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Chapter: 1

PREPARED DIRECT TESTIMONY OF

TANYA PEACOCK

ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY

AND SAN DIEGO GAS & ELECTRIC COMPANY

(POLICY)

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CHAPTER 1

PREPARED DIRECT TESTIMONY OF TANYA PEACOCK

(POLICY)

I. PURPOSE

The purpose of my prepared direct testimony on behalf of Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E, jointly with SoCalGas, the Utilities) is to provide the policy justification and context for the voluntary Renewable Natural Gas Tariff (RNG) Tariff, which is proposed and described in more detail in Chapter 2 (Wooden).[1] This testimony will describe how the proposed RNG Tariff supports California's climate goals by providing Procurement Customers as defined in Rule No. 1, on core rates,[2] with the exception of customers receiving transportation-fuel service under Schedule No. G-NGV, with the option to buy renewable gas for their homes and businesses. This testimony discusses the complementary relationship between a voluntary RNG tariff and the broader utility procurement policy anticipated by Senate Bill (SB) 1440 (Hueso, 2018). Finally, the testimony describes the need for a renewable thermal certification program and the plans already underway to develop such a program.

[1] Renewable Gas refers to biomethane, synthetic methane (methanated hydrogen), syngas (gas derived from gasification), and hydrogen; however, as described in Section II.A herein, the Utilities are only seeking to include biomethane in the RNG Tariff at this time.

[2] Per SoCalGas Rule 23(B), "Core Service" is defined as follows:

> Priority 1 All residential usage regardless of size. All nonresidential usage less than 20,800 therms per active month[], excluding usage reclassified to noncore service pursuant to customer request. All electric generation, refinery and enhanced oil recovery (EOR) usage less than 20,800 therms per active month[] electing core service.
>
> Priority 2A All nonresidential usage of 20,800 therms or greater per active month [] eligible for core service, not electing noncore service.

II. POLICY OVERVIEW

A. ALIGNMENT WITH STATE POLICIES AND GOALS

California is a leader in advancing policies to reduce greenhouse gas (GHG) emissions. Starting in 2006, California enacted the landmark Assembly Bill (AB) 32, which set a target of reducing GHG emissions to 1990 levels by 2020. Ten years later (SB 32, 2016), the State adopted a revised goal – reduce GHG emissions 40% below 1990 levels by 2030. To help achieve these goals the state enacted Senate Bill 1383 (Lara, Statutes of 2016), which established a statewide goal of reducing methane emissions 40% below 2013 levels by 2030 and required the development of regulations to achieve organic waste reduction goals for 2020 and 2025.[3] Lastly, in 2018, Governor Brown issued an executive order directing the State to achieve carbon neutrality by 2045 or sooner.[4]

Because RNG reduces fugitive methane emissions from the agricultural and waste sectors and displaces traditional natural gas, it will be integral to the State reaching its climate and carbon neutrality goals. As roughly 80% of the methane emissions in California come from agriculture, landfills, and wastewater treatment facilities,[5] renewable gas presents a significant opportunity for California's existing natural gas system to play an active role in reducing GHG emissions and helping the State achieve its climate change goals – while allowing its residents and businesses to use energy and their current end-use appliances as normal. Additionally, RNG can help reduce GHG emissions from energy use in buildings and provide an alternative to all-electric buildings so Californians are not dependent on a single fuel source.

[3] SB 1383 established the following targets to reduce the landfill disposal of organics: a) 50% reduction from the 2014 level by 2020; b) 75% reduction from the 2014 level by 2025.
[4] Exec. Order No. B-55-18, *available at* https://www.gov.ca.gov/wp-content/uploads/2018/09/9.10.18-Executive-Order.pdf.
[5] California Air Resources Board, 2018 Greenhouse Gases Emissions Inventory, 2016 Methane Emissions, *available at* https://www.arb.ca.gov/cc/inventory/background/ch4.htm.

SoCalGas is proposing a voluntary RNG tariff to provide customers an opportunity to purchase RNG above any potential baseline requirement that might be established by SB 1440, thus increasing the amount of RNG in the system without placing the financial burden on all customers. The RNG Tariff could be an important driver that will allow customers to reduce their carbon footprint, support this nascent but burgeoning industry, and ultimately reduce the amount of methane that is released into the atmosphere.

B. POLICY JUSTIFICATION FOR A VOLUNTARY RNG TARIFF

Currently there are two primary policies driving the production of RNG, both of which focus on increasing the use of RNG as a vehicle fuel: The California Low Carbon Fuel Standard (LCFS) and Renewable Identification Numbers (RINs). LCFS sets limits on the carbon intensity of vehicle fuels and allows RNG producers to generate emission reduction credits used by refineries for compliance with LCFS. Depending on the source of RNG, the value of LCFS credits can be between $5 and $75 per million British Thermal Units (MMBTU); this value is in addition to the commodity value of the gas itself. The federal Renewable Fuel Standard (RFS) also creates a system of credits, called RINs, for which RNG can be eligible. As with the LCFS, the source of the RNG can affect the resulting RIN value. Importantly, the same unit of RNG can qualify for both the LCFS and the RFS, significantly increasing its value. Combined, these two policies result in a total value for RNG that can range from $15 to $100[6] per MMBTU, of which only around $3 is represented by the commodity value of the gas.

[6] *See* IHS Markit, *OPIS Carbon Market Report* (Released Feb. 14, 2019), which reported a Week Average LCFS credit price of $197 and Month to date averages values for D3 RINs of $1.83 and D5 RINs of $0.54.; California Air Resources Board, *LCFS Fuel Pathway Lookup Table* (last updated Jan. 28, 2019) (carbon intensity ranges), *available at* https://www.arb.ca.gov/fuels/lcfs/fuelpathways/pathwaytable.htm; California Air Resources Board, *The LCFS Credit Price Calculator* (Oct. 24, 2018) (LCFS Calculator), *available at* https://www.arb.ca.gov/fuels/lcfs/dashboard/creditpricecalculator.xlsx.

Other policies have focused on the use of biogas for electric generation (sometimes up-graded to RNG and sometimes burned in its raw form at the point of production). In California, for example, Senate Bill 1122 created a feed-in-tariff program (BioMAT) that requires 250 MW of procurement for electricity from bioenergy projects. The BioMAT program uses a standard long-term contract and a market-based mechanism to arrive at offered contract prices for eligible projects. RNG produced in California is also eligible for the state's Renewable Portfolio Standard. However, since BioMat launched in 2016, program participation has remained low.[7]

The Utilities are not aware of any programs at the state level to promote RNG use in the residential, commercial, or industrial sectors. The proposed RNG Tariff will provide a market for RNG in these non-transportation sectors. Additionally, when combined with SB 1440, these two utility procurement programs could provide stability to the RNG market by helping to drive the demand for RNG, creating market forces that would increase supply and lower the overall cost. Providing an additional RNG market is important as currently, over 70% of the natural gas vehicles in California operate using RNG.[8] As the transportation market moves closer to saturation, stationary markets will become increasingly important to the continued development of the industry and attainment of California's climate goals.

Unlike the RNG sector, policies and programs promoting renewable electricity for use in homes and businesses have existed for decades. The first voluntary renewable power programs were introduced over twenty years ago,[9] and electric utilities in 37 states now offer voluntary

[7] BioeneRNGy Market Adjusting Tariff Program Review and Staff Proposal (Oct. 30, 2018) at 1, *available at* http://www.bioenergyca.org/wp-content/uploads/2018/11/BioMAT-Program-Review-Staff-Proposal.pdf.
[8] SoCalGas analysis of LCFS Quarterly Data reported by CARB for Q3 2018—available online at https://www.arb.ca.gov/fuels/lcfs/lrtqsummaries.htm.
[9] Environmental Protection Agency, History of Voluntary Markets, *available at* https://www.nrel.gov/docs/fy06osti/38994.pdf.

green pricing programs.[10] Utilities in California offering voluntary green pricing programs to their customers include PG&E, SDG&E, and LADWP. In addition, in compliance with statutes and California Public Utilities Commission (CPUC) rules, California electric utilities are including increasing amounts of renewable power in their general portfolios.[11]

Because of these policies and programs, there exist relatively well-established markets for buying and selling renewable electricity. In contrast, the market for the purchase and sale of RNG is underdeveloped. For example, RNG prices are not tracked and published, leading to a lack of market liquidity. The Utilities believe that mandatory and voluntary utility procurement programs will support the development of a more robust and liquid RNG market.

III. A VOLUNTARY TARIFF COMPLEMENTS A BROADER RENEWABLE GAS PROCUREMENT PROGRAM IN ACHIEVING CARBON NEUTRALITY GOALS

In 2018, the CPUC, in consultation with the California Air Resources Board (CARB), was directed by the legislature in SB 1440 to consider adopting specific biomethane procurement targets or goals for gas utilities. Presumably, the goal of SB 1440 is to provide a cost-effective means of achieving reductions in short-lived climate pollutants, support organic waste disposal reduction targets, and encourage the development of in-state bioenergy resources. As stated in CARB's Short-Lived Climate Pollutant Reduction Plan, "[p]ractical solutions must be developed and implemented to overcome barriers to waste gas utilization for pipeline injection and grid interconnection."[12] Providing offtake agreements for this RNG and delivering it to participating

[10] National Renewable Energy Laboratory, Voluntary Green Power Procurement, available at https://www.nrel.gov/analysis/green-power.html (number of states included in the "utility green pricing programs" spreadsheet, available at https://www.nrel.gov/analysis/assets/docs/utility-green-pricing-program-list.xlsx).

[11] See CPUC, *California Renewables Portfolio Standard*, *available at* http://www.cpuc.ca.gov/RPS_Homepage/.

[12] California Air Resources Board, *Short-Lived Climate Pollutant Reduction Strategy* (Mar. 2017) at 3, *available at* https://www.arb.ca.gov/cc/shortlived/meetings/03142017/final_slcp_report.pdf.

core customers as proposed in this application is an important part of the solution. The capture and beneficial reuse of fugitive methane from organic sources will support the strategy for achieving California's 2030 greenhouse gas reduction target as described in the 2017 Climate Change Scoping Plan.[13]

SoCalGas supported the legislative initiative to reduce short-lived climate pollutants (SB 1383) and the associated biomethane procurement program envisioned by SB 1440. The Utilities believe that gas utilities can play a similar role as electric utilities in supporting the development of the RNG industry, with the goal of reducing costs and increasing the supply of renewable thermal energy options for customers.

A utility procurement program that provides a percentage of RNG to all core customers (SB 1440) will provide the foundation for decarbonization and encourage long-term contracts that will help lower costs for both the mandatory and voluntary programs. The Utilities are proposing a voluntary program now because it will complement a mandatory program and be an important building block that will allow customers that want additional decarbonization options to replace their traditional natural gas use with RNG. Together, the two programs—mandatory and voluntary—are important steps and will contribute to achieving the State's climate and carbon-neutrality goals.

IV. CONCLUSION

For all of the reasons discussed above, a voluntary renewable gas tariff will support the State's carbon neutrality goals by providing customers an option to select renewable gas for their thermal energy needs.

This concludes my prepared direct testimony.

[13] See *California's 2017 Climate Change Scoping Plan* (Nov. 2017) at 25, *available at* https://www.arb.ca.gov/cc/scopingplan/scoping_plan_2017.pdf.

V. QUALIFICATIONS

My name is Tanya Peacock. My business address is 555 West Fifth Street, Los Angeles, California, 90013-1011. I am employed by SoCalGas as Public Policy and Planning Manager. I have worked for SoCalGas since 1994. My previous responsibilities at SoCalGas include Policy Analyst, Energy Programs Supervisor, Regulatory Policy Manager, Public Policy Manager and Environmental Policy Manager. I received a Bachelor of Arts in English Literature from Mills College and a Masters' Degree in Regional Planning from Cornell University.