Application of San Diego Gas & Electric Company (U 902 G) and Southern California Gas Company (U 904 G) Updating Firm Access Rights Service and Rates.

Application No. 10-03-_____
Exhibit No.: ______________

PREPARED DIRECT TESTIMONY

OF RODGER SCHWECKE

ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY

AND SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

MARCH 29, 2010

#242390

TABLE OF CONTENTS

Page

PREPARED DIRECT TESTIMONY
OF RODGER SCHWECKE
ON BEHALF OF SDG&E AND SOCALGAS

I. QUALIFICATIONS

My name is Rodger Schwecke. I am employed by Southern California Gas Company (SoCalGas) as the Director of Energy Markets and Capacity Products in the Customer Services Department. My business address is 555 West Fifth Street, Los Angeles, California, 90013-1011. My responsibilities are to manage service to the largest gas customers of San Diego Gas & Electric Company (SDG&E) and SoCalGas, specifically large electric generators, refineries and wholesale customers. I also manage for SDG&E and SoCalGas the unbundled storage program, the Operational HUB (G-PAL) services and minimum flowing supply purchases, policies and procedures for scheduling and nominations on the SDG&E and SoCalGas systems, daily operation and enhancements to SoCalGas' Electronic Bulletin Board (EBB), and all aspects of SDG&E/SoCalGas' interconnect and operational balancing agreements with all suppliers delivering natural gas into the utility system.

I have been employed by SoCalGas and its affiliates since June 1983 in numerous positions, including General Manager/Vice President – Bangor Gas Company; Vice President Marketing - Frontier Energy; and Business Development Manager, Senior Pipeline Products Manager, Project Manager, Account Executive Supervisor, Market Planner Analyst, and Energy Systems Engineer for SoCalGas. I assumed my current position in December 2007. During my employment I have been responsible for various aspects of utility development and operations, sales and marketing, regulatory matters, and customer relations. I graduated in 1983 from California State University, Long Beach, with a Bachelor of Science in Chemical Engineering.

I have previously testified before the California Public Utilities Commission, State of Maine Utilities Commission, and the North Carolina Utilities Commission.

II. FAR'S SUCCESSFUL HISTORY

Firm Access Rights (FAR) is the system of firm access rights and services implemented on the SDG&E/SoCalGas transmission system (System) on October 1, 2008. FAR has provided customers, marketers, and California gas producers with new service options and opportunities to deliver gas into the pipeline system. The FAR system enables market participants to hold firm access rights at receipt points into the SoCalGas/SDG&E integrated gas transmission system. Prior to FAR, upstream shippers and end-use customers were uncertain whether their gas would flow through the various SoCalGas/SDG&E receipt points. Nominations would far exceed particular receipt point capabilities at those receipt points accessing low-cost supplies at any given point in time. Those cuts, in turn, created scheduling uncertainty for all market participants. FAR has significantly remedied this problem as shown in Charts 1 and 2 below.

Chart 1

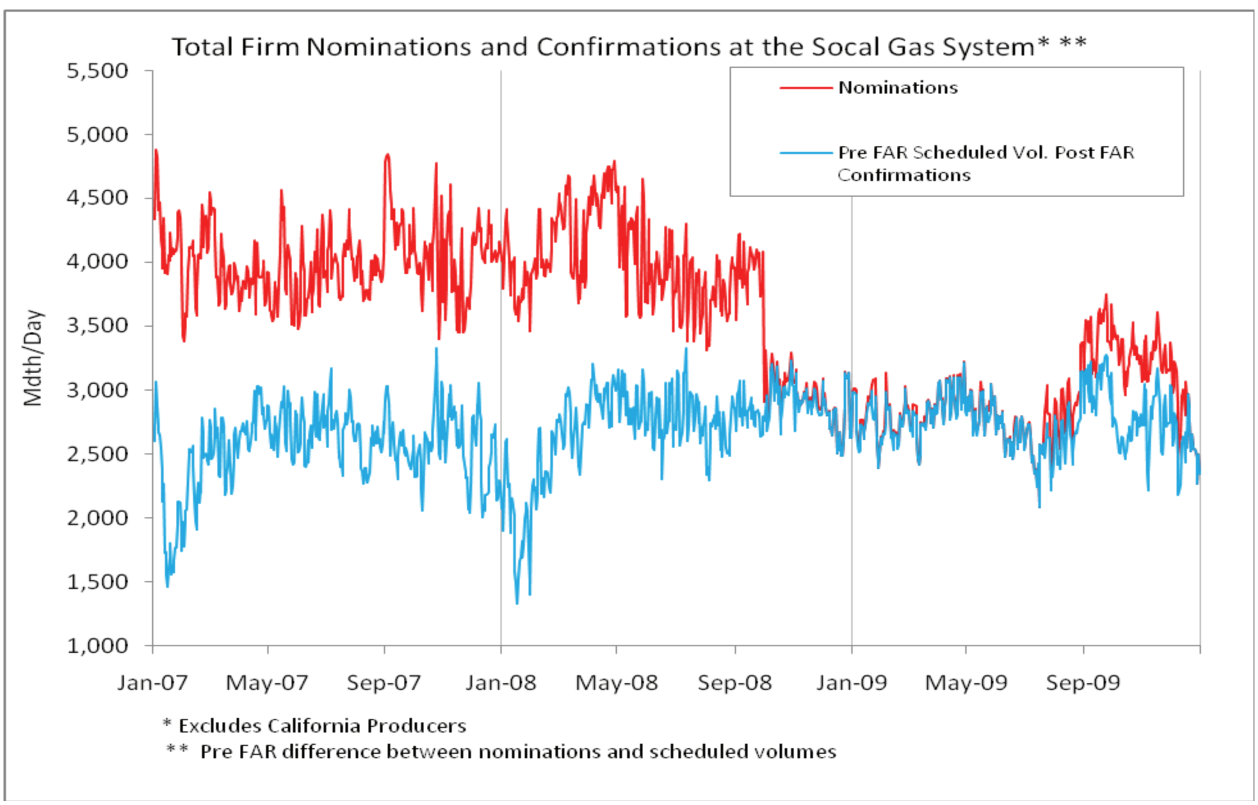
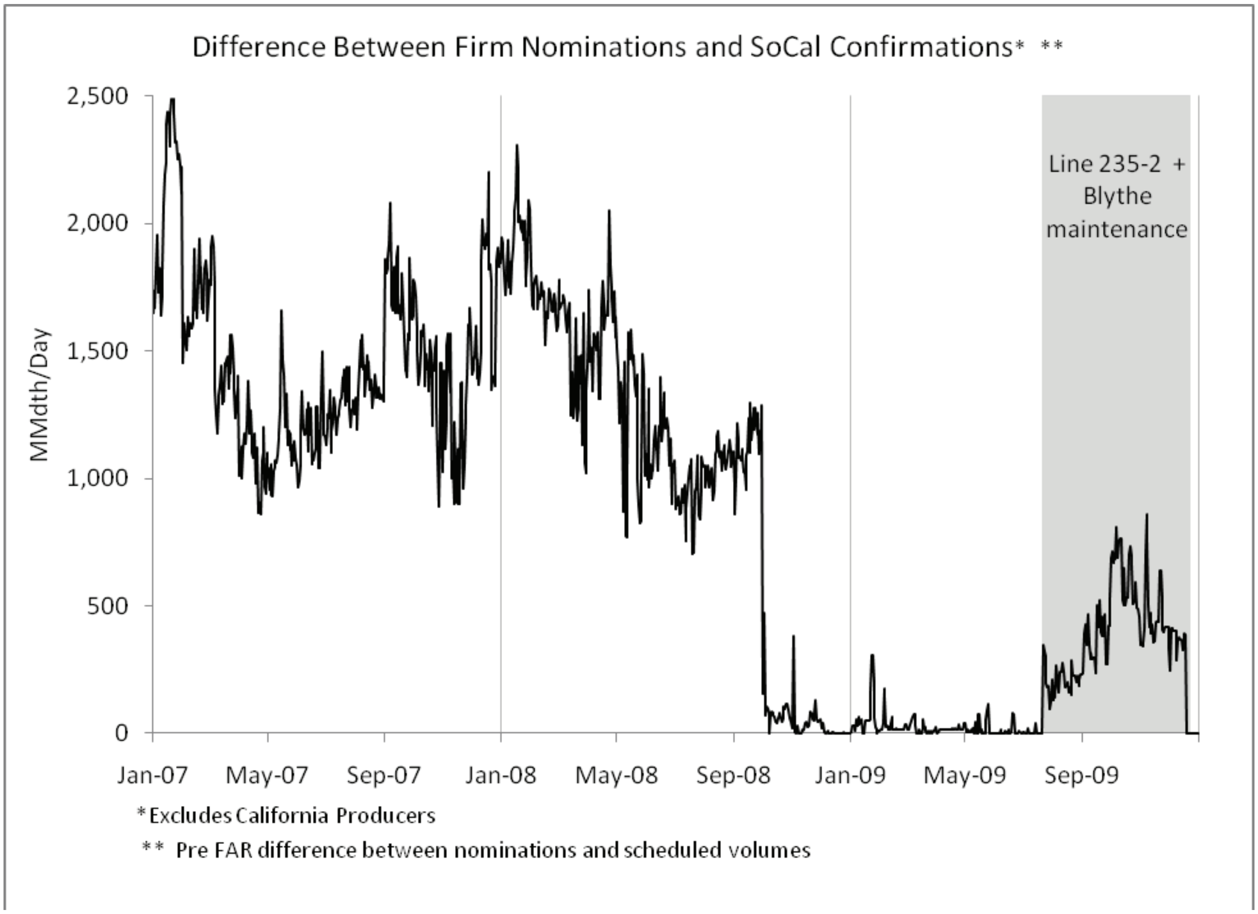


Chart 2



The implementation of FAR has increased scheduling certainty into the SDG&E/SoCalGas System. Prior to FAR, an average of 35% of all confirmed nominations were not scheduled into the System. Following FAR, and excluding the Line 235-2 maintenance period, only 1% of all firm nominations were not confirmed by SoCalGas. The percentage of non-confirmed volumes under FAR increased to 8% in the August-December, 2009 period because of unusual prolonged maintenance issues associated with Line 235-2 and the Blythe systems which had customers nominating more than was intended to flow to receive a higher percentage of the available capacity. In addition, a supplemental benefit from customers' nominations better matching flow is that SDG&E/SoCalGas have better information to manage the pipeline system and understand the receipt requirements for the current and next flow days.

SDG&E/SoCalGas expect that the long-term picture will return to that which occurred during the first 10 months of FAR rather than what occurred during the extended maintenance period. In either event, FAR has clearly increased scheduling certainty for all shippers holding firm access rights. Moreover, because scheduled maintenance issues on the SDG&E/SoCalGas system have been more significant than SDG&E/SoCalGas had previously anticipated. SDG&E/SoCalGas are proposing demand charge credits in this proceeding for firm rights holders whenever their firm nominations at their primary receipt point are cut in Cycle 1 by SDG&E/SoCalGas due to scheduled maintenance at that receipt point or corresponding transmission zone.

FAR also introduced a new pooling service designed to improve and facilitate gas commodity exchanges at the new SDG&E/SoCalGas citygate. Such virtual pooling occurs after gas is delivered through a receipt point using the receipt point access rights. The SDG&E/SoCalGas citygate pooling service helps facilitate delivery of gas to end-users, storage accounts, or for off-system deliveries by aggregating gas supplies from multiple receipt points. It created a convenient pricing point for customers to buy and sell natural gas if they so desire. Ninety-four pooling contracts were executed by December 2009. The SDG&E/SoCalGas Citygate pooling point is traded on the Intercontinental Exchange (ICE) under the name “SoCal – Citygate” and daily prices are reported in the major industry publications such as Gas Daily under the name “SoCalGas – Citygate”. FAR has resulted in the development of an active and liquid southern California citygate point. Since the beginning of FAR, significant trading has been reported at the SoCal – Citygate point since FAR was first implemented.

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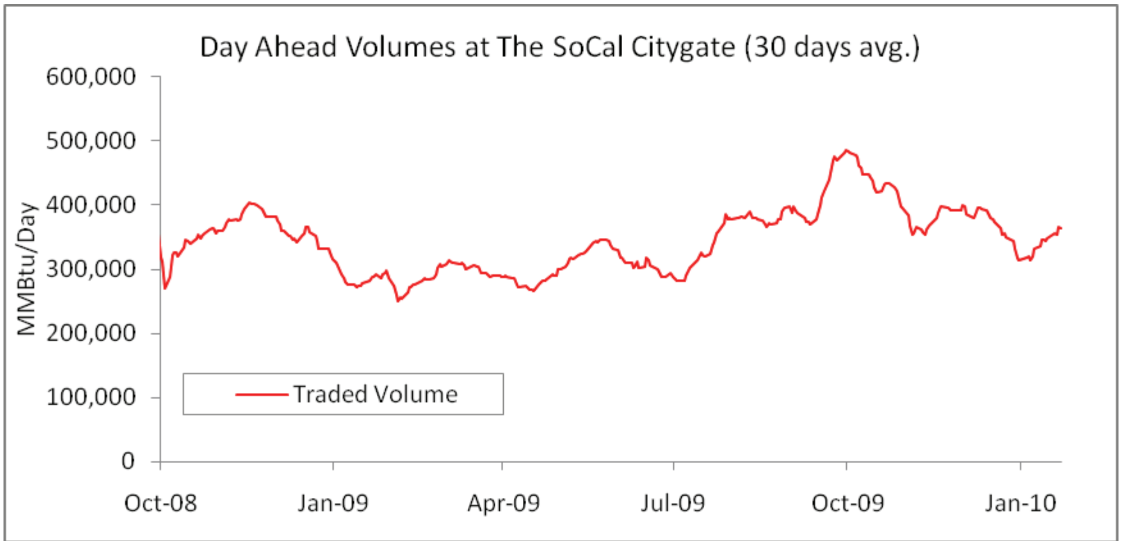
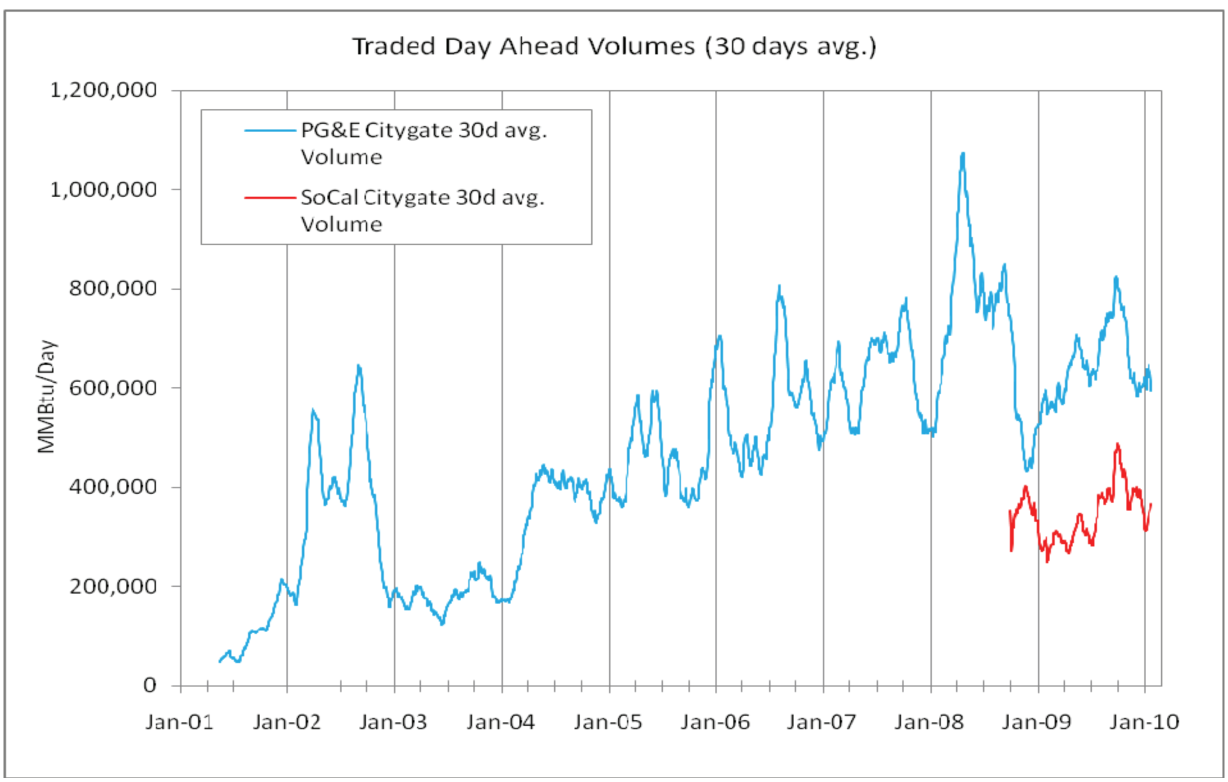
Chart 3



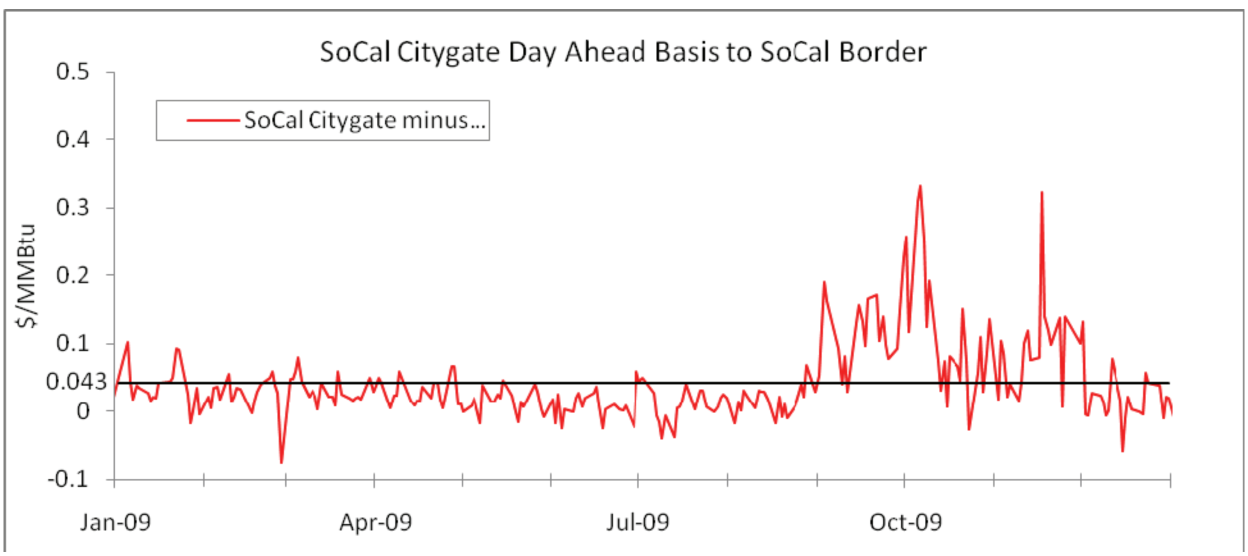
Although, on a volumetric basis, trading at the SoCal - Citygate may not yet be as liquid as trading at the PG&E - Citygate point, SDG&E/SoCalGas expect that volumes traded at the SoCal - Citygate point will continue to increase as has been the experience with transactions occurring trading at the PG&E - Citygate point.

Chart 4



Since its inception, prices at the SoCal - Citygate point have tracked fairly close to the Southern California Border Index. During 2009, the average SoCal - Citygate daily premium over the Southern California Border Index was $0.0447/MMBtu, an 11% discount from the full $0.05/MMBtu/day FAR rate. This means that SDG&E/SoCalGas end use customers have benefitted from the partial unbundling of backbone costs associated with the FAR rate. The premium such end-users pay marketers and suppliers over border prices for citygate purchases is less than the costs that have been unbundled from their transportation rates. SDG&E/SoCalGas expect this benefit to increase as more costs, consistent with fully cost-based rates, are unbundled from transportation rates.

Chart 5



Although traded volumes at the Southern California Border have generally declined over the period since FAR was implemented, overall liquidity at the Southern California Border has remained similar to that experienced at the PG&E receipt points.

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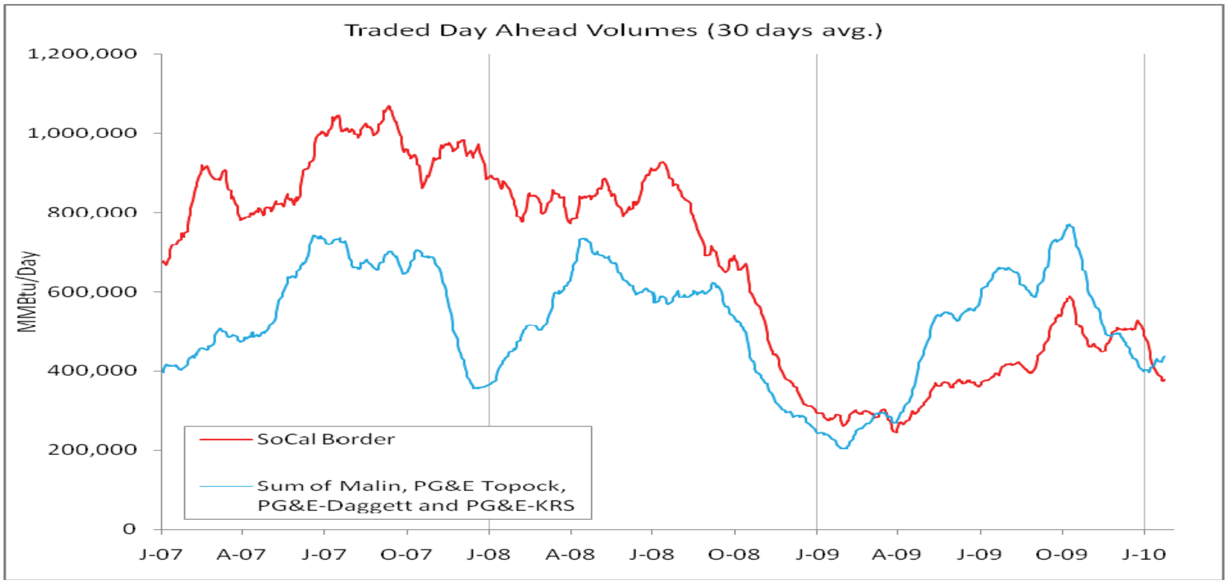
Chart 6



Finally, experience shows that low-load-factor (LLF) customers were able to minimize cost increases resulting from the FAR firm capacity reservation charge structure. For example, LLF electric generation (EG) customers did not obtain FAR to meet their summer peak day level. Instead, such EGs reserved firm capacity below their annual average consumption level. Those EGs then met their swing loads through various combinations of discounted, volumetric gas purchases at the SoCal - Citygate and imbalance trades in the following month.

During the original FAR proceedings, certain parties expressed concern that FAR would adversely impact the level of system flexibility that shippers enjoyed prior to FAR implementation. At that time, (prior to FAR implementation), customers on the SDG&E/SoCalGas system were permitted to switch from one receipt point to another as market conditions warranted. However, under the system of FAR that is currently in place, that same level of flexibility continues to exists on the SDG&E/SoCalGas system. For example, customers who have firm rights can exchange those rights for firm rights at another point—assuming firm capacity at that other point is still available. Since FAR implementation, an average of 192 of these types of exchanges has occurred almost every month, with an annual average load of

127,000 Dth/day. In other words, about 5% of utilized firm capacity rights (2,642,000 Dth/day) reflect shippers' ongoing use of the receipt point flexibility maintained under the current system of FAR.

Moreover, nomination flexibility on the System provides customers the ability to use their firm rights on an alternate basis at other receipt points to deliver gas supplies. This additional flexibility has allowed customers to better manage their contract rights with market supplies by utilizing the nomination priorities available to them. Customers took great advantage of this flexibility nominating an average of 190,000 Dth/day on an alternate basis. These alternate nominations represent 6.5% of the average daily nominations on the System. This level of scheduling flexibility allows customers to maximize the use of their existing capacity rights and helps shippers avoid incurring additional costs associated with acquiring additional short-term capacity to dynamically meet changing market requirements.

Furthermore, shippers have been able to purchase interruptible rights, which are priced at the Commission-approved, maximum tariff rate, assuming 100% load factor. On average, about 74,000 Dth/day of volumes scheduled on the System were made by shippers through volumetrically-priced interruptible nominations. Three percent of scheduled nominations over the October 2008-December 2009 period were interruptible nominations. All these options show that customers have still been able to have flexibility on which receipt points they are using for their gas needs.

Finally, SDG&E/SoCalGas' FAR implementation provides for a secondary market for unutilized firm capacity. In that regard, the FAR tariff provides contract holders a market to sell their firm rights at any rate up to 125% of the maximum G-RPA1 rate. Between September 24, 2008, and March 2, 2010, 40 different parties participated in this secondary market for firm access rights. During that time 264 transactions were awarded ranging in terms of 1 day to 3 years deals. The volume-weighted average price paid for such firm access rights in the secondary market was $0.048; representing 103% of the volume weighted average reservation price. Only eight of these transactions were at rates that reached the 125% rate cap.

Table 1

	No. Of Deals	No. of Deals at Cap	Avg. Reservation Rate* (Vol. Weighted)	Avg. Price* (Vol. Weighted)	% Reservation Rate* (Vol. Weighted)
Totals	264	8	$0.046	$0.048	102.7%

* Excludes transaction with variable volumes

During the FAR proceedings concern was expressed that contract rights acquired in the set-asides might be sold in the secondary market, rather than being used for their intended purposes. This concern has not materialized as only two set aside contract holders sold short term rights totaling 9,990 Dth/day in the secondary market.

Although it may appear that the secondary market has not been as active as some may have expected, SDG&E/SoCalGas believe that a number of factors have contributed to the level of secondary market participation experienced. These factors include the ability of Receipt Point Access Contract (RPAC) holders to exchange their contract rights for other available points; the ability to nominate to alternate points; and the high percentage (79.3%) of firm RPACs that have been consistently utilized by shippers on the System.

In sum, the current system of FAR implemented on the System has: (1) significantly increased scheduling certainty, (2) created a liquid citygate market without undermining the liquidity of the SoCalGas border market, (3) provided cost savings to end-users at the citygate via the existing, partially unbundled rate, (4) provided LLF EG customers numerous opportunities to avoid costs while concurrently meeting their swing load demand, and (5) retained the flexibility to move volumes from one receipt point to another similar to the flexibility existing on the System prior to FAR implementation. Thus, SDG&E/SoCalGas believe that the current system of FAR has met the expectations of the Commission when it originally approved FAR service on the System. Accordingly SDG&E/SoCalGas propose to retain the fundamental system of FAR currently implemented and propose only relatively minor changes in this proceeding.

III. SUMMARY OF THE FIRM ACCESS RIGHTS (FAR) OPEN SEASON

The FAR-OFF open season was conducted through three discrete steps in which participants were eligible to participate. All of these steps and the results of each are further described below.

A. Step 1- Set-Aside Receipt Point Rights

This first step in the open season process was reserved for specific customers and constituted an option for the assignment of firm capacity, as more fully detailed in the G-RPA Receipt Point Access tariff, the results of which are summarized in the following table:

Table 2

Participants	Set-Aside Offered (Dth/day)	Set-Aside Accepted (Dth/day)	# Eligible	# Participated
SoCalGas' Utility Gas Procurement Department	947,436	947,436	1	1
Wholesale	33,700	33,270	2	1
California Producers	429,782	306,567	23	15
LTK Contracts	82,651	58,651	2	2
PG&E G-XF Contracts	17,968	9,990	4	2
Parties funded receipt capacity per Rule 39	413,600	150,001	2	2

Each set-aside party, with the exception of the SoCalGas/SDG&E Utility Gas Procurement Department, had the option of exercising all or a portion of that party's designated set-aside quantity to acquire firm receipt point access rights during Step 1 of the Open Season, which took place from June 30, 2008 through July 7, 2008. A total of 1,505,915 Dth/day was awarded during the Step 1 Set-Aside process.

B. Step 2 Open Season - Preferential Bidding

This step of the FAR-OFF open season was designated for end-use customers in good credit standing with SDG&E/SoCalGas. Customers were provided their maximum bidding rights based on 36 months of historical gas consumption. Many customers opted to assign their bidding rights to their gas suppliers so such parties could bid and hold the receipt point rights. Three separate rounds of bidding were held within Step 2 for these customers. A total of *1,959,724* Dth/day was bid and *1,413,490* Dth/day of firm receipt capacity was awarded. This step was conducted from July 10 through August 4, 2008. See Table 3 below for summary of all steps of the open season.

Table 3

Step/Round	**Bid (Dth/day)**	**Award (Dth/day)**	**Receipt Point Availability after Awards**
Step 1 (1,925,137 Dth/day offered)	1,505,915	1,505,915	All Available
Step 2 Round 1 (2,500,000 Dth/day Max Rights)	1,418,339	1,072,927	TW/EP Topock Sold Out
Step 2 Round 2	470,195	271,421	TW Needles Partially Sold Out
Step 2 Round 3	71,190	69,142	TW Needles Partially Sold Out
Step 3A	50,000	50,000	
Step 3B	0	0	
Total	**3,515,639**	**2,969,405**	

C. Step 3A Open Season - Long Term

Any creditworthy party could participate under the third step of the process. The capacity available to parties in this step reflected the receipt point capacity remaining after Step 2 of the process. One round of bidding was held for contract terms of 3 to 20 years. Only one customer bid and was awarded a contract for a 10-year term. A total of 50,000 Dth/day was bid and awarded in Step 3A. This step was conducted from August 7, 2008 through August 13, 2008.

D. Step 3B Open Season - Long Term

This step was also open to any creditworthy party. However; the bidding was limited to displacement and expansion facilities at new or expanded receipt points. One round of bidding was conducted. No customers participated in this step. This step was conducted from August 15, 2008 through August 21, 2008.

After the conclusion of the Open Season, 2,969,405 Dth/day of firm rights had been awarded to various participants.

E. Purchases and Scheduling After the Open Season

Shippers have continued to purchase capacity after the Open Season concluded. The average amount of firm capacity rights held over the 15-month period since FAR implementation was 3,330,000 Dth/day. On average, 2,642,000 Dth/day of these firm rights were actually scheduled or 79.3%. Further, an average of another 74,000 Dth/day of interruptible rights was scheduled over the period, or 2.7% of the daily scheduled volumes of 2,716,000 Dth/day. Of 3,991,000 Dth/day of backbone transmission capacity (assumes 1 Mcf = 1.03 Dth and excludes other, local production capacity), approximately 68% was utilized on a daily basis.

IV. RECOMMENDED CHANGES

A. Service Offering Name Change

SDG&E/SoCalGas propose to change the name of the FAR service from the current G-RPA ("Receipt Point Access") to G-BTS ("Backbone Transportation Service"). This proposed change more accurately reflects the service that is being offered – namely, transportation of gas volumes received at the California border receipt points for delivery to the SDG&E/SoCalGas Citygate over the SDG&E/SoCalGas backbone transmission lines. This name change also more accurately reflects the proposal of SDG&E/SoCalGas to specify the costs associated with the backbone transmission system in a G-BTS tariff rate.

B. Backbone Rate Proposal

SDG&E/SoCalGas propose that the current rate of $0.05/Dth/day reservation charge for firm backbone transportation service (aka: FAR) be established using a cost-based principle as presented by Ms. Fung and Ms. Smith. SDG&E/SoCalGas believe it was the Commission intent that the $0.05/Dth/day would be a transition rate until this proceeding at which time the Commission would establish a fully cost-based charge for the next three year period. A step in that direction was made by the Commission in D.09-11-006 with the adoption of the embedded cost for backbone and local transmission facilities and storage along with a new end-use customer transportation rate (TLS).

In D.06-12-031 the Commission stated the following:

Findings of Fact

> 34. A reservation charge lower than the unbundled FAR proposal rate of 15.75 cents per Dth is needed to stimulate participation for holding a FAR.
>
> 35. A cost-of-service FAR charge based on backbone transmission costs will send the appropriate price signals to users of the system.

Conclusions of Law

> 4. SDG&E and SoCalGas should perform a cost study of the backbone transmission system prior to filing the next BCAP, and the Commission should adopt a new cost-based FAR charge based on the results of the next BCAP.

SDG&E/SoCalGas support the adoption of a fully cost-based Backbone Transportation Service rate using the embedded costs adopted in SDG&E/SoCalGas' recently concluded BCAP proceeding. The use of a cost-based approach is fundamentally correct and eliminates any crosssubsidies of the costs of the facilities required to provide the service. Under the current $0.05/Dth/day rate, end-use customers are continuing to fund a portion of the costs related to the backbone facilities and the daily cost to operate those facilities. Using a cost-based approach will send the appropriate price signals to the users of the backbone transportation system and who are causing the costs for that system.

In moving toward a fully cost-based rate, the costs to operate the compressor to move gas along the backbone system should be changed to a cost-base approach. As such, SDG&E/SoCalGas propose to collect an in-kind fuel charge related to that compressor fuel use and no longer collect the compressor fuel use in end-use customer rates. Shippers utilizing the Backbone Transportation Service are causing the fuel to be used and therefore should be paying those costs. Ms. Smith explains in detail the regulatory accounting of the in-kind fuel collected and how on a regular basis the percent collected will change based on actual fuel use.

Another rate proposal is the treatment of off-system revenues. Currently, off-system revenues generated are being tracked and go to reduce end-use customer rates through the Integrated Transmission Balancing Account (ITBA). In conjunction with moving toward a fully cost-based rate for Backbone Transportation Service, it is appropriate to then credit any revenues generated through providing off-system services now to the new Backbone Transmission Balancing Account (BTBA) as proposed by Ms. Smith. It is the same facilities that provide the Backbone Transportation Service that would provide off-system services and therefore the revenues generate should be accounted for in the BTBA.

C. Open Season Changes

In general, SDG&E/SoCalGas believe the open season process utilized 18 months ago has worked well and requires only a few minor revisions. Specifically, SDG&E/SoCalGas only recommend the following minor changes along with identifying updated information:

1. In the Step 1, set aside process, SoCalGas' Utility Gas Procurement Department and other core customers were provided 3-year set-aside options to match eligible upstream interstate contracts. SDG&E/SoCalGas believe that the eligibility for qualifying interstate contracts should be reduced from 18 months to a 12 month term or longer and that any such interstate contract would need to be in place only one month prior to the open season beginning. This change would better match the shorter term contracting practices and the reliability needs of core customers.
2. Also for Step 1, each Utility Gas Procurement Department set-aside, like all the other set-asides, should be an "up-to" set-aside option, not a "must-take" or "equal-to" set-aside option. SoCalGas sees no reason to distinguish the Utility Gas Procurement Department's set-aside from other set-asides and would therefore allow the Utility Gas Procurement Department to take a percentage of its maximum set-aside option at each receipt point rather than making the set-aside option an all-or-nothing proposition. Under this proposal the Utility Gas Procurement Department could take all of its set-aside option at one receipt point, a portion of its set-aside option at another, and possibly no set-asides at a third receipt point.
3. The number of eligible Step 1 LTK customers will be reduced when certain contracts with Coastal system end-users terminate in 2010. This will reduce the maximum set-asides in Step 1 by 51,960 Dth/day.
4. For Step 2, preferential bidding for end-users based on 3-year historical consumption, SDG&E/SoCalGas envision incorporating only one change (in addition to the modification associated with the calculation of bidding rights for tolling parties consistent with Southern California Edison Company's Petition for Modification, adopted by the Commission in D.09-01-015). SDG&E/SoCalGas propose providing

a seasonal differentiation of the Utility Gas Procurement Department's bidding rights for Step 2 to better match their required seasonal interstate capacity requirements. Instead of only annual average bidding rights provided to the Utility Gas Procurement Department and other core customers, they would also have monthly bidding rights defined on a seasonal basis to reflect the difference between Utility Gas Procurement Department's Commissions' approved minimum summer interstate capacity requirements and minimum winter interstate capacity requirements at the time of the open season. The monthly summer bidding rights would be set at the Commission adopted minimum interstate capacity requirement of the Utility Gas Procurement Department for core customers. The quantities during the summer months that are less than the annual average would be provided as monthly bidding rights during the winter months such that the total yearly bidding right would not exceed the average historical usage. The other core customers would be provided the same ratio of seasonal bidding rights as the Utility Gas Procurement Department. For example, currently the Utility Gas Procurement Department's minimum interstate capacity requirement for April-October is 90% of forecast core average annual throughput, and the minimum for November-March is 100% of forecast annual throughput. Assume that the core's 3-year historical average throughput and forecast annual throughput are 1,200 MDth/day. In this case, the Utility Gas Procurement Department would be provided monthly bidding rights for Step 2 as follows:

For months of Apr-Oct: 1,080 MDth/day minus accepted set-asides
(1,200 MDth/day times 90%)

For the months of Nov-Mar: 1,370 MDth/day minus accepted set-asides

Note that 1,080 MDth/day over 214 days in April-October together with 1,370 MDth/day over 151 days in November-March averages to 1,200 MDth/day over the entire year. These annual and monthly bidding rights would be reduced based on the set-aside taken; just like core bidding rights currently are reduced by the set-aside quantities.

5. Reduce the duration of the rounds in Step 2 to four business days. There is no advantage to the timing of bids and the participants have shown that they understand the process. Reducing the number of days for each round will shorten the entire Open Season, allowing the contracts to be available closer to the actual start of the next three-year term on October 1, 2011.
6. Former Step 3A would become Step 3 and would be open to all creditworthy parties. Bids for annual baseload with terms from one year to 15 years would be accepted first and would be awarded on the basis of NPV—i.e., term. Then baseload, monthly-profiled bids would be accepted and again awarded on the basis of NPV.
7. Eliminate Step 3B—Expansion bidding. No one took advantage of this option in the last open season, and expansion options can be handled on a continuous first-come, first-served basis outside of the Open Season process as described in Rule 39.
8. Eliminate recontracting and interruptible sales from the Open Season process. Both of these can be done electronically and on a continuous basis on the Envoy system today.
9. SoCalGas will enhance the online bidding to provide additional functionality and information to help customers with the administrative tasks involved prior to the start of the Open Season bidding process.

D. Proposed Timeline for the October 2011 Open Season

COMPLETION DATE or TIME PERIOD	TASKS
3/11 - Ongoing	- Perform credit checks on the RPMA requests for non-end use customers - Execute Master Base Agreements (MSC and RPMA) and creditworthiness requirements in place for set-aside parties, end use customers and other participants without current contracts.
7/15/11	- Deadline to receive Interstate pipeline contracts for set-aside customers (12 month contract executed 1 month prior to Open Season (LTK, PG&E, Wholesale, Core, ESPs as applicable)
8/10/11	- Deadline for RPMA, Online Registration including logon ID, credit changes for Step 1 participants - Deadline for Assignments – All Steps
8/12/11	- Hold Step 1 –Set-Aside Round
8/17/11	- Close Set Aside Round
8/18/11	- Post all remaining capacity available for Step 2
8/18/11	- Deadline for RPMA, Online Registration including logon ID, credit changes for Step 2 participants
8/19/11	- Hold Open Season Step 2 (Round 1) – Receipt Point Access Rights
8/24/11	- Close Round 1 of Open Season Step 2; Receipt Point Access Rights assigned
8/24/11	- Post all remaining receipt point access capacities available for Round 2
8/26/11	- Hold Open Season Step 2 (Round 2)
8/31/11	- Close Round 2 of Open Season Step 2; Receipt Point Access Rights assigned
8/31/11	- Post all remaining receipt point access capacities available for Step 3
9/1/11	- Deadline for RPMA, Online Registration including logon ID, credit changes for Step 3 participants
9/6/11	- Hold Open Season Step 3 - Receipt Point Access Rights
9/9/11	- Close Open Season Step 3; Receipt Point Access Rights assigned
9/12/11	- Post all remaining receipt point access capabilities available after Step 3
9/13/11	- Upload all contracts to Envoy
9/19/11	- Open Envoy to allow Buy/Exchange Rights in Envoy for contracts beginning 10/1/2011
9/19/11	- Open Envoy to allow for purchase of interruptible contracts effective 10/1/2011
10/1/2011	- Backbone Transportation Service Period Begins

E. Increase in Kramer Junction Capacity

SDG&E/SoCalGas will be increasing and offering firm capacity at the Kramer Junction receipt point of 550 MMcfd from the previous 500 MMcfd within the next few months due to increase capability related to the Kern River Pipeline expansion coming on-line. This increase in firm capacity will not result in an increase in the overall Northern zone capacity which will remain at 1,590 MMcfd, or of total backbone transmission capacity, which will remain at 3,875 MMcfd (excluding local production). SDG&E/SoCalGas will offer this additional firm Kramer Junction capacity in the 2011 Open Season.

V. OPERATIONAL CHANGES

A. Reservation Charge Credits

SDG&E/SoCalGas propose to provide reservation charge credits to firm rights holders who are unable to schedule their firm primary rights in cycle 1 due to scheduled maintenance of the SoCalGas backbone transmission system and whose capacity remains unused, unexchanged, or unsold. These credits would be debited to what is currently called the Firm Access Rights Balancing Account (FARBA). Ms. Smith has proposed to rename that account to match SDG&E/SoCalGas' proposed name change to Backbone Transmission Balancing Account (BTBA). An individual customers' credit would be calculated as follows:

Tariff backbone capacity rate or applicable secondary market rate in $/Dth/day times Dth of Cycle 1 cuts that remain unused, unexchanged, or unsold during that day due to maintenance on the SDG&E/SoCalGas system.

The cost of these reservation charge credits would then be added to all firm capacity rights holders' rates in a subsequent period though the BTBA.

B. Secondary Market Rate Cap

SDG&E/SoCalGas propose to eliminate the rate cap of 125% for secondary market short-term releases of one year or less to mirror FERC Rule RM08-1-000 approved June 19, 2008. SDG&E/SoCalGas do not believe that removing the 125% cap will have a significant impact on the secondary market as there were only a few bids at the 125% maximum cap between October 1st, 2008 and December 31st, 2009. SDG&E/SoCalGas expect, that as the FERC order suggests, removal of the 125% cap may facilitate a more effective utilization of receipt points by incenting firm capacity holders to release capacity in a more competitive market to those potential users who place a higher value on it. This will tend to increase market flexibility thereby benefiting end-use customers. (http://www.ferc.gov/news/news-releases/2008/2008-2/06-19-08-G-4.pdf)

C. System Operator Payment of Backbone Charges

SoCalGas proposes that when the SoCalGas System Operator must deliver supplies to and use the necessary backbone capacity to meet minimum flowing supply requirements on the system is exempt from paying any backbone transmission rate. Resolution G-3435 deferred this issue without prejudice to this proceeding. Backbone charges to the System Operator would only serve to reduce firm backbone shipper rates. This reduction to shipper rates, however, would be at the expense of SoCalGas end use customers, who would see this additional revenue requirement added to their payments in the System Reliability Memorandum Account (SRMA). In these circumstances, the System Operator is the only supplier that must provide gas to Blythe or another applicable receipt point for the sole purpose of maintaining system operations. Some parties contended that such an exemption would give the System Operator an unfair competitive advantage when it participates in the gas sales market. Such an argument is specious, however, because SoCalGas will only "participate" in the gas sales market when other shippers, under normal market circumstances, do not want to deliver supplies in sufficient quantities to Blythe or another applicable receipt point. It is not the choice of the System Operator to be in the situation of having to buy and sell supplies. The System Operator only administratively nominates the supply using a backbone capacity contract to have the gas at the SoCalGas citygate, so it can be sold through the normal nomination and scheduling process. The System Operator; 1)should not have to charge itself for the backbone charge as it operates the system for the benefit of all customers, 2) does not benefit from these purchases and sales of gas acquired for maintaining operation of the system, and 3) end-use customers should not bear the burden of these additional costs. Any such emergency operator supplies would, however, be subject to the in-kind transmission charge in order to avoid any contention that unbundled fuel costs are being shifted to other shippers.

D. Scheduling Priority Change: Priority for Prior Cycle Nominations

SDG&E/SoCalGas' current practice is to accept all nominations for each cycle and prorate the nominations received when there is not enough capacity. As an example, assume capacity was limited to 100,000 Dth in the Timely Cycle (Cycle 1) due to maintenance on the system and firm nominations received equaled 100,000 Dth. In this case, no cuts would be made for firm nominations. Now suppose that a firm access rights holder that did not nominate in the Timely Cycle (Cycle 1) nominated 10,000 Dth in the Evening Cycle (Cycle 2). Because nominations from the Timely cycle will have rolled over to the Evening Cycle (Cycle 2), SoCalGas would now have a total of 110,000 Dth in firm nominations with a capacity of 100,000 Dth. Every firm access rights nomination received for the Evening Cycle (Cycle 2) would receive a pro-rata share of the cut in order for all the firm nominations to fit into the 100,000 Dth of available receipt capacity. So a firm access rights holder who did not nominate in the Timely Cycle (Cycle 1), but chose instead to nominate in the Evening Cycle would have equal access to the available receipt capacity along with those that nominated in the Timely Cycle (Cycle 1).

This means that gas that was previously scheduled in the Timely Cycle (Cycle 1) would now be cut along with the gas that was nominated for first time in the Evening Cycle (Cycle 2).

Several firm capacity rights holders were critical of this approach because they did not understand the level of cuts that they were seeing in their scheduled volumes when SDG&E/SoCalGas needed to reduce firm nominations. Therefore, on April 4, 2009, SDG&E/SoCalGas posted a survey on its EBB asking for customer feedback and/or suggestions on a change that SDG&E/SoCalGas were considering to make the scheduling practice more equitable for parties making nominations in earlier cycles.

The proposed change to SDG&E/SoCalGas' firm rights holders in the survey was to give first priority to previously scheduled nominations. Previously scheduled nominations would have a higher priority over new "like" nominations in the next cycle as described below.

- Firm scheduled quantities in the Timely Cycle would have priority over a new firm nomination made in the Evening Cycle.
- Firm Alternate Inside-the-Zone scheduled quantities in the Timely Cycle would have priority over a new Firm Alternate Inside-the-Zone nomination made in the Evening Cycle.
- Firm Alternate Outside-the-Zone scheduled quantities in the Timely Cycle would have priority over a new Firm Alternate Outside-the-Zone nomination made in the Evening Cycle.
- Interruptible scheduled quantities in the Timely Cycle would have priority over a new Interruptible nomination made in the Evening Cycle.

This same structure would be applied in going from Evening Cycle (Cycle 2) to Intraday 1 Cycle (Cycle 3) and from Intraday 1 Cycle (Cycle 3) to Intraday 2 Cycle

(Cycle 4). However, this hierarchy would not affect Intraday 3 (Cycle 5) nominations or the elapsed pro rata rule.

The survey was also e-mailed to all users of the EBB system which represented about 220 companies. SDG&E/SoCalGas received only 19 responses. Eleven (about 58%) were supportive of the changes, while the remaining eight (about 42%) were opposed or said it was not applicable to them. Those that responded in favor of the proposed change said that the change would make SDG&E/SoCalGas' scheduling practice more in line with that of the interstate pipelines. Respondents who were opposed to the change indicated that it could cause unnecessary OFO events because on OFO days SDG&E/SoCalGas confirm all nominations received up to the individual rights that have been contracted for on that day. Others stated they wanted firm rights to be honored on all cycles and did not want this change. Some respondents were concerned their firm rights would be devalued. SDG&E/SoCalGas' view is that a customer should be entitled to nominate its full rights on any given day.

On June 9, 2009, SDG&E/SoCalGas posted a notice on its EBB indicating that it wanted to thank those customers that participated in the survey, and that it had received a less-than-expected response with strong opinions on both sides of the issue. Because of the lack of consensus on this issue, SDG&E/SoCalGas put this issue up for discussion at the FAR regulatory update customer meeting held on February 10, 2010. However, just as in the April 2009 Customer Survey, there was no clear consensus among the attendees as to whether SDG&E/SoCalGas should implement the proposed change.

SDG&E/SoCalGas support the changes that were proposed in the survey and described above in bullet form because it would: 1) bring SDG&E/SoCalGas' scheduling practices in closer accord with those of the interstate pipelines; 2) allow firm rights holders to nominate only those rights necessary to deliver gas at the primary receipt point without the fear of being bumped in a later cycle; 3) allow for the firm rights holder to make use of remaining unused primary rights at an alternate receipt point; and, 4) help prevent later cycle cuts thereby adding value and certainty for firm capacity rights holders when nominating on the SDG&E/SoCalGas pipeline system.

E. Nominating on Capacity Contracts

A number of customers have requested that SDG&E/SoCalGas reduce the number of contracts that are generated and required for nomination purposes as a result of exchanging capacity rights, additional capacity purchases or secondary market trades with other market participants. SDG&E/SoCalGas propose to build functionality into its EBB system that will aggregate each customer's firm capacity into one contract number for each receipt point for the purposes of nominations and scheduling. This one contract at a specified receipt point will have the aggregated capacity rights that can be used by a customer to make its nominations.

F. FAR Revenue Treatment for Shareholder Funded Incentive Programs

The purpose of this section is to clarify that original FAR implementation and the changes proposed to move to a cost-based backbone charge has not and will not, alter the revenue recognition process for existing SoCalGas shareholder-funded incentive programs, the Core Pricing Flexibility (aka Optional Pricing Tariffs or OPT) Program and the Noncore Competitive Load Growth Opportunities Program. These programs provide shareholder-funded incentives to assist customers to overcome financial hurdles in investing in certain emerging and/or high efficiency gas technologies to improve operational efficiency and reduce operational costs. In summary, a customer receives a discount or incentive funds based on a contract with terms up to 59 months. As described in Preliminary Statement XI (PS XI), Section I for Core Pricing Flexibility, "Under this arrangement, SoCalGas shareholders are responsible for any reduction in core revenues that may occur under discounting, while any revenue gains are shared between ratepayers and shareholders as described below." A similar provision for the Noncore Competitive Load Growth Opportunities revenues exists in PS XI, Section J.2. Prior to FAR implementation on Oct 1, 2008, all revenue was embedded in the end-use customers' transportation rate and was included in the calculation of base and incremental revenue for these programs. Although FAR implementation removed some of the revenue requirement from the end-use customer transportation rates, it effectively did not impact SoCalGas' receipt of that FAR revenue requirement or alter the revenue sharing mechanism for these programs. Therefore, SoCalGas has retained the existing accounting process of calculating base and incremental revenue for OPT and Noncore Competitive Load Growth Opportunities programs to include FAR revenues associated with base volumes and incremental volumes generated from the active contracts. That will continue to be the case should the Commission adopt a cost-based backbone charge as proposed by SDG&E/SoCalGas.

G. Information Technology Costs

SDG&E/SoCalGas have estimated a cost to enhance and modify the IT systems to implement the proposals presented. It is estimated that less than $1.5 million of system work will be needed and should take approximately 6 – 9 months to complete depending on the final outcome of this matter. As described in Ms. Smith's testimony, those system enhancement costs will be tracked in a regulatory account and allocated to the backbone costs for recovery from those customers.

This concludes my testimony.