

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
Agenda ID #16141
ENERGY DIVISION **RESOLUTION G-3535**
November 30, 2017

R E S O L U T I O N

Resolution G-3535 approving Advice Letter 5213-A and ratifying the Executive Director's letter approving Southern California Gas Company's request to establish the Otay Mesa Pipeline Capacity Memorandum Account.

PROPOSED OUTCOME:

- Ratifies the October 30, 2017, letter sent by the Executive Director of the California Public Utilities Commission (Executive Director Letter) to the Southern California Gas Company (SoCalGas) authorizing its Gas Acquisition Department to enter into capacity contracts with affiliates between December 1, 2017, and February 28, 2018.
- Approves SoCalGas Gas Acquisition's request to establish the Otay Mesa Pipeline Capacity Memorandum Account to record all costs related to the affiliate transactions authorized in the Executive Director Letter.

SAFETY CONSIDERATIONS:

- This resolution potentially provides incremental gas pipeline capacity for the upcoming winter.

ESTIMATED COST:

- Unknown at this time.

By Advice Letter 5213-A, filed on November 7, 2017.

SUMMARY

This Resolution is issued to address SoCalGas system reliability issues by allowing SoCalGas's Gas Acquisition Department (Gas Acquisition), which purchases gas for core customers, to enter into limited capacity contracts with

affiliates during winter 2017-18, in order to allow SoCalGas Gas Acquisition the ability to secure incremental gas import capacity. These contracts shall be limited to the three pipelines needed to bring gas from the El Paso pipeline to the Otay Mesa receipt point: North Baja, Gasoducto Rosarito, and Transportadora de Gas Natural Pipeline (TGN). SoCalGas Gas Acquisition requested this action in response to, among other events, recent outages on two SoCalGas transmission pipelines, which, in addition to the previous outage on Line 3000, have significantly decreased natural gas import capacity to Southern California. Specifically:

- (i) Line 4000 has been out of service since September 18, 2017; and
- (ii) Line 235-2 experienced a non-fatality, non-injury explosion in Newberry Springs, California on October 1, 2017, and is out of service.

This Resolution also approves the establishment of the Otay Mesa Pipeline Capacity Memorandum Account (OMPCMA) to record the costs incurred by SoCalGas Gas Acquisition to make purchases for incremental capacity from SoCalGas affiliates from December 1, 2017, through February 28, 2018, on North Baja, Gasoducto Rosarito, and TGN to the Otay Mesa receipt point.

This Resolution is made without prejudice to the authority of the California Public Utility Commission (Commission) to review, investigate, and take other appropriate action on SoCalGas's expenditures, operations, management, and performance with respect to its obligation to safely and reliably serve gas customers, and the reasonableness, prudence, and lawfulness thereof. The Commission's authorities include, but are not limited to, reviewing the pipeline assets, contracts, and performance identified in this resolution, and may include other utility assets, contracts, and performance.

BACKGROUND

On October 1, 2017, Line 235-2 ruptured, damaging a nearby stretch of Line 4000 that had been excavated for maintenance. With these two pipelines out of service, SoCalGas is unable to accept gas at its Needles receipt point. These outages increase the strain on a system whose capacity had already been reduced by previous outages. Line 3000 has been out of service since July 29, 2016, making the Topock receipt point unavailable for deliveries. A fourth pipeline – Line 2000, which carries gas from the Ehrenberg receipt point – has been operating at 80 percent capacity since August 5, 2011. Together, these outages

have significantly reduced the ability of SoCalGas's customers to import gas into the SoCalGas system.

According to SoCalGas's online bulletin board, ENVOY, Line 4000 will be out of service until December 30, 2017, and Line 3000 will be out until May 1, 2018. There is currently no estimate for when Line 235-2 will return to service or Line 2000 will resume operation at full capacity.

Historically, the Otay Mesa receipt point has been used infrequently. Under normal conditions, it is less expensive to import gas through Ehrenberg because gas sent to Otay Mesa from the El Paso pipeline must pass through three additional pipelines and cross the U.S.-Mexico border. However, the most recent pipeline outages have caused SoCalGas Gas Acquisition to seek to use the capacity available at Otay Mesa to maintain reliability for core customers. The Otay Mesa receipt point can accept up to 202 million cubic feet per day (MMcfd) of natural gas on a firm basis and up to 400 million MMcfd on high-use days.

In emails sent October 25, 2017, and October 27, 2017, SoCalGas Gas Acquisition requested authority to enter into capacity contracts with affiliates without seeking prior approval from the Commission by Advice Letter, as required by Decision (D.) 06-12-029. Gas Acquisition maintained that it needed a waiver from Commission rules on affiliate transactions because competition for pipeline capacity to Otay Mesa makes it unlikely that potential sellers will wait the 30-45 days needed for an expedited Advice Letter to approve an affiliate contract.

On October 30, 2017, Commission's Executive Director Timothy Sullivan sent SoCalGas the Executive Director Letter directing SoCalGas, through its Gas Acquisition Department, to take immediate action to increase natural gas import capacity to serve Southern California. In so doing, he cited Commission Policy CL-1, which states that "The Executive Director shall have authority to act expeditiously and in coordination with other agencies of the State of California in emergencies endangering public health, safety, and the environment." The Executive Director Letter is attached.

Executive Director Sullivan granted SoCalGas Gas Acquisition authority to acquire up to 210,000 MMBtud¹ of pipeline capacity for each of the months of December 2017, January 2018, and February 2018 to provide additional import

¹ With a conversion factor of 1.023, 209,474 MMBtu/d converts to 204,764 thousand cubic feet per day (Mcf/d) or 204.764 MMcf/d.

capacity to meet the needs of SoCalGas's core customers. The Executive Director's authorization included acquisition of pipeline capacity from SoCalGas affiliates. He further ordered that Gas Acquisition should make all best efforts to secure the capacity at the lowest cost consistent with the needs of meeting core demand, including, if cost-competitive, capacity from SoCalGas's affiliates.

To allow review of the costs of any affiliate contracts, SoCalGas was required to file a Tier 3 Advice Letter requesting authority to establish a memorandum account to record all costs incurred to acquire capacity to serve core needs related to SoCalGas Gas Acquisition's request. The Commission will consider whether to include these costs in gas rates at a later date, either in a general rate case or other proceeding or via resolution. SoCalGas filed Advice Letter (AL) 5213 as required on November 2, 2017, and filed Supplemental AL 5213-A on November 7, 2017, replacing AL 5213 in its entirety and requesting an expedited protest period of six days, ending November 13, 2017. SoCalGas requested an effective date for the OMPCMA of October 30, 2017, the date of the CPUC Letter.

NOTICE

Notice of AL 5213 and AL 5213-A 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 3.14 of General Order 96-B.

PROTESTS

No parties protested AL 5213-A.

DISCUSSION

The purpose of this resolution is to address reliability issues for SoCalGas's core customers and for the system as a whole. With overall system capacity reduced by recent and ongoing outages, SoCalGas should pursue the option of using all available gas receipt points, to the extent such use is reasonable and prudent. Core customers are the largest consumers of natural gas during the winter season in the SoCalGas service area.

Authorizing SoCalGas Gas Acquisition to contract with affiliates for a limited amount of capacity on the pipelines that can deliver to the Otay Mesa receipt point could assist SoCalGas in meeting core customer needs during the period December 2017 through the end of February 2018. Furthermore, core customers are the largest holders of storage inventory on the SoCalGas system. Having gas in storage benefits all customers because higher inventory levels result in higher

storage withdrawal capacity. On peak days, the SoCalGas System Operator depends on the total withdrawal capacity to support the needs of all customers. If SoCalGas Gas Acquisition does not have adequate flowing gas supplies, it will be forced to withdraw a significant amount of gas from storage early in the winter season, potentially depleting storage inventory in advance of the coldest winter months.

Authorizing SoCalGas Gas Acquisition to contract with affiliates could enable it to secure flowing supplies for core customers and to avoid an early draw-down of storage. Requiring SoCalGas to record these and related expenditures in a memorandum account for future reasonableness review provides a safeguard against self-dealing and imprudent expenditures that could lead to unnecessary and/or excessive costs to ratepayers. The Commission normally authorizes such gas capacity contracts with affiliates in advance of the affiliate transactions themselves, consistent with D.06-12-029, Order Adopting Revisions to the Affiliate Transaction Rules and General Order 77-L. This resolution authorizes SoCalGas Gas Acquisition to contract with its affiliated pipeline to acquire up to 210,000 MMBtu/day of pipeline capacity during December 2017, January 2018, and February 2018, by ratifying the Executive Director Letter making such authorization prior to the Commission's consideration of SoCalGas Gas Acquisition's request. The Commission also authorizes the establishment of the OPMCMA as of October 30, 2017, to record the costs of these affiliate transactions, subject to later reasonableness review.

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 "in an unforeseen emergency situation." Rule 14.6(a) of the Commission's Rules of Practice and Procedure also provides that public review and comment on draft resolutions may be waived or reduced in an "unforeseen emergency situation." Examples of unforeseen emergency in the Commission Rules include a situation where there are "[a]ctivities that severely impair or threaten to severely impair public health or safety" or "requests for relief based on extraordinary conditions in which time is of the essence."

Compounding constrained pipeline capacity (discussed above), SoCalGas system outages in October 2017 created the need for quick action by the Commission to ensure natural gas supplies for the December through February time period in

Southern California and constitute a situation involving a threat to public health and safety and an extraordinary condition where time is of the essence.

Accordingly, the 30-day comment period for this draft resolution was reduced to 10 days pursuant to these authorities to give interested persons notice and opportunity to comment on the draft prior to a Commission vote. The draft resolution was mailed for comments on November 17, 2017, and will be placed on the Commission's agenda for the November 30, 2017, Commission meeting.

FINDINGS

1. On October 1, 2017, Line 235-2 ruptured, damaging a nearby stretch of Line 4000 that had been excavated for maintenance
2. The Line 235-2 and Line 4000 outages, combined with a previous outage on Line 3000, have significantly decreased natural gas import capacity to Southern California.
3. Historically, the Otay Mesa receipt point has been used infrequently.
4. The Otay Mesa receipt point can accept up to 202 million cubic feet per day (MMcfd) of natural gas on a firm basis and up to 400 MMcfd on high-use days in San Diego.
5. The Southern California Gas Company's Gas Acquisition Department sent emails to the CPUC on October 25, 2017, and October 27, 2017, requesting authority to enter into capacity contracts with affiliates without seeking prior approval from the Commission by Advice Letter, as required by Decision (D.) 06-12-029.
6. There is competition for capacity contracts on pipelines feeding the Otay Mesa receipt point that makes it unlikely that potential sellers will wait the 30-45 days needed for an expedited Advice Letter to approve an affiliate contract.
7. On October 30, 2017, Executive Director Timothy Sullivan sent SoCalGas a letter directing SoCalGas's Gas Acquisition Department to take immediate action to increase natural gas import capacity.
8. The October 30, 2017, letter authorized Gas Acquisition to acquire up to 210,000 MMbtu per day of pipeline capacity on the three pipelines needed to transport gas to the Otay Mesa receipt point – North Baja, Gasoducto

Rosarito, and Transportadora de Gas Natural Pipeline – during the months of December 2017, January 2018, and February 2018 without prior Commission approval.

9. The October 30, 2017, letter directed SoCalGas to make all best efforts to secure the necessary pipeline capacity at the lowest cost consistent with the needs of core demand, including, if cost-competitive, capacity from SoCalGas affiliates.
10. The October 30, 2017, letter required SoCalGas to file a Tier 3 Advice Letter within three days requesting authority to establish a memorandum account to record all costs incurred to acquire capacity to serve core needs.
11. The mandates set forth in the October 30, 2017, letter were to be effective immediately.
12. The Commission issues the directives in this Resolution pursuant to Commission Policy CL-1.
13. It is reasonable to affirm the Executive Director's Directives.

THEREFORE IT IS ORDERED THAT:

1. The October 30, 2017 letter from the CPUC Executive Director to Southern California Gas Company, which allows SoCalGas's Gas Acquisition Department to acquire from its affiliate up to 210,000 MMBtu per day of pipeline capacity on SoCalGas-affiliated pipelines serving the Otay Mesa receipt point for the months of December 2017, January 2018, and February 2018 to meet the needs of SoCalGas's core customers, is affirmed.
2. The Southern California Gas Company shall record all costs incurred to acquire the capacity described in Ordering Paragraph 1 above in the Otay Mesa Pipeline Capacity Memorandum Account (OMPCMA), effective as of October 30, 2017. These costs will be subject to future review to determine whether these costs shall be included in gas rates.
3. 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 November 30, 2017; the following Commissioners voting favorably thereon:

TIMOTHY J. SULLIVAN
Executive Director

Attachment A: Letter from the Executive Director

October 30, 2017

Bret Lane, Chief Operating Officer
Southern California Gas Company
555 W. Fifth Street, GTI4D6
Los Angeles, CA 90013-1011

Subject: Affiliate Transactions to Support Gas Flows to Otay Mesa

Dear Mr. Lane:

In emails sent October 25, 2017, and October 27, 2017, the Southern California Gas Company's Core Gas Acquisition Department (Gas Acquisition) requested authority to enter into capacity contracts with affiliates without seeking prior approval from the Commission by Advice Letter, as required by Decision (D.) 06-12-029. . Gas Acquisition seeks to secure deliveries of natural gas to the Otay Mesa receipt point. Specifically, Gas Acquisition requests an exemption between December 2017 and February 2018 for up to 210,000 MMBtu/d of capacity on each pipeline needed to bring gas from the El Paso pipeline to Otay Mesa. These pipelines include North Baja, Gasoducto Rosarito, and Transportadora de Gas Natural Pipeline (TGN). Gas Acquisition holds Backbone Transmission Service (BTS) rights at TGN Otay Mesa.

Gas Acquisition requests this action in response to recent outages on two SoCalGas transmission pipelines, which, in addition to the previous outage on Line 3000, have decreased natural gas import capacity to Southern California by 42 percent. Specifically, CPUC's Energy Division is aware of at least the following reasons for SoCalGas' request:

- (i) Line 4000 out of Topock and Needles has been out of service since September 18, 2017; and
- (ii) Line 235-2 experienced a non-fatality, non-injury explosion in Newberry Springs, CA on October 1, 2017, and is out of service.

CPUC Energy Division Staff inform me that according to SoCalGas' online bulletin board, ENVOY, Line 4000 will be out of service until December 30, 2017; Line 3000 will be out until May 1, 2018; and there is currently no estimate for when Line 235-2 will return to service. Flowing gas through Mexico to the Otay Mesa receipt point would allow Gas Acquisition to increase supplies to San Diego, thereby allowing more gas to flow to Los Angeles. Without increased flowing supplies, Gas Acquisition will likely need to withdraw gas from storage on a regular basis early in the winter season, potentially depleting storage inventory in advance of the coldest winter months. Gas Acquisition states that there is competition with other customers to secure pipeline capacity to Otay Mesa, and potential sellers are unlikely to wait the 30-45 days needed for an expedited Advice Letter to approve an affiliate contract.

In recognition of these challenges to energy reliability this winter, Gas Acquisition should take immediate action to increase natural gas import capacity. Commission Policy CL-1 states:

It is the Commission's policy that:

4. The Executive Director shall have authority to act expeditiously and in coordination with other agencies of the State of California in emergencies endangering public health, safety, and the environment."

For this reason, the Executive Director is empowered to take action in an emergency.

By this letter, I grant authority to Gas Acquisition to acquire up to 210,000 MMBtu/d of pipeline capacity for each of the months of December 2017, January 2018, and February 2018, to meet the needs of SoCalGas' core customers during those months. Gas Acquisition should make all best efforts to secure the capacity at the lowest cost consistent with the needs of meeting core demand, including, if cost-competitive, capacity from SoCalGas' affiliates.

In order to allow review of the costs of any affiliate contracts, SoCalGas shall within three business days of this letter file a Tier 3 Advice Letter, requesting authority to establish a memorandum account to record all costs incurred to acquire capacity to serve core needs as described above. This will allow the Commission to consider whether to include these costs in gas rates at a later date, either in a general rate case or other proceeding.

Pre-approval of affiliated contracts for gas capacity and supplies with recording of all costs in a memorandum account for subsequent reasonableness disposition is consistent with D.06-12-029 (Order Adopting Revisions to the Affiliate Transaction Rules and General Order 77-L). The Advice Letter shall be served on all applicable recipients including those on the service list for I.17-02-002 (Aliso Canyon Order Instituting Investigation), I.17-03-002 (Aliso Canyon Out of Service Investigation), A.15-06-020 (Curtailment and Daily Balancing), A.14-12-017 (Phase 1 Triennial Cost Allocation Proceeding), and A.15-07-014 (Phase 2 Triennial Cost Allocation Proceeding).

Thank you for your continued efforts to provide safe, reliable energy service.

Sincerely,

/s/ Timothy Sullivan

Timothy Sullivan
Executive Director

cc: Stephen Berberich, President and CEO, California ISO
Edward Randolph, Director, Energy Division
Dan Skopec, SoCalGas Regulatory Affairs
Brian Prusnek, Sempra Regulatory Affairs