

**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)

**PREHEARING CONFERENCE STATEMENT OF THE
INDEPENDENT ENERGY PRODUCERS ASSOCIATION**

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The Independent Energy Producers Association (IEP) takes the opportunity presented by this prehearing conference statement to raise a single issue with significant implications. In particular, IEP asks the Assigned Commissioner and Administrative Law Judge to clarify, at the outset of this proceeding and as a matter of policy, that noncore natural gas customers who are electric generators will not be subject to the costs related to natural gas corporations' compliance with the Cap-and-Trade (C&T) regulations adopted by the California Air Resources Board (CARB).

The issues preliminarily identified in the Order instituting this proceeding included, "How should costs related to Cap-and-Trade regulations be allocated between core and non-core gas customers."¹ Many electric generators are both directly covered entities under the CARB's current cap-and-trade system and noncore customers who purchase gas transportation services from the investor-owned natural gas utilities that are subject to the Commission's jurisdiction. This dual role creates the possibility that a California electric generator would bear

¹ Order, at p. 17.

the cost of greenhouse gas (GHG) emission reductions twice, once for the cost of allowances for the emissions resulting from the combustion of natural gas during the production of electricity, and once for the cost it is allocated as a customer of a natural gas utility. As these costs are passed through to California's consumers in the commodity price of electricity, the net result would be that California electric ratepayers would pay twice what they otherwise would expect to pay to mitigate GHG emissions through the C&T program.

In addition, this double payment will unnecessarily and inappropriately discriminate against in-state electric generators who purchase natural gas transmission service from their gas utilities as noncore customers, without any proportional reduction in GHG emissions. This possibility arises because some California electric generators are able to connect directly with interstate natural gas pipelines that are not subject to the Commission's jurisdiction. Although these generators bear the costs of complying with the cap-and-trade program for their emissions of GHGs, due to jurisdictional concerns the Commission would have no ability to authorize or require the non-jurisdictional interstate pipeline company that transports natural gas for these generators to collect costs comparable to the costs that are proposed to be allocated to noncore gas customers in this proceeding—*i.e.*, the costs the natural gas utility incurs to comply with the cap and trade program. Exposing electric generators who are noncore gas customers to double jeopardy for GHG compliance costs will not likely result in any significant shift in the dispatch of natural-gas fired generation and, thus, will not have any meaningful impact on GHG reduction.

The Order instituting this rulemaking already recognizes one aspect of this policy principle when it asks, "What steps should the [utilities] and the Commission take to ensure that

these customers are not double charged for their GHG emissions?”² The CO₂ emissions produced by natural gas burned during power generation are already subject to CARB’s cap-and-trade requirements, and the possibility of double-charging is not hypothetical.

For these reasons, IEP respectfully urges the Assigned Commissioner and Administrative Law Judge (1) to clarify in the Scoping Memo and Ruling for this proceeding that noncore natural gas customers who are electric generators will not be subject to any costs or treatment of greenhouse gas emissions eventually adopted by the Commission in this proceeding and (2) to issue a clear statement that this fundamental policy principle will not be an issue in this proceeding.

Respectfully submitted April 10, 2014 at San Francisco, California.

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² Order, p. 18.