

Application No: A.12-04-024
Exhibit No.: _____
Witness: Jeffrey Reed

Application of Southern California Gas Company)
(U904G) to Establish a Biogas)
Conditioning/Upgrading Services Tariff)
_____)

Application 12-04-024
(Filed April 25, 2012)

PREPARED SUPPLEMENTAL TESTIMONY OF
JEFFREY REED
SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

January ____, 2013

1 accordance with prevailing standards and requirements which may evolve as new sources of
2 raw biogas are developed.

3 That is not to say that recent legislation is not relevant to the extent it demonstrates
4 California's desire to promote the development of biogas as a fuel source—something A.12-
5 04-024 clearly promotes. In fact, AB 1900, along with AB 2196 and Senate Bill (“SB”) 1122,
6 are clear legislative efforts to facilitate the development of biogas. As is relevant to this
7 proceeding, AB 1900 adds California Public Utilities Code section 399.24 which states in part
8 399.24(a):

9 To meet the energy and transportation needs of the state, the commission
10 shall adopt policies and programs that promote the in-state production and
11 distribution of biomethane. The policies and programs shall facilitate the
12 development of a variety of sources of in-state biomethane.

13 Next, SB 1122 amended Section 399.20 of the Public Utilities Code which now reads
14 at 399.20(f)(2)(D):

15 The commission shall encourage gas and electrical corporations to develop
16 and offer programs and services to facilitate development of in-state biogas
17 for a broad range of purposes.

18 Finally, AB 2196 amends Section 25741 of the Public Resources Code to allow
19 biomethane to qualify as an eligible renewable energy resource.

20 As such, while these bills could affect who may utilize the BCS Tariff, they do not
21 affect the policy issues before the Commission in this proceeding. SoCalGas' BCS Tariff
22 service is designed to respond to Commission rules and standards and meet the current and
23 future needs of a variety of biogas producers. These producers may wish to upgrade their
24 biogas for pipeline injection, onsite power generation, or compressed natural gas vehicle
25 fueling stations.

1 In furtherance of this, the BCS Tariff was designed to be of general applicability and
2 to be responsive to changes to rules governing interconnection and interconnection gas quality
3 standards. The BCS Tariff application acknowledges that SoCalGas Rule No. 30 provides the
4 general terms and conditions applicable whenever the utility transports customer-owned gas
5 over its system.² Part of this, Rule 30 - Section I.3.o, precludes the transportation of gas from
6 landfills.³ As a result, pending changes pursuant to the Commission's Order Instituting
7 Rulemaking into Biomethane Issues and Pipeline Open Access, "[a]t this time, SoCal Gas'
8 gas quality specification (Rule 30) prohibits landfill gas from being accepted as a source of
9 biogas for pipeline injection."⁴ The BCS Tariff application acknowledges the limitations
10 currently in place, but was designed to include enough flexibility to be responsive to changes
11 to the rules governing interconnection and interconnection gas quality standards. Meaning, if
12 the Commission amends the rules governing gas quality specifications for pipeline injection,
13 SoCalGas' biogas conditioning and upgrading Tariff is able to respond to and meet those new
14 standards.

15 Therefore, AB 1900 is only relevant to A.12-04-024 to the extent it demonstrates
16 California's intent to develop biogas, with consideration of pipeline interconnection and gas
17 quality better addressed in the AB 1900 Rulemaking.

18 **Relation to SoCalGas' Compression Services Tariff**

19 The BCS Tariff application is not related to the CST other than to the extent they both
20 involve SoCalGas' efforts to make more widely available services that reduce the health and
21 environmental impacts of air pollution and reduce greenhouse gas emissions. While these
22 two offerings do have some similarities, they also have important distinguishing

² Prepared Direct Testimony of SoCalGas, Chapter II, page 7, footnote 16.

³ Prepared Direct Testimony of SoCalGas, Chapter II, page 7, footnote 16.

⁴ Prepared Direct Testimony of SoCalGas, Chapter II, page 16, footnote 30.

1 characteristics and a review of the Commission decision approving the CST (Decision 12-12-
2 037) offers additional support to the approval of the BCS Tariff application as proposed.

3 Similar to the CST, the BCS Tariff application responds to recent legislation and
4 California’s efforts to reduce the health and environmental impacts of air pollution and reduce
5 greenhouse gas emissions. In that sense, the BCS Tariff application is consistent with the
6 Commission’s policy rationale for approving the CST.⁵ On the other hand, the BCS Tariff
7 application is distinguishable from the Commission’s policy rationale for precluding any
8 potential request for cost recovery through general rates.

9 In Decision 12-12-037 the Commission found that it was not appropriate for
10 ratepayers who do not participate in the CST to bear risks and costs that arise from the
11 provision of the CST.⁶ To be specific, the Commission determined that allowing potential
12 rate recovery was unnecessary because to do so could result in “unfair competition” due to a
13 “ratepayer subsidy of the CST” and such a subsidy did not “seem necessary to the provision
14 of this service.”⁷ While SoCalGas has confidence that its experience with gas processing and
15 inclusion of contractual safeguards and credit requirements result in low risk that BCS
16 forecast contract revenues will be lower than forecast costs, the CST is distinguishable from
17 the BCS Tariff on both practical and policy grounds.

18 First, the policy underlying the Commission’s denial of traditional ratemaking
19 treatment was a concern that it could result in unfair competition in the compression services
20 market. To SoCalGas’ knowledge, there are no commercial ventures offering a service
21 comparable to the BCS Tariff within SoCalGas’ service territory. The biogas market in

⁵ Similar to the CST, the BCS Tariff is “in the public interest because...it makes more widely available a service that reduces the health and environmental impacts from air pollution, reduces greenhouse gas emissions...”
D.12-12-037, mimeo., at 2.

⁶ D.12-12-037, mimeo., at 40.

⁷ D.12-12-037, mimeo., at 41.

1 California is at a virtual stand-still. SoCalGas strongly supports the development of biogas
2 resources and is willing to add its expertise and capital resources to support biogas
3 development, but holds that denial in advance of hypothetical cost recovery of some costs
4 through general rates is inappropriate given the nascent nature of the market and the
5 importance to the State and its ratepayers of developing this resource.

6 Second, the parameters for risk sharing in the case of the BCS Tariff differ
7 significantly between the two services. SoCalGas has the experience and expertise to manage
8 the project risks associated with biogas conditioning and to set rates that recover the full cost
9 of service. As has been discussed in testimony, the risk of under-recovery of costs from BCS
10 Tariff customers is small and shareholders stand first in line to bear risks. However, the
11 biogas conditioning/upgrading industry is still in its early stages and is in need of a “jump
12 start.” The ratepayer benefits of a robust biogas market in the state are large. Therefore,
13 maintaining the ability, in principal, to request some cost sharing in future General Rate Cases
14 is appropriate, particularly given that under the proposed traditional ratemaking treatment,
15 shareholders bear all risk of loss in the early period of operation and have no assurance that
16 any potential future request for recovery will be granted.

17 In conclusion, implementation of the BCS Tariff is consistent with both the CST
18 decision and recent legislation. Additionally, the concerns leading to the prohibition in
19 advance of SoCalGas requesting future cost recovery through general rates to the extent such
20 costs were deemed reasonable and in the public interest are not applicable to the BCS Tariff.
21 The competitive market for biogas services is non-existent at this point in time and needs
22 active measures to initiate the market and build operating experience. This application makes
23 no request for recovery of cost from ratepayers for provision of BCS service and all prudent

1 measures will be taken to ensure that BCS customers bear all costs. However, there is a small
2 chance that costs will exceed forecasts. At the same time, ratepayers receive significant
3 benefit from the development of biogas in the State of California. Thus, in order to promote
4 development of biogas production and distribution, it is appropriate to allow SoCalGas the
5 opportunity to request recovery of some BCS Tariff costs based on a showing in its General
6 Rate Case that such costs are reasonable and in the public interest based on benefits received
7 by ratepayers.

8 **Advice Letter 4337**

9 Advice Letter 4337 was filed on February 28, 2012 to notify the Commission of a
10 compression services agreement between SoCalGas and the Los Angeles Unified School
11 District (“LAUSD”). This notice was made in compliance with the requirements of (GO) 96-
12 B. The agreement calls for SoCalGas to provide facilities and services necessary to provide
13 natural gas at pressure higher than standard line pressure. LAUSD is to provide additional
14 facilities necessary to use the compressed natural gas delivered under the agreement as
15 vehicle fuel.

16 Unlike the instant application, Advice Letter 4337 was made pursuant to (GO) 96-B,
17 Section 8.2.3, which states that a utility may provide service to a government agency under
18 terms and conditions otherwise deviating from its tariffs then in effect, provided that the
19 Commission is advised of such action through an Advice Letter. Because Advice Letter 4337
20 dealt with a service offering unique to the provision of services to a government agency, it is
21 unrelated to SoCalGas’ BCS Tariff application.