

Application No: A.13-12-013
Exhibit No.: _____
Witness: Gwen R. Marelli

_____))
Application of Southern California Gas Company)
(U 904 G) and San Diego Gas & Electric Company)
(U 902 G) For Authority To Recover North-South)
Project Revenue Requirement In Customer Rates)
And For Approval Of Related Cost Allocation And)
Rate Design Proposals)
_____))

A.13-12-013
(Filed December 20, 2013)

PREPARED REBUTTAL TESTIMONY ON RATESETTING AND SAFETY OF
GWEN R. MARELLI
SAN DIEGO GAS & ELECTRIC COMPANY
AND
SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

June 12, 2015

1 and industrial processes are being converted over to operate on natural gas.² One of the major
2 advantages of the North-South Project for Southern System reliability is that it will provide
3 access to multiple receipt points for the Southern System, thereby eliminating sole reliance on
4 gas supplies and pipeline capacity from the El Paso System. This physical solution to the
5 Southern System reliability problem, a reliability problem which intervenors acknowledge as an
6 issue,³ may also be used by SoCalGas and SDG&E to accommodate pipeline work that is being
7 done for the Pipeline Safety Enhancement Program (PSEP) and the Pipeline Integrity Program,
8 providing more flexibility to mitigate natural gas service interruptions during these pipeline
9 maintenance outages.

10 **III. INTERIM NON-PHYSICAL TOOLS DO NOT SOLVE THE SOUTHERN** 11 **SYSTEM RELIABILITY PROBLEM**

12 As discussed in my prior testimony,⁴ the tools for support of Southern System reliability
13 – the ability to buy and sell gas on a spot basis, December through March baseload contracts, the
14 movement of supplies from Blythe to Otay Mesa, Memorandums in Lieu of Contract (MILCs)
15 with SoCalGas’ Gas Acquisition Department (Gas Acquisition) and discounted firm and
16 interruptible Backbone Transportation Service (BTS) capacity – are only short-term fixes to a
17 long-term problem. SCGC,⁵ TURN,⁶ ORA,⁷ and Long Beach⁸ all suggest the continued,

² <http://www.theguardian.com/environment/2014/jun/03/obama-epa-carbon-pollution-rules-varies-states>

³ Direct Testimony on Ratesetting Issues of Steve Hearn on Behalf of Transwestern Pipeline Company LLC, dated May 8, 2015, page 2. Prepared Testimony of Office of Ratepayer Advocates, Chapter 1, Executive Summary and Safety, page 2. Direct Testimony of John Dushinske on behalf of Kern River gas Transmission Company, dated May 8, 2015, page 1. Testimony of Mark Fulmer on behalf of City of Long Beach Gas and Oil Department, dated May 8, 2015, page 3. Prepared Direct Testimony of Herbert Emmrich on Cost Allocation and Rates on behalf of The Utility Reform Network, dated May 8, 2015, page 3.

⁴ Updated Direct Testimony of Gwen Marelli, dated November 12, 2014. Prepared Rebuttal Testimony on Project Alternatives of Gwen Marelli, dated May 8, 2015.

⁵ Direct Testimony of Catherine E. Yap on behalf of Southern California Generation Coalition, dated May 8, 2015, page 7.

⁶ Testimony of Mark Fulmer on behalf of City of Long Beach Gas and Oil Department, dated May 8, 2015, page 1,

1 increased and/or expanded use of these support tools rather than the physical solution of the
2 North-South Project. While increased and/or expanded use of these tools may continue to
3 address the Southern System reliability problem in the near-term, it does not fix it. Reassigning
4 Southern System responsibilities from Gas Acquisition to others such as the System Operator or
5 to individual noncore customers served from the Southern System do not solve the problem
6 either. All of these suggestions to shift responsibility to ensure Southern System minimum flows
7 are saddled with the same single pipeline source constraint that exists today, which is the crux of
8 the problem. Non-physical tools will not solve this physical pipeline problem. The contractual
9 tools being used today are only temporary in their effectiveness and do not address the long term
10 problem of Southern System reliability.

11 **IV. OTHER PHYSICAL ALTERNATIVES DO NOT PROVIDE COMPARABLE**
12 **OPERATIONAL FLEXIBILITY AND DO NOT SATISFY THE NORTH-SOUTH**
13 **PROJECT OBJECTIVES**

14 In addition to the North-South Project advocated by SoCalGas and SDG&E to solve the
15 Southern System reliability problem, there are three potential pipeline solutions offered by
16 Transwestern, El Paso and TransCanada. While SoCalGas and SDG&E concur that a physical
17 pipeline solution is the best long term approach to Southern System reliability, SoCalGas and
18 SDG&E's North-South Project is the only physical alternative that provides utility owned assets
19 which will benefit customers well into the future by providing the operational flexibility required
20 by the System Operator to give Southern System customers reliable service during times of

⁷ Prepared Testimony of Office of Ratepayer Advocates, dated May 8, 2015, page 61.

⁸ Testimony of Mark Fulmer on behalf of City of Long Beach Gas and Oil Department, dated May 8, 2015, page 1 & 13.

1 system stress and ongoing operational maintenance. Nor do the other pipeline alternatives meet
2 all the project objectives as defined in our Proponents Environmental Assessment (PEA).⁹

3 **a. There is no guarantee that pipeline solutions offered by interstate pipeline**
4 **companies will be constructed**

5 Interstate pipelines reserve the right to take their facilities away, both to sell capacity to
6 another customer willing to pay for it at the end of one customer's term, and to abandon facilities
7 from natural gas service if another use of the facilities would offer greater revenues to the
8 pipeline. In 2003 FERC established that El Paso's service obligation to California changes as its
9 contracts are amended or expire.¹⁰ In 2012, El Paso's corporate parent Kinder Morgan proposed
10 the "Freedom Pipeline" project to convert El Paso's Line 1903 facilities in California from
11 natural gas service to carry crude oil from West Texas to refineries in Bakersfield. As recently
12 as January 2015, Kinder Morgan indicated the Freedom Pipeline is "getting more interest" from
13 U.S West Coast refiners, and that Kinder Morgan may "have a shot" if we can get the refiners on
14 board."¹¹ Under El Paso's alternative proposal, Kinder Morgan is reserving the right to build the
15 least amount of facilities necessary to cover only the term California customers are willing to pay
16 for a defined amount of capacity, and they make no promise to keep existing facilities in service.
17 The risk associated with reduced pipeline capacity, reduced paths, and the threat of the interstate
18 pipeline company to remove facilities from natural gas operation is real.

⁹ SoCalGas and SDG&E Proponents' Environmental Assessment North-South Project, dated June 6, 2014.

¹⁰ Public Utilities Commission of the State of California v. El Paso Natural Gas Co., 105 FERC 61,201, at P 147 (2003).

¹¹ Hays, Kristen. Reuters. "Kinder Morgan say Freedom Pipeline project is gaining refiner interest."
<http://www.reuters.com/article/2015/01/28/us-kinder-morgan-de-freedompipeline-idUSKBN0L122G20150128>

1 **b. Interstate pipeline alternatives can only provide benefits for the term of a**
2 **contract**

3 As noted above, at the end of the contract term under a capacity contract with an interstate
4 pipeline, SoCalGas and SDG&E customers do not own anything, and we still would have to
5 continue to contract with the interstate pipelines to maintain the capacity under their contracts.
6 Given this risk of contracting for service with interstate pipelines, the North-South Project
7 remains to be the only reasonable solution that will provide long-term service and reliability for
8 Southern System customers.

9 **c. Shipper-must-have-title (SHMT)¹² rules would impact and potentially increase**
10 **the costs of the alternative proposals**

11 El Paso’s alternative proposal relies upon the delivery of gas from the SoCalGas and
12 SDG&E’s Northern System to El Paso’s system at Topock for receipt back into the SoCalGas
13 and SDG&E Southern System at Ehrenberg.¹³ Since the System Operator generally does not
14 hold title to either flowing gas supply or stored gas on the SDG&E and SoCalGas systems, a
15 waiver of FERC’s SMHT rules would be required for this alternative proposal. El Paso’s
16 testimony appears to recognize this requirement in qualifying its proposal as being “subject to
17 the requisite regulatory approvals.” However, the risk and cost of obtaining such approvals is
18 not discussed in El Paso’s testimony.

¹² A central requirement of the Commission’s (FERC’s) capacity release program is that all shippers must have title to the gas at the time the gas is tendered to the pipeline or storage transporter and while it is being transported or held in storage by the transporter. Interstate pipeline tariffs include provisions requiring shippers to warrant good title to the gas tendered for transportation on the pipeline. Although the specific language of each interstate pipeline’s tariff varies, the FERC has made clear that the shipper of record and the owner of the gas must be one and the same throughout the course of the transportation or the duration of storage on any pipeline. See Enron Energy Services, Inc., 85 FERC 61,221, at 61,906 (1998).

¹³ Direct Testimony of Anthony M. Sanabria on behalf of El Paso, dated August 15, 2014, pages 5-6.

1 **V. THE EFFECTIVENESS OF CURRENT SYSTEM OPERATOR TOOLS AT**
2 **BLYTHE IS NOT SUSTAINABLE IN THE LONG TERM**

3 SoCalGas and SDG&E are responsible for planning for and providing reliable service for
4 all of our customers, including those located on the Southern System. As explained in my
5 Updated Direct Testimony, SoCalGas and SDG&E currently use several short-term interim tools
6 to provide Southern System reliability.¹⁴ SCGC notes in its testimony that in 2014 – 2015 flows
7 have actually increased into the Blythe receipt point.¹⁵ SoCalGas and SDG&E believe this is a
8 short-term result of increased flows at all system receipt points and that it will not continue into
9 the future. As noted in my Rebuttal Testimony,¹⁶ the calendar year 2014 was a record-breaking
10 high year for temperatures across California. Natural gas supplies were plentiful and relatively
11 low-priced. SCGC, Long Beach, TURN and ORA have suggested that these tools simply be
12 expanded and continue to be utilized rather than SoCalGas and SDG&E developing the North-
13 South Project. These intervenors are not taking into consideration any of the longer-term issues
14 such as the variability of the weather or projected outlook of pipeline capacity demands on the El
15 Paso pipeline system due to increased demand in Mexico. Relying on more minimum flow
16 orders for Southern System customers, whether those orders are expanded in contract term or
17 reassigned to the System Operator or the Southern System customers, does not address the real
18 concern here, which is reliance on one single interstate gas pipeline and receipt point into the
19 system. Relying on a single pipeline source into the system is not a prudent long-term reliability
20 solution. The intervenors suggestion that the physical solution proposed by SoCalGas and
21 SDG&E is not necessary, implies that they believe that reliability is not as important to the
22 Southern System customers as it is to other customers and that more frequent curtailment of

¹⁴ Updated Direct Testimony of Gwen Marelli, dated November 12, 2014, pages 12-17.

¹⁵ Direct Testimony of Catherine E. Yap on behalf of Southern California Generation Coalition, dated May 8, 2015, page 8.

¹⁶ Prepared Rebuttal Testimony on Project Alternatives of Gwen Marelli, dated May 8, 2015.

1 natural gas service is an acceptable situation. SoCalGas and SDG&E believe this intervenor
2 view is short-sighted. All of our customers deserve reliable service.

3 **VI. INTERVENORS FAIL TO CONSIDER THE LONG-TERM BENEFITS OF**
4 **NORTH-SOUTH PROJECT**

5 ORA acknowledges that the North-South Project would enhance reliability of the
6 Southern System.¹⁷ However, ORA goes on to question whether the North-South Project is a
7 reasonable solution to the Southern System reliability problem. In its testimony, ORA estimates
8 that the long-term (over 20 years) cost of maintaining Southern System reliability using existing
9 tools will be approximately \$39 M/year.¹⁸ But this cost will undoubtedly increase as Mexico
10 demand for El Paso southern supplies increases.¹⁹ The only question is how much and how fast.
11 The 20-year average cost of permanently fixing this problem through the North-South Project is
12 \$92 million/year.²⁰ Unfortunately, SoCalGas and SDG&E do not believe we can wait for the
13 cost of status quo tools to exceed \$100 million/year and then build because it will take over five
14 years to construct that pipeline, not to mention the time it will take to go through the
15 environmental permitting and application process again. ORA goes onto opine that the North-
16 South Project average annual revenue requirement over a 20-year period is more than double
17 those of their recommended non-physical alternatives. What ORA fails to account for is that the
18 North-South Project's benefit goes *well beyond that 20-year period*. Not moving forward with
19 the North-South Project now, in lieu of continued use of the short term tools, will only delay a
20 permanent solution to Southern System reliability.

¹⁷ Prepared Testimony of Office of Ratepayer Advocates, dated May 8, 2015, page 50.

¹⁸ Prepared Testimony of Office of Ratepayer Advocates, dated May 8, 2015, Table 2-1.

¹⁹ Id.

²⁰ Ibid.

1 **VII. THE NORTH-SOUTH PROJECT IS THE OPTIMAL SOLUTION FOR**
2 **SOUTHERN SYSTEM RELIABILITY**

3 SoCalGas and SDG&E believe that the only long-term solution to Southern System
4 reliability is a *physical* solution, and the best physical solution is the North-South Project. It will
5 provide 800 MMcfd of North-to-South flow capacity on the SoCalGas and SDG&E system,
6 which in turn will effectively eliminate the Southern System minimum flow requirement. In
7 addition, the North-South Project will provide access to multiple receipt points in the Northern
8 System rather than the current limitation of just one receipt point at Blythe from the El Paso
9 system, thereby providing interstate pipeline and supply source diversity. Most unique to the
10 North-South Project proposal is the ability to access storage supplies for Southern System
11 reliability. The Commission should approve this application to help SoCalGas and SDG&E
12 reliably provide service to all of their customers, including those on the Southern System, on a
13 long-term basis, without the continued reliance on flowing supplies delivered through one single
14 interstate pipeline system.

15 This concludes my prepared rebuttal testimony on ratesetting and safety issues.
16