

1 Application No: A.06-08-026
Exhibit No.: _____
2 Witness: Rodger R. Schwecke

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In the Matter of the Application of Southern)
California Gas Company (U 904 G), San Diego)
Gas & Electric Company (U 902 M) and Southern)
California Edison Company (U 338 E) for Approval)
of Changes to Natural Gas Operations and Service)
Offerings)
_____)

A.06-08-026

PREPARED SUPPLEMENTAL TESTIMONY
OF RODGER R. SCHWECKE
SAN DIEGO GAS & ELECTRIC COMPANY
AND
SOUTHERN CALIFORNIA GAS COMPANY

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1 SoCalGas' Gas Procurement Department will bring more gas to that point through purchases of
2 supplies or redirection of existing supplies to maintain that minimum flowing supply. In
3 addition, if the minimum flowing supply requirements at Blythe change throughout the day or
4 fewer supplies are being received than expected, the System Operator will contact the SoCalGas
5 Gas Procurement Department to bring more gas to the Blythe receipt point if needed. These gas
6 supplies delivered by the SoCalGas Gas Procurement Department are purchased for core
7 procurement customers, but as referenced in my direct testimony, there is a memorandum
8 account (BOFRMA) that tracks the costs associated with the SoCalGas Gas Procurement
9 Department delivering gas in excess of 355 MMcfd when called upon by the System Operator.
10 The disposition of the balance in the BOFRMA will be addressed on SoCalGas' next Biennial
11 Cost Allocation Proceeding (BCAP).

12 The proposed change to the current procedures is to move any responsibility for
13 maintaining operationally required flowing supplies, including the current minimum deliveries at
14 Blythe, to the System Operator. If the System Operator determines that there is a need to have a
15 certain amount of flowing supply at a particular receipt point to maintain system reliability, the
16 System Operator will acquire the needed supplies itself and not rely on SoCalGas' Gas
17 Procurement Department to do so. The resulting net cost of acquiring the needed supplies by the
18 System Operator will then be tracked in a proposed memorandum account (SRMA) described by
19 Mr. Austria in his direct testimony.

20 **C. SYSTEM OPERATOR PLANS**

21 While my direct testimony mentions various tools that could be used by the System
22 Operator to fulfill its new role in providing flowing gas supplies as needed to maintain system
23 reliability, the System Operator is asking that the following three basic proposals be approved in
24 this proceeding. The first is the ability of the System Operator to buy and sell gas on a spot
25 basis, as needed, to maintain system reliability. The second is the authority to conduct requests
26 for offers (RFO) or open season process consistent with the System Operator needs. And third,
27 to approve an expedited Advice Letter approval process for contracts that result from a RFO or
28 open season process. Additionally, as described later in this testimony, the System Operator may

1 seek through separate application or a petition for modification of D.06-12-031 to impose some
2 form of a minimum delivery requirement for customers.

3 **D. SPOT GAS PURCHASES**

4 Spot gas purchases and the corresponding sale authority are needed as the first and
5 crucial step to provide the System Operator with the capability to meet flowing gas requirements
6 in a timely manner. The System Operator will first use spot gas purchases to meet any
7 operational flowing gas requirements or other operational supply needs until other Commission
8 approved reliable and economical tools are available. Additionally, spot purchases will be used
9 as the benchmark when evaluating any RFO results or other offers to provide flowing supplies.

10 When the System Operator determines that there is a need for additional flowing supplies
11 at a particular receipt point, the System Operator may purchase the necessary amount of gas on
12 the spot market. The purchased gas will be tracked in an account managed by the System
13 Operator HUB and sold immediately or at some point in the future to recover as much of the
14 purchase price as possible. The net differences between the purchase costs and sales revenues
15 will be recorded in the SRMA for allocation to all ratepayers as provided for in Mr. Austria's
16 testimony.

17 **E. REQUEST FOR PROPOSALS/OFFERS**

18 The purchases of spot gas may not fully meet the needs of the System Operator to
19 maintain system reliability or be the most cost effective options for ratepayers. Therefore, the
20 System Operator will issue a RFO in the time between approval of this application and the actual
21 transfer of the system reliability responsibility to the System Operator. The RFO will be sent to
22 current gas suppliers to California, including the SDG&E/SoCalGas Gas Procurement
23 Department, pipelines serving California and any other interested parties.

24 The RFO will query the marketplace for offers to provide services or "tools" that will
25 assist the System Operator in meeting its additional obligation to obtain the flowing supplies to
26 maintain system reliability. That assistance could come in the form of a guarantee of flowing
27 supplies at the required receipt points. The respondent would offer to deliver a certain amount of
28 gas for a set period of time at a particular receipt point. Or, a respondent may offer to stand

1 ready everyday to provide flowing gas at a particular receipt point when called upon by the
2 System Operator. During the RFO process, SDG&E/SoCalGas will be under no obligation to
3 accept any offers until after the Commission approves the agreements as described.

4 The RFO will allow any respondent to present other services that could meet the needs
5 defined in the RFO by the System Operator, such as use of interstate pipeline capacity. One
6 example would be the ability to move gas supplies being delivered from the northern part of the
7 SDG&E/SoCalGas system to the southern system to meet the minimum flowing supply
8 requirement at Blythe. Within the RFO, the System Operator will define the quantity and
9 duration of gas needed at a specific receipt point(s) but allow respondents to submit offers for all
10 or only a portion of the quantity and other terms. This will allow for the System Operator to
11 select from a variety of suppliers if necessary to meet the flowing gas supply needs if it makes
12 the most economic sense.

13 After the responses are received from the marketplace, the System Operator will evaluate
14 all information provided and select the best approach to meet its needs. The evaluation will
15 consider costs of the options and potential performance of the offers in determining what makes
16 the most sense. During the evaluation, discussions may have to take place with the submitting
17 parties to ensure the use of multiple suppliers will best meet the System Operator's goal of
18 maintaining system reliability. Therefore, SDG&E/SoCalGas have asked for the authority to
19 negotiate with individual suppliers to achieve the desired results and ensure system reliability.
20 After evaluation, SDG&E/SoCalGas will consult with the Energy Division as described in my
21 direct testimony.¹

22 Prior to executing final contracts for any other "tool" as a result of the RFO that requires
23 payment regardless of usage, SDG&E/SoCalGas will file for approval of the contract(s) through
24 the expedited Advice Letter process also defined in my direct testimony. In that Advice Letter,
25 the specific "tool" being contracted for, the cost of the contract(s), impact on customers and the
26 benefit of the contract(s) as compared to other alternatives will be provided. SDG&E/SoCalGas
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¹ Direct Testimony of Rodger R. Schwecke, page 5.

1 are proposing that only those contracts that have required payments be subject to this Advice
2 Letter approval process.

3 Contracts that do not require payment unless called upon are similar in nature to spot
4 purchases of gas. These types of contracts provide cost-free alternatives to the use of spot gas
5 purchases. Prior arrangements to purchase gas without other financial commitments would fall
6 within the authority to purchase and sell gas. As an example, the System Operator may contract
7 with a gas supplier(s) to have a call on a certain quantity of gas when needed and the supplier
8 would commit to deliver those supplies. The cost to provide that service would only be paid to
9 the extent the System Operator calls on the supplies and on a volumetric basis for gas delivered.
10 Such prior contracts would allow the System Operator to call certain suppliers that have already
11 committed to deliver the gas rather than having to go into the open market once the need is
12 determined.

13 Another “tool” mentioned in my direct testimony is the establishment of a minimum flow
14 obligation on SDG&E/SoCalGas customers. Minimum flow obligations have been used by
15 interstate pipelines to ensure reliability of system operations and are similar to operational flow
16 orders currently in place on the SDG&E/SoCalGas and PG&E systems today.
17 SDG&E/SoCalGas will evaluate the option of imposing some form of minimum flow obligation
18 on customers in comparison to use of spot purchases or other tools developed as a result of the
19 RFO process. A form of minimum flow obligation could be attached to holders of the recently
20 approved firm receipt point access rights. If that type of minimum flow obligation was deemed
21 to be a necessary and appropriate “tool” of the System Operator to manage its system reliability,
22 a petition for modification would have to be filed to D.06-12-031 or a new application would
23 have to be filed. Within either of those filings, SDG&E/SoCalGas would explain the rationale
24 for such minimum flow obligation and how it would be implemented. If a new obligation were
25 to be attached to firm access rights, SDG&E/SoCalGas do not propose to impose this new
26 obligation during the three year contract term for firm access rights. Instead any such new
27 obligation would be implemented in the next open season, at which time customers could elect
28 whether or not to hold southern transmission system firm rights with full knowledge of the

1 attached obligation. Customers who have obtained firm rights for contract terms that extend
2 beyond the three year open season awards would be given the opportunity to terminate their firm
3 rights contracts if a minimum flow obligation is attached to the firm rights.

4 **F. RATIONALE FOR SYSTEM OPERATOR “TOOLS”**

5 The tools described above and in my direct testimony, along with the expedited approval
6 process, are intended to create a potential opportunity to lower the System Operator’s costs of
7 providing the required minimum flowing supplies. If these costs, which will be borne by all
8 customers, can be reduced it makes sense for the Commission to approve additional tools as they
9 may be presented by SDG&E/SoCalGas. The System Operator will gain experience with its
10 requirements and the frequency of need of each tool to better plan for future minimum flow
11 requirements. Specific “tools” that best meet the needs of the System Operator may change over
12 time and an expedited approval process sets the mechanism for the Commission to evaluate and
13 approve System Operator’s actions on a going forward basis. Immediately upon transfer of the
14 obligation of procuring flowing supplies to meet the system’s reliability requirements, the
15 System Operator must have the authority to procure and sell gas supplies.

16 Each of the methods presented here for the System Operator to maintain reliable gas
17 service will be compared with the cost for SDG&E/SoCalGas to install physical facilities to
18 alleviate the need for minimum flowing supplies. In an analysis of RFO results and potential
19 contracts to be executed, SDG&E/SoCalGas will show whether installing new facilities is more
20 or less economical. If the new facilities prove to be more economical for our customers, such
21 new facilities may be an appropriate solution to a need for minimum flowing supplies and
22 SDG&E/SoCalGas will proceed in the appropriate manner to construct the needed facilities
23 including obtaining any required Commission approvals. However, as with any facility
24 enhancement, the timing of such construction may require 24 – 36 months and the “tools” being
25 evaluated may need to be put in place until the facility enhancements can be completed.

26 Obviously, gaining regulatory approval now for purchases of spot supplies to meet the
27 minimum flowing supply requirements would be more cost effective than for a large up-front
28 facility enhancement as a solution to a problem that may diminish over time. There may be

1 other, less-expensive options for the System Operator to deal with for its Blythe minimum
2 responsibility or other flowing supply requirements and these would be evaluated through the
3 RFO process. At a minimum, the Commission should approve the spot gas purchase and sale
4 capability as a reasonable approach.

5 **G. COST ESTIMATE FOR REQUIRED SERVICE**

6 It is difficult to estimate the future costs for the System Operator to take on the
7 responsibility to manage the minimum flowing supply requirements due to the various market
8 conditions that impact the costs. To date the cost recorded in BOFRMA is \$1,437,934, which
9 represents the cost of purchasing incremental supplies over core's planned deliveries, though this
10 amount will be increasing as a result of recent minimum flow requirements. However, this
11 amount does not reflect the cost to SoCalGas' core customers for maintaining the required
12 minimum flow when market conditions do not favor deliveries of that amount of core gas at
13 Blythe. Currently core customers bear all of this cost. When the responsibility is transferred to
14 the System Operator SoCalGas, core customer will no longer be restricted in their activities and
15 therefore not have to bear this opportunity cost.

16 A cost estimate for the System Operator to take on the responsibility to manage the
17 minimum flowing supply requirement at Blythe would be highly speculative as it is dependent
18 on many factors, including: (1) the actions of noncore customers and the SDG&E/SoCalGas Gas
19 Procurement Department to pursue more valuable markets for daily supply already flowing into
20 Blythe when presented with the opportunity, (2) the daily market value of gas supplies that
21 deliver to the other SDG&E/SoCalGas receipt points, (3) varying daily volume needs at Blythe,
22 (4) future Blythe supplies becoming relatively more price-competitive with other supplies after
23 the entry of LNG into Baja, Mexico, and (5) quantity of supplies being delivered at Blythe or
24 into the SDG&E/SoCalGas southern transmission system changing due to entry of LNG
25 delivered into Baja, Mexico.

26 Approval of the SDG&E/SoCalGas' proposal to transfer the minimum flow
27 responsibilities currently performed by the SoCalGas Gas Procurement Department to the
28 System Operator, may cause a cost shift from core customers to noncore customers thereby

1 increasing costs to noncore customers. However, based on our proposal for cost allocations as
2 defined by Mr. Austria, all customers will bear the System Operator's costs with core customers
3 still being responsible for approximately 40% of the costs incurred.

4 **H. OTHER POTENTIAL COST SHIFTS**

5 The Assigned Commissioner's Ruling asked about potential cost shifts between customer
6 classes as a result of SDG&E/SoCalGas' proposal in this application. I have already described
7 potential cost shifts from transferring the system reliability responsibilities to the System
8 Operator. Other items defined or mentioned in this application or the settlements within my area
9 of responsibility which could potentially cause cost shifts or rate impacts include: 1) firm receipt
10 point rights - the impact of releasing all unutilized receipt point capacity, and crediting all
11 interruptible transmission revenues to the IBTA, 2) the impact of expanding receipt points in
12 accordance with the policies described in this application, 3) the effect of transferring the
13 California Energy HUB from SoCalGas' Gas Procurement Department to the System Operator,
14 4) the effect of establishing and maintaining an imbalance trading program and secondary
15 storage trading market, and 5) the cost of establishing and maintaining all the new posting
16 requirements. Items 1 and 2 have already been approved in D.06-12-031 and therefore there are
17 no incremental cost impacts. The costs of implementing Items 4 and 5 are addressed in my
18 direct testimony and will have a slight rate impact to all customers. Item 3 is the only item that
19 has not already been addressed for its cost impact or shifts. Transfer of the California Energy
20 HUB to the System Operator creates an opportunity for revenues to be generated from the
21 potential transactions completed by the System Operator. Revenue generated from the System
22 Operator HUB transactions will now impact all customers based on the G-PAL Balancing
23 Account described by Mr. Austria.

24 This concludes my supplemental testimony.
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