STATE OF CALIFORNIA GAVIN NEWSOM, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

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Ratesetting

TO PARTIES OF RECORD IN RULEMAKING 20-01-007:

This is the proposed decision of Administrative Law Judges Karl J. Bemesderfer and Sasha Goldberg. 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 April 21, 2022 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 8.2(c)(4).

/s/ ANNE E. SIMON

Anne E. Simon
Chief Administrative Law Judge

AES:jnf
Attachment

Decision **PROPOSED DECISION OF ALJ GOLDBERG AND ALJ BEMESDERFER (Mailed 3/18/2022)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Establish Policies, Processes, and Rules to Ensure Safe and Reliable Gas Systems in California and perform Long-Term Gas System Planning.	Rulemaking 20-01-007

DECISION IMPLEMENTING SOUTHERN CALIFORNIA GAS COMPANY RULE 30 OPERATIONAL FLOW ORDER WINTER NONCOMPLIANCE PENALTY STRUCTURE YEAR-ROUND FOR SOUTHERN CALIFORNIA GAS COMPANY, SAN DIEGO GAS & ELECTRIC COMPANY, AND PACIFIC GAS AND ELECTRIC COMPANY

Summary

This decision extends the Southern California Gas Company Rule 30 Operational Flow Order winter noncompliance penalty structure adopted in Decision (D.) 19-05-030 and extended by D.21-11-021, year-round, and makes it applicable to Southern California Gas Company, San Diego Gas & Electric Company, and Pacific Gas and Electric Company service territories.

Rulemaking 20-01-007 remains open.

1. Procedural Background

The Commission initiated this proceeding on January 16, 2020, to create a long-term planning framework for the state's natural gas system in response to the threat of climate change and in recognition of the rapid development of renewable energy sources that will, over time, lessen the state's dependence on natural gas as a primary source of energy for both businesses and consumers. After receiving opening comments from twenty-one parties[1] and reply comments from fourteen parties,[2] the assigned Commissioner issued a Scoping Ruling. The Scoping Ruling divided the proceeding into two separate tracks, with a Commission decision to follow each track. The first track includes two sub-tracks, Track 1A and Track 1B. Track 1A addresses reliability standard issues and Track 1B determines the regulatory changes needed to improve the coordination between gas utilities and gas-fired electric generators.

On July 7, 2020, and July 21, 2020, Energy Division staff held workshops on the scope of issues outlined in Tracks 1A and 1B of this proceeding. The purpose of these workshops was to address the specific questions outlined in the scoping memo and ruling, gain a common understanding of the issues, gather information and facts, seek input from stakeholders, and identify solutions.

On July 31, 2020, the assigned Administrative Law Judge (ALJ) issued a ruling seeking additional information and comments from parties following the

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[1] Opening Comments were received from The Utility Reform Network (TURN), Southern California Generation Coalition (SCGC), Middle River Power, LLC (MRP), Sacramento Municipal Utility District (SMUD), Coalition of California Utility Employees (CCUE), Environmental Defense Fund (EDF), Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), Southwest Gas Corporation (Southwest Gas), California Independent Systems Operator Corporation (CAISO), jointly by Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E), Independent Energy Producers Association (IEPA), Sierra Club, Natural Resources Defense Council (NRDC), Vistra Energy Corporation (Vistra), Utility Consumers' Action network (UCAN), Center for Energy Efficiency and Renewable Technologies (CEERT), Calpine Corporation (Calpine), California Hydrogen Business Council (CHBC), and Wild Tree Foundation (Wild Tree).

[2] Reply Comments were received from Aera Energy LLC, California Resources Corporation, Chevron U.S.A. Inc., ConocoPhillips, PBF Holding Company, Phillips 66 Company, and Tesoro Refining & Marketing Company LLC (collectively, Indicated Shippers), SCE, NRDC, California Environmental Justice Alliance (CEJA), UCAN, CHBC, PG&E, SWGC, SCE, SoCalGas, SDG&E (jointly), TURN, SCGC, and the Public Advocates Office at the California Public Utilities Commission (Cal Advocates).

workshops and directing parties to comment on fourteen questions set out in the ruling. Opening comments were received from IEPA, CAISO, CEERT, PG&E, SBUA, EDF, UCAN, SCE, Electrochaea GmbH (Electrochaea), Protect Our Communities Foundation (PCF), The Greenlining Institute (Greenlining), Sierra Club, CEJA, Calpine, Californians for Green Nuclear Power, Inc. (CGNP), Southwest Gas, MRP, Cal Advocates, SCGC, SDG&E, SoCalGas, Indicated Shippers, TURN, the Department of Market Monitoring of the California Independent System Operator Corporation (CAISO Monitor) and the Western States Petroleum Association (WSPA).

On October 2, 2020, the ALJ issued a ruling issuing the Workshop Report and Staff Recommendations and seeking comments thereon. The ruling also directed specific parties to provide supplemental information. As part of this requirement, both PG&E and SoCalGas were directed to submit formal analyses outlining a proposal for a Renewable Balancing Tariff in their respective regions and its associated costs. Opening comments were received from CHBC, EDF, TURN, Cal Advocates, MRP, PG&E, CEERT, UCAN, Greenlining, CDGA, GHC, SMUD, IEPA CAISO, Indicated Shippers, SCGC, SoCalGas, SDG&E, Electrochaea, SCE, PCF, Central Valley Gas Storage, LLC (CVGS), and SBUA. Reply comments were received from SCE, Indicated Shippers, Greenlining, CEGA, MRP, Calpine, UCAN, CEERT, CHBC, SoCalGas, SDG&E, CAISO, SBUA, PG&E, WSPA, TURN, PCF, United Energy Trading, LLC, School Project for Utility Rate Reduction (UET/School), EDF, Vistra, and SCGC.

On January 8, 2021, SoCalGas and PG&E filed a Renewable Balancing Tariff proposal in response to the ALJ's October 2, 2020 ruling. Opening comments on the PG&E proposal were received from TURN, MRP, Indicated Shippers, PCF, SCGC, SCE, and SBUA. Reply comments were received from

SBUA, Greenlining, CEJA, SCE, Calpine, PG&E, Indicated Shippers, SCGC, PCF, SDG&E, SoCalGas, UCAN and EDF.

On February 26, 2021, the ALJ issued a ruling seeking comments on a series of questions contained in an attachment to the ruling. Comments on the ruling were received from Indicated Shippers, Greenlining, CEJA, Southwest Gas, EDF, PG&E, UCAN, TURN, SCE, SDG&E, SoCalGas, Shell Energy North America (US), L.P. (Shell), MRP, CAISO, SCGC, and CEERT.

On June 25, 2021, the ALJ issued a ruling seeking comments on a staff proposal for a penalty for a utility's sustained failure to meet design standards. Opening comments were received from UCAN, TURN, EDF, PG&E, SoCalGas, SDG&E, Indicated Shippers, PCF, SCGC, and SBUA. Reply comments were received from UCAN, EDF, SDG&E, SoCalGas, PCF, SCGC, Indicated Shippers, and PG&E.

On September 23, 2021, the ALJ issued a ruling denying motions for evidentiary hearings and granting motions for the filing of briefs on all Track 1 issues. Opening briefs were received from TURN, Cal Advocates, EDF, Greenlining, CEJA, Indicated Shippers, SCGC, PCF, PG&E, SDG&E, and SoCalGas. Reply briefs were received from PG&E, TURN, SCGC, PCF, SCE, SDG&E, SoCalGas, UCAN and Indicated Shippers.

On October 12, 2021, an Assigned Commissioner Ruling directed SoCalGas to extend the Rule 30 Operational Flow Order (OFO) noncompliance charge structure adopted in Decision (D.) 19-05-030. The ruling extended the OFO rules and structure adopted in D.19-05-030 until a full Commission decision could be issued on the matter.

On October 14, 2021, an amended Scoping Ruling, revised Track 2 of the proceeding and extended the statutory deadline until August 1, 2023. The amended Scoping Ruling asked for party comments on the amended scope. Opening comments were filed on November 2, 2021 and reply comments were filed on November 12, 2021.

Track 1 opening briefs were filed on October 15, 2021 by TURN, Cal Advocates, EDF, CEJA and Greenlining, Indicated Shippers, SCGC and PCF, PG&E, SoCalGas and SDG&E. Reply briefs were filed by the aforementioned parties and UCAN on October 29, 2021.

On October 29, 2021, the ALJ issued a proposed decision extending the OFO rules and structure adopted in D.19-05-030 for an additional six months. After a round of opening and reply comments, the Commission issued D.21-11-021 extending the OFO rules and structure adopted in D.19-05-030 until May 1, 2022.

On January 5, 2022 an amended Scoping Ruling, reset the proceeding category from quasi-legislative to ratesetting, and reset the time for intervenors to file notices of intent for work related to Track 2.

2. Current Operational Flow Order Structure

For SoCalGas and SDG&E, D.19-05-030 implemented different OFO penalty structures during specified months of the year.

OFO Penalty Structure June 1-September 30 [SUMMER]

Stage	Daily Imbalance Tolerance	Noncompliance Charge ($/Dth[3])
1	Up to +/- 25%	$0.25
2	Up to +/- 20%	$1.00
3	Up to +/- 15%	$5.00
4	Up to +/- 10%	$5.00
5	Up to +/- 5%	$5.00 plus G-IMB daily balancing standby rate in $/Dth

[3] 10 therms equals 1 dekatherm or Dth.

EFO[4]	Zero	$50.00 plus G-IMB daily balancing standby rate in $/Dth

OFO Penalty Structure October 1-May 31 [WINTER]

Stage	Daily Imbalance Tolerance[5]	Noncompliance Charge ($/Dth)
1	Up to +/- 25%	$0.25
2	Up to +/- 20%	$1.00
3	Up to +/- 15%	$5.00
3.1	Up to +/- 15%	$10.00
3.2	Up to +/- 15%	$15.00
3.3	Up to +/- 15%	$20.00
4	Up to +/- 10%	$25.00
5	Up to +/- 5%	$25.00 plus G-IMB daily balancing standby rate in $/Dth
EFO	Zero	$50.00 plus G-IMB daily balancing standby rate in $/Dth

The adopted eight-stage winter penalty structure for SoCalGas and SDG&E allows for more moderate increases between OFO stages than the prior winter penalty regime.[6] Instead of the OFO penalty increasing from $5 to $25 between Stages 3 and 4, the new rules create intermediate Stages 3.1, 3.2, and 3.3, which impose penalties of $10, $15, and $20, respectively. It is important to note that D.19-05-030 created a caveat to SoCalGas Rule 30. Specifically, negative daily imbalance tolerances for all stages are capped at up to -5% until Aliso Canyon withdrawal capacity is available without constraint to the System Operator for load balancing.[7]

[4] "EFO" refers to Emergency Flow Order.

[5] Negative daily imbalance tolerances for all stages are capped at up to -5% until Aliso Canyon's withdrawal capacity is available without constraint to the System Operator for load balancing.

[6] D.21-11-021 at 1.

[7] *See* SoCalGas Rule 30, Transportation of Customer-Owned Gas.

The OFO rules adopted in D.19-05-030 were to remain in effect until October 31, 2021, unless modified by a subsequent Commission decision.[8] On October 12, 2021, the assigned Commissioner issued a ruling temporarily extending the winter OFO rules and structure adopted in D.19-05-040 until a full Commission decision was issued concerning the matter.

On November 19, 2021, the Commission issued D.21-11-021, extending the temporary eight-stage winter OFO penalty structure for an additional six months.

3. Issues Before the Commission

The Scoping Ruling issued on April 23, 2020, includes the issue of pipeline operating procedures for curtailments and operational flow orders, and whether they should be uniform across the state.[9] Given the temporary nature and limited geographic application of the current SoCalGas OFO penalty structure, we address the issue of whether the temporary winter OFO rules should be extended year-round below and whether they should be expanded to other utility service territories. We also address the expired summer OFO rules.

4. Discussion

Most parties, including PG&E, agree that the winter OFO penalty structure that has been in place for SoCalGas should be retained and expanded statewide.[10] There is disagreement, however, as to whether the summer OFO penalty structure adopted for SoCalGas in D.19-05-030 should continue beyond May 1, 2022.[11]

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[8] D.19-05-030 at 28.

[9] *See* Scoping Ruling at 5: https:/docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M334/K581/334581865.PDF.

[10] TURN Opening Brief at 9.

[11] D.21-11-021 extended the current OFO rules until May 1, 2022.

TURN joins SCE and SCGC in strong support of the continuation of the Summer OFO reduced penalty regime, noting:

> The summer OFO structure currently in place for SoCalGas should remain in effect beyond October 31, 2021, at least until the current constraints on the transmission lines feeding the [Los Angeles] Basin are fully resolved. SoCalGas' current summer OFO penalty regime limits the OFO penalties up through Stage 5 to no more than $5 per dekatherm (Dth), plus the daily balancing standby rate. The October 2, 2020, staff report in this docket noted, at page 42, that the revised Aliso Canyon Withdrawal Protocol has played an important role in reducing the number of Low OFOs that have been called on the SoCalGas system, and that there were no Stage 4 or 5 Low OFOs over the last two summers as a result.
>
> While it is correct that the revised Aliso Canyon Withdrawal Protocol has served to limit the number and stages of Low OFOs since its adoption, TURN is concerned that extreme price spikes could re-emerge in the electric market if the higher winter Low OFO penalties are applied to the summer season as well. There were still 13 Low OFOs called in the summer of 2019, as noted on page 32 of the staff report. Thus, the new Withdrawal Protocol has helped, but price spikes in the SoCalGas city gate market still occurred on several occasions in the summer of 2020. Higher Low OFO penalties could easily exacerbate that situation...
>
> TURN therefore urges this Commission to keep the current SoCalGas summer OFO penalty regime in place until it can be assured that the penalties themselves are not driving up prices in the city gate gas and CAISO electric markets. An easing of the current restrictions on the use of Aliso Canyon might eliminate this potentially serious problem, but unless/until that happens, the current summer Low OFO penalty regime should remain in place in southern California.

TURN cautions that unless the Commission acts to extend the summer OFO provisions of D.19-05-030, wholesale gas and electricity prices will rise.[12]

SoCalGas and SDG&E maintain that the winter OFO structure adopted in compliance with D.19-05-030, and extended by D.21-11-021, should be maintained on a year-round basis to modify behavior to address system conditions and not to artificially suppress prices.[13] The utilities explain that the eight-stage winter OFO structure, compared to the five-stage summer OFO structure, provides a much smoother transition between OFO noncompliance stages and provides SoCalGas' system operator with flexibility to match OFO incentives to prevailing market conditions.[14] SoCalGas and SDG&E request the Commission remove the distinction between summer and winter OFO penalty structures and extend the SoCalGas winter OFO penalty structure year-round including the summer season.[15] Retaining the summer OFO structure could hinder SoCalGas' ability to incentivize deliveries during times of system stress, artificially dampen prices in the summer, and introduce inefficiency into the market by masking the pricing of constraints on the system.[16] The utilities caution that this would be contrary to efforts to increase efficiency and transparency in the gas and electric markets to more accurately reflect the value that gas system provides in enabling electric system reliability and renewable integration.[17]

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[12] TURN Opening Brief at 10.

[13] SoCalGas and SDG&E Opening Brief at 19.

[14] SoCalGas and SDG&E Opening Brief at 19.

[15] SoCalGas and SDG&E Opening Brief at 19 to 20.

[16] SoCalGas and SDG&E Opening Brief at 20.

[17] SoCalGas and SDG&E Opening Brief at 20.

At a workshop held on July 21, 2020, PG&E noted: "limiting the OFO noncompliance charge to $5/Dth is not productive and potentially harmful. The gas system must be operated within safe maximum and minimum pressures. Other than storage, PG&E Gas Operations has zero control over the supplies nominated into the system; therefore there must be sufficient economic signals for supplies to balance demands."[18]

Indicated Shippers argues against uniform reliability standards given the utilities' different system topologies, pipeline capabilities and storage systems.[19] Indicated Shippers contend, "if SoCalGas requires higher penalties because of tighter system tolerances, the PG&E ratepayer shouldn't have to pay more, or incur more risk of penalty, for their supply if PG&E's actual flow risk is much less."[20] Indicated Shippers explains that the two systems interface poorly, potentially leading to increased OFOs.[21]

SCE supports continuing the current winter OFO rules for the winter months only, and returning to the recently expired summer OFO rules. SCE argues that implementing different rules for the winter and summer will allow it to better manage price volatility year-round rather than have rules for winter apply for summer months.[22]

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[18] July 21, 2020, Gas Rulemaking Workshop, Slide 174, *available at*: https://www.cpuc.ca.gov/-/media/cpuc-website/industries-and-topics/documents/natural-gas-and-oil-pipeline-regulation/long-term-gas-planning-rulemaking/r2001007-track1b-july212020-staffworkshop-slides.pdf. Parties are requested to respond in comments on the proposed decision if there are concerns as to this validity of this assertion.

[19] Indicated Shippers Opening Brief at 10 to 11.

[20] Indicated Shippers Opening Brief at 10; citing November 2, 2020 comments at 22.

[21] Indicated Shippers Opening Brief at 11 to 12.

[22] SCE Reply Brief at 3.

5. Conclusion

Parties raise many valid points on the issue of extending the winter OFO rules year-round. Weighing the gas utilities' varying pipeline capabilities against the utilities' ability to incentivize deliveries during times of stress, is complex with many facets. Gas delivery and transparent pricing are paramount as California's gas utilities continue to support electric system reliability. However, given that the eight-stage winter OFO structure has provided a smoother transition between OFO noncompliance stages and provides the SoCalGas/SDG&E system operator with flexibility to match OFO incentives to prevailing market conditions, we agree with SoCalGas and SDG&E that the winter OFO penalty structure should be extended year-round. As PG&E noted, OFO non-compliance charges must provide a sufficient economic signal to balance gas supply and demand.

Further, we extend the winter OFO penalty structure year-round to the PG&E service territory, since that utility is amenable to creating clear and consistent price signals across the state. PG&E's current OFO penalties increase too steeply to allow for a smooth transition between OFO compliance stages.[23] However, the following caveat in SoCalGas' OFO rules will not be extended to PG&E service territory: "negative daily imbalance tolerances for all stages are capped at up to -5% until Aliso Canyon withdrawal capacity is available without constraint to the System Operator for load balancing."

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[23] PG&E's current OFO non-compliance charges are as follows: Stage 1 - $0.25/Dth, Stage 2 - $1/Dth, Stage 3 - $5/Dth, Stage 4 - $25/Dth, and Stage 5 - $25 plus the Daily Citygate Index price/Dth, July 21, 2020, Gas Rulemaking Workshop, Slide 166, *available at:* https://www.cpuc.ca.gov/-/media/cpuc-website/industries-and-topics/documents/natural-gas-and-oil-pipeline-regulation/long-term-gas-planning-rulemaking/r2001007-track1b-july212020-staffworkshop-slides.pdf. Parties are requested to respond in comments on the proposed decision if there are concerns as to this validity of this assertion.

Accordingly, the instant decision adopts the following eight-state OFO penalty structure year-round for SoCalGas, SDG&E, and PG&E service territories, maintaining the specific negative daily imbalance tolerances for SoCalGas.

Year-Round OFO Penalty Structure

Stage	Daily Imbalance Tolerance[24]	Noncompliance Charge ($/Dth)
1	Up to +/- 25%	$0.25
2	Up to +/- 20%	$1.00
3	Up to +/- 15%	$5.00
3.1	Up to +/- 15%	$10.00
3.2	Up to +/- 15%	$15.00
3.3	Up to +/- 15%	$20.00
4	Up to +/- 10%	$25.00
5	Up to +/- 5%	$25.00 plus G-IMB daily balancing standby rate in $/Dth
EFO	Zero	$50.00 plus G-IMB daily balancing standby rate in $/Dth

We understand TURN's concern regarding the potential re-emergence of extreme price spikes if higher winter low OFO penalties are applied during the summer season and acknowledge the need for flexibility to rapidly respond to such events. We therefore approve the following process to allow for the provision of temporary relief from the OFO penalty rules authorized in this decision under <u>limited circumstances</u>. A gas or electric utility may file an expedited Tier 2 advice letter to request a temporary change to the summer OFO penalty structure that the Commission previously adopted for SoCalGas in

[24] For SoCalGas only: Negative daily imbalance tolerances for all stages are capped at up to -5% until Aliso Canyon's withdrawal capacity is available without constraint to the System Operator for load balancing.

D.19-05-030 for either gas utility in the event that there is an extreme price spike, *e.g.*, six times the most recent bidweek average price at the impacted citygate, and there is a sustained lack of sufficient intrastate capacity for utility customers at the impacted utility to schedule enough gas to stay within the OFO tolerance band. The Advice Letter shall be served at least on the service list to this proceeding and may request an effective date no sooner than 10 business days from the date of filing. The Advice Letter filing must include a declaration submitted by an officer of the utility describing the conditions warranting the request. Protests may be filed within five business days. Energy Division staff is authorized to approve a change to the summer penalty structure with a duration not to exceed 120 days from the effective date of the Advice Letter. The Advice Letter will take effect upon approval by Energy Division staff.

6. Comments on Proposed Decision

The proposed decision of ALJs Bemesderfer and Goldberg 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 were filed on __________, and reply comments were filed on _____________ by ________________.

7. Assignment of Proceeding

Clifford Rechtschaffen is the assigned Commissioner and Karl J. Bemesderfer and Sasha Goldberg are the assigned ALJs in this proceeding.

Findings of Fact

1. The temporary winter Operational Flow Order penalty structure, adopted in D.19-05-030 and extended by D.21-11-021, has smoothed the transition

between noncompliance stages and helped to reduce market instability and price spikes.

2. Implementing SoCalGas' winter Operational Flow Order penalty-structure year-round supports efforts to increase efficiency and transparency in the gas and electric markets to more accurately reflect the value the gas system provides in enabling electric system reliability and renewable integration.

Conclusions of Law

1. The temporary winter Operational Flow Order penalty structure adopted in D.19-05-030 should be extended and implemented year-round in SoCalGas, SDG&E, and PG&E service territories.

2. The following caveat in SoCalGas' OFO rules in D.19-05-030 should not extend to PG&E, "negative daily imbalance tolerances for all stages are capped at up to -5% until Aliso Canyon withdrawal capacity is available without constraint to the System Operator for load balancing."

3. It is reasonable to establish an expedited process for staff to approve a request to revise the Operational Flow Order Penalty Structure authorized by this decision to the summer penalty structure under the limited circumstances set out in this decision.

O R D E R

IT IS ORDERED that:

1. Each of Southern California Gas Company, San Diego Gas & Electric Company, and Pacific Gas and Electric Company shall implement the eight-stage Operational Flow Order penalty structure adopted in Decision (D.) 19-05-030 and extended in D.21-11-021 year-round.

2. The caveat in Decision 19-05-030 that "negative daily imbalance tolerances for all stages are capped at up to -5% until Aliso Canyon withdrawal capacity is

available without constraint to the System Operator for load balancing" shall not extend to Pacific Gas and Electric Company.

3. Requests for changes to the Operational Flow Order shall be submitted via a Tier 2 Advice Letter, consistent with Section 5 of this decision.

4. Rulemaking 20-01-007 remains open.

This order is effective today.

Dated ____________________________, at San Francisco, California.