BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 G) For Authority To Recover North-South Project Revenue Requirement In Customer Rates And For Approval Of Related Cost Allocation And Rate Design Proposals

APPLICATION OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) AND SAN DIEGO GAS & ELECTRIC COMPANY (U 902 G) FOR AUTHORITY TO RECOVER NORTH-SOUTH PROJECT REVENUE REQUIREMENT IN CUSTOMER RATES AND FOR APPROVAL OF RELATED COST ALLOCATION AND RATE DESIGN PROPOSALS

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In accordance with the Commission's Rules of Practice and Procedure, Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) hereby submit this application (Application) for authority to recover North-South Project revenue requirement in customer rates, and for approval of related cost allocation and rate design proposals. The North-South Project is needed to maintain Southern System reliability and alleviate the potential for curtailments of customers on the Southern System due to a potential mismatch between the demand of such customers and the volume of flowing supplies delivered to the Southern System to meet that demand.

I. BACKGROUND

A. Southern System

The SoCalGas Southern System consists primarily of three high-pressure pipelines extending westward from the Colorado River near Blythe to Moreno Station in the City of Moreno Valley and two high-pressure pipelines extending westward from Moreno Station to the

Los Angeles Basin. Three high-pressure pipelines also extend southward from Moreno Station to the SDG&E gas transmission system, referred to as the Rainbow Corridor.

The Southern System was primarily designed to receive gas from El Paso at the Colorado River near Blythe and redeliver it to load centers in the Inland Empire, Imperial Valley, San Diego and the Los Angeles basin. The pipelines' operating pressures are higher at the Blythe receipt point and lower near the load centers. The Southern System can receive additional supplies from other pipelines within the SoCalGas transmission system by the use of two valve stations located along each of the two high-pressure pipelines extending westward from Moreno Station.

Since 2008, supplies can also be received into the Southern System at the Otay Mesa receipt point in San Diego County. However, the volume of supplies received into the Southern System at Otay Mesa has generally been minimal due to growing demand for domestic supplies exported to Mexico.

SoCalGas also has the ability to transport up to 80 MMcfd of supply from its Northern System to the Southern System via Transmission Line 6916, formerly the Questar Southern Trails Pipeline.

B. Southern System Minimum Flow Requirements

Unlike other portions of the combined SoCalGas/SDG&E transmission system, the Southern System requires minimum flows at the Blythe or Otay Mesa receipt points to maintain service to customers in the Imperial Valley and San Diego load centers, and to customers and communities in San Bernardino and Riverside Counties. While supplies from the Chino and Prado Stations can flow eastward, these stations cannot entirely meet the demand of the Southern

System during peak periods.[1] As a result, the remainder of supplies not met by the Chino and Prado Station volumes establishes the level of minimum flowing supplies that must be delivered at the Blythe or Otay Mesa receipt points to maintain service to customers on the Southern System.

The minimum flow requirements on the Southern System vary with the demand on the system. As demand increases, the minimum flow requirements increase and vice versa. Supplies delivered at Blythe and Otay Mesa are needed to support any Southern System customer demand not met by Chino and Prado Stations during peak periods.

C. Responsibility for Maintaining Southern System Minimum Flow Requirements

In D.07-12-019 the Commission approved, in part, proposals by SoCalGas, SDG&E, and Southern California Edison Company (SCE) to implement a range of provisions pertaining to the natural gas operations and service offerings of SoCalGas and SDG&E, related to core operations, unbundled storage, and expansion of storage capacities. One of the provisions adopted by D.07-12-019 was the transfer of the responsibility for managing minimum flow requirements for system reliability from Gas Acquisition to the System Operator.[2]

Gas Acquisition had previously assured such flowing supplies using core customer assets. When Gas Acquisition needed to purchase additional spot supplies to meet minimum flow

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[1] Due to the telescoping operating pressures of the pipelines, higher operating pressures of the pipelines east of Moreno Station restrict further eastward flow. In other words, supplies delivered from Chino and Prado Stations generally arrive at Moreno Station at pressures lower than the operating pressures east of Moreno Station.

[2] D.07-12-019 mimeo, at 116 (Ordering Paragraph No. 15). Although the decision refers to "Gas Acquisition Department," tariffs filed in that proceeding and later proceedings use the phrase "Utility Gas Procurement Department." Both terms refer to the same group. For ease of reference, SoCalGas and SDG&E will simply use the name "Gas Acquisition" in this Application. Note that the System Operator is broadly defined to constitute the SoCalGas departments responsible for the operation of its transmission system, including storage, hub services, pooling services receipt point access, off-system deliveries, and system reliability. It does not include Gas Acquisition. *See* D.07-12-019, mimeo., at 58. *See also* SoCalGas Rule 41(2).

requirements at Blythe beyond 355 million cubic feet per day (MMcfd), its incremental costs to do so were recorded in a memorandum account. The allocation of the costs in that memorandum account was determined in the SoCalGas Biennial Cost Allocation Proceeding (BCAP).

In response to the SoCalGas/SDG&E/SCE Application to transfer this responsibility from Gas Acquisition, D.07-12-019 directed the System Operator to take over the responsibility for managing these minimum flows as of April 1, 2009.

D. Past and Current Efforts by SoCalGas to Maintain Southern System Minimum Flow Requirements

In D.07-12-019, the Commission also adopted the request by SoCalGas, SDG&E, and SCE for System Operator tools for maintaining system reliability.[3] These tools are as follows:

> (a) The ability of the System Operator to buy and sell gas on a spot basis, as needed, to maintain system reliability.
>
> (b) Authority to conduct requests for offers (RFO) or open season process consistent with the System Operator needs.
>
> (c) Authority to approve an expedited Advice Letter approval process for contracts that result from a RFO or open season process.[4]

Requests for additional System Operator tools are to be made by regular advice filing, rather than via an expedited advice filing, as proposed in A.06-08-026.[5]

The System Operator regularly uses its ability to buy and sell spot gas to maintain minimum flows on the Southern System. These purchases and sales are discussed in detail in annual advice filings by SoCalGas.[6]

The System Operator has used the RFO process to enter into baseload contracts for Southern System support, and SoCalGas has sought and obtained authorization for additional

[3] D.07-12-019, mimeo., at 67 and 112 (Ordering Paragraph No. 16).
[4] D.07-12-019, mimeo., at 112 (Ordering Paragraph No. 16).
[5] D.07-12-019, mimeo., at 67 and 112 (Ordering Paragraph No. 17).
[6] *See* Resolutions G-3462, G-3467, and G-3480.

System Operator tools to help maintain Southern System minimum flows, including the ability to move supply from Blythe, California, to Otay Mesa, California,[7] and a series of Commission-authorized Memorandums in Lieu of Contract (MILCs) between the System Operator and Gas Acquisition Department. Under these MILCs, the bundled core agrees to deliver a share of the Southern System minimum flow requirement, and in return is relieved from Southern System support costs incurred by the SoCalGas System Operator.[8] SoCalGas has discounted Backbone Transportation Service (BTS) to encourage shippers to bring gas into the Southern System. And in late 2012, SoCalGas put a pipeline into service, Line 6916, that enables additional supplies delivered at South Needles to reach the Southern System, providing another source of supply to the Southern System.

II. COSTS OF MEETING SOUTHERN SYSTEM MINIMUM FLOW REQUIREMENTS

A. Southern System Reliability Costs Have Been Increasing

Prior to 2009, the average minimum flow required at Blythe was approximately 355 MMcfd. Gas Acquisition was responsible for this level of base load at Blythe. The Blythe Operational Flow Requirement Memorandum Account (BOFRMA) reflected the incremental costs, relative to the SoCal bidweek border price, of Gas Acquisition purchases exceeding the 355 MMcfd base load commitment that were requested from time to time by Gas Control. That cost averaged $3.4 million/year over the 2006-2008 period.

Table 1 below shows SoCalGas' average yearly cost to support the Southern System since the transfer of responsibility to the System Operator in April 2009. As can be seen from

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[7] *See* Resolution G-3474.

[8] The most recent MILC between the System Operator and Gas Acquisition was approved by the Commission on October 31, 2013. *See* Resolution G-3485.

this table, total Southern System support costs (SRMA net costs plus BTS discounts) have been approximately doubling every year.

Table 1
Costs of Southern System Support Post Transfer to Operator ($MM)

	Purchases Mdth	SRMA Costs	IT BTS Ehrenberg Discounts	Total Costs
Sept 2009-Aug 2010	11,166*	$2.2	0	$2.2*
Sept 2010-Aug 2011	1,045	$3.8	0	$3.8
Sept 2011-Aug 2012	6,858	$2.2	$6.9	$9.1
Sept 2012- Aug 2013	*19,320*	*$7.9*	*$12.1*	*$20.0*

*96% of these supplies were baseload winter supplies approved in G-3435.

Despite the transfer of responsibility for Southern System reliability in 2009, gas procurement costs for core customers are still adversely affected due to their responsibility for 15-55% (depending on daily actuals) of the southern system minimum under the MILC arrangement. In order to meet their obligations under this arrangement, Gas Acquisition purchased El Paso South Mainline capacity to Ehrenberg at a 15 cent/dth reservation charge premium over other interstate pipeline alternatives. This translates to a $16 million/year cost impact.[9]

The Southern System minimum rose from an annual average level of 366 Mdth/d in 2008 to the current 541 Mdth/d level. The increase in the Southern System minimum in 2012 appear to have been in large part due to the outage of the San Onofre Nuclear Generating Station (SONGS), which increased gas demand among Southern System electric generators. At the

[9] $0.15/dth x 300 Mdth/day x 365 days = $16 million.

same time, customer deliveries into the Southern System dropped from an annual average level exceeding 800 Mdth/d in 2008 to 593 Mdth/d in 2013 (YTD November).

B. Southern System Reliability Costs are Likely to Increase Further

SoCalGas and SDG&E expect the Southern System reliability costs will continue to increase. We believe that customer deliveries to the Southern System will continue to drop as supplies on El Paso's South Mainline are diverted to the high-value Mexican markets. Accordingly, greater volumes of Southern System support purchases by SoCalGas are likely to be needed. And as the Southwest market tightens, the net cost of our Southern System support purchases is likely to increase.

III. THREATS TO SOUTHERN SYSTEM RELIABILITY ARE INCREASING

These stresses on the Southern System do not just create the possibility of higher system reliability costs, they also threaten reliability. SoCalGas and SDG&E anticipate that increasing exports to Mexico may further reduce flows into Blythe. Conversely, we anticipate that Southern System electric generation (EG) demand will continue to be robust. As a result of the closure of SONGS, demand by Southern System electric generators has increased by 100 MMcfd. Although much of the 2,150 MW of lost SONGS power will likely be met by out-of-state generation, increases in overall electric generation demand lead us to believe that Southern System demand will not decline below current 2012/13 levels.

Natural gas is now the single fuel for a substantial portion of the EG resources serving Southern California, including most of the non-renewable EG resources located in the Southern System. Therefore, at least in part, the electric system in Southern California depends on a reliable natural gas system. Reliability is crucial for many noncore customers other than EGs. For example, hospitals, refineries, food processing facilities, military bases, and prisons are all noncore customers. Like EGs, these noncore customers no longer have dual fuel capability. Yet they, and the Californians they serve, could face substantial hardships if natural gas service is curtailed more frequently. The same holds true for our core residential and small business customers.

Essentially all of the flowing supplies that arrive at Southern System receipt points are sourced from one pipeline – El Paso.[10] Southern System customers have faced reliability problems in the past because of this situation, including a Southern System curtailment in February of 2011 brought about by force majeure conditions upstream of the SoCalGas system, several recent supply-related near misses, and operational issues that have created reliability concerns. In addition, issues on the Southern System generally happen quickly and unexpectedly. In the situation that occurred in February of 2011, the system went from no issues to curtailment in approximately 24 hours.

As deliveries to Mexico from the El Paso system increase, supplies into Blythe are going to become more scarce and expensive. This decrease in available supplies at Blythe will make it more difficult to find supplies at any price when problems occur in the supply basins or on interstate pipelines serving Southern California. At times the System Operator is already practically the only party delivering supplies to the Southern System. Combined with the potential for upstream problems on the El Paso system, this is not a recipe for reliable service to Southern System customers.

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[10] Transportadora de Gas Natural de Baja California (TGN) also has the capability to deliver supply at Otay Mesa. However, that receipt point is typically not utilized by our customers for economic reasons.

IV. NON-PHYSICAL SOLUTIONS WILL NOT SOLVE THE PROBLEM

SoCalGas and SDG&E have looked at a number of potential non-physical solutions to the impending supply-related Southern System cost and reliability problems. None of these potential non-physical solutions provide the tools we need.

One potential option for dealing with future Southern System supply issues is for SoCalGas to contract for basin supplies and interstate capacity to meet anticipated Southern System flow requirements. But this option would not provide the needed reliability benefits. Even with basin supplies and matching interstate capacity, Southern System customers would be at the mercy of supply-related problems outside of California, just as they are today. Even after substantial expenditures to lock in long-term supplies and interstate transportation, we would essentially be in the same situation we are in today, at least from a reliability standpoint. And the cost of this option is likely to be substantially greater over time than the proposed North-South Project.

SoCalGas and SDG&E anticipate that certain interested parties may argue that the impending Southern System supply and reliability issues could be solved by transferring the Southern System support obligation back to Gas Acquisition, which procures supplies for all bundled SoCalGas and SDG&E core customers.[11] This would not be a reasonable response to the supply and reliability problems that our Southern System customers will be facing. The amount of additional flowing supplies that SoCalGas must provide in order to keep the Southern System operating is independent of which department within SoCalGas provides those supplies. Likewise, the amount of supplies available to SoCalGas in order to keep the Southern System operating is also independent of which department within SoCalGas provides those supplies.

[11] D.07-12-019 authorized the consolidation of the core portfolios of SoCalGas and SDG&E into one single portfolio managed by SoCalGas.

SoCalGas and SDG&E also considered the merits of supplementing or replacing the existing System Operator tools with a minimum flowing supply requirement for all end-use customers. In D.07-12-019, the Commission recognized the possibility that a minimum flow obligation may be necessary to help ensure reliability on the Southern System:

> Additionally, the System Operator would seek through separate application or a petition for modification of D.06-12-031 to impose some form of minimum delivery requirement for customers. A form of minimum flow obligation could be attached to holders of the recently approved firm receipt point access rights. If that type of minimum flow obligation was deemed to be a necessary and appropriate tool of the System Operator to manage its system reliability, Applicants would file a petition for modification of D.06-12-031 or a new application, explaining the rationale for such minimum flow obligation and how it would be implemented.[12]

SoCalGas and SDG&E believe that there may be merit to requiring all end use customers to bring some portion of their gas usage into the Southern System. But this would be too small a bandage for too great a potential wound. If SoCalGas is not able to obtain flowing supplies at Blythe, then it is unlikely that our customers will be able to do so either, no matter how large the potential financial penalty for noncompliance. Only a physical upgrade that enables storage gas to reach the Southern System will provide Southern System customers with the same level of reliability as customers located on the rest of the SoCalGas and SDG&E system.

As discussed above, SoCalGas has instituted a number of short-term tools such as the MILC with Gas Acquisition and baseload agreements that will hopefully be enough to provide safe and reliable service for our Southern System customers until the North-South Project is put into service. If it appears that this will not be the case, SoCalGas and SDG&E will consider whether to once again propose a Southern System minimum flowing supply requirement for all end-use customers. But we do not believe that the time is ripe for such a proposal.

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[12] D.07-12-019, mimeo., at 63-64.

V. A PHYSICAL SOLUTION IS NEEDED

SoCalGas and SDG&E customers will always be at risk of curtailment if there are significant problems on one or more of the interstate pipelines connected to our system. There is only so long that storage and in-state supplies can fully support a system and customer base as large as ours. But no portion of our system should be at the mercy of limited interruptions on the upstream interstate pipelines. Currently, however, *any* problem with upstream supplies on the El Paso system will potentially result in curtailments for Southern System customers, including EGs. In the long term, this is no way to run a natural gas system.

Southern System natural gas customers, and electric customers served by EGs located on the Southern System, deserve the same level of reliability as customers elsewhere on our integrated transmission system -- this would be fair, since Southern System customers pay the same rates as SoCalGas customers located elsewhere. To achieve this, Southern System customers need to have access to supplies from SoCalGas' storage and other receipt points, and such access can only be achieved through physical upgrades.

VI. THE NORTH-SOUTH PROJECT IS THE BEST PHYSICAL SOLUTION

SoCalGas and SDG&E examined three infrastructure alternatives: (1) River Route, (2) Cross Desert, and (3) the North-South Project. All three alternatives would add approximately 800 MMcfd of North-to-South flow capacity on the SoCalGas system, which would effectively eliminate the Southern System minimum flow requirement. Cross Desert was eliminated due to its high cost. Although the River Route has a somewhat lower estimated cost than the North-South Project ($560 million vs. $629 million), the North-South Project has significant advantages over the River Route.

First, the North-South Project, unlike the River Route option, would provide Southern System customers with access to storage supplies and more receipt points (Wheeler Ridge, Kern River Station, and Kramer Junction), which would increase the reliability of service to such customers. With the River Route option, if force majeure conditions shut in the supply basins or one or more of the interstate pipeline serving Southern California experiences operational problems, the Southern System may not receive the supplies it needs.

Second, unlike the River Route, the North-South Project would expand SoCalGas' firm backbone capacity from 3,875 MMcf/d to 4,175 MMcf/d. It will allow the North Desert Zonal capacity to be increased from its current 1,590 MMcfd level to 1,890 MMcfd -- without interfering with the 1,210 MMcf/d capacity of the Southern Zone. The River Route could also increase North Zonal capacity by a similar amount. Because the River Route would interconnect at Blythe, however, deliveries on the new line would compete with other deliveries into Blythe on a one-for-one basis. Therefore, this option would not increase the overall system backbone capacity.

Another potential physical option for dealing with future Southern System supply issues is for SoCalGas to purchase existing facilities from another entity. SoCalGas and SDG&E do not believe, however, that there are any physical facilities it could purchase that would provide a reasonable and economic solution to impending supply-related Southern System cost and reliability problems. No pipeline facilities in Southern California are currently being offered to the marketplace for sale, at least publicly. Moreover, even if such facilities should become available, they are likely to be expensive, and would not provide the operational benefits that we want to provide to Southern System customers.

For each of these reasons, SoCalGas and SDG&E believe that the North-South Project is the best physical response to long-term Southern System reliability needs.

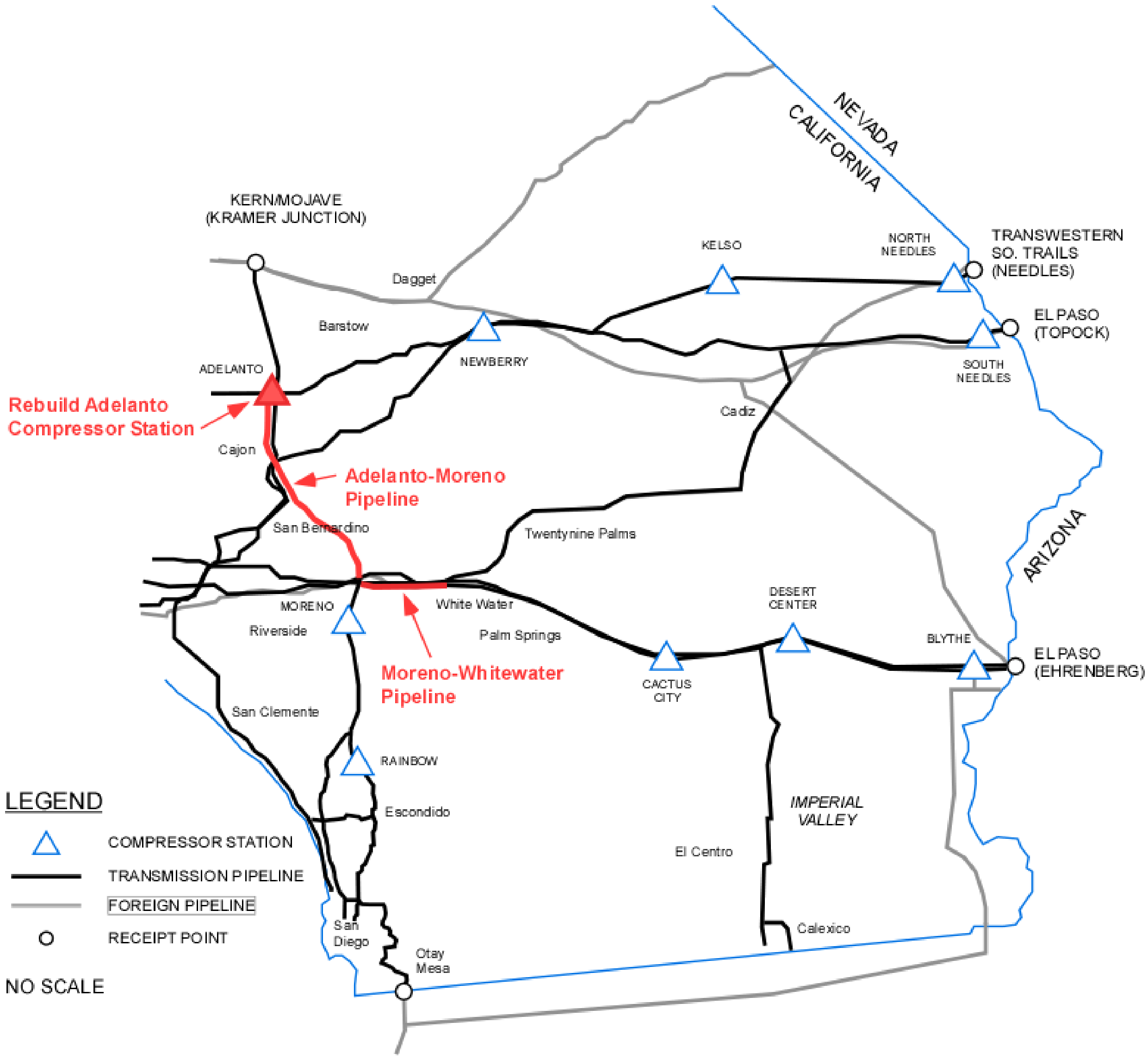
VII. DESCRIPTION OF THE NORTH-SOUTH PROJECT

The North-South Project, shown in Figure 1 below, involves installing new pipeline between the town of Adelanto and our Moreno Pressure Limiting Station, and rebuilding the Adelanto Compressor Station. Approximately 60 miles of 36-inch diameter pipeline must be installed from the Adelanto Compressor Station to the Moreno Pressure Limiting Station. The preliminary route will take it through the Cajon Pass, inhabited regions of San Bernardino County, and wetland areas. The Adelanto Compressor Station must be rebuilt with approximately 30,000 HP of compression in order to accommodate the design throughput.[13]

In addition, approximately 31 miles of new pipeline between Whitewater Station and Moreno Pressure Limiting Station would need to be installed in order to facilitate the higher pressures that would result from the new Adelanto-Moreno pipeline and compression, and move those gas supplies transported from Adelanto to load centers on the Southern System east of Moreno Pressure Limiting Station. New pressure controlled ties from Line 5000 to Lines 2000 and 2001 are also needed.

[13] SoCalGas and SDG&E believe that this new compressor should be gas-driven. Electric drive compression may be suitable for some applications that are not critical to reliably serve customer demand or manage system deliveries. However, SoCalGas cannot tolerate an impact to its critical gas operations when the electric grid is down, or even just resulting from a simple electric service interruption to its facility.

Figure 1
North-South Project



The North-South Project can transport supply delivered at the North Needles, South Needles, Kramer Junction, Wheeler Ridge, and Kern River Station receipt points, as well as transport storage supplies from our Honor Rancho storage field to serve customers off the Southern System.

The installation of approximately 60 miles of new 36” diameter pipeline from Adelanto Compressor Station to Moreno is estimated to cost $331.8 million (direct); compressor station upgrades at Adelanto are estimated to cost $110.7 million (direct); and installation of approximately 31 miles of 36" diameter pipeline from Moreno to Whitewater is estimated to cost $186.1 million (direct). Current estimated direct costs for this project are summarized below in Table 2:

Table 2
Estimated North - South Project Direct Costs
(In Millions of Dollars)

Direct Capital Costs	Total
Adelanto to Moreno Pipeline	$331.8
Adelanto Compressor Station	$110.7
Moreno to Whitewater Pipeline	$186.1
Total	$628.6

VIII. RATE IMPACTS

SoCalGas and SDG&E are asking the Commission to authorize SoCalGas to recover the full cost of the North-South Project in BTS customer rates. The proposed peak BTS rate impact (Year 2020) is $0.115 per dth. Table 3 below provides the illustrative BTS Straight Fixed Variable (SFV) rate impact of the Project.[14] The rates shown assume the current forecasted revenue requirements for the Project.[15]

[14] The rate impact is calculated using the same BTS denominator of 2,978 Mdth/day that is used for the current BTS rate. This denominator is updated annually to reflect actual BTS capacity utilization.
[15] Table 3 shows the rate impact for only the first five years after the estimated in-service date of the Project. The Project will have corresponding revenue requirements beyond this period.

TABLE 3
Illustrative BTS Revenue and Rate Impacts

	Current BTS Revenue Requirement $ Millions	North-South Project Revenue Requirement $ Millions	Total BTS Revenue Requirement $ Millions	Current BTS SFV Rate $/dth/d	North-South Project BTS Rate Impact $/dth/d	Total BTS SFV Rate $/dth/d
	A	B	C = A + B	D	E	F = D + E
2019	$149.6	$71.3	$220.9	$0.138	$0.066	$0.203
2020	$149.6	$125.0	$274.6	$0.138	$0.115	$0.253
2021	$149.6	$117.6	$267.2	$0.138	$0.108	$0.246
2022	$149.6	$113.7	$263.3	$0.138	$0.105	$0.242
2023	$149.6	$109.9	$259.5	$0.138	$0.101	$0.239

SoCalGas and SDG&E are proposing that the revenue requirements to be ultimately collected in rates will be trued-up for actual costs at the conclusion of the Project. SoCalGas will file an advice letter within 60 days after the assets are placed into service to incorporate the actual revenue requirement in rates on the first day of the next month following advice letter approval. The revenue requirement in rates will be updated in subsequent years in connection with SoCalGas' Consolidated Rate Filing for rates effective January 1st of the following year. This process will continue until addressed in SoCalGas' next General Rate Case (GRC) or other applicable proceeding. In addition, the first year's revenue requirement, if placed in rates on a date other than January 1, will be adjusted to ensure it is fully collected over the remaining months in the year. For example, if the Project is placed into service on November 30, 2019, then the revenue requirement in rates will be adjusted for the one month remaining in 2019.

SoCalGas and SDG&E are also proposing that the Commission authorize SoCalGas to establish a new interest-bearing North-South Infrastructure Memorandum Account (NSIMA) to record the following costs for future recovery: (1) incremental O&M expenses incurred to complete the North-South Project; (2) incremental O&M expenses relating to the North-South Project that are incurred after completion of the project; and (3) capital-related costs (i.e., depreciation, taxes, and return) on the capital expenditures associated with the North-South

Project for the period from the date the assets are completed and placed into service and the date of the recovery of the revenue requirement in rates begins. NSIMA balances would be amortized in BTS rates through SoCalGas' annual regulatory account balance update filings until the revenue requirement and incremental O&M costs for the project are included in the test year of a GRC.

IX. THIS APPLICATION IS EXEMPT FROM CEQA

The California Environmental Quality Act (CEQA) does not apply to this Application. First, regulatory proceedings requesting ratepayer funding for infrastructure projects do not meet the definition of a "project" subject to CEQA. Second, regardless of whether such proceedings constitute a "project" under CEQA, they are statutorily exempt from CEQA review pursuant to California Public Resources Code Section 21080(b)(8) for ratemaking.

A. This Application Does Not Constitute a "Project" Under CEQA

A ratemaking application to the Commission does not meet the definition of a "project" under CEQA. CEQA applies only when a government agency considers a discretionary approval for a project. CEQA defines a "project" as:

> [A]n activity which may cause either a direct or physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, and which is any of the following:
>
> (a) An activity which is directly undertaken by any public agency.
>
> (b) An activity by a person which is supported, in whole or in part, through contracts, grants, subsidies, loans or other forms of assistance from one or more public agencies.
>
> (c) An activity that involves the issuance to a person of a lease, permit, license, certificate, or other entitlement for use by one or more public agencies.[16]

[16] California Public Resources Code Section 21065.

Furthermore, a "project" is "the whole of an action"; "the term 'project' does not mean each separate governmental approval."[17]

SoCalGas and SDG&E's request for ratemaking authorization related to the North-South Project does not meet the threshold requirement of an activity that may cause direct or indirect physical changes in the environment. Where the agency's action merely establishes its ability or, as is the case here, the ability of other agencies to take a later action that could affect the environment, but does not commit those later reviewing agencies to a definite course of action, that agency's action is not a "project" subject to CEQA.[18] SoCalGas and SDG&E's requests in this proceeding are limited to recovery of the costs of the proposed North-South Project. The Commission's action on this Application will not commit subsequent regulatory agencies to any definite course of action. Those other reviewing agencies would retain full discretion when reviewing SoCalGas and SDG&E's proposed North-South Project to determine whether alternatives or mitigation must be analyzed in connection with the proposed infrastructure improvements.

B. Commission Ratemaking Proceedings are Statutorily Exempt from CEQA

Regardless of whether SoCalGas and SDG&E's cost recovery requests in this Application are considered a "project" under CEQA, they are nevertheless statutorily exempt from CEQA. In enacting a statutory exemption from CEQA for ratemaking in 1978, the California Legislature determined that the approval of rates by public agencies for the purpose of obtaining funds to maintain service within existing service areas should not be subject to CEQA

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[17] CEQA Guidelines Section 15378.
[18] *See Kaufman & Broad v. Morgan Hill Unified School District,* (1992) 9 Cal.App.4th 464, citing to *Bozung v. Local Agency Formation Commission,* (1975) 13 Cal.3d 263; *Fullerton Joint Union High Sch. Dist. V. State Bd. Of Edu.*, (1982) 32 Cal.3d 779, 796.

review. Specifically, California Public Resources Code Section 21080(b)(8) provides that CEQA does not apply to:

> The establishment, modification, structuring, restructuring, or *approval of rates*, tolls, fares, or other charges by public agencies which the public agency finds are for the purpose of . . . (D) *obtaining funds for capital projects necessary to maintain service within existing service areas* . . ..[19]

SoCalGas and SDG&E are applying to the Commission for an "approval of rates" for the purpose of recovering costs, or "obtaining funds," for a "capital project." Accordingly, this ratemaking Application falls squarely within the referenced statutory exemption.

X. RELIEF REQUESTED

Using a combination of tools the SoCalGas System Operator has been able to meet Southern System flowing supply needs in all but one instance, and the cost to meet those needs has been fairly reasonable. This situation is not likely to continue. With customer deliveries into the Southern System decreasing, Southern System support costs will probably increase, and future supply-related curtailments are very likely -- unless we take steps now to develop the necessary physical infrastructure. In order to help ensure continued reliable service to Southern System customers, SoCalGas and SDG&E respectfully request that the Commission take the following actions:

1. Authorize SoCalGas to recover the full cost of the North-South Project in BTS customer rates;
2. Approve SoCalGas and SDG&E's proposed approach to calculating the revenue requirements associated with North-South Project, including proposed loaders, escalation rates, and AFUDC;

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[19] *Emphasis added*; *see also* CEQA Guidelines Section 15273(a)(4).

3. Authorize SoCalGas to file an advice letter within 60 days after the assets are placed into service, and to incorporate the actual revenue requirement in rates on the first day of the next month following advice letter approval;
4. Authorize SoCalGas to adjust the first year's revenue requirement, if placed in rates on a date other than January 1, to ensure it is fully collected over the remaining months in the year;
5. Authorize SoCalGas to update the North-South Project revenue requirement each subsequent year via SoCalGas' annual Consolidated Rate Filing for rates effective January 1^{st} of the following year until the North-South Project revenue requirement is addressed in SoCalGas' next GRC or other applicable proceeding;
6. Authorize SoCalGas to establish a new interest-bearing NSIMA to record the following costs for future recovery:
   a. Incremental O&M expenses incurred to complete the North-South Project;
   b. Incremental O&M expenses relating to the North-South Project that are incurred after completion of the project; and
   c. Capital-related costs (i.e., depreciation, taxes, and return) on the capital expenditures associated with the North-South Project for the period from the date the assets are completed and placed into service and the date of the recovery of the revenue requirement in rates begins.
7. Authorize SoCalGas to amortize NSIMA balances in BTS rates through SoCalGas' annual regulatory account balance update filings until the revenue requirement and incremental O&M costs for the project are included in the test year of a GRC;

8. Authorize SoCalGas to transfer any NSIMA residual balance after incorporation in the GRC to the Backbone Transmission Balancing Account and elimination of the NSIMA;
9. Determine that this Application is exempt from CEQA because it does not constitute a "project" under CEQA, and because it is a ratemaking proceeding that is statutorily exempt from CEQA; and
10. Provide such other and further ratemaking relief relating to the North-South Project as the Commission deems necessary or appropriate.

XI. NO BACKBONE-ONLY RATE PROPOSAL

In the 2013 SoCalGas and SDG&E Triennial Cost Allocation Proceeding (TCAP) currently pending before the Commission (A.11-11-002), SoCalGas, SDG&E, and almost all other active parties have submitted for Commission approval a proposed settlement of certain Phase 2 issues.[20] One of the agreed-upon provisions in this settlement relates to a backbone-only rate proposal by SoCalGas:

> SoCalGas shall withdraw its proposal for backbone-only rates from this proceeding. If SoCalGas chooses to resubmit a proposal for backbone only rates prior to the next TCAP, it will do so in its upcoming application relating to Southern System issues (see Section 6 below). If the Southern System application does not propose a backbone-only rate, the application will address why SoCalGas chose not to re-propose it in the application. Nothing in this Settlement is intended to predetermine the potential availability of a backbone-only rate as a result of the upcoming application.[21]

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[20] *See Joint Motion of SoCalGas, SDG&E, Division of Ratepayer Advocates, The Utility Reform Network, Southern California Edison Company, Southern California Generation Coalition, Indicated Producers, California Manufacturers and Technology Association, the City of Long Beach, and Southwest Gas Corporation for Adoption of Settlement Agreement for Certain Phase 2 Issues* dated March 27, 2013 (Joint Motion).

[21] Attachment A to Joint Motion at p. 4.

Consistent with this settlement provision, SoCalGas is addressing the issue of a possible backbone-only rate in this current Application. During our 2013 TCAP proceeding, it became clear that there are a number of potential issues with such a rate, including whether such a rate would be offered only to incremental load, or whether existing load could switch to such a rate, and, if so, what the potential negative effect on the rates of our other customers would be. Upon due reflection, SoCalGas believes that the potential harm from offering such a rate to existing customer load outweighs the potential benefits that might be achieved by offering such a rate to attract new customer load. Accordingly, SoCalGas is not proposing the establishment of a new backbone-only rate in this proceeding.

XII. AFFILIATES AFFECTED AND ALTERNATIVES CONSIDERED

SDG&E and Sempra US Gas and Power are customers of SoCalGas. As such, the proposals in this Application would affect them in the same manner as other similarly-situated SoCalGas customers.

SoCalGas and SDG&E considered each of the non-physical and physical alternatives to the North-South Project detailed above, and rejected them for the reasons we have described. In addition, SoCalGas and SDG&E also considered each of the following:

- Doing nothing – i.e., relying on existing System Operator tools, MILCs with Gas Acquisition, baseload purchase agreements, etc.
- A minimum Southern System flow requirement, either for all customers, or just for customers located on the Southern System.
- A “low” OFO procedure, similar to the one originally proposed by SoCalGas in its 2009 BCAP proceeding.
- Tighter balancing requirements.

SoCalGas and SDG&E rejected each of these additional alternatives because they do not resolve the supply-related risks faced by customers located on our Southern System. Using a combination of tools the SoCalGas System Operator has been able to meet Southern System flowing supply needs in all but one instance, and the cost to meet those needs has been fairly reasonable. But this situation is not likely to continue. With Southern System support costs are increasing and customer deliveries into the Southern System decreasing, Southern System support costs are likely to increase, as are future supply-related curtailments.

Non-physical solutions such as a minimum Southern System flow requirement do not eliminate Southern System dependence on a single interstate pipeline, El Paso, and do not provide Southern System customers with needed access to supplies from SoCalGas' storage fields and other receipt points. Such access can only be achieved through physical upgrades. In addition, SoCalGas proposed a version of a minimum Southern System flow requirement for all customers in its 2009 BCAP, and it was not well received by customers. And imposing requirements on Southern System customers that would not be imposed on similar customers located elsewhere on the SoCalGas system, while still requiring Southern System customers to bear a proportionate share of all other costs of the SoCalGas systems, would not be fair.

SoCalGas and SDG&E believe that a "low OFO" procedure could be helpful in ensuring that adequate supplies reach our system when customer usage outstrips customer deliveries. However, a low OFO procedure, in and of itself, would not ensure that needed supplies would reach the Southern System.[22] Likewise, tighter balancing requirements might help ensure that adequate supplies reach our system on a timelier basis than they do under our existing balancing

[22] Also, the BCAP Phase One settlement adopted by the Commission in D.08-12-020 provides that SoCalGas shall not institute a low OFO procedure until at least December 31, 2014. *See* D.08-12-020, mimeo., at p. 5 of Appendix A.

requirements. But tighter balancing requirements would not ensure that those supplies reach the Southern System.

XIII. STATUTORY AND PROCEDURAL REQUIREMENTS

A. Rule 2.1

1. Authority

This Application is made pursuant to Sections 451, 454, 489, 491, 701, 728, and 729 of the Public Utilities Code of the State of California, the Commission's Rules of Practice and Procedure, and relevant decisions, orders, and resolutions of the Commission.

2. Corporate Information and Correspondence

SoCalGas is a public utility corporation organized and existing under the laws of the State of California. SoCalGas' principal place of business and mailing address is 555 West Fifth Street, Los Angeles, California, 90013.

SDG&E is a public utility corporation organized and existing under the laws of the State of California. SDG&E is engaged in the business of providing electric service in a portion of Orange County and electric and gas service in San Diego County. SDG&E's principal place of business is 8330 Century Park Court, San Diego, California, 92123.

All correspondence and communications to SoCalGas and SDG&E regarding this Application should be addressed to:

Gregory Healy
Regulatory Case Manager
555 West 5th Street
Los Angeles, CA 90013
Telephone: (213) 244-3314
Facsimile: (213) 244-8449
E-mail: ghealy@semprautilities.com

A copy should also be sent to:

Michael R. Thorp
Senior Counsel
555 West 5th Street, Suite 1400
Los Angeles, CA 90013
Telephone: (213) 244-2981
Facsimile: (213) 629-9620
Email: mthorp@semprautilities.com

3. Proposed Category

SoCalGas and SDG&E propose that this proceeding be categorized as "ratesetting" under Rule 1.3(e) because the proposals in the Application will have a potential future effect on SoCalGas and SDG&E's rates.

4. Need for Hearings

SoCalGas and SDG&E believe that evidentiary hearings will likely be required. SoCalGas and SDG&E request that any hearings be scheduled expeditiously, so that the reliability-related measures proposed in the Application can be implemented as quickly as possible, while still providing for the necessary regulatory review.

5. Issues to be Considered

The issues to be considered in this proceeding are whether the Commission should grant the relief requested by SoCalGas and SDG&E in this Application (see Section X above).

6. Proposed Schedule

SoCalGas and SDG&E propose the following schedule for this Application:

EVENT	DATE
Application	December 20, 2013
Responses/Protests	January 20, 2014

SoCalGas/SDG&E Reply to Responses/Protests	January 30, 2014
Prehearing Conference	March 13, 2014
Intervenor testimony	May 14, 2014
Rebuttal testimony	June 6, 2014
Evidentiary hearings	June 23-June 27, 2014
Opening briefs	September 15, 2014
Reply briefs	October 13, 2014
Proposed Decision	January 2015
Commission Decision	February 2015

B. Rule 2.2 – Articles of Incorporation

SoCalGas previously filed a certified copy of its Restated Articles of Incorporation with the Commission in A.98-10-012, and these articles are incorporated herein by reference.

SDG&E previously filed a certified copy of its Restated Articles of Incorporation with the Commission in A.09-08-019, and these articles are incorporated herein by reference.

C. Rule 2.4 – CEQA Compliance

As explained in Section IX above, CEQA does not apply to this Application because: (1) regulatory proceedings requesting ratepayer funding for infrastructure projects do not meet the definition of a "project" subject to CEQA, and (2) regardless of whether such proceedings constitute a "project" under CEQA, they are statutorily exempt from CEQA review pursuant to California Public Resources Code Section 21080(b)(8) for ratemaking.

D. Rule 3.2

1. Balance Sheet and Income Statement – Rule 3.2(a)(1)

The most recent updated Balance Sheet and Income Statements for SoCalGas and SDG&E are attached to this Application as Attachment A and Attachment B, respectively.

2. Statement of Present and Proposed Rates – Rule 3.2 (a) (2) and (3)

The rate changes that will result from this Application are described in Attachment C and Attachment D for SoCalGas and SDG&E, respectively.

3. Description of Applicant's Property and Equipment – Rule 3.2 (a) (4)

A general description of SoCalGas' property and equipment was previously filed with the Commission on October 5, 2001, in connection with SoCalGas' Application No. 01-10-005 and is incorporated herein by reference. A statement of the original cost and depreciation reserve attributable thereto as of September 30, 2013 is Attachment E.

A general description of SDG&E's property and equipment was filed with the Commission on October 5, 2001, in connection with Application 01-10-005, and is incorporated herein by reference. A statement of original cost and depreciation reserve for the six-month period ending September 30, 2013 is attached as Attachment F.

4. Summary of Earnings – Rules 3.2(a) (5) and (6)

The summary of earnings for SoCalGas and SDG&E are included herein as Attachment G and Attachment H.

5. Depreciation – Rule 3.2(a)(7)

For financial statement purposes, depreciation of utility plant has been computed on a straight-line remaining life basis at rates based on the estimated useful lives of plant properties. For federal income tax accrual purposes, SoCalGas and SDG&E generally compute depreciation using the straight-line method for tax property additions prior to 1954, and liberalized depreciation, which includes Class Life and Asset Depreciation Range Systems, on tax property additions after 1954 and prior to 1981. For financial reporting and rate-fixing purposes, "flow through accounting" has been adopted for such properties. For tax property additions in years 1981 through 1986, SoCalGas and SDG&E have computed their tax depreciation using the Accelerated Cost Recovery System. For years after 1986, SoCalGas and SDG&E have computed their tax depreciation using the Modified Accelerated Cost Recovery Systems and, since 1982, have normalized the effects of the depreciation differences in accordance with the Economic Recovery Tax Act of 1981 and the Tax Reform Act of 1986.

6. Proxy Statement – Rule 3.2(a)(8)

A copy of SoCalGas' most recent proxy statement, dated May 1, 2013, was provided to the Commission on May 2, 2013, and is incorporated herein by reference.

A copy of SDG&E's most recent proxy statement, dated April 25, 2013, was provided to the Commission on April 30, 2013, and is incorporated herein by reference.

7. Service and Notice – Rule 3.2(b)

SoCalGas and SDG&E are serving this Application on all parties to A.11-11-002 (SoCalGas and SDG&E's 2013 TCAP proceeding). Within twenty days of filing, SoCalGas will mail notice of this Application to the State of California and to cities and counties served by SoCalGas, and SoCalGas will post the notice in its offices and publish the notice in newspapers of general circulation in each county in its service territory. In addition, SoCalGas will include notices with the regular bills mailed to all customers affected by the proposed rate change.

XIV. CONCLUSION

A reliable natural gas system is crucial to the customers we serve, the reliability of the electric grid, and the overall health and welfare of California. SoCalGas and SDG&E have a strong track record of providing safe and reliable natural gas service at a reasonable cost. But continued reliable, low-cost service on the Southern System cannot be ensured without physical infrastructure improvements to provide Southern System customers with access to storage and additional receipt points. For the reasons described above and in the testimony supporting this Application, SoCalGas and SDG&E respectfully request that the Commission:

- Authorize SoCalGas to recover the full cost of the North-South Project in BTS customer rates;
- Approve SoCalGas and SDG&E's proposed approach to calculating the revenue requirements associated with North-South Project, including proposed loaders, escalation rates, and AFUDC;
- Authorize SoCalGas to file an advice letter within 60 days after the assets are placed into service, and to incorporate the actual revenue requirement in rates on the first day of the next month following advice letter approval;
- Authorize SoCalGas to adjust the first year's revenue requirement, if placed in rates on a date other than January 1, to ensure it is fully collected over the remaining months in the year;
- Authorize SoCalGas to update the North-South Project revenue requirement each subsequent year via SoCalGas' annual Consolidated Rate Filing for rates effective January 1st of the following year until the North-South Project revenue requirement is addressed in SoCalGas' next GRC or other applicable proceeding;
- Authorize SoCalGas to establish a new interest-bearing NSIMA to record the following costs for future recovery:
  - Incremental O&M expenses incurred to complete the North-South Project;
  - Incremental O&M expenses relating to the North-South Project that are incurred after completion of the project; and
  - Capital-related costs (i.e., depreciation, taxes, and return) on the capital expenditures associated with the North-South Project for

the period from the date the assets are completed and placed into service and the date of the recovery of the revenue requirement in rates begins.

- Authorize SoCalGas to amortize NSIMA balances in BTS rates through SoCalGas' annual regulatory account balance update filings until the revenue requirement and incremental O&M costs for the project are included in the test year of a GRC;
- Authorize SoCalGas to transfer any NSIMA residual balance after incorporation in the GRC to the Backbone Transmission Balancing Account and elimination of the NSIMA;
- Determine that this Application is exempt from CEQA because it does not constitute a "project" under CEQA, and because it is a ratemaking proceeding that is statutorily exempt from CEQA; and
- Provide such other and further ratemaking relief relating to the North-South Project as the Commission deems necessary or appropriate.

Respectfully submitted,

By: *<u>/s/ Richard M. Morrow</u>*
Richard M. Morrow

Vice President – Engineering & Operations Staff
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By: *<u>/s/ Michael R. Thorp</u>*
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December 20, 2013

VERIFICATION

I am an officer of Southern California Gas Company and San Diego Gas & Electric Company and am authorized to make this verification on their behalf. The matters stated in the foregoing Application are true to my own knowledge, except as to matters that are stated therein on information and belief, and as to those matters I believe them to be true.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed this 20th day of December, 2013, at Los Angeles, California.

By: *__/s/ Richard M. Morrow__*
Richard M. Morrow

Vice President – Engineering & Operations Staff
SOUTHERN CALIFORNIA GAS COMPANY
SAN DIEGO GAS & ELECTRIC COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 G) For Authority To Recover North-South Project Revenue Requirement In Customer Rates And For Approval Of Related Cost Allocation And Rate Design Proposals	Application 13-12-______ (Filed December 20, 2013)

NOTICE OF AVAILABILITY

APPLICATION OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) AND SAN DIEGO GAS & ELECTRIC COMPANY (U 902 G) FOR AUTHORITY TO RECOVER NORTH-SOUTH PROJECT REVENUE REQUIREMENT IN CUSTOMER RATES AND FOR APPROVAL OF RELATED COST ALLOCATION AND RATE DESIGN PROPOSALS

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December 20, 2013

BEFORE THE PUBLIC UTILITIES COMMISSION
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NOTICE OF AVAILABILITY

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TO: All Parties of Record in A.11-11-002:

Please be advised that on December 20, 2013, Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) filed with the California Public Utilities Commission (Commission) its Application for Authority to Recover North-South Project Revenue Requirement in Customer Rates and for Approval of Related Cost Allocation and Rate Design Proposals, as captioned above. Pursuant to Rule 1.9(d) of the Commission's Rules of Practice and Procedure, you may receive a copy of the Application by directing your request in writing to:

Gregory Healy, Regulatory Case Manager
SAN DIEGO GAS & ELECTRIC COMPANY
SOUTHERN CALIFORNIA GAS COMPANY
555 West Fifth Street, GT-14D6
Los Angeles, California 90013
Telephone: (213) 244-3314
Facsimile: 213-244-4957
E-mail: GHealy@semprautilities.com

This application is also available for viewing and printing on the SoCalGas or SDG&E website at www.socalgas.com/regulatory/cpuc.shtml or www.sdge.com/regulatory/cpuc/shtml.

DATED at Los Angeles, California, on this 20th day of December 2013.

Respectfully submitted,

By: *___/s/ Michael R. Thorp___*
Michael R. Thorp

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December 20, 2013