

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



August 10, 2016

**Advice Letter 4955-G**

Ronald van der Leeden  
Director, Regulatory Affairs  
Southern California Gas  
555 W. Fifth Street, GT14D6  
Los Angeles, CA 90013-1011

**SUBJECT: Request for Approval of New Broker to Procure Greenhouse Gas (GHG)  
Cap-and-Trade Compliance Instruments**

Dear Mr. van der Leeden:

Advice Letter 4955-G is effective as of May 26, 2016.

Sincerely,

A handwritten signature in black ink that reads "Edward Randolph".

Edward Randolph  
Director, Energy Division



**Ronald van der Leeden**  
Director  
Regulatory Affairs

555 W. Fifth Street, GT14D6  
Los Angeles, CA 90013-1011  
Tel: 213.244.2009  
Fax: 213.244.4957  
*RvanderLeeden@semprautilities.com*

April 26, 2016

Advice No. 4955  
(U 904 G)

Public Utilities Commission of the State of California

**Subject: Request for Approval of New Broker to Procure Greenhouse Gas (GHG) Cap-and-Trade Compliance Instruments**

**Purpose**

Pursuant to Decision (D.) 14-12-040, Southern California Gas Company (SoCalGas) hereby requests California Public Utilities Commission's (CPUC, or Commission) approval to add the voice broker Tullett Prebon Americas Corp. to its list of approved brokers for procuring authorized GHG compliance instruments, including carbon allowance derivatives, to satisfy its compliance obligation under the California Air Resources Board's (ARB) GHG Cap-and-Trade program.

**Background**

On March 19, 2014, the Commission issued Rulemaking (R.) 14-03-003 to address issues related to GHG cost and revenues resulting from the implementation of ARB's GHG Cap-and-Trade program for natural gas corporations. On July 25, 2014, SoCalGas was among five parties<sup>1</sup> who filed a Joint Motion to Adopt Settlement (Settlement Agreement) to approve ratemaking standards and mechanisms on cost forecasting, cost recovery, purchasing limits, consignment, and proposed 2015 forecast revenue requirements for the gas utilities' compliance with Assembly Bill (AB) 32 natural gas supplier GHG Cap-and-Trade program obligations beginning January 1, 2015. D.14-12-040 approved, with modifications, the Settlement Agreement, which included the following provision related to how gas utilities should request Commission approval to purchase GHG compliance instruments on an exchange or from a brokerage firm not previously approved by the CPUC for such procurement:

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<sup>1</sup> SoCalGas, San Diego Gas & Electric Company, Pacific Gas & Electric Company, Southwest Gas Corporation, and the Office of Ratepayer Advocates.

Prior to purchasing GHG compliance instruments on an exchange or from a brokerage firm not previously approved by the Commission for such procurement, each utility must submit a one-time Tier 2 AL detailing: (1) what exchange or brokerage firm it seeks to use, (2) the liquidity and transparency of the pricing offered by the exchange or brokerage firm, specifically for California GHG compliance instruments, including an explanation of how the price of products procured on the exchange or through the brokerage is market-based, and (3) the regulatory authority or authorities to which the brokerage firm is subject.

On February 9, 2015, SoCalGas filed Advice No. (AL) 4755, requesting approval to use a market provided by Intercontinental Exchange, Inc. and the voice brokers of Evolution Markets, Inc. (Evolution), Amerex Brokers, LLC (Amerex), and TFS Brokers, LLC (TFS). AL 4755 was approved effective April 7, 2015.

### **Request**

SoCalGas requests that the Commission, as they did by approving AL 4755, approve the addition of Tullett Prebon Americas Corp. to SoCalGas' list of approved brokers for engaging in such activity. The addition of Tullett Prebon Americas Corp. would increase liquidity by expanding the availability of market-based compliance instruments available to SoCalGas.

Liquidity refers to the ease of entering a marketplace and locating counterparties to transact. Liquid markets are markets where many buyers and sellers exist and a high level of trading occurs. In liquid markets, due to the high level of trading activity, traders can enter the market and transact without significantly influencing prices. Trading volume and open interest are metrics often used to gauge liquidity. The voice broker market, including Tullett Prebon Americas Corp., continues to assist in creating liquidity by allowing numerous buyers and sellers to anonymously share and access pricing information at the same time. The addition of Tullett Prebon Americas Corp. would allow SoCalGas to locate even more competitive bids and offers for California Carbon Allowance (CCA) and California Carbon Offset instruments.

Voice brokers canvass the market daily, searching for bids and offers of various instruments. These prices are then made available to the market through phone, instant messenger (e.g., AOL's AIM), and email. Voice brokers effectively create a diverse marketplace of CCA buyers and sellers. Deals executed via voice brokers (and cleared using the Intercontinental Exchange, or "ICE") are guaranteed by the ICE clearinghouse. Voice brokers, including Tullett Prebon Americas Corp., are required to submit trades to ICE within 15 minutes of execution (per exchange rules). Also per the exchange rules, traders' identities are known only to the brokers, enabling traders to remain anonymous.

Voice broker assisted trades account for a large percentage of the volume of CCA futures traded. The use of a voice broker at times is attractive due to its ability to find either more competitive bids or offers than found on WebICE, or due to its ability to find a larger volume bid or offer than found on WebICE. Voice brokers also are valued for their ability to provide market intelligence and price discovery.

Markets are places where buyers and sellers can meet and trade. The voice broker community provides such a place, facilitating the meeting of competitive bids and offers so trading can occur. Adding Tullett Prebon Americas Corp. to SoCalGas' list of approved brokers will increase the size of the available market.

Voice brokers in futures markets, including Tullett Prebon Americas Corp., are subject to the regulatory supervision of several entities. They are subject to direct regulatory oversight by the Commodity Futures Trading Commission. ICE also regulates voice brokers with a primary focus on trade operations, transparency, and fairness. Voice brokers are also subject to the supervision of the National Futures Association (NFA). The NFA is a self-regulatory body with the principal functions of policing members, auditing members for minimum financial requirements, enforcing trading rules and ethical standards, provide arbitration between customers and NFA members, and establish training and proficiency standards.

### **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, which is May 16, 2016. There is no restriction on who may file a protest. The address for mailing or delivering a protest to the Commission is given below.

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

A copy of the protest should also be sent via e-mail to the attention of the Energy Division Tariff Unit ([EDTariffUnit@cpuc.ca.gov](mailto:EDTariffUnit@cpuc.ca.gov)). 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](mailto:snewsom@SempraUtilities.com)

**Effective Date**

Per D.14-12-040, this filing is classified as Tier 2 (effective 30 days after filing) and as such, is subject to Energy Division disposition. SoCalGas requests that this advice letter be effective on May 26, 2016, which is 30 calendar days after the date filed.

**Notice**

A copy of this Advice Letter is being sent to SoCalGas' General Order (GO) 96-B and R.14-03-003 service lists. Address change requests to the GO 96-B service list should be directed by electronic mail to [tariffs@socalgas.com](mailto:tariffs@socalgas.com), or call 213-244-3387. For changes to all other service lists, please contact the Commission's Process Office at 415-703-2021 or by electronic mail at [process\\_office@cpuc.ca.gov](mailto:process_office@cpuc.ca.gov).

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Ronald van der Leeden  
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:

ELC

GAS

PLC

HEAT

WATER

Contact Person: Sid Newsom

Phone #: (213) 244-2846

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) #: 4955

Subject of AL Request for Approval of New Broker to Procure Greenhouse Gas (GHG) Cap-and-Trade Compliance Instruments

Keywords (choose from CPUC listing): Greenhouse Gas

AL filing type:  Monthly  Quarterly  Annual  One-Time  Other

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

D.14-12-040

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<sup>1</sup>: N/A

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

Resolution Required?  Yes  No

Tier Designation:  1  2  3

Requested effective date: 5/26/16

No. of tariff sheets: 0

Estimated system annual revenue effect (%): N/A

Estimated system average rate effect (%): N/A

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: None

Service affected and changes proposed<sup>1</sup> See Advice Letter

Pending advice letters that revise the same tariff sheets: None

**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

Attention: Tariff Unit

505 Van Ness Ave.,

San Francisco, CA 94102

[EDTariffUnit@cpuc.ca.gov](mailto:EDTariffUnit@cpuc.ca.gov)

Southern California Gas Company

Attention: Sid Newsom

555 West 5<sup>th</sup> Street, GT14D6

Los Angeles, CA 90013-1011

[SNewsom@semprautilities.com](mailto:SNewsom@semprautilities.com)

[tariffs@socalgas.com](mailto:tariffs@socalgas.com)

<sup>1</sup> Discuss in AL if more space is needed.