Joint Gas Utility Comments

Regarding Proposed §95893—Allocation to Natural Gas Suppliers for Protection of Natural Gas Ratepayers—presented at the July 18, 2013, Cap-and-Trade Workshop

I. Introduction

These comments are submitted jointly on behalf of investor owned natural gas local distribution utilities (IOUs) Southern California Gas Company (SoCalGas), Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric, Southwest Gas Corporation, and publicly owned natural gas local distribution utilities (POUs) serving the Cities of Palo Alto, Long Beach, and Vernon (referred to collectively as the "natural gas utilities" or "Utilities") regarding the California Air Resources Board (ARB) rulemaking related to the allocation of Cap-and-Trade allowances to natural gas suppliers for the protection of natural gas ratepayers, presented at the July 18, 2013 cap-and-trade workshop.

The natural gas utilities would like to thank ARB for the opportunity to file comments on this rulemaking and appreciate the transparent and constructive process managed by ARB leadership and staff. The natural gas utilities support the addition of Section 95893 to allocate allowances to natural gas suppliers on behalf of their customers. The proposal provides a fair allocation to natural gas suppliers, on behalf of their customers, with a balanced approach to the consignment of allocated allowances. This affords a reasonable level of rate protection to customers, while supporting the emission reduction goals of AB32. In the discussion below, the Utilities raise two issues about specific aspects of Section 95893 of the proposed regulation for your consideration, to improve implementation.

II. Discussion

§95893(a)—Allocation to Individual Natural Gas Suppliers

The proposed use of 2013 emissions creates some interpretation problems in conjunction with Table 9-2 in the equation in 95893(a). The factor "c" accounts for the cap decline. The joint utilities request that the cap decline be applied starting the year after the initial allocation.

Furthermore, it is problematic to use 2013 as the baseline year and the Utilities urge the ARB to consider using 2011 as the baseline year for allocation to natural gas suppliers. Using 2013 as the base year could create unnecessary confusion and may not reflect an average consumption year. 2011 emissions have already been verified and made publicly available; 2013 emissions however, will not be verified until September 2014, only months before the natural gas compliance obligation begins. In addition, utilities' emissions as natural gas suppliers will not be known until after ARB has reviewed covered entities' verification reports and provided that information to natural gas suppliers. With very little time between the provision of this information and action required by utilities on behalf of their customers to purchase compliance instruments, the ability of these utilities to procure forward and effectively manage their compliance obligations will be reduced, which could impact their ability to mitigate costs to customers.

Furthermore, the use of 2011 emissions would facilitate a proceeding at the CPUC regarding procurement authority, cost recovery, and revenue allocation as the number of allowances associated with each of those categories would be known sooner.

§95893(d)(3)—Limitations on the Use of Auction Proceeds and Allowance Value

This section specifies that any revenue returned to ratepayers must be done in a non-volumetric manner. The CPUC has exclusive jurisdiction over investor-owned utility ratemaking under the California Constitution. Likewise, the governing boards of publicly owned utilities have jurisdiction over POU retail rate design. The natural gas utilities suggest that 95893(d)(3) be modified to parallel the electric utility language in 95892(d)(1) and95892(d)(2) to avoid jurisdictional conflicts with other state and local agencies.

III. Conclusion

The natural gas utilities appreciate the opportunity to comment on the Discussion Draft of the proposed rule regarding allowance allocation to natural gas suppliers and appreciate ARB's collaborative approach to rule development. The proposed rule phases in a price signal in a balanced manner, which will help manage customer costs from the AB 32 programs. Furthermore, the proposed changes outlined above will help clarify the regulations for the natural gas suppliers and assist in mitigating undue costs for natural gas customers. We look forward to working with ARB to finalize the proposed regulatory amendments and support the continued success of California's Cap-and-Trade program.