

DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Item #20 (Rev. 1)

ID #13199

RESOLUTION G - 3488

August 28, 2014

ENERGY DIVISION

R E S O L U T I O N

Resolution G - 3488. Southern California Gas Company requests approval of a revision to the company's Schedule No. G-BTS, Backbone Transportation Service. The request seeks authorization to allow discounted firm G-BTS contracts without alternate receipt point rights.

PROPOSED OUTCOME:

- This resolution approves revisions to the Southern California Gas Company Schedule No. G-BTS, Backbone Transportation Service that allow discounts to Firm Backbone Transportation Service without alternate receipt point rights.
- The costs resulting from the revision are to be recorded, on an interim basis, in the Backbone Transportation Balancing Account.
- The allocation of the costs of these discounts shall be addressed in the next Triennial Cost Allocation (TCAP).

SAFETY CONSIDERATIONS:

- This resolution concerns activities to maintain system reliability. These activities have an indirect impact on safety since they are taken to avoid curtailments to customers some of whom may provide essential services.

ESTIMATED COST:

- *Unknown*

By Advice Letter 4517 Filed on July 2, 2013

SUMMARY

This resolution approves the requested revisions and authorizes Southern California Gas Company (SoCalGas) to record the costs of the proposed

discounts to firm BTS without alternate receipt point rights in the Backbone Transportation Balancing Account (BTBA) on an interim basis until the question of which account is most appropriate for booking the costs is clarified in the next Triennial Cost Allocation (TCAP).¹ This resolution also recognizes that there may be a lack of clarity as to which account is most appropriate for booking the cost of discounts to interruptible BTS.

Southern California Gas Company (SoCalGas) submitted Advice Letter (AL) 4517 on July 2, 2013 requesting authorization to revise its G-BTS, Backbone Transportation Service (BTS) schedule to allow for discounted firm BTS without alternative receipt point rights. **The requested revision is intended to be used as an additional tool to manage Southern System reliability.** The resolution acknowledges the potential usefulness of the additional tool.

We recognize that there is a conflict between the Commission decision that allows for additional tools for maintenance of the Southern System reliability and the two decisions governing BTS. The conflict concerns the account to which the costs should be recorded and as a result, to whom costs will be allocated.

Currently SoCalGas is following the direction provided in D. 06-12-031 and D. 11-04-032 concerning BTS and is recording the costs of discounts to interruptible BTS in the BTBA. SoCal Gas is recording the cost of tools for Southern System reliability maintenance other than BTS discounts in the System Reliability Maintenance Account (SRMA).

BACKGROUND

The SoCalGas Southern System requires certain minimum amounts of flowing supply in order to operate reliably. Decision (D.) 07-12-019 transferred responsibility for maintaining this minimum flow requirement from SoCalGas Gas Acquisition (GA) to the System Operator (SO).² The Decision also

¹ The next TCAP is scheduled to begin in 2015.

² The System Operator constitutes “the SoCalGas departments responsible for the operation of its transmission system, including storage, hub services, pooling services, receipt point access, offsystem deliveries, and system reliability. the System Operator

Footnote continued on next page

authorized the use of spot purchases, gave authority to conduct requests for offers (RFO) or an open season process consistent with SO needs as tools for use in managing Southern System reliability; and, provided for requests for authorization of additional tools through the Advice Letter process. **D.07-12-019 requires that the costs of maintaining the Southern System be recorded in the SRMA.**

Independent of the needs of the Southern System, **SoCalGas has the authority to provide discounted interruptible Backbone Transportation Service (BTS).** SoCalGas Schedule G-BTS authorizes the discounting of interruptible BTS capacity and the authority to vary those discounts by receipt point. **As required by D.06-12-031, the costs of these discounts are to be recorded in the Backbone Transportation Balancing Account (BTBA).**

The SO has used discounts to interruptible BTS as one method to maintain Southern System minimum flow requirements. Discounts only at Southern System receipt points for customers with interruptible BTS capacity provide an incentive to flow supply into the Southern System. Conversely a customer who decides to move its supply to a non-Southern System receipt point is charged the non discounted rate for that non-Southern System receipt point. Consistent with D.06-12-031 the costs incurred when the discounts have been applied were recorded in the BTBA.

Discounts are also authorized for firm G-BTS rates. However, unlike those for interruptible service, all firm service, including that provided at a discount, has alternate receipt point rights. That is, customers who purchased discounted firm service have the right to nominate their natural gas for delivery at any receipt point inside or outside of the Southern System and receive the discounted rate. As such, the customer maintains their flexibility and there is no incentive to deliver into the Southern System. **As with discounts to interruptible service the costs of discounts to firm service must be recorded in the BTBA.**³

functions explicitly exclude the Gas Procurement Department which will not be involved in any of the system-related operational activities.” D.07-12-019, mimeo., at 58.

³ Firm access rights (FAR) are governed by D.06-12-031. This decision requires that the costs of FAR flow through the BTBA. D.11-04-032 is consistent with this requirement, stating that all BTS costs and revenues flow through the BTBA.

Advice Letter 4517 seeks the Commission's authorization to sell discounted BTS firm capacity that does not have alternative receipt point rights. This would allow SoCalGas to provide an incentive to firm customers to deliver into the Southern System consistent with the incentive provided by discounting interruptible service.⁴

In AL 4517 SoCalGas refers to the requested authorization as "another potential tool to help it maintain minimum flows on the SoCalGas Southern System."⁵ A subsequent response to a data request indicated that the only intended use of the requested tool is for maintaining Southern System reliability.

NOTICE

Notice of AL 4517 was made by publication in the Commission's Daily Calendar. SoCalGas states that a copy of the Advice Letter was sent to parties listed on

⁴ The requested authorization requires additional wording in Section 3 of the "Nominations and Balancing" section of the Special Conditions in G-BTS. The added wording is underlined:

Unless otherwise indicated in a discounted contract, customers holding firm Backbone Transportation Service capacity will be able to nominate natural gas for delivery on an alternate "within the zone" firm basis from any specific Receipt Point within an applicable transmission zone. Unless otherwise indicated in a discounted contract, customers will also be able to nominate natural gas for delivery on an alternate "outside-the-zone" firm basis from any receipt point on the system. All such nominations will be scheduled in accordance with Rule No. 30, Transportation of Customer-Owned Gas.

In addition, the request proposes that a new box with the language "Use of this capacity is restricted to the indicated receipt point and cannot be exchanged for capacity to another receipt point" be added to the Backbone transmission Service Contract. This change would be reflected in the SoCalGas MSC - Schedule L.

SoCalGas Advice Letter 4517, p. 2.

⁵ SoCalGas Advice Letter 4517, p. 1.

Attachment A to the Advice Letter which includes parties in the 2009 BCAP, A.08-02-001 and 2013 TCAP, A.11-11-002.

PROTESTS

Advice Letter AL 4517 was timely protested by Indicated Producers (IP).⁶ The protest requests that the Commission approve the Advice Letter “but clarify that the costs of the firm and interruptible discounts SoCalGas provided to support the southern System flow requirement must be recovered like the costs of other tools: through the System Reliability Memorandum Account (SRMA).”⁷

The IP protest contends that the method used by SoCalGas to record the costs of the discounts and, as a result, the recovery of these costs, is inappropriate. The protest states, “Recovery of the discount costs from BTS shippers is not consistent with the Commission’s original directive regarding Southern System tools.” The protest accurately notes that D.07-12-019 “authorized certain tools to manage the [minimum flow] requirement and adopted SoCalGas’s proposal that the ‘costs associated with the minimum flow requirements for system reliability’ be allocated to all customers.” The protest continues using SoCalGas’s explanation of establishment of the SRMA. Referencing SoCalGas testimony concerning the SRMA, the protest notes that “SoCalGas plans to record future system reliability costs and applicable revenues in the SRMA.... The balance in the SRMA will be allocated...to all customers in connection with SoCalGas annual regulatory account balance filing.”⁸

The IP protest comments further that, not only would recovery of discount costs from BTS shippers under the proposed new discounted firm service be in conflict with D.07-12-019, but also that the current treatment of costs for discounts to interruptible BTS, i.e. recording those costs in the BTBA and recovery of the costs

⁶ The Indicated Producers include, for the purposes of the Protest, Chevron U.S.A. Inc., BP Energy Co., ConocoPhillips Company and Occidental energy Marketing Inc.

⁷ Protest of the Indicated Producers to Southern California Gas company Advice Letter 4517. p. 1.

⁸ Ibid., p. 2.

from BTS shippers, is in conflict with D.07-12-019. The protest states that both the costs of current interruptible and the proposed firm BTS discounts should be recorded in the SRMA and allocated to all customers.

SoCalGas replied to the protests of the Indicated Producers on July 29, 2013.

The SoCalGas reply does not dispute the conflict between the decisions. Rather, SoCalGas simply references the decisions governing BTS discount costs as the basis for its practice of recording these costs in the BTBA. The reply states that “The precursor to the BTBA was established by the commission in the original firm access rights decision, D.06-12-031. In the FAR [Firm Access Rights] update proceeding, the Commission reestablishes that all BTS costs and revenues flow through the BTBA.”⁹ The reply makes no reference to D.07-12-019 requirement that the cost of meeting Southern System minimum flow requirements be recorded in the SRMA. The reply does, however, acknowledge that “As a practical matter, some of our customers would likely wish to have BTS discounts continue to be included in the BTBA, while others, such as the IPs, may want to change the existing regulatory treatment. Which view a particular customer would take would likely depend on their commercial circumstances....”¹⁰

The SoCalGas reply notes that, based on Commission decisions governing BTS, the cost of any discount is to be recorded in the BTBA. The reply states that the IP’s protest requests a change to ratemaking for BTS discounts and is outside the scope of the advice letter filing. The reply further states that the request is appropriately addressed either through a petition for modification of the appropriate Commission decision(s) or as a topic in the next Triennial Cost Allocation Proceeding (TCAP).

DISCUSSION

This resolution approves the requested revisions to the SoCalGas Schedule No. G-BTS, Backbone Transportation Service with modification. The revisions

⁹ Reply to Protest of SoCalGas Advice No. (AL) 4517 – Revisions to Schedule No. G-BTS, Backbone Transportation Service. p. 2.

¹⁰ Ibid., p. 2.

are intended to provide an additional tool, discounted firm BTS without alternative receipt point rights, for managing Southern System minimum flow requirements. Discounted interruptible BTS service has been used effectively as a tool to manage Southern System reliability and the revisions allowing for discounts to firm BTS without alternate receipt point rights will duplicate this positive effect.

The Commission supports the use of the proposed discounts. There is no dispute that discounts to firm BTS without alternate receipt point rights will potentially be effective helping manage Southern System reliability. The IP protest recommends that SoCalGas be allowed to offer discounted firm BTS at the Ehrenberg receipt point to support the Southern System minimum flow requirement.¹¹ There were no other protests and in the past other Southern System customers have commented on the effectiveness of the use of BTS discounts for interruptible BTS.

We acknowledge that there is lack of clarity and possibly a conflict between Commission decisions concerning where the costs of the discounts should be recorded. The revisions are intended to provide an additional tool, discounted firm BTS without alternative receipt point rights, for managing Southern System minimum flow requirements. D.07-12-019 states that the costs of managing Southern System minimum flow requirements, including the cost of tools implemented for that purpose be recorded in the SRMA. D.06-12-031 and D.11-04-032 require that the costs of discounts to BTS be charged to the BTBA. Consistent with the two BTS decisions, SoCalGas has recorded the costs of interruptible BTS discounts in the BTBA and proposes to record the costs of the proposed new tool, discounts to firm BTS without alternate receipt point rights also in the BTBA.

The issue of which accounts are most appropriate for booking the costs of discounts to firm BTS without alternate receipt point rights and the cost of discounts to interruptible BTS with the goal of ensuring Southern System

¹¹ IP's recommendation that Commission authorize the use of discounts to firm G-BTS at the Ehrenberg is qualified by the statement that it be "on a short term basis." Ibid., p. 3.

reliability should be addressed in the next Triennial Cost Allocation proceeding.

The advice letter process is not the appropriate venue in which to resolve the conflict between the decisions. We agree with SoCalGas on the need for customer input and an opportunity to be heard. The topic should be addressed in the next Triennial Cost Allocation unless a customer or SoCalGas files a petition for modification to one or more of the decisions in the interim.

Until the conflict between decisions concerning the use of the correct account is resolved in the next TCAP or if sooner through a petition for modification, SoCalGas shall continue with its current practice of recording discounts to interruptible BTS to the BTBA. The costs of discounts for firm BTS without alternate receipt point rights will also be recorded in the BTBA. However, these costs will not be allocated until the appropriate account is agreed upon and then these costs will be allocated consistent with that account.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived or reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from the date the draft resolution was mailed.

On August 15, 2014 SoCalGas provided comments. The comments express their appreciation and support for the resolution. Additionally, the comments “respectfully requests that the Draft Resolution be modified to specifically authorize the change to SoCalGas’ MCS-Schedule L that SoCalGas proposed in advice No. 4517. This Schedule is the Commission-approved contract for firm BTS rights, and the change to the contract proposed by SoCalGas – the addition

of a new box to be checked for transactions without alternate receipt point rights – is needed to make the contract consistent with the new authority provided by the Draft Resolution.”¹²

The requested modifications will add clarity and have been incorporated into the Resolution.

FINDINGS AND CONCLUSIONS

1. The SoCalGas Southern System requires certain minimum flowing supplies in order to operate effectively.
2. Decision 07-12-019 made the SoCalGas System Operator responsible for Southern System minimum flows and approved the use of certain “tools” to manage the flows. The Decision also allowed for the approval of additional tools through the Advice Letter process.
3. Decision 07-12-019 requires that the costs of managing the Southern System minimum flow requirement and therefore, the costs associated with the “tools” used to manage that requirement be recorded in the System Reliability Maintenance Account (SRMA). Costs in the SRMA are allocated to all customers.
4. The SoCalGas System Operator has used discounts to interruptible Backbone Transportation Service (BTS) as an incentive for customers with interruptible BTS to flow supply to Southern System receipt points. As required by Decision 11-04-032, SoCalGas has charged the costs of these discounts to the Backbone Transportation Balancing Account (BTBA). Costs in the BTBA are allocated to BTS customers.
5. SoCalGas can offer discounted firm BTS. However, all firm BTS, including discounted firm BTS has alternative receipt point rights. The discount is applied no matter the receipt point. As such there is no opportunity for discounts to firm BTS to provide an incentive to move supply to the Southern System. Decision 06-12-031, later affirmed by Decision 11-04-032, requires that the costs of discounts to firm BTS be charged to the BTBA.

¹² Comments of Southern California Gas Company on Draft Resolution G-3488. August 15, 2015. p. 1.

6. Advice Letter 4517 requests authority to offer discounted firm BTS without alternative receipt point rights for use as a tool to manage Southern System minimum flow requirements. The discounts would only apply when supply from firm customers is delivered to Southern System receipt points.
7. There is agreement that discounts to firm BTS without alternate receipt point rights will be an effective tool to help manage Southern System reliability.
8. Advice Letter 4517 was protested by the Indicated Producers (IP). The IP protest asserts that, as a tool to manage Southern System minimum flow requirements, the costs of both interruptible and firm discounted BTS, must be recorded, per Decision 07-12-019, in the SRMA. The protest recommends that the Commission should approve Advice Letter 4517 on an interim basis but clarify that the costs of both interruptible and firm BTS discounts used to manage Southern System reliability be charged to the SRMA.
9. SoCalGas replied to the IP protest stating that BTS discounts are governed by Decision 06-12-031 and Decision 11-04-032 that require recording costs in the BTBA. The reply asserts that the protest by IP seeks a change to ratemaking, requires the input of all customers and is beyond the scope of the Advice Letter process.
10. SoCalGas' request for authorization to offer discounted firm BTS without alternative receipt points and to record the cost of the discounts to the BTBA should be approved on an interim basis. Discounts to interruptible BTS have been used effectively as an incentive to deliver supply to the Southern System. The requested authorization would extend this incentive to firm BTS customers and provide an additional tool to manage Southern System minimum flow requirements. The authorization incorporates the required insertion of language into Schedule G-BTS, Section 3 of the 'Nominations and Balancing' section of Special Conditions, and the addition, in Master Services Contract - Schedule L, of a check-off box to and wording to the contract for firm BTS rights indicating those transactions without alternative receipt point rights. These changes are presented in AL 4517.
11. The question of where the costs of both interruptible BTS and firm BTS discounts should be recorded when used to manage Southern System minimum flow requirements should be included as a topic and resolved through the next SoCalGas Triennial Cost Allocation Proceeding which will be initiated in 2015. Until this question is answered, SoCalGas shall continue with its current practice and record the costs of discounts to interruptible BTS to the BTBA. Costs for discounts to firm BTS without alternate receipt point rights shall be recorded in the BTBA but such costs shall not be allocated until

a determination is made in the TCAP regarding the appropriate account to be used.

THEREFORE IT IS ORDERED THAT:

1. The request of the Southern California Gas Company to revise Schedule No. G-BTS, Backbone Transportation Service and the Master Services Contract - Schedule L, in Advice Letter 4517 is approved with modifications.
2. Southern California Gas Company shall include the issue of where/in which account the costs discounted interruptible and firm Backbone Transportation Service used in managing Southern System minimum flow requirements shall be recorded as a topic to be resolved in the next Triennial Cost Allocation Proceeding to be initiated in 2015.
3. Until determined per paragraph 2, above, Southern California Gas Company shall continue to record costs for discounted interruptible Backbone Transportation Service in the Backbone Transportation Balancing Account.
4. Southern California Gas Company shall record costs for discounts to firm Backbone Transportation Service without alternate receipt point rights in the Backbone Transportation Balancing Account but shall not allocate such costs until the appropriate account is determined per paragraph 2, above.
5. Within 30 days of this resolution SoCalGas shall file a Tier 1 Advice Letter including tariffs with the revisions for discounts to firm Backbone Transportation Service without alternate receipt point rights and incorporating for discounts to both interruptible and firm Backbone Transportation Service a description of where discount costs will be recorded and how and when such costs will be allocated.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on August 28, 2014; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director