

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



December 2, 2016

Advice Letter 5056-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 to Procure Greenhouse Gas (GHG) Cap-and-Trade Compliance Instruments from New Broker

Dear Mr. van der Leeden:

Advice Letter 5056-G is effective as of December 1, 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
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November 1, 2016

Advice No. 5056
(U 904 G)

Public Utilities Commission of the State of California

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

Purpose

Pursuant to Decision (D.) 14-12-040, Southern California Gas Company (SoCalGas) hereby requests California Public Utilities Commission (CPUC, or Commission) approval to add the voice brokers BGC Financial, L.P. (BGC Financial) and BGC Environmental Brokerage Services, L.P. (BGC Environmental) 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. BGC Financial provides brokerage services for California Carbon Allowance (CCA) futures contracts cleared through the Intercontinental Exchange (ICE), while BGC Environmental provides brokerage services for CCAs and California Carbon Offsets (CCOs) through bilateral transactions transacted with marketing companies and/or offset project developers.

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 parties¹ 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 SoCalGas, San Diego Gas & Electric Company, Pacific Gas & Electric Company, Southwest Gas Corporation, and the Office of Ratepayer Advocates.

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:

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.

By Advice Letters (AL) 4755, 4955, and 5011, SoCalGas has received approval to use a market provided by ICE and the voice brokers Evolution Markets Inc., Evolution Markets Futures LLC, Amerex Brokers LLC, TFS Energy Futures, LLC, and Tullet Prebon Americas Corp.

Request

SoCalGas requests that the Commission, as they did by approving ALs 4755, 4955, and 5011, approve the addition of BGC Financial and BGC Environmental to SoCalGas' list of approved brokers for engaging in such activity. The addition of BGC Financial and BGC Environmental 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 with whom 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 BGC Financial, L.P. and BGC Environmental Brokerage Services, L.P., 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 BGC Financial, L.P. and BGC Environmental Brokerage Services, L.P. would allow SoCalGas to locate even more competitive bids and offers for CCA and CCO 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 and CCO buyers and sellers. Deals executed via voice brokers (and cleared using ICE) are guaranteed by the ICE clearinghouse. Voice brokers, including BGC Financial, 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.

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. By engaging multiple voice brokers, market participants can choose to purchase a current offer (or sell to a current bidder) or list a more competitive bid or offer. Adding BGC Financial and BGC Environmental to SoCalGas' list of approved brokers will increase the size of the available market.

Voice brokers in futures markets, including BGC Financial, are subject to the regulatory supervision of several entities. They are subject to direct regulatory oversight by the Commodities Futures Trading Commission (CFTC). 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 AL 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 AL, which is November 21, 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). 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

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 AL be effective on December 1, 2016, which is 30 calendar days after the date filed.

Notice

A copy of this AL 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, 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.

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) #: 5056

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

Instruments from New Broker

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 AL¹: N/A

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

Resolution Required? Yes No

Tier Designation: 1 2 3

Requested effective date: 12/1/16

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 proposed¹: 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

Southern California Gas Company

Attention: Sid Newsom

555 West 5th Street, GT14D6

Los Angeles, CA 90013-1011

SNewsom@semprautilities.com

tariffs@socalgas.com

¹ Discuss in AL if more space is needed.