Decision 16-06-039 June 23, 2016

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Triennial Cost Allocation Proceeding Phase 1 Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U902G) for Authority to Revise their Natural Gas Rates Effective January 1, 2016.	Application 14-12-017 (Filed December 18, 2014)

DECISION ADDRESSING THE PHASE 1 ISSUES AND THE JOINT MOTION TO ADOPT THE SETTLEMENT AGREEMENT

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DECISION ADDRESSING THE PHASE 1 ISSUES AND THE JOINT MOTION TO ADOPT THE SETTLEMENT AGREEMENT

Summary

This decision addresses the Phase 1 issues in the cost allocation proceeding filed by Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) regarding their natural gas transmission and storage services. Several of the proposals set forth in SoCalGas and SDGE's Phase 1 Application were not contested by the parties. As set forth in the decision below, the uncontested requests in the Application are granted.

Following the close of evidentiary hearings in Phase 1, SoCalGas, SDG&E, the Office of Ratepayer Advocates, The Utility Reform Network, the Indicated Shippers, the City of Long Beach, and Southwest Gas Corporation filed a joint motion "For Adoption of Settlement Agreement for Certain Phase 1 Issues" (Settlement Agreement). Shell Energy North America (US), L.P., Southern California Edison Company and Southern California Generation Coalition filed comments on the proposed Settlement Agreement and requested various modifications to the proposed Settlement Agreement. We adopt the Settlement Agreement as discussed herein.

This proceeding will remain open so that we can further evaluate the impact that the Aliso Canyon gas leak may have on this proceeding.

1. Aliso Canyon Gas Storage Facility

Southern California Gas Company (SoCalGas) owns and operates the Aliso Canyon gas storage field. On or about October 23, 2015, a massive leak at one gas well resulted in a cessation of storage injections at the Aliso Canyon gas storage field (Aliso Canyon). Although the gas leak was permanently sealed on February 18, 2016, the future status of Aliso Canyon is presently unknown.

As discussed in further detail in this decision below, the Settlement Agreement adopted in this proceeding contains various provisions pertaining to Aliso Canyon. It is important to note that although we are adopting the Settlement Agreement, many of the provisions of the Settlement Agreement were previously authorized by the Commission in Decisions (D.) 13-11-023, which was issued on November 14, 2013 and D.08-12-020, which was issued on December 5, 2008. Furthermore, we are requiring SoCalGas to abide by the requirements of D.16-03-031, which was issued on March 17, 2016. Finally, we are leaving this proceeding open so that we can further monitor the Aliso Canyon situation and address any concerns that may be relevant to this proceeding should they arise in the future.

Among other things, D.13-11-023, authorized SoCalGas to replace obsolete gas turbine compressors in order to expand natural gas injection capacity at Aliso Canyon and it approved SoCalGas's proposed revenue requirement (subject to a maximum cost of $200.9 million) for the replacement of the gas turbine compressors.[1] Additionally, the Settlement adopted by D.08-12-020 allows SoCalGas to increase injection capacity to the extent feasibly possible by approximately 145 million cubic feet per day (MMcfd).

Ordering Paragraph Number (No.) 10 in D.13-11-023 notes that after the Aliso Canyon Turbine Replacement Project (Project) is completed and becomes operational, SoCalGas must first file and receive approval of a Tier 2 Advice Letter before it can incorporate the approved $200.9 million into its rates. Nothing in this decision changes any of the requirements set forth in D.13-11-023 and D.08-12-020. In fact, before SoCalGas can incorporate the approved $200.9 million into rates, the Project must first be completed and SoCalGas must file and

[1] *See* D.13-11-023 at 2 and 15.

receive approval of a Tier 2 Advice Letter. If the project is not completed or approval of a Tier 2 Advice Letter is not granted, then SoCalGas will not have the authority to incorporate the approved $200.9 million into rates.

Prior to SoCalGas being able to implement any of the provisions pertaining to Aliso Canyon in this decision, various requirements must be met. First, the Aliso Canyon upgrades approved in D.13-11-023 must be completed and SoCalGas must receive approval of a Tier 2 Advice Letter. Additionally, there is pending legislation that is attempting to impose a moratorium on injections at Aliso Canyon until specified conditions are met. This same legislation is considering requiring the Commission to evaluate the feasibility of eliminating or minimizing the use of Aliso Canyon altogether. This pending legislation may eventually result in additional changes to the way SoCalGas operates Aliso Canyon.[2]

On March 17, 2016, we issued D.16-03-031. In D.16-03-031, we require SoCalGas to establish a memorandum account to track all revenues that it receives for its normal business-as-usual costs[3] to own and operate the Aliso Canyon gas storage field.[4] Pursuant to D.16-03-031, the Commission will determine at a later date whether, and to what extent, the authorized revenue requirement and revenues tracked by the memorandum account should be

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[2] This pending legislation can be found at: https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201520160SB380

[3] Pursuant to Ordering Paragraph (OP) Number (No.) 1 in D.16-03-031, such costs include depreciation, rate-of-return, taxes, operations and maintenance, administrative and general, and all other direct and indirect costs that SoCalGas incurs to own and operate Aliso Canyon in the normal course of business, but excludes any costs associated with the recent gas leak at Aliso Canyon.

[4] D.16-03-031 at 1.

refunded to SoCalGas's customers with interest.[5] As a safeguard, we also impose all the requirements of D.16-03-031 in this proceeding. Finally, as an additional safeguard, we are leaving this proceeding open so that we may address any additional Aliso Canyon issues that may arise as a result of the October 23, 2015 gas leak that are relevant to this proceeding.

2. Background

On December 18, 2014, Southern California Gas Company and San Diego Gas & Electric Company[6] (SDG&E) filed Application (A.) 14-12-017, its *Triennial Cost Allocation Proceeding*[7] *Phase 1 Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 G) for Authority to Revise their Natural Gas Rates Effective January 1, 2016.* (Application).

This Application is the first of two related TCAP applications.[8] In the TCAP, SoCalGas and SDG&E allocate their costs of providing natural gas service among customer classes. The TCAP is also the proceeding in which natural gas storage and balancing assets are allocated and certain storage and balancing issues are resolved.

Pursuant to Decision (D.) 06-12-031, SoCalGas and SDG&E filed their 2009 biennial cost allocation proceeding (BCAP) on February 4, 2008. This proceeding was bifurcated into two phases and established a separate procedural schedule for each phase. The 2009 BCAP Phase 1 settlement was adopted in D.08-12-020 and was effective for six years beginning January 1, 2009. On November 1, 2011,

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[5] D.16-03-031 at 1.

[6] Jointly referred to as Applicants.

[7] Triennial Cost Allocation Proceeding is referenced throughout as TCAP.

[8] SoCalGas and SDG&E filed A.15-07-014 on July 8, 2015, which is known as the Phase 2 TCAP.

SoCalGas and SDG&E filed their 2013 TCAP.[9] The issues presented in the 2013 TCAP proceeding was resolved by settlement in D.14-06-007, which extended the storage-related provisions from the 2009 Phase 1 TCAP through December 31, 2015.[10]

On January 15, 2015, Resolution ALJ-176-3349 preliminarily determined that this proceeding was ratesetting and that hearings would be necessary. On January 21, 2015, protests were filed by the Office of Ratepayer Advocates (ORA), Southern California Generation Coalition (SCGC), Shell Energy North America (US), L.P. (Shell), The Utility Reform Network (TURN), and the Indicated Shippers (Indicated Shippers). By electronic mail (e-mail) ruling on February 27, 2015, Southwest Gas Corporation (Southwest Gas) and Southern California Edison Company (SCE) were granted party status and at the prehearing conference the City of Long Beach was granted party status.

Hearings were held from August 3 through August 5, 2015. On August 31, 2015, SoCalGas, SDG&E, ORA, TURN, Indicated Shippers, Southwest Gas, and the City of Long Beach (collectively the Settling Parties) submitted a proposed settlement (Settlement Agreement) of most Phase 1 contested issues.[11] On September 30, 2015, SCE, Shell, and SCGC submitted Opening Comments requesting that the Commission reject the proposed settlement. On October 15, 2015, SoCalGas, SDG&E, ORA, TURN, Indicated Shippers, the City of Long Beach, and Southwest Gas Corporation filed joint reply comments supporting the Settlement Agreement. SoCalGas, SDG&E, and ORA also filed individual comments supporting the Settlement Agreement at the same time.

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[9] A.11-11-002.

[10] D.14-06-007 at 49.

[11] SCE, Shell and SCGC were not among the Settling Parties.

3. Requests of SoCalGas and SDG&E

3.1. Uncontested Items Requested by SoCal Gas and SDG&E

In the Application, SoCalGas and SDG&E make the following uncontested requests:

That the Commission adopts each of SoCalGas and SDG&E's embedded cost of storage proposals. Specifically, they request that the Commission:

- Authorize recovery in 2016 rates of the under-collected balance in the Honor Rancho Storage Memorandum Account (HRSMA), which is projected to be $12.6 million as of December 31, 2015. Any residual difference between the projected HRSMA balance and the recorded balance would be transferred to the Core Fixed Cost Account and Noncore Fixed Cost Account as of the implementation date of the 2016 TCAP. At that time, the HRSMA would be closed;
- Authorize recovery as part of the embedded cost of storage $27.0 million per year for 2017-2019 for the Aliso Canyon Turbine Replacement Project once it is placed in service;
- Maintain the embedded costs of storage for the Aliso Canyon Turbine Replacement Project at these authorized levels until another embedded cost study is performed for the next TCAP;
- Adopt each of the proposed revisions to SoCalGas Rule 30(D)(4);
- Authorize SoCalGas to seek recovery of the information technology costs it will incur to implement the new high Operational Flow Order (OFO) mechanism in its next General Rate Case;
- Authorize core customers to have the same access to load balancing that other customers have;
- Adopt the uncontested proposed allocations of storage costs to customer classes proposed by SoCalGas and SDG&E;

- Authorize core inventory costs to be allocated to customer rate classes at an excess winter demand factor; core injection costs to be allocated to rate classes commensurate with inventory costs, providing each rate class sufficient injection capacity to fill their allocated inventory capacity in the 214 day injection season; and core withdrawal to be allocated to rate classes at peak-day demand on the medium-pressure distribution system;
- Authorize costs allocated to the load balancing function (including injection, inventory, and withdrawal) to be allocated among all customers, noncore and core alike, on an equal-cents-per-therm basis;
- Authorize all costs associated with the unbundled storage function (including injection, inventory, and withdrawal) to be allocated to the unbundled storage program;
- Authorize SoCalGas and SDG&E's proposed treatment of Aliso Canyon storage field electricity costs;
- Authorize SoCalGas to add the equivalent gas compressor fuel volume for the Aliso Canyon storage field to actual gas compressor fuel to develop the annually-adjusted in-kind storage fuel factor;
- Authorize SoCalGas to sell this volume in the marketplace in order to pay for the electricity costs of the electric compressors in the storage fields; and
- Authorize SoCalGas to calculate the amount of fuel added to the in-kind fuel factor by the following formula:
  Electricity costs ÷ Gas Daily S. Calif.
  Border price = Equivalent Gas Compressor Fuel.

3.2. Contested Items Requested by SoCalGas and SDG&E

The Application also contains the following contested proposals:

- SoCalGas and SDG&E propose revising their high Operational Flow Order (OFO) protocol to be similar to the low OFO procedure that was adopted by D.15-06-004;

- SoCalGas and SDG&E propose revising their monthly imbalance tolerance from 10 percent to 5 percent, while maintaining a one-month imbalance trading period;
- SoCalGas and SDG&E propose changes to the available storage capacities for inventory, injection, and withdrawal capacities among core, balancing, and unbundled storage services in both the summer and winter season;
- SoCalGas and SDG&E propose that storage costs be allocated to the balancing, core, and unbundled storage services by applying a methodology similar to that employed by Pacific Gas & Electric (PG&E);
- SoCalGas and SDG&E propose changes to the customer/shareholder sharing mechanism to a 60/40 sharing of net revenues;
- SoCalGas proposes a revision of Section 15 of its G-TBS Schedule;
- SoCalGas and SDG&E propose ending the requirement to post primary unbundled storage transaction details on its Envoy system; and
- SoCalGas and SDG&E propose filing their next TCAP in a single application 18 months before the requested effective date.

4. Should the Uncontested and Contested Proposals of SoCalGas and SDG&E be Adopted?

SoCalGas and SDG&E made various proposals that are not contested by the other parties (*See* § 3.1 above). Even though these requests are not contested, we must evaluate whether they are reasonable and whether they should be granted. As identified below in this decision we evaluate each of these requests and we determine that they are reasonable and should be granted.

In addition to the uncontested proposals, SoCalGas and SDG&E's Application also contained various contested proposals (*See* § 3.2 above). These

contested proposals are the subject of the proposed Settlement Agreement. We must also evaluate whether these contested proposals should be adopted.

5. Should the Proposed Settlement Agreement be Adopted?

The Commission must determine whether the Joint Motion to adopt the Settlement Agreement should be granted. In deciding whether to adopt the Settlement Agreement, we are guided by Rule 12.1(d) of the Commission's Rules of Practice and Procedure.[12] That subdivision states: "The Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest." To determine whether the Settlement Agreement is reasonable in light of the whole record, and in the public interest, we compare the original positions of the parties to the recommended outcomes in the Settlement Agreement. We must also consider the comments raised by SCE, Shell, and SCGC in their Opening Comments on the Joint Motion for Adoption of Phase 1 Settlement filed by the Settling Parties (Opening Comments).

As discussed in the decision below, we find the provisions of the Settlement Agreement to be reasonable and we adopt each of the terms of the Settlement Agreement.

6. Discussion of Issues

As noted above in §§ 3.1 and 3.2 above, SoCalGas and SDG&E made various requests in the Application. Some of these requests were not contested by the parties. However, several of the requests were contested by the parties. Additionally, many of the requests contained both contested and contested proposals.

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[12] Unless otherwise noted, items labeled "Rule" refer to the Commission's Rules of Practice and Procedure.

For ease of discussion, we discuss each of the proposals separately as set forth in the Application in §§ 6.1 through 6.13 below. We have indicated whether the proposals are uncontested, contested or both.

6.1. Embedded Cost of Natural Gas Storage

SoCalGas and SDG&E request that the Commission do the following as it relates to the embedded cost of natural gas storage:

- Adopt an embedded cost of storage of $83.6 million;
- Authorize recovery in 2016 rates of the under-collected balance in the HRSMA, which is projected to be $12.6 million as of December 31, 2015. Any residual difference between the projected HRSMA balance and the recorded balance would be transferred to the Core Fixed Cost Account and Noncore Fixed Account as of the implementation date of the 2016 TCAP. At that time, the HRSMA would be closed;
- Authorize recovery of $27 million per year for 2017-2019 for the embedded cost of storage of the Aliso Canyon Turbine Replacement Project once it is placed in service; and
- Maintain the embedded costs of storage at these authorized levels until another embedded costs study is performed for the next TCAP.

SoCalGas and SDG&E presented the embedded costs of SoCalGas' storage function using a methodology adopted for the currently effective TCAP, which was approved by D.14-06-007.[13] The embedded cost storage is comprised of $39.1 million of capital-related costs and $44.5 million of Operation &

[13] Ex. SCG-02 at 1.

Maintenance (O&M)/Administrative & General (A&G) expenses, for a total of $83.6 million.[14]

In addition to these embedded costs, SoCalGas proposes to recover in 2016 rates an under-collected balance in the HRSMA that is projected to total $12.6 million as of December 31, 2015.[15] SoCalGas and SDG&E propose that any residual difference between the projected under-collected HRSMA balance and the recorded balance as of the implementation date of the 2016 TCAP be transferred to the Core Fixed Cost Account and Noncore Fixed Cost Account. At that time, the HRSMA would be closed.[16]

SoCalGas and SDG&E also propose to recover as part of the embedded cost of storage approximately $27.0 million per year for 2017-2019 for the Aliso Canyon Turbine Replacement Project, which is expected to be placed into service by early 2017.[17] This revenue requirement is based on a total capital cost of $200.9 million for the Turbine Replacement Project.[18]

SoCalGas and SDG&E summarize the costs of the storage program as approximately $96.2 million in 2016 and approximately $110.6 million in 2017-2019.[19] SoCalGas and SDG&E request that the total storage cost be

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[14] Ex. SCG-02 at 6, Table 8.

[15] Ex. SCG-02 at 6.

[16] Ex. SCG-02 at 6.

[17] Ex. SCG-02 at 6.

[18] In D.13-11-023 the Commission established maximum costs of $200.9 million. These capital costs "are stated in nominal dollars using a base year of 2009. Costs exceeding this amount will be recorded in a memorandum account for SoCalGas to seek future recovery of such costs in the general rate case following the completion of the Aliso Project. The Aliso Project would also be rolled into the overall rate base of the utility in a subsequent rate case. See also, Ex. SCG-02 at 7.

[19] Ex. SCG-02 at 7, Table 9.

maintained at these levels until another embedded cost study is performed in the next TCAP.[20]

During the course of this proceeding, no party commented on the embedded cost study. With respect to HRSMA and Aliso Canyon costs, ORA noted that the "[a]llocation of Honor Rancho and Aliso Canyon costs in this manner reflect the language in D.13-11-023 …," and ORA "does not oppose such recovery."[21]

In its opening brief SCGC raises a concern regarding the recovery of Aliso Canyon costs.[22] SCGC argues that the Commission should not permit SoCalGas to increase its embedded costs of storage to reflect Aliso Canyon costs until the project is completed, and SoCalGas receives approval of a Tier 2 advice filing.[23]

SCGC refers to Ordering Paragraph 10 of D.13-11-013, which states:

> After the Aliso Canyon Turbine Replacement Project (Project) is completed and becomes operational, Southern California Gas Company (SoCalGas) may request to incorporate the associated revenue requirement into rates by a Tier 2 advice letter …[24]

SCGC goes on to state in its Opening Brief:

> Thus, in its decision in this proceeding, the Commission should alert the Applicants that the revenue requirement for storage for 2017-2019 should reflect the 2013 embedded costs of $83.6 million without escalation until the Canyon Turbine Replacement Project is completed, a Tier 2 advice letter is submitted to include the revenue requirement associated

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[20] Ex. SCG-02 at 7.

[21] Ex. ORA-01 at 5.

[22] Ex. SCGC Opening Brief at 5-6.

[23] EX. SCGC Opening Brief at 5-6.

[24] D.13-11-013, at 72 (Ordering Paragraph 10).

> with the Project in rates, and the Tier 2 letter is approved by the Commission.[25]

In its Reply Brief, SoCalGas and SDG&E note that they are aware of the requirements set forth in Ordering Paragraph 10 of D.13-11-013 and that they will comply with them.[26]

No party submitted any testimony or raised any concerns about SoCalGas' and SDG&E's proposals until SCGC raised concerns for the first time in its Opening Brief.[27] SCGC's concern is that SoCalGas and SDG&E must comply with Ordering Paragraph 10 in D.13-11-013 and not increase its embedded cost of storage to reflect the Aliso Canyon costs until the project is completed and a Tier 2 advice filing has been approved. The Commission expects that parties will comply with the Commission's directives. SoCalGas and SDG&E acknowledge that they are aware of the requirements of D.13-11-013 and that they intend to comply with these requirements.

SoCalGas and SDG&E acknowledge the requirements of Ordering Paragraph 10 of D.13-11-013, and we are confident that they will comply with them. Accordingly, we grant SoCalGas' and SDG&E's requests concerning embedded costs of natural gas, as set forth below in Table 1.

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[25] Ex. SCGC Opening Brief at 6.

[26] Ex. SCG Reply Brief at 2.

[27] SCGC continued to make the same argument in its Opening Comments on the Settlement Agreement. (SCGC Opening Comments at 6-7).

Table 1: SoCalGas Embedded Storage Costs ($Million)

	2016	2017	2018	2019
Capital-related costs	39.1	39.1	39.1	39.1
O&M, A&G Expenses	44.5	44.5	44.5	44.5
Total Existing Storage	83.6	83.6	83.6	83.6
HRSMA or Aliso Replacement	12.6	27.0	27.0	27.0
Total Embedded Storage Cost	96.2	110.6	110.6	110.6

6.2. Storage Inventory, Injection, and Withdrawal Capacities

For the current TCAP the total capacities established are 138.1 billion cubic feet (Bcf) of inventory (post-Honor Rancho expansion), 850 MMcfd of summer injection capacity, and 3,195 MMcfd of winter withdrawal capacity.[28] SoCalGas and SDG&E requests that total available inventory capacity be set at 138.1 Bcf.[29]

For the TCAP period that is the subject of this Application, SoCalGas and SDG&E propose that different injection capacities be established for the summer period (April-October) and the winter period (November-March). SoCalGas and SDG&E propose that for 2016, summer injection capacity be reduced from 850 MMcfd to 770 MMcfd. [30] They contend that this reduction is necessary due to maintenance issues that can no longer be focused in the winter period and a long-term, 40 MMcfd decline in the injection capability at Goleta.[31]

Additionally, SoCalGas and SDG&E note that both core and unbundled storage customers have expressed concerns about pro-rationing[32] over the last

[28] Ex. SCG-03 at 1.

[29] Ex. SCG-03 at 2.

[30] Ex. SCG-03 at 2.

[31] Ex. SCG-03 at 2.

[32] https://www.aga.org/knowledgecenter/natural-gas-101/natural-gas-glossary/p#sthash.9oQBMHCr.dpuf defines the term "pro-rationing" as the specified sharing

several summers, and the 770 MMcfd level should be sufficient to avoid significant pro-rationing of firm injection nomination in the summer under Rule 30.[33] During the last four winters, injection availability postings on Envoy have averaged 390 MMcfd.[34] Based upon this information SoCalGas and SDG&E propose establishing 390 MMcfd as the firm injection figure for the winter period of 2016.[35] When the Aliso Canyon turbine Replacement Project comes online in 2017, injection capacity is scheduled to increase by 145 MMcfd, thereby increasing proposed injection capacities to 915 MMcfd in the summer and 535 MMcfd in the winter.[36]

SoCalGas and SDG&E believe that it is appropriate to establish different summer and winter withdrawal capacities. They propose that in the winter the available capacity be reduced from the current 3,195 MMcfd to 3,175 MMcfd.[37] When storage inventory falls to 34 Bcf, deliverability drops to 3,175 MMcfd.[38] Inventory has remained over 34 Bcf more than 90 percent of the winter days over the last three winters, so SoCalGas and SDG&E believe that pro-rationing of firm rights would be rare.[39] Due to maintenance of withdrawal-related equipment, they also propose that total firm withdrawal over the summer be set at 1,812

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of oil and/or gas production among the wells in a particular area. Dividing the consumption into parts and billing each at a different rate; generally, proportioning according to some calculable factor for billing period.

[33] Ex. SCG-03 at 3.

[34] Ex. SCG-03 at 3.

[35] Ex. SCG-03 at 3.

[36] Ex. SCG-03 at 3.

[37] Ex. SCG-03 at 3.

[38] Ex. SCG-03 at 3.

[39] Ex. SCG-03 at 3.

MMcfd, which is below the posted withdrawal capacity more than 85 percent of the days during the last three summers.[40]

The proposed inventory, injection and withdrawal capacities are summarized in Table 2 below.

Table 2: Proposed Inventory, Injection and Withdrawal Capacities.

	Bcf	Withdrawal winter	Withdrawal summer	Injection 2016 Summer	Injection 2017-2019 Summer	Injection 2016 Winter	Injection 2017-2019 Winter
Total	138.1	3,175	1,812	770	915	390	535

The Settling Parties propose to adopt all of the capacities discussed above with the exception of the winter (off-cycle) injection capacity. The Settlement agreement would increase winter injection by 100 MMcfd to 490 MMcfd in 2016 and 635 MMcfd in 2017-2019.[41] These changes were made to meet the competing interests of core and noncore representatives regarding the allocation of available winter injection assets, with core and unbundled storage receiving increased capacities (20 MMcfd and 80 MMcfd, respectively).[42] If this Settlement Agreement is implemented prior to April 1, 2016, SoCalGas and SDG&E confirm that they will continue to honor existing contracts for firm winter injection capacity for the current storage year (April 1, 2015-March 31, 2016), which are higher than the firm injection capacity allocated under this Settlement Agreement, subject to Rule 30 pro-rationing.[43]

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[40] Ex. SCG-03 at 3-4.

[41] Settlement Agreement at A-2 to A-4.

[42] Joint Motion for Adoption of Settlement Agreement at 8.

[43] Joint Motion for Adoption of Settlement Agreement at 8.

Considering the various positions of the parties, the Settlement Agreement makes a reasonable compromise. The Settlement Agreement adds 100 MMcfd of winter injection capacity, divided between the core (20 MMcfd) and unbundled storage (80 MMcfd). Therefore, as set forth in the Table 3 below, we authorize the following injection and withdrawal capacities for this TCAP period[44]:

Table 3 Authorized Injection and Withdrawal Capacities.

Withdrawal winter	Withdrawal summer	Injection 2016 Summer	Injection 2017-2019 Summer	Injection 2016 Winter	Injection 2017-2019 Winter
3,175	1,812	770	915	490	635

6.3. Proposed Revision of High Operational Flow Order Requirements

SoCalGas and SDG&E propose changes to § D.4 of SoCalGas Rule 30, which were not substantially disputed by the parties during this proceeding.[45] SoCalGas and SDG&E also propose to seek recovery of the information technology costs associated with the implementation of the new high OFO mechanism in its next general rate case. SoCalGas and SDG&E also propose revising their high OFO protocol to be similar to the low OFO protocol that was adopted by D.15-06-004. This third proposal is a matter of dispute between some of the parties. We will address the proposed changes to § D.4 of SoCalGas Rule 30 first and then address the changes to the high OFO protocol.

The proposed changes to § D.4 of SoCalGas Rule 30, are set forth below. Additions are noted in "underline" text and removals are shown in "~~strikethrough~~" text.

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[44] All measurements are MMcfd.

[45] Ex. SCG-03 at Attachment B, SoCalGas Rule 30, Sheet 5.

> Each day, storage injection and withdrawal capacities will be set at their physical operating maximums under the operating conditions for that day and posted on the Utility's EBB. These capacities will take into account offsetting injection or withdrawal activity that effectively increase withdrawal or injection capacities. The Utility will use the following rules to limit the nominations to the storage maximums.
>
> As necessary, withdrawal or injection allocated to the daily balancing function will be set aside and given first priority every day.
>
> Nominations using Firm storage rights will have the next ~~first~~ priority, pro-rated, if necessary to the available ~~firm~~ storage capacity.
>
> All other nominations using Interruptible storage rights will have the lowest ~~second~~ priority, pro-rated if over-nominated based on the daily volumetric price paid.
>
> On low OFO days the volume of interruptible withdrawal will be cut in half relative to the calculation on a non-OFO day. If interruptible nominations immediately prior to the low OFO were above this level, then they will be held constant through the low OFO.
>
> Firm storage rights can "bump" interruptible scheduled storage quantities through the Intraday 3 cycle.[46]

According to these revisions, storage withdrawal or injection capacity set aside for balancing customers' use would have the highest storage priority.[47] Remaining capacity would be allocated each day to storage customers in the manner described in the revised Rule 30. As set forth above in the revised Rule 30, firm withdrawal would be first, then volumetrically-priced, and interruptible

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[46] Ex. SCG-03 at Attachment B.

[47] Ex. SCG-03 at 5.

withdrawals would be prioritized by price and, if necessary prorated to accommodate remaining capacity.[48]

SoCalGas and SDG&E also propose clarifying SoCalGas Rule § D.4 so that available capacities will take into account offsetting injection and withdrawal activity that increases withdrawal or injection capacities. Under the proposal, on low OFO days, interruptible quantities would be cut in half in order to accommodate reasonable intraday increases in scheduled firm withdrawals, which may help incent the nomination of additional flowing supply.[49] As long as transportation customers use less capacity than is allocated to the balancing function, SoCal Gas and SDG&E believe that the normal scheduling process will ensure that there is no exhaustion of available withdrawal capacity.[50]

SCGC was the only party to comment on the proposal to modify SoCalGas Rule 30(D)(4), noting that they believed the Applicants' proposal makes sense and that "[g]iven the existing low OFO procedure and the Applicants proposal to modify the high OFO procedure, where daily imbalances are compared against specific levels of firm storage capacity, the established level of capacity should be firm."[51] SCGC concluded by stating the "Commission should adopt the Applicants' recommendation and make load balancing the highest priority for storage capacity up to the level of the capacity allotted to load balancing."[52]

As noted above, no party objects to the proposed revision of § D.4 of SoCalGas Rule 30. We agree that this request is reasonable and approve the

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[48] Ex. SCG-03 at 5.

[49] Ex. SCG-03 at 5.

[50] Ex. SCG-03 at 5-6.

[51] Ex. SCGC-01 at 13.

[52] Ex. SCGC-01 at 14.

modifications to § D.4 of SoCalGas Rule 30. We must now evaluate the reasonableness of the proposal to seek recovery of the information technology costs associated with the implementation of the new high OFO mechanism in the next general rate case.

SoCalGas and SDG&E contend that in implementing the high OFO proposals requested in the Application, they will incur costs related to information system enhancements to both the SoCalGas Envoy system and the Special Contract Billing System.[53] They estimate these costs to be less than $1.7 million.[54]

ORA was the only party to comment on the proposed costs, when it stated that ORA did "not oppose Sempra's request for $1.7 million for information system modifications, assuming implementation of high OFO procedures proceeds according to plan."[55]

In order to implement the proposed changes, SoCalGas and SDG&E will incur costs. As noted above, no party questioned the estimated costs of $1.7 million to implement the necessary information system enhancements. Accordingly, we approve the request for SoCalGas and SDG&E to seek recovery of these costs in the next general rate case.

We must now evaluate the proposed revised high OFO procedures that SoCalGas and SDG&E seek in the Application. SoCalGas and SDG&E propose revising their high OFO protocol to be similar to the low OFO protocol that was adopted in D.15-06-004. The current high OFO procedure in place is based on physical injection capacity rather than the injection assets specifically allocated to

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[53] Ex. SCG-03 at 16.

[54] Ex. SCG-03 at 16.

[55] Ex. ORA-01 at 20.

the daily balancing function.[56] The formula that is currently in place is: If forecasted receipts – forecasted sendout > total injection capacity, then high OFO.[57] SoCalGas and SDG&E propose to trigger a high OFO whenever transportation customers attempt to inject more supply than is allocated to that daily balancing function. Using the current allocation to balancing, a high OFO would be triggered when: forecasted receipts – forecasted sendout – forecasted net injections into storage accounts > 200 MMcfd, then high OFO.[58] A Stage level would be called at the same time a high OFO is called.[59]

Table 4 below sets forth the OFO stages proposed by SoCalGas and SDG&E.[60]

Table 4: SoCalGas and SDG&E Proposed OFO stages

Stage	**Daily Imbalance Tolerance**	**Noncompliance Charge ($/therm)**
1	Up to +25%	0.025
2	Up to +20%	0.10
3	Up to +15%	0.50
4	Up to +5%	2.50
5	Up to +5%	2.50 plus Rate Schedule G-IMB daily balance standby rate
EFO	Zero	5.00 plus Rate Schedule G-IMB daily balance standby rate

[56] SoCalGas' existing high OFO procedures are set forth in §§ 3-4 of its Rule 41. SDG&E does not have its own high OFO procedures per se, but pursuant to SDG&E Rule 30(f), is governed by the high OFO procedures set forth in SoCalGas' Rule 41.

[57] SoCalGas and SDG&E's Opening Brief at 9.

[58] SoCalGas and SDG&E's Opening Brief at 10.

[59] Ex. SCG-03 at 6.

[60] Ex. SCG-03 at 7.

SCGC proposes that the implementation of the new OFO trigger be delayed until SoCalGas and SDG&E demonstrates a reliable forecast of positive imbalances[61] SCGC also suggests that the tolerance caps for each stage be eliminated and that SoCalGas and SDG&E determine the tolerance level for each high OFO event based on the level of assets used in the trigger calculation without regard to the stage of the OFO.[62]

Although the Settling Parties agreed to allow SoCalGas and SDG&E to implement their high OFO protocol, they placed several restrictions that SoCalGas and SDG&E must adhere to.[63] According to the terms of the Settlement Agreement, the new high OFO mechanism cannot go into effect without a demonstration of forecasting accuracy. All components of the forecasting methodology must be made publically available and any changes to the methodology must be posted at least 15 days before becoming effective.[64] Furthermore, the new high OFO Trigger mechanism will not become effective until the Aliso Canyon 145 MMcfd expansion of injection capacity is operable.[65]

Shell supports the proposed high OFO formula because "the proposed formula is consistent with the low OFO formula that the Commission adopted for SoCalGas/SDG&E in D.15-06-004 (June 11, 2015)."[66] However, Shell is concerned about the forecasting methodology pertaining to the new high OFO requirements. Shell's concerns are moot. As noted above, the Settling Parties

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[61] Ex. SCGC-01 at 4-9.

[62] Ex. SCGC-01 at 9-12.

[63] Settlement Agreement at A-9-A-10.

[64] Settlement Agreement at A-9-A-10.

[65] Settlement Agreement at A-10.

[66] Shell Opening Brief at 8.

have placed several restrictions on SoCalGas and SDG&E as it relates to the implementation of the new high OFO mechanism. Shell did not raise any further concerns to the high OFO mechanism in its Opening Comments on the Joint Motion for adoption of the Settlement Agreement.

In its Opening Brief, SCGC argues that SoCalGas and SDG&E should be required to delay implementation of their revised high OFO procedures until they can file a Tier 3 advice letter and establish that they have developed a satisfactory methodology for forecasting positive imbalances for the day ahead.[67] SCGC also argues for the elimination of the stringent caps on the tolerances that would be allowed at each high OFO stage.[68] SCGC makes these same arguments in its Opening Comments on the Settlement Agreement and also adds that the high OFO procedure should not be allowed until the Aliso Canyon turbine replacement project is complete and SoCalGas and SDG&E files a Tier 2 advice letter seeking approval to place the associated revenue requirements in rates.[69]

SCGC's first argument is moot. The Settling Parties specifically addressed this concern in the Settlement Agreement. The Settlement Agreement clearly states that "[t]he new High OFO Trigger mechanism cannot go into effect without a demonstration that SoCalGas has developed a day-ahead forecasting methodology consistent with the standards ultimately approved through AL 4822, Modification of Tariffs Necessary to Implement Low Operational Flow Order (OFO) and Emergency Flow Order (EFO) Requirements and Description of Forecasting Model in Compliance with D.15-06-004."[70]

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[67] SCGC Opening Brief at 9.

[68] SCGC Opening Brief at 9.

[69] SCGC Opening Comments at 10-17.

[70] Settlement Agreement at A-9 to A-10.

SCGC argues that the Commission should eliminate the stringent caps on the tolerances that would be allowed at each high OFO stage. SoCalGas and SDG&E oppose SCGC's suggestion to eliminate caps on plus-side high OFO tolerances. SoCalGas and SDG&E note that "[o]nly the Stage 4, 5% cap would be significantly binding, and PG&E has never experienced a Stage 4 high OFO."[71] Furthermore, SoCalGas and SDG&E note that they "prefer to retain symmetry with both the PG&E structure for high OFO tolerances and the low OFO structure recently adopted by the Commission in D.15-06-004."[72]

We believe that the Settlement Agreement has set forth adequate protections that address the concerns raised by SCGC. The Settlement Agreement does not allow the high OFO mechanism to go into effect without a demonstration of forecasting accuracy. Also, this information will be publically available and posted for at least 15 days before any changes to the methodology becomes effective.

We also note that the new low OFO procedures recently approved for SoCalGas and SDG&E in D.15-06-004 also have caps on negative–side tolerances for each stage. It would be counterproductive to have revised high OFO procedures on the SoCalGas and SDG&E system that do not have similar caps for each stage. As noted above, the Settling Parties have set in place several safeguards to the proposed changes to the high OFO mechanism. Since there are adequate protections in place, we will not eliminate the caps on plus-side high OFO tolerances.

SCGC's third argument is also moot. The Settlement Agreement clearly indicates that the new high OFO will not become effective until the Aliso Canyon

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[71] Tr. at 134-135.

[72] SoCalGas and SDG&E's Reply Brief at 5.

expansion of injection capacity is in operation.[73] Additionally, SoCalGas and SDG&E have already stated that they are aware of and will comply with the Commission's directives pertaining to the need to file advice letters. Since this argument is moot, adding language to Settlement Agreement will serve no useful purpose.

Accordingly, we believe that the Settling Parties have placed adequate restrictions on the high OFO procedures. These procedures will not be implemented until an accurate forecasting methodology has been implemented and Aliso Canyon comes online. Furthermore, all components of the forecasting methodology will be posted on Envoy, and these changes will be posted for at least 15 days before they become effective. Therefore, we approve the proposed revision of high OFO requirements.

6.4. Proposed Revision of Monthly Imbalance Tolerance

Currently customers on SoCalGas and SDG&E's system have a 10 percent monthly imbalance tolerance along with a one-month imbalance trading period. SoCalGas and SDG&E propose reducing this monthly imbalance tolerance to 5 percent while keeping the one-month imbalance trading period.[74] This approach attempts to mirror the PG&E 5 percent monthly balancing approach.[75] SoCalGas and SDG&E allege that they are not aware of other systems that allow the 10 percent monthly balancing feature that SoCalGas and SDG&E currently provide.[76]

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[73] Settlement Agreement at A-10.

[74] Ex. SCG-03 at 9.

[75] Ex. SCG-03 at 9.

[76] Ex. SCG-03 at 9.

Rule 30 (Sheet 1) provides in relevant part that: "It is the intention of both the Utility and the customer that the daily deliveries of gas by the customer for transportation hereunder shall approximately equal the quantity of gas which the customer shall receive at the point(s) of delivery."[77] SoCalGas and SDG&E contend that when customers comply with Rule 30 (Sheet 1) system reliability will be enhanced.[78]

TURN expressed support for the proposed change.[79] Indicated Shippers and SCE opposed the changes and prefer to maintain the current 10 percent imbalance tolerance.[80] SCGC opposed the change unless customers were allowed to clear their imbalances during the second month following the month in which the imbalance was incurred.[81] Finally, Shell opposed the change unless the Commission examined other ways in which the imbalance protocol should conform to the PG&E protocol.[82]

The Settling Parties agreed to an 8 percent monthly imbalance tolerance, which is roughly the mid-point between proposed 5 percent and the current 10 percent monthly imbalance tolerance.[83] The Settling Parties have also agreed that SoCalGas and SDG&E will maintain the current one-month imbalance trading period requirement.[84]

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[77] Ex. SCG-05 at 12.

[78] SoCalGas and SDG&E Opening Brief at 12.

[79] Ex. TURN-01 at 1.

[80] Ex. IS-01 at 23-27 and EX. SCE-01 at 6-8.

[81] Ex. SCGC-01 at 16-17.

[82] Ex. Shell-01 at 6-7.

[83] Settlement Agreement at A-8 to A-9 and Joint Motion at 12.

[84] Settlement Agreement at A-8 to A-9 and Joint Motion at 12.

SCGC raised various concerns about changing the monthly imbalance tolerance from 10 percent to 8 percent.[85] SCGC argues that SoCalGas and SDG&E failed to show any operational or financial harm would result from maintaining the current 10 percent imbalance tolerance.[86] SCGC goes on to argue that SoCalGas and SDG&E have been providing a 10 percent imbalance for years without any operational or financial difficulties and should continue doing so.[87]

Shell argues that there is no evidentiary support for altering the current monthly imbalance tolerance.[88] Shell also argues that this proposal is purely an effort to benefit the Gas Acquisition Department.[89] Furthermore, Shell contends that the settlement fails to provide any benefit to the customers in exchange for this transfer of value to SoCalGas and SDG&E.[90]

SoCalGas and SDG&E initially proposed a 50 percent reduction in the monthly imbalance tolerance. The Settling Parties have agreed to a reduction of only 20 percent. As part of the comprehensive settlement, the Settling Parties have agreed to a modest change from 10 percent to 8 percent. We realize that market participants want as much flexibility as possible. However, in light of the total Settlement Agreement, the change from 10 percent to 8 percent is a reasonable compromise.

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[85] SCGC Opening Comments on Settlement at 8-10.

[86] SCGC Opening Comments on Settlement at 8.

[87] SCGC Opening Comments on Settlement at 9.

[88] Shell Opening Comments on Settlement at 2.

[89] Shell Opening Brief at 11-12.

[90] Shell Opening Comments on Settlement at 2.

6.5. Allocation of Storage Inventory, Injection, and Withdrawal Capacities Among Core, Balancing, and Unbundled Storage Services

SoCalGas and SDG&E's requests concerning the allocation of storage inventory, injection, and withdrawal capacities among core, balancing and unbundled storage services contains both uncontested and contested proposals. We will first address the uncontested proposals. Next we will address the proposals that were contested by the parties.

Presently, the core is restricted to using a maximum of 83 Bcf of inventory, which includes imbalances.[91] SoCalGas and SDG&E request that the core should have the same access to load balancing inventory that is available to other customers.[92] Essentially core customers would be treated like other customers and could use positive monthly imbalances in addition to storage inventory. This would require the core to pay for load balancing service in their transportation rates.[93]

The only party to comment on this proposal was SCGC, which states "if the core is to utilize the inventory capacity allotted to load balancing service to provide its monthly imbalance tolerance, the core should bear a portion of the cost of the load balancing inventory capacity in addition to the cost of the core's 83 Bcf of inventory for its reliability services."[94] Agreeing with SCGC's proposal, SoCalGas and SDG&E incorporated it into their direct testimony.[95]

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[91] Ex. SCG-03 at 9.

[92] Ex. SCG-03 at 9.

[93] Ex. SCG-07 at 2-3.

[94] Ex. SCGC-01 at 18.

[95] Ex. SCG-07 at 2.

The incorporation of SCGC's proposal into the direct testimony of SoCalGas and SDG&E now makes this an uncontested request. We find this request to be reasonable. Therefore, we conclude that the core should have the same access to load balancing inventory that is available to other customers. We will now address the proposals that were contested by the parties.

SoCalGas and SDG&E submitted testimony pertaining to the available storage capacities for inventory, injection, and withdrawal in both the summer and winter seasons.[96] After reviewing the proposed capacities, ORA,[97] SCE,[98] Indicated Shippers,[99] and Long Beach[100] submitted testimony proposing various modifications. No party submitted testimony questioning the total storage capacities that SoCalGas and SDG&E proposed making available. Rather, they were concerned with the allocation of off-cycle (winter injection and summer withdrawal) capacity. The parties were primarily concerned with securing higher allocations of firm assets in order to ensure availability of storage services, even during the off-cycle. Additionally, the City of Long Beach was concerned with the allocation of storage assets to the balancing injection and withdrawal function.

Although Southwest Gas did not submit intervenor testimony, they cross examined SoCalGas about the storage capacities that would be available to them.[101]

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[96] Ex. SCG-03 at 1-4.

[97] Ex. ORA-01 at 5-11 and ORA-03C.

[98] Ex. SCE-01 at 10-11.

[99] IS-02 at 6-9.

[100] Ex. LB-01 at 2-4.

[101] Tr. at 187-189.

Table 5 below provides a summary of the various positions of the parties concerning storage injection and withdrawal capacities.

Table 5 Party Initial Positions on Injection and Withdrawal Rights[102]

		BCF	Withdrawal		Injection			
			Winter	Summer	Summer		Winter	
					2016	2017+	2016	2017+
2009 TCAP (1) (Ex. ORA-02 pp. 31-36)	**Total**	138.1	3,195	3,195		850		
	Balancing	4.2	340	340		200		
	Core	83.0	2,225	2,225		388		
	Unbundled	50.9	630	630		262		
SDG/SDG&E (Ex. SCG-04 p.2)	**Total**	138.1	3,175	1,812	770	915	390	535
	Balancing	5.1	525	525	200	345	200	345
	Core	83.0	2,225	1,081	388	388	190	190
	Unbundled	50.0	425	206	182	182	0	0
SCE (Ex. SCE-01 pp. 10-11)	**Total**	138.1	3,175	1,812	770	915	390	535
	Balancing	5.1	525	525	200	345	200	345
	Core	83.0	2,225	461	388	388	68	68
	Unbundled	50.0	425	826	182	182	122	122
IS (Ex. IS-01 pp. 15-22)	**Total**	Opposes adding to the balancing function in 2017 when Aliso Canyon comes online if IS recommendations are adopted. If not, then increasing the amount allocated to the injection function in 2017 onward as proposed by SCG/SDG&E is appropriate. Unbundled storage customers should also receive injection capacity.						
	Balancing							
	Core							
	Unbundled							
Long Beach (Ex. LB-01 pp. 1-4)	**Total**	Maintain status quo.						
	Balancing							
	Core							
	Unbundled							
ORA (Ex. ORA-01 Pp 5-11)	**Total**	Maintain status quo.						
	Balancing							
	Core							
	Unbundled							

(1) 2009 TCAP Withdrawal and injection were done on an annual basis. Numbers included on a seasonal basis for comparison to proposals on seasonal basis.

[102] Withdrawal and injection units are Mmcfd.

The Settling Parties agreed to the following allocations set forth in Table 6 below[103]:

Table 6: Settlement Agreement Allocations[104]

	Bcf	**Withdrawal** Winter	**Withdrawal** Summer	**Injection** 2016 Summer	**Injection** 2017-19 Summer	**Injection** 2016 Winter	**Injection** 2017-19 Winter
Total	138.1	3,175	1,812	770	915	490	635
Balancing	8	525	525	200	345	200	345
Core	83	2,225	1,081	388	388	210	210
Unbundled	47.1	425	206	182	182	80	80

The Settling Parties also agree that Southwest Gas will be allocated storage capacities (injection, inventory, and withdrawal) from the unbundled storage program equal to 1.98 percent of the storage capacities allocated to the combined core customers of SoCalGas and SDG&E at the same rates for the combined core customers of SoCalGas and SDG&E.[105] Also, the City of Long Beach will be allocated storage capacities (injection, inventory, and withdrawal) from the unbundled storage program equal to 1.0 percent of the storage capacities allocated to the combined core customers of SoCalGas and SDG&E at the same rates as the combined core customers of SoCalGas and SDG&E.[106]

SCE states that the storage injection and withdrawal allocations for core and unbundled storage services set forth in the proposed Settlement Agreement should be rejected. According to SCE, the proposed allocations agreed to by the Settling Parties are not reasonable for the following reasons: the volatility of gas

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[103] Bcf stands for billions of cubic feet. All other columns have units of millions of cubic feet per day (MMcfd).

[104] Withdrawal and injection units are MMcfd.

[105] Settlement at A-4 to A-5.

[106] Settlement at A-5.

demand for gas-fired generation; the fact that, unlike core customers, noncore daily imbalances are calculated according to actual usage; changes to SoCalGas and SDG&E's regulatory framework; and because core customers do not need as much storage as they are allocated in the Settlement Agreement.[107]

SCE recommends that the Commission adopt SCE's own proposed allocations for summer withdrawal and winter injection, which consists of the following: a summer withdrawal allocation of 826 MMcfd for the unbundled program and 461 MMcfd for core (compared with 206 MMcfd unbundled/1,081 MMcfd/core under the Settlement Agreement); and a winter injection allocation of 186 MMcfd for the unbundled program and 104 MMcfd for the core (compared with 80 MMcfd unbundled/210 MMcfd/core under the Settlement).[108]

SCE's argument for more summer withdrawal and winter injection centers on the idea that increasing reliance on intermittent renewables drives up the volatility of gas demand for gas-fired generators, which requires them to have more storage. SCE also states that generators' demand is countercyclical meaning they use more gas in the summer than the winter.

SCE contends that gas-fired generators have volatile gas demand. However, as ORA points out in its Reply Brief, SCE did not submit any testimony that referenced, quantified, or defined gas demand volatility. The 186 MMcfd of unbundled winter injection that SCE recommends equates to approximately 64.2 percent of the non-balancing injection capacity.

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[107] Ex. SCE Opening Brief at 3-4 and SCE Comments on Settlement at 4.

[108] SCE Comments on Settlement at 10.

ORA notes that the metrics that SCE provides for unbundled winter injection are based on average data, which reflects variability poorly.[109] The unbundled winter injection that SCE recommends has no variability; and is only based on average noncore demand.[110] SCE's recommendations for unbundled winter injection are based upon summer averages.[111]

SCE contends that the requirement upon SoCalGas and SDG&E to "hold interstate capacity equal to 100% of its forecast average annual (core) customer load" is not a reliability requirement.[112] SCE did not submit any testimony concerning this issue. Also, SCE was given the opportunity to cross-examine SoCalGas and SDG&E's witness about this requirement but did not do so.

In their Reply Comments in support of the Settlement Agreement, SoCalGas and SDG&E note that SCE's proposed off-cycle injection and withdrawal allocations are based on relative noncore/core throughput in the summer and winter periods.[113] According to SoCalGas and SDG&E, SCE's proposal makes little sense because less than half of unbundled storage is purchased by noncore end-users.[114] SoCalGas and SDG&E go on to note that: "Some very small noncore customers buy storage whereas most large noncore customers do not. … even though noncore throughput is countercyclical to that of the core, the noncore demand for storage is not."[115] Furthermore, SoCalGas

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[109] ORA Reply Brief at 2.

[110] Ex. SCE-01 at 11.

[111] ORA Reply Brief at 3.

[112] SCE Opening Brief at 10.

[113] SoCalGas and SDG&E's Reply Comments in support of the Settlement Agreement at 10.

[114] Ex. SCG-05 at 8.

[115] SoCalGas and SDG&E's Reply Comments in support of the Settlement Agreement at 11.

and SDG&E witness Watson testified that even though noncore throughput is countercyclical to that of the core, the noncore demand for storage is not.[116]

SoCalGas and SDG&E contend that:

> The proposed off-cycle and on-cycle allocations of injection and withdrawal capacity set forth in the Settlement Agreement are consistent. Pursuant to the Settlement, core and unbundled storage customers are allocated the same proportions of off-cycle capacities as the on-cycle capacity allocations they receive – core/unbundled storage allocations of withdrawal are 84%/16% for both winter and summer; core/unbundled allocations of injection are approximately 70%/30% for both winter and summer.
>
> By contrast, SCE proposes allocations of winter injection and summer withdrawal rights to unbundled storage customers that are disproportionately higher than their on-cycle allocations. … Withdrawal rights have their highest value in the winter and injection rights have their highest value in the summer. … SCE wants more injection allocated to unbundled storage in the winter – when it has its lowest market value – than would be allocated to unbundled storage in the summer. … SCE wants almost twice as much withdrawal allocated to unbundled storage in the summer – when it has its lowest market value – as is allocated to unbundled storage during the winter.[117]

SoCalGas and SDG&E witness Watson testified during the proceeding that Core customers receive the highest priority, SoCalGas and SDG&E then figures out what is needed for the balancing function and the residual goes to unbundled storage.[118] In his prepared testimony, Witness Watson notes that the core has a higher need for winter injection because it has a unique regulatory

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[116] Tr. Vol. 2 at 272.

[117] SoCalGas and SDG&E's Reply Comments in support of the Settlement Agreement at 11.

[118] Tr. Vol. 2 at 271.

obligation to maintain annual interstate capacity throughout the winter that can be 190 MMcfd or more above daily core winter burns in warm, shoulder months (i.e. November/March).[119] SoCalGas and SDG&E also note that the core has a higher need for injection since it has 83 Bcf of inventory compared to less than 50 Bcf of unbundled storage inventory.[120]

SCE's arguments do not prevail upon further inspection. SCE maintains that since noncore customers account for 64.2 percent of gas demand in the summer and core accounts for 35.8 percent that these should be the figures used for dividing up non-balancing summer withdrawal capacity. Using this proposal would result in an allocation of 826 MMcfd to unbundled storage and 461 MMcfd to core. However, gas demand in not the same as demand for storage.

Despite using more gas in the summer, according to SoCalGas and SDG&E, unbundled storage customers have not withdrawn more than 125 MMcfd in the last three years. However, the core, on the other hand has exceeded 1,081 MMcfd of summer withdrawal.

SCE uses the same formula to divide winter injection, despite the fact that these figures are based on summer gas demand, not demand for winter storage injection capacity. Furthermore, as ORA, SoCalGas and SDG&E have pointed out, SoCalGas and SDG&E have a unique regulatory obligation to hold interstate capacity equal to 100 percent of (core) forecast average annual customer load. In warm, shoulder months, this total can be 190 MMcfd above daily core winter burn, resulting in a need for significant winter injection capacity.

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[119] Ex. SCG-05 at 8-9.

[120] SoCalGas and SDG&E's Reply Comments in support of the Settlement Agreement at 12.

We decline to accept the proposals submitted by SCE. We note that the off-cycle injection and withdrawal allocations set forth in the Settlement Agreement are supported by the majority of the parties. Also, we note that the only party to support SCE's proposals is SCE. The proposals set forth by SCE are not equitable.

SCE fails to quantify the impact upon core customers if SCE's proposal is granted, particularly given the Commission requirement for SoCalGas and SDG&E to hold interstate capacity equal to 100 percent of (core) forecast average annual customer load. Additionally, SCE fails to note that once the Aliso Canyon Turbine Replacement Project is in service, the Settlement Agreement also increases the storage injection capacity dedicated to the balancing function by an additional 145 MMcfd in both winter and summer for a total of 345 MMcfd.

We find that the Settlement Agreement presents a reasonable resolution for the off-cycle injection and withdrawal allocations proposed by SoCalGas and SDG&E. As noted above, the majority of the parties support this provision of the Settlement Agreement, and the only party to present another proposal was SCE. We do not find the SCE proposal to be reasonable. Accordingly, we adopt the proposals set forth in the Settlement Agreement as it relates to the allocation of storage, inventory, injection, and withdrawal capacities among core, balancing, and unbundled storage services.

6.6. Allocation of Storage Costs Among Core, Balancing, and Unbundled Storage Services

Storage assets are allocated to the storage functions of inventory, injection, and withdrawal, as well as the storage services of core, load balancing, and unbundled storage. SoCalGas and SDG&E propose that the storage costs be allocated to the balancing, core, and unbundled storage services by applying a

procedure similar to that used by PG&E for determining total storage units and allocating embedded storage costs among those storage units.[121]

According to the prepared testimony of SoCalGas and SDG&E, firm summer injection and "off-cycle" withdrawal units for core and noncore storage are multiplied by the length of the summer injection season, which is currently 214 days; firm winter withdrawal and "off-cycle" injection units for core and noncore are multiplied by the length of the winter season, which is 151 days; injection and withdrawal units allocated to the balancing function are multiplied by 365 days because balancing is a year-round service; and then all of these units of injection/withdrawal service are added to the total inventory.[122] Embedded costs are divided by the total number of decatherms (dths) of firm service capacity to provide a $/dth cost.[123] The costs are then multiplied by the total firm service capacity dths for the three storage services.[124]

During the prehearing conference and in the Scoping Ruling, SoCalGas and SDG&E were ordered to provide supplemental testimony providing the cost allocation results under the "status quo" methodology.[125] According to the "status quo" methodology total storage costs are distributed one-third to inventory, one-third to injection, and one-third to withdrawal.[126] These functionalized storage costs are then apportioned to the core, balancing, and unbundled storage functions using annualized storage capacities.[127] In their

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[121] Ex. SCG-03 at 11.

[122] Ex. SCG-03 at 11.

[123] Ex. SCG-03 at 11.

[124] Ex. SCG-03 at 11.

[125] Scoping Ruling at 5.

[126] Ex. SCG-04 at 3.

[127] Ex. SCG-04 at 3.

testimony, TURN,[128] SCGC,[129] and Long Beach[130] supported continuation of the existing methodology.

The Settling Parties propose a hybrid solution that allocates costs first to storage functions of inventory, injection, and withdrawal by thirds, which is similar to the existing methodology.[131] After this, storage costs allocated to inventory, injection, and withdrawal are subsequently allocated to core, load balancing, and unbundled storage based on the agreed-upon seasonalized capacities, where injection and withdrawal capacities are weighted by the relative number of days in the winter or summer seasons.[132]

Table 7 below, provides the resulting allocations based on the Settlement Agreement:

	Core	Balancing	Unbundled	Total
2016 $MM	$54.94	$19.79	$21.46	$96.19
2017-2019 $MM	$59.94	$27.25	$23.29	$110.58

The Settlement Agreement also requires SoCalGas and SDG&E to perform a storage functionalization cost causation study by inventory, injection, and withdrawal functions in the next TCAP.[133] According to the Settlement, SoCalGas and SDG&E shall include testimony and, as appropriate, workpapers

[128] Ex. TURN-01 at 1-3.

[129] Ex. SCGC-01 at 24-26.

[130] Ex. LB-01 at 4-5.

[131] Settlement Agreement at A-6.

[132] Settlement Agreement at A-6 to A-7.

[133] Settlement Agreement at A-7.

as part of their direct showing in the next TCAP to present the results of the storage study.[134]

In its Opening Brief, SCGC objects to SoCalGas and SDG&E's proposal to allocate storage costs among core, balancing, and unbundled storage services.[135] SCGC contends that there is "no precedent" for SoCalGas to use the allocation approach currently used by PG&E.[136] SCGC is also concerned about the potential for cost shifts that could result by changing to the PG&E methodology.

SoCalGas and SDG&E notes that the "status quo" cost allocation methodology does not make a distinction between on-cycle and off-cycle firm capacities.[137] They state the primary reason for proposing a PG&E-like storage cost allocation method is that it recognizes the difference in injection and withdrawal capacities available in summer and in winter.[138] SoCalGas and SDG&E contend that their proposal is more objective than the status quo.[139]

The Settlement Agreement is a reasonable compromise to the proposal to allocate storage costs among core, balancing, and unbundled storage services. The Settling Parties have proposed a hybrid solution that allocates costs first to the storage functions of inventory, injection, and withdrawal by thirds, similar to the current methodology.[140] Storage costs allocated to inventory, injection, and withdrawal are subsequently allocated to core, load balancing, and unbundled storage based upon the agreed-upon seasonalized capacities, where injection and

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[134] Settlement Agreement at A-7.

[135] SCGC Opening Brief at 26-29.

[136] SCGC Opening Brief at 29.

[137] Ex. SCG-05 at 3.

[138] Ex. SCG-05 at 3.

[139] SCG Reply Comments at 12.

[140] Settlement Agreement at A-6.

withdrawal capacities are weighted by relative number of days in the winter or summer seasons.[141]

Furthermore, the Settlement Agreement requires that SoCalGas and SDG&E perform a storage functionalization cost causation study by inventory, injection, and withdrawal functions similar to the one completed for the 2008 TCAP. They will include testimony and, as appropriate, workpapers as part of their direct showing in the next TCAP to present the results of the storage study.[142] This will provide valuable information to assess this cost allocation. We find the balance of competing interests reasonable. Therefore, we adopt the proposals set forth in the Settlement Agreement as it relates to SoCalGas and SDG&E's proposal to allocate storage costs among core, balancing, and unbundled storage services.

6.7. Allocation of Storage Costs Among Rate Classes

As discussed above, the methodology for allocating embedded storage costs to the storage functions of inventory, injection, and withdrawal and services of core, load balancing, and unbundled storage is the matter of dispute among the parties. The same is not true for the allocation of such functionalized costs among the rate classes.

For this TCAP period, SoCalGas and SDG&E propose that the methods for allocating these costs to rate classes should be consistent with existing authorized cost allocation methods for allocating functionalized storage costs to rate classes as set forth in D.14-06-007, which is SoCal Gas and SDG&E's most recent TCAP decision. SoCalGas and SDG&E propose one minor change to the methods set forth in D.14-06-007 as it relates to load balancing inventory. They propose that

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[141] Settlement Agreement at A-6 to A-7.

[142] Settlement Agreement at A-7.

load balancing inventory now be allocated to the core in order to provide the core with the same access to load balancing inventory that other customers have available to them.[143] Additionally, Southwest Gas moved into the record a data response from SoCalGas and SDG&E, which states, "Assuming that Southwest Gas is willing to commit to pay core rates for storage allocations for the term of the TCAP, as today, then SoCalGas would receive 1.98% of the core allocations described in Table 3 of Mr. Watson's testimony for Southwest Gas, also as is done today."[144]

SoCalGas and SDG&E propose that inventory costs allocated to the core should be allocated between the rate classes at an excess winter demand factor.[145] Costs allocated to core injection would be allocated between rate classes proportional to inventory costs, which provide each rate class sufficient injection capacity to fill their allocated inventory capacity in the 214-day injection session.[146] Costs allocated to core withdrawal would be allocated at peak-day demand on the medium-pressure distribution system.[147] Load balancing costs (including injection, inventory, and withdrawal) allocated to the load balancing function would be allocated among all customers, noncore and core alike, on an equal-cents-per-therm basis.[148] Finally, costs allocated to the unbundled storage function, including injection, inventory, and withdrawal would be allocated to the unbundled storage program.[149]

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[143] Ex. SCG-07 at 2.

[144] Ex. SWG-01.

[145] Ex. SCG-07 at 3, Table 2.

[146] Ex. SCG-07 at 3, Table 2.

[147] Ex. SCG-07 at 3, Table 2.

[148] Ex. SCG-07 at 3, Table 2.

[149] Ex. SCG-07 at 3, Table 2.

SCGC was the only party to respond to this proposal. SCGC notes that "if core is to utilize the inventory capacity allotted to load balancing service to provide its monthly imbalance tolerance, the core should bear a portion of the cost of the load balancing inventory capacity in addition to the cost of the core's 83 Bcf of inventory for its reliability services."[150] Agreeing with SCGC, SoCalGas and SDG&E incorporated this proposal into their direct testimony.[151]

Having incorporated SCGC's suggestion, no party opposes SoCalGas and SDG&E's proposals. We find these requests to be reasonable in light of the record. Therefore, we authorize SoCalGas and SDG&E to: (1) allocate core inventory costs to customer rate classes at an excess winter demand factor; allocate core injection costs to rate classes commensurate with inventory costs, providing each rate class sufficient injection capacity to fulfill their allocated inventory capacity in the 214 day injection season; and allocate core withdrawal to rate classes at peak-day demand on the medium-pressure distribution system; (2) allocate the cost of the load balancing function (including injection, inventory, and withdrawal) among all customers, noncore and core alike, on an equal-cents-per-therm basis; and (3) allocate all costs associated with the unbundled storage function, including injection, inventory, and withdrawal to the unbundled storage program.

6.8. Unbundled Storage Program Sharing Mechanism

Pursuant to the 2009 Phase 1 BCAP Settlement adopted in D.08-12-020, SoCalGas has a shareholder incentive mechanism associated with net unbundled storage revenues, which consists of gross storage revenues minus allocated costs

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[150] Ex. SCGC-01 at 18, Lines 22-25.

[151] Ex. SCG-07 at 2.

from the unbundled storage program.[152] The current unbundled storage mechanism is summarized in Table 8 below.

Table 8: Current Unbundled Storage Program Sharing Mechanism

Net Dollars Earned	Sharing Percentage (Ratepayer/Shareholder)
$0 - $15MM	90 / 10
$15MM - $30MM	75 / 25
$30MM - $59MM	50 / 50
$59.5MM and above	100 / 0
Annual cap of $20MM on shareholder earnings	

While the parties agreed that the mechanism could be changed, there was a vast array of proposed alternatives. The proposed alternatives are noted in Table 9 below.

[152] Prior to the adoption of the settlement in D.08-12-020, from 1999-2008, the unbundled storage program has a straight 50/50 sharing mechanism for net revenues.

Table 9: Parties' Proposed Unbundled Storage Program Sharing Mechanisms

Party	Proposed Sharing Percentage (Ratepayer/shareholder)	Proposed Shareholder Earnings Cap
SoCalGas and SDG&E[153]	60/40	$20 Million (M)
ORA[154]	75/25	$20 M
SCGC[155]	85/15	$5 M
Shell[156]	See footnote below	
TURN[157]	Maintain current mechanism with modifications indicated in footnote below	$20 M
Indicated Shippers[158]	Maintain current mechanism	$20 M
SCE[159]	Maintain current mechanism	$20 M
Long Beach	No position	

The Settling Parties agreed to 75/25 (ratepayer/shareholder) sharing of net unbundled storage revenues as proposed by ORA.[160] The Settling Parties also agreed to maintain the $20M cap on earnings.[161] As noted in Table 9 above, this

[153] Ex. SCG-03 at 13, lines 10-12.

[154] Ex. ORA-01 at 15, lines 7-9.

[155] Ex. SCGC-01 at 23, lines 6-11.

[156] Ex. Shell-01 at 8-9, lines 27-28 and 1-2, respectively. Shell's testimony states, "While Shell Energy is not opposed to some level of sharing under the unbundled storage program, any shareholder benefits should be accompanied by the elimination of SoCalGas/SDG&E tariff provisions allowing pro-rationing, curtailment or other actions diminishing firm transportation and storage rights."

[157] Ex. TURN-01 at 4. TURN proposes allocating the first $500,000 of net revenue to shareholders with additional revenue being allocated according to the current method.

[158] Ex. IS-01 at 32, line 23.

[159] Ex. SCE-01 at 4, line 10.

[160] Settlement at A-7.

[161] Settlement at A-7.

position generally is a midpoint between the positons of the parties. Both SCGC and Shell oppose the 75/25 sharing mechanism that the Settling Parties have suggested.

SCGC argues that based upon the Gas Cost Incentive Mechanism (GCIM) adopted in D.02-06-023, there should be an 85/15 sharing of net unbundled storage program revenues.[162] SCGC reasons that by following the GCIM approach, SoCalGas and SDG&E will be incentivized to devote significant resources to purchasing gas supplies at the lowest cost.[163]

SoCalGas and SDG&E witness Watson contends that there is no need to mimic the GCIM mechanism and notes that there are several flaws in SCGC's proposal.[164] Specifically, Watson notes the following: (1) There is no reason for one program aimed at maximizing unbundled storage revenues to mimic a program aimed at minimizing commodity costs; (2) If the Commission were to try and mimic the GCIM mechanism, the unbundled storage program should be designed to provide a similar level of dollar benefit to shareholders (not percentage), which would require a more than 30 percent shareholder percentage split; and (3) The proposed $5 million shareholder cap is inconsistent with the GCIM mechanism shareholder cap of 1.5 percent, which has translated to an annual shareholder cap of $19 to $45M each year.[165]

We disagree with the argument presented by SCGC as it relates to the unbundled storage sharing mechanism. We see no reason why the unbundled storage mechanism should mimic the GCIM mechanism. The GCIM is intended

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[162] SCGC Opening Brief at 30-33 and SCGC Opening Comment on Settlement Agreement at 7.

[163] SCGC Opening Comment on Settlement Agreement at 7.

[164] Ex. SCG-05 at 18-19.

[165] Ex. SCG-05 at 18-19.

to incentivize SoCalGas to purchase gas supplies at the lowest costs, but the sharing mechanism for unbundled storage revenue in the TCAP is not intended to do that. Its purpose is to incentivize SoCalGas to devote resources to marketing and selling unbundled storage. SoCalGas and SDG&E have made significant concessions in other areas of this proceeding and we find the terms of the unbundled storage mechanism reached by the Settling Parties to be reasonable.

Shell argues that any increase in the allocation of unbundled storage revenues that SoCalGas and SDG&E shareholders receive must be accompanied by increased accountability for selling "firm" storage rights that are truly firm, with interruptions and curtailments of firm storage subjected to a liquidated damages provision.[166]

In its reply brief, SoCalGas and SDG&E notes that Shell's proposal should be rejected for a number of reasons.[167] Most importantly, SoCalGas and SDG&E note that Shell's proposal runs contrary to those presented by other parties. The members of the Indicated Shippers buy more firm storage from SoCalGas and SDG&E than Shell does and have experienced the occasional pro-rationing of firm storage rights just as Shell has. However, Indicated Shippers is a member of the Settling Parties and has signed the Settlement Agreement, which continues to codify in Rule 30.D4 the occasional pro-rationing of firm rights. Even SCGC, who is not a signatory to the Settlement Agreement states "[t]he Commission should adopt the Applicant's proposed Modification to Rule 30, Section D4."[168]

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[166] Ex. Shell-01 at 9, Shell Opening Brief at 16, and Opening Comments on Settlement Agreement at 4-6.

[167] SCGC Reply Brief at 15-17.

[168] Ex. SCGC-01 at 12-13.

We disagree with Shell that SoCalGas and SDG&E should be subjected to a liquidated damages provision when the interruption or curtailment is for a reason other than force majeure.[169] The rates that SoCalGas charges for storage services are typically market-based, negotiated rates. Firm storage contracts are freely negotiated and the price reflects both parties' assumptions about how often the service will be prorated.[170]

We decline to adopt the proposals set forth by SCGC and Shell. Instead, we adopt the ORA proposal that the Settling Parties set forth in the Settlement Agreement. We find that the Settlement Agreement is a reasonable compromise. Therefore, we approve a 75/25 (ratepayer/shareholder) sharing of net revenues with a $20 million annual shareholder earnings cap.

6.9. Unbundled Storage Program Interruptible Injection and Withdrawal Rights

SoCalGas proposed a revision of Section 15 of its G-TBS Schedule on as-available injection rights from "Zero-priced, lowest priority, interruptible injection and withdrawal service shall be included with all sales of inventory, whether that inventory is sold on a stand-alone or package basis" to "Negotiated amounts of the lowest priority, interruptible injection and withdrawal service may be included with inventory sales."[171] SoCalGas requested that the tariff language be changed after March 2016.[172] Indicated Shippers recommended retention of the existing tariff language.[173]

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[169] Ex. Shell-01 at 9.

[170] Reporter's Transcript Volume 1 at 85

[171] Ex. SCG-03 at 12.

[172] Ex. SCG-03 at 12.

[173] Ex. IS-01 at 20-22.

The settling Parties have agreed not to make these proposed changes. The Commission agrees with the Settling Parties that the changes proposed by SoCalGas to the G-TBS schedule on as-available injection rights will not be adopted during this TCAP cycle.[174] Although there were some objections to this proposal, these objections are now moot since the Settling Parties have agreed not to make any changes to G-TBS schedule on as-available injection rights during this TCAP proceeding.

6.10. Unbundled Storage Program Transaction Posting Requirements

In the settlement reached in D.07-12-019, SoCalGas agreed to post primary unbundled storage transaction details on its Envoy system the day after a deal was executed.[175] In this Application, SoCalGas and SDG&E request that this posting requirement be eliminated.[176] SoCalGas contends that it is only able to charge its unbundled customers the price the customer feels is warranted for a particular storage product and believes that the posting of prices paid by other customers for other products at other times is not relevant.[177] SoCalGas also notes that PG&E and Northern California storage fields do not post their storage transaction details.[178]

ORA,[179] SCGC,[180] Indicated Shippers,[181] SCE[182], and Shell[183] all oppose this proposal. The majority of the parties feared that eliminating the posting

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[174] Settlement at A-10.

[175] Ex. SCG-03 at 15.

[176] Ex. SCG-03 at 15-16.

[177] Ex. SCG-03 at 16.

[178] Ex. SCG-03 at 15.

[179] Ex. ORA-01 at 15-18.

[180] Ex. SCGC-01 at 26-28.

[181] Ex. IS-01 at 33-37.

requirement could result in price manipulation. ORA's evidence notes that SoCalGas and SDG&E have "not demonstrated that the elimination of this requirement would bring any benefit to ratepayers, shareholders, or the company itself, nor has it addressed concerns about price manipulation."[184]

In the Settlement Agreement, SoCalGas, SDG&E, and the other Settling Parties have agreed that SoCalGas "shall continue to post primary unbundled storage transaction details on its Electronic Bulletin Board system per current tariffs."[185]

Both SCGC and Shell argue in their opening briefs that the reporting requirement must be maintained. However, because the Settling Parties have agreed to maintain the current reporting requirements in the Settlement Agreement and because we are adopting the Settlement Agreement, this issue is now moot. SoCalGas and SDG&E will continue to post primary unbundled storage transaction details on its Electronic Bulletin Board system per current tariffs.

6.11. In-Kind Fuel Treatment for Aliso Canyon Electricity Costs

In its application SoCalGas and SDG&E requested that the Commission do the following: (1) authorize SoCalGas to add the equivalent gas compressor fuel volume for the Aliso Canyon storage field to actual gas compressor fuel to develop the annually-adjusted in-kind storage fuel factor; (2) authorize SoCalGas to sell this volume in the marketplace in order to pay for the electricity costs of the electric compressors in the storage fields; and (3) authorize SoCalGas to

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[182] Ex. SCE-01 at 8-10.

[183] Ex. SHELL-01 at 10.

[184] Ex. ORA-01 at 16.

[185] Settlement Agreement at A-8.

calculate the amount of fuel added to the in-kind fuel factor by following the formula expressed as: *Electricity cost ÷Gas Daily S. California Border price = Equivalent Gas Compressor Fuel.*

The Aliso Canyon Turbine Replacement Project involves replacing gas compressor stations at the Aliso Canyon storage field with new electric-powered compressor stations. SoCalGas and SDG&E propose that the equivalent gas compressor fuel volume be added to actual gas compressor fuel to develop the annually-adjusted, in-kind storage fuel factor.[186] This could be accomplished by selling this volume in the marketplace in order to pay for the electricity costs of the electric compressors in the storage fields.[187]

The only party to provide comment on these proposals in testimony was ORA, which noted that the in-kind fuel factor itself was adopted in the previous BCAP. ORA did not oppose the recovery of electricity costs for the Aliso Canyon compressor through an in-kind fuel factor.[188]

This proposal is not in controversy. Therefore, we authorize the in-kind fuel treatment for Aliso Canyon electricity costs in this proceeding as set forth above.

6.12. Safety Considerations

Pub. Util. Code §451 requires that every public utility must maintain adequate, efficient, just, and reasonable service to promote the "safety, health, comfort, and convenience of its patrons, employees, and the public." No party raised any safety-related concerns during the course of this proceeding. We have evaluated the Application and Settlement Agreement and are satisfied that the

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[186] Ex. SCG-03 at 16.

[187] Ex. SCG-03 at 16.

[188] Ex. ORA at 19.

Application does not present any safety related concerns that need to be addressed.

6.13. Date for Filing Next TCAP Application

In the Settlement Agreement, the Settling Parties propose that SoCalGas and SDG&E will file their next TCAP 18 months before the requested effective date of January 1, 2020 and that SoCalGas and SDG&E will file their next TCAP in a single application.[189]

The Settlement Agreement states:

> SoCalGas/SDG&E shall file their next TCAP in a single application that includes all aspects of the application. The next TCAP application will be filed 18 months before the requested effective date of the proposed changes. The next TCAP is anticipated to have a requested effective date of January 1, 2020.

SCGC proposes that the Commission require SoCalGas and SDG&E to file their next TCAP for test year 2020, no later than July 1, 2018.[190] The Indicated Shippers agree with this proposal and added that the Commission should require that all phases of the next TCAP be submitted together so they can be considered holistically.[191] No party contested the proposal to require SoCalGas and SDG&E to file their next TCAP for test year 2020, no later than July 1, 2018.

In its Opening Brief SCGC states that "the Applicants should not be allowed unfettered discretion in deciding upon a [2020 TCAP] filing date.[192] SCGC argues that there must be an explicit requirement that SoCalGas and SDG&E file the next TCAP application by July 1, 2018, in order to prevent the

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[189] Settlement Agreement at A-2.

[190] Ex. SCGC-01 at 28.

[191] Ex. IS-02 at 20.

[192] SCGC Opening Brief at 37.

Applicants from deliberately postponing the filing of their next TCAP application.

SCGC's argument is unwarranted. As noted above, the terms of the Settlement Agreement requires SoCalGas and SDG&E to file a single application for their next TCAP 18 months before the requested effective date of the proposed changes and the Settling Parties anticipate that the next TCAP is expected to have an effective date of January 1, 2020. We believe that it is in the best interest of SoCalGas and SDG&E to file their next TCAP in a timely manner. Absent some unforeseen circumstances, we would expect that SoCalGas and SDG&E will file their next TCAP application on July 1, 2018. However, circumstances often require some flexibility.

Adding in SCGC's hard deadline requirement would not take into consideration unforeseen events or conflicting schedules in other proceedings that would necessitate flexibility in the filing date of the next TCAP proceeding. Doing so would be counterproductive. Therefore, we decline to make the changes requested by SCGC. We grant the terms reached in the Settlement Agreement as it relates to the next TCAP application. SoCalGas and SDG&E will file their next TCAP in a single application 18 months before the requested effective date.

7. Conclusion

SoCalGas, SDG&E, ORA, TURN, Indicated Shippers, the City of Long Beach, and Southwest Gas agree that the Phase 1 issues should be resolved through the adoption of the Settlement Agreement. Only Shell, SCGC, and SCE have argued that the Settlement Agreement should be rejected.

The parties initially had various differing positions concerning the Phase 1 issues. However, the parties have agreed that there are significant risks and

costs associated with continued litigation of the matter. Therefore, the Joint Parties have agreed to resolve this matter through settlement.

The Settlement Agreement provides a balanced approach to resolving the differences between the parties. The settlement is reasonable and in the public interest. Since no one raised any legal objections to the joint motion to adopt the Settlement Agreement, we conclude that the Settlement Agreement is consistent with the law.

Although Shell, SCE, and SCGC presented comments and propose separate alternative outcomes to the Phase 1 issues, we conclude that these suggested alternatives are not reasonable or in the best interest of the parties as a whole. Therefore, we decline to adopt the alternate proposals set forth by Shell, SCE, and SCGC.

The joint motion to adopt the Settlement Agreement should be granted. The terms of the Settlement Agreement, which is attached to the decision as Attachment A, should be adopted. SoCalGas and SDG&E shall take the necessary steps to incorporate the provisions in the Settlement Agreement into their gas system and storage operations as each situation is contemplated by the Settlement Agreement.

All issues in this Phase 1 TCAP are resolved by this decision. This proceeding is closed. The remaining Phase 2 TCAP issues will be addressed in A.15-07-014.

8. Compliance with the Authority Granted Herein

In order to implement the authority granted herein, SoCalGas and SDG&E must file a Tier 2 Advice Letter (AL) within 30 days of the date of this decision. The tariff sheets filed in these ALs shall be effective on or after the date filed

subject to the Commission's Energy Division determining they are in compliance with this decision.

9. Categorization and Need for Hearing

This proceeding was categorized as ratesetting and evidentiary hearings were held on Phase 1 issues.

10. Comments on Proposed Decision

The proposed decision of the Administrative Law Judge (ALJ) in this matter was mailed to the parties in accordance with § 311 of the Pub. Util. Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. No comments were filed.

11. Assignment of Proceeding

Commissioner Michael Picker is the assigned Commissioner and Gerald F. Kelly and Seaneen M. Wilson are the assigned ALJs in this proceeding.

Findings of Fact

1. The application was filed on December 18, 2014.
2. On August 31, 2015, SoCalGas, SDG&E, ORA, TURN, Indicated Shippers, the City of Long Beach and Southwest Gas filed the Joint Motion to adopt the Settlement Agreement.
3. Several of the proposals set forth in SoCalGas and SDG&E's TCAP Application were not contested.
4. No party raised any legal objections to the Joint Motion for Adoption of the Phase 1 Settlement Agreement.
5. The Settlement Agreement contains the recommendations of the Joint Settling Parties regarding the Phase 1 issues.
6. The Settlement Agreement is reasonable and should be adopted because it provides a balanced approach to resolving the difference between the parties.

7. The alternate proposals to the Settlement Agreement, as set forth by SCE, Shell, and SCGC are not reasonable or in the best interest of the parties as a whole and should be rejected.

8. On October 23, 2015, a massive gas leak occurred at the Aliso Canyon gas storage field.

9. On February 18, 2016, California state officials announced that the leak was permanently sealed.

10. Although the gas leak was sealed, the future status of Aliso Canyon storage field is unknown.

11. The customers of SoCalGas are currently paying rates and charges that reimburse SoCalGas for its authorized revenue requirement for its normal, business-as-usual costs to own and operate a fully functional Aliso Canyon. Such costs include depreciation, rate-of-return, taxes, operations and maintenance, administrative and general, and all other direct and indirect costs that SoCalGas incurs to own and operate Aliso Canyon.

12. SoCalGas's current rates and charges do not include any costs incurred by SoCalGas in response to the recent gas leak in Aliso Canyon because the Commission has not authorized SoCalGas to recover such costs.

13. Prior to allowing SoCalGas the authority to recover costs associated with the expansion of Aliso Canyon, SoCalGas must first complete the expansion and receive authority from Energy Division via a Tier Two Advice Letter.

14. The embedded storage cost of $96.2 million for 2016 is reasonable and should be adopted.

15. The embedded storage cost of $110.6 million for 2017 is reasonable and should be adopted.

16. The embedded storage cost of $110.6 million for 2018 is reasonable and should be adopted.

17. The embedded storage cost of $110.6 million for 2019 is reasonable and should be adopted.

18. Requiring SoCalGas to perform another cost study for the next TCAP is reasonable and should be adopted because the cost study performed for the next TCAP will demonstrate if there have been any changes to the embedded costs of storage.

19. The proposed changes to §D.4 of SoCalGas Rule 30, which provides balancing customers' use with the highest storage priority so that firm withdrawal would be first, then volumetrically-priced, and interruptible withdrawals would be prioritized by price and, if necessary prorated to accommodate remaining capacity is reasonable and should be adopted because it makes load balancing the highest priority for storage capacity.

20. The proposed changes to §D.4 of SoCalGas Rule 30 to provide clarification so that available capacities will take into account offsetting injection and withdrawal activity that increases withdrawal or injection capacities is reasonable and should be adopted.

21. The Stage 1 OFO allowing for a daily imbalance tolerance of up to +25 percent and a noncompliance charge ($/therm) of 0.025 is reasonable and should be adopted.

22. The Stage 2 OFO allowing for a daily imbalance tolerance of up to +20 percent and a noncompliance charge ($/therm) of 0.10 is reasonable and should be adopted.

23. The Stage 3 OFO allowing for a daily imbalance tolerance of up to +15 percent and a noncompliance charge ($/therm) of 0.50 is reasonable and should be adopted.

24. The Stage 4 OFO allowing for a daily imbalance tolerance of up to +5 percent and a noncompliance charge ($/therm) of 2.50 is reasonable and should be adopted.

25. The Stage 5 OFO allowing for a daily imbalance tolerance of up to +5 percent and a noncompliance charge ($/therm) of 2.50 plus Rate Schedule G-IMB daily balance standby rate is reasonable and should be adopted.

26. An EFO allowing for no daily imbalance tolerance and a noncompliance charge ($/therm) of 5.00 plus Rate Schedule G-IMB daily balance standby rate is reasonable and should be adopted.

27. The low OFO procedures recently approved for SoCalGas in D.15-06-004 also have caps on negative-side tolerances for each stage and it would be counterproductive to have revised high OFO procedures on the SoCalGas system that do not incorporate the caps set forth in Findings of Fact Numbers 15-20 above.

28. Requiring SoCalGas to demonstrate that it has developed a day-ahead forecasting methodology prior to implementing the high OFO mechanism is reasonable and should be adopted because it will establish that SoCalGas has developed an adequate methodology of forecasting accuracy when calling a high OFO.

29. Requiring SoCalGas and SDG&E to make the forecasting methodology associated with the high OFO mechanism publically available by posting on Envoy is reasonable and should be adopted because it will promote transparency.

30. Delaying the implementation of the new high OFO mechanism until the additional Aliso Canyon 145 Mcf/d expansion of injection capacity is in operation is reasonable and should be adopted.

31. Allowing SoCalGas to seek recovery of up to $1.7 million of the information technology costs it may incur to implement the new high OFO mechanism in its next general rate case is reasonable and should be adopted.

32. Changing the monthly imbalance tolerance from 10 percent to eight percent will help to enhance system reliability and is reasonable and should be adopted.

33. Retaining the current one-month imbalance trading period is reasonable and should be adopted because it will allow customers one-month to clear their imbalances.

34. Allowing core customers of SoCalGas to have the same access to load balancing services as noncore customers is reasonable and should be adopted because it will require the core to pay for load balancing service in their transportation rates.

35. Allocation of costs to the load balancing function among all customers on an equal-cents per therm basis is reasonable and should be adopted because the costs will be allocated among all customers, noncore and core alike.

36. Allocation of costs associated with the unbundled storage function to the unbundled storage program is reasonable and should be adopted.

37. The Aliso Canyon Turbine Replacement Project involves replacing gas compressor stations at the Aliso Canyon storage field with new electric-powered compressor stations.

38. Allowing SoCalGas to add the equivalent gas compressor fuel volume for the Aliso Canyon storage field to actual gas compressor fuel to develop the

annually-adjusted in-kind storage fuel factor is reasonable and should be adopted because it will establish the quantity of gas compressor fuel that SoCalGas needs to sell in order to pay for the electricity costs of the electric compressors.

39. Allocation of SoCalGas' available storage, injection, and withdrawal capacities among core, balancing, and unbundled storage services as set forth in Table 6 is reasonable and should be adopted because it provides a reasonable compromise among the various original positions of the parties.

40. Allocating to Southwest Gas storage capacities from the unbundled storage program equal to 1.98 percent of the storage capacities allocated to the combined core customers of SoCalGas and SDG&E at the same rates included in the Settlement Agreement for the combined core customers of SoCalGas and SDG&E is reasonable and should be adopted.

41. Allocating to the City of Long Beach storage capacities from the unbundled storage program equal to 1.0 percent of the storage capacities allocated to the combined core customers of SoCalGas and SDG&E at the same rates included in the Settlement Agreement for the combined core customers of SoCalGas and SDG&E is reasonable and should be adopted.

42. Allocation of storage costs by one-third to the inventory function, one-third to the injection function, and one-third to the withdrawal function is reasonable and should be adopted because it allocates costs in equal increments among each function.

43. Allocation of storage costs among core, balancing, and unbundled storage services as set forth in Table 7 is reasonable and should be adopted because it proposes a hybrid solution of allocating costs similar to the existing methodology used by SoCalGas and SDG&E.

44. Requiring SoCalGas and SDG&E to perform a storage functionalized cost causation study by inventory, injection, and withdrawal functions for the next TCAP is reasonable and should be adopted.

45. The unbundled storage program sharing mechanism which allows for the sharing of net revenues between SoCalGas' ratepayers and shareholders on a 75/25 ratepayer/shareholder basis is reasonable and should be adopted.

46. The annual cap on shareholder earnings of $20 million for the unbundled storage program sharing mechanism is reasonable and should be adopted because it retains the current annual cap that is in effect.

47. Requiring that §15 of SoCalGas' G-TBS Schedule on as-available injection rights remain unchanged is reasonable and should be adopted.

48. Requiring SoCalGas to continue to post primary unbundled storage transactions on its Electronic Bulletin Board system is reasonable because it helps to prevent the appearance of price manipulation and should be adopted.

49. Requiring SoCalGas and SDG&E to file their next TCAP in a single application 18 months before the requested effective date is reasonable and should be granted because it consolidates Phase 1 and Phase 2 of the next TCAP into one proceeding.

50. The remaining Phase 2 TCAP issues will be addressed in A.15-07-014.

Conclusions of Law

1. The uncontested proposals set forth in the Application are reasonable and should be adopted.

2. The Settlement Agreement is reasonable in light of the whole record, is consistent with the law and in the public interest.

3. The joint motion to adopt the Settlement Agreement should be granted, and the terms of the Settlement Agreement should be adopted.

4. The alternative proposals of the non-settling parties are not reasonable and are rejected.

5. The requirements set forth in D.16-03-031, which requires SoCalGas to establish a memorandum account to track its authorized revenue requirement and all revenues that SoCalGas receives for its normal, business-as-usual costs to own and operate Aliso Canyon are imposed upon SoCalGas in this proceeding. The tracked revenues should accrue interest and be subject to refund.

6. The revenues tracked by the memorandum account should include actual and imputed revenues for Aliso Canyon-related costs allocated to SDG&E and its customers.

7. The Commission should determine at a later time whether, and to what extent, the authorized revenue requirement and revenues tracked by the memorandum account should be refunded to SoCalGas's customers with interest.

8. SoCalGas and SDG&E should take the necessary actions to comply with the provisions set forth in the Settlement Agreement.

9. This decision should be effective today.

10. This proceeding should remain open to further evaluate the impacts that the Aliso Canyon gas leak may have upon this proceeding.

11. The remaining Phase 2 issues will be addressed in A.15-07-014.

ORDER

IT IS ORDERED that:

1. The August 31, 2015 joint motion of Southern California Gas Company, San Diego Gas & Electric Company, the Office of Ratepayer Advocates, The Utility Reform Network, Indicated Shippers, the City of Long Beach, and

Southwest Gas Corporation "For adoption of Settlement Agreement For Certain Phase 1 Issues" is granted, and the terms of the Settlement Agreement, which is attached to this decision as Attachment A, are adopted.

2. Southern California Gas Company and San Diego Gas & Electric Company shall take the necessary actions to comply with the provisions set forth in the Settlement Agreement.

3. Within 30 days of the effective date of this decision, Southern California Gas Company and San Diego Gas & Electric shall file the necessary Tier 2 advice letters with the Energy Division to carry out the terms of the Settlement Agreement and other uncontested issues adopted by this order.

4. The requirements and Ordering Paragraphs of Decision (D.)16-03-031, which pertains to the Aliso Canyon gas storage field revenue requirements are imposed on Southern California Gas Company in this proceeding.

5. Southern California Gas Company and San Diego Gas & Electric Company are authorized to adopt an embedded cost of storage of $83.6 million.

6. In 2016, Southern California Gas Company and San Diego Gas & Electric Company shall recover in rates the projected under-collected Honor Rancho storage Memorandum Account balance of $12.6 million as of December 31, 2015, as part of embedded storage costs.

7. Southern California Gas Company and San Diego Gas & Electric Company may transfer any residual difference between the projected under-collected Honor Rancho storage Memorandum Account balance included in rates and the recorded balance as of the implementation date of 2016 Triennial Cost Allocation Proceeding to the Core Fixed Account and Noncore Fixed Cost Account and they may then close the Honor Rancho storage Memorandum Account.

8. Southern California Gas Company and San Diego Gas & Electric Company are authorized to recover as part of the embedded cost of storage $27.0 million per year for 2017-2019 for the Aliso Canyon Turbine Replacement Project once it is completed and placed in service.

9. Southern California Gas Company and San Diego Gas & Electric Company shall request to incorporate the associated revenue requirement associated with the Aliso Canyon Turbine Replacement Project by a Tier 2 advice letter.

10. Southern California Gas Company and San Diego Gas & Electric shall maintain the embedded costs of storage at the authorized levels until another cost study is performed for the next Triennial Cost Allocation Proceeding.

11. Southern California Gas Company shall revise Southern California Gas Company Rule 30(D)(4) as set forth in Section 5.3.

12. Southern California Gas Company is authorized to seek recovery up to $1.7 million of the information technology costs it will incur to implement the new high Operational Flow Order mechanism in its next General Rate Case.

13. Core customers of Southern California Gas Company and San Diego Gas & Electric Company shall have the same access to load balancing services as noncore customers.

14. Core inventory costs shall be allocated to customer rate classes at an excess winter demand factor, core injection costs shall be allocated to rate classes commensurate with inventory costs, providing each rate class sufficient injection capacity to fill their allocated inventory capacity in the 214-day injection season, and core withdrawal shall be allocated to rate classes at peak-day demand on the medium-pressure distribution system.

15. Costs allocated to the load balancing function (including injection, inventory, and withdrawal) shall be allocated among all customers, noncore and core alike, on an equal-cents per therm basis.

16. Costs associated with the unbundled storage function (including injection, inventory, and withdrawal) shall be allocated by Southern California Gas Company and San Diego Gas & Electric Company to the unbundled storage program.

17. Southern California Gas Company shall add the equivalent gas compressor fuel volume for the Aliso Canyon storage field to actual gas compressor fuel to develop the annually-adjusted in-kind storage fuel factor.

18. Southern California Gas Company is authorized to sell the gas compressor fuel volume in the marketplace in order to pay for the electricity costs of the electric compressors in the storage fields.

19. Southern California Gas Company shall calculate the amount of fuel added to the in-kind fuel factor using the following formula: Electricity costs ÷ Gas Daily S. California Border price = Equivalent Gas Compressor Fuel.

20. Southern California Gas Company is authorized to implement a new high Operational Flow Order mechanism as set forth in Table 4 in this decision.

21. Prior to implementing a new high Operational Flow Order (OFO), Southern California Gas Company shall demonstrate that it has developed a day-ahead forecasting methodology consistent with the standards approved through Advice Letter 4822, Modification of Tariffs Necessary to Implement Low Operational Flow (OFO) and Emergency Flow Order (EFO) Requirements and Description of Forecasting Model in Compliance with Decision 15-06-004.

22. Southern California Gas Company and San Diego Gas & Electric Company shall make the forecasting methodology associated with the high Operational

Flow Order mechanism publically available by posting on Envoy and any changes to the methodology will be posted at least 15 days before becoming effective.

23. Southern California Gas Company and San Diego Gas & Electric Company may not implement the new high Operational Flow Order Trigger mechanism until the Aliso Canyon 145 million cubic feet per day expansion of injection capacity is in operation.

24. Southern California Gas Company and San Diego Gas & Electric Company are authorized to change the monthly imbalance tolerance to eight percent.

25. Southern California Gas Company and San Diego Gas & Electric Company shall retain the current one-month imbalance trading period.

26. Allocation of Southern California Gas Company's available storage inventory, injection, and withdrawal capacities among core, balancing, and unbundled storage services are authorized as set forth in Table 6 of this decision.

27. Southern California Gas Company shall allocate to Southwest Gas storage capacities (injection, inventory, and withdrawal) from the unbundled storage program equal to 1.98 percent of the storage capacities allocated to the combined core customers of Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) at the same rates included in the Settlement Agreement for the combined core customers of SoCalGas and SDG&E.

28. Southern California Gas Company shall allocate to the City of Long Beach storage capacities (injection, inventory, and withdrawal) from the unbundled storage program equal to 1.0 percent of the storage capacities allocated to the combined core customers of Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) at the same rates included in the Settlement Agreement for the combined core customers SoCalGas and SDG&E.

29. Authorized storage costs shall be allocated one-third to the inventory function, one-third to the injection function, and one-third to the withdrawal function.

30. Storage costs allocated to the inventory, injection, and withdrawal functions shall be subsequently allocated to core, load balancing, and unbundled storage services based on the seasonalized capacities as set forth in Table 7 of this decision.

31. For the next Triennial Cost Allocation Proceeding, Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) shall perform a storage functionalized cost causation study by inventory, injection, and withdrawal functions, such as was performed by SoCalGas and SDG&E in 2008.

32. Southern California Gas Company and San Diego Gas & Electric Company shall include testimony and, as appropriate workpapers as part of their direct showing in the next Triennial Cost Allocation Proceeding to present the results of the storage study.

33. Southern California Gas Company (SoCalGas) shall share net revenues (gross revenues minus allocated costs) received by SoCalGas through the unbundled storage program between SoCalGas' ratepayers and shareholders on a 75/25 ratepayer/shareholder basis.

34. There shall be an annual cap on shareholder earnings of $20 million for the unbundled storage program sharing mechanism.

35. Southern California Gas Company may not revise Section 15 of its G-TBS Schedule on as-available injection rights during this Triennial Cost Allocation Proceeding cycle.

36. Southern California Gas Company shall continue to post primary unbundled storage transactions on its Electronic Bulletin Board system per current tariffs.

37. Southern California Gas Company and San Diego Gas & Electric Company shall file their next Triennial Cost Allocation Proceeding in a single application 18 months before the requested effective date.

38. Application 14-12-017 should remain open to further evaluate the impacts that the Aliso Canyon gas leak may have upon this proceeding.

This order is effective today.

Dated June 23, 2016, at San Francisco, California.

MICHAEL PICKER
President
MICHEL PETER FLORIO
CATHERINE J.K. SANDOVAL
CARLA J. PETERMAN
LIANE M. RANDOLPH
Commissioners

Attachment A

Southern California Gas Company (U 904 G), San Diego Gas & Electric Company (U 902 G), Office of Ratepayer Advocates, the Utility Reform Network, Indicated Shippers, the City Of Long Beach, and Southwest Gas Corporation (U 905 G) Phase 1 Settlement Agreement

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Triennial Cost Allocation Proceeding Phase 1 Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 G) for Authority to Revise their Natural Gas Rates Effective January 1, 2016.	A.14-12-017 (Filed December 18, 2014)

SOUTHERN CALIFORNIA GAS COMPANY (U 904 G), SAN DIEGO GAS & ELECTRIC COMPANY (U 902 G), OFFICE OF RATEPAYER ADVOCATES, THE UTILITY REFORM NETWORK, INDICATED SHIPPERS, THE CITY OF LONG BEACH, AND SOUTHWEST GAS CORPORATION (U 905 G) PHASE 1 SETTLEMENT AGREEMENT

Pursuant to Article 12 of the Commission's Rules of Practice and Procedure, Southern California Gas Company (SoCalGas), San Diego Gas & Electric Company (SDG&E), the Office of Ratepayer Advocates (ORA), The Utility Reform Network (TURN), Indicated Shippers, the City of Long Beach,[1] and Southwest Gas Corporation (Southwest Gas) (collectively referred to hereafter as the Settling Parties) respectfully submit to the Commission this Settlement Agreement (Settlement). In this Settlement, the Settling Parties provide a recommended resolution of most of the contested issues in Phase 1 of this proceeding.[2]

I
REASONABLENESS OF THE SETTLEMENT

The Settling Parties submit that this Settlement complies with the Commission's requirements that settlements be reasonable, consistent with law, and in the public interest. The Settling Parties have recognized that there is risk involved in litigation, and that a party's filed position might not prevail, in whole or in part, in the Commission's final determination. The

[1] The Settlement must be approved by the City of Long Beach City Council which approval is pending.
[2] This Settlement does not cover a number of proposals in SoCalGas and SDG&E's Phase 1 TCAP Application that have not been contested by any party. The Settlement also does not address a small number of stand-alone proposals made by non-settling parties such as Shell Energy North America (US), L.P.

Settling Parties have reached compromise positions that they believe are appropriate in light of the litigation risks. This Settlement reflects the Settling Parties' best judgments as to the totality of their positions and risks, and their agreement herein is explicitly based on the overall results achieved.

II
SETTLEMENT TERMS AND CONDITIONS

A. Effective Date; Term of Agreement

1. The Effective Date of this Settlement is the later of January 1, 2016, or the date upon which the Commission approves the Settlement. The rates impacted by this Settlement shall go into effect upon the date(s) established by the Commission.
2. The term of the Settlement shall extend from the date upon which the Commission approves the Settlement through the Commission-authorized implementation date of the next SoCalGas and SDG&E TCAP Application that is filed after A.14-12-017 (current Phase 1 TCAP Application) and A.15-07-014 (current Phase 2 TCAP Application).
3. SoCalGas/SDG&E shall file their next TCAP in a single application that includes all aspects of the application. The next TCAP application will be filed 18 months before the requested effective date of the proposed changes. The next TCAP is anticipated to have a requested effective date of January 1, 2020.

B. Settlement Terms

1. Storage Capacities

a. Total combined firm storage capacity available at SoCalGas' storage fields shall initially be 138.1 Bcf of total storage inventory capacity, 770 MMcfd of summer (April 1 through October 30) storage injection

capacity, 490 MMcfd of winter (November 1 – March 31) storage injection capacity, 3,175 MMcfd of winter storage withdrawal capacity, and 1,812 MMcfd of summer storage withdrawal capacity. Upon the completion (placing in service) of the Aliso Canyon Turbine Replacement Project, summer injection capacity will increase to 915 MMcfd and winter injection capacity will increase to 635 MMcfd.[3] These storage capacities (1,812 MMcfd for Summer Withdrawal; 915 MMcfd for Summer Injection; 3,175 MMcfd for Winter Withdrawal; and 635 MMcfd for Winter Injection) shall be maintained until the termination of this Settlement.

b. The combined core customers of SoCalGas/SDG&E shall be allocated 83.0 Bcf of storage inventory capacity, 388 MMcfd of summer injection storage capacity, 210 MMcfd of winter storage injection capacity, 2,225 MMcfd of winter storage withdrawal capacity, and 1,081 MMcfd of summer storage withdrawal capacity. These storage allocations for core shall be maintained until the termination of this Settlement.

c. The balancing function will initially be allocated 8.0 Bcf of storage inventory capacity, 200 MMcfd of annual storage injection capacity, and 525 MMcfd of annual storage withdrawal capacity. Upon the completion (placing in service) of the Aliso Canyon Turbine Replacement Project, the balancing function will be allocated an additional 145 MMcfd of storage injection capacity, for a total of 345

[3] At this time, SoCalGas and SDG&E anticipate that the Aliso Canyon Turbine Replacement Project will be in operation by the beginning of 2017.

MMcfd. The storage allocations in effect for the balancing function once Aliso Canyon Turbine Replacement Project begins operation shall be maintained until the termination of this Settlement. As described in Section 2b below, the combined core customers of SoCalGas/SDG&E will be allocated a share of the balancing costs of storage inventory, injection, and withdrawal capacity, and shall not be required to balance within the storage inventory capacity allocated to them under this Settlement.

d. Storage injection, inventory, and withdrawal capacity available to the unbundled storage program shall be the residual after the allocation of capacity to the balancing function, SoCalGas/SDG&E core customers, and wholesale customers (Long Beach and Southwest Gas).[4]

e. The allocations outlined in sections (a) through (d) above are reflected in the following table: Bcf stands for billions of cubic feet. All other columns have units of millions of cubic feet per day (MMcfd).

	Bcf	**Withdrawal** Winter	**Withdrawal** Summer	**Injection** 2016 Summer	**Injection** 2017-19 Summer	**Injection** 2016 Winter	**Injection** 2017-19 Winter
Total	138.1	3,175	1,812	770	915	490	635
Balancing	8	525	525	200	345	200	345
Core	83	2,225	1,081	388	388	210	210
Unbundled	47.1	425	206	182	182	80	80

f. Southwest Gas shall be allocated storage capacity from the unbundled storage program at the same rates included in this Settlement for the

[4] If this Settlement is implemented prior to April 1, 2016, SoCalGas and SDG&E will continue to honor existing contracts for firm winter injection capacity for the current storage year (April 1, 2015-March 31, 2016) that are higher than the firm injection capacity allocated under this Settlement, subject to Rule 30 prorationing.

combined core customers of SoCalGas and SDG&E. Southwest Gas shall be allocated storage capacities (injection, inventory, and withdrawal) from the unbundled storage program equal to 1.98% of the storage capacities allocated to the combined core customers of SoCalGas and SDG&E in this Settlement.

g. Long Beach shall be allocated storage capacity from the unbundled storage program at the same rates included in this Settlement for the combined core customers of SoCalGas and SDG&E. Long Beach shall be allocated storage capacities (injection, inventory, and withdrawal) from the unbundled storage program equal to 1.00% of the storage capacities allocated to the combined core of SoCalGas and SDG&E in this Settlement.

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h. The following table provides a summary of the positions of parties regarding storage injection and withdrawal capacities.

Party Positions on Injection and Withdrawal Rights

		BCF	Withdrawal		Injection			
			Winter	Summer	Summer		Winter	
					2016	2017 +	2016	2017 +
2009 TCAP (1)	**Total**	138.1	3,195	3,195		850		
(Ex. ORA-02	**Balancing**	4.2	340	340		200		
pp. 31-36)	**Core**	83.0	2,225	2,225		388		
	Unbundled	50.9	630	630		262		
SCG/SDG&E	**Total**	138.1	3,175	1,812	770	915	390	535
(Ex. SCG-04	**Balancing**	5.1	525	525	200	345	200	345
p. 2)	**Core**	83.0	2,225	1,081	388	388	190	190
	Unbundled	50.0	425	206	182	182	0	0
SCE	**Total**	138.1	3,175	1,812	770	915	390	535
(Ex. SCE-01	**Balancing**	5.1	525	525	200	345	200	345
pp. 10-11)	**Core**	83.0	2,225	461	388	388	68	68
	Unbundled	50.0	425	826	182	182	122	122
IS	**Total**	Opposes adding to the balancing function in 2017 when Aliso Canyon comes online if IS recommendations are adopted. If not, then increasing the amount allocated to the injection function in 2017 onward as proposed by SCG/SDG&E is appropriate. Unbundled storage customers should also receive injection capacity.						
(Ex. IS-01)	**Balancing**							
pp. 15-22.)	**Core**							
	Unbundled							
Long Beach	**Total**	Maintain status quo.						
(Ex. LB-01	**Balancing**							
pp. 1-4)	**Core**							
	Unbundled							
ORA	**Total**	Maintain annual allocation.						
(Ex. ORA-01	**Balancing**							
pp. 5-11)	**Core**							
	Unbundled							

(1) 2009 TCAP Withdrawal and Injection was done an an annual basis. Numbers are included on a seasonal basis for comparison to proposals on seasonal basis.

2. Cost Allocation

a. Authorized storage costs will be allocated 1/3 to the inventory function, 1/3 to the injection function, and 1/3 to the withdrawal function.

b. Storage costs allocated to the inventory, injection, and withdrawal functions will subsequently be allocated to core, load balancing, and unbundled storage services based on the seasonalized capacities set forth

in Section B.1 above, where injection and withdrawal capacities are weighted by the relative number of days in the winter or summer seasons. The following table provides the resulting allocations.

	Core	Balancing	Unbundled	Total
2016 $MM	$54.94	$19.79	$21.46	$96.19
2017-2019 $MM	$59.94	$27.35	$23.29	$110.58

c. For the next TCAP, SoCalGas and SDG&E shall perform a storage functionalization cost causation study by inventory, injection, and withdrawal functions such as was performed by SoCalGas and SDG&E in 2008. SoCalGas and SDG&E shall include testimony and, as appropriate, workpapers as part of their direct showing in the next TCAP to present the results of the storage study.

3. Unbundled Storage Program

a. Net revenues (gross revenues minus allocated costs) received by SoCalGas through the unbundled storage program shall be shared between SoCalGas' ratepayers and shareholders on a 75/25 ratepayer/shareholder basis.

b. There shall be an annual cap on shareholder earnings of $20 million.

c. The following tables provide a summary of the agreed upon sharing and the positions of parties regarding the unbundled storage program:

Table Showing Agreed Upon Terms for Unbundled Storage Sharing:

Ratepayers	Shareholders	Shareholder Cap
75%	25%	$20 M

Table Showing Parties' Positions on Unbundled Storage Program:

Party Positions on Unbundled Storage Program				
Party		Sharing Percentage		Shareholder Cap
		Ratepayer	Shareholder	
Current	2008 TCAP Phase 1, 19-22	See Note 1.		
SCG/SDG&E	Ex. SCG-03, p. 13	60	40	$20 M
ORA	Ex. ORA-01, p. 15	75	25	$20 M
SCGC	Ex. SCGC-01, p. 23	85	15	$5 M
Shell	Ex. Shell-01, pp. 8-9	See Note 2.		
TURN	Ex. TURN-01, p. 4	See Note 3.		
IS	Ex. IS-01, p. 32	Maintain current mechanism.		
SCE	Ex. SCE-01, p. 4	Maintain current mechanism.		
Long Beach		No position.		

(1) 90/10 for the first $15 million; 75/25 for the next $15 million; 50/50 for net revenues over $30 million; all subject to a $20 million cap.

(2) Shell's testimony states, "While Shell Energy is not opposed to some level of sharing under the unbundled storage program, any shareholder benefits should be accompanied by the elimination of SoCalGas/SDG&E tariff provisions allowing pro-rationing, curtailment or other actions diminishing firm transportation and storage rights." Shell does not offer specific proposals or propose a shareholder earnings cap.

(3) TURN proposes keeping the current mechanism, but allowing the first $500,000 to go directly to shareholders.

4. Storage Postings

a. SoCalGas shall continue to post primary unbundled storage transaction details on its Electronic Bulletin Board system per current tariffs.

5. Monthly Balancing

a. Balancing Service will be provided without charge if the cumulative imbalance at the end of the monthly imbalance trading period is within 8% of the customer's usage, in case of core aggregators their applicable Daily Contract Quantity, or in the case of the Utility Gas Procurement

Department the applicable Daily Forecast Quantity, for the billing period. Imbalance quantities remaining at the end of the designated imbalance trading period and which are outside of the 8% tolerance band will be billed at the Standby Procurement Charge or purchased by the Utility at the Buy-Back Rate.

6. High Operational Flow Orders

a. A high Operational Flow Order (OFO) will be called if the amount of storage injection capacity allocated to the balancing function is forecasted to be exhausted. The necessary tariff changes for the high OFO will be adopted. The following table outlines the stages and their corresponding tolerances and noncompliance charges.

Stage	Daily Imbalance Tolerance	Noncompliance Charge ($/therm)
1	Up to +25%	0.025
2	Up to +20%	0.10
3	Up to +15%	0.50
4	Up to +5%	2.50
5	Up to +5%	2.50 plus Rate Schedule G-IMB daily balancing standby rate
EFO	Zero	5.00 plus Rate Schedule G-IMB daily balancing standby rate

b. The new High OFO Trigger mechanism cannot go into effect without a demonstration that SoCalGas has developed a day-ahead forecasting methodology consistent with the standards ultimately approved through

AL 4822, Modification of Tariffs Necessary to Implement Low Operational Flow Order (OFO) and Emergency Flow Order (EFO) Requirements and Description of Forecasting Model in Compliance with D.15-06-004.

c. The forecasting methodology and all components of the forecasting methodology shall be publicly available through posting on Envoy such that any party can replicate SoCalGas's resulting forecasts. Any changes to the methodology shall be posted at least fifteen days before becoming effective.

d. The new High OFO Trigger mechanism cannot become effective until the Aliso Canyon 145 MMcf/d expansion of injection capacity is in operation.

7. No Change to G-TBS provision on As-Available Injection Rights

The changes proposed by SoCalGas and SDG&E to the G-TBS provision on as-available injection rights will not be adopted during this TCAP cycle.

III
ADDITIONAL TERMS AND CONDITIONS

A. The Public Interest

The Settlement Parties agree jointly by executing and submitting this Settlement that the relief requested herein is just, fair and reasonable, and in the public interest.

B. Non-Precedential Effect

This Settlement is not intended by the Settling Parties to be precedent for any future proceeding. The Settling Parties have assented to the terms of this Settlement only for the purpose of arriving at the settlement embodied in this Settlement. Except as expressly

precluded in this Settlement, each of the Settling Parties expressly reserves its right to advocate, in current and future proceedings, positions, principles, assumptions, arguments and methodologies which may be different than those underlying this Settlement, and the Settling Parties expressly declare that, as provided in Rule 12.5 of the Commission's Rules, this Settlement should not be considered as a precedent for or against them. Likewise, the Settlement explicitly does not establish any precedent on the litigated issues in the case.

C. Partial Settlement

This Settlement is a partial settlement of Phase 1 issues. It is not intended to resolve issues not covered by the Settlement, or to preclude any of the Settling Parties from making any arguments or taking any positions with respect to such issues.

D. Indivisibility

This Settlement embodies compromises of the Settling Parties' positions. No individual term of this Settlement is assented to by any of the Settling Parties, except in consideration of the other Settling Parties' assents to all other terms. Thus, the Settlement is indivisible and each part is interdependent on each and all other parts. Any party may withdraw from this Settlement if the Commission modifies, deletes from, or adds to the disposition of the matters stipulated herein. The Settling Parties agree, however, to negotiate in good faith with regard to any Commission-ordered changes to the Settlement in order to restore the balance of benefits and burdens, and to exercise the right to withdraw only if such negotiations are unsuccessful.

The Settling Parties acknowledge that the positions expressed in the Settlement were reached after consideration of all positions advanced in the prepared testimony of SoCalGas, SDG&E, ORA, TURN, Indicated Shippers, City of Long Beach, and the other active parties, as well as proposals offered during the settlement negotiations. This document sets forth the

entire agreement of the Settling Parties on all of those issues, except as specifically described within the Settlement. The terms and conditions of this Settlement may only be modified in writing subscribed by all Settling Parties.

Dated this 31st day of August, 2015.

SOUTHERN CALIFORNIA GAS COMPANY and
SAN DIEGO GAS & ELECTRIC COMPANY

/s/ Michael R. Thorp
By: Michael R. Thorp
Title: Chief Regulatory Counsel

OFFICE OF RATEPAYER ADVOCATES

/s/ Joe Como
By: Joe Como
Title: Acting Director

THE UTILITY REFORM NETWORK

/s/ Robert Finkelstein
By: Robert Finkelstein
Title: General Counsel

INDICATED SHIPPERS

/s/ Nora Sheriff
By: Nora Sheriff
Title: Counsel

CITY OF LONG BEACH

/s/ Patrick H. West
By: Patrick H. West
Title: City Manager

SOUTHWEST GAS CORPORATION

/s/ Kyle Stephens
By: Kyle Stephens
Title: Assistant General Counsel

(END OF ATTACHMENT A)