

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION G-3525

August 10, 2017

R E S O L U T I O N

Resolution G-3525. Southern California Gas Company Annual Compliance Report for gas procurement activities to maintain Southern System reliability under Gas Rule 41.

PROPOSED OUTCOME:

- Approves the costs of the procurement activities undertaken to maintain Southern System reliability during the period from September 1, 2015, through August 31, 2016.

SAFETY CONSIDERATIONS:

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

ESTIMATED COST:

- Net cost of \$5.1 million.

By Advice Letter 5040, filed on October 3, 2016.

SUMMARY

The Southern California Gas Company (SoCalGas) submitted Advice Letter (AL) 5040 on October 3, 2016, providing an Annual Compliance Report (ACR) for the period September 1, 2015, through August 31, 2016. Required by Decision (D.) 09-11-006 and SoCalGas Rule 41, the report summarizes all the purchases and sales of gas made by the System Operator to maintain Southern System

minimum flow requirements. **This resolution finds the actions taken by SoCalGas to be reasonable and approves all transactions.**

Different sections of Rule 41 state the criteria under which SoCalGas' gas purchases and sales may be found reasonable.

In 2015-16, there were 84 gas purchase transactions. All 84 transactions meet the requirements of Sections 15, 16, 17, 20, or 29, of Rule 41.

Of these, 25 purchases (30 percent) met the requirements of Section 15 of Rule 41, 44 purchases (52%) met the requirements of Section 16, 2 purchases (2%) met the requirements of Section 17, 4 purchases (5%) met the requirements of Section 20, and 9 purchases (11%) met the requirements of section 29. Baseload gas purchase contracts, under Sections 20 and 29, make up 16% of the transactions, account for 85% of the volume, and 91% of the dollar value of all purchases.

Per Resolution G-3514, SoCalGas is required to include a section detailing whether any additional gas purchases were made in this reporting period to support Southern System reliability due to the limited functionality of the Aliso Canyon gas storage facility. The information on the quantity and cost of these purchases would help the Commission to determine if the Aliso Canyon storage facility situation has direct or indirect effects on costs to maintain Southern System reliability.¹ SoCalGas states that no spot or baseload purchases made by System Operator in this ACR period had any direct or indirect relationship to a need arising from an impact related to Aliso Canyon and all the transactions presented in this advice letter were related to supporting southern system reliability similar to other years.

BACKGROUND

The southern part of the SoCalGas gas transmission pipeline system (the Southern System) requires a minimum amount of flowing supplies to operate

¹ Resolution G-3514, Ordering Paragraph 3

reliably. Prior to 2009, the utility's Gas Acquisition Department maintained minimum flowing supplies into the Southern System using core customer assets. This responsibility was transferred to the Utility System Operator (System Operator) by D.07-12-019, effective April 1, 2009.²

D. 07-12-019 also approved the following tools, which can be used by the System Operator to meet Southern System reliability requirements:

- the ability to buy and sell gas on a spot basis as needed;
- the authority and the requirement to conduct at least one annual request for offers (RFO) seeking proposals for managing minimum flows; and
- the authority to submit an Advice Letter for approval of contracts that result from an RFO or open season process.

Subsequent resolutions authorized additional tools and specified certain conditions that the System Operator can use to meet Southern System reliability requirements:

Resolution G-3474, July 17, 2012, approved SoCalGas Advice Letter 4353, allowing the System Operator to move natural gas from Blythe to Otay Mesa, California, in order to support minimum flow requirements on the Southern System.³

Resolution G-3487, October 7, 2013, approved Advice Letter 4516, giving the System Operator the authority to enter into wintertime baseload gas contracts, December through March, in order to improve Southern System reliability provided the contracts meet certain criteria.⁴ On July 8, 2016, the Commission

² As stated in Rule 41, the mission of the Utility System Operator is to maintain system reliability and integrity while minimizing costs at all times. The System Operator includes all of the departments within SoCalGas and San Diego Gas & Electric Company that are responsible for the physical and commercial operation of the pipeline and storage systems and specifically excludes the Utility Gas Procurement Department.

³ Rule 41, Section 17

⁴ Rule 41, Section 20, defines wintertime as December through March.

authorized a three-year extension of that preauthorization of authority to enter into winter baseload contracts until March 31, 2019.⁵

SoCalGas separately requested System Operator authority to enter into summertime baseload gas contracts in order to ensure Southern System reliability in Advice Letter 4978, filed June 22, 2016.⁶ In light of the uncertainty surrounding the limited availability of Aliso Canyon gas storage, Disposition Letter 4978-G approved the creation of this new tool to be used by the System Operator to ensure Southern System reliability during the summertime.⁷

The criteria for determining the reasonableness of spot and baseload gas transactions are described in Sections 13-20 and 29 of SoCalGas' Rule 41.

Section 15 provides that the Operational Hub's day ahead market spot purchases or sales of gas will be deemed reasonable if the price is less than or equal to 110% of the ICE Wtd Avg Index for the flow. Spot gas sales must be greater than or equal to 90% of the ICE Wtd Avg Index. Transactions on the intraday market are reasonable if the spot purchase price is less than or equal to 110% of the ICE High for the current flow day and the spot sale price is greater than or equal to 90% of the ICE Low for the current flow day. All section 15 purchases fell within the reasonable criteria.

Section 16 provides that gas purchases or sales at prices outside the ranges specified in Section 13 of the tariff, will be deemed reasonable if Gas Control determines that spot purchases are necessary to meet minimum flow requirements, and the Operational Hub monitors and records available price information for deliveries of gas at all relevant trading points. If volumes available on ICE meet or exceed the minimum flow requirements, transactions for the volumes offered through ICE shall be deemed reasonable. The

⁵ Rule 41, Section 20, SoCalGas AL 4970, approved by disposition letter on July 8, 2016.

⁶ SoCalGas AL 4978, approved by disposition letter on July 21, 2016.

⁷ Rule 41, Section 29

Operational Hub may also post an offer/bid on ICE for volumes. When less than the required volumes are available on ICE, the Operational Hub shall contact gas suppliers (other than the Utility Gas Procurement Department or affiliates), request offers for the necessary supplies, and record their offers for gas delivered to the relevant trading points to ensure at least three offers from three different suppliers are available for comparison. The Operational Hub shall compare prices posted on ICE and prices quoted by its supplier contracts, and select the best prices available to meet the quantities required to meet minimum flow requirements. These procedures were followed as verified by SoCalGas' Annual Compliance Filing, AL 5040 filing.

Section 17 permits Gas Control to make spot purchases at Otay Mesa or move supplies from Blythe to Otay Mesa when it is necessary to meet minimum flow requirements. Spot purchase requirements are pursuant to the standards and criteria set forth by preceding sections of Gas Rule 41. Moving supplies from Blythe to Otay Mesa is reasonable if the cost of moving the supplies is less than or equal to the difference between the ICE Wtd Avg Index for the Blythe and the cost of spot gas available for purchase at Otay Mesa for the relevant flow date, or if sufficient spot supplies are not available for purchase at Otay Mesa for the relevant flow date, and the movement fills some or all of the shortfall between supplies needed at Otay Mesa and supplies available for purchase at Otay Mesa. The single section 17 purchase met this requirement.

Section 20 permits the Operational Hub to enter into baseload contracts for Southern System support at one or more of the Southern System receipt points. The Operational Hub shall be deemed to have made reasonable baseload purchases if: (1) the total cumulative baseload volumes at any time are less than or equal to 255,000 Dth/day; (2) the price is less than or equal to NGI's Bidweek average for "Southern Cal. Bdr. Avg." plus 8.2 cents/Dth for the relevant baseload month(s); (3) the term is for the December - March period, or any subset of that period; and (4) the baseload contracts can only be made for one season at a time and only within the nine month period directly preceding that season. The Operational Hub shall be deemed to have made reasonable sales of such baseload gas if for baseload sales, the sale price is greater than or equal to 90% of NGI's Bidweek average for "SoCal Citygate" for the relevant baseload month(s); and for spot sales, the sale price is greater than or equal to 90% of the ICE Wtd

Avg Index for the relevant trading point and trading period. This provision expired on March 31, 2016 and was reaffirmed by disposition letter.⁸ All winter baseload contracts met these criteria.

Section 29 permits the Operational Hub to enter into summertime baseload contracts if: (1) the total cumulative baseload volumes at any time are less than or equal to 200,000 Dth/day; (2) the price is less than or equal to NGI's Bidweek average for, "Southern Cal. Bdr. Avg." plus 8.2 cents/Dth for the relevant baseload month(s); and (3) the term is for the August - September period, or any subset of that period. The Operational Hub shall be deemed to have made reasonable sales of such baseload gas if: (1) for baseload sales, the sale price is greater than or equal to 90% of NGI's Bidweek average for "SoCal Citygate" for the relevant baseload month(s); and (2) for spot sales, the sale price is greater than or equal to 90% of the ICE Wtd Avg Index for the relevant trading point and trading period. This provision was permitted by Disposition to Advice Letter 4978, and expires on September 2016, unless extended by the Commission.

Pursuant to D.09-11-006, SoCalGas must submit an Annual Compliance Report to demonstrate that the natural gas procurement activities it undertook to support Southern System reliability were in compliance with the criteria described in Rule 41.⁹ Per G-3514, SoCalGas is required to include a section detailing additional gas purchases, quantity and cost, to support Southern System reliability due to the lack of storage at Aliso Canyon.

On October 3, 2016, SoCalGas submitted its Annual Compliance Report for the period September 1, 2016, through August 31, 2016 with AL 5040.

⁸ SoCalGas AL 4970, approved by disposition letter on July 8, 2016.

⁹ Various tariff revisions have shifted the criteria numbering. Currently, the criteria can be found in Rule 41 Sections 11-21, and 29.

NOTICE

Notice of AL 5040 was made by publication in the Commission's Daily Calendar. SoCalGas states that a copy of the Advice Letter was mailed and distributed in accordance with Section 4 of General Order 96-B.

PROTESTS

Advice Letter 5040 was not protested.

DISCUSSION

This resolution finds the actions taken by SoCalGas to maintain the Southern System minimum flow requirement to be reasonable and approves all of the transactions presented in AL 5040.

SoCalGas incurred procurement costs of \$95,719,175 for spot and baseload purchases as well as \$6,436,422 in transportation charges. Sales of the purchased gas yielded \$97,027,495. The total net cost was \$5,128,103.¹⁰

Spot market prices in this ACR period averaged 79 cents/Dth totally 8% of purchases. Baseload purchases averaged 9 cents/Dth totaling the remaining 92%.¹¹ Last year, the ratio of spot to baseload purchases was a similar ratio of 7%/93%. The volume of gas purchased in this ACR period was 18% higher than in 2014-15 but only 5% percent higher when compared to the 2013-14 period.¹²

¹⁰Net Cost in 2015 was \$4.7 million, G-3514, April 7, 2016. This is an 18% increase from last year.

¹¹ SoCalGas AL 5040

¹² SoCalGas purchased 39,158,590 Dths of natural gas to support Southern System reliability in 2015-16, 33,076,663 Dths of natural gas to support Southern System reliability in 2014-15 and 36,946,128 Dths in 2013-14.

The increase in overall costs is related to the necessary spot gas purchases made in July 2016, a peak electric generation month, that was not covered by any baseload contract commitments. Newly adopted Section 29, permitting SoCalGas to enter into summertime baseload contracts, was instated on July 21, 2016.¹³

As required by Resolution G-3480, AL 5040 provided the following table of transactions and the Sections of Rule 41 with which SoCalGas asserts each transaction complies. In 2015-16, all transactions fell within the criteria delineated in Rule 41 Sections 15, 16, 17, 20, and 29.

Table 1
Southern System Purchases, September 2015 - August 2016

	#Transactions	%	\$	%
Section 15	25	30%	\$ 3,255,629	3%
Section 16	44	52%	\$ 4,765,892.00	5%
Section 17	2	2%	\$ 88,450.00	0.10%
Section 20	4	5%	\$ 70,335,846.00	73%
Section 29	9	11%	\$ 17,273,358.00	18%
Total	84	100%	\$ 95,719,175.00	100%

Energy Division staff reviewed Attachment A-G to AL 5040 and found that all purchase and sales transactions were correctly categorized and met the reasonableness criteria specified in Rule 41. They are therefore approved.

SoCalGas reported that no additional gas was purchased to support Southern System reliability as a result of the Aliso Canyon gas storage facility situation.¹⁴

¹³ SoCalGas AL 4978, approved by disposition letter on July 21, 2016.

¹⁴ On October 23, 2015, a major gas leak was discovered at the Aliso Canyon gas storage facility. On January 21, 2016, the Commission ordered SoCalGas to continue to reduce the amount of gas in storage until the working gas inventory at Aliso Canyon reached 15 Billion cubic feet and suspend gas injections into any of the wells at the facility.

Per Resolution G-3514, SoCalGas is required to provide information on the additional gas, if any, that was purchased to support Southern System reliability because of the unavailability of the Aliso Canyon storage facility in a separate section of its 2016 Annual Compliance Report. Aliso Canyon storage facility is not located in the Southern System. However, since a lack of storage capacity at Aliso Canyon may have direct or indirect effects on Southern System reliability, SoCalGas was ordered to provide information on additional gas, if any, was purchased to support Southern System reliability and include that information in a separate section of the Annual Compliance Report. In this Annual Compliance Report filing, SoCalGas reported that no additional gas was purchased to support Southern System reliability as a result of the leak discovered at the Aliso Canyon gas storage facility.

A new tool was added as a temporary addition to SoCalGas Rule 41 (Section 29) permitting SoCalGas to enter into summertime baseload contracts.

In Resolution G-3514, the Commission adopted SoCalGas' recommendation that baseload gas purchase contracts, rather than spot market gas purchases, were a cost effective way to maintain Southern System reliability.¹⁵

In Advice Letter 4970, SoCalGas sought Commission reauthorization to continue wintertime baseload gas contract purchasing per Section 20 of Rule 41. In a protest to Advice Letter 4970, Southern California Public Power Authority (SCPPA), urged SoCalGas to supplement its Advice Letter filing to include a request for authorization to utilize baseload contracts during summer months rather than relying on spot market prices, to provide ratepayer benefits, noting that baseload contracts, "provide an efficient method to manage Southern System minimum flow requirements."¹⁶

SoCalGas sought authority on June 22, 2016, to enter into summertime baseload contracts to support minimum flows in the Southern System when "the emergent

¹⁵ Resolution G-3514, April 7, 2016

¹⁶ Resolution G-3477 at 18, Finding of Fact 14

and unanticipated Aliso Canyon unavailability could create relatively low gas supply” that summer.¹⁷ Shell North America (U.S.), L.P. (“Shell Energy”) and the Alliance for Retail Energy Markets (“AREM”) filed comments in support of SoCalGas’ request for authority to enter into summertime baseload gas contracts.¹⁸

On July 21, 2016, Energy Division permitted temporary revisions to SoCalGas Rule 41 to grant SoCalGas authority to enter into summertime baseload gas contracts, adding Section 29 on a temporary basis.

SoCalGas states that no additional gas was purchased by the system operator in the spot market or under baseload contracts due to the Aliso Canyon gas storage facility situation.

Pursuant to SoCalGas’ Annual Compliance Report filing no additional gas was purchased to support Southern System reliability as a result of Aliso Canyon gas storage facility. Spot market gas purchases were made when scheduled gas quantities were below the system’s minimum required flowing supply or to maintain system integrity when the Ehrenberg compressor required maintenance.¹⁹

In subsequent Annual Compliance Reports on Utility System Operator’s Southern Reliability Purchases and Sales filings, SoCalGas shall inform the

¹⁷ SoCalGas AL 4978, filed June 22, 2016.

¹⁸ Response of Shell Energy and AREM to SoCalGas Advice No. 4978, July 8, 2016.

¹⁹ Minimum flowing supply of gas for the Southern System is the amount of gas required to maintain system reliability. Minimum flowing supply of gas is a function of the forecasted gas demand minus the capability to provide additional supplies to the Southern System from the Northern System or storage, and other factors, such as but not limited to: the state of the Southern System, the demand and supply available on the remainder of the Utility system, and expectations of changing demand patterns. Rule 41 Section 7; AL 5040, attachment D.

Commission whether there is a need to revise the conditions of the baseload contracts to reflect market or operating conditions.

Under Section 20 of Rule 41, the Operation Hub may enter into reasonable Southern System support baseload contracts if (1) the total cumulative baseload volumes at any time are less than or equal to 255,000 Dth/day; (2) the price is less than or equal to NGI's Bidweek average for "Southern Cal. Bdr. Ave." plus 8.2 cents/Dth for the relevant baseload months.

These provisions of Rule 41 have existed for quite some time. Per Resolution G-3487, a full review of the use of baseload contracts was to take place at the Southern California Gas Annual Customer Forum in 2016.²⁰ In subsequent Annual Compliance Reports on Utility System Operator's Southern Reliability Purchases and Sales filings, SoCalGas shall inform the Commission whether there is a need to revise the conditions of the baseload contracts to reflect market or operating conditions.

COMMENTS

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

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments on June 14, 2017. No comments were filed.

²⁰ Resolution G-3487, October 3, 2013, p. 12.

FINDINGS

1. Pursuant to D.09-11-006 and Rule 41, SoCalGas must submit an Annual Compliance Report by October 1st to demonstrate that the natural gas procurement activities undertaken to support Southern System reliability were in compliance with certain standards, criteria, and procedures.
2. SoCalGas submitted AL 5040 on October 3, 2016, providing an Annual Compliance Report for the period September 1, 2015, through August 31, 2016.
3. SoCalGas incurred \$95,719,175 in procurement transaction costs to support Southern System reliability during the ACR period. These costs were incurred through 84 spot and baseload purchases.
4. All of the gas purchases met the requirements to be deemed reasonable under Rule 41 and should be approved. Of the 84 purchases, 25 met the criteria of Section 15 of Rule 41, 44 met the criteria of Section 16, 2 met the criteria of section 17, 4 met the criteria of Section 20, and 9 met the criteria of Section 29.
5. The Operational Hub resold the purchased gas at the SoCal Citygate for \$97,027,495. The total net cost, including transportation costs, was \$5,128,103.
6. SoCalGas' spot and baseload gas purchases reported in the Annual Compliance Report for the period September 1, 2015, through August 31, 2016, did not include any reference to purchases resulting from any impact stemming from Aliso Canyon.

THEREFORE IT IS ORDERED THAT:

1. The purchase and sales transactions detailed in Southern California Gas Company Advice Letter 5040 are approved.
2. In subsequent Annual Compliance Reports on Utility System Operator's Southern Reliability Purchases and Sales filing, SoCalGas shall inform the Commission whether there is a need to revise the conditions of the baseload contracts to reflect market or operating conditions.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on August 10, 2017, the following Commissioners voting favorably thereon:

/s/TIMOTHY J. SULLIVAN

TIMOTHY J. SULLIVAN
Executive Director

MICHAEL PICKER

President

CARLA J. PETERMAN

LIANE M. RANDOLPH

MARTHA GUZMAN ACEVES

CLIFFORD RECHTSCHAFFEN

Commissioners