Company: Southern California Gas Company (U 904 G)
Proceeding: 2024 General Rate Case
Application: A.22-05-015/-016 (cons.)
Exhibit: SCG-220

PREPARED REBUTTAL TESTIMONY

OF ALBERT J. GARCIA

(ENVIRONMENTAL SERVICES)

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

May 2023

TABLE OF CONTENTS

PREPARED REBUTTAL TESTIMONY OF ALBERT J. GARCIA (ENVIRONMENTAL SERVICES)

I. SUMMARY OF SOCALGAS'S FORECAST AND TURN CHANGES

Table AG-1

TOTAL O&M - Constant 2021 ($000)			
	2021 Adjusted-Recorded	**Estimated Test Year 2024**	**Change**
Total SoCalGas O&M	**$23,668**	**$25,809**	**$2,142**
TURN[1]	**$23,668**	**$25,809**	**$2,142**

No party submitted testimony contesting SoCalGas's TY 2024 forecast for Environmental Services Operations and Maintenance (O&M).

II. INTRODUCTION

This rebuttal testimony regarding SoCalGas's request for Environmental Services addresses the following testimony from other parties:

- The Utility Reform Network (TURN), as submitted by Robert Finkelstein (Exhibit (Ex.) TURN-15), dated March 27, 2023.

TURN's testimony does not contest SoCalGas's TY 2024 forecast for Environmental Services' O&M. TURN only submitted testimony regarding SoCalGas's proposal to continue the Commission-approved two-way balancing account for costs to comply with certain environmental regulations. My rebuttal testimony therefore is limited to that issue.

A. TURN

The following is a summary of TURN's position on the New Environmental Regulatory Balancing Account (NERBA)[2]:

[1] TURN does not contest SoCalGas's TY 2024 forecast for Environmental Services' O&M. TURN contests the rate recovery proposal of SoCalGas's two-way balancing account NERBA; therefore, the table above reflects SoCalGas Environmental Services' forecast. (*See* Ex. TURN-15 (Prepared Testimony of Robert Finkelstein on behalf of TURN), March 27, 2023, at 24-25.)

[2] Ex. TURN-15 (Robert Finkelstein), at 24-25.

- TURN recommends that the Commission reject the rate recovery proposal of two-way balancing accounts, including the NERBA, and instead require an application supported by evidence should the utility seek to recover any under collection associated with the underlying program.
- TURN proposes that two-way balancing accounts, including NERBA, should generally be modified to become one-way balancing accounts.
- Where there is a valid public policy purpose served by permitting the utility an opportunity to recover above authorized spending, TURN contends that the Commission should establish a companion memorandum account that would record above-authorized spending for potential recovery after a reasonableness review in an application proceeding (rather than via advice letter).

III. GENERAL REBUTTAL

A. NERBA

TURN states that the current structure of the NERBA enables SoCalGas to recover in rates substantial amounts of above-authorized spending without any meaningful reasonableness review of that spending.[3] TURN proposes that two-way balancing accounts, including NERBA, should generally be modified to become one-way balancing accounts.[4]

SoCalGas disagrees with TURN. SoCalGas is requesting that the existing structure of the NERBA balancing accounts be authorized to continue during this GRC cycle. Specifically, SoCalGas proposes to continue the established and proven methodology whereby any under collected balance is recovered through the utility's annual regulatory accounts update advice letter. SoCalGas conducts a thorough reasonableness review of all spending that is recorded to the NERBA, and the Commission has the opportunity to do so through the advice letter process. Establishing a companion memorandum account to record above-authorized spending for potential recovery, followed by an application for cost recovery, would be administratively

[3] *Id*. at 24-25.

[4] *Id*. at 16.

burdensome and would not add value to ratepayers. Please refer to SoCalGas Regulatory Accounts rebuttal testimony of Rae Marie Yu (Ex. SCG-238)[5] for further response to the TURN proposal to eliminate two-way balancing accounts.

In the 2012 GRC, the Commission approved the NERBA as a two-way balancing account to record costs associated with certain new and proposed environmental rules or regulations.[6] The currently authorized NERBA accounts for SoCalGas include: (i) Assembly Bill 32 (AB32) Administrative Fees; (ii) Subpart W of Part 98 of Title 40 of the Code of Federal Regulations (CFR); and (iii) Leak Detection and Repair (LDAR) Impact Program related costs.

The intent of the NERBA is to record costs meeting the following key criteria: (1) uncertainty as to the scope, magnitude, and mechanics of the compliance requirements associated with new, proposed, or evolving environmental rules or regulations; and (2) potential for incurring significant incremental costs related to environmental regulations with uncertain scope and cost. SoCalGas uses a rigorous approach to ensure all costs recorded to the NERBA are reasonable and supportable. Each activity or regulation has its own NERBA subaccount for tracking as further explained in the following paragraphs.

<u>AB32 Fees</u>

The AB32 Cost of Implementation (COI) fees are billed to SoCalGas for our natural gas supplies to our customers. The fees are calculated based on our Greenhouse Gas (GHG) emissions from these sectors (in conjunction with the statewide carbon common cost (CCC), $/MT CO2e) that CARB sets every year). Since our GHG emissions fluctuate every year due to variations in the amount of natural gas supplied to customers (governed by market forces, weather conditions, economic settings, and other factors), there is uncertainty in our annual GHG emissions from these sectors. Furthermore, the annual carbon common cost of carbon ($/MT CO2e), is not a fixed value, and CARB may change it each year. For example, the CCC has fluctuated considerably over the program's duration, ranging from a low of 0.1213 in 2012 to 0.3459 in 2020. In another example, the CCC was 0.2978 in 2018, and then dropped to 0.2683 in 2019, and then back up again in 2020. The variability in the CCC as well as our GHG emissions

---

[5] Ex. SCG-238 (Rebuttal Testimony of Rae Marie Yu on behalf of SoCalGas).

[6] *See* D.13-05-010 at 94-95, 239, 248-249.

introduces significant uncertainty in the annual AB32 COI fees billed by CARB, which may be significant, and supports the need for a balancing account.

Subpart W

As stated in SoCalGas's testimony (Ex. SCG-20-R)[7], the NERBA account is needed for Subpart W (of the mandatory GHG reporting rule) since EPA's proposed changes to Subpart W have not been finalized and there is a degree of uncertainty in what the final version will look like. The proposed rule introduces an option for utilities to conduct direct measurements of leaks using technology such as a high-volume sampler or calibrated bag methodology to allow reporting of more accurate emissions data for our Transmission & Distribution (T-D) and Meter & Regulator (M&R) stations (associated with our natural gas infrastructure). The current version of Subpart W is less intensive (and less accurate) and allows for annual surveys of T-D gate stations (to detect component leaks above 10,000 ppm) and use the leak counts to develop emissions factors (that are used to estimate total emissions from T-D and M&R stations). The threshold at which component leaks are measured can vary between EPA and State requirements once the proposed rule is finalized. The regulatory landscape is still evolving at the federal and state levels, which adds additional complexities to cost estimates. The proposed changes in Subpart W will add new emission sources and leak detection methods, impacting historical costs, and highlight the need for the continued use of NERBA. The inclusion of updated emission factors for pipeline mains and services and below grade regulator stations will help to establish more accurate emissions reporting. Therefore, there is uncertainty in compliance costs, which may be significant.

LDAR

LDAR mainly applies to the testing, monitoring, and repair of leaks in compressor engines, pneumatic controllers, and piping (at the compressor stations and transmission systems) as part of the CARB Oil and Gas regulation (and other emerging rules at the State/Federal/AQMD level). In 2022, CARB opened the proposed Oil and Gas Rule with a Proposed Regulation Order to include potential changes as a result of EPA's issuance of a limited approval, as well as a limited disapproval, of the State Implementation Plan (SIP) for

[7] Ex. SCG-20 (Direct Testimony of Albert J. Garcia).

ozone nonattainment areas. This, amongst other potential regulatory changes, creates additional uncertainties in future costs. LDAR costs for SoCalGas are mainly attributable to leak testing/repairs at all Underground Storage and Gas Transmission Compressor Stations. In addition, ambient and continuous well monitoring systems are specifically required for Underground Storage facilities. It is uncertain how emerging regulations may shape future testing frequencies and protocols. This uncertainty results in uncertainty in costs, which may be significant. There is therefore a need for continuation of the NERBA balancing account.

The potential for such a wide fluctuation in estimated costs is a key reason why the NERBA continues to be an effective mechanism to recover costs since operating funds may be adversely impacted by such a large variance in actual costs compared to authorized.

IV. CONCLUSION

Since its inception in 2012, the NERBA has been an effective mechanism to manage costs associated with new and existing environmental regulations. Because the costs for the programs included in NERBA are both uncertain and can be incrementally significant, I believe that continuing the two-way balancing account mechanism is justified. The Commission established precedent in approving the use of the NERBA in the 2012, 2016 and 2019 GRC cycles.[8] We are respectfully requesting to continue using the NERBA in its current form during the TY2024 GRC.

This concludes my prepared rebuttal testimony.

[8] *See* D.19-09-051 at 444 ("We also find that the two-way balancing account for NERBA should continue to be authorized in this GRC period."); D.13-05-010.

APPENDIX A

GLOSSARY OF TERMS

ACRONYM	**DEFINITION**
A	Application
AB32	Assembly Bill 32
ALJ	Administrative Law Judge
AQMD	Air Quality Management District
CARB	California Air Resources Board
CCC	Common Carbon Cost
CFR	Code of Federal Regulations
CO2e	Carbon Dioxide Equivalent
COI	Cost of Implementation
Commission	California Public Utilities Commission
D.	Decision
EPA	US Environmental Protection Agency
GHG	Greenhouse Gas
GRC	General Rate Case
LDAR	Leak Detection and Repair
M&R	Meter & Regulator
MT	Metric Ton
MW	Megawatt
NERBA	New Environmental Regulatory Balancing Account
O&M	Environmental Services Operations and Maintenance
SDG&E	San Diego Gas & Electric Company
SIP	State Implementation Plan
SoCalGas	Southern California Gas Company
T-D	Transmission & Distribution
TURN	The Utility Reform Network
TY	Test Year