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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION **RESOLUTION G-3466**
April 19, 2012

R E S O L U T I O N

Resolution G-3466. Pacific Gas and Electric Company (PG&E) seeks to modify Rule No. 21 in its gas tariff to allow eligible customers to adjust prior scheduled gas quantities after the last nomination cycle of a gas day ends, subject to certain conditions.

PROPOSED OUTCOME: PG&E's proposal is approved.

ESTIMATED COST: None.

By Advice Letter (AL) 3240-G filed on October 4, 2011.

SUMMARY

In this advice letter, PG&E requests authorization to provide eligible customers with additional gas scheduling flexibility so they can respond to simultaneous High and Low Inventory Operational Flow Orders (OFOs). [1] **PG&E's request is approved.** PG&E issues OFOs when the utility forecasts that the inventory of gas in its pipelines will not be at an acceptable level. An OFO instructs customers to balance their gas usage and deliveries. In response, customers may change the quantity of gas they previously scheduled to deliver to the utility, subject to the provisions of PG&E's tariffs. Customers failing to observe an OFO are subject to noncompliance charges.

Gill Ranch Storage, LLC (GRS), Lodi Gas Storage, LLC (LGS), and Wild Goose Storage LLC (WGS), who provide service as Independent Storage Providers (ISPs), protested the advice letter on grounds that it could result in additional

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[1] A simultaneous High and Low Inventory OFO specifies a high inventory tolerance band and a low inventory tolerance band at the same time within which customers are to balance their gas usage and deliveries. Ordinarily OFOs are issued which only have a high or low tolerance band.

costs to them. However, we find that their concerns are not well founded because PG&E's proposal does not compel ISPs to provide the service and ISPs can decide, if consistent with their tariffs, not to make the gas scheduling changes if they find it problematic.

The protests of GRS, LGS, and WGS are denied.

BACKGROUND

To provide reliable service, PG&E manages its gas operations with the objective of equating (or "balancing") the quantity of gas it receives into its pipelines with the quantity of gas it delivers to its end users or is sent either into storage or off-system. If PG&E forecasts that gas receipts and deliveries will not be in balance, the utility may issue an OFO.[2] An OFO directs customers to adjust their gas deliveries, storage supplies or usage so that the inventory of gas in PG&E's pipeline is balanced or within an acceptable range. In response to an OFO, a customer may need to change the quantity of gas it previously scheduled to deliver to PG&E, inject into storage, or send off-system. Gas scheduling changes can be done during designated times, called nomination cycles, published in Gas Rule No. 21. PG&E's tariffs also specify that customers are subject to noncompliance charges for failing to observe an OFO.

In AL 3240-G, PG&E seeks to modify Gas Rule No. 21 and provide customers with an opportunity to adjust previously scheduled (or "nominated") gas quantities after the last nomination cycle of the gas day ends, subject to certain conditions.[3] This adjustability would only be available when a simultaneous High and Low Inventory OFO is issued by the utility. This adjustability (also referred to as a "program") would be provided on a first-come, first-served basis. PG&E would process up to three requests per day unless more requests can be accommodated. Only customers with contractual storage injection/withdrawal

[2] *See* PG&E Gas Rule No. 14.

[3] Currently, 3:00 p.m. is the deadline for customers to request gas scheduling changes on gas day. Gas day is the day gas is scheduled to flow. Under PG&E's proposal, gas scheduling changes could be made up to 8:00 p.m. on gas day, subject to the specified conditions.

rights or parking/lending capability can use the service.[4] Nomination adjustment requests would be subject to PG&E's operational ability to deliver or accept the quantity requested within the remaining hours of the flow day. ISPs participating in the program will be treated by PG&E on a comparable basis with PG&E's storage facilities to the extent an ISP can provide the equivalent service.

PG&E also explained that the proposed service, which it described as a "manual modification adjustment to a customer's Intraday 2 Cycle scheduled delivery quantity", does not constitute a new nomination cycle and that customer requests will be processed manually without the need for computer modifications or hiring more staff.[5] The utility will file an AL requesting termination of the service when it is no longer useful to customers.

PG&E said the need for the gas scheduling flexibility to customers arose when the utility issued simultaneous High and Low Inventory OFOs due to its Maximum Allowable Operating Pressure (MAOP) validation efforts to test the integrity of its transmission pipelines. The possibility that the utility will issue the OFOs in the future has subsided since the AL was filed. This is because the utility restored pressure in several key pipelines after the tests were administered. However, PG&E's testing program is under review by the Commission and the testing for the entire system is not expected to end until the fall of 2013. [6] The AL was filed in response to customer concerns about difficulties reacting to simultaneous High and Low Inventory OFOs issued late in the gas day. These difficulties were mostly experienced by gas suppliers to electric generators when unexpectedly high electricity demand and

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[4] If a customer did not hold storage or parking/lending capability, it would need to adjust its directly delivered supplies. PG&E explained to the Energy Division that it was proposing to require participating customers to have storage or parking/lending capability only because of complications in coordinating the service with interstate pipelines, which are regulated by the Federal Energy Regulatory Commission.

[5] An Intraday 2 Nomination is a nomination received after 8:00 a.m. and no later than 3:00 p.m. on the gas day for which service is requested by the Customer. Intraday 2 Nominations will be effective at 7:00 p.m. the same day of the request. PG&E maintains four nomination cycles on gas day. (*see* PG&E Gas Rule No. 21)

[6] PG&E issued simultaneous High and Low Inventory OFOs to maintain adequate pipeline operating pressure in connection with its MAOP validation program. On December 1, 2011, PG&E increased the operating pressure on several key pipelines and ceased issuing these types of OFOs. However, the MAOP validation program is expected to continue until the fall of 2013 and the Commission is reviewing PG&E's pipeline testing practices in Rulemaking (R.) 11-02-019.

corresponding gas usage increase did not coincide with PG&E's gas day nomination cycles.

NOTICE

Notice of PG&E AL 3240-G was made by publication in the Commission's Daily Calendar. PG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section IV of General Order 96-B.

PROTESTS

On October 24, 2011, Gill Ranch Storage, LLC (GRS), Lodi Gas Storage, LLC (LGS), and Wild Goose Storage LLC (WGS) each protested the AL. The protestants are all Independent Storage Providers (ISPs) directly connected to PG&E's pipeline system. Their protests are described below.

GRS protest
GRS is not opposed to providing customers with additional gas scheduling flexibility and intends to be a participating ISP. However, it advised PG&E to continue considering other options (e.g., PG&E procure storage from ISPs) in the event that the new service is ineffective.

LGS protest
LGS asserted that it may be unable to recover the costs of hiring more workers and making operational changes needed to accommodate late gas day scheduling changes. The protestant also alleged that PG&E's service will be subsidized by core customers by using idle core storage capacity. If ISP storage is used, LGS believed that PG&E will get free use of the ISP's assets unless PG&E procures storage capacity from the ISPs. LGS's other issues were about how PG&E will end the service, ISP and PG&E coordination to implement the service, and the rationale for the three request per day limitation. LGS also noted that PG&E did not say that its proposal is needed for pipeline safety.

WGS protest
WGS disagreed that the service is voluntary for ISPs and claimed that ISPs must honor gas scheduling requests from customers that just hold ISP storage capacity. WGS suggested that instead of this proposal, PG&E could restrict the service to customers holding PG&E storage capacity exclusively. Additionally, the protestant said it may incur costs in order to provide the service and may

have to set aside storage assets that later go unused. The service might also affect the ISP's gas injection and withdrawal rates for other customers. If PG&E's proposal is approved, WGS requested that it go into effect 120 days after the approval date so that ISPs can make any necessary operational adjustments and tariff changes.

On October 31, 2011, PG&E replied to the protests. As a general response, PG&E emphasized that ISP participation in the program is optional and that its proposal should not be denied just because the ISPs do not want to commit resources needed to afford customers additional gas scheduling flexibility.

Reply to GRS
PG&E said that there was no need to consider alternatives because PG&E believes that the pipeline conditions causing simultaneous High and Low Inventory OFOs are a short-term phenomenon.

Reply to LGS
PG&E said that the ISP's claim about cross-subsidization indicated that LGS misunderstands PG&E's proposal. The proposal simply allows customers to nominate on an existing or new storage, parking or lending agreement after 3:00 p.m., when the normal nomination cycles have ended. PG&E rejected LGS's recommendation that it purchase ISP storage for the service because end-users are responsible to balance their gas supplies and usage. On the three request limitation, PG&E asserted that it imposed the limitation to avoid creating a new gas day nomination cycle to address temporary operating conditions. To end the service, PG&E said its termination request would be filed in a Tier II AL, which would be subject to protest.

Reply to WGS
PG&E said that the ISP can decide not to participate in the program if it believes that its operations will be impacted. Regarding the set aside of storage assets and potential injection/withdrawal rate problems, PG&E explained that the service is subject to the Elapsed Prorated Scheduled Quantity (EPSQ) limitation. The EPSQ limits changes in nominations to the proportion of the gas day that has already elapsed.[7] (Thus, as the gas day proceeds, the possible changes to earlier

[7] PG&E Gas Rule No. 21, B3b.

nominations become smaller. The operational impact on WGS should be minimal relative to what it would already experience.) Furthermore, PG&E believed that WGS would not be required to provide customers with inordinately high hourly gas flow rates.

DISCUSSION

We approve PG&E's proposal based upon our assessment of the protestant's arguments and in consideration of its benefit to the utility's customers. PG&E seeks to provide eligible customers with additional gas scheduling flexibility so they can respond to the designated OFOs. The protestants raised concerns about the impact of PG&E's proposal on their operations and related items. Our analysis of this matter is provided below.

Since the participation by independent storage providers in the program is voluntary, they can decide, if consistent with their tariffs, whether to participate in the program based upon their own assessment of the service's impacts and any further analysis of this issue on our part is unnecessary. LGS and WGS claimed that they will incur labor and other costs in order to make late gas day scheduling changes. The ISPs also asserted that the service could interfere with their operations. Furthermore, WGS believed that ISPs must offer the service to their customers lacking access to PG&E storage. In response, PG&E maintained that the service is voluntary for ISPs and that they could avoid incurring these costs by electing not to participate in the program. Additionally, the utility said that the application of the EPSQ limitation, which limits the quantity of gas that can be subject to a scheduling change on gas day, addresses the ISP's concerns about operational problems.

It seems plausible that the ISPs might need to make some operational changes to make gas scheduling changes late in the gas day. However, whether we need to determine how significant these impacts are on the ISPs depends upon the extent that ISP participation in PG&E's program is truly voluntary. If it is voluntary, ISPs can decide whether to participate in the program based upon their own assessment of the service's impacts and any further analysis of this issue on our part is unnecessary.

To better understand the voluntary nature of the service, the Energy Division (ED) asked PG&E for more information on the topic. In its answer to ED, PG&E explained that an ISP cannot provide the service unless it first completes and submits the appropriate forms to PG&E. These forms, which were filed in the AL, require an ISP to certify that it is willing and able to make late gas day scheduling changes. If an ISP decides not to participate and doing so is consistent with its tariffs, it need not take any action. On WGS's argument that ISPs must provide the service in some cases, PG&E responded by stating that this was incorrect and that its proposal does not obligate ISPs to accept gas scheduling changes outside of the normal nomination cycles. ED also found nothing in the AL that would force an ISP to provide the service if it did not wish to do so.

From our review, we conclude that PG&E's program is not compulsory for the ISPs and, as PG&E indicated, ISPs can avoid any impacts by deciding not to make the gas scheduling changes if consistent with the ISP's tariffs. Accordingly, it is not necessary for us to further analyze the severity of the service's impacts on the ISPs in our consideration of the AL. Maintaining the EPSQ should also help prevent any operational problems that could arise from the service by restricting the quantity of gas subject to a scheduling change on gas day. In addition, we note that PG&E itself specifies in its proposed tariff revision that a customer's adjustment request is subject to PG&E's operational ability to deliver or accept the quantity requested within the remaining hours of the flow day. Ultimately, an ISP can determine if the EPSQ is adequate for their situation in deciding whether to participate in PG&E's program.

It is the obligation of the utility's customers to balance their gas supplies and usage by making their own arrangements. WGS and LGS complain about the possibility that they may not get paid for the gas scheduling changes because of contractual arrangements with their customers. As a solution, the ISPs suggested that PG&E purchase any needed storage capacity directly from the ISPs or that PG&E's service be restricted just to the use of PG&E storage. PG&E rejected this by saying that its customers and not the utility are responsible for balancing gas deliveries and usage.

PG&E's position on this issue is appropriate because it is consistent with the utility's tariffs. In particular, PG&E Gas Rule No. 21 specifies that customers must endeavor to ensure that gas deliveries match gas usage on a daily basis. Accordingly, the utility's customers are obligated to make any needed arrangements to balance their gas supplies and usage. For these reasons, we will not require PG&E to procure ISP storage in order to implement its proposal. Furthermore, as discussed above, if the ISPs are concerned about the recovery of their costs, they can opt not to provide the service if consistent with the ISP's tariffs. Alternatively, an ISP could try to renegotiate any non-compensatory contracts with their customers.

PG&E's proposal does not result in subsidization of PG&E's service by core customers. LGS implied that PG&E will use storage assets dedicated for PG&E's core customers for the gas scheduling changes. If so, the ISP said PG&E core customers would improperly subsidize a service intended for its market storage customers. PG&E disputed this by claiming that LGS was misinformed about the program and the utility explained that this was not an issue because of its existing gas day business practices.

The Commission agrees with PG&E that LGS seems to misunderstand the proposed service. PG&E will be providing service to customers who have storage rights or parking/lending capability. Those rights or capabilities could come about through existing or new contracts, provided from PG&E market storage capacity.

In any case, PG&E correctly acknowledged to ED, in response to a data request, that it would be inappropriate for PG&E to use core assets to provide the service. We will explicitly order PG&E not to use core storage assets to provide the service approved by this Resolution.

When the service no longer meets its customer's needs, PG&E will file a Tier II AL requesting an end to the service. The ISPs can protest the termination of the program at that time and bring their issues to the Commission's attention. LGS was concerned about the duration of the program and that PG&E could end it suddenly without notice. The ISP also recommended that PG&E amend its proposal to include an objective standard to trigger the service's termination such as a specified period of time when a simultaneous High and Low Inventory OFO has not been called. Additionally, the ISP questioned PG&E's justification for the three request limitation. In reply, PG&E said that when the service no longer meets its customer's needs, it will file a Tier II AL requesting an end to the service, subject to protest.

On the three request limitation, PG&E explained that this was done to avoid the expense of creating a new nomination cycle for a transitory situation.

PG&E is correct in saying that its Tier II AL filing would be subject to protest as General Order 96-B provides. Furthermore, unless the AL is suspended, it would not become effective until 30 days after it is filed, which should be sufficient time for an ISP to prepare for the service's cessation. We refrain from adopting an objective standard to automatically end the service because it might force PG&E to take that action when prevailing or expected operating conditions warrant its continuation. Additionally, the ISP's concerns that the service may go on indefinitely are not supported by the circumstances causing issuance of the OFOs.

Three request limitation and the first come-first served approach proposed by PG&E is reasonable. PG&E's request limitation raises concerns about unprocessed service requests and customers being charged OFO noncompliance charges. However, this situation should not occur often because simultaneous High and Low Inventory OFOs are issued infrequently and the operating conditions prompting the OFOs have currently abated. These circumstances also do not justify the effort and expense of initiating a new nomination cycle. Another important factor is that no PG&E customers protested the AL and the service's request limitation. Also, under PG&E's "first-come, first served" procedure, customers have some degree of control over whether their service requests will be honored by how fast they submit their requests to PG&E. Accordingly, we find PG&E's service request cap, which applies if not all requests can be processed, reasonable.

On the propriety of PG&E's "first-come, first-served" approach, we note that other methods could be used to process service requests.[8] However, PG&E's proposal has the advantage of being easy to administer and it provides an incentive for customers to respond quickly to the OFOs, enabling PG&E to address pipeline imbalances promptly. PG&E also explained to ED that a Senior Transmission Coordinator would serve as a single point of contact for processing the requests. This arrangement should enable the utility to effectively implement the procedure as intended. So that no customers gain an unfair advantage submitting their service requests to PG&E, we shall require the utility to announce the designated OFOs and release any related information on a nondiscriminatory basis.

[8] For example, a lottery could be used whereby PG&E randomly selects the number of service requests to be processed from all the requests it receives.

To see that PG&E properly administers the service on a "first-come, first served" basis, we shall require the utility to maintain a logbook to record, at minimum, the date and time all service requests were received, the identity of the customers making the requests, and to indicate whether their requests were processed or denied. If a request is denied, PG&E is to note in the logbook the reason(s) why. PG&E shall immediately allow Commission staff to review the logbook upon request and the utility shall include a complete copy of it with its AL seeking termination of the service.

PG&E's proposal will benefit customers by enabling them to respond to late gas day simultaneous High and Low Inventory OFOs. PG&E said that it filed its proposal because of customer concerns about difficulties responding to late gas day simultaneous High and Low Inventory OFO. Without the additional gas scheduling flexibility, these customers might incur OFO noncompliance charges, as PG&E's tariffs specify. Additionally, PG&E told ED that if customers are prevented from making late gas day scheduling changes, it may need to resort to more extreme measures such as restricting scheduled flows from interconnecting pipelines. This could have a far-reaching effect on total system gas flows and potentially affect many PG&E customers. These reasons justify our approval of PG&E's proposal.

PG&E is required to confer with all participating ISPs to establish any needed protocols to facilitate the service's implementation and its provision (e.g. effective date, coordination with ISPs and alternatives). WGS recommended that the effective date of the service be delayed at least 120 days from the date we approve the AL. This is so the ISP can make any needed operational changes and tariff modifications. We do not find it necessary to grant this extension and delay PG&E from offering the service to their customers. ISPs directly connected to PG&E's pipelines can wait to participate in the program until after they made any necessary arrangements. If an ISP needs to modify its tariffs to participate in the program, they may file their requests in a Tier II AL filing. ED may approve such an AL without a resolution if no valid protests were filed. An ISP shall not participate in the program if doing so would be inconsistent with its tariffs.

In its AL, PG&E said that "(p)articpating ISPs will be treated on a comparable basis with PG&E's storage facilities to the extent that they can provide the equivalent service and operations." (PG&E AL 3240-G, at p. 2) LGS also noted that PG&E should inform the ISPs when the three request limitation has been met so it can reduce its staffing. These items indicate that coordination between PG&E and the participating ISPs is necessary to implement and render the service. To ensure that this occurs, we shall require PG&E to confer with all participating ISPs to establish any needed protocols to facilitate the service's implementation and its provision.

GRS suggested that PG&E consider other alternatives to the proposed service. Although PG&E thinks this is not worthwhile, it is possible that there may be better ways for the utility to provide its customers with the OFO relief; particularly after it gains some experience administering the service. We will not require PG&E to explore other alternatives; however, as a general matter, PG&E should constantly strive to improve its service offerings consistent with our decisions and the law. If PG&E seeks to modify the service authorized by this Resolution, it may do so through a Tier II AL. ED may approve such a filing without a resolution if no valid protests were filed.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived or reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from today.

On March 1, 2012, the draft Resolution was mailed for comment. No comments were received.

FINDINGS AND CONCLUSIONS

1. PG&E filed AL 3240-G seeking to allow eligible customers to adjust previous scheduled gas quantities after the last gas day nomination cycle when simultaneous High and Low Inventory OFOs are issued by the utility.

2. ISPs may need to make operational changes to offer their customers with the additional gas scheduling flexibility provided by PG&E's proposal.

3. ISPs might incur costs to participate in PG&E's program which they are unable to collect from their customers.

4. ISPs have the option whether to participate in PG&E's program and allow their customers to make late gas day gas scheduling changes, if consistent with their tariffs.

5. If an ISP does not participate in PG&E's program, it would not experience any associated costs and operational impacts caused by the program.

6. Under PG&E's tariffs, the utility's customers are responsible to balance their gas supplies and usage.

7. PG&E should not be obligated to purchase gas storage from ISPs in order to provide the proposed service because utility customers have the responsibility to balance their gas deliveries and usage.

8. PG&E acknowledges that performing the proposed service using the utility's core storage assets is inappropriate.

9. PG&E's core customers would subsidize the service if the utility uses core storage assets for its provision.

10. The three request limitation (unless more requests can be accommodated) and the scale of the service is reasonable given the infrequent operating conditions prompting the issuance of simultaneous High and Low Inventory OFOs.

11. PG&E's administration of the request limitation on a first-come, first-served basis is reasonable because it is not burdensome to administer and will facilitate the utility's fast response to pipeline operating conditions.

12. Requiring PG&E to maintain a logbook for the service so that the Commission can see whether the utility is properly administering the service is reasonable.

13. Adopting an objective standard to automatically terminate the proposed service is not prudent because continuation of the service may be important.

14. It is important for PG&E to coordinate with participating ISPs to effectively implement and render the service.

15. Issuing simultaneous High and Low Inventory OFOs and related information on a nondiscriminatory basis facilitates the equitable implementation of the proposed service.

16. PG&E's service will benefit its customers and possibly allow the utility to avoid taking more extreme measures to address the operating conditions prompting the issuance of the designated OFOs.

THEREFORE IT IS ORDERED THAT:

1. PG&E AL 3240-G is approved and effective today.

2. PG&E shall not utilize its storage assets that are dedicated for its core customers in order to provide the service.

3. PG&E shall coordinate with ISPs participating in the program to establish any necessary protocols to implement and render the service.

4. PG&E shall maintain a logbook to record, at minimum, the date and time all requests for the service were received by the utility and the identity of the customers making the requests. PG&E shall also note in the logbook if the requests were approved or denied and the reason(s) why any requests were denied.

5. PG&E shall immediately allow Commission staff to review the logbook required by Ordering Paragraph No. 4 upon request and the utility shall include a complete copy of the logbook in its AL requesting termination of the service.

6. PG&E shall issue simultaneous High and Low Inventory OFOs and release any related information in a nondiscriminatory manner.

7. PG&E may file a Tier II AL to request modifications to the service approved herein.

8. An ISP shall not provide the service approved herein if doing so would be inconsistent with its tariffs.

9. ISPs may file a Tier II AL to request any needed tariff modifications in order to provide the service approved herein.

10. The protests of GRS, LGS and WGS are denied.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on April 19, 2012; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director

MICHAEL R. PEEVEY
President
TIMOTHY ALAN SIMON
MICHEL PETER FLORIO
CATHERINE J.K. SANDOVAL
MARK J. FERRON
Commissioners