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

November 7, 2018

Ronald van der Leeden
Director - Regulatory Affairs
555 W. Fifth Street, GT14D6
Los Angeles, CA90013-1011

Advice Letter SoCalGas AL 5232

Subject: Revisions to Schedule No. G-IMB

Dear Mr. van der Leeden

SoCalGas Advice Letter 5232 requests approval for modifying the Standby Procurement Charge in Schedule G-IMB by changing the calculation of the penalty from using the Border price index to using the Citygate price index. Staff finds that Resolution G-3316, effective June 1, 2001, references only the Border price. Thus, changing to the Citygate price or another alternative index is a change in methodology not admissible by advice letter. The market dynamics of the SoCalGas pipeline system have changed, in part due to infrastructure constraints, and the issue of differentials between Border and Citygate prices has become acute. However, these changes go beyond those that can be handled by the Advice Letter process. Therefore, the Advice Letter is rejected without prejudice.

In order to address this issue, we recommend that SoCalGas file a new application or request that a change to the calculation of the Standby Procurement Charge be scoped into an appropriate open proceeding.

SoCalGas Advice Letter 5232 was filed on December 12, 2017. On January 2, 2018, protests were timely filed by Southern California Edison (SCE), the Southern California Generation Coalition (SCGC), Shell Energy, and Indicated Shippers. SoCalGas timely filed its reply to protests on January 9, 2018.

Attachment 1 contains the background, summary of protests and response to protest, a discussion of subsequent steps, and our determination for rejecting Advice Letter 5232 without prejudice.

Sincerely.

Edward Randolph

Edward Randolph
Director, Energy Division

CC: Service List A.15-06-020, A.15-07-014
Advice Letter Distribution List - Advice 5232

Attachment 1

Review and Analysis

Background

SoCalGas Advice Letter 5232 was filed December 12, 2017 as Tier 2.
It was suspended on January 10, 2018, for 120 days, and the suspension extended on May 11, 2018, for 180 days.

In Advice Letter 5232, SoCalGas requests approval for modifying the Standby Procurement Charge in Schedule G-IMB, which describes the utility's Transportation Imbalance Service. At present, customers are required to balance to within plus or minus 8% of their actual monthly burn. Imbalance quantities greater than the permitted 8% tolerance band are billed at the Standby Procurement Charge, which is currently calculated at 150% of the highest daily Border price index at the Southern California Border. The details for these calculations are described in Schedule G-IMB.

SoCalGas seeks approval to change the index from the Border price to the Citygate price. The Citygate prices used would be the highest daily price provided by two industry services — Natural Gas Intelligence (NGI) and SNL Energy — starting with the first day in the month the imbalance is created, to five days prior to the applicable imbalance trading period. These two maxima would be averaged, and the actual Standby Procurement Charge calculation for the monthly imbalance would then use the highest value among those daily averages.

The Standby Procurement Charge for monthly imbalances is intended to act as an incentive for noncore balancing agents and core transport agents to schedule monthly deliveries within the permitted tolerances and to cure their imbalances during the imbalance trading periods. To the extent imbalances remain, these customers then rely on Utility Core Procurement Department to cover the shortfall and provide the volume that remains underdelivered.

SoCalGas hypothesizes that when the incentive is not enough, and the Standby Procurement Charge is less than the cost of scheduling gas, it is financially advantageous for customers to underdeliver. In this situation, the Utility Core Procurement Department then provides the volume of shortfall below the prevailing Citygate price. SoCalGas states that noncore balancing agents and core transport agents are subsidized at the expense of core customers, and this creates risks to system reliability.

In Advice Letter 3012 filed on April 6, 2001, SoCalGas recognized that volatility in gas prices could potentially lead to opportunities for price arbitrage and requested that the Commission put in place the extant Standby Procurement Charge based specifically on Border prices. This advice letter was approved in Resolution G-3316 and effective June 1, 2001.

In Advice Letter 5232 SoCalGas requests authorization to change the index from the Border price to the Citygate price due to increased price volatility and frequent, large differentials between Border and Citygate prices.

Protests / Comments

Four protests were received, and a summary of their main points follows below.

Indicated Shippers[1] state that the advice letter ignores imbalances arising from system dynamics, maintenance issues, Aliso Canyon storage issues, and the impact of high Operational Flow Orders (OFOs). Customers cannot make up for previous capacity reductions, so the imbalance carries forward. They point to a lack of data. Their recommendation is to accept the changes, but with Standby Procurement Charge to be based on an average monthly Citygate price rather than a highest daily Citygate price.

Shell Energy's protest contends the price spread arises due to limited availability of transmission capacity and that the utility's proposal to have higher Standby Procurement Charge coupled with the outages would provide a benefit to Sempra shareholders (following the trading of imbalances), via the Gas Cost Incentive Mechanism. Shell recommends that the Standby Procurement Charge be based on an average monthly price rather than a highest daily price and that the 150 percent factor be removed

Southern California Edison's (SCE) view is that the position taken by SoCalGas is speculative and the utility does not present evidence that noncore balancing agents and core transport agents require a higher incentive. It adds that a daily spread would be improperly used for modifying a monthly Standby Procurement Charge and that SoCalGas has not demonstrated why its low OFO and Emergency Flow Order (EFO) procedures are inadequate. SCE adds that SoCalGas places restrictions on receiving supplies, so shortfalls and imbalances persist and carry over. SCE asks the advice letter be rejected. Alternately, it requests that the Commission hold at least one workshop to discuss whether price spikes are systemic or temporary and occurring due to the condition of SoCalGas' system.

The Southern California Generation Coalition (SCGC) takes the position that SoCalGas' proposed modification seeks a rate increase, and under GO 96-B, a utility may not seek a rate increase via an advice letter unless it is to obtain an authorized rate increase. SCGC adds that the Utility Core Procurement Department has been effectively exempted from G-IMB provisions, since it is required to balance to a daily forecast rather than daily usage. Further, Rule No. 30.G allows SoCalGas to use OFOs and EFOs, with applicable noncompliance charges. In SCGC's view, these are sufficient incentives for customers "...to remain within declared daily tolerances." It asks the Commission to reject the advice letter.

SoCalGas' response to the protests was to summarize protestants' positions. The response did not offer counterarguments, nor speak to the SCGC contention that the increase in Standby Procurement Charge would amount to a price increase via advice letter. Finally, there was no reference to the status and dynamics of the SoCalGas system and their impact on customers' procurement.

Similar protests were filed by SCE and Shell Energy for SDGE 2633-G.

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[1] Member companies include, for the purposes of this protest, California Resources Corporation, Chevron U.S.A. Inc., ConocoPhillips Inc., PBF Energy, Phillips 66 Company, and Tesoro Refining & Marketing Company LLC.

Discussion

Energy Division staff reviewed the Advice Letter, protests, and response to protests and suspended Advice Letter 5232 on January 10, 2018, to allow more time for evaluation. The suspension was extended on May 11, 2018.

On August 15, 2018, Southern California Edison (SCE) and Southern California Generation Coalition (SCGC) filed a Petition for Modification (PFM) of A.14-06-021 and A.14-12-017, seeking review of SoCalGas noncompliance charges and OFO / EFO procedures. In its response to the PFM, SoCalGas stated the Standby Procurement Charge is the more critical issue, pointing to the Citygate price spikes of June/July 2018, and asked that the Commission approve indexing to Citygate prices in the Standby Procurement Charge monthly imbalance penalty. Further, in the subsequent pre-hearing conference on October 22, SoCalGas and SDG&E requested that the Commission grant the relief requested in SoCalGas Advice Letter 5232 and SDG&E Advice Letter 2633-G.

Taking account of the above, Energy Division rejects SoCalGas Advice Letter 5232 without prejudice. The Advice Letter seeks approval for changing the index for calculation of Standby Procurement Charge from the Border price to the Citygate price. However, Advice Letter 5232 has not taken account of Resolution G-3316 effective June 1, 2001, which referred specifically and only to the Border price, and not the Citygate price. In the period elapsed since that resolution, the dynamics of the system have changed, including on account of infrastructure constraints, and the issue of differentials in prices has become acute. However, these changes go beyond disposition via advice letter, which is intended to be a ministerial act, and the issues raised here cannot be appropriately addressed via an advice letter filing.

In order to address this issue, we recommend that SoCalGas consider filing a new application or request that a change to the Standby Procurement Charge be scoped into an appropriate open proceeding.

Ronald van der Leeden
Director
Regulatory Affairs

555 W. Fifth Street, GT14D6
Los Angeles, CA 90013-1011
Tel: 213.244.2009
Fax: 213.244.4957
RvanderLeeden@semprautilities.com

December 12, 2017

Advice No. 5232
(U 904 G)

Public Utilities Commission of the State of California

Subject: Revisions to Schedule No. G-IMB

Southern California Gas Company (SoCalGas) hereby submits for approval with the California Public Utilities Commission (Commission) revisions to its Schedule No. G-IMB, Transportation Imbalance Service, as shown in Attachment A.

Purpose

The purpose of this filing is to modify the calculation of SoCalGas' Schedule No. G-IMB's Standby Procurement Charge. This charge is currently based on a calculation which utilizes indices at the Southern California Border. SoCalGas proposes to modify this charge by basing its calculation on indices at the Southern California Citygate instead.

Background

The intent of SoCalGas' Standby Procurement Charge is to incentivize noncore balancing agents and Core Transport Agents (CTAs) to schedule their monthly gas deliveries within their respective tolerances and cure their imbalances during the imbalance trading periods. Providing this incentive is necessary to promote proper planning from the noncore customers and CTAs, and prevent them from depending on the Utility Core Procurement Department to compensate for the underdelivered gas.

Noncore balancing agents and CTAs, however, may choose to underdeliver gas supply when this incentive is not significant enough; in other words, if the Standby Procurement Charge associated with underdelivery is less than the cost of scheduling gas, then it is financially advantageous for noncore balancing agents and CTAs to incur the charge. When noncore balancing agents and CTAs choose to underdeliver their gas supply, the Utility Core Procurement Department subsidizes the gas supply of noncore balancing agents and CTAs, an action that the Commission has repeatedly made clear should not occur and furthermore, an action that results in financial impacts to core procurement customers and potentially undermines system reliability.

In 2001, SoCalGas recognized the upward volatility of natural gas prices at the Southern California Border, and determined that basing its Standby Procurement Charge on natural gas prices at the SoCal Border would properly incentivize noncore balancing agents and CTAs to schedule their monthly gas deliveries within their respective tolerances and to cure their imbalances rather than willfully incur noncompliance charges. Therefore, SoCalGas filed and the Commission approved Advice No. 3012 that requested a modification of the Standby Procurement Charge to reflect SoCal Border prices because, at the time, a SoCal Citygate market had not yet been developed.[1]

Similar to the 2001 request, SoCalGas is now requesting the Commission approve another modification of the Standby Procurement Charge because the current charge, based on SoCal Border prices, may be insufficient to properly incentivize noncore balancing agents and CTAs to schedule their monthly gas deliveries within their respective tolerances and cure their imbalances when SoCal Citygate prices are significantly higher in comparison.

According to S&P Global Market Intelligence, from January 2010 through September 2017, the spread between SoCal Border average indices and SoCal Citygate average indices surpassed $1.00 per Dth on four instances. Recently, in October and November 2017, there were over fifteen instances when the spread between those two indices exceeded $1.00 per Dth.

The most significant example of this large spread occurred on flow day October 24, 2017, when the spread between the SoCal Border average index and SoCal Citygate average index was over $8.00 per Dth due to a significant increase in the SoCal Citygate index.

Other index-based rates have already been set to be determined based on SoCal Citygate prices rather than SoCal Border prices. As one example, the Daily Balancing Standby Rate within G-IMB, which applies during Stage 5 low Operational Flow Orders, Emergency Flow Orders, and curtailments, is based on a SoCal Citygate index. Also, the reasonableness of baseload sales by the Operational Hub is measured against a SoCal Citygate Bidweek average.

The Commission should adopt for SoCalGas, the modifications to the Standby Procurement Charge proposed herein to ensure that noncore balancing agents and CTAs are properly incentivized to schedule within their respective tolerances and cure their imbalances.

[1] The SoCal Citygate market did not develop until after the institution of Firm Access Rights (now called Backbone Transportation Service) by D.06-12-031.

Proposed Revisions to Schedule No. G-IMB

SoCalGas proposes to modify Sheet 2 of Schedule No. G-IMB as shown in redline below and in Attachment A.

Standby Procurement Charge

This charge is applied to customer's cumulative negative transportation imbalance (confirmed transportation deliveries less actual usage) exceeding the 8 percent tolerance band. The Standby Procurement Charge is posted at least one day in advance of each corresponding imbalance trading period for noncore/wholesale and core transport agents (CTAs). It is calculated at 150% of the highest daily citygate ~~border~~ price index at the Southern California Citygate ~~border beginning on the first day of the month that the imbalance is created to five days prior to the start of each corresponding imbalance trading period~~ plus a Brokerage Fee of 0.266¢ per therm for noncore retail service and all wholesale service, and 0.208¢ per therm for core retail service. The highest daily citygate ~~border~~ price index is calculated by: (1) taking the average of ~~an average of the highest prices from~~ "Natural Gas Intelligence's (NGI's) Daily Gas Price Index – Southern California Citygate ~~Border~~ Average" and "SNL Energy's Daily Indices – SoCal Citygate ~~Border.~~" for each day, beginning on the first day of the month that the imbalance is created to five days prior to the start of each corresponding imbalance trading period, then (2) taking the maximum value among those averages.

Protest

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 January 1, 2018. 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 e-mail 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: Ray B. Ortiz
Tariff Manager - GT14D6
555 West Fifth Street
Los Angeles, CA 90013-1011
Facsimile No.: (213) 244-4957
E-mail: ROrtiz@SempraUtilities.com

Effective Date

SoCalGas believes this Advice Letter is subject to Energy Division disposition and should be classified as Tier 2 (effective after staff approval) pursuant to General Order (GO) 96-B and therefore respectfully requests that this Advice Letter be made effective January 11, 2018, which is 30 days after the date filed.

Notice

A copy of this Advice Letter is being sent to SoCalGas' GO 96-B service list and the Commission's service lists for A.15-06-020 and A.15-07-014. Address change requests to the GO 96-B service list should be directed by electronic mail to Tariffs@socalgas.com or call 213-244-2837. For changes to all other service lists, please contact the Commission's Process Office at 415-703-2021 or by electronic mail at Process_Office@cpuc.ca.gov.

Ronald van der Leeden
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: Ray B. Ortiz
Phone #: (213) 244-3837
E-mail: ROrtiz@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) #: 5232

Subject of AL: Revisions to Schedule No. G-IMB

Keywords (choose from CPUC listing): Standby Service

AL filing type: ☐ Monthly ☐ Quarterly ☐ Annual ☒ One-Time ☐ Other

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

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 AL[1]: N/A

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

Resolution Required? ☐ Yes ☒ No Tier Designation: ☐ 1 ☒ 2 ☐ 3

Requested effective date: 1/11/18 No. of tariff sheets: 3

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: Schedule No. G-IMB and TOCs

Service affected and changes proposed[1]: 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: Ray B. Ortiz
555 West 5th Street, GT14D6
Los Angeles, CA 90013-1011
ROrtiz@semprautilities.com
Tariffs@socalgas.com

[1] Discuss in AL if more space is needed.

ATTACHMENT A
Advice No. 5232

Cal. P.U.C. Sheet No.	Title of Sheet	Cancelling Cal. P.U.C. Sheet No.
Revised 54541-G	Schedule No. G-IMB, TRANSPORTATION IMBALANCE SERVICE, Sheet 2	Revised 54478-G
Revised 54542-G	TABLE OF CONTENTS	Revised 54539-G
Revised 54543-G	TABLE OF CONTENTS	Revised 54540-G

Schedule No. G-IMB Sheet 2
TRANSPORTATION IMBALANCE SERVICE

(Continued)

RATES (Continued)

Standby Procurement Charge

This charge is applied to customer's cumulative negative transportation imbalance (confirmed transportation deliveries less actual usage) exceeding the 8 percent tolerance band. The Standby Procurement Charge is posted at least one day in advance of each corresponding imbalance trading period for noncore/wholesale and core transport agents (CTAs). It is calculated at 150% of the highest daily citygate price index at the Southern California Citygate plus a Brokerage Fee of 0.266¢ per therm for noncore retail service and all wholesale service, and 0.208¢ per therm for core retail service. The highest daily citygate price index is calculated by: (1) taking the average of "Natural Gas Intelligence's (NGI's) Daily Gas Price Index – Southern California Citygate Average" and "SNL Energy's Daily Indices – SoCal Citygate" for each day, beginning on the first day of the month that the imbalance is created to five days prior to the start of each corresponding imbalance trading period, then (2) taking the maximum value among those averages. D,N D,N D,N D,N N N

Core Retail Service:
SP-CR Standby Rate, per therm
September 2017 .... 53.571¢
October 2017 .... 65.481¢
November 2017 .... TBD*

Noncore Retail Service:
SP-NR Standby Rate, per therm
September 2017 .... 53.629¢
October 2017 .... 65.539¢
November 2017 .... TBD*

Wholesale Service:
SP-W Standby Rate per therm
September 2017 .... 53.629¢
October 2017 .... 65.539¢
November 2017 .... TBD*

*To be determined (TBD). Pursuant to Resolution G-3316, the Standby Charges will be filed by a separate advice letter at least one day prior to December 25.

(Continued)

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(Continued)

(Continued)

TABLE OF CONTENTS

The following listed sheets contain all effective Schedules of Rates and Rules affecting service and information relating thereto in effect on the date indicated thereon.

GENERAL | Cal. P.U.C. Sheet No.

PRELIMINARY STATEMENT

(Continued)