

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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Application of Southern California Gas Company (U 904 G)
and San Diego Gas & Electric Company (U 902 G) to
Expand Existing Off-System Delivery Authority.

Application 08-06-006
(Filed June 6, 2008)

**OPENING BRIEF OF
SAN DIEGO GAS & ELECTRIC COMPANY AND
SOUTHERN CALIFORNIA GAS COMPANY**

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TABLE OF CONTENTS

	Page #
I. INTRODUCTION AND BACKGROUND	1
II. THERE WILL BE NO DEGRADATION OF ON-SYSTEM SERVICE DUE TO EXPANDED OSD SERVICE	5
III. APPLICANTS’ PROPOSAL WILL BENEFIT ON-SYSTEM CUSTOMERS	7
IV. EXPANDED OSD SERVICE WILL OPTIMIZE SYSTEM RESOURCES.....	8
A. Increased OSD throughput reduces system rates	8
B. OSD service encourages new sources of supply	9
C. OSD service lowers costs of generating electricity.....	10
D. OSD service encourages storage expansions and provides balancing opportunities	11
E. OSD displacement flows potentially reduce compressor fuel costs	13
F. OSD nominations increase system capacity.....	13
V. OSD SERVICE WILL BE PROVIDED AT REASONABLE RATES	14
A. Matching the interruptible OSD rate to the FAR charge is reasonable.....	14
B. If approved, the rate for firm OSD service to be submitted via separate application, will by definition, be reasonable	15
VI. EXPANDED OSD SERVICE IS CONSISTENT WITH APPLICABLE LAW AND PRECEDENT	16
A. The open season process for firm OSD service is the same process to be used for firm OSD service to PG&E and is based on open seasons conducted on the interstate pipelines.....	16
B. Expanded OSD service to all SDG&E/SoCalGas receipt points is similar to the OSD service currently provided by PG&E and will not adversely affect the Hinshaw exemption of either SDG&E or SoCalGas.....	18
VII. CONCLUSION.....	20

TABLE OF AUTHORITIES

STATUTES & LEGISLATION

15 U.S.C. § 717 (2009)18

Cal. Pub. Util. Code § 453 (2009)17

FEDERAL ENERGY REGULATORY COMMISSION DECISIONS

Southern California Gas Company, 41 FERC ¶ 62,173 (1987)18

San Diego Gas & Electric Company, 64 FERC ¶ 61,221 (1993).....18

Pacific Gas & Electric Company, 69 FERC ¶ 61,140 (1994)19

Boston Gas Company, 70 FERC ¶ 61,121 (1995)19, 20

CALIFORNIA PUBLIC UTILITIES COMMISSION DECISIONS

Opinion on Phase I Issues in Rulemaking 04-01-025,
D.04-09-0221

Opinion Regarding the System Integration Proposal,
D.06-04-0331

Opinion Regarding the Phase I Issues in Application 04-12-004,
D.06-12-031 *passim*

*Decision Regarding the Phase I Issues and the Motion to Adopt the
Settlement Agreement*, D.08-12-02011

*Decision Resolving the Air Quality, Wobbe Index and California Environmental
Quality Act Issues*, D.09-06-0193

RULES & REGULATIONS

18 C.F.R. § 284.224 (2009)14, 18, 19

Cal. Pub. Util. Comm. Rules of Practice and Procedure Article 131

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I. INTRODUCTION AND BACKGROUND

In accordance with Article 13 of the Rules of Practice and Procedure of the California Public Utilities Commission (“CPUC” or “Commission”), San Diego Gas & Electric Company (“SDG&E”) and Southern California Gas Company (“SoCalGas”), collectively (“Applicants”), hereby respectfully submit their joint opening brief pursuant to the July 20, 2009 *Amended Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge* (“Amended Scoping Memo and Ruling”). Additionally, this brief is submitted pursuant to the briefing schedule established during the evidentiary hearings held on October 28-29, 2009 in the above-captioned proceeding.¹

In A.04-12-004, Applicants requested authority to integrate their gas transmission rates (“system integration”), establish a system of firm access rights (“FAR”) and provide off-system natural gas transportation on a firm and interruptible basis through backhaul service. In Decision (D.) 04-09-022, the Commission directed SDG&E and SoCalGas to separately address their proposals for system integration (later addressed and approved in D.06-04-033) and their

¹ Tr. Vol. 2, p. 137.

proposals regarding firm access rights and off-system deliveries. In D.06-12-031, the Commission adopted a system of FAR and approved SDG&E/SoCalGas' proposal for interruptible and firm off-system deliveries ("OSD") at that time but limited the provision of such OSD services to SoCalGas' interconnection with Pacific Gas and Electric Company ("PG&E").² At the same time, the Commission expressly authorized Applicants to file an application (no earlier than May 1, 2008) to offer off-system service to pipeline interconnections other than PG&E. The application was to include a discussion addressing the impact of the Hinshaw exemption on the proposed service to other pipelines and how the proposed service might impact the daily operations of SDG&E/SoCalGas with respect to intrastate ("on-system") customers.³

Accordingly, on June 6, 2008, SDG&E and SoCalGas jointly submitted an Application initiating this proceeding. The Application requested Commission authority to expand the off-system delivery authority previously approved by the Commission in D.06-12-031. More specifically, the Application seeks authority to expand Applicants' previously approved off-system delivery authority so as to allow Applicants to provide off-system deliveries of natural gas to all points of interconnection with Applicants' respective natural gas transmission systems (at all international and interstate pipeline receipt points).

The authority requested by Applicants requires little more than elimination of the current restriction on an existing, tariff-defined, off-system delivery service that limits such service to the point of interconnection with the intrastate system of PG&E. As requested, the Application explained that interruptible off-system service provided via backhaul/displacement flows would

² The previously authorized firm and interruptible off-system delivery service to PG&E is set forth in SoCalGas Tariff Schedule G-OSD.

³ D.06-12-031, pp. 119-120.

more fully optimize system facility use and design and that increase OSD throughput could lower transportation rates for on-system customers.⁴

With respect to the provision of firm OSD service at all pipeline interconnects, Applicants propose to continue following the methodology approved by the Commission in D.06-12-031, which authorized OSD service to PG&E. As discussed more fully herein, SDG&E/SoCalGas believe that their request for expanded interruptible OSD service has substantial merit and should be approved. In approving Applicants' request, it is important for the Commission to establish the general terms and conditions for firm OSD service as well as the method for determining the firm OSD rate in order to "meaningfully gauge market interest" for such a service.⁵

In the initial phase of this proceeding, the Commission addressed certain legal arguments raised by the Southern California Generation Coalition ("SCGC") and the South Coast Air Quality Management District ("SCAQMD") regarding purported impacts to air quality, the Wobbe Index, and the applicability of the California Environmental Quality Act ("CEQA") to the authorizations requested in the Application. After considering extensive briefs on these threshold legal issues, the Commission issued a decision rejecting the arguments made by SCGC and SCAQMD.⁶ Subsequently, the July 20, 2009 Amended Scoping Memo and Ruling identified the following remaining issues to be addressed by the parties through evidentiary hearings and briefs:

1. Whether the application should be authorized to expand firm and interruptible offsystem deliveries to interconnection points other than PG&E on the same terms and conditions as set forth in D.06-12-031?

⁴ Application, pp. 4-6.

⁵ Exhibit 2:SDG&E/SoCalGas/Schwecke Direct, p. 3, lines 7-12.

⁶ D.09-06-019.

2. Should off-system deliveries to interconnection points other than PG&E be expanded, and if so, what are the benefits of such an expansion?
3. At which interconnection points will these expanded off-system deliveries occur at?
4. What is the approximate cost associated with allowing the applicants to expand their off-system deliveries to other interconnection points?
5. What impact will the expanded off-system deliveries have on the daily operations of the applicants' intrastate transmission system?
6. What will be the impact on the price of, and the availability of, gas storage in Southern California, if the application is granted?
7. If the application is granted, what conditions must exist in order for ratepayers to experience a decrease in rates?
8. If the application is granted, how will this ensure that California will have adequate supplies of natural gas?
9. Will the tariff for interruptible off-system deliveries to other interconnections be the same as the tariff for off-system deliveries to PG&E, and is the rate design appropriate for this kind of service?
10. If the application is granted, how will the additional revenues from the off-system deliveries be allocated?
11. Will the applicants' Hinshaw exemptions be affected if the request to expand off-system deliveries to other interconnection points is granted?

All of the foregoing issues have since been thoroughly vetted through numerous pleadings, extensive prepared (direct and rebuttal) testimony, and evidentiary hearings which provided parties ample opportunity for cross-examination.⁷ As discussed more fully herein, the record evidence adduced in this proceeding weighs heavily in favor of Commission approval of the Application. Specifically, it is clear that the Application is consistent with, and supported by, the overwhelming record evidence demonstrating that expanded off-system delivery ("OSD") services at all international and interstate receipt points, as proposed by Applicants: i) will not result in any degradation of existing services; ii) provides numerous benefits to on-system customers; iii) encourages gas-on-gas competition and the construction of new storage facilities

⁷ The active parties in the proceeding submitting testimony or otherwise participating in evidentiary hearings include, the Indicated Producers, SCGC, Shell Energy North America ("Shell"), Southern California Edison Company ("Edison"), the Division of Ratepayer Advocates ("DRA") and SDG&E/SoCalGas.

in southern California; iv) will be provided at reasonable rates; and, iv) is consistent with applicable law and precedent. Accordingly, the Commission should approve the Application, as requested.

II. THERE WILL BE NO DEGRADATION OF ON-SYSTEM SERVICE DUE TO EXPANDED OSD SERVICE

Despite the spurious allegations made by SCGC to the contrary, the overwhelming record evidence demonstrates that the SDG&E/SoCalGas OSD proposal is designed in a way that ensures there will be no degradation of service to existing customers. First, the proposed SoCalGas tariff changes impose express protections that prevent OSD services from adversely impacting services provided to on-system customers. In that regard, the proposed modifications to SoCalGas tariff Rule No. 23 (*Continuity of Service and Interruption of Delivery*) as reflected in the *pro forma* tariff sheets attached to Mr. Schwecke’s direct testimony, establish the order, priority and manner of curtailment for OSD services. The proposed tariff sheets clearly demonstrate that in the event of operating conditions requiring curtailment of service, both interruptible and firm OSD services will be cut *before* any storage withdrawal or intrastate transportation services are curtailed.⁸

The evidence further demonstrates that the SDG&E/SoCalGas proposal ensures that all firm or interruptible on-system customers receive priority over any OSD volumes scheduled. As Mr. Williams (SDG&E/SoCalGas’ expert on Gas Control, Gas Scheduling and Gas Planning for the integrated SDG&E/SoCalGas gas transmission and storage systems) explains,

Simply put, there will be no new operational impact from providing the off-system services sought in this application. As described more fully by Mr. Schwecke, all off-system services, whether designated as “firm” or “interruptible”, will be secondary in priority to all on system demand and services, including on-system interruptible services. As described above, off-

⁸ Exhibit 2:SDG&E/SoCalGas/Schwecke Direct, pp. 11-12; *See also*, the attached exhibit to Mr. Schwecke’s testimony (Proposed Modifications to Rule No. 23, Sheets 1-2).

system services will be offered each day only to the extent that system integrity and service to on-system customers are not jeopardized. Any off-system service requested beyond this level will be curtailed by the SoCalGas/SDG&E Gas Control department. In this manner, SoCalGas/SDG&E will ensure that off-system services do not impact the availability of supply necessary to meet its daily needs for on-system customers and services.⁹

Similarly, the record shows that existing scheduling procedures and the NAESB compliant cycles currently utilized by on-system shippers to move gas on the SDG&E/SoCalGas system will remain unaffected under the proposed implementation of OSD services.¹⁰

Second, the record demonstrates that the proposed expanded OSD services will not adversely impact system operations on SDG&E/SoCalGas. In that regard, the evidence shows that expanded OSD services will not affect SDG&E/SoCalGas' existing minimum flow requirements or otherwise cause gas to be purchased for the southern system, since as Mr. Schwecke (SDG&E/SoCalGas' expert and Director of Energy Markets and Capacity Products) explains,

The System Operator will establish interruptible volumes at levels that will ensure no adverse system impact from the service. For example, off-system deliveries at Blythe would be set at zero if there were any danger that such deliveries would create a minimum flowing supply requirement issue at that point. Off-system deliveries would not be allowed if they would result in any additional costs for ratepayers by forcing the exercise of supply contracts or other tools approved by the Commission to address the Blythe (or any other receipt point) minimum flowing supply requirement.¹¹

Moreover, the SDG&E/SoCalGas Gas Control Department will determine whether OSD nominations received from shippers during each scheduling cycle "can be provided and still maintain system integrity (i.e. maintain system pressures between minimum and maximum allowable limits at all times, operate transmission and storage facilities within their rated capacities, maintain and recover system linepack). If system integrity cannot be maintained with

⁹ Exhibit 1:SDG&E/SoCalGas/Williams Direct, pp. 4-5.

¹⁰ *Id.* at pp. 3-4.

¹¹ Exhibit 2:SDG&E/SoCalGas/Schwecke Direct, p. 7, lines 19-25.

the nominated level of off-system services, the Gas Control Department will curtail these services either wholly or in part.”¹² The evidence further shows that there will be no adverse impact to the supplies delivered into, and remaining on, the SoCalGas system since such supplies are “a function of end-use demand within southern California” and that allowing off-system deliveries “will not reduce the supplies delivered to southern California because it will not reduce southern California demand.”¹³

III. APPLICANTS’ PROPOSAL WILL BENEFIT ON-SYSTEM CUSTOMERS

The evidentiary record is also replete with examples of the many benefits arising from expanded OSD services on the SDG&E/SoCalGas system. Expanding OSD services to include all pipeline interconnects on the SDG&E/SoCalGas system benefits existing and potential customers of the OSD service offerings described under SDG&E/SoCalGas’ Commission-approved G-OSD tariff. In originally approving such OSD services to the PG&E interconnect, the Commission recognized that, “off-system service provides gas suppliers with another market to sell their gas” which will likely “put downward pressures on the price of natural gas for the benefit of the entire California market.”¹⁴ Clearly, the SDG&E/SoCalGas OSD proposal will provide even greater access to additional markets located across the SDG&E/SoCalGas system attracting additional gas supplies as well as new sources of supply to the system. The downward pressure on gas prices associated with increased market access and gas supplies benefits both on- and off-system customers.

In that same decision, the Commission also acknowledged that OSD service can “reduce transmission costs if system throughput is increased on the SDG&E and SoCalGas system as a

¹² Exhibit 1:SDG&E/SoCalGas/Williams Direct, p. 4, lines 9-15.

¹³ Exhibit 2:SDG&E/SoCalGas/Schwecke Direct, p. 10.

¹⁴ D.06-12-031, p. 115; FOF 42.

result of these deliveries.”¹⁵ The record in this proceeding contains substantial evidence demonstrating how all of these benefits, and more, will accrue under the SDG&E/SoCalGas OSD proposal currently before the Commission.¹⁶

IV. EXPANDED OSD SERVICE WILL OPTIMIZE SYSTEM RESOURCES

The record evidence describes a number of additional system benefits for both on-system as well as off-system shippers that could be expected from the proposal to expand OSD service. In particular, the SDG&E/SoCalGas proposal: i) provides significant rate benefits, such as the potential to decrease average transmission rates for all customers; ii) encourages new sources of supply; iii) lowers costs of electricity; iv) encourages expansion of SoCalGas and third-party unbundled storage resources; v) increases ratepayer storage revenue benefits under the recently adopted BCAP storage revenue sharing mechanism; vi) provides shippers additional balancing opportunities; vii) optimizes system resources by effectively increasing system capacity; and, viii) potentially reduces the system’s need for compression resulting in lower transmission fuel rates.

A. Increased OSD throughput reduces system rates

As the testimony of SDG&E/SoCalGas demonstrates, significant potential exists for on-system ratepayers to directly benefit from expanded OSD service in the form of reduced system rates.¹⁷ To the extent that OSD services are utilized, doing so will increase throughput on the SDG&E/SoCalGas backbone transmission facilities providing additional system revenues which

¹⁵ *Id.*

¹⁶ Exhibit 2:SDG&E/SoCalGas/Schwecke Direct, pp. 3-4, “Off-system deliveries to other SoCalGas receipt points (in addition to PG&E) would increase the utilization of SoCalGas’ backbone transmission facilities and transportation revenues. . . Shippers using SoCalGas’ system would benefit from the opportunity to ship supplies to off-system markets, in addition to the supplies they would normally ship to SoCalGas end-users. Shippers would then have a broader array of service options on an market outlets from, the SoCalGas system as they do today on the PG&E system. Providing these additional market outlets to suppliers should encourage them to bring more supplies to the SoCalGas citygate. This will increase gas-to-gas competition and liquidity at the citygate, which will benefit all California customers.”

¹⁷ Exhibit 2:SDG&E/SoCalGas/Schwecke Direct, pp. 9-10.

SoCalGas would then use “to reduce transportation rates for its on-system, end-use customers.”¹⁸ Indeed, a reduction in existing rates is a direct function of the volumes of off-system deliveries made by shippers as well as the magnitude of the OSD charge.¹⁹ For illustrative purposes, SDG&E/SoCalGas included testimony covering a number of scenarios that calculate potential ratepayer benefits as a function of OSD deliveries and rates, reproduced below.²⁰

\$ Million/year of Ratepayer Benefits as a Function of Average Off-System Deliveries and Off-System Delivery Charges

<u>Off-System Delivery Charge</u>	<u>5 cents/Dth</u>	<u>10 cents/Dth</u>	<u>15 cents/Dth</u>
50 MDth/d	\$0.9	\$1.8	\$2.7
100 MDth/d	\$1.8	\$3.7	\$5.5
150 MDth/d	\$2.7	\$5.5	\$8.2
200 MDth/d	\$3.7	\$7.3	\$11.0

Clearly, it is important to set the OSD charge at a rate that the market will bear. If the OSD rate is set too high (as proposed by SCGC), then potential shippers will simply forego utilizing OSD services entirely and on-system shippers would not receive the benefit of reduced rates since system throughput would not increase commensurate with off-system flows. Accordingly, in order to set a price that maximizes OSD usage while concurrently stimulating market demand, SDG&E and SoCalGas request express authority to discount the OSD rate on a non-discriminatory basis.

B. OSD service encourages new sources of supply

As explained above, expanded OSD service would not reduce supplies entering the SDG&E/SoCalGas system. Instead, the record shows that OSD service would have the opposite

¹⁸ Exhibit 2:SDG&E/SoCalGas/Schwecke Direct, p. 4, lines 1-2.

¹⁹ *Id.* at 9, lines 13-14.

²⁰ *Id.* at 10, lines 1-3.

effect. Since shippers stand to benefit from serving expanded off-system markets with supplies that are *in addition* to the supplies that would normally be delivered to SoCalGas end-users, the development of new supplies at the SoCalGas city-gate would effectively be encouraged.²¹

C. OSD service lowers costs of generating electricity

Additionally, the proposed OSD services should “assist power plants located in the neighboring states of Arizona and Nevada to meet their needs, increase their supply options, and ultimately lower their gas costs.”²² Since many of these power plants supply power to California customers, California electricity customers would also benefit from lower generator fuel prices.²³

Edison’s expert, Dr. Alexander has also made a similar determination explaining that OSD service will have a number of additional benefits on electric generators. Specifically, Edison finds that electricity providers could benefit from the service by seizing opportunities created by price differentials at each receipt point into the SDG&E/SoCalGas system, thereby saving on electric generation fuel costs which “would be passed on to electricity customers.”²⁴

Edison further explains that OSD services in conjunction with storage on the SoCalGas system could be utilized to serve gas-fired generators so as to benefit California ratepayers in at least three ways: i) by reducing the cost of natural gas-fired electricity generation which then competes in the California electricity markets; ii) by off-setting the cost of owning storage assets for customers of SoCalGas who can sell unneeded storage into the off-system markets; and, iii) by increasing the total amount of storage capacity available to the southern California market for

²¹ Exhibit 2:SDG&E/SoCalGas/Schwecke Direct, p. 4, lines 9-22.

²² *Id.*

²³ *Id.*

²⁴ Exhibit 6:Edison/Alexander Direct, p. 9, lines 7-11.

natural gas through expansions of SoCalGas' storage capacity or third-party storage facilities interconnecting with the SoCalGas system.²⁵

D. OSD service encourages storage expansions and provides balancing opportunities

As Edison correctly notes, the proposed OSD services could be utilized by shippers in conjunction with purchases of unbundled storage services on the SoCalGas system in order to avoid paying for premium services and potential imbalance penalties on upstream pipelines.²⁶ Indeed, even SCGC acknowledges that "adding substantial off-system load could push demand for storage well beyond capacity."²⁷ SCGC goes on to conclude that such demand would lead to increased prices.²⁸ Interestingly however, SCGC's purported concerns in this regard contradict its own testimony claiming there is no need for expanded off-system services.²⁹ SCGC's contradicting positions are not rational. Obviously, if there is no need for such services, there will be no increase in prices if such services are provided.

However, SDG&E/SoCalGas believe that a market demand exists for expanded OSD services and acknowledge that, all other things being equal, such demand could lead to a slight *short-term* increase in storage demand. However, it is important to remember that the non-core storage market on the SoCalGas system is a fully unbundled, competitive market. Additionally, any increase in demand for unbundled storage services will directly benefit SDG&E/SoCalGas ratepayers under the recently adopted BCAP revenue sharing mechanism.³⁰ Indeed, SDG&E/SoCalGas calculate that under that mechanism, over 67% of the surplus unbundled

²⁵ *Id.* at 10, lines 1-19.

²⁶ Exhibit 6:Edison/Alexander Direct, p. 10, lines 1-19.

²⁷ Exhibit 4:SCGC/Yap Direct, p. 5, lines 25-27.

²⁸ *Id.*

²⁹ *Id.* at pp. 3-5.

³⁰ D.08-12-020, p. 22.

storage revenues (minus costs) will go to ratepayers.³¹ It is also important to note that unbundled storage prices are capped under Section II.16 of the BCAP Phase I Settlement approved by the Commission and that shareholder earnings are also capped under Section II.15 of that same settlement.³² Furthermore, SCGC fails to recognize that most end-users (like those similar to SCGC's own members) do not buy unbundled storage service—instead marketers, oil companies, and financial institutions buy the majority of those services.

Lastly, higher short-term storage prices will serve to stimulate expansion of unbundled and third-party storage on the SoCalGas system. Such expansions, in turn, could serve to reduce storage prices over the longer-term. As Mr. Schwecke describes it,

[O]ff-system gas Local Distribution Companies could buy storage to inject gas during the summer months (lower commodity prices) and nominate the gas for delivery during the winter months (higher gas prices) to meet a portion of their demand. The same could be true for summer peaking customers where they could buy storage and inject gas during the shoulder months (lower prices) for delivery off-system during the hot summer months (higher prices). While these activities might increase the short-term demand for SoCalGas' unbundled storage, they could also provide an additional incentive for SoCalGas to expand its unbundled storage capacities.³³

Likewise, not only would an increase in storage demand spur expansion of SoCalGas' storage assets, but “it could also provide an incentive for third parties to build storage in southern California.”³⁴ Clearly, storage expansions and competition from such third-party storage providers will tend to place downward pressure on unbundled storage prices over the longer-term.³⁵

³¹ Exhibit 3:SDG&E/SoCalGas/Schwecke Rebuttal, p. 5, lines 10-11; fn 4.

³² Exhibit 3:SDG&E/SoCalGas/Schwecke Rebuttal, p. 5, lines 7-10.

³³ Exhibit 2:SDG&E/SoCalGas/Schwecke Direct, p. 5, lines 5-12.

³⁴ *Id.* at 5, lines 13-24.

³⁵ Exhibit 3:SDG&E/SoCalGas/Schwecke Rebuttal, p. 5, lines 11-12.

E. OSD displacement flows potentially reduce compressor fuel costs

Because OSD services can be provided using backhaul flows, supplies that are displaced for delivery to the SDG&E/SoCalGas system “reduce the need for compression to move those supplies on-system, and lower transmission fuel rates benefit ratepayers.”³⁶ In other words, to the extent that SDG&E/SoCalGas can utilize OSD services as a tool to optimize the gas flows on the system to meet contractual commitments, doing so provides the utility with opportunities to minimize compressor station use, thereby maximizing fuel savings for all ratepayers.³⁷

F. OSD nominations increase system capacity

Because the SDG&E/SoCalGas forecasts of system capacity are based on the sum of forecasted demand, physical storage injection capacity and off-system nominations, “providing off-system service has the potential to reduce the number of OFOs since it has the effect of increasing system capacity.”³⁸ This result is further explained in the example provided by Mr. Williams,

Consider an OFO condition with a forecasted system capacity of 4500 MMcf/d and scheduled supplies of 4700 MMcf/d. If SoCalGas/SDG&E were to receive 300 MMcf/d in off-system nominations, the forecasted system capacity would increase to 4800 MMcf/d and the OFO condition would be avoided. Physically, this occurs because 300 MMcf/d that had been scheduled for delivery to the SoCalGas/SDG&E system is instead kept by the upstream pipeline for the off-system markets, freeing capacity on the SoCalGas/SDG&E system for on-system customers and shippers.³⁹

Similarly, Edison’s analysis finds that off-system deliveries will increase the system capacity used to calculate OFOs thereby diminishing the number and severity of

³⁶ Exhibit 1:SDG&E/SoCalGas/Williams Direct, p. 6, lines 3-6.

³⁷ Exhibit 1:SDG&E/SoCalGas/Williams Direct, p. 6, lines 11-13. SDG&E/SoCalGas recognize that any such compressor-related fuel impacts are difficult to quantify since, by definition, opportunities to optimize system flows are dynamic and will vary day-to-day depending on shipper usage patterns and the level and location of supply and demand on the system.

³⁸ *Id.* at 5, lines 10-21.

³⁹ *Id.* at pp. 5-6.

OFOs.⁴⁰ As Edison correctly states, OSD services could be used as an optional tool to “reduce any surplus of gas brought into the SoCalGas system over the amount burned” for any and all daily, monthly and winter balancing requirements on the SoCalGas system.⁴¹

V. OSD SERVICE WILL BE PROVIDED AT REASONABLE RATES

A. Matching the interruptible OSD rate to the FAR charge is reasonable

SDG&E/SoCalGas propose to set the maximum interruptible OSD rate equal to the FAR charge, currently 5 cents/dth.⁴² The maximum interruptible OSD rate would reflect a system-wide “postage stamp” rate equivalent to the forward-haul rate established for all receipt points under FAR. The current FAR charge may be revised upwards to reflect the full embedded costs of the backbone transmission system. If this happens, and if market conditions permit such a rate, there is no reason to limit the charge to an arbitrary 5 cent/dth level, as Edison suggests.⁴³ Moreover, matching the OSD rate to the FAR charge is consistent with the applicable Federal Energy Regulatory Commission (FERC) regulations which authorize the use of “existing rates on file with the appropriate state regulatory agency for city-gate service.”⁴⁴

As discussed herein, SDG&E/SoCalGas also propose that the OSD rate be discountable in order to match market conditions. The ability to discount the interruptible rate will encourage the use of the service (increase OSD throughput) resulting in maximum rate benefits for all customers. On the other hand, SCGC’s proposal prohibiting such discounts would result in lost opportunities to recover off-system revenues--to the detriment of on-system ratepayers.

⁴⁰ Exhibit 6:Edison/Alexander Direct, p. 8.

⁴¹ *Id.*, lines 22-25.

⁴² Exhibit 2:SDG&E/SoCalGas/Schwecke Direct, pp. 12-13.

⁴³ SDG&E/SoCalGas note that the embedded cost of backbone transmission will certainly be less than the 16 cent/dth average transmission rate previously rejected as “too high” by the Commission. SoCalGas estimates the full cost of backbone service to be 11.6 cents/dth.

⁴⁴ 18 C.F.R. § 284.224(e)(2).

SDG&E/SoCalGas believe it is better to achieve some reduction in rates through discounting rather than to lose all off-system revenue by pricing the service at too high a level. Furthermore, SDG&E/SoCalGas would not discount below short-run marginal (SRM) costs. In that regard, SDG&E/SoCalGas suggest that 1.5 cent/dth be used as a proxy for the SRM cost until a more complete BCAP study demonstrates that the actual short-run marginal cost is lower. Discounts would differ by receipt point, depending upon the market opportunities available at that receipt point. However, as with FAR, all discounts would be posted each day and the same discount rate would apply to all off-system customers using that particular receipt point on any given day.⁴⁵

B. If approved, the rate for firm OSD service to be submitted via separate application, will by definition, be reasonable

Since the tariff rate for firm OSD services will likely differ from one receipt point to another, depending on the rates that are necessary to recover the costs of necessary facilities, SDG&E/SoCalGas propose to hold an open season to determine the locations and rates specific to individual market requests for firm OSD service on the system.⁴⁶ Based on the results of such open seasons, SDG&E/SoCalGas will submit a separate application for Commission approval of requests for firm OSD service and, at that time, the Commission can proceed to make an informed decision as to whether the firm OSD rate proposed in that application is just and reasonable.⁴⁷

Under the SDG&E/SoCalGas proposal, the firm OSD rate would include a fixed reservation charge that will, over the life of the firm shipper contracts, recover the full costs of facilities necessary to provide firm service at a particular location. The firm OSD rate would

⁴⁵ While it is correct that SoCalGas has not discounted its forward-haul FAR interruptible rates, that has occurred solely because, to date, there has been no market need to do so. Forward-haul interruptible deliveries at certain receipt points are necessary to meet on-system demand requirements; therefore, there is no need to discount such services. Off-system deliveries, however, will be just one of many competing supply options to meet off-system burn requirements.

⁴⁶ Exhibit 2:SDG&E/SoCalGas/Schwecke Direct, p. 13, lines 10-13.

⁴⁷ *Id.* at 3, lines 7-12.

also include an amount up to the interruptible off-system charge based on market conditions to ensure that existing ratepayers will likely benefit from reduced rates arising from the provision of any such firm OSD services but in the worst case not subsidize the OSD firm service.⁴⁸ Of course, firm off-system customers will still have priority over interruptible off-system customers at any given receipt point since such firm customers have made the long-term commitment to expand facilities and OSD services at that location.

VI. EXPANDED OSD SERVICE IS CONSISTENT WITH APPLICABLE LAW AND PRECEDENT

A. The open season process for firm OSD service is the same process to be used for firm OSD service to PG&E and is based on open seasons conducted on the interstate pipelines

As stated above, SDG&E/SoCalGas propose to utilize the exact same market assessment and approval processes that were previously adopted by the Commission for firm OSD service to PG&E.⁴⁹ Under that process, SDG&E/SoCalGas will hold an open season to determine the market's interest in firm OSD service followed by an application for specific Commission authorization to provide such service.⁵⁰ In each such application, SDG&E/SoCalGas will provide all of the relevant detail necessary for the Commission to render a decision on the application, including the proposed rate. In addition, each application will include any additional showing that may be necessary to receive Commission authorization to provide such firm OSD service to a particular point of interconnection on the SDG&E/SoCalGas system.

Furthermore, as SDG&E/SoCalGas' expert witness Schwecke explains, the proposed process to conduct an open season process for firm OSD service is necessary to determine the

⁴⁸ *Id.* at pp. 7, lines 1-17; 13, lines 1-13.

⁴⁹ Exhibit 2:SDG&E/SoCalGas/Schwecke Direct, pp. 2, lines 1-4; 4 lines 2-8.

⁵⁰ D.06-12-031, *mimeo*, p. 112.

precise scope of market interest and will help to refine the facility requirements needed in providing such service:

Besides the cost uncertainty that comes with facility additions, parties are unlikely to make commitments in such open seasons if SoCalGas' regulatory authority to provide such a service is not established. It is therefore necessary for the Commission to approve the general terms and conditions, and rate methodology, for providing firm off-system services in this application. SoCalGas would seek specific contract approvals for a specific firm off-system delivery point in a subsequent application that would have the additional information garnered through an open season process. The separate application would seek approval of the proposed facility additions necessary for providing the firm service and would seek approval of the resulting firm rate. This process is very similar to expansion of SoCalGas receipt points under Rule No. 39 and how expansions of interstate pipelines are handled. The shipper community is familiar with this process, but in both those cases the general terms and conditions and rate methodology for providing the service have already been approved.⁵¹

In summary, utilizing the same Commission-approved process for all firm OSD service provided on the SDG&E/SoCalGas system constitutes a methodology that is: i) consistent with established precedent and processes used for receipt point expansions on the SDG&E/SoCalGas system as well as expansions by the interstate pipelines; ii) a process that is familiar to most shippers; and, iii) a process that ensures that all similarly-situated receipt points and interconnecting pipelines are treated fairly and in a non-discriminatory manner⁵² by SDG&E/SoCalGas consistent with the requirements for utility services as set forth in Public Utilities Code Section 453.⁵³

⁵¹ Exhibit 2:SDG&E/SoCalGas/Schwecke Direct, pp. 5-6.

⁵² *Id.* at 2, lines 12-13.

⁵³ Cal. Pub. Util. Code Section 453(a). "No public utility shall, as to rates, charges, services, facilities, or in any other respect, make or grant any preference or advantage to any corporation or person or subject any corporation or person to any prejudice or disadvantage."; *See also*, Cal. Pub. Util. Code Section 453(c). "No public utility shall establish or maintain any unreasonable difference as to rates, charges, service, facilities, or in any other respect, either as between localities or as between classes of service."

B. Expanded OSD service to all SDG&E/SoCalGas receipt points is similar to the OSD service currently provided by PG&E and will not adversely affect the Hinshaw exemption of either SDG&E or SoCalGas

Moreover, as further explained below, the requested authority does not threaten the CPUC’s jurisdiction over the gas utility operations of either SDG&E or SoCalGas. Existing FERC regulations and well-established precedent make it clear that such off-system deliveries to markets outside of California under Part 284.224 of FERC’s regulations⁵⁴ do not impact the CPUC-regulated, California utilities’ status under Section 1(c) of the Natural Gas Act (the NGA “Hinshaw exemption”).⁵⁵

Indeed, CPUC approval of SDG&E/SoCalGas’ Application to expand off-system services to all of their interstate and international receipt points will serve to place the transportation service options offered by SDG&E/SoCalGas “on an equal footing with those of PG&E, which provides off-system services at all of its backbone transportation paths regardless of whether the interconnect is with an interstate pipeline.”⁵⁶

In that regard, the OSD proposal of SDG&E/SoCalGas in this proceeding closely mirrors the long-standing authorizations allowing PG&E to deliver natural gas from its intrastate transmission system to markets located outside of California under PG&E’s FERC blanket transportation certificate. Like PG&E, SoCalGas and SDG&E also hold Part 284 blanket transportation certificates issued by FERC.⁵⁷ Moreover, SDG&E and SoCalGas are “Hinshaw pipelines” as defined by Section 284.224(h)(1):

A Hinshaw pipeline means any person engaged in the transportation of natural gas which is not subject to the jurisdiction of the Commission [FERC] under the Natural Gas Act solely by reason of section 1(c) of the Natural Gas Act.

⁵⁴ 18 C.F.R. § 284.224.

⁵⁵ 15 U.S.C. § 717.

⁵⁶ Exhibit 2:SDG&E/SoCalGas/Schwecke Direct, p. 2, lines 4-7.

⁵⁷ See, *Southern California Gas Company*, 41 FERC ¶ 62,173 (1987); *San Diego Gas & Electric Company*, 64 FERC ¶ 61,221 (1993).

Under a Part 284.224 “blanket” or “limited” transportation certificate, Hinshaw pipelines or local distribution companies (“LDCs”) are authorized to engage in the sale or transportation of natural gas in interstate commerce without affecting the jurisdiction of state agencies under the Hinshaw exemption to the Natural Gas Act. Specifically, Section 284.224(d)(2) states:

Acceptance of a certificate or conduct of an activity authorized thereunder will:

- i) Not impair the continued validity of any exclusion under section 1(c) of the Natural Gas Act which may be applicable to the certificate holder, and
- ii) Not subject the certificate holder to the Natural Gas Act jurisdiction to the Commission except to the extent necessary to enforce the terms and conditions of the certificate.⁵⁸

It is important to recognize that PG&E has established a long history of transporting natural gas to markets outside of California under just such a FERC blanket certificate--with no adverse impact to its Hinshaw exemption. In fact, in originally granting PG&E its blanket certificate, FERC rejected the contention that such transportation would jeopardize PG&E’s Hinshaw exemption.⁵⁹ In its order granting PG&E a blanket certificate, FERC explained that such non-jurisdictional parties may transport gas under a limited jurisdiction certificate while maintaining their Hinshaw exemption:

In carrying out its mandate under the NGA the Commission [FERC] has also seen fit to issue limited jurisdictional certificates. The Commission has issued limited jurisdiction certificates authorizing a specific activity when the activity is found to be within the Commission’s regulatory domain and in the public interest. The Commission has elected to issue a limited jurisdiction certificate in circumstances where it seeks to authorize nonjurisdictional parties (LDCs, intrastate pipelines, or Hinshaw-exempt pipelines) to engage in a specific activity while assuring such parties that their participation in the described activity will not result in the Commission’s asserting jurisdiction over any of their other operations.⁶⁰

⁵⁸ 18 CFR § 284.224.

⁵⁹ *Pacific Gas and Electric Company*, 69 FERC ¶ 61,140 at 61,505-06 (1994).

⁶⁰ *Id.*

Similarly, in *Boston Gas Company*, FERC issued a blanket certificate to an LDC transporting regasified LNG to points outside of the state of Massachusetts, determining that the blanket certificate would, “allow Boston Gas to perform the transportation service for DOMAC without impairing the continuing validity of its Hinshaw status under the Natural Gas Act.”⁶¹

As demonstrated by these cases, well-established FERC precedent and codified regulation authorize the issuance of blanket (limited jurisdiction) certificates that provide a means by which parties qualifying for a Hinshaw exemption under Section 1(c) of the Natural Gas Act (such as LDCs, intrastate pipelines and Hinshaw pipelines), remain subject to state regulation even though they may engage in transactions that could otherwise result in the loss of their Hinshaw exemption and/or the exercise of jurisdiction by the FERC. Nonetheless, to further assuage any concerns by the Commission in this regard, SDG&E/SoCalGas remain amenable to a Commission decision that conditions its approval of the Application on a provision that expressly precludes the loss of the SDG&E and SoCalGas’ Hinshaw exemptions.⁶²

VII. CONCLUSION

The record evidence reflects a multitude of benefits resulting from expanded OSD service as proposed by SDG&E and SoCalGas, including: i) reduced system rates for all customers on SDG&E/SoCalGas; ii) reduced rates for electricity; iii) encourages new supplies; iv) encourages SDG&E/SoCalGas and third-party storage expansion and competition; v) increases ratepayer unbundled storage revenue benefits; vi) provides additional balancing and price arbitrage opportunities; vii) potentially reduces compressor fuel costs; and, viii) increases system capacity at minimal cost.

⁶¹ *Boston Gas Company*, “Order on Remand Affirming Prior Order” 70 FERC ¶ 61,121 at 61,327 (1995).

⁶² As first noted in SDG&E/SoCalGas’ Reply Comments in this proceeding, the Commission could include language in its decision approving the Application similar to the following: “Applicants shall include a provision in their tariffs stating that off-system delivery service shall be terminated should the FERC or any court of competent jurisdiction find that such a service would adversely affect the Hinshaw exemption of either SDG&E or SoCalGas.”

Not only will all of these benefits accrue under the SDG&E/SoCalGas proposal for expanded OSD services, but the record also demonstrates that SDG&E/SoCalGas proposal will offer such services to the market at reasonable rates. Moreover, the OSD rates proposed by SDG&E/SoCalGas are designed to maximize on-system rate reduction benefits, and the service priority proposed will concurrently ensure that firm or interruptible services provided to on-system customers will not be adversely affected. Finally, the applicable legal authority discussed above demonstrates that the proposal will not impact the utilities' Hinshaw status under the NGA and will not otherwise jeopardize the Commission's continued jurisdiction over the utility and gas transmission services provided by SDG&E and SoCalGas. Accordingly, the record supports Commission approval of the Application, as requested.

Specifically, the Commission should approve the requests of SDG&E/SoCalGas to: i) provide interruptible and firm off-system services at all SDG&E and SoCalGas interstate and international receipt points; ii) charge a discountable interruptible off-system delivery rate not exceeding the FAR rate; iii) charge a firm off-system delivery rate equal to the rate that is necessary to fully recover the costs of new facilities plus a discountable interruptible off-system delivery rate not exceeding the FAR rate; iv) roll-in the firm off-system facility costs into those of the overall transmission system if SDG&E/SoCalGas can demonstrate in an application that the incremental off-system facility costs are below the incremental revenues associated with charging the incremental firm off-system load the system average transmission rate; v) resolve shipper imbalances, which are not cleared within 10 calendar days after noticing the customer, in accordance with the terms of tariff schedule G-IMB; and, vi) eliminate tariff schedule GIT (Interruptible Interutility Transportation).⁶³

⁶³ Exhibit 2:SDG&E/SoCalGas/Schwecke Direct, p. 15, lines 15-30.

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December 4, 2009

CERTIFICATE OF SERVICE

I hereby certify that a copy of the **OPENING BRIEF OF SAN DIEGO GAS & ELECTRIC COMPANY AND SOUTHERN CALIFORNIA GAS COMPANY** has been electronically mailed to each party of record on the service list in A.08-06-006. Any party on the service list who has not provided an electronic mail address was served by placing copies in properly addressed and sealed envelopes and depositing such envelopes in the United States Mail with first-class postage prepaid.

Copies were also sent via Federal Express to the Commissioner Timothy A. Simon and the Assigned Administrative Law Judge John S. Wong.

Executed this 4th day of December, 2009 at San Diego, California.

/s/ Jodi Ostrander

Jodi Ostrander



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[TOP OF PAGE](#)
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