

Application No: A.14-06-
Exhibit No.: _____
Witness: Beth Musich

_____)
Application of Southern California Gas Company)
(U 904 G) and San Diego Gas & Electric Company)
(U 902 G) for Low Operational Flow Order and)
Emergency Flow Order Requirements)
_____)

A.14-06-
(Filed June 27, 2014)

PREPARED DIRECT TESTIMONY OF
BETH MUSICH
SOUTHERN CALIFORNIA GAS COMPANY AND
SAN DIEGO GAS & ELECTRIC COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

June 27, 2014

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FIGURE 1
Basin and City Gate Prices (\$/mmbtu)

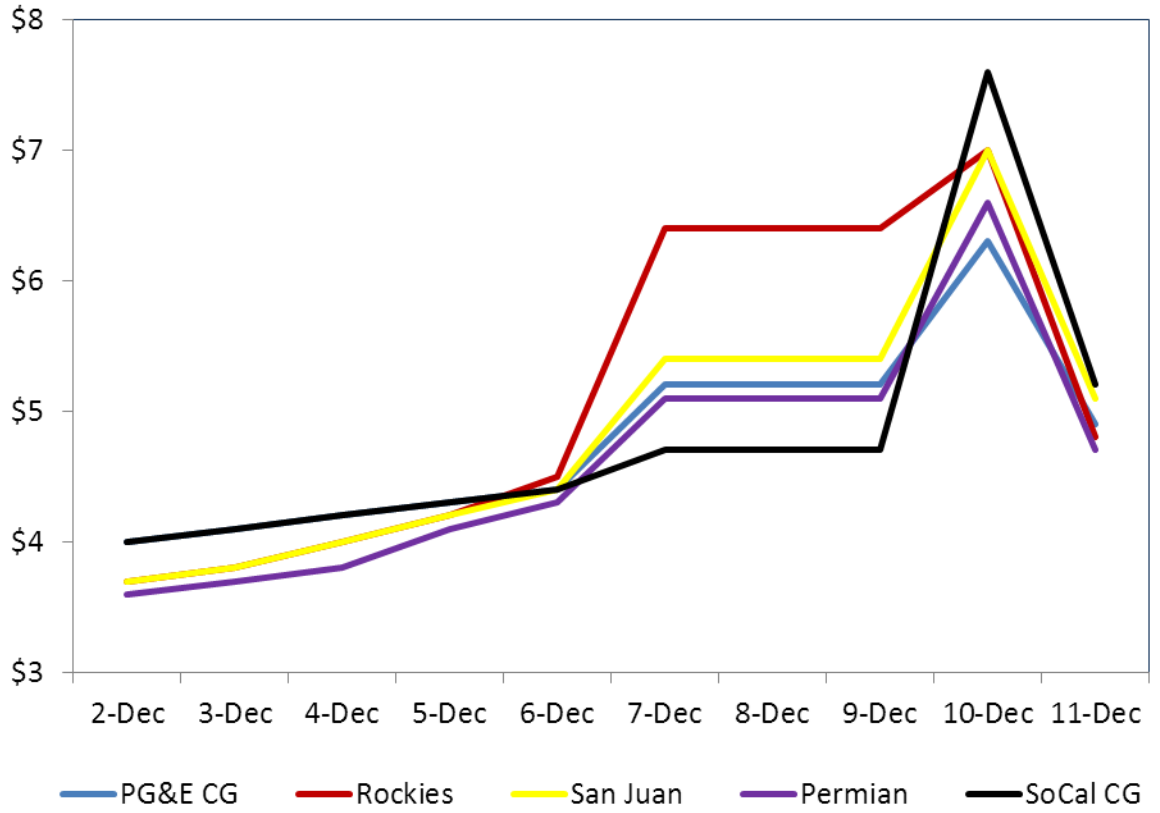
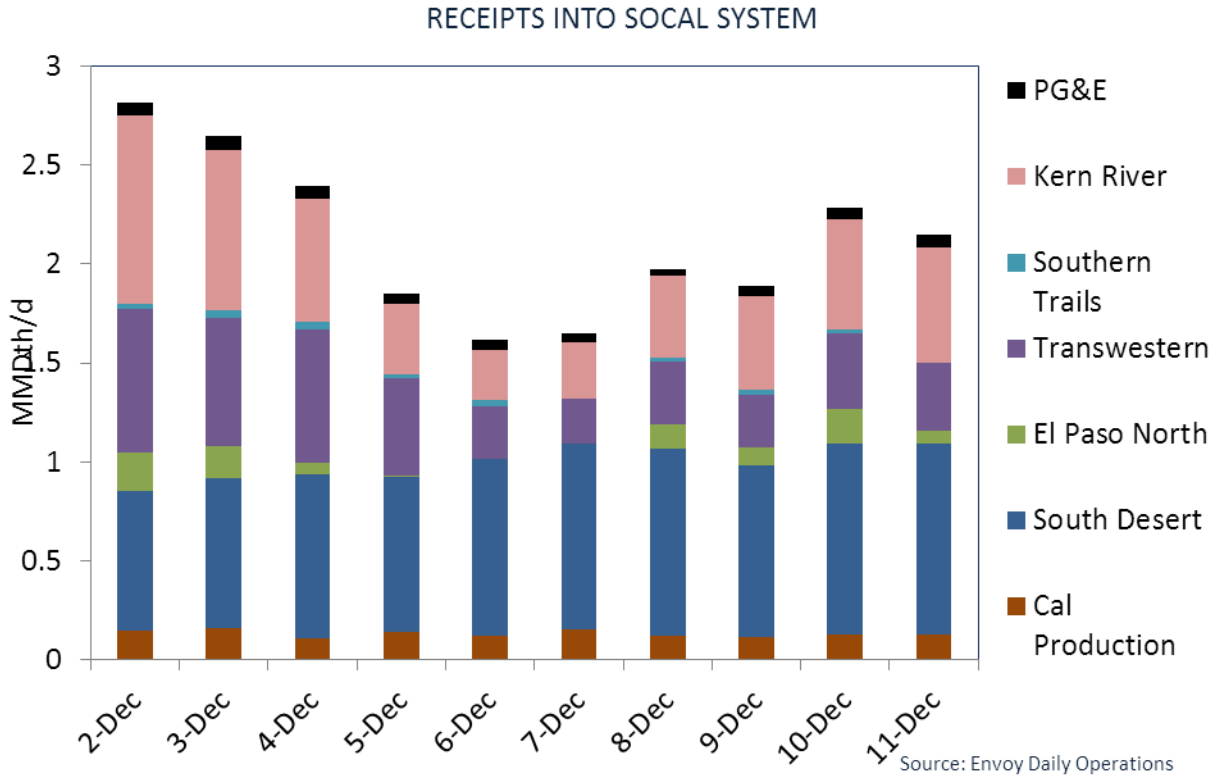


FIGURE 2



1 In the same time period, PG&E declared a low OFO on their system, but since SoCalGas
2 and SDG&E do not currently have a low OFO procedure, we could not put into place a market
3 signal that would have brought additional gas into our system. The majority of the gas that was
4 being delivered at that time was delivered at Blythe pursuant to the Memorandum in Lieu of
5 Contract (MILC) between the System Operator and SoCalGas' Gas Acquisition Department, and
6 by the System Operator. SoCalGas and SDG&E declared a standby of curtailment service on
7 December 6, which required customers to deliver 90% of their daily burn via either flowing supply
8 or their storage withdrawal rights. Had SoCalGas and SDG&E had the ability to call a low OFO
9 instead, we would have done so on December 5, thereby reducing natural gas and electric
10 reliability concerns, and providing a more measured response to the low flows into our system.

1 A similar set of circumstances was the genesis of another event in February of 2014.
2 Temperatures east of California fell considerably below normal and western basin gas prices
3 began to move towards unprecedented levels. The SoCalGas Citygate price was as much as \$18
4 below that in western supply basins. At the same time, PG&E called a low OFO Liberal
5 SoCalGas and SDG&E balancing rules again caused gas to move away from Southern California,
6 bringing total receipts into the combined SoCalGas and SDG&E system to a historic low of 0.95
7 mmdth when System Sendout was 3.6 mmdth. SoCalGas and SDG&E again had to declare
8 curtailment of standby service, as well as an emergency curtailment of electric generators. If
9 SoCalGas and SDG&E had the option of calling a low OFO, we would have used this tool on
10 February 6 instead of declaring curtailment of standby service.

11 **III. SOCALGAS AND SDG&E NEED THEIR OWN LOW OFO/EFO**
12 **REQUIREMENTS**

13 SoCalGas and SDG&E's current winter balancing rules are no longer consistent with
14 market reality. Unless changes are made, SoCalGas and SDG&E will likely need to use
15 curtailments of standby service and noncore curtailments more frequently in order to provide
16 operational stability and protect service to higher priority customers. Despite our winter balancing
17 rules, SoCalGas and SDG&E were forced to curtail standby procurement service in both
18 December 2013 and February 2014. During the February curtailment, SoCalGas and SDG&E also
19 needed to curtail service on an emergency basis to electric generators in order to preserve service
20 to Priority 1 and 2A customers. SoCalGas and SDG&E believe that the answer to this problem is
21 to simply replace our circa-1998 winter balancing rules with low OFO and EFO procedures
22 similar to those that have been employed by PG&E for many years. These low OFO and EFO
23 procedures appear to have adequately dealt with supply-related challenges on the PG&E system
24 last winter, and they did so in a more measured and market-friendly manner than the curtailments

1 SoCalGas and SDG&E were forced to call in response to the same operational challenges caused
2 by low levels of flowing supplies coming into both Northern and Southern California.

3 The low OFO and EFO procedures proposed in this Application would be in place year-
4 round, as opposed to our current winter balancing rules, which are only in place for the months of
5 November-March. SoCalGas and SDG&E need the ability to institute tighter balancing
6 throughout the year, not just in winter. The reliability challenges we now face relate to flowing
7 supplies not reaching our systems, and have little relationship to overall system storage
8 inventories.¹ Such a problem can occur at any time of the year, though of course when system
9 storage inventories are extremely low the problem is potentially exacerbated because of the
10 negative effect of low storage inventory on our ability to withdraw gas from storage.

11 As explained above, when PG&E calls a low OFO, natural gas electric generation demand
12 appears to shift from Northern California to Southern California. This shift may result from the
13 fact that PG&E is requiring electric generation customers to more closely match their gas
14 deliveries with their burn or face penalties, whereas generators in Southern California do not face
15 the same requirements. During cold weather and other times of system stress flowing supplies
16 may trade at a premium in Northern California, causing the economics for dispatching a plant in
17 Southern California to be more favorable than dispatching a plant in Northern California. As a
18 result, demand for natural gas by electric generators increases in Southern California at a time
19 when our system is already stressed by low deliveries of flowing supplies and high sendouts. This
20 creates additional operational challenges for SoCalGas and SDG&E, and could potentially throw
21 our systems into a curtailment when a curtailment would not otherwise have been necessary. The
22 low OFO and EFO procedures proposed in this Application would solve this particular problem by

¹ SDG&E does not have storage assets physically located on its system. SDG&E's current winter balancing rules are the same as SoCalGas', and based upon inventories in SoCalGas' storage fields.

1 giving SoCalGas and SDG&E the ability to institute tighter balancing requirements when PG&E
2 calls low OFOs and EFOs. By adopting a statewide approach to low flowing supplies coming into
3 California during times of system stress, the Commission would prevent balancing rules in
4 Northern California from creating operational problems in Southern California. This change
5 should also help simplify and clarify the somewhat complex relationship between natural gas and
6 electricity generation by providing for a uniform approach to balancing throughout the state.]

7 Curtailment of standby procurement service gives SoCalGas and SDG&E the ability to
8 institute tighter balancing requirements, but it is a relatively blunt tool, with only one level of
9 balancing requirement (90% of actual burn) and only one level of penalties (of \$1.00 per therm for
10 the initial 5 hours of the Customer's operating day, \$3.00 per therm for hours 6 through 8, and
11 \$10.00 per therm for hours 9 through the end of the curtailment episode, plus a standby
12 procurement charge of 150% of the highest SoCalGas border price index).

13 By contrast, the OFO/EFO procedures proposed by SoCalGas and SDG&E have graduated
14 levels of balancing requirements and graduated penalties. As discussed in more detail by Mr.
15 Watson and Mr. Borkovich, our proposal would give SoCalGas and SDG&E the ability to call for
16 daily balancing tolerances from 25% to 0%, rather than a set 10%, and penalties for
17 noncompliance would better match the system challenges we are facing. SoCalGas and SDG&E
18 could institute these graduated requirements and penalties in a much more precise and predictable
19 fashion, with less cost and inconvenience to marketers and customers, and with much less risk of
20 curtailment of transportation service to both noncore and core customers.

21 Such a change would be beneficial for both our customers and the utilities. The market
22 would receive predictable signals when tighter balancing is required, SoCalGas and SDG&E could
23 better tailor their balancing requirements to meet the particular system needs we are facing, and all
24 of our customers would face less risk of curtailment of transportation service. In addition, as

1 discussed by Mr. Watson, under the low OFO and EFO procedures we are proposing only the
2 storage assets dedicated to system balancing would be used for balancing. This approach should
3 help ensure that we are providing accurate balancing and storage-related price signals to the
4 marketplace.

5 **IV. THE COMMISSION SHOULD AUTHORIZE SOCALGAS AND SDG&E TO**
6 **IMPLEMENT NEW OFO AND EFO PROCEDURES BY JANUARY 1, 2015**

7 The system challenges that SoCalGas and SDG&E are facing are ripe for a solution. Yes,
8 SoCalGas and SDG&E could continue to curtail standby procurement service -- and even curtail
9 end-use service to noncore customers -- in response to the operational challenges created by low
10 customer deliveries during times of system stress. And yes, SoCalGas and SDG&E could
11 conceivably curtail standby procurement service each time PG&E calls a low OFO or EFO on its
12 system. But it would be much more reasonable for SoCalGas and SDG&E to have the ability to
13 call low OFOs or EFOs in response to system stress, rather than to take the potentially more
14 disruptive route and curtail services.

15 As explained by Mr. Watson and Mr. Borkovich, SoCalGas and SDG&E are basically
16 proposing the same low OFO and EFO procedures as PG&E, with only limited changes to reflect
17 the operational differences between our two systems. In effect, SoCalGas and SDG&E are
18 presenting a unified, statewide approach to dealing with low levels of flowing supplies during
19 times of system stress. These low OFO and EFO provisions have worked well on PG&E's system
20 for many years, and market participants are familiar with them. As such, this proposal should not
21 require extensive discovery or evidentiary hearings. SoCalGas and SDG&E hope that the
22 Commission will be comfortable adopting the procedures on an expedited, ex parte basis. We also
23 hope that market participants will agree with us that the timely adoption of new low OFO and
24 EFO procedures will be an improvement over curtailment of standby procurement service and the

1 current winter balancing rules. SoCalGas and SDG&E anticipate reaching out to customers and
2 other market participants shortly after this filing in order to see if consensus can be reached with
3 respect to our proposals.

4 As discussed by Mr. Borkovich, SoCalGas and SDG&E are precluded by the 2009 BCAP
5 Phase 1 settlement from proposing a low OFO procedure that would become effective prior to
6 January 1, 2015. Accordingly, SoCalGas and SDG&E cannot propose that their new low OFO
7 and EFO procedures become effective in 2014. For the reasons described above and in the
8 testimonies of Mr. Watson and Mr. Borkovich, the Commission should authorize SoCalGas and
9 SDG&E to implement new low OFO and EFO procedures on January 1, 2015.

10 **V. QUALIFICATIONS**

11 My name is Beth Musich. My business address is 555 West Fifth Street, Los Angeles,
12 California 90013. I am employed by SoCalGas as Director of Energy Markets and Capacity
13 Products for SoCalGas and SDG&E.

14 I hold a Bachelor of Science degree in Mechanical Engineering from Colorado School of
15 Mines. I was originally employed by Pacific Enterprises in 1993 and moved to SoCalGas in 1996,
16 and have held positions of increasing responsibilities in the Marketing and Regulatory
17 departments. I have been in my current position since November of 2010. In my current position,
18 I manage service to the largest gas customers of SoCalGas, specifically large electric generators,
19 Enhanced Oil Recovery customers, and wholesale customers. I also manage the unbundled
20 storage program, the California Energy Hub, and the Gas Scheduling Group. I oversee minimum
21 flowing supply purchases and maintenance-related supply purchases, scheduling and nominations
22 on the integrated SoCalGas and SDG&E transmission system, SoCalGas' Electronic Bulletin
23 Board, and SoCalGas and SDG&E's interconnection and operational balancing agreements with

1 suppliers delivering natural gas into our system. I also manage the Gas Transmission Planning
2 Department for both utilities.

3 I have previously testified before the California Public Utilities Commission.

4 This concludes my prepared direct testimony.