Application No: A.14-06-021
Exhibit No.:
Witness: Paul Borkovich

Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 G) for Low Operational Flow Order and Emergency Flow Order Requirements	Application 14-06-021 (Filed June 27, 2014)

PREPARED REBUTTAL TESTIMONY OF

PAUL BORKOVICH

SOUTHERN CALIFORNIA GAS COMPANY AND

SAN DIEGO GAS & ELECTRIC COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

December 1, 2014

TABLE OF CONTENTS

PREPARED REBUTTAL TESTIMONY
OF PAUL BORKOVICH

I. PURPOSE

The purpose of my prepared rebuttal testimony is respond to proposed changes to the Low Operation Flow Order (OFO) and Emergency Flow Order (EFO) requirement by Pacific Gas & Electric Company (PG&E), Southern California Edison Corporation (SCE), and Southern California Generation Coalition (SCGC)/Indicated Shippers (IS). Specifically, this testimony addresses, the Daily Balancing Standby Rate, Rebilling for Measurement Error, Noticing Deadlines, Standby Procurement Service Curtailments, tariff language proposals, California Producers, OFO Envoy Screens, Rate Schedule G-IMB, and winter implementation of Low OFO procedures.

II. DAILY BALANCING STANDBY RATE

In their testimonies, PG&E, SCE, and SCGC/IS recommend the Commission deny Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company's (SDG&E) proposal that the Daily Balancing Standby Rate in Rate Schedule G-IMB be based on the highest of five indices.[1] These indices were proposed to be: 1) SoCal-Citygate; 2) PG&E Citygate; 3) El Paso (EP)-Permian; 4) EP-SJ Blanco; and 5) Opal Plant Tailgate.[2] Instead, these parties recommend that the Commission require SoCalGas and SDG&E to base their Daily Balancing Standby Rate only on the SoCal-Citygate price. According to the referenced intervenors, this would more align SoCalGas and SDG&E's proposed OFO procedures with

[1] Testimony of Peter E. Koszalka at p. 2-3; Direct Testimony of Robert Grimm at p. 4; Direct Testimony of Catherine E. Yap at p. 24.
[2] Prepared Direct Testimony of Paul Borkovich at p. 8.

those of PG&E's, whose comparable standby rate is the PG&E Daily Citygate Index Price (DCI).[3]

SoCalGas and SDG&E had proposed to expand the number of indices used for determining the Daily Balancing Standby Rate to include locations accessed by the upstream pipelines serving the SoCalGas and SDG&E system in order to establish a strong incentive for Balancing Agents to either schedule flowing supplies during critical, limited times of extreme stress on our system (the Daily Balancing Standby Rate is only applicable during Stage 5 OFOs and EFOs), or voluntarily curtail usage. However, PG&E pointed out that a "large price disparity would shift the current problem from SoCalGas and SDG&E to PG&E because shippers will deliver their gas to the higher priced market."[4] Upon hearing these concerns, SoCalGas and SDG&E are willing to change our proposed Daily Balancing Standby Rate to be comparable to PG&E's DCI. Accordingly, the Daily Balancing Standby Rate would be the SoCal Day Ahead Citygate Index as posted on the Intercontinental Exchange (ICE) rounded up to the next whole dollar. If the price is not posted on a given day, the previous posted price will apply. Proposed redlined changes to the relevant tariff are attached.

III. NOTICING DEADLINE

PG&E and SCE recommend that SoCalGas and SDG&E's noticing deadline be adjusted to coincide with the deadline in PG&E's rule 14.[5] PG&E's Rule 14 reads "Charges for the first day of the OFO event will not be imposed if notice is given after 6:00 p.m. Pacific Clock Time (PCT) the day prior to the start of the OFO event."[6]

[3] PG&E Gas Rule 14, Sheet 14.
[4] Testimony of Peter E. Koszalka at p. 3.
[5] Testimony of Peter E. Koszalka at p. 2; Direct Testimony of Robert Grimm at p. 2.
[6] PG&E Gas Rule 14, Sheet 15.

In my prepared direct testimony, I compared the noticing deadlines for PG&E's Low OFO procedure and the proposal in my testimony to make it at least 2 hours prior to the Intraday 1 Nomination Deadline, which would be 6 AM PCT under the current industry standard. This later deadline would give SoCalGas and SDG&E the most operational flexibility, and it would also help ensure that OFOs are called with the best information possible. However, upon hearing the concerns from parties with respect to this issue, and in order to maintain our support of a unified, state-wide approach to dealing with low flowing supplies, SoCalGas and SDG&E are willing to alter our noticing deadline proposal so that the deadline coincides with that on PG&E's system, i.e. 6:00 pm of the day prior to the start of the OFO event. Proposed redlined changes to the relevant tariff are attached.

IV. REBILLING IN INSTANCES OF MEASUREMENT ERROR

PG&E and SCGC/IS raised in their testimony concern about our proposal to limit the impact of rebilling due to measurement error on the calculation of noncompliance quantities and charges for low OFOs and EFOs after they have already been charged to a Balancing Agent.[7] Under SoCalGas and SDG&E's proposal, subsequent rebilling of customers served by a Balancing Agent would not require the recalculation of noncompliance charges to the Balancing Agent invoices, which could result in up to 36 months of revised Balancing Agent invoices for each occurrence. We believed this would have been a preferable approach for our customers and their Balancing Agents, especially since most measurement errors are for slow or nonoperational meters that would result in a higher invoice charge if a Low OFO was called.

As a result of these concerns, SoCalGas and SDG&E are willing to withdraw our proposal to waive our Rule 16 rebilling requirements and will instead revise our billing systems

[7] Testimony of Peter E. Koszalka at p. 3; Direct Testimony of Catherine E. Yap at p. 26.

to track and revise daily noncompliance charges for up to 36 precedent months due to measurement error. Proposed redlined changes to the relevant tariff are attached.

Note that to implement this particular revision to our original proposal, SoCalGas and SDG&E will necessarily incur additional costs for information system enhancements, estimated to be approximately $0.5 million. This will increase our estimated information technology system implementation costs to implement the Low OFO and EFO procedures from $2 million to $2.5 million.[8]

V. REFINEMENT OF CURTAILMENT OF STANDBY PROCUREMENT SERVICE IS AN INFERIOR ALTERNATIVE TO LOW OFOS

SCGC/IS proposes that SoCalGas and SDG&E refine and clarify the factors they use to determine the need to curtail standby procurement service and post them on Envoy as an alternative to the adoption of a Low OFO Procedure. SCGC/IS believe that this "would provide customers with information so customers could act to minimize the likelihood of curtailments."[9]

This misses the point of our low OFO and EFO proposal. Currently, the only way for SoCalGas and SDG&E to impose a stricter balancing regime on Balancing Agents during times of system stress is to call a curtailment of standby procurement service under Rule 23. Curtailment of standby procurement service requires Balancing Agents to schedule deliveries sufficient to cover 90% of hourly usage for the first eight hours of the curtailment period. Penalties ramp up from $10/dth plus the applicable standby procurement rate for the first 5 hours to $30/dth plus the standby procurement rate for hours 6 through 8. After the first eight hours have elapsed Balancing Agents are required to schedule deliveries sufficient to cover 90% of usage for the remainder of the standby procurement service curtailment period to avoid combined charges (penalty plus applicable standby procurement rate) in excess of $100/dth.

[8] *See* Prepared Direct Testimony of Paul Borkovich at p. 11 for the original $2 million estimate.
[9] Direct Testimony of Catherine E. Yap at p. 15.

This creates concerns for customers due to 90 % hourly balancing requirements that are effective immediately, and backed by penalties that exceed $100/dth within 9 hours. To say that this procedure is complicated and hard to understand with potentially expensive outcomes for customers and Balancing Agents would be an understatement.

A better way to manage the need for daily scheduled deliveries during times of system stress would be to adopt our Low OFO and EFO procedures as a more reasonable alternative in lieu of the complicated existing Curtailment of Standby Procurement Service procedure. Over 15 years ago PG&E recognized that the curtailment rules adopted in R.90-02-008 had their limitations and was able to change them through the Gas Accord process. SoCalGas and SDG&E are requesting to do the same for this limited instance.

VI. OUR REQUEST TO UNILATERALLY CHANGE THE TRIGGER FOR LOW OFO EVENTS

PG&E Rule 14 Section E states "The Lower and Upper Pipeline Inventory Limits may be revised as needed by PG&E to maintain the safety and reliability of the pipeline system. These changes, along with a supporting explanation, will be posted to the pipeline Ranger Web site." In my testimony, I proposed a similar mechanism to be consistent on a statewide basis with PG&E. SCGC/IS ask the Commission deny this request.[10] SoCalGas and SDG&E are willing to remove this provision from their low OFO/EFO proposal.

VII. THE REQUEST TO IMPLEMENT OTHER MEASURES BEYOND AN EFO WOULD BE LIMITED TO THOSE ALREADY AUTHORIZED IN THE SOCALGAS AND SDG&E TARIFFS

In my direct testimony I proposed adding a new Section 6 to Rule 41 that states: "Should SoCalGas' implementation of a Low OFO prove to be inadequate to ensure system integrity, SoCalGas may implement other measures including, but not limited to, implementing an

[10] Direct Testimony of Catherine E. Yap at p. 21.

Emergency Flow Order (EFO)."[11] SCGC/IS believes this language is inappropriate and somehow grants "the Applicants unfettered discretion to pursue any other actions that the Applicants deem appropriate."[12] SCGC/IS is wrong and their request should be denied. This language is consistent with PG&E Rule 14 Section E.2.a.4 which states: "Should PG&E's implementation of an OFO prove to be inadequate to ensure system integrity, PG&E may implement other measures including, but not limited to, implementing an Emergency Flow Order." It was included in our proposal to be consistent with PG&E's procedures. And of course it is our intention to only employ those measures that SoCalGas and SDG&E have been authorized to use by the Commission to manage the integrity of our system and maintain service to our customers.

VIII. CALIFORNIA PRODUCERS SHOULD BE SUBJECT TO LOW OFO AND EFO PROCEDURES

In her testimony, Ms. Yap asserts that California Producers should be exempt from SoCalGas and SDG&E's Low OFO and EFO Procedures because compliance with Winter Delivery balancing rules was not ordered in D.07-08-029 and therefore should not be extended to Low OFOs and EFOs. She attempts to justify this rationale by stating that SoCalGas is not extending these procedures to the upstream pipelines serving its system.[13]

SoCalGas and SDG&E disagree with these arguments. Ms. Yap is relying upon an order issued seven years ago to address a situation that has become a problem in the meantime. California Producers can contribute to system imbalance problems on par with other Balancing Agents by not delivering scheduled quantities during critical periods. Requiring them to meet their scheduled deliveries during times of system stress will help ensure they are not making a

[11] Prepared Direct Testimony of Paul Borkovich, Attachment A, Rule 41 at Sheet 2.
[12] Direct Testimony of Catherine E. Yap at p. 23.
[13] Direct Testimony of Catherine E. Yap at p. 27.

bad situation worse. California Producers are not analogous to upstream pipelines because upstream pipeline receipts are closely monitored by Gas Control to ensure compliance with scheduled quantities. Existing upstream pipelines require SoCalGas and SDG&E to comply with daily balancing requirements that are much stricter than 10%. And new upstream pipeline interconnects are subject to the requirements of Rule 39 (Access to the SoCalGas Pipeline System) and the Operational Balancing Agreement (Form 6435) that impose *daily* balancing requirements on upstream pipelines.

A modified Form No. 6452 California Production Operational Balancing Agreement (CPOBA) to implement the Low OFO and EFO was not included with my direct testimony. SoCalGas proposes to file a revised CPOBA in compliance with the Commission's order approving the Low OFO and EFO in a subsequent advice letter filing. During the interim SoCalGas proposes to not apply the Low OFO and EFO procedures as approved by the Commission until the revised CPOBA is approved.

Ms. Yap also proposed that California producers be permitted to aggregate meters to determine compliance with OFO provisions. Since we are past the point of making detailed proposals in this proceeding SoCalGas believes that this idea might be the basis for a detailed proposal in the next Triennial Cost Allocation Proceeding.

Finally, applying the Low OFO and EFO procedures to California Producers would make SoCalGas and SDG&E consistent with PG&E's procedures on a statewide basis. PG&E Rule 14, Section E.2.a.4) states: "For a California Production Balancing Agreement (CPBA) (Form 79-944) compliance with an OFO and calculation of any OFO noncompliance charges will be based on the difference between scheduled deliveries and actual deliveries."

IX. SOCALGAS WILL IMPLEMENT ENVOY SCREENS ADDRESSING LOW OFOS SIMILAR TO HIGH OFOS

SCGC/IS recommend that the Commission require SoCalGas and SDG&E to "develop low OFO screens within their Envoy system similar to the high OFO screens."[14] SoCalGas and SDG&E intend to provide the Envoy system with a number of enhancements described briefly here to implement our new Low OFO and EFO procedures. The primary enhancement will be a new OFO Calculation Ledger screen that will show both the High OFO and Low OFO calculation for each nomination cycle. The Description of OFO Calculation screen will also be revised to include descriptions of both the High OFO and Low OFO calculations. An OFO Declaration Alert will also be implemented to allow customers and Balancing Agents to receive both High OFO and Low OFO notices. Both High OFO and Low OFO Declaration Alerts will also be automatically posted on the Envoy Homepage as critical notices with alert information attached. And the OFO Calculation Archive will be enhanced to display all the calculation data for Low OFOs in addition to the existing High OFO data.

X. POSTING THE DAILY BALANCING STANDBY RATE NONCOMPLIANCE CHARGE IN RATE SCHEDULE G-IMB SHOULD ONLY BE POSTED WHEN REQUIRED

The SoCalGas and SDG&E Low OFO and EFO proposals include the use of a Daily Balancing Standby Rate noncompliance charge for use only in the limited instance when a Stage 5 Low OFO or EFO is required. We propose to base the Daily Balancing Standby Rate noncompliance charge on ICE day-ahead indices that are readily accessible to the public on the ICE website. This charge will be applied in a similar manner to PG&E's DCI, which is the PG&E Daily Citygate Index Price as published in Gas Daily, rounded up to the next whole dollar. However SCGC/IS would like SoCalGas and SDGE to post the Daily Balancing Standby

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[14] Direct Testimony of Catherine E. Yap at p. 29.

Rate in the G-IMB tariff as we currently do for the Winter Balancing Rules which I believe is not required for PG&E's DCI.[15] Requiring this rate to be filed each day for an episode as rare as a Stage 5 Low OFO or EFO, would create a substantial administrative burden. This burden would not be offset by any corresponding benefit; customers and their Balancing Agents will be able to obtain the relevant information from ICE whenever SoCalGas or SDG&E call a Stage 5 Low OFO or EFO. A better alternative would be for SoCalGas and SDG&E to post the Daily Balancing Standby Rate noncompliance charge as a Critical Alert on Envoy any time that a Stage 5 Low OFO or EFO is required. This would provide the information on a real time basis in a more accessible manner when needed.

XI. IMPLEMENTATION OUTSIDE OF THE WINTER PERIOD IS NOT REQUIRED FOR IMPLEMENTATION OF THE LOW OFO AND EFO PROCEDURES.

SoCalGas and SDG&E only require three weeks lead time prior to the first of any calendar month after December 1, 2014, to implement the Low OFO and EFO procedures described in our testimony, including the modifications suggested here in my rebuttal testimony. SCGC/IS recommend that implementation of the Low OFO requirement take place outside of the winter months.[16] This anxiety is not well founded. PG&E has been using similar Low OFO and EFO procedures for many years with no noted ill effects, and the market is certainly on notice that SoCalGas and SDG&E are proposing to implement Low OFO and EFO requirements this winter. SoCalGas and SDG&E do not believe that there will be any ill effects created by switching from the current regime of winter balancing rules and curtailment of standby procurement service to Low OFO and EFO requirements during the winter period. To the contrary, because Low OFO/EFO requirements will enable SoCalGas and SDG&E to deal with

[15] Direct Testimony of Catherine E. Yap at p. 30.
[16] Direct Testimony of Catherine E. Yap at p. 16.

operational problems created by disparities between customer burn and customer deliveries in a more precise and predictable fashion than via curtailments of standby procurement service, the requirements should be adopted as quickly as possible.

This concludes my prepared rebuttal testimony.

ATTACHMENTS

G. ~~Winter Deliveries~~Low Inventory Flow Orders (Continued)

1. Low Operational Flow Order (Low OFO)

a. The Utility System Operator's protocol for declaring a Low Operational Flow Order (Low OFO) is described in Rule No. 41. All Low OFO declarations will be identified by stage that will specify a Daily Imbalance Tolerance and Noncompliance Charge per the table below.

Stage	Daily Imbalance Tolerance	Noncompliance Charge ($/therm)
1	Up to -25%	0.025
2	Up to -20%	0.10
3	Up to -15%	0.50
4	Up to -5%	2.50
5	Up to -5%	2.50 plus Rate Schedule G-IMB daily balancing standby rate
EFO	Zero	5.00 plus Rate Schedule G-IMB daily balancing standby rate

b. The Low OFO shall apply to all customers financially responsible for managing and clearing transportation imbalances (Balancing Agents), including wholesale customers, Contracted Marketers, core aggregators, California Gas Producers and the Utility Gas Procurement Department.

c. The Low OFO period shall begin on the flow date(s) indicated by the Utility Gas Control Department. Generally an initial Low OFO event will start at Stage 1; however a Low OFO event may begin at any stage as deemed appropriate by the Utility Gas Control Department with the corresponding noncompliance charge.

d. A Low OFO will normally be ordered with at least twelve (12) hours notice prior to the beginning of the gas day, or as necessary as dictated by operating conditions. Charges for the first day of the Low OFO event will not be imposed if notice is given after 6:00 p.m. Pacific Time the day prior to the start of the Low OFO event. ~~at least two (2) hours prior to the Intraday 1 Cycle Nomination Deadline, or as necessary as dictated by operating conditions.~~

e. When a Low OFO is in effect interruptible storage withdrawals are limited to one half of the capacity normally available for interruptible withdrawals. Interruptible storage withdrawal capacity is equal to Withdrawal Capacity minus confirmed firm storage withdrawal nominations minus withdrawal allocated to the balancing function.

f. Low OFO and EFO compliance and charges will be based on the following for determination of daily usage quantities:

i. For a Noncore End-Use Customer equipped with automated meter reading device (AMR) and SDG&E's Electric & Gas Fuel Procurement Department, compliance during a Low OFO will be based on actual daily metered usage, and the calculation after the OFO event of any applicable noncompliance charge will be based on actual daily metered usage.

ii. For a Noncore End-Use Customer with non-functioning AMR meters, compliance during a Low OFO or EFO will be based on the Customer's actual daily metered usage; or the estimated daily usage in accordance with Section C of SoCalGas Rule 14 will be substituted for the actual daily metered usage when actual metered usage is not available.

iii. For a Noncore End-Use Customer without AMR capability compliance during a Low OFO or EFO will be based on the Customer's MinDQ.

iv. For the Utility Gas Procurement Department, the Daily Forecast Quantity will be used as a proxy for daily usage.

v. For core aggregators, their Daily Contract Quantity will be used as a proxy for daily usage.

vi. For a California Producer with an effective California Producer Operational Balancing Agreement, Form 6452, compliance with a Low OFO and EFO and calculation of any noncompliance charges will be based on the difference between scheduled receipts and measured receipts for each day of an event. Low OFO and EFO compliance for a California Producer with an existing access agreement will be treated consistent with the terms of that access agreement.

g. If a Balancing Agent's Low OFO daily gas imbalance exceeds the applicable daily imbalance tolerance by 10,000 therms or less, the Low OFO, noncompliance charge will be zero. If the daily gas imbalance amount exceeds the daily imbalance tolerance by more than 10,000 therms, the Balancing Agent will be responsible for the full noncompliance charge; i.e. 10,000 therms will not be deducted from the daily gas imbalance that exceeds the daily imbalance tolerance. This exemption ~~only~~ applies only to Low OFO noncompliance charges.

h. The daily measurement quantity used to calculate the Noncompliance Charge for each Low OFO event will be the daily quantity recorded as of the month-end close of the applicable month. ~~Noncompliance charge calculations will not be revised if subsequent adjustments are made to a customer's measurement quantities.~~

2. Emergency Flow Order (EFO)

a. The Utility System Operator's protocol for declaring an Emergency Flow Order (EFO) is described in Rule No. 41.

b. During an EFO Customer usage must be less than or equal to scheduled supply for a gas day. EFOs will have a zero percent tolerance and a noncompliance charge of $5.00 plus the Schedule G-IMB Daily Balancing Standby Rate for each Therm of usage in excess of scheduled supply.

Schedule No. G-IMB

TRANSPORTATION IMBALANCE SERVICE

(Continued)

RATES (Continued)

Buy-Back Rate

This rate is applied to customer's cumulative positive transportation imbalance (confirmed transportation deliveries less actual usage) exceeding the 10 percent tolerance band. The Buy-Back Rate is established effective the last day of each month and will be the lower of 1) the lowest incremental cost of gas purchased by the Utility during the month the excess imbalance was incurred; or 2) 50% of the applicable Adjusted Core Procurement Charge, G-CPA, set forth in Schedule No. G-CP, during the month such excess imbalance was incurred.

Retail Service:

BR-R Buy-Back Rate, per therm

February 2014	26.592¢
March 2014	30.072¢
April 2014	24.556¢

Wholesale Service:

BR-W Buy-Back Rate, per therm

February 2014	26.518¢
March 2014	29.989¢
April 2014	24.488¢

If the incremental cost of gas is the basis for the Standby or Buy-Back Rates, the Utility will provide CPUC the necessary work papers for such cost. Such documentation will be provided under confidentiality pursuant to General Order 66-C and Section 583 of the Public Utilities Code.

Daily Balancing Standby Rates

When a Stage 5 Low Operational Flow Order (Low OFO) or Emergency Flow Order (EFO) is declared, quantities not in compliance with the daily imbalance tolerance are purchased at the daily balancing standby rate. The daily balancing standby rate shall be equal to ~~the higher of~~ the InterContinental Exchange (ICE) Day-Ahead Index (including F&U and brokerage fee) for ~~1)~~ SoCal-Citygate rounded up to the next whole dollar. ~~; 2) PG&E Citygate; 3) EP-Permian; 4) EP-SJ Blanco; or 5) Opal Plant Tailgate for each day a Stage 5 Low OFO or EFO is issued.~~ Authorized F&U will not be added to any daily balancing standby charge for the Utility Gas Procurement Department to the extent that it is collected elsewhere.