

PROPOSED DECISIONAgenda ID #14995 [\(Rev. 1\)](#)

Ratesetting

[7/14/2016 Item 21](#)

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Gas Company (U904G) and San Diego Gas & Electric Company (U902G) for Authority to Revise their Curtailment Procedure.

Application 15-06-020
(Filed June 26, 2015)

**DECISION ADOPTING CURTAILMENT PROCEDURES
SETTLEMENT AGREEMENT**

Summary

By this decision, we adopt the Curtailment Procedures Settlement Agreement (Settlement), set forth in Attachment 1. In adopting the Settlement, we grant the Joint Motion, dated April 28, 2016, of Southern California Gas Company, San Diego Gas & Electric Company (the "Applicant Utilities"), the California Independent System Operator, Southern California Edison Company, Southern California Generation Coalition, Indicated Shippers, and the California Manufacturers & Technology Association (collectively, the "Settling Parties").

The Settlement proposes resolution of all outstanding issues in this proceeding, except for those that are separately addressed in the "Daily Balancing Proposal Settlement Agreement" as adopted in Decision 16-06-021. As discussed below, we find that the Settlement conforms to the Commission's rules and criteria relating to alternate dispute resolution through Settlement. Accordingly, because we find the Settlement reasonable in light of the whole record, consistent with the law, and in the public interest, we approve the

Settlement in its entirety and without modification. We direct Applicant Utilities to implement the provisions of the Settlement in accordance with the Ordering Paragraphs of this decision, as discussed below.

1. Procedural Background

The proposed Settlement was brought before us in Application (A.) 15-06-020, a proceeding to consider revisions to Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) curtailment procedures for natural gas service. SoCalGas and SDG&E filed A.15-06-020 on June 26, 2015.

In support of the Application, the Applicant Utilities served prepared testimony on interested parties. Protests and responses were filed on August 10, 2015. A prehearing conference was held October 27, 2015, to discuss procedural matters. The Assigned Commissioner's Scoping Memo and Ruling, filed and served on November 6, 2015, set hearings for the curtailment rule revisions.

Intervenor testimony was submitted on February 5, 2016. Rebuttal testimony was submitted on March 4, 2016, by SoCalGas and SDG&E as well as Southern California Generation Coalition (SCGC). On the first day of scheduled hearings, the parties announced that they had agreed to settlement principles and would be filing a motion for approval of a settlement agreement. On March 28, 2016, SoCalGas and SDG&E served a Notice of Settlement Conference pursuant to Rule 12 of Commission's Rules of Practice and Procedure (Rules). The Settlement Conference was held telephonically on April 5, 2016.

A Joint Motion for adoption of the Curtailment Procedures Settlement Agreement (Settlement) was filed on April 28, 2016. In filing the Joint Motion, Southern California Gas Company, San Diego Gas & Electric Company (the "Applicant Utilities"), the California Independent System Operator, Southern

California Edison Company (SCE), Southern California Generation Coalition, Indicated Shippers, and the California Manufacturers & Technology Association (CMTA) (collectively, the “Settling Parties”) requested that the standard 30-day comment period provided by Rule 12.2 be reduced to 10 days. We grant this request. The reduced comment period enabled the Commission to consider the Settlement 20 days earlier than otherwise would apply. No comments were filed in response to the Joint Motion.

2. Description of the Proposed Settlement

The proposed Settlement resolves outstanding disputes relating to the issues in parties’ testimony. We summarize below the major issues addressed in testimony and note how the Settlement resolves those issues.

SoCalGas and SDG&E presented testimony proposing gas curtailment procedure revisions to allow end-use curtailments to be effectuated in one or more of 10 defined local service zones, rather than the current system-wide curtailment process. These proposed curtailment procedure revisions would restructure the order in which SoCalGas and SDG&E curtail noncore customers to protect deliveries to higher priority customers while simplifying the process. In conjunction with proposals for revised curtailment procedures, SoCalGas and SDG&E also proposed to eliminate the San Joaquin Valley and Rainbow Corridor/San Diego open season requirements as well as the distinction between firm and interruptible noncore service.

We review below how the Settlement resolves parties’ positions with respect to the SoCalGas and SDG&E testimony. We review specifically how the Settlement resolves disputed issues relating to: (a) curtailment order; (b) local service zones; (c) open seasons, rate structures, and contracts; and (d) other tariff provisions, as noted below.

2.1. Curtailment Order

SoCalGas and SDG&E testimony proposed a seven-step queue for effectuating natural gas curtailments should the System Operator deem it necessary to curtail service. SoCalGas and SDG&E also proposed tariff modifications for implementing the new curtailment order to SoCalGas Rule No. 23 and SDG&E Gas Rule 14.

SCE, SCGC, and Indicated Shippers proposed various modifications. SCE and SCGC expressed concern that the proposed curtailment order would adversely impact electric grid reliability. Indicated Shippers was concerned that it could potentially create safety concerns for some customers to comply with curtailment orders. SCE and SCGC expressed concerns about the relationship of storage injection and withdrawal to the curtailment order. SCE proposed including Off-System Delivery (OSD) service in the curtailment order.

Settling Parties propose to use the framework for the curtailment order as proposed by SoCalGas and SDG&E, but with modifications to address various concerns raised by parties, summarized as follows:

- ; Step 1 is modified to allow all dispatchable electric generation (EG) forecasted to go into service during a curtailment order to run as scheduled, subject to Step 2 cuts, should the curtailment be called based on day-ahead forecasts.
- ; Step 2 is modified so that: (a) the maximum percentage cut available for dispatchable EGs in Step 2 is 40% in summer and 60% in winter; (b) to the extent operationally feasible, SoCalGas and SDG&E will try to base curtailments on day-ahead forecasts of peak EG loads provided by the relevant Electric Grid Operator(s) as defined in Rule 1; and clarify that, if the relevant Electric Grid Operator(s) informs SoCalGas and SDG&E that a proposed curtailment of dispatched EG load pursuant to this provision could adversely affect electric grid reliability or cause firm electric load shedding, SoCalGas and SDG&E may in its sole

discretion reduce the proposed curtailment of dispatched EG load and move to the next curtailment step.

- ; Step 3 is modified so that pre-established refinery minimum usage requirements are held for Step 4; refinery minimum usage requirements are defined as the usage level required to safely operate refinery processing units, to avoid material damage to operating equipment, and to avoid operational outages extending materially beyond the curtailment period and shall take into account other relevant factors such as the length of notice provided.
- ; Step 4 is modified to include remaining refinery load not curtailed in Step 3 as Step 4a. Step 4b is the remaining EG load not curtailed in Step 2.
- ; Steps 5 through 7 are not modified.

Outside of the curtailment order, storage injection and withdrawal provisions are not incorporated into the curtailment procedures. ~~OSD~~[Off-System Delivery](#) will be addressed in the SoCalGas and SDG&E Rule 30 scheduling provisions. As such, the Utility System Operator can discontinue OSD transactions to the extent that providing the OSD service would make a supply-related situation worse, subject to the North American Energy Standards Board elapsed pro rata rules. SoCalGas Rule No. 30 is clarified so that, in addition to critical customers as defined in Rule No. 1, preference will be given to refinery minimum usage when ~~they declare~~ an operating emergency [is declared](#).

2.2. Local Service Zones

SoCalGas and SDG&E testimony presented a detailed, tariff-level local service zone map with descriptions of the local service zones. No party explicitly opposed the local service zones. SCGC, however, expressed a desire that the tariffs specify that SoCalGas and SCGC could effectuate curtailment in an area smaller than a local service zone if it was possible to reduce customer impacts. In [the](#) Settlement, Indicated Shippers expressed a desire that SoCalGas and SDG&E

could effectuate a curtailment in an area larger than a local service zone, if it was possible to reduce customer impacts. Indicated Shippers also expressed a desire for local service zones to be subject to future review.

Settling Parties agree to adopt local service zones as proposed by SoCalGas and SDG&E. The Settlement includes modifications to language in SoCalGas Rule 23 Section C relating to effectuating curtailments in areas smaller or larger than local service zones. The modified language is not necessary for inclusion in SDG&E Gas Rule 14 since SDG&E exists entirely within one local service zone. The local service zones themselves may be a topic for consideration at the Utility Customer Forum described in SoCalGas Rule 41.

2.3. Open Seasons, Rate Structures, and Contracts

SoCalGas and SDG&E currently offer noncore customers firm or interruptible transportation services on the integrated gas system. SoCalGas and SDG&E testimony proposed to end the firm and interruptible designations for noncore transportation service and offer only a single noncore transportation service.

SoCalGas and SDG&E also proposed to end pipeline capacity open seasons, currently conducted in the San Joaquin Valley and in the Rainbow Corridor/San Diego areas pursuant to Decision (D.) 02-11-073 and D.06-09-039. As a result of these proposals, SoCalGas and SDG&E requested authority to terminate all noncore customer contracts for transportation service that are effective on the date of this decision on the first day of the month following 90 days from approval of the application, coincident with implementation of the new curtailment procedures. SoCalGas and SDG&E would generate new

month-to-month noncore transportation service contracts for execution by the utilities and their customers.

SCGC was the only party to submit testimony on these items, preferring that open season requirements continue with firm and interruptible rate distinctions in the potentially capacity constrained areas.

Settling Parties agree that capacity open seasons are no longer required to be conducted in potentially capacity constrained areas and that SoCalGas and SDG&E's end-use noncore rate schedules will no longer distinguish between firm and interruptible transportation service (except for SoCalGas Schedule No. G-BTS, Backbone Transportation Service). To implement these changes, the Settlement specifies that all noncore customer contracts for transportation service in effect on the effective date of the Settlement are terminated on the first day of the month following 90 days from the date of this decision, and new month-to-month contracts will be implemented. As a point of clarification, EG customers subject to curtailment in Step 1, Step 2, or Step 4 are not required to establish Curtailment Baseline Quantities in their transportation contracts.

2.4. Other Tariff Provisions

SoCalGas and SDG&E submitted testimony to eliminate tariff provisions related to the Service Interruption Credit (SIC). SCGC submitted testimony that these provisions continue. Settling Parties agree that SoCalGas and SDG&E may remove these provisions from their tariffs.

SoCalGas and SDG&E also sought to eliminate tariff provisions relating to diversion of customer owned gas. SCE supported retention of these tariff provisions and proposed modifications to include diversion protocols. Settling Parties agree to include provisions related to diversion of customer owned gas.

SoCalGas sought to eliminate a provision related to submission of an Advice Letter within 24 hours of initiating a curtailment event. SCGC advocated for retention of this tariff provision. Settling Parties agree that SoCalGas Rule 23 will continue to include a notification requirement. However, for non-maintenance-related curtailments, SoCalGas will have five business days from the conclusion of the curtailment to submit the Advice Letter. For maintenance-related curtailments, SoCalGas will have five business days from the end of each calendar quarter to submit an Advice Letter providing information relating to all maintenance-related curtailments during the quarter.

SoCalGas and SDG&E submitted testimony regarding customer trading of maximum allowed usage capacity. SCE and SCGC submitted testimony that raised concerns that EG customers would be precluded from participating in trades of curtailment requirements. During the Settlement process, CMTA expressed concern that trades would be limited to within a single local service zone, even if more than one zone was curtailed. Settling Parties agree that trading all or a portion of the Customer's maximum allowed usage capacity will be limited to non-EG noncore and noncore cogeneration customers (to include non-dispatchable electric generation). Trading of maximum allowed usage capacity will be allowed within the same curtailed Local Service Zone or Zones.

SoCalGas and SDG&E sought to include tariff language regarding authority to temporarily shut off gas service without liability. CMTA advocated against this tariff modification during the Settlement process. Settling Parties agree that this new language will not be added, and that SoCalGas and SDG&E will not temporarily physically shut off gas service to any customer without first notifying the customer, except in an emergency.

SoCalGas and SDG&E sought to remove language relating to interruption of service due to planned maintenance and had proposed to largely move this language, with some modification, to SoCalGas Rule 23. CMTA expressed concerns with this change. Settling Parties agree the language will remain in SoCalGas Rule 30 (with minor modification to eliminate reference to the SIC). SoCalGas Rule 23 will simply reference Rule 30 provisions.

SoCalGas and SDG&E proposed a definition of “Electric Grid Operators” to be added to SoCalGas Rule 1. Settling Parties agree that this definition will be expanded to include Glendale Water and Power and Burbank Water and Power as recognized Electric Grid Operators for effectuating curtailments of electric generators.

SoCalGas and SDG&E sought to modify the schedule for curtailment violations that are currently levied based on when the end-user is not in compliance with the curtailment order. Violation fees increase based on when the noncompliance occurs. Customers failing to curtail on request are assessed a penalty of \$1.00 per therm for the first five hours of the Customer’s operating day, \$3.00 per therm for hours six through eight, and \$10.00 per therm for hours nine through the end of the curtailment episode.

SoCalGas and SDG&E proposed that the curtailment violation charge be \$5 per therm per hour, plus the daily balancing standby rate, applicable to the entire curtailment period. SCGC submitted testimony preferring that the noncompliance charge schedule not be modified. Settling Parties agree to the modified curtailment violation schedule proposed by SoCalGas and SDG&E. Settling Parties clarified that maximum allowed usages will be hourly figures, and hourly consumption will be compared to hourly maximum allowed usage

when calculating curtailment violation charges. This clarification was incorporated into SoCalGas Rule No. 23 and SDG&E Gas Rule 14.

Currently, the revenue from curtailment violation charges is returned to those customers who complied with curtailment orders through an on-bill credit. SoCalGas and SDG&E proposed to move away from this process by allocating curtailment noncompliance charge revenue to the Noncore Fixed Cost Account for each respective utility and revenue from the assessment of G-IMB daily balancing standby charge revenue to the Purchased Gas Account. SCGC submitted testimony to maintain the current process of providing bill credits to customers who complied with a curtailment order.

Settling Parties agree to the rate treatment of curtailment noncompliance charge revenue proposed by SoCalGas and SDG&E.

SCGC submitted testimony expressing concern over the manner in which curtailment instructions are provided to customers. Settling Parties agree that SoCalGas and SDG&E will provide all official curtailment instructions in writing via electronic mail, with attempts to follow up by phone. Indicated Shippers submitted testimony proposing modifications to the requirements for providing notice of planned maintenance events.

The Settlement includes a redlined SoCalGas Rule 1, Rule 23, and Rule 30 and SDG&E Gas Rule 14 with the modifications agreed to by the Settlement. Settling Parties agree that, unless modified by the Settlement, the proposed tariff modifications should be adopted.

3. Standard of Review for Evaluating the Settlement

The Commission has long favored the settlement of disputes. This policy supports worthwhile goals, including reducing litigation costs, conserving scarce resources, and allowing parties to reduce the risk that litigation will produce

unacceptable results.¹ As a result of entering into the proposed Settlement Agreement at issue here, the parties as well as Commission staff avoided the expenditure of time and resources otherwise required to fully litigate the merits of parties' disputes.

Although we favor the settlement of disputes, we have specific rules regarding the conduct of settlements as set forth in Article 12 of the Commission's Rules of Practice and Procedure. Rule 12.1(d) specifically states that the Commission will not approve a settlement "unless the settlement is reasonable in light of the whole record, is consistent with law, and in the public interest." We conclude that the instant Settlement Agreement, taken in its entirety, satisfies each of these criteria.

In evaluating the instant Settlement, it is significant that the Settlement is uncontested. In considering the merits of uncontested settlements generally, we have previously stated:

In judging the reasonableness of a proposed settlement, we have sometimes inclined to find reasonable a settlement that has the unanimous support of all active parties in the proceeding. In contrast, a contested settlement is not entitled to any greater weight or deference merely by virtue of its label as a settlement; it is merely the joint position of the sponsoring parties, and its reasonableness must be thoroughly demonstrated by the record. (D.02-01-041, *mimeo.* at 13.)

Accordingly, by applying the standard of review discussed above, we find that the Settlement warrants adoption, and hereby adopt it, as attached hereto, and in conformance with the Ordering Paragraphs set forth below.

¹ D.05-03-022, *mimeo.* at 7-8.

3.1. The Settlement Is Reasonable in Light of the Record

The Settling Parties state that the provisions of the Settlement are reasonable and supported by the record. For purposes of our evaluation here, the record includes the SoCalGas and SDG&E application and supporting testimony, the testimony sponsored by the non-utility parties, and the utilities' and non-utility parties' respective rebuttal testimony, together with the Settlement and the motion for its adoption.

In assessing whether a settlement is reasonable in light of the record, we evaluate the agreement as a whole, not just its individual parts, as explained in D.10-04-033:

In assessing settlements, we consider individual settlement provisions but, in light of strong public policy favoring settlements, we do not base our conclusion on whether any single provision is the optimal result. Rather, we determine whether the settlement as a whole produces a just and reasonable outcome.²

Because each provision of the proposed Settlement is dependent on the other provisions therein, modification of any one part would harm the balancing of interests and compromises achieved in the Settlement. The various provisions reflect specific compromises between litigation positions and differing interests.

Prior to the settlement, the parties devoted significant time and effort to working collaboratively to identify and achieve a better common understanding of the range of issues in dispute, options for narrowing disputed issues, and opportunities to compromise. The outcomes reached by the Settlement are within the range of pre-settlement positions and outcomes presented by the parties. The Settlement represents agreement among most parties that actively

² D.10-04-033, *mimeo.* at 9.

participated in this proceeding. Although a few parties did not sign on to the Settlement, no party filed any comments in opposition to the Settlement.

Accordingly, in reference to Rule 12.1(d), and given the range of interests represented, as noted above, we conclude that the Settlement as a whole is reasonable in light of the entire record.

3.2. The Settlement Is Consistent with Law

In reference to Rule 12.1(d), we conclude that the Settlement is consistent with the law. The Settling Parties are represented by experienced counsel and assert that the Settlement complies with all applicable statutes and prior Commission decisions and reasonable interpretations thereof. In agreeing to the terms of the Settlement, the Settling Parties considered relevant statutes and Commission decisions and believe that the Settlement is fully consistent with those statutes and prior Commission decisions. We do not detect, and it has not been alleged, that any element of the Settlement is inconsistent in any way with Public Utilities Code Sections, Commission decisions, or the law in general.

3.3. The Settlement Is in the Public Interest

In reference to Rule 12.1(d), we conclude that the Settlement is in the public interest. The Commission has determined that a settlement that “commands broad support among participants fairly reflective of the affected interests” and “does not contain terms which contravene statutory provisions or prior Commission decisions” meets the “public interest” criterion.³ All active parties who took positions on the issues covered by the Settlement joined the motion as signatories, indicating their belief that the Settlement represents a reasonable compromise of their respective positions. The settling parties include a range of interests, including those of the applicant utilities and of well-known

³ See D.10-06-015, *mimeo.* at 11-12, citing D. 92-12-019, *mimeo.* at 7.

representatives of impacted customer groups. Although a few parties did not sign on to the Settlement, no party affirmatively expressed opposition. The sheer number of interested parties involved in negotiations helps to ensure that the Settlement represents all parties' interests.

Although settlements are compromises of parties' preferred outcomes, the fact that multiple parties, with diverse interests and recommendations, reached a compromise that was acceptable from various viewpoints provides assurance that the overall result is reasonable. Where specific issues were identified and resolved in the Settlement Agreement, we find the results are reasonable and consistent with the record.

4. Waiver of Comments on Proposed Decision

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Public Utilities Code and Rule 14.6(c)(2), the otherwise applicable 30-day period for public review and comment on the proposed decision is waived.

5. Assignment of Proceeding

Michel P. Florio is the assigned Commissioner and Maribeth Bushey is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. On April 28, 2016, a Joint Motion was filed by SoCalGas, SDG&E, the California Independent System Operator, SCE, SCGC, Indicated Shippers, and the CMTA for adoption of the "Curtailment Procedures" Settlement Agreement (set forth as Attachment 1 of this decision).

2. The "Curtailment Procedures" Settlement (Settlement) resolves of all contested issues in this proceeding, except for those issues that are separately addressed in the "Daily Balancing Proposal Settlement Agreement" as adopted in

D.16-06-021. The Settlement resolves parties' differences regarding: (a) gas curtailment order; (b) local service zones; (c) open seasons, rate structures, and contracts; and (d) other tariff provisions.

3. Parties to the "Curtailment Procedures" Settlement represent most of the parties that actively participated in this proceeding. Although a few parties did not sign on to the Settlement, no party filed comments in opposition.

4. The parties to the "Curtailment Procedures" Settlement are fairly reflective of the affected interests.

5. No term of the "Curtailment Procedures" Settlement Agreement contravenes statutory provisions of any prior Commission decisions.

6. The "Curtailment Procedures" Settlement is reasonable in light of the record, is consistent with law, and is in the public interest.

Conclusions of Law

1. The "Curtailment Procedures" Settlement Agreement set forth in Attachment 1 meets the Commission's criteria for approval, as prescribed in Rule 12 in that it is (a) reasonable in light of the whole record, (b) consistent with law, and (c) in the public interest. Accordingly, the Settlement should be approved in its entirety and without modification.

2. The "Curtailment Procedures" Settlement Agreement set forth in Attachment 1 reasonably resolves the issues addressed therein, but does not constitute precedent for any future proceeding or any issues not included in the Settlement. Except as expressly provided for in the Settlement, each of the Settling Parties 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.

3. This decision should be effective today so that SoCalGas and SDG&E can take prompt action to implement the Settlement Agreement pursuant to the Ordering Paragraphs of this decision so that the revised curtailment procedures presented by the Settlement can be put into place quickly, and be available if needed.

ORDER

IT IS ORDERED that:

1. The “Curtailment Procedures” Settlement Agreement, is approved and adopted, (as set forth in Attachment 1) pursuant to the April 28, 2016, Joint Motion of Southern California Gas Company, San Diego Gas & Electric Company, and the California Independent System Operator, Southern California Edison Company, Southern California Generation Coalition, Indicated Shippers, and the California Manufacturers & Technology Association (Joint Motion). Accordingly, the Joint Motion for adoption of the Settlement is granted.

2. Southern California Gas Company and San Diego Gas & Electric Company are directed to implement the terms of the Curtailment Procedures Settlement Agreement by filing a Tier 1 Advice Letter, consistent with the tariff sheet modifications in the Settlement Agreement set forth in Attachment 1. These tariff modifications shall be effective the first day of the month following 90 days from the effective date of this Commission order approving the Settlement.

3. Application 15-06-020 is closed.

This order is effective today.

Dated _____, at San Francisco, California.

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