

Application No: A.15-06-020  
Exhibit No.: \_\_\_\_\_  
Witness: Paul Borkovich

Application of Southern California Gas Company  
(U 904 G) and San Diego Gas & Electric Company  
(U 902 G) for Authority to Revise their Curtailment  
Procedures

A.15-06-020  
(Filed June 26, 2015)

**PREPARED REBUTTAL TESTIMONY OF**  
**PAUL BORKOVICH**  
**SOUTHERN CALIFORNIA GAS COMPANY**  
**SAN DIEGO GAS & ELECTRIC COMPANY**

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA

March 4, 2016

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**PREPARED REBUTTAL TESTIMONY**  
**OF PAUL BORKOVICH**

**I. PURPOSE**

The purpose of my prepared rebuttal testimony on behalf of Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) is to: (1) advocate for not extending curtailment trading provisions to electric generators; (2) advocate that any volume of gas that should be considered a “minimum consumption level” or “critical” should be served as core; (3) counter proposals for Involuntary Diversion procedures as unnecessary and potentially counterproductive; (4) continue support for daily instead of hourly curtailment violation charges, support the level of the charges, and support their allocation in rates; (5) support removal of the Service Interruption Credit from tariffs; and (6) support the elimination of the Advice Letter notification process.

**II. CURTAILMENT TRADING PROVISIONS SHOULD NOT BE EXTENDED TO DISPATCHABLE ELECTRIC GENERATORS**

Both Southern California Edison (SCE) and Southern California Generation Coalition (SCGC) assert that electric generation (EG) customers within a local zone should not be excluded from curtailment trading when a curtailment would provide less gas to the resource than it needs to operate at its minimum output range.<sup>1</sup> SCE asserts that the grid operator is not required to revise its dispatch to relieve this situation.<sup>2</sup> Whether that is true or not, it is definitely not the SoCalGas/SDG&E System Operator’s responsibility to do so.

The California Independent System Operator (CAISO) provides testimony that tends to refute SCE’s concerns.<sup>3</sup> CAISO supports the need for themselves, as the grid operator, to work

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<sup>1</sup> Direct Testimony of Robert C. Grimm at 16; Direct Testimony of Catherine E. Yap at 34-37.

<sup>2</sup> Direct Testimony of Robert C. Grimm at 16.

<sup>3</sup> Testimony of Robert C. Kott at 3-5.

1 with the SoCalGas/SDG&E System Operator to coordinate the curtailment of electric generation  
2 units when required. Mr. Kott attached CAISO Operating Procedure 4120 to his testimony,  
3 which addresses coordination with SoCalGas/SDG&E when electric generation units are  
4 curtailed. The stated purpose of these procedures is to “provide the CAISO with the opportunity  
5 to advise SoCalGas/SDG&E of whether their proposed curtailments may have an adverse impact  
6 on electric grid reliability and if so, try to mitigate that impact.”<sup>4</sup>

7 CAISO Procedure 4120 requires an EG customer who receives an order from SoCalGas  
8 and SDG&E to curtail to notify its CAISO scheduling coordinator of its maximum allowable  
9 hourly gas burn for the curtailment period. This information is then processed by CAISO to  
10 allow it to determine how it can “redispatch resources as necessary to serve load and maintain  
11 required resources.”<sup>5</sup>

12 In the face of these statements SCE’s assertion that the CAISO would maintain the  
13 dispatch of a curtailed EG unit at or below its minimum output range appears to be mistaken.

14 This is especially so given the following reference in the CAISO Procedure 4120:

15 The CAISO Generation Dispatcher may issue Exceptional Dispatch to shut down units if  
16 shutting down individual units may provide gas availability to units that are more  
17 effective for maintaining reliability.<sup>6</sup>

18 SoCalGas and SDG&E’s priority in ordering a curtailment on its system is to maintain  
19 service to higher priority gas customers. A secondary priority is to work with the grid operators  
20 to help maintain the reliability of the electric system. The CAISO apparently understands that its  
21 primary role during a gas service curtailment is to maintain grid reliability with fewer resources  
22 and already has procedures in place to address the dispatch of EG units to maintain reliability  
23 during gas curtailments. SoCalGas and SDG&E believe there is no need to complicate the

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<sup>4</sup> *Id.* at 4.

<sup>5</sup> *Id.* at 5.

<sup>6</sup> *Id.* at Attachment (page 10).

1 electric-gas coordination effort by adding curtailment trading procedures between dispatchable  
2 EG customers outside the oversight of the respective grid operators.

3 **III. TRADING CURTAILMENT PRIORITY BETWEEN DISPATCHABLE EG**  
4 **CUSTOMERS AND OTHER NONCORE CUSTOMERS WOULD NOT WORK**  
5 **UNDER THE CURRENT PROPOSAL**

6 SCGC's proposal to allow trading between dispatchable EGs and other noncore  
7 customers<sup>7</sup> is not practical. It would require the Non-EGs involved to accept curtailment based  
8 on real-time usage and to cover the costs to monitor their usage on an hourly basis in order to be  
9 remotely workable as a curtailment tool.

10 Under SoCalGas and SDG&E's proposal in this application, dispatchable EG customers  
11 would be curtailed based upon current usage. The curtailment of other higher priority noncore  
12 customers is based upon a seasonal maximum allowed usage. In order for SCGC's proposed  
13 transfer system to be possible, both trading parties would have to be curtailed under the same  
14 criteria. This would require the non-EG noncore customers trading curtailment priority with  
15 dispatchable EG customers to curtail their actual usage immediately per any transfer agreement,  
16 as the dispatchable EG customers are expected to do.

17 In spite of Ms. Yap's assertions, many of the non-EG customers' loads are not monitored  
18 on an hourly basis by the SoCalGas/SDG&E System Operator. If SCGC's proposal were  
19 implemented, these customers, or their dispatchable EG trading partner, would need to pay the  
20 likely substantial cost for systems and technology to allow effective hourly monitoring of their  
21 usage if that capability is not already installed.

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<sup>7</sup> Direct Testimony of Catherine E. Yap at 36.

1 **IV. THE MINIMUM CONSUMPTION LEVEL PROPOSED BY INDICATED**  
2 **SHIPPERS SHOULD BE CLASSIFIED AS CORE USAGE**

3 The Indicated Shippers propose that noncore customers be allowed to specify a minimum  
4 operating limit below which the customer cannot be curtailed.<sup>8</sup> The Indicated Shippers propose  
5 that these loads be aggregated within a local zone and be inserted as a new curtailment step just  
6 prior to the curtailment step that addresses the curtailment of large core loads.<sup>9</sup>

7 SoCalGas and SDG&E believe that creating a new priority for noncore customer load  
8 that is not easily curtailed is not necessary. These loads should instead be reclassified as core  
9 and service should be provided under the appropriate core service rate schedule.

10 SoCalGas and SDG&E offer core service to customers who want the highest level of  
11 service and, therefore, the lowest risk of being curtailed. SoCalGas and SDG&E plan system  
12 capacity to serve these customers based on higher reliability criteria to help maintain service  
13 when noncore load is 100% curtailed.

14 The priority being described by Indicated Shippers for Minimum Consumption Levels is  
15 really no different than large core customer service (P-2A) that has been offered in the past to  
16 large customers who otherwise meet the criteria for noncore service. Customers who contract  
17 for noncore service should plan on complying with a curtailment order immediately when  
18 ordered to do so. SoCalGas and SDG&E believe that a noncore customer should also have the  
19 right to contract for core service for that portion of their load that it believes requires a higher  
20 level of priority.

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<sup>8</sup> Prepared Direct Testimony of James A. Ross at 12-13.

<sup>9</sup> *Id.* at 22.

1 **V. THERE ARE NO REGULATORY REQUIREMENTS IN EFFECT TODAY**  
2 **THAT EXCLUDE CRITICAL CUSTOMERS FROM CORE SERVICE**

3 The Indicated Shippers also propose a list of customer categories that should be used to  
4 predetermine Critical Customer status.<sup>10</sup> SoCalGas and SDG&E believe that most of the  
5 categories listed are describing customers who are appropriately classified as core customers  
6 already. Service to these core customers within a local service zone would not be interrupted  
7 until 100% of the noncore load was curtailed.

8 The Critical Customer designation dates back to the days when end-use priority for a  
9 customer was based on their alternate fuel capability rather than the critical nature of their  
10 function. Back in the 1970s, institutional customers like hospitals, universities, and prisons with  
11 large, central boiler facilities capable of using fuel oil as an alternate fuel were classified under a  
12 lower priority than, for example, oil refinery feedstock or UEG ignitor fuel requirements. Under  
13 these rules, Priority 4 Critical Customers would be ordered to curtail their gas usage with other  
14 Priority 4 customers and switch to alternate fuel when curtailment was required. The Critical  
15 Customer designation was employed to allow these customers to continue to use gas if they  
16 encountered problems in operating with alternate fuel to avoid an emergency. Critical  
17 Customers were required to make up their curtailment violations once they were back on  
18 alternate fuel by extending their use of the alternate fuel to make up their violation after the  
19 curtailment order had been lifted.

20 Today, Critical Customers are no longer subject to these restrictions. Rather than carve  
21 out an additional priority for these customers, they should consider converting to core service if  
22 they require a higher level of service on the gas system.

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<sup>10</sup> Prepared Direct Testimony of James A. Ross at 14.

1 **VI. INVOLUNTARY GAS DIVERSIONS ARE UNNECESSARY AND**  
2 **POTENTIALLY COUNTERPRODUCTIVE UNDER THE PROPOSED**  
3 **CURTAILMENT RULES**

4 SCE argues that Gas Diversion Rules similar to those in place in PG&E Rule 14 should  
5 be added to the SoCalGas and SDG&E Curtailment Proposal.<sup>11</sup> SoCalGas and SDG&E  
6 disagree. These provisions could create an incentive for Noncore Balancing Agents to sit on  
7 significant supply overdeliveries and not trade these quantities with Balancing Agents who are  
8 under-delivered in the citygate gas market during system emergencies.

9 Under PG&E Rule 14, PG&E *may* divert gas supply in its system from noncore end-use  
10 customers to core end-use customers. Emergency Flow Orders (EFOs) are deemed to apply  
11 under these conditions. PG&E has presented testimony in past proceedings indicating that an  
12 Involuntary Diversion would only be called when there is insufficient scheduled gas supply to  
13 serve all core customers.<sup>12</sup> PG&E also indicated in this testimony that an Involuntary Diversion  
14 had not been declared under the Gas Accord structure.

15 If a noncore end-use customer's supply is diverted under PG&E's Involuntary Diversion  
16 procedures, that customer must stop or reduce its use of natural gas. Customers using more than  
17 their post-diverted supply will be assessed a \$50 per Dth diversion charge, plus the \$50 EFO  
18 noncompliance charge and the DCI. The DCI is the PG&E Daily Citygate Index Price as  
19 published in Gas Daily, rounded up to the next whole dollar. Firm PG&E Backbone Shippers  
20 whose gas supply is involuntarily diverted will receive a \$50 per Dth diversion credit. As  
21 Available Backbone Shippers will receive the market price on the day it is diverted.

22 Under SoCalGas Rule 23 and 30, and SDG&E Rule 14 and 30, SoCalGas and SDG&E  
23 would either order a Local System Curtailment across all local zones or declare an emergency

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<sup>11</sup> Direct Testimony of Robert C. Grimm at 3-7.

<sup>12</sup> See A.09-09-013, Prepared Direct Testimony, Chapter 4 at 4-6.



1 under Rule 23.D and curtail noncore load in sufficient quantity to maintain capacity sufficient to  
2 serve Priority 1 and 2A core requirements during a systemwide emergency. Under such an  
3 order, noncore customers violating the emergency order would be charged the proposed \$50 per  
4 Dth curtailment violation charge plus the daily balancing standby rate which is the ICE day-  
5 ahead index for the SoCal Citygate rounded up to the next whole dollar.

6 Like PG&E, SoCalGas and SDG&E would also declare an EFO, requiring Balancing  
7 Agents to schedule gas deliveries and storage withdrawals to meet their respective customer  
8 requirements with a zero underdelivery tolerance. Balancing Agents unable to meet customer  
9 requirements are subject to a \$50 per Dth EFO noncompliance charge plus the daily balancing  
10 standby rate. These charges would apply to all Balancing Agents including the Utility Gas  
11 Procurement Department and Core Transportation Agents (CTAs). Balancing Agents would not  
12 be charged a duplicative daily balancing standby rate for imbalances resulting from their end use  
13 customer curtailment violations.

14 Under the pending gas market scheduling structure scheduled for implementation on  
15 April 1, gas deliveries will be nominated and scheduled under two day-ahead cycles and 4 same  
16 day cycles.<sup>13</sup> Shippers on the upstream pipelines delivering gas to the SoCalGas backbone  
17 system are able to adjust their nominations, subject to elapsed pro rata rules and their  
18 downstream customer contractual obligations. Shippers freed from their customer commitments  
19 when they have curtailed usage per a SoCalGas curtailment order would be able to schedule this  
20 marketable gas supply to the customer who is willing to pay the market rate. The  
21 SoCalGas/SDG&E System Operator would expect the Balancing Agents with operational  
22 customer loads to purchase this gas supply to the extent it is required to avoid paying the \$50 per  
23 Dth EFO noncompliance charge.

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<sup>13</sup> See SoCalGas Advice Letter 4842 and SDG&E Advice Letter 2408-G implementing these changes.

1           Imposing an Involuntary Diversion Policy in addition to the incentives already described  
2 could make it much harder for Balancing Agents to secure supply from shippers with available  
3 supply who could expect to be paid more by not participating under archaic Involuntary  
4 Diversion Rules proposed by SCE. Compensating a noncore shipper for inactivity while core  
5 Balancing Agents are actively looking for supply does not encourage a functional market.

6 **VII. HOURLY CURTAILMENT VIOLATION CHARGES SHOULD BE REPLACED**  
7 **WITH DAILY CHARGES**

8           SCGC's recommendation that hourly curtailment violation charges continue<sup>14</sup> should not  
9 be adopted, and hourly curtailment violation charges should end. Gas is scheduled on a daily  
10 basis, customer usage is measured on a daily basis, and noncompliance charges on the  
11 SoCalGas/SDG&E and PG&E systems under OFO and EFO mechanisms are assessed on a daily  
12 basis. PG&E ended the use of hourly curtailment penalties on its system with the  
13 implementation of the Gas Accord back in 1998. SoCalGas and SDG&E should do so as well.

14 **VIII. SOCALGAS AND SDG&E DO NOT INTEND TO INTERRUPT SERVICE**  
15 **UNDER THE CURTAILMENT PROPOSAL WITHOUT WARNING**

16           In various places in testimony SCGC implies that SoCalGas and SDG&E would apply  
17 their revised curtailment rules without warning or notice.<sup>15</sup> SCGC makes these assertions  
18 without citing an instance when this has happened in the past. For example, SCGC worries that  
19 SoCalGas and SDG&E would physically interrupt service to a curtailed customer without  
20 warning, in all but emergency circumstances, who refuses to comply with a curtailment order.

21           This is not a responsibility that gas service providers like SoCalGas and SDG&E take  
22 lightly. We understand that customers have difficulty complying with a curtailment order if they

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<sup>14</sup> Direct Testimony of Catherine E. Yap at 38.

<sup>15</sup> Direct Testimony of Catherine E. Yap at 23, 24.

1 receive little or no warning before it is implemented. We try to provide as much notice as  
2 possible.

3 **IX. REMOVING CURTAILMENT ADVICE LETTER REQUIREMENTS WILL NOT**  
4 **TAKE GAS CURTAILMENTS OUT OF THE PUBLIC SPOTLIGHT**

5 SCGC asserts that the curtailment advice letter requirement somehow protects customers  
6 against being curtailed, and SCGC's witness cites 137 days of curtailment over the past 5 years  
7 as a reason for the policy to continue.<sup>16</sup> Yet SCGC fails to cite any instance in which the advice  
8 letter process revealed that any of these curtailments were unnecessary or unreasonable.

9 Most of the 137 days of curtailment were attributable to maintenance activity in support  
10 of pipeline safety. Requiring an advice letter each time customers are required to be curtailed for  
11 pipeline maintenance activity imposes additional bureaucratic requirements that do not enhance  
12 pipeline safety.

13 In any case, for a curtailment to be successful, the affected customers, and, in many  
14 cases, their suppliers, must be notified that a curtailment has been ordered and that it applies to  
15 them. The fastest way to get a warning out is for SoCalGas to post a Critical Notice on the  
16 SoCalGas Envoy Electronic Bulletin Board with a follow-up specific order from their account  
17 manager or gas control. Customers can subscribe to receive these alerts when they are posted. A  
18 contemporaneous advice letter serves no market need. The Commission's Energy Division can  
19 be notified directly, without the need for an Advice Letter.

20 **X. THE PROPOSED CURTAILMENT VIOLATION CHARGE ALLOCATION**  
21 **SHOULD BE ADOPTED**

22 SCGC was correct in pointing out that proposals to refund Curtailment Violation Penalty  
23 Account (CVPA) balances for curtailment violations are submitted for approval in the periodic  
24 cost allocation proceedings for SoCalGas and SDG&E otherwise known as Triennial Cost

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<sup>16</sup> Direct Testimony of Catherine E. Yap at 31-32.

1 Allocation Proceedings (TCAPs).<sup>17</sup> These proposals have been approved by the Commission in  
2 previous TCAPs and yet another round of refund proposals is pending in the current TCAP.<sup>18</sup>  
3 Characterizing these proposals as precedential might be an exaggeration since the CVPA only  
4 requires that “Amounts recorded in the CVPA will be refunded to applicable customers upon  
5 Commission approval.” It does not place any limitation or definition on “applicable customers.”

6 SoCalGas and SDG&E believe that the current process used to allocate curtailment  
7 violation charges is burdensome relative to the level of revenue collected. The process should be  
8 automated under a general refund policy that is approved by the Commission in this application.  
9 We do not believe a litigated process is required to determine how refund revenue from each  
10 individual curtailment event should be allocated to the applicable customers. SoCalGas and  
11 SDG&E believe that our proposal to allocate the curtailment violation charge revenue to the  
12 NFCA and the daily balancing standby rate revenue to the PGA is similar to the Low OFO  
13 noncompliance charge revenue allocation process adopted by the Commission in D.14-06-021,  
14 and should be adopted.

15 **XI. THE SIC IS OUTDATED AND SHOULD BE REMOVED FROM THE**  
16 **SOCALGAS TARIFF**

17 SCGC believes that the SoCalGas Service Interruption Credit (SIC) should be retained  
18 because there was no expiration date specified for the SoCalGas SIC in the first of three  
19 Commission orders that implemented the Capacity Brokering Program policy and services.<sup>19</sup>  
20 SCGC is implying that later Commission action cannot modify terms adopted in a previous  
21 decision, which is not true. SCGC apparently wants the Commission to ignore the plain fact that  
22 it later approved SoCalGas’ Rule 23 Section K which describes a discrete ten-year SIC period

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<sup>17</sup> Direct Testimony of Catherine E. Yap at 42.

<sup>18</sup> A.15-07-014.

<sup>19</sup> Direct Testimony of Catherine E. Yap at 32.

1 ending on August 1, 2003 under which the SIC would apply if a customer's firm intrastate  
2 transmission service was curtailed more than once under specified criteria.

3 Notwithstanding, there are other reasons for not reinstating the SIC. Our proposal to no  
4 longer offer firm noncore service and the corresponding rotating firm noncore service  
5 curtailment procedure in this application were key provisions of the SIC, and those rate  
6 structures are proposed to be eliminated by this application. Moreover, the SIC was adopted in a  
7 different time period, when there was concern that SoCalGas might not make investments in its  
8 system to keep pace with customer demand. These concerns were unfounded as demonstrated  
9 by the construction of backbone transmission facilities to increase system capacity including the  
10 Wheeler Ridge Compressor Station and the Kramer Lateral pipeline. Now, large capital projects  
11 that would enhance system reliability (such as the proposed North/South Project) are often  
12 heavily opposed by intervenors. It is unreasonable and unfair for SCGC to oppose reliability  
13 enhancement projects such as the North/South Project, but at the same time argue that "if you  
14 curtail noncore customers, you must pay penalties."

15 The ten-year SIC period ended over 12 years ago. It is time to remove this archaic  
16 provision from SoCalGas Rule 23.

17 **XII. THE SOCALGAS AND SDG&E PROPOSAL TO CHARGE A \$5 PER THERM**  
18 **CURTAILMENT VIOLATION PENALTY PLUS THE DAILY BALANCING**  
19 **STANDBY RATE IS CONSISTENT WITH PG&E'S LOCAL CURTAILMENT**  
20 **RULE VIOLATION CHARGE STRUCTURE**

21 SCGC claims that SoCalGas has provided no evidence to support its proposal to charge  
22 the Daily Balancing Standby Rate in addition to the \$5 per therm Curtailment Violation  
23 Charge.<sup>20</sup> The evidence is in the public domain. PG&E Rule 14, Section H specifies an almost  
24 identical rate structure for local curtailment violations that SoCalGas and SDG&E replicated for

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<sup>20</sup> Prepared Testimony of Catherine Yap at 38.

1 statewide consistency. This rate structure was approved as part of the overall Gas Accord  
2 service structure adopted back in 1998.

3 Under SoCalGas Rule 23 and SDG&E Rule 14, SoCalGas and SDG&E currently charge  
4 a \$10 per therm curtailment violation charge for all but the first 8 hours of a curtailment episode.  
5 Replacing it with a penalty structure that charges \$5 per therm plus the daily balancing standby  
6 charge maintains the total violation liability at a level that, depending on the market price for gas,  
7 roughly approximates the current \$10 per therm charge. Removing the daily balancing standby  
8 charge for curtailment violations would cut the incentive for customers to curtail in half, which  
9 in turn could significantly reduce the response to our curtailment orders.

10 In the event of a system emergency described earlier in this testimony, an end use  
11 customer could theoretically be curtailed at the same time that their contracted marketer is  
12 subject to an EFO. By also charging the end user who violates the curtailment order the daily  
13 balancing standby charge, SoCalGas and SDG&E can waive the corresponding charges to the  
14 customer's contracted marketer who has no control over their end use customer's unauthorized  
15 curtailment usage. Liability for this violation would be assigned to the end use customer who  
16 does have control over their usage.

17 This concludes my prepared rebuttal testimony.