PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

Agenda ID 15672
RESOLUTION G-3523
May 25, 2017

R E S O L U T I O N

Resolution G-3523. Southern California Gas Company seeks to establish the Distributed Energy Resources Services Tariff.

PROPOSED OUTCOME:

- Approves Southern California Gas' (SoCalGas) revised Distributed Energy Resources Services (DERS) tariff sheets which include: pro forma agreement, competitively neutral script and establishment of balancing and tracking accounts in compliance with Decision (D.)15-10-049.

SAFETY CONSIDERATIONS:

- Work performed under the DERS Tariff by SoCalGas or third parties, employed by SoCalGas, will comply with state, federal and local safety laws, orders, ordinances and regulations.

ESTIMATED COST:

- The establishment of a DERS Balancing Account (DERSBA) is intended to protect ratepayers from subsidizing the DERS Tariff. SoCalGas shareholders will assume the cost and risk of the DERS Tariff.

By Advice Letter 4918-G, filed on January 19, 2016.

SUMMARY

This Resolution allows Southern California Gas Company (SoCalGas) to establish its Distributed Energy Resources (DERS) Tariff by approving components required by Decision (D.)15-10-049, which granted SoCalGas the authority to start the program throughout its service territory. The DERS Tariff will enable SoCalGas to construct, own and operate behind-the-meter, customer cited combined heat and power (CHP) facilities.

The tariff's term is for a ten-year-period which commenced on October 22, 2015. In the event a DERS contract goes beyond program's expiration, SoCalGas will continue to provide existing DERS Tariff customers service until that contract expires.

This Resolution approves the required elements that SoCalGas will need to begin this program including: a competitively neutral script to prevent SoCalGas from using its status as a utility to crowd out competition, a DERS Balancing Account, (DERSBA) to protect SoCalGas ratepayers from subsidizing this program by creating an internal order number, separate from the ratepayers allocation of the general rate case, to track the program's costs and an internal DERS Tracking Account (DERSTA) to track the difference between actual operations and maintenance and the revenue generated by the DERS Tariff that will ensure that ratepayers are not negatively impacted by any under or over-collection of revenue related to the DERS Tariff.

BACKGROUND

On August 8, 2014, SoCalGas filed A.14-08-007 for Commission approval of its "fully elective optional non-discriminatory Tariff Service" which provides its customers an opportunity to install distributed energy resources on site. On October 26, 2015, the Commission approved D.15-10-049, which granted SoCalGas permission to begin operating DERS under specified parameters. SoCalGas submitted Advice Letter (AL) 4918-G on January 19, 2016, to meet requirements set forth in D.15-10-049.

Specifically, AL 4918-G included the following:

a. Revised Distributed Energy Resources Services Pro Forma Agreement;

b. Revised Feasibility Analysis Agreement;

c. Revised Tariff Sheets;

d. Revised Competitively Neutral Materials;

e. Preliminary Statements to create a tracking account and balancing account to track costs associated with the Tariff;

f. Proof of creation of tracking numbers; and

g. Standard Agreement for third-party contractors.

The DERS Tariff will allow SoCalGas to build, own and run CHP facilities behind-the-meter. Customers will own the energy generated by the facility and all associated electrical and gas costs associated with the facility's operation.

In filing this request, SoCalGas stated there is a significant demand for small, behind-the-meter CHP facilities and that projects developed by the DERS Tariff will help the state reach its CHP procurement goals. SoCalGas claims the tariff will allow customers to overcome high upfront equipment costs and ongoing operation and maintenance expenses.

Under the tariff, SoCalGas will install both bottoming cycle and topping cycle[1] CHP facilities. In addition, the tariff will allow for the construction of fuel cells[2] and mechanical drives[3].

[1] A bottoming cycle facility is one in which waste heat from an existing process is used to generate electricity. A topping cycle facility is one that uses a fuel, like natural gas, to power electric generation and uses the excess energy produced for heating and cooling.

[2] Fuel cells create electricity by way of an electrochemical reaction between hydrogen and the oxygen in ambient air. The hydrogen fuel can be created from various fuel stocks including natural gas and biogas. *Fuel cells can be configured for CHP as well as electric only generation.* They feature higher electrical efficiencies and lower WHP emission levels when compared to existing combustion technologies.

[3] *Mechanical drives are a subset of CHP* in that, instead of generating electricity, produce mechanical (or shaft) work/horsepower for water-pumping, gas-compression or other applications or other applications. Similar to CHP, mechanical drives recover waste heat to produce another useful byproduct (such as hot water, steam, etc.).

The tariff requires CHP facilities to be less than or equal to 20 megawatts (MWs). If SoCalGas installs multiple units on a customer's premises, the total nameplate value of MWs installed must be less than or equal to 20 MWs and a DERS facility may be as small as 65 kilowatts (kWs). All CHP facilities under the DERS Tariff must also meet minimum efficiency requirements and emissions standards defined in the Self Generation Incentive Program (SGIP)[4].

Part of the rationale for allowing this tariff is the Commission approved SoCalGas' requests to create the Compressed Gas Services Tariff (CST)[5] in 2012, through D.12-12-037, and the Biogas Conditioning and Upgrading Services Tariff (BSC)[6] in 2013, through D.13-12-040. Both of these tariffs operate under the same limitations described in D.15-10-049, which prevent SoCalGas from using its monopoly status to crowd out competition by requiring competitive neutral scrips and ordering the use of balancing and tracking accounts to protect ratepayers from subsidizing the cost of the program.

In the past three and four years of operation, the CST has one customer, the City of Monterey Park, and the BCS has not generated any customers. In response to a December 5, 2016 data request regarding the lack of business generated by the

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[4] The CPUC's Self-Generation Incentive Program (SGIP) provides incentives to support existing, new, and emerging distributed energy resources. The SGIP provides rebates for qualifying distributed energy systems installed on the customer's side of the utility meter. Qualifying technologies include wind turbines, waste heat to power technologies, pressure reduction turbines, internal combustion engines, microturbines, gas turbines, fuel cells, and advanced energy storage systems.

[5] The Compression Services Tariff is a non-residential, optional tariff service for customers that allows SoCal Gas to plan, design, procure, construct, own, operate and maintain compression equipment on customer premises to meet pressure requirements as requested by the customer and agreed to by SoCal Gas.

[6] Examples of customer end-use applications that can be served by the Biogas Conditioning/Upgrading Services Tariff include, but are not limited to: renewable natural gas for pipeline injection, compressed natural gas for vehicle refueling stations, and conditioned/upgraded biogas for combined heat and power (CHP) facilities.

tariffs, SoCalGas replied that the fall in oil prices has negatively impacted the CST and long term uncertainty in the Biogas Credit Markets has sunk demand for BCS adoption.

SoCalGas estimates starting one to two DERS projects per year during the first few years of tariff's operation following the approval of the DERS Tariff. SoCalGas predicts the DERS Tariff will break even after several MWs of CHP systems are under contract and two to four projects begin operating under the tariff.

NOTICE

Notice of AL 4918-G was made by publication in the Commission's Daily Calendar. SoCalGas states that a copy of the Advice Letter was mailed and distributed in accordance with Section 4 of General Order 96-B.

PROTESTS

Advice Letter AL 4918-G was not protested.

DISCUSSION

Energy Division evaluated the Advice Letter on the following criteria:

- Are ratepayers protected from assuming the costs related to this program?
- Does the competitively neutral script prevent SoCalGas from using its position as a gas utility to its competitive advantage?
- Is the rate structure, as defined in the DERS Agreement (Form 74000), reasonable?
- Are there safety requirements in place for third party providers will adhere to?

Are ratepayers protected for assuming the costs related to this program?

D.15-10-049 states in Ordering Paragraph (OP) 12: "SoCalGas shall exclude any incremental costs and revenues associated with providing the Distributed Energy Resources Services (DERS) Tariff from rate bases determined in SoCalGas' general rate case proceedings, including:

a) Ongoing development and potential litigation costs shall be excluded from future general rate cases, and costs associated with the DERS shall be recovered only from DERS Tariff customers or SoCalGas shareholders.

b) Decommissioning or removing a DERS facility shall be charged to the DERS internal order for the project and shall be the responsibility of SoCalGas shareholders and the DERS customers, and not ratepayers."

The DERSBA, which is an interest bearing balancing account recorded on SoCalGas' financial statements, is designed to protect ratepayers from subsidizing the DERS Tariff. Pursuant to D.15-10-049, the purpose of this account is to separate the DERS Tariff's costs from the general rate case and by doing so, insulate ratepayers from absorbing the program's expenses. SoCalGas began tracking expenses related to the DERS Tariff, including costs related to tariff development and litigation, in July 2015 in accordance with Ordering Paragraph (OP) 14, which required SoCalGas to create an internal order number to track costs. Energy Division reviewed this balancing account and found it protects ratepayers from costs related to the DERS tariff because it records those costs in an account that is separate from the ratepayer allocation of the general rate case.

The DERSTA is a tracking account not reflected on SoCalGas financial statements. The purpose of the DERSTA is to track the difference between actual operations and maintenance and capital revenue requirements associated with providing distributed energy resource services under Schedule NO. GO-DERS and the revenues collected from customers for this service. DERSTA will also ensure that ratepayers are not negatively impacted by any under or over-collection of revenue related to the DERS Tariff. SoCalGas will open this account after the Commission approves this Resolution.

In its operation of the BCS and CST Tariffs, SoCalGas has experience protecting ratepayers through its operation of tracking and balancing accounts.

The DERS Balancing and Tracking Accounts help ensure that ratepayers will not subsidize the DERS Tariff.

Does the competitively neutral script prevent SoCalGas from using its position as a gas utility to crowd out competition?

In compliance with OP 16 and consistent with Appendix A of D.15-10-049, SoCalGas submitted as Attachment B, a revised Competitively Neutral Materials Script that will be used in answering inquiries concerning the DERS Tariff. The script submitted is competitively neutral because it mentions competing non-utility entities that could provide DERS services. It also points out other important limitations of the program including; the 20 MW limit of DERS Tariff projects, the tariff's ten year time limit and that DERS facilities must be fueled by natural gas or other gaseous fuels like biogas, hydrogen or hythane.

Pending the approval of this Resolution, SoCalGas will also post competitively neutral materials and list competing CHP providers on its website. SoCalGas submitted this list of competing CHP providers for Energy Division to review and we judged the list meets requirements identified in D.15-10-049.

SoCalGas' Competitively Neutral Script for the DERS Tariff protects other businesses from unfair competitive practices.

Is the rate structure, as defined in the DERS Agreement, reasonable?

According to the proposed Agreement for DERS customers in Schedule no. GO-DERS (Form 7400), "the rate structure shall be designed to recover costs including, but not limited to, depreciation, returns to capital, income taxes, property taxes, Operation and Maintenance (O&M) expense, repair expense, Administrative and General (A&G) expense, Franchise Fees, Uncollectible, and insurance."[7]

[7] Schedule no. GO-DERS, Sheet 5.

As directed in OP 10 of D.15-10-049, "(SoCalGas) shall price the Distributed Energy Resources Services (DERS) Tariff to include cost and rate components, adjustments, performance requirements and payment terms agreed upon in advance by the customer and SoCalGas. SoCalGas shall use well established cost-based methodologies identical to those used in general rate cases, to set the price of the service, employing full overhead loaders and indirect charges using a capital charge rate, no lower than the utility authorized weighted average cost of capital (although the negotiated capital charge rate may be higher than the utility authorized cost of capital) to ensure that the charge for the provision of the DERS Tariff is not unfairly competitive."

<u>As defined in the DERS Agreement and D.15-10-049, the DERS Tariff rate structure is reasonable.</u>

Are there a safety documents and requirements in place that SoCalGas and third party providers will adhere to?

In response to December 15, 2015 and January 18, 2017 data requests regarding safety at CHP facilities built and operated SoCalGas and third party contractors, SoCalGas stated that all work performed under the DERS Tariff by SoCalGas or its contractors will comply with all State, Federal and local safety laws which include: all applicable OSHA standards, Rule 21 interconnection standards, SoCalGas Rule 20 for main extensions and SoCalGas Rule 21 for service line extensions. Each contractor party shall comply with and observe the Contractor Safety Manual and applicable standard practices described in the Safety Notice for Contractors.

<u>Energy Division reviewed these documents and found them to be satisfactory.</u>

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from today.

FINDINGS

1. On August 8, 2014, SoCalGas filed A.14-08-007 for Commission approval of its proposed DERS Tariff.
2. On October 26, 2015, the Commission approved D.15-10-049, which granted SoCalGas permission to begin operating the DERS Tariff.
3. D.15-10-049 directed SoCalGas to file a tier three advice letter, which includes the required documents to begin operating a DERS Tariff.
4. On January 19, 2016, SoCalGas submitted AL 4918-G for Energy Division review.
5. The DERS Balancing and Tracking Accounts will protect ratepayers from subsidizing the DERS Tariff.
6. SoCalGas' Competitively Neutral Script protects other businesses from unfair competition with a public utility.
7. DERS Tariff rate structure is reasonable.
8. SoCalGas presented its Contractor Safety Manual and the Safety Notice for Contractors for Energy Division review. Energy Division judged these documents to be satisfactory.

THEREFORE IT IS ORDERED THAT:

1. The request of Southern California Gas Company for tariff revisions to its Distributed Energy Resources Services Tariff, as requested in Advice Letter AL 4918-G, is approved

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on May 25, 2017; the following Commissioners voting favorably thereon:

TIMOTHY J. SULLIVAN
Executive Director