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

Application of Southern California Gas Company and San Diego Gas & Electric Company to expand existing off system delivery authority	A.08-06-006

SOUTHERN CALIFORNIA GENERATION COALITION OPENING BRIEF

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- Reject SoCalGas/SDG&E's proposal to expand OSD service to interconnection points beyond interconnections with PG&E. Absent rejection, set rates and terms and conditions for the expanded OSD service as recommended herein.

- The level of the interruptible OSD rate should be equivalent to the level of RPA rate.

- The current five cents/dth rate for interruptible OSD service is already discounted and should not be discounted further.

- If the interruptible OSD rate is to be increased above the five cents/dth level in a subsequent proceeding, the issue about whether to allow discounting should be considered only after the Commission determines the appropriate level of the increased interruptible OSD rate.

- If the Commission decides that it should address discounting of interruptible OSD rates that are higher than five cents/dth now instead of waiting until a future proceeding, the Commission should establish a five cents/dth floor on discounting the increased interruptible OSD rate.

- If the Commission decides in this proceeding to allow discounting of interruptible OSD rates that are above five cents/dth, SoCalGas should be required to establish clear guidelines for determining the appropriateness of all discounts and should be required to specify the guidelines in its tariff. Additionally, SoCalGas/SDG&E should be required to provide a detailed report on no less than a quarterly basis identifying all discounts that have been provided on the basis of the criteria set forth in its tariffs.

- If the Commission decides in this proceeding to allow SoCalGas to discount interruptible rates that are higher than five cents/dth, the Commission should require SoCalGas/SDG&E to make the discounts available to all prospective OSD shippers on a non-discriminatory basis at any given receipt point.

- SoCalGas/SDG&E's proposal to charge a "total rate" for firm OSD service with a nondiscountable component "equal to the charge to fully recover the off-system facilities cost" and a discountable component equal to the "interruptible off-system delivery charge" should be rejected for failure to cover the costs of the existing backbone system or to provide any benefits to existing ratepayers.

- The Commission should adopt SCGC witness Yap's proposal for a firm OSD rate that would include a facilities charge to cover the full cost of any required incremental facilities plus a delivery charge to cover the cost of the existing backbone facilities but for which the OSD service would not be possible.

- Discounting of the facilities charge and delivery charge as proposed by SCGC witness Yap should not be permitted. If, however, discounting were to be permitted, only the facilities charge for firm OSD service should be discountable with SoCalGas/SDG&E shareholders bearing any resulting cost recovery shortfall.

- The Federal Energy Regulatory Commission methodology should be used to determine whether it would be appropriate to roll-in the cost of incremental facilities that are added to the SoCalGas/SDG&E system in order to provide firm OSD service.

- SoCalGas should revise Schedule G-RPA so that direct nominations would no longer be permitted from a G-RPA account to a G-OSD account in order to reduce the potential for OSD shipper imbalances.

- The period for an OSD shipper to eliminate an imbalance should be shortened from ten calendar days as originally proposed by SoCalGas/SDG&E to "two or three business days" as suggested by SoCalGas/SDG&E's witness on cross-examination.

- The SoCalGas and SDG&E tariffs should be modified to provide explicitly that OSD services shall be curtailed whenever providing OSD service would cause SoCalGas/SDG&E to purchase supplies in order to maintain minimum flows and system reliability.

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In accordance with Rule 13.11 of the Rules of Practice and Procedure of the California Public Utilities Commission, ("Commission") and the briefing schedule established by Administrative Law Judge ("ALJ") John S. Wong, Transcript ("Tr.") 2/137, the Southern California Generation Coalition ("SCGC") respectfully presents this Opening Brief regarding the June 6, 2008 application of the Southern California Gas Company ("SoCalGas") and San Diego Gas & Electric Company ("SDG&E") to expand existing off-system delivery service.

In Decision ("D") 06-12-031, SoCalGas and SDG&E were permitted to provide off-system deliveries to interconnections with Pacific Gas and Electric Company ("PG&E"). D.06-12-031 at 119 (December 14, 2006). SoCalGas/SDG&E were also permitted to file an application to offer off-system delivery service to interconnections with upstream pipelines other than PG&E, but the Commission told SoCalGas and SDG&E that they had to wait until May 1, 2008 to file the application so that the Commission would have time to see whether various liquefied natural gas ("LNG") projects came to fruition. *Ibid* at 120.

SCGC opposes SoCalGas/SDG&E's application. SoCalGas/SDG&E have failed to make any showing of need for expanding OSD service beyond PG&E. However, they have admitted to the potential burdens that the service may place on the SoCalGas/SDG&E system. SoCalGas/SDG&E attempt to paint one of the most significant burdens—expanded demand for SoCalGas' limited amount of unbundled storage capacity—as actually having some potential benefits, effectively taking an "every cloud has a silver lining" approach. In other instances, SoCalGas/SDG&E propose palliatives to ameliorate the admitted burdens. SCGC asks: Why approve an expansion of OSD service when the applicants have failed to present a case demonstrating a need for the expansion but have admitted to potential burdens on the system that might result if the application were to be approved?

Section I of this opening brief contains SCGC's discussion of the SoCalGas/SDG&E's failure to show any need for expanded OSD service that offsets the admitted potential burdens of expanded service. SCGC is mindful, however, that the Commission may elect to approve the proposed expansion of OSD service over SCGC's objection. Accordingly, Section II contains a discussion of issues regarding the rates that SoCalGas/SDG&E propose to charge for OSD firm and interruptible service, including SoCalGas/SDG&E's proposal to revise the existing Schedule G-OSD to permit discounting of OSD service. Section III contains a discussion of terms and conditions for providing OSD service, including revisions of the SoCalGas/SDG&E tariff to address OSD shipper imbalances and to reduce the potential for the expanded OSD service to jeopardize reliability of service on the SoCalGas/SDG&E Southern System.

In summary, SCGC's recommendations are as follows:

- Reject SoCalGas/SDG&E's proposal to expand OSD service to interconnection points beyond interconnections with PG&E. Absent rejection, set rates and terms and conditions for the expanded OSD service as recommended herein.

- The level of the interruptible OSD rate should be equivalent to the level of RPA rate.

- The current five cents/dth rate for interruptible OSD service is already discounted and should not be discounted further.

- If the interruptible OSD rate is to be increased above the five cents/dth level in a subsequent proceeding, the issue about whether to allow discounting should be considered only after the Commission determines the appropriate level of the increased interruptible OSD rate.

- If the Commission decides that it should address discounting of interruptible OSD rates that are higher than five cents/dth now instead of waiting until a future proceeding, the Commission should establish a five cents/dth floor on discounting the increased interruptible OSD rate.

- If the Commission decides in this proceeding to allow discounting of interruptible OSD rates that are above five cents/dth, SoCalGas should be required to establish clear guidelines for determining the appropriateness of all discounts and should be required to specify the guidelines in its tariff. Additionally, SoCalGas/SDG&E should be required to provide a detailed report on no less than a quarterly basis identifying all discounts that have been provided on the basis of the criteria set forth in its tariffs.

- If the Commission decides in this proceeding to allow SoCalGas to discount interruptible rates that are higher than five cents/dth, the Commission should require SoCalGas/SDG&E to make the discounts available to all prospective OSD shippers on a non-discriminatory basis at any given receipt point.

- SoCalGas/SDG&E's proposal to charge a "total rate" for firm OSD service with a nondiscountable component "equal to the charge to fully recover the off-system facilities cost" and a discountable component equal to the "interruptible off-system delivery charge" should be rejected for failure to cover the costs of the existing backbone system or to provide any benefits to existing ratepayers.

- The Commission should adopt SCGC witness Yap's proposal for a firm OSD rate that would include a facilities charge to cover the full cost of any required incremental facilities plus a delivery charge to cover the cost of the existing backbone facilities but for which the OSD service would not be possible.

- Discounting of the facilities charge and delivery charge as proposed by SCGC witness Yap should not be permitted. If, however, discounting were to be permitted, only the facilities charge for firm OSD service should be discountable with SoCalGas/SDG&E shareholders bearing any resulting cost recovery shortfall.

- The Federal Energy Regulatory Commission methodology should be used to determine whether it would be appropriate to roll-in the cost of incremental facilities that are added to the SoCalGas/SDG&E system in order to provide firm OSD service.

- SoCalGas should revise Schedule G-RPA so that direct nominations would no longer be permitted from a G-RPA account to a G-OSD account in order to reduce the potential for OSD shipper imbalances.

- The period for an OSD shipper to eliminate an imbalance should be shortened from ten calendar days as originally proposed by SoCalGas/SDG&E to "two or three business days" as suggested by SoCalGas/SDG&E's witness on cross-examination.

- The SoCalGas and SDG&E tariffs should be modified to provide explicitly that OSD services shall be curtailed whenever providing OSD service would cause SoCalGas/SDG&E to purchase supplies in order to maintain minimum flows and system reliability.

I. THE SOCALGAS/SDG&E APPLICATION SHOULD BE REJECTED.

SoCalGas/SDG&E have failed to present a case demonstrating a need for expanding OSD service that outweighs the risks of expanding the service. Accordingly, the application for expanding OSD service should be rejected until such time that SoCalGas/SDG&E can demonstrate a need for the service that outweighs the risks.

A. The Applicants Have Failed to Demonstrate a Need for Expanding OSD Service.

SoCalGas/SDG&E have failed to demonstrate a need for expanding off-system delivery service to interconnections with upstream pipelines other than PG&E. Although the possibility of substantial LNG deliveries into southern California provided the original impetus for SoCalGas/SDG&E to propose OSD service, LNG is no longer a factor. SoCalGas/SDG&E have failed to demonstrate demand for OSD service by any suppliers other than the LNG developers. The applicants have also failed to demonstrate that expanding OSD service would enhance gas-on-gas competition, which the Commission has seen as being one of the potential benefits of OSD service.

1. LNG Is No Longer a Driving Force for Expanding OSD Service.

The original impetus for SoCalGas/SDG&E to provide OSD service was the prospect of LNG supplies being landed in southern California. In Rulemaking ("R.") 04-01-025 the Commission considered "policies and rules to ensure reliable, long-term supplies of natural gas to California." PG&E proposed that SoCalGas be permitted to allow nominations "from a Los Angeles city gate delivery point to an off-system connection with PG&E" so that PG&E "customers could gain access to LNG supplies from southern California. D.04-09-022 at 74 (September 2, 2004). The Commission directed: "SoCalGas should make its full showing on off-system deliveries in its upcoming system integration/firm access rights filing." *Ibid*. However, SoCalGas' "showing should be limited to off-system deliveries for natural gas to be consumed within California (e.g., into PG&E's service territory)." *Ibid*.

Subsequently, in their system integration and firm access rights ("FAR") Application 04-12-004, SoCalGas/SDG&E proposed off-system deliveries to PG&E. In its December 16, 2006 Decision approving OSD deliveries to PG&E the Commission observed: "This is especially attractive to the LNG project sponsors who seek to provide gas supplies at various west coast locations." D.06-12-031 at 115. The Commission noted, however, that the need "to consider off-system deliveries to pipeline interconnections other than PG&E… will depend on whether the LNG project developers are successful in their efforts to bring LNG to California." *Ibid* at 120.

In order to allow time to see whether LNG projects would come to fruition before considering the expansion of OSD service to pipelines other than PG&E, the Commission decided to require SoCalGas/SDG&E to wait to file an application for expanding OSD service. The Commission observed: "The LNG project that is the furthest along estimates that regasified LNG will flow from Baja California in the early part of 2008." *Ibid*. Accordingly, the

Commission required SoCalGas/SDG&E to wait until at least May 1, 2008, to file an application to provide off-system service to interconnections with pipelines other than PG&E.

The Commission thought that by 2008 the Commission would have better information about the LNG projects that would be built, the extent of gas flows from LNG suppliers into California, and the need to permit OSD service to interconnections with pipelines other than PG&E: "By that time, we will have a clearer picture of what LNG projects are likely to be build, and what, if any, gas flows will be coming from LNG suppliers into California." *Ibid*. Expanding OSD service would be important *if* LNG projects resulted in large new supplies of gas reaching California:

> We recognize that the suppliers of gas would like to pursue markets other than just PG&E. With the potential for large quantities of LNG to reach California, the opening of new markets is of tremendous importance to these shippers.

Ibid at 119.

It was wise for the Commission to be cautious. Although one west coast LNG project was being constructed at the end of 2006 and several other projects were proposed, since then "west coast LNG has not developed into a significant supply source…." Ex. 4 at 3:11-12 (Yap-SCGC). One project that was under construction in late 2006, the Sempra Energy terminal at Costa Azul in Mexico, has been completed. However: "Despite the completion of Sempra LNG's terminal at Costa Azul during 2008, there have been no LNG supplies delivered to California." *Ibid* at 3:25-26. The other projects that were being proposed in 2006 are no longer being pursued actively. In most cases, they have been officially terminated. Thus, the original impetus as foreseen by the Commission in 2004 in D.04-09-022 and in 2006 in D.06-12-031 for expanding OSD service beyond PG&E has disappeared.

The cause for the precipitous demise of west coast LNG is the advent of shale gas as "a major new supply source." *Ibid* at 3:12. "The production of natural gas from shale and other unconventional sources has added greatly to the nation's supply." Ex. 4, Att. C, Natural Gas Infrastructure, W. William Wood, Jr., California Energy Commission Draft Staff Paper, p. 20 (May 2009). The advent of shale gas in large quantities has depressed natural gas prices in North America, including California. LNG is still available on the world market, but it is going to places other than the west coast: "LNG is available in world markets, but suppliers are able to sell their LNG to higher priced Asian markets." *Ibid*.

2. Expanded OSD Service Is Not Necessary to Promote Gas-on-Gas Competition.

In the Commission's view, the chief benefit of expanding SoCalGas/SDG&E OSD service would be to enhance gas-on-gas competition that would put downward pressure on natural gas prices: "These additional gas supplies flowing through the transmission systems of SDG&E, SoCalGas, and PG&E are likely to put downward pressures on the price of natural gas for the benefit of the entire California market." D.06-12-031 at 115. However, California is currently benefiting from gas-on-gas competition as a result of the emergence of shale gas as a major new supply source. Ex. 4, Att. C, p. 20. Expanded OSD service is not necessary to facilitate the beneficial gas-on-gas competition that has been generated by shale gas.

Increased lower cost supplies that are direct consequence of the advent of shale gas are flowing to California primarily through the El Paso Natural Gas Company ("El Paso") system. *Ibid*. SCGC witness Yap observes: "Since El Paso serves both PG&E and SoCalGas, there is no need to provide OSD services to support this gas-on-gas competition." *Ibid*. Thus, the additional gas-on-gas competition that the Commission foresaw as a primary benefit from promoting expanded OSD service would not be significant under today's market conditions.

3. SoCalGas/SDG&E Have Failed to Demonstrate that Other Suppliers Have Replaced LNG in Seeking Expanded OSD Service.

SoCalGas/SDG&E have failed to demonstrate that, in the absence of LNG, any other suppliers are seeking off-system delivery service. All evidence is to the contrary. In D.06-12-031, the Commission permitted SoCalGas/SDG&E to hold an open season for firm off-system deliveries into the PG&E system. D.06-12-031 at 116. However, SoCalGas/SDG&E have provided no evidence that any such open season was ever held. Apparently there was no demand for it.

More generally, it appears that there is little or no demand for any OSD service to PG&E. Since the issuance of D.06-12-031 in 2006, SoCalGas has been authorized to provide interruptible OSD service into the PG&E system. However, SoCalGas operating records show *no* record of OSD deliveries to PG&E. Ex. 4, p. 5, Table 2 (Yap/SCGC). PG&E's operating records do show some OSD deliveries from SoCalGas, but they average only 7 MMcfd during 2009. *Ibid.*

There may be a demand for OSD service to upstream pipelines other than PG&E, but that demand seems to be coming from east-of-California customers that want to utilize OSD service in conjunction with taking unbundled storage service on the SoCalGas system. As discussed below, the demand of those customers for storage service could impose a burden on the SoCalGas unbundled storage capacity which would have negative consequences.

B. Providing Expanded OSD Service Would Expose the SoCalGas/SDG&E System to New and Additional Burdens.

While the applicants have failed to demonstrate a need for expanding OSD service, they have openly admitted that expanding the service could result in increased demands being placed on SoCalGas unbundled storage capacity. They have also admitted that providing the service could result in imbalances that are beyond the control of the OSD shippers and that providing the service could impair Southern System reliability unless ameliorative measures were adopted.

1. Expanding OSD Service Beyond PG&E Would Permit East-of-California Customers to Place New Demands on SoCalGas' Limited Unbundled Storage Capacity.

Although neither LNG nor any other suppliers appear to be seeking expanded OSD service, SoCalGas points to east-of-California customers as being a potential market for the service. A combination of SoCalGas OSD service and transmission service on pipelines like El Paso or Kern River Gas Transmission Company ("Kern River") could permit those customers to gain access to SoCalGas unbundled storage capacity. The consequences of allowing east-of-California customers to gain direct access to the SoCalGas unbundled storage capacity should be fully understood before access is allowed.

SoCalGas/SDG&E admit that one consequence of allowing east-of-California customers such as Southwest Gas Company ("Southwest Gas") or Nevada Power Company ("Nevada Power") to have direct access through OSD service to SoCalGas unbundled storage capacity is that the price of unbundled storage capacity "may be affected." SoCalGas/SDG&E admit: "The price of storage capacities sold through the unbundled storage program might be affected by allowing off-system deliveries because off-system customers might be interested in utilizing storage for off-system use." Ex. 2 at 8:4-6 (SoCalGas/Schwecke).

SoCalGas/SDG&E argue that increasing the demand for SoCalGas unbundled storage capacity could actually benefit on-system customers "because of the new unbundled storage revenue sharing mechanism approved in the BCAP" Phase 1 decision, D.08-12-020 (December 4, 2008). *Ibid* at 8:21-22. However, as SCGC witness Yap explained, the *negative* aspect for on-system noncore customers that need SosCalGas storage service is that the increased demand could result in a volatile market for unbundled storage service and high prices:

> SoCalGas' proposal could create a very volatile market for storage services. Unbundled storage services are offered on a negotiated basis. Therefore, if demands substantially exceed the capacity of storage resources, prices could spike. SoCalGas has consistently experienced high levels of demand for its unbundled storage services since 2003. In 2006, SoCalGas sold out its unbundled storage assets, and prices climbed accordingly. In the current storage year, SoCalGas' storage facilities are operating near capacity. For example, 98 percent of storage inventory is under contract. SoCalGas Envoy: firmStorage.html. Therefore, demand for storage resources is approximately in balance with the supply of storage resources. Adding substantial off-system loads could push demand for storage well beyond capacity, which would lead to very high prices.

Ex. 4 at 5 (Yap/SCGC).

SoCalGas/SDG&E say that if there were significant demand for OSD services from east-of-California customers, that demand "could drive storage expansions…." Ex. 2 at 8:25 (Schwecke/SoCalGas). However, as SoCalGas/SDG&E admit, under the Biennial Cost Allocation Proceeding ("BCAP") Phase 1 settlement that was approved in D.08-12-020, unbundled storage expansion costs would be added to the existing cost of unbundled storage facilities in determining the net unbundled storage revenues that would be available for sharing between ratepayers and shareholders. Ex. 2 at 9:4 (Schwecke/SoCalGas). Adding expansion costs to the existing cost of SoCalGas unbundled storage facilities could *reduce* the amount of unbundled storage revenues that would be available to SoCalGas ratepayers under the unbundled storage sharing mechanism. For example, if the cost of unbundled storage facilities were increased but prices that were paid for unbundled storage service were simultaneously reduced as a result of the increased supply of such service, ratepayers could receive less unbundled storage revenues than they would if there were no expansion.

In summary, from the on-system customers' standpoint, if expanded OSD service were to be approved so that east-of-California customers could directly access SoCalGas' unbundled storage service, the result could be sharply increased unbundled storage service prices, which would be a negative effect for on-system customers that need to buy unbundled storage service from SoCalGas. Alternatively, if SoCalGas responds to increased prices by expanding storage service, the net revenues that flow to on-system customers could be reduced. Either way, there could be a detriment to on-system customers.

The applicants have failed to present any evaluation of the new market for unbundled storage service that may materialize if expanded OSD service were approved. In the absence of any attempt whatsoever by SoCalGas/SDG&E to provide a market analysis or projection of the increase in demand for SoCalGas unbundled storage service that could result from expanding OSD service, the Commission should assume that a worst case scenario would result from opening access to SoCalGas unbundled storage service for east-of-California customers by permitting expanded OSD service.

2. Expanding OSD Service Could Jeopardize Reliability of Service on the SoCalGas Southern System.

Expanding OSD service so that off-system deliveries would be made from the SoCalGas system into the El Paso system at Ehrenberg could jeopardize reliability on the SoCalGas Southern System that extends from Ehrenberg to SoCalGas load centers. If OSD services were provided into the El Paso system at Ehrenberg and, as a consequence, volumes on the Southern System would drop to levels that are insufficient to serve load on the Southern System, SoCalGas would be required to purchase additional supplies or take other measures that may result in a cost being imposed on customers in accordance with the settlement agreement recently approved in the SoCalGas/SDG&E BCAP (Phase 2). D.09-11-006, Appendix A at 5-7.

SoCalGas concedes that off-system deliveries from the SoCalGas Southern System into the El Paso system at Ehrenberg could have an adverse impact on reliability on the Southern

System. To address the risk, SoCalGas says that "off-system deliveries at Blythe [Ehrenberg] would be set at zero if there were any danger that such deliveries would create a minimum flow in supply requirement issue at that point." Ex. 2 at 7:20-22 (Schwecke/SoCalGas). SoCalGas says further: "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 by Blythe (or any other receipt point) minimum flow in supply requirement." *Ibid* at 7:22-25.

These assurances by SoCalGas are made necessary by SoCalGas/SDG&E persisting in seeking Commission approval of expanded OSD service even though the original demand for the service from LNG developers has dissipated. The assurances would be unnecessary if the SoCalGas application for expanding OSD service were rejected.

3. Expanding OSD Service Expands the Potential for Off-System Shipper Imbalances.

SoCalGas says that "minor inadvertent imbalances can be created as a result of the simultaneous confirmation scheduling processes that occur between SoCalGas and the interconnecting pipelines" if off-system services were to be expanded. Ex. 2 at 14:19-21. SoCalGas explains how the imbalances could arise:

> These imbalances may occur after SoCalGas has provided to the interconnecting pipeline a confirmation volume to be delivered to them on behalf of the off-system customers, and then during the overall scheduling process, a different (lower) volume is scheduled by the upstream interconnecting pipeline into the off-system contract creating a negative Shipper Imbalance. An opposite situation could also occur with off-system services. SoCalGas may receive scheduled gas into an off-system account and the interconnecting pipeline that the off-system customer is delivering to confirms back a lesser quantity, thereby creating a positive Shipper Imbalance.

Ex. 2 at 14:21-28 (Schwecke/SoCalGas). SoCalGas proposes to allow OSD customers ten days to clear any imbalance. This would impose a burden on the SoCalGas system without compensating existing on-system customers to cover the cost of carrying the imbalance for up to ten days. The potential for the "inadvertent imbalances" to be incurred would be substantially reduced if expanded off-system service were denied so that PG&E would be the only upstream system to which OSD service would be provided.

In general, the easiest way to avoid the potential burdens on the existing system that would be caused by expanding OSD services would be to deny the SoCalGas/SDG&E request for expanding OSD service beyond PG&E.

II. RATES FOR OSD SERVICE.

The SoCalGas/SDG&E application raises a number of issues about rates for both interruptible OSD service and firm OSD service. Currently, under SoCalGas Schedule G-OSD, the rate for interruptible OSD service is five cents per dth. No rate is specified for firm OSD service. Schedule G-OSD only states that the rate for firm OSD service is "to be determined in open season." SoCalGas Schedule G-OSD, Sheet 1.

A. Rates for Interruptible OSD Service.

There are three issues about the rate for interruptible OSD service. First, there is an issue about whether the interruptible OSD rate should be subject to change in future proceedings as the rate for receipt point access ("RPA") service under Schedule G-RPA changes in future proceedings. Second, there is an issue of whether the five cents/dth rate that is currently in effect for interruptible OSD service should be discountable. Third, there is an issue about whether the rate for interruptible OSD service should be discountable if the rate is increased above the current five cents/dth level in future proceedings.

As explained below, SCGC recommends that the interruptible OSD rate be adjusted to match RPA rate adjustments in future proceedings. SCGC recommends that the current five cents/dth rate not be subject to discounting. Lastly, SCGC recommends that if the interruptible OSD rate were to be increased above five cents/dth in a future proceeding, discounting should be addressed in a subsequent proceeding after the extent of the rate adjustment is known. However, if the Commission wants to make a judgment now about discounting interruptible OSD rates that are above five cents/dth, SCGC recommends that the Commission establish a floor on discounting the interruptible OSD rate and require SoCalGas/SDG&E to post interruptible OSD rate discounts similarly to how interruptible RPA rate discounts are posted under Schedule G-RPA.

1. The Level of the Interruptible OSD Rate Should Be Equivalent to the Level of the RPA Rate.

The rate specified currently in SoCalGas Schedule G-OSD service to interconnections with PG&E in five cents/dth, which is the same as the rate under SoCalGas Schedule G-RPA for RPA service. In its opening testimony, SoCalGas witness Schwecke proposed that, going forward, the maximum rate for interruptible OSD service continue to be the same as the RPA rate, which Mr. Schwecke called the "Firm Access Right" ("FAR") charge: "The maximum rates for all interruptible off-system service would be set equal to the Firm Access Right (FAR) charge, which is currently five cents/dth." Ex. 2 at 2:14-15 (Schwecke/SoCalGas). Mr. Schwecke observed that the current RPA rate may be increased in future rate proceedings: "This rate is likely to be revised upward in future FAR open seasons to more accurately reflect the true average cost of the backbone transmission system." Ex. 2 at 2 (footnote 1).

Southern California Edison Company ("SCE") witness Alexander opposes linking the interruptible OSD charge to the RPA charge: "I would recommend that the off-system delivery charge not be tied to the FAR charge." Ex. 6 at 12:4-5 (Alexander/SCE). Although SCE's testimony is somewhat unclear on the point, SCE appears to want the current five cents/dth charge for interruptible OSD service be frozen in perpetuity. *Ibid* at 12:21-22.

SCGC supports the concept of linking the rate for interruptible OSD service to the rate for RPA service. Both services utilize the SoCalGas/SDG&E backbone system. As explained by SCGC witness Yap, SCE's proposal "fails to recognize the important fact that, but for the existence of the backbone system, off-system deliveries by displacement could not occur. Without the backbone transmission system there would be no volumes to displace." Ex. 5 at 1:24-26 (Yap/SCGC). The Commission shares Ms. Yap's view:

> Our view is that in order for the backhaul to occur, the shipper requesting the off-system delivery must still send out gas onto SoCalGas' system in order for the gas to be delivered to the PG&E customer. Although the shipper's gas may not travel the full distance to the interconnection with PG&E, some use of the SoCalGas transmission system will occur.

D.06-12-031 at 117. As further explained by SCGC witness Yap: "If there were no backbone system, the off-system delivery could not occur. If the off-system delivery service were to be provided by displacement, there would be no gas to displace." Ex. 5 at 2:21-23 (Yap/SCGC).

For the reasons expressed both by Ms. Yap and the Commission, SCGC urges the Commission to affirm the concept of linking the interruptible OSD rate to the RPA rate.

2. The Current Already-Discounted Five Cents/Dth Interruptible OSD Rate Should Not Be Discounted Any Further.

In D.06-12-031, the Commission provided that "a fixed charge of five cents per dth shall apply on the gas volumes delivered under the interruptible off-system service to PG&E" without authorizing discounting. Accordingly, there is no provision in SoCalGas Schedule G-OSD that permits discounting the five cents/dth rate for interruptible OSD service. *See* Ex. 4, Att. D (Schwecke E-OSD).[1]

SoCalGas/SDG&E now propose that, going forward, the five cents/dth interruptible rate be discountable. Ex. 2 at 15:18-19 (Schwecke/SoCalGas). SoCalGas/SDG&E proposal should be rejected. The record in this proceeding does not support reversing the Commission's decision in D.06-12-031 that the five cent/dth rate should be a "fixed charge" without discounting.

a. The Five Cents/Dth Rate for Interruptible OSD Service Already Reflects a Discount.

The five cents/dth rate already reflects a discount. When the Commission established the five cents/dth rate in D.06-12-031, the Commission recognized that the rate was below whatever might be the unbundled cost-based rate for backbone transmission service on the SoCalGas /SDG&E system. The five cents/dth rate was approved to "encourage off-system service, as opposed to a higher rate…." D.06-12-031 at 117. The Commission explained its rationale for establishing the five cents/dth rate more fully as follows:

> The transmission rate that is paid for on the forward haul on SoCalGas' transmission system needs to be taken into consideration, as well, since SoCalGas is receiving revenue for the forward haul's usage on the transmission system. With these factors in mind, the 16 cents rate is too high. Since the off-system backhaul proposal was based on our desire to encourage access to additional gas supplies, a 16 cents rate is likely to discourage potential shippers from wanting to make an off-system delivery to PG&E. As suggested by Coral Energy's witness, a fixed rate of five cents per Dth for interruptible off-system service to PG&E appears reasonable. This amount will encourage off-system service, as opposed to a higher rate, and it also recognizes that the shipper requesting the off-system service on a backhaul basis does not place as much of a cost burden on the SoCalGas system. For those reasons, a fixed charge of five cents per Dth shall apply on

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[1] SoCalGas witness Schwecke appears to claim that the five cents/dth rate can be discounted under the current Schedule G-OSD: "The interruptible off-system service charge can be discounted to maximize off-system revenues for the benefit of ratepayers." Ex. 2 at 2, footnote 1; 4, footnote 13 (Schwecke/SoCalGas). Mr. Schwecke's apparent claim that discounting is currently permitted is erroneous.

> the gas volumes delivered under the interruptible off-system service to PG&E.

Ibid. Thus, the 5 cents/dth rate that is currently specified in Schedule G-OSD is already discounted below what might be the unbundled cost-based rate for backbone transmission service on the SoCalGas/SDG&E system.

b. **The Record Demonstrates that Five Cents/Dth is Enough of a Discount for Interruptible OSD Service.**

The record demonstrates that discounting the rate for interruptible OSD service to 5 cents/dth is enough to encourage shipper interest in taking the service. SoCalGas witness Schwecke testified that "the need to discount was not very significant when the maximum off-system charge was initially set at only 5 cents/dth." Ex. 3 at 110:5-6. Experience on the Pacific Gas and Electric Company ("PG&E") system demonstrates that five cents/dth is about the deepest discount that needs to be offered to attract interest in taking interruptible OSD service. As Mr. Schwecke further testified:

> On the PG&E system, for example, the maximum firm and interruptible off-system charges can be near 30 cents/Dth. Yet, PG&E's Gas Accord data shows that it had discounted to an average of about 5 to 8 cents/Dth to generate about $4 million/year in non-GXF off-system revenues from 2006-2008.

Ibid at 11:8-13.

In assessing the need for any further discounting below 5 cents/dth to attract shippers to take interruptible OSD service, SCGC witness Yap analyzed SoCalGas' experience with the G-RPAI rate under Schedule G-RPA for interruptible RPA service. Unlike the current OSD rate, the G-RPAI rate may be discounted. The G-RPAI rate is set at five cents/dth just like the current rate for interruptible OSD service. Ms. Yap found that there has been *no* discounting of the G-RPAI rate: "SoCalGas' recorded pricing postings for the interruptible access service demonstrates that the G-RPAI rate has not been discounted below the maximum five cents/dth level during the entire twelve month period that the FAR program has been in operation." Ex. 5 at 5:13-15 (Yap/SCGC). Ms. Yap concludes that there is no need for discounting the rate for interruptible OSD service below the already discounted level of five cents per dth: "The experience with the lack of pricing pressure on the interruptible G-RPAI charge for interruptible access service provides an indication that the current five cents/dth rate for OSD service does not need to be discounted further." *Ibid* at 5:16-19.

The fact that there has been no discounting of the interruptible RPA charge is especially telling because, unlike the interruptible RPA charge, it is not clear that there are competitive pressures on the interruptible OSD rate. Ms. Yap stated: "It is not clear what the alternative to the OSD service would be." Ex. 4 at 13:25 (Yap/SCGC). SoCalGas witness Schwecke agrees: "SCGC may be correct that there would be less competitive pressure to discount interruptible off-system rights than to discount interruptible on-system FAR rights…." Ex. 3 at 10:16-17 (Schwecke/SoCalGas).

Mr. Schwecke's sole justification for discounting the OSD rate below the five cents/dth level was based on nothing more than sheer speculation: "Without discounting, market opportunities to generate revenues for on-system customers could very well be missed…." Ex. 2 at 10:22-23.

Given the lack of any factual support for discounting below the five cents/dth level, the Commission should reject the proposal to modify the provision in D.06-12-031 for the five cents/dth interruptible OSD rate to be a "fixed charge."

c. **If the Already-Discounted Five Cents/Dth Interruptible OSD Rate Were to Be Subject to Further Discounting, Discounting Should Not Be Permitted Below a Floor Which Would Be About the Same as Five Cents/Dth.**

If there were to be discounting of the interruptible OSD charge below the already discounted five cents/dth level, there is consensus that there should be a floor on the discounting. However, it appears that there is disagreement about what the floor should be. SoCalGas witness Schwecke proposes a "interim floor" that would be set on the basis of short run marginal cost ("SRMC") of providing interruptible OSD service. Mr. Schwecke explains that the SRMC should be set on the basis of the SoCalGas average transmission fuel rate which is currently 1.5 cents per dth. Ex. 3 at 10:24-11:4.

Witness Schwecke's proposed SRMC floor on discounting is too low. The floor should also reflect long run marginal costs. When the Commission has previously permitted discounting, the Commission has insisted that the discounted rate not be lower than long run marginal costs (LRMC"). If a customer could take alternative service at less than the LRMCof serving the customer, a bypass would be economic, and society would be benefited by the customer taking advantage of the alternative pipeline service. Witness Yap explained:

> When the Commission has previously permitted discounting, the Commission allowed contracts with rates below the tariff rate but above the utility's LRMC for serving the customer. D.92-11-058, *1992 Cal. PUC LEXIS 765; 46 CPUC2d 444* at *17. The Commission found that it was the most efficient use of society's resources to allow bypass if the alternative pipeline could serve the customer below the utility's LRMC.
>
> Bypass should only be prevented if it is uneconomic. Bypass is uneconomic when a customer leaves the utility system even though its cost to bypass is more than the marginal cost of utility service. In that situation, the utility could still meet the bypass rate and obtain a positive contribution to its fixed costs, which helps to keep other rates down. Economic bypass occurs when a customer's cost to bypass is less than the marginal cost needed for the utility to serve that customer. In that case no positive contribution to fixed

> costs could be made if the utility attempted to meet the bypass rate. Therefore, the utility's marginal cost to serve a customer is the appropriate standard to differentiate economic from uneconomic bypass; it reflects a utility's incremental cost of service. *Id*. at *7.

Ex. 5 at 6:19-7:4.

Ms. Yap used workpapers from the recent SoCalGas Biennial Cost Allocation Proceeding ("BCAP"), A.08-02-001, to develop the LRMC for the SoCalGas backbone transmission system. Her analysis demonstrated that the LRMC would be 3.09 cents per dth. *Ibid* at 7:15.

Mr. Schwecke was also a witness in the SoCalGas BCAP. Using Mr. Schwecke's methodology for identifying backbone transmission costs on the SoCalGas system, the LRMC for the SoCalGas/SDG&E backbone transmission system would be 4.74 cents per dth. *Ibid* at 7:24.

In developing a floor for discounting, both the LRMC and the SRMC should be taken into consideration. If Mr. Schwecke's 1.5 cents/ dth SRMC for backbone transmission service is added to Ms. Yap's 3.09 cents per dth LRMC, the total is 4.59 cents, which is close to the five cents/dth rate that is currently charged for interruptible OSD service. If Mr. Schwecke's 1.5 cents/dth SRMC is added to the 4.74 cents/dth LRMC that would result from using Mr. Schwecke's preferred methodology for determining SoCalGas backbone system costs, the sum is 6.24 cents/dth, which is *above* the already-discounted 5 cents/dth that the Commission has established as a "fixed charge" for interruptible OSD service.

Insofar as any properly established floor on further discounting of the 5 cents/dth charge for interruptible OSD service would be either near to or above the level of the currently permitted charge, no further discounting would be appropriate.

3. The Issue About Whether the Interruptible OSD Rate Should Be Discountable if the Rate Increases Above 5 Cents/Dth Should Be Considered After the Extent of the Rate Increase Is Known.

While it is clear from the record that there is no need to discount the already discounted 5 cents/dth interruptible OSD rate, there is a question about whether discounting would be necessary if the rate were to be increased to match an increased RPA rate. SoCalGas witness Schwecke says: "If that maximum rate increases to match the embedded cost of the backbone transmission system, which SDG&E/SoCalGas believe is near 12 cents/Dth, the need for discounting will increase significantly." Ex. 3 at 11:6-7 (Schwecke/SoCalGas).

SCGC strongly doubts, that the RPA rate and, hence, the linked interruptible OSD rate, would go as high as Mr. Schwecke's projected 12 cents/dth. SCGC witness Yap submitted an analysis in the SoCalGas BCAP, A.08-02-001, that demonstrates that the SoCalGas analysis of the split between backbone and local transmission costs which results in Mr. Schwecke's 12 cents/dth (more precisely, 11.6 cents/dth) unbundled backbone transmission rate is deeply flawed.

The primary error as discussed in Ms. Yap's direct testimony is A.08-02-001 (Phase 2) is that SoCalGas/SDG&E use cold year thoughput to separate backbone costs between the backbone function and the local transmission function. As convincingly demonstrated by Ms. Yap in her BCAP testimony, the one-in 35 year core/1-in-10 year noncore peak date demand share of direct serve load is the appropriate factor to use in calculating the portion of the backbone system that is required to meet the local transmission function. Ex. 5, Att. B at 15:20-24 (Yap/SCGC). If the proper factor is used to separate backbone costs between the backbone and local transmission functions of the backbone system, the fully allocated unbundled backbone transmission rate drops from Mr. Schwecke's 11.63 cents/dth to 7.57 cents/dth. Ex. 5 at 7:15.

The supposed case for discounting the interruptible OSD rate drops substantially if the rate is 7.57 cents/dth instead of 11.63 cents/dth, given Mr. Schwecke's testimony that "PG&E's Gas Accord data shows that it had discounted to an average of about 5 to 8 cents/Dth… from 2006 to 2008." An interruptible OSD rate of 7.57 cents/dth would be within the 5 to 8 cents/dth of average discounts that Mr. Schwecke says have been offered by PG&E.

Given that, according to the testimony of SoCalGas witness Schwecke, a need for discounting is directly tied to the level of the rate which would be discounted, it appears to be premature to be addressing discounting any potentially increased interruptible OSD rate in this proceeding. If, as anticipated by Mr. Schwecke, there will be proposals in the upcoming 18 month FAR review that will commence in 2010 to increase the RPA rate from 5 cents/dth to some higher level, is very uncertain what that higher level might be. Given Ms. Yap's convincing testimony in the BCAP, A.08-02-001, SCGC seriously doubts that the RPA rate could be much higher than 7.57 cents/dth. Thus, it would seem to be appropriate to leave the discounting issue for a later case such as the next SoCalGas/SDG&E BCAP after gaining some certainty about whether the RPA rate and, hence, the interruptible OSD rate, will increase and, if so, by how much.

If, however, the Commission decides that it would prefer to establish a policy on discounting the interruptible OSD rate before knowing whether the interruptible OSD rate will be raised to a level that might lead to any need for discounting, then the Commission should in this case identify what would be the floor on the discounting, establish the criteria for discounting, and provide for posting of the discount as is done for discounts of the interruptible RPA rate.

a. If Discounting Is to Be Permitted if the Interruptible OSD Rate Is Increased Above 5 Cents/Dth, a 5 Cents/Dth Floor on Discounting Should Be Established.

As discussed above, parties to this case seem to agree that if there were to be discounting of the interruptible OSD rate, there should be a floor on the discounting. There is, however, disagreement about whether the floor should be set on the basis of SRMC as proposed by SoCalGas or SRMC plus LRMC as proposed by SCGC.

For the reasons discussed above, SCGC believes that both theory and Commission precedent firmly establish that the floor should be set on the basis of SRMC plus LRMC, which results in a discount floor of either 4.59 cents/dth or 6.24 cents/dth, depending upon whether Ms. Yap's BCAP approach or Mr. Schwecke's BCAP approach is utilized. Ex. 5 at 7 (Yap/SCGC).

The current 5 cents/dth OSD rate is just a little higher than Ms. Yap's 4.59 cents/dth, although it is well below the 6.24 cents/dth floor that would result from using Mr. Schwecke's BCAP methodology. Insofar as review of Ms. Yap's and Mr. Schwecke's BCAP testimony reveals the correctness of Ms. Yap's approach, SCGC proposes that the floor on discounting the interruptible OSD rate be set at the current 5 cents/dth, just a little above the 4.59 cents/dth for rate that is derived by Ms. Yap. A 5 cents/dth floor would be consistent with the testimony from, particularly, SoCalGas/SDG&E in this proceeding demonstrating that there is no need for any discounting below the 5 cents/dth level. Also, 5 cents/dth is consistent with the Commission's findings in D.06-12-031 that a rate of 5 cents/dth "will encourage off-system service…." D.06-12-031 at 117.

b. **If Discounting of the Interruptible OSD Rate is to Be Permitted, SoCalGas Should Establish Clear Guidelines for Determining a Discount and Should Specify Those Guidelines in its Tariff.**

If discounting the interruptible OSD rate is to be permitted, SoCalGas should establish clear guidelines for discounting and should set forth those guidelines in a provision in the SoCalGas tariff. Ms. Yap noted that "in each case that the Commission has approved discounted services, it has always established a clear set of guidelines that determined the extent of the discount." Ex. 4 at 13:3-5 (Yap/SCGC). Ms. Yap explained:

> For example, discounted contracts have been allowed for natural gas customers that were able to provide a clear alternative service option. In D.92-11-058, the Commission created an expedited review process for contracts between SoCalGas or PG&E and noncore customers who were considering bypass options available from an alternative pipeline. The Commission allowed contracts with rates below the tariff rate but above the utility's long run marginal cost for serving the customer. D.92-11-058, *192 Cal. PUC LEXIS 765; 46 CPUC2d 444* at *7. The utilities were required to provide proof that the customer would bypass the utility system absent a discounted rate. Discounted contracts were also allowed for electric customers that could establish the opportunity to bypass the system through self-generation projects. See, for example, D.90-12-128 *1990 Cal. PUC LEXIS 1416*. Either case, the utility had to provide clear proof of imminent bypass and proof that the discounted rate was sufficient to cover utility's long run marginal cost of serving the customer. The utility has been allowed to discount at a level that meets or slightly beats the customer's service alternative, provided that the resulting rate has been above the utility's long run marginal cost.

Ibid at 13:5-19.

SoCalGas/SDG&E apparently have in mind the parameters that should be used in discounting the interruptible OSD rate if the rate were to be raised substantially above the current 5 cents/dth level. They would base the discount on price spreads of gas prices at different locations: "SDG&E/SoCalGas would do the same thing that PG&E has done for years and set the price at the level that will maximize revenues from the off-system service given the prevailing market conditions—based primarily on the price spreads between different locations." Ex. 3 at 11:15-18 (Schwecke/SoCalGas).

If the RPA rate and, hence, the interruptible OSD rate were raised substantially and discounting were to be permitted, SoCalGas/SDG&E should be required to submit advice letters proposing provisions that would embed in their tariffs a detailed description of the parameters that would be used for providing a discount on the basis suggested in Ms. Schwecke's testimony. Further, SoCalGas/SDG&E should be required to provide a detailed report on no less than a quarterly basis identifying all discounts that have been provided on the basis of the criteria that will be established in its tariff. Details about the criteria for determining the standard discounts and the reporting should be presented in a compliance advice letter subject to the usual 20 days for protests.

c. **If SoCalGas Were to Be Permitted to Discount the Interruptible OSD Rate, the Discounts Should Be Made Available to All Prospective Shippers on a Non-Discriminatory Basis at Any Given Receipt Point.**

In addition to being subject to a floor and criteria for discounting, any discount of the interruptible OSD rate should be made available to all prospective customers on a non-discriminatory basis at any given receipt point. This would be consistent with the Schedule G-RPA Special Condition 72 that governs discounting of the G-RPAI rate for interruptible access service.

> In any given day in which the Utility posts a daily interruptible charge at a level below the G-RPAI rate, all interruptible service used by customers at the applicable particular Receipt Points during that day will be charged the reduced volumetric charge. No interruptible service shall be charged at a level below the G-RPAI rate without the rate first being posted. SoCalGas Schedule G-RPA, Special Condition 72.

Ex. 5 at 8:11-20 (Yap/SCGC).

SCGC's recommendation that interruptible OSD rate discounts be posted as are interruptible RPA rate discounts should be non-controversial. In his rebuttal testimony Mr. Schwecke agrees to posting interruptible OSD rate discounts in the same manner as SoCalGas posts interruptible RPA rate discounts:

> The only other potential concern is whether any such discounts are made available to all shippers using the off-system delivery service at the same receipt point on that day. However, SDG&E/SoCalGas believe that posting all interruptible off-system discounts each day, as is the current practice with interruptible FAR rights, and offering the same discount to other similarly-situated OSD shippers will ensure that any such discounts are provided on a non-discriminatory basis.

Ex. 3 at 11:23-28 (Schwecke/SoCalGas).

B. Rates for Firm OSD Service.

In addition to providing interruptible OSD service to all SoCalGas interconnections with upstream pipelines, SoCalGas proposes to provide firm service to those interconnection points. The major operational difference between interruptible OSD service and firm OSD service is that, unlike the interruptible service, firm service would "not rely on displacement of forward-haul gas…." Ex. 2 at 2:23 (Schwecke/SoCalGas). Accordingly, "facilities would need to be constructed so gas supplies could be physically delivered into the interconnecting pipeline system at the relevant point." *Ibid* at 2:24-25. Firm OSD service "would require capital investments and facility enhancements." *Ibid* at 3:1. The potential cost of the facilities that would be required to provide firm OSD service would be substantial:

Table 3: Facilities Cost Associated with Potential Firm OSD Services

	Delivered Volume	
Delivery Location	200 MMcfd	500 MMcfd
Wheeler Ridge	$22 million	$150 million
Kern River Station	$33 million	$$210 million
Kramer Junction	$47 million	$72 million

Ex. 4 at 8:5-8 (Yap/SCGC). The annual revenue requirement associated with the least expensive installment of facilities that would be needed to provide firm OSD service would be approximately $4 million per year. *Ibid* at 8:11-12.

1. SoCalGas/SDG&E Proposes a "Total Rate" for Firm OSD Service.

In its opening testimony, SoCalGas proposes to provide firm OSD services for a rate that is equal to a facilities charge plus a rate equal to the interruptible OSD rate, which in turn equals RPA charge. Mr. Schwecke says in his direct testimony: "SoCalGas would impose a total rate, which will be equal to the charge to fully recover the off-system facility costs plus the interruptible off-system delivery charge…." Ex. 2 at 7:2-3 (Schwecke/SoCalGas). Revenues recovered through the portion of the "total rate" which is "equal to the charge to fully recover the off-system facility costs" would flow to shareholders while revenues recovered through the "interruptible off-system delivery charge" component of the "total rate" would flow to ratepayers. Mr. Schwecke claims that having the "interruptible off-system delivery charge" component of the "total rate" flowing to shareholders would "ensure net benefits to SoCalGas ratepayers…." *Ibid* at 7:3-4.

a. SoCalGas/SDG&E Propose to Discount the "Interruptible Off-System Delivery Charge Component" of the "Total Rate" for Firm OSD Services.

Mr. Schwecke's claim that having what he calls "interruptible off-system delivery charge" component to the "total rate" would "ensure net benefits to SoCalGas ratepayers" is spurious. SoCalGas proposes to offer firm off-system service through an open season. *Ibid* at 5:29. In the open season, bidders would be permitted to submit bids as low as what Mr. Schwecke calls the "charge to fully recover the off-system facility costs." Mr. Schwecke testified as follows on cross-examination:

> Q: So what is to stop – let's assume Nevada Power is a bidder in your open season. What is to prevent Nevada Power coming in and saying you can discount all the way down to the cost of the facilities? So I would like a discount all the way down to the cost of the facilities?
>
> A: There is nothing that prevents a customer from bidding however they want to bid.

Tr. 2/110:14-21 (Schwecke/SoCalGas). Mr. Schwecke was asked: "How would SoCalGas propose to evaluate the reasonableness of that bid?" Mr. Schwecke answered: "I think we would have to look at what the market is but you would also have to look at the other bidders." Tr. 1/110:24-26. Mr. Schwecke was then asked: "What if the other bidders decided similarly that they would like to take advantage of the maximum discount?" Mr. Schwecke answered that "if all of the bidders bid the same price I would assume that is what the market is going to bear." Tr. 2/110:27-110:4 (Schwecke/SoCalGas).

b. The "Interruptible Off-System Delivery Charge Component" of the "Total Rate" for Firm OSD Service Could Be Discounted to SRMC.

When asked about whether there would be a floor on discounting the "interruptible off-system delivery charge" component of his proposed "total rate," Mr. Schwecke said that SoCalGas/SDG&E have not proposed a floor but that he could "see" that there should be a floor that would "at least" recover any "incremental short-run marginal cost of the facilities." Mr. Schwecke testified:

> I have not proposed necessarily a floor. But I can see where the floor should at least recover any incremental short-run marginal cost at the facilities that we add and would have to recover, such as compressor fuel, something like that, if we install a compressor.

Tr. 2/111:24-28. This floor rate based on SRMC would be billed as a volumetric or usage charge rather than as a reservation charge:

> Q: So the short-run marginal cost would change, and that presumably would be billed on a usage charge basis or would be included in the reservations charge fee:
>
> A: Typically what you'd look at is on a usage charge basis, since it is variable in the nature on how much is actually used.
>
> Q: What the customer said he would provide the fuel in kind then there would be no usage charge, correct?
>
> A: That – to me that is a usage charge.

Tr. 2/113:10-20.

c. SoCalGas/SDG&E's Proposal for Discounting the Firm OSD Rate Would Permit a Firm OSD Shipper to Avoid Making a Contribution to Covering the Cost of the Existing Backbone System.

SoCalGas/SDG&E's proposal for discounting the firm OSD "total rate" down to the facilities-related component of the rate plus perhaps SRMC to cover fuel costs would result in a firm OSD shipper being able to avoid making any contribution to covering the cost of the existing backbone transmission system.

It defies reason to imagine that any bidder in the SoCalGas open season for all system services would bid anything above the facilities charge plus a volumetric usage charge to cover fuel costs. That would leave *nothing* to offset the cost of the existing backbone transmission system that would be borne by SoCalGas ratepayers even though Mr. Schwecke claimed in his opening testimony that the "total rate" charge for a firm OSD service would include a component to "ensure net benefits to SoCalGas ratepayers…." There would be no assurance of any net benefits to existing ratepayers.

It would be unjust and unreasonable for a firm OSD shipper to avoid making any contribution to covering the cost of the existing backbone system. As the Commission made clear in D.06-12-031, but for the existence of the existing system, off-system deliveries could not occur, regardless of whether the deliveries were made on a firm uninterruptible basis. D.06-12-031 at 117. Although some incremental facilities may have to be added to the existing system in order to make firm service possible, no off-system service would be possible without the existence of the underlying backbone system to which the incremental facilities would be added.

Mr. Schwecke's proposal for "total rate" that would be discountable down to the level of a facilities charge that would cover the cost of incremental facilities plus a usage charge to cover actually incurred out-of-pocket costs should be categorically rejected.

2. SCGC Witness Yap Proposes a Firm OSD Charge that Would Assure Recovering the Full Cost of Incremental Facilities Plus Out-of-Pocket Costs and a Contribution to Covering the Cost of Existing Backbone Facilities.

SCGC witness Yap proposes an alternative design for the firm OSD rate that would recover the full cost of any incremental facilities that SoCalGas may need to add in order to provide firm service plus any out-of-pocket costs (primarily, fuel costs) while also making a contribution to covering the cost of the underlying backbone transmission system. Ms. Yap proposes that the firm OSD rate "have two explicit rate components, the monthly facilities charge and the delivery charge." Ex. 4 at 7:22-23 (Yap/SCGC). The revenue requirement associated with any new facilities that would be needed to provide the firm OSD service to a customer would be recovered from the OSD customer through the monthly facilities charge which would be billed as a reservation charge based on the full amount of firm OSD capacity that was provided to the customer. *Ibid* at 7:25-8:2.

The second charge which Ms. Yap calls a "delivery charge" would be set to equal the interruptible OSD charge, currently 5 cents/dth. *Ibid* at 8:16-17. Like the facilities charge, the delivery charge for firm OSD service would be collected on a reservation charge basis. However, in the unlikely event that an OSD customer that was paying the firm facilities charge were willing to take interruptible service, the delivery charge would be billed on a volumetric basis. Tr. 16-19. Although it would be likely that any customer that pays the facilities charge would want interruptible service, Ms. Yap thought that the firm service customer should be permitted the option to take interruptible service and, in turn, pay the volumetric OSD charge because "the customer should be allowed to make a choice on the basis of its own needs." *Ibid* at 8:22-24.

a. Neither the Facilities Charge nor the Delivery Charge that Would Be Billed to Firm OSD Shippers Should Be Discountable.

Neither the facilities charge nor the delivery charge for firm service should be discountable. Ms. Yap explained:

> Neither the G-RPA1 nor the G-RPA2 rates for the firm access service are discountable under Schedule G-RPA. That policy should be followed for firm OSD service. Neither the firm OSD charge nor the firm incremental facilities charge, if any, that I discussed in my direct testimony should be discountable.

Ex. 5 at 8:25-9:2.

b. If Discounting Firm OSD Charges Were Permitted, Only the Facilities Charge Should Be Discountable with SoCalGas/SDG&E Shareholders Bearing any Resulting Cost Recovery Shortfall.

If some discounting of the firm OSD charges were to be permitted, SoCalGas/SDG&E should be permitted to discount only the facilities charge with the shareholders bearing the full impact of any discount. Ms. Yap explained:

> If any discounting of the firm OSD rate were to be allowed, discounting should be limited to the OSD incremental facilities charge that is designed to cover the cost of any incremental facilities that may be required for SoCalGas to provide firm OSD service at a given receipt point. Additionally, discounting of the incremental facilities charge should be permitted only if the SoCalGas shareholders absorb the full impact of the discount. This is consistent with established Commission policies regarding

> incremental rate treatment for expansion facilities that are constructed as the result of an open season process. D.97-08-055, slip op. at 29.

Ibid at 9:3-9. Discounting the facilities charge with shareholders absorbing the full impact of the discount and with no discounting of the delivery charge would assure that the provision of firm OSD service would result in a contribution to covering the costs of the existing backbone facilities without which it would be impossible to provide the firm OSD service and would ensure benefits to existing SoCalGas/SDG&E ratepayers.

C. The FERC Methodology Should Be Used to Determine Whether It Would Be Appropriate to Roll-In the Cost of Incremental Facilities that Are Added to the SoCalGas System in Order to Provide Firm OSD Service.

Given the high cost of the facilities that would have to be added to the SoCalGas system in order for SoCalGas to provide firm OSD service, it is unlikely that rolling-in the cost of the facilities would provide benefits to on-system customers. SCGC witness Yap proposed that the Commission use the "time-tested method" that the Federal Energy Regulatory Commission ("FERC") uses to test whether rolling-in the cost of incremental facilities would be appropriate. Ms. Yap summarized the FERC methodology as follows:

> The FERC method requires an applicant to calculate the rate for each of its rate schedules under the scenario in which a capital addition is rolled into rates. Attachment E: FERC Policy Order 71FERC¶61, 241 (May 31, 1995) at 7. Then, for each rate schedule, the rolled-in rates are compared with existing rates, and the percentage change is calculated. If the percentage change is negative, FERC would permit roll-in. Additionally, if the percentage change were positive up to 5 percent, FERC would permit roll-in only if the addition would provide demonstrated significant system benefits. *Id*. at 6-7.

Ex. 4 at 10:6-12.

It appears that there is a consensus among the parties to recommend that the Commission adopt the FERC methodology. SoCalGas witness Schwecke says in his rebuttal testimony:

"SDG&E/SoCalGas agree with SCGC about the FERC rolled-in rate test." Ex. 3 at 9:11 (Schwecke/SoCalGas).

III. TERMS AND CONDITIONS OF SERVICE.

Two issues have arisen regarding the terms and conditions of providing OSD service. One issue involves imbalances that may arise as a result of provision of the service. The other involves the potential for off-system deliveries to jeopardize reliability of service on the Southern System. From the record in this proceeding as developed through the process of opening testimony, rebuttal testimony, and cross-examination, it appears that the consensus may have developed about how to address these two operational issues.

A. Inadvertent Shipper Imbalances.

SoCalGas witness Schwecke explained that when SoCalGas provides OSD service, "minor inadvertent imbalances can be created as a result of the simultaneous confirmation and scheduling processes that occur between SoCalGas and the interconnecting pipelines…." Ex. 2 at 14:20-21. Mr. Schwecke explained how these "minor advertent imbalances" occur:

> These imbalances may occur after SoCalGas has provided to the interconnecting pipeline a confirmation volume to be delivered to them on behalf of the off-system customers, and then during the overall scheduling process, a different (lower) volume is scheduled by the upstream interconnecting pipeline into the off-system contract creating a negative Shipper Imbalance.

Ibid at 14:21-25. Mr. Schwecke explained that these imbalances "typically occur in the last nomination cycle of the day when no additional nomination opportunity exists to correct the difference." *Ibid* at 14:29-30. When an imbalance occurs after the last nomination cycle of the day, "there are no more cycles left to correct this imbalance between the pipelines." *Ibid* at 15:2-3.

In his opening testimony, Mr. Schwecke proposed to allow a customer ten calendar days to clear the imbalance before the imbalance would be "resolved in accordance with the terms of Schedule No. IMB." *Ibid* at 15:11-13.

An OSD customer should not be allowed as long as ten calendar days to cure an imbalance. That would place an undue burden on the system and other rate payers:

> Allowing an OSD customer up to ten days to resolve its interday imbalance creates an undue burden on system resources. The OSD customer is not paying for system balancing inventory in its rates. SoCalGas' proposal would allow the OSD customer to lean on system resources without paying for the services.

Ex. 4 at 16:22-25 (Yap/SCGC).

In order to mitigate the imbalance problem, Ms. Yap recommends that the Commission "recognize that the interday imbalance problem is created because the OSD customer is allowed to nominate directly to OSD service and not through a pool or storage account." Ex. 4 at 16:26-28 (Yap/SCGC). She recommends: "First, eliminate the opportunity for OSD customers to nominate directly from an ROA account to OSD service and instead require these customers to nominate initially to a pool or storage account." *Ibid* at 17:10-12.

In his rebuttal testimony, Mr. Schwecke recognizes that Ms. Yap's proposal "may lower the potential for shipper imbalances," although "such balances would not completely disappear…." Ex. 3 at 6:5-6 (Schwecke/SoCalGas). In order to implement Ms. Yap's recommendation, Mr. Schwecke says that SoCalGas would be willing to revise its Schedule G-RPA:

> Q: Okay. Would SoCalGas be willing to revise the Schedule G-RPA so that direct nominations would no longer be permitted from a G-RPA account to an OSD account? In which case in [order] to take advantage of OSD services a G-RPA customer would have to nominate to a pool account or storage account before there would be a nomination to the OSD account?

> A: I would have to say yes. That was my original testimony in the case.

Tr. 2/78:21-79:1 (Schwecke/SoCalGas).

Mr. Schwecke also says that "SDG&E/SoCalGas would be amenable to shortening the period" from 10 days to some shorter period for OSD shippers to cure imbalances. Ex. 3 at 7:24-25. On cross-examination, Mr. Schwecke said that two or three business days would be reasonable:

> Q: So two or three business days would be reasonable given that this is going to occur quite infrequently and going to be a small amount?
>
> A: Yeah. I could see that being a reasonable period, as long as you are talking about business days because of holidays and weekends.

Tr. 2/83:13-18 (Schwecke/SoCalGas). Mr. Schwecke's proposal to shorten the period for carrying an OSD shipper imbalance from ten calendar days to three business days appears to be reasonable to SCGC.

Given Mr. Schwecke's agreement to revise SoCalGas Schedule G-RPA to eliminate nominations directly to an OSD account from an RPA account, thereby substantially reducing the chances that the "minor inadvertent" OSD imbalances would occur, SCGC agrees with Mr. Schwecke's "two or three business days" as the period for which an OSD shipper would be permitted to carry an imbalance before Schedule G-IMB provisions are invoked to eliminate the imbalance. In SCGC's view, that should resolve the issue about OSD shipper imbalances.

B. The SoCalGas Tariff Should Provide Explicitly that OSD Services Will Be Curtailed Whenever Providing Such Service Would Cause SoCalGas to Purchase Supplies in Order to Maintain Minimum Flows and System Reliability.

SoCalGas/SDG&E witness Schwecke recognized that providing OSD service at, particularly, the Ehrenberg (Blythe) interconnection with El Paso on the SoCalGas Southern

System could jeopardize system reliability, requiring SoCalGas to purchase supplies in order to maintain minimum flows. In his opening testimony, Mr. Schwecke said: "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 flow in supply requirement." Ex. 2 at 7:22-25 (Schwecke/SoCalGas).

Ms. Yap said in response that "the Commission should explicitly require SoCalGas' tariffs to state explicitly that OSD services would be curtailed if providing those services would create or worsen minimum flow conditions on the system or impose other operational costs to on-system customers." Ex. 4 at 15:5-7 (Yap/SCGC).

On cross-examination, Mr. Schwecke was asked whether SoCalGas would be willing to include either in its revised Schedule G-OSD or its new Rule 41 a provision obligating SoCalGas not to confirm OSD service that would result in SoCalGas having to purchase supplies to maintain, particularly, Southern System reliability. Tr. 2/85:24-86:5. Mr. Schwecke testified:

> A: No. I think we look at what the physical flows are on a given day. We would not schedule, or confirm, excuse me, OSD service and then turn around and purchase supplies to meet t hat confirmation.
>
> Q: Would SoCalGas be willing to include either in G-OSD as it might be revised, or your new Rule 41 that is going to be coming shortly in the BCAP, would you agree to revising the tariff in one of these places, or maybe a different place but revising the tariff so as to make that obligation clear?
>
> A: Yeah, we would be comfortable with doing that.

Tr.2/85:24-86 (Schwecke/SoCalGas). Thus, it appears there is a consensus that if SoCalGas is permitted to provide OSD service to a new connections with pipelines other than PG&E, SoCalGas will revise either Schedule G-OSD or its new Rule 41 to explicitly prevent confirmation or OSD service that would result in purchasing supplies to maintain minimum flow requirements.

IV. CONCLUSION.

For the reasons set forth above, SCGC respectfully requests that the Commission reject SoCalGas/SDG&E's proposal to expand OSD service to interconnections with pipelines other than PG&E. If, however, the Commission elects to approve expanded OSD service, SCGC urges the Commission to adopt the recommendations set forth in this brief and in the foregoing Summary of Recommendations.

Respectfully submitted,

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Attorney for the **SOUTHERN CALIFORNIA GENERATION COALITION**

Dated: December 4, 2009

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the **SOUTHERN CALIFORNIA GENERATION COALITION OPENING BRIEF** on all parties of record in A.08-06-006 by serving a copy to each party by electronic mail, or by mailing a properly addressed copy by first-class mail with postage prepaid to each party unable to accept service by electronic mail.

Executed on December 4, 2009, at Los Angeles, California.

/s/ Sylvia Cantos

Sylvia Cantos

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