

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Address
Natural Gas Distribution Utility Cost and
Revenue Issues Associated with
Greenhouse Gas Emissions.

Rulemaking 14-03-003
(Filed March 13, 2014)

**THE OFFICE OF RATEPAYER ADVOCATES' REPLY TO
PRE-HEARING CONFERENCE STATEMENTS**

DIANA L. LEE
Attorney
Office of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Phone: (415) 703-4342
Email: Diana.Lee@cpuc.ca.gov

KELLY LEE
JORDAN PARRILLO
COLIN RIZZO
Analysts
Office of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Phone: (415) 703-1529
Email: Jordan.Parrillo@cpuc.ca.gov

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I. INTRODUCTION

Pursuant to the Order Instituting Rulemaking (OIR) filed on March 13, 2014, the Office of Ratepayer Advocates (ORA) submits the following reply to parties' prehearing conference (PHC) statements.

The OIR provided that:

“Respondents must, and parties may, provide preliminary responses and appropriate information to address each of the issues set forth in Section 3.2 of this Order Instituting Rulemaking. PHC Statements should also address the appropriate priority the Commission should place on resolving each of the issues set forth in the scope as well as the most appropriate procedural mechanisms to resolve issues efficiently and expeditiously (via phases, etc.).”¹

As discussed in Section II below, ORA supports a phased approach that addresses the issues identified in the OIR in order of their timing priority and agrees with Southern California Gas Company (SoCalGas), San Diego Gas & Electric Company (SDG&E), Southwest Gas Corporation (Southwest Gas), and the International Emissions Trading Association (IETA) that this proceeding is the appropriate place for the Commission to consider any greenhouse gas (GHG) procurement rules for natural gas utilities that could lower GHG procurement costs while ensuring sufficient ratepayer protections remain in place for natural gas ratepayers.

II. DISCUSSION

1. Schedule

Pacific Gas and Electric Company (PG&E) and Southwest Gas propose bifurcating the proceeding into two phases.² PG&E proposes that Phase 1 address priority issues that need immediate resolution so that natural gas utilities have authority to begin compliance implementation before the end of the year, including GHG cost recovery, GHG purchasing rules, GHG cost forecasts and rate design, and minimum GHG consignment levels, while Phase 2 would consider the remaining issues related to use of GHG revenue, GHG outreach and

¹ Rulemaking (R.) 14-03-003, Order Instituting Rulemaking to Address Natural Gas Distribution Utility Cost and Revenue Issues Associated with Greenhouse Gas Emissions, March 19, 2014 (Natural Gas GHG OIR), pp. 21-22.

² Prehearing Conference Statement of Pacific Gas and Electric Company, April 10, 2014 (PG&E PHC Statement), p.3. Prehearing Conference Statement of Southwest Gas Corporation, April 10, 2014 (Southwest Gas PHC Statement), p.2.

education activities and safety.³ Southwest Gas proposes that the first phase of this proceeding focus on the development of procurement rules, and that if cost recovery issues are not considered until a later phase of this proceeding, it is important that the Commission authorize the utilities to establish balancing accounts to track and record its program-related costs in a timely manner.⁴ Similarly, SoCalGas and SDG&E propose that if the Commission determines that it may not be feasible to resolve all outstanding issues by October 2014, the Commission issue an interim decision by September 2014 that covers GHG procurement rules for natural gas utilities, a GHG cost recovery process, and GHG cost forecast and rate design authorization, and that the resolution of other GHG revenue return issues that are not as time-sensitive could be resolved at a subsequent time.⁵

ORA also supports a phased approach that addresses the issues identified in the OIR in order of their timing priority and is most in agreement with Southwest Gas as to the prioritization of the issues.⁶ ORA agrees with Southwest Gas that the best approach would be to have the necessary GHG cost and revenue details in place to allow cost recovery to begin in January 2015.⁷ ORA also agrees with Southwest Gas that the first phase should focus on GHG procurement issues in order to ensure that the natural gas utilities will have the appropriate guidance and authority to procure GHG compliance instruments with adequate time in advance of their January 1, 2015 inclusion in the California Air Resources Board (ARB) Cap-and-Trade program. ORA agrees with Southwest Gas that it may be necessary for the Commission to authorize the appropriate deferral accounts prior to January 2015, such that GHG costs can be tracked and recovered at a later date,⁸ if the Commission determines it is not feasible to resolve all issues in this proceeding in advance of January 1, 2015. ORA also supports the consideration of GHG cost recovery, GHG cost forecasting, and GHG rate design issues in the first phase of

³ PG&E PHC Statement, p.3. ORA is not aware of any safety issues that should be resolved in Phase 1.

⁴ Southwest Gas PHC Statement, p.2.

⁵ Prehearing Conference Statement of Southern California Gas Company and San Diego Gas and Electric Company, April 10, 2014 (SoCalGas and SDG&E PHC Statement), p.5.

⁶ The Office of Ratepayer Advocates' Prehearing Conference Statement, April 10, 2014 (ORA PHC Statement), p.12.

⁷ Southwest Gas PHC Statement, Exhibit A, p.3.

⁸ Southwest Gas PHC Statement, Exhibit A, p.3.

the proceeding if the Commission determines that it can resolve all of those issues by October 2014.⁹

However, if the Commission determines that it is not feasible to resolve all issues in this proceeding by October 2014, ORA disagrees with the proposal of SoCalGas and SDG&E that the Commission should not delay recovery of Cap-and-Trade-related costs if the necessary implementation details for the return of allowance auction revenues cannot be resolved in time for a January 1, 2015 implementation date.¹⁰ SoCalGas and SDG&E argue that this would avoid a potentially large under-collection that could lead to a large rate increase. However, there will also be a large disconnect, and potentially large impact, in customers' bills if customers are required to pay GHG costs without receiving the benefit of GHG revenue at the same time.¹¹ Therefore, ORA recommends that Cap-and-Trade-related costs should be temporarily deferred from rates if the Commission has not resolved necessary cost and revenue implementation details before January 1, 2015.

2. GHG Procurement Rules

SoCalGas and SDG&E seek the adoption of flexible procurement rules for natural gas utilities in this proceeding to facilitate greater access to the Cap-and-Trade market and a range of procurement options in order to mitigate compliance costs for natural gas customers.¹² Similarly, Southwest Gas recommends that any rules governing the acquisition of compliance instruments should provide sufficient options and flexibility for utilities to pursue their individual procurement strategies and that, generally speaking, the rules governing procurement of Cap-and-Trade compliance instruments for electric utilities do not seem objectionable.¹³ PG&E proposes changes to its existing procurement authority for GHG compliance instruments for its electric-side compliance obligations.¹⁴ IETA recommends that the Commission should enable

⁹ORA is not aware of any safety issues that should be resolved in Phase 1

¹⁰ SoCalGas and SDG&E PHC Statement, p. 13.

¹¹ See e.g., D.12-12-033, Conclusion of Law 61, p. 201. (concluding the GHG costs should not be included in electricity rates until necessary implementation details of the revenue allocation methodology were resolved)

¹² SoCalGas and SDG&E PHC Statement, pp. 3-4.

¹³ Southwest Gas PHC Statement, pp. 1-2.

¹⁴ PG&E PHC Statement, p. 4.

greater flexibility for natural gas utilities to optimize the economic efficiencies inherent in ARB's Cap-and-Trade program so as to reduce costs to ratepayers.¹⁵

ORA agrees that this proceeding is the appropriate place for the Commission to consider any GHG procurement rules for natural gas utilities that could lower GHG procurement costs while ensuring sufficient ratepayer protections remain in place for natural gas ratepayers. ORA supports an approach that builds upon the GHG procurement rules for electric utilities adopted in Decision 12-04-046, that considers proposed updates based on the performance of ARB's Cap-and-Trade program to date, and that is based on the electric utilities' experience in the GHG market to date.

III. CONCLUSION

ORA respectfully requests that the Commission consider ORA's recommendations as set forth in its opening PHC statement and reply to the PHC statements of other parties.

Respectfully submitted,

/s/ DIANA L. LEE

DIANA L. LEE

Attorney for the Office of
Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Telephone: (415) 703-4342
Facsimile: (415) 703-2262
email: Diana.lee@cpuc.ca.gov

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¹⁵ Prehearing Conference Statement of the International Emissions Trading Association, April 10, 2014 (IETA PHC Statement), p. 3.