

RULE NO. 41
UTILITY SYSTEM OPERATION

Sheet 1

The Utility’s operational organization, procedures, and reporting requirements are described herein.

STRUCTURE, PROCEDURES, AND PROTOCOLS

1. The mission of the Utility System Operator is to maintain system reliability and integrity while minimizing costs at all times.
2. The term “Utility System Operator” as defined in Rule No.1 denotes all of the applicable departments within Southern California Gas Company and San Diego Gas & Electric Company responsible for the physical and commercial operation of the pipeline and storage systems specifically excluding the Utility Gas Procurement Department. The Utility System Operator’s organizational structure is described below.

The daily overall physical transmission and storage system reliability operations within the Utility System Operator are conducted by the Gas System Operations Department, which is located in the Gas Operations organization. The Gas System Operations Department contains the Gas Control Department and the Gas Scheduling Department. The activities involved in meeting any physical flowing gas supply requirements as determined by the Gas Control Department are conducted by the Operational Hub, which is located in the Storage and Hub Products Department within the Energy Markets and Capacity Products Department. The Energy Markets and Capacity Products Department is located in the Customer Services organization. The Gas Operations and Customer Services organizations report to different Vice Presidents.

3. The Gas Control Department is the sole authority for: operating the pipeline and storage system, developing the system sendout (i.e., demand) forecasts to be used for purposes of determining on a daily basis Southern System minimum flow requirements, and for issuing Operational Flow Orders (“OFOs”).
4. The Gas Control Department will fully utilize storage injection capacity prior to issuing an OFO. The Gas Control Department is responsible for calculating forecasted sendout and physical storage injection capacity. For every nomination cycle, the Gas Scheduling Department shall calculate the system capacity as the sum of forecasted sendout, physical storage injection capacity, and available off-system nominations. “Available” off-system nominations are the nominations that have been made by customers and in the SoCalGas scheduling system. The forecasted system capacity shall then be compared to the latest scheduled quantities, with the exception of the Evening Cycle when the forecasted system capacity shall be compared to confirmed nominations from the Timely Cycle. The following table summarizes which quantities are used in each cycle for the OFO calculation:

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STRUCTURE, PROCEDURES, AND PROTOCOLS (Continued)

4. (Continued)

<u>Cycle</u>	<u>Quantity Used for OFO Calculation</u>
1) Timely	Prior Flow Day - Evening Cycle Scheduled Quantity
2) Evening	Current Flow Day - Timely Cycle Confirmed Quantity
3) Intraday 1	Current Flow Day - Evening Cycle Scheduled Quantity
4) Intraday 2	Current Flow Day - Intraday 1 Cycle Scheduled Quantity

An OFO may be issued only if the level of quantities, from the table above, exceeds the forecasted system capacity. System linepack will not be part of the formula used to determine when an OFO shall be issued. The conditions for issuing an OFO are summarized below.

An OFO is issued if Forecasted System Capacity < Scheduled Quantities*

* *Confirmed Nominations from the Timely Cycle shall be used for the Evening Cycle*

Where,

Forecasted System Capacity = Forecasted Sendout
 + Physical Storage Injection Capacity
 + Available Off-System Nominations

5. The minimum flowing supply for the Southern System is a function of the forecasted gas demand for the Southern System, including SDG&E demand, less the capability to provide additional supplies to the Southern System from the Northern System or storage via the Chino and Prado crossovers, and other factors, such as but not limited to: the state of the Southern System, demand and supply available on the remainder of the Utility system, and expectations of changing demand patterns. The Gas Control Department estimates the level of demand and the Chino/Prado crossover capability each day. The Utility System Operator will use all of its available transmission facilities to move gas from the Northern System to the Southern System.

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STRUCTURE, PROCEDURES, AND PROTOCOLS (Continued)

- 8. The Gas Control Department shall be physically separated from those departments engaging in marketing/sales activities, shall have no knowledge of or involvement in any marketing/sales activities, and shall be strictly concerned with the operation, safety, and integrity of the pipeline and storage system. The Operational Hub shall have no access to non-public customer-specific information other than the information it obtains through its own contracts, negotiations, and discussions with customers. The Gas Control Department may communicate with the Operational Hub to discuss changes to the Southern System minimum flow requirements, circumstances that might require the Operational Hub to obtain supplies, and options to ensure minimum flowing supplies requirements are met. Discussions may also take place with regard to short-term operational needs for flowing supplies to support system reliability elsewhere on the system that may arise to support operations and maintenance (O&M) activities, related pipeline integrity work, or to address a force majeure event such as a line breakage or failure.

PURCHASES AND SALES TO MANAGE MINIMUM FLOW SUPPLIES

- 9. The Utility shall issue an RFO at least annually for proposals enabling the Utility to manage its minimum flow requirements to the Southern System delivery points for system reliability. The Utility, at its sole discretion, may enter into transactions with one or more RFO respondents to provide the best value to the Utility's customers based upon the Utility's evaluation criteria. The RFO shall not be a binding offer by the Utility to enter into a contract for any product(s) or service(s). The Utility shall reserve the right to reject any or all offers submitted in response to the RFO.
- 10. Any contract with an RFO respondent will be conditioned on the Utility obtaining the prior approval of the California Public Utilities Commission (CPUC) acceptable to the Utility. Respondent offers will be considered non-binding until a definitive agreement is reached between the respondent and the Utility, and the CPUC issues an order approving the definitive agreement memorializing the terms and conditions of the transaction between the respondent and the Utility.
- 11. Except for transactions related to the Utility Gas Procurement Department's role as "provider of last resort" (addressed below in Section 12), any gas commodity purchases and sales between the Operational Hub and the Utility Gas Procurement Department or an affiliate of Sempra Energy will occur through an Independent Party, where the counterparties are not known until after the transaction is completed. "Independent Party" refers to gas trading exchanges such as the Intercontinental Exchange (ICE), gas brokers who have been instructed to provide no preference to Sempra affiliates or to the Utility Gas Procurement Department, or open auctions available to all qualified parties conducted by the Operational Hub, in which gas purchases or sales are made with counter-parties that are not known until after the transaction is completed.

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PURCHASES AND SALES TO MANAGE MINIMUM FLOW SUPPLIES (Continued)

- 12. The Utility Gas Procurement Department will act on a best-efforts basis to provide gas supplies based on the Operational Hub’s request if called upon as a provider of last resort. “Provider of last resort” relates to the circumstance in which the Operational Hub has attempted to use all other available tools, has entered the open market for gas commodity purchases, has been unsuccessful in meeting its need to receive a required volume of flowing supplies at a specific location, and system reliability is therefore jeopardized. If the Operational Hub has exhausted its other options available to acquire the required flowing supplies, it will contact the Utility Gas Procurement Department and request that it provide gas to meet the remaining minimum flow requirement. Such requests will occur as soon as possible during the actual flow day. The Utility Gas Procurement Department will charge the Operational Hub the actual incremental costs incurred to provide the specific supplies. Verification that the Utility has followed this procedure will be included in the annual compliance report provided to the CPUC in conjunction with the Advice Letter addressed in Section 23 below.

- 13. Standards and criteria for spot purchases or sales of gas commodity for which standards and criteria are not specified in CPUC-approved contracts shall be as follows:
 - a. Should it be necessary for the Operational Hub to purchase or sell spot supplies of gas in the day-ahead market, the Operational Hub shall be deemed to have made reasonable (1) spot purchases if the purchase price is less than or equal to 110% of the Platt’s Gas Daily Midpoint for the flow date for the relevant trading point and (2) spot sales if the sale price is greater than or equal to 90% of the Platt’s Gas Daily Midpoint for the flow date for the relevant trading point.

 - b. Should it be necessary for the Operational Hub to purchase or sell spot supplies of gas in the intraday market, the Operational Hub shall be deemed to have made reasonable (1) spot purchases if the purchase price is less than or equal to 110% of the Platt’s Gas Daily high of the Common range for the current flow date for the relevant trading point and (2) spot sales if the sale price is greater than or equal to 90% of the Platt’s Gas Daily low of the Common range for the current flow date for the relevant trading point.

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ACCOUNTING TREATMENT

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

UTILITY CUSTOMER FORUM

19. The Utility shall hold an annual Utility Customer Forum (the “Forum”), which shall be held around April - May. The Forum will provide an opportunity for the Utility to provide information on, and to address, the following matters with interested parties:
- i. Review of the timing, method, formulas, and all inputs to formulas by which OFO events are triggered;
 - ii. Review of requests for the Operational Hub to acquire additional supplies to meet minimum flow requirements;
 - iii. Review of Operational Hub purchases/actions to meet minimum flow requirements and plans for the coming year by providing information regarding the individual transactions, including transactions executed pursuant to the Operational Hub contractual arrangements. Transaction-specific information shall identify price, volume, date, delivery/receipt points, and any special terms;
 - iv. Review the need for any additional minimum flow requirements on the Utility system beyond then-current defined requirements;
 - v. Review potential additional tools to support system operations and potential system improvements to reduce or eliminate the need for any minimum flowing supply requirements.
20. To facilitate an informed discussion of the issues identified in Section 19 above, the Utility shall prepare an annual report (Report) of system reliability issues. The Report shall: (a) identify the need for new minimum flow requirements, (b) identify potential tools and/or infrastructure improvements that can be used to mitigate new or existing reliability problems (e.g. minimum flow requirements and OFOs), and (c) provide information on the matters identified in Section 19 (i) through (v) above.

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UTILITY CUSTOMER FORUM (Continued)

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

CPUC REPORTING REQUIREMENTS

22. The Utility shall file each post-Forum report resulting from the Forum with the CPUC by Advice Letter no later than 60 days after conclusion of the relevant Forum. The Utility shall also submit any tariff changes proposed in the Forum and agreed-to by the Utility for the CPUC approval by Advice Letter no later than 60 days after conclusion of each Forum.
23. On October 1 of each year, beginning with 2009, the Utility shall provide a report ("Annual Compliance Report") demonstrating that the Operational Hub's procurement activities during the preceding twelve months ending August 31 were in compliance with the standards, criteria and procedures described in Sections 9 through 17 above. The Annual Compliance Report shall be submitted to the Energy Division by Advice Letter and shall be subject to comment or protest. Upon Energy Division review and verification of the Annual Compliance Report and the CPUC Resolution approving the Annual Compliance Report, all the transactions entered into the SRMA balance for the year in question that are found reasonable by the Energy Division shall be amortized in customer transportation rates over the following year.

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