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Application: A.22-09-015
Witness: Paul Borkovich
Chapter: 19

PREPARED REBUTTAL TESTIMONY OF

PAUL BORKOVICH

ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY

AND SAN DIEGO GAS & ELECTRIC COMPANY

(BTS CREDIT MECHANISM)

July 28, 2023

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CHAPTER 19

PREPARED REBUTTAL TESTIMONY OF PAUL BORKOVICH

(BTS CREDIT MECHANISM - SOCALGAS)

I. PURPOSE

The purpose of my rebuttal testimony on behalf of Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) (jointly, Applicants) is to address the direct testimony of Brian C. Collins on behalf of Indicated Shippers, Catherine E. Yap on behalf of Southern California Generation Coalition (SCGC), and Dennis Burke on behalf of Long Beach Utilities (Long Beach).[1]

II. APPLICANTS BELIEVE THAT THEIR BTS PROPOSALS 1 AND 3 REPRESENT THE BEST OUTCOME FOR BACKBONE CUSTOMERS IN THIS PROCEEDING

Applicants made four (4) proposals for modification of BTS in this proceeding. BTS Proposal 1 recommends changing the term for BTS to begin and end on November 1. Proposal 3 recommends 1) creating a firm volumetric rate option (G-BTS5) for BTS; 2) implementing a one-year BTS open season term; and 3) not implementing a BTS Reservation Charge Credit. SoCalGas does not see any compelling facts or arguments raised by the intervenors to do otherwise.

In my direct testimony, Applicants' Proposal 1 recommended that the BTS term be adjusted to begin on November 1 to better coordinate with the winter (November -March) and summer (April-May) seasons that define the two seasonal cycles each year in the natural gas business.[2] This proposal was not contested in any intervenors' testimony.

For Proposal 3, in lieu of adopting BTS reservation charge credits, Applicants proposed that a volumetric G-BTS5 rate option be adopted in conjunction with set- aside restrictions for a one-year term[3]. In their testimony, SCGC, Indicated Shippers and Long Beach all expressed

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[1] Given the volume of the various arguments, positions, and proposals raised by intervenors, Applicants have prioritized which issues to address in rebuttal testimony. Silence on any issue should not be construed as agreement with, or non-opposition to, that issue, as Applicants reserve the right to address additional issues not specifically mentioned in this rebuttal testimony at a later opportunity, such as evidentiary hearings and briefs.

[2] Applicants' Ch. 11 (Borkovich) at 13:3-11.

[3] *Id.* at 16.

support for the volumetric G-BTS5 rate option.[4] SCGC observes this rate option creates "no need for a [BTS] credit because the shipper has not prepaid for any BTS services."[5]

Proposal 3 also recommends the conversion of the BTS Open Season term to one-year. SCGC, Indicated Shippers and Long Beach do not support the one-year term proposal[6]. Despite this opposition, Applicants still believe that conversion to a one-year term for firm BTS is more appropriate for the allocation of capacity. This better aligns with the ability to forecast pipeline maintenance outages, and forecasted declining customer usage which determines capacity access during the critical Step 2 of the BTS Open Season.

Applicant's BTS Proposal 2 for interim relief, to convert the pending BTS Open Season term effective October 1, 2023, from 3 years down to one year on an interim basis[7] is now moot because the targeted BTS Open Season is underway with 3-year BTS contacts awarded and in effect on October 1, 2023, which is expected to occur prior to the effective decision date for this proceeding.

Applicants also believe that their Proposal 4 for a BTS Reservation Charge Credit mechanism is moot since it would preclude their Proposal 3 firm volumetric rate option that Applicants believe will be overwhelmingly accepted by BTS customers. In summary, Applicants recommend that the following changes to BTS be adopted by the Commission in this proceeding for implementation by Applicants:

1. Rejection of BTS Reservation Charge Credits.
2. Implementation of a G-BTS5 firm volumetric rate option with corresponding limits on Step 1 set-aside rights for Rule 39 receipt point developers in the next open season subsequent to the effective date for this proceeding.
3. Extending the next BTS Open Season term by one month to end November 1, 2027.

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4 Ex. SCGC-01 (Yap) at 27-28; Indicated Shippers Direct Testimony (Collins) at 23-24; Long Beach Testimony Ch. 2 (Burke) at 2–7 and 2–8.

5 Ex. SCGC-01 (Yap) at 27:3.

6 *Id.* at 27-28; Indicated Shippers Direct Testimony (Collins) at 24; Long Beach Testimony Ch. 2 (Burke) at 2–7 and 2–8.

7 Applicants' Ch. 11 (Borkovich) at 13-14.

4. Implementing one-year terms for firm BTS thereafter that begin and end on November 1.

III. INDICATED SHIPPERS' PREFERENCE FOR BOTH A VOLUMETRIC RATE OPTION AND A RESERVATION CHARGE CREDIT SYSTEM CREATES AN UNNECESSARY RATE INCREASE FOR CUSTOMERS

In their direct testimony, Indicated Shippers appear to propose that Applicants implement both a BTS volumetric rate option and BTS reservation charge credits.[8] The cost to implement a system to provide reservation charge credits is estimated to cost approximately $1.2 million. Applicants believe this would be an imprudent investment if a firm volumetric rate option is also approved since Applicants expect most BTS customers to opt for the BTS-5 option once it is approved. This contention is supported when comparing the respective current[9] contract levels of firm BTS service under a lower G-BTS2 reservation charge (99.44%) with the higher G-BTS1 reservation charge (0.56%).

Applicants further believe that most if not all BTS customers will opt for the firm volumetric option because the volumetric rate is only paid when gas is successfully scheduled. Conversely, if a firm volumetric BTS rate option is not adopted in lieu of a BTS Reservation Charge Credit, nomination cuts would not result in a refund under most circumstances depending on the rules adopted for that reservation charge credit system.

For example, the Reservation Charge Crediting Mechanism proposal in my direct testimony would only pay reservation charge credits to customers whose firm primary BTS nominations are cut due to a maintenance outage on the SoCalGas/SDG&E backbone system. No credits would be provided for firm alternate BTS nomination cuts, nor for system overnomination cuts during Cycles 3-5 on OFO days and during Cycle 5 on non-OFO days. Costs for reservation charge credits would accrue to the BTBA for recovery in future BTS rates.[10]

SoCalGas believes that faced with these uncertainties, and more importantly due to the total absence of a reservation charge, that BTS customers will select the G-BTS5 firm volumetric option to avoid the risks of contracting for capacity requiring payment of reservation charge

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8 Indicated Shippers Direct Testimony (Collins) at 25.

9 As of July 1, 2023.

10 Applicants' Ch. 11 (Borkovich) at 16-17.

rates. Applicants also believe requiring ratepayer funded investment of over a million dollars in a redundant reservation charge credit system would not be financially prudent.

IV. INDICATED SHIPPERS PRESENT NO EVIDENCE TO SUPPORT SOCALGAS SHAREHOLDER FUNDING FOR BTS RESERVATION CHARGE CREDITS

Indicated Shippers maintain that SoCalGas should provide BTS Credits because "[w]hen a customer pays reservation charges for a stated amount of capacity on the Backbone Transmission system, the customer should be entitled to the full use of its contracted capacity. To the extent that capacity is in any way rendered unavailable, including when unavailable because of repairs or replacements, the contracting customer should be entitled to a credit of the Backbone Transmission reservation charge."[11] They further recommend that SoCalGas shareholders should cover the costs of the credit and the credit be calculated based on Cycle 3 results.[12] Indicated Shippers makes no further case beyond these mostly simple statements in support of their proposed radical change to Commission ratemaking and safety policy for BTS and the maintenance required to provide it in a safe and efficient manner.

SoCalGas and SDG&E are open to working with our customers including Indicated Shippers and the Commission to productively improve the way BTS is offered including, if necessary, through the implementation of novel BTS credits. However, Applicants believe the Indicated Shippers BTS Reservation Charge Credit proposals are fundamentally flawed by their failure to address major attendant issues identified by the Applicants in this testimony and in previous Joint Comments to Draft Resolutions G-3581 and G-3583[13] and should therefore not be adopted as proposed.

The Commission regulates the conditions under which the Applicants must make BTS capacity available and determine its pricing. Additionally, the Commission, both in its own capacity as well as in its capacity as the certified authority with regulatory jurisdiction enforcing compliance with applicable safety standards for the Pipeline Hazardous Materials Safety Administration (PHMSA), extensively regulates the actions of the Applicants, and in those capacities requires the Applicants to perform significant and important safety-related

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11 Indicated Shippers Direct Testimony (Collins) at 22:7-12.

12 *Id.* at 27.

13 SoCalGas and SDG&E Joint Comments to Draft Resolutions G-3581 and G-3583 issued on June 9, 2021, that were submitted on June 29, 2021.

maintenance under prescribed guidelines and parameters. At certain times, as the Commission is well aware, these safety-related activities and requirements result in temporary reductions in available pipeline receipt capacity. However, as described in more detail in this rebuttal testimony, the Indicated Shippers BTS Credit proposal would immediately penalize the Applicants for performing that required safety-related maintenance, with no consideration as to the prudence of the Applicants' actions.

Indicated Shippers' proposals offer no modifications to the way BTS capacity is made available or priced in exchange for new shareholder liability, nor do they offer any analysis as to whether and how shippers will modify their behavior in order to increase their qualification for BTS credits, exposing the Applicants to unforeseen market dynamics. In sum, the Indicated Shippers BTS Proposal urges the Commission to adopt these penalties and the process for enforcing these penalties, by simply prioritizing expediency over safety. This outcome is not in the public interest, and the Indicated Shippers' BTS Credit Proposals should not be adopted as written.

V. INDICATED SHIPPERS INCORRECTLY ASSERT THAT THE COMMISSION DETERMINED IN THE 2020 TCAP DECISION THAT FIRM BTS IS NOW GUARANTEED SERVICE

In the 2020 TCAP, Indicated Shippers submitted a proposal seeking refunds for unusable BTS rights due to system maintenance. Their submitted proposals in this subsequent proceeding are extending that desire to provide a refund for unusable BTS capacity by including a performance penalty on the Applicants for not maintaining the system at 100% design capacity 100% of the time, something Applicant's tariffs do not require. By creating that penalty environment, the Indicated Shippers' proposal, if adopted, would redefine firm service as *guaranteed* service, which the Commission has never authorized, and it would offer that service to customers at shareholder expense.

Currently, firm BTS service exists to provide *priority* of service over shippers with interruptible service at a given receipt point. Indicated Shippers correctly highlighted this distinction in their 2020 TCAP Opening Brief:

> The distinction between firm and interruptible is scheduling priority for the respective services at points of constraint on the system; therefore, when there are constraints on the system, firm capacity will be accommodated before interruptible capacity."[14]

But even firm service is expected to be unavailable at times, and the Applicants' Tariff Rules 30 Section E.2 are unambiguously on point:

> "The Utility shall have the right, without liability, to interrupt the acceptance or redelivery of gas whenever it becomes necessary to test, alter, modify, enlarge or repair any facility or property comprising the Utility's system or otherwise related to its operation."[15]

SoCalGas Rule 23 likewise provides that:

> "the Utility shall not be liable for damages or otherwise for any failure to deliver gas or provide service to its customers, which failure in any way or manner results from breakage of its facilities, however caused, war, riots, acts of God, strikes, failure of or interruption in service, operating limitations or other conditions beyond its reasonable control."[16]

Indicated Shippers' BTS Credit Proposals are inconsistent with the Utilities' tariffs and should not be adopted as written.

VI. THE INDICATED SHIPPERS RESERVATION CHARGE PROPOSAL COULD CREATE UNFORSEEN MARKET DYNAMICS

Applicants' currently effective tariffs require shippers to pay for their subscribed BTS capacity, regardless of system conditions. The Indicated Shippers' BTS Credit Proposal, if adopted, will further incentivize shippers to modify their behavior to qualify for the maximum amount of BTS credits. The Commission has previously anticipated such risks in consideration of BTS reservation charge credits, and sought to avoid them; concluding that:

> "(r)ejecting the reservation charge credit proposal resolves concerns that shippers might modify their nominating practices in order to receive credits, and concerns that shippers who do not receive such credits will unfairly subsidize shippers that do."[17]

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14 A.18-07-024, Indicated Shippers Opening Brief (July 26, 2019) at 45.

15 SoCalGas Tariff Rule No. 30 – Transportation of Customer-Owned Gas at Sheet 12 (Section E.2), *available at:* https://tariff.socalgas.com/regulatory/tariffs/tm2/pdf/tariffs/GAS_G-RULES_30.pdf.

16 SoCalGas Tariff Rule No. 23 – Continuity of Service and Interruption of Delivery at Sheet 1 (Section A), *available at:* https://tariff.socalgas.com/regulatory/tariffs/tm2/pdf/tariffs/GAS_G-RULES_23.pdf.

17 D. 11-04-032 at 48-49.

At the time, the Commission was concerned that:

> "(t)he availability of reservation charge credits could encourage shippers to purchase excess incremental short-term FARs to increase their share of any windowed FARs, thereby exacerbating capacity constraints and increasing scheduling uncertainty."[18]

In their proposal Indicated Shippers attempt to provide an "incentive" to the Utilities, the Indicated Shippers Proposal would expose the Utilities to unforeseen market dynamics, potentially impacting system reliability. The Commission should not adopt a Crediting Mechanism that could penalize the Applicants without evidence to understand how shipper behavior will be incented to change and impact the level of penalties because of the Indicated Shippers Proposal.

VII. ADOPTION OF INDICATED SHIPPERS'S PROPOSED SHAREHOLDER FUNDED RESERVATION CHARGE CREDIT WOULD PLACE SOCALGAS IN DOUBLE JEOPARDY FOR MAINTAINING BACKBONE SYSTEM CAPACITY

The scope of R.20-01-007 includes how the Commission should respond to a Utility's sustained failure to meet minimum design transmission standards. On July 20, 2022, the Commission issued D.22-07-002 that required PG&E and SoCalGas to maintain adequate backbone capacity to meet the average day in a 1-in-10 cold and dry year standard established by D.06-09-039. D.22-07-002 also directed the Commission's Utilities Enforcement Branch (UEB) to propose a citation program to enforce compliance with the minimum design standards established by D.06-09-039 (Citation Program). On June 14, 2023, Commission Resolution UEB-013 was issued approving the Citation Program as ordered in D.22-07-002.

The Citation Program imposes a penalty structure described below:

> If a Respondent's daily available backbone capacity remains below the average day in a 1-in-10 cold and dry year standard established by D.06-09-039, the Respondent will be subject to a penalty of $50,000 per day for each day beyond 9 months that it remains out of compliance. If the Respondent remains out of compliance for 12 months or more, the daily penalty will increase to $75,000 for each day beyond 12 months that it remains out of compliance.
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> These penalties are borne by shareholders and are not recoverable in current and/or future rate cases or advice letter filings.[19]

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[18] *Id.* at 48, 70 (FOF 15).

[19] Res. UEB-013 (June 8, 2023) at 5, *available at:* https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M511/K559/511559337.pdf.

Applicants observe at this juncture that the Indicated Shippers' Proposal is inconsistent with the Citation Program. While the Indicated Shippers BTS Credit Proposal would penalize the Utilities for *any* maintenance outages, the performance standard for the Citation Program is not based on maintaining 100% receipt capacity 100% of the time. Further, the Citation Program does provide Applicants an opportunity to be heard, whereas the Indicated Shippers Proposal imposes immediate penalties each month on Applicants' shareholders. Finally, if the Commission adopts the Indicated Shippers Proposal as written in addition to the Citation Program, the Applicants stand to be penalized twice for the same maintenance activity.

VIII. INDICATED SHIPPERS PROVIDES NO FURTHER EVIDENCE THE UTILITIES ARE NOT COMPLETING MAINENANCE WORK AS EXPEDITIOUSLY AS POSSIBLE

Indicated Shippers state that: "[i]t is important that the Company be held accountable to ensure prudent operation of its BTS by bearing the costs of services not provided to customers"[20] which is very similar to a conclusion stated in Draft Resolution G-3583 which states "by requiring SoCalGas and SDG&E to compensate affected customers, it will have a direct incentive to maintain its system to provide reliable Backbone Transmission Service to customers who contract for such a service."[21]

The expeditiousness of the Applicants' maintenance efforts is not a question that the 2020 TCAP Decision set out to answer. Rather, this is a solution in search of an unidentified problem that finds itself in this proceeding based only on assertions by the Indicated Shippers. Indicated Shippers' Direct Testimony does not assert much less make the case that Applicants are not completing maintenance work as expeditiously as possible. Indicated Shippers in their 2020 TCAP brief did make reference to several examples of transmission line outages that have impacted the capacity made available to customers, including Line 235-2, Line 4000, and Line 2000.[22] However, neither Indicated Shippers in their 2020 TCAP opening brief nor in their direct testimony in this proceeding offer any analysis as to whether the Utilities' response to each of those outages were unreasonable, what factors influenced the Utilities' response time, and whether the responses could have even been accelerated. Instead, Indicated Shippers continue

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[20] Indicated Shippers Direct Testimony (Collins) at 26:26-27:2.

[21] Draft Res. G-3583 at 8.

[22] A.18-07-024, Indicated Shippers Opening Brief (July 26, 2019) at 46.

to stress that the Applicants should be penalized any time that firm BTS nominations are cut, "To the extent capacity is in any way rendered unavailable, including when unavailable because of repairs or replacements, the contracting customer should be entitled to a credit of the Backbone Transmission reservation charge."[23]

IX. INDICATED SHIPPERS' BTS PROPOSAL PRESUMES THAT ALL MAINTENANCE CAN BE EXPEDITED

By asserting that Applicants' shareholders should be subject to an immediate penalty for any maintenance outage that could cause firm BTS nominations to be cut[24], Indicated Shippers BTS Credit Proposal appears to be premised on the belief that the Applicants can conduct all pipeline maintenance while the pipelines are at full operating pressure. Some maintenance required to be performed, by its nature and scope, will necessarily impact the Utilities' transmission capacity whereas other maintenance will not. For example, if an in-line inspection on a backbone transmission line were to identify an anomaly that is characterized as an immediate repair condition, the Utilities are required by 49 CFR 192.933(d)(1) to temporarily reduce the operating pressure or shut down the pipeline until the operator completes evaluation and necessary repairs. The Indicated Shippers' BTS Proposal fails to acknowledge and account for the relationship between impacts on the Utilities' transmission capacity and regulatory requirements placed on the Utilities integrity management program, which are established to maintain safety.

As cited in my direct testimony,[25] the Pipeline Safety Enhancement Plan (PSEP)[26] and most recently, by maintenance required by updated PHMSA Regulations[27] require the Utilities to pressure test or replace certain pipelines. Pressure testing a pipeline requires purging the line of natural gas, filling it with water, and holding it at pressure for a period of time. Gas clearly cannot flow during this safety-related maintenance work, and yet the Commission under the Indicated Shippers Proposal would hold the Applicants financially accountable for any BTS

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23 Indicated Shippers Direct Testimony (Collins) at 22:9-12.

24 *Id.*

25 Applicants' Ch. 11 (Borkovich) at 18:6-13.

26 *See* A.22-05-015/016 (cons.) SoCalGas/SDG&E 2024 General Rate Case, Ex. SCG-08 Direct Testimony of Bill G. Kostelnik (Pipeline Safety Enhancement Plan).

27 *See* A.22-05-005 Application of SoCalGas and SDG&E for Authority to Establish a Gas Rules and Regulations Memorandum Account (GRMMA) Direct Testimony of Travis T. Sera (May 4, 2022).

credits that may result. Consistent with their current tariffs, the Utilities must be allowed to perform mandated safety-related maintenance without the risk of penalty.

X. THE INDICATED SHIPPERS'S PROPOSAL COULD BE INTERPRETED AS ENCOURAGING THE UTILITIES TO PLACE FINANCIAL MANAGEMENT BEFORE PIPELINE MAINTENANCE

The Applicants are unequivocally committed to the safe and reliable operation of our pipeline system. Whether a maintenance outage is planned or unplanned, the Utilities work to safely return to operation the out of service asset. Maintenance work is performed as efficiently as possible while maintaining the safety of our employees and the public. In the process, every Utility employee, from management to the front lines, is empowered to "Stop the Job" if, in their sole determination, the situation is unsafe.

However, the Indicated Shippers' Proposal would pressure Applicants to place financial management decisions against safe pipeline maintenance practices. This might lead to prioritizing minimal and quick outages over appropriate responses which penalize the Utilities for doing the right thing that requires a longer maintenance timeline.

XI. INDICATED SHIPPERS PROVIDE NO EVIDENCE THAT MAINTENANCE ACTIVITIES, OR THEIR TIMELINES, ARE DISCRETIONARY TO THE UTILITY

The undercurrent throughout the Indicated Shippers' Proposal is that the Utilities are unreasonably and unjustly withholding capacity from shippers by performing maintenance on its system, and that the Applicants are in full control over the decision to perform maintenance activity. This is not correct. Most maintenance activities are mandatory, in many cases at the direction of the Commission, yet the Indicated Shippers would place shareholders at risk for performing this mandatory maintenance. As noted previously, PSEP requires pipeline hydrotesting and/or replacement pursuant to a decision tree approved by the CPUC. The Transmission Integrity Management Program (TIMP) provides a mandatory cadence for pipeline inspections, and the remediation process for addressing any associated necessary repairs, such as pressure reductions for immediate repair conditions as described previously in these comments. PHMSA's Gas Transmission Safety Rule (GTSR) requires Maximum Allowable Operating Pressure (MAOP) reconfirmation and increases assessments on segments outside of High Consequence Areas. The California Air Resource's Board (CARB) Oil and Gas Methane Regulation requires owners/operators of oil and natural gas facilities to conduct quarterly leak detection and repair (LDAR) surveys to monitor components for leaks and repair detected leaks within a specified time frame, which can cause compressor station equipment to be taken out of service.

Additionally, methane emission reduction requirements ordered in D.17-06-015 in support of Senate Bill (SB) 1371 and California's greenhouse gas reduction goals mandate Utilities to reduce pipeline pressure at the onset of a maintenance outage to reduce the amount of methane evacuated to atmosphere. There are many methods that can be implemented to reduce pipeline pressure, including installing compressors attached to the pipeline which compress the gas into an adjacent pipeline or into a CNG tank. All blowdown reduction methods increase time requirements to perform maintenance, impacting capacity availability. As ordered in D.19-08-020, SoCalGas is subject to financial penalties if methane reduction targets are not met.

Beyond these examples, the Utilities' maintenance timelines are often significantly impacted by agency permitting requirements. SoCalGas has previously documented difficulties obtaining the necessary permits from the California Department of Fish and Wildlife during its Line 235-2 remediation.[28] In January 2021, President Joseph Biden directed his Acting Secretary of the Interior to suspend for 60 days the Department's delegated authorities to, among other things, "grant rights of way, easements, or any conveyances of property or interests in property, including land sales or exchanges, or any notices to proceed under previous surface use authorizations that will authorize ground-disturbing activities."[29] The Applicants would stand to incur financial penalties for the actions (or inactions) of these and other permitting agencies.

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[28] *See, e.g.,* SoCalGas Comments on the 2019 Joint Agency Workshop on Energy Reliability in Southern California, Docket # 19-IEPR-09 at 2 ("However, SoCalGas' overall pipeline remediation plan for Line 235-2 required extensive analysis and replacement of over 400 pipeline joints accompanied by a pressure reduction to enhance safety. The remediation plan required the permitting of six job sites to replace approximately 3.4 miles of pipe. The project sites had restrictive permitting requirements which contributed significantly to the extended timeline to return the pipeline to service.").

[29] Department of the Interior Order No. 3395, *Temporary Suspension of Delegated Authority* (January 20, 2021), *available at:* https://www.doi.gov/sites/doi.gov/files/elips/documents/so-3395-signed.pdf.

XII. ADOPTION OF THE INDICATED SHIPPERS BTS CREDIT PROPOSAL WOULD VIOLATE THE REGULATORY COMPACT BY PROVIDING NO OPPORTUNITY FOR THE UTILITIES TO EARN THEIR AUTHORIZED RATE OF RETURN

The Applicants profits are decoupled from sales. To set appropriate rates, the Applicants allocate revenue requirements to various utility services and price those services based on a sales forecast. The same is true for the Applicants' BTS rate. The Utilities allocate a revenue requirement to the backbone function, and set the rate based on the amount of capacity it expects to sell. If the Applicants could set the rate each day, the rate would fluctuate each day based on the level of capacity available. However, the Applicants must set the rate once for the entire year, except for Commission-ordered interim rate updates, despite the fact that available capacity will differ from day to day. The Applicants are also required to make capacity available for terms of up to three years during open seasons, despite unknown future maintenance activities. The Indicated Shippers BTS Credit Proposal would place the Applicants at risk for unforeseeable deviations in available backbone capacity, violating fundamental ratemaking principles of decoupling.

As detailed previously, no amount of incentive or desire to the contrary will ever allow for the Applicants' pipeline system to operate at 100% design capacity 100% of the time. It would be wholly inequitable for the Commission to "re-couple" BTS service without providing the Utilities any tangible tools to mitigate risk. Below are some observations that would require further consideration by the Commission before adopting the Indicated Shippers' Proposal:

- Schedule No. G-BTS requires SoCalGas to make BTS capacity available for purchase. SoCalGas cannot artificially set lower capacities available for sale, which is what a prudent enterprise might do if there was financial risk associated with that capacity. The Utilities would need to be authorized discretion in its provision of available firm capacity.
- SoCalGas is required to charge cost-based rates for BTS. SoCalGas currently cannot charge market-based rates for capacity less than the stated firm quantities in the BTS rate schedule[30] in order to increase revenues to offset penalties if shareholder is required to fund BTS credits.

[30] SoCalGas Schedule No. G-BTS Sheet 16, Special Condition 3 states "The Utility may also make any operationally available capacity in excess of the above stated firm capacity quantities on a short term firm basis under G-BTSN1 or G-BTSN2.

- SoCalGas must return BTBA overcollections to customers. Despite Indicated Shippers' stated contention, SoCalGas cannot keep any amount of revenue collected above authorized for shareholders to mitigate against the provision of BTS credits. The Utilities would need to be authorized to keep BTBA overcollections.
- SoCalGas would need to be authorized to incorporate outages into its firm BTS reservation charges. If the Commission were to implement shareholder penalties for BTS credits in the middle of a three-year BTS term, the Utilities would be exposed to capacity that has already been sold under a different cost recovery regime. This would arguably be akin to retroactive ratemaking. Unless and until the Commission adopts changes in the way BTS is made available and priced, the Commission should not adopt the proposed penalty structure.

XIII. DETERMINING THE CREDIT ON CYCLE 3 IS INAPPROPRIATE

The Indicated Shippers' Proposal would require BTS Credit quantities to be determined during gas scheduling Cycle 3.[31] This is inappropriate because Cycle 3 is not the last cycle of the Gas Flow Day. A shipper may still be able to deliver gas if capacity conditions change in later cycles yet would still be provided BTS credits for the incremental/additional gas scheduled. The purpose of the credit is to refund shippers for gas that could not be scheduled and not to give a refund for gas scheduled to an alternate receipt point that could potentially be delivered in a later cycle without changing the nominated receipt point. While SoCalGas believes there should not be a Credit mechanism, if one were adopted, a better option would be to adopt the proposal outlined in my direct testimony to determine how and when BTS reservation charge credits would be assessed.

> The proposed reservation charge credit mechanism will apply only to nomination cuts made to firm capacity under contract that is not available on a firm primary basis due to scheduled or unscheduled pipeline maintenance or outages. Reservation charge credits would be provided to firm BTS customers who are unable to schedule their BTS rights on a firm primary basis due to a maintenance outage on the SoCalGas/SDG&E backbone system. Quantities eligible for credits must be nominated in compliance with all Rule 30 requirements including a matching supply confirmation from the upstream pipeline. In no event is the same dekatherm of gas included more than once in the calculation. No reservation charge credits will be given for capacity successfully scheduled on a firm alternate basis or for Cycle 5 system overnomination cuts on non-OFO days or for Cycle 3-5 overnomination cuts on OFO days.[32]

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[31] Indicated Shippers Direct Testimony (Collins) at 27:18-19.

[32] Applicants' Ch. 11 (Borkovich) at 16-17.

In summary, Applicants believe that if a BTS reservation charge mechanism is adopted, credits should only be provided for primary firm capacity cut for the entire Gas Day (through Cycle 5) rather than just through Cycle 3. Allowing the customer to maintain eligibility for BTS reservation charge credits when nominating this capacity on an alternate basis will further incentivize overnominations at alternate receipt points, especially when the Border to City Gate price differential is routinely greater than the BTS reservation charge.

XIV. THE INDICATED SHIPPERS' PROPOSAL FAILS TO IDENTIFY ANY SAFETY CONSIDERATIONS

Every order issued by the Commission is required to identify safety considerations. To this end, the Indicated Shippers BTS Credit Proposal glosses over this issue. In contrast, the credit mechanism proposed in my direct testimony was strictly a ratemaking and cost allocation issue having no influence on safety considerations. However, as discussed previously in detail above, the adoption of the Indicated Shippers' Proposal with its shareholder penalty structure would inject financial decision making into safety-related pipeline maintenance decisions. While the Applicants are absolutely committed to the safe operation of their pipeline system and will always continue to do the right thing, if the Indicated Shippers BTS Reservation Charge Proposal is adopted by the Commission in this proceeding, it is in no longer accurate to state there are no safety considerations.

XV. INDICATED SHIPPERS BTS RESERVATION CHARGE PROPOSAL FAR EXCEEDS CURRENT PIPELINE INDUSTRY STANDARDS FOR RESERVATION CHARGE CREDITS

The Reservation Charge Credit Mechanism proposed by Indicated Shippers far exceeds the industry standard for pipeline reservation charge credits established by FERC policy starting in 2010.[33]

As previously discussed in my Direct Testimony, Federal Energy Regulatory Commission (FERC) policy developed in multiple pipeline rate cases since 2010 have normally only authorized full reservation charge credits for firm primary nomination cuts due to planned maintenance events. Limited, partial credits in various forms are sometimes provided for firm primary nomination cuts due to unscheduled force majeure events. No refunds are provided for

[33] Applicants' Ch. 11 (Borkovich) at 4-5.

capacity nominated on a firm alternate basis or for reasons unrelated to maintenance outages. Reservation charge credits for planned outages are recognized as a rate determinant in a pipeline Section 4 rate case.[34]

Indicated Shippers wants much more than this. Their proposal would essentially authorize reservation charge credits for all Cycle 3 nomination cuts whether under the control of the System Operator or not. These cuts would include cuts made to lower priority alternate firm nominations that FERC policy does not currently authorize crediting if cut. Under Indicated Shippers' proposal it would be possible for a customer to receive reservation charge credits for Cycle 3 cuts and schedule gas elsewhere using the cut capacity in Cycles 4 and 5.

From SoCalGas's perspective, the FERC credit policy makes more sense. FERC policy requires customers to make a choice in order to receive a credit. Either the Shipper maintains a confirmed firm primary nomination, takes the cut and receives the credit, or they nominate their rights on a firm alternate basis to maximize scheduled quantities. Under this policy being a firm customer subject to firm primary nomination cuts does not qualify an interstate shipper to receive both benefits simultaneously.

SoCalGas believes that Indicated Shippers' assertion that SoCalGas shareholders shall cover the entire cost of BTS credits is not supported by industry standards expressed in FERC policy. Applicants' research indicates that FERC considers these costs to be reasonable expenses that can be accounted as an adjustment to billing determinants or as a cost-of-service item in an NGA Section 4 rate case.[35]

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[34] *Id.*

[35] Under FERC's existing reservation charge crediting policies, customers receive full reservation charge credits for outages of primary firm service caused by nonforce majeure events…When the outage can be anticipated, planned for, *and incorporated into the reservation charge*, the Commission believes the pipeline should bear the financial burden of that outage as a cost of doing business; and therefore, the shipper is entitled to a full reservation charge credit for the amount of gas not transported throughout the duration of the outage. *See* The Center for American and International Law – The Energy Law Advisor, *Reservation Rate Crediting for Interstate Natural Gas Pipelines* at 3, a*vailable at:* https://www.cailaw.org/media/files/IEL/Publications/2013/ela-section30139-vol7-no3.pdf.

XVI. LONG BEACH'S REQUEST TO MODIFY STEP 1 OF THE BTS OPEN SEASON PROCESS UNDERMINES CORE RELIABILITY INCENTIVES AND SHOULD BE REJECTED

In its direct testimony[36] Long Beach proposes removing the condition requiring upstream pipeline contracts for wholesale core customers served under long term supply agreements as a qualification for participation in the Step 1 Pre-Open Season Set Aside phase of the BTS Open Season. Instead, they propose to pare this qualification down to either wholesale core customer historical load, or to wholesale core customer long-term supply agreement's specified contract quantity. These modifications would allow Long Beach to "cherry pick" their receipt point access during each open season based on the preferences of their upstream supplier in the Step 1 Set Aside process without a matching upstream interstate pipeline contract that is required for all other core balancing agents to participate in the Step 1 Set Aside process.

Long Beach's proposal would change the process for the allocation of firm BTS capacity for wholesale core customer requirements adopted by the Commission from a Joint Recommendation between the parties in the FAR Update Proceeding (A.10-03-0280)[37]. In the proceeding, the Commission authorized a modification to the Step 1 Set Aside process to accommodate Long Beach's upstream supply situation:

> Schedule G-BTS is modified to allow a wholesale customer a Step 1 set-aside up to the wholesale customer's average daily core usage during the Base Period, as defined in Special Condition 32 of Schedule G-BTS, based on the wholesale customer's (1) qualifying upstream pipeline contracts and/or (2) a suppliers' upstream pipeline contracts associated with the average daily contract quantity set forth in the wholesale customer's long-term firm gas supply agreement with that supplier to serve its core load. If the set aside is based on the second option, the wholesale customer must identify the firm upstream capacity rights held by its supplier that are in place at least two months prior to the Step 1 assignment process for a term of 12 months or longer during the applicable FAR (BTS) period.[38]

Long Beach's proposal would end the upstream capacity contract requirement for wholesale core customers being served under a long-term supply agreement. Their proposal, if approved, would instead promote the bidding rights for wholesale core customers based on either the average daily contract quantity in their long-term supply agreement or their historical usage

[36] Long Beach Testimony Ch. 2 (Burke) 2–6 and 2–7.

[37] D.11-04-032 at 35-37 and Attachment 1 at 1-2.

[38] *Id.* at 35-36.

which is currently the basis for their bidding rights in Step 2 of the Open Season. This proposal would unjustly promote their load-based Step 2 bidding rights to Step 1, ahead of core balancing agents without upstream supply or pipeline capacity agreements as well as noncore customers and their balancing agents. Accordingly, Long Beach's request should be rejected.

This concludes my prepared rebuttal testimony.