

01-008

-Lost and Unaccounted for Gas Topic

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Principles for Addressing Cost Recovery for Lost and Unaccounted Gas

- Utilities Should Adopt Clear and Consistent Approach to Identifying LUAF, Including LUAF That Results From Gas Lost to Atmosphere
- The PUC Should Adopt A Consistent Approach to Rate Recovery for LUAF
- Rate Recovery should align financial incentives to eliminate both intentional and unintentional methane leaks from the gas system

Lost and Unaccounted for Gas

The difference between the amount of gas metered into a pipeline system and the amount metered out of that system.

Causes: Leakage, Condensation, Meter Error, Venting, Theft

EDF is concerned about gas that is lost to the atmosphere.

Many Public Agencies and Researchers Have Noted the Need to Address LUAF

- EPA estimated that consumers pay approximately \$192,000,000 per year for gas leaks.
 - EPA Office of Inspector General, July 25, 2014: Improvements Needed In EPA Efforts to Address Methane Emission from Natural Gas Distribution Pipelines
- Allowing full recovery for LAUF gas fails to incentivize reduction of gas leaks.
 - Romany Webb, *Lost but not forgotten: The hidden environmental costs of compensating pipelines for natural gas losses* (2015), Kay Bailey Hutchison Center for Energy, Law & Business.
- America Pays for Gas Leaks, Report Prepared for Ed Markey (July 2013)

Safety and Energy Division

- Rate recovery should be structured so utilities have a financial incentive to “to eliminate both intentional and unintentional methane leaks from the gas system.”
 - Safety and Energy Division, *Survey of Natural Gas Leakage Abatement Best Practices* (March 2015) at p. 24.

California Should be a Leader

- California has the most forward looking, comprehensive approach to reducing methane leaks.
 - Rate recovery reform should follow this lead.
- States including New York, Georgia, New Mexico, Arizona, Idaho have made efforts to curb recovery for LUAF, either on a statewide basis or for specific utilities

Current Reporting of Lost Gas

- 1371 Reports Identify Leakage based on emission factors
- GO112F Reports Began Reporting LUAF for 2017
- Both Reported in Mmcf.

Current Reporting of LUAF

- Advice Letters Report LUAF in Thermal Units (Dth/mmmbtu)
 - Does not distinguish between Gas Lost to the Atmosphere and Other LUAF
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Verification of LUAF Amounts

Utilities Have A Different Approach to Identifying/Rate Recovery LUAF

- **PG&E**

- Shrinkage Allowance.
- Last Comprehensive Study of LUAF components and contribution of leakage completed in 1985, elements of LUAF updated in 2003, 2014

SoCalGas/SDGE:

- Recovers Through TCAP.
- Last study completed in 2006

Gas Lost To The Atmosphere (2015-2016, Estimated)

2015: 6,601 Mmcsf

2016: 6,267 Mmcsf

Total: 12,868 Mmcsf*

**Estimated Cost to Ratepayers:
\$36,802,480**

*CARB/SED 2017 Report

+estimated based on 2018 WACOG of \$2.86/mcf

Costs By Utility

PG&E: 6,344,107 Mscf (2015-16)

(\$18,144,146)

SoCalGas: 5,476,873 Mscf

(\$15,663,856)

SDG&E: 564,800 Mscf

(\$1,615,328)

Southwest Gas: 431,633 Mscf

(\$1,234,470)

How Should Rate Recovery Be Structured

SB 1371 Recognized The Need to Address The Mis-Alignment of Incentives

Public Utilities Code § 977 requires the Commission to consider an “adjustment of allowance for lost and unaccounted for gas related to actual leakage volumes.”

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Given that utilities currently receive full recovery for lost gas, this adjustment can only go down.

How should Rate Recovery Be Structured?

EDF's Position:

- Utilities Should Not Recover Costs of Gas Lost Due to Leakage (loss of gas to the atmosphere)
 - Sends the Right Economic Signal, especially where major new investments have been authorized to control lost gas
 - Potential unintended effects mitigated by CPUC oversight of 1371 plans

How should Rate Recovery be Structured?

- If PUC does not bar recovery entirely, utilities should not be able to recover more than 60% of 2015 emissions

Aligns with California's climate goals calling for 40% methane reduction established in SB 1383

Studies demonstrate that a large portion of gas lost to atmosphere is avoidable – and the state goal of 40% reduction is an estimate of this in the short run

Other States Limit Recovery for LUAF

- **NY State**

- Applies a fixed factor adjustment: if a gas distribution company exceeds the allowed level of gas purchases, the company absorbs the extra cost and is unable to recover it from ratepayers.

<http://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId=%7B0413ECDD-C194-46DE-8B04-AFDB3FBBE404%7D>

Arizona

- Applying 3.5% limit on LUAF recovery for utility with excessive LUAF levels. *E.g.*, Southern Union Gas Co., Ariz. Corporation Com., 1991 Ariz. Sec. LEXIS 205, at *6-9

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- Intermountain Gas Co., Idaho Pub. Util. Com., 2008 Ida. PUC LEXIS 145, at *16-17 (establishing a temporary 0.85% of throughput cap on recovery of LAUF gas due to a “significant increase”)

Georgia

Georgia Public Service Commission has established a minimum performance standard benchmark for at least one Georgia company, setting a benchmark range of 1.41-1.81% LAUF gas for the Atlanta Gas Company and establishing an escalating scale of financial penalties for exceeding that benchmark.

<http://www.psc.state.ga.us/factsv2/Document.aspx?documentNumber=58162>

Other Recommendations

- LUAF Reporting Should be Consistent Across Utilities
- LUAF Reporting Should Identify Gas lost due to leakage either intentionally or unintentionally (e.g. gas lost to the atmosphere) – separate from other components in the LUAF calculation
- Utilities Should Be Responsive to Requests for Data Regarding LUAF and Leakage