



Order Instituting Rulemaking Regarding Policies, Procedures and Rules for the Self-Generation Incentive Program and Related Issues.

Rulemaking 20-05-012 (Filed on May 28, 2020)

COMMENTS OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) TO ORDER INSTITUTING RULEMAKING REGARDING POLICIES, PROCEDURES AND RULES FOR THE SELF-GENERATION INCENTIVE PROGRAM AND RELATED ISSUES

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Date: June 29, 2020

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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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Pursuant to Rule 6.2 of the California Public Utilities Commission (Commission or CPUC)

Rules of Practice and Procedure, Southern California Gas Company (SoCalGas) provides comments on the Order Instituting Rulemaking Regarding Polices, Procedures and Rules for the Self-Generation Incentive Program and Related Issues (OIR or rulemaking), adopted by the Commission on May 28, 2020.

I. INTRODUCTION

SoCalGas appreciates the Commission's efforts to improve and refine the Self-Generation Incentive Program (SGIP) in response to statutory requirements and other developments. SoCalGas generally agrees with the preliminary scope of the proceeding. SoCalGas respectfully requests the Commission also consider the following important issues in the scope of this proceeding:

- Expedite removal on the pause for renewable generation technology projects using collect/use/destroy as the biomethane baseline (flared renewable gas)¹
- Enforce the Program Modification Review (PMR) process to make sure statutory goals are prioritized
- Clarify Greenhouse Gas (GHG) emission requirements for Heat Pump Water Heaters (HPWHs)
- Develop alternative data collection methods to measure GHG emission reductions of energy storage

¹ As noted in D.20-01-021 renewable fuel using collect/use/destroy as a baseline will be referred to as "flared renewable gas."

- Adopt a rate-setting category for all future budget modifications
- Clarify the schedule to make sure there is alignment with previous decisions

 SoCalGas elaborates further on the requested modifications in the scope of the OIR below.

II. RENEWABLE GENERATION TECHNOLOGIES

A. Expedite Removal of the Pause on Incentive Applications for Renewable Generation Technologies Using Flared Renewable Gas

Addressing barriers for participation of renewable generation technologies should be prioritized and the scope of this rulemaking should allow for expedited removal of the pause currently placed on flared renewable generation projects in D.20-01-021. The existing pause was put in place based on Sierra Club and National Resources Defense Council's (NRDC) concerns regarding the environmental benefits of flared renewable gas and their misunderstanding of the existing program verification and tracking protocols. The OIR accurately acknowledges that most of the concerns raised by Sierra Club and NRDC had already been resolved.

Specifically, the OIR clarifies that the lower reduction of GHG emissions from flared renewable gas are attributed to their five year permanency requirement, however, this would no longer be an issue under new program requirements.² Similarly, the OIR recognizes that concerns raised around the tracking mechanism, source verification, and the retirement of environmental benefits are significant enough to place a pause on accepting renewable generation projects using flared renewable gas,³ however, the following clarifications address those concerns:

1. Decision (D.) 16-06-055 directed the Energy Division staff to work with the California Energy Commission in developing a mechanism that would "...[e]nsure that these projects are generating *incremental*, *verifiable*, *GHG reductions*, we authorize Energy

² OIR section 2.1.3. Renewable Generation, at 15, item 5.

³ OIR section 2.1.3. Renewable Generation, at 16.

- Division to investigate the development of a tracking system."⁴
- On October 21, 2016, the SGIP Program Administrators (PAs) filed Advice Letter 5049, with handbook changes adopting Directed Renewable Fuel Verification mechanism, which was subsequently approved on February 15, 2017.⁵

SGIP has existing mechanisms that address the tracking, verification, and environmental credit concerns. These mechanisms that are already in place should support the Commission's consideration to remove the pause of the flared renewable generation projects as an interim step while the proceeding considers barriers for participation of renewable generation technologies. Under the existing energy, economic, and climate situation in California, it would be prudent to allow flared generation projects to participate in SGIP as soon as possible. For instance, some of the most critical facilities such as wastewater treatment plants and landfills are those who are flaring the renewable gas. SGIP can help incentivize such customers to use their available flared renewable gas to generate their own power to maintain their own resiliency and the resiliency of their communities. The pause on accepting these applications limits a customer's ability to deploy projects that can help mitigate Public Safety Power Shutoff (PSPS) events and delays the economy's ability to recover from COVID-19 impacts.

As noted by California Energy Storage Alliance (CESA), since approval of D.20-01-021, which was adopted to expand equitable access to SGIP funds and enhance customer resiliency to those most in need, the State has been impacted by an unprecedented pandemic that has severely impacted global public health and has precipitated an economic crisis.⁶ CESA further notes that through SGIP California has an opportunity to address PSPS events, economic impacts of the pandemic, and climate issues by

⁴ D.16-06-055 at 19.

⁵ AL 5049 - Revisions to the Self-Generation Incentive Program Handbook Pursuant to Decision 16-06-055.

⁶ Motion of the California Energy Storage Alliance to Issue a Ruling that Transfers Funds to the Equity Budget, Filed June 9, 2020.

expeditiously eliminating the barriers for participation of all renewable generation projects.⁷ SoCalGas agrees with CESA and adds that releasing the funds for renewable generation technologies will help mitigate the current challenges electric investor owned utilities (IOUs) are facing when relying on diesel generation to provide resiliency.⁸

Sierra Club and NRDC's concerns are based on equating flared renewable gas to traditional fossil fuel. This approach fails to account for the carbon reduction benefits of using methane that would otherwise be flared to the atmosphere if not generating electricity. This approach also ignores resiliency benefits that a flared renewable fueled generation system can provide to critical customers and infrastructure such as wastewater treatment plants and landfills. Sierra Club and NRDC assert that the GHG emission reductions from flared renewable gas projects will diminish as the electric grid becomes cleaner. However, this is true of all Distributed Energy Resource (DER) technologies in SGIP – not just renewable generation. Further, unlike energy storage technologies, or HPWHs, renewable generation technologies using flared or vented renewable gas have the potential to become carbon negative when generating electricity with Combined Heat and Power technologies.

SoCalGas believes that the information provided above properly addresses the concerns raised by Sierra Club and NRDC. As such, expedited removal of the pause on renewable generation projects should be included into the scope of this proceeding. Renewable generation projects can play a role in relieving some of the current economic, PSPS, and environmental challenges California is facing.

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⁷ Motion of the California Energy Storage Alliance to Issue a Ruling that Transfers Funds to the Equity Budget, Filed June 9, 2020

⁸ Reply comments of Pacific Gas and Electric Company (U 39 E) on proposed decision adopting short-term actions to accelerate microgrid deployment and related resiliency solutions at 2.

⁹ Sierra Club and NRDC Opening Comments on the Proposed Decision on the SGIP Revisions Pursuant to SB 700 and Other Program Changes at 5-6.

¹⁰ Sierra Club and NRDC Opening Comments on the Proposed Decision on the SGIP Revisions Pursuant to SB 700 and Other Program Changes at 5-6.

¹¹ CHP projects provide useful heat and therefore can avoid the use of a boiler on-site and the associated emissions.

In regard to the mandated workshop on renewable generation projects, SoCalGas requests that the workshop be conducted to address adoption barriers, market transformation, renewable fuel classification, and analysis of the existing tracking and verification requirements. These items can be addressed without having to continue the pause on the acceptance of flared renewable generation projects. This process would work similarly to the modification process adopted for the development of the GHG emission signal for energy storage technologies through 2018-2019. At that time, the Commission allowed acceptance of energy storage applications even while still deciding on the appropriate GHG emission reduction standards for energy storage. This consideration was based on the negative impact on the market for adopting of such technology. The SGIP has failed to support the market for renewable gas projects over the last several years. As such, removing the pause on flared renewable gas generation projects before holding the renewable generation workshop is appropriate and aligns with previous Commission actions.

B. Inclusion of SB 1369 in the Scope of the Proceeding and Renewable Generation Workshop

SoCalGas generally supports the Commission's intent to consider program revisions to implement Senate Bill (SB) 1369 as necessary. However, SoCalGas does not believe that SGIP should be the only vehicle to fully implement SB1369 because of the limited budget allocation and limited life of SGIP. Currently, the statewide funding allocated to renewable generation projects over the next five (5) years is less than \$100 million. Still, SGIP can help create a pathway for the implementation SB 1369 by including hydrogen as an eligible renewable fuel.

Similarly, the statute recognizes waste gas as an eligible fuel for generation projects. While waste gas is not traditionally considered renewable gas, SoCalGas believes that because waste gas has

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¹² Public Utilities Code section 379.6(c)(4)(A).

similar environmental benefits of renewable gas, such as using the gas, that otherwise would be wasted, to generate electricity¹³ it continues to be eligible for SGIP incentives. SoCalGas requests that the categorization of eligible renewable fuels to explore and provide clarification regarding the eligibility of waste gas, hydrogen and other forms of biomethane be included in the scope of the Renewable Generation workshop.

III. SGIP REVIEW, EVALUATION AND PROGRAM OVERSIGHT

A. Include the Applicability of the PMR Process to Make Sure SGIP Statutory Goals Maintain Priority over Non-Statutory Goals and Other Program Modifications

SoCalGas agrees with the direction of the preliminary scope of the OIR to address program, policy, and evaluation issues relating to SGIP with priority given to implement legislative guidance.¹⁴ To properly prioritize the implementation of statutory goals and to maintain focus and transparency around these goals versus other program goals, SoCalGas recommends the following issues be included in the scope of the OIR: (1) clarification that the SGIP baseline is the electric grid (2) clarification that non-statutory modifications, such as the goals of other proceedings, are to be complementary and should not to be prioritized over the SGIP statutory goals, and (3) integration of a PMR process that will make sure statutory goals are prioritized.

While the SGIP legislative statute has been modified many times, the intent to receive electric benefits from SGIP projects has never changed. D. 01-03-073 recognized that the statutory goals of Assembly Bill (AB) 970 (Ducheny, 2000), 15 which enacted SGIP, was to receive "...[g]reater reduction of grid-supplied electricity, lower installation cost per kW, and, in the case of renewable installations,

¹³ https://www.eia.gov/todayinenergy/detail.php?id=13531.

¹⁴ Order Instituting Rulemaking Regarding Policies, Procedures and Rules for the Self-Generation Incentive Program and Related Issues – Proposed Decision at 10.

¹⁵ http://www.leginfo.ca.gov/pub/99-00/bill/asm/ab 0951-1000/a<u>b 970 bill 20000907 chaptered.html.</u>

greater environmental benefits for all Californians."¹⁶ Today, the statutory goals continue to focus on the integration of DER technologies into the *electric grid* for the purpose of receiving *grid benefits* such as peak demand, GHG emission, and ratepayer cost reductions.¹⁷ Most recently, the legislative statute incorporated eligibility and participation requirements to give priority funding to customers and communities with financial and resiliency needs, and did not change the baseline of the program.¹⁸ Although SGIP has been modified numerous times over the lifespan of the program, it continues to be an electric generation or storage program whose benefits are compared against the electric grid. To make sure that the statutory goals of SGIP are achieved, it is important to enforce the electric grid as the correct SGIP baseline because this will maintain the integrity of the program.

Similarly, SGIP has also adopted other non-statutory program modifications through the many CPUC decisions over the last 20 years. For example, D.16-06-055 adopted Market Transformation (MT) as a program goal.¹⁹ Since MT is not a statutory goal or requirement, it should not be prioritized over those that are. Currently, SGIP PAs along with the HPWH working group²⁰ and Energy Division staff are working on developing participation guidelines for HPWHs. The primary focus seems to be

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¹⁶ D.01-03-073, Attachment A, 22.

¹⁷ Public Utilities Code Section 379.6 (a) (1) It is the intent of the Legislature that the self-generation incentive program increase deployment of distributed generation and energy storage systems to facilitate the integration of those resources into the electrical grid, improve efficiency and reliability of the distribution and transmission system, and reduce emissions of greenhouse gases, peak demand, and ratepayer costs. It is the further intent of the Legislature that the commission, in future proceedings, provide for an equitable distribution of the costs and benefits of the program.

¹⁸ Public Utilities Code Section 379.9 (a), the commission shall allocate at least 10 percent of the annual collection for the program in the 2020 calendar year for the installation of energy storage and other eligible distributed energy resources as determined by the commission pursuant to paragraph (1) of subdivision (b) of Section 379.6 for customers that operate a critical facility or critical infrastructure serving communities in high fire threat districts to support resiliency during a deenergization event.

¹⁹ D.16-06-055 at FOF 3 and COL 3.

²⁰ Pursuant to D.19-09-027 and D.20-01-021.

how to transform the HPWH market and increase adoption.²¹ However, the GHG emission reductions and load shifting benefits of HPWHs as a thermal energy storage have not been clearly identified as further addressed below. While MT is a recognized *program* goal, it should not receive priority over GHG emission reductions, peak demand, load shifting, or reduced ratepayer costs. Moreover, SGIP has been identified by the Commission as a tool to support other proceedings, program, or tariff goals,²² and it will be even more important to maintain the integrity and prioritization of SGIP goals over other non-SGIP goals. SoCalGas agrees with the Commission that it is imperative to maintain priority of statutory goals and requests to clarify that non-statutory goals of SGIP should not be prioritized over other program goals.

To avoid unintended consequences such as the issues stated above, SoCalGas requests to include in the scope of this proceeding the applicability and enforcement of the existing PMR process for any program rules, guidelines, or new technology modification requests. Historically, SGIP has relied on the PMR process as a vetting tool for proposed program changes. D.03-08-013 directed the PAs to use the PMR process as a way to assist the Commission with programmatic changes "...[t]he PMR will offer a more effective process by which the Commission could give careful consideration to proposed new technologies or program rule changes that does not rely on procedures related to petitions for modification."²³

Today, this process has not been enforced. Over the last two years, there have been approximately ten program modifications submitted directly to the CPUC through a Petition for Modification (PFM) request, most of which were not reviewed through the PMR process. Enforcing

²¹https://www.cpuc.ca.gov/uploadedFiles/CPUC Public Website/Content/Utilities and Industries/Energy/Energy Programs/Demand Side Management/Customer Gen and Storage/SGIP.HPWH.Workshop.Part2.pdf – See Presentations Market Transformation and Current Barriers, SGIP HPWH Program Design Principles

²² R.19-01-011 Order Instituting Rulemaking Regarding Building Decarbonization.

²³ Self-Generation Incentive Program Modification Guidelines (PMG).

this process and expanding it to all requests for program modification such as, but not limited to, technology additions, eligibility of a new subset of an already eligible technology, components requesting eligibility that would require unique eligibility processes, or other program modifications, will help maintain priority of the legislative goals of SGIP. Further, the enforcement of the existing PMR process will make sure that any modifications such as adding new technology categories like HPWHs will in fact support statutory goals and will reduce GHG emissions. The existing PMR process requires that any proposed program modification address the following items:

Program rules or guideline modifications:

- Should not conflict with existing utility tariffs or rules
- Should not violate local, state, or federal laws and regulations
- Should not decrease SGIP cost effectiveness
- Identification of economic and/or societal benefits
- Should not increase participant costs, or administrative costs
- Should change the intent of the program

New technology, appliance, system, or sub-category of an already eligible technology

- Available to California electric customers
- Can be sized to meet all or a portion of site peak demand, or shift existing peak load to non-peak time
- Equipment lifetime
- Need for incentives
- Ratepayer of societal benefits
- Proof of equipment safety
- Interconnection requirements
- Environmental impacts
- Ability to operate under existing rules, or rule change proposal to substantiate operation

In summary, to properly prioritize the statutory goals of the program, the Commission must emphasize that the electric grid continues to be the baseline for determining peak demand, GHG emissions, and ratepayer reductions. Additionally, non-statutory goals should not be prioritized over statutory program goals. Lastly, requiring all parties to follow the existing, mandated PMR process is necessary to help maintain the integrity and priority of the legislative goals. Therefore, SoCalGas requests to include these issues within the scope of this proceeding.

B. GHG Emission Reductions and Load Shifting Requirements for HPWHs Should be Addressed in the Scope of this Proceeding

GHG emission reductions and load shifting capabilities of HPWHs against the electric grid (the SGIP baseline) have not been clearly established, even though there are efforts to find a pathway to transform the HPWH market through SGIP. D.19-08-001 recognized that HPWHs were categorically eligible as a Thermal Energy Storage (TES) technology and directed Energy Division staff and PAs to host a TES workshop to address TES operational requirements. Subsequently, D. 19-09-027 noted that the market for HPWHs had not been promoted through SGIP and designated \$4 million for equity HPWHs.²⁴ As a result of the TES workshop, Sierra Club and NRDC submitted a document titled "Questions on Thermal Energy Storage Participation in SGIP" to Energy Division on October 18, 2019. This document contained modeling information on the possible GHG emissions reductions and load shifting capabilities of HPWHs based on an Energy Efficiency (EE) baseline. On January 16, 2020 D.20-01-021 allocated an additional \$40 million to HPWHs.²⁵

A critical gap exists in the above process. Specifically, there has been no verification of a HPWH's ability as an energy storage technology to shift peak demand and provide GHG emission benefits when compared to the electric grid – the measurement applicable to all technologies participating in SGIP. Rather, the information provided through the SGIP TES workshop demonstrating HPWHs ability to load shift and reduce GHG emissions was based on EE baselines. For instance, the

²⁴ D.19-01-027 at 68.

²⁵ D.20-01-021 at OP 6.

GHG emission reductions and load shifting benefits of HPWHs were supported by a study from Ecotope, Inc.²⁶ This report recognizes that the GHG emission reductions are solely based on EE measures.²⁷ The report further recognizes that because of the minimal amount of load being shifted from low peak/off-peak, the carbon dioxide (CO₂) value of load shifting is insignificant.²⁸ Therefore, it remains unclear if HPWHs have the ability to reduce the minimum 5 kilogram of CO₂ per kilowatt hour (kgCO₂/kWh) of energy produced, which is the requirement of all energy storage technologies, including TES.²⁹

The HPWH's ability to meet load shifting requirements is also uncertain. According to the same Ecotope, Inc report, an electric managed HPWH uses 1090 kWh/year.³⁰ Shifting the new load to non-peak times is an essential measure to *avoid* GHG emission and peak demand increases. Ideally, controlled HPWHs will avoid drawing electricity during peak hours; thus, avoiding peak demand and GHG emissions increases. However, even under those operational characteristics, customers will still have an increase in electric load due to the addition of a new electrical appliance at the home or facility. While it is possible for HPWHs to function as a TES system, it will require the adoption of explicit program rules to ensure shifting the increased electric load to non-peak times.

For reasons stated above, it is imperative that the Commission consider, and stakeholders have the opportunity to address the HPWHs ability to meet the required reduction of 5kgCO₂/kWh *of energy produced*, and assurances the electric load increases will be shifted to non-peak times. SoCalGas believes that it was not the intent of the Commission to allow HPWHs to circumvent the existing SGIP

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²⁶ Ecotope, Inc, Heat Pump Water Heater Load Shifting: A Modeling Study.

²⁷ Ecotope, Inc, Heat Pump Water Heater Load Shifting: A Modeling Study, at pg 23 - These emissions factors may be appropriate for valuing CO2 reductions from energy efficiency measures.

²⁸ Ecotope, Inc, Heat Pump Water Heater Load Shifting: A Modeling Study, at pg 23 - These emissions factors may be appropriate for valuing CO2 reductions from energy efficiency measures.

²⁹ D.19-08-001 at 89, Order Instituting Rulemaking Regarding Policies, Procedures and Rules for the Self-Generation Incentive Program and Related Issues – Proposed Decision at 11.

³⁰ Table 4: Detailed Analysis Results, at pg. 23.

baseline and/or to incentivize a technology only for their market adoption. As such, SoCalGas requests that the verification of GHG emission reduction standards and load shifting capabilities for HPWHs be included in the scope of this rulemaking.

C. Consider Alternative Methods of Collecting Necessary Data for the Analysis of Energy Storage GHG Emissions Impact

SoCalGas requests that alternative methods of collecting necessary data for the analysis of energy storage GHG emission impacts of all energy storage technologies be considered. Due to the timing of the adoption of the most recent energy storage budget, and technology categories, and the measurement and evaluation data selection process, it is possible that insufficient data will be available to conduct a comprehensive evaluation. As such, the Commission must consider other methods of collecting necessary data to include into the analysis the GHG emission reductions of all energy storage technologies, including equity, equity-resiliency, and equity HPWH.

D.19-08-001 directs the Commission to lead a workshop upon the completion of the 2020 SGIP evaluation report, to consider the report's GHG emissions findings and to determine if these are consistent with the expectations for GHG reductions and with the needs of the changing grid.³¹ The GHG emission requirements of D.19-08-001 are applicable to projects submitted after April 1, 2020.³² However, since the approval of the D.19-08-001, several other Decisions have modified the universe of energy storage categories.³³ Because these decisions introduced significant programmatic changes including higher incentive rates for equity projects with longer duration back-up resiliency benefits as well as the increased budget allocations for these projects, it is important to clarify within this scope that these additional energy storage categories are to be included in the evaluation. Further, the Impact Evaluation reports only include performance data of projects installed and operational for at least one

³¹ D.19-08-001 at 29-30.

³² D.19-08-001, Attachment A at 2.

³³ D.19-09-027, D.20-01-021.

month during said year. Considering the implementation of the decisions along with typical installation timelines, it is uncertain if enough projects will be eligible for evaluation. Relying only on the existing Impact and Evaluation selection process may not yield enough information to properly evaluate the effectiveness of the GHG emission reduction modifications. SoCalGas, recommends adding additional methods of data collection to the scope, such as performance data designed to evaluate GHG performance and grid support expectations.

IV. CATEGORIZATION; EX PARTE COMMUNICATIONS; NEED FOR HEARING

SoCalGas agrees that the items identified within the scope of this OIR are appropriately categorized as quasi-legislative. However, the Commission should consider categorizing future budget allocations as rate-setting where appropriate. Historically, the SGIP funding has been collected by the IOUs in an equal cents per therm (ECPT) or similar methodology. Specifically, all customers paid into SGIP based on their consumption of gas or electricity except for California Alternate Rates for Energy (CARE) customers. D.16-06-055 changed this methodology and directed the IOUs to recover funding based on customer participation.³⁴ Subsequently, D.19-09-027 established equity, equity HPWH, and equity resiliency budget categories. The intent of these categories is to prioritize funding for customers who have financial needs.³⁵ As a result, SGIP has allocated over 60% of the total budget to equity, equity HPWH, and equity resiliency budget categories.³⁶ It is possible that the majority of the funding is spent on CARE-eligible customers, which may result in significant cost-shift to other customer classifications.

SoCalGas requests that the OIR recognize that further budget allocations, categories, increase in funding, or other funding issues be separately classified as rate setting, to the extent they will impact

³⁵ Public Utilities Code section 379.9(b)(2)(A).

³⁴ D.16-06-055 at 12-13.

³⁶ D.20-01-021, Table 4: 2020-2024 Adopted Allocations and Total Incentive Budgets.

rates. Doing so will allow for participation of customers and their input on the reasonableness of rates.

SoCalGas does not believe that evidentiary hearings are necessary at this time.

V. PRELIMINARY SCHEDULE

SoCalGas requests to include into the schedule an interim step to consider removing the pause on flared renewable generation projects without having to wait for a Proposed Decision. Additionally, SoCalGas request the following corrections to the Preliminary Schedule:

Date:
May 28, 2020
June 27, 2020
July 7, 2020
July 29, 2020
August 2020
Fall 2020- Q4 of 2020
Winter 2020 Q1 of 2021
Fall 2020- Q3 2020
Q4 2020
Winter 2020-Q4 2020
Winter 2021-Q1 2021
Winter 2021 Q1 2021

The Preliminary Schedule used seasons to identify due dates that were previously identified by calendar quarters in D. 20-01-021. As such, SoCalGas requests that the Scope be corrected to align with the intended due dates per D. 20-01-021 and to avoid any unnecessary delays. By referencing seasons,

the preliminary schedule could delay the renewable generation technology workshop until December 2020 (Fall is September 21 – December 21). However, D.20-01-021 mandates this workshop to be scheduled in Q2 or Q3 of 2020, which sets a completion date of no later than September 30, 2020.³⁷ Using seasonal parameters could unnecessarily delay the workshop of flared renewable generation projects for more than three months than previously mandated. Further, using calendar quarters instead of seasons will eliminate schedule ambiguity. Therefore, SoCalGas requests the Commission make the above modifications to the schedule for consistency and to expeditiously address important programmatic issues.

VI. **CONCLUSION**

SoCalGas looks forward to working with the Commission on this proceeding and views the SGIP as an important program that supports the State's safety, GHG, climate adaptation, and resiliency goals.

Respectfully submitted,

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³⁷ D, 20-01-021, FOF 25.