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BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Address Utility Cost and Revenue Issues Associated with Greenhouse Gas Emissions.	)))))	R.11-03-012 (Filed March 24, 2011)

PROPOSAL OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) AND SAN DIEGO GAS & ELECTRIC COMPANY (U 902 M) ON LOW CARBON FUEL STANDARD CREDIT REVENUE ALLOCATION

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Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) respectfully submit this proposal for the allocation of Low Carbon Fuel Standard (LCFS) credit revenues (Track 2 Proposal) that may arise from the provision of natural gas service,[1/] pursuant to the Administrative Law Judge's Ruling Providing Guidance on Track 2 Activities, filed February 8, 2012 (Track 2 Ruling), as modified by the Administrative Law Judge's Ruling Confirming Modified Track 2 Schedule, filed March 14, 2012. As described below, SoCalGas and SDG&E propose that any revenues that arise from a natural gas utility opting to generate LCFS credits by providing natural gas as a transportation fuel should be returned to natural gas vehicle (NGV) customers. This proposal is consistent with both the principles outlined by the California Public Utilities Commission (Commission) Staff in Attachment A to the Track 2 Ruling, and the principles set forth by the California Air Resources Board (ARB) in its development of the LCFS Program. Specifically, SoCalGas and SDG&E propose to implement a compressed natural gas (CNG) vehicle and/or CNG vehicle home refueling appliance buydown program that is administratively efficient, consistent with the principle that all LCFS credits should be returned directly to the utility customers whose natural

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[1/] This Track 2 Proposal is limited to credits arising from the provision of natural gas service. SDG&E is jointly filing a proposal with other electric utilities pertaining to credits arising from the provision of electric service.

gas vehicle use is responsible for the generation of the credits, encourages the purchase and use of alternative fuel vehicles, and reduces utility infrastructure impacts related to the use of alternate fuel vehicles.

I.

INTRODUCTION AND BACKGROUND

As explained in the Track 2 Ruling, under current LCFS regulations, regulated entities may earn credits for using transportation fuels that meet or surpass requirements for carbon intensity.[2] The Track 2 Ruling directs parties to file and serve allocation proposals for revenue arising from LCFS credits and attaches a document from Energy Division Staff entitled *Energy Division Guidance on Policy Objectives and Proposals for the Use of Low Carbon Fuel Standard Credits*, which offers several policy objectives and potential uses for revenue arising from LCFS credits.[3] Although the Track 2 Ruling and the attached Policy Objectives and Proposals primarily address credits generated by residential customers who charge electric vehicles through their home electric service, the Track 2 Ruling clarifies that the scope of Track 2 of this proceeding "is to determine how the electric and gas utilities under Commission jurisdiction use revenues from the sale of LCFS credits that they receive from ARB."[4] Accordingly, SoCalGas and SDG&E construe the Track 2 Ruling as also seeking proposals from natural gas utilities for the allocation of revenues that arise from the allocation of LCFS credits generated by the provision of natural gas as a transportation fuel for NGVs.

In directing the parties to submit proposals for the allocation of LCFS revenues, the Track 2 Ruling notes that on December 29, 2011, a United States District Court ruled that the California LCFS program violates the Commerce Clause of the United States Constitution and

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[2] Track 2 Ruling, p. 3.

[3] Although the ARB is the State regulatory body responsible for administering the LCFS program, the Commission retains full authority to determine the reasonableness of natural gas vehicle rates, rate designs, and utility expenditures pursuant to Public Utilities Code section 740.3.

[4] Track 2 Ruling, p. 3.

therefore is unconstitutional. The District Court issued an injunction that precludes ARB from implementing the LCFS unless or until a higher appellate court lifts that injunction. The Track 2 Ruling explains that "[t]hough the injunction and ongoing appeal process create uncertainty in the status and future of the LCFS program, we are launching Track 2 at this time in order to ensure that we address the issues within our jurisdiction and are prepared when and if the injunction is lifted and the LCFS is implemented."[5]

The lack of knowledge of critical elements of the LCFS program, such as the date for implementation of the LCFS market and the ARB-approved methodology to be used for credit estimation, creates challenges for the parties in attempting to develop "detailed" LCFS credit allocation proposals, as directed in the Track 2 Ruling.[6] At this early stage, any proposal must make numerous assumptions about market size and robustness. In light of the inherent uncertainties and implementation challenges, SoCalGas and SDG&E offer a reasonably comprehensive proposal that is intentionally structured to accommodate a broad range of potential outcomes, consistent with the principle that all LCFS credits should be returned directly to the utility customers whose natural gas vehicle use is responsible for the generation of the credits. This proposal also provides SoCalGas and SDG&E the flexibility to determine individualized operations and processes once market and policy uncertainties are resolved. SoCalGas and SDG&E seek Commission guidance that will allow IOUs the operational flexibility to respond to a changing program and market conditions, while remaining consistent with the policy principles set out by the Commission and ARB. However, any significant unforeseen changes that affect the outcome of any of these issues may require revisions to this proposal.

The Track 2 Ruling identifies three policy objectives and principles for the use of LCFS credit revenue, which SoCalGas and SDG&E support:

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[5] *Id.*, p. 2.

[6] *Id.*, p. 4 ("proposals shall include the following information: 1) a detailed description of the proposed use or uses of the revenues generated from the sale of LCFS credits. . .").

- Be simple to administer: SoCalGas and SDG&E strongly support this policy objective, as a simple proposal is more likely to be equitable, less likely to be expensive, less likely to burden ratepayers, and more easily understood from a customer's perspective. Simplicity is particularly important given the "opt-in" nature of the LCFS program.
- Minimize the grid impacts of EV adoption: SoCalGas and SDG&E believe that although Staff focused on electric vehicles in this policy objective, the intention was to reduce utility infrastructure impacts related to the use of alternate fuel vehicles. The SoCalGas/SDG&E Track Proposal would support this concept by encouraging the use of CNG vehicle home refueling appliances that typically operate during off-peak periods.
- Facilitate and increase the adoption of electric vehicles: SoCalGas and SDG&E believe that although Staff focused on electric vehicles in this policy objective, the intention was to facilitate and increase the use of both electric and natural gas vehicles. The SoCalGas/SDG&E Track 2 Proposal supports this concept, as it is consistent with Public Utilities Code section 740.3.[7]

In Attachment A to the Track 2 Ruling, Staff lists a fourth policy objective:

- Be consistent with ARB eligibility criteria: Although SoCalGas and SDG&E support this policy objective, it should be noted that ARB established no utility-specific eligibility requirement for LCFS credits generated from natural gas.

The Track 2 Ruling requested a discussion of how each proposal does or does not meet each of the policy objectives. The SoCalGas/SDG&E Track 2 Proposal set forth below advances the policy objectives outlined by the Commission by simplifying administration, minimizing grid impacts (reduce utility infrastructure impacts), and promoting the use of natural gas to fuel low-emission vehicles.

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[7] Public Utilities Code section 740.3 provides, inter alia, that "the commission. . . shall evaluate and implement policies to promote the development of equipment and infrastructure needed to facility the use of electric power and natural gas to fuel low-emission vehicles."

II.

SOCALGAS AND SDG&E PROPOSE TO RETURN ALL REVENUES ARISING FROM LCFS CREDITS GENERATED BY NATURAL GAS USED AS A TRANSPORTATION FUEL TO NGV CUSTOMERS THROUGH A NEW INCENTIVE BUYDOWN PROGRAM

A. LCFS Credits Will Be Generated From Multiple Sources

If the LCFS program is ultimately implemented by ARB, SoCalGas and SDG&E may have the ability to generate LCFS credits through the operation of twenty-four (24) compressed natural gas (CNG) refueling stations located at company sites. Although the primary purpose of these CNG refueling stations is to provide CNG fuel for the SoCalGas/SDG&E utility fleet, thirteen (13) of these CNG refueling stations currently offer public access. These public access CNG refueling stations fuel both the SoCalGas/SDG&E utility fleet as well as CNG vehicles operated by nearby commercial fleets and the general public. In addition, according to the most recent ARB LCFS regulation language, customers that own and operate their own CNG refueling stations can choose not to opt in to the LCFS regulation, and to assign their fuel use to another party, such as SoCalGas or SDG&E, to allow the utility to generate additional LCFS credits to assist the state-wide effort to reduce transportation fuel carbon intensity.[8/] Therefore, utility LCFS credits generated by natural gas used as a transportation fuel may come from multiple sources—utility CNG vehicle fleet operations, third-party CNG vehicles fueling at utility-owned public access CNG refueling stations, and third-party commercial CNG vehicle fleets fueling at customer-owned-and-operated CNG refueling stations.

B. SoCalGas and SDG&E Propose to Record LCFS Credits and Costs Through a Balancing Account

SoCalGas and SDG&E propose to establish a new balancing account that would record both LCFS credits and incremental costs associated with LCFS credit administration and sales.

[8/] ARB Proposed Regulation Order § 95484(a), *available at* http://www.arb.ca.gov/regact/2011/lcfs2011/lcfsappa.pdf.

SoCalGas and SDG&E recommend this interim approach until the LCFS credit administration costs and LCFC sales are included in a future general rate case. Due to the potentially large number of LCFS credit sources, and the administrative and recordkeeping requirements anticipated to be developed by ARB, the administrative costs associated with LCFS credit sales may be significant.

SoCalGas and SDG&E propose to review the balancing account on an annual basis as part of their respective Regulatory Account Updates. If the balance is undercollected (i.e., where costs exceed LCFS credit revenues), SoCalGas and SDG&E propose to transfer the balance to their respective gas Core Fixed Cost Accounts (CFCA) to be collected in rates on January 1, the following year. If the balance is overcollected (i.e., where LCFS credit revenues exceed costs), and meets or exceeds a threshold level of $100,000, SoCalGas and SDG&E propose to use these funds for the new incentive buydown program described below. If the balance is overcollected, but does not reach the threshold level of $100,000, SoCalGas and SDG&E propose to carryover that balance to the following year.

C. LCFS Credits Should Be Returned to NGV Customers in the Form of an Incentive Buydown Program

SoCalGas and SDG&E recommend that the revenue arising from LCFS credits be returned to NGV customers in the form of a new incentive buydown program for CNG vehicles and/or CNG vehicle home refueling appliances.

To promote the use and adoption of alternative fuel vehicles, consistent with the goals of Public Utilities Code section 740.3 and the Track 2 Ruling, SoCalGas and SDG&E propose to return LCFS credit revenues to NGV customers by decreasing the incremental cost of CNG vehicles and/or by reducing the cost to purchase and install CNG vehicle home refueling appliances. Due to the potential for significant changes in market conditions and needs, SoCalGas and SDG&E propose to submit a Tier 1 Advice Filing each year the program is implemented providing details on the CNG vehicles and/or CNG vehicle home refueling appliance incentive buydown funding levels, consistent with the following principles:

1. Funds will be distributed on a first come, first served basis until such time as funding for the year is exhausted.
2. Based on market conditions, market needs and available funding in effect for a specific year, SoCalGas and SDG&E will develop a CNG vehicle incentive level and/or a CNG vehicle home refueling appliance incentive level that covers no more than 100% of the incremental cost of the CNG vehicle and/or no more than 100% of the capital cost of the CNG vehicle home refueling appliance.[9]

Providing SoCalGas and SDG&E with the flexibility to modify the incentive buydown program on an annual basis will allow the utility to ensure the proper incentives are established to promote the use and adoption of alternative fuel vehicles. Furthermore, the concept of an incentive buydown program is simple to administer and straightforward for the customer to understand.

For example, if the available funding in year one is $100,000, SoCalGas and SDG&E could construct an incentive buydown program that covers 50% of the incremental cost of a typical light-duty CNG vehicle, such as the Honda Civic CNG, which is currently priced at around $7,700.[10] This would result in the first 25 customers applying to the program each receiving a light-duty CNG vehicle incentive of $3,850.

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[9] It is not expected that the incentive buy down program would provide 100% of the incremental cost of the CNG vehicle and/or the capital cost of a CNG vehicle home refueling appliance. However, providing this level of flexibility will allow SoCalGas and SDG&E to address market conditions, needs and available funding at the time the program becomes effective.

[10] CNG vehicle incremental cost ($7,700) developed by comparing MSRP for the 2012 Honda Civic CNG and the 2012 Honda Civic LX (gasoline) at www.edmunds.com.

III.

RESPONSE OF SOCALGAS AND SDG&E TO STAFF'S SUGGESTED USES FOR LCFS CREDIT REVENUE

Attachment A of the Track 2 Ruling identifies four potential uses for the revenue derived from the sale of LCFS credits. Because SoCalGas and SDG&E believe it is too soon – both in this proceeding and in the development of the LCFS market – to accurately analyze the very specific uses presented here, SoCalGas and SDG&E provide brief comments below on the four uses.

A. Potential Use #1: *Use Revenue to Reduce Electric Vehicle Rates*

Staff suggests using LCFS credit revenue to reduce electric vehicle rates. SoCalGas and SDG&E believe that although Staff solely focused on electric vehicles in this potential use, the intent was to suggest a reduction in alternative fuel vehicle rates. On a conceptual level, SoCalGas and SDG&E are supportive of this approach to natural gas vehicles, but believe the potential impact on rates to be minimal. In 2011, SoCalGas and SDG&E delivered over 114 million therms to customers operating CNG vehicle refueling stations (G-NGV customer class). This volume is equivalent to over 91 million gallons of gasoline. Unless the LCFS credit revenue is significant, it is unlikely to materially reduce natural gas vehicle rates. In 2011, SoCalGas and SDG&E dispensed nearly 1.78 million therms to internal fleet vehicles and customers fueling at SoCalGas/SDG&E-owned CNG vehicle refueling stations. These volumes would be used to generate utility LCFS credits. At an assumed credit value range of $10 to $100 per metric ton of CO_2 equivalents, this translates to estimated utility LCFS revenue of $45,000 to $454,000 per year. If these utility LCFS revenues were used to reduce the G-NGV transmission rate, the impact on rates would range from 0.03 cents/therm to 0.3 cents/therm. This translates to a potential rate decrease of 0.53% to 5.3%, respectively.[11/] If annual LCFS credit revenue reaches a level that would materially impact NGV-related rates and result in a rate reduction equal to or greater than

[11/] Based on the current SoCalGas G-NGV transmission charge of 5.664 cents per therm.

10%, SoCalGas and SDG&E would like the opportunity to revisit this proposal in the future and propose the use of all or a portion of LCFS credit revenue towards rate reduction.

B. Potential Use #2: *Use LCFS Revenue to Subsidize Utility Infrastructure Upgrade Cost*

The second proposed use identified by Staff would use LCFS revenue to subsidize utility infrastructure upgrade costs. SoCalGas and SDG&E believe this method is not as equitable as other potential uses for two reasons. First, third-party operators of CNG vehicle refueling stations can independently opt in to become a regulated party and generate LCFS credits and associated revenue to help defray any utility infrastructure interconnection costs. Allocating utility-generated LCFS credits and associated revenue toward this purpose would not necessarily benefit the vehicle operators that used fuel and produced the LCFS credits at utility-owned CNG vehicle refueling stations. Second, SoCalGas Rules 20 and 21 as well as SDG&E Rules 15 and 16 provide allowances that can reduce or eliminate utility infrastructure interconnection costs. Thus, mechanisms already exist to help address utility infrastructure interconnection costs at CNG vehicle refueling stations.

C. Potential Use #3: *Use LCFS Revenue to Benefit Electric Vehicle Service Providers ("EVSPs")*

The third potential use would benefit EVSPs with the LCFS credit revenues. Although Staff focused on electric vehicles in this policy objective, SoCalGas and SDG&E believe that the intention was to benefit alternativee fuel vehicle service providers. SoCalGas and SDG&E believe this method is not as equitable as other potential uses. Third-party operators of CNG vehicle refueling stations can independently opt in to become a regulated party and generate LCFS credits and associated revenue for their own benefit. Allocating utility-generated LCFS credits and associated revenue toward this purpose would not necessarily benefit the vehicle operators that used fuel and produced the LCFS credits at utility-owned CNG vehicle refueling stations. It should be noted that if the SoCalGas/SDG&E Track 2 Proposal is adopted, it will facilitate the adoption and use of additional natural gas vehicles, which will directly benefit natural gas vehicle service providers (station operators).

D. Potential Use #4: *Return Value in the Form of an Annual Rebate to PEV Drivers*

Lastly, Staff recommend considering revenue allocation through an annual check or annual on-bill rebate. SoCalGas and SDG&E do not support an off-bill check at this time, because it would be administratively burdensome, expensive, and would not guarantee that customers will receive their revenues (due to lost or unopened checks). Further, it is unlikely SoCalGas and SDG&E could specifically identify customers using public access CNG refueling stations at utility bases, since transactions are conducted by credit card and customer-specific data is not retained.

IV.

CONCLUSION

SDG&E and SoCalGas appreciate this opportunity to submit this Track 2 Proposal to the Commission. SDG&E and SoCalGas provide an administratively simple natural gas proposal that would equitably return revenue to CNG customers in order to promote the use of natural gas to fuel low-emission vehicles. The Commission should adopt the SoCalGas/SDG&E Gas Track 2 Gas Proposal and utilize the upcoming workshops to work out necessary implementation details.

Respectfully submitted,

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