

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

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Order Instituting Rulemaking to Implement the
Commission's Procurement Incentive
Framework and to Examine the Integration of
Greenhouse Gas Emissions Standards into
Procurement Policies

CPUC Rulemaking 06-04-009

CEC Docket 07-OIIP-01

**COMMENTS OF LODI GAS STORAGE, L.L.C.
ON TYPE AND POINT OF REGULATION ISSUES
FOR THE NATURAL GAS SECTOR**

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Date: December 17, 2007

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Pursuant to the Administrative Law Judges' Ruling Requesting Comments On Type and Point of Regulation Issues for the Natural Gas Sector issued November 28, 2007 ("November 8, 2007 Ruling") and the Administrative Law Judges' Ruling Extending Deadline for Comments and Incorporating Responses to Staff Data Request on Natural Gas Issues, issued December 10, 2007 ("December 10, 2007 Ruling"), Lodi Gas Storage, L.L.C. ("LGS") here submits its comments on the issues raised and limited responses to the questions posed in the November 28, 2007 Ruling.

I. GENERAL COMMENTS

A. Description of LGS as a Natural Gas Storage Provider

LGS is an independent natural gas storage provider and is the owner and operator of the Lodi Gas Storage Facility in San Joaquin and Sacramento counties and the Kirby Hills Facility located in Solano County. Certificates of public convenience and necessity were granted for these facilities in D.00-05-048 and D.06-03-012 including complete CEQA review. LGS is required to comply with air quality standards contained in permits granted by the San Joaquin

Valley Air Pollution Control District for the Lodi Facility and the Bay Area Air Quality Management District for the Kirby Hills Facility.

In A.07-05-009, LGS has requested additional authority from the Commission to expand the Kirby Hills Facility. Environmental review has been completed by the CPUC as lead agency, and a decision is expected from the Commission in early 2008. LGS will again obtain all necessary permits from the Bay Area Air Quality Management District prior to operation. All facilities constructed by LGS reflect state-of-the-art technology and have consistently met the standards imposed by the air quality districts.

B. As a Contract Storage Provider, LGS Lacks Control of Natural Gas Source or End Use

By definition as a natural gas storage provider, LGS provides services to customers which elect to contract for storage capacity within the facilities as part of their supply strategies.¹ All natural gas is purchased by the customer upstream of LGS and title is held by the customer throughout the process. Further, natural gas delivered into LGS' facilities must be delivered via Pacific Gas & Electric Company (PG&E) to its interconnection with LGS prior to injection and all withdrawn natural gas must return to PG&E for additional transportation to the ultimate end users. Due to this mid-stream position, LGS does not know or in any way control the source of the natural gas or the use of the natural gas following withdrawal.² In this sense, the shipper's choice to move some gas directly to the end user and to store other gas with LGS before delivery to the end user does not have any impact on the use of gas or the greenhouse gas emissions resulting from the combustion of the natural gas.

¹ This section responds generally to Questions 3.4, Q8.

² LGS, for example, does not know if gas stored in its facilities will be used for electricity generation and thus included in the electricity sector.

The concept of natural gas storage does not have a counterpart on the electric side. As discussed in LGS' November 14, 2007 Comments on Allowance Allocations in this proceeding, any calculation of emissions based on volumes of natural gas injected into and then withdrawn from storage facilities would result in double or triple counting of those volumes already addressed as transportation volumes and ultimately consumed volumes by the end user. As such, LGS submits that midstream services should not be identified as a point of regulation.³

C. Infrastructure Use of Natural Gas and Fugitive Emissions

In the November 28, 2007 Ruling, issues were raised related to GHG emissions from operating the infrastructure used to deliver natural gas to end users within the State and fugitive emissions including from pipelines, storage facilities, and compressor stations.⁴ To some extent, LGS has already responded to these questions in its November 14, 2007 Reply Comments in which it explained that if any additional regulation is imposed on infrastructure, newer and cleaner facilities should not be penalized for their investment in advanced technology.

LGS notes that, as compared to most other California utilities, infrastructure use by LGS is quite small and has carefully monitored emissions. In the December 6, 2007 responses to the CPUC data request, LGS identified such use, mostly associated with its compressors. In contrast, the quantities used by the major distribution companies dwarfed LGS' figures.

With this in mind, LGS believes that any controls placed on GHG emissions from its own infrastructure use should (a) take into account the comparatively small volumes and emissions and (b) avoid penalizing entities such as LGS which already have clean operations.

³ LGS also noted this issue in its Responses to the Data Requests included in the December 10, 2007 Ruling as Attachment H.

⁴ Ruling p. 4, Q5(c) and (d)

Similarly, as noted in LGS' December 6, 2007 response to the data requests, LGS indicated that fugitive emissions were extremely small. As such, LGS submits that the administrative burden of calculating and administering any program would outweigh any limited reduction in emissions. LGS acknowledges that other entities with extensive distribution facilities may not have such limited fugitive emissions. Therefore, if a decision is made to treat fugitive emissions as a point source, LGS respectfully submits that a reasonable threshold level should be established to allow for smaller amounts, such as those associated with LGS, to be excluded from the program.

II. CONCLUSION

As previously noted, natural gas storage providers, such as LGS, do not fit into the electric model given the lack of any parallel entity to a storage provider in the electricity system. Due to that, LGS recommends that point of regulation occur at either end of the gas system (i.e., at the processing plant or pipeline or at the delivery point from the local distribution system) rather than at mid-stream storage facilities. In addition, LGS encourages the Commission to consider excluding small users of natural gas for infrastructure purposes and to impose regulation on fugitive emissions only when such emissions exceed a meaningful threshold.

LGS appreciates the opportunity to provide these comments and reserves its rights to reply to comments made by other entities under the established procedural schedule.

Respectfully submitted,

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Dated: December 17, 2007

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing, "**Comments of Lodi Gas Storage, L.L.C. on Type and Point of Regulation Issues for the Natural Gas Sector,**" by using the following service:

☒ **E-mail service:** sending the entire document as an attachment to twelve (12) e-mail messages, each addressed to 35 recipients, to all known parties of record to this proceeding who provided electronic mail addresses (see attached **Service List**).

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Executed this 17th day of December, 2007, at San Francisco, California.

/s/ Barbara A. Murphy
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