SB 695 Compliance Report Data Request
To California Public Utilities Commission, Energy Division
Southern California Gas Company
2019

Southern California Gas Company (SoCalGas) appreciates the opportunity, pursuant to Senate Bill (SB) 695 and Cal. Pub. Util. Code §748 (PUC Section 748), to recommend actions that can be undertaken during the succeeding 12 months to limit utility cost and rate increases, consistent with the state's energy and environmental goals, including goals for reducing emissions of greenhouse gases. Within the framework approved by the California Public Utilities Commission (CPUC or Commission) and the Legislature, SoCalGas seeks to allocate costs fairly across its customer classes. SoCalGas recognizes that allocations of certain components of gas service costs in rates are beyond its direct control. SoCalGas' objective in developing the 2019 data request response is to provide useful information that the CPUC may consider as it prepares its annual report for the Governor and Legislature.

This data request response is structured according to the Energy Division's request. Part I of this response addresses PUC Section 748 (a) and provides a description of SoCalGas' gas revenue requirements and rates as well as the outlook of anticipated rate changes from May 1, 2019 through April 30, 2020, and the amount of the change if it is known.

Part II of this response addresses PUC Section 748 (b) and provides an overview of SoCalGas' overall rate policy, an overview of management control of rate components, and a summary of policies and recommendations for limiting customer rate impacts while meeting the State's energy and environmental goals for reducing greenhouse gases.

I. Section 748 (a) Study and Report

1. Revenue Requirements Effective January 1, 2019

A. Major Categories of Gas Revenue Requirements

Gas revenue requirements are commonly grouped into the following four major categories: Energy Costs or Weighted Average Cost of Gas (WACOG), Transportation, Gas Storage, and Public Purpose Programs.

Major Categories of Rate Revenue						
	2018			2019		
Revenue Component	**Rate Revenue** $000		**Percentage**	**Rate Revenue** $000		**Percentage**
Energy	$1,034,931	1	26.5%	$1,085,124	2	25.1%
Transportation 3	$2,551,233		65.3%	$2,881,705		66.6%
Storage 4	$23,290		0.6%	$23,695		0.5%
Public Purpose Program	$323,409		8.3%	$357,877		8.3%
Total	$3,909,574		100%	$4,324,707		100%

1 Actual recorded revenue.
2 Represents estimates of the residential, core C&I, and NGV energy revenue and was derived by multiplying the 2018 CGR forecast throughput projection for 2019 by the gas price forecast for 2019.
3 The transportation component includes Authorized Base Margin, amortization of regulatory accounts, other operating costs, System Integration, and Sempra-wide adjustments. Core Backbone Transportation Service revenues are excluded as they are included in the Energy component.
4 A subset of transportation revenue requirement; represents costs allocated to be recovered from the Unbundled Storage Program

B. Description of Key Categories and Trends in Gas Revenue Requirement Components

The revenue requirements outlined in the previous section directly align with rate components. At the highest level, gas rates can be described as revenue requirements divided by sales forecasts, so both revenue requirement changes and demand variations impact actual rates for gas service. Increases in the forecasted revenue requirements will impose upward pressure on rates and decreases in the forecasted revenue requirements will impose downward pressure on rates. The rate pressures created by changes in the revenue requirements are modulated by differences between actual sales and the prior forecasts that were used to set rates. Adjustments in the allocation of the revenue requirements across customer classes and tiers also impact the rates experienced by individual customers.

Customer sales volatility over time also directly impacts the rates paid by gas customers. If revenues collected from customers are impacted (higher or lower) due to volatility in sales, future rates will be adjusted (decreased or increased) so that revenues collected are at authorized levels. SoCalGas reviews sales forecasts for its service territory during cost allocation proceedings, which are currently on a three-year cycle.

1) Gas energy revenue requirements are forecast to represent approximately 25.1% of the total gas revenue requirements in 2019. In 2018, gas energy revenue requirements represented about 26.5% of the total authorized gas revenue. The share of gas energy revenue requirements is expected to slightly decrease from 2018 to 2019.

2) Transportation revenue requirements are estimated to be about 66.6% of the total gas revenue requirements in 2019. For 2018, the transportation revenue requirements were about 65.3% of the total authorized gas revenue requirement. The transportation revenue requirement increase for 2019 was due primarily to an authorized increase in the amortizations of the regulatory accounts and Greenhouse Gas (GHG) revenue requirements.

3) Costs allocated to the unbundled storage program comprised of approximately 0.6% of the total gas revenue requirements in 2018, and is forecasted to be 0.5% in 2019.

4) Public Purpose Program (PPP) revenue requirements, including California Alternate Rates for Energy (CARE) Discount and Energy Efficiency, will

represent approximately 8.3% of the total gas revenue requirements for both 2018 and 2019.

C. Revenue Requirement by CPUC Proceeding

The transportation revenue requirements for January 1, 2019 are listed below, along with the relevant Proceeding, CPUC Decision, CPUC Resolution, or Advice Letter.

1.1.C. SoCalGas Revenue Requirements effective January 1, 2019 by CPUC Proceeding - Consolidated Year-End Filing Advice Letter 5404

	Proceeding/Source	Revenue Requirement ($000)	Percentage
Base Margin	GRC D.16-06-054	$2,217,437	74.2%
Aliso Canyon Turbine Replacement	SoCalGas Advice No. 5294-A	$23,566	0.8%
Net System Integration/BTS Adjustment	TCAP D.16-10-004	($184,371)	-6.2%
LUAF/Company Use Gas/Well Incidents/Exchange	TCAP D.16-10-004, SoCalGas Advice No. 5368	$26,018	0.9%
AMI	D.16-060-054 and Advice No. 5134	$21,750	0.7%
Leak Abatement Program	CPUC Resolution G-3538	$60,597	2.0%
GHG Costs	D.15-10-032 and D.18-03-017, SoCalGas Advice No. 5368	$200,554	6.7%
Regulatory Accounts	SoCalGas Advice No. 5368	$367,299	12.3%
Southern System Reliability Service	Advice No. 5193 and Resolution G-3542	$31,357	1.0%
Storage Integrity Management Program Balancing Account	Resolution G-3544	$6,936	0.2%
Sempra-wide Rates, EOR Adjustments	TCAP D.16-10-004	($17,258)	-0.6%
BTS	TCAP D.16-10-004, SoCalGas Advice No. 5368	$232,673	7.8%
Total		$2,986,558	100%

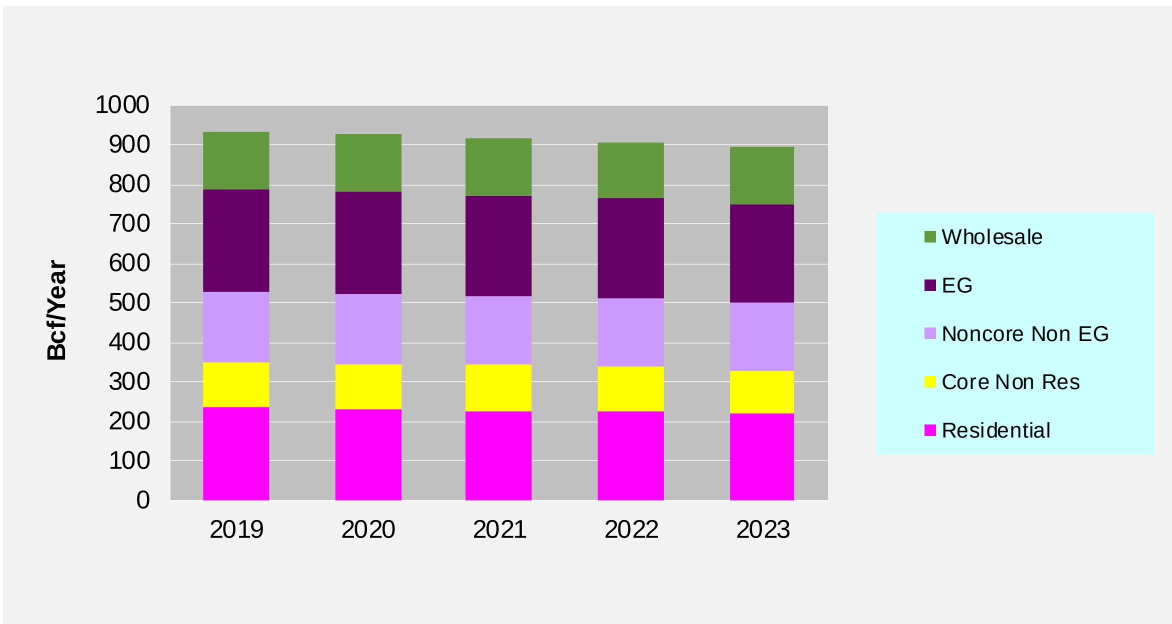
2. Sales Forecasts and Recorded Sales

A. Demand Forecasts

Southern California Gas Company (SoCalGas) is the principal distributor of natural gas in Southern California, providing retail and wholesale customers with transportation, exchange and storage services, and also procurement services to bundled core customers. SoCalGas is a gas-only utility and, in addition to serving the residential, commercial and industrial markets, provides gas for enhanced oil recovery (EOR) and electric generation (EG) customers in Southern California. San Diego Gas &Electric Company (SDG&E), Southwest Gas Corporation, the City of Long Beach Municipal Oil and Gas Department, and the City of Vernon are SoCalGas' four wholesale utility customers. SoCalGas also provides gas transportation services across its service territory to a border crossing point at the California-Mexico border at Mexicali to ECOGAS Mexico S. de R.L. de C.V. which is a wholesale international customer located in Mexico.

The summary below contains a five-year forecast for the years 2019-2023. The forecast was prepared as part of the 2018 California Gas Report.

Composition of SoCalGas' Requirements (Bcf/Year)
Average Temperature and Normal Hydro Year (2019-2023)



SoCalGas Demand Forecasts (Bcf/Year)
Average Temperature and Normal Hydro Year (2019-2023)

Bcf	2019	2020	2021	2022	2023
Residential	234	230	227	223	218
Core Non Res	117	117	116	114	112
Noncore Non EG	176	176	174	173	171
EG	259	258	253	252	250
Wholesale	148	147	146	145	143
TOTAL	934	927	917	908	894

The table above shows the projected average year gas demand over the five-year period covering 2019 to 2023. Gas demand in 2019 is expected to total 934 Bcf. By 2023, the load is expected to have declined to 894 Bcf. Based on the 2018 California Gas Report (CGR), the average year load is expected to decline at an average annual rate of 1.1%. The load forecast for gas demand is expected to decline due to the combined effects of modest economic growth, CPUC-mandated energy efficiency goals, including compliance with SB350 goals. Additional drivers that taper the forecast to 2023 include the strengthening of renewable electricity goals, declines in commercial and industrial demand, continued increased use of non-utility pipeline systems by enhanced oil recovery customers, and the savings linked to implementation of SoCalGas' Advanced Meter Program.

B. Recorded Demand

SoCalGas served more than 5.9 million connected customers in 2018. The annual throughput, at actual weather was 854 Bcf in 2018, or approximately 2,339.2 MMcf/d. The 2018 load reflects a 164 MMcf/d decline relative to the 2017 total system throughput of 2,504 MMcf/d, which was reported in the 2018 California Gas Report.

3. Rate Outlook from May 1, 2019 to April 30, 2020

(A) Listing of Pending Proceedings

The following table contains a listing of pending proceedings that are likely to affect rates. Ultimately, the timing and level of impact of these pending proceedings on rates will be determined by the Commission.

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	Filing Name	Proceeding Reference (e.g. Application#)	Filing Date	Requested/Expected Implementation date	Requested Dollar Amount			Description	Affected Rate Components
					Total Cost	2018 RRQ	2019 RRQ		
1	SoCalGas 2019 General Rate Case (GRC)	A.17-10-008	10/6/2017, Revised 12/20/2017, Second Revised 04/06/2018	2019	N/A	N/A	$2.848 billion	The Application requests authority to update SoCalGas' Test Year 2019 (TY 2019) gas revenue requirement and base rates, effective January 1, 2019, and to implement a post-test year ratemaking mechanism that includes a return to a four-year General Rate Case (GRC) cycle.	Transportation Core increases by 14.2 cents/therm. Non-core transportation increases 1.0 cents/therm.
2	Pipeline Safety Enhancement Plan (PSEP) 2016 Reasonableness Review	A.16-09-005	9/2/2016, Amended 11-20-2017	2018	$163 million	N/A	$67.5 million	PSEP reasonableness review requesting rate recovery for costs of certain pipeline safety projects completed by June 30, 2015 and recorded in their authorized regulatory accounts. Pursuant to D.16-08-003, SoCalGas and SDG&E have been authorized partial (50%) interim rate recovery of PSEP costs, subject to	Transportation Core increases by 0.24 cents/therm. Non-core transportation increases 0.10 cents/therm.

								refund, and have previously incorporated costs associated with this application into rates (see Advice Letter 5017-A).	
3	2017 PSEP Forecast Application	A.17-03-021	3/30/2017	2019	$254.5 million	N/A	$45 million	2017 PSEP Forecast Application requesting (a) approval of the total forecasted revenue requirement and associated rate recovery for certain Pipeline Safety Enhancement Plan ("PSEP") projects identified as part of Phases 1B and 2A; and (b) authority to (i) modify the existing Safety Enhancement Expense Balancing Accounts ("SEEBAs") and Safety Enhancement Capital Cost Balancing Accounts ("SECCBAs") to record costs discretely for Phase 1B projects, and (ii) create new balancing accounts to record costs for Phase 2 projects.	Transportation Core increases by 0.10 cents/therm. Non-core transportation increases 0.03 cents/therm.

Listing of Pending Proceedings (cont.)

	Filing Name	Proceeding Reference (e.g. Application #)	Filing Date	Requested/Expected Implementation date	Requested Dollar Amount			Description	Affected Rate Component(s)
					Total Cost	2018 RRQ	2019 RRQ		
4	Pipeline Safety Enhancement Plan (PSEP) 2018 Reasonableness Review	A.18-11-010	11/13/2018	2020	$811 million	N/A	$185.8 million	PSEP reasonableness review requesting rate recovery for costs of 83 pipeline safety projects and recorded in their authorized regulatory accounts. Pursuant to D.16-08-003, SoCalGas and SDG&E have been authorized partial (50%) interim rate recovery of PSEP costs, subject to refund, and have previously incorporated costs associated with this application into rates	Transportation Core increases by 3.15 cents/therm. Non-core transportation increases 0.51 cents/therm.

Listing of Pending Proceedings (cont.)

	Filing Name	Proceeding Reference (e.g. Application #)	Filing Date	Requested/Expected Implementation date	Requested Dollar Amount			Description	Affected Rate Component(s)
					Total Cost	2018 RRQ	2019 RRQ		
5	2020 Triennial Cost Allocation Proceeding (TCAP) application	A.18-07-024	7/31/18	2020 to 2022	N/A	N/A	N/A	Cost Allocation Proceedings reallocate costs between customer classes to maintain cost-based transportation rates and resets sales forecasts used to set rats.	Transportation Core increases by 0.87 cents/therm. Non-core transportation increases 0.96 cents/therm.
6	Application to Establish a Demand Response Program	A.18-11-005	11/6/18	2020 to 2022	N/A	N/A	$27.9 million	This application requests establish a Demand Response (DR) Program for the winter of 2019 through 2022 and to recover certain previously recorded costs.	PPPS Residential increases by 0.95 cents/therm, PPPS Core C&I increases by 0.37 cents/therm. PPPS Non-core C&I increases 0.05 cents/therm.

List of Pending Proceedings (cont.)

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	Filing Name	Proceeding Reference (e.g. Application #)	Filing Date	Requested/Expected Implementation date	Requested Dollar Amount			Description	Affected Rate Component(s)
					Total Cost	2018 RRQ	2019 RRQ		
7	Order Instituting Rulemaking to Evaluate the Mobilehome Park Pilot Program and to Adopt Programmatic Modifications.	R. 18-04-018	4/07/18	Starting 2020	N/A	N/A	N/A	The CPUC issued an Order Instituting Rulemaking (OIR) to evaluate the existing Mobilehome Park Pilot Program and to adopt programmatic modifications. This Rulemaking will ultimately determine the number of parks SoCalGas is authorized to convert to direct utility service.	N/A
8	SoCalGas Gas Cost Incentive Mechanism (GCIM) Year 24 Application	A.18-06-009	6/15/18	2019	N/A	N/A	$11.3 million	SoCalGas filed the Gas Cost Incentive Mechanism (GCIM) Year 24 Application with the CPUC, providing its report on gas supply and core storage activity for the 12-month GCIM year ending March 31, 2018 (Year 24) and submitting its request for CPUC approval of a shareholder award of $11,353,049 for its Year 24 performance.	Core procurement rates will increase 0.29 cents per therm.

	Filing Name	Proceeding Reference (e.g. Application #)	Filing Date	Requested/Expected Implementation date	Requested Dollar Amount			Description	Affected Rate Component(s)
					Total Cost	2018 RRQ	2019 RRQ		
9	San Joaquin Valley Disadvantaged Communities OIR	R.15-03-010	3/15/18	2020 - 2030	N/A	N/A	$5.6 million for Calif City	For all of California, this OIR decision approved the complete conversion from propane to natural gas for over 1,600 households in SJV. For SoCalGas the decision approved conversion for 224 households in California City and gave the communities of Allensworth and Seville 60 days to secure more funding in order to bridge the 'gap' from our natural gas estimate to the lower cost electrification estimate.	Residential transportation rates will increase 0.196 cents per therm.

(B) New Proceedings Likely to be Filed Between May 1, 2019 and April 30, 2020

Gas Cost Incentive Mechanism (GCIM) Year 25

SoCalGas will file its GCIM Year 25 application in June 2019. SoCalGas is required to file an application and report in June of each year to address its performance under the GCIM for the previous April 1- March 31 period (GCIM Year). For reference, SoCalGas' GCIM Year 24 application recognized actual cost for all gas purchases subject to the GCIM of $1,220.9 million, while the benchmark cost was $1,282.7 million. Therefore, of the $61.7 million in savings for purchases below the benchmark, a shareholder award of $11,353,049 was recognized.

Cost of Capital

The cost of capital proceeding determines a utility's authorized capital structure and authorized rate of return on rate base (ROR), which is a weighted average of the authorized returns on debt, preferred stock, and common equity (return on equity or ROE), weighted on a basis consistent with the authorized capital structure. The authorized ROR is the rate that the California Utilities are authorized to use in establishing rates to recover the cost of debt and equity used to finance their investment in CPUC-regulated electric distribution and generation as well as natural gas distribution, transmission and storage assets. The cost of capital proceeding also addresses the automatic cost of capital adjustment mechanism (CCM), which applies market-based benchmarks to determine whether an adjustment to the authorized ROR is required during the interim years between cost of capital proceedings. The current authorized rate of return on rate base for SDG&E and SoCalGas is 7.55% and 7.34%, respectively. The utilities' next cost of capital application will be filed in April 2019 for a 2020 test year.

Safety Integrity Management Program (SIMP)

SoCalGas plans to file an application in 2019 to recover its remaining SIMP undercollection for the 2016-2018 period. In connection with SoCalGas' 2016 GRC Application, SoCalGas implemented its proposed SIMP to identify and mitigate potential storage well safety and/or integrity issues. The Commission approved SoCalGas' SIMP proposal in Decision (D.)16-06-054 and authorized a three-year revenue requirement of $19.5 million. SoCalGas exceeded the authorized revenue requirement for the three-year period and was subsequently authorized in Resolution G-3544 to recover $6.82 million (35% above the authorized revenue requirement) through a Tier 3 advice letter filing (AL 5253). SoCalGas will be requesting recovery of the remaining undercollection above 35% through an application.

(C) Anticipated Rate Changes During May 1, 2019 and April 30, 2020

In addition to potential rate changes due to pending decisions or resolutions as described above, rates are updated each year through the recurring advice letters listed in table below.

Anticipated Rate Changes During 2019

Description	To Be Filed	Expected Implementation	Impacted Rate	Directional Impact	Revenue Requirement Impact ($000)	Reason for Revenue Requirement Request
Gas Regulatory Account Update AL	October 2019	January 2020	Gas Transportation	Increase	$290,381	(1)
Gas Consolidated AL	December 2019	January 2020	Gas Transportation	Increase	$318,727	(1) (2)
Gas Public Purpose Program Update AL	October 2019	January 2020	PPP Surcharge	Increase	$34,468	(1)

(1) Shows change from 2018 to 2019. This is an annual routine filing in which the specific financial impact for 01/2020 has not been determined.
(2) Gas Consolidated AL 5404 shows change from 2018 to 2019.

Gas Regulatory Account Update AL - This advice letter serves to update the amounts in the regulatory accounts to be amortized in rates over the next year.

Gas Consolidated AL - This advice letter consolidates advice letters that are routinely filed each year to be placed in rates the next year. This includes items such as the regulatory Account Update, authorized cost changes for the Advanced Meter Infrastructure. any attrition index authorized in the General Rate Case to be applied to the revenue requirement, Cost of Capital adjustments, and Energy Efficiency Awards.

Gas Public Purpose Program Update AL - The state's natural gas and electric utilities collect funds from core and non-EG noncore customers for gas related energy efficiency programs, low-income programs including the California Alternative Rates for Energy (CARE) subsidy, and for the California Energy Commission's natural gas research and development program. The annual budget for these public purpose programs is set in various recurring program-related Commission proceedings. The CARE program revenue requirement for SoCalGas' customers in 2018 was $106 million and is $110 million in 2019.

II Section 748 (b) Study and Report

1. Opening comments

In this part, SoCalGas addresses PUC Section 748 (b) and provides an overview of SoCalGas' overall rate policy, an overview of management control of rate components, and a summary of policies and recommendations for limiting customer rate impacts while meeting the State's energy and environmental goals for reducing greenhouse gases. SoCalGas hopes that the CPUC will consider the recommendations set forth in this report, which SoCalGas believes can have a measurable near-term impact on its total cost of delivering safe, reliable, and cost-effective gas services to its customers in California.

2. Overall Rate Policy

Absent market-based prices for natural gas transportation service, SoCalGas' overall rate policy is to follow the cost causation principle whereby rates are based on the costs incurred to provide its customers with safe and reliable gas service. SoCalGas understands that its customers value safety, low rates, transparency and stability. Therefore, SoCalGas also seeks to minimize the impact of rate adjustments when they are made by phasing in impacts to avoid rate shock whenever possible. SoCalGas, like the other gas utilities in California, makes monthly advice letter filings that are publicly available to change the gas commodity rate which is based on the monthly cost of gas. SoCalGas also files for an annual gas transportation and Public Purpose Program surcharge rate change in January of each year. In addition, SoCalGas submits any required rate update filings within the year in response to specific Commission decisions that affect SoCalGas' revenue requirement.

The cost causation principle discussed above drives SoCalGas rate policy for both the allocation of costs between customer classes as well as within customer classes. When examining intra-class rate structures, costs should be recovered in rates that reflect how those costs are incurred, and SoCalGas tend to propose changes when it appears that an intra-class subsidy may be occurring.

In the 2020 TCAP application, filed on July 31, 2018 (A.18-07-024), SoCalGas has proposed changes to align residential rates more closely with the underlying costs of serving residential customers. Residential rates have a customer charge, and a two-tiered volumetric charge with a higher second tier rate. The customer charge (the charge a customer incurs at zero level of gas consumption) is to recover the fixed cost of hooking up a customer to SoCalGas' delivery system. These fixed costs include installation and maintenance of the gas service lines, meters, regulators, meter reading, customer billing, maintenance of facilities, and vehicles and equipment. The portion of fixed customer costs that are not recovered in the customer charge are recovered in the volumetric rates, causing volumetric rates to be higher than the underlying variable (with respect to gas volume consumption) costs. Therefore, in the 2020 TCAP application, SoCalGas has proposed to increase the residential customer charge to approximately $10/month while at the same time reducing volumetric rates. The current monthly customer charge of approximately $5 per month was set by the Commission in December 1994 (D.94-12-052) and has not changed since then, while the fixed costs of customer hookup have since gone up. Having a cost-based higher customer charge and lower volumetric rates are likely to lower volatility in month-to-month customer bills caused by volatility in weather conditions in winter months.

3. Management Control of Rate Components

In order to keep rates reasonable, SoCalGas works proactively to lower gas costs and participates actively in interstate pipeline rate cases to make sure that transportation costs are just and reasonable. Also, in addition to safety and reliability, SoCalGas prioritizes operational efficiency and cost containment. In light of these priorities, SoCalGas performs continuous reviews of its systems and operations to identify areas for improved performance. Performance based incentive mechanisms, such as the Gas Cost Incentive Mechanism, align shareholder and customer interests and result in operational efficiencies and lower rates. However, there are some key drivers that affect customers' rates that fall outside of SoCalGas' control. These include: gas commodity prices, actual sales volumes, weather, natural disasters, interest rates, economic and demographic growth, permitting process delays, and compliance with new environmental regulations and CPUC requirements.

Despite these factors, SoCalGas works hard to manage its costs across all categories to make efficient and effective use of revenues collected from customers.

4. Utility Policies and Recommendations for Limiting Costs and Rate Increases While Meeting State's Energy and Environmental Goals for Reducing Greenhouse Gases

In this section, SoCalGas offers a set of recommendations for actions that the Commission may consider as it prepares its own annual report to the Legislature and Governor on measures that can be undertaken in the coming year to limit utility costs and rate increases. These recommendations center on factors largely out of the scope of the utilities' control and are expected to have a significant impact on utility costs and resultant customer rates in the near- to medium-term.

SoCalGas continues to use best operating and infrastructure investment practices to limit rate increases while still meeting California's energy efficiency and greenhouse gas reduction goals. SoCalGas supports the State's Energy Action Plan by promoting all mandated energy efficiency programs. SoCalGas is working with regulators and other stakeholders on the regulation being developed by the California Air Resources Board to implement the AB 32 Cap and Trade program, such that it is fair and as cost-effective as possible. SoCalGas has also received regulatory approval to participate in the development of renewable energy sources, such as biogas and distributed energy, which will reduce GHG emissions in California. Biogas and renewable energy resources provide environmental benefits and could be useful alternatives to contracting for capacity on interstate pipelines.

The impact to SoCalGas' customers from energy efficiency, low income energy efficiency, CARE, technology research, development, and demonstration (RD&D) is shown below.

Public Purpose Program Surcharge (PPPS) REVENUE REQUIREMENT AS OF 1/1/19 $ Millions			
	Core	**Non-Core**	**Total**
Energy Efficiency	$94	$8	$102
Low Income Energy Efficiency	$132	$0	$132
CARE	$72	$38	$110
RD&D	$13	$0	$14

Natural gas is a clean, abundant and affordable energy source that can help California address climate change and reduce smog while supporting a strong economy; and policy that delivers choice to our customers at reasonable rates puts our state in the best position to successfully achieve its goals. In the coming year, SoCalGas recommends that several key State policies and procedures should be shaped to support more effective, efficient and beneficial use of revenues collected from SoCalGas' customers. SoCalGas believes that the State will have to weigh its environmental goals that cause significant upward cost pressures against its desire to moderate impacts on customers' rates for gas service. Here is a list of items in which policy decisions could drive customer rate impacts.

1. SoCalGas has proposed a cost-effectiveness framework in the Natural Gas Leak Abatement Rulemaking, R.15-01-008, to align with the intent of Senate Bill (SB) 1371 to achieve the maximum technologically feasible and cost-effective greenhouse gas emission reductions across operational areas such as transmission, storage, and distribution.[1] SoCalGas proposed alternatives to several of the Mandatory Best Practices that SoCalGas believed were not cost-effective. SoCalGas is recording incremental program costs to a two-way balancing account, Natural Gas Leak

[1] *See* SB 1371 (Statutes 2014, Chapter 525), codified in CAL. PUB. UTIL. CODE § 975 (h)(1).

Abatement Balancing Account (NGLAPBA) to track and record any incremental costs authorized in Resolution G-3538. SoCalGas has encouraged the adoption of objective criteria that will be used to develop a list of cost-effective, technologically feasible mitigation activities and technologies that help achieve methane emission reductions in top emissions source categories. This proceeding is in Phase II, which consists of evaluating a cost-effectiveness framework; how the Commission's Annual Report Requirements and 26 Best Practices should be harmonized with information or action required by other entities; whether this proceeding should be incorporated into the applicable general orders; and how ratemaking treatment for LUAF should be structured and evaluated.

2. Combined Heat and Power (CHP): CHP reduces overall energy use by using waste heat to generate power. Efficient CHP entails low carbon generation and its widespread use will have greenhouse gas reducing benefits. Both the CPUC and the California Energy Commission have supported the development of CHP to meet California's energy needs because this source has the potential to contribute substantially to reducing California's Greenhouse Gas Emissions.[2] SoCalGas supports policies and programs that encourage the installation of CHP.

3. Recommend that State policy regarding the promotion of renewable energy to generate electricity does not overlook the benefits of fuel cell technology. Fuel cell technology allows for more reliable generation of electricity. A State policy promoting this use at the residential level for the generation and water heating has the potential for significant emission reductions.

4. SoCalGas recommends that flexibility be given to utilities in their energy efficiency and greenhouse gas programs in order to allow utilities to respond quickly to customer and market demands. The regulatory application process could expedite the launch of new products and services. By authorizing more limited market or technology applications and pilot programs an expedited decision process may be achieved.

[2] Order Instituting Rulemaking to Implement the Commission's Procurement Incentive Framework and to examine the Integration of GHG Standards in its Procurement Policies, pp. 221, R.06-04-009.

5. Performance-Based Incentives Mechanisms: Continue to support the utilization of performance-based mechanisms to motivate utilities to implement programs that will lead to an overall reduction in costs and improve the efficiency of utility operations. These mechanisms work because (1) they align customers' and shareholder interests; (2) they measure a utility's performance relative to a market-based benchmark; and (3) they reduce the regulatory burden.

6. California Alternative Rates for Energy (CARE): CARE customers comprise one quarter of SoCalGas' residential volume. Non-CARE customers must cover the CARE shortfall, which is 4% of transportation costs. Safeguards should be taken so that only qualified customers are participating in the CARE program.

In summary, California leads the nation in promoting the reduction of GHG emissions, adoption of advanced technologies, and expenditures on public purpose programs mandated by law. The costs associated with implementing these policies place upward pressure on utilities' rates. In addition, due to the mild weather and implementation of energy efficiency measures, the gas usage per customer in California is far below the national average. These factors lead to higher rates overall but also lower customers' bills. SoCalGas supports the above-referenced policies. To promote achievement of these important statewide goals, utilities should be provided more flexibility in implementing mandates and requirements in order to achieve lower costs for all customers.