PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION **RESOLUTION G-3565**
February 6, 2020

R E S O L U T I O N

Resolution G-3565. Directing investor-owned gas utilities that participate in California's Cap-and-Trade Program to ensure the availability of first year funding necessary to implement Senate Bill (SB) No. 1477 (Stern, 2018) – Low emissions buildings and sources of heat energy.

PROPOSED OUTCOME:

- Southern California Gas Company (SoCalGas), Pacific Gas and Electric Company (PG&E), San Diego Gas and Electric Company (SDG&E), and Southwest Gas Corporation (SW Gas) shall collectively deduct $50 million from the greenhouse gas (GHG) allowance proceeds used to determine their 2020 Climate Credit amounts.
- All four gas utilities shall file Tier 1 advice letters to update the forecasted amount of Net GHG Proceeds Available for Customer Returns in 2020 and update their 2020 Climate Credit amounts.

SAFETY CONSIDERATIONS:

- This Resolution ensures the availability of first year funding for two new pilot programs that will help reduce fossil fuel use in buildings within the state of California. The potential safety benefits include the reduction of fossil fuel ignition sources within buildings and reduced GHG emissions.

ESTIMATED COST:

- $50,000,000.

By Energy Division's own motion.

SUMMARY

This Resolution requires SoCalGas, PG&E, SDG&E, and SW Gas to set aside GHG allowance proceeds in proportion to their respective share of the total allocated allowances for customer return. The four gas utilities shall file Tier 1 advice letters to update the forecasted amount of GHG proceeds that will be returned to customers after subtracting their respective shares of the $50 million funding obligation, as well as update their 2020 Climate Credit amounts and file revised tariff sheets that reflect the updated Climate Credit amount.

BACKGROUND

SB 1477 requires the CPUC to develop and supervise the administration of the Technology and Equipment for Clean Heating (TECH) Initiative, a statewide market development initiative, to require gas utilities to advance the state's market for low-emission space and water heating equipment for new and existing residential buildings. SB 1477 also requires the CPUC to develop and supervise the administration of the Building Initiative for Low-Emissions Development (BUILD) Program to require gas utilities to provide incentives to eligible applicants, as defined, for the deployment of near-zero-emission building technologies to significantly reduce the emissions of GHGs from buildings, as specified.

SB 1477 further requires that the CPUC, for Fiscal Year (FY) 2019–20 to 2022–23, inclusive, allocate $50,000,000 annually to the TECH Initiative and the BUILD Program. The source of program funding is the proceeds, including any accrued interest, received by gas utilities from the direct allocation of GHG emissions allowances from the market-based compliance mechanism overseen by the California Air Resources Board (CARB), also known as the Cap-and-Trade Program.

As part of its implementation of the Cap-and-Trade Program, the CPUC requires participating gas utilities to return their GHG allowance proceeds in equal amounts to their residential customers as an annual Climate Credit, distributed each April. To establish the value of the annual Climate Credit, as part of their annual natural gas true-up advice letter filings, participating gas utilities use CPUC-approved templates to forecast the total amount of allowance proceeds they expect to receive in the subsequent calendar year, determine the total amount available to customers after making any adjustments, and then divide this adjusted total amount by the number of residential customers to calculate the per household Climate Credit. Because the TECH Initiative and BUILD Program will now also use allowance proceeds as their statutorily mandated funding source, participating gas utilities must adjust their annual forecast of funding available to customers for the Climate Credit by deducting their share of the $50 million funding obligation for TECH and BUILD.

In December of 2019, all four gas utilities received non-standard disposition letters (NSDLs) in response to their 2019 annual natural gas true-up advice letter filings[1] that did not approve their GHG Allowance Proceeds and GHG Outreach and Administrative Expenses. The NSDLs stated the following: "We expect the CPUC will dispense with matters pertaining to GHG proceeds as they relate to all four gas corporations via a separate resolution." This Resolution serves that purpose.

DISCUSSION

This Resolution is issued on the CPUC's own motion in order to comply with statutory requirements. SB 1477 enacted Public Utilities Code Section 748.6, which states:

> *Beginning with the fiscal year commencing July 1, 2019, and ending with the fiscal year ending June 30, 2023, the commission shall annually allocate fifty million dollars ($50,000,000) of the revenues, including any accrued interest, received by a gas corporation as a result of the direct allocation of greenhouse gas emissions allowances provided to gas corporations as part of a market-based compliance mechanism adopted pursuant to subdivision (c) of Section 38562 of the Health and Safety Code to fund the Building Initiative for Low-emissions Development (BUILD) Program (Article 12 (commencing with Section 921)) and the Technology and Equipment for Clean Heating (TECH) Initiative (Article 13 (commencing with Section 922)).*

Title 17 of the California Code of Regulations (CCR) § 95893 ('Allocation to Natural Gas Suppliers for Protection of Natural Gas Ratepayers') specifies the number of CARB-allocated allowances to each participating gas utility as the emissions for natural gas supplier for data year 2011 multiplied by an adjustment

[1] SoCalGas AL 5530, PG&E AL 4173-G, SDG&E AL 2810-G, and SW Gas AL 1118-G.

factor defined in accompanying Table 9-2: Cap Adjustment Factors for Allowance Allocation. As the cap adjustment factor is the same for all natural gas distribution utilities, the relative proportion of CARB-allocated allowances stays consistent overtime across participating gas utilities. Tables 9-5 and 9-6 of § 95893 provide the percentage of CARB-allocated allowances which must be consigned for ratepayer benefit. The same percentage applies to all participating gas utilities.

The $50 million funding obligation shall be allocated across each of the four gas utilities proportional to each utility's share of total allocated allowances for customer return in the following manner:

SoCalGas: $24,630,000 (49.26%)
PG&E: $21,170,000 (42.34%)
SDG&E: $3,385,000 (6.77%)
SW Gas: $815,000 (1.63%)
TOTAL: $50,000,000 (100%)

All four gas utilities shall file Tier 1 advice letters that include calculations of their revised Net GHG Proceeds Available for Customer Returns less their proportional share of the $50 million funding obligation and their revised 2020 Climate Credit amounts to be allocated to each individual customer. These advice letters must include revisions to the tables that pertain to the GHG Allowance Proceeds and GHG Outreach and Administrative Expenses that were originally filed with their 2019 annual natural gas true-up advice letter filings but not approved per the NSDLs that were issued in December of 2019. The Tier 1 advice letters must also include revised tariff sheets that reflect the updated 2020 Climate Credit amount.
For the purposes of calculating the 2020 Climate Credit, we approve each of the IOUs' figures in their respective tables as they pertain to GHG Allowance Proceeds and GHG Outreach and Administrative Expenses that were included in their 2019 annual natural gas true-up advice letter filings, but note that CPUC staff continue to review SoCalGas's recorded outreach and administrative costs for reasonableness.

The overarching purpose of this Resolution is to adjust the amount of the 2020 Climate Credit so as to ensure the availability of first year funding for SB 1477 implementation. The collective $50 million to be deducted by the four gas utilities via this Resolution shall constitute the funding obligation for FY 2019-20. Subsequent formal action by the CPUC shall establish the mechanism by which the four gas utilities are to deduct their annual $50 million collective funding obligation for the following three FYs consistent with the statutory authorization for TECH and BUILD. Until the CPUC provides further direction, the four gas utilities shall maintain their share of the $50 million funding obligation within their respective GHG Revenue Balancing Accounts and not use those funds for any other purpose.

Regarding SDG&E's request for new balancing accounts, we note that the mechanics of fund disbursal are more appropriately considered as part of R.19-01-011, where SB 1477 implementation is scoped into Phase 1. This Resolution is limited to deducting the appropriate amounts from the four gas utilities' GHG allowance proceeds used to determine their revised 2020 Climate Credit amounts. We decline to make any changes regarding balancing accounts in this Resolution and instead request that SDG&E make any further requests regarding balancing accounts, if any, in their comments to R.19-01-011.

SDG&E also requested a modification of Table C of Appendix A of D.15-10-032 in order to properly record SB 1477 funds. We agree that Table C of Appendix A of D.15-10-032 is the most appropriate place to record and track the funds necessary for the implementation of SB 1477. In order to consistently track SB 1477 funding, the four gas utilities shall each modify the template for Table C by inserting a line, numbered 9b, into Table C of Appendix A of D.15-10-032 below line 9 when submitting their respective advice letters. The description for line 9b shall read "SB 1477 Compliance Costs." This line shall record each gas utility's share of SB 1477 funding, as stated in this Resolution. Line 10 of Table C of Appendix A of D.15-10-032 is also modified to equal the Subtotal Allowance Proceeds minus Outreach and Admin Expenses minus the SB 1477 Compliance Costs. In order to reflect this change, the four gas utilities shall further modify the template for Table C by changing the description of Line 10 of Table C of Appendix A of D.15-10-032 to "Net GHG Proceeds Available for Customer Returns ($) (Line 8 + Line 9 + Line 9b)."

Regarding SoCalGas's request to strike all mention of safety considerations, we note that the language of SB 1477 is explicit in its intent to address health and safety issues. Per the findings and declarations of SB 1477, "The electricity and heating fuels used in buildings are responsible for a quarter of California's greenhouse gas emissions ***and contribute to indoor and outdoor air pollution***" (emphasis added). This finding is consistent with CARB's determination that burning natural gas can release carbon monoxide, formaldehyde, and other harmful pollutants into the air, which can be toxic to people and pets.[2]

Additionally, Public Utilities Code Section 922(b) makes explicit that SB 1477intends for the CPUC to address the safety of low-income households: "In identifying and targeting these technologies, the commission shall give consideration to technologies that have the greatest potential to reduce greenhouse gas emissions in California ***and that improve the health and safety of***, and energy affordability for, low-income households" (emphasis added).

Given the established connection between SB 1477 and safety, we decline to strike mention of safety considerations from this Resolution.

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.

The 30-day review 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 CPUC's agenda no earlier than 30 days from today. Comments are due 20 days from the mailing date of this resolution.

Two comment letters were timely filed on January 22, 2020, by SDG&E and SoCalGas.

SDG&E made two requests: (1) to modify Table C of Appendix A of D.15-10-032 to include a new line for Approved Programs; and (2) to establish two "two-way, interest-bearing balancing accounts (one for the TECH program and one for the BUILD program)."

SoCalGas requests that the CPUC strike in its entirety the "Safety Considerations" section of this Resolution on the grounds that it is "…premature

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[2] See: https://ww2.arb.ca.gov/resources/documents/indoor-air-pollution-cooking

to claim any environmental or safety benefits of a program where the technology or approach being considered is undetermined at this time."

These comments are addressed in the Discussion section above.

FINDINGS

1. Public Utilities Code Section 748.6 requires the CPUC, for FY 2019–20 to 2022–23, inclusive, to annually allocate $50,000,000 for the TECH Initiative and the BUILD Program from proceeds received by gas corporations from the direct allocation of GHG emissions allowances provided as part of the market-based compliance mechanism overseen by the California Air Resources Board.
2. The four gas utilities shall deduct their proportional shares of the first $50 million of annual allowance proceeds from their calculations of the 2020 Climate Credit.

THEREFORE IT IS ORDERED THAT:

1. Southern California Gas Company (SoCalGas), Pacific Gas and Electric Company (PG&E), San Diego Gas and Electric Company (SDG&E), and Southwest Gas Corporation (SW Gas) are required to deduct from their Net GHG Proceeds Available for Customer Returns the following amounts:

   SoCalGas: $24,630,000 (49.26%)
   PG&E: $21,170,000 (42.34%)
   SDG&E: $3,385,000 (6.77%)
   SW Gas: $815,000 (1.63%)

2. The four gas utilities shall file Tier 1 advice letters within 10 days of the effective date of this Resolution to update the amount of GHG proceeds that will be returned to customers after subtracting their respective shares of the $50 million funding obligation from their Net GHG Proceeds Available for Customer Returns and provide the revised 2020 Climate Credit amount. The advice letters must also include revised tariff sheets that reflect the updated Climate Credit amount.

3. The four gas utilities shall modify the table format established by D.15-10-032 (*i.e.,* Table C of Appendix A of that Decision) to include below line 9 a new line numbered 9b and titled "SB 1477 Compliance Costs." This line shall

record each gas utility's share of the SB 1477 funding, as stated in this Resolution. Line 10 of Table C of Appendix A of D.15-10-032 shall also be modified to equal the Subtotal Allowance Proceeds minus Outreach and Admin Expenses minus the SB 1477 Compliance Costs. In order to reflect this change, the four gas utilities shall further modify the template for Table C by changing the description of Line 10 of Table C of Appendix A of D.15-10-032 to "Net GHG Proceeds Available for Customer Returns ($) (Line 8 + Line 9 + Line 9b)."

4. Until the CPUC provides further direction, the four gas utilities shall maintain their share of the $50 million funding obligation within their respective GHG Revenue Balancing Accounts and not use those funds for any other purpose.

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 February 6, 2020; the following Commissioners voting favorably thereon:

/s/ Alice Stebbins
ALICE STEBBINS
Executive Director

LIANE M. RANDOLPH
MARTHA GUZMAN ACEVES
CLIFFORD RECHTSCHAFFEN
GENEVIEVE SHIROMA
Commissioners

President Marybel Batjer, being necessarily absent, did not participate.