

PUBLIC UTILITIES COMMISSION

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TO PARTIES OF RECORD IN RULEMAKING 13-02-008:

This is the proposed decision of Commissioner Carla J. Peterman. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's December 15, 2016 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

/s/ KAREN V. CLOPTON

Karen V. Clopton
Administrative Law Judge, Chief

KVC:ek4

Attachment

Decision **PROPOSED DECISION OF COMMISSIONER PETERMAN**

(Mailed 11/15/2016)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Adopt
Biomethane Standards and Requirements,
Pipeline Open Access Rules, and Related
Enforcement Provisions.

Rulemaking 13-02-008
(Filed February 13, 2013)

**ORDER MODIFYING DECISION 15-06-029 IN RESPONSE TO THE
DECEMBER 1, 2015 PETITION FOR MODIFICATION AND TO
SENATE BILL 840 AND ASSEMBLY BILL 2313**

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**ORDER MODIFYING DECISION 15-06-029 IN RESPONSE TO THE
DECEMBER 1, 2015 PETITION FOR MODIFICATION AND TO SENATE BILL
840 AND ASSEMBLY BILL 2313**

Summary

On December 1, 2015, a petition for modification of Decision (D.) 15-06-029 was filed by the Coalition for Renewable Natural Gas (CRNG). The petition for modification requests that several changes be made to D.15-06-029.¹

D.15-06-029 is the decision that addressed the cost issues associated with meeting the biomethane standards and requirements adopted in D.14-01-034. The Commission also adopted a biomethane monetary incentive program in D.15-06-029.² This monetary incentive program is designed to encourage biomethane producers to design, construct, and safely operate projects that interconnect and inject biomethane into the natural gas utilities' pipeline systems. Under the adopted monetary incentive program, each biomethane project built before June 11, 2020, or sooner if the total program funds of \$40 million are exhausted before that period, can receive up to \$1.5 million upon the successful interconnection and operation of the facility.

In the 2016 Legislative session, two bills were enacted which affect the monetary incentive program adopted in D.15-06-029. The first bill, Senate Bill (SB) 840 (Statutes of 2016, Chapter 341), was enacted into law on

¹ CRNG's petition for modification does not specifically refer to D.15-06-029 by its decision number. Instead, CRNG refers to the heading used in the title of D.15-06-029 that states "Decision Regarding The Costs of Compliance With Decision 14-01-034 And Adoption of Biomethane Promotion Policies and Program."

² We refer to the "biomethane monetary incentive program" as the "monetary incentive program." The monetary incentive program is referred to as the "monetary incentives" in Public Utilities Code § 784.1(b)(1), and as the "monetary incentive program" in Public Utilities Code §§ 399.19 and 784.2.

September 13, 2016. SB 840 addresses biomethane issues in sections 10 and 11 of that bill. Section 11 of the bill added Public Utilities Code § 784.1, which requests that the California Council on Science and Technology “undertake and complete a study analyzing the regional and gas corporation specific issues relating to minimum heating value and maximum siloxane specifications for biomethane before it can be injected into common carrier gas pipelines, including those specifications adopted in Sections 4.4.3.3 and 4.4.4 of Commission Decision 14-01-034....” Other provisions of Public Utilities Code § 784.1 requires “each gas corporation operating common carrier pipelines in California to proportionately contribute to the expenses to undertake the study...,” and if the study is undertaken and completed, “within six months of its completion, the commission shall reevaluate its requirements and standards adopted pursuant to Section 25421 of the Health and Safety Code... and, if appropriate, change those requirements and standards or adopt new requirements and standards, giving due deference to the conclusions and recommendations made in the study by the California Council on Science and Technology.”

The second bill which impacts the monetary incentive program adopted in D.15-06-029 is Assembly Bill (AB) 2313 (Statutes of 2016, Chapter 571). AB 2313 becomes effective on January 1, 2017. AB 2313 adds §§ 399.19 and 784.2 to the Public Utilities Code. Section 399.19 provides for the extension of the monetary incentive program to December 31, 2021, and increases the incentive amounts for non-dairy cluster biomethane projects from \$1.5 million to \$3 million, and for dairy cluster biomethane projects from \$1.5 million to \$5 million.

Public Utilities Code § 784.2 provides that before the funds made available pursuant to the monetary incentive program are exhausted, and before the expiration of that program, the Commission “shall consider options to further

the goals of Section 399.24, including consideration of whether to allow recovery in rates of the costs of investments” as described in subdivisions (a), (b), and (c) of that code section.

In response to the petition for modification, and on the Commission’s own motion, today’s decision modifies D.15-06-029 to reflect the modifications adopted in response to CRNG’s petition for modification, and to reflect the impact of certain provisions of SB 840 and AB 2313. The adopted modifications to D.15-06-029 are discussed in this decision, and are set forth in section 2.f. of this decision.

1. Background

Assembly Bill (AB) 1900 (Statutes of 2012, Chapter 602) amended and added several code sections pertaining to biogas and biomethane. As part of that legislation, Health and Safety Code § 25421 was added, which required the Commission to adopt standards that specify the concentration of allowable constituents of concern in biomethane that can be injected into a common carrier pipeline. The legislation also required the Commission to adopt monitoring, testing, reporting, and recordkeeping protocols to ensure pipeline and pipeline facility integrity and safety. After considering the recommendations of the California Air Resources Board and the Office of Environmental Health Hazard Assessment, as well of the positions of all the parties, the Commission adopted in Decision (D.) 14-01-034 concentration standards for 17 constituents of concern that may be found in biomethane, as well as monitoring, testing, reporting, and recordkeeping requirements. As a result of D.14-01-034, biomethane suppliers can inject biomethane into the natural gas utilities’ pipelines so long as these standards and protocols are followed. Adherence to these standards and

protocols will ensure that human health, and the integrity and safety of the gas pipelines and pipeline facilities, are protected.

A separate decision addressing the cost issues associated with meeting these biomethane standards and requirements was addressed in D.15-06-029. In D.15-06-029, the Commission concluded that the cost of complying with the standards and protocols adopted in D.14-01-034 should be borne by the biomethane producers. However, the Commission in D.15-06-029 adopted “a policy and program of a five-year monetary incentive program to encourage biomethane producers to design, construct, and to successfully operate biomethane projects that interconnect with the gas utilities’ pipeline systems so as to inject biomethane that can be safely used at an end user’s home or business.” (D.15-06-029, at 2.)

As adopted in D.15-06-029, the monetary incentive program is a five-year program beginning on June 11, 2015, and ending on June 10, 2020. Total funding upon receipt of the monetary incentive program is \$40 million.³ As described in ordering paragraph 2.c. of D.15-06-029, the monetary incentive program works as follows:

A biomethane project in California that successfully complies with the standards and protocols adopted in Decision 14-01-034, and which successfully interconnects with the utility’s pipeline system and remains in operation for a minimum of 30 days, with a flow each day for each of those 30 days, shall be entitled to a one-time

³ D.15-06-029 provides if there is any unused incentive funding at the end of the five-year period, the monetary incentive program is to terminate at the end of the five-year period. If there are funds remaining at the time of program termination, the biomethane projects that have started to inject merchantable biomethane into the utility’s pipeline system as of the termination date of the program are eligible for the monetary incentive program if they otherwise meet the program criteria.

payment of 50 percent of the biomethane project's interconnection costs, up to the amount of \$1.5 million, following this 30-day operational period. This one-time incentive payment shall be credited to the biomethane producer by the interconnecting utility within 60 days after the 30-day operational period expires.

On December 1, 2015, the Coalition for Renewable Natural Gas (CRNG) filed a petition for modification of D.15-06-029. The petition for modification requests that modifications in three areas be made to D.15-06-029, as discussed below.

Responses to CRNG's petition for modification were filed by Pacific Gas and Electric Company (PG&E), and by Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E).

Subsequently, in 2016, two pieces of legislation were adopted. The first is SB 840, and the second is AB 2313.

In section 10 of SB 840, the Legislature made a series of findings and declarations pertaining to natural gas, California's commitment to reduce emissions of greenhouse gases and short-lived climate pollutants, biomethane, and the California Council on Science and Technology (CCST).

Among the findings and declarations for biomethane, the Legislature stated the following in section 10 of SB 840:

(d) Biomethane provides a sustainable and clean alternative to natural gas. If 10 percent of California's natural gas use were to be replaced with biomethane use, emissions of greenhouse gases would be reduced by tens of millions of metric tons of carbon dioxide equivalent every year.

(e) Investing in biomethane would create cobenefits, including flexible generation of electricity from a renewable source that is available 24 hours a day, reduction of fossil fuel use, reduction of air and water pollution, and new jobs.

(f) Biomethane can also be used as transportation fuel or injected into natural gas pipelines for other uses. The most appropriate use of biomethane varies depending on the source, proximity to existing natural gas pipeline injection points or large vehicle fleets, and the circumstances of existing facilities.

(g) The biomethane market has been slow to develop in California because the collection, purification, and pipeline injection of biomethane can be costly.

(h) Biomethane is poised to play a key role in future natural gas and hydrogen fuel markets as a blendstock that can significantly reduce the carbon footprint of these two fossil-backed alternative fuels.

(i) Biomethane is one of the most promising alternative vehicle fuels because it generates the least net emissions of greenhouse gases.

According to the low carbon fuel standard regulations (Subarticle 7 (commencing with Section 95480) of Article 4 of Subchapter 10 of Chapter 1 of Division 3 of Title 17 of the California Code of Regulations) adopted by the State Air Resources Board, vehicles running on biomethane generate significantly lower emissions of greenhouse gases than vehicles running on electricity or fossil fuel-derived hydrogen.

In one of the Legislature's findings and declarations with respect to the CCST, the following was stated:

(k) The [CCST] was uniquely established at the request of the Legislature for the specific purpose of offering expert advice to state government on public policy issues significantly related to science and technology.

In section 11 of SB 840, the Legislature added Public Utilities Code § 784.1.

That code section states as follows:

(a) The Legislature requests that the [CCST] undertake and complete a study analyzing the regional and gas corporation specific issues relating to minimum heating value and maximum siloxane specification for biomethane before it can be injected into common carrier gas pipelines, including those specifications adopted in Sections 4.4.3.3 and 4.4.4 of commission Decision 14-01-034 (January 16, 2014), Decision Regarding the Biomethane

Implementation Tasks in Assembly Bill 1900. The study shall consider and evaluate other states' standards, the source of biomethane, the dilution of biomethane after it is injected into the pipeline, the equipment and technology upgrades required to meet the minimum heating value specifications, including the impacts of those specifications on the cost, volume of biomethane sold, equipment operation, and safety. The study shall also consider whether different sources of biogas should have different standards or if all sources should adhere to one standard for the minimum heating value and maximum permissible level of siloxanes. The study shall develop the best science reasonably available and not merely be a literature review. In order to meet the state's goals for reducing emissions of greenhouse gases and short-lived climate pollutants and the state's goals for promoting the use of renewable energy resources in place of burning fossil fuels, the [CCST], if it agrees to undertake and complete the study, shall complete the study within nine months of entering into a contract to undertake and complete the study.

- (b) (1) If the [CCST] agrees to undertake and complete the study pursuant to subdivision (a), the commission shall require each gas corporation operating common carrier pipelines in California to proportionately contribute to the expenses to undertake the study pursuant to Sections 740 and 740.1. The commission may modify the monetary incentives made available pursuant to commission Decision 15-06-029 (June 11, 2015), Decision Regarding the Costs of Compliance with Decision 14-01-034 and Adoption of Biomethane Promotion Policies and Program, to allocate some of the moneys that would be made available for incentives to instead be made available to pay for the costs of the study so as to not further burden ratepayers with additional expense.
- (2) The commission's authority pursuant to paragraph (1) shall apply notwithstanding whether the gas corporation has proposed the program pursuant to Section 740.1.
- (c) If the [CCST] agrees to undertake and complete the study pursuant to subdivision (a), within six months of its completion, the commission shall reevaluate its requirements and standards

adopted pursuant to Section 25421 of the Health and Safety Code relative to the requirements and standards for biomethane to be injected into common carrier pipelines and, if appropriate, change those requirements and standards or adopt new requirements and standards, giving due deference to the conclusions and recommendations made in the study by the [CCST].

SB 840 became effective on September 13, 2016.

The second piece of legislation is AB 2313, which becomes effective on January 1, 2017. In § 1 of AB 2313, the Legislature added Public Utilities Code § 399.19 which states as follows:

The commission shall modify, and extend until December 31, 2021, the monetary incentive program for biomethane projects adopted in Decision 15-06-029 (June 11, 2015), Decision Regarding the Costs of Compliance with Decision 14-01-034 and Adoption of Biomethane Promotion Policies and Program, as follows:

- (a) Except for a dairy cluster biomethane project, the total available incentive limitation for a project shall be increased from one million five hundred thousand dollars (\$1,500,000) to three million dollars (\$3,000,000).
- (b) For a dairy cluster biomethane project, the total available incentive limitation shall be raised to five million dollars (\$5,000,000), which may be used for interconnection costs and costs incurred for gathering lines to help reduce emissions of short-lived climate pollutants pursuant to Section 39730 of the Health and Safety Code. For purposes of this subdivision, a dairy cluster biomethane project means a biomethane project of three or more dairies in close proximity to one another employing multiple facilities for the capture of biogas that is transported by multiple gathering lines to a centralized processing facility where the biogas is processed to meet the biomethane standards adopted by the commission pursuant to subdivisions (c) and (d) of Section 25421 of the Health and Safety Code and injected into the pipeline of the gas corporation through a single interconnection.

- (c) This section shall remain in effect only until January 1, 2022, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2022, deletes or extends that date.

In section 2 of AB 2313, the Legislature added Public Utilities Code § 784.2, which states as follows:

Before the exhaustion of the funds made available pursuant to the monetary incentive program for biomethane projects adopted in Decision 15-06-029 (June 11, 2015), the Decision Regarding the Costs of Compliance with Decision 14-01-034 and Adoption of Biomethane Promotion Policies and Program, and before the expiration of that program, the commission shall consider options to further the goals of Section 399.24, including consideration of whether to allow recovery in rates of the costs of investments to do each of the following:

- (a) Ensure that prudent and reasonable investments for infrastructure pursuant to subdivisions (b) and (c) provide a direct benefit, such as safety, reliability, affordability, or greenhouse gas reduction, to, and are in the interests of, all classes of ratepayers.
- (b) Facilitate direct investment in the procurement and installation of utility infrastructure necessary to achieve interconnection between the natural gas transmission and distribution pipeline network and biomethane generation and collection equipment, and of gathering lines for a dairy cluster biomethane project.
- (c) Provide for the installation of utility infrastructure to achieve interconnection with facilities that generate biomethane.

2. Discussion of Modification of D.15-06-029

a. Introduction

CRNG's petition for modification of D.15-06-029, and the two legislative changes, affect the monetary incentive program that was adopted in D.15-06-029. In the sections which follow, we address: (1) the modifications associated with CRNG's petition for modification; (2) the modifications associated with SB 840; and (3) the modifications associated with AB 2313.

At the end of this discussion, we set forth all of the modifications to D.15-06-029 that we adopt as a result of the adopted changes. This provides for an easier review and comparison of the adopted modifications to the original text of D.15-06-029.

b. Petition for Modification

CRNG's petition for modification requests that three changes be made to D.15-06-029. The first change seeks to clarify the 30-day operational requirement in D.15-06-029. In its petition, CRNG points out that this 30-day operational requirement appears in two places in D.15-06-029. (See D.15-06-029, Ordering Paragraph 2.c.) The first reference is to the phrase "remains in operation for a minimum of 30 days." The second reference is to the phrase "following this 30-day operational period." CRNG contends:

Relative to a project's operations and the eligibility requirement for monetary incentive program payment from a utility, the Decision's statements "remains in operation for a minimum of 30 days" and "following this 30-day operational period" are ambiguous. (CRNG Petition for Modification, at 5.)

CRNG further states:

We conferred with other industry stakeholders, including SoCalGas, SDG&E and PG&E, but were unable to ascertain the intent of the language as stated in the Decision. As such, [CRNG] asked CPUC Staff to request clarification from the ALJ. In response to our unofficial request, the ALJ clarified that the 30-day operational period is to be interpreted as 30 consecutive days of operation.⁴

⁴ Although CRNG asserts that these two phrases are ambiguous, and that it had to request clarification from the CPUC staff, CRNG overlooks the fact that in D.15-06-029, the Commission, in referring to the monetary incentive program, specifically stated that the phrase "remains in operation for a minimum of 30 days" requires that there be "a flow each day for each of those 30 days." (See D.15-06-029, Ordering Paragraph 2.c., at 44.)

Unfortunately, the 30 consecutive days of operation interpretation is unreasonable for newly commissioned projects. New projects frequently experience interruptions during the start-up phase due to events that are often unrelated and or beyond the project or developer's control. Such interruptions include but are not limited to temporary power outages (blackouts, rolling blackouts, brownouts, etc.) emergency or scheduled equipment maintenance and repair unrelated to gas processing, clean-up, human health and safety or pipeline and pipeline facility safety and integrity, where either the developer or the natural gas utility could close the valve and temporarily shut biomethane out of the pipeline as a precaution. Based on the ALJ's interpretation of the Decision, each such interruption would restart the biomethane project's 30-day operational 'clock.' Such an interpretation could unnecessarily postpone payment intended to offset interconnection costs and incentivize biomethane project development for months, or worse, jeopardize a project's receipt of payment at all.

Fortunately, we were able to achieve informal consensus with SoCalGas, SDG&E and PG&E regarding a preferred, favorable interpretation of the adverse 30-day operational requirement. Upon presentation of our proposed interpretation, CPUC Staff advised that we submit a formal Petition for Modification. As such, we respectfully ask the CPUC to amend the Decision to clarify the ambiguous reference to and ALJ's unofficial interpretation of the 30-day operational requirement as meaning "30 out of 40 days" instead of 30 consecutive days. (Original Emphasis.)

PG&E notes at page 2 of its response to CRNG's petition for modification that:

CRNG proposes to modify D.15-06-029 to require biomethane to flow for a minimum of 30 days out of 40 days in order for the biomethane project to be eligible for the one-time incentive payment. Under CRNG's proposal, the 30 days of flow in a 40 day period would not be required to be consecutive.

PG&E states in its response at page 2 that it supports CRNG's proposed modification. PG&E states that this "flexibility will allow for biomethane producers to account for emergent work that may result in a short-term shutdown," and that this will "allow a biomethane producer to resolve a short-term upset and then satisfy the 30 day incentive eligibility requirement by flowing biomethane for a total of 30 out of 40 days." PG&E further states that "this flexibility aligns with the intent of [AB] 1900, and may attract additional producers to participate in this emission-reduction effort."

PG&E requests that if CRNG's request is granted, that the Commission require the biomethane producer to make clear when the incentive eligibility testing period begins. PG&E's response at pages 2 to 3 states:

... PG&E requests that the Commission require a biomethane producer to make it clear when a 40 day period starts and ends by "declaring" in advance the start of the incentive eligibility testing period to the interconnecting utility. Requiring a definitive declaration via a standardized notice to the interconnecting utility would remove any uncertainty and help to avoid possible disputes about when a 40 day period started and ended. However, PG&E also recommends that the Commission allow a biomethane producer to start again at Day 1 at any time if the producer is unsuccessful in meeting the 30 out of 40 days requirement, rather than waiting for the full 40 days to run before starting another eligibility testing period (again, so long as the producer makes a clear declaration to the interconnecting utility before starting a new 40 day testing period).

SoCalGas and SDG&E support CRNG's request to modify the 30-day operational requirement. In their response at pages 4 to 5, SoCalGas and SDG&E state:

SoCalGas and SDG&E appreciate the concerns of [CRNG] and support modifications to D.15-06-029 that would better enable biomethane producers who successfully interconnect to the utility

system to receive the incentive payment. As such, SoCalGas and SDG&E support [CRNG's] request to modify the monetary incentive program's operational requirement to be "30 out of 40 days" instead of "30 consecutive days."

We have considered CRNG's request to modify the language in D.15-06-029 pertaining to the 30-day operational requirement, and the responses of the utilities to CRNG's request.

We first note that we do not agree with CRNG's characterization in its petition for modification that the 30-day references in D.15-06-029 are ambiguous, or that the ALJ's "unofficial" interpretation of the 30-day references is somehow in error. It is clear that the Commission in ordering paragraph 2.c. of D.15-06-029 ordered that for the biomethane incentive to be awarded, the biomethane project must meet the following:

A biomethane project in California that successfully complies with the standards and protocols adopted in Decision 14-01-034, and which successfully interconnects with the utility's pipeline system and remains in operation for a minimum of 30 days, with a flow each day for each of those 30 days, shall be entitled to a one-time payment of 50 percent of the biomethane project's interconnection costs, up to the amount of \$1.5 million, following this 30-day operational period. This one-time incentive payment shall be credited to the biomethane producer by the interconnecting utility within 60 days after the 30-day operational period expires. (Emphasis added.)

We are persuaded, however, that the requirement of a "flow each day for each of those 30 days" should be relaxed somewhat to account for operational considerations that could interrupt a flow each day over the required 30-day period. As CRNG, PG&E, SoCalGas and SDG&E all note, interruptions may occur in the short-term that can interrupt "a flow each day for each of those 30 days." Consistent with the intent of AB 1900 and Public Utilities Code §

399.24(a) to “adopt policies and programs that promote the in-state production and distribution of biomethane,” and to “facilitate the development of a variety of sources of in-state biomethane,” we will grant CRNG’s request to modify the requirement in D.15-06-029 of a “flow each day for each of those 30 days,” to a “flow for 30 out of 40 days.” Such a modification will provide a biomethane producer with more flexibility to qualify for the biomethane incentive payment.

To ensure that this requirement of 30 out of 40 days is not misused, we adopt PG&E’s recommendation that the biomethane producer must declare to the interconnecting utility when the 40-day period is to begin and end. The biomethane producer shall declare in a notice to be provided to the interconnecting utility at least two business days in advance, which specifies when the 40-day testing period is to begin and end. We will also adopt PG&E’s recommendation that the biomethane producer can “start again at Day 1 at any time if the producer is unsuccessful in meeting the 30 out of 40 days requirement, rather than waiting for the full 40 days to run before starting another eligibility testing period (again, so long as the producer makes a new declaration to the interconnecting utility before starting a new 40 day testing period).” (PG&E Response, at 3.)

The modifications discussed above will necessitate a change to the paragraphs beginning with the second paragraph that appears at page 29 of D.15-06-029 and ending before the first full paragraph that appears at page 31 of D.15-06-029, to Conclusion of Law 12 that appears at page 42 of D.15-06-029, to Ordering Paragraph 2.c. that appears at pages 44 to 45 of D.15-06-029, and to Ordering Paragraph 4 that appears at pages 46 to 47 of D.15-06-029. All of these changes are set forth in section 2.f. of today’s decision.

CRNG's petition for modification of D.15-06-029 at pages 7 to 8 requests that the program funding for the monetary incentive program be changed. CRNG contends at page 7 of its petition that the adopted per project cap of \$1.5 million "will severely limit the number of biomethane projects actually developed or expanded in-state..." and that the "\$1.5 million cap will also reduce the diversity of biogas feedstocks and source locations that are developed or expanded in California." CRNG requests that D.15-06-029 be modified as follows:

Respectfully, we request that the Commission modify the monetary incentive program funding cap from \$1.5 million per project to \$1.5 million per mile, or not to exceed \$4.5 million per project. We also request that the Commission increase program funding from \$40 million to \$120 million to actually offset the interconnection costs and incentivize increased development of biomethane from each of California's major biogas feedstock sources." (CRNG Petition for Modification, at 7 to 8.)

We decline to make the changes to the funding of the monetary incentive program that were adopted in D.15-06-029 as requested by CRNG. As discussed in the AB 2313 section of this decision, the Legislature has added Public Utilities Code § 399.19 which mandates a modification to the funding amounts for the monetary incentive program. Furthermore, in SB 840, the Legislature added Public Utilities Code section 784.1, which allows the Commission to modify the \$40 million made available for the biomethane incentives to "pay for the costs of the [CCST] study so as to not further burden ratepayers with additional expense." (Emphasis added.) Accordingly, CRNG's request to modify the funding elements of the monetary incentive program is denied because the Legislature has directed the Commission to modify the funding elements as described in Public Utilities Code §§ 399.19 and 784.1(b)(1).

In addition, CRNG's petition for modification of D.15-06-029 requests that the term of the monetary incentive program be lengthened.

In Ordering Paragraph 2.a. of D.15-06-029, the Commission adopted the following provision:

This monetary incentive program shall be in effect for a period of five years from the effective date of this decision. If there is any unused incentive funding at the end of this five-year period, this program shall terminate. If there are funds remaining at the time of program termination, then biomethane projects that have started to inject merchantable biomethane into the utility's pipeline system as of the termination date of this program are eligible for an incentive payment if they otherwise meet the program criteria.

CRNG seeks to extend the term of the monetary incentive program in the event there are funds remaining at the time the program is to end. Specifically, CRNG requests the following:

Respectfully, we request that the Commission revise the terms regarding the program expiration date to allow any funds that remain after the five-year period has expired to continue to be made available on a first-come first-serve basis, provided the biomethane developer is able to demonstrate that their inability to meet the monetary incentive program deadline was primarily due to delays caused by the federal, state, or local government.

As we note below in the discussion of AB 2313, Public Utilities Code § 399.19 was added by AB 2313. That code section extended the term of the monetary incentive program from the five years adopted in D.15-06-029 (which would have ended the program on June 10, 2020), to December 31, 2021. Furthermore, Public Utilities Code § 399.19(c) provides that Public Utilities Code § 399.19 "shall remain in effect only until January 1, 2022, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2022, deletes or extends that date." Since the Legislature has decided in Public

Utilities Code § 399.19 as to when the monetary incentive program should end, CRNG's request to modify D.15-06-029 to change what should happen with any remaining funds authorized by the monetary incentive program is denied.

c. Modification due to SB 840

With the passage of SB 840, the Commission on its own motion modifies D.15-06-029 in order to reflect certain provisions of this legislation.

Due to the addition of Public Utilities Code § 784.1, and the ongoing discussions between the Commission and CCST to undertake the study described in that code section, D.15-06-029 needs to be modified to establish a mechanism to have "each gas corporation operating common carrier pipelines in California to proportionately contribute to the expenses to undertake the study pursuant to Sections 740 and 740.1."⁵ (Public Utilities Code § 784.1(b)(1).)

Public Utilities Code § 784.1(b)(1) also provides that "The commission may modify the monetary incentives made available pursuant to commission Decision 15-06-029 ..., to allocate some of the moneys that would be made available for incentives to instead be made available to pay for the costs of the study so as to not further burden ratepayers with additional expense."

We first note that Public Utilities Code § 784.1 directs the Legislature to request that the CCST undertake the study contemplated in that code section. The task of requesting the CCST study has been handed over to the Commission by the Legislature. Accordingly, in today's decision, the Commission authorizes

⁵ Although Public Utilities Code section 784.1(a) states that "The Legislature requests that the [CCST] undertake and complete" the study, the Legislature has asked the Commission to enter into the study with the CCST. As a result, the Commission and the CCST will be signatories to the contract that will have the CCST undertake the study.

the Energy Division and relevant Commission staff to negotiate and enter into a contract for the CCST study as contemplated in Public Utilities Code § 784.1.

Today's decision also modifies D.15-06-029 to provide that of the \$40 million set aside for the monetary incentive program, some of that will be set aside to pay for the cost of the CCST study that is to be undertaken pursuant to Public Utilities Code § 784.1. This will have the effect of slightly reducing the total amount of monetary incentives available under the biomethane incentive program. The allocation of some of these funds from the monetary incentive program to pay for the CCST study is consistent with Public Utilities Code § 784.1(b)(1).

In addition, D.15-06-029 shall be modified to accommodate the requirement in Public Utilities Code § 784.1(b) that "each gas corporation operating common carrier pipelines to proportionately contribute to the expenses" to undertake the CCST study.

Before we address the proportionate contribution, we note that the monetary incentive program that was adopted in D.15-06-029 is to be recovered from the ratepayers of Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), Southern California Gas Company (SoCalGas), and Southwest Gas Corporation (Southwest Gas). (D.15-06-029 at 28-31, 35-36, 46-47.) It is likely that the biomethane projects to be built will be located in the service areas of one of these large gas utilities. Due to the likely siting of such projects, and because D.15-06-029 provides that the ratepayers of these four utilities will fund the incentives for any projects located in their service areas, the phrase in Public Utilities Code § 784.1(b) that states "the commission shall require each gas corporation operating common carrier pipelines in California to proportionately contribute to the expenses to undertake the [CCST] study..."

should be interpreted to mean that only PG&E, SDG&E, SoCalGas, and Southwest Gas should “proportionately contribute to the expenses to undertake the study....” Accordingly, today’s decision will require that of the \$40 million in incentives that are set aside, these four gas corporations shall proportionately contribute to the expenses of the CCST study, and that proportionate contribution shall be in relationship to their gas throughput as reported in the 2016 California Gas Report. The respective proportionate contribution of PG&E, SDG&E, SoCalgas, and Southwest Gas shall be as follows: 50.89%; 6.43%; 41.92%, and 0.77%. These percentages are based on the 2016 gas throughput as reported in the 2016 California Gas Report at page 28, net of the wholesale loads.

Accordingly, today’s decision directs PG&E, SDG&E, SoCalGas, and Southwest Gas to proportionately contribute to the expenses of the CCST study as CCST bills the Commission. The Commission authorizes the assigned Commissioner and Administrative Law Judge to issue a ruling on the proportionate contribution of these four gas corporations once the CCST contract is finalized. D.15-06-029 needs to be modified at the end of Section 3 of D.15-06-029 at 36 to reflect these modifications. These modifications are described and set forth in section 2.f. of today’s decision.

In addition, Public Utilities Code § 784.1(c) provides that if the CCST agrees to undertake and complete the study, “within six months of its completion, the commission shall reevaluate its requirements and standards adopted pursuant to Section 25421 of the Health and Safety Code relative to the requirements and standards for biomethane to be injected into common carrier pipelines and, if appropriate, change those requirements and standards or adopt new requirements and standards, giving due deference to the conclusions and recommendations made in the study by the [CCST].”

In accordance with that code provision, once the CCST study nears completion, the Commission will need to reevaluate in this proceeding the requirements and standards adopted pursuant to Health and Safety Code § 25421 that are set forth in D.15-06-029, as well as the heating value issue addressed in D.15-06-029. This reevaluation process, and keeping this Rulemaking open to consider such changes, is discussed later in this decision.

d. Modifications to AB 2313

With the passage of AB 2313, the Commission on its own motion modifies D.15-06-029 in order to reflect certain provisions of this legislation.

AB 2313 takes effect on January 1, 2017. As a result of that legislation, D.15-06-029 needs to be modified to reflect the changes to the monetary incentive program as set forth in Public Utilities Code § 399.19. In that code section, the Legislature directs the Commission to do the following four things: (1) extend the monetary incentive program to December 31, 2021; (2) for a non-dairy cluster biomethane project, increase the total available incentive limitation from \$1.5 million to \$3 million; (3) for a dairy cluster biomethane project, the total available incentive limitation amount is \$5 million, “which may be used for interconnection costs and costs incurred for gathering lines to help reduce emissions of short-lived climate pollutants pursuant to Section 39730 of the Health and Safety Code;⁶ and (4) Public Utilities Code § 399.19 is to “remain in

⁶ A “dairy cluster biomethane project” is defined in Public Utilities Code § 399.19 as “a biomethane project of three or more dairies in close proximity to one another employing multiple facilities for the capture of biogas that is transported by multiple gathering lines to a centralized processing facility where the biogas is processed to meet the biomethane standards adopted by the commission pursuant to subdivisions (c) and (d) of Section 25421 of the Health and Safety Code and injected into the pipeline of the gas corporation through a single interconnection.”

effect only until January 1, 2022, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2022, deletes or extends that date.”

As a result of AB 2313, several modifications to D.15-06-029 are needed to the Summary, Discussion, Findings of Fact, Conclusions of Law, and Ordering Paragraph sections. All of these modifications are reflected below in section 2.f. of today’s decision.

Due to the inclusion of the language in Public Utilities Code § 399.19(b) that the incentive amount for dairy cluster biomethane projects includes the “costs incurred for gathering line to help reduce emissions of short-lived climate pollutants pursuant to Section 39730 of the Health and Safety Code, and the extension of the monetary incentive program to December 31, 2021, the third full paragraph that appears at page 31 of D.15-06-029, and continuing through the second full paragraph at page 32 of D.15-06-029, needs to be modified as shown in section 2.f. of today’s decision.

Due to the change in the incentive amount for a non-dairy cluster biomethane project, and for a dairy cluster biomethane project, the first full paragraph at the top of page 33 of D.15-06-029 needs to be modified as shown in section 2.f. of today’s decision.

Due to the change in the incentive amount, and the extension of the biomethane incentive program, footnote 15 at page 33 of D.15-06-029 should be modified to reflect AB 2313 as shown in section 2.f. of today’s decision.

e. Future Work

Public Utilities Code §§ 784.1 and 784.2 were added by SB 840 and AB 2313, respectively. Both of these code sections will result in additional work in this proceeding, or in a subsequent rulemaking.

Public Utilities Code § 784.1(c) provides that if the CCST undertakes and completes the study analyzing the minimum heating value and maximum siloxane specifications, that the Commission is to reevaluate the requirements and standards that the Commission adopted pursuant to Health and Safety Code § 25421 that were addressed in D.14-01-034, and to change those requirements and standards if appropriate.

As part of AB 2313, the Legislature added Public Utilities Code § 784.2. That code section requires that before the exhaustion of the funds made available under the monetary incentive program and before the expiration of the program, that the Commission consider options to further the development, production, and distribution of in-state biomethane. Among the options to consider is whether rate recovery of the costs of biomethane installation and infrastructure should be permitted.

As a result of Public Utilities Code §§ 784.1(c) and 784.2, this Rulemaking (R.13-02-008) shall remain open to reevaluate the requirements and standards adopted pursuant to Health and Safety Code § 25421 once the CCST study is completed, and to consider the options to further promote the in-state use of biomethane. The options to further promote the in-state use of biomethane shall be considered before the December 31, 2021 program termination date, or earlier if the monies authorized for this monetary incentive program are reduced substantially before the December 31, 2021 date.⁷

⁷ Alternatively, the Commission may close this Rulemaking (R.13-02-008) after a decision is issued on whether any of the requirements and standards for biomethane injection need to be changed as a result of the CCST study, and a new Rulemaking is opened to consider the options to promote in-state biomethane as required by Public Utilities Code § 784.2.

f. Adopted Modifications to Text, Findings of Fact, Conclusions of Law, and Ordering Paragraphs of D.15-06-029

As discussed above, and due to CRNG's petition for modification, SB 840 and AB 2313, certain modifications need to be made to portions of the text in D.15-06-029, to the findings of fact and conclusions of law, and to the ordering paragraphs. For ease of comparison and readability, all of the modifications that we adopt today for D.15-06-029 are set forth below. The modifications are preceded by a brief explanation. The portions of the text that have been deleted or added from D.15-06-029 are shown in bold.

Due to the four modifications to the monetary incentive program that are set forth Public Utilities Code section 399.19, the following modifications are made to the last paragraph of the Summary section that appears at page 2 of D.15-06-029:

However, consistent with AB 1900 and to provide initial support to the developing biomethane market, today's decision adopts a policy and **program of a monetary** incentive program to encourage biomethane producers to design, construct, and to successfully operate biomethane projects that interconnect with the gas utilities' pipeline systems so as to inject biomethane that can be safely used at an end user's home or business. **This monetary incentive program shall be in effect until the end of December 31, 2021.** As described in this decision, each biomethane project that is built **before December 31, 2021**, or sooner if the program funds are exhausted before that period, can receive 50% of the project's interconnection costs, up to \$3 million **for a non-dairy cluster biomethane project**, to help offset these costs upon the successful interconnection and operation of the facility. **For a dairy cluster biomethane project built before December 31, 2021, as defined in Public Utilities Code § 399.19(b), such a project can receive up to 50% of the project's interconnection costs and costs incurred for gathering lines to help reduce emissions of short-lived climate pollutants, up to \$5**

million, to help offset these costs upon the successful interconnection and operation of the facility.

The Discussion section of D.15-06-029, beginning with the second paragraph that appears at page 29 and ending before the first full paragraph that appears at page 31, shall be modified to reflect certain changes contained in AB 2313, and the request to change the testing period. Those modifications shall be as follows:

This monetary incentive program is a variation of the recommendations of some of the biomethane proponents that utility ratepayers should bear some or all of the costs of interconnection. This incentive program shall be structured as follows. The monetary incentive program shall be in effect **starting on the effective date of D.15-06-029 until December 31, 2021, unless further extended pursuant to Public Utilities Code § 399.19(c)**, and shall terminate as described in this decision. A biomethane project in California that successfully complies with the gas specifications set forth in a gas utility's tariff, including compliance with the standards and protocols adopted in D.14-01-034, and which successfully interconnects with the utility's pipeline system and remains in operation for a minimum of 30 days, **with a flow for 30 out of 40 days**, shall be entitled to: **(1) a one-time payment of 50% of the interconnection costs incurred by the biomethane producer, up to a total payment of \$3 million for a non-dairy cluster biomethane project; or (2) a one-time payment of 50% of the interconnection costs and the costs incurred for gathering lines to help reduce emissions of short-lived climate pollutants, up to \$5 million for a dairy cluster biomethane project as defined in Public Utilities Code § 399.19(b).** This incentive payment shall be credited to the biomethane producer by the gas utility interconnected to this project within 60 days following this 30-day operational period. This utility shall be allowed to recover **(1) the incentive amount credit of up to \$3 million for a non-dairy cluster biomethane project, or (2) or the incentive amount credit of up to \$5 million for a dairy cluster biomethane project as defined in Public Utilities Code § 399.19(b),**

from all of its gas customers on an equal cents per therm basis, with interest.

In order to determine the start and end of a successful interconnection testing period, the biomethane producer shall declare in a written notice to be provided to the interconnecting utility at least two business days in advance that specifies when the 40-day testing period is to begin and end. A biomethane producer will be permitted to start again at Day 1 of the testing period at any time, rather than waiting for the full 40 days to run before starting another eligibility testing period, so long as the biomethane producer declares again in a written notice to the interconnecting utility when the new 40-day testing period is to begin.

As noted by some of the parties, these interconnection costs are likely to make up a large part of the overall costs of a biomethane project. This policy and program of helping to offset 50% of these interconnection costs, up to the \$3 million limit amount **for non-dairy cluster biomethane projects, and up to the \$5 million limit amount for dairy cluster biomethane projects**, will incentivize potential biomethane producers to decide if such biomethane projects should be built, and whether such projects are economically feasible in light of current natural gas prices.

In order to specify which costs incurred by the developer of the biomethane project are eligible for the monetary incentive program, and to describe the program mechanics related to the distribution of funds to the developer, the utilities shall jointly file a Tier 2 Advice Letter to modify each of their existing interconnection tariffs. This Advice Letter shall set forth a description of the types of costs that qualify as interconnection costs under the monetary incentive program. In addition, the Advice Letter shall specify the process for determining if a facility has met the 30-day operational requirement, and the process for the distribution of the incentive payment. The Energy Division has discretion over the content and disposition of the Advice Letter and may elect to hold an informal workshop on the utilities' proposal in this Advice Letter before approving or rejecting this Advice Letter filing.

The total statewide monetary incentives available for this program shall be capped at \$40 million over **the duration** of this program. If the \$40 million in incentives is exhausted before **December 31, 2021**, **this program shall terminate unless extended as provided for in Public Utilities Code § 399.19(c)**. **If there are funds remaining at the time of program termination on December 31, 2021**, then biomethane projects that have started to inject merchantable biomethane into the utility's pipeline system as of the termination date of this program are eligible for an incentive payment if they otherwise meet the program criteria. For example, if a project begins to inject merchantable gas on the day of program termination, continues to inject for **30 out of 40 days**, and meets all other program criteria, then the project is eligible for an incentive payment.

Due to the inclusion of the language in Public Utilities Code § 399.19(b) that the incentive amount for a dairy cluster biomethane projects includes the "costs incurred for gathering lines to help reduce emissions of short-lived climate pollutants pursuant to Section 39730 of the Health and Safety Code," and the extension of the monetary incentive program to December 31, 2021, the third full paragraph that appears at page 31 of D.15-06-029, and continuing through the second full paragraph at page 32 of D.15-06-029, needs to be modified as follows:

To keep track of interconnection costs, each utility shall be responsible for obtaining the interconnection costs from the biomethane project developer. **For a non-dairy cluster biomethane project, only** the interconnection costs described in Section 2.2.2 of this decision shall be eligible toward the costs of computing this incentive payment. **For a dairy cluster biomethane project, the interconnection costs and the costs incurred for gathering lines to help reduce emissions of short-lived climate pollutants pursuant to Health and Safety Code § 39730, are** eligible toward the costs of computing the incentive payment.

If a biomethane project is interconnected to the gas utility and receives an incentive payment, the utility shall thereafter submit an annual report to the Director of the Energy Division summarizing the following: the number of interconnected biomethane projects on its system; the names and locations of these projects; the total interconnection costs for each project; **for a dairy cluster biomethane project, the total gathering line costs that may be used to help reduce emissions of short-lived climate pollutants;** the total amount of time needed for the interconnection process for each project; the amount and date in which the incentive payment was made; and the therms of biomethane injected into the utility's pipeline from each biomethane project. Following the first interconnected biomethane project, the utility shall submit this annual report to the Director of the Energy Division on January 15 of each year, until this reporting obligation terminates on January 16, **2022**. The utility shall also electronically serve the annual report on the service list in this proceeding. These reports will assist the Commission in determining the effectiveness of this incentive program, any potential barriers in the interconnection process, and how much biomethane is being injected into the gas utilities' pipeline systems.

Structuring this policy and program in the above manner will encourage **up to a dozen** biomethane projects to be developed and interconnected to the utilities' gas pipeline systems over the next six years, or sooner. Such projects can be developed using various in-state biogas resources (such as landfill, dairy, or wastewater treatment), so long as the biomethane meets the health and safety standards and protocols adopted in D.14-01-034, and the other interconnection standards set forth in the utility's tariff.

Due to the change in the incentive amount for a non-dairy cluster biomethane project, and for a dairy cluster biomethane project, the first full paragraph at the top of page 33 of D.15-06-029 needs to be modified as follows:

The incentive of 50% of the interconnection costs per biomethane project up to the \$3 million limit **for a non-dairy cluster biomethane project, and up to the \$5 million limit for a dairy cluster**

biomethane project, is reasonable given the environmental benefits of promoting a supply of low carbon renewable fuels, and the estimated costs of planning, constructing, interconnecting, and operating a biomethane project. Without such incentives, the current price of natural gas is likely to deter biomethane projects from being developed.

Due to the change in the incentive amount, and the extension of the monetary incentive program, footnote 15 at page 33 of D.15-06-029 should be modified to reflect AB 2313 as follows:

Several of the parties recommended in their comments on the proposed decision that the **original** incentive amount of \$1.5 million, and the \$40 million cap, be increased, and that the life of this incentive program be extended beyond five years **as originally adopted in D.15-06-029**. We declined to do so for all of the reasons **that were originally** set forth in **D.15-06-029**. **However, as a result of AB 2313, as reflected in today's decision, changes to the incentive amount and the life of the incentive program have been made to D.15-06-029.**

To reflect how the CCST study is to be paid for, and who is to pay for the cost of the CCST study, D.15-06-029 shall be modified at page 35 following the end of the second full paragraph on that page by inserting the following:

In Senate Bill (SB) 840 (Statutes of 2016, Chapter 341), § 784.1 was added to the Public Utilities Code. That code section requests that the California Council on Science and Technology (CCST) “undertake and complete a study analyzing the regional and gas corporation specific issues relating to minimum heating value and maximum siloxane specifications for biomethane before it can be injected into common carrier gas pipelines, including those specifications adopted in Section 4.4.3.3 and 4.4.4 of commission Decision 14-01-034....”

At the request of the Legislature, Commission staff has entered into discussion with the CCST to have them undertake this study.

If the CCST agrees to undertake and complete this study, Public Utilities Code § 784.1(b)(1) provides for the following:

“ ... the commission shall require each gas corporation operating common carrier pipelines in California to proportionately contribute to the expenses to undertake the study pursuant to Sections 740 and 740.1. The commission may modify the monetary incentives made available pursuant to commission Decision 15-06-029 (June 11, 2015), Decision Regarding the Costs of Compliance with Decision 14-01-034 and Adoption of Biomethane Promotion Policies and Program, to allocate some of the moneys that would be made available for incentives to instead be made available to pay for the costs of the study so as to not further burden ratepayers with additional expense.”

In accordance with Public Utilities Code § 784.1(b)(1), if the CCST agrees to undertake and complete the study as described in Public Utilities Code § 784.1(a), PG&E, SDG&E, SoCalGas, and Southwest Gas shall proportionately contribute to the expenses of undertaking and completing this study. The proportionate contribution of each utility shall be in proportion to their gas throughput as reported in the 2016 California Gas Report. The assigned Commissioner and ALJ are authorized to issue a ruling directing these four gas corporations to pay their proportionate share of the CCST study once the CCST contract is finalized.

To reflect the modifications that we adopt today to existing utility tariffs, and to reflect the future work required by SB 840 and AB 2313, we will add the following paragraphs to the end of section 3 of D.15-06-029 at page 36:

Due to the modifications to D.15-06-029 as a result of the petition for modification of D.15-06-029, SB 840, and AB 2313, PG&E, SDG&E, SoCalGas, and Southwest Gas, may file Tier 2 Advice Letters by February 6, 2017 to reflect any changes to their tariffs that may be necessary due to the modifications made to D.15-06-029.

In accordance with Public Utilities Code § 784.1(c), this rulemaking (R.13-02-008) shall remain open to consider whether the requirements and standards adopted in D.14-01-034 need to be reevaluated as a result of the CCST study. A ruling regarding the procedural next steps will be issued shortly after the CCST study is completed.

Following a decision issued in accordance with Public Utilities Code § 784.1(c), this Rulemaking may remain open to consider the options to promote in-state biomethane as required by Public Utilities Code § 784.2, or this Rulemaking can be closed and another proceeding initiated to consider the issues raised by Public Utilities Code § 784.2.

Due to the modifications we make to the program term in today's decision, as set forth in Public Utilities Code 399.19, Finding of Fact 17 at pages 38 to 39 of D.15-06-029 needs to be modified as follows:

17. The adoption of the monetary incentive program will encourage biomethane projects to be developed and interconnected to the utilities' gas pipeline systems over the next **six** years or sooner, and will incentivize potential biomethane producers to decide if such biomethane projects should be built, and whether such projects are economically feasible in light of current natural gas prices.

Due to the modifications made to D.15-06-029 by today's decision, Conclusion of Law 9 at page 41 of D.15-06-029 should be modified as follows:

9. To fulfill the intent of § 399.24, the Commission should adopt a policy of encouraging the in-state production and distribution of biomethane through the adoption of a monetary incentive program as described in **D.15-06-029**, as set forth in Conclusions of Law 10 through 16 in **D.15-06-029**, and as modified by **D.16-___-___**.

Conclusion of Law 10, which appears at page 41 of D.15-06-029, should be modified to reflect a typographical error, the modification to the 30-day operational period, and Public Utilities Code § 399.19, as follows:

10. In order to specify which costs incurred by the developer of the biomethane project are eligible for the monetary incentive program, and to describe the program mechanics related to the distribution of funds to the developer, the utilities shall jointly **file** a Tier 2 Advice Letter to modify each of their existing interconnection tariffs. This Advice Letter shall set forth a description of the types of costs that qualify as interconnection costs **and gathering costs** under the monetary incentive program **and Public Utilities Code section 399.19(b)**. In addition, the Advice Letter shall specify the process for determining if a facility has met the **30 out of 40-days** operational requirement, and the process for the distribution of the incentive payment. The Energy Division has discretion over the content and disposition of the advice letter and may elect to hold an informal workshop on the utilities' proposal in this Advice Letter before approving or rejecting this Advice Letter filing.

Conclusion of Law 11, which appears at pages 41 to 42 of D.15-06-029, should be modified as follows to reflect Public Utilities Code § 399.19:

11. The total monetary incentives under this program shall be capped at \$40 million over the **approximately six**-year duration of this program, and if the \$40 million in incentives is exhausted before the expiration of this period, this program shall **terminate unless extended pursuant to Public Utilities Code § 399.19(c)**. If the **monetary incentive program** period expires and there are unused incentives remaining, this program shall end at the end of that period **unless the program is extended**. If there are funds remaining at the time of program termination, then biomethane projects that have started to inject merchantable biomethane into the utility's pipeline system as of the termination date of this program are eligible for an incentive payment if they otherwise meet the program criteria.

Conclusion of Law 12, which appears at page 42 of D.15-06-029, should be modified as follows to reflect the modification to the 30-day operational period, and Public Utilities Code § 399.19:

12. Each biomethane project in California that successfully complies with the gas specifications set forth in a gas utility's tariff, including compliance with the standards and protocols adopted in D.14-01-034, and which successfully interconnects with the utility's pipeline system and remains in operation for a minimum of 30 days, with a flow **for 30 out of 40** days, shall be entitled to 50% of the interconnection costs incurred by the biomethane producer up to a total payment of **\$3 million for a non-dairy cluster biomethane project**, following this 30-day operational period. **For a dairy cluster biomethane project, the project shall be entitled to 50% of the interconnection costs and the costs incurred for gathering lines to help reduce emissions of short-lived climate pollutants up to a total payment of \$5 million.** This one-time payment shall be credited to the biomethane producer by the interconnecting utility within 60 days after the 30-day operational period expires. This credit to the biomethane producer shall be included in the gas rates of the interconnecting utility and recovered from the utility's customers in such rates on an equal cents per therm basis with interest.

Conclusion of Law 13, which appears at page 42 of D.15-06-029, should be modified as follows to reflect the modification to the 30-day operational period:

13. At least 90 days prior to the anticipated interconnection date, the utility shall notify the Director of the Energy Division in a letter of the name, developer, and location of the biomethane project, the anticipated total cost of interconnection and the incentive credit amount, the anticipated interconnection date, and the anticipated date of injection of biomethane into the utility's pipeline system. Following the **operational noticing requirement**, interconnection and successful injection of biomethane for **30 out of 40** days, and crediting the biomethane project with the incentive credit, the utility shall notify the Energy Division in a letter of the incentive credit amount awarded to the biomethane project.

Conclusion of Law 15, which appears at page 43 of D.15-06-029, should be modified as follows to reflect the Public Utilities Code § 399.19 modifications:

15. To keep track of the interconnection costs, each utility shall be responsible for obtaining the interconnection costs from the biomethane project developer. Only the interconnection costs described in Section 2.2.2 of **D.15-06-029** shall be eligible toward the costs of computing this incentive payment **for a non-dairy cluster biomethane project. For a dairy cluster biomethane project, the interconnection costs described in Section 2.2.2 of D.15-06-029, and the gathering lines as specified in Public Utilities Code § 399.19(b), shall be eligible toward the costs of computing this incentive payment.**

Conclusion of Law 16, which appears at page 43 of D.15-06-029, should be modified as follows to reflect the Public Utilities Code § 399.19 modifications:

16. If a biomethane project is interconnected to the gas utility and receives an incentive payment, the utility shall thereafter submit an annual report, as described, to the Director of the Energy Division summarizing the following: the number of interconnected biomethane projects on its system; the names and locations of these projects; the total interconnection costs, **and if applicable, the total gathering costs**, for each project; the total amount of time needed for the interconnection process for each project; the amount and date in which the incentive payment was made; and the therms of biomethane injected into the utility's pipeline from each biomethane project. This annual report shall be submitted by the utility to the Director of the Energy Division on January 15 following the first biomethane project interconnected with the utility, and on each subsequent January 15 until this reporting obligation terminates on January 16, **2022**. The utility shall also electronically serve the annual report on the service list in this proceeding.

A new Conclusion of Law 19 should be added after Conclusion of Law 18, which directs the gas utilities to update their tariffs as a result of

the modifications to D.15-06-029 due to the petition for modification, SB 840 and AB 2313.

19. PG&E, SDG&E, SoCalGas, and Southwest Gas, may file, within 60 days from today's date, Tier 2 Advice Letters to update any tariffs that may require revisions due to the petition for modification of D.15-06-029, SB 840 and AB 2313.

Ordering Paragraph 2 at pages 44 to 46 of D.15-06-029 should be modified to reflect the modifications as a result of the petition to modify D.15-06-029, SB 840, and AB 2313.

2. In accordance with Public Utilities Code Section 399.24, a monetary incentive program, as described herein, is created and adopted to encourage the in-state production and distribution of biomethane.

a. This monetary incentive program shall be in effect **until December 31, 2021, unless further extended pursuant to Public Utilities Code § 399.19(c)**. If there is any unused incentive funding at the end of **December 31, 2021**, this program shall terminate. If there are funds remaining at the time of program termination, then biomethane projects that have started to inject merchantable biomethane into the utility's pipeline system as of the termination date of this program are eligible for an incentive payment if they otherwise meet the program criteria.

b. The Commission authorizes total funding of \$40 million for this monetary incentive program, **which includes the cost of the study to be undertaken by the California Council on Science and Technology (CCST) as described in Public Utilities Code § 784.1.**

(1) The following four natural gas utilities shall pay their proportionate share of the study based on their gas throughput in the 2016 California Gas Report: Pacific Gas and Electric Company (50.89%), San Diego Gas & Electric Company (6.43%), Southern California Gas Company (41.92%), and Southwest Gas Corporation (0.77%).

(2) Once the CCST contract is finalized, the assigned Commissioner and Administrative Law Judge shall issue a ruling directing these four gas utilities to pay their proportionate share of the CCST study.

c. A biomethane project in California that successfully complies with the standards and protocols adopted in Decision 14-01-034, and which successfully interconnects with the utility's pipeline system and remains in operation for a minimum of 30-days, with a flow **for 30 out of 40 days**, shall be entitled to a one-time payment of 50 percent of the: **(1) biomethane project's interconnection costs, up to the amount of \$3 million for a non-dairy cluster biomethane project, following this 30-day operational period; or**

(2) biomethane project's interconnection costs, and the costs incurred for gathering lines pursuant to Public Utilities Code § 399.19, up to the amount of \$5 million for a dairy cluster biomethane project, following this 30-day operational period. This one-time incentive payment shall be credited to the biomethane producer by the interconnecting utility within 60 days after the 30-day operational period expires.

For purposes of the successful interconnection period, the biomethane producer shall declare in a notice to be provided to the interconnecting utility at least two business days in advance, which specifies when the 40-day period is to begin and end. A biomethane producer can restart the clock at Day 1 at any time if the biomethane producer is unsuccessful in meeting the 30 out of 40 days requirement, rather than waiting for the full 40 days to run before starting another eligibility period, so long as the biomethane producer provides a new declaration notice to the interconnecting utility before starting a new 40-day testing period.

d. To keep track of the interconnection costs, each utility shall be responsible for obtaining the interconnection costs from the biomethane project developer. Only the

interconnection costs described in Section 2.2.2 of **D.15-06-029**, and the gathering costs described in **Public Utilities Code § 399.19**, shall be eligible toward the costs of computing this incentive payment.

e. At least 90 days prior to the anticipated interconnection date, the utility shall notify the Director of the Energy Division in a letter of the name, developer, and location of the biomethane project, the anticipated total cost of interconnection and the anticipated date of injection of biomethane into the utility's pipeline system. To the extent that the utility has not received complete information on **the interconnection costs, and if applicable, the gathering costs**, paid by the developer of the biomethane project, the utility shall notify the Director of the Energy Division of any incomplete information regarding such costs as part of its notification letter. Following the interconnection and successful injection of biomethane for **30 out of 40 days**, and crediting the biomethane project with the incentive credit, the utility shall notify the Energy Division in a letter of the incentive credit amount awarded to the biomethane project.

f. The Energy Division shall be responsible for keeping track of the remaining balance available for use in this program. Each of the utilities may contact the Energy Division to determine whether there are sufficient funds remaining in this program to provide an incentive.

g. The interconnecting utility is authorized under this program to include each incentive awarded to a biomethane project in its gas rate, and to recover such amount from its customers, with interest, through that gas rate.

h. If a biomethane project is interconnected to the gas utility and receives an incentive payment, the utility shall thereafter submit an annual report to the Director of the Energy Division summarizing the following: the number of interconnected biomethane projects on its system; the names and locations of these projects; the total interconnection costs, **and, if applicable, the total costs for the gathering lines**, for each project; the total amount of

time needed for the interconnection process for each project; the amount and date in which the incentive payment was made; and the terms of biomethane injected into the utility's pipelines from each biomethane project. This annual report shall be submitted by the utility to the Director of the Energy Division on January 15 following the first biomethane project interconnected with the utility, and on each subsequent January 15 until this reporting obligation terminates on January 16, **2022**. The utility shall also electronically serve the annual report on the service list in this proceeding.

Ordering Paragraph 3 at page 46 of D.15-06-029 should be modified as follows to reflect a typographical error:

3. In order to specify which costs incurred by the developer of the biomethane project are eligible for the monetary incentive program, and to describe the program mechanics related to the distribution of funds to the developer, the utilities shall jointly **file** a Tier 2 Advice Letter to modify each of their existing interconnection tariffs. This Advice Letter shall set forth a description of the types of costs that qualify as interconnection costs under the monetary incentive program. In addition, the Advice Letter shall specify the process for determining if a facility has met the 30-day operational requirement, and the process for the distribution of the incentive payment. The Energy Division has discretion over the content and disposition of the Advice Letter and may elect to hold an informal workshop on the utilities' proposal in this Advice Letter before approving or rejecting this Advice Letter filing.

Ordering Paragraph 4 at pages 4 to 5 of D.15-06-029 should be modified as follows to allow the utilities to amend their tariffs to reflect any changes that may be needed as a result of the petition for modification of D.15-06-029, SB 840 and AB 2313:

4. Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), Southern California Gas Company (SoCalGas), and Southwest Gas Corporation (Southwest Gas), shall

file, within 90 days from today's date, Tier 2 Advice Letters to establish their respective balancing accounts to track the costs associated with the monetary incentive program that a biomethane producer may receive if it successfully interconnects and operates a biomethane project with the gas utility, and to recover the monetary incentive amount in rates, plus interest, from its customers. Alternatively, these utilities may file a Tier 2 Advice Letter to modify its existing balancing accounts to record and separately track the costs associated with the monetary incentive program that a biomethane producer may receive.

a. Due to the modifications to Decision (D.) 15-06-029 as a result of the petition for modification of D.15-06-029, Senate Bill 840 (Statutes of 2016, Chapter 341) and Assembly Bill 2313 (Statutes of 2016, Chapter 571), PG&E, SDG&E, SoCalGas, and Southwest Gas, may file Tier 2 Advice Letters by February 6, 2017 to reflect any changes to their tariffs that may be necessary due to the modifications made to D.15-06-029.

3. Comments on Proposed Decision

The proposed decision of Commissioner Carla J. Peterman in this matter was served on the parties in accordance with Public Utilities Code § 311, and comments are allowed pursuant to Rule 14.3 of the Commission's Rules of Practice and Procedure. Opening comments were filed by _____, and reply comments were filed by _____.

4. Assignment of Proceeding

Carla J. Peterman is the assigned Commissioner, and John S. Wong is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. In D.14-01-034, the Commission, among other things, adopted standards that specify the concentration of allowable constituents of concern in biomethane that can be injected into the natural gas utility's pipeline.

2. In D.15-06-029, the Commission addressed the cost issues associated with meeting the biomethane standards and requirements adopted in D.14-01-034, and implemented the biomethane monetary incentive program.

3. On December 1, 2015, CRNG filed a petition for modification of D.15-06-029 requesting that modifications be made in three areas.

4. Among other things, SB 840 added Public Utilities Code § 784.1 in which the Legislature requests that the CCST undertake and complete a study relating to minimum heating value and the maximum siloxane specification for biomethane, and for the Commission to reevaluate the requirements and standards adopted in D.14-01-034 while giving due deference to the CCST study.

5. Effective January 1, 2017, and as a result of AB 2313, Public Utilities Code § 399.19 modifies the monetary incentive program adopted in D.15-06-029.

6. Public Utilities Code § 784.2, as added by AB 2313, requires the Commission to consider options to further the promotion of biomethane before the monetary incentive program expires.

7. CRNG contends that the references to the 30-day operational requirement in D.15-06-029 are ambiguous, and requests that this requirement be modified to mean 30 out of 40-days.

8. CRNG's contention about the ambiguity of the 30-day operational requirement overlooks the fact that D.15-06-029 specifically stated that the phrase "remains in operation for a minimum of 30 days" requires that there be "a flow each day for each of those 30 days."

9. The Legislature has handed over the task of requesting the CCST study to the Commission.

10. The monetary incentive program adopted in D.15-06-029 is to be recovered from the ratepayers of PG&E, SDG&E, SoCalGas, and Southwest Gas.

11. It is likely that the biomethane projects to be built will be located in the service areas of PG&E, SDG&E, SoCalGas, and Southwest Gas.

12. On its own motion, the Commission modifies D.15-06-029 to reflect the following provisions of SB 840: (1) set aside part of the \$40 million for the monetary incentive program to pay for the cost of the CCST study; (2) directs the gas corporations to proportionately contribute to the cost of the CCST study; and (3) R.13-02-008 remains open to reevaluate the siloxane level and heating value issues, and to give due deference to the CCST study.

13. On its own motion, the Commission modifies D.15-06-029 to reflect the following provisions of AB 2313: (1) extend the monetary incentive program to December 31, 2021; (2) for a non-dairy cluster biomethane project, increase the total available incentive limitation from \$1.5 million to \$3 million; (3) for a dairy cluster biomethane project, the total available incentive limitation amount is \$5 million which may be used for interconnection costs and costs incurred for gathering lines to help reduce emissions of short-lived climate pollutants pursuant to Health and Safety Code § 39730; and (4) include language to reflect that the monetary incentive program is to terminate by January 1, 2022 unless a later enacted statute is enacted before that date.

14. Public Utilities Code §§ 784.1 and 784.2 will result in additional work in this proceeding, or in a subsequent rulemaking proceeding.

Conclusions of Law

1. Although we do not agree with CRNG's contention that the references to the 30-day operational requirement are ambiguous, we are persuaded that this requirement should be relaxed somewhat to account for operational considerations that could interrupt a flow each day over the required 30-day period.

2. Consistent with the intent of AB 1900 and Public Utilities Code § 399.24(a), CRNG's request to modify the requirement in D.15-06-029 of a "flow each day for each of those 30 days" should be granted to change it to a "flow for 30 out of 40 days."

3. PG&E's recommendation that the biomethane producer must declare to the interconnecting utility when the 40-day period begins and ends should be adopted, and therefore a biomethane producer will be required to declare in a notice to be provided to the interconnecting utility at least two business days in advance, which specifies when the 40-day testing period is to begin and end.

4. PG&E's recommendation that the biomethane producer can start again at Day 1 at any time if the producer is unsuccessful in meeting the 30 out of 40 days requirement should also be adopted so long as the producer makes a new declaration to the interconnecting utility before starting the new 40-day testing period.

5. CRNG's request to modify the program funding for the monetary incentive program should be denied because of the direction provided by the Legislature in Public Utilities Code §§ 399.19 and 784.1.

6. CRNG's request to lengthen the term of the monetary incentive program should be denied because the Legislature had directed in Public Utilities Code § 399.19 as to when the monetary incentive program should end.

7. The Commission should authorize the Energy Division and relevant Commission staff to negotiate and enter into a contract for the CCST study as contemplated in Public Utilities Code § 784.1.

8. PG&E, SDG&E, SoCalGas, and Southwest Gas should proportionately contribute to the expenses of the CCST study in relationship to their gas throughput as reported in the 2016 California Gas Report.

9. R.13-02-008 should remain open to reevaluate the requirements and standards in light of the CCST study and pursuant to Public Utilities Code § 784.1(c), and to consider the options to further promote the in-state use of biomethane pursuant to Public Utilities Code § 784.2 unless a new Rulemaking is initiated.

ORDER

IT IS ORDERED that:

1. The December 1, 2015 “Petition For Modification By The Coalition For Renewable Natural Gas To The California Public Utilities Commission Decision Regarding The Costs Of Compliance With Decision 14-01-034 And Adoption Of Biomethane Promotion Policies And Program” is granted in part, and denied in part, as set forth below.

- a. The Coalition for Renewable Natural Gas’ (CRNG) request to modify Decision (D.) 15-06-029 to change the operational flow requirement of a “flow each day for each of those 30 days” to a “flow for 30 out of 40-days,” is granted.
- b. The recommendation of Pacific Gas and Electric Company (PG&E) for a biomethane producer to provide a declaration to the interconnecting utility at least two business days in advance of when the 40-day testing period is to begin and end, is adopted.
- c. The recommendation of PG&E that the biomethane producer can restart Day 1 of the testing period at any time by providing a new declaration at least two business days in advance of when the new 40-day testing period is to begin and end, is adopted.
- d. CRNG’s request in its petition for modification requesting that the program funding elements for the biomethane monetary incentive program in D.15-06-029 be changed, is denied.

- e. CRNG's request in its petition for modification requesting that the term of the biomethane monetary incentive program in D.15-06-029 be lengthened, is denied.
 - f. The above modifications to D.15-06-029 are discussed in today's decision, and are set forth in section 2.f. of today's decision.
2. The Commission authorizes the Energy Division and relevant Commission staff to negotiate and enter into a contract with the California Council on Science and Technology for the study as contemplated in Public Utilities Code § 784.1.
3. In accordance with Senate Bill 840 (Statutes of 2016, Chapter 341), Decision (D.) 15-06-029 is modified as discussed in today's decision, and as set forth in section 2.f. of today's decision.
 - a. Once the contract with the California Council on Science and Technology is finalized, Pacific Gas and Electric Company, San Diego Gas & Electric Company, Southern California Gas Company, and Southwest Gas Corporation shall proportionately contribute toward these expenses, based on their gas throughput as reported in the 2016 California Gas Report, as directed in a future ruling by the assigned Commissioner and Administrative Law Judge, in the following respective proportion: 50.89%; 6.43%; 41.92%; and 0.77%.
4. In accordance with Assembly Bill 2313 (Statutes of 2016, Chapter 571), Decision 15-06-029 is modified as discussed in today's decision, and as set forth in section 2.f. of today's decision.
5. This proceeding, Rulemaking 13-02-008, remains open pursuant to Public Utilities Code § 784.1(c) to reevaluate the adopted requirements and standards that are to be examined in the study to be undertaken and completed by the California Council on Science and Technology (CCST).
 - a. After a decision is issued on whether any of the requirements and standards for biomethane injection need

to be changed as a result of the CCST study, this Rulemaking may remain open to consider the options to promote in-state biomethane as required by Public Utilities Code § 784.2, or this Rulemaking can be closed and another proceeding initiated to consider the issues raised by this code section.

This order is effective today.

Dated _____, at San Francisco, California.