FILED
12-18-09
04:59 PM

**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
REPLY BRIEF**

Norman A. Pedersen, Esq.
HANNA AND MORTON LLP
444 South Flower Street, Suite 1500
Los Angeles, California 90071-2916
Telephone: (213) 430-2510
Facsimile: (213) 623-3379
E-mail: npedersen@hanmor.com

Attorney for the **SOUTHERN CALIFORNIA GENERATION COALITION**

Dated: December 18, 2009

TABLE OF CONTENTS

SUMMARY OF RECOMMENDATIONS

For the reasons set forth in SCGC's opening and reply briefs in this proceeding, SCGC recommends that the Commission adopt the following recommendations in this proceeding:

- 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 in SCGC's opening and reply briefs in this proceeding.

- 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.

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 REPLY BRIEF

In accordance with Rule 14.11 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 submits this reply to opening briefs that the Southern California Gas Company ("SoCalGas") and San Diego Gas & Electric Company ("SDG&E"), the Southern California Edison Company ("SCE"), the Division of Ratepayer Advocates ("DRA"), and the Indicated Producers filed on December 4, 2009 in the captioned proceeding.

SCGC anticipatorily responded in its opening brief to many of the points raised in the opening briefs of, particularly, SoCalGas/SDG&E and SCE, especially on the issue of whether expanded off-system delivery ("OSD") service by SoCalGas/SDG&E should be approved. SCGC does not respond further herein to points that were anticipatorily rebutted in SCGC's opening brief. This brief addresses, primarily, issues raised in the opening briefs of other parties on the rates and the terms and conditions for expanded OSD service, assuming that an expansion of OSD service were approved by the Commission.

Overall, the opening briefs of other parties have not presented any facts or arguments which convince SCGC to change any of the recommendations it made in its opening brief. Thus, SCGC's recommendations as set forth in the preceding Summary of Recommendations are the same as those in SCGC's opening brief.

SCGC's response to selected points raised in the opening briefs of other parties is as follows:

I. SOCALGAS/SDG&E FAIL TO JUSTIFY THEIR RATE PROPOSALS FOR INTERRUPTIBLE AND FIRM OSD SERVICE.

Although the rates for interruptible and firm OSD service are a central issue in this proceeding, SoCalGas/SDG&E devote just a little over two pages of their 21 page opening brief to the issue, apparently preferring to address rate-related issues in their reply brief.

A. The Rate for Interruptible OSD Service.

SoCalGas/SDG&E propose that the rate for interruptible OSD service be set "equal to the FAR charge, currently 5 cents/dth" but be discountable to the level of short-run marginal costs ("SRMC"), 1.5 cents/dth "until a more complete BCAP study demonstrates that the actual short-run marginal cost is lower." SoCalGas/SDG&E at 14-15.

In proposing discounting to the 1.5 cents/dth level, SoCalGas/SDG&E completely ignore the fact that the 5 cents/dth rate that they propose as the maximum rate for interruptible OSD service is *already* discounted below whatever might ultimately be found to be the cost of the SoCalGas/SDG&E backbone transmission system. Likewise, SoCalGas/SDG&E ignore the testimony of their own witness Schwecke that Pacific Gas and Electric Company ("PG&E"), has only "discounted to an average of about 5 to 8 cents/dth…." Ex. 3 at 11 (SoCalGas/Schwecke).

Lastly, SoCalGas/SDG&E ignore Commission policy establishing that a discounted rate should take into account long-run marginal costs ("LRMC") as well as SRMC, as explained by

SCGC witness Yap. Ex. 5 at 6-7 (Yap/SCGC). SoCalGas' LRMC for backbone transmission service reflects primarily fixed O&M and A&G expense insofar as SoCalGas does not project expansions of the backbone transmission system. Tr. 2/119 (Schwecke/SoCalGas). Any customer that takes advantage of service provided through the backbone transmission system should certainly cover some portion of associated O&M and A&G expenses even if it could be argued that the OSD customer should not be responsible for any expansion costs. But for the existence of the backbone system, no OSD service would be possible.

Discounting down to 1.5 cents/dth should not be permitted. For the reasons discussed in SCGC's opening brief, SoCalGas/SDG&E should not be permitted to discount the rate for interruptible OSD service below 5 cents/dth.

B. The Rate for Firm OSD Service.

SoCalGas/SDG&E propose a rate for firm OSD service that would "include a fix 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." SoCalGas/SDG&E at 15. The firm OSD rate "would also include an amount up to the interruptible off-system charge…." *Ibid* at 16. SoCalGas/SDG&E claim that charging the "amount up to the interruptible off-system charge" would "ensure that existing ratepayers would likely benefit from reduced rates arising from the provision of any such firm OSD services…." *Ibid*.

The assurance that "existing ratepayers would likely benefit" from SoCalGas/SDG&E's proposed charge for firm service is completely spurious. First, SoCalGas/SDG&E propose that they be permitted to charge the "amount up to the interruptible off-system charge" on a volumetric basis rather than reservation charge basis. Second, they propose to discount the "amount up to the interruptible off-system charge" to the SRMC level. Charging the "amount up to the interruptible off-system charge" on volumetric basis and then discounting the charge to

SRMC would leave *nothing* to cover the cost of the existing backbone transmission system. Existing ratepayers who bear the cost of the existing system would realize *no* benefit from the provision of the firm OSD service.

C. Summary.

SoCalGas should not be permitted to discount the already-discounted 5 cents/dth rate for interruptible OSD service, and SoCalGas should not be permitted to provide firm OSD service for "an amount up to the interruptible off-system charge" that would be billed on a volumetric basis with discounting to SRMC. All of the charge for firm service including the "amount up to the interruptible off-system charge" should be billed on a reservation charge basis unless OSD customer that is paying for new facilities is comfortable for taking interruptible OSD service, and the "amount up to the interruptible off-system charge" should not be discountable. If there is to be any discounting of the rate for firm OSD service at all, it is the facilities charge component that should be subject to discounting.

II. LIKE SOCALGAS/SDG&E, SCE PROPOSES DISCOUNTING THAT WOULD BE TOO DEEP AND PROPOSES AN INAPPROPRIATE CHARGE FOR FIRM SERVICE.

SCE joins SoCalGas/SDG&E in urging that the interruptible OSD charge be discountable to SRMC. SCE proposes, further, that the SRMC-based floor be adjusted as gas prices fluctuate, although SCE fails to propose any mechanism for adjusting the discount floor "as gas prices fluctuate." SCE at 6. As SCGC explained in response to SoCalGas/SDG&E, discounting to SRMC would be too deep. Thus, like the SoCalGas/SDG&E discounting proposal, the SCE proposal for discounting the interruptible OSD charge should be rejected.

Regarding firm OSD service, SCE again joins SoCalGas/SDG&E. SCE argues that firm service customers be permitted to pay a fixed facilities charge on a reservation charge basis and pay what SoCalGas/SDG&E call the "amount up to the interruptible off-system charge" on a volumetric basis with discounting to a floor of SRMC. As explained above, a customer that is paying for new facilities should be permitted to pay the "amount up to the interruptible off-system charge" on a volumetric basis only if the customer were comfortable with taking interruptible OSD service, and no discounting of the firm charge should be permitted unless SoCalGas/SDG&E volunteer to discount the facilities charge component.

SCE proposes, additionally, that any Southern System OSD revenue should be credited to the SoCalGas System Reliability Memorandum Account ("SRMA") rather than the Intrastate Transmission Balancing Account ("ITBA"). SCGC does not object to this SCE proposal.

III. SCGC CONCURS WITH THE INDICATED PRODUCERS' POSTING AND DEFINITION PROPOSALS.

The Indicated Producers propose that SoCalGas be required to post discounted transactions with affiliates. Indicated Producers at 11. Additionally, the Independent Producers propose that SoCalGas/SDG&E be required to define "similarly situated" shippers to be those using a given receipt point on a given day. *Ibid* at 12. SCGC supports Indicated Producers' proposals for the reasons given by the Indicated Producers.

IV. THE DRA'S PROPOSED FLOOR AND CEILING FOR THE INTERRUPTIBLE OSD RATE ARE UNSUPPORTED BY THE EVIDENTIARY RECORD IN THIS PROCEEDING.

DRA proposes that SoCalGas/SDG&E be permitted to discount the rate for interruptible OSD service to a floor covering the cost of fuel plus incremental O&M and A&G expense, including the cost of adapting the SoCalGas/SDG&E Envoy System to providing expanded OSD service. DRA at 6. DRA proposes that the ceiling on the interruptible OSD rate be set at 25 cents/dth.

There is no evidence to support DRA's proposed floor and ceiling. DRA's proposals appeared for the first time in DRA's opening brief. Particularly, DRA's proposed cap of 25 cents/dth appears to be pulled out of a hat with no factual basis whatsoever. DRA's proposal should be rejected for lack of evidentiary support without prejudice to resubmission in some later proceeding.

V. CONCLUSION.

For the reasons set forth above and SCGC's opening brief, SCGC urges the Commission to adopt SCGC's recommendations as set forth in the foregoing summary of recommendations.

Respectfully submitted,

/s/ Norman A. Pedersen

Norman A. Pedersen, Esq.
HANNA AND MORTON LLP
444 South Flower Street, Suite 1500
Los Angeles, California 90071-2916
Telephone: (213) 430-2510
Facsimile: (213) 623-3379
E-mail: *npedersen@hanmor.com*

Attorney for the **SOUTHERN CALIFORNIA GENERATION COALITION**

Dated: December 18, 2009

<u>**CERTIFICATE OF SERVICE**</u>

I hereby certify that I have this day served a copy of the **SOUTHERN CALIFORNIA GENERATION COALITION REPLY 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 18, 2009, at Los Angeles, California.

/s/ Sylvia Cantos

____

Sylvia Cantos

SERVICE LIST – A.08-06-006

alf@cpuc.ca.gov
bjeider@ci.burbank.ca.us
Brad.Burton@questar.com
case.admin@sce.com
cem@newsdata.com
ceyap@earthlink.net
cfpena@sempra.com
chilen@NVEnergy.com
dave.andersen@questar.com
dgilmore@sempra.com
Diane_Fellman@fpl.com
dil@cpuc.ca.gov
douglas.porter@sce.com
douglass@energyattorney.com
ek@a-klaw.com
eklinkner@cityofpasadena.net
epoole@adplaw.com
filings@a-klaw.com
gaylen.haag@questar.com
gdehart@anaheim.net
glw@eslawfirm.com
hanslaetz@gmail.com
jarmstrong@goodinmacbride.com
jdh@eslawfirm.com
jgreene@jsslaw.com
jleslie@luce.com
JLsalazar@semprautilities.com
jmgarber@iid.com
jsw@cpuc.ca.gov
karilee.ramaley@srpnet.com
kdaly@stinson.com
kenneth.nordlander@aps.com
kirby.bosley@jpmorgan.com
kkloberdanz@semprautilities.com
klatt@energyattorney.com
klesser@aqmd.gov
kwiese@aqmd.gov
laurie.brown@kernrivergas.com
liddell@energyattorney.com
Lori-Lynn.Pennock@srpnet.com
marcie.milner@shell.com
mark.minich@elpaso.com
mday@goodinmacbride.com
mecampbell@iid.com
mflorio@turn.org
michael.alexander@sce.com
mrw@mrwassoc.com
npedersen@hanmor.com
psp@cpuc.ca.gov
ram@cpuc.ca.gov
rmorillo@ci.burbank.ca.us
robert.pettinato@ladwp.com
rzhang@cityofpasadena.net
sas@a-klaw.com
scantos@hanmor.com
sendo@ci.pasadena.ca.us
shelley.corman@energytransfer.com
shemeika.landry@energytransfer.com
slehecka@hanmor.com
slins@ci.glendale.ca.us
sls@a-klaw.com
ssciortino@anaheim.net
steve.koerner@elpaso.com
tristan.reyesclose@sce.com
wbooth@booth-law.com
william.tomlinson@elpaso.com
william.tomlinson@elpaso.com
wmc@a-klaw.com
wrapp@sempra.com
wtobin@sempraglobal.com