

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



August 31, 2012

Advice Letter 4353
Advice Letter 4353-A

Rasha Prince, Director
Regulatory Affairs
Southern California Gas
555 W. Fifth Street, GT14D6
Los Angeles, CA 90013-1011

**Subject: Revisions to Rule No. 41, Utility System
Operation – Request for Additional System Operator Tool**

Dear Ms. Prince:

Advice Letter 4353 and 4353-A are effective July 12, 2012.

Sincerely,

A handwritten signature in cursive script that reads "Edward F. Randolph".

Edward F. Randolph, Director
Energy Division



Rasha Prince
Director
Regulatory Affairs

555 W. Fifth Street, GT14D6
Los Angeles, CA 90013-1011
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March 30, 2012

Advice No. 4353
(U 904 G)

Public Utilities Commission of the State of California

Subject: Revisions to Rule No. 41, Utility System Operation - Request for Additional System Operator Tool

Southern California Gas Company (SoCalGas) hereby submits for filing revisions to its Rule No. 41, Utility System Operation, applicable throughout its service territory, as shown on Attachment B.

Purpose

SoCalGas hereby requests that the California Public Utilities Commission (Commission) authorize the SoCalGas System Operator to move natural gas from Blythe to Otay Mesa, as needed, to maintain system reliability. As with existing System Operator tools, the cost of this new reliability measure would be recorded in SoCalGas' existing System Reliability Memorandum Account (SRMA) for allocation to all customers.

Background

In Decision (D.) 07-12-019, in the Omnibus Application 06-08-026, the Commission authorized certain changes to the natural gas operations and service offerings of SoCalGas and San Diego Gas & Electric Company (SDG&E). One of the changes adopted by D.07-12-019 was the transfer of the responsibility for managing minimum flow requirements for system reliability from SoCalGas' Gas Acquisition Department to the SoCalGas System Operator.¹ D.07-12-019 further adopted SoCalGas' and SDG&E's request for the following System Operator tools: 1) the ability of the System Operator to buy and sell gas on a spot basis, as needed, to maintain system reliability; 2) authority to conduct a Request for Offers (RFO) or open season process consistent with the System Operator's needs; and 3) authority for an Expedited Advice Letter approval process for contracts that result from an RFO or open season process.² If SoCalGas believes it needs additional System Operator tools, it must file a standard (non-expedited) advice filing with the Commission.³

¹ D.07-12-019, mimeo, at 112 (Ordering Paragraph No. 15). Although the Decision refers to "Gas Acquisition Department," the tariffs that were filed in that proceeding and later proceedings use the phrase "Utility Gas Procurement Department." Both terms refer to the same group.

² D.07-12-019, mimeo, at 112 (Ordering Paragraph No. 16).

³ D.07-12-019, mimeo, at 112 (Ordering Paragraph No. 17).

As the Commission explained in D.07-12-019, only the Southern Transmission System (Southern System) has minimum flow requirements right now, and those requirements can be met by supplies delivered to either the Blythe or Otay Mesa receipt points.

Currently, there are no ongoing minimum flowing gas requirements at any receipt point on the SoCalGas/SDG&E transmission system other than Blythe. Supplies delivered at Blythe support any customer demand on the Southern Transmission System east of Moreno Station and any customer demand not met by Chino and Prado Stations during peak periods. Supply delivered in the future to the Otay Mesa receipt point may assist in fulfilling the minimum flowing gas supply requirement at Blythe.

Currently, no other locations on the SoCalGas/SDG&E transmission system depend upon supply delivered at a specific receipt point. This is due to the high level of interconnectivity and redundancy on the SoCalGas/SDG&E transmission system. Accordingly, Applicants do not anticipate a need for ongoing minimum flowing gas supply requirements at any receipt points other than Blythe, except for Otay Mesa. However, as new supply receipt points are created, SoCalGas/SDG&E may need to establish minimum flowing gas supply requirements at other receipt points in order to maintain system integrity and reliability, depending upon the level of system improvements and pipeline installed to receive those new supplies.⁴

Up to now, spot purchases, supplemented by certain supply contracts and options authorized by the Commission, have generally enabled the System Operator to provide reliable service to the Southern System at a reasonable cost. In certain instances, however, the System Operator has needed to deliver supplies at Otay Mesa, rather than Blythe, in order to preserve Southern System reliability. In such instances, supplies were needed at the South end of the Southern System in order to maintain minimum system pressures, and supplies delivered to Blythe were not a reasonable substitute.⁵ To effectuate these deliveries, the System Operator purchased spot supplies at Otay Mesa, and also called upon the Gas Acquisition Department, as a provider of last resort, to deliver supplies to Otay Mesa through SoCalGas' interruptible transportation arrangements on the North Baja, Rosarito, and TGN pipelines.⁶

Requested Authorizations

SoCalGas hereby requests that the Commission authorize the SoCalGas System Operator to move natural gas from Blythe to Otay Mesa, as needed, to maintain system reliability. As with

⁴ D.07-12-019, mimeo, at 64-65. Blythe is located at the California/Arizona border, approximately 120 miles east of Palm Springs. Otay Mesa is located at the California/Mexico border, approximately 10 miles inland from the Pacific Ocean.

⁵ In particular, during the February 2011 curtailments that resulted from severe supply shortages caused by force majeure conditions east of California, the System Operator needed to bring supplies into Otay Mesa. These deliveries are discussed in more detail in SoCalGas AL No. 4282 (SoCalGas' annual compliance report on System Operator Southern System reliability purchases and sales).

⁶ The System Operator has the ability to call on the Gas Acquisition Department as a best-efforts provider of last resort to the extent that the System Operator tools fail to ensure system reliability. See D.07-12-019, mimeo., at 56, 110 (Finding of fact No. 47). See also Section 12 of SoCalGas Rule No. 41.

existing System Operator tools, the cost of this new reliability measure would be recorded in SoCalGas' existing SRMA for allocation to all customers.

The System Operator will likely be required, in the near future, to deliver supplies at Otay Mesa to maintain minimum system pressures at the South end of the SDG&E System. Based on preliminary information from California Independent System Operator (CAISO) and SoCalGas' own analysis, it appears to SoCalGas that the loss of San Onofre Nuclear Generating Station (SONGS) over the next few months could translate into an additional 100-200 MMcfd of gas-fired generation in the San Diego area. This additional generation load may create a threat to Southern System reliability unless the System Operator delivers supplies to Otay Mesa.

As noted above, the System Operator already may call on Gas Acquisition, as a supplier of last resort, to move core supplies from Blythe to Otay Mesa. SoCalGas believes it would make more sense, however, for the Commission to authorize the System Operator to move supplies to Otay Mesa on its own. That way, the System Operator could directly compare the relative costs of moving supplies versus spot purchases, and the System Operator would not have to wait until the Rule No. 41 supplier-of-last-resort criteria have been satisfied in order to move supplies to Otay Mesa.⁷ Further, this additional authorization will cut down on instances in which the System Operator is required to call on Gas Acquisition as a supplier of last resort, which is consistent with the transfer of minimum system support responsibilities from Gas Acquisition to the System Operator.

SoCalGas proposes that the System operator be authorized to use this new system support tool any time SoCalGas' Gas Control department asks for supplies to be delivered to Otay Mesa rather than Blythe. SoCalGas further proposes that the cost of moving supplies from Otay Mesa to Blythe be deemed reasonable whenever the System Operator determines that: (1) the cost of buying spot gas at Blythe and moving the gas to Otay Mesa is less than the cost of spot purchases at Otay Mesa; or (2) the needed spot supplies are not available for purchase at Otay Mesa.

Proposed Rule No. 41 Revisions

Proposed revisions to SoCalGas' Rule No. 41 to establish this new System Operator tool include:

1. Section 6 under Structure, Procedures, and Protocols has been changed to state that System Operator tools used are authorized by the Commission and to include the movement of supplies between the Blythe and Otay Mesa delivery points.
2. A new section 15 under Purchases and Sales to Manage Minimum Flow Supplies has been added to include, in addition to obtaining spot purchases at Otay Mesa, the option to move supplies from Blythe to Otay Mesa and the conditions when such movement shall be deemed reasonable.
3. All the other sections have been renumbered and references thereto have been corrected throughout.

For ease of review, included as Attachment C is the redline version of Rule No. 41.

⁷ This process can take several hours because to the time it takes for gas to physically move through the connecting pipelines between the two receipt points.

Protests

Anyone may protest this advice letter to the Commission. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. The protest must be made in writing and must be received within 20 days of the date of this advice letter, which is April 19, 2012. There is no restriction on who may file a protest. The address for mailing or delivering a protest to the Commission is:

CPUC Energy Division
Attention: Tariff Unit
505 Van Ness Avenue
San Francisco, CA 94102

Copies of the protest should also be sent via email to the attention of the Energy Division Tariff Unit (EDTariffUnit@cpuc.ca.gov). A copy of the protest shall also be sent via both e-mail and facsimile to the address shown below on the same date it is mailed or delivered to the Commission.

Attn: Sid Newsom
Tariff Manager - GT14D6
555 West Fifth Street
Los Angeles, CA 90013-1011
Facsimile No. (213) 244-4957
E-Mail: snewsom@semprautilities.com

Effective Date

SoCalGas believes that this filing is subject to Energy Division disposition and should be classified as Tier 2 (effective after staff approval). SoCalGas respectfully requests that this advice letter be approved and the tariffs made effective on April 29, 2012, which is 30 calendar days after the date filed.

Notice

A copy of this advice letter is being sent to the parties listed on Attachment A to this advice letter, which includes interested parties in A.06-08-026, Omnibus Application and A.10-03-028, FAR Update Proceeding.

Rasha Prince
Director - Regulatory Affairs

Attachments

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. **SOUTHERN CALIFORNIA GAS COMPANY (U 904G)**

Utility type:

ELC GAS
 PLC HEAT WATER

Contact Person: Sid Newsom

Phone #: (213) 244-2846

E-mail: SNewsom@semprautilities.com

EXPLANATION OF UTILITY TYPE

ELC = Electric GAS = Gas
PLC = Pipeline HEAT = Heat WATER = Water

(Date Filed/ Received Stamp by CPUC)

Advice Letter (AL) #: 4353

Subject of AL: Revision of Rule No. 41 and Request for Additional System Operator Tools

Keywords (choose from CPUC listing): Rules

AL filing type: Monthly Quarterly Annual One-Time Other

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #:

None

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL No

Summarize differences between the AL and the prior withdrawn or rejected AL¹: N/A

Does AL request confidential treatment? If so, provide explanation: No

Resolution Required? Yes No

Tier Designation: 1 2 3

Requested effective date: 4/29/12

No. of tariff sheets: 7

Estimated system annual revenue effect (%): N/A

Estimated system average rate effect (%): N/A

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: Rules, TOCs

Service affected and changes proposed¹: N/A

Pending advice letters that revise the same tariff sheets: None

Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:

**CPUC, Energy Division
Attention: Tariff Unit
505 Van Ness Ave.,
San Francisco, CA 94102
EDTariffUnit@cpuc.ca.gov**

**Southern California Gas Company
Attention: Sid Newsom
555 West 5th Street, GT14D6
Los Angeles, CA 90013-1011
SNewsom@semprautilities.com**

¹ Discuss in AL if more space is needed.

ATTACHMENT A

Advice No. 4353

(See Attached Service Lists)

ATTACHMENT B
Advice No. 4353

Cal. P.U.C. Sheet No.	Title of Sheet	Cancelling Cal. P.U.C. Sheet No.
Revised 48077-G	RULE NO. 41, UTILITY SYSTEM OPERATION, Sheet 3	Original 45401-G
Revised 48078-G	RULE NO. 41, UTILITY SYSTEM OPERATION, Sheet 5	Revised 46411-G
Revised 48079-G	RULE NO. 41, UTILITY SYSTEM OPERATION, Sheet 6	Original 45404-G
Revised 48080-G	RULE NO. 41, UTILITY SYSTEM OPERATION, Sheet 7	Revised 47204-G
Revised 48081-G	RULE NO. 41, UTILITY SYSTEM OPERATION, Sheet 8	Original 45406-G
Revised 48082-G	TABLE OF CONTENTS	Revised 47212-G*
Revised 48083-G	TABLE OF CONTENTS	Revised 48076-G

Rule No. 41

Sheet 3

UTILITY SYSTEM OPERATION

(Continued)

STRUCTURE, PROCEDURES, AND PROTOCOLS (Continued)

6. The Operational Hub will use the tools authorized by the Commission to support the Southern System minimum flow requirement, including the purchase/sale of spot gas supplies, and the issuance of "Requests For Offers" (RFOs) for proposals to enable the Utility to manage its minimum flow requirements to the Southern System delivery points (in accordance with Sections 9 and 10 below), and the movement of supplies between the Blythe and Otay Mesa Southern System delivery points. All purchases and sales of spot gas to support the minimum flow requirement will be made subject to Sections 11 and 12 below, and the movement of supplies between the Blythe and Otay Mesa Southern System delivery points will be made subject to Section 15 below. The initial daily quantity of needed supplies will be determined by the Gas Control Department based on the following formula:

Minimum Flowing Supply Requirement minus

Best Available Scheduled Quantities Reflecting Customer Flows into the Southern System =

Additional Supplies Needed by the Gas Control Department

"Best Available Scheduled Quantities" are the last available scheduled quantities. The last available scheduled quantities will be adjusted by the Gas Control Department to account for revised customer nominations for a particular day if the last available scheduled quantities cannot be achieved on the day in question. On those days a lower number would be utilized to reflect expected deliveries. The same would apply if the Gas Control Department becomes aware of pipeline issues such as approaching maintenance or lack of upstream pipeline/supplier performance, in which case the last available scheduled quantities would be reduced to reflect the expected deliveries.

7. Whenever the Gas Control Department determines that additional supplies are needed for the Southern System, the Gas Control Department will promptly contact the Operational Hub for assistance. The Operational Hub will attempt to acquire needed supplies in accordance with Sections 9 through 18 below.

(Continued)

(TO BE INSERTED BY UTILITY)
 ADVICE LETTER NO. 4353
 DECISION NO.

ISSUED BY
Lee Schavrien
 Senior Vice President

(TO BE INSERTED BY CAL. PUC)
 DATE FILED Mar 30, 2012
 EFFECTIVE Jul 12, 2012
 RESOLUTION NO. _____

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UTILITY SYSTEM OPERATION

(Continued)

PURCHASES AND SALES TO MANAGE MINIMUM FLOW SUPPLIES (Continued)

12. The Utility Gas Procurement Department will act on a best-efforts basis to provide gas supplies based on the Operational Hub's request if called upon as a provider of last resort. "Provider of last resort" relates to the circumstance in which the Operational Hub has attempted to use all other available tools, has entered the open market for gas commodity purchases, has been unsuccessful in meeting its need to receive a required volume of flowing supplies at a specific location, and system reliability is therefore jeopardized. If the Operational Hub has exhausted its other options available to acquire the required flowing supplies, it will contact the Utility Gas Procurement Department and request that it provide gas to meet the remaining minimum flow requirement. Such requests will occur as soon as possible during the actual flow day. The Utility Gas Procurement Department will charge the Operational Hub the actual incremental costs incurred to provide the specific supplies. Verification that the Utility has followed this procedure will be included in the annual compliance report provided to the CPUC in conjunction with the Advice Letter addressed in Section 24 below.
13. Standards and criteria for spot purchases or sales of gas commodity for which standards and criteria are not specified in CPUC-approved contracts shall be as follows:
- a. Should it be necessary for the Operational Hub to purchase or sell spot supplies of gas in the day-ahead market, the Operational Hub shall be deemed to have made reasonable (1) spot purchases if the purchase price is less than or equal to 110% of the ICE Wtd Avg Index for the flow date for the relevant trading point and (2) spot sales if the sale price is greater than or equal to 90% of the ICE Wtd Avg Index for the flow date for the relevant trading point.
 - b. Should it be necessary for the Operational Hub to purchase or sell spot supplies of gas in the intraday market, the Operational Hub shall be deemed to have made reasonable (1) spot purchases if the purchase price is less than or equal to 110% of the ICE High for the current flow date for the relevant trading point and (2) spot sales if the sale price is greater than or equal to 90% of the ICE Low for the current flow date for the relevant trading point.

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(TO BE INSERTED BY UTILITY)
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DECISION NO.

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Lee Schavrien
Senior Vice President

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Rule No. 41

UTILITY SYSTEM OPERATION

(Continued)

PURCHASES AND SALES TO MANAGE MINIMUM FLOW SUPPLIES (Continued)

14. Purchases or sales at prices that are outside the ranges specified in Section 13 (a) and (b) above shall nevertheless be deemed reasonable if the Operational Hub abides by the following procedure: When the Gas Control Department determines that spot purchases are necessary to meet minimum flow requirements, the Operational Hub shall monitor ICE and record the relevant price information, if available, for deliveries of gas at all relevant trading points. If volumes available on ICE meet or exceed the minimum flow requirements, transactions for the volumes 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, if applicable, prices quoted by its supplier contacts, and select the best prices available to meet the quantities required to meet minimum flow requirements. Verification that the Operational Hub has followed this procedure shall be provided to the CPUC in the Annual Compliance Report described in Section 24 below.
15. When the Gas Control Department determines that deliveries at Otay Mesa are necessary to meet minimum flow requirements, such requirements may be satisfied either through spot purchases at Otay Mesa or through the movement of supplies from Blythe to Otay Mesa. Standards and criteria for spot purchases are set forth above. Should it be necessary for the Operational Hub to move supplies from Blythe to Otay Mesa, the movement shall be deemed to be reasonable if (1) the cost of moving the supplies is less than or equal to the difference between the ICE Wtd Avg Index for the Blythe and the cost of spot gas available for purchase at Otay Mesa for the relevant flow date, or (2) if sufficient spot supplies are not available for purchase at Otay Mesa for the relevant flow date.
16. Purchases and sales other than those described in Sections 14 and 15 above will not be deemed unreasonable but shall be subject to review and any requests for explanation by the CPUC Energy Division in conjunction with the Annual Compliance Report described in Section 24 below.
17. Standards, criteria and procedures set forth in Sections 13, 14, 15 and 16 apply to Operational Hub's purchases and sales as of April 1, 2009.
18. The Utility shall seek CPUC authority for any additional tools (other than system modifications that can be completed without an application under current rules) necessary to meet the Southern System minimum flow requirement through an application. Any contracts that are not obtained through an RFO process relating to already-approved tools (i.e., gas purchases, gas exchanges) will be submitted to the CPUC for approval by Advice Letter. Advice Letters seeking approval of the Operational Hub contractual arrangements shall identify the order in which contracts will be implemented to ensure system reliability and integrity at least cost.

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(TO BE INSERTED BY UTILITY)
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Lee Schavrien
 Senior Vice President

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Rule No. 41
UTILITY SYSTEM OPERATION

Sheet 7

(Continued)

ACCOUNTING TREATMENT

19. The cost and revenues of Operational Hub transactions (e.g., natural gas purchases, sales, or exchanges resulting from approved contracts) that are necessary to meet minimum flow requirements shall be recorded in the System Reliability Memorandum Account (SRMA). Prospective changes to the types of the Operational Hub natural gas transactions (“tools”) to meet minimum flow requirements shall be considered in conjunction with the annual Utility Customer Forum described below.

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UTILITY CUSTOMER FORUM

20. The Utility shall hold an annual Utility Customer Forum (the “Forum”), which shall be held around April - May. The Forum will provide an opportunity for the Utility to provide information on, and to address, the following matters with interested parties:

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- i. Review of the timing, method, formulas, and all inputs to formulas by which OFO events are triggered;
- ii. Review of requests for the Operational Hub to acquire additional supplies to meet minimum flow requirements;
- iii. Review of Operational Hub purchases/actions to meet minimum flow requirements and plans for the coming year by providing information regarding the individual transactions, including transactions executed pursuant to the Operational Hub contractual arrangements. Transaction-specific information shall identify price, volume, date, delivery/receipt points, and any special terms;
- iv. Review the need for any additional minimum flow requirements on the Utility system beyond then-current defined requirements;
- v. Review potential additional tools to support system operations and potential system improvements to reduce or eliminate the need for any minimum flowing supply requirements.
- vi. Review of the priority rules set forth in Rule No. 30, Section D.3. in the 2012 Forum only.

21. To facilitate an informed discussion of the issues identified in Section 20 above, the Utility shall prepare an annual report (Report) of system reliability issues. The Report shall: (a) identify the need for new minimum flow requirements, (b) identify potential tools and/or infrastructure improvements that can be used to mitigate new or existing reliability problems (e.g. minimum flow requirements and OFOs), and (c) provide information on the matters identified in Section 20 (i) through (v) above.

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(Continued)

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Senior Vice President

(TO BE INSERTED BY CAL. PUC)
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Rule No. 41

Sheet 8

UTILITY SYSTEM OPERATION

(Continued)

UTILITY CUSTOMER FORUM (Continued)

22. The Utility and participants in each Forum shall collaborate in good faith to develop a post-Forum report. Each post-Forum report shall summarize the matters discussed at the relevant Forum and shall identify any action items, tariff changes and/or procedural modifications that were found to be necessary by parties participating in the Forum. The post-Forum report shall include descriptions of the proposals presented by parties. If a party's proposal is rejected by the Utility, the post-Forum report shall provide the basis for the rejection of the proposal. If any party is dissatisfied with the description of its proposal set forth in the post-Forum report or with the Utility's basis for the rejection of the proposal, the Utility shall include that party's own description of its proposal and comments on the rejection of the proposal in an appendix to the post-Forum Report.

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CPUC REPORTING REQUIREMENTS

23. The Utility shall file each post-Forum report resulting from the Forum with the CPUC by Advice Letter no later than 60 days after conclusion of the relevant Forum. The Utility shall also submit any tariff changes proposed in the Forum and agreed-to by the Utility for the CPUC approval by Advice Letter no later than 60 days after conclusion of each Forum.

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24. On October 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 August 31 were in compliance with the standards, criteria and procedures described in Sections 9 through 18 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 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.

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(TO BE INSERTED BY UTILITY)

ADVICE LETTER NO. 4353
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 Senior Vice President

(TO BE INSERTED BY CAL. PUC)

DATE FILED Mar 30, 2012
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ATTACHMENT C

Advice No. 4353

Rule No. 41 Redline Version

RULE NO. 41
UTILITY SYSTEM OPERATION

Sheet 3

(Continued)

STRUCTURE, PROCEDURES, AND PROTOCOLS (Continued)

6. The Operational Hub will use the tools authorized by the Commission established in D.07-12-019 to support the Southern System minimum flow requirement, including the purchase/sale of spot gas supplies, and the issuance of "Requests For Offers" (RFOs) for proposals to enable the Utility to manage its minimum flow requirements to the Southern System delivery points (in accordance with Sections 9 and 10 below), and the movement of supplies between the Blythe and Otay Mesa Southern System delivery points. All purchases and sales of spot gas to support the minimum flow requirement will be made subject to Sections 11 and 12 below, and the movement of supplies between the Blythe and Otay Mesa Southern System delivery points will be made subject to Section 15 below. The initial daily quantity of needed supplies will be determined by the Gas Control Department based on the following formula:

Minimum Flowing Supply Requirement minus

Best Available Scheduled Quantities Reflecting Customer Flows into the Southern System =

Additional Supplies Needed by the Gas Control Department

"Best Available Scheduled Quantities" are the last available scheduled quantities. The last available scheduled quantities will be adjusted by the Gas Control Department to account for revised customer nominations for a particular day if the last available scheduled quantities cannot be achieved on the day in question. On those days a lower number would be utilized to reflect expected deliveries. The same would apply if the Gas Control Department becomes aware of pipeline issues such as approaching maintenance or lack of upstream pipeline/supplier performance, in which case the last available scheduled quantities would be reduced to reflect the expected deliveries.

7. Whenever the Gas Control Department determines that additional supplies are needed for the Southern System, the Gas Control Department will promptly contact the Operational Hub for assistance. The Operational Hub will attempt to acquire needed supplies in accordance with Sections 9 through ~~18~~ below.

(Continued)

(TO BE INSERTED BY UTILITY)
ADVICE LETTER NO. 4047
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Lee Schavrien
Senior Vice President
Regulatory Affairs

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RULE NO. 41
UTILITY SYSTEM OPERATION

(Continued)

PURCHASES AND SALES TO MANAGE MINIMUM FLOW SUPPLIES (Continued)

12. The Utility Gas Procurement Department will act on a best-efforts basis to provide gas supplies based on the Operational Hub’s request if called upon as a provider of last resort. “Provider of last resort” relates to the circumstance in which the Operational Hub has attempted to use all other available tools, has entered the open market for gas commodity purchases, has been unsuccessful in meeting its need to receive a required volume of flowing supplies at a specific location, and system reliability is therefore jeopardized. If the Operational Hub has exhausted its other options available to acquire the required flowing supplies, it will contact the Utility Gas Procurement Department and request that it provide gas to meet the remaining minimum flow requirement. Such requests will occur as soon as possible during the actual flow day. The Utility Gas Procurement Department will charge the Operational Hub the actual incremental costs incurred to provide the specific supplies. Verification that the Utility has followed this procedure will be included in the annual compliance report provided to the CPUC in conjunction with the Advice Letter addressed in Section 243 below.

13. Standards and criteria for spot purchases or sales of gas commodity for which standards and criteria are not specified in CPUC-approved contracts shall be as follows:

- a. Should it be necessary for the Operational Hub to purchase or sell spot supplies of gas in the day-ahead market, the Operational Hub shall be deemed to have made reasonable (1) spot purchases if the purchase price is less than or equal to 110% of the ICE Wtd Avg Index for the flow date for the relevant trading point and (2) spot sales if the sale price is greater than or equal to 90% of the ICE Wtd Avg Index for the flow date for the relevant trading point.
- b. Should it be necessary for the Operational Hub to purchase or sell spot supplies of gas in the intraday market, the Operational Hub shall be deemed to have made reasonable (1) spot purchases if the purchase price is less than or equal to 110% of the ICE High for the current flow date for the relevant trading point and (2) spot sales if the sale price is greater than or equal to 90% of the ICE Low for the current flow date for the relevant trading point.

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RULE NO. 41
UTILITY SYSTEM OPERATION

Sheet 6

(Continued)

PURCHASES AND SALES TO MANAGE MINIMUM FLOW SUPPLIES (Continued)

14. Purchases or sales at prices that are outside the ranges specified in Section 13 (a) and (b) above shall nevertheless be deemed reasonable if the Operational Hub abides by the following procedure: When the Gas Control Department determines that spot purchases are necessary to meet minimum flow requirements, the Operational Hub shall monitor ICE and record the relevant price information, if available, for deliveries of gas at all relevant trading points. If volumes available on ICE meet or exceed the minimum flow requirements, transactions for the volumes 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, if applicable, prices quoted by its supplier contacts, and select the best prices available to meet the quantities required to meet minimum flow requirements. Verification that the Operational Hub has followed this procedure shall be provided to the CPUC in the Annual Compliance Report described in Section ~~24~~⁴³ below.

15. When the Gas Control Department determines that deliveries at Otay Mesa are necessary to meet minimum flow requirements, such requirements may be satisfied either through spot purchases at Otay Mesa or through the movement of supplies from Blythe to Otay Mesa. Standards and criteria for spot purchases are set forth above. Should it be necessary for the Operational Hub to move supplies from Blythe to Otay Mesa, the movement shall be deemed to be reasonable if (1) the cost of moving the supplies is less than or equal to the difference between the ICE Wtd Avg Index for Blythe and the cost of spot gas available for purchase at Otay Mesa for the relevant flow date, or (2) if sufficient spot supplies are not available for purchase at Otay Mesa for the relevant flow date.

~~16~~⁵. Purchases and sales other than those described in Sections 14 and 15 above will not be deemed unreasonable but shall be subject to review and any requests for explanation by the CPUC Energy Division in conjunction with the Annual Compliance Report described in Section ~~24~~⁴³ below.

~~17~~⁶. Standards, criteria and procedures set forth in Sections 13, 14, ~~15~~⁵ and ~~16~~⁵ apply to Operational Hub's purchases and sales as of April 1, 2009.

~~18~~⁷. The Utility shall seek CPUC authority for any additional tools (other than system modifications that can be completed without an application under current rules) necessary to meet the Southern System minimum flow requirement through an application. Any contracts that are not obtained through an RFO process relating to already-approved tools (i.e., gas purchases, gas exchanges) will be submitted to the CPUC for approval by Advice Letter. Advice Letters seeking approval of the Operational Hub contractual arrangements shall identify the order in which contracts will be implemented to ensure system reliability and integrity at least cost.

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RULE NO. 41
UTILITY SYSTEM OPERATION

Sheet 7

(Continued)

ACCOUNTING TREATMENT

198. The cost and revenues of Operational Hub transactions (e.g., natural gas purchases, sales, or exchanges resulting from approved contracts) that are necessary to meet minimum flow requirements shall be recorded in the System Reliability Memorandum Account (SRMA). Prospective changes to the types of the Operational Hub natural gas transactions (“tools”) to meet minimum flow requirements shall be considered in conjunction with the annual Utility Customer Forum described below.

UTILITY CUSTOMER FORUM

2019. The Utility shall hold an annual Utility Customer Forum (the “Forum”), which shall be held around April - May. The Forum will provide an opportunity for the Utility to provide information on, and to address, the following matters with interested parties:

- i. Review of the timing, method, formulas, and all inputs to formulas by which OFO events are triggered;
- ii. Review of requests for the Operational Hub to acquire additional supplies to meet minimum flow requirements;
- iii. Review of Operational Hub purchases/actions to meet minimum flow requirements and plans for the coming year by providing information regarding the individual transactions, including transactions executed pursuant to the Operational Hub contractual arrangements. Transaction-specific information shall identify price, volume, date, delivery/receipt points, and any special terms;
- iv. Review the need for any additional minimum flow requirements on the Utility system beyond then-current defined requirements;
- v. Review potential additional tools to support system operations and potential system improvements to reduce or eliminate the need for any minimum flowing supply requirements.
- vi. Review of the priority rules set forth in Rule No. 30, Section D.3. in the 2012 Forum only.

210. To facilitate an informed discussion of the issues identified in Section 2019 above, the Utility shall prepare an annual report (Report) of system reliability issues. The Report shall: (a) identify the need for new minimum flow requirements, (b) identify potential tools and/or infrastructure improvements that can be used to mitigate new or existing reliability problems (e.g. minimum flow requirements and OFOs), and (c) provide information on the matters identified in Section 2019 (i) through (v) above.

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RULE NO. 41
UTILITY SYSTEM OPERATION

Sheet 8

(Continued)

UTILITY CUSTOMER FORUM (Continued)

224. The Utility and participants in each Forum shall collaborate in good faith to develop a post-Forum report. Each post-Forum report shall summarize the matters discussed at the relevant Forum and shall identify any action items, tariff changes and/or procedural modifications that were found to be necessary by parties participating in the Forum. The post-Forum report shall include descriptions of the proposals presented by parties. If a party's proposal is rejected by the Utility, the post-Forum report shall provide the basis for the rejection of the proposal. If any party is dissatisfied with the description of its proposal set forth in the post-Forum report or with the Utility's basis for the rejection of the proposal, the Utility shall include that party's own description of its proposal and comments on the rejection of the proposal in an appendix to the post-Forum Report.

CPUC REPORTING REQUIREMENTS

232. The Utility shall file each post-Forum report resulting from the Forum with the CPUC by Advice Letter no later than 60 days after conclusion of the relevant Forum. The Utility shall also submit any tariff changes proposed in the Forum and agreed-to by the Utility for the CPUC approval by Advice Letter no later than 60 days after conclusion of each Forum.

243. On October 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 August 31 were in compliance with the standards, criteria and procedures described in Sections 9 through 187 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 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.

(TO BE INSERTED BY UTILITY)

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