

**DRA DATA REQUEST**  
**DRA-SCG-064-DAO**  
**SOCALGAS 2012 GRC – A.10-12-006**  
**SOCALGAS RESPONSE**  
**DATE RECEIVED: MARCH 28, 2011**  
**DATE RESPONDED: APRIL 13, 2011**

**Exhibit Reference:** SCG-5 and SCG-15

**Subject:** CARB Requirements

**Please provide the following:**

1. With regard to SCG's discussion of GHG Programs as stated on pages LPG-7 to LPG-11, please answer the following questions:
  - a. Provide a copy of the 2009 GHG emission report that was due in June 2009.
  - b. Provide the expenses associated with the preparation and filing of the June 2009 report.
  - c. Did SCG use a third-party verification vendor to verify the emissions for the June 2009 report? If yes, please identify the third-party verification vendor and provide the expenses for the verification services. If not, please explain why not. Please include a copy of the contract between SCG and the vendor.
  - d. Provide a copy of the 2010 GHG emission report and a copy of the 2011 draft or the final GHG emission report, if it is available.
  - e. Provide the cost of preparation and the estimated, or actual cost if available, of filing of the 2010 report.
  - f. Did SCG use a third-party verification vendor to verify the emissions for the 2010 or the 2011 reports? If yes, please identify the third-party verification vendor and provide the expenses for the verification services. If not, please explain why not. Please include a copy of the contract between SCG and the vendor.

**SoCalGas Response:**

- a. The emissions reports due in June 2009 are for 2008 emissions data. Attached below are the 2008 GHG emission mandatory reports submitted to the California Air Resources Board (CARB) in June 2009 for five SCG facilities (Aliso Canyon, Blythe, Honor Rancho Newberry Springs and South Needles).



2008 Aliso Canyon Emissions.pdf



2008 Blythe Emissions.pdf



2008 Honor Rancho Emissions.pdf



2008 Newberry Springs Emissions.pdf



2008 South Needles Emissions.pdf

- b. Preparation and filing of the CARB 2008 report in June 2009 is a routine function performed by staff from SoCalGas' Environmental Services Department with support from local staff at each of the listed facilities. Due to the routine nature, there is no individual accounting or tracking of the incurred expenses.

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**Response to Question 1 (Continued)**

- c. The 2008 GHG voluntary emissions for the California Registry were verified by a 3<sup>rd</sup> party verifier. Ryerson, Masters and Associates was contracted to perform verification for the California involuntary reporting. The verification for the California mandatory CARB reports was not required in this year and was not done by SoCalGas' third-party verification vendor. Included in SoCalGas' base year of 2009 are 3<sup>rd</sup> party verifier costs as they related to the voluntary reporting and the California Registry protocols only. In Ms. Gomez' workpapers (SCG-015-WP, Pages 29 and 46 of 93), the incremental upward pressure for verification for these 5 SoCalGas facilities for CARB mandatory reporting is identified to be \$6,000.
- d. The emissions reports due in 2010 are for 2009 emissions data. Attached below are the 2009 GHG emission mandatory reports submitted to the California Air Resources Board (CARB) in 2010 for five SoCalGas facilities (Aliso Canyon, Blythe, Honor Rancho, Newberry Springs and South Needles).



2009 Aliso Canyon  
Emissions.pdf



2009 Blythe  
Emissions.pdf



2009 Honor Rancho  
Emissions.pdf



2009 Newberry  
Springs Emissions.pdf



2009 South Needles  
Emissions.pdf

The emissions reports due in 2011 are for 2010 emissions data. Attached below are the 2010 GHG emission mandatory reports submitted to the California Air Resources Board (CARB) in March 2011 for five SoCalGas facilities (Aliso Canyon, Blythe, Honor Rancho, Newberry Springs and South Needles).



2010 Aliso Canyon  
Emissions.pdf



2010 Blythe  
Emissions.pdf



2010 Honor Rancho  
Emissions.pdf



2010 Newberry  
Springs Emissions.pdf



2010 South Needles  
Emissions.pdf

- e. Preparation and filing of the CARB 2009 report in June 2010 is a routine function performed by staff from SoCalGas' Environmental Services Department with support from local staff at each of the listed facilities. Due to the routine nature, there is no individual accounting or tracking of the incurred expenses.
- f. Yes, the 2009 GHG emissions inventory reported in 2010 was verified by 3<sup>rd</sup> party verifier Ryerson, Masters and Associates for a total expense of \$27,500 in 2010. This expense included both the mandatory and voluntary reporting verifications. The 2010 GHG emissions inventory was reported in March 2011 and will be verified by another 3<sup>rd</sup> party verification vendor yet to be selected. Attached below is the contract agreement with Ryerson, Masters and Associates report year 2009.



RM&A Contract.pdf

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2. On page RKS-21 of SCG-5, SCG states that, “the first category of AB 32 GHG expense is the program administration fee. The fee value was derived from initial work prepared by CARB for the new GHG rule.”
- a. Please explain how you determined that the “first” category of AB 32 GHG expense is “the program administration fee.” Please reference specific language of AB 32 in answering this inquiry.
  - b. Please provide a copy of the “initial work prepared by CARB”.
  - c. Please provide a detailed explanation and walk-through showing how SCG derived a \$4.5 million cost from CARB’s initial work.
  - d. Please provide the CARB formula referred to on pages RKS-21 and RKS-22.
  - e. Please provide SCG’s formula used to calculate a \$4.5 million cost as discussed on page RKS-22.

**SoCalGas Response:**

- a. SoCalGas has identified and will be impacted by three distinct compliance components of the AB 32 regulation. As referenced on page 21 of SCG-5, these three components are 1) program administrative fees; 2) cap and trade costs; and 3) compliance and reporting requirements. The order that these items were listed is based on how these components have been presented in various forums by CARB and other industry groups.

The attachment below is the text of AB 32. The highlighted areas on pages 1 and 12 refer to the schedule of fees that CARB is authorized to adopt to be appropriated for the purposes of carrying out the program. The term “schedule of fees” is more commonly referred to as program “Administrative fees”, and more recently termed the “Cost of Implementation” (COI) fees.



ab\_32\_bill\_20060927  
\_chaptered.pdf

Additionally, the following link to CARB’s website discusses the schedule of fees as authorized by AB 32.

<http://www.arb.ca.gov/cc/adminfee/adminfee.htm>

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**Response to Question 2 (Continued)**

- b. The “initial work prepared by CARB” is a slide presentation given at a CARB Board meeting on September 25, 2009. The presentation was in response to the proposed AB 32 Cost of Implementation Fee Regulation and Proposed Amendment to the Mandatory Reporting of Greenhouse Gas Emissions Regulation. The presentation is attached below and can also be found at the following URL:  
[www.arb.ca.gov/board/books/2009/092409/09-6-5pres.pdf](http://www.arb.ca.gov/board/books/2009/092409/09-6-5pres.pdf)



09-6-5pres.pdf

- c. The following table provides the details behind the cost estimate and methodology as well as the formula used in calculating the estimated fee of \$4.5 million.

<b>Justification/ Reason for Change:</b>	<p>AB 32 (H&amp;SC Section 38597) gives the California Air Resources Board (CARB) the ability to adopt a schedule of administrative fees to pay for the program:</p> <p><i>38597. The state board may adopt by regulation, after a public workshop, a schedule of fees to be paid by the sources of greenhouse gas emissions regulated pursuant to this division, consistent with Section 57001. The revenues collected pursuant to this section, shall be deposited into the Air Pollution Control Fund and are available upon appropriation, by the Legislature, for purposes of carrying out this division.</i></p> <p><i>New article 3, sections 95200 to 95207, title 17, California Code of Regulations</i></p>
<b>Cost Estimate &amp; Methodology:</b>	<p><b><i>Identify cost impacts and methodology for estimating those costs:</i></b></p> <p>SoCalGas AB 32 fee cost estimate:</p> <ul style="list-style-type: none"> <li>• <b>\$4,542,423</b> (Natural gas minus Electric Generation Unit (EGU) and wholesale). This fee will occur in 2010, 2011 and 2012.</li> </ul>

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<b>Fee Calculation</b>	<div data-bbox="532 346 1323 552" style="border: 1px solid black; padding: 5px;"><p>SCG Natural Gas AB 32 fee calculation = Common Carbon Cost (CCC) X total therms delivered – (EGU therms + wholesale Local Distribution Company (LDC) therms), where CCC = 0.00084 \$/therm. [AB 32 Final Rule, Section 95203]</p></div> <p><b>NATURAL GAS RELATED FEES:</b> <u>SoCalGas:</u> The Gas Company’s 2008 natural gas throughput (minus EGU and wholesale) of 5.4076 billion therms has a calculated fee of <b>\$4,542,384.</b> (5.4076 billion therms X \$0.00084/therm = \$4,542,384).</p>
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- d. See Question 2c above for the Fee Calculation Methodology.
- e. The formula below is from Question 2c. Please reference that response for additional detail.

SoCalGas Natural Gas AB 32 fee calculation = Common Carbon Cost (CCC) X total therms delivered – (EGU therms + wholesale Local Distribution Company (LDC) therms), where CCC = 0.00084 \$/therm.
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3. On page RKS-22, SCG states, “SoCalGas used the methodology as defined by CARB and AB 32 to develop its cap-and-trade forecast for the emission credits.”
- a. Please provide the methodology “as defined by CARB” and “as defined by AB 32.” Please provide specific, complete references to CARB regulations and decisions that define the “methodology” used to develop a cap-and-trade forecast for the emission credits. Please provide references to AB 32 that define the “methodology” used to develop a cap-and-trade forecast for the emission credits.
  - b. Please provide SCG’s formula, as referenced in that statement, to calculate the \$5 million cost for emission credits as discussed on page RKS-22.

**SoCalGas Response:**

- a. SoCalGas used the cost per ton estimate of \$20 per metric tonne (MT) for CO<sub>2</sub> equivalent (CO<sub>2</sub>e) offset credits. The \$20 per MT number was derived from the March 2010 Economic and Allocation Advisory Committee (EAAC) publication, “Allocating Emissions Allowances Under a California Cap-and-Trade Program - Recommendations to the California Air Resources Board and California Environmental Protection Agency from the Economic and Allocation Advisory Committee” (Table 3, page 32). This publication has the 2012 adjusted median for CO<sub>2</sub>e offset estimated to be between \$20.00 and \$45.00 per MT.

[http://climatechange.ca.gov/eaac/documents/eaac\\_reports/2010-03-22\\_EAAC\\_Allocation\\_Report\\_Final.pdf](http://climatechange.ca.gov/eaac/documents/eaac_reports/2010-03-22_EAAC_Allocation_Report_Final.pdf)

The March 24, 2010, “Updated Economic Analysis of California’s Climate Change Scoping Plan - Staff Report to the Air Resources Board” (Table 18, page 43) again adjusted median between the 0% case, which would require SoCalGas to purchase 100% of its offset credits, and the 15% case, which would require SoCalGas to purchase 85% of its offset credits.

[http://www.arb.ca.gov/cc/scopingplan/economics-sp/updated-analysis/updated\\_sp\\_analysis.pdf](http://www.arb.ca.gov/cc/scopingplan/economics-sp/updated-analysis/updated_sp_analysis.pdf)

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**Response to Question 3 (Continued)**

- b. The potential cost implications of the Cap and Trade Program can be shown using historic data and assumed allowance prices. In 2008, CO<sub>2</sub>e estimated emissions from SoCalGas' major facilities are listed below. It should be noted that production or operating rates at these facilities can vary from year to year based on gas demand.

<b>Facility</b>	<b>2008 CO<sub>2</sub>e emissions estimates* used in calculating SCG C&amp;T offset costs (Metric Tons-MT)</b>
Aliso Canyon	102,096
Blythe	27,866
Honor Rancho	30,956
Newberry Springs	40,103
South Needles	48,855
Total	249,876

\* CO<sub>2</sub>e allowance cost estimates are based on 2008 emissions data submitted to the California Climate Action Registry at the time of this filing and before any adjustments requested by CARB or a 3<sup>rd</sup> party verifier for mandatory reporting under AB32.

Current auction considerations at CARB are looking toward 100% auctions of allowances, which at an assumed cost of \$20/MT would result in total allowance costs of approximately **\$4,997,520** per year. The dollar amount will change as allowance prices and quantities purchased vary from year to year to meet annual compliance requirements.

The calculation formula is: 249,876 MT of CO<sub>2</sub>e emissions x \$20/MT = **\$4,997,520**.

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4. Referring to Planning and Analysis work activities on page RKS-21, please provide a complete description of the work activities for each of the 3 incremental cost factors: (1) program and administrative fees; (2) cap-and-trade costs, and (3) compliance and reporting requirements.

**SoCalGas Response:**

- (1) The program and administrative fees are based on the annual natural gas throughput on the SoCalGas system. The response to Question 2c of this data request details the fee calculation methodology. The required activities involved in managing this incremental cost factor are the collection, review, and modification of system throughput volumes to meet the formula exception requirements of CARB. Additional activities include researching and applying the proper and current therm factor, inputting the required throughput data into the CARB electronic reporting tool along with coordinating any subsequent payments.
- (2) The AB 32 Scoping Plan identifies a cap-and-trade program as one of the main strategies California will employ to reduce the GHG emissions that cause climate change. The program will help California meet its goal of reducing GHG emissions to 1990 levels by the year 2020. SoCalGas will need to acquire and trade CO<sub>2</sub>e emission allowances and/or offsets under a Cap-and-Trade program beginning in 2012 and thereafter. The activities involved in this incremental cost factor will be quite similar to those of a commodity trader. To be effective, the trader will need to be an expert in the inner workings of the market, determine how much and when to purchase and/or sell offsets, frequently summarize the company's position and provide financial and emission related reports to senior management.
- (3) With a regulation as complex and reaching as AB 32, there are numerous compliance and reporting issues. These are most onerous within the cap-and-trade program as outlined in subarticle 7 Compliance Requirements for Covered Activities (§95850 - §95857). The attachment below "*Article 5: CALIFORNIA CAP ON GREENHOUSE GAS EMISSIONS AND MARKET-BASED COMPLIANCE MECHANISMS*" details the compliance and reporting requirements of the cap and trade program.



AB32 Proposed Cap  
and Trade Reg.pdf



capntrade1042.pdf



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5. For each of the cost factors in question 4 above, please tie in and link the description of the work activities to the corresponding forecasted amounts for 2012.

**SoCalGas Response:**

Cost Factor (1) *program and administrative fees* – Within testimony, the discussion is found on RKS-21-22, the forecasted amount is shown on Line 26 of RKS-21. Within the workpapers, the incremental amount of \$4,542,000 is shown on the lower portion of page 23 of 321.

Cost factor (2) *Cap-and-Trade* - Within testimony, the discussion is found on RKS-22-23, the forecasted amount is shown on Line 28 of RKS-21. Within the workpapers, the incremental amount of \$5,000,000 is shown on page 23 of 321.

Cost factor (3) *Compliance and Reporting* - Within testimony, the discussion is found briefly on RKS-23 and again on RKS-62, the forecasted amount is shown on Line 30 of RKS-62. Within the workpapers, the incremental amount of \$135,000 is shown on pages 215 and 216 of 321.

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6. Please identify the specific forecast for cost factor 3, “compliance and reporting requirements,” as tracked in cost center 2200-0323, because this is not discussed in this testimony.

**SoCalGas Response:**

The forecast amount associated with the compliance and reporting cost factor is shown as \$125,000 on Page RKS-62, Line 30. This amount is also shown on pages 215 and 216 of the workpapers as \$110,000 Labor and \$25,000 non-labor. NOTE: the \$125,000 figure shown in testimony is an error and should show \$135,000 as presented in the workpapers. This error will be corrected in the subsequent errata filing.

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7. Please explain the impact, if any, of the March 18, 2011, decision in *Association of Irrigated Residents, et.al. v. California Air Resources Board*, Case No. CPF-09-509562 (Superior Court, County of San Francisco), provided at <http://www.latimes.com/media/acrobat/2011-03/60311754.pdf>, on SCG's request for GHG-compliance costs in this proceeding.

**SoCalGas Response:**

SoCalGas does not anticipate that the March 18th decision should change our planning assumptions. With respect to AB 32, the court did not rule that California Air Resources Board's (CARB's) programs were unlawful, just that the CARB did not fully comply with the California Environmental Quality Act (CEQA) before adopting the scoping plan and that it could not implement the scoping plan until it complied fully with CEQA. Whether that injunction will apply only to cap-and-trade or to other programs identified in the scoping plan is currently unknown, because the court has not yet issued the writ of mandate. CARB will most likely address and correct the CEQA defects and implement its programs, even if there is some delay. SoCalGas does not believe that the decision provides grounds to change our current planning.