

**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
ENVIRONMENTAL DEFENSE FUND**

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I. INTRODUCTION

Pursuant to Rules 1.9 and 1.10 of the California Public Utilities Commission's (Commission) Rules of Practice and Procedure and in accordance with the "Order Instituting Rulemaking to Address Natural Gas Distribution Utility Cost and Revenue Issues Associated with Greenhouse Gas Emissions" (ALJ Ruling), dated March 19, 2014, the Environmental Defense Fund, Inc. (EDF)¹ respectfully submits its Pre-Hearing Conference Statement.

EDF supports the Commission's Order Instituting Rulemaking (OIR) to ensure that the policies, programs, rules and tariffs necessary for natural gas investor-owned utilities (natural gas corporations) comply with the California Air Resources Board's

¹ EDF is a leading non-profit organization representing nearly 315,000 members across the country, including nearly 55,000 in California. Since 1967, EDF has linked science, economics, law, and innovative private-sector partnerships to create breakthrough solutions to the most serious environmental problems. EDF has been active in California on environmental issues since the 1970's, and has participated in proceedings on energy-related topics at the Commission since 1976. EDF has interest and expertise in the role that market-based approaches can play in achieving positive environmental outcomes, an approach that is particularly salient in the field of energy regulation.

(ARB) Greenhouse Gas (GHG) cap-and-trade program and will positively impact California's residents and the environment.

II. DISCUSSION

Specifically, the OIR will address²;

- Costs of cap and trade compliance for natural gas corporations
- Rules governing utility procurement of allowances
- Special considerations for natural gas end-use customers that have a compliance obligation
- Use of revenue for ratepayer benefit, in the event that CARB gives the utilities free allowances
- Need for and scope of outreach and education activities for customers that relates to state climate policy
- Safety concerns

EDF supports the six preliminary issues identified by the OIR and the stated schedule goal of completing the docket by January 1, 2015. In addition to establishing the six preliminary issues, the Commission's OIR reiterates the policy framework it established in D. 12-12-033.³ Specifically, the policy framework established by the Commission in D. 12-12-033 supports the goals of AB 32 to cut the state's greenhouse gas emissions to 1990 levels by 2020. In order to reach the state's reduction goals, a number of greenhouse gas emissions must be addressed, including methane gas leaks in the natural gas system.

Methane, the primary component of natural gas, is a powerful, short-lived greenhouse gas – indeed, the International Panel on Climate Change revised its estimate of methane's global warming potential this year to be even higher than previously thought. All told, it is approximately 80 times more potent over a 20 year period than

² Order Instituting Rulemaking, pp. 17-20.

³ *Id.*, p. 8.

carbon dioxide (CO₂), the most prevalent greenhouse gas.⁴ Accordingly, it is important that the Commission consider using revenue from the cap-and-trade program to help reduce methane leaks from the natural gas system as a whole - this has the potential to greatly reduce the negative impact of methane on the environment and the quality of the air. This proceeding should address both lost and unaccounted for (LAUF) gas, of which fugitive methane emissions are a component, and backlogs, leaks that utilities are aware of but are not immediately addressed, because they are not considered to pose a significant threat to safety.

As such, Issue 4, “Uses of Revenues,” should be expanded to include additional uses of potential revenues, such as enhanced operation and maintenance programs to curb methane emission leaks, including LAUF gas and backlog leaks, as well as putting an increased emphasis on the growth of clean energy programs. The policy framework established in D. 12-12-033 for the electric industry provides the basis for set asides to fund energy efficiency and clean energy programs. Addressing methane leakage in the natural gas distribution system can be achieved through a similar set aside.

The current docket provides the regulatory opportunity to craft the policies, tariffs and regulations required to address GHG emissions as a whole, including the reduction of methane emission leaks in the natural gas system. With the proposed addition in scope, EDF believes that this rulemaking has the potential to be of positive impact to the environment and ratepayers.

⁴ Economic Analysis of Methane Emission Reduction Opportunities in the U.S. Onshore Oil and Natural Gas Industries, Prepared by ICF International for EDF, March 2014.

III. CONCLUSION

For the reasons stated above, Environmental Defense Fund respectfully requests the Commission expand the preliminary scope to address the use of revenues for the reduction of methane leaks in the natural gas distribution system.

Respectfully signed and submitted on April 10, 2014.

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