

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

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Order Instituting Investigation on the Commission’s Own	)
Motion into the Rates, Operations, Practices, Services	)
and Facilities of Southern California Edison Company	)
and San Diego Gas and Electric Company Associated	)
with the San Onofre Nuclear Generating Station Units 2	)
and 3.	)
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I.12-10-013

**RESPONSE OF SOUTHERN CALIFORNIA GAS COMPANY (U904G) TO  
ORDER INSTITUTING INVESTIGATION REGARDING SAN ONOFRE NUCLEAR  
GENERATING STATION UNITS 2 AND 3**

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On November 1, 2012, the Commission opened the above-referenced investigation to consolidate and consider issues raised by the extended outages of Units 2 and 3 at the San Onofre Nuclear Generating Station (SONGS).<sup>1</sup> Pursuant to Rule 5.2 of the Commission’s Rules of Practice and Procedure, Southern California Gas Company (SoCalGas) hereby responds to the Order Instituting Investigation (OII) establishing this proceeding.

**I. INTEREST OF SOCALGAS IN THIS INVESTIGATION**

Section 5.1 of the OII (“Issues”) sets forth the primary issues that the Commission will be focusing on in this investigation:

1. Whether or not rate adjustments should be made; if so, when they should start, the correct amount, and the correct accounting of these adjustments.
2. The reasonableness and prudence of each utility action and expenditure with respect to the steam generator replacement program and subsequent activities related thereto.
3. The reasonableness and prudence of each utility action and expenditures in securing energy, capacity and other related services to replace the output of SONGS during the outage.

<sup>1</sup> I.12-10-013, mimeo., at 1.

4. The cost-effectiveness of various options for repairing or replacing one or both units of SONGS.
5. Any additional ratemaking issues associated with the above, including the availability of warranty coverage or insurance for any costs related to the SONGS outage.
6. The reasonableness and necessity of each SONGS-related operation and maintenance expense, and capital expenditure made, on and after January 1, 2012 reviewed within the context of the facts and circumstances of the extended outages of Units 2 and 3.<sup>2</sup>

SoCalGas is not a respondent to this investigation, and none of the issues specified in Section 5.1 directly relate to natural gas, or the effect of the SONGS outages on the SoCalGas (and San Diego Gas & Electric Company (SDG&E)) natural gas systems. Accordingly, our interest in these specified issues is limited, and likely to be focused on ratemaking issues that could potentially be precedential to utilities other than Southern California Edison Company (SCE) and SDG&E.

Immediately prior to Section 5.1, however, the Commission states that it will be considering short and medium-term service and reliability issues created by the outages of SONGS Units 2 and 3 as part of this investigation:

The Commission recognizes that SONGS Units 2 and 3 may be out of service for some time, and may or may not return to full service. This situation requires that the Commission consider long term options regarding each utility's provision of safe and reliable electric service without SONGS. These long term resource issues are most appropriately considered in the Commission's Long Term Procurement Planning (LTPP) proceeding (Rulemaking (R.) 12-03-014). While issues regarding long term planning without SONGS will be addressed in the LTPP, issues regarding short and medium term service and reliability should be part of this proceeding.<sup>3</sup>

If the italicized reference above refers to just electric service and reliability issues, our interest in this investigation is still likely to be limited; SoCalGas has no special knowledge or experience regarding electric service and reliability issues. If, however, the Commission intends to

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<sup>2</sup> I.12-10-013, mimeo., at 14-15.

consider the effect of the SONGS outages on natural gas service and reliability, SoCalGas will have a strong interest in that particular aspect of this investigation.

**II. THE COMMISSION SHOULD CLARIFY WHETHER IT WILL BE CONSIDERING THE EFFECT OF THE SONGS OUTAGES ON NATURAL GAS SERVICE AND RELIABILITY IN THIS PROCEEDING**

SoCalGas respectfully requests that the Commission clarify whether it intends to consider the effect of the SONGS outages on natural gas service and reliability in this proceeding. The referenced language from page 14 of the OII can be read either way, and SoCalGas would like to know whether it needs to become an active participant in a proceeding that it would otherwise have only a limited interest in.

**III. THE SONGS OUTAGES HAVE CREATED POTENTIAL NATURAL GAS SERVICE AND RELIABILITY ISSUES ON SOCALGAS' SOUTHERN SYSTEM**

The SONGS outages have created potential natural gas service and reliability issues on SoCalGas' Southern Transmission System (Southern System).

**A. SOUTHERN SYSTEM**

SoCalGas' Southern System consists primarily of three high-pressure pipelines extending westward from the Colorado River near Blythe to Moreno Station in the City of Moreno Valley and two high-pressure pipelines extending westward from Moreno Station to the Los Angeles Basin. Three high-pressure pipelines also extend southward from Moreno Station to the SDG&E gas transmission system.<sup>4</sup> Compressor stations are located near Blythe, Desert Center, and Cactus City to boost pressures westward along the system and near Moreno Valley and Temecula to boost pressures south into San Diego County.

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<sup>3</sup> I.12-10-013, mimeo., at 14.

<sup>4</sup> SoCalGas' Gas Control Department operates the San Diego Gas & Electric Company (SDG&E) natural gas transmission system on behalf of SDG&E, and the SDG&E natural gas transmission system has been essentially part of the SoCalGas Southern System for operating purposes since the Pacific Enterprises/Enova Corporation merger.

The Southern System was primarily designed to receive gas from El Paso Natural Gas Company (El Paso) at the Colorado River near Blythe and redeliver it to load centers in the Imperial Valley, San Diego, and the Los Angeles Basin. The Southern System can receive additional supplies from other pipelines within the SoCalGas transmission system by the use of two valve stations located along each of the two high-pressure pipelines extending westward from Moreno Station. Supplies from these stations can flow both westward to the Los Angeles Basin and eastward to Moreno Station. Supplies can also be delivered to the Southern System through the Otay Mesa receipt point, located at the Mexico border in San Diego County.

### **B. SOUTHERN SYSTEM MINIMUM FLOW REQUIREMENT**

Unlike other portions of the combined SoCalGas/SDG&E transmission system,<sup>5</sup> the Southern System requires minimum flows at the Blythe or Otay Mesa receipt points to maintain service to customers in the Imperial Valley and San Diego load centers, and to customers and communities in San Bernardino and Riverside Counties. While supplies from the Chino and Prado Stations can flow eastward, these stations cannot entirely meet the demand of the Southern System during peak periods.<sup>6</sup> As a result, the remainder of supplies not met by the Chino and Prado Station volumes establishes the level of minimum flowing supplies that must be delivered at the Blythe or Otay Mesa receipt points to maintain service to customers on the Southern System.

The minimum flow requirements on the Southern System vary with the demand on the system. As demand increases, the minimum flow requirements increase and vice versa. Supplies

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<sup>5</sup> Other portions of the SoCalGas/SDG&E transmission system are generally highly interconnected with a large degree of redundancy and allow flow in multiple directions. Currently, there are no ongoing minimum flow requirements for any portion of the system other than the Southern System. However, as new receipt points are created, SoCalGas may need to establish additional minimum flowing supply requirements in order to maintain system integrity and reliability.

<sup>6</sup> Due to the telescoping operating pressures of the pipelines, higher operating pressures of the pipelines east of Moreno Station restrict further eastward flow. In other words, supplies delivered from Chino and Prado Stations generally arrive at Moreno Station at pressures lower than the operating pressures east of Moreno Station.

delivered at Blythe and Otay Mesa are needed to support any Southern System customer demand not met by Chino and Prado Stations during peak periods.

### **C. RESPONSIBILITY FOR MAINTAINING SOUTHERN SYSTEM MINIMUM FLOW REQUIREMENTS**

Until the Commission issued D.07-12-019, minimum flow requirements on the Southern System were the sole responsibility of SoCalGas' Utility Gas Procurement Department.<sup>7</sup> Core procurement customers were responsible for delivering 355 MMcf/d to the Southern System, and SoCalGas' Gas Control Department could call on the Utility Gas Procurement Department to deliver additional supplies to the Southern System when needed.<sup>8</sup>

In Application (A.) 06-08-026, SoCalGas, SDG&E, and SCE presented a number of proposed provisions pertaining to the natural gas operations and service offerings of SoCalGas and SDG&E. Two related proposals presented by SoCalGas, SDG&E, and SCE in A.06-08-026 concerned core balancing and responsibility for minimum flows – (1) core customers would become subject to the same imbalance requirements and operating flow orders as noncore customers, and (2) the responsibility for managing any minimum flow requirements for system reliability would be transferred from the Utility Gas Procurement Department to the SoCalGas System Operator,<sup>9</sup> and paid for by all customers. In D.07-12-019, the Commission approved many of the proposals in A.06-08-026, including core balancing and the transfer of minimum flow responsibilities from the Utility Gas Procurement Department to the System Operator. The System Operator took over the

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<sup>7</sup> D.07-12-019, mimeo., at 112 (Ordering Paragraph No. 15). Although D.07-12-019 refers to the “Gas Acquisition Department” at SoCalGas, the tariffs that were filed in response to D.07-12-019 and later proceedings use the updated moniker “Utility Gas Procurement Department.” Both terms refer to the same group.

<sup>8</sup> See D.07-12-019, mimeo., at 57-58. Costs incurred by the Utility Gas Procurement Department to deliver supplies in excess of 355 MMcf/d to the Southern System when called upon by Gas Control were accounted for in the Blythe Operations Flow Requirement Memorandum Account, for later distribution to all customers. *Id.*

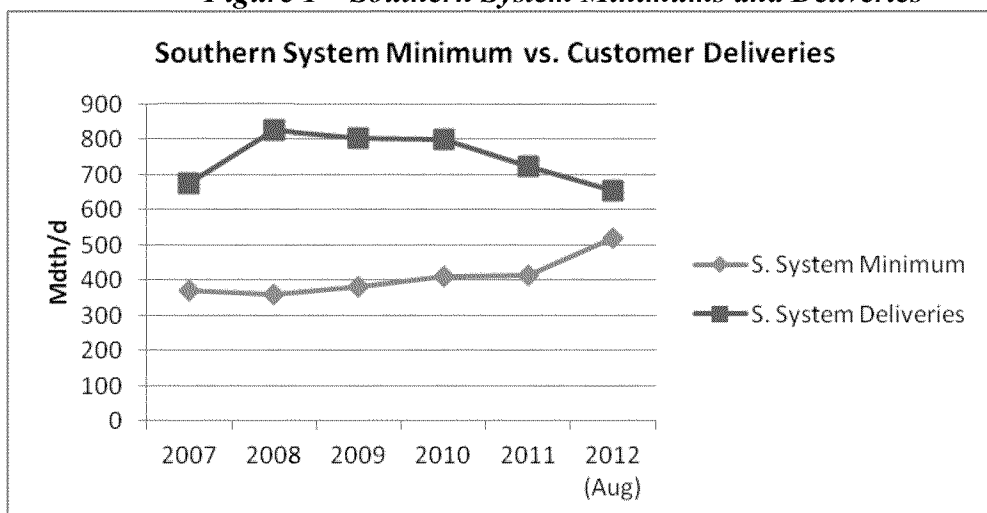
<sup>9</sup> The “System Operator” is defined as the applicable departments within SoCalGas and SDG&E that are responsible for the physical and commercial operation of the pipeline and storage systems, specifically excluding the Utility Gas Procurement Department. See SoCalGas Rule 1 (definitions) and SoCalGas Rule 41(2).

responsibility of managing minimum flows from the Utility Gas Procurement Department on April 1, 2009.

**D. SOUTHERN SYSTEM SUPPORT REQUIREMENTS HAVE BEEN INCREASING**

Recently, the challenges associated with Southern System support have been increasing with increases in gas-fired electric generation, and decreases in noncore deliveries to the Southern System. SoCalGas believes that the SONGS outages have been a major contributor to this increase in gas-fired electric generation on the Southern System. As Figure 1 below demonstrates, the Southern System minimum rose from an annual average level of 360 Mdt/d in 2008 to 520 Mdt/d in 2012 (YTD). At the same time, deliveries on the Southern System dropped from an annual average level exceeding 800 Mdt/d in 2008 to 655 Mdt/d in 2012 (YTD).

*Figure 1 – Southern System Minimums and Deliveries*



**E. SOUTHERN SYSTEM SUPPORT REQUIREMENTS ARE LIKELY TO STAY HIGH WITH THE SONGS UNITS OUT OF SERVICE**

The need for additional Southern System supplies derives from the fact that it is frequently not in the economic interest of any shipper, including the bundled core, to deliver supplies into the Southern System, even when a shipper has the pipeline capacity to do so. SoCalGas anticipates that it will frequently continue to be uneconomic to deliver supplies into the Southern System, and that



purchases by the System Operator will increase in response to additional SONGS-related electric generation demand on the Southern System. Based on preliminary information from California Independent System Operator (CAISO) and SoCalGas' own analysis, it appears to SoCalGas that the loss of SONGS Units No. 2 and No. 3 could translate into an additional 100-200 MMcf/d of gas-fired generation in the San Diego area.

**F. HIGHER SOUTHERN SYSTEM SUPPORT REQUIREMENTS WILL RESULT IN HIGHER COSTS FOR OUR CUSTOMERS**

Recent events have illustrated that the SoCalGas System Operator may be forced to buy supplies for Southern System reliability when very few supplies are available. In particular, as a result of these force majeure events east of California, deliveries of flowing supplies to the SoCalGas system were extremely low during the week of January 31, 2011. For most of its system, SoCalGas was able to respond to these low deliveries by maximizing withdrawals from storage. But SoCalGas needs minimum flows for its Southern System because the Southern System generally cannot be served by gas withdrawn from storage. SoCalGas was able to arrange for sufficient flowing supplies to avoid curtailment of the Southern System for most of that week. But, as a result of the upstream gas supply constraints that limited actual deliveries to less than half of contracted quantities in many instances, SoCalGas was forced to call a localized curtailment on the Southern System of approximately 200 MMcf/d of noncore demand. Moreover, the prices that the System Operator was forced to pay for reliability supplies that week – up to \$15/MMbtu in some instances – were extremely high.<sup>10</sup>

The continued unavailability of the SONGS units points to additional high-stress days on the Southern System. High stress on the system creates the potential for higher gas prices, as we saw the week of January 31, 2011. Combined with less deliveries from bundled core customers, and

continued low Southern System deliveries by noncore and core aggregation customers, SoCalGas believes that we are facing a strong likelihood of substantially higher Southern System reliability costs in the future.

**G. STRESSES ON THE SOCALGAS SOUTHERN SYSTEM THREATEN NATURAL GAS AND ELECTRIC SYSTEM RELIABILITY**

These stresses on the Southern System do not just create the possibility of higher system reliability costs, they also threaten reliability. As noted above, force majeure conditions east of California the week of January 31-February 4, 2011, not only forced the System Operator to purchase a large volume of reliability-related supplies at relatively high prices, they also forced SoCalGas to call a localized curtailment on the Southern System of approximately 200 MMcf/d of noncore demand. Future Southern System supply shortfalls could produce the same result, despite the best efforts of SoCalGas' System Operator to obtain the needed supplies. Moreover, any threat to Southern System reliability is also a potential threat to electric system reliability if CAISO is relying upon output from the electric generators we serve. Pursuant to our Commission-authorized curtailment rules, firm electric generation customers on the SoCalGas system are curtailed in "rotating blocks" along with other noncore customers, and, on the SDG&E system, electric generation customers are curtailed prior to other noncore customers.<sup>11</sup>

**IV. SOUTHERN SYSTEM RELIABILITY ISSUES CAN BE DEALT WITH OUTSIDE OF THIS PROCEEDING**

At least in part because of the additional electric generation demand on the Southern System due to the SONGS outages, SoCalGas believes that the time has come for new approaches to Southern System reliability.

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<sup>10</sup> These purchases are discussed in more detail in SoCalGas AL No. 4282 (SoCalGas' annual compliance report on System Operator Southern System reliability purchases and sales), and in Resolution G-3467 (issued on April 19, 2012) approving the purchases.

<sup>11</sup> See SoCalGas Rule 23(C); SDG&E Rule 14(M).

## **A. ADVICE FILINGS FOR NEW SYSTEM OPERATOR TOOLS**

In D.07-12-019, the Commission 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.<sup>12</sup> In response to increased Southern System support requirements, SoCalGas proposed and received authorization for: (1) 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;<sup>13</sup> and (2) a Memorandum in Lieu of Contract (MILC) between the System Operator and the Utility Gas Procurement Department for services to maintain Southern System reliability.<sup>14</sup>

SoCalGas has also submitted advice filings requesting approval of a second MILC with the Utility Gas Procurement Department,<sup>15</sup> and four baseload supply contracts with different suppliers for the delivery of 280,000 dth/day over the December 2012-March 2013 period at Ehrenberg.<sup>16</sup> Both of these latter requests are still pending Commission approval.

## **B. CURRENT SOCALGAS/SDG&E TCAP**

In Phase 2 of the current SoCalGas/SDG&E Triennial Cost Allocation Proceeding (TCAP), A.11-11-002, SoCalGas has submitted testimony on Southern System issues. In this testimony, SoCalGas explains that, as a result of increased demands on the Southern System, we are currently considering the merits of: (1) supplementing or replacing the tools described above with a minimum flowing supply requirement for all end-use customers; and (2) a pipeline between SoCalGas' Northern and Southern Transmission Zones that would enable SoCalGas to operate without any

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<sup>12</sup> D.07-12-019, mimeo., at 116 (Ordering Paragraph Nos. 16 and 17).

<sup>13</sup> See Resolution G-3474, dated July 12, 2012.

<sup>14</sup> See Resolution G-3468, dated July 17, 2012. Note that this initial MILC expired on October 31, 2012.

<sup>15</sup> Advice No. 4394, dated August 17, 2012. The proposed term of this second MILC was to be November 1, 2012, through October 31, 2012. But, even if approved, the actual term will now be shorter since the MILC was not approved by its proposed start date.

<sup>16</sup> Advice No. 4399, dated August 31, 2012.

supply delivered at Ehrenberg or Otay Mesa.<sup>17</sup> In response, certain intervenors have recently submitted testimony of their own regarding Southern System issues, and SoCalGas will be responding via rebuttal testimony on December 14, 2012.

**C. OTHER SOCALGAS ACTIONS TO ENHANCE SOUTHERN SYSTEM RELIABILITY**

In addition to the actions described above, SoCalGas has reduced system reliability spot gas purchases by the System Operator through discounts of the interruptible Ehrenberg Backbone Transportation Service rate, and SoCalGas will soon be bringing a new transmission facility, Line 6916, into service. This transmission facility is a conversion of a pipeline SoCalGas acquired from Questar Southern Trails that will link SoCalGas' Northern Transmission Zone with the Southern System. The line 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.

SoCalGas will continue to take steps such as these to preserve system reliability as the need arises.

**D. SOUTHERN SYSTEM RELIABILITY ISSUES CAN BE DEALT WITH OUTSIDE OF THIS PROCEEDING**

In the OII, the Commission has indicated its desire to consider issues relating to the SONGS outages "in a consolidated manner that is efficient for the utilities, parties and the Commission."<sup>18</sup> This might mean that the Commission would like to deal with SONGS-related natural gas issues in this proceeding as well. However, natural gas issues can be complex -- it has taken SoCalGas several pages just to describe the basics of the Southern System reliability issues we are facing -- and these issues are currently being dealt with in pending advice filings and the current

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<sup>17</sup> See A.11-11-002, Supplemental Direct Testimony of Beth Musich Regarding the Transfer of Southern System Minimum Flow Responsibility dated September 10, 2012, at 15-16.

<sup>18</sup> I.12-10-013, mimeo., at 2.

SoCalGas/SDG&E TCAP. Moreover, if it appears to SoCalGas that there is a need for a minimum flowing supply requirement for all end-use customers, or a new pipeline between SoCalGas' Northern and Southern Transmission Zones that would enable SoCalGas to operate without any supply delivered at Ehrenberg or Otay Mesa, SoCalGas intends to request Commission authorization for one or both proposals.

Under these circumstances, SoCalGas believes that our SONGS-related Southern System reliability issues can effectively be dealt with outside of this proceeding, and that there is no reason to interject our discreet natural gas issues in a proceeding that is already complex, and heavily focused on nuclear power and ratemaking issues.

## V. CONCLUSION

For the reasons described above, SoCalGas respectfully requests that the Commission clarify whether it intends to consider the effect of the SONGS outages on natural gas service and reliability in this proceeding. As just mentioned, SoCalGas believes that our SONGS-related Southern System reliability issues can effectively be dealt with outside of this proceeding, and our preference would be to continue to deal with such issues outside this SONGS-related investigation.

Respectfully submitted,

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