and 2016 Jeep Grand Cherokees and Dodge Ram 1500 trucks with 3.0 liter diesel engines sold in the United States.

designation of incentive dollars for near-zero heavy-duty trucks, that are 90% cleaner than the current standard.

II. The Financial Incentives Funding Working Group Must Execute the Funding Plan by Ranking Potential Funding Sources, Securing Funding, and Determining Emission Reduction Priorities

SoCalGas offers its support to SCAQMD as it prepares for adoption of the AQMP and Funding Plan in February. We look forward to participating in a Financial Incentives Funding Working Group and collaborating with Staff and other stakeholders. As SCAQMD continues to refine the Funding Plan and works towards implementation of the AQMP, there are many details to be worked through. As a starting point, we urge SCAQMD to begin prioritizing which potential sources of funding should be pursued.

Next, it is critical that SCAQMD clarify how the incentive funding will be allocated to sectors targeted for emission reductions. While SoCalGas strongly supports providing incentives to the mobile source sector, particularly heavy-duty trucks, the AQMP necessarily includes incentive funding as part of the control measures affecting a wide-range of stationary source emission sectors. For example, CMB-01: Transition to Zero and Near-Zero Emission Technologies for Stationary Sources, includes an incentive cost of $450 million[5] and CMB-02: Emission Reductions from Replacement with Zero or Near-Zero NOx Appliances in Commercial and Residential Applications includes an incentive cost of $520 million.[6] How will funding be allocated as it is secured, and which programs will be prioritized?

SoCalGas agrees that the most cost-effective, near-term emission reductions should be given priority to receive incentive funding; however, we also urge SCAQMD to provide incentives to ease the monetary and regulatory burdens on stationary sources in the Basin. The cost of clean air should not be disproportionately borne by stationary sources.

We appreciate all of SCAQMD staff's tireless efforts to put together this Funding Plan and the AQMP, and we support approval of both at the Governing Board's February 3 hearing. SoCalGas looks forward to continuing to collaborate with SCAQMD on the implementation of these critical planning documents. Please feel free to contact me at nmuyco@semprautilities.com or (213) 215-3397 if you have any questions regarding our comments.

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[5] Draft Final Air Quality Management Plan, Appendix IV-A, p. IV-A-23 (December 2016).

[6] Draft Final Air Quality Management Plan, Appendix IV-A, p. IV-A-47 (December 2016).

Respectfully submitted,

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