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PROPOSED DECISION

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Decision PROPOSED DECISION OF ALJ MASON (Mailed May 1, 2015)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Gas Company (U904G) and San Diego Gas & Electric Company (U902G) for Low Operational Flow Order and Emergency Flow Order Requirements.

Application 14-06-021
(Filed June 27, 2014)

DECISION GRANTING APPLICATION OF SOUTHERN CALIFORNIA GAS COMPANY AND SAN DIEGO GAS & ELECTRIC COMPANY FOR LOW OPERATIONAL FLOW ORDER AND EMERGENCY FLOW ORDER REQUIREMENTS

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**DECISION GRANTING APPLICATION OF SOUTHERN CALIFORNIA GAS
COMPANY AND SAN DIEGO GAS & ELECTRIC COMPANY FOR LOW
OPERATIONAL FLOW ORDER AND EMERGENCY FLOW ORDER
REQUIREMENTS**

Summary

This Decision grants the application of Southern California Gas Company and San Diego Gas & Electric Company for low operation flow order and emergency flow order requirements.

Within one year from the issuance of this decision, Southern California Gas Company and San Diego Gas & Electric Company shall report to the Commission regarding the safety-related benefits of the low operation flow order and emergency flow order requirements.

This proceeding is closed.

1. Background**1.1. The Application**

On June 27, 2014, Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) (hereinafter referred to collectively as the Applicants) filed an application for Low Operational Flow Order (OFO) and Emergency Flow Order (EFO) Requirements (Application). Applicants also served the prepared direct testimony of Paul Borkovich, Beth Musich, and Steve Watson.

Applicants assert that the need for OFO and EFO requirements is driven by the limitations of existing winter balancing rules. They claim that in December 2013 and February 2014, SoCalGas and SDG&E had to curtail standby procurement service for non-core customers and instituted emergency curtailment of electric generation customers on February 6 and 7, 2014. Curtailment is the reduction of gas deliveries due to a shortage of supply or

because demand for a service exceeds a pipeline's capacity. Prior to the curtailment, Applicants assert that they were operating under their winter balancing, 5-day/50 percent balancing rules. (See SoCalGas Rule 30, Section G and SDG&E Rule 30(G).) Marketers, suppliers, and customers were able to divert flowing supply to higher-value markets that were being affected by abnormally cold weather conditions. But this diversion of flowing supply led to over reliance on storage withdrawals to meet demand. In order to avoid widespread end-use customer curtailments, it was necessary to curtail standby procurement service.

In view of this recent experience, Applicants request authorization to replace their winter balancing rules with OFO and EFO procedures similar to those implemented by Pacific Gas and Electric Company (PG&E) and set forth in PG&E's Rule 14. Applicants propose to trigger a low OFO when they forecast that the 340 million cubic feet per day (MMcfd) of storage withdrawal allocated to balancing will be exhausted. Applicants also propose that they be authorized to invoke EFOs when they forecast or actually experience a supply and/or capacity shortage that threatens deliveries to end-use customers.

Unless the proposed changes are approved, Applicants maintain that they will likely need to use curtailments of standby procurement service and noncore curtailments more frequently in order to provide operational stability and protect service to higher priority customers.

Applicants proposed an expedited schedule that would result in a Commission decision being issued in December 2014.

1.2. The Protests and Responses

On August 4, 2014, PG&E, Southern California Generation Coalition (SCGC), the Office of Ratepayer Advocates (ORA), and Indicated Shippers (IS) filed protests.

On August 4, 2014, Southern California Edison Company (SCE) and Shell Energy North America (US), L.P. (Shell), filed responses.

On August 11, 2014, The Utility Reform Network (TURN) late-filed a protest.

Some of the protests raised concerns over the expedited schedule and, instead, suggested a schedule that would take the case well into 2015.

Some of the protests also asserted that the relief sought in the Application was improper because it breached the settlement agreement entered into by SoCalGas in the Triennial Cost Allocation Proceeding (TCAP Settlement).¹ For example, IS alleged that the TCAP Settlement prevents SoCalGas from proposing a low OFO tariff during the settlement period, which expires on December 31, 2015. Yet no protester filed a motion to dismiss the Application.

1.3. The Prehearing Conference

The prehearing conference (PHC) was held on August 19, 2014. Applicants, PG&E, IS, SCE, Shell, TURN, and ORA appeared.

In addition, CalPeak Power, LLC (CalPeak) appeared at the PHC and moved to become a party to the proceeding. CalPeak's oral motion was granted.

¹ Application (A.) 11-11-002; Decision (D.) 14-06-007, Attachment III.

2. Scope of the Proceeding

After reviewing the Application, protests, responses, PHC statements, and the transcript from the PHC, the following issues were made part of the scope for resolution:

- Should the Applicants' proposed noticing deadlines be adopted?
- Should the Applicants' proposed noticing deadlines be different than those used by PG&E?
- Should Schedule G-IMB be based on either: (1) the highest index price for gas supply that can be delivered to the SoCalGas system as proposed by Applicants; or (2) the SoCalGas city gate price?
- How will the triggers for non-compliance thresholds be set?
- Are Applicants' proposed OFO and EFO trigger calculations reasonable?
- Does the Triennial Cost Allocation Proceeding (A.11-11-002) Phase 2 Settlement Agreement preclude implementation of a low OFO procedure prior to the end of 2015?
- Should Applicants revise their gas curtailment and OFO rules so that they are based on rules similar to those used by PG&E?
- What level of compensation should a customer receive if its gas is involuntarily diverted for the benefit of other customers?
- What are the safety impacts, if any, related to OFO and EFO rules as compared to the balancing rules that the Applicants currently have in place?

3. Evidentiary Hearing and Documents Admitted into Evidence

The evidentiary hearing was held on December 8, 2014. The following documents were admitted into evidence:

Exh. No.	Title	Sponsoring Party
1	Prepared Direct Testimony of Beth Musich	SoCalGas and SDG&E
2	Prepared Supplemental Direct Testimony of Beth Musich	SoCalGas and SDG&E
3	Prepared Rebuttal Testimony of Beth Musich	SoCalGas and SDG&E
4	Prepared Direct Testimony of Steve Watson	SoCalGas and SDG&E
5	Prepared Rebuttal Testimony of Steve Watson	SoCalGas and SDG&E
6	Prepared Testimony of Laird Dyer	Shell
7	Prepared Direct Testimony of Paul Borkovich	SoCalGas and SDG&E
8	Prepared Rebuttal Testimony of Paul Borkovich	SoCalGas and SDG&E
9	Revised Direct Testimony of Robert Grimm	SCE
10	Direct Testimony of Catherine E. Yap	SCGC and Indicated Shippers
11	Testimony of Peter E. Koszalka	PG&E
12	Prepared Rebuttal Testimony of David M. Bisi	SoCalGas and SDG&E
13	Prepared Supplemental Direct Testimony of Gwen Marelli	SoCalGas and SDG&E

4. Pre- and Post-Hearing Briefing

On December 1, 2014, SCGC filed its brief on elimination of winter balancing rules and implementation of a low OFO procedure prior to the end of 2015.

On December 1, 2014, SoCalGas and SDG&E filed a brief on whether the 2013 TCAP settlement precluded implementation of a low OFO procedure prior to the end of 2015.

On January 1, 2015, the following parties filed opening briefs: SoCalGas and SDG&E; SCE; and SCGC.

On January 5, 2015, Shell and IS filed their opening briefs.

On January 12, 2015, the following parties filed their reply briefs: IS; SCGC; SoCalGas and SDG&E; Shell; and PG&E.

5. Discussion of Legal Issue

The TCAP Phase 2 Settlement Agreement Does Not Preclude the Implementation of a low OFO Procedure Prior to the End of 2015. There are three provisions that we must analyze in resolving this legal issue. First, the 2009 Biannual Cost Allocation Proceeding (BCAP) Phase 1 Settlement Agreement that the Commission adopted in D.08-12-020 contained a balancing provision that states: SDG&E/SoCalGas shall not during the settlement period institute a “low OFO” (Operational Flow Order) procedure and shall withdraw their proposal for such a procedure from their testimony in Phase 2 of this proceeding.²

Second, the termination of the BCAP Phase 1 Settlement was established in Paragraph 2 of the BCAP Phase 1 Settlement and states: “This SA shall be in

² D.08-12-020, Attachment 1 (Phase 1 Settlement) at 5.

effect for six years (2009-2014 inclusive), and shall terminate on December 31, 2014.”³

Third, the 2013 TCAP Settlement states the following under Paragraph 5, bearing the heading “Storage:”

- a. SoCalGas shall receive full rate recovery by SoCalGas of its Honor Rancho Expansion Project costs.
- b. The 2009 BCAP Phase 1 Settlement Agreement shall be extended through the end of 2015.⁴

Read together, SoCalGas and SDG&E assert that the 2013 TCAP Settlement provision extended the storage-related provisions of the 2009 BCAP 1 Settlement through December 31, 2015. In contrast, the 2013 TCAP Settlement did not extend the non-storage provisions of the 2009 BCAP Phase 1 Settlement, including the prohibition against SoCalGas and SDG&E from instituting a low OFO provision during the settlement term. In other words, the BCAP Phase 1 Settlement contained both storage-related provisions and balancing provisions, and that the extension of the BCAP Phase 1 Settlement through the end of 2015 only applies to the storage-related provisions.

But SCGC disagrees with this conclusion.⁵ First, it argues that the BCAP Phase 1 Settlement was extended, *via* the TCAP Settlement through the end of 2015.⁶ In making this argument, SCGC quotes the same language from paragraph 5(b) of the TCAP Settlement that is quote above in this decision. It

³ *Id.* at 3.

⁴ D.14-06-007, Attachment III (2013 TCAP Settlement) at 5.

⁵ IS raised a similar argument in its protest. (Protest at 3, citing D.08-12-020.)

⁶ SCGC Brief at 2-3.

asserts its position is consistent with this Commission's decision in D.14-06-007 that was issued on June 12, 2014. Second, SCGC argues that the entirety of the BCAP Phase 1 Settlement was storage related, meaning that there was no bifurcation between storage-related provisions and balancing provisions.⁷ Finally, SCGC concludes that the TCAP Settlement "unambiguously extended the entirety of the BCAP Phase 1 Settlement as extending the 2009 BCAP Phase 1 Settlement in its entirety through the end of 2015."⁸

In reviewing the pertinent documents, this issue is resolved in favor of the Applicants. First, the scoping memo and ruling in A.08-02-001⁹ divided the proceeding into two phases: Phase 1 being devoted to issues related to storage; and Phase 2 being devoted to issues related to cost allocations, demand forecast, rate design, and "whether the applications' request to revise the monthly balancing tolerances should be adopted."¹⁰ Second, in D.08-12-020, which approved the BCAP Phase 1 Settlement, the Commission notes that the BCAP Phase 1 Settlement resolved storage and balancing provision issues: "The Settlement Agreement addresses all of the Phase One issues, and the balancing issues that were to be addressed in Phase Two."¹¹ This statement is confirmed by the discussion under the heading "Balancing" of Paragraphs 9, 10, and 11 of the BCAP Phase 1 Settlement:

⁷ *Id.*

⁸ *Id.* at 3.

⁹ In the Matter of the Application of San Diego Gas & Electric Company (U 902 G) and Southern California Gas Company (U 904 G) for Authority to Revise Their Rates Effective January 1, 2009.

¹⁰ A.08-02-001 scoping memo and ruling at 7.

¹¹ D.08-12-020 at 2.

The scoping memo had planned to address the balancing issues in Phase Two of this proceeding. However, the settling parties agreed to resolve certain balancing issues in Paragraphs 9, 10, and 11 of the Settlement Agreement.

In Paragraph 9 of the Settlement Agreement, the parties agreed to allocate 4.2 Bcf of storage inventory capacity, 200 MMcfd [million cubic feet per day] of injection capacity, and 340 MMcfd of withdrawal capacity to the balancing function. The parties also agreed as to how the revenue requirement for these allocated capacities will be derived, and that the combined core customers of SDG&E and SoCalGas shall only be allocated a share of the balancing costs for the storage injection and withdrawal capacities.

The parties agreed in Paragraph 10 of the Settlement Agreement to discuss whether an optional enhanced balancing service could be offered. The idea behind this service is to allow noncore customers to pay for greater balancing tolerances than are provided for in the tariffs. Such a service will not be proposed for the term of the Settlement Agreement unless the settling parties mutually agree.

In Paragraph 11 of the Settlement Agreement, SDG&E and SoCalGas agreed to withdraw their proposal in Phase Two of this proceeding to reduce the current 10% monthly balancing requirement to 5%. The utilities agreed to maintain, for the term of the Settlement Agreement, all imbalance tolerances in effect as of August 22, 2008, including the 10% monthly tolerance and current daily imbalance tolerances that are applicable to nominations in excess of system capacity and imbalances during the winter operating periods. The utilities also agreed not to institute a low OFO procedure during the term of the settlement, and to withdraw their proposal in Phase Two of this proceeding for such a procedure.¹²

Third, in the TCAP Settlement, the language dealing with the extension of the 2009 BCAP Phase 1 Settlement was under the heading "Storage." Although

¹² *Id.* at 22-23.

SCGC claims that D.14-06-007 extended the entirety of the BCAP Phase 1 Settlement, the decision's language upon which SCGC relies is under the heading "8.3.5. Storage" and subheading "8.3.5.2. Extension of the 2009 Phase 1 Settlement Agreement" wherein the decision states: "Settling Parties propose extending the 2009 Phase 1 Settlement Agreement through the end of 2015."¹³

Accordingly, we conclude that the language of the TCAP Settlement does not preclude the Commission's consideration and authorization to implement a low OFO procedure prior to the end of 2015.

But even if we were to reach the contrary conclusion advocated by SCGC and IS, we could still grant Applicants the relief they seek *via* this application. Pursuant to Pub. Util. Code § 1708, the Commission can rescind or alter a previous decision or order:

The commission may at any time, upon notice to the parties, and with opportunity to be heard as provided in the case of complaints, rescind, alter, or amend any order or decision made by it. Any order rescinding, altering, or amending a prior order or decision shall, when served upon the parties, have the same effect as an original order or decision.

The Commission has interpreted this provision as giving it the authority to change a previous decision as long as due process is afforded.¹⁴ The California Supreme Court has interpreted "opportunity to be heard" to mean that the affected party be given the opportunity for a hearing in which arguments and evidence can be introduced and considered by the Commission. (*California Trucking Association v. Public Utilities Commission* (1977) 19 Cal.3d 240.) We do

¹³ D.14-06-007 at 45.

¹⁴ D.12-04-012 at 3 and 15 (Conclusion of Law 5); and D.11-10-022 at 5.

not believe it is necessary to rely on Pub. Util. Code § 1708 as it would delay the resolution of this proceeding and, as we will explain, *infra*, there is a strong public interest in an expeditious resolution of the proceeding so that the requirements go into effect in the winter weather months.

6. Discussion of Factual Issues

6.1. The Commission will Adopt Applicants' Proposed Low OFO and EFO Requirements

Applicants argue that their proposals will “provide a more workable and less expensive way to help ensure that flowing supplies reaching our system more closely match the volumes burned by our customers.”¹⁵ While Applicants have been able to provide balancing services to customers without creating system reliability issues, Applicants’ storage assets are not sufficient to ensure reliable deliveries to Applicants’ customers during times of system stress when deliveries from customers and marketers are lower than usage.¹⁶ Even with the existing winter balancing rules, Applicants presented testimony that they had to curtail standby procurement service in December 2013 and February 2014.¹⁷ Additionally during the February 2014 curtailment, Applicants presented testimony that they curtailed service on an emergency basis to electric generators in order to preserve service to Priority 1 and 2A customers.¹⁸ Without changes to the current winter balancing rules, Applicants assert they will likely need to use curtailments of standby procurement and noncore curtailments more frequently

¹⁵ SoCalGas and SDG&E Opening Brief at 1.

¹⁶ Trial Exhibit 7 at 1.

¹⁷ *Id.* at 4.

¹⁸ *Id.*

in order to provide operational stability and protect service to higher priority customers.¹⁹

We agree with Applicants that the low OFO and EFO procedures should be adopted and should apply year round as it will benefit Applicants' customers. The reliability challenges regarding flowing supplies not reaching its systems can occur at any time of the year, whereas the current winter balancing rules are only in place from November through March.²⁰ Thus, system reliability is an important factor in determining whether to grant the application.

Furthermore, adoption of the low OFO/EFO requirements could also result in cost savings for Applicants' customers. Applicants' low OFO/EFO procedures have graduated levels of balancing requirements and graduated penalties, giving applicants that ability to call for daily balancing tolerances from 25 percent to zero, rather than a set 10 percent, and penalties for noncompliance, giving applicants the ability to implement these requirements and penalties in a more precise and predictable fashion and with less risk of curtailment of transportation service to noncore and core customers.²¹

Moreover, we agree with applicants that low OFO/EFO requirements in southern California may resolve existing disparities between northern and southern California. Applicants presented testimony that when PG&E calls a low OFO, natural gas electric generation demand appears to shift from northern California to southern California, possibly because PG&E is requiring electric generation customers to more closely match their gas deliveries with their burn

¹⁹ *Id.*

²⁰ *Id.* at 5.

²¹ Trial Exhibit 4 at 6; Trial Exhibit 1 at 6.

or face penalties, whereas generators in southern California do not face the same requirements.²² During cold weather and other times of system stress, flowing supplies may trade at a premium in northern California, causing the economics for dispatching a plant in southern California to be more favorable than dispatching a plant in northern California. As the demand for natural gas by electric generators increases in southern California when the system is stressed by low deliveries of flowing supplies and high sendouts, there is the potential of throwing Applicants' systems into curtailment when a curtailment would not have been necessary.²³ By adopting a statewide approach to low flowing supplies coming into California during times of system stress, there is a chance to prevent balancing rules in northern California from creating operational problems in southern California.

6.2. The Certainty of Future Supply-Related Curtailments

There has been considerable discussion as to the certainty of future supply-related curtailments. SCGC and IS contend that Applicants have not met their burden of establishing the need for new low OFO and EFO requirements because there have only been two supply-related curtailments since the current winter balancing rules were put into effect.²⁴ Yet, the fact that two supply-related curtailments occurred in the past is sufficient justification for seriously entertaining Applicants' proposal now.

²² Trial Exhibit 1 at 5.

²³ *Id.*

²⁴ Trial Exhibit 10 at 1-4.

Besides the possibility of future supply-related curtailments, Stephen Berberich, President and CEO of the California Independent System Operator (CAISO) wrote on November 14, 2014, that last winter's supply problems were not an isolated occurrence and that the coordination between Applicants enabled CAISO to maintain reliable electric service in southern California:

Last winter, cold weather created low pressure problems on gas pipelines serving electric generation in Southern California. This occurrence was not an isolated incident. Similar events have occurred in the past and have created significant risks to electric system operations reliability, and the ability to serve electric load. Our coordination with Southern California Gas Company and San Diego Gas & Electric (SDG&E) during these events has thus far allowed us to redispatch generation in order to maintain reliable electric service to customers in Southern California and avoid outages, while maintaining gas supplies for other customers.²⁵

We agree with Applicants that the adoption of the proposed low OFO and EFO requirements may lead to improved natural gas and electric reliability in southern California.²⁶

6.3. The Implementation Date

As set forth, *supra*, at Section 5, the TCAP Settlement does not preclude Applicants from implementing a low OFO procedure prior to the end of 2015. As supply curtailment events are not limited to the winter months, we give permission to implement this decision immediately.

²⁵ Trial Exhibit 3, Attachment A.

²⁶ Trial Exhibit 3 at 3.

6.4. Calculation of the Low OFO/EFO Event Trigger for Non-Compliance Thresholds

6.4.1. Applicants' Proposed Trigger: Depletion of Storage Assets

Applicants propose that a low OFO be triggered when they forecast that 340 MMcfd of storage withdrawal allocated to balancing will be exhausted.²⁷ If forecast receipts, minus the sum of forecast sendouts and forecast withdrawals scheduled from storage accounts is less than 340 MMcfd, then a low OFO is called.²⁸ Only the storage assets dedicated to system balancing will be used for balancing, which Applicants assert should ensure that they are providing accurate balancing and storage-related price signals to the marketplace.²⁹

6.4.2. SCGC/IS Alternate: Increase the Storage Assets Allocated to Load Balancing

SCGC and IS propose that the Commission increase the storage assets allocated to load balancing: "the level of storage withdrawal capacity that is allotted to load balancing should be increased from 340 MMcfd to 680 MMcfd."³⁰ They reason that "increasing the level of withdrawal for load balancing would decrease the potential number of OFO events and increase the tolerance level of each event."³¹ Yet Applicants point out that since their "sendout averages less than three billion cubic feet per day (Bcf/dBcf is billion cubic feet) and the proposed Stage 2 one dollar per dekatherm (\$1/dth) noncompliance charge

²⁷ Trial Exhibit 4 at 5.

²⁸ Trial Exhibit 4 at 5.

²⁹ Trial Exhibit 1 at 6-7; Trial Exhibit 4, at 2 and 5.

³⁰ Trial Exhibit 10 at 19.

³¹ *Id.*

limits underdeliveries to less than -20 percent, allocations over 600 MMcfd could often not be utilized in Stage 2 or higher stage levels.”³²

Further, Applicants presented testimony on the impracticability of the SCGS/IS alternate:

[A]dditional withdrawal capacity could not be allocated to the balancing function without first considering the impacts on (1) the allocation of withdrawal capacity to the core and (2) the allocation of withdrawal capacity to the unbundled storage program. There is only 3195 MMcfd of firm withdrawal capacity during the winter. 2225 MMcfd of that withdrawal is allocated to the core to meet its I-35 year peak-day reliability needs. Assuming the core allocation does not increase, subtracting 2225 MMcfd from 3195 MMcfd produces a remainder of 970 MMcfd. If 680 MMcfd of this figure is allocated to the balancing function, that leaves only 290 MMcfd, not the current 630 MMcfd, for the unbundled storage program. SoCalGas has sold almost all of the 630 MMcfd for the winter of 2013/2014, and will probably have sold most of the 630 MMcfd for the 2015/16 storage year by the time the Commission issues a decision in this proceeding.³³

We agree with Applicants’ assessment of the SCGS/IS alternate trigger and do not adopt it.

6.4.3. Shell’s Alternative: Linepack Depletion

Shell argues that Applicants’ low OFO/EFO protocol should be triggered by the depletion of linepack (i.e. pipeline inventory measured by the volume of gas supply stored within a pipeline), reasoning that linepack provides a better measure to assess system integrity: “Interstate and intrastate pipelines delivering natural gas to California, and to the SoCalGas/SDG&E system, rely on

³² Trial Exhibit 5 at 6.

³³ *Id.* at 7.

line-pack measurements to assess system integrity. These pipelines also post linepack data on their EBBs [electronic bulletin board].”³⁴ Shell also takes issue with the position that Applicants advanced in A.08-02-001 that their transmission system is fundamentally different in its design compared to PG&E’s transmission system, and is not, therefore, appropriate for Applicants to rely upon changes in pipeline inventory to determine whether to issue an OFO.³⁵ Shell responds by arguing first, that pipeline pressure is indifferent to the pipeline’s configuration; second, while it is true in the past that Applicants’ system was designed to use a greater amount of on-system storage in lieu of pack and draft capability, that has changed; and third, the Northern Illinois Gas Company (Nicor) utility system, like Applicants’ system, consists of a network of some large transmission pipelines and some smaller distribution pipelines, yet utilizes an OFO protocol that is based on “line-pack (pressure).”³⁶

But this Commission did not concur with Shell’s linepack proposal in Applicants’ Biennial Cost Allocation Proceeding (A.08-02-001). In D.09-11-006, the Commission found with respect to the use of linepack proposal for Applicants’ high OFO protocol:

We are not persuaded that section II.B.1.A. of the Settlement Agreement should be rejected because of Shell Energy’s argument that system line pack is not part of the formula that SoCalGas considers in determining when an OFO should be called. As summarized above, the testimony and concerns of Shell Energy were refuted by the testimony of SDG&E and SoCalGas. For example, Exhibit 55 described the difference between the PG&E

³⁴ Trial Exhibit 6 at 6. *See also* 3-5 and 7-11.

³⁵ *Id.* at 7-8.

³⁶ *Id.* at 8.

system and the SDG&E and SoCalGas systems. PG&E has more miles of large transmission pipelines, while the SDG&E and SoCalGas systems have a lot more storage. Also, the pipeline designs are different, which allows PG&E to take advantage of its linepack capacity. In addition, SCGC which had originally advocated to include system line pack as part of the OFO formula, agreed with the other settlement parties to continue the use of the OFO protocol. The formula for the OFO protocol has been in use for a number of years, and the parties who agreed to its continued use in the Phase Two Settlement Agreement represent a cross section of customers with many different views and interests. Accordingly, there is sufficient testimony in the record to decide that the OFO protocol agreed to in section II.B.1.A. of the Settlement Agreement is reasonable and in the public interest and should be adopted.³⁷

Furthermore, in reviewing the record in this proceeding, we find that Applicants' system differs from the PG&E system in design and use of linepack. First, PG&E has more miles of large diameter, high pressure gas transmission lines than Applicants, and PG&E has less storage capacity, affording the PG&E system an amount of linepack that is beyond what its system needs on a daily basis.³⁸ It is not surprising, then, that PG&E would use linepack as a parameter in determining the need for tighter balancing.

In contrast, Applicants have a system with low levels of pack and draft capacity, but with a larger amount of underground storage capacity – 137.1 Bcf on the SoCalGas system versus approximately 40 Bcf on the PG&E system.³⁹ Second, PG&E's gas transmission system resembles a "point-to-point" transmission pipeline (i.e. the reservation and transmission of capacity and

³⁷ D.09-11-006 at 24.

³⁸ Trial Exhibit 12 at 3.

³⁹ *Id.* at 4.

energy on either a firm or non-firm basis from the point of receipt to the point of delivery).⁴⁰ Applicants' gas transmission, however, is interconnected with a network of pipelines linking the numerous receipt points on the fringes of the service territory with each other and with the demand centers. As a result, the pack and draft capacity is situated close to Applicants' demand centers which helps to meet changes in customer demand, but is less helpful for absorbing changes in delivered supplies at the receipt points.⁴¹

Third, with respect to Shell's argument that pipeline pressure is indifferent to the pipeline's configuration,⁴² Shell wrongly assumes that linepack and pressure are interchangeable. Due to the Applicants' system design, part of the system can be at low pressure, and therefore at a low linepack level, while the rest of the system is operating normally.⁴³ Not all parts of Applicants' system can support others. By way of example, the SoCalGas southern system is dependent upon supply delivered at the Blythe or Otay Mesa receipt points, and little supply can be transported from other parts of the SoCalGas system to make up any shortfall in the southern system supply.⁴⁴ In this instance, pipeline pressure on the system is not indifferent to the system configuration as Shell incorrectly asserts.

Fourth, Applicants' system lacks sufficient pack and draft capability to provide balancing services by way of linepack. Applicants use their pack and

⁴⁰ *Id.*

⁴¹ *Id.*

⁴² Trial Exhibit 6 at 8.

⁴³ Trial Exhibit 12 at 4.

⁴⁴ *Id.* at 4-5.

draft capacity on a daily basis to meet hourly changes in customer demand over the course of the opening day, and attempt to have near-zero pack and draft at the end of each day going into the next.⁴⁵ It is not unusual, then, for Applicants' linepack to shift from minimum to maximum levels within a given day. As a result, there is no linepack capacity available on the Applicants' system for their Gas Control Department to use the Applicants' system pack and draft capacity as a measure for when tighter balancing requirements are necessary on a daily basis.⁴⁶ This difficulty is compounded by the fact that weather and electric generation are difficult to forecast, as a single Heating Degree Day difference in the weather forecast can result in a change of 110 MMcfd of core customer demand, and an unexpectedly dispatched power plant can consume 200 MMcfd or more.⁴⁷ While the Gas Control Department would attempt to meet these demand changes by using underground storage capacity, it needs the system-wide pack and draft capacity to manage hourly changes in both planned and unplanned customer demand.⁴⁸

Furthermore, new power plants on the Applicants' system are installed with "quick-start" capabilities, in which the plant demand can increase from completely off to 100 percent utilization in as little as seven minutes. Since gas does not move quickly through a pipeline, the rapid use of gas supply is met locally with linepack, which Applicants attempt to replenish after the fact with pipeline or storage field supplies.

⁴⁵ *Id.* at 5.

⁴⁶ *Id.*

⁴⁷ *Id.* at 6.

⁴⁸ *Id.*

6.4.4. The Use of Storage Level as a Balancing Trigger

Applicants' formula appears straightforward: If forecast receipts, minus the sum of forecast sendouts and forecast withdrawals scheduled from storage accounts is less than 340 MMcfd, then a low OFO is called."⁴⁹ Yet Shell faults this proposal as being a formula based on "subjective inputs."⁵⁰

We disagree. In developing the demand forecast for the OFO calculation, the Gas Control Department makes use of public weather data for estimating the level of core demand (wholesale and retail) and market information and historical data for noncore customer demand.⁵¹ The Gas control Department also makes use of demand forecast data provided directly by the CAISO, which accounts for approximately 80 percent of the electric generation demand on Applicants' system.⁵² PG&E must similarly compare a demand forecast against scheduled supplies to provide a forward-looking estimate of its pack and draft usage, meaning that PG&E is subject to the same difficulties and limitations in the development of a demand forecast.⁵³ Just as PG&E shows on its EBB how much linepack is used in its calculation of an OFO, Applicants will show how much storage capacity is used, with both utilities calculating the difference between the demand forecast and the scheduled supplies.⁵⁴ Thus, Applicants'

⁴⁹ Trial Exhibit 4 at 5.

⁵⁰ Trial Exhibit 6 at 5.

⁵¹ Trial Exhibit 12 at 7.

⁵² *Id.*

⁵³ *Id.*

⁵⁴ *Id.*

methodology appears at least as objective and transparent as PG&E's methodology.

Finally, we reject Shell's argument that Applicants' low OFO proposal is "inconsistent with industry practice."⁵⁵ As stated above, Applicants' system and PG&E's systems have different measures for an OFO condition based upon system design. Nor does the Nicor system discussed above mirror Applicants' system. Per Nicor's Rider 16, an OFO may be declared when, in the sole discretion of Nicor's operations department, it is warranted:

If the Company, in its sole discretion, determines that a situation is or may be developing that would impede the efficient operation of the system in which adequate pressures may not be maintained or overall integrity could be threatened, or if such an event actually occurs, the Company is empowered to take such action it deems necessary to alleviate the situation so that it can provide safe and reliable service.⁵⁶

As Nicor's protocol for an OFO does not appear to be based on any discernable trigger, its operations are of little value in determining if applicant's proposal is consistent with industry practice.

Moreover, we do not see that requiring Applicants to post their linepack posting will provide operational value to market participants. While Shell claims that such a posting "will enable market participants to ascertain whether the pipeline may be close to its low (or high) pressure tolerance, and to anticipate whether an OFO will be issued,"⁵⁷ the facts demonstrate otherwise. Since

⁵⁵ Trial Exhibit 6 at 3.

⁵⁶ Trial Exhibit 12 at 9-10.

⁵⁷ Trial Exhibit 6 at 12.

Applicants are not proposing to base an OFO protocol on linepack levels, linepack information will not provide market participants with any indication whether an OFO is likely to be issued.⁵⁸ In fact, a minimum level linepack posting would not be indicative of an imminent OFO under Applicants' proposal, and could cause the market to over deliver supply.⁵⁹

Accordingly, we adopt applicants' proposed trigger which is based on the depletion of storage assets.

6.5. Applicants' Proposed OFO and EFO Trigger Calculations Methodology

As noted, *supra*, Applicants propose to trigger a low OFO when they forecast that the 340 MMcfd of storage withdrawal allocated to balancing will be exhausted. If forecast receipts – forecast sendout – forecast withdrawal scheduled from storage accounts (negative number) <-340 MMcfd, then a low OFO would be called. Applicants will develop specific forecasting methodology for low OFO/EFO calculations.⁶⁰ Customers will be able to examine the accuracy of the new forecasting tool by comparing it to actuals as part of the annual customer forum process.⁶¹

⁵⁸ Trial Exhibit 12 at 8.

⁵⁹ *Id.* at 8-9.

⁶⁰ Trial Exhibit 5 at 3.

⁶¹ *Id.* at 4.

6.6. Determining OFO Stages and Tolerances**6.6.1. Applicants' Proposal**

Applicants presented direct testimony that identified that their proposed OFO stages and an EFO stage were exactly like those on the PG&E System.⁶² The stages are presented in the following table (taken from Exhibit 4):

Stage	Tolerance	Noncompliance Charge
1	Up to -25%	\$0.25/dth
2	Up to -20%	\$1/dth
3	Up to -15%	\$5.00/dth
4	Up to -5%	\$25.00/dth
5	Up to -5%	\$25/dth plus daily balancing standby rate ⁶³
EFO	Zero	\$50/dth plus daily balancing standby rate

The stage levels called for would depend on the noncompliance charge level that would be necessary to provide customer and supplier incentives to match their supply and demand more closely.⁶⁴

6.6.2. The SCGC/IS Alternate

SCGC/IS propose that tolerance levels for Stage 1-5 low OFOs should be a ration of the trigger level to the forecasted sendout, and the above table would be recast as follows:

⁶² Trial Exhibit 4 at 6.

⁶³ The higher of SCG Citygate, PG&E Citygate, EP-Permian, EP-SJ Blanco, or Opal Plant Tailgate. Trial Exhibit 7 at 8.

⁶⁴ *Id.* at 6.

Stage	Tolerance	Noncompliance Charge
1	Determined by trigger level/forecasted sendout	\$0.25/dth
2	Determined by trigger level/forecasted sendout	\$1/dth
3	Determined by trigger level/forecasted sendout	\$5/dth
4	Determined by trigger level/forecasted sendout	\$25/dth
5	Determined by trigger level/forecasted sendout	\$25/dth plus citygate ⁶⁵
EFO	Zero	\$50/dth plus citygate ⁶⁶

SCGC/IS also propose that tolerance levels for Stage 1-5 low OFOs should be “a ratio of the trigger level to the forecasted sendout.”⁶⁷ Their proposed trigger for the low OFO procedure would be:

Forecasted sendout – (Scheduled Receipts + Scheduled Withdrawal from Storage) >680 MMcf/d + 50 Percent of Available Storage Withdrawal Capacity.⁶⁸

6.6.3. Discussion

We do not adopt the SCGS/IS proposal.⁶⁹ It is inappropriate for SCGC/IS to include any percent of available storage withdrawal capacity in their tolerances. Low OFO tolerances should not include any assets not paid for by balancing customers in the balancing function. Second, SCGC/IS’s proposal could create disparities with the PG&E tolerances and possibly conflict with other parties’ desire that Applicants’ low OFO mirror PG&E’s low OFO

⁶⁵ The rate charged a distribution company by its supplier(s). Thus, Citygate refers to the cost of the gas at the point at which the distribution utility takes title to the gas. (See American Gas Association Glossary.)

⁶⁶ Trial Exhibit 10, at 23.

⁶⁷ Trial Exhibit 10 at 23.

⁶⁸ *Id.*

⁶⁹ Trial Exhibit 5 at 8-9.

procedures.⁷⁰ Third, as noted previously, by adopting a statewide approach to low flowing supplies coming into California during times of system stress, there is a chance to prevent balancing rules in Northern California by creating operational problems in southern California. Fourth, the SCGC/IS approach could discourage transportation customers from increasing flowing supplies during a low OFO event as it is easier to confiscate storage by triggering a low OFO. Fourth, SCGC/IS's tolerance ranges for transportation customers on low OFO days could average 54 percent and possibly exceed 68 percent.⁷¹ Such balancing regimes led to the prior difficulties Applicants experienced in December 2013 and February 2014.⁷²

6.7. Noncompliance Charges and Daily Balancing Standby Rate

6.7.1. What Should the Schedule G-IMB be Based on

Applicants propose noncompliance charges for Stage 1-4 low OFOs that are equal to those currently charged by PG&E for its Stage 1-4 low OFOs.⁷³ For the Stage 5 low OFO and EFO, Applicants originally proposed a noncompliance charge of \$2.50 per therm plus the Daily Balancing Standby Rate based on the highest day-ahead price on the following InterContinental Exchange indices: (1) SoCal-Citygate; (2) PG&E Citygate; (3) EP-Permian; (4) EP-SJ Blanco; and (5) Opal Plant Tailgate.⁷⁴ SCE opposes this approach, and asserts that a unified

⁷⁰ *Id.* at 9.

⁷¹ *Id.*

⁷² *Id.*

⁷³ Trial Exhibit 7 at 10.

⁷⁴ *Id.* at 11.

statewide approach to low OFO noncompliance charges would be preferable.⁷⁵ PG&E also expressed concern that a different noncompliance charge on Applicants' system could result in a large price disparity between the Applicants' and PG&E systems that "would shift the current problem from SoCalGas and SDG&E to PG&E because shippers will deliver their gas to the higher priced market."⁷⁶

In view of these concerns, Applicants have agreed to change their proposed Daily Balancing Standby Rate to be comparable to PG&E's.⁷⁷ The Daily Balancing Standby Rate will be the SoCal Day Ahead Citygate Index posted on Intercontinental Exchange, rounded up to the next whole dollar (if the price is not posted on a given day, the previous posted price will apply).⁷⁸ Applicants' Stage 5 low OFO and EFO noncompliance charges are the same as PG&E's noncompliance charges. We approve Applicants' modified Daily Balancing Standby Rate.

6.7.2. Revising Noncompliance Charges for Measurement Error

Applicants proposed that low OFO noncompliance charges would not be revised if subsequent adjustments are made to a customer's measurement quantities.⁷⁹ But in light of the concerns that PG&E and SCGC/IS raised, Applicants have agreed to eliminate this proposed rebilling waiver for low OFO

⁷⁵ Trial Exhibit 9 at 4.

⁷⁶ Trial Exhibit 11 at 3.

⁷⁷ Trial Exhibit 8 at 2.

⁷⁸ *Id.*

⁷⁹ Trial Exhibit 7 at 10 and Attachment A (SoCalGas Rule 30(G), Sheet 14; SDG&E Rule 30(G), Sheet 9).

noncompliance charges. Low OFO noncompliance charges will be treated like any other charge under the relevant SoCalGas and SDG&E Rules regarding meter error.⁸⁰ We approve this modification. This revision will result in approximately \$0.5 million of additional information technology costs, bringing the total estimated low OFO information technology implementation costs to approximately \$2.5 million.⁸¹

6.8. Noticing Deadlines

Applicants have agreed to revise their proposed low OFO noticing deadline so it will coincide with PG&E's low OFO notice deadline – 6 p.m. Pacific Time on the day prior to the low OFO.⁸²

6.9. Application of Low OFO/EFO to California Producers

SCGC/IS assert that California producers should be exempt from Applicants' low OFO and EFO requirements. They argue that although California producers are subject to high OFO requirements on Applicants' systems, they are not subject to winter balancing rules and, as such, should not be subject to low OFO/EFO requirements.⁸³

We disagree. California producers are currently subject to low OFO and EFO requirements on the PG&E system.⁸⁴ It would not make sense to make the

⁸⁰ Trial Exhibit 8 at 3.

⁸¹ *Id.* at 4.

⁸² *Id.* at 3.

⁸³ Trial Exhibit 10 at 26-27.

⁸⁴ Trial Exhibit 8 at 7, citing PG&E Rule 14, Section E.2.a.4.

California producers subject to the PG&E low OFO and EFO requirements and simultaneously exempt them from Applicants' low OFO and EFO requirements.

6.10. Posting Requirements

6.10.1. Posting Linepack

Shell argues that even if the Commission does not adopt its proposal to base low OFO/EFO triggers on linepack, the Commission should require Applicants to post linepack levels on Envoy (Envoy is a website where Applicants post operating related and other information about their gas system), as this will "enable market participants to ascertain whether the pipeline may be close to its low (or high) pressure tolerance, and to anticipate whether an OFO will be instituted."⁸⁵

For the reasons set forth, *supra*, regarding our discussion of linepack, we disagree with and deny Shell's request.

6.10.2. Posting Daily Balancing Standby Rate

Applicants propose to include a daily balancing standby rate charge in the noncompliance charge for Stage 5 low OFOs and for EFOs.⁸⁶ Stages 1-4 low OFOs would not include this particular charge.

We approve this proposal.

6.10.3. Envoy Low OFO Screens

SCGC/IS recommend that the Commission require Applicants to "develop low OFO screens within their ENVOY system similar to the high OFO screens."⁸⁷

⁸⁵ Trial Exhibit 6 at 12.

⁸⁶ Trial Exhibit 7, Attachment A (SoCalGas Rule 30(G), Sheet 14, and SDG&E Rule 30(G), Sheet 9).

⁸⁷ Trial Exhibit 10 at 29.

As Applicants will be making a number of OFO-related enhancements to Envoy for both low and high OFOs (such as a new OFO Calculation Ledger screen, and OFO Declaration Alert, and an OFO Calculation Archive),⁸⁸ we see no reason to add this additional requirement.

6.11. Implementing Other Measures

Applicants propose that the following language be included in their low OFO/EFO procedures:

Should SoCalGas' implementation of a Low OFO proves to be inadequate to ensure system integrity, SoCalGas may implement other measures including, but not limited to, implementing an Emergency Flow Order (EFO).⁸⁹

As this language is similar to the language in PG&E's Rule 14 Section E.2.a.4., we grant this request.

6.12. Safety Considerations

In response to the safety impacts question posed in the Scoping Memo, Applicants assert that their proposal may lead to more reliable natural gas supplies for electric generators, which can help to minimize electric grid brownouts or blackouts.⁹⁰ Although studies have not yet been performed, we direct Applicants to report to the Commission within one year from the issuance of this decision of the safety-related impacts (such as gas shortage-related outages, as well as deaths or injuries that could be related to the outages) of the adopted OFO and EFO regulations.

⁸⁸ Trial Exhibit 8, at 8.

⁸⁹ Trial Exhibit 7, Attachment A (SoCalGas Rule 41(6), Sheet 2).

⁹⁰ Trial Exhibit 2, at 1-2.

6.13. Should Applicants Revise Their Curtailment Rules to be Based on Rules Similar to Those Used by Pacific Gas and Electric Company?

No party addressed this issue. Therefore, we decline to make any changes in Applicants' curtailment rules (other than the elimination of provisions relating to curtailment of standby procurement service specifically proposed by Applicants).

6.14. What Level of Compensation Should a Customer Receive if its Gas is Involuntarily Diverted for the Benefit of Other Customers?

No party addressed this issue. Therefore, the Commission does not make any changes to Applicants' existing involuntary diversion rules.

6.15. Should the Current Winter Balancing Rules and Rules Relating to the Curtailment of Standby Procurement Service be Eliminated?

Upon adoption of the new low OFO and EFO provision, Applicants assert that their current winter balancing rules and rules relating to the curtailment of standby procurement service may be eliminated.⁹¹ Since no party has proposed that Applicants retain the current winter balancing rules and standby procurement curtailment procedures if the new low OFO and EFO proposal is adopted, Applicants current winter balancing rules and rules relating to the curtailment of standby procurement may be eliminated thirty days after the effective date of this decision.

⁹¹ Trial Exhibit 4 at 2; and Trial Exhibit 7 at 5.

6.16. Limiting Interruptible Withdrawal on Low OFO Days

Applicants believe that some level of interruptible withdrawal can be used to meet the delivery tolerances specified in a low OFO. As such, Applicants propose that the maximum quantity of interruptible rights that could be scheduled on low OFO days would be based on the following formula:

$$50 \text{ percent} \times (\text{Withdrawal Capacity} - \text{Firm storage withdrawal nomination} - 340 \text{ MMcfd}).^{92}$$

In its protest, SCGC asserted that Applicants had not provided a rationale for this proposal. In their reply, Applicants pointed out that the interruptible withdrawal was minimal during the 49 days of 70 percent daily winter balancing in February and March of 2014. As this issue was not disputed at the evidentiary hearing, Applicants' proposal is adopted.

6.17. Rate Treatment of Noncompliance Charge Revenues

Applicants have asked to treat low OFO and EFO noncompliance charge revenues in the same manner as revenues from noncompliance with existing winter balancing requirements.⁹³ Noncompliance revenue from noncore customer suppliers and core aggregators will be credited to the Purchased Gas Account, and noncompliance revenues from bundled core customers will be debited from the Purchased Gas Account and credited to the Noncore Fixed Cost Account.⁹⁴

⁹² Trial Exhibit 4 at 7.

⁹³ Trial Exhibit 7 at 12.

⁹⁴ *Id.*

As no party has objected to this approach, Applicants' proposal is adopted.

6.18. Information System Modifications and Costs

Applicants point out there will be "a substantial amount of IT work in order to implement new low OFO/EFO requirements."⁹⁵ To the extent any of the IT costs are subject to capitalization, they should be addressed in a future General Rate Case.

7. Comments on Proposed Decision

The proposed decision of the Administrative Law Judge in this matter was mailed to the parties on May 1, 2015, in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3. Comments were filed on May 21, 2015 by PG&E, Shell, SCE, IS, and SoCalGas/SDG&E. SoCalGas/SDG&E filed reply comments on May 26, 2015.

In view of IS's comments, we will revise the decision to require Applicants to file Tier 2 advice letters to implement their proposed low OFO/EFO tariff modifications with a full description of the forecast model to be used. The details we will require are set forth in Ordering Paragraph 1. Applicants' advice letters shall become effective upon approval by the Commission's Energy Division, Natural Gas Section.

With respect to the request to allow California Producers to aggregate their meters, this issue is better addressed in the upcoming A.14-12-017.

8. Assignment of Proceeding

Carla J. Peterman is the assigned Commissioner and Robert M. Mason III is the assigned Administrative Law Judge and presiding officer.

⁹⁵ *Id.* at 11.

Findings of Fact

1. On June 27, 2014, SoCalGas and SDG&E filed an application for Low OFO and EFO Requirements.
2. Applicants request authorization to replace their winter balancing rules with OFO and EFO procedures similar to those implemented by PG&E and set forth in PG&E's Rule 14.
3. Applicants propose to trigger a low OFO when they forecast that the 340 MMcfd of storage withdrawal allocated to balancing will be exhausted. Applicants also propose that they be authorized to invoke EFOs when they forecast or actually experience a supply and/or capacity shortage that threatens deliveries to end-use customers.
4. On August 4, 2014, PG&E, SCGC, the ORA, and IS filed protests.
5. On August 4, 2014, SCE and Shell, filed responses.
6. On August 11, 2014, TURN late-filed a protest.
7. The PHC was held on August 19, 2014. Applicants, PG&E, IS, SCE, Shell, TURN, and ORA appeared.
8. The evidentiary hearing was held on December 8, 2014.
9. On December 1, 2014, SCGC filed its brief on elimination of winter balancing rules and implementation of a low OFO procedure prior to the end of 2015.
10. On December 1, 2014, SoCalGas and SDG&E filed a brief on whether the 2013 TCAP settlement precluded implementation of a low OFO procedure prior to the end of 2015.
11. On January 1, 2015, the following parties filed opening briefs: SoCalGas and SDG&E; SCE; and SCGC.
12. On January 5, 2015 Shell and IS filed their opening briefs.

13. On January 12, 2015, the following parties filed their reply briefs: Indicated Shippers; SCGC; SoCalGas and SDG&E; Shell; and PG&E.

14. Even with the existing winter balancing rules, Applicants had to curtail standby procurement service in December 2013 and February 2014.

15. During the February 2014 curtailment, Applicants curtailed service on an emergency basis to electric generators in order to preserve service to Priority 1 and 2A customers.

16. Without changes to the current winter balancing rules, Applicants will likely need to use curtailments of standby procurement and noncore curtailments more frequently in order to provide operational stability and protect service to higher priority customers.

17. When PG&E calls a low OFO, natural gas electric generation demand shifts from northern California to southern California.

18. During cold weather and other times of system, flowing supplies may trade at a premium in northern California, causing the economics for dispatching a plant in southern California to be more favorable than dispatching a plant in northern California.

19. As the demand for natural gas by electric generators increases in southern California when the system is stressed by low deliveries of flowing supplies and high sendouts, there is the potential for curtailments when curtailments would otherwise not be necessary.

20. Adopting a statewide approach to low flowing supplies coming into California during times of system stress avoids balancing rules in northern California from creating operational problems in southern California.

21. Last winter's supply problems were not an isolated occurrence and the coordination between Applicants enabled CAISO to maintain reliable electric service in southern California.

22. Applicants propose that a low OFO be triggered when they forecast that 340 MMcfd of storage withdrawal allocated to balancing will be exhausted. If forecast receipts minus the sum of forecast sendouts and forecast withdrawal scheduled from storage accounts is less than 340 MMcfd, then a low OFO will be called.

23. Applicants' system differs from the PG&E system in design and use of linepack. PG&E has more miles of large diameter, high pressure gas transmission lines than Applicants, and PG&E has less storage capacity, affording the PG&E system an amount of linepack that is beyond what its system needs on a daily basis. PG&E's gas transmission system resembles a "point-to-point" transmission pipeline (i.e., the reservation and transmission of capacity and energy on either a firm or non-firm basis from the point of receipt to the point of delivery) than that of Applicants.

24. Applicants' gas transmission system is interconnected with a network of pipelines linking the numerous receipt points on the fringes of the service territory with each other and with the demand centers. As a result, the pack and draft capacity is situated close to Applicants' demand centers which helps to meet changes in customer demand, but is less helpful for absorbing changes in delivered supplies at the receipt points.

25. Linepack and pressure are not interchangeable concepts.

26. Applicants system lacks sufficient pack and draft capability to provide balancing services by way of linepack.

27. Low OFO tolerances should not include any assets not paid for by balancing customers in the balancing function. Applicants have agreed to change their proposed Daily Balancing Standby Rate to be comparable to PG&E's.

28. Applicants' Stage 5 low OFO and EFO noncompliance charges are the same as PG&E's noncompliance charges.

29. Applicants propose to include a daily balancing standby rate charge in the noncompliance charge for Stage 5 low OFOs and for EFOs. Stage 1-4 low OFOs would not include this particular charge.

30. Applicants' low OFO/EFO procedures should permit SoCalGas to implement other measures including, but not limited to, implementing an Emergency Flow Order (EFO), if SoCalGas's implementation of a Low OFO prove to be inadequate to ensure system integrity.

31. The maximum quantity of interruptible rights that could be scheduled on low OFO days should be based on the following formula: 50 percent x (Withdrawal Capacity - Firm storage withdrawal nomination - 340 MMcfd).

Conclusions of Law

1. The TCAP Settlement does not preclude the Commission from considering and authorizing Applicants to implement a low OFO procedure prior to the end of 2015.

2. The BCAP Settlement does not preclude the Commission from considering and authorizing Applicants to implement a low OFO procedure prior to the end of 2015.

3. Applicants' proposed new low OFO and EFO requirements are reasonable and should be authorized.

4. Applicants' proposed low OFO and EFO tariff modifications are reasonable and should be authorized.
5. Applicants' proposed low OFO and EFO trigger mechanism is reasonable and should be authorized.
6. Applicants' proposed low OFO and EFO stages, tolerances, and noncompliance charges are reasonable and should be authorized.
7. Applicants' proposed approach to revising low OFO and EFO noncompliance charges for measurement error is reasonable and should be authorized.
8. Applicants' low OFO and EFO requirements should apply to California Producers.
9. Changes to Applicants' curtailment rules (other than the changes specifically proposed by Applicants relating to curtailment of standby procurement service) are outside the scope of this proceeding.
10. The issue of what level of compensation a customer should receive if its gas is involuntarily diverted for the benefit of other customers is outside the scope of this proceeding.
11. Applicants' approach to limiting interruptible withdrawal on low OFO days is reasonable and should be authorized.
12. Applicants proposed treatment for low OFO and EFO noncompliance charge revenues is reasonable and should be authorized.
13. While Applicants have been able to provide that balancing services to customers without creating system reliability issue, Applicants' storage assets are not sufficient to ensure reliable deliveries to Applicants' customers during times of system stress when deliveries from customers and marketers are lower than usage.

14. The Daily Balancing Standby Rate should be the SoCal Day Ahead Citygate Index posted on Intercontinental Exchange, rounded up to the next whole dollar (if the price is not posted on a given day, the previous posted price should apply).

15. Low OFO noncompliance charges should be treated like any other charge under the relevant SoCalGas and SDG&E Rules regarding meter error.

16. Applicants' low OFO noticing deadline should coincide with PG&E's low OFO notice deadline of 6 p.m. Pacific Time on the day prior to the low OFO.

17. California producers are currently subject to low OFO and EFO requirements on the PG&E system, and should be subject to the Applicants' low OFO and EFO requirements.

18. Applicants' low OFO/EFO procedures should permit SoCalGas to implement other measures including, but not limited to, implementing an EFO, if SoCalGas' implementation of a low OFO prove to be inadequate to ensure system integrity.

O R D E R

IT IS ORDERED that:

1. Within 15 days of the issuance of this decision, San Diego Gas & Electric and Southern California Gas Company shall file Tier 2 advice letters to implement their proposed low Operational Flow Order (OFO) and Emergency Flow Order (EFO) tariff modifications with a full description of the forecast model to be used to call a low OFO or EFO. The description shall include: (a) a detailed narrative explanation of the model and its elements, assumptions

incorporated into the model; (b) the formulas incorporated in the model accompanied by a description of each of the variables and elements of the model, and the sources of any input; (c) the specific criteria to be used to evaluate the accuracy of the model and the frequency with which evaluations of the model will occur; (d) the conditions/circumstances under which a modification to the model will be made; (e) the manner in which modifications to the model will be communicated to parties; (f) a comparison of model results versus actual for the one year period immediately preceding the date of this Decision; and (g) three examples, using data within the 12 months immediately preceding the date of this decision, showing a case where the model if in effect at the time would have forecast an OFO that matched actual results, a case where the model failed to forecast an OFO when compared to actual and when the model forecasted an OFO when actual results would not require one – all of the examples accompanied by a commentary describing the circumstances leading to the results in the examples. These advice letters shall become effective upon approval by the Commission's Energy Division, Natural Gas Section.

2. For each three month period in the twelve months following the implementation of the proposed operational flow order requirements Southern California Gas and San Diego Gas & Electric shall file a report presenting the Operational Flow Orders or Emergency Flow Orders called based on the forecast model versus Operational Flow Orders or Emergency Flow Orders that would have been called if actual rather than forecast data were used. The reports shall include a narrative comments describing the results and the degree to which results fell within the criteria used to evaluate the forecast model as presented by Southern California Gas Company and San Diego Gas Company in response to item 1(c) above [or whatever the appropriate reference in the decision would be

to the criteria]. The report shall be provided to the Natural Gas Section of the Energy Division within 30 days of the end of each period.

3. Southern California Gas Company and San Diego Gas & Electric shall each file a report with the Natural Gas Section of the Energy Division not later than August 31, 2016 summarizing the performance of the forecast model and changes made to the model for the period of one year following implementation. The report shall present any necessary modifications to the model based on the results, the specific basis for any modifications including the expected impact on the future performance of the forecast model.

4. Southern California Gas Company and San Diego Gas & Electric shall post daily cycle 2 and cycle 3 forecasts of customer imbalances enabling comparisons to actuals on a daily basis.

5. Southern California Gas Company and San Diego Gas & Electric shall report on the performance, modifications already implemented and any anticipated changes of the forecast models in their scheduled Customer Forums.

6. Upon approval of the Tier 2 advice letters, San Diego Gas & Electric Company and Southern California Gas Company shall immediately implement their proposed low Operational Flow Order and Emergency Flow Order trigger mechanism and trigger calculation.

7. Upon approval of the Tier 2 advice letters, San Diego Gas & Electric Company and Southern California Gas Company shall immediately implement their proposed low Operational Flow Order and Emergency Flow Order stages, and tolerances.

8. Upon approval of the Tier 2 advice letters, San Diego Gas & Electric Company and Southern California Gas Company shall immediately implement

their revised low Operational Flow Order and Emergency Flow Order noncompliance charges for measurement error.

9. Upon approval of the Tier 2 advice letters, San Diego Gas & Electric Company and Southern California Gas Company shall apply their low Operational Flow Order and Emergency Flow Order requirements to California Producers.

10. Upon approval of the Tier 2 Advice Letters, Southern California Gas Company (SoCalGas) shall include the following proposed “other measures” language in Rule 41. Should SoCalGas’ implementation of a low Operational Flow Order prove to be inadequate to ensure system integrity, SoCalGas may implement other measures including, but not limited to, implementing an Emergency Flow Order.

11. San Diego Gas & Electric Company and SoCalGas shall eliminate their current winter balancing rules and rules relating to the curtailment of standby procurement within 30 days after approval of the Tier 2 Advice Letters.

12. Within one year from the approval of the Tier 2 Advice Letters, the issuance of this decision, San Diego Gas & Electric Company and Southern California Gas Company shall report to the Commission’s Energy Division, Natural Gas Section, all safety-related benefits of the low Operational Flow Order and Emergency Flow Order requirements authorized by this decision.

13. San Diego Gas & Electric Company and Southern California Gas Company shall file a Tier 2 Advice Letter within 30 days of the effective date of this Decision establishing a memorandum account that records the costs to implement the procedures for the Operational Flow Order and Emergency Flow Order. These costs will be reviewed for reasonableness for recovery in a future General Rate Case (GRC). The utilities bear the burden of showing the

reasonableness of any recorded cost submitted for recovery. San Diego Gas & Electric Company and Southern California Gas Company shall establish a memorandum account to track the costs. These costs will be reviewed for reasonableness for recovery in rates in a future GRC.

14. San Diego Gas & Electric Company and Southern California Gas Company shall make the issue of whether to aggregate the California Producers' meters as part of the upcoming Phase 2 of the Triennial Cost Allocation Proceeding, Application 14-12-017.

15. Application 14-06-021 is closed.

This order is effective today.

Dated _____, at San Francisco, California.