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Witness: Andrew Cheung
Chapter: 8

PREPARED REBUTTAL TESTIMONY OF
ANDREW CHEUNG
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY
AND SAN DIEGO GAS & ELECTRIC COMPANY
(PROCUREMENT)

October 31, 2019

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1 **CHAPTER 8**

2 **PREPARED REBUTTAL TESTIMONY OF ANDREW CHEUNG**

3 **(PROCUREMENT)**

4 **I. PURPOSE**

5 The purpose of my prepared rebuttal testimony on behalf of Southern California Gas
6 Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E, and jointly herein the
7 Utilities) is to address intervenor testimony regarding the proposed Renewable Natural Gas
8 (RNG) Tariff program. The Utilities are requesting approval of a voluntary tariff to supply RNG
9 to eligible core customers and to recover costs from participants only, without any incremental
10 ratepayer funding. With respect to the RNG supply, the Utilities, through SoCalGas' Gas
11 Acquisition Department (Gas Acquisition), will seek "to minimize RNG rate volatility, manage
12 RNG costs, and ensure supply reliability for the benefit of program participants."¹ Furthermore,
13 the Utilities recognize and support the important goals of RNG supply integrity and
14 incrementality. With those goals in mind, the Utilities propose to utilize a flexible RNG supply
15 approach to balance "costs, environmental benefits and other considerations."² My rebuttal
16 testimony will address the recommendations and concerns discussed in the prepared direct
17 testimonies of the Public Advocates Office (Cal Advocates), The Utility Reform Network
18 (TURN), Environmental Defense Fund (EDF), Sierra Club, Wild Tree Foundation (WTF),
19 Agricultural Energy Consumers Association (AECA), and the Coalition for Renewable Natural
20 Gas (RNG Coalition). As a general matter, the fact that the Utilities may not have responded to

¹ Cheung Direct testimony, p. 3.

² Peacock Supplemental testimony, p. 8.

1 every issue raised by intervenors does not mean or imply that the Utilities agree with the
2 proposals or contentions made by those intervenors.

3 **II. SUPPLIES FOR THE RNG TARIFF WILL BE INCREMENTAL AND NOT BE**
4 **LIMITED GEOGRAPHICALLY**

5 In intervenor testimony, several parties have expressed the desire for the RNG Tariff
6 program to procure RNG from sources that are “additional” to existing supply,³ or limited to or
7 favoring California supplies.⁴ For example, TURN discusses the concept of “additionality” and
8 describes it as “commensurate incremental renewable energy facilities being developed beyond
9 what would have been built in the absence of the Green Tariff Shared Renewables (GTSR)
10 Program.”⁵ Sierra Club takes the “additionality” concept even further and imposes a
11 “counterfactual business-as-usual” or “but-for” test for the definition.⁶ These arguments do not
12 take into account the current state of the RNG industry and consequently, are overbroad from an
13 eligibility standpoint and unduly limiting from a geographic view.

14 **A. “ADDITIONALITY” AS A STANDARD FOR RNG SUPPLIES IS**
15 **OVERBROAD**

16 The Intervenor’s definition of “additionality” is overbroad because it fails to take into
17 account the evolution and current realities of the renewable energy marketplace. The Utilities
18 agree with the Center for Resource Solutions (CRS)⁷ and its definition of renewable electricity,

³ See EDF Intervenor testimony, p. 3; AECA Intervenor testimony, p. 4; TURN Intervenor testimony, pp. 5-6; and Sierra Club Intervenor testimony, pp. 4-7.

⁴ See TURN Intervenor testimony, pp. 4-5 and AECA Intervenor testimony, pp. 6-7.

⁵ D.15-01-051, p. 20.

⁶ Sierra Club Intervenor testimony, p. 4.

⁷ CRS is a nonprofit that helps build policies, market solutions, and consumer protection mechanisms in renewable energy, GHG reductions, and energy efficiency to advance sustainable energy. CRS runs the Green-e program that is the leading global clean energy and carbon offset certification program.

<https://resource-solutions.org/about-us/mission/> and <https://www.green-e.org/about>

1 and by extension RNG, as energy that “may be sourced from new or existing renewable energy
2 generators that were built for a variety of reasons without affecting a consumer’s claim to be
3 using that generation or to the benefits of that generation....”⁸ Furthermore, CRS highlights how
4 “consumer[s] can purchase and use renewable energy without having to demonstrate that their
5 purchase cause[s] that renewable energy to be created.”⁹ The RNG Tariff is intended to be a
6 voluntary tariff to allow customers the opportunity to purchase all or a portion of their natural
7 gas needs from renewable sources. Therefore, it is imperative for TURN’s and Sierra Club’s
8 more restrictive definition of “additional” to be rejected, and instead, replaced with the standard
9 used by the California Air Resources Board’s (CARB) Cap-and-Trade program.

10 In the CARB Guidance related to biomethane, eligible biomethane is considered “*new*
11 fuel associated with either an increase in biogas production capacity, or with recovery of fuel that
12 was previously vented or destroyed without producing useful energy.”¹⁰ Therefore, in order for
13 the RNG to be eligible for exemption from the Cap-and-Trade compliance obligation, it is
14 *required to be incremental to* what the RNG production facility was previously producing.
15 Additionally, the Utilities will follow the CARB verification rules to ensure the requirements are
16 followed.¹¹

⁸ Additionality and Renewable Energy Certificates, Center for Resource Solutions, p. 1.

⁹ Id.

¹⁰ See California Air Resources Board’s Biomass-Derived Fuels Guidance for California’s Mandatory GHG Reporting Program, Section 4.1 *Biomethane Contracts Requirements*, pp. 7-8 (emphasis added).

¹¹ “For reporting entities subject to verification, exempt biomass fuels must meet the verification requirements pursuant to section 95131(i) of MRR. During verification, verifiers must confirm that the operator or supplier can document and demonstrate that the biomass fuels reported as exempt meet all applicable requirements of the Cap-and-Trade Regulation and MRR, and are therefore correctly reported as exempt.” Id., Section 1.1 *Exempt Biomass Fuels*, p. 2.

1 As stated in Supplemental Testimony and reiterated in Data Request responses,¹² the
2 Utilities are committed to procuring RNG that meets the rules established in the Regulation for
3 Mandatory Reporting of Greenhouse Gas Emissions (MRR) and the Cap-and-Trade Regulation.
4 For RNG to be eligible for an exemption from the Cap-and-Trade Regulation, it must either be:

5 “(A) An increase in the biomass derived fuel production capacity, at
6 a particular site, where an increase if considered any amount over
7 the average production at that site over the last three years; or
8

9 (B) Recovery of the fuel at a site where the fuel was previously being
10 vented or destroyed for at least three years or since commencement
11 of fuel recovery operations, whichever is shorter, without producing
12 useful energy transfer.”¹³
13

14 Regarding the “but-for” test, as stated by the RNG Coalition a desire to use such an
15 overly restrictive standard to source RNG “reflect[s] an outdated (and perhaps a biogas-
16 electricity-project-focused) view of the industry that does not recognize market dynamics (off-
17 take agreements and procurement contracts that are required in order for developers to secure
18 investment capital and build RNG projects), the rate of additional project development currently
19 underway, and the commensurate greenhouse gas reductions occurring as a result.”¹⁴

20 Furthermore, on a fundamental level, the additionality suggestions that would exclude
21 existing RNG supplies raised by Intervenors are inappropriate because they assume either that
22 existing RNG projects will operate indefinitely and continue to contribute to GHG emissions, or
23 that their operating costs are negligible. For landfill gas projects that generate electricity, when
24 they reach the end of their power purchase agreement, they will likely need to look for a
25 replacement offtake commitment from another counterparty. Similarly, for existing dairy biogas

¹² Supplemental testimony Scoping Issue 4, pp. 9-10. Sierra Club Data Request 2, Response 8, included in Attachment 2 to Sierra Club’s testimony.

¹³ 17 CCR § 95852.1.1(a)(2).

¹⁴ RNG Coalition Intervenor testimony, p. 7.

1 projects that are reliant on environmental attributes like Low Carbon Fuel Standard (LCFS) and
2 Renewable Identification Number (RIN) credits, any volatility in those markets can quickly
3 impact the economics of an RNG project, potentially causing those projects to go offline. If
4 those projects do not proceed or continue, the methane previously captured would either return to
5 being flared or emitted into the air by the landfill or dairy.¹⁵ As a result, there is a direct increase
6 in GHG emissions when existing RNG cannot find a home.

7 **B. REQUIRING RNG SUPPLIES FOR AN OPTIONAL TARIFF TO**
8 **COME FROM IN-STATE SOURCES IS UNDULY LIMITING**

9 AECA’s statement that the RNG Tariff should follow “the eligibility requirements in SB
10 1440”¹⁶ which would include an in-state sourcing requirement, is countered by CRS’ statement
11 that “[t]he purpose of the voluntary renewable energy market and of the REC instrument is to
12 allow grid customers to demand and access output from new and existing renewable facilities so
13 that demand can be aggregated and consumer preference can drive the development of renewable
14 energy across the market.”¹⁷ Contrary to AECA’s implication, the RNG Tariff is not intended to
15 determine the process and criteria for constructing new in-state RNG supply.

16 The supply restrictions proposed by Intervenors would result in very few supply options
17 to evaluate for the RNG Tariff program. While the development of in-state sources is underway
18 and encouraging, there remains very few in-state supply options today.¹⁸ Furthermore, limiting
19 the supplies as described could lead to more expensive RNG. According to RNG Coalition,
20 there are currently only three pipeline-injected RNG producers in operation, and it is unknown at
21 this time if any of them will have incremental RNG available to supply the RNG Tariff program.

¹⁵ <https://calepa.ca.gov/digester/history/>

¹⁶ AECA Intervenor testimony, p. 6.

¹⁷ Additionality and Renewable Energy Certificates, Center for Resource Solutions, p. 2.

¹⁸ <http://www.rngcoalition.com/rng-production-facilities>

1 If sufficient supplies were indeed available, these sites were likely designed with the intention of
2 either using the biogas onsite and/or delivering it to the transportation market to generate the
3 valuable environmental credits available from the LCFS and RFS programs. In this scenario, an
4 RNG solicitation would not only be competing with transportation offtake that can provide
5 additional value that the RNG Tariff cannot, it could be unduly limited to a maximum of three
6 respondents in the potential procurement timeframe of the RNG Tariff.

7 **III. RNG TARIFF WILL ADOPT THE LCFS LIFECYCLE CARBON INTENSITY**
8 **ACCOUNTING FRAMEWORK TO EVALUATE GHG REDUCTIONS AND**
9 **PROCURE RNG WITH LOWER CARBON INTENSITY THAN TRADITIONAL**
10 **NATURAL GAS**

11 A stated purpose of the RNG Tariff program is to provide the opportunity for customers
12 to reduce their carbon impact through the election to purchase RNG.¹⁹ As such, it is critical for
13 the success of the program to establish a system that confirms GHG reductions occur. A number
14 of intervenors have stated that this should be an area of focus for the program.²⁰ For example,
15 Sierra Club opines that “by failing to provide a lifecycle-based methodology to account for GHG
16 reductions ... there is no meaningfully [sic] way to evaluate its purported GHG benefits.”²¹

17 The Utilities will adopt Intervenors’ suggestions to evaluate RNG supply choices using
18 CARB’s well-vetted LCFS approach to GHG emissions accounting, noting that GHG emissions
19 related to compression and usage in vehicles would potentially need to be dealt with to obtain a
20 more accurate calculation. The Utilities will require RNG suppliers to provide lifecycle GHG
21 emissions calculations for their supplies in accordance with the LCFS methodology. In addition,

¹⁹ Application of the Joint Utilities for RNG Tariff, p. 2.

²⁰ See Intervenor testimony by Cal Advocates, pp.1-2; EDF, p.3; Sierra Club, p. 13.; RNGC, p. 4.

²¹ Sierra Club Intervenor testimony, p. 14. See also WTF Intervenor testimony, p. 14, and Cal Advocates Intervenor testimony, pp. 1-6.

1 the Utilities will retain a independent third-party verification company to verify that the RNG
2 suppliers have complied with the LCFS methodology. By evaluating all RNG procured for the
3 RNG Tariff through the existing LCFS framework, the Utilities will be able to quantify and
4 provide assurance of the GHG emission reductions from the RNG supplied for the RNG Tariff.

5 In addition to the suggestion to use the LCFS framework to ensure GHG emissions are
6 achieved, Cal Advocates proposed in testimony that “the Commission should require the Sempra
7 Utilities to procure only RNG that has a lower lifecycle GHG emissions intensity than the lowest
8 GHG emissions intensity of conventional fossil natural gas.”²² The Utilities believe this is a
9 reasonable requirement to place on the RNG Tariff program and will demonstrate the program’s
10 integrity in only procuring RNG that has been certified to be below the carbon intensity of
11 traditional natural gas, and in the process enhance customer confidence in the RNG Tariff
12 program.

13 **IV. SUPPLIES FOR THE RNG TARIFF WILL EXCLUDE GRANDFATHERED** 14 **CONTRACTS ENTERED INTO PRIOR TO 2012**

15 Although the Cap-and-Trade regulations clearly define what is “incremental,” TURN and
16 Sierra Club have pointed to a particular provision within the Cap-and-Trade Regulation that
17 allows for biomethane supplies contracted prior to 2012 to be eligible for the biomethane
18 exemption as a reason for concern (see section 95852.1.1(a)(1) of the Cap-and-Trade
19 Regulations). In response to these concerns from Intervenors and in order to address potential
20 concerns that the MRR and Cap-and-Trade allow for a special exemption from their
21 “incremental” requirements, the Utilities agree to limit procurement under the RNG Tariff

²² Cal Advocates testimony, pp. 1-6, lines 25-27.

1 program to not procure any supplies or attributes from sources contracted before January 1, 2012
2 (as otherwise allowed under section 95852.1.1(a)(1) of the Cap-and-Trade Regulations).

3 **V. THE RNG TARIFF WILL NOT ALLOW “DOUBLE COUNTING”**

4 Sierra Club claims that “double-counting” of environmental benefits will be allowed
5 under the RNG Tariff program.²³ As a general matter, the application of both the Cap-and-Trade
6 verification process discussed in Section II.A above and the LCFS carbon-intensity framework
7 described in Section III will provide a high-level of integrity and assurance against the possibility
8 of “double-counting.” In addition, while the Cap-and-Trade program does not preclude end-
9 users of biomethane from making legitimate environmental marketing statements regarding the
10 use of RNG for purposes of lowering their emissions, this does not constitute “double-counting”
11 for compliance purposes.

12 California’s Cap-and-Trade Program placed the point of regulation with natural gas
13 distributors, rather than with each individual residential, small commercial and small industrial
14 customer, who are the actual end-users and where the combustion of the fuel occurs. Therefore,
15 as natural gas distributors, the Utilities hold compliance obligations primarily on behalf of their
16 customers who emit less than 25,000 metric tons of carbon dioxide equivalent (MTCO_{2e}).
17 These are referred to as “non-covered entities.”

18 When non-covered customers elect to participate in the RNG Tariff, eligible biomethane
19 purchased by the Utilities on their behalf is exempt from the overall emissions obligation of the
20 natural gas suppliers, as the compliance entity for the end-user. These non-covered customers
21 may make marketing statements regarding their RNG use, but they have no mechanism to claim

²³ Sierra Club Intervenor testimony, pp. 8-10.

1 reduced Cap-and-Trade compliance obligations with CARB and therefore cannot “double-count”
2 their environmental benefits. Any of the small amount of core customers that directly comply
3 with the Cap-and-Trade program (covered entities) that may participate in the RNG Tariff will
4 be prohibited within the RNG Tariff from claiming a reduced emissions obligation under the
5 Cap-and-Trade program.

6 **VI. PROGRAM WILL SOURCE RNG PRODUCED FROM WASTE STREAMS AND**
7 **EXCLUDE PURPOSE-GROWN CROPS**

8 The Cap-and-Trade Regulations stipulate that biomethane emissions without a
9 compliance obligation include biomethane or biogas sourced from “all animal, plant and other
10 organic waste; or landfills and wastewater treatment plants.”²⁴ While purpose-grown crops are
11 an eligible feedstock for the biomethane exemption under the Cap-and-Trade Regulation, the
12 Utilities understand EDF’s proposal that the RNG Tariff program should procure RNG
13 “produced from waste and not other organic materials, including purpose grown crops.”²⁵
14 Therefore, the Utilities propose to adopt part of EDF’s recommendation by restricting RNG
15 sources to only waste feedstocks and not procuring purpose-grown crops to supply participants
16 of the RNG Tariff program in an effort to procure RNG with potentially greater GHG emission
17 reductions.

18 **VII. THE RNG TARIFF WILL PROHIBIT THE GENERATION OF RECs**

19 As discussed by the Sierra Club in Intervenor Testimony, the Cap-and-Trade Regulations
20 specifically allow that the generation of renewable energy credits (RECs) does not prevent

²⁴ 17 CCR § 95852.2(a)8.

²⁵ EDF Intervenor testimony, p. 4.

1 biomass-derived fuel that meets the requirements of section 95852.1.1 from being exempt from a
2 Cap-and-Trade compliance obligation.²⁶ As the RNG Tariff program is designed for residential
3 and small commercial customers, and not power generation plants, the Utilities will not generate
4 RECs for purposes of the RNG Tariff. While this is allowed under the Cap-and-Trade
5 Regulations and could potentially generate additional revenues to reduce the cost of the RNG
6 Tariff for customers, the Utilities propose to prohibit the generation and/or sale of RECs as part
7 of the RNG Tariff program.

8 **VIII. A TWO-YEAR PILOT WOULD CREATE SUBSTANTIAL CHALLENGES FOR** 9 **PROCUREMENT**

10 In Intervenor Testimony, Cal Advocates recommends that the RNG Tariff program be a
11 two-year pilot program.²⁷ The Utilities disagree with this position for the reasons outlined in the
12 rebuttal testimony of Mr. Wooden²⁸ and for the following timing issues related to the
13 procurement of RNG. First, Gas Acquisition will need several months to make the necessary
14 enhancements to its gas management system which will enable it to purchase, track and report on
15 RNG procurement separately from its traditional core portfolio. Second, it may take up to nine
16 months, which is over a third of the proposed pilot period, to develop and complete the RNG
17 supplier solicitation process. Finally, it would not be prudent to enter into contracts with longer
18 terms than the pilot period. Together, these reasons could force a more compressed solicitation
19 period for a shorter-term contract which may result in less cost-effective RNG supplies.

20 This concludes my prepared rebuttal testimony.

²⁶ Sierra Club Intervenor testimony, p. 3.

²⁷ Cal Advocates testimony, pp. 1-11.

²⁸ See Chapter 7 of Utilities' Rebuttal testimony.