

Application No: A.14-06-021
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Witness: Steve Watson

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

Application 14-06-021
(Filed June 27, 2014)

PREPARED REBUTTAL TESTIMONY OF
STEVE WATSON
SOUTHERN CALIFORNIA GAS COMPANY AND
SAN DIEGO GAS & ELECTRIC COMPANY

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

December 1, 2014

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1 changes that are experienced on the PG&E system under similar circumstances.”² The proper
2 price indices to examine, however, are not border prices but citygate prices, because citygate
3 prices are the prices that affect end-users (who pay for the balancing assets) during an OFO.
4 Going back to October 2008 (the first month in which SoCalGas citygate prices were reported)
5 the additional citygate price drop on the SoCalGas system on high OFO weekends (compared to
6 non-OFO weekends) was 7 cents/dth. In comparison, over the same period the additional
7 citygate price drop on the PG&E system on high OFO days (compared to non-OFO weekends)
8 was 4 cents/dth. This 3 cent differential is an order of magnitude smaller than that in Shell’s
9 flawed analysis, and could be caused by a variety of factors.

10 Shell goes on to critique SoCalGas and SDG&E’s current high OFO system by stating
11 “large overstatements of forecasted scheduled supply appear on OFO days . . . For cycles in
12 which an OFO was called, scheduled supply exceeded actual delivered supply by 302
13 MMcf/day.”³ Contrary to Shell’s assertion, this does not demonstrate that SoCalGas’ high OFO
14 procedures are flawed; rather, it demonstrates that they work. The forecasts are what would
15 happen absent an OFO. But the OFO is triggered when forecasted supply exceeds forecasted
16 demand plus injection capacity. Once the OFO is called, the OFO produces the intended effect
17 of incenting customers/marketers to reduce their scheduled supply to a level that can actually be
18 physically accommodated by the system.

19 **III. SCGC/IS’ BACKCAST ANALYSIS CONCERNING LOW OFO FREQUENCY IS**
20 **INFLATED**

21 SCGC/IS asserts “a backcast analysis using the applicants’ next day forecast data
22 demonstrates that 109, not 41, low OFO would have occurred annually under the applicants’

² Prepared Testimony of Laird Dyer at p. 10.

³ Prepared Testimony of Laird Dyer at p. 11.

1 proposed mechanism.”⁴ Although Ms. Yap’s assessment is true, it is irrelevant for a simple
2 reason: the “forecast numbers” currently posted on Envoy would not be used under SoCalGas
3 and SDG&E’s proposal once the low OFO procedures are implemented. SoCalGas and SDG&E
4 intend to develop a specific forecasting methodology for this line that will approximate my
5 assumption that “the Applicants forecast for imbalances made one day before the flow date were
6 equivalent to the actual imbalance levels recorded for the flow date.”

7 The current line item used in Ms. Yap’s analysis has to this point been provided to fulfill
8 a posting requirement adopted in D.07-12-019. The row in the historical Envoy postings used by
9 SCGC/IS is developed through the following formula: Latest Scheduled receipts minus
10 Forecasted Sendout minus latest scheduled net withdrawal from storage accounts. Not
11 surprisingly, this results in Ms. Yap’s Chart 2 and “substantial over-estimates of imbalances.”⁵
12 Whenever sendout is forecast to increase substantially the next day, the current Envoy formula
13 assumes there is no increase in scheduled receipts and no increase in scheduled net withdrawal
14 from storage accounts. As a result, increases in the sendout forecast lead to a 1 for 1 change in
15 the current customer imbalance forecast. Statistical analysis, however, indicates that the
16 imbalances do not rise or decrease in lockstep with sendout. In fact, there usually are changes in
17 receipts and withdrawals from storage as sendout changes. Thus, the current methodology leads
18 to a systematic bias that overestimates next day “withdrawals used for the balancing function”
19 whenever sendout is forecast to increase. Gas Control is very experienced at forecasting
20 sendout, but it has been reluctant to forecast system receipts and withdrawals from storage
21 accounts. Forecasting these other two elements had not been necessary under SoCalGas’ high

⁴ Direct Testimony of Catherine E. Yap at p. 6.

⁵ Direct Testimony of Catherine E. Yap at p. 8.

1 OFO procedures. Yet, this is what SoCalGas intends to do in the future for our new Low OFO
2 and EFO procedures.⁶

3 SoCalGas intends to develop a more sophisticated forecast of “withdrawals used for the
4 balancing function” now that this item will actually be used for triggering low OFO events.
5 Currently, the forecast is done at 7 A.M. SoCalGas and SDG&E will probably rely on more
6 reliable forecasts done later in the day, when better information is available. Also, in my Direct
7 Testimony, I stated that “In order to improve market transparency and forecasting accuracy,
8 SoCalGas would post the elements of this calculation on Envoy several times each day.”⁷
9 SoCalGas and SDG&E assume that SCGC/IS and other customers will examine the accuracy of
10 that new forecasting tool by comparing it to actuals, and that such a review would be part of our
11 annual customer forum process. PG&E has been able to refine its forecasts over time; SoCalGas
12 is confident it can as well.

13 In addition, Ms. Yap’s comparisons of “forecasts to actuals,” just like that I presented in
14 my direct testimony, overstates OFO frequency because it assumes shipper/customer behavior
15 will remain unchanged under a more reasonable balancing regime. This assumption is false.
16 Customers will reduce their use of imbalances to the extent they know that can trigger a low
17 OFO. Shippers/customers will more regularly deliver flowing or storage supply to match their
18 daily burns under a low OFO environment. Therefore, the “actuals” of the past are much larger
19 than the actuals of the future, resulting in an overestimation of OFO frequency under both Ms.
20 Yap’s and my backcasts.

21 Finally, the frequency of OFO events is not the sole criteria for evaluating a proposal. If
22 customers tried to use more withdrawal for the daily balancing function than had been allocated

⁶ Direct Testimony of Steve Watson at p. 5. SoCalGas is exploring other methods of improving the forecast as well.

⁷ Prepared Direct Testimony of Steve Watson at p. 5-6.

1 for 365 days a year, then 365 low OFO events would be appropriate, though that is not a
2 plausible scenario. In addition, the Commission should consider the ease with which customers
3 can comply with a PG&E low OFO event (no matter what the frequency) when compared to the
4 difficulties of complying with SoCalGas and SDG&E’s curtailment of standby procurement.

5 **IV. THE SCGC/IS “FIX” TO THE CURRENT WINTER BALANCING RULES IS NO**
6 **FIX AT ALL**

7 SCGC/IS assert that “customers would be far better off remaining with the current winter
8 balancing rules and standby procurement curtailment rules.”⁸ This statement reveals the goal of
9 these particular intervenors: maintain the status quo. Realizing that PG&E, SCE, and Shell all
10 support moving toward the PG&E low OFO model, SCGC and IS go on to propose half-hearted
11 “fixes” to the current rules. For example, they suggest “maintaining higher peak day minimum
12 levels” so as to trigger 70% daily balancing somewhat earlier in the winter—if at all.⁹ They note
13 that “delivering at least 70 percent of customer burn should have alleviated at least some of the
14 Applicant’s concerns . . . during February 2014.”¹⁰ Obviously the 70 percent daily balancing
15 provisions would have been more effective than the lax 5-day 50% rules that were in place for
16 the February 2014 event. But even tighter balancing than 70% might have been necessary.
17 Further, this observation says nothing of the December 2013 events in which inventories were
18 very high. The fact is that 50%, 5-day balancing (which applies for over 90% of the winter days
19 on the SoCalGas system) is insufficient. A better “fix” to the winter balancing rules would be to
20 eliminate the 5-day, 50% regime altogether, begin with an 75% daily regime, move to 82.5%
21 daily balancing at the peak day minimum + 20 Bcf trigger, and move to 90% daily balancing at
22 the peak day minimum + 5 Bcf trigger. Yet even this might be insufficient. What if supply

⁸ Direct Testimony of Catherine E. Yap at p. 12.

⁹ Direct Testimony of Catherine E. Yap at p. 12.

¹⁰ Direct Testimony of Catherine E. Yap at p. 14.

1 diversions to higher value markets were to occur in non-winter months? Year-round low OFO
2 procedures would address this type of event. Finally, contrary to the PG&E low OFO model,
3 this approach allocates additional withdrawal rights to the balancing function during the 75-83%
4 balancing regimes that are not paid for by balancing customers.

5 The PG&E low OFO model is simply a better approach to correcting underdeliveries for
6 many reasons: (1) it can occur any time during the year; (2) it allows for more appropriate
7 flexibility in the tolerance itself; (3) it sets the noncompliance charge at an appropriate level
8 based on the market conditions leading to underdeliveries; and (4) it constantly restrains
9 transportation customer underdeliveries within the assets allocated to such underdeliveries in the
10 cost allocation process.

11 **V. SCGC/IS' PROPOSAL TO INCREASE THE BALANCING WITHDRAWAL**
12 **ALLOCATION FROM 340 TO 680 MMcfd**

13 SCGC/IS suggest “the level of storage withdrawal capacity that is allotted to load
14 balancing should be increased from 340 MMcfd to 680 MMcfd.”¹¹ Although SoCalGas and
15 SDG&E are generally sympathetic with the direction of this proposal, this large an increase may
16 not be needed and cannot be easily accommodated.

17 First, 680 MMcfd is probably too large a number since it is based on SCGC/IS' flawed
18 analysis that dramatically overstates likely low OFO events at various withdrawal allocation
19 levels. Also, since SoCalGas and SDG&E sendout averages less than 3 Bcf/d and the proposed
20 Stage 2 (\$1/dth noncompliance charge) limits underdeliveries to less than -20%, allocations over
21 600 MMcfd could often not be utilized in Stage 2 or higher stage levels.

22 Second, additional withdrawal capacity cannot be allocated to the balancing function
23 without considering the impacts on (1) the allocation of withdrawal capacity to the core and (2)

¹¹ Direct Testimony of Catherine E. Yap at p. 19.

1 the allocation of withdrawal capacity to the unbundled storage program. There is only 3195
2 MMcf/d of firm withdrawal capacity during the winter. 2225 MMcfd of that withdrawal is
3 allocated to the core to meet its 1-35 year peak-day reliability needs. Assuming that the core
4 allocation does not increase, subtracting 2225 MMcfd from 3195 MMcfd produces a remainder
5 of 970 MMcfd. If 680 MMcfd of this figure is allocated to the balancing function, that leaves
6 only 290 MMcfd, not the current 630 MMcfd, for the unbundled storage program. SoCalGas has
7 sold almost all of the 630 MMcfd for the winter of 2014/2015, and will probably have sold most
8 of the 630 MMcfd for the 2015/16 storage year by the time the Commission issues a decision in
9 this proceeding.

10 SoCalGas and SDG&E would be willing to consider shifting withdrawal assets from the
11 unbundled storage program to the balancing function in the next TCAP. SoCalGas and SDG&E
12 will soon be filing a proposal for a new balancing/storage/cost allocation framework for the 2016
13 period and beyond. All interested parties can then work with SoCalGas and SDG&E as well as
14 the Commission to strike the right balance between asset allocations and costs among the
15 core/balancing/unbundled storage functions.

16 **VI. THE TRIGGER FOR OUR PG&E-LIKE LOW OFO PROCEDURE SHOULD**
17 **NOT RESEMBLE SOCALGAS' HIGH OFO TRIGGER**

18 SCGC/IS complain that the “Applicants’ proposed trigger for their low OFO procedure
19 differs significantly from the trigger for their existing high OFO procedure.”¹² This is a
20 necessary element of the proposal, not a flaw. The low OFO trigger that SoCalGas and SDG&E
21 are proposing here is similar to the trigger PG&E has for its low OFO trigger, which is the mirror
22 image of the trigger PG&E has for its high OFO trigger. On the PG&E system, low and high
23 OFOs are both triggered when PG&E forecasts that more withdrawal or injection will occur for

¹² Direct Testimony of Catherine E. Yap at p. 17.

1 the balancing function than has been allocated for that daily balancing function in PG&E’s cost
2 allocation process.

3 PG&E makes its unbundled storage capacity fully available to storage customers, and
4 only storage customers, in each cycle, regardless of whether those storage customers used that
5 capacity in a previous cycle, and regardless of whether a low or high OFO is called by PG&E.
6 SCGC/IS would turn logic on its head by allowing transportation customers to trigger a low OFO
7 and thereby confiscate the storage capacity that has been unused by the storage customers in
8 previous nomination cycles. SCGC/IS inappropriately include “available storage withdrawal
9 capacity” (storage capacity that appears “unutilized” from a previous nomination cycle) in the
10 tolerance level provided to transportation/balancing customers during a low OFO.¹³

11 SoCalGas and SDG&E’s low OFO proposal should resemble PG&E’s low OFO and not
12 SoCalGas and SDG&E’s current high OFO procedures. In fact, SoCalGas and SDG&E believe
13 there may be merit in the suggestions from Shell and others that SoCalGas and SDG&E’s high
14 OFO should also eventually resemble PG&E’s high OFO procedures so as to create more
15 statewide consistency, and SoCalGas and SDG&E are considering moving in this direction.
16 Nevertheless, SoCalGas and SDG&E already have a high OFO procedure, and adjustments of
17 that procedure can wait. It is urgent for the Commission to act now on the low OFO and EFO
18 proposal before it.

19 **VII. SCGC/IS’ TABLE 4 SHOULD BE REJECTED**

20 The tolerances suggested by SCGC/IS in Table 4 are inappropriate for many reasons.¹⁴
21 First, as discussed above, the tolerances should not include any assets not paid for by balancing
22 customers in the balancing function. This means that it is inappropriate for SCGC/IS to include

¹³ Direct Testimony of Catherine E. Yap at p. 23, Table 4.

¹⁴ Direct Testimony of Catherine E. Yap at p. 23.

1 **any** percent of available storage withdrawal capacity in their tolerances. Second, SCGC/IS’
2 proposal would create huge disparities with the PG&E tolerances and, therefore, conflict with
3 other parties’ desire that SoCalGas/SDG&E’s low OFO mirror PG&E’s low OFO procedures as
4 much as possible. Third, the SCGC approach would discourage transportation customers from
5 increasing their flowing supplies during a low OFO event—it is simply easier to confiscate
6 storage by triggering a low OFO.

7 Fourth, the high tolerance ranges under SCGC/IS’ proposal at the higher Stage levels
8 would be operationally imprudent. These stages are called in very unusual circumstances, such
9 as February 2014 for the PG&E system. Customers need to adhere to tighter tolerances in these
10 circumstances because the utility is fast approaching the potential for end-use curtailments. The
11 slack “tolerance” in those circumstances becomes an “operator margin” of sorts that decreases
12 the likelihood of end-user curtailments being necessary, which is also why the tolerance is zero
13 in an EFO. This is the answer to SCGC/IS’ question on page 22 as to “why it is important to
14 balance supplies more closely with customer usage during a stage with a higher noncompliance
15 charge.”

16 Fifth, the SCGC/IS tolerance ranges for transportation customers on low OFO days could
17 average 54% and would exceed 68% on several days under the SCGC/IS proposal.¹⁵ Yet it has
18 been just such slack balancing regimes that led to the difficulties SoCalGas and SDG&E
19 experienced in December 2013 and February 2014. Under these types of circumstances,
20 transportation customers need to buy more flowing supply or buy storage from storage
21 customers.

¹⁵ Catherine Yap Table 2 analysis in the 3rd column, extended to all 34 low OFO events with 680 MMcf/d + 50% available WD capacity. Yap’s Table 2 only reports the 36.2% tolerance for 2 out of those 34 low OFO events.

1 **VIII. INVOLUNTARY DIVERSIONS PROVISIONS ARE UNNECESSARY FROM**
2 **SOCALGAS' PERSPECTIVE**

3 SCE correctly notes that PG&E's Rule 14 does not have the concept of system-wide
4 curtailments.¹⁶ Instead, PG&E Rule 14 describes how PG&E can adjust OFO stages and
5 noncompliance charges (Section E) and, if needed, invoke an EFO (Section F). If PG&E needs
6 additional gas, it first seeks a voluntary diversion of gas from parties that would prefer to resell
7 its gas and curtail. If insufficient gas materializes from voluntary diversion, however, PG&E can
8 implement involuntary diversion in order to maintain its system integrity (Section G). SCE is
9 concerned that the Commission should not adopt EFO procedures (Section F) for SoCalGas and
10 SDG&E without also adopting the involuntary diversion charges negotiated in Section G.

11 It is true that this was part of the original Gas Accord Settlement process—Section F and
12 Section G. But it does not appear that PG&E has ever had to use Section G. It seems to
13 SoCalGas and SDG&E that involuntary diversions are unnecessary, and that EFOs should work
14 without the need of involuntary diversions. By definition, if EFOs succeed in matching supply
15 and demand, there is no need for involuntary diversion of supplies to avoid customer
16 curtailments. Therefore, SoCalGas and SDG&E believe that the involuntary diversion concept
17 itself should not be a part of SoCalGas and SDG&E's upcoming proposed revision of their
18 curtailment rules,¹⁷ which are being rewritten to focus on local curtailment issues, not any EFO
19 procedures on our system.

20 This concludes my prepared rebuttal testimony.

¹⁶ Direct Testimony of Robert Grimm at p. 6.

¹⁷ See Prepared Supplemental Direct Testimony of Gwen Marelli.