BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 G) for Authority to Revise their Curtailment Procedures	Application 15-06-020 (Filed June 26, 2015)

MOTION OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) AND SAN DIEGO GAS & ELECTRIC COMPANY'S (U 902 G) FOR INTERIM ORDER ESTABLISHING TEMPORARY DAILY BALANCING REQUIREMENTS

MICHAEL R. THORP

Attorney for:

SOUTHERN CALIFORNIA GAS COMPANY
SAN DIEGO GAS & ELECTRIC COMPANY
555 West 5th Street, GT14E7
Los Angeles, CA 90013
Telephone: (213) 244-2981
Facsimile: (213) 629-9620
E-mail: MThorp@SempraUtilities.com

Dated: March 1, 2016

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I. INTRODUCTION

Pursuant to Rule 11.1 of the Rules of Practice and Procedure of the California Public Utilities Commission (Commission), Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) hereby move the Commission for an interim order temporarily establishing 5% daily balancing on the SoCalGas and SDG&E systems. SoCalGas and SDG&E are seeking temporary daily balancing authorization in this proceeding because daily balancing will enhance reliability and protect against curtailments this summer and next winter. This temporary curtailment-reduction proposal would augment the proposals in this proceeding to modernize SoCalGas' and SDG&E's curtailment rules.

II. NEED FOR TEMPORARY DAILY BALANCING

A. SS-25 WELL LEAK

On October 23, 2015, SoCalGas discovered a leak at one of its injection and withdrawal wells—Standard Sesnon (SS)-25—at its Aliso Canyon natural gas storage facility, located in the northern part of the San Fernando Valley in Los Angeles County. After attempts to directly kill SS-25 were unsuccessful, on December 4, 2015, SoCalGas commenced drilling a relief well to stop the natural gas leak by plugging the leaking well at its base. On February 11, 2016, SoCalGas pumped in heavy fluids and successfully controlled the flow of gas out of the leaking well; and on February

12, 2016, SoCalGas began to pump cement from the relief well into the base of the well. On February 18, 2016, the California Division of Oil, Gas and Geothermal Resources (DOGGR) confirmed that SS-25 has been permanently sealed and taken out of service.

B. FUTURE LIMITATIONS ON ALISO CANYON

Aliso Canyon is subject to regulatory orders that currently prevent injections into the field:

- On December 10, 2015, DOGGR issued an order requiring SoCalGas to maximize withdrawals from Aliso Canyon to reduce reservoir pressure to aid in the control and sealing of SS-25, and prohibiting injections at Aliso Canyon until DOGGR authorizes them; and
- On January 21, 2016, the Commission ordered SoCalGas to take all reasonable steps necessary to reduce working gas at Aliso Canyon to 15 billion cubic feet (BCF).

Consistent with these directives SoCalGas has reduced measured working inventory at Aliso Canyon to approximately 20 BCF—which provides a 5 BCF margin for losses from the SS-25 leak.

DOGGR is requiring a battery of tests at each Aliso Canyon well before DOGGR will approve injections through that well, and DOGGR recently issued new requirements for all of SoCalGas' underground storage fields that could limit injections at those fields as well, at least in the near term. Moreover, Senate Bill (SB) 380 would impose an immediate moratorium on natural gas injections at Aliso Canyon (and restrict withdrawals until certain conditions are met); and SB 875, 876, and 877 call for more regulation, inspections, and integrity verification for all gas storage facilities.

C. RELIABILITY EFFECT OF LIMITATIONS ON ALISO CANYON

If SoCalGas is not allowed to start refilling Aliso Canyon soon, the low level of working inventory at the field could have an effect on reliability in the months to come. Although SoCalGas

withdraws more gas from Aliso Canyon during the winter operating season, Aliso Canyon is a crucial element in our operations throughout the year. Aliso Canyon is used to meet peak electric generation demands in the summer and shoulder months. On high electric generation days the SoCalGas system will be strained and gas from Aliso Canyon is vital to meeting electric generation load. This problem will be compounded if injections or withdrawals at SoCalGas' other three storage fields are also subject to near-term limitations.

Electric generation is not a steady load, and on summer days tends to peak in the late afternoon and early evening as people come home from work and turn on their air conditioners. When this happens, the hourly load can be substantially higher than a 24-hour sendout figure would suggest. Gas is delivered from the interstates on a substantially flat hourly basis, so gas from storage is crucial to "fill in" the heavy hourly swings. Gas from SoCalGas' storage fields is close enough to the electric generators to be able to balance the system in a way flowing supply cannot. And since Aliso Canyon is by far the largest source of storage supplies available to the Los Angeles basin, it plays a crucial role in maintaining electric grid reliability.

The role played by Aliso Canyon in meeting electric generation demand is described in the *Analysis of Los Angeles Basin's 2016 Energy Demand and the Role of Aliso Canyon Storage* (Analysis) issued by the Commission's Energy Division on February 16, 2016:

> While daily peak demand in summer is less than in winter, electric generation needs in the Los Angeles Basin creates rapid localized peaks in demand. The electric generation demand in the Los Angeles basin frequently results in peak hourly demand over portions of the day that are substantially higher than the rate reported for the entire day. These hour-by-hour spikes in demand require a rapid supply of gas to power plants that is able to be provided only through withdrawals from Aliso Canyon. As discussed previously, since natural gas moves through the pipelines between 20 and 30 miles per hour, it is not possible to import gas by pipeline from outside the Los Angeles basin to the electric plants in time to meet the electricity system's needs for quick ramping of these electrical generation facilities.

. . .

> As previously discussed, storage can also be critical to meeting sudden spikes in local demand such as when a large electric generator begins operation to meet local electrical demand. The close proximity of Aliso Canyon storage to gas-fired power plants in the Los Angeles Basin allows use of Aliso Canyon storage gas to respond quickly to the short-term spikes in demand that often cannot be met on a timely basis by flowing supplies.[1]

The summer months are also the primary time for compliance and maintenance, including the Pipeline Safety Enhancement Plan and pipeline integrity projects. These projects frequently reduce system capacity, which can restrict the availability of flowing supply. As explained by the Energy Division:

> Gas stored at Aliso Canyon helps to meet gas system demand when overall demand exceeds the capacity of interstate pipelines to bring gas into the Los Angeles Basin. Storage can also be critical when capacity of the gas Backbone Transmission System is limited due to maintenance or reduced interstate gas flows. In the summer of 2015, backbone capacity to deliver gas into the Los Angeles Basin was severally limited due to planned repairs, which are often required for safety reasons. Similar repairs are planned for this summer, and delaying these repairs could create other safety and operational risks.[2]

Current inventory levels at Aliso Canyon are below the levels needed to sustain the 1-in-10 reliability level that we plan for—i.e., they will not preserve the usual levels of reliability for electric generators, gasoline refineries, and other noncore customers. Current inventory levels may not even be adequate to provide core customers with uninterrupted service during a 1-in-35 peak day event. And the reliability situation could become even worse if there are additional limitations on Aliso Canyon withdrawals, or significant limitations on injections or withdrawals at our other storage fields.

The Energy Division explains the reliability situation we will be facing so long as SoCalGas is unable to inject supplies into Aliso Canyon and use those supplies to meet customer needs:

[1] Analysis at 8 and 9.
[2] Analysis at 8-9.

> Analysis of the full impact on the electric system if storage from Aliso is not available is ongoing. However, initial studies indicate that even with 15 Bcf in storage now, as the 15 Bcf is drawn down over the course of the summer, it will be increasingly difficult for SoCalGas to respond to increases in electric generation demand and therefore likely that electric generation in the LA Basin relying on gas from Aliso Canyon will be curtailed.
>
> . . .
>
> Historical data demonstrates that withdrawals from Aliso Canyon have been regularly used to meet Los Angeles basin demand—particularly when flowing supplies through pipelines are constrained and when electric demand peaks and triggers the need for rapid dispatch of gas supply to electrical generators within the Los Angeles Basin.
>
> As Table 6 shows, from 2012 to 2015, SoCalGas withdrew gas from Aliso Canyon to meet demands on most days in the winter and on almost half of the days during summer. If SoCalGas had continued to withdraw gas from Aliso Canyon at continued withdraw rates below 15 Bcf, there would be no capacity to withdraw gas during the late winter into the summer. Without that withdraw capacity, significant risk exists that noncore customers will be curtailed if severe weather occurs.
>
> Further, if abnormally hot weather occurs in Southern California, the further reduction of gas supplies from Aliso Canyon below 15 Bcf further jeopardizes SoCalGas' capability to respond, even in a limited manner, to peaks in electric demand met by gas-fired electric generation this summer.[3]

D. TEMPORARY NEED FOR DAILY BALANCING

SoCalGas and SDG&E are able to offer our customers a very generous 10% monthly balancing tolerance, with no daily balancing requirement on non-Operational Flow Order (OFO) days, because of the substantial storage assets on the SoCalGas system. With Aliso Canyon currently unavailable for anything other than limited withdrawals of the remaining working inventory in order to stave off curtailments, and with potential temporary limitations on injections and withdrawals at SoCalGas' other three storage fields while SoCalGas works to meet the new

[3] Analysis at 2 and 9-10 (Table 6 omitted).

statewide testing and certification requirements, the generous balancing service that SoCalGas and SDG&E currently provide does not make sense.

The supplies that would otherwise be provided by Aliso Canyon need to come from somewhere, and daily balancing will help bring additional flowing supplies to the SoCalGas and SDG&E systems on a regular and fairly uniform basis. Moreover, a 5% daily tolerance will still provide our shippers and end-use customers with more flexibility than provided by many interstate pipelines. Daily balancing will not eliminate the potential for curtailment in the upcoming months, or even bring us back to a 1-in-10 reliability level—the size and location of Aliso Canyon provide reliability benefits that cannot be replicated via flowing supplies without large-scale pipeline and compression projects. But daily balancing will still put us and our customers in a much better reliability position than they would be without it.

III. TEMPORARY DAILY BALANCING TERM

SoCalGas and SDG&E propose that daily balancing be effective for one year from the date of adoption, unless terminated earlier by order of the Commission. SoCalGas and SDG&E further request that the Commission act on our daily balancing request no later than May 1, 2016, so that daily balancing can be implemented during the upcoming summer season as well as the winter of 2016-2017.

SoCalGas and SDGE& also propose that they be authorized to seek extension of daily balancing for successive one-year terms via Tier 2 advice filings. This extension process is needed because of the potential for Aliso Canyon and SoCalGas' other storage facilities to be operating at reduced capacity beyond the spring of 2017.

IV. RELATIONSHIP OF DAILY BALANCING TO EXISTING OFO/EFO REQUIREMENTS AND MONTHLY BALANCING REQUIREMENTS

Daily balancing would not change any of SoCalGas and SDG&E's existing High Operational Flow Order (OFO) provisions, or our Low OFO and Emergency Flow Order (EFO)

provisions. However, because the High OFO daily positive imbalance tolerance is 10%, as a practical matter SoCalGas and SDG&E would not need to call High OFOs so long as 5% daily balancing is in place. Likewise, as long as daily 5% balancing is in effect, SoCalGas and SDG&E would not need to call OFOs with less stringent tolerances than 5%. But .Low OFOs or EFOs could still be required if operational needs dictate tighter negative imbalance tolerances than 5%. Daily balancing noncompliance charges would be in addition to any OFO or EFO noncompliance charges.

Daily balancing also would not change SoCalGas' or SDG&E's existing monthly balancing requirements. Even with 5% daily balancing requirements, a separate 10% monthly balancing tolerance is still needed to prevent customers from accumulating imbalances over a number of months. Daily balancing noncompliance charges would be in addition to any monthly noncompliance charges.

V. DAILY BALANCING PROPOSAL

SoCalGas and SDG&E propose that the Commission authorize us to temporarily adopt 5% daily balancing requirements with the following terms and conditions:

- Customers will be required to deliver (using a combination of flowing supply, storage withdrawal, and storage injection) at least 95% and no more than 105% of their usage each day (+/-5%) (the Daily Transportation Tolerance).
- Quantities not in compliance with these daily delivery requirements will be subject to a daily tolerance noncompliance charge. The daily tolerance noncompliance charge is equal to 150% of the highest daily border price index at the Southern California border. The highest daily border price index is an average of the highest prices from "NGI's Daily Gas Price Index - Southern California Border Average" and "ICE Daily Indices - SoCal Border.
- The Daily Transportation Tolerance shall apply to all customers other than California

Gas Producers who are financially responsible for managing and clearing transportation imbalances (Balancing Agents), including wholesale customers, Contracted Marketers, Core Transport Agents, and the Utility Gas Procurement Department.

- The Daily Transportation Tolerance will not apply to California Producers. Per D.07-08-029, California Producers are already subject to producer-specific imbalance procedures that require them to monitor and manage gas delivery imbalances on a weekly basis.[4]
- Daily measurement quantities and proxies for daily measurement quantities used to determine Daily Transportation Tolerance compliance and charges are the same as those used to determine Low OFO compliance and charges.
- Daily tolerance noncompliance charges collected from noncore customers are allocated to the Core Fixed Cost Account.
- Daily tolerance noncompliance charges collected from core customers are allocated to the Noncore Fixed Cost Account.

The provisions described above, including the interim term and extension request process, are set forth in the redlined SoCalGas Rule 30 and SDG&E Rule 30 pages set forth in Attachment A to this Motion.

VI. CONCLUSION

For the reasons set forth above, SoCalGas and SDG&E respectfully request that the Commission issue an interim order authorizing 5% daily balancing on the SoCalGas and SDG&E systems on a temporary basis, and that the Commission approve the proposed Rule 30 revisions

[4] SoCalGas would need to suspend these existing procedures, once again apply monthly balancing to California Producers (who are currently not subject to monthly balancing), and undo a substantial amount of information technology programming in order to make California Producers subject to the 5% daily balancing requirements.

provided in Attachment A. These temporary changes will be a strong, positive step towards enhancing reliability and protecting against curtailments as SoCalGas works to fulfill all of the new regulatory requirements relating to Aliso Canyon and its other storage fields.

Respectfully submitted,

By: */s/ Michael R. Thorp*
MICHAEL R. THORP

Attorney for:

SOUTHERN CALIFORNIA GAS COMPANY
SAN DIEGO GAS & ELECTRIC COMPANY
555 West 5th Street, GT14E7
Los Angeles, CA 90013
Telephone: (213) 244-2981
Facsimile: (213) 629-9620
E-mail: MThorp@SempraUtilities.com

Dated: March 1, 2016

Attachment A

SoCalGas Rule 30 and SDG&E Rule 30 Pages

Rule No. 30 Sheet 28 T
TRANSPORTATION OF CUSTOMER-OWNED GAS

(Continued)

M. Warranty and Indemnification

1. The customer warrants to the Utility that the customer has the right to deliver gas hereunder and that such gas is free from all liens and adverse claims of every kind. Customer will indemnify, defend and save the Utility harmless against all loss, damage, injury, liability and expense of any character where such loss, damage, injury, liability or expense arises directly or indirectly out of any demand, claim, action, cause of action or suit brought by any person, association or entity asserting ownership of or any interest in the gas tendered for transportation hereunder, or on account of royalties, payments or other charges applicable before or upon delivery of gas hereunder.

2. The customer shall indemnify, defend and save harmless the Utility, its officers, agents, and employees from and against any and all loss, costs (including reasonable attorneys' fees), damage, injury, liability, and claims for injury or death of persons (including any employee of the customer or the Utility), or for loss or damage to property (including the property of the customer or the Utility), which occurs or is based upon an act or acts which occur while the gas is deemed to be in the customer's control and possession or which results directly or indirectly from the customer's performance of its obligations arising pursuant to the provisions of its service agreement and the Utility's applicable tariff schedules, or occurs based on the customer-owned gas not meeting the specifications of Sections I or J of this rule.

N. Daily Balancing Requirements

Daily Balancing Requirements will be effective for one year from (date of Commission approval) for one year unless terminated earlier by order of the Commission. Utility requests for one year extensions of daily balancing rules will be subject to Commission approval via a Tier 2 advice filing.

The following rules will be used to implement Daily Balancing:

- Customers will be required to deliver (using a combination of flowing supply and storage withdrawal) at least 95% and no more than 105% of their usage each day (+/-5%) (Daily Transportation Tolerance).

- Quantities not in compliance with these daily delivery requirements will be subject to a daily tolerance noncompliance charge. The daily tolerance noncompliance charge is equal to 150% of the highest daily border price index at the Southern California border. The highest daily border price index is an average of the highest prices from "NGI's Daily Gas Price Index - Southern California Border Average" and "ICE Daily Indices - SoCal Border."

- The Daily Transportation Tolerance shall apply to all customers, other than California Gas Producers, who are financially responsible for managing and clearing transportation imbalances (Balancing Agents), including wholesale customers, Contracted Marketers, Core Transport Agents, and the Utility Gas Procurement Department. California Gas Producers shall remain subject to existing producer-specific imbalance procedures that require them to monitor and manage gas delivery imbalances on a weekly basis.

Rule No. 30 Sheet 28 T

TRANSPORTATION OF CUSTOMER-OWNED GAS

(Continued)

N. Daily Balancing Requirements (Continued)

- Daily measurement quantities and proxies for daily measurement quantities used to determine Daily Transportation Tolerance compliance and charges are the same as those used to determine Low OFO compliance and charges.

- Daily tolerance noncompliance charges collected from noncore customers are allocated to the Core Fixed Cost Account.

- Daily tolerance noncompliance charges collected from core customers are allocated to the Noncore Fixed Cost Account.

RULE 30

TRANSPORTATION OF CUSTOMER-OWNED GAS N

N. Daily Balancing Requirements

Daily Balancing Requirements will be effective for one year from (date of Commission approval) for one year unless terminated earlier by order of the Commission. Utility requests for one year extensions of daily balancing rules will be subject to Commission approval via a Tier 2 advice filing.

The following rules will be used to implement Daily Balancing:

- Customers will be required to deliver (using a combination of flowing supply and storage withdrawal) at least 95% and no more than 105% of their usage each day (+/-5%) (Daily Transportation Tolerance).

- Quantities not in compliance with these daily delivery requirements will be subject to a daily tolerance noncompliance charge. The daily tolerance noncompliance charge is equal to 150% of the highest daily border price index at the Southern California border. The highest daily border price index is an average of the highest prices from "NGI's Daily Gas Price Index - Southern California Border Average" and "ICE Daily Indices - SoCal Border."

- The Daily Transportation Tolerance shall apply to all customers who are financially responsible for managing and clearing transportation imbalances (Balancing Agents), including wholesale customers, Contracted Marketers, Core Transport Agents, and the Utility Gas Procurement Department.

- Daily measurement quantities and proxies for daily measurement quantities used to determine Daily Transportation Tolerance compliance and charges are the same as those used to determine Low OFO compliance and charges.

- Daily tolerance noncompliance charges collected from noncore customers are allocated to the Core Fixed Cost Account.

- Daily tolerance noncompliance charges collected from core customers are allocated to the Noncore Fixed Cost Account.