Review of CPUC Role with the Public Interest Energy Research (PIER) Program on Natural Gas

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Overview of Authority for PIER Natural Gas Program

• Assembly Bill (AB) 1002 (stats. 2000, Ch. 932), establishing a natural gas customer surcharge to fund gas-related public purpose programs (PPP) for:
  – low-income customer assistance,
  – energy efficiency, and
  – public interest research and development.

• The PPP surcharge applies to all non-exempt gas consumers including customers served directly by interstate pipelines. (Those exempt are electric generators and enhanced oil recovery customers.)

• CPUC Decision (D.) 04-08-010, issued August 19, 2004, implemented AB 1002 for the authorized surcharges and programmatic expenditures involving investor-owned utilities.

• The public interest research and development program is called the Public Interest Energy Research program on Natural Gas (“PIER NG”).

• D.04-08-010 defined permissible public interest R&D programs to mean R&D activities:
  "directed towards developing science or technology,  
  1) the benefits of which accrue to California citizens and 
  2) are not adequately addressed by competitive or regulated entities." (D.0408010 at 25.)
Permissible Scope for PIER NG Projects

• D.04-08-010 provided general criteria for R&D*: 

  1. Focus on energy efficiency, renewable technologies, conservation and environmental issues;
  2. Support State Energy policy;
  3. Offer a reasonable probability of providing benefits to the general public; and
  4. Consider opportunities for collaboration and co-funding opportunities with other entities.

• Allowed the program administrator flexibility to choose worthwhile research projects within scope

*D.0408010 at 28.
Selection of the PIER NG Administrator

The CPUC considered three potential program administrators – CEC, University of California, and the investor-owned utilities (IOUs).

– The IOUs were excluded due to findings of potential conflicts of interest. (D.04-08-010 at 31.)
– Both UC and CEC offered a public interest focus and expertise in statewide research.

The CEC was chosen as the gas R&D administrator because:

1) CEC's central mission was the development and support of public policy for energy development and use across California;

2) CEC already administered public interest electric R&D research, offering expected administrative efficiencies and program synergies in a single organization administering both gas and electric public interest R&D programs; and

3) CEC is subject to the Bagley-Keene Open Meeting Act and the Public Records Act requirements that help ensure public accountability.
CPUC Role and Procedures for Funding PIER NG Program

- CPUC Decision 04-08-010 establishes the CPUC’s authority regarding the PIER NG program, including:
  - setting the surcharge to fund it,
  - resolving administration, funding, project approval, and other matters, while
  - not intending to “micromanage” the CEC in its program administration, recognizing the CEC’s extensive experience with state energy RD&D activities.

- PIER NG funding was originally based on calendar years but switched to fiscal years, to better align with the state budget cycle.

- CEC submits an annual report to the CPUC Energy Division describing PIER NG program activities in the previous years.

- Annually by March 31, the CEC submits to the CPUC a proposed budget for the following fiscal year. A typical CEC budget proposal:
  - highlights previous research, and
  - describes the research areas for which it requests funding.

- The CPUC staff reviews the CEC proposal, and upon our Commission’s resolution authorizing the CEC’s annual PIER NG budget, oversees project activities’ adherence to authorized research programs, budget parameters, and accomplishments.
CPUC and CEC Roles Regarding the PIER NG Research Plan

Illustrative research areas the CPUC has approved for funding:

- Energy efficiency
- Natural gas infrastructure reliability
- Environmental (land use, air, and water) impacts of natural gas production, storage, delivery, and use
- Natural gas transportation research (including NGVs)
- Natural gas supplies and alternatives (LNG, biogas)

CPUC and CEC Staff jointly discuss and shape needed research areas fitting within the confines of:

- CPUC’s overall framework for PIER NG funding and its permissible research objectives,
- State energy policy parameters (e.g. laws, Energy Action Plan and its resource “loading order”, California Energy Efficiency Strategic Plan, Renewable Portfolio Standard targets, AB 32 GHG Reduction Scoping Plan, and the California Clean Energy Future work plans),
- Formal and informal coordination with specific related efforts such as the
  1) Energy Efficiency Emerging Technologies Coordinating Council and programs supported by IOUs,
  2) California Solar Initiative RD&D component,
  3) Renewable stakeholder working groups to overcome common barriers and needs,
  4) Gas infrastructure safety and performance.
Establishing PIER NG Funding Levels

• The CPUC decision on funding levels considered:
  1) The funding level must provide for worthwhile public interest programs and the opportunity for reasonable program growth;
  2) The CPUC’s interpretation of AB 1002 and legislative intent, considering inflation, cost of gas, and numbers of customers and their consumption levels supporting the program; and
  3) Stakeholders’ (parties to the CPUC proceeding) recommendations, which ranged from $4.5 million per year to $24 million per year. The $24 million was the average of three methodologies based on:
     ▪ a percentage of gross operating gas revenues in-state,
     ▪ CEC’s estimate of utility R&D funding in the public interest in the 1990s, and
     ▪ comparison to the level of funding received by PIER Electric.  

(D.04-08-010 at 36-38.)

• D.04-08-010 established an escalating maximum funding for PIER NG, starting at $12 million per year in 2005 and rising by $3 million per year for the following four years.

• This reached $24 million for Fiscal Year 2009-2010, where the cap has remained, pending further direction from the CPUC.
Current CPUC Staff Review of PIER NG Program Accomplishments and Effectiveness

- Decision 04-08-010 allowed the CPUC to "assess the reasonableness of the funding level, and the overall R&D program", beginning in 2010. (D.04-08-010 at 38.)

- In September 2010, CPUC staff began its inquiry into the effectiveness of PIER NG and the CEC's program administration. The inquiry will address:
  - appropriateness of funds use and research projects selected relative to permissible research scope and public purpose definitions, and
  - overall effectiveness of the PIER NG program.

- Review methods are expected to include:
  - Analysis of CEC’s quantifiable research results,
  - Review of CEC contracting requirements and methods, and
  - Interviews with research contractors on research management, outcomes, and administration.

- The findings of the inquiry will be:
  - presented to the CPUC and CEC in a staff report, and
  - are expected to be used by the CPUC in addressing the future funding, administration, and scope of the PIER NG program.