

Application No: A.15-07-  
Exhibit No.: \_\_\_\_\_  
Witness: Paul Borkovich

Application of Southern California Gas Company  
(U 904 G) and San Diego Gas & Electric Company  
(U 902 G) for Authority to Revise their Natural Gas  
Rates Effective January 1, 2017 in this Triennial  
Cost Allocation Proceeding Phase 2

A.15-07-\_\_\_\_\_  
(Filed July 8, 2015)

**PREPARED DIRECT TESTIMONY OF**  
**PAUL BORKOVICH**  
**SOUTHERN CALIFORNIA GAS COMPANY**  
**AND**  
**SAN DIEGO GAS & ELECTRIC COMPANY**

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA

July 8, 2015

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**PREPARED DIRECT TESTIMONY**  
**OF PAUL BORKOVICH**

**I. PURPOSE**

The purpose of my direct testimony on behalf of Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) is to (1) request minor changes to the SoCalGas Rate Schedule G-BTS, (2) discuss producer aggregation in compliance with Commission Decision (D.)15-06-004, and (3) propose a change to SoCalGas Rule 41 to authorize the Operational Hub to buy and sell gas in support of cashouts paid to California producers for operational imbalances.

**II. SUMMARY OF THE BTS OPEN SEASONS FOR 2011 AND 2014**

Open seasons for three- to 20-year term Backbone Transportation Service (BTS) capacity contracts were conducted in 2011 and again in 2014. Open seasons were conducted in an identical manner for both events through three discrete steps in which participants were eligible to participate. Tables 1 and 2 below provide a summary of the bid and award activity for steps 1-3 of the respective 2011 and 2014 open seasons.

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**Table 1 – 2011 Open Season Results**

<b>Step/Round</b>	<b>Bid (Dth/day)</b>	<b>Award (Dth/day)</b>	<b>Receipt Point Availability after Awards</b>
Step 1 (Dth/day offered)	856,697	856,697	All Available
Step 2 Round 1	646,241	646,241	All Available
Step 2 Round 2	0	0	All Available
Step 2 Round 3	0	0	All Available
Step 3	970	970	All Available
<b>Total</b>	1,503,908	1,503,908	

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**Table 2 – 2014 Open Season Results**

<b>Step/Round</b>	<b>Bid (Dth/day)</b>	<b>Award (Dth/day)</b>	<b>Receipt Point Availability after Awards</b>
Step 1 (Dth/day offered)	864,823	864,823	All Available
Step 2 Round 1	565,103	565,103	All Available
Step 2 Round 2	0	0	All Available
Step 2 Round 3	56,750	56,750	All Available
Step 3	260,080	228,080	KR/MP Wheeler Ridge and PG&E Kern River Station partially sold out
<b>Total</b>	1,746,756	1,714,756	

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**A. Step 1 – Set-Aside Receipt Point Rights**

Step 1 in the open season process is reserved for specific customers for the assignment of firm BTS capacity. These customers include SoCalGas and SDG&E’s Gas Procurement Department (Gas Procurement), wholesale customers other than SDG&E, core transportation aggregators (CTAs), California producers, certain end-use customers served under long-term contracts (LTKs), specified PG&E G-XF customers, and parties funding incremental receipt point capacity under Rule 39.

Tables 3 and 4 below summarize the results of the Step 1 process for the 2011 and 2014 open seasons.

**Table 3 – 2011 Step 1 Open Season Results**

<b>Participants</b>	<b>Set-Aside Offered (Dth/day)</b>	<b>Set-Aside Accepted (Dth/day)</b>	<b># Eligible</b>	<b># Participated</b>
Utility Gas Procurement Department	814,368	549,353	1	1
Wholesale	42,879	42,879	4	2
CA Producers	394,583	264,465	24	12
LTK Contracts	19,081	0	3	0
PG&E G-XF Contracts	34,492	0	6	0
Parties funded BTS capacity per Rule 39	409,000	0	2	0

**Table 4 – 2014 Step 1 Open Season Results**

<b>Participants</b>	<b>Set-Aside Offered (Dth/day)</b>	<b>Set-Aside Accepted (Dth/day)</b>	<b># Eligible</b>	<b># Participated</b>
Utility Gas Procurement Department	904,700	607,222	1	1
Wholesale	42,879	42,879	4	2
CA Producers	348,645	210,732	26	11
LTK Contracts	0	0	0	0
PG&E G-XF Contracts	3,990	3,990	6	1
Parties funded BTS capacity per Rule 39	413,600	0	2	0

Each set-aside party had the option of exercising all or a portion of that party’s designated set-aside quantity to acquire firm BTS rights during Step 1 of the respective open seasons. During Step 1, a total of 856,697 Dth/day was awarded in 2011 and 864,823 Dth/day was awarded in 2014.

The description of Step 1 eligible customers includes customers served under LTKs that were in effect when FAR was implemented. All of these agreements have since expired. For this reason, SoCalGas proposes to eliminate all references to LTK customers in the description of the open season in the BTS rate schedule.

SoCalGas proposes no other changes for the Step 1 set-aside process.

**B. Step 2 Open Season – Preferential Bidding**

Step 2 of the BTS open season is reserved for end-use customers in good credit standing with SoCalGas and SDG&E. Customers are provided their maximum bidding rights based on 36

1 months of historical gas consumption. Eligible customers had the option to assign their bidding  
2 rights to their gas suppliers, which then made them eligible to bid for BTS capacity rights in Step  
3 2. A total of 646,241 Dth/day was bid and subsequently awarded in 2011. In comparison, a total  
4 of 621,853 Dth/day was bid and subsequently awarded in 2014.

5 Participation was mostly limited to customers who act as their own Balancing Agent and  
6 Contracted Marketers acting on behalf of customers who had assigned their bidding rights to  
7 them. In order to reduce the administrative burden of notifying all noncore customers of their  
8 bidding rights and then assisting them in the assignment of those bidding rights to their  
9 Contracted Marketer, SoCalGas proposes to assign Step 2 bidding rights directly to the  
10 Balancing Agents based on their respective customer balancing responsibilities as of the first day  
11 of the calendar month subsequent to the close of the Step 1 set aside process. Prior to the  
12 execution of this assignment, noncore customers will be notified that their bidding rights will be  
13 assigned to their Contracted Marketer. noncore customers will have the option upon notification  
14 to request that their rights be assigned directly to them or another creditworthy party instead.

15 SoCalGas proposes no other changes to the Step 2 open season process.

### 16 **C. Step 3 Open Season – Long-Term**

17 Step 3 of the BTS open season is open to all creditworthy parties for annual baseload  
18 quantities for three- to 20-year terms. The maximum total bid for any party is only limited by its  
19 credit limit. A total of 970 Dth/day was bid and subsequently awarded in 2011. In comparison,  
20 a total of 260,080 Dth/day was bid, and 228,080 Dth/day was awarded in 2014. Two bids for  
21 terms exceeding three years were received in Step 3 for the 2011 open season. No bids  
22 exceeding three years were received in the 2014 open season.

23 SoCalGas proposes no changes to the Step 3 open season process.

1 **III. CALIFORNIA PRODUCER AGGREGATION**

2 **A. Low Operational Flow Order and Emergency Flow Order Decision**

3 On June 16, 2015, the Commission issued D.15-06-004 approving SoCalGas and  
4 SDG&E’s Low Operational Flow Order (OFO) and Emergency Flow Order (EFO) requirements.  
5 Ordering Paragraph 9 directs SoCalGas and SDG&E to apply these low OFO and EFO  
6 requirements to California producers.<sup>1</sup> Ordering Paragraph 14 directs SoCalGas and SDG&E to  
7 “make the issue of whether to aggregate the California producers’ meters as part of the upcoming  
8 Phase 2 of the Triennial Cost Allocation Proceeding.”<sup>2</sup> SoCalGas and SDG&E comply with that  
9 direction below.

10 **B. California Producer Operational Balancing Agreement**

11 The California Producer Operational Balancing Agreement (CPOBA) (Form 6452) was  
12 the product of a regulatory process ordered by the Commission in D.07-08-029. The CPOBA  
13 contains operational imbalance and cashout provisions that apply each day. California producer  
14 imbalances are calculated differently from the imbalance structure applicable to Balancing  
15 Agents serving end-use customers. CPOBA balancing provisions calculate noncompliance  
16 based on accumulated imbalances (interconnect metered deliveries – scheduled deliveries to a  
17 BTS contract) for the previous seven-day period divided by the producer interconnect capacity  
18 multiplied by 7. If the result is within +/-10%, the producer interconnect is deemed to be within  
19 tolerance, and the calculation is performed again the next day. If the result exceeds +/-10%, the  
20 producer interconnect is out of tolerance, and it enters into a 14-day payback period. During the  
21 14-day payback period, the producer may adjust BTS scheduled quantities and metered  
22 deliveries to resolve the imbalance. The producer interconnect may also trade imbalances during

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<sup>1</sup> D.15-06-004, mimeo., at 43.

<sup>2</sup> *Id.* at 44.



1 the payback period with other producer interconnects with effective CPOBAs to reduce their  
2 imbalance to the specified tolerance.

3 Imbalance quantities outside the specified tolerance band at the end of the payback period  
4 are subject to cashout provisions. Cashout rates are specified in Rate Schedule No. G-CPS.  
5 Cashout rates for an imbalance period are based on Southern California border gas index prices  
6 posted on the InterContinental Exchange (ICE). Cashouts for over-deliveries are paid to  
7 producers based on 50% of the applicable average low price index, and under-deliveries are  
8 charged to producers at 150% of the average applicable high price index.

9 High OFO procedures in Rule 30 are applicable to producers with an effective CPOBA.  
10 Producer over-deliveries subject to the G-IMB buyback rate on OFO days are subtracted from  
11 scheduled quantities for the applicable OFO day and removed from the ongoing producer  
12 imbalance calculation process.

13 A system designed to manage CPOBA imbalances became operational on January 26,  
14 2015, and the CPOBA and other Commission-adopted form agreements subsequently became  
15 effective on February 1, 2015. Once this enhancement became operational and the form  
16 agreements were effective, SoCalGas began the process of exercising its termination options for  
17 the existing agreements and converting producer interconnects to the form agreements, including  
18 the CPOBA.

### 19 **C. Current California Producer Scheduling Process**

20 Rate Schedule G-BTS currently treats all but one producer meter as a point of access  
21 within one of the three transmission zones reserved exclusively for California supply. These  
22 three transmission zones are identified as Line 85, Coastal and Other. The Line 85 Transmission  
23 Zone covers producer meters in the San Joaquin Valley that have a connection to the SoCalGas

1 Line 85 transmission system, while the Coastal Transmission Zone covers producer interconnect  
2 meters located mostly in Santa Barbara and Ventura Counties that are connected to SoCalGas'  
3 North Coastal transmission system. The Other Transmission Zone deals with producer meters  
4 interconnected with a part of the SoCalGas system that is not connected to a pipeline receipt  
5 point or is an interconnected part of another BTS transmission zone. Most of the producers  
6 located in the Other Transmission Zone are mostly smaller producers located in Kern, Los  
7 Angeles, and Orange Counties.

8 Under current scheduling procedures, any BTS customer, including a producer holding  
9 BTS rights may nominate gas from an individual producer meter for delivery to the eligible  
10 delivery points specified in the BTS rate schedule. A BTS customer with firm primary rights in  
11 the transmission zone in which the producer meter is located has the highest priority on the  
12 SoCalGas backbone system to transport this supply. BTS customers using firm BTS rights with  
13 primary rights in a different transmission zone have lower priority. BTS customers with  
14 interruptible rights have the lowest priority to schedule these supplies for delivery.

#### 15 **D. California Producer Imbalance Aggregation Proposal**

16 SoCalGas can design and build a system to allow the aggregation of producer  
17 interconnect meters to calculate operational imbalances according to the CPOBA requirements  
18 on an aggregated basis. The system would collect metered deliveries, scheduled quantities, and  
19 interconnect capacities for a specified grouping of producer interconnects to allow either a  
20 producer or a creditworthy producer balancing agent selected by the producer to manage  
21 operational imbalance in aggregate.

22 In order to maintain the integrity of the BTS scheduling process, SoCalGas proposes to  
23 limit aggregation to producer meters located with the same BTS transmission zone. The

1 aggregation of producer interconnect meters across transmission zones would preclude the  
2 scheduling of BTS receipts within a transmission zone when nominated receipts exceed available  
3 BTS capacity. Although this situation is rare within the respective California Supply Zones, it  
4 does occur on a more regular basis in the Wheeler Zone. Nevertheless, overnominations are  
5 possible even within California Supply transmission zones when facility outages are required for  
6 the support of pipeline maintenance activity.

7 The CPOBA authorizes a “Split Meter” arrangement which allows two or more producers  
8 to flow gas into the SoCalGas system under separate CPOBAs. The CPOBA requires the  
9 producer designated as the operator of the Split Meter interconnect to provide the allocation of  
10 metered deliveries to SoCalGas within seven calendar days on non-OFO days and within one  
11 business day for OFO days. However, a seven day lag for the allocation of meter deliveries  
12 between producers is impractical if producers are allowed to aggregate deliveries together on a  
13 daily basis for the purpose of imbalance aggregation. For this reason, SoCalGas proposes that  
14 the CPOBA be modified to require that the Split Meter operator provide an allocation of metered  
15 deliveries on a daily basis if a producer imbalance aggregation system is adopted.

16 A fully integrated producer imbalance management system equivalent to the contracted  
17 marketer function for noncore customers is currently estimated to cost approximately \$4 million.  
18 SoCalGas would expect these information system costs and corresponding O&M to support its  
19 ongoing operation to be fully recovered from California producers under the System  
20 Modification Fee as presented in Schedule No. G-CPS.

#### 21 **IV. PRODUCER CASHOUT REQUIREMENTS**

22 The CPOBA specifies cashout requirements for California producer operational  
23 imbalances. The Commission provides no guidance about which SoCalGas department with a

1 gas procurement role is responsible for the purchase and sale of this supply in support of cashout  
2 activity or responsible for the rate treatment of the resulting net cashout revenues and costs.

3 SoCalGas has also found that any revenue resulting from the administration of pipeline  
4 operational balancing agreements is also not addressed in any of its regulatory accounts.

5 To remedy this situation, SoCalGas proposes to modify Rule 41 to allow its Operational  
6 Hub to buy and sell gas at the SoCalGas Citygate in support of CPOBA cashout activity and  
7 pipeline OBA resolution. SoCalGas proposes the net revenue and costs from this be booked into  
8 a new regulatory memorandum account called the System Operator Gas Account (SOGA),  
9 which is sponsored in the direct testimony of Mr. Ahmed.

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11 This concludes my prepared direct testimony.  
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1 **V. QUALIFICATIONS**

2 My name is Paul D. Borkovich. I am employed by SoCalGas as the Capacity Products  
3 Support Manager in the Energy Markets and Capacity Products Department. My business  
4 address is 555 West Fifth Street, Los Angeles, California, 90013-1011. My responsibilities are  
5 to manage transportation services provided to suppliers and marketers who provide gas to  
6 SDG&E and SoCalGas customers. I also manage the Backbone Transportation Service program,  
7 the California Energy Hub back office, policies and procedures for scheduling and nominations  
8 on the SDG&E and SoCalGas systems, daily operation and enhancements to SoCalGas'  
9 Electronic Bulletin Board, and all aspects of SoCalGas and SDG&E's interconnect and  
10 operational balancing agreements with pipelines delivering natural gas into their integrated  
11 transmission system.

12 I have been employed by SoCalGas in numerous positions, including Senior Accounts  
13 Manager, Project Manager, Market Strategy Manager, Senior Market Advisor, Gas Scheduling  
14 Manager, Regulatory Affairs Administrative Manager, Account Executive Supervisor, Account  
15 Executive, Market Analyst, and Energy Systems Engineer. I have been responsible for various  
16 aspects of utility operations, sales and marketing, regulatory matters, and customer relations. I  
17 graduated in 1981 from University of California Santa Barbara with a Bachelor of Science  
18 Degree in Mechanical Engineering and in 1985 from the University of Southern California with  
19 a Master of Science Degree in Petroleum Engineering.

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