PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ITEM # 7
I.D. # 11401

ENERGY DIVISION RESOLUTION G-3474
July 12, 2012

R E S O L U T I O N

Resolution G-3474. Southern California Gas Company (SoCalGas) requests approval of an additional tool allowing the System Operator to move supply from Blythe, California to Otay Mesa, California in order to maintain required minimum flows on its Southern System.

PROPOSED OUTCOME: This Resolution approves the request, subject to modification.

ESTIMATED COST: Unknown

By Advice Letter 4353 Filed on March 30, 2012.

SUMMARY

SoCalGas filed Advice Letter (AL) 4353 requesting approval of an additional System Operator (SO) tool to be used in the management of Southern System minimum flow requirements. The requested tool would allow the SO to move natural gas from Blythe, California to Otay Mesa, California in order to support minimum flow requirements on its Southern System. This resolution approves the addition of the new SO tool subject to a modification. The revision to Gas Rule 41, Purchases and Sales to Manage Minimum Flow Requirements, Number 15, (2) must be modified to make clear that when there are not sufficient spot supplies, any available spot supplies will be used first before shipments are made.

BACKGROUND

When deliveries into the southern part of the SoCalGas gas transmission system (the Southern System) become too low, it is difficult to efficiently and safely operate and assure deliveries to customers. The Southern System requires a minimum amount (which can vary depending on conditions) of flowing supplies

to operate effectively. These minimum flow requirements can be met by supplies delivered to either Blythe or Otay Mesa.[1]

The SoCalGas Gas Acquisition Department had previously assured such flowing supplies, using core customer assets. Decision (D.) 07-12-019 approved the transfer of responsibility for managing minimum flow requirements for system reliability from the SoCalGas Gas Acquisition Department (GA) to the Utility System Operator (SO). As required by D.07-12-019, the SoCalGas System Operator took over the responsibility for managing these minimum flows as of April 1, 2009.[2]

D.07-12-019, the Omnibus Decision, also approved the following System Operator tools for meeting Southern System requirements:

- the ability of the system Operator to buy and sell gas on a spot basis, as needed, to maintain system reliability;
- authority and the requirement to conduct at least one annual request for offers (RFO) or open season process consistent with the System Operator needs; and
- authority to approve (sic) an expedited Advice Letter approval process for contracts that result from an RFO or open season process.

The Omnibus Decision provided that Applicant's request for approval of additional SO tools on an interim basis be made by regular advice letter and that

[1] Decision 07-12-019 notes that supplies delivered at Otay Mesa may assist in fulfilling the minimum flowing gas supply requirement at Blythe. The SoCalGas System Operator has successfully used deliveries at Otay Mesa to support Southern System requirements. Otay Mesa is located at the California/Mexico border, approximately 10 miles inland from the Pacific Ocean. Blythe is located at the California/Arizona border, approximately 120 miles east of Palm Springs.

[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 Utility System Operator encompasses all of the applicable departments within SoCalGas and San Diego Gas & Electric Company responsible for the physical and commercial operation of the pipeline and storage systems specifically excluding the Utility Gas Procurement Department.

further consideration of the process for review and approval of additional System Operator tools shall be made in the next BCAP.[3]

On March 30, 2012, SoCalGas filed Advice Letter (AL) No. 4353 requesting an additional System Operator Tool. Specifically, the AL requests that the Commission authorize the SO to move natural gas from Blythe to Otay Mesa, as needed, to maintain system reliability. The movement would be made and deemed reasonable when (1) the cost of moving supplies is less than or equal to the difference between the Intercontinental Exchange, Inc. (ICE) Weighted Average Index for Blythe and the cost of spot gas available for purchase at Otay Mesa for the relevant flow date, or (2) if sufficient spot supplies are not available for purchase at Otay Mesa for the relevant flow date. Consistent with the use of the other approved tools, the cost of this new reliability measure would be recorded in SoCalGas' existing System Reliability Memorandum Account (SRMA) for allocation to all customers.

In making its request, SoCalGas noted that in certain instances "the System Operator has needed to deliver supplies at Otay Mesa, rather than Blythe, in order to preserve Southern System reliability. In such instances, supplies were needed at the South end of the Southern System in order to maintain minimum system pressures, and supplies delivered to Blythe were not a reasonable substitute. To effectuate these deliveries, the System Operator purchased spot supplies at Otay Mesa...."[4] Under certain circumstances these spot supplies are expensive and may be insufficient to meet demand. SoCalGas further notes that based on its analysis and information provided by the California Independent System Operator, the loss of the San Onofre Nuclear Generating Station (SONGS)

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[3] SoCalGas and SDG&E filed A.08-002-001 requesting authority to revise their rates effective January 1, 2009 in their Biennial Cost Allocation Proceeding. That BCAP (A.08-02-001) resulted in D. 09-11-006 wherein, the Commission adopted a Settlement Agreement of parties. Among other provisions, the adopted Settlement Agreement changed the term of the Cost Allocation Proceeding filing to every 3 years – a Triennial Cost Allocation Proceeding (TCAP).

[4] AL 4393, page 2. The AL comments on a recent instance where spot purchases at Otay Mesa were needed during the February 2011 curtailments caused by weather driven severe supply shortages. Information concerning these spot purchases was discussed in SoCalGas AL 4282.

could require significant additional gas-fired generation in the San Diego area. This additional load, without deliveries to Otay Mesa, could threaten Southern System reliability.

AL 4353 recognizes that currently the SO can call on GA as a supplier of last resort, to move core supplies from Blythe to Otay Mesa. However, it notes that there are two advantages to providing this tool directly to the SO. First, the SO will be able to directly compare the relative costs of moving supplies versus spot purchases and not have to wait until Rule 41 supplier-of-last-resort criteria have been satisfied in order to move supplies to Otay Mesa.[5] As such, the timing of deliveries is easier to manage. Second, consistent with the transfer of responsibility for Southern System reliability from GA to the SO, this tool will reduce those instances when the SO must rely on GA as the provider of last resort.

The AL proposes to implement the tool through revisions to its Rule No. 41. The revisions include a new section 15 under Purchases and Sales to Manage Minimum Flow Supplies. This new section provides that the use of the tool will be considered reasonable when its cost relative to spot purchases is lower or when there is insufficient supply available through spot purchases.

NOTICE

Notice of AL 4353 was made by publication in the Commission's Daily Calendar. SoCalGas states that a copy of the Advice Letter was sent to the parties listed on Attachment A of the advice letter which included interested parties in A.06-08-026, Omnibus Application and A.10-03-028, FAR Update Proceeding.

[5] Section 12 of Rule 41 states that the Gas Acquisition Department will, when requested by the Operational Hub as a provider of last resort, act on a best-efforts basis to provide gas supplies. Provider of last resort "relates to the circumstance in which the Operational Hub has attempted to use all other available tools, has entered the open market for gas commodity purchases, has been unsuccessful in meeting its need to receive a required volume of flowing supplies at a specific location, and system reliability is therefore jeopardized."

PROTESTS

SoCalGas's Advice Letter AL 4353 was timely protested by the Southern California Generating Coalition (SCGC) and Indicated Producers (IP).

On April 19, 2012 the SCGC filed a protest to SoCalGas AL 4353. The protest raises three specific points and raises an additional "concern."

First, SCGC states that SoCalGas fails to adequately explain the need for the requested authorization. It notes that to date SoCalGas has used the existing tools authorized in D.07-12-019 including the use of spot purchases at Otay Mesa. The protest further states that now, however, "SoCalGas claims that there may be a need to maintain deliveries at Otay Mesa exclusively" and that "'supplies delivered to Blythe' would not be a 'reasonable substitute' for deliveries at Otay Mesa…."[6] It goes on to say that these statements are made without any explanation for why increased deliveries at Blythe would not be a reasonable substitute for deliveries at Otay Mesa.

The protest hypothesizes that in some cases curtailing interruptible customers is an alternative to incurring the cost of transporting gas through interstate and foreign pipelines. Specifically it references SoCalGas Advice Letter No. 4252 and states that "Line 6900 becomes constrained from time to time"[7] and that it is reasonable to expect that the SONGS outage will cause it to be constrained more frequently. Based on this the protest states that the SoCalGas should provide an explanation for why it is not considering curtailments to interruptible customers on this line as an alternative.

The protest finishes its first point by asserting that, "If SoCalGas cannot provide a convincing explanation for why more costly (from a transportation cost standpoint) deliveries at Otay Mesa are needed in lieu of less costly deliveries at Blythe, the Advice 4353 should be rejected."[8]

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[6] SCGC Protest of April 19, 2012, page 3.

[7] Ibid., page 3.

[8] Ibid., page 3-4.

SCGC's second point states that SoCalGas "fails to provide information that is required by D.07-12-019."[9] The protest sites the Decision stating that it requires SoCalGas to provide the cost of the transportation contracts that would be used to deliver the supplies. Specifically it quotes from the Decision: "The Advice Letter would describe the specific tool being contracted for, the cost of the contract(s), impact on customers and the benefit of the contract(s) as compared to other alternatives."[10]

The third point made by the protest is that SoCalGas fails to explain whether it will incur on-system charges. The protest goes on to say that the utility fails to explain whether or not it will incur charges for backbone transmission service or charges for off-system deliveries. It states that if these charges are incurred, the cost of maintaining minimum system pressures at the South end of the system would be affected.

Finally, SCGC raises the concern that by allowing the additional tool, SoCalGas would unduly benefit its affiliate, SDG&E. The protest proposes that additional deliveries at Otay Mesa, if needed, "could be met if gas-fired electricity generators on the SDG&E system contracted to move sufficient supplies of gas into the SDG&E system through Otay Mesa."[11] It notes that SDG&E owns and operates the Palomar generating station on the SDG&E transmission system. The protest asserts that "By having the SoCalGas System Operator maintain supplies which are claimed to be necessary at Otay Mesa instead of having the electricity generators on the SDG&E system maintain deliveries through Otay Mesa, SoCalGas spreads a cost that would otherwise be incurred by the electrical generators such as SDG&E to all customers on the SoCalGas system by recovering the cost through the SRMA on an ECPT basis."[12] SCGC states that SoCalGas needs to explain how it is not unduly benefiting its affiliate.

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[9] Ibid., page 4.

[10] Ibid., page 4.

[11] Ibid., page 4.

[12] Ibid., pages 4-5.

On April 19, 2012 IP[13] filed a protest to AL No. 4353. The protest states that the AL omits material data. The protest is based on the assertion that in seeking authority for the SO to move gas when needed from Blythe to Otay Mesa, SoCalGas also "appears to be formalizing a new flow requirement at the Otay Mesa receipt point."[14] The protest states that AL 4353 acknowledges that since D.07-12-019, only the Blythe receipt point has had a minimum flow obligation. The protest continues that the omitted material information is required to evaluate the merits of the SoCalGas' request.

In describing the requested authority, the protest quotes from the AL that in "certain instances, however, the System Operator has needed to maintain minimum system pressures, and supplies delivered to Blythe were not a reasonable substitute."[15] In reference to this quote the protest acknowledges that, while the condition may not amount to a daily minimum flow requirement, it does "appear to create some type of flow requirement."[16] The protest goes on to say that aside from purchases made to address the February curtailments, SoCalGas does not provide any information concerning what the protest characterizes as a new flow requirement at Otay Mesa. And, without additional information it is unclear whether the new tool can or will be used and if there are better solutions.

Finally, the protest notes that on April 3, 2012 IP "served" a data request on SoCalGas. It notes that as of the date the IP protest was filed the Utility was unwilling to provide answers to basic questions.

In addition to the protests, on April 19, 2012, the California Independent System Operator (ISO) filed a response supporting SoCalGas' request. The ISO responds that it "is aware of the specific delivery limitations on natural gas pipeline capacity to the southernmost portion of the state. Increased delivery

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[13] Indicated Producers is an ad hoc coalition which includes, for the purposes of the protest, ConocoPhillips Company, Chevron U.S.A. Inc., BP Energy Company, BP America Inc. (including Atlantic Richfield Company), and Occidental Energy Marketing Inc.

[14] IP protest of April 19, 2012, page 1.

[15] Ibid., page 2.

[16] Ibid., page 2.

options for natural gas to the area would positively impact electric reliability."[17] It notes that the impact of SONGS means that much of the local capacity area requirement must be provided from other local generation. Virtually all of what is needed for the San Diego area is dependent on natural gas delivery at appropriate operating pressures. If supplies are impaired or pressure reduced there is a risk that electric capacity shortages may occur.

The ISO closes its response by stating that "In California, because the reliability of the bulk electric system depends on the reliable delivery of natural gas, especially in the southern portion of the state, and because increasing operational flexibility through deliveries at Otay Mesa increases the reliability of natural gas deliveries to the San Diego area, the ISO supports SoCalGas's request in its advice letter."[18]

On April 26, 2012 SoCalGas replied to the protests of SCGC and IP. SoCalGas notes that it is already authorized to meet minimum flow requirements with supplies delivered to either Blythe or Otay Mesa. Currently a need at Otay Mesa is met either through spot purchases or by Gas Acquisition, as a supplier of last resort, moving core supplies from Blythe. The response notes that it is not proposing a change to these authorizations. Rather, it is simply requesting that, when there is a need at Otay Mesa and it is less expensive to move gas from Blythe than it is to make spot purchases at Otay Mesa, and/or, if sufficient supply is not available through spot purchases at Otay Mesa, the SO be allowed to make delivery from Blythe prior to relying on GA as the provider of last resort. This capability, the reply states, will allow the SO to make direct comparisons of the relative costs of moving supplies versus spot purchases. As such the new tool will save customers money by allowing the SO to move gas from Blythe when it is less expensive than spot purchases. Further, use of the tool will avoid the delay caused by having to meet supplier of last resort criteria in order for GA to ship. The reply notes that this delay might not allow the SO to

[17] California Independent System Operator response of April 19, 2012 page 1.

[18] Ibid., page 2.

ultimately procure the needed supplies. Additionally, the reply states that, consistent with the transfer of responsibility for system reliability to the SO, the request will reduce reliance on GA.

In response to SCGC's questions regarding whether the SO will bear SoCalGas charges under Schedule G-BTS for backbone transportation service and Schedule G-OSD for off system delivery service the reply states that the proposed movement of supplies to Otay Mesa would be handled in a manner similar to the supply movements to Otay Mesa by GA. That is, "supply on the El Paso system would be transported into the North Baja, Gasoducto Rosarito, and TGN systems for receipt at Otay Mesa. Charges under Schedule G-OSD for off-system delivery service would not apply. But Backbone Transportation Service charges would apply to the system receipts at Otay Mesa, as they would to system receipts at any SoCalGas receipt point."[19]

Finally, the reply addresses SCGC's questions regarding whether the need for supplies at Otay Mesa could be met by SDG&E contracting to bring supplies into the SDG&E system through Otay Mesa. SoCalGas states that if any of their customers would bring supplies into either Blythe or Otay Mesa during times when needed on the Southern System, the deliveries would reduce, or even eliminate, the minimum flow requirements and related purchases by the SO. However, the reply continues, the Commission does not currently require SDG&E, members of SCGC, or any other SoCalGas customers to deliver supplies into specific SoCalGas receipt points. The Utility notes that such a requirement could make sense but is beyond the scope of the very limited relief requested in AL 4353.

DISCUSSION

The Commission has reviewed AL 4353, the protests and the reply to the protest and approves, subject to modification, the request for the additional System Operator Tool.

The protests of SCGC and IP are largely premised on what, according to IP, appears to be "some type" of new flow requirement at Otay Mesa. SCGC states

[19] SoCalGas April 26, 2012 Reply to Protests of SoCalGas Advice No. 4353, page 3.

that SoCalGas, through its filing of AL 4353, "now claims that there may be a need to maintain deliveries at Otay Mesa exclusively."

The Commission finds nothing in AL 4353 suggesting that there is any new flow requirement.

IP's protest relies on a reference to the Advice Letter where the AL 4353 quotes from D.07-12-019. The quoted passage states that "there are no ongoing minimum flowing gas requirements at any receipt point on the SoCalGas/SDG&E transmission system other than Blythe."[20] However, that same passage goes on to state that "Applicants do not anticipate a need for ongoing minimum flowing gas supply requirements at any receipt points other than Blythe, **except for Otay Mesa"**[21] (emphasis added). The IP protest ignores this statement in the Decision.

D. 07-12-019 acknowledged the potential need for supply requirements at Otay Mesa and those deliveries have been made in the past, reported in SoCalGas's Annual Compliance Report and approved. In AL 4353 SoCalGas refers to "certain circumstances" when supplies were needed at Otay Mesa rather than Blythe. In these circumstances supplies delivered to Blythe were not a reasonable substitute. This is consistent with D.07-12-019. Past examples of "certain circumstances" included weather driven supply shortages where the need for supply to support the system was time sensitive. Supply at Blythe would not meet that need, i.e., it was not a "reasonable substitute." It is reasonably foreseeable that future weather events as well as other circumstances, e.g. the SONGS shutdown, will result in a reoccurrence of need to deliver supply to Otay Mesa. These circumstances do not amount to a "new flow requirement" and are not a deviation from approved past and current practice.

The proposed new tool provides for lowering costs and will only be used when the cost of delivering is less than spot prices.

SCGC's protest comments on the statement that supplies at Blythe were not a reasonable substitute as follows, "If SoCalGas cannot provide a convincing

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[20] Advice Letter 4353, page 2, D.07-12-019, mimeo at 64-65.

[21] Ibid, page 2 and mimeo at 64-65.

explanation for why more costly (from a transportation cost standpoint) deliveries at Otay Mesa are needed in lieu of less costly deliverables at Blythe, Advice 4353 should be rejected." The proposed new tool provides for lowering costs and will only be used when the cost of delivering is less than spot prices (or if no supply is available through spot purchases). The Commission rejects SCGC assertion that a tool, providing an aggregate cost that is lower than what could be achieved without it, be denied because one element of the total cost is more costly.

SCGC's comments that the new tool will inappropriately benefit its SDG&E affiliate do not have merit.

SCGC's assertion is premised on the idea that SDG&E's Palomar generating station and other generators should themselves maintain deliveries through Otay Mesa. However, generators and other customers are not required by the Commission to maintain deliveries. We agree with SoCalGas that while the idea may have some merit, it is beyond the limited scope of SoCalGas's request.

SCGC's protest states that D.07-12-019 requires information concerning the cost of contracts.[22] The Decision does require that information for contracts with required payments. Contracts that do not require payment unless called upon do not require that SoCalGas provide the information the protest references. SoCalGas's proposal will only use contracts that require payments if and when used.

SCGC's suggestion that the proposed new system tool will replace curtailments of interruptible customers when shortages occur misrepresents the facts.

SCGC's protest references SoCalGas AL 4252 which states that constraints occur from time to time on line 6900. Line 6900 is part of an interconnection between SoCalGas's Southern System and the SDG&E service territory. The protest states that "SoCalGas should explain why it does not curtail interruptible customers on Line 6900 instead of incurring the cost of transporting gas through interstate and foreign pipelines from Blythe to Otay Mesa."[23] However, IP's selective quote

[22] SCGC references page 62 of the decision.

[23] April 19, 2012 IP Protest of AL 4353, page 3.

fails to acknowledge that SoCalGas's AL 4252 states that there is risk that there will be curtailments.

The proposed revision to Number 15, Purchases and Sales to Manage Minimum Flow Supplies of SoCalGas's Rule No. 41 must be modified.
The proposed revision states that "Should it become necessary for the Operation Hub to move supplies from Blythe to Otay Mesa, the movement shall be deemed to be reasonable if (1) the cost of moving supplies is less than or equal to the difference between the Intercontinental Exchange, Inc. (ICE) Weighted Average Index for Blythe and the cost of spot gas available for purchase at Otay Mesa for the relevant flow date, or (2) if sufficient spot supplies are not available for purchase at Otay Mesa for the relevant flow date." As stated, condition (2) would potentially allow for a shipment to be made without exhausting all lower cost spot purchases if those spot purchases were not sufficient to meet the total need. A modification is needed that clarifies that lower cost spot purchases would first be made and if they were insufficient to meet the demand, the remaining requirement would be shipped from Blythe. Item (2) should be modified to insert, after the words "flow date," the following: "and the movement fills some or all of the shortfall between supplies needed at Otay Mesa and supplies available for purchase at Otay Mesa."

If shipments are made as a result of insufficient spot purchase supplies, they should be accompanied by documentation, included in the Annual Compliance Report, showing that the shipment was in response to a requirement for supply at Otay Mesa and requested by Gas Control.

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 11, 2012.

On July 2, 2012, SoCalGas submitted comments on the draft resolution. SoCalGas comments stated that it supports the language revision called for in the draft resolution and noted that it provides additional clarity to the Rule No. 41, Section 15 language proposed by SoCalGas. The comments further state that the Resolution should be adopted as written.

FINDINGS AND CONCLUSIONS

1. Decision 07-12-019, Ordering Paragraph 16 granted SoCalGas' request for the following System Operator tools:
    a) The ability of the System Operator to buy and sell gas on a spot basis, as needed, to maintain system reliability.
    b) Authority to conduct requests for offers (RFO) or open season process consistent with the System Operator needs.
    c) Authority to submit an Advice Letter for approval of contracts that result from an RFO or open season process.
2. The Omnibus Decision provided that requests for approval of additional SO tools can be made by regular advice letter.
3. SoCalGas filed Advice Letter 4353 requesting an additional System Operator tool on March 30, 2012.
4. SoCalGas AL 4353 was timely protested by Southern California Generation Coalition (SCGC) on April 19, 2012 and by Indicated Producers (IP) on April 19, 2012.
5. SoCalGas submitted a timely Reply to the protests of SCGC and IP on April 26, 2012.
6. The proposed additional tool will improve Southern System reliability and lower costs.
7. The proposed additional tool is incorporated in revisions to SoCalGas's Gas Rule No. 41.
8. The revision to Number 15, <u>Purchases and Sales to Manage Minimum Flow Supplies</u> of SoCalGas's Rule No. 41 must be modified to include, in item (2), after the words "flow date," the following: "and the movement fills some or all of the shortfall between supplies needed at Otay Mesa and supplies available for purchase at Otay Mesa."
9. SoCalGas AL 4353 should be approved subject to modification.

THEREFORE IT IS ORDERED THAT:

1. The request of SoCalGas to approve an additional System Operator tool for the management of Southern System minimum flow requirements as requested in Advice Letter AL 4353-G is approved subject to modification.
2. The proposed revision to Number 15, Purchases and Sales to Manage Minimum Flow Supplies of SoCalGas's Rule No. 41 must be modified to include, in item (2), after the words "flow date," the following: "and the movement fills some or all of the shortfall between supplies needed at Otay Mesa and supplies available for purchase at Otay Mesa."

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 July 12, 2012; the following Commissioners voting favorably thereon:

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Paul Clanon
Executive Director