PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

August 9, 2011

San Diego Gas & Electric Company
Attn: Clay Faber
Director, Regulatory Affairs
8330 Century Park Court
San Diego, CA 92123-1548
CFaber@semprautilities.com

Southern California Gas Company
Attn: Rasha Prince
Director, Regulatory Affairs
555 W. Fifth Street, GT14D6
Los Angeles, CA 90013-1011
RPrince@semprautilities.com

Re: Rejection without prejudice of Advice Letter 1991-G by San Diego Gas & Electric Company and Advice No. 4172 by Southern California Gas Company – Request to offer a new category of non-tariffed services: Biogas Conditioning and Biogas Production Facilities

Dear Mr. Faber and Ms. Prince:

This serves as notice of a rejection without prejudice of the above-mentioned advice letters. The objective of supporting development of biogas technology is one that the Commission strongly supports. The innovative approach that is presented to facilitate biogas project development and identify novel funding sources may serve to increase such projects in the future. However, the approach proposed in these advice letters is contrary to currently-established Commission Decisions and Rules on non-tariffed products and services (NTP&S). Thus, this request is clearly beyond the scope of our Advice Letter process and contrary to General Order 96-B.

The appropriate forum for consideration of the proposals within these advice letters would be through an Application or Applications filed before the Commission requesting waivers from certain rules and rulings on NTP&S and certain proposed (revenue) sharing mechanisms.

As a participant in the Interagency Bioenergy Working Group and an implementing agency for the State's 2011 Bioenergy Action Plan adopted by the California Energy Commission on March 23, 2011, the CPUC is committed to taking actions to address challenges that impede the development of biogas. Unfortunately, an Advice Letter is not the correct mechanism to consider changing established Commission policies related to NTP&S Programs to support this request.

Advice Letter 1991-G by San Diego Gas & Electric Company (SDG&E), and Advice No. 4172 by Southern California Gas Company (SoCal Gas), were each filed on November 22, 2010. These advice letters ask for the same authority to pursue the development of certain biogas services under the Commission's NTP&S program, and are practically identical.

One or both of these advice letters were protested by the Division of Ratepayer Advocates (DRA), The Utility Reform Network, Clean Energy Fuels Corporation (Clean Energy), Agricultural Energy Consumers Association, California Farm Bureau Federation, California Dairy Campaign, Alliance of Western Milk Producers (these last four parties combined under one protest), on December 13, 2010. A response to the DRA and Clean Energy protests was filed by SDG&E on December 20, 2010. The numerous protests also indicate to Energy Division staff that the proposal would be more appropriately considered in a formal Application, where issues raised in the protests can be fully vetted.

These advice letters are rejected without prejudice for the following reasons:

1. The advice letters seek a waiver of sections of the Commission's Affiliate Transactions Rules (ATR), specifically Rule VII.C.4.a and b. These rules require that any offering of a product or service by the utility, and that is not tariffed, meet the following conditions:

    a) *The nontariffed product or service utilizes a portion of a utility asset or capacity;*

    b) *such asset or capacity has been acquired for the purpose of and is necessary and useful in providing tariffed utility services;*

    The Commission's General Order (G.O.) 96-B, Section 5, discusses what issues and requests may be filed by utilities using the advice letter process, and those that must be submitted via a formal filing. Section 5.2 states:

    A utility must file an application, application for rehearing, or petition for modification, as appropriate, in the following circumstances:

    (1) The utility requests modification of a decision issued in a formal proceeding or otherwise seeks relief that the Commission can grant only after holding an evidentiary hearing, or by decision rendered in a formal proceeding;

    (2) The utility seeks Commission approval of a proposed action that the utility has not been authorized, by statute, by this General Order, or by other Commission order, to seek by advice letter....

    As the Affiliate Transactions Rules were issued as a result of a formal proceeding in D.97-12-088 (R.97-04-011, I.97-04-012), modified by D.98-08-035, and most recently reaffirmed by D.06-12-029, to seek a waiver or modification of one of the resulting rules through advice letter would not be in compliance with G.O. 96-B. This G.O. requires the Energy Division to reject advice letters, such as these, which propose relief that can only be granted in a formal proceeding.

2. These proposed projects, if pursued by the utilities as described in the advice letters, may also violate, in addition to the above, Rules VII.C.4.c, VII.D.2, VII.E.1.a and b of the ATR.

3. These proposed projects may be inappropriate for inclusion in the Commission's NTP&S program, which is designed to exploit available scope economies in resources or excess capacity already acquired by ratepayers for the provision of the underlying utility service. The utilities can point to no such underutilized resource or excess capacity, and in fact, as discussed above, seek a waiver of this fundamental requirement of the Commission's NTP&S program. Instead, the utilities state that they will use existing utility labor and resources to pursue these projects, and specify no appropriate excess or underutilized capacity to be used.

4. The mechanism proposed for sharing proceeds from the development and sale of these services, as described in these advice letters, was also proposed for all NTP&S programs at these utilities in A.10-12-006, currently under review by the Commission. This formal proceeding is the appropriate venue to assess this proposed mechanism, not the advice letter process.

We note that the Commission has stated its preference to have new products and services provided to non-utility markets by the utility's parent through an affiliate, rather than by the utility itself. If SoCalGas and SDG&E wish to pursue these projects, given the reasons stated above and the policy changes suggested in these proposals, it is appropriate that the utilities do so through a formal filing with this Commission.

As the objectives served by these proposals may help address barriers to increase bioenergy production, I would urge you to consider filing a formal application quickly so that the issues presented may receive full consideration and the Commission may consider providing relief from existing policies as appropriate and supported by an evidentiary record.

Sincerely,

Julie A. Fitch, Director
Energy Division

Cc: Protestants to AL 1991-G (SDG&E) and AL 4172 (SoCalGas):
David Aschuckian, DRA
Robert Finkelstein, TURN
Dan Geis, Agricultural Consumers Association
Don Liddell, Clean Energy Fuels
Karen Norene Mills, California Farm Bureau Federation
Kevin Abernathy, California Dairy Campaign
Norman Pederson, Southern California Generation Coalition

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November 22, 2010

Advice No. 4172
(U 904 G)

Public Utilities Commission of the State of California

Subject: Request for Authorization to Offer Biogas Conditioning Services and Bioenergy Production Facilities Services on a Non-Tariffed Basis

I. Purpose and Introduction

Southern California Gas Company ("SoCalGas") hereby requests authorization from the California Public Utilities Commission ("Commission") to establish two new non-tariffed products and services ("NTP&S" or "Non-Tariffed Services") relating to the production and conditioning of biogas. Collectively, these two new NTP&S will be referred to as the "Services."

The proposed Biogas Conditioning Service[1] will enable biogas producers to produce pipeline quality biogas (biomethane) from their raw biogas and use it for purposes such as pipeline injection or onsite generation. SoCalGas will design, install, own, operate, and maintain the biogas conditioning systems on, or adjacent to, the customer's premises. SoCalGas will not own the biogas either entering or leaving the biogas conditioning system. The service offered by SoCalGas may include, but is not limited to, wastewater treatment plants, municipal solid waste, dairy waste, food waste, and other biogas sources.

The proposed Bioenergy Production Facilities Service[2] will enable SoCalGas to own facilities required to produce raw biogas from organic matter. Organic matter includes, but is not limited to, agricultural wastes, animal wastes, biosolids, energy crops, food wastes, green waste, manure, municipal solid wastes and sewage. SoCalGas will not own the organic matter going into a digester or the products produced from the digestion process. The service offered by SoCalGas may include, but is not limited to, digesters, collection equipment, storage tanks, transportation of the material, and slurries or other means of moving biomass.

[1] This is a generic name for the service requested in this filing. SoCalGas will establish a formal name to be used once the service is approved by the Commission. This program name may be changed or modified.

[2] This is a generic name for the service requested in this filing. SoCalGas will establish a formal name to be used once the service is approved by the Commission. This program name may be changed or modified.

This filing is made pursuant to Rule VII.E of the Affiliate Transaction Rules, which requires an energy utility to submit an advice letter describing any new NTP&S it proposes to offer. This filing is in compliance with all requirements of Rule VII, as fully demonstrated herein.

In this filing, SoCalGas specifically requests Commission approval of the following:

1) Authority to offer the Services described herein on a non-tariffed basis, consistent with the requirements of Rule VII of the Commission's Affiliate Transaction Rules.

2) Authority to establish the net earnings sharing mechanism described herein, consistent with the requirements of Rule VII of the Affiliate Transaction Rules.

3) Authority to modify SoCalGas' Rewards and Penalties Balancing Account ("RPBA") in order to implement the new net revenue sharing mechanism proposed herein.

The proposed net earnings sharing mechanism will provide a fair and equitable allocation of the net financial benefits that result from the provision of these Services. Under the proposed mechanism, SoCalGas will share 50/50 with ratepayers the net after-tax earnings above SoCalGas' currently authorized rate of return plus 75 basis points. This adjustment reflects 50 basis points to compensate for the additional risks taken on by shareholders due to the below the line nature of this investment, plus an additional 25 basis point adder as an incentive to foster services such as Biogas Conditioning Services and Bioenergy Production Facilities Services that advance the Commission's and State's policy to reduce greenhouse gas ("GHG") emissions, and promote the development of renewable energy resources.

The proposed modifications to the RPBA are necessary to allow SoCalGas to record the ratepayer's allocation of after-tax net earnings generated from the service under the sharing mechanism proposed herein. Accordingly, SoCalGas hereby submits the applicable revisions to its Preliminary Statement Part V, Balancing Accounts, applicable throughout its service territory, as shown on Attachment B.

II. <u>Background and Policy Support</u>

California has a long-standing commitment to the protection of environmental resources, as evidenced by its development of policies and programs such as those aimed at promoting renewable energy, improving energy efficiency and increasing use of alternative fuels.[3] In September 2006, Governor Schwarzenegger signed Assembly Bill ("AB") 32, which establishes California's leadership role in the effort to reduce GHG emissions.[4] The bill sets the ambitious goal of reducing statewide GHG emissions to 1990 levels by 2020 and requires the California Air Resources Board ("CARB"), in consultation with stakeholders including the Commission, to implement by

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[3] See, e.g., Senate Bill (SB) 1078 (Stats. 2002, Ch. 516); Senate Bill (SB) 107 (Stats. 2006, Ch. 464).Senate Bill (SB) 2076 (Stats. 2000, Ch. 936); proposed Assembly Bill (AB) 107; Executive Order S-01-07.

[4] Assembly Bill (AB) 32 (Stats. 2006, Ch. 488).

January 1, 2012, emission reduction measures designed to achieve the maximum technologically feasible and cost-effective reductions in GHG emissions.[5]

In April of 2006, another key legislative policy (State Executive Order S-06-06) was signed by Governor Schwarzenegger that directs state agencies to promote in-state bioenergy production and use. Executive Order S-06-06 sets the following targets to increase the in-state production and use of bioenergy:

a. Regarding biofuels, the goal is to produce a minimum of 20 percent of biofuels within California by 2010, 40 percent by 2020, and 75 percent by 2050;

b. Regarding the use of biomass for electricity, the goal is to meet a 20 percent target within the established state goals for renewable generation for 2010 and 2020.

To complement the legislative policies as set forth by both AB 32 and S-06-06, a comprehensive legislative and regulatory framework is in place in California to support major expansion of the supply of renewable electric resources and facilities within the State. Companion legislation, Senate Bills ("SB") 1078 and 107, establish the renewable portfolio standard ("RPS") program, which promotes renewable electric energy as a means of meeting the environmental goals of the State and in particular, of reducing GHG emissions.[6] SB 107 accelerates the original RPS goal of procuring 20% of retail electricity sales from eligible renewable energy resources by 2017 and requires investor owned utilities and other load-serving entities to increase the share of renewable energy in their respective portfolios to 20% by 2010. SB 107 recognizes the importance of investments in new renewable resources and technologies in achieving this 20% goal and the overall environmental objectives of the State, directing the Commission to "ensure that the most cost-effective and efficient investments in renewable energy resources are vigorously pursued." A primary goal of the legislation is the development of a "fully competitive and self-sustaining supply of electricity generated from renewable sources."

The proposed Services will promote the use of renewable energy to customers and fully support the State's GHG emission reduction policies and objectives. The biomethane coming out of a biogas conditioning system is a renewable energy capable of supporting all three previously described GHG emission reduction policies (AB 32, S-06-06 and SB 107). Unlike other sources of renewable energy, biogas injected into SoCalGas' pipeline system can be efficiently stored and delivered as needed.

Very little market activity has been seen in the wastewater, dairy and food waste biomethane capture arena due to the lack of demonstrated technical and economic feasibility in the United States. The option for customers (excluding landfills[7]) to capture and inject biomethane into SoCalGas' pipeline network has been available for some time but, as of this filing date, there are no active instances of biomethane injection within any

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[5] *Id*., § 38562(a).

[6] Senate Bill (SB) 107, Sec. 1, § 25620.1(b)(1) and (3) (Stats. 2006, Ch. 464); Senate Bill (SB) 1078, Sec.1, § 387(a) (Stats. 2002, Ch. 516).

[7] SoCalGas' Rule No. 30 provides the general terms and conditions applicable whenever the Utility transports customer-owned gas over its system. Per Rule No. 30, Section I.3.o, gas from landfills will not be accepted or transported.

of the California investor owned utility service territories. [8] However, in the recent past, significant technology developments and governmental incentives, particularly in Europe, have helped make biogas conditioning services more viable. SoCalGas believes that utility support and involvement in advancing the biofuels market will help bring an overall awareness as to the benefits of renewable biomethane through communications with external stakeholder groups and the general public. SoCalGas believes the proposed Services will help in further developing this untapped resource. Approval of the Services will allow SoCalGas to invest in facilities that will produce raw biogas and/or pipeline quality gas from a renewable resource.

III. Description of Proposed Non-Tariffed Services

The following provides a detailed description of the two non-tariffed Services being proposed in this filing. SoCalGas will provide both Services generally within its established service territory. The Services will be provided through written agreements. The agreements will be with entities including, but not limited to, developers, equipment vendors, and engineering, procurement and construction ("EPC") vendors. SoCalGas will issue a Request for Proposal when selecting a turnkey system integrator and/or biogas equipment vendor for each project. The pricing of the Services and associated charges will be established through negotiation and set forth in the agreement. SoCalGas will apply reasonable creditworthiness requirements. The customer under the non-tariffed Services will be responsible for complying with the utility's tariff provisions, as applicable, including, but not limited to, SoCalGas' Tariff Rule Nos. 30 and 39. Any dispute regarding the non-tariffed Services provided by SoCalGas will be subject to the complaint procedures of the Commission, unless otherwise agreed to by the utility.

Biogas Conditioning Service – This service will offer biogas producers a solution to produce pipeline quality biogas from their raw biogas and use it for purposes such as pipeline injection or onsite generation. SoCalGas will design, install, own, operate, and maintain the biogas conditioning systems on, or adjacent to, the customer's premises and charge the biogas producer a "biogas conditioning service fee" under a long term services agreement. The service offered by SoCalGas may include, but is not limited to, the following market segments: waste water treatment plants, municipal solid waste, dairy waste, food waste, and other biogas sources.

SoCalGas plans to use a turnkey system integrator for the system installations and a third-party to manage the day-to-day operations of the system. The technology at each biogas producer site will be selected on a case-by-case basis as the size of the facility, methane losses, and operating costs all play a large role in the technology selection. SoCalGas will consider a variety of proven biogas conditioning technologies to clean the raw biogas leaving an anaerobic digester. For CO_2 and H_2S removal, SoCalGas will focus on those technologies that are cost effective, reliable and safe, easy to operate and environmentally friendly.[9]

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[8] Point Loma Wastewater Treatment Facility is proposing to install a biogas conditioning facility for the purposes of pipeline injection. The biogas conditioning facility is expected to be online in the third quarter of 2011.

[9] Some technologies that may fit the criteria are, but not limited to, pressure swing adsorption ("PSA"), temperature swing adsorption ("TSA") and amine gas treating.

Once installed, the biogas conditioning system will accept raw biogas from the onsite producer and the system will clean the raw biogas to meet the required gas quality specifications. The gas quality of the conditioned biogas will depend on how it is processed and its intended use (pipeline injection, onsite heat or power, natural gas vehicle ("NGV") fuel, etc). If the conditioned biogas is destined for injection into the SoCalGas pipeline network, it must meet the pipeline quality gas specifications defined in SoCalGas' Rule No. 30. If the conditioned biogas is intended for onsite power generation or process heating, less stringent conditioning may be required, but all applicable regulatory and environmental requirements will need to be met.

The monitoring for gas quality would need to be performed 24 hours per day for key constituents of biomethane. Monitoring is performed by equipment such as a gas chromatograph, O_2 analyzer, moisture and CO_2 analyzer, sulfur and H_2S monitor, odorant system, and liquid scrubber. The gas is also collected in a composite sampler for checking of trace constituents and a double checking of existing monitors. Automatic shut-off systems would also be required to prevent off-spec gas from entering SoCalGas' pipeline network.

The biogas producer will be responsible for complying with interconnection requirements set forth in SoCalGas' Rule No. 39.

<u>Bioenergy Production Facilities Service</u> – This service will offer owners of organic matter a solution to utilize it for the production of raw biogas. Organic matter includes, but is not limited to, agricultural wastes, animal wastes, biosolids, energy crops, food wastes, green waste, manure, municipal solid wastes and sewage. SoCalGas will design, install, own, operate, and maintain the bioenergy production facility on or adjacent to the customer's premises and charge the feedstock provider a "bioenergy production facility service fee." SoCalGas will not own the feedstock going into a digester or the products produced from the digestion process. The service offered by SoCalGas may include, but is not limited to, digesters, collection equipment, storage tanks, transportation of the material, slurries or other means of moving biomass, and other biogas production technologies that may enter the market.

SoCalGas plans to use a turnkey system integrator for the system installations and a third-party to manage the day-to-day operations of the system. The technology at each bioenergy production facility will be selected on a case-by-case basis as the quantity and content of the feedstock play a large role in the technology selection. SoCalGas will consider a variety of proven technologies when selecting the equipment used to produce raw biogas from organic matter.

Once installed, the bioenergy production facility will accept the third-party owned feedstock and the digestion process will provide three principal products: biogas, digestate, and water. All of these outputs will remain the property of the customer.

IV. <u>Customer Benefits</u>

SoCalGas' proposed Biogas Conditioning and Bioenergy Production Facilities Services will provide developers and customers with turnkey options for creating value from their organic matter and/or raw biogas. Additionally, the Services will divert organic waste from landfills, provide a solution to wastewater treatment plants that flare their biogas to the atmosphere, and support California's GHG emission reduction goals and objectives.

SoCalGas' turnkey Services will eliminate some potential market barriers such as high upfront capital investment requirements, ongoing operating and maintenance ("O&M") expenses and gas quality risk. In order to provide value to customers and help expand the bioenergy market under the proposed Services, SoCalGas would be responsible for the upfront capital costs, ongoing O&M expenses, and ensuring that the biomethane coming out of the biogas conditioning system meets the predefined gas specifications in return for a long term contract with the customer.

Biogas producers will have choices about what to do with their biogas. They can opt to use the biomethane for injection into SoCalGas' pipeline network and nominate the gas to a third-party (such as an electric generator) or use it for onsite generation (such as for a fuel cell).

Choices will be especially valuable when the South Coast Air Quality Management District (SCAQMD) Rule 1110.2 is enforced for engines.[10] The Rule substantially reduces emission limits for engines fueled by landfill or digester gas and it may become uneconomical for biogas producers to continue to generate power onsite. In that scenario, the Biogas Conditioning Service provides an alternative option for utilizing the biogas.

As the Letters of Support indicate in Attachment C, various customers, organizations and agencies support SoCalGas' proposal to provide a turnkey solution for the production and conditioning of biogas. SoCalGas is ready to provide innovative biogas solutions to meet our customers' needs while supporting California's GHG emission reduction goals at the same time.

V. Net Earnings Sharing Mechanism

SoCalGas proposes a 50/50 sharing of after-tax net earnings above a rate of return benchmark, described below, where shareholders retain half of the net after-tax earnings above the benchmark and ratepayers retain the other half. This 50/50 sharing of the after-tax net earnings is appropriate given the nature of the non-tariffed services being requested, which inherently require the utility to incur significant incremental capital cost and, to a lesser extent, a certain level of incremental O&M expense. Pursuant to Rule VII of the Commission's Affiliate Transaction Rules, this incremental expense would be treated on a "below the line" basis.[11]

SoCalGas proposes that "after-tax net earnings" be defined as "the gross revenue received from customers of NTP&S, minus the incremental costs allocated to the NTP&S,

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[10] The February 1, 2008 amendment of Rule 1110.2 substantially reduced emission limits for engines fueled by landfill or digester gas. The compliance date for these new limits was set at July 1, 2012. A delay in executing some demonstration projects will likely necessitate an adjustment to the July 1, 2012 effective date for the biogas engines.

[11] Below the line treatment generally refers to the accounting and ratemaking treatment for revenues and expenses that typically appear on the utility's income statement below the operating income subtotal. These items are components of net income and represent income and expenses incurred from both utility and non-utility operations. Below-the-line items can include subsidiary-investment income, interest expense/income, allowance for funds used during construction (AFUDC), and income taxes related to below-the-line matters. With regard to the non-tariffed services and net sharing mechanism proposed in this filing, the resulting incremental expenses would generally not be considered in ratemaking proceedings and would not be incorporated in the utility's base revenue requirement and rates.

including a rate of return equal to a benchmark rate of return, minus corporate income taxes on the NTP&S net earnings." Incremental costs would also include a rate of return on invested capital equal to the rate of return benchmark of these same services.[12]

SoCalGas further proposes that the gross revenue and incremental costs for these NTP&S subject to such a 50/50 sharing of after-tax net earnings be aggregated so that all of the revenues derived from NTP&S subject to a 50/50 net sharing mechanism would be netted out against all incremental costs of providing these NTP&S. The netting would determine the net, pre-tax earnings. Any such post-tax earnings that fall above a certain benchmark would be shared on a 50/50 basis.

A 50/50 sharing of after-tax net earnings above a benchmark rate or return is appropriate for services such as the Biogas Conditioning and Bioenergy Production Facilities Services in order to provide sufficient assurance to the utility that its costs will be recovered from the revenue. These Services, which require significant incremental capital and O&M expense, cannot be undertaken unless a sharing mechanism provides adequate opportunity for recovery of and return on the capital and O&M expense deployed to offer the service.

A gross revenue sharing mechanism,[13] while appropriate for services that do not require significant incremental investment, does not provide sufficient assurance to the utility that its costs will be recovered from the revenue of the project. For capital intensive projects, there may be very thin margins that would be completely eliminated by a sharing of gross revenues with ratepayers. Also, a sharing of gross revenues with ratepayers could make the offering uncompetitive. In both cases, the utility would not move forward with the new NTP&S service, denying customers the benefits of the service and denying ratepayers their share of the net revenues that would have resulted. Such an outcome is not in the interest of ratepayers, the specific customer desiring the NTP&S service, and is contrary to the public interest. Further, any environmental benefits that accompany any new NTP&S would not occur. Thus, to assure that economic projects can go forward, it is important that the sharing mechanism for services requiring significant incremental capital and O&M expenditure be based on net earnings rather than gross revenues.

To ensure economic efficiency rewards go to those who bear the actual costs and burdens of the risks engendered by particular economic actions, the 50/50 sharing of after-tax net earnings allocates the net benefits from the NTP&S equally after the utility has been fairly compensated for the risks it undertakes in providing the NTP&S. By allowing the utility to recover its incremental costs plus the recovery of its capital costs before the sharing of net benefits, the Commission provides a reasonable opportunity for the utility to be compensated for the incremental investment risk it undertakes in providing the service. After shareholders have been compensated for their risk-taking, an equal distribution of these net earnings is appropriate and balanced.

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[12] An illustration of how the proposed net revenue mechanism would work is shown in Attachment D hereto.

[13] SoCalGas has proposed other non-tariffed services that incorporate a gross revenue sharing mechanism. For these services, the utility would primarily utilize existing utility assets and employees and the service would not require significant incremental capital and O&M expense to be incurred. See SoCalGas Advice No. 4124, dated June 16, 2010 (Mover Services), and SoCalGas Advice No. 4171, dated November 19, 2010 (Air Quality Emissions Testing).

For non-tariffed services requiring significant incremental investment, the shareholder is bearing risk of that investment and should be allowed to be compensated for that risk. However, once compensated for this additional risk, the risk equation is balanced out and it is appropriate for shareholders and ratepayers to share the benefits equally.

Sharing is also a means by which regulators seek to create incentives for utilities. The proposed sharing mechanism creates an incentive for SoCalGas to expand revenues from NTP&S. For SoCalGas to have an incentive to engage in sensible NTP&S opportunities that require significant incremental investment requires that there must be at least a reasonable opportunity for capital and O&M cost recovery. Such a mechanism is found in the 50/50 sharing of after-tax net earnings (above the benchmark rate of return) being proposed by SoCalGas. The 50/50 sharing of after-tax net earnings provides a further incentive for the utility to seek to increase net benefits, both by minimizing costs and by increasing revenues to the benefit (50%) of ratepayers.

Benchmark Rate of Return

SoCalGas proposes that the benchmark rate of return be set equal to the utility's authorized rate of return plus 75 basis points. This 75 basis point adjustment reflects 50 basis points to adjust for the additional risks taken on by shareholders due to the below the line nature of this investment, plus an additional 25 basis point adder as an incentive to foster services such as Biogas Conditioning and Bioenergy Production Facilities Services that advance the Commission's and the State's policy to reduce GHG emissions, and promote the development of renewable energy resources.

The 50 basis point adder to the authorized rate of return (in calculating the incremental costs associated with a project that requires incremental capital expenditure) is needed to compensate SoCalGas for being entirely at risk for the incremental cost associated with the Services. This incremental investment will be provided by shareholders to provide NTP&S since it will be treated on a below the line basis. Such investments face a fundamentally different risk profile than traditional utility investment, in large part because the utility is entirely at risk for any losses. SoCalGas requests to be compensated for this additional shareholder risk through this 50 basis point adder above the authorized rate of return.

A further 25 basis points (above the 50 basis points described above) adder to the benchmark return is requested for these Services because they promote the Commission's and the State's broader policy objectives. These two Services: 1) provide significant environmental benefit; 2) support the development of renewable energy; and 3) promote the development of new technologies. In order to create a strong incentive for SoCalGas to maximize the public policy benefits of these Services, SoCalGas requests an additional 25 basis point adder to its authorized rate of return when setting the benchmark rate of return.

VI. Regulatory Accounting and Reporting

The ratepayer allocation of pre-tax net revenues associated with the Biogas Conditioning Service and the Bioenergy Production Facilities Service to achieve the 50/50 after-tax earnings sharing under the mechanism proposed herein will be recorded in SoCalGas' RPBA. SoCalGas will comply with applicable reporting and auditing requirements related to this revenue sharing mechanism.

SoCalGas will separately identify and track revenues generated by the new Services and include this information in the annual report required by the Commission, including usage of utility assets and the allocation of after-tax net earnings to ratepayers.

In order to appropriately track all of the associated costs and revenues for each of the Services, SoCalGas will establish a unique internal order to allow it to track revenues and costs. This accounting standard for allocating costs to the Services will prevent cross-subsidization between services a utility would continue to provide on a tariffed basis and the two proposed Services. The costs associated with the Services will include costs such as, but not limited to, equipment and labor costs to implement the service, management, O&M, and all related overheads to offer the Services.

VII. Compliance with Rule VII of the Affiliate Transaction Rules

The following provides a detailed description of SoCalGas' compliance with all of the requirements of Rule VII of the Commission's Affiliate Transaction Rules, specifically including Rule VII.C.4, Rule VII.D, and Rule VII.E.1.

Rule VII.C.4 – This Rule sets forth the following conditions that must be met for an energy utility to offer a non-tariffed product or service:

a. The non-tariffed product or service utilizes a portion of a utility asset or capacity;
b. Such asset or capacity has been acquired for the purpose of and is necessary and useful in providing tariffed utility services;
c. The involved portion of such asset or capacity may be used to offer the product or service on a non-tariffed basis without adversely affecting the cost, quality or reliability of tariffed utility products and services;
d. The products and services can be marketed with minimal or no incremental ratepayer capital, minimal or no new forms of liability or business risking being incurred by utility ratepayers and no undue diversion of utility management attention; and
e. The utility's offering of such non-tariffed product or service does not violate any law, regulation, or Commission policy regarding anti-competitive practices.

The proposed Services will use existing utility capacity (primarily labor, overheads and equipment) to offer Biogas Conditioning Services and Bioenergy Production Facilities Services. Utility employees will be used to offer, implement and manage the Services. Additional utility employee support will come from other departments such as legal, regulatory, accounting, supply management, finance, commercial and industrial services and environmental services.

SoCalGas believes the proposed Services are fully consistent with all of the stated requirements. However, should the Commission believe that this use of utility assets or capacity runs counter to Rule VII.C.4 (a) and (b), SoCalGas respectfully requests a waiver from Rule VII.C.4 (a) and (b) for the Services, thus giving SoCalGas the ability to assist its customers in finding the best solution for their specific energy needs. Ratepayers will see benefits resulting from: 1) the sharing of after-tax net earnings from the Services and 2) the costs of utilizing utility employee labor, overheads and equipment will be charged to the Services.

The Services will neither affect the cost, quality, or reliability of tariffed utility products and services, nor will it unduly divert utility management attention from tariffed utility services. The incremental work involved to implement and manage the Services will be done by existing workforce and the cost of the incremental work charged to the Services to prevent any cross-subsidization of ratepayer funding and ensure all costs associated with the Services are borne entirely by utility shareholders. SoCalGas' shareholders will be responsible for all risks associated with the Services. SoCalGas will record all of the associated revenues and fully loaded costs for the Services in a unique internal order number. This will ensure proper accounting procedures are met and that the pricing of the Services is consistent with SoCalGas' Affiliate Compliance Plan. Ratepayers will not be responsible for any losses that may occur in providing the Services.

In providing the requested Services, SoCalGas will not violate any laws, regulations, or Commission policies regarding anti-competitive practices. SoCalGas will select turn-key service providers for the Services based on vendor proposals/bids.

Rule VII.D – This Rule sets forth the following general conditions that must be met before a utility can offer any new non-tariffed products and services. A utility may offer new non-tariffed products and services only if the Commission has adopted and the utility has established:

1. A mechanism or accounting standard for allocating costs to each new product or service to prevent cross-subsidization between services a utility would continue to provide on a tariffed basis and those it would provide on a non-tariffed basis;
2. A reasonable mechanism for treatment of benefits and revenues derived from offering such products and services, except that in the event the Commission has already approved a performance-based ratemaking mechanism for the utility and the utility seeks a different sharing mechanism, the utility should petition to modify the performance-based ratemaking decision if it wishes to alter the sharing mechanism, or clearly justify why this procedure is inappropriate, rather than doing so by application or other vehicle;
3. Periodic reporting requirements regarding pertinent information related to non-tariffed products and services; and
4. Periodic auditing of the costs allocated to and the revenues derived from non-tariffed products and services.

SoCalGas will separately identify and track after tax net earnings generated by the new Services as part of program management and include this information in the annual report required by the Commission, including usage of utility assets and the allocation of after tax net earnings to ratepayers. In order to appropriately track all of the associated costs and revenues of the Services, SoCalGas will establish a unique internal order to allow it to track revenues and costs to a project. This accounting standard for allocating costs to the Services will prevent any cross-subsidization of ratepayer funding and ensure all costs associated with the Services are borne entirely by utility shareholders. The costs associated with this program will include costs such as, but not limited to, program management, materials and labor costs to implement and maintain the service, billing, insurance, training and all related overheads to offer the Services.

SoCalGas does not currently have a performance-based ratemaking earnings sharing mechanism, as a result of its most recent General Rate Case proceeding (A.06-12-010 and D.08-07-046). Accordingly, SoCalGas is requesting that the Commission adopt the sharing mechanism proposed herein and have it specifically apply to the proposed Services.

SoCalGas proposes to report revenues and the related after-tax net earnings allocation from the Services in its annual report in compliance with Rule VII.H. In Rule VII.H, the Commission requires that the SoCalGas Report provide a brief description of the non-tariffed product and service categories it offers, costs allocated to and revenues derived from each category and information on the proportion of relevant utility assets used to cover each category of product and service. This report will include the allocation of after-tax net earnings between ratepayers and shareholders. Thus, the information in this report will satisfy the Commission's requirement in Rule VII.D.

SoCalGas will use its biennial independent audit of compliance as required by Affiliate Transaction Rule VI.C to review its Programs.

<u>Rule VII.E.1</u> – Prior to offering a new category of non-tariffed products and services, the Commission requires the utility to file an advice letter showing it meets the following requirements:

a. Demonstrate compliance with these rules;
b. Address the amount of utility assets dedicated to the non-utility venture, in order to ensure that a given product or service does not threaten the provision of utility service, and show that the new product or service will not result in a degradation of cost, quality, or reliability of tariffed goods and services;
c. Address the potential impact of the new product or service on competition in the relevant market including, but not limited to, the degree in which the relevant market is already competitive in nature and the degree to which the new category of products or services is projected to affect that market;

As demonstrated in this filing, the proposed Services comply with all applicable requirements of the Commission's Affiliate Transaction Rules.

The proposed Services will not threaten or otherwise interfere with the provision of utility service to other customers. Furthermore, the Services will not result in a degradation of service to customers with regard to cost, quality or reliability of SoCalGas' tariffed goods and services. This filing will not increase any rate or charge, cause the withdrawal of service, or conflict with any other schedule or rule.

SoCalGas believes there would not be any adverse impact on any potential entrants to this market as very little market activity has been seen in the wastewater, dairy and food waste biomethane capture arena due to the lack of demonstrated technical and economic feasibility in the United States. The option for customers (excluding landfills) to capture and inject biomethane into SoCalGas' pipeline network has been available for some time but, as of this filing date, there are no active instances of biomethane injection within any of the California investor owned utility service territories. SoCalGas' involvement in the biogas market will actually bring more potential entrants into the market as SoCalGas will issue a Request for Proposal when selecting a turnkey system integrator and/or biogas equipment vendor for each project. SoCalGas' use of third party providers to install the biogas equipment and manage the ongoing operations of the system will bring more entrants into this untapped market, create new jobs, and build a skilled and experienced workforce in the area of biogas.

Protest

Anyone may protest this Advice Letter to the Commission. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. The protest must be made in writing and must be received within 20 days of the date of this Advice Letter, or December 12, 2010. There is no restriction on who may file a protest. The address for mailing or delivering a protest to the Commission is:

CPUC Energy Division
Attention: Tariff Unit
505 Van Ness Avenue
San Francisco, CA 94102

Copies of the protest should also be sent via e-mail to the attention of both Maria Salinas (mas@cpuc.ca.gov) and Honesto Gatchalian (jnj@cpuc.ca.gov) of the Energy Division. A copy of the protest should also be sent via both e-mail and facsimile to the address shown below on the same date it is mailed or delivered to the Commission.

Attn: Sid Newsom
Tariff Manager - GT14D6
555 West Fifth Street
Los Angeles, CA 90013-1011
Facsimile No. (213) 244-4957
E-mail: snewsom@SempraUtilities.com

Effective Date

SoCalGas believes that this Advice Letter should be classified as Tier 3 and, as such, requires a resolution to be issued by the Commission. SoCalGas respectfully requests that such a resolution be placed on the Commission's meeting agenda on January 27, 2011.

Notice

A copy of this advice letter is being sent to the parties listed on Attachment A.

Rasha Prince
Director – Regulatory Affairs

Attachments

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY
ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. **SOUTHERN CALIFORNIA GAS COMPANY (U 904G)**

Utility type:	Contact Person: Sid Newsom
☐ ELC ☒ GAS	Phone #: (213) 244-2846
☐ PLC ☐ HEAT ☐ WATER	E-mail: SNewsom@semprautilities.com

EXPLANATION OF UTILITY TYPE

ELC = Electric GAS = Gas
PLC = Pipeline HEAT = Heat WATER = Water

(Date Filed/ Received Stamp by CPUC)

Advice Letter (AL) #: 4172

Subject of AL: Request for Authorization to Offer Biogas Conditioning Services and Bioenergy Production Facility Services on a Non-Tariffed Basis

Keywords (choose from CPUC listing): Balancing Account

AL filing type: ☐ Monthly ☐ Quarterly ☐ Annual ☒ One-Time ☐ Other

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #:
N/A

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL No

Summarize differences between the AL and the prior withdrawn or rejected AL[1]: N/A

Does AL request confidential treatment? If so, provide explanation: No

Resolution Required? ☒ Yes ☐ No Tier Designation: ☐ 1 ☐ 2 ☒ 3

Requested effective date: 1/27/11 No. of tariff sheets: 4

Estimated system annual revenue effect: (%):

Estimated system average rate effect (%):

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: Preliminary Statement Part V – Balancing Accounts; TOC

Service affected and changes proposed[1]:

Pending advice letters that revise the same tariff sheets: 4124

Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:

CPUC, Energy Division	**Southern California Gas Company**
Attention: Tariff Unit	**Attention: Sid Newsom**
505 Van Ness Ave.,	**555 West 5th Street, GT14D6**
San Francisco, CA 94102	**Los Angeles, CA 90013-1011**
mas@cpuc.ca.gov and jnj@cpuc.ca.gov	**SNewsom@semprautilities.com**

[1] Discuss in AL if more space is needed.

ATTACHMENT A

Advice No. 4172

(See Attached Service List)

Alcantar & Kahl
Kari Harteloo
klc@a-klaw.com

Alcantar & Kahl
Seema Srinivasan
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CPUC
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San Francisco, CA 94102

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CPUC - DRA
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California Energy Commission
Randy Roesser
rroesser@energy.state.ca.us

California Energy Market
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luluw@newsdata.com

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aclark@calpine.com

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Burbank, CA 91503-0631

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Long Beach, CA 90806

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City Attorney
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Los Angeles, CA 90012

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General Services Administration
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Sheila Day
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ATTACHMENT B
Advice No. 4172

Cal. P.U.C. Sheet No.	Title of Sheet	Cancelling Cal. P.U.C. Sheet No.
Revised 46570-G	PRELIMINARY STATEMENT - PART V - BALANCING ACCOUNTS, REWARDS AND PENALTIES BALANCING ACCOUNT (RPBA)	Original 43695-G
Original 46571-G	PRELIMINARY STATEMENT - PART V - BALANCING ACCOUNTS, REWARDS AND PENALTIES BALANCING ACCOUNT (RPBA)	Original 43695-G
Revised 46572-G	TABLE OF CONTENTS	Revised 46565-G
Revised 46573-G	TABLE OF CONTENTS	Revised 46224-G*

PRELIMINARY STATEMENT - PART V - BALANCING ACCOUNTS
REWARDS AND PENALTIES BALANCING ACCOUNT (RPBA)

1. Purpose

The RPBA is an interest bearing balancing account recorded on SoCalGas' financial statements. Pursuant to D.08-07-046, TY 2008 General Rate Case (GRC), the RPBA will record the Utility's rewards and penalties associated with the performance indicators adopted in the GRC's post-test year (PTY) mechanism. In addition, the RPBA will record rewards and penalties based on incentive mechanisms associated with SoCalGas' energy efficiency programs. The RPBA also records the ratepayers' share of net revenues associated with SoCalGas' non-tariffed products and services, as approved by the Commission. N

The RPBA shall be divided into two subaccounts: 1) Rewards and Penalties (R&P) and 2) Non-Tariffed Products & Services (NTP&S). N

2. Applicability

This account shall apply to gas customers.

3. Rates

The projected year-end RPBA balance will be applied to gas rates as described in item 6 below. T

4. Accounting Procedures – R&P Subaccount

SoCalGas maintains this account by making monthly entries as follows:

a) A debit entry for rewards associated with performance indicators on the PTY mechanism as addressed in Preliminary Statement, Part XI, PBR,
b) A debit entry for rewards based on the incentive mechanism associated with SoCalGas' energy efficiency programs,
c) A credit entry for penalties associated with performance indicators on the PTY mechanism as addressed in Preliminary Statement, Part XI, PBR,
d) A credit entry for penalties based on the incentive mechanism associated with SoCalGas' energy efficiency programs, D
e) An entry to amortize the previous year's balance, and N
f) An entry equal to the interest on the average of the balance in the account during the month, calculated in the manner described in Preliminary Statement, Part I, J. T

(Continued)

PRELIMINARY STATEMENT - PART V - BALANCING ACCOUNTS
REWARDS AND PENALTIES BALANCING ACCOUNT (RPBA)

(Continued)

5. Accounting Procedures – NTP&S Subaccount N

SoCalGas maintains this account by making monthly entries as follows: |

a) A credit entry for the ratepayers' allocation of pre-tax net revenues associated with applicable Commission-approved non-tariffed products and services to achieve the 50/50 after tax earnings sharing above a rate of return benchmark pursuant to the Commission-approved sharing mechanism (i.e., 37.21% times Pre-Tax Net Revenues, adjusted for rate of return benchmark), |
b) An entry to amortize the previous year's balance, and |
c) An entry equal to the interest on the average of the balance in the account during the month, calculated in the manner described in Preliminary Statement, Part I, J. N

6. Disposition L

In each annual October regulatory account balance update filing, SoCalGas will amortize the year-end overcollected or undercollected balance in the R&P Subaccount and any overcollected balance in the NTP&S Subaccount effective January 1 of the following year. The disposition of both subaccounts in the RPBA will be allocated on an Equal Percent of Marginal Cost (EPMC) basis. L L,N N,L L

TABLE OF CONTENTS

The following listed sheets contain all effective Schedules of Rates and Rules affecting service and information relating thereto in effect on the date indicated thereon.

(Continued)

TABLE OF CONTENTS

(Continued)

PRELIMINARY STATEMENT (Continued)

Part V Balancing Accounts (Continued)

Part VI Memorandum Accounts

(Continued)

ATTACHMENT C

Advice No. 4172

Letters of Support

CCA | Central City Association
of LOS ANGELES
626 Wilshire Blvd.
Suite 200
Los Angeles, CA 90017
telephone 213.624.1213
facsimile 213.624.0858
www.ccala.org

November 15, 2010

Mr. Michael R. Peevey, President
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

RE: Request for Authorization to Offer Biogas Conditioning Services and Bioenergy Production Facilities Services on a Non-Tariffed Basis

Dear Commissioner Peevey:

Established in 1924, Central City Association (CCA) is L.A.'s premier business advocacy association whose 450 members employ over 350,000 people in the Los Angeles region. On behalf of CCA, I offer this letter in support of the Southern California Gas Company's request for the authorization to offer Biogas conditioning services and Bioenergy production facilities services on a non-tariffed basis, which will expand the Biogas market in California.

Environmental stewardship is of the utmost importance to our members and we support their efforts to expand and implement projects and programs that will benefit our region. Biogas is a renewable energy source and directly reduces greenhouse gas emissions, benefitting the state's ambitious renewable energy goals and paving the way toward more sustainable and livable communities.

Biogas is a relatively new energy industry that will lead to new jobs and a stronger tax base. At a time when California is suffering from a 12 percent unemployment rate and a $20 billion deficit, the expansion of a new renewable energy industry is a catalyst for creating jobs and sparking immediate economic recovery.

The Southern California Gas Company and Sempra Energy are the industry leaders and experts of natural gas production and storage, with a credible reputation for safety and innovation. Landmark legislation, such as AB 32, clearly illustrates California's goals to move toward renewable energies and clean up our environment. While implementing those goals, we also have an exceptional opportunity to create significant public health and environmental benefits, attract new businesses, create direct and indirect jobs, strengthen our tax base, and improve livability in the Golden State.

Again, we support the Southern California Gas Company's advice letter to the California Public Utilities Commission to expand the Biogas market in California.

Sincerely,

Carol E. Schatz

Carol E. Schatz
President & CEO
Central City Association of Los Angeles

cc: Commissioner Dian Grueneich
Commissioner John Bohn
Commissioner Nancy E. Ryan
Commissioner Timothy Alan Simon
Richard Myers, Energy Division
Julie Fitch, Energy Division
Judith Ikle, Energy Division

November 15, 2010

Michael R. Peevey, President
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

RE: BioEnergy Production Facilities Service / Biogas Conditioning Service

Dear Commission Members:

On behalf of the Coachella Valley Economic Partnership, I am writing to lend our support to Southern California Gas Company [SoCalGas] proposal to implement and increase renewable energy resources and natural gas market. We support SoCalGas and San Diego Gas and Electric in their mutual efforts to operate a Bioenergy Production Facility and we further support the proposed implementation of a Biogas Conditioning Service.

The Coachella Valley Economic Partnership (CVEP) serves its investors — including the nine cities of the Coachella Valley, the County of Riverside and over 100 private businesses. The Coachella Valley is recognized by the Secretary of the Interior as the "Epicenter for Renewable Energy". Additionally, CVEP holds a Renewable Energy Roundtable discussion whose sole purpose is to continue the growth and support of renewable energy resources with proactive planning and input from all venues for the future economic sustainability of our region.

After reviewing the proposals with SoCalGas representatives, we are convinced that they are committed to helping state policy objectives of increasing the availability and use of renewable energy resources and reducing greenhouse gas emissions. These projects are urgently needed to facilitate present and future goals and to ensure a clean, green energy future.

While we do not generally support specific projects, after meeting with SocalGas, we were impressed with the amount of work they have already done to garner support for this project and the potential for long term economic impact while helping to meet our region's goals of clean, renewable energy.

We defer to you to determine the specific requirements for these projects, but strongly support SoCalGas's commitment to excellence.

Sincerely,

Wesley Ahlgren
Chief Operating Officer

73-710 FRED WARING DRIVE, SUITE 106 · PALM DESERT, CALIFORNIA 92260 · PH: 760.340.1575 · FX: 760.340.9212 · WWW.CVEP.COM

Board of Supervisors
County of San Bernardino

GARY C. OVITT
CHAIRMAN
SUPERVISOR, FOURTH DISTRICT

November 15, 2010

Mr. Michael Peevey
President
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, Ca. 94102

Re: Support for the Southern California Gas Company's Advice Letter for Bio-Gas production

Dear Commissioner Peevey:

As chairman of the San Bernardino County Board of Supervisors and Fourth District Supervisor, I am writing you in support of the Gas Company's Advice Letter filing to increase biogas production.

San Bernardino County is currently experiencing a 14.8 unemployment rate and my belief is that this proposal may provide an opportunity for the biogas market to provide job opportunities in our county. This biogas proposal also support's the State's GHG emission reduction goals and objectives as outlined in AB 32 and State Executive Order S-06-06 and provides California and this region with significant environmental, health, and economic benefits. I have been a long time supporter of biogas production in my capacity as a county supervisor and former South Coast Air Quality Management District board member. Cleaner air is vital to the well being of our county's constituents and the state's economy.

I believe that this biogas proposal will provide significant benefits to San Bernardino County and the state. I support the Gas Company's Advice Letter to begin this biogas production process.

Sincerely,

Gary C. Ovitt, Chairman
Fourth District Supervisor
San Bernardino County Board of Supervisors

GCO:bc

San Bernardino County Government Center • 385 North Arrowhead Avenue, Fifth Floor • San Bernardino, CA 92415-0110 • (909) 387-4866 • Fax (909) 387-8903
Chino Hills District Office • 14010 City Center Drive • Chino Hills, CA 91709 • (909) 465-1895 • Fax (909) 628-4527

Economic Vitality Corporation
P.O. Box 5257
San Luis Obispo, CA 93403
(805) 788-2012 TEL | (805) 781-6293 FAX

November 11, 2010

California Public Utilities Commission
President Michael R. Peevey
505 Van Ness Avenue
San Francisco, CA 94102

Re: "Request for Authorization to Offer Biogas Conditioning Services and Bioenergy Production Facilities Services on a Non-Tariffed Basis – Support So Cal Gas Co.

Dear President Peevey:

The Economic Vitality Corp of San Luis Obispo (EVC) respectfully request the PUC support the Gas Company's proposal related to the production and conditioning of biogas.

The Gas Company's proposal will advance the State's renewable energy objectives by providing employers and residents with potentially significant environmental and economic benefits from Green House Gas emission reductions.

We recommend that Southern California Gas Company be responsible for all funding and risk for the biogas facilities and that ratepayers not be liable for any losses associated in providing the proposed biogas services.

Thanks you for your consideration. This proposal will assist the on-going recovery from the recession.

Sincerely,

Michael Manchak
President/CEO
Economic Vitality Corporation of San Luis Obispo County

Cc: PUC Commissioners and Energy Division

Los Angeles County Business Federation

Strengthening the Voice of Business

November 17, 2010

President Michael R. Peevey
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: Support for CPUC Approval of SoCal Gas and SDG&E Advice Letter on Proposed Biogas Services

Dear Mr. Peevey,

On behalf of the Los Angeles County Business Federation (BizFed), representing 70 top business organizations with over 100,000 business owners across our region, we are writing to support SoCal Gas and SDG&E's request for CPUC authority to increase biogas production and processing to boost renewable natural gas resources.

With ever-increasing energy demands, it is clear that the processing of biogas into pipeline-quality natural gas is a viable and necessary offering that not only provides customers with cost-efficient energy options, but also helps further state policy objectives of increasing the availability and use of renewable energy resources and reducing greenhouse gas emissions.

The California Bioenergy Working Group estimates that biogas has the potential to supply up to 16 percent of California's natural gas needs – and BizFed believes the proposal and investment by SoCal Gas and SDG&E will be a significant help in developing the biogas market.

The SoCal Gas and SDG&E proposal for Bioenergy Conditioning and Production Facilities Services will provide developers and customers with turnkey options for converting organic waste materials into raw biogas - and then offer biogas producers a way to process biogas into biomethane that can be used for onsite electric generation, powering of natural gas-fueled equipment, or sold on the open market to gas suppliers or electric using existing natural gas pipelines.

All of these services will provide significant environmental, energy and economic benefits by diverting organic waste from landfills, reducing the need for conventional fossil fuels, providing a solution to wastewater treatment plants that flare their biogas into the atmosphere, providing expanded cost-efficient energy options, and supporting GHG emission reduction goals.

For these reasons, BizFed urges the CPUC to approve SoCal Gas and SDG&E's request for authority to increase biogas production and processing services.

Thank you for your consideration.

Sincerely,

Thomas Flintoft
BizFed Chair
LAX Coastal Area Chamber

David Fleming
Founding Chair
Latham & Watkins

Tracy Rafter
BizFed CEO
Rafter Group, Inc.

Cc: Commissioner Dian Grueneich
Commissioner John Bohn
Commissioner Nancy E. Ryan
Commissioner Timothy Alan Simon

Richard Myers, Energy Division
Julie Fitch, Energy Division
Judith Ikle, Energy Division

FAIRPLEX

November 11, 2010

Mr. Michael Peevey
President
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, Ca. 94102

Re: Support for the Southern California Gas Company's Advice Letter for Bio-Gas Production

Dear Mr. Peevey:

On behalf of the Los Angeles County Fair Association, we are requesting your support of the Gas Company's Advice Letter filing to help increase biogas production.

The County of Los Angeles is currently experiencing double digit unemployment which has impacted our business and the attendance at the annual county fair. It is our belief that this proposal may provide an opportunity for the biogas market to provide job opportunities. This biogas proposal also supports the State's GHG emission reduction goals and objectives as outlined in AB 32 and State Executive Order S-06-06 and provides California with potentially significant environmental and economic benefits of GHG emission reductions. The potential to supply up to 16% of California's natural gas needs and increase the availability of renewable and more affordable energy sources is something we support.

We believe that this biogas proposal will be of significant benefit to the L.A. County Fair Association and to California. We support the Gas Company's Advice Letter to begin biogas production.

Sincerely,

James E. Henwood
President

:ky

Cc: Commissioner Dian Grueneich
Commissioner John Bohn
Commissioner Nancy E. Ryan
Commissioner Timothy Alan Simon
Richard Myers, Energy Division
Julie Fitch, Energy Division
Judith Ikle, Energy Division

ONSITE POWER SYSTEMS INC.
216 F Street #3, Davis, CA 95616
(559) 271-2970 • www.onsitepowersystems.com

November 16, 2010

Michael R. Peevey, President
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

RE: SoCalGas and SDG&E Advice Letter – Request for Authorization to Offer Biogas Conditioning Services and Bioenergy Production Facilities Services on a Non-Tariffed Basis

Dear Mr Peevey,

Onsite Power Systems (OPS) is pleased to offer its commitment to support the efforts being made by SoCalGas and SDG&E relating to the production and conditioning of biogas. OPS is a leading developer of high solids anaerobic digester technologies for the production of biomethane and the Integrated Biomass Processing Systems that SoCalGas and SDG&E are willing to invest in are a key element to produce biomethane and they are uniquely qualified to contribute to the project.

California has a program sending collected green waste to composting, yet 6.7 million dry tons (22 million wet tons) of organic wastes still are annually land filled. Analysis of this collected green and food waste market in California revealed an untapped potential, through advanced anaerobic digestion, to beneficially convert these 6.7 million dry tons of wastes into more than 300 million equivalent gallons of gasoline renewable biomethane for pipeline injection, onsite electrical generation and/or vehicular fuel.

Biogas produced through anaerobic digestion may be treated to remove moisture and sulfur compounds such as H_2S. The generation of carbon dioxide in the APS digester does not increase this greenhouse gas in the atmosphere, as does the generation of carbon dioxide in the conversion processes of petroleum products. This is because in the APS digester process, most of the carbon from the digested vegetation is recycled back to the growing vegetation without increasing atmospheric carbon dioxide. The sustainable, renewable methane from the anaerobic process, when properly oxidized in an internal combustion engine or heating register, is essentially a non-polluting fuel.

We feel that the efforts of SoCalGas and SDG&E's' to develop this market support the State's GHG emission reduction goals and objectives, such as Assembly Bill 32 and State Executive Order S-06-06, by providing Californians with potentially significant environmental and economic benefits of GHG emission reductions.

ONSITE POWER SYSTEMS INC.

Biogas is currently an underutilized source of renewable energy within the State of California and OPS supports projects that will promote the production and conditioning of biogas. We believe SoCalGas and SDG&E's involvement and willingness to invest in biogas facilities will help develop the biogas market and technology for biogas production and conditioning facilities and help California reduce it's reliance on petroleum fuels.

Should you have any questions regarding this matter, please feel free to contact me at (559) 270-5760.

Thank you for you time and consideration,

Sincerely,

David Konwinski
CEO
Onsite Power Systems, Inc.

cc: Commissioner Dian Grueneich
Commissioner John Bohn
Commissioner Nancy E. Ryan
Commissioner Timothy Alan Simon
Richard Myers, Energy Division
Julie Fitch, Energy Division
Judith Ikle, Energy Division

the partnership 20
1990 - 2010
San Gabriel Valley Economic Partnership

4900 Rivergrade Rd Suite A310, Irwindale, CA 91706 | Phone (626) 856-3400 Fax (626) 856-5115

Your Connection to the Leadership & Resources of the Valley

November 10, 2010

California Public Utilities Commission
Attn: Michael R. Peevey, President
505 Van Ness Avenue
San Francisco, CA 94102

RE: Authorization to Offer Biogas Conditioning Services and Bioenergy Production Facilities Services on a Non-Tariffed Basis

Dear Mr. Peevey:

I am writing to you on behalf of the San Gabriel Valley Economic Partnership to ask you to support the plans proposed by Southern California Gas Company (SoCal Gas) and San Diego Gas and Electric (SDG&E) to develop the renewable natural gas market.

According to the California Bioenergy Working Group, biogas has the potential to supply up to 16 percent of California's natural gas needs. However, there are significant market barriers to realizing this potential, such as high capital costs, operations and maintenance costs, and consistency of gas quality. The services proposed by SoCal Gas and SDG&E will help develop the biogas market and technology for biogas production facilities and provide new options for using biogas. These services will increase the availability and use of renewable energy resources and help California businesses and residents reduce their greenhouse gas emissions.

The San Gabriel Valley Economic Partnership is a regional, not-for-profit corporation supported and directed by its members and committed to the continued successful economic development of the San Gabriel Valley.

Again, the San Gabriel Valley Economic Partnership urges you to approve SoCal Gas and SDG&E's proposed biogas services.

Sincerely,

Cynthia J Kurtz

Cynthia J. Kurtz
President & CEO

cc: Commissioner Dian Grueneich
Commissioner John Bohn
Commissioner Nancy E. Ryan
Commissioner Timothy Alan Simon
Richard Myers, Energy Division
Julie Fitch, Energy Division
Judith Ikle, Energy Division

SANTA CLARITA VALLEY
Economic Development Corporation

11-11-10

Michael R. Peevey, President
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: Southern California Gas Company (SoCalGas) and San Diego Gas & Electric's (SDG&E) Biogas Development/Utilization Proposals to the California Public Utilities Commission (CPUC)

Dear President Peevey:

The Santa Clarita Valley Economic Development Corporation was formed to ensure the creation and attraction of new, innovative businesses within and surrounding the Santa Clarita Valley. As part of that mission, our organization wants to make sure there are adequate and diverse energy supplies for those companies.

With the ever increasing uncertainty in the price of oil and other foreign energy supplies, the development of an unrealized potential fuel source such as biogas is promising.

I applaud SoCalGas and SDG&E for embarking on these programs. These new, untapped energy resources will not only help keep natural gas prices stable by increasing supplies, it's good for the environment. Also, it broadens the supply of "green" energy beyond solar and wind.

I encourage the CPUC to support SoCalGas and SDG&E biogas proposals and help California become more energy independent.

If you have any questions, please fell free to contact me at 661-705-0250.

Sincerely,

Jonas Peterson
Executive Director

cc: Commissioner and staff

SANTA CLARITA VALLEY
Economic Development Corporation
Bringing thriving businesses, a productive workforce & economic success together at the gateway to Southern California.
25350 Magic Mountain Parkway, Suite 240, Valencia, CA 91355 www.scvedc.org

ATTACHMENT D

Advice No. 4172

Example of 50/50 Sharing Mechanism for Biogas Conditioning and Bioenergy Production Services

Revenues		$125	(a)
Less:			
Incremental Costs		35	(b)
Depreciation		15	(c)
Pre-Tax Net Revenues		75	(d) = (a) - (b) - (c)
Taxes	40.75%	31	(e) = (d) * .4075
Net Earnings		44	(f) = (d) - (e)
Benchmark Return		38	(g) = (k) * (l)
Excess Earnings Above Benchmark		$7	(h) = (f) - (g)
Pre-Tax Earnings Above Benchmark		$11	(i) = (h) / (1 - .4075)
Ratepayer share of Pre-Tax $ (37.21%)		4	(j) = (i) * .3721
Shareholder share of Pre-Tax $ (62.79%)		7	(k) = (j) * .6729
		$11	

Investment	$400	(k)
Benchmark Return	9.43%	(l)