

**SCGC DATA REQUEST**  
**SCGC-SCG-DR-07**  
**SOCALGAS 2012 GRC – A.10-12-006**  
**SOCALGAS RESPONSE**  
**DATE RECEIVED: JULY 21, 2011**  
**DATE RESPONDED: AUGUST 5, 2011**

7.1. With respect to SoCalGas' response to SCGC Data Request Question No. 4.10.4:

7.1.1 Regarding the biogas conditioning (“conditioning”) and bioenergy production facilities (“production”) services column of the matrix, if the project involved “a feedstock owner who wants to build a complete bioenergy facility,” would SoCalGas be responsible for installing the equipment necessary to provide the production of raw gas?

**SoCalGas Response:**

Yes.

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7.1.2 If the answer to the previous question is “yes,” would SoCalGas expect to contract with a third party for the installation of such facilities or would SoCalGas plan to utilize its existing construction staff or to develop a construction staff specific for these types of installations?

**SoCalGas Response:**

Current plans call for SoCalGas to contract with a third party for the design, installation and maintenance of such facilities.

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7.1.3 With respect to the provision of conditioning services, would SoCalGas be responsible for installing the equipment necessary to provide those services?

**SoCalGas Response:**

Yes.

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7.1.4 If the answer to the previous question is “yes,” would SoCalGas expect to contract with a third party for the installation of such facilities or would SoCalGas plan to utilize its existing construction staff or to develop a construction staff specific for these types of installations?

**SoCalGas Response:**

Current plans call for SoCalGas to contract with a third party for the design, installation and maintenance of such facilities.

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7.1.5 With respect to providing biogas production services, does SoCalGas expect to utilize its own staff or does SoCalGas expect to contract with a third party for such services?

**SoCalGas Response:**

Current plans call for SoCalGas to contract with a third party for the design, installation and maintenance of the biogas production facility. There are also plans to utilize, to a small extent, company staff resources during the project's lifecycle period to assist in early stage project development, the marketing and promotion of these bio-gas production services and to provide support services and management oversight of the service.

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- 7.1.6 If the answer to the previous question indicates the use of SoCalGas staff:
- 7.1.6.1. Please describe the type of positions that SoCalGas would expect to utilize.
  - 7.1.6.2. Indicate whether providing these services would require hiring new employees.
  - 7.1.6.3. State whether such employees would also be used for the projects encompassed by the Sustainable SoCal Program.

**SoCalGas Response:**

- 7.1.6.1: Accounts Payable Analyst, Finance Analyst, Construction Service Technician, and Process Engineer; Regulatory and Legal and Public Affairs support.
- 7.1.6.2: No
- 7.1.6.3: Yes

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7.1.7 With respect to providing biogas conditioning services, does SoCalGas expect to utilize its own staff or does SoCalGas expect to contract with a third party for such services?

**SoCalGas Response:**

Current plans call for SoCalGas to contract with a third party for the design, installation and maintenance of the biogas conditioning facility.

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7.1.8 If the answer to the previous question indicates the use of SoCalGas staff, please describe the type of positions that SoCalGas would expect to utilize and indicate whether providing these services would require hiring new employees?

**SoCalGas Response:**

SoCalGas would expect to utilize the following types of positions; Accounts Payable Analyst, Finance Analyst, Construction Service Technician, and Process Engineer; Project Development Manager, Marketing and Customer Communication support staff, Regulatory and Legal and Public Affairs support,

SoCalGas does not expect to have to hire new employees to provide the type of support positions described above.



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7.1.9 How many potential customers exist in SoCalGas' service territory that would produce the 1,000 scfm or greater raw biogas volumes?

**SoCalGas Response:**

Currently, SoCalGas has only identified 4 existing customers in the SoCal service territory generating in excess of 1000 scfm. There are several projects in the process of being developed that have a potential to generate over 1000 scfm, although these projects are in the feasibility stage of the project lifecycle.

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7.1.10 Would SoCalGas expect to potentially offer conditioning/production services to customers located outside of its service territory? Please explain this answer.

**SoCalGas Response:**

The Advice Letter Requesting these services does not limit the provision of this non-tariffed product and service only to projects within the SoCalGas service territory, however, at this time there are no plans to offer these services beyond our service territory

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7.1.11 How many biogas developers currently provide biogas production services in SoCalGas' service territory?

**SoCalGas Response:**

There are only a couple of projects in the territory, whereas biogas developers are producing raw biogas from organic waste. At present, all digester gas is being used for on-site applications, such as generating electricity on-site.

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7.1.12 How many biogas developers currently provide biogas conditioning services in SoCalGas' service territory?

**SoCalGas Response:**

SoCalGas is not aware of any developers in its service territory that are conditioning biogas to pipeline quality biomethane for injection.

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7.1.13      Would SoCalGas' shareholder recovery of the investment in the equipment required to provide either production or conditioning services be assured by any revenue source other than the revenues associated with either the production or condition services provided to an individual client? Please explain.

**SoCalGas Response:**

SoCalGas' recovery of the shareholders costs to provide the production and conditioning services would be recovered only from revenues associated with the production and conditioning services. SoCalGas intends to set the contract price so as to recover the costs of providing the service, from the customer that receives the service. However, if revenues fall short from the customer receiving the service, SoCalGas would recover those costs from only the customers receiving either production or conditioning service. If revenues associated with the provision of these services do not cover the costs, SoCalGas does not intend to seek recovery of costs from the general body of ratepayers.

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7.1.14      Would the revenues from NTP&S projects, including the biogas production/conditioning services proposed in Advice Letter 4172, be covered by SoCalGas' proposed revenue sharing mechanism described in

**SoCalGas Response:**

SoCalGas interprets this question to reference the prepared direct testimony of Robert Lane (Exhibit SCG-33) and responds as follows:

Yes.

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7.1.15 If SoCalGas provided production/conditioning services through more than one project and one project proved to be unprofitable, would the production or condition service revenues from the remaining, profitable projects be available to help recover the investment in the unprofitable project? Please explain.

**SoCalGas Response:**

Yes. While the contract with each individual customer would be designed to recover the full costs of that service from the individual customer, should revenues fall short from one customer, SoCalGas would, where possible, recover those costs from revenues received from other profitable projects where customers are receiving either production or conditioning service. In any event, if revenues associated with the provision of these services to such customers do not cover the costs, SoCalGas does not intend to seek recovery of costs from the general body of ratepayers.

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7.1.16 Why does SoCalGas believe it to be more appropriate for Sempra to invest in biogas production/conditioning services through SoCalGas NTP&S ratemaking than Sempra making the investment through an affiliated company? Please explain.

**SoCalGas Response:**

SoCalGas and SDG&E submit that there are four primary reasons the utility should be allowed to offer biogas production and biogas conditioning services. First, the California Public Utilities Commission (CPUC) and the California Energy Commission (CEC) have encouraged utilities to take affirmative steps to help the state meet its energy policy objectives by increasing the production and use of renewable energy and reducing carbon emissions. Second, the letters of support (submitted with our Advice Letter filings) from customers demonstrate that customers are looking to the utilities as industry leaders to provide them energy solutions that help them manage their energy resources and needs, reduce carbon emissions, lower bills, and facilitate the development of renewable energy resources. Third, providing these services through an affiliate, such as a subsidiary, rather than through the utilities as non-tariffed products and services (NTP&S) would limit the customers from being able to fully utilize existing utility capabilities and expertise, including the utilities' knowledge about natural gas processing, which is one of the utilities' core competencies. Fourth, the proposed services offer the potential for job creation and the utilities have a strong commitment to contracting with diverse business enterprises (DBE). Each of the above stated reasons is discussed in further detail below.

With respect to the first reason, the utilities' role in helping to achieve energy policy goals, the state has clearly articulated its commitment to facilitating the development of bioenergy resources. Executive Order S-06-06, AB32, SB107 and the 2011 Bioenergy Action Plan all identify biogas as an important component in the state's renewable energy portfolio. Executive Order S-06-06 sets aggressive targets<sup>1</sup> to encourage the instate production and use of biogas. AB32 recognizes the important role of biogas in reducing greenhouse gas emissions.<sup>2</sup> Senate Bills 1078 and 107 establish the renewable portfolio standard (RPS) program, which promotes renewable electric energy as a means of meeting the environmental goals of the State and encourages the development of a fully competitive and self-sustaining supply of electricity generated from renewable sources, including biogas.

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<sup>1</sup> Executive Order S-06-06 sets the following targets to increase the instate production and use of bioenergy: a. Produce a minimum of 20 percent of biofuels within California by 2010, 40 percent by 2020, and 75 percent by 2050; b. Regarding the use of biomass for electricity, meet a 20 percent target within the established state goals for renewable generation for 2010 and 2020.

<sup>2</sup> The Low Carbon Fuel Standard recognizes compressed renewable natural gas as a transportation fuel with one of the lowest carbon intensity factors.



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**Response to 7.1.16 (Continued)**

However, in spite of the strong support for biogas articulated in state law and policy, the CEC's 2011 Bioenergy Action Plan, which is part of the Integrated Energy Resource Plan (IERPR),<sup>3</sup> acknowledges that progress in developing the biogas market has been slow to date due to various barriers to entry. "There are a large number of challenges facing bioenergy development in the state. For example, existing facilities face economic challenges related to the cost of feedstock collection and transportation versus the price received for energy production, and new project developers must economically meet state and local permitting requirements in a capital-constrained financial market."<sup>4</sup>

As described in SoCalGas and SDG&E advice letters AL 4172 and AL 1991-G, respectively, the utilities are in a position to help meet the state's bioenergy goals and overcome the challenges facing bioenergy development in California by utilizing existing expertise and resources. The utilities are knowledgeable about state and local permitting requirements, natural gas pipeline quality specifications and requirements, and have designed the services with a levelized fee structure to facilitate projects in instances where the biogas owners may have capital constraints.

The second reason utilities should be allowed to offer the biogas production and biogas conditioning services is that biogas resource owners have been coming to the utilities and asking for utility assistance in turning their feedstock into biogas for use on site or for injection into the utilities' pipeline system. These customers' interest in biogas is due in part to the state's environmental targets, which continue to be a catalyst when it comes to emerging customer requirements and expectations of utility service. Thus, in light of state policies and the resulting customer interest in biogas, the utilities are in a unique position to evolve their core business practices to meet these new customer requests. Our customers are coming to us, their utilities, to help them manage their energy solutions and currently we are not allowed to offer them the services they seek. An affiliate would not have the relationships in place with the utilities' customer base needed to understand customers' biogas interests and requirements and deliver services in a timely and efficient manner, nor could the utility refer the customer to an affiliate under the affiliate transaction rules.

The third reason the utilities should provide this service is that the utility has in depth knowledge about natural gas, including processing and conditioning, as well as legal regulatory, and finance expertise that has been developed over the years as part of the utilities' core role that can be put to further productive use, to the potential benefit of ratepayers, potential bio-gas customers and shareholders by offering bio-gas services. As such, it makes sense in terms of public policy goal attainment and utility customer satisfaction to allow the utilities to utilize existing assets, capabilities and expertise gained from years of experience, to offer services that help meet energy policy goals and customer needs, while offering potential benefits to ratepayers.

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<sup>3</sup> The objective of the IEPR is to evaluate market trends and develop energy policies that will "conserve resources, protect the environment, ensure energy reliability, enhance the state's economy, and protect public health and safety." (Public Resources Code § 25301[a])

<sup>4</sup> California Energy Commission 2011 Bioenergy Action Plan; CEC-300-2011-001-CTF, page 6

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**Response to 7.1.16 (Continued)**

This approach is consistent with the Affiliate Transaction Rules because only a small percentage of utility employee time will be utilized to offer the services, thus maximizing the use of ratepayer assets for the benefit of customers of the services, ratepayers at large and shareholders, without affecting the cost, quality, or reliability of tariffed products and services.

The fourth reason for the utilities to offer the services is the potential for job creation and the utilities' commitment to contracting with diverse business enterprises (DBE). SoCalGas' and SDG&E's proposal calls for contracting out the installation of the conditioning/production equipment and day to day management of facilities. As such, the utilities' DBE policies will apply. The 2011 Bioenergy Action Plan states "The production and use of biomass for energy production can improve California's economy, especially in rural communities, by creating green jobs and reducing the disposal costs for biomass residuals. Achieving the state's bioenergy goals has the potential of adding over 15,000 jobs in California's rural communities over the next 10 years."<sup>5</sup> SoCalGas' and SDG&E's proposed services can help make this estimate a reality by increasing the total number of biogas projects initiated throughout the state in the next several years. SoCalGas and SDG&E have a strong commitment and proven track record in working with Diverse Business Enterprises. Utility bio-gas services, such as those in proposed in SDG&E's advice letters, will create new opportunities for Diverse Business in the bio-energy and renewable energy sector. SoCalGas and SDG&E are poised to enter this market and ready to create the new green-jobs that this state needs.

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<sup>5</sup> California Energy Commission 2011 Bioenergy Action Plan; CEC-300-2011-001-CTF