PUBLIC UTILITIES COMMISSION
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TO PARTIES OF RECORD IN PROCEEDING NO. APPLICATION 13-12-013:

This is the proposed decision of Administrative Law Judge Bemesderfer. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's May 12, 2016 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, ex parte communications are prohibited pursuant to Rule 8.3(c)(4)(B).

/s/ DOROTHY DUDA for
Karen V. Clopton, Chief
Administrative Law Judge

KVC/ge1
Attachment

ALJ/KJB/ge1 **PROPOSED DECISION** Agenda ID #14781
Ratesetting

Decision **PROPOSED DECISION OF ALJ BEMESDERFER (Mailed 4/5/2016)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Gas Company(U904G) and San Diego Gas & Electric Company (U902G) for Authority to Recover North-South Project Revenue Requirement in Customer Rates and for Approval of Related Cost Allocation and Rate Design Proposals.	Application 13-12-013 (Filed December 20, 2013)

DECISION DENYING APPLICATION

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DECISION DENYING APPLICATION

Summary

We deny the joint application of Southern California Gas Company and San Diego Gas & Electric Company (collectively, "Joint Applicants") for authority to recover in rates the cost of constructing a new natural gas pipeline between the town of Adelanto and the Moreno Pressure Limiting Station and rebuilding the Adelanto Compressor Station.

1. Factual Background

Joint Applicants submitted this application in order to maintain Southern California Gas Company's (SoCalGas) Southern System[1] reliability and alleviate the potential for curtailments of customers on the Southern System due to a potential mismatch between the demand of such customers and the volume of flowing supplies delivered to the Southern System to meet that demand. Most of the gas to serve Southern System demand comes into the system at Blythe, with a

[1] The Southern System consists primarily of three high-pressure pipelines extending westward from the Colorado River near Blythe to Moreno Station in the City of Moreno Valley and two high-pressure pipelines extending westward from Moreno Station to the Los Angeles Basin. Three high-pressure pipelines also extend southward from Moreno Station to the SDG&E gas transmission system, referred to as the Rainbow Corridor. The Southern System was primarily designed to receive gas from El Paso Natural Gas Company, L.L.C. (El Paso) at the Colorado River near Blythe and redeliver it to load centers in the Inland Empire, Imperial Valley, San Diego and the Los Angeles basin. The Southern System can receive additional supplies from other pipelines within the SoCalGas transmission system by the use of two valve stations located along each of the two high-pressure pipelines extending westward from Moreno Station. Supplies can also be received into the Southern System at the Otay Mesa receipt point in San Diego County. SoCalGas also has the ability to transport up to 80 million cubic feet per day (MMcfd) of supply from its Northern System to the Southern System via Transmission Line 6916.

receipt point capacity of 1,200 million cubic feet per day (MMcf/d).[2] There is an additional 400 MMcf/d of receipt capacity at Otay Mesa[3], and SoCalGas has the ability to move 200-300 MMcf/d from the Northern System to the Southern System via the Chino and Prado stations, and an additional 80 MMcf/d via Line 6916.[4] Maximum daily flows from the northern system to the southern system are 400 to 650 MMcfd in each year.[5] While supplies from the Chino[6] and Prado[7] stations can flow eastward, these stations cannot entirely meet the demand of the Southern System during peak periods. As a result, the remainder of supplies not met by the Chino and Prado Station volumes establishes the level of minimum flowing supplies that must be delivered at the Blythe or Otay Mesa receipt points[8] to maintain service to customers on the Southern System. The Southern System also requires minimum flows at the Blythe or Otay Mesa receipt points to maintain service to customers in the Imperial Valley and San Diego load centers, and to customers and communities in San Bernardino and Riverside Counties.

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2 Ex. EP-1. The Blythe receipt point is sometimes termed Ehrenburg. Both locations are just across the state line from each other, with Ehrenburg in Arizona and Blythe in California. *E.g.* 2 RT 278, Marelli, Sempra.

3 Ex. SCG-6, p. 6-7.

4 *Ibid.*

5 Ex. TURN-1, p. 9, Figure 2.

6 Chino is approximately 36 miles due east of downtown Los Angeles.

7 The Prado Station is located in the City of Corona, approximately 36 miles due east of Torrance.

8 Blythe is located at the California-Arizona border due east of San Clemente and is a receipt point for gas coming into California from El Paso Natural Gas Company (EPNG) lines. Otay Mesa is located in San Diego near the Mexican border and is a delivery point for gas coming into California from receipts points on the Arizona border. Otay Mesa could also serve as a receipt point for gas from Mexico or a delivery point for gas to Mexico.

Joint Applicants propose to respond to the potential shortfalls of gas deliveries to the Southern System by constructing the North-South Project to connect SoCalGas' existing gas storage facilities in Adelanto with the Southern System. Construction of the North-South Project would make gas stored at the SoCalGas Honor Rancho storage field available to supplement gas delivered at Blythe and Otay Mesa during periods of high demand

Since April 1, 2009, the System Operator[9] has been responsible for maintaining minimum flows and system reliability on the Southern System. To accomplish these tasks, the System Operator employs various tools including:

a) Buying and selling gas on a spot basis, as needed, to maintain system reliability.
b) Soliciting requests for offers (RFOs) and conducting open season process.
c) Approving contracts that result from an RFO or an open season process via an expedited advice letter.

The System Operator regularly uses its ability to buy and sell spot gas to maintain minimum flows on the Southern System. The System Operator has used the RFO process to enter into baseload contracts for Southern System support, and SoCalGas has sought and obtained authorization for additional System Operator tools to help maintain Southern System minimum flows, including the ability to move supply from Blythe to Otay Mesa and a series of California Public Utilities Commission (Commission) authorized Memoranda in Lieu of Contract (MILCs) between the System Operator and Gas Acquisition Department. Under these MILCs, the bundled core agrees to deliver a share of

[9] "System Operator " means the SoCalGas departments responsible for the operation of its transmission system but not including the gas acquisition function. *See* SoCalGas Rule 41.2.

the Southern System minimum flow requirement, and in return is relieved from Southern System support costs incurred by the System Operator. SoCalGas has also discounted Backbone Transportation Service (BTS) to encourage shippers to bring gas into the Southern System, and in late 2012, SoCalGas put a pipeline into service, Line 6916, that enables additional supplies delivered at South Needles[10] to reach the Southern System, providing another source of supply to the Southern System.

In addition to evaluating the North-South Project, we have also examined competing proposals put forward by Transwestern Pipeline Company, LLC (Transwestern); TransCanada Pipelines Limited (TransCanada); El Paso Natural Gas Company (EPNG); The Utility Reform Network (TURN): the Commission's Office of Ratepayer Advocates (ORA); and the Southern California Generation Coalition (SCGC). Joint Applicants contend that a physical solution is required to ensure reliable gas supplies to the Southern System going forward and that, of the four proposed physical solutions, the North-South Project is the only one that ensures the availability of adequate gas in the event of an interruption of supply coming into California. Transwestern, TransCanada and EPNG concur that a physical solution is necessary but contend that their proposed solutions are equally effective in providing reliable gas supplies while being significantly less costly and involving fewer potential safety hazards and disturbances of environmentally sensitive areas. TURN, ORA and SCGC contend that the system reliability issues can be met by the use of existing tools and if necessary

[10] South Needles is located at the California-Arizona border, just south of the intersection of Nevada, Arizona and California, and serves as a receipt point for gas flowing into California from Transwestern Pipeline Company, LLC lines.

by execution of new contracts with the interstate pipeline companies and that no new construction is needed to insure Southern System reliability.

1.1. Procedural Background

Joint Applicants filed the application on December 20, 2013. Timely protests were received from the Southern California Generation Coalition (SCGC), Southern California Edison Company, Transwestern, a coalition consisting of British Petroleum Energy, Chevron U.S.A. Inc., ConocoPhillips Corp., Occidental Energy Marketing Inc. and Phillips 66 Company (Indicated Producers), TURN, and ORA. In addition, Shell Energy North America (US), L.P. filed a response to the application that supported construction of the North-South Pipeline. On January 25, 2014 then-assigned Administrative Law Judge (ALJ) Douglas Long granted motions for party status filed by Southwest Gas Corporation, El Paso Natural Gas Company, L.L.C., Kern River Gas Transmission Company, and North Baja Pipeline, LLC. Following a prehearing conference (PHC) on March 13, 2014 at which parties briefed the question of California Environmental Quality Act (CEQA) applicability to this proceeding, the assigned Commissioner issued a Scoping Ruling on May 5, 2014 which determined that the Commission would act as the lead agency for an environmental review of the proposed North-South Project pursuant to CEQA and directed Joint Applicants to file and serve a Proponent's Environmental Assessment. Joint Applicants were also directed to serve additional testimony to address safety. The Scoping Memo also identified the jurisdictional ratesetting and safety issues to be considered in the non-CEQA phase of the proceeding. Specifically, the Scoping Memo limited the non-CEQA phase of the proceeding to the following issues:

- Is there a need for SoCalGas and SDG&E's North-South Pipeline?
- Intervenors proposed that there were a variety of short term or interim options that should be considered in addition to or in lieu of the North-South pipeline. What are they and are they reasonable?
- Additionally, at least two parties suggest that there are alternative pipelines operated by entities other than SoCalGas and SDG&E that should be considered. The consideration of alternative pipeline proposals here is limited solely to a hypothetical cost-benefit comparison to the North-South Pipeline proposal.

On November 12, 2014, the Joint Applicants filed updated testimony that removed the installation of 31 miles of transmission pipeline east of Moreno from the scope of the North-South Project,[11] together with revised cost estimates that raised the estimated direct costs of the North-South Project from $331.8 million to $484.5 million and raised the estimated direct cost of the Adelanto Station upgrade from $110.7 million to $136.8 million.[12]

On December 24, 2015 ALJ Long issued a Ruling Suspending the Schedule and Ordering Joint Applicants to respond to a series of questions regarding the relationship between the proposed North-South Project and two other proposed pipeline projects. Joint Applicants filed answers to the questions in the Ruling on February 2, 2015.

On February 20, 2015, this matter was co-assigned to ALJ Karl Bemesderfer. On February 23, 2015, ALJ Long issued a ruling in

[11] Ex. SCG-6, Bisi Updated Direct Testimony, p. 10.

[12] Ex. SCG-3, Buczkowski Updated Direct Testimony, p. 2.

anticipation of a revised Scoping Ruling and in response to the answers filed by Joint Applicants on February 2, 2015. This ruling determined that:

1. The scope of the project and the CEQA review would exclude the Whitewater component included in the original application.
2. The scope of the proceeding would not expand to include any other potential projects.
3. The parties should address the updated costs as proposed by Joint Applicants.

On March 9, 2015 the assigned Commissioner issued an amended Scoping Ruling that confirmed ALJ Long's February 20, 2015 Ruling and set a revised schedule for the remainder of the non-CEQA portion of the proceeding.

Evidentiary hearings were held July 10 to July 15, 2015 and August 10 to August 15, 2015. Following completion of the evidentiary hearings, the parties briefed the issues. Upon receipt of the reply briefs on October 12, 2015, the non-CEQA phase of the proceeding was submitted for decision.

2. Issues before the Commission

Although the Application is framed as a request for approval of rates to be charged in connection with the construction of the North-South Project, the basic issue underlying the application is how best to assure reliable future supplies of natural gas into the Southern System at the least cost to ratepayers. In evaluating the competing answers to this question, the Commission considers not only the costs and benefits associated with the North-South Project and the various proposed alternatives, but the additional issues of safety and reliability.

3. Discussion and Analysis

Joint Applicants and protesters agree that additional actions should be taken to ensure safe and reliable future supplies of natural gas into the Southern System. They disagree on what those actions should be.

3.1 Joint Applicants' Proposal

Joint Applicants propose constructing a new natural gas pipeline between the town of Adelanto and the Moreno Pressure Limiting Station and rebuilding the Adelanto Compressor Station at an estimated total cost of $621.3 million. This proposal is a revision of the proposal in the original application that also called for building 31 miles of additional pipeline between Whitewater Station and the Moreno Pressure Limiting Station.

Minimum supplies of flowing gas are required when the supplies of flowing gas delivered to the receipt points on the Southern System, Ehrenburg (alternatively called "Blythe"), North Baja, and Otay Mesa, are insufficient to meet the total demand on the Southern System less the flowing supplies that are available through connections with the SoCalGas Northern System. The Southern System minimum has risen from an average of 366 thousand dekatherms per day (Mdth/d) in 2008 to the current 541 Mdth/d level.[13] The increase in the Southern System minimum in 2012 appears to have been in large part due to the outage of the San Onofre Nuclear Generating Station (SONGS), which increased gas demand among Southern System electric generators. At the same time, customer deliveries into the Southern System dropped from an annual average level exceeding 800 Mdth/d in 2008 to 593 Mdth/d in 2013.[14]

Joint Applicants currently have the ability to transport on average 280 million standard cubic feet per day (MMcf/d) of gas supplies from their Northern System to the Southern System to help meet Southern System demand. On average, 200 MMcf/d can be transported through the Chino and Prado valve

[13] One dekatherm = the heat content of approximately 1,000 cubic feet of natural gas.

[14] Application pp. 6-7.

stations from the Northern System to the Southern System.[15] However, the amount of gas that is available through Chino and Prado on a daily basis varies due to system conditions.[16] An additional 80 MMcf/d can be transported across SoCalGas Line 6916 from the Northern System to the Southern System.[17]

The proposed North-South Project would be sized to permit the delivery of 800 MMcf/d from the Northern System to the Southern System, 344 MMcf/d more than would be the design capacity of the pipeline if a 1-in-10 year cold day demand forecast had been used to design the project.[18]

3.1.1. Joint Applicants' Specific Arguments in Favor of the North/South Project

3.1.1.1. Demand for Gas in the Southern System is Increasing Rapidly While Customer Deliveries are Decreasing

In discussing the need for this project, Sempra's primary policy witness summarizes the evidence as follows:

> As explained by Ms. Marelli, Southern System support costs are increasing, deliveries from other customers are decreasing, and supply-related threats to Southern System reliability are on the rise. The quicker this project is put into service, the quicker we deal with these threats to reliability.[19]

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[15] Ex. SCG-6, Bisi Updated Direct Testimony, p. 6; Ex. SCGC-1, Yap Updated Direct Testimony, p. 6.

[16] *Ibid*.

[17] Ex. SCG-6, Bisi Updated Direct Testimony, p. 7.

[18] *Ibid*, p. 10, footnote 5.

[19] Ex. SCG-1, p. 5.

The supporting testimony of Ms. Marelli presented data concerning support costs for the four-year period 2009-2013, and data concerning customer deliveries and minimum flow requirements for the period 2007-2013.[20] These data, especially when combined with more recent data for 2014 and 2015, do not support the conclusions reached by SoCalGas in this case, and fail to meet the applicable "substantial evidence" standard. Ms. Marelli's data concerning support costs show that costs increased from $3.8 million to $9.1 million in 2011-2012, and then increased to $20 million in 2012- 2013, largely related to increases in discounts paid to customers in order to flow gas through the Blythe receipt point. As explained in oral testimony, the increased costs in Sep. 2011- Aug. 2013 reflect at least in part increased electric generation demand on the Southern System due to the unanticipated shutdown of the SONGS nuclear power plant.[21] However, as documented in the testimony of SCGC witness Yap, support costs declined in 2014 to $15.9 million, and have declined even more significantly through the winter of 2014-2015.[22] SoCalGas' primary policy witness agrees that these costs continued to decline in 2015.[23]

Similarly, the data on customer deliveries and southern system minimum requirements do not support SoCalGas' arguments. Ms. Marelli's data show that customer deliveries at Blythe increased significantly in 2008, then declined

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[20] Ex. SCG-2, p. 4, Table 1 and p. 5, Figure 1.

[21] 2 RT 172, Marelli, Sempra.

[22] Ex. SCGC-2, Table 1, p. 6. The six-month costs from Sep. 2014-March 2015 were $4.0 million. Proportionally, this would result in an annual cost of $8 million, though typically support costs are disproportionally higher during the winter months, so the actual 2014-2015 costs should be even less.

[22] 1 RT 37:23-28, Sempra, Cho.

somewhat each following year, dipping below the 2007 level in 2012 and 2013.[24] However, customer deliveries subsequently increased and stayed above minimum flow requirements in 2014.[25]

To sum up this portion of the discussion, although it is undisputed that there are days when non-core customers do not flow in sufficient gas to meet minimum flow requirements, Joint Applicants have not proven either that gas demand is increasing or that customer supplies are decreasing to such an extent as to pose significant risk to the ability of SoCalGas to meet daily minimum flow requirements using existing tools available to it.

3.1.1.2. The Southern System is Vulnerable to Supply Curtailment

In support of this argument, SoCalGas witness Marelli describes one force majeure event and three "supply-related near misses" as examples of "some recent Southern System reliability problems" that have occurred because flowing supplies into the Southern System depend entirely on a single (EPNG) pipeline.[26]

However, in data responses SoCalGas admits that the North-South pipeline would not have solved any of those situations except for the single force majeure event. Except for that one event, the reliability problems all resulted from a system-wide gas supply shortage, so there was no gas to deliver from the northern system even if the North-South pipeline had been in place.[27, 28]

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[24] Ex. SCG-1, Figure 1, p. 5.

[25] Ex. SCGC-2, p. 9, Figure 3.

[26] Ex. SCG-2, pp. 8-11.

[27] Ex. TURN-1, p. 9:4 – 10:2.

Joint Applicants also argue that rising demand for natural gas in Mexico may curtail supplies available to the Southern System. SoCalGas witness Chaudhury stated that deliveries to Mexico will utilize capacity "which currently delivers supply to Ehrenberg" and will thus result in "lowering flowing supply at Ehrenberg."[29] We find this argument unpersuasive. Not only is there record evidence demonstrating that SoCalGas presently has redundant sources of gas to supply the Southern System[30] but Mexico itself has substantial natural gas reserves which may in time turn Mexico into a net exporter of natural gas. The same shale gas formations that have resulted in large increases in supply from the Permian basin in Texas also extend to Mexico. Analysts have projected huge reserves of shale gas in Mexico.[31] Thus any increased Mexican demand is likely to be met without affecting EPNG supplies to the Southern System either in the short or the long run.

3.2. Evaluation of the North-South Project

As a threshold matter specified in the Scoping Memo, Joint Applicants must demonstrate that there is a need for this project. Joint Applicants argue that the North-South Project is needed for two different reasons. First, it is

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[28] For example, regarding the December 2013 events, SoCalGas explains: With respect to the testimony on page 10, lines 9-16, SoCalGas and SDG&E do not believe that either the North-South Pipeline or deliveries from Honor Rancho would have been able to support the Southern System on December 9, 2013. SoCalGas and SDG&E were short of supply across their entire system during that event, and there were no supplies available on its Northern System to transport to the Southern System. (Ex. SCGC-1, p. 21 (citing Sempra Response to SCGC-DR-04-04.16)).

[29] Ex. SCG-14, p. 3, lines 1-6.

[30] Ex. TURN-1, p. 20, Table 1.

[31] Ex. TURN-10 and Exh. TURN-4, p. 2.

needed to ensure that the daily minimum flow requirements of the Southern System will continue to be met regardless of intermittent changes in natural gas demand. Second, it is needed as insurance against a force majeure event that temporarily interrupts the flow of gas into California via the El Paso system, since relying primarily on one pipeline for gas delivery is inherently risky, and greater operational flexibility is provided by having multiple delivery sources.[32] If the North-South pipeline is constructed, the Honor Rancho gas storage facility will become an alternate supply source for the Southern System. To this latter reason they add the observation that it is preferable to rely on physical assets owned and controlled by a local utility and regulated by this Commission than on physical assets owned and controlled by an interstate pipeline company and regulated by the Federal Energy Regulatory Commission (FERC).

While other parties generally agree that the daily minimum flow requirements of the Southern System must be met under all reasonably foreseeable conditions, including a temporary interruption of interstate supplies, they are unanimous in their assertion that Joint Applicants have failed to demonstrate that the North-South Project is either a necessary or a desirable way to meet those requirements. They assert, and we concur as discussed above, that Joint Applicants' rationales for the North-South Project do not hold up to close examination.

In discussing the need for the North-South Project, it is useful to distinguish between two possible causes of inadequate gas flows into the Southern System from existing interstate pipelines. That situation might arise

[32] Ex. SCG-10, pp. 3, 6. *See* also, RT 95-96, 154, 229-230, Marelli, Sempra.

because there is insufficient gas available in the national market to meet the needs of Southern System customers; alternatively, it could arise if there were insufficient pipeline capacity to deliver available gas. As to the first possibility, we take official notice of the widespread reporting concerning the vastly increased shale gas supply discovered in the United States in the past decade, a development that has dramatically driven down the price of natural gas and transformed the United States from a significant importer of Liquefied Natural Gas (LNG) into a potential LNG exporter. These developments mean, among other things, that a domestic shortage of natural gas is a remote possibility. Thus, if a shortage develops in the Southern System, that shortage is a result either of inadequate pipeline capacity to deliver necessary amounts of natural gas to the Southern System or of a force majeure event.

Joint Applicants' strongest argument for the construction of the North-South Pipeline is that it ensures against such disruptions of supplies coming into California via the EPNG pipeline at Blythe. But even if we accept that argument, it is clear from the record that the alternative physical solutions proposed by Trans-Canada, Transwestern and EPNG all provide redundant pipeline capacity at a significantly lower cost than the North-South pipeline. They also present fewer safety hazards and a lower risk of environmental damage due to construction than does the North-South Pipeline.

To summarize, Joint Applicants have demonstrated that there is a need to enhance the reliability of natural gas supplies to the Southern System; but they have failed to demonstrate that the North-South pipeline is needed to meet that need.

3.3. Alternatives to the North-South Project

3.3.1. Transwestern Proposal

On May 8, 2014, Transwestern submitted testimony presenting its proposed Needles-Ehrenberg Pipeline as an alternative to the North-South Pipeline.[33] Transwestern proposes to build the Needles-Ehrenberg Pipeline in two phases (although both phases could be built at the same time if needed or desired).[34] Phase 1 is a new 30-inch diameter lateral pipeline interconnecting with Transwestern's main pipeline at a point approximately 30 miles east of the Needles receipt point,[35] traversing approximately 120 miles southward through the Arizona desert, and interconnecting with SoCalGas' Southern System at the Ehrenberg receipt point.[36] Phase 2 is the construction of a compressor station on the new lateral's northern end.[37] Phase 1 would enable SoCalGas to transport 500 MMcf/d of gas from its Northern System to its Southern System (without additional compression), and Phase 2 would increase that amount to 800 MMcf/d,[38] equivalent to the planned delivery capacity of the North-South Pipeline. The project's costs are estimated to be $419 million for Phase 1 and $44 million for Phase 2, for a total of $463 million; and the full project's average

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[33] *See*, generally, Ex. TW-1.

[33] Ex. TW-1 at 5:13-14.

[35] The Needles receipt point is at the far northern end of the Arizona-California border. The western segment of Transwestern's mainline pipeline, with a capacity of 1,240MMcf/d connects to SoCalGas' Northern System at Needles.

[36] Ex. TW-1 at 5:14-21.

[37] Ex. TW-1 at 6:6-11.

[38] Ex. TW-1 at 6:1-5 and 6:9-11.

annual revenue requirement is estimated to be $75 million.[39] The pipeline's projected right of way through the Arizona desert poses significantly fewer safety hazards than the proposed route of the North-South Pipeline.

3.3.2. TransCanada Proposal

The TransCanada Project would consist of 15 miles of a 24-inch pipeline extending from a new interconnection to SoCalGas near its existing compressor station (North Needles Compressor Station) located off Highway 95, to an intermediate interconnection with SoCalGas at its South Needles Compressor Station, and 94 miles of 36-inch pipeline to an existing interconnection with SoCalGas.[40] The pipeline and ancillary facilities would have a maximum allowable operating pressure of 1150 psi and would be capable of delivering 800 MMcf/d of natural gas to the Southern System,[41] equivalent to the planned delivery capacity of the North-South Pipeline. The TransCanada proposal assumes that existing SoCalGas compression facilities at South Needles can be used to compress new gas entering the system from TransCanada. On that assumption, the total Project Cost of the TransCanada Project would be $503 million, substantially less than the $621 million proposed budget of the North-South Project.[42] Like the proposed Transwestern pipeline, the TransCanada pipeline would pass through sparsely populated areas with fewer safety risks than those posed by the North-South Pipeline.[43]

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[39] *Id.* at 7:7-9, 8:16-18, and 9:16. (Figures rounded to nearest million.)

[40] Ex. No. NB-3, Schoene Rebuttal, p. 2.

[41] Ex. No. NB-1, Schoene Direct, p. 4.

[42] *Id.*, pp. 4, 7-8.

[43] *Id.*, pp. 11-12.

3.3.3. El Paso Natural Gas Proposal

EPNG is in the process of expanding its FERC-jurisdictional interstate pipeline capacity in Arizona through its so-called Havasu Expansion Project. The Havasu Expansion Project involves the looping of EPNG's existing Havasu Crossover pipeline in La Paz County, Arizona, with a 42-inch diameter pipeline and the installation of compression facilities along the pipeline loop in Arizona. EPNG has entered into an agreement with Mexico's Comisión Federal de Electricidad to provide up 550,000 dekatherms per day via this expansion project. The project, which is scalable, is scheduled to be in service in October 2020. EPNG proposes to enter into binding contracts with SoCalGas that would guarantee deliveries of additional supplies to the Southern System via the Havasu Expansion Project at fixed costs to SoCalGas ratepayers. Specifically, EPNG has offered to guaranty California's ratepayers needed transportation deliverability at an annual cost between $56,140,000 and $72,300,000:

- $56,140,000 per year for service of up to 300 Mdth/d
- $66,710,000 per year for service of up to 550 Mdet/d
- $72,300,000 per year for service of up to 800 Mdth/d

These guaranteed costs represent a savings of more than forty percent (40%) over the projected annual revenue requirement of the North-South Project of approximately $121,800,000.[44]

3.3.4. TURN/ORA/SCGC Proposals

Although ORA, SCGC and TURN did not file a joint proposal, we consider their proposals together since all three propose meeting the system reliability

[44] *See* Ex. EP-2, Prepared Updated Intervenor Testimony of Anthony M. Sanabria filed March 23, 2015, at p. 6.

needs of the Southern System through the use of existing and/or enhanced contracting arrangements. While these intervenors disagree to some degree regarding the specific mechanisms by which SoCalGas could meet its system reliability needs, they concur in identifying the major mechanisms by which this could be done. The result is a set of operational reforms that collectively increase the amount of gas guaranteed by contract to the Southern System under various usage assumptions without the necessity of constructing additional physical facilities.

The various operational changes that comprise the combined TURN/ORA/SCGC proposals include the following major recommendations:

- Expand the use of Memoranda in Lieu of Contracts (MILCs) to guarantee that the core share of minimum flow requirements will be met at Blythe regardless of demand elsewhere on the EPNG system.[45]
- Continue using baseload contracts to assure adequate firm capacity rights are held to Ehrenberg to meet the noncore share of the Southern System minimum flow requirements. SoCalGas is currently authorized to obtain 255 Mdth/d in baseload contracts for the winter season.[46] If necessary to meet minimum flow requirements, baseload contracting could be expanded to the summer season and cover multiple years.[47]

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[45] Ex. SCGC-1, Yap Updated Direct Testimony, p. 12. MILCs are entered into between the System Operator and SoCalGas' Gas Acquisition Department on an annual basis. The MILC makes Gas Acquisition responsible on a daily basis for maintaining sufficient flows of gas into the Southern System to meet core requirements. In exchange, System Reliability Memorandum Account (SRMA) balances are not recovered from the core.

[46] SoCalGas Rule 41.18 (Sheet 6).

[47] Ex. SCGC-1, Yap Updated Direct Testimony, at 14-16.

- Alternatively, SoCalGas' System Operator could contract with EPNG for firm capacity rights to Ehrenberg. Such contracts would include rights of first refusal, guaranteeing that SoCalGas could always obtain needed gas supplies by matching any competing offer.[48]
- Institute a Low Operational Flow Order (Low OFO) tariff to ensure adequate deliveries at Blythe under all circumstances other than a massive force majeure event.[49] All the Joint Applicants' experts agree that the Low OFO regime will "minimize supply-related curtailment threats by ensuring that transportation customers do not use any more storage withdrawal than has been allocated for the purpose of balancing."[50]

4. Evaluation of Competing Proposals

In evaluating the various proposals put forth as alternatives to the North-South Project, we have examined the following elements of each proposal:

- Cost, including projected capital cost and projected revenue requirement.
- Timing, including estimated time to complete construction and begin gas deliveries.
- Uncertainty including status of acquiring rights of way, environmental approvals and financing.

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[48] *Ibid.*, p. 16.

[49] The Commission granted SoCalGas Low Operational Flow authority in June, 2015 in Decision 15-06-004. Under the Low OFO regime approved in that decision, penalties are imposed on customers who do not deliver a fixed percentage of their daily gas requirement when forecast customer deliveries and storage withdrawals fall below a threshold level of 340 MMDth/d.

[50] Ex. TURN-5, p. 2 (testimony of SoCalGas witness Watson in A.14-06-021). 1 RT 28, SoCalGas, Cho; 5 RT 757:20-28, SoCalGas, Bisi. Mr. Bisi speculated that it will take about one year to see whether the system-side Low OFO will impact deliveries into the Southern System. 5 RT 744-746.

- Reliability including redundant supply sources, pipelines and receipt points.
- Safety including relationship of proposed routes to population centers, highways, railroads, airports and places of public assembly such as schools and sports and entertainment venues and design elements to ensure safe transmission of natural gas, detect and repair leaks.
- Regulatory considerations including FERC jurisdiction vs. CPUC jurisdiction, necessity for CEQA approval or Environmental Protection Agency approval, and necessity for coordination with Arizona or federal regulators.

Based on the foregoing evaluation procedure, we conclude that:

- All three proposed alternative pipelines provide significant additional supplies of natural gas to the Southern System and are designed to transmit natural gas through sparsely populated areas of Arizona or California.
- TransCanada requires CEQA approval for the California portions of its proposed project. Since all of Transwestern's and EPNG's new pipeline construction would occur in Arizona, neither requires CEQA approval for its proposal, though both would be subject to federal environmental law.
- The EPNG proposal has the least up-front cost since it requires no capital commitment from any California utility.
- The EPNG proposal has the lowest cost per unit volume of natural gas, approximately 40% of the cost of obtaining an equivalent volume of gas via the North-South Project.
- There is no significant advantage to a proposal that includes CPUC jurisdictional assets compared with one that does not.
- There is a benefit to having multiple suppliers of natural gas from different regions of the country in the event of a force majeure event affecting one of them. Although that benefit is difficult to quantify, we believe that it adds value

to all three physical construction alternatives to the North-South Project.

To summarize this discussion, we find, as required by the Scoping Ruling, that the various non-physical actions proposed by TURN, ORA and SCGC are reasonable alternatives to the construction of new pipelines and will provide enhanced supply reliability to the Southern System. We further find that each of the alternative physical solutions is superior to the North-South Project, conferring similar benefits at lower cost with fewer safety risks than the North-South Project. Therefore, we reject the Joint Applicant's proposed North-South pipeline project and the proposal to recover the project costs in rates.

5. Comments on Proposed Decision

The Proposed Decision of the ALJ in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments on the Proposed Decision were filed on _____ by _____ and reply comments were filed on _____ by _____.

6. Assignment of Proceeding

Michel Peter Florio is the assigned Commissioner for this proceeding and Karl J. Bemesderfer is the assigned ALJ.

Findings of Fact

1. The Southern System has minimum flow requirements that must be met every day of the year.

2. Gas deliveries to the Southern System from EPNG are sometimes inadequate to meet minimum flow requirements.

3. SoCalGas supplements deliveries from EPNG with deliveries from other out-of-state suppliers to maintain minimum flow requirements.

4. SoCalGas uses contractual arrangements and tariffs to ensure that sufficient gas will be available to meet minimum flow requirements.

5. The proposed North-South Pipeline is projected to cost $621 million with an estimated annual revenue requirement of $121 million.

6. The proposed Transwestern Pipeline is projected to cost $463 million with an estimated annual revenue requirement of $75 million.

7. The proposed Trans-Canada pipeline is projected to cost $503 million.

8. The proposed extension of EPNG's Havasu Pipeline will cost California ratepayers nothing.

9. Upon completion of the proposed extension of EPNG's Havasu Pipeline, EPNG will offer to supply SoCalGas' Southern System with between 300 and 500 Mdth/d at a price between $56.14 million and $72.3 million per year.

Conclusions of Law

1. Joint Applicants have demonstrated that there is a need for enhanced system reliability in the Southern System.

2. Joint Applicants have failed to demonstrate that there is a need for the North-South Project.

3. The TURN/ORA/SCGC proposals to rely on existing tools, modified contracts and tariffs to provide enhanced system reliability are reasonable alternatives to the North-South Project.

4. Each of the Transwestern, TransCanada and EPNG proposals meets the need for enhanced Southern System reliability at a lower cost and with fewer safety risks than the North-South Project.

O R D E R

IT IS ORDERED that:

1. Application 13-12-013 is denied.
2. Application 13-12-013 is closed.

This order is effective today.

Dated_____, at Sacramento, California.