Application No: A. 11-11-002
Exhibit No.:
Witness: Beth Musich

In the Matter of the Application of San Diego Gas & Electric Company (U 902 G) and Southern California Gas Company (U 904 G) for Authority to Revise Their Rates Effective January 1, 2013, in Their Triennial Cost Allocation Proceeding.

A.11-11-002
(Filed November 1, 2011)

SUPPLEMENTAL DIRECT TESTIMONY

OF BETH MUSICH

REGARDING THE TRANSFER OF SOUTHERN SYSTEM MINIMUM FLOW RESPONSIBILITY

SAN DIEGO GAS & ELECTRIC COMPANY

AND

SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

September 10, 2012

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I. BACKGROUND

On December 6, 2007, the California Public Utilities Commission (Commission) issued Decision (D.) 07-12-019 approving, in part, proposals by SoCalGas, San Diego Gas & Electric Company (SDG&E), and Southern California Edison Company (SCE) to implement a range of provisions pertaining to the natural gas operations and service offerings of SoCalGas and SDG&E, related to core operations, unbundled storage, and expansion of storage capacities, among other things. One of the provisions adopted by D.07-12-019 was the transfer of the responsibility for managing minimum flow requirements for system reliability from Gas Acquisition to the System Operator.[1] D.07-12-019 also adopted SoCalGas' and SDG&E's request for certain System Operator tools to help maintain system reliability, and provided that requests for additional System Operator tools shall be made by regular advice letter or application.[2]

On November 3, 2011, SoCalGas filed Advice No. (AL) 4291 requesting approval of a memorandum in lieu of contract (MILC) between the System Operator and Gas Acquisition to support SoCalGas' minimum flow requirements on its Southern System.[3] Under the MILC, Gas Acquisition agreed to deliver a specified volume of flowing supplies to the Southern System each

[1] D.07-12-019 mimeo, at 116 (Ordering Paragraph No. 15). Although the Decision refers to "Gas Acquisition Department," the tariffs that were filed in that proceeding and later proceedings use the phrase "Utility Gas Procurement Department." Both terms refer to the same group. The System Operator is broadly defined to constitute the SoCalGas departments responsible for the operation of its transmission system, including storage, hub services, pooling services receipt point access, off-system deliveries, and system reliability. It does not include Gas Acquisition. *See* D.07-12-019, mimeo., at 58. *See also* SoCalGas Rule 41(2).

[2] D.07-12-019, mimeo, at 116 (Ordering Paragraph Nos. 16 and 17); *see also* SoCalGas Rule 41(18)(contracts not obtained through an RFO process go through the advice letter process; additional tools other than system modifications that can be completed without an application go through the application process).

day,[4] and in exchange for taking on this obligation, bundled core customers would not share the System Reliability Memorandum Account (SRMA) costs incurred by the System Operator to meet minimum flow requirements on the Southern System.

On July 12, 2012, the Commission approved the initial MILC, subject to certain limited modifications, in Resolution G-3468.[5] On July 13, 2012, SoCalGas filed a Revised MILC which included the modifications required by the Commission in Resolution G-3468, and the Revised MILC became effective on that date. The term of the existing Revised MILC runs through October 31, 2012.[6]

II. PURPOSE OF THIS TESTIMONY

When it approved the MILC between the System Operator and Gas Acquisition, the Commission expressed certain concerns about the transfer of minimum flow responsibility from Gas Acquisition to the System Operator, and required SoCalGas to provide an assessment of the transfer in Phase 2 of this Triennial Cost Allocation Proceeding (TCAP). For ease of reference, the relevant discussion from Resolution G-3468 is set forth in full below:

> **D.07-12-019 granted SoCalGas' s request to transfer responsibility for System reliability from the GA to the SO. Continued reliance on GA for maintaining system reliability indicates that the SO is not discharging its obligations in compliance with D.07-12-019.** As Ordering Paragraph 15 of that decision states: "**<u>Applicants' proposal</u>** (emphasis added) that

[3] Because the agreement is between two departments of the same legal entity, the terms are documented in a memorandum in lieu of contract rather than a traditional contract.

[4] From December 1, 2011, through March 31, 2012, this amount is the lower of either 50% of the Southern System Minimum Flow Requirement or 360 thousand dekatherms (Mdth), and from April 1, 2012, through October 31, 2012, this amount is the lower of either 35% of the Southern System Minimum Flow Requirement or 260 Mdth.

[5] These modifications changed the non-performance provision of the MILC, and provided for a proportionate sharing of System Reliability Memorandum Account (SRMA) costs under certain circumstances. *See* Resolution G-3468 at pp. 17-19.

[6] To continue the benefits of the arrangement established in the existing Revised MILC beyond October 31, 2012, on August 17, 2012, SoCalGas filed Advice No. 4394 seeking approval of a second MILC to become effective once the existing Revised MILC ends. This Second MILC would become effective on the later of: (1) November 1, 2012, or (2) the effective date of Commission approval, and continue through the earlier of: (1) October 31, 2013, or (2) such earlier date as the Commission may determine in the current TCAP. This latter provision is consistent with the Commission's direction in Resolution G-3468 that the term of any additional MILCs should not go beyond the life of the current TCAP. *See* Resolution G-3468 at p. 26.

responsibility for managing any minimum flow requirements for system reliability be transferred from the Gas Acquisition Department to the System Operator and paid for by all customers, is granted." SoCalGas requested the transfer of Southern System responsibility from GA to the SO in A.06-08-026.

AL 4291 is SoCalGas' second attempt to assign a significant portion of the responsibility for Southern System deliveries back to GA. In AL 3976, and 3976-A, filed March 26, 2009 and June 1, 2009, respectively, SoCalGas requested approval of contracts with GA to support minimum flow requirements on the Southern System.17 This first request came just 15 months after SoCalGas was allowed to transfer the Southern System responsibility. In AL 4291 the Utility states as justification for the MILC, that the SO would be "managing the Southern System by having GA assume responsibility for the flow requirements of the bundled core load."18 This seems to be a reversal to the request made in A.06-08-026 and approved in D.07-12-019. The Commission is concerned that SoCalGas sought approval for its proposal in A.06-08-026 but does not seem to have yet arrived at a realistic solution for assuring Southern System deliveries without significant reliance on GA.

Comments provided by SCE ask that a full review and evaluation of the effectiveness of the transfer of responsibility from GA to the SO be conducted with the participation of interested parties, as part of Phase II of the TCAP. The Commission support SCE's suggestion as a method to address both its concerns and the concerns of other interested parties.

In the review and evaluation, SoCalGas is directed to include an assessment of the steps taken since the transfer of responsibility, the cost savings resulting from the transfer of responsibility, the additional steps and timing necessary to effect the full intent of the transfer and an assessment of SO's capability to take those steps.

. . .

The SoCalGas System Operator shall evaluate the effectiveness of the transfer of responsibility for Southern System Reliability as part of Phase II of the current TCAP.[7]

[7] Resolution G-3468, pp. 22 and 26 (Ordering Paragraph No. 5) (emphasis in original).

The purpose of this testimony is to provide an assessment of the transfer of Southern System responsibility required by the Commission in Resolution G-3468. Pursuant to the Commission's direction, this assessment will discuss each of the following:

- Steps taken by the System Operator since the transfer of responsibility;
- Cost before and after the transfer of responsibility;
- Additional steps and timing necessary to effect the full intent of the transfer; and
- An assessment of the System Operator's capability to take those steps.

However, the Commission's concerns about having Gas Acquisition provide Southern System support services to the System Operator on a semi-contractual basis, and the Commission's focus on cost savings from the transfer, indicates to SoCalGas that there may be a fundamental misunderstanding regarding the intent of the transfer that SoCalGas was not able to clear up during the advice letter and comment process that led up to Resolution G-3468. Accordingly, before providing the analysis requested by the Commission, my testimony will address this possible misunderstanding by discussing the purpose of the transfer of responsibility for Southern System minimum flow requirements from Gas Acquisition to the System Operator.

III. THE COMMISSION'S APPROVAL OF INTERRELATED CORE BALANCING AND MINIMUM FLOW RESPONSIBILITY PROPOSALS

As mentioned above, the Commission issued D.07-12-019 in response to a joint application by SoCalGas, SDG&E, and SCE that proposed a package of changes to the natural gas operations and service offerings of SoCalGas and SDG&E. This joint application was itself, in part, the result of a settlement of disputes between the three utilities of various issues, including the nature and scope of Gas Acquisition's operations on behalf of SoCalGas' bundled core customers.[8]

Prior to D.07-12-019, bundled core customers did not have to balance like noncore customers, and bundled core customers shouldered the entire burden of providing minimum flows on the Southern System.[9] SoCalGas, SDG&E, and SCE presented an interrelated balancing/minimum flow responsibility proposal to the Commission designed to treat bundled core customers with respect to these two activities. As the Commission explained:

> Applicants' core balancing and minimum flow proposals are intended to be implemented simultaneously to work together (1) to treat core customers more like noncore customers, (2) to address concerns that noncore customers may currently view the core as having a "privileged" position with respect to system balancing, and (3) to address the fact that the core currently shoulders all system minimum flow responsibilities. Applicants argue that these interrelated proposals result in a more equitable allocation of costs and responsibilities among utility customers.[10]

The Commission ultimately adopted both of these interrelated changes on the grounds that they provide an equitable allocation of costs and responsibilities between core and noncore customers:

> We approve Applicants' proposals for core imbalance requirements and minimum flow obligations. We conclude that these two proposals result in an equitable allocation of costs and responsibilities among utility customers.[11]

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[8] *See* D.07-12-019, mimeo., at 3-4.
[9] As the Commission explained in D.07-12-019, at that time Gas Acquisition was entirely responsible for maintaining minimum flows into the Southern System. Minimum flows up to 355 MMcfd were paid for entirely by core customers. Costs associated with core deliveries in excess of 355 MMcfd in response to requests from SoCalGas' Gas Control Department were tracked in the Blythe Operations Flow Requirement Memorandum Account (BOFRMA) and allocated to all customers in SoCalGas' Biennial Cost Allocation Proceedings. *See* D.07-12-019, mimeo., at 57-58 (fn. No. 64).
[10] D.07-12-019, mimeo., at 52.
[11] D.07-12-019, mimeo., at 52.

IV. THE TRANSFER OF MINIMUM FLOW RESPONSIBILITIES WAS NOT INTENDED TO CREATE COST SAVINGS

The purpose of the transfer of Southern System minimum flow responsibilities from Gas Acquisition to the System Operator was to put bundled core customers on a more equal footing with noncore customers. The transfer was not designed to create cost savings.

The need for minimum flows on the Southern System is created by the fact that, unlike other portions of SoCalGas' system, physical flows delivered to the Southern System are needed on a regular basis, and only a portion of the system's needs can be served by flows from other portions of the system or withdrawals from storage. As the Commission accurately explained in Resolution G-3468, "SoCalGas needs a certain minimum amount (which can vary depending upon conditions) of flowing supplies on its Southern System to operate effectively."[12] The Southern System minimum flow requirement for any particular day is based in large part upon customer demand on the Southern System, minus the amount of flowing supplies that SoCalGas is able to flow from its Northern System to its Southern System. To the extent that customer deliveries into its Southern System fall short of the minimum flow requirement SoCalGas must provide additional supplies in order to keep the system operating.[13]

The amount of additional flowing supplies that SoCalGas must provide in order to keep the Southern System operating is independent of which department within SoCalGas provides those supplies. Put another way, the amount of flowing supplies needed by Gas Control to keep the Southern System up and running is exactly the same whether Gas Acquisition or the System Operator is buying the supplies.

[12] Resolution G-3468, pp. 2-3.
[13] Note that minimum flow requirements do not simply equal Southern System demand less customer deliveries into the Southern System. A limited portion of the Southern System requirements can be met by flows from other portions of SoCalGas' system. Additionally, the state of the system, expectations of customer demand, and weather forecasts

As explained by the Commission in D.07-12-019, the transfer of Southern System minimum flow responsibilities from one SoCalGas department to another was driven by a desire to provide a more equitable allocation of costs and responsibilities between core and noncore customers. SoCalGas will attempt to address the Commission's questions about cost savings from the transfer, but cost savings were not the goal of the transfer and they are not a likely outcome of the transfer.

V. GAS ACQUISITION SHOULD NOT BE PRECLUDED FROM PROVIDING SOUTHERN SYSTEM SUPPORT SERVICES TO THE SYSTEM OPERATOR

In Resolution G-3468, the Commission expresses concern that SoCalGas "does not seem to have yet arrived at a realistic solution for assuring Southern System deliveries without significant reliance on GA."[14] This statement appears to assume that one of the goals of the Commission in D.07-12-019, and of the proposals by SoCalGas, SDG&E, and SCE leading up to that decision, is the elimination of the ability of bundled core customers to provide Southern System support services. That is simply not the case.

The goal of the transfer of Southern System minimum flow responsibilities from Gas Acquisition to the System Operator was to put bundled core customers on a more equal footing with noncore customers. The goal was not to prevent bundled core customers from offering to provide Southern System support services to the System Operator, just as other market participants can offer to provide Southern System support services. As the Commission explained in D.07-12-019:

> Applicants propose that, to the extent that spot gas purchases may not fully be sufficient to maintain system reliability, the System Operator issue a RFO in the time between a

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are also factors. The System Operator takes all of this into account when it determines the Southern System minimum flowing supply requirement and what level of additional supply purchases are required.

[14] Resolution G-3468, p. 22.

> Commission order in this proceeding and the actual transfer of system reliability responsibility to the System Operator. The RFO will be sent to current gas suppliers to California, *including the SDG&E/SoCalGas Procurement Department*, pipelines serving California, and any other interested parties.[15]

Equal footing does not equal disadvantage. SoCalGas, SDG&E, SCE, and the Commission all understood that Gas Acquisition would be able to propose reliability services to the System Operator just like other market participants. The recent MILC is an example of the bundled core providing reliability services that are a win-win situation for core and noncore customers alike. The goal of the Commission should not be to try to have SoCalGas achieve Southern System deliveries without significant reliance on Gas Acquisition. Rather, SoCalGas' goal should be to provide Southern System reliability at a reasonable cost, and, if that goal can be best achieved using reliability services provided by bundled core customers, SoCalGas should continue to be able to propose such services for the Commission's consideration.

VI. STEPS TAKEN BY THE SYSTEM OPERATOR SINCE THE TRANSFER OF RESPONSIBILITY

Rule 41 states that the mission of the System Operator is to maintain system reliability and integrity while minimizing costs at all times.[16] The System Operator has used multiple tools to meet the Southern System minimum flow requirement in a reliable and cost-effective manner. Those steps include:

1. Spot purchases;
2. The MILC with Gas Acquisition;
3. Base load contracts over the winter period;
4. Discounts of Ehrenberg Interruptible BTS capacity;

[15] D.07-12-019, mimeo., at 60 (emphasis added).

5. The construction of Line 6916, providing up to 80 MMCFD of additional supplies to the Southern System; and

6. Obtaining authorization to move supplies from Blythe to Otay Mesa as required to maintain Southern System reliability.

Each of these particular steps taken by the System Operator is described in more detail below.[17]

A. Spot Purchases

Since the transfer of responsibility of Southern System minimum flow requirements, the System Operator has purchased nine Bcf of spot gas supplies as requested by Gas Control over the last three and a half years, and since March of 2010 has relied on spot gas supplies (from suppliers other than Gas Acquisition) to meet its Southern System responsibilities.[18] Except for one Bcf of spot gas purchased in the unusual first week of February 2011, the average net cost of these spot supplies, which are then resold at the citygate, has been 32 cents/dth.[19] In this sense, we believe that the transfer of responsibility has been successful because the System Operator has been able to provide reliable service to Southern System customers at a reasonable cost.

B. MILC with Gas Acquisition

As discussed above, the MILC is not a reversal of requests made by SoCalGas, SDG&E, and SCE in A.06-08-026, and it is not inconsistent with policies established by the Commission in D.07-12-019. Rather, it is simply an additional Commission-approved System Operator tool that will help us to provide reliable service at a reasonable price. The System Operator could

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[16] Rule 41(1).

[17] SoCalGas has also taken certain additional operational steps to support the Southern System, including maximizing the east-flow and south-flow capability of the system to support the Southern System, and managing system outages to support east-flow and south-flow capabilities.

[18] This excludes a 70 MMcf purchase from Gas Acquisition on February 3, 2011, as provider of last resort.

[19] The average net cost of that 1,044,667 dth of spot gas in February 2011 was $3.62/dth.

theoretically contract with other suppliers to meet the Southern System minimums associated with bundled core load on the Southern System (42% of minimums on average throughout the year) in addition to meeting system minimums associated with all other load on that system, but Gas Acquisition is uniquely qualified to meet that requirement with its interstate pipeline capacity and other assets. This particular arrangement allows the System Operator to focus on contracts and purchases for the remaining noncore and CAT customers on the Southern System. SoCalGas hopes that this type of arrangement will be extended for another year as requested in AL 4394.

C. Base Load Contracts

In Resolution G-3462, the Commission approved 120,000 dth/d of baseload exchange contracts with delivery at Ehrenberg and redelivery at the citygate with fixed reservation charges of 12 cents/dth for the December 2009-February 2010 period. Those contracts, and the Backbone Transportation Service (BTS) charges associated with them, accounted for most ($1.77 million, including BTS charges) of the SRMA costs in SoCalGas' initial filing for $2.17 million, and significantly reduced the amount of spot gas purchases that were required over that period. SoCalGas has filed for Commission approval of new base load contracts in AL 4399 for 280,000 dth/day of base load contracts with an expected net cost of 0.2 cents/dth (plus BTS charges) for the December 2012-March 2013 period. With approval of these contracts SoCalGas believes it will similarly reduce the need for significant spot gas purchases over the upcoming winter period.

D. Discounts of Interruptible BTS Capacity

In periods with high Southern System minimums and no Commission-approved base load contracts, SoCalGas has tried to reduce spot gas purchases by the System Operator through discounts of the interruptible Ehrenberg BTS rate. These discounts will eventually be recovered from other backbone transmission rights purchasers via the Backbone Transmission Balancing Account (BTBA) and higher BTS rates.

E. Line 6916

SoCalGas acquired the California portion of the Questar Southern Trails pipeline between Essex and Twenty-nine Palms. Together with a previously acquired section of that pipeline between Twenty-nine Palms and Cabazon, SoCalGas began conversion of this line into an interconnection linking SoCalGas' Northern Transmission Zone with the Southern Transmission Zone. This new transmission facility, called Line 6916, consists of 115 miles of 16-inch diameter pipeline capable of transporting up to 80 MMcfd between the two systems when needed operationally, reducing the flowing supply requirement at Blythe on a 1:1 basis. Final permits were received from the Federal Bureau of Land Management (BLM) in July 2010 to perform construction required to make Line 6916 operational. SoCalGas expects to have Line 6916 in service during the fourth quarter of 2012.

F. Movement of Supplies from Blythe to Otay Mesa

In Resolution G-3474, the Commission approved SoCalGas' request for approval of an additional tool allowing the System Operator to move supply from Blythe, California, to Otay Mesa, California, in order to maintain required minimum flows on its Southern System.[20] This request was triggered by instances in which supplies were needed at the South end of the Southern System in order to maintain minimum system pressures and supplies delivered at Blythe were not a reasonable substitute. This authority will reduce the costs paid by ratepayers to deliver supplies at Otay Mesa to preserve Southern System reliability.

VII. COST BEFORE AND AFTER THE TRANSFER OF RESPONSIBILITY

As discussed above, the transfer of Southern System minimum flow responsibilities from one SoCalGas department to another was driven by a desire to provide a more equitable allocation of costs and responsibilities between core and noncore customers. Southern System reliability needs and costs are independent of which SoCalGas department is providing the reliability services, and cost savings were not the intended outcome of the transfer. However, in response to the Commission's directive, this section will explain how the costs for Southern System reliability services prior to the transfer compare with costs after the transfer.

Prior to 2009, the average minimum flow at Blythe was approximately 355 MMcfd. Gas Acquisition was responsible for this level of base load at Blythe. The Blythe Operational Flow Requirement Memorandum Account (BOFRMA) reflected the incremental costs, relative to the SoCal bidweek border price, of Gas Acquisition purchases exceeding the 355 MMcfd base load commitment that were requested from time to time by Gas Control. That cost averaged $3.4 million/year over the 2006-2008 period, as shown in Table 1.

Table 1 - BOFRMA History[21]

		Requests (Mdth)	BOFRMA $MM
2006		803	$1.3
2007		4,089	$3.1
2008		3,424	$5.6
3-year average		2,772	$3.4

In comparison, the average yearly cost to support the Southern System since the transfer of responsibility in April 2009 has been $5 million per year. That cost is summarized in Table 2.

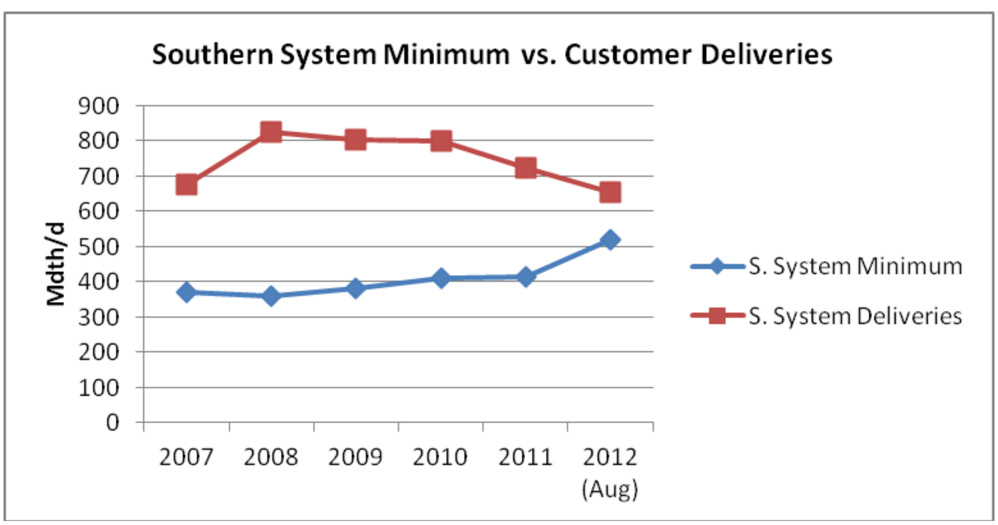
[20] SoCalGas Advice No. 4353-A.
[21] SoCalGas Advice No. 3976, Table 2, at p. 4. Assumes 1.01 dth/mcf.

Table 2 - Costs of Southern System Support Post Transfer to Operator ($MM)

	Requests Mdth	SRMA Costs	IT BTS Ehrenberg Discounts	Total Costs
Sept 2009-Aug 2010	1019	$2.2	0	$2.2
Sept 2010-Aug 2011	1045	$3.8	0	$3.8
Sept 2011-Aug 2012	6858	$2.2	$6.9	$9.1
3-year average	2969	$2.7	2.3	$5.0

Although the $5 million/year, 3-year average in Table 2 (System Operator costs) is higher than the $3.4 million/year, 3-year average in Table 1 (BOFRMA cost), the challenges associated with Southern System support have been increasing with increases in gas-fired electric generation,[22] and decreases in noncore deliveries to the Southern System. As Figure 1 below demonstrates, the Southern System minimum rose from an annual average level of 360 Mdth/d in 2008 to 520 Mdth/d in 2012 (YTD). At the same time, deliveries on the Southern System dropped from an annual average level exceeding 800 Mdth/d in 2008 to 655 Mdth/d in 2012 (YTD).

Figure 1 – Southern System Minimums and Deliveries



VIII. STEPS NECESSARY TO EFFECT THE FULL INTENT OF THE TRANSFER, AND THE SYSTEM OPERATOR'S CAPABILITY TO TAKE THOSE STEPS

As explained above, the purpose of the transfer of Southern System minimum flow responsibilities from Gas Acquisition to the System Operator was to put bundled core customers on a more equal footing with noncore customers. This intent has been fully satisfied. Bundled core customers are no longer required to provide Southern System support service, or to provide the first 355 MMcfd of minimum flows into the Southern System without receiving compensation. Instead, core and noncore customers are now on an equal footing with respect to Southern System support services. Bundled core customers may elect to offer to provide Southern System support services such as the MILC to the System Operator, but this is a voluntary choice and bundled core customers are compensated for providing such services. Moreover, any support services provided by the bundled core to the System Operator are subject to Commission review and authorization.

Accordingly, the intent of the transfer of Southern System support responsibility from Gas Acquisition to the System Operator has been fully realized, and is 100% successful. Nothing more needs to be done by the System Operator, SoCalGas, or the Commission in order to effectuate the intent of the transfer.

That said, SoCalGas is not satisfied with the current situation in which Southern System needs cannot be physically served by flows from other parts of SoCalGas' system, and SoCalGas is concerned that the current situation in which customers have no responsibility for bringing flowing supplies into the Southern System (other than bundled core customers pursuant to the Revised MILC), may not be the optimal situation for system reliability and cost control. SoCalGas is currently considering whether changes need to be made to the status quo with respect

[22] The San Onofre outage has been a major contributor to this increase.

to the Southern System, and two of the potential changes currently under consideration are briefly discussed in the following section.

IX. POTENTIAL STEPS TO CHANGE THE SOUTHERN SYSTEM STATUS QUO

A. Southern System Minimum Flow Requirement

SoCalGas is currently considering the merits of supplementing or replacing the tools described above with a minimum flowing supply requirement for all end-use customers. A proposal along these lines was made in December 2008 by SoCalGas and SDG&E as part of the last BCAP proceeding.[23] Under this prior proposal:

> The Utilities' Gas Control Department would be able to call a Southern System Flow Order (SSFO) on end-use customers to flow supply through Blythe or Otay Mesa equal to up to 20 percent of their gas usage that day. The daily percentage may vary between days and is based on the actual need after the Utilities have exercised their other approved tools. The applicable percentage would be posted on SoCalGas' Electronic Bulletin Board (EBB) when the SSFO is called.[24]

A number of intervenors in our previous BCAP proceeding opposed this particular proposal, and SoCalGas ultimately decided to drop it as part of an overall settlement of issues in Phase 2 of the 2009 BCAP proceeding.[25] However, SoCalGas still believes that there may be merit to requiring all end use customers to bring some portion of their gas usage into the Southern System. SoCalGas is not making such a proposal at the present time, but is considering possibly doing so in the future.

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[23] A.08-02-001, Prepared Direct Testimony of Rodger Schwecke on behalf of SDG&E and SoCalGas, December 5, 2008, pp.17-20.
[24] Under this proposal, the System Operator would still remain responsible for meeting any Southern System minimum flow requirements that are not met by customer flows into the Southern System. *See A.08*-02-001, Prepared Direct Testimony of Rodger Schwecke on behalf of SDG&E and SoCalGas, December 5, 2008, p.18.
[25] D.09-11-006, Appendix A, Section II.K.

B. Physical Enhancements to the SoCalGas System

In order to more fully integrate the SoCalGas Northern and Southern Transmission Zones and mitigate the need for flowing gas supply requirements on the Southern System, SoCalGas could construct a pipeline between its two systems. SoCalGas would then be able to operate without any supply delivered at Ehrenberg or Otay Mesa. The fully-loaded cost of a north-south system interconnect is significant, however, and is currently estimated to take approximately five years to complete.[26] Again, SoCalGas is not making such a proposal at the present time, but is considering possibly doing so in the future.

This concludes my supplemental direct testimony.

[26] Information about this potential north-south system interconnect has already been provided to our customers, most recently in our "Third Annual Report of System Reliability Issues" dated April 24, 2012, at p.5, presented at our customer forum held on May 8, 2012. This report was also provided to the Commission and interested parties via Advice No. 4386.