Overview

» Understand how the proposed methodology fits within the flexible compliance plan framework

» Understand areas of improvement to target largest emitters

» Gain clarity on the scope and requirements of the 26 proposed mandatory best practices via an updated best practices report
Senate Bill 1371
Natural Gas: Leakage Abatement

Senate Bill (SB) 1371 seeks to advance the state’s goals in reducing emissions of greenhouse gases, giving priority to:

- Safety and reliability.
- Impact on affordability of gas service for customers as a result of the incremental costs.
Proposed Methodology

» Develop a common cost methodology to relatively rank best practices
  - Analogous to the emissions calculations for the annual reports

» Submit annual portfolios of best practices in a flexible compliance plan framework
  - Enables a transparent selection and implementation process
Proposed Steps for Common Methodology

1. **Rank** emission reduction work by cost effectiveness using a common cost model.

2. **Review proposed work within rate cases** and evaluate emission reduction synergies.

3. **Select emission reduction activities** based on relative ranking
   - Clearly outline if proposed mandatory best practices are not feasible to implement. (e.g. differences in operator systems, not commercially available, technology limitations, etc.)
   - Pilot studies to verify costs and performance for future adoption may be included.
   - Additionally, include any activities focused on research, pilots, or any work targeted at addressing super emitters.

Best practices not included in the last rate case should be charged to a 2-way balancing account for interim cost recovery, which the Commission may approve in its Phase 1 decision.
SB1371 Cost Effectiveness Methodology

- **Capital Costs**
  - Determine Net Present Value of Best Practices Capital Costs;
  - May include cost of engines, portable compressors, vapor recovery systems, piping, thermal oxidizers, over life of equipment

- **O & M Costs**
  - Determine Net Present Value of Equipment and labor, etc.
  - May include staff, supervision, clerical, monitoring, testing, lab work, analysis, recordkeeping systems, training, surveys, travel, report preparation, etc.

- **Gas Savings**
  - Estimate Volume of Gas Reduced (MCF methane) and cost;
  - Note that Gas flared/ combusted cannot be monetized;
  - Recovered gas volumes can be monetized to reduce overall best practices costs

- **$/MCF Gas**
  - Divide combined capital and O&M Costs by volume of gas reduced to get $/MCF value; adjust for monetized gas savings if applicable.
Ensuring Focus on Super Emitters

» Each compliance plan to add provisions to show progress for super emitters so that operators are not only selecting cost-effective measures to implement, but working to reduce and/or identify super emitters sooner.

» Activities may include Research and Development, pilot projects, and partnerships with external stakeholders.
Summary

» Use common methodology to relatively rank best practices.
  ▪ Enables operators to target the low hanging fruit first.

» Develop strategies in a flexible compliance plan framework that address each company’s specific system emissions and any applicable proposed mandatory best practices.

» Best practices not covered in general rate cases should be charged to a 2-way balancing account for interim cost recovery.
Next Steps

» Collaborate with stakeholders to clarify the requirements of the 26 proposed mandatory best practices

» Discuss the appropriate scope of which best practices should be evaluated using a common methodology

» Incorporate the clarity on the best practices and adopt a common methodology in an updated SED/ARB best practices report before the Phase 1 decision
Appendix
Phase 1 Decision Authorizing New Environmental Regulations Balancing Accounts (NERBA)

» Two-way balancing account intended to record costs where: (1) uncertainty as to the scope, magnitude, and mechanics of the compliance requirements associated with new, proposed, or evolving environmental rules or regulations; and (2) potential for incurring significant incremental costs.

» Example from SoCalGas/SDG&E Settlement Agreement with EDF adopted in the 2016 General Rate Case (GRC) (D.16-06-054):
  - To the extent costs associated with compliance with SB 1371 exceed the forecasted costs for Leak Detection and Repair (LDAR) during the GRC cycle, . . . Parties support, and will seek any additional necessary regulatory authority to clarify that the recovery of those costs is permissible using the adopted NERBA for the duration of the GRC cycle.
  - The Commission may authorize similar 2-way balancing accounts for PG&E and Southwest Gas in its Phase 1 Decision.