

**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.

R.14-03-003
(March 13, 2014)

**PREHEARING CONFERENCE STATEMENT OF
PACIFIC GAS AND ELECTRIC COMPANY (U 39 E)**

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Dated: April 10, 2014

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I. INTRODUCTION

Pursuant to Ordering Paragraph 6 of R.14-03-003 (Rulemaking), Pacific Gas and Electric Company (PG&E) provides its prehearing conference statement in this proceeding. As discussed in more detail below, PG&E recommends that the schedule and scope for this Rulemaking be expedited and narrowed so that a Commission decision is issued prior to September 1, 2014, authorizing PG&E to prudently and timely prepare for and procure AB 32 Cap-and-Trade compliance instruments to cover its natural gas supplier compliance obligation and recover the reasonable costs of complying with the California Air Resources Board's (ARB's) Cap-and-Trade Program.

PG&E requests that the Commission decision authorize PG&E to comply with ARB's Cap-and-Trade Regulation ("the Regulation") as a natural gas supplier consistent with the cost recovery authority requested in PG&E's Application (A.) 13-09-015 filed with the Commission on September 30, 2013, and consistent with the procurement authority included in PG&E's Advice Letter (AL) 4331-E filed with the Commission on December 20, 2013.

An expedited Commission decision on the rate design for distribution of natural gas supplier Cap-and-Trade allowance revenues that result from the limited consignment of compliance instruments for auction under the Regulation is also needed by September 1, 2014, but is independent of the procurement and cost recovery authority that is essential for PG&E to comply with the Regulation.

PG&E incorporates by reference its A.13-09-015, supporting testimony, and AL 4331-E into this prehearing conference statement, and will provide copies to interested parties at the prehearing conference.^{1/}

II. THE SCHEDULE FOR A COMMISSION DECISION IN THIS PROCEEDING NEEDS TO BE EXPEDITED IN ORDER FOR PG&E TO COMPLY WITH THE ARB'S SCHEDULE FOR IMPLEMENTATION OF ITS NATURAL GAS SUPPLIER COMPLIANCE REGULATIONS UNDER AB 32

Pursuant to Assembly Bill (“AB”) 32, the California Global Warming Solutions Act (Nunez, Chapter 488, Statutes of 2006), the California Air Resources Board (“ARB”) has promulgated a greenhouse gas emissions “cap-and-trade” rulemaking that requires PG&E and other California natural gas suppliers to comply with the rulemaking and procure compliance instruments, including allowances” and offsets, beginning January 1, 2015 to cover greenhouse gas (“GHG”) emissions from end-use natural gas customers who are not directly regulated by the ARB under the Regulation.

On April 25, 2014, the ARB is scheduled to adopt proposed amendments to the Regulation governing natural gas suppliers under the Cap-and-Trade Program. The draft amendments contain certain dates and deadlines for PG&E and other natural gas suppliers to begin compliance implementation prior to the January 1, 2015, effective date of the compliance obligation under the Regulation. For example, the proposed amendments require each natural gas supplier to nominate the number of allowances that ARB should deposit in its limited use holding account and compliance account by September 1, 2014. If a natural gas supplier does not state a preference by this date, all allocated allowances will be placed in the suppliers’ limited use holding account for consignment, potentially increasing PG&E’s and customers’ costs of compliance and reducing PG&E’s flexibility to implement an optimum compliance strategy for the benefit of customers. In addition, in preparation for compliance beginning

^{1/} Copies of AL 4331-E will be subject to approval of an appropriate protective order and execution of any necessary non-disclosure agreement.

January 1, 2015, PG&E needs to complete administrative and system improvement activities prior to that date, preferably during September and October and before the end-of-year “rush.”

PG&E proposes that the proceeding be bifurcated into two phases. Phase 1 would address priority issues that need immediate resolution so that natural gas utilities have authority to begin compliance implementation before the end of the year. PG&E recommends that Phase 1 include consideration of the following issues identified in Section 3.1 of the OIR: Cost Recovery (1.a-c); Purchasing Rules (2.a-d); Cost Forecasts and Rate Design (3.a-f); and Minimum Consignment Level (4.a). Phase 2 would consider the remaining issues related to Uses of Revenues (4.b-c), Outreach and Education Activities (5.a), and Safety (6a).

PG&E’s prepared testimony in A.13-09-015 and Advice Letter 4331-E address each of the Phase 1 proposed issues in the following manner:

1. Cost Recovery (1.a-c) is addressed in Chapter 2 of PG&E’s prepared testimony in A.13-09-015.
2. Purchasing Rules (2.a-d) are addressed in Advice Letter 4331-E.
3. Cost Forecasts and Rate Design (3.a-f) are addressed in Chapters 2 and 3 of PG&E’s prepared testimony in A.13-09-015.
4. Minimum Consignment Level (4.a) is addressed in Advice Letter 4331-E.

Accordingly, PG&E requests that the scoping memo and schedule for a Commission decision in this proceeding include issuance of a Proposed Decision on Phase 1 issues by **mid-July, 2014** so that the Commission decision can be issued **no later than the August 14 or August 28, 2014**, Commission meeting dates. Phase 2 issues may be considered subsequently.

III. PG&E AGREES WITH THE PROPOSED SCOPE OF THE PROCEEDING, PROVIDED THAT PG&E’S A.13-09-015 AND PREPARED TESTIMONY AND ADVICE LETTER 4331-E ARE ADMITTED INTO THE RECORD.

PG&E generally agrees with the proposed scope and issues outlined at pages 15- 20 of the Rulemaking. However, at the prehearing conference, PG&E will request that its A.13-09-015, including prepared testimony, and Advice Letter 4331-E, subject to an appropriate

protective order for confidential, market-sensitive information, be immediately admitted into the record and made available to the Administrative Law Judge, Assigned Commissioner and interested parties for review and comment.^{2/} PG&E's A.13-09-015, including prepared testimony, and Advice Letter 4331-E, address the Phase 1 issues identified in Section II, above. PG&E's application and prepared testimony include its forecast revenue requirements for the first year of natural gas supplier compliance and proposes that its cost recovery be subject to a two-way balancing account and annual revision and true-up by advice filing for the actual costs incurred and subsequent forecast Cap-and-Trade natural gas-related compliance costs.

PG&E's Advice Letter 4331-E summarized proposed changes to its GHG Procurement Plan to comply with its AB 32 natural gas supplier compliance obligations as follows:

a. **Include PG&E's GHG Obligations as a Supplier of Natural Gas.**

PG&E's Advice Letter updates its GHG Procurement Plan to reflect proposed amendments to the Regulation pertaining to natural gas suppliers. The Plan would be modified to include a description of PG&E's Cap-and-Trade compliance obligation as a natural gas supplier, and details ARB regulatory requirements concerning its natural gas supplier allowance allocations and consignment requirements.

b. **Add GHG Purchase Limits Applicable to Natural Gas.** Consistent with D.12-04-046, the GHG Procurement Plan establishes a Direct Compliance Obligation Purchase Limit to set overall volume limits for PG&E's GHG compliance instrument procurement tied to its actual and forecasted electric and natural gas compressor station GHG emissions. In the proposed GHG Procurement Plan changes, PG&E has proposed a separate and distinct formula, analogous to the formula applicable to its existing GHG compliance obligation, to limit PG&E's GHG compliance instrument procurement associated with PG&E's net natural gas compliance obligation or the "Net Natural Gas Compliance Obligation Purchase Limit." The sum of the

^{2/} Excluding "market participants" as defined in D.06-06-066 and participants in ARB auctions, including registered entities, auction participants, and organizations that are or have employees that are voluntary associated entities under the Regulation.

Direct Compliance Obligation Purchase Limit and the Net Natural Gas Compliance Obligation Purchase Limit formula will set the maximum amount of GHG compliance instruments that PG&E may purchase to fulfill its compliance obligation as regulated entity under the Cap-and-Trade Program.

c. **Incorporate Natural Gas Allowances into PG&E's Auction**

Consignment Strategy. PG&E's Advice 4331-E also detailed, in confidential appendices, how PG&E proposes to include natural gas allowances into the GHG Procurement Plan's consignment strategy.

Based on PG&E's A.13-09-015 and Advice Letter 4331-E as well as the Commission's prior approval of PG&E's GHG procurement for electricity and natural gas compressor station compliance,^{3/} the scope of this proceeding can be narrowed to include immediate review of PG&E's natural gas supplier cost recovery and procurement proposals, consistent with how the Commission previously has reviewed and approved PG&E's GHG Procurement Plan and cost recovery.

IV. NO EVIDENTIARY HEARINGS ARE REQUIRED. THE VIEWS AND COMMENTS OF INTERESTED PARTIES AND COMMISSION STAFF CAN BE INCLUDED IN THE RECORD THROUGH WRITTEN COMMENTS AND WORKSHOPS, IF NECESSARY

Given the Commission's prior approval of PG&E's GHG Procurement Plans and cost recovery, and PG&E's existing testimony and submissions on its natural gas supplier compliance plans, no evidentiary hearings are necessary in order for the Commission to move forward with an expedited decision on PG&E's cost recovery and incorporation of its natural gas supplier compliance obligation into its GHG Procurement Plan.

In addition, as PG&E and ORA discussed in the January 9, 2014, prehearing conference on PG&E's A.13-09-015, there is an opportunity for PG&E, ORA and any other interested parties to stipulate to resolution of any questions or issues that parties raise regarding PG&E's

^{3/} D.12-04-046; D.13-03-017.

cost recovery and other proposals in this proceeding, including the implementation of PG&E's two-way balancing account for cost recovery and routine updates in PG&E's forecast revenue requirements.^{4/}

VII. CONCLUSION

PG&E respectfully requests that the Commission move forward with issuing a decision on PG&E's proposals for AB 32 natural gas supplier compliance cost recovery and procurement authority by no later than September 1, 2014, so that PG&E can prudently plan and prepare for compliance with the ARB's AB 32 Regulation applicable to natural gas suppliers for the benefit of PG&E's customers by January 1, 2015.

Respectfully submitted,

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^{4/} A.13-09-015, January 9, 2014, Tr.13:18- 26, 19, 20:25- 28.