STATE OF CALIFORNIA Edmund G. Brown Jr., *Governor*

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

September 7, 2017

Advice Letter 5148

Ray B. Ortiz
Managing Director, State Regulatory Operations
Southern California Gas Company
555 West 5th Street, GT14D6
Los Angeles, CA 90013

SUBJECT: Modification of Low-Carbon Fuel Standard (LCFS) Program Implementation Plan

Dear Mr. Ortiz:

On June 7, 2017, Southern California Gas Company (SoCalGas) filed Advice Letter (AL) 5148 proposing modifications to the Low Carbon Fuel Standard (LCFS) Program Implementation Plan, which was originally approved via Advice Letter 4779 on July 30, 2015. Decision (D.)14-05-021 authorized utilities to sell LCFS credits and established criteria and reporting requirements for the sale of LCFS credits, pursuant to Public Utilities Code Section 853(b). In D.14-12-083, the CPUC adopted a methodology for the utilities to allocate revenue they generate from the sale of LCFS credits. D.14-05-021 ordered utilities that have opted-in to the LCFS program and wish to sell credits to file an advice letter proposing an implementation plan for doing so, and adopting policies for the return of LCFS revenue to customers. D.14-12-083 Ordering Paragraph 3 included the list of items that SoCalGas was directed to comprehensively address in its Implementation Plan and was directed to also include any information required by D.14-05-021.

The purpose of this letter is to inform you that the advice letter process is the wrong procedural venue to address the relief requested in AL 5148. In AL 5148, SoCalGas' proposal to receive LCFS credits from producers of renewable natural gas as part of the transaction is inconsistent with the language of D.14-05-021 Findings of Fact 5, which states that "LCFS credits are not purchased by the utility; LCFS credits are only sold." Purchasing credits through gas procurement is expressly and directly barred by the Commission in the LCFS decisions. While SoCalGas did not explicitly use the word "purchase" in the advice letter, in essence the utility would likely be paying more for the procurement of the renewable natural gas or would receive some other form of "considerations" if it does come to an agreement on receiving credits with the procurement. We view this transaction as constituting a purchase. This type of policy change does not fit the parameters of the Tier 2 advice letter mentioned in D.14-12-083 Ordering Paragraph 6, since SoCalGas is asking for a change in a final Decision.

D.14-05-021 states that "as the LCFS market matures and the Commission learns more about the results of the sale of LCFS credits, the Commission may revisit the procedures and requirements adopted in this decision." The issue of whether SoCalGas has incentives to utilize in its fleet vehicles and sell renewable natural gas in addition to or instead of traditional natural gas is important and complex. While we understand the value of switching to renewable natural gas, determining what those incentives should be and how they fit with evolving policy should not be addressed in an advice letter. The Energy Division hereby rejects, without prejudice, SoCalGas Advice Letter 5148 on procedural grounds.

Sincerely,

(for)

Edward Randolph
Director, Energy Division

cc: Melicia Charles
Judith Ikle
Pete Skala
Joseph Mock (JMock@semprautilities.com)

Ronald van der Leeden
Director
Regulatory Affairs

555 W. Fifth Street, GT14D6
Los Angeles, CA 90013-1011
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June 7, 2017

Advice No. 5148
(U 904 G)

Public Utilities Commission of the State of California

Subject: Modification of Low-Carbon Fuel Standard (LCFS) Program Implementation Plan

Southern California Gas Company (SoCalGas) hereby submits for approval by the California Public Utilities Commission (Commission) the following modification to its Implementation Plan for the sale of natural gas LCFS credits, which was originally approved by the Commission in Advice No. (AL) 4779.

Purpose

In accordance with Decision (D.) 14-12-083 Ordering Paragraph (OP) 3 and D.14-05-021 OP 2,[1] SoCalGas filed AL 4779 to provide upfront standards and plans for the sale of natural gas LCFS credits, establish a Low-Carbon Fuel Standard Balancing Account (LCFSBA), revise Rate Schedule No. G-NGV, Natural Gas Service for Motor Vehicles, provide for a LCFS credit, and include other Implementation Plan requirements. This filing is being made to modify one aspect of that Implementation Plan regarding the approved method by which SoCalGas generates LCFS credits.

Background

On May 19, 2014, the Commission issued D.14-05-021, in which OP 1 authorized SoCalGas to sell LCFS credits according to the parameters and restrictions set forth in Appendix A. OP 7 of D.14-05-021 authorized the utilities to establish balancing accounts to track LCFS credit revenue, while OP 6 authorized recovery of costs associated with administering the sale of LCFS credits upon their approval of the Implementation Plan and establishment of the LCFSBA in AL 4779.

On December 23, 2014, the Commission issued D.14-12-083, in which OP 2 authorized

[1] As modified by D.14-07-003.

SoCalGas to return to customers revenue from the sale of natural gas LCFS credits as either a reduction in the fuel price at the point-of-sale at utility-owned compressed natural gas (CNG) refueling stations or a reduction in the volumetric energy rate levied on natural gas used for refueling natural gas vehicles for customers. OP 3 included the list of items that SoCalGas was directed to comprehensively address in its Implementation Plan. The Implementation Plan was directed to also include any information required by D.14-05-021. Appendix A of D.14-12-083 provided a comprehensive listing of the items to be included in the Implementation Plan.

SoCalGas provided its Implementation Plan in AL 4779 filed on March 18, 2015, which was approved by disposition letter effective July 30, 2015.

Proposed Modified Mechanism for Generating LCFS Credits

The current mechanism for generating LCFS credits assumes that NGVs utilizing utility-owned refueling stations are being served with traditional natural gas (i.e., not Renewable Gas, or RG).[2] Pursuant to ARB regulations, however, if service at these stations is converted to RG, the corresponding LCFS credits will accrue to the RG importer/producer (supplier), and not to the utility (the fueling entity). While on its face RG is more expensive to procure than traditional natural gas, when used to refuel an NGV, under current market conditions there is sufficient value in the resulting LCFS credits and federal Renewable Identification Numbers (RINs, credits under the Federal Renewable Fuels Standard) that may allow SoCalGas to procure that RG at a cost comparable to traditional natural gas – resulting in no cost increase for its core gas commodity portfolio. Additionally, SoCalGas believes current market conditions may allow an RG supplier to assign an amount of LCFS credits equal to or greater than the amount that would have been generated through the use of traditional natural gas intact with the purchase of RG, leaving SoCalGas' NGV customers indifferent or better price-wise under this transaction.

The environmental benefits of using RG in transportation applications are well established. According to a recent whitepaper comparing a variety of heavy-duty truck technologies and fuels, "…the combination of new near-zero emission natural gas engine technology and RNG provides the single best opportunity for America to achieve immediate and substantial NOx and GHG emission reductions in the on-road heavy-duty transportation sectors…"[3] Further, "…RNG will provide deep GHG reductions (80 percent or greater), due to the very low (and in some cases negative) carbon intensity values of various production pathways..."[4]

The desire to procure RG at utility-owned CNG stations is driven by customer demand and need. Many heavy-duty fleets currently served at utility-owned CNG stations have

[2] All of the gas delivered through SoCalGas' utility-owned CNG stations, whether utilized for the utility fleet or public-access vehicles, is procured by the SoCalGas Gas Acquisition department.
[3] Game Changer Technical White Paper, Gladstein, Neandross and Associates, May 3, 2016, page 2 and page 8 to 9.
[4] Game Changer Technical White Paper, Gladstein, Neandross and Associates, May 3, 2016, page 8 to 9.

corporate sustainability goals that include transportation-related GHG emission reductions. Providing RG at utility-owned CNG stations will enhance the ability of customers to meet or exceed their corporate sustainability goals at no additional cost. In addition to corporate sustainability goals, local and state policymakers are prioritizing the use of RG in grant funding solicitations to encourage the use of renewable, low carbon fuel – this also drives customer demand. As an example, the recent California Air Resources Board Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project (HVIP) requires "…the use of 100 percent renewable fuel for new vehicles equipped with low NOx engines or existing vehicles repowered with low NOx engines…"[5] Providing RG at utility-owned CNG stations will allow customers to meet the requirements of these type of grant funding solicitations easily and accelerate the adoption of clean, renewable alternative fuel technologies throughout Southern California.

Accordingly, SoCalGas is requesting to modify its Implementation Plan to provide approval for RG suppliers to assign credits to SoCalGas as part of the process for the procurement of RG. To the extent that RG is utilized at a utility-owned refueling station, SoCalGas would no longer be generating credits in the manner described in its initial Implementation Plan, and would instead be receiving LCFS credits assigned from the RG supplier.

D.14-05-021 Finding of Fact 5 provides that "LCFS credits are not purchased by the utility; LCFS credits are only sold." SoCalGas understands that this finding leaves some uncertainty surrounding situations whereby an RG supplier assigns credits to SoCalGas upon procurement of RG, as it could be construed as "consideration" as part of the contracting process (i.e., the consideration of the assignment of the credits could constitute a purchase). SoCalGas does not believe restricting this type of contractual arrangement, which is necessary due to the structure of the LCFS regulations, was the intent of D.14-05-021. Upon approval of this modification to its Implementation Plan, SoCalGas intends to, where appropriate, contract with RG suppliers for RG, which could include as part of the consideration for that contract the assignment of credits from the RG supplier to SoCalGas. SoCalGas will then sell those credits and return the revenues received from the value of those sales to its customers consistent with D.14-12-083, as outlined in its Implementation Plan.

<u>Protest</u>

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 June 27, 2017. There is no restriction on who may file a protest. The address for mailing or delivering a protest to the Commission is:

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[5] https://www.californiahvip.org/docs/FY%2016-17%20Final%20HVIP%20Implementation%20Manual%2004102017.pdf

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 the Energy Division Tariff Unit (EDTariffUnit@cpuc.ca.gov). A copy of the protest shall 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: Ray B. Ortiz
Tariff Manager - GT14D6
555 West Fifth Street
Los Angeles, CA 90013-1011
Facsimile No.: (213) 244-4957
E-Mail: ROrtiz@semprautilities.com

Effective Date

SoCalGas believes that this filing is subject to Energy Division disposition and, per OP 3 of D.14-12-083, is classified as Tier 2. SoCalGas respectfully requests that this filing become effective July 7, 2017, which is 30 days from the date filed.

Notice

A copy of this Advice Letter is being sent to SoCalGas' GO 96-B service list and the Commission's service lists for R.11-03-012. Address change requests to the GO 96-B should be directed by electronic mail to tariffs@socalgas.com or call 213-244-2837. 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: Ray B. Ortiz
Phone #: (213) 244-3837
E-mail: ROrtiz@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) #: 5148

Subject of AL: Modification of Low-Carbon Fuel Standard (LCFS) Program Implementation Plan

Keywords (choose from CPUC listing):

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

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #:
D.14-12-083 and D.14-05-021

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: 7/7/17

No. of tariff sheets:

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: N/A

Service affected and changes proposed[1]: N/A

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: Ray B. Ortiz
555 West 5th Street, GT14D6
Los Angeles, CA 90013-1011
ROrtiz@semprautilities.com
Tariffs@socalgas.com

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