BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Implement Dairy Biomethane Pilot Projects to Demonstrate Interconnection to the Common Carrier Pipeline System In Compliance with Senate Bill 1383.	R.17-06-015 (Filed June 15, 2017)

REPLY COMMENTS OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) AND SAN DIEGO GAS & ELECTRIC COMPANY (U 902 G) TO THE DRAFT SOLICITATION

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Pursuant to the California Public Utilities Commission (Commission or CPUC) Energy Division's request at the January 31, 2018 Workshop on the Draft Solicitation (Workshop), Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) respectfully submit their Reply Comments on the Joint Utility Draft Solicitation for Senate Bill (SB) 1383 Pilot Projects (Draft Solicitation).

I. H2S REMOVAL FOR DAIRY PROJECTS.

In its opening comment, California Bioenergy LLC (CalBio) asserts that there is a change in the Draft Solicitation from Decision (D.) 17-12-004 (Decision).[1] CalBio asserts that Section 4.0, Figure 1 of the Draft Solicitation is inconsistent with the Decision because it places the H2S and dewatering equipment prior to collection line injection. CalBio is incorrect. Section 4.0, Figure 1 of the Draft Solicitation was taken directly from the Decision[2] and shows the components eligible for funding. As stated in the Decision, "Dairy biogas **may** undergo dehydration and removal of hydrogen sulfide prior to being injected into the gathering line. Treatment equipment for dehydration and removal of hydrogen sulfide, compression, and monitoring and measurement equipment **may** be included as part of the biogas collection lines."[3] As such, a dairy pilot project has the option to install H2S and dewatering equipment before the biogas enters the biogas collection lines (Lane 2 of Figure 1) and include these equipment costs under Applicant-Owned Pipeline Infrastructure. Alternatively, the dairy pilot project may install

[1] CalBio Opening Comment, pp. 10-11.
[2] See Decision, Appendix A, p. 7.
[3] Decision, Appendix A, p. 8 (emphasis added).

H2S and dewatering equipment as part of the Biogas Conditioning and Upgrading Facility (Lane 3 of Figure 1) and be responsible for 100% the costs. Therefore, the Draft Solicitation is consistent with the Decision.

CalBio also recommends the following modification to the Draft Solicitation which in essence is a modification to D.17-12-004:

> The current language of the solicitation reads "The following Pipeline Infrastructure components are eligible for funding: Biogas collection lines and facilities for treatment of biogas before it enters the collection lines (Lane 2 of Figure 1) – owned and operated by Applicant". CalBio recommends that it should be changed to read, "The following Pipeline Infrastructure components are eligible for funding: Biogas collection lines and dewatering facilities for treatment of biogas before it enters the collection lines (Lane 2 of Figure 1) and the H2S removal system after the biogas exits the collection line and before entering the gas upgrading system."[4]

SoCalGas and SDG&E disagree with CalBio's recommendation from a procedural and Pipeline Infrastructure definition perspective. As CalBio quoted in its opening comment, the Decision permitted the "treatment for these constituents (water and hydrogen sulfide) can occur **at the same time as all other constituents are treated**."[5] This means at Lane 3. CalBio attempts to create an additional lane between Lane 2 and Lane 3 that currently does not exist in the Decision. It is not procedurally appropriate to modify the Decision through comments to the Draft Solicitation. SoCalGas and SDG&E agree with the Decision that if H2S and dewatering equipment is not installed prior to the biogas collection lines, then the H2S and water removal equipment should be installed as part of the Biogas Conditioning and Upgrading Facility (Lane 3 of Figure 1) which is where all other constituents are treated.

II. PIPELINE CAPACITY AVAILABILTY.

CalBio expresses a concern that projects injecting into a distribution line may be at risk in the future should that pipeline experience a decrease in gas demand over time. CalBio also states: "This is especially the case if there is one large customer on that line. All parties want to ensure the long-term viability of projects and the wise expenditure of ratepayer funds."[6] SoCalGas and SDG&E agree it is in the best interest of all parties to mitigate risk when possible.

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[4] CalBio Opening Brief, p. 11.
[5] Decision, p. 19.
[6] CalBio Opening Brief, p. 10.

However, SoCalGas and SDG&E do not share CalBio's concerns about the level of risk that projects may face in the future due to a decrease in gas demand on a particular pipeline. SoCalGas and SDG&E take into consideration a variety of factors when determining their takeaway capability to accept interconnector gas at a particular location. If there is a pipeline that has capacity for a particular project and that pipeline is reliant on a limited number of large customers for available capacity, SoCalGas does not view that pipeline as a viable option and would find an alternate pipeline. The approach and methodology for determining available capacity on a pipeline is not new to the utilities. That approach and methodology is equally applicable to a biomethane producer and a California producer.

III. COST INCURRED PRIOR TO THE EFFECTIVE DATE OF THE DECISION SHOULD NOT BE ELIGIBLE FOR REIMBURSEMENT.

Maas Energy Works Inc. (Maas Energy) suggests that Applicant-Owned Pipeline Infrastructure costs incurred by pilot projects after the passage date of SB 1383 but before the pilot project is selected should be eligible for reimbursement. SoCalGas and SDG&E disagree with Mass Energy. Costs incurred prior to the effective date of the Decision (December 14, 2017) should not be eligible for reimbursement. If a dairy biomethane project incurred costs prior to the effective date of the Decision, it is reasonable to assume the dairy biomethane project did not plan on recouping these costs under the SB 1383 dairy pilot projects. Even though these previously incurred costs would not be eligible for reimbursement, it may benefit a dairy biomethane project for the solicitation because it contributes to project readiness and lowers the reimbursement amount for Applicant-Owned Pipeline Infrastructure (results in a lower cost per GHG reduction).

IV. CONFIDENTIALITY OF SB 1383 SOLICITATION APPLICATIONS.

The Leadership Counsel for Justice and Accountability (Leadership Counsel) requests that all solicitation applications and reports be immediately and completely "available to the public by the state agencies to allow for review of community impacts and mitigation methods, documentation of community engagement, and other records."[7] While SoCalGas and SDG&E are supportive of transparency in the selection process and reporting of these pilot projects, SoCalGas and SDG&E are also cognizant that there may be certain information that the diary

[7] Leadership Counsel Opening Comment, p. 3.

biomethane projects and the utilities deem to be confidential, commercially sensitive, and a trade secret. In addition, there may be certain information that utilities are prohibited from disclosing pursuant to applicable law. For example, SoCalGas and SDG&E will be providing each Applicant with a Pipeline Infrastructure Scoping and Cost Estimation report as part of the solicitation process and each report will contain pipeline attributes that are confidential including, but not limited to, pipeline diameters and operating pressures. All such confidential information must be redacted from the solicitation applications before they may be made public.

V. REIMBURSEMENT MECHANISM FOR APPLICANT-OWNED PIPELINE INFRASTRUCTURE.

In Opening Comments, SoCalGas and SDG&E recommended a milestone payment reimbursement structure for the Applicant-Owned Pipeline Infrastructure.[8] The milestone payment structure proposed by SoCalGas and SDG&E did not have a milestone requiring the selected dairy pilot projects to meet the forecasted renewable natural gas production volumes. CalBio and Maas Energy both raised this issue in their opening briefs.[9] Specifically, CalBio states: "One approach is that a certain percentage of the collection line payments from the ratepayers should be withheld until the projected output is reached. We would recommend this level at 20% and withheld for up to two years after COD."[10] SoCalGas and SDG&E agree that providing the last incentive payment after the selected pilot project reaches its forecasted renewable natural gas production volume is appropriate. As such, SoCalGas and SDG&E have revised the recommended milestone payment reimbursement structure for Applicant-Owned Pipeline Infrastructure as follows:

1. **Milestone Payment 1**: When a selected pilot project spends 35% of the approved bid amount for Applicant-Owned Pipeline Infrastructure, the selected pilot project may seek reimbursement of those costs by providing detailed vendor invoices and proof of payment(s) for materials/services provided to the Selection Committee for approval. The amount of reimbursement may not exceed the costs reflected by the invoices and proof of payment(s).

[8] SoCalGas and SDG&E Opening Comment, pp. 1-3.
[9] CalBio Opening Comment, pp. 8-9; Maas Energy Opening Brief, pp. 2-3.
[10] CalBio Opening Comment, p. 8.

2. **Milestone Payment 2**: When the selected pilot project spends 70% of the approved bid amount for Applicant-Owned Pipeline Infrastructure, the selected pilot project can seek reimbursement of those costs by providing detailed vendor invoices and proof of payment(s) for materials/services provided to the Selection Committee for approval. The amount of reimbursement may not exceed the costs reflected by the invoices and proof of payment(s).
3. **Milestone Payment 3**: Reimbursement payment up to 15% of the approved bid amount for Applicant-Owned Pipeline Infrastructure will be provided to the selected pilot project after meeting the 30 out of 40 days flow requirement as established in the Biomethane Monetary Incentive Program established in D.15-06-029, as modified by D.16-12-043:

   > Applicant to produce biomethane flow for 30 out of 40 days within the minimum and maximum measurement range of the meter. Applicant must declare in a written notice to the Utility at least two business days in advance, the specific start and end date of this 40 day testing period. The 30 out of 40 day requirement is extended 1 day for each day that the Applicant is unable to produce flow because of an interruption of delivery as set forth in Rule No. 23. Applicants may elect to restart the 40 day testing period by providing a new written notice declaring the new start and end dates at least two business days in advance of when the new 40 day testing period is to begin.

   Once the 30 out of 40 days flow requirement is met, the selected pilot project must provide the Selection Committee with detailed vendor invoices and proof of payment(s) for materials/services provided not to exceed 15% of the bid amount for Applicant-Owned Pipeline Infrastructure for approval. The amount of reimbursement may not exceed the costs reflected by the invoices and proof of payment(s).
4. **Milestone Payment 4**: The final reimbursement payment of up to 15% of the bid amount for the Applicant-Owned Pipeline Infrastructure will be provided to the selected pilot project after meeting the forecasted renewable natural gas production volume as provided in the solicitation application. Once this requirement is met, the selected pilot project must provide detailed vendor invoices and proof of payment(s) for materials/services provided not to exceed the

bid amount for Applicant-Owned Pipeline Infrastructure to the Selection Committee for approval. The amount of reimbursement may not exceed the costs reflected by the invoices and proof of payment(s). The final reimbursement payment will be available for 2 years, starting from the date the 30 out of 40 days flow requirement is met.

Respectfully submitted,

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