

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

ENERGY DIVISION

**Agenda ID# 22016**  
RESOLUTION G-3596  
November 16, 2023

**R E S O L U T I O N**

Resolution G-3596, Southern California Gas Company's 2022 Annual Compliance Report on System Operator's Southern System Reliability Purchases and Sales (October 1, 2021—September 30, 2022).

PROPOSED OUTCOME:

- Approves Southern California Gas Company (SoCalGas) Advice Letter 6053-G.

SAFETY CONSIDERATIONS:

- There are no safety considerations associated with this Resolution.

ESTIMATED COST:

- Net cost of \$18,339,863

By Advice Letter 6053-G, filed on November 1, 2022

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**SUMMARY**

The Southern California Gas Company (SoCalGas) submitted Advice Letter (AL) 6053-G on November 1, 2022, containing its 2022 Annual Compliance Report (ACR) on the Utility System Operator's Southern System Reliability Purchases and Sales for the period from October 1, 2021, through September 30, 2022. Due to an El Paso Natural Gas (EPNG) pipeline rupture near Coolidge, Arizona on August 15, 2021, and strained Southern System conditions, SoCalGas made 141 gas purchases to satisfy the Southern System minimum flow requirements at a cost of \$48,547,425. The System Operator also incurred \$1,087,576 in transportation charges to bring the gas to the SoCal Citygate. Together, these costs totaled \$49,635,001. The gas was then resold at the SoCal Citygate for \$31,295,138. Therefore, the total net cost to SoCalGas was \$18,339,863 during this

reporting period. This Resolution finds the actions taken by SoCalGas to be reasonable and approves all transactions.

## **BACKGROUND**

This Resolution approves Advice Letter (AL) 6053-G. SoCalGas is required to file this advice letter annually pursuant to Decision (D.) 09-11-006, Resolution G-3542, and SoCalGas Rule No. 41, Section 26. Specifically, SoCalGas is required to provide a report by November 1 of each year demonstrating that the procurement activities of its System Operator (formerly Operational Hub) during the preceding 12 months ending September 30 were in compliance with the standards, criteria, and procedures set forth in Rule No. 41.

The purpose of these activities is to allow SoCalGas' System Operator to maintain the reliability of gas service on its Southern System. The southern part of the SoCalGas gas transmission pipeline system (the Southern System) requires a minimum amount of gas flow to operate reliably. Prior to 2007, the utility's Gas Acquisition Department maintained minimum gas flow into the Southern System using core customer assets. This responsibility was transferred to the System Operator by D.07-12-019.

**D.07-12-019** also approved the following tools, which can be used by the System Operator to meet Southern System reliability requirements:

- the ability to buy and sell gas on a spot basis as needed;
- the authority and the requirement to conduct at least one annual request for offers (RFO) seeking proposals for managing minimum flows; and
- the authority to submit an Advice Letter for approval of contracts that result from an RFO or open season process.

**D.09-11-006** created criteria for determining the reasonableness of spot market purchases made outside Commission-approved contracts.

Subsequent Resolutions authorized additional tools and specified certain conditions that the System Operator can use to meet Southern System reliability requirements.

**Resolution G-3474**, issued on July 17, 2012, allowed the System Operator to move natural gas from Blythe/Ehrenberg to Otay Mesa, California, in order to support minimum flow requirements on the Southern System.<sup>1</sup>

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<sup>1</sup> Rule 41, Section 17.

**Resolution G-3486**, issued on December 5, 2013, granted SoCalGas' request to change Rule 30<sup>2</sup> to state that deliveries to the Southern System would not be reduced below 110 percent of the Southern System minimum, even during systemwide overnomination events (110 percent allowance). Overnomination events typically result in the calling of a High Operational Flow Order (High OFO) and can lead to Capacity Constraint Reductions.<sup>3</sup> In response to stakeholder concerns that this change would result in increased cuts to non-Southern System receipt points on High OFO days, the Resolution also required the following information to be added to the Annual Compliance Report (ACR)<sup>4</sup>: a) the frequency of systemwide overnomination events concurrent with the need of the System Operator to maintain minimum flows; (b) the effectiveness of the 10 percent margin of error and the need to increase or decrease the margin of error; and (c) the impact on deliveries to other receipt points.

**Resolution G-3487**, issued on October 7, 2013, gave the System Operator the authority to enter into winter baseload gas contracts, December through March, to improve Southern System reliability provided the contracts meet certain criteria.<sup>5</sup> On July 8, 2016, the Commission authorized a three-year extension of that preauthorization of authority to enter into winter baseload contracts until March 31, 2019.<sup>6</sup>

Energy Division approval of **AL 4978-G**, issued on July 21, 2016, gave SoCalGas the authority to enter into summer baseload gas contracts to ensure Southern System reliability during the summer in the aftermath of the Aliso Canyon gas leak.<sup>7</sup>

**Resolution G-3542**, issued on October 25, 2018, changed the due date for the Annual Compliance Report and Advice Letter from October 1 to November 1.

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<sup>2</sup> Rule 30 governs the rules and procedures for transportation of natural gas on SoCalGas' system.

<sup>3</sup> High OFOs create a financial incentive for customers to reduce their scheduled gas deliveries. If customers do not reduce their deliveries sufficiently, the System Operator can cut gas at the border by not letting it enter the SoCalGas system. These cuts are known as Capacity Constraint Reductions and are sometimes called "windowing" by stakeholders.

<sup>4</sup> The Annual Compliance Report details the SoCalGas System Operator's gas purchases and sales in support of the Southern System to document that they were done in compliance with Rule 30 and Rule 41.

<sup>5</sup> Rule 41, Section 20, defines wintertime as December through March.

<sup>6</sup> SoCalGas AL 4970, approved by Energy Division disposition letter on July 8, 2016.

<sup>7</sup> Rule 41, Section 29.

**Advice Letter 5454-G**, approved by Energy Division disposition letter on May 9, 2019, extended the authorization for summer baseload contracts through September 2021 and that for winter baseload contracts through March 31, 2022.

**Resolution G-3588**, issued on June 2, 2022, approved 37 Southern System Purchases and Sales from October 2020 through September 2021. The total net cost SoCalGas incurred to help satisfy Southern System minimum flow requirements during that period was \$8,575,372.

The criteria for determining the reasonableness of spot and baseload gas transactions are described in Sections 13-20 and 29 of SoCalGas' Rule 41. The sections relevant to this AL filing are Sections 14(a), 14(b), 15, and 17, which are described below.

**Section 14(a)** provides that the Operational Hub's<sup>8</sup> *day-ahead* spot market purchases or sales of gas will be deemed reasonable if the price is less than or equal to 110 percent of the Natural Gas Intelligence (NGI) Avg Index for the flow date and relevant trading point. Spot gas sales must be greater than or equal to 90 percent of the NGI Avg Index.

**Section 14(b)** states that the Operational Hub's transactions on the *intraday* spot market are reasonable if the spot purchase price is less than or equal to 110 percent of the NGI High for the current flow date and relevant trading point. Spot sales are reasonable if they are greater than or equal to 90 percent of the NGI Low for the current flow date.

**Section 15** provides that gas purchases or sales at prices outside the ranges specified in Section 14 of the tariff, will be deemed reasonable if the Gas Control Department<sup>9</sup> determines that spot purchases are necessary to meet minimum flow requirements, and the Operational Hub monitors and records available price information for deliveries of gas at all relevant trading points. If volumes available on the Intercontinental Exchange (ICE) meet or exceed the minimum flow requirements, transactions for the volumes

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<sup>8</sup> The SoCalGas System Operator (of which the Operational Hub was a part) denotes all of the applicable departments within SoCalGas and SDG&E responsible for the physical and commercial operation of the pipeline and storage systems specifically excluding the Utility Gas Procurement Department. Prior to the Aliso Canyon gas storage leak, the Operational Hub sold unused storage and transmission capacity on an interruptible basis. Until the August 31, 2023 CPUC decision to increase the Aliso Canyon maximum inventory and reinstate the Unbundled Storage Program, there was no unused capacity to sell, so the System Operator has purchased gas to meet minimum flow requirements on the Southern System.

<sup>9</sup> The Gas Control Department is the sole authority for: operating the pipeline and storage system, developing the system sendout (i.e., demand) forecasts to be used for purposes of determining the daily Southern System minimum flow requirements, and for issuing Operational Flow Orders (OFOs).

offered through ICE shall be deemed reasonable. The Operational Hub may also post an offer/bid on ICE for volumes. When less than the required volumes are available on ICE, the Operational Hub shall contact gas suppliers (other than the Utility Gas Procurement Department or affiliates), request offers for the necessary supplies, and record their offers for gas delivered to the relevant trading points to ensure at least three offers from three different suppliers are available for comparison. The Operational Hub shall compare prices posted on ICE and prices quoted by its supplier contracts and select the best prices available to meet the quantities required to meet minimum flow requirements.

**Section 17** states that purchases and sales other than those described in Sections 14, 15, and 16 will not be deemed unreasonable but shall be subject to review and any requests for explanation by the Commission's Energy Division in conjunction with the Annual Compliance Report.

### **NOTICE**

Notice of AL 6053-G was made by publication in the Commission's Daily Calendar. SoCalGas states that a copy of the Advice Letter was mailed and distributed in accordance with Section 4 of General Order 96-B.

### **PROTESTS**

Advice Letter 6053-G was not protested.

### **DISCUSSION**

This Resolution finds the actions taken by SoCalGas to maintain the Southern System minimum flow requirement to be reasonable and approves all of the transactions presented in AL 6053-G.

The Commission has reviewed AL 6053-G and Attachments A through F<sup>10</sup> and finds that SoCalGas adhered to the requirements set forth in Rule No. 41 in making gas purchases and sales to support the Southern System minimum for the reporting period October 1, 2021, through September 30, 2022.

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<sup>10</sup> AL 6053-G, Attachment E is Confidential.

As shown in the following table, SoCalGas spent \$18,339,863 to support the Southern System minimum flow requirements during this reporting period. SoCalGas purchased 2,952,355 dekatherms (Dth) of gas (net of in-kind fuel)<sup>11</sup> at Southern System receipt points (Ehrenberg and Otay Mesa) for \$48,547,425. The System Operator also incurred \$1,087,576 in transportation charges to bring the gas to the SoCal Citygate. Together, these costs totaled \$49,635,001. The gas was then resold at the SoCal Citygate for \$31,295,138. Hence, the total net cost to SoCalGas was \$18,339,863. There was no baseload contract activity for the 2021-22 reporting period; all purchases were made in the spot market.

Table 1 below categorizes the gas purchases for this reporting period by the section of Rule 41 under which they are allowed.<sup>12</sup> During the 2021-22 reporting period, SoCalGas made purchases under Sections 14(a), 14(b), 15, and 17. Attachments A through E of AL 6053-G provide the information needed to verify that these purchases are correctly categorized and meet the standards set out in Rule 41. This information includes: the quantities of gas requested by the System Operator for each transaction date, the gas purchased and sold, and the Natural Gas Intelligence (NGI) prices for each transaction day. The Commission has reviewed each purchase and has found that all of the 141 purchases were made in compliance with the requirements of Rule No. 41.

During this period, El Paso Natural Gas Pipeline (EPNG), a major supplier to SoCalGas via Line 2000, issued several Strained Operating Condition (SOC) alerts due to ongoing repairs to this line, which combined with hot weather throughout the West, resulted in SoCalGas purchasing the only available offers on a number of occasions. Of the 141 total purchase transactions, 26 were under Sections 14(a) or 14(b) and 113 were under Section 15, which requires SoCalGas to obtain three offers. SoCalGas satisfactorily explains its best efforts to meet its minimum flow requirements and obtain three offers via phone calls, text messages and instant messaging to and from different suppliers in its Advice Letter 6053-G, its Appendices, and its response<sup>[1]</sup> to a Data Request issued by Energy Division staff. There were two purchase transactions under Rule 41, Section 17,

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<sup>11</sup> D.11-04-032 Ordering Paragraph 12 allowed SoCalGas to charge an “in-kind fuel charge” in the form of a set percentage of the total volume of gas to be delivered to a given receipt point to cover the cost of fuel to run its backbone transmission compressor stations. In this case, the System Operator scheduled 2,958,189 Dth of gas of which 5,834 Dth was used to cover the in-kind fuel charge, leaving 2,952,355 Dth to be delivered net of in-kind fuel.

<sup>12</sup> Table 1 was submitted in accordance with Res. G-3480, Ordering Paragraph (OP) 3(b).

<sup>[1]</sup> Southern California Gas Company Response to the Commission’s Energy Division Data Request, September 5, 2023, Submitted September 12, 2023 (Confidential).

which applies when the other Rule 41 purchase possibilities are unavailable. These purchases were satisfactorily explained in Advice Letter 6053-G. The Commission also reviewed SoCalGas’ Spot Market Sales and found that all 135 of the sales were in compliance, including 111 sales under Rule 41, Section 14(a) and 24 sales under Section 14(b).

**Table 1: Southern System Purchases, October 2021–September 2022**

Rule No. 41	Number of Transactions	Transaction %	Purchase \$	Purchase %
Section 14 (a)	6	4%	\$720,935	1%
Section 14 (b)	20	14%	\$4,159,498	9%
Section 15	113	80%	\$40,171,933	83%
Section 17	2	1%	\$3,495,000	7%
Total	141	100	\$48,547,425	100%

The Commission has also reviewed AL 6053-G Attachment F, which details the impact of the 110 percent allowance during over nomination events approved in Res. G-3486, as described above. In this reporting period, there were a total of five days in which Southern System reliability spot purchases coincided with High OFOs. On two of those days, there was no impact to the non-Southern System receipt points either because scheduled Southern Zone deliveries were higher than 110 percent (July 24) or because they were lower than 100 percent (August 6). For the remaining three days—August 7, August 13, and August 14—the scheduled volumes at the Southern Zone were higher than 110 percent and supplies at those points may have been reduced more than if there had been no margin of error, but the 10 percent additional margin of error seems to have had a negligible effect – an average of approximately 0.7 percent per receipt point. SoCalGas maintains that even if the additional margin of error had a larger effect, the 10 percent additional margin is necessary during these circumstances to hedge the possibility that supplies nominated into the Southern System could be reduced for reasons outside SoCalGas’ control. The Commission agrees that the impacts in this reporting period were minimal.

The Commission has reviewed Attachments A through F to AL 6053-G and found that all purchase and sales transactions were correctly categorized and met the reasonableness criteria specified in Rule 41. They are therefore approved.

The purchases and sales in the 2021-2022 reporting period comply with Rule No. 41<sup>13</sup> and are therefore subject to amortization in customer transportation rates on an Equal Cents Per Therm basis effective January 1 of the year following approval by the Commission.<sup>14</sup>

## **COMMENTS**

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

## **FINDINGS**

1. Decision 09-11-006 and Resolution G-3542 direct SoCalGas to file an advice letter on November 1st of each year demonstrating that the Operational Hub's purchases in support of the Southern System during the previous 12 months ending September 30<sup>th</sup> were in compliance with the standards described in Rule 41.
2. SoCalGas incurred a net cost of \$18,339,863 for gas purchases at the Southern System receipt points during the 2021-22 reporting period.
3. All of the gas purchases presented in Advice Letter 6053-G met the requirements to be deemed reasonable under Rule 41 and should be approved.
4. Of the 141 purchases under Rule 41, six met the criteria of Section 14(a), 20 met the criteria of Section 14 (b), 113 met the criteria of Section 15, and two met the criteria of Section 17.
5. Of the 135 sales under Rule 41, 111 met the Section 14(a) criteria and 24 met the Section 14(b) criteria.

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<sup>13</sup> Rule 41, Section 26 states: "On November 1 of each year, the Utility shall provide a report ("Annual Compliance Report") demonstrating that the Operational Hub's procurement activities during the preceding twelve months ending September 30 were in compliance with the standards, criteria and procedures described in Sections 10 through 20 above. The Annual Compliance Report shall be submitted to the Energy Division by Advice Letter and shall be subject to comment or protest. Upon Energy Division review and verification of the Annual Compliance Report and the CPUC Resolution approving the Annual Compliance Report, all the transactions entered into the SRMA [System Reliability Memorandum Account] balance for the year in question that are found reasonable by the Energy Division shall be amortized in customer transportation rates over the following year."

<sup>14</sup> System Reliability Memorandum Account: Upon approval by the Commission of transactions recorded in the SRMA, SoCalGas will amortize the approved transactions in transportation rates effective January 1 of the following year. The transactions will be allocated on an Equal Cents Per Therm (ECPT) basis. [https://tariff.socalgas.com/regulatory/tariffs/tm2/pdf/tariffs/GAS\\_G-PRELIM\\_SRMA.pdf](https://tariff.socalgas.com/regulatory/tariffs/tm2/pdf/tariffs/GAS_G-PRELIM_SRMA.pdf).

6. The impact of the 110 percent allowance was minimal during this reporting period.
7. The SoCalGas purchases and sales in the 2021-22 reporting period are reasonable and comply with Rule 41.

**THEREFORE IT IS ORDERED THAT:**

1. SoCalGas Advice Letter 6053-G is approved.

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 November 16, 2023, the following Commissioners voting favorably thereon:

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Rachel Peterson  
Executive Director