

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 SOUTHWEST GAS CORPORATION (U 905 G)**

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April 10, 2014

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10 **I. Introduction**

11 On March 13, 2014, the California Public Utilities Commission (Commission)
12 issued an Order Instituting Rulemaking (OIR) in the above-referenced proceeding, "...to
13 establish the policy, programs, rules and tariffs necessary for natural gas investor-owned
14 utilities (natural gas corporations) to comply with the California Air Resource Board's
15 (ARB) Greenhouse Gas (GHG) Cap-and-Trade Program."¹ Southwest Gas Corporation
16 (Southwest Gas or Company) is a natural gas local distribution company, engaged in the
17 retail transmission, distribution, transportation, and sale of natural gas for domestic,
18 commercial, agricultural, and industrial uses. The Company serves approximately
19 190,000 California customers in San Bernardino, Placer, El Dorado and Nevada Counties.
20 Southwest Gas is a gas corporation subject to the Commission's jurisdiction and as such,
21 is a respondent to this OIR.²

22 **II. Scope, Schedule, Categorization and Need for Hearing**

23 Southwest Gas agrees with the preliminary scope and schedule set forth in
24 Sections 3 and 4 of this OIR. Southwest Gas also agrees that this OIR should be
25 categorized as ratesetting, and that the issues in this proceeding can be resolved without
the need for evidentiary hearings.

¹ OIR, at p. 2.

² Id. at p. 22.

1 **III. Other Issues**

2 It is possible that the issues in this proceeding could be resolved more efficiently
3 and expediently if the proceeding is divided into phases. It appears from the OIR that
4 none of the California gas utilities currently has rules regarding the procurement of
5 allowances for their obligations as natural gas suppliers; therefore, it seems appropriate
6 that the first phase of this proceeding focus on the development of procurement rules.

7 However, as also indicated in OIR, Southwest Gas is in a somewhat unique
8 position in that it is a single commodity utility, it does not own or operate compressor
9 stations in California, and it is not one of the utilities that, to date, has received authority
10 from the Commission to track and record its Cap-and-Trade program costs. Accordingly,
11 while cost recovery may not be considered until later phases of this proceeding, it is
12 important that Southwest Gas timely receive the authority necessary to establish
13 balancing accounts to track and record its program-related costs.

14 **IV. Preliminary Responses**

15 Respondents to this OIR must provide preliminary responses and information to
16 address the issues set forth in Section 3.1 of the OIR.³ Southwest Gas' preliminary
17 responses are attached hereto as Exhibit A.

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25 ³ Id. at p. 21. Although the OIR references Section 3.2, the preliminary issues are set forth in Section 3.1.

1 **V. Conclusion**

2 Southwest Gas appreciates the opportunity to participate in this Rulemaking and
3 looks forward to working with the Commission and other interested parties.

4 DATED this 10th day of April, 2014.

5 Respectfully submitted,

6 SOUTHWEST GAS CORPORATION

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EXHIBIT A

EXHIBIT A
Southwest Gas Corporation (U 905 G)
Preliminary Responses to Issues Set Forth in the OIR

1. Cost Recovery

- a. How should the natural gas corporations track and record costs directly incurred to comply with the GHG Cap-and-Trade Program, either as a natural gas supplier or as an owner and operator of gas compression stations that may be regulated under Cap-and-Trade as Covered Entities?

Southwest Gas fully anticipates that it will be required to comply with the Cap-and-Trade Program as a natural gas supplier. To that end, Southwest Gas proposes the establishment of two-way balancing accounts to track and record program related costs.

- b. How should costs related to Cap-and-Trade regulations be allocated between core and non-core gas customers?

Southwest Gas does not envision different cost allocations for its core and non-core customers. The Company proposes that its costs be recovered on an equal cents per therm basis.

- c. What existing authority does each natural gas corporation have to track and record costs related to Cap-and-Trade regulations, and what new authority is needed?

Southwest Gas has a Commission-approved memorandum account in place for the sole purpose of recording Assembly Bill 32 implementation fees. However, it does not have any Commission-approved mechanism for tracking, recording or recovering costs related to the Cap-and-Trade Program, and therefore requires the authority to establish such mechanism.

2. Purchasing Rules

- a. Do natural gas corporations have appropriate existing authority to procure Cap-and-Trade compliance instruments, including allowances and offsets, as defined by ARB?

As mentioned in the OIR, the Commission's long-term procurement planning (LTPP) proceeding established rules for the procurement of Cap-and-Trade compliance instruments by electric utilities, but similar rules have not been established for gas utilities.

- b. What rules and limits should govern how natural gas corporations acquire Cap-and-Trade compliance instruments?

Generally speaking, the rules governing procurement of Cap-and-Trade compliance instruments for electric utilities do not seem objectionable. However, the Commission should consider allowing utilities to purchase options, swaps or other derivatives. This will allow for greater flexibility in developing and hedging the GHG portfolio and protects against spikes in market prices.

- c. Should these rules and limits governing acquisition of compliance instruments for natural gas corporations mirror those adopted in D.12-04-046 for electric utilities?

Please refer to the response to 2.b. above.

- d. Should these rules apply equally to each natural gas corporation, or should the Commission apply different rules depending on the size of the utility and whether it is an integrated electric and gas utility?

At this time, Southwest Gas does not believe that different rules for different utilities are necessary. However, any rules governing the acquisition of compliance instruments should provide sufficient options and flexibility for utilities to pursue their individual procurement strategies.

3. Cost Forecasts and Rate Design

- a. What methodology, and what procedural mechanism, should the natural gas corporations use to forecast annual Cap-and-Trade-related costs and potential allowance revenues?

Southwest Gas envisions that it will forecast annual Cap-and-Trade-related costs and allowance revenues using the latest available carbon allowance market clearing price data. Cap-and-Trade revenues would be equal to Southwest Gas' ARB allowance allocation multiplied by the percent of allowances it is required to consign for sale multiplied by the market clearing price. Cap-and-Trade costs would be based on the same market clearing price and would be calculated by multiplying the price by the difference between Southwest Gas' annual projected carbon allowance requirement, less its ARB allowance allocation, less the percent of allowances consigned for sale. As previously mentioned, Southwest Gas believes it is necessary to establish two-way balancing accounts for program-related costs. Southwest Gas expects that its forecasted program costs, revenues and associated rates to customers would be filed with the Commission annually for review and approval.

- i. Can the natural gas corporations rely on public, non-confidential data to report forecasts publicly without violating ARB confidentiality rules that prevent disclosure of market sensitive information?

Southwest Gas believes it can report forecasts using public, non-confidential information.

- b. What tariff changes, if any, are necessary to include GHG costs in rates?

At a minimum, Southwest Gas would need to revise its tariff to include the balancing accounts referenced in Section 1.a.

- c. Natural gas corporations may have end-use customers that are large emitters due to their on-site combustion of natural gas or other fuels and that ARB regulates as covered entities. What steps should the corporations and the Commission take to ensure that these customers are not double charged for their GHG emissions? For example, such customers would pay for emissions directly through their requirement to comply with ARB's Cap-and-Trade regulations, which cover emissions from on-site natural gas combustion, and they could also pay indirectly if their natural gas rates were to include GHG costs passed on from utilities to end-use customers.

Southwest Gas does not currently have any covered entities as defined by the ARB.

- d. Should each natural gas corporation annually publish the Cap-and-Trade-related costs that may be present in natural gas rates, and can natural gas corporations publish such costs without violating ARB confidentiality rules regarding disclosure of market sensitive information?

Southwest Gas envisions that it will “publish” the total program-related costs included in rates by way of its annual filings. Depending on the level of detail required by the Commission, ARB’s confidentiality rules may or may not be implicated.

- e. Does the Commission need to consider how to maintain competitive neutrality when deciding how natural gas utilities should address Cap-and-Trade-related costs and revenues? How can the Commission implement rules in a manner that treats Commission-regulated gas distribution utilities and non-regulated gas suppliers fairly?

As noted in the OIR, competitive neutrality issues arise in the natural gas sector, albeit in a manner different than in the electric industry. Competitive neutrality becomes less of a concern if utilities are authorized to use balancing accounts and the related surcharges to track, record and recover program-related costs, rather than recovering such costs through the gas cost component of rates.

- f. Should Cap-and-Trade-related costs be temporarily deferred from rates if the Commission has not resolved necessary cost and revenue implementation details before January 1, 2015?

The best approach would be to have the necessary cost and revenue details in place to allow cost recovery to begin in January 2015. This minimizes customer rate shock and allows the utility to recovery costs in a timely manner. However, if a temporary deferral is required, it is necessary that the Commission authorize the appropriate deferral accounts prior to January 2015, such that costs can be tracked and recovered at a later date.

4. Uses of Revenues

- a. If ARB adopts Cap-and-Trade regulation amendments that require natural gas corporations to consign a minimum percentage of allowances to auction, but ARB allows the Commission discretion to require higher levels of consignment, what percentage of the allowances allocated for ratepayer protection should the Commission require the natural gas corporations to consign to auction? Should the Commission endorse the ARB minimum or adopt a higher standard?

The Commission should endorse the ARB minimum. Increasing the consignment levels could result in increased procurement and compliance costs. If those costs are allocated to customers on an equal cents per therm basis (as proposed by Southwest Gas), they stand to increase costs for large-volume customers at a more rapid pace than would otherwise occur using the ARB minimum levels.

- b. Is there reason to deviate from Commission policy established in D.12-12-033 that revenues that accrue from the auctioning of GHG allowances should be returned to customers in a manner that does not dampen the carbon price signal?

The Commission should consider the potential consequences to customers of returning gas utility revenues from the auction of GHG allowances in the same manner established in D.12-12-033. All customers have electric service and will

already see a carbon price signal in their bills for electric service. For some customers, providing a carbon price signal of similar magnitude in bills for natural gas service could be unduly burdensome and may increase the potential for leakage.

- c. If ARB grants natural gas corporations allowances on behalf of their ratepayers, what customer classes should receive the revenues that result from the auctioning of these allowances and why? Should these revenues be distributed in a manner similar to that in D.12-12-033?

Southwest Gas believes that all of its customers should participate in the return of revenues resulting from the auction of allowances. However, Southwest Gas is different from many of the other utilities in this proceeding, and many of those that are subject to D.12-12-033, in that it serves less than 200,000 California customers, and over 99 percent of its California customers are in residential or small commercial customer classes. The homogeneous nature of Southwest Gas' California customer base may require that its auction revenues be distributed in a manner that is less complex than that set forth in D.12-12-033.

5. Outreach and Education Activities

- a. If the Commission returns allowance revenue to natural gas end-use customers, should the Commission initiate outreach and education efforts to increase customer awareness of state efforts to address climate change and allowance revenue credits that may appear on their bills?

Yes. The customer population in Southwest Gas' California service territories is smaller than that of most other respondents. There is also significant uniformity in the composition of Southwest Gas' California customer base, with 99 percent of all customers falling into residential or small commercial classes. As such, it is imperative that any customer outreach and education initiatives be low cost and reasonable in scope.

- i. If so, should such efforts leverage the same administrative structure and objectives ultimately adopted in Application (A.) 13-08-026, et al, the applications addressing GHG customer outreach activities for the electric utilities?

Please refer to the response to 5.a. above.

6. Safety Concerns

- a. Pursuant to Public Utilities Code Section 451, we seek comment from parties and direct the respondents to specifically identify and describe safety concerns related to the issues identified in this proceeding.

At this time, Southwest Gas is not aware of any safety concerns related to the issues identified in this proceeding.