Rulemaking 13-02-019

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California Department of Water Resources 2013 Revenue Requirement Determination

Workshop Regarding Transportation Services Agreement

April 29, 2013

Agenda

- Introductions and Overview
- Solutions for Eliminating or Reducing Costs Associated with the Kern River Transportation Services Agreement (TSA)
- Allocation of TSA Costs

Parties Involved

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- Kern River Gas Transmission Company: FERC-jurisdictional pipeline providing the natural gas transportation services which are the subject of the dispute.
- California Department of Water Resources (CDWR or Department): an agency of the State of California with limited authority, now expired, to execute contracts for electricity for delivery to California consumers.
  - Exercised authority during 2000-2001 California energy crisis, including a tolling agreement with Sunrise Power Company.
  - In support of the Sunrise Power tolling agreement, CDWR became, and is currently, the shipper under Kern River TSA 1724.
- Sunrise Power Company (Sunrise): a California-based generator and affiliate of Edison Mission Energy (a subsidiary of Edison International) and Chevron USA.
  - CDWR's predecessor shipper under Kern River TSA 1719.

Timeline of Events

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2002

Sept: CPUC assigns SDG&E the Sunrise Power contract

2003

Jan 1: SDG&E began accepting power under the Sunrise Power contract

April: Kern River TSA 1719 was executed between Kern River and Sunrise Power, entitling Sunrise Power to 85,000 dth per day of firm transportation commencing Sept 1, 2003, ending April 30, 2018

August: Kern River TSA 1724 executed by CWDR under which CDWR assumes all rights and obligations of Sunrise Power

Sept: Multiple agreements executed by CDWR, Sunrise Power and/or Kern River, the result of which provided that CDWR would become the assignee of Kern River TSA 1719 through April 30, 2018, subject to the understanding that by June 30, 2012, CDWR would reassign Kern River TSA 1724 back to Sunrise Power

2012

March: CDWR, Sunrise Power (and its affiliates) and Kern River enter into discussions to transfer the rights and obligations of CDWR to Sunrise Power. Kern River determines Sunrise Power fails creditworthiness requirements

June 9: CDWR sends letter to Edison Mission and Chevron requesting they assume TSA or provide collateral for Sunrise Power

June 15: Initial 2013 Revenue Requirement Determination by CDWR issued with no mention of TSA costs

June 26: CDWR receives letter from Sunrise Power for a proposal to mitigate TSA costs for up to 13 months

June 27: SDG&E notifies Kern River of termination of agency delegation between Sunrise Power and SDG&E

June 30: CDWR-Sunrise Power contract expires

Oct 4: Revised 2013 Determination issued by CDWR, including post-PPA TSA costs

Oct 19: SDG&E files comments, requesting reservation of rights to contest allocation of post-PPA TSA costs

Nov 29: Final Decision issued in the 2013 CDWR Revenue Requirement proceeding, reserving issues related to allocation of post-PPA TSA costs

Dec 18: Edison Mission files for bankruptcy

2013

Jan 4: Opening comments filed with the CPUC on TSA issue

Jan 18: Reply comments filed with the CPUC on TSA issue

Potential Outcomes

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1. CDWR is fully or substantially relieved of obligations under Kern River TSA 1724 through a transfer of its rights and obligations to Sunrise Power.
   - Accomplished through permanent release under the provisions of Kern River's capacity release program, or assignment under Kern River TSA 1724.
2. Possible action is taken by the Commission and/or one or more of the three electric utilities to assist in the termination of CDWR's obligations under Kern River TSA 1724 or, as the financial equivalent, obtaining an award of damages for any costs related to the TSA paid after June 30, 2012.
   - Possible action brought before FERC under the Natural Gas Act for a declaratory order that the failure of Kern River to consent to an assignment and/or permanent release of TSA capacity to Sunrise Power under the terms and conditions offered by CDWR and Sunrise Power was in violation of Kern River's tariffs and/or applicable FERC orders.
3. CDWR mitigates the TSA 1724 costs, whether in whole or in part, through a transfer of those obligations to a third party other than Sunrise Power.
   - Accomplished through release of capacity under the provisions of Kern River's capacity release program, or assignment, subject to consent by Kern River.
   - The Commission determines the fair allocation of the TSA costs.

Estimate of Kern River TSA Costs (Post Sunrise Power Contract Expiration)

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	2012 Jul - Dec	2013 Jan - Mar	2013 Apr - Dec	2014	2015	2016	2017	2018 Jan - Apr	Total
BCF/Yr	15.6	7.7	23.4	31.0	31.0	31.1	31.0	10.2	181.1
Rate	0.47	0.47	0.47	0.47	0.47	0.47	0.47	0.47	0.47
TSA Cost ($ in MM)	$ 7.4	$ 3.6	$ 11.0	$ 14.6	$ 14.6	$ 14.6	$ 14.6	$ 4.8	$ 85.1
Capacity Release Revenues [1] ($ in MM)	$ (3.3)	$ (0.5)	$ (3.2)	$ (5.5)	$ (7.7)	$ (8.6)	$ (9.3)	$ (2.8)	$ (40.9)
Net Cost to DWR ($ in MM)	$ 4.0	$ 3.1	$ 7.8	$ 9.1	$ 6.9	$ 6.0	$ 5.3	$ 2.0	$ 44.2

[1] April 2013 - April 2018 Estimate Based on Opal to SoCal Border Value as of 4/25/13 Market Prices

SDG&E's Position

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- Consistent with Commission directives, the Department should be able to recover the costs it incurs from the ratepayers of the three electric utilities.
- The priority should be to eliminate or reduce the costs of the Kern River TSA 1724 to California electric ratepayers, whether in whole or in part, in support of the Department.
- With that objective in mind and to motivate the California investor-owned utilities to help the Department mitigate and eliminate these significant costs to California ratepayers, the Commission should impose a fair allocation of any fixed costs remaining after the Commission takes action from TSA 1724 among the three electric utilities in accordance with D.05-06-060.