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**STAFF REPORT**  
**VERNON GAS & ELECTRIC DEPARTMENT**

**DATE:** May 17, 2016

**TO:** Honorable Mayor and City Council

**FROM:** Peter Hervish, Interim Director of Vernon Gas & Electric Department  
Originator: Dan Bergmann, Natural Gas Consultant

**RE:** Vernon's Support of the Natural Gas Settlement Agreement for Enhanced SoCalGas Balancing Rules during the Outage of Aliso Canyon Storage Facility

**Recommendation**

- A. Find that approval of the authorization of Vernon's proposed support of the natural gas balancing settlement agreement is exempt from California Environmental Quality Act ("CEQA") review, because it is a continuing administrative activity that will not result in direct or indirect physical changes in the environment, and therefore does not constitute a "project" as defined by CEQA Guidelines section 15378; and
- B. Authorize the City Administrator to sign the proposed natural gas balancing settlement agreement, on behalf of the City of Vernon, the result of which will be more favorable gas balancing rules on SoCalGas during the period that Aliso Canyon gas storage field is off line. The Natural Gas Settlement Agreement has been reviewed and approved by the City Attorney's office.

**Background**

In October 2015, an underground leak occurred in SoCalGas' Aliso Canyon Storage Field. The result was seepage of gas into the atmosphere and surrounding area for over three months until the leak was finally stopped in February. During that period, for operational reasons and under pressure from various regulatory agencies, SoCalGas withdrew most of the gas reserves from the field. SoCalGas is now prohibited from using the field until extensive testing is completed of around 200 wells. Aliso Canyon is SoCalGas' largest storage field, critical for daily gas balancing and for winter gas supply during cold spells in Southern California. The result of not having Aliso is the need for tighter gas balancing rules. However, even with enhanced balancing rules, various

agencies still predict up to 14 days of scheduled outages during the hottest weather this summer in Southern California.<sup>1</sup>

In response to the problems at Aliso, on March 1, 2016, SoCalGas filed with the CPUC a “Motion for Interim Order to Establish Daily Balancing requirements.” Numerous parties, including City of Vernon (in conjunction with Shell Trading) filed comments in opposition to daily balancing. Over the weeks that followed, several parties, primarily led by Norm Pederson, representing Southern California Generation Coalition, and John Leslie, representing Shell Trading, took action to formulate a more reasonable settlement agreement with SoCalGas. The settlement does not include daily balancing, but instead provides for enhanced operational flow orders that are acceptable to all parties.

### **Fiscal Impact**

No fiscal impact.

### **Attachments**

1. Joint Motion of Southern California Gas Company (U 904 G), San Diego Gas & Electric Company (U 902 G), and the Indicated Parties for Adoption of Daily Balancing Proposal Settlement Agreement, dated April 29, 2016.
2. Southern California Gas Company (U 904 G), San Diego Gas & Electric Company (U 902 G), and the Indicated Parties Settlement Agreement regarding Daily Balancing Issues, dated April 29, 2016.

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<sup>1</sup> Aliso Canyon Risk Assessment Technical Report. Prepared by the staff of the CPUC, CEC, CAL ISO, LADWP, and SoCalGas, April 5, 2016.

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA

Application of Southern California Gas Company  
(U 904 G) and San Diego Gas & Electric Company  
(U 902 G) for Authority to Revise their Curtailment  
Procedures

A.15-06-020  
(Filed June 26, 2015)

**JOINT MOTION OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G),  
SAN DIEGO GAS & ELECTRIC COMPANY (U 902 G), AND THE INDICATED  
PARTIES FOR ADOPTION OF DAILY BALANCING PROPOSAL SETTLEMENT  
AGREEMENT**

MICHAEL R. THORP

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**Dated:** April 29, 2016

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**BEFORE THE PUBLIC UTILITIES COMMISSION  
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**JOINT MOTION OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G),  
SAN DIEGO GAS & ELECTRIC COMPANY (U 902 G), AND THE INDICATED  
PARTIES FOR ADOPTION OF DAILY BALANCING PROPOSAL SETTLEMENT  
AGREEMENT**

Pursuant to Article 12 of the Commission's Rules of Practice and Procedure, Southern California Gas Company (SoCalGas), San Diego Gas & Electric Company (SDG&E), and the Indicated Parties comprised of The Alliance for Retail Energy Markets (AReM), California Independent System Operator (CAISO), California State University (CSU), California Cogeneration Council (CCC), California Manufacturers & Technology Association (CMTA), California League of Food Processors (CLFP), City of Long Beach Gas & Oil Department,<sup>1</sup> City of Vernon, Clean Energy Fuels Corp., Commerce Energy, Commercial Energy, Independent Energy Producers Association (IEPA), Indicated Shippers, Interstate Gas Supply, Inc. (IGS), NRG Energy, Inc., Office of Ratepayer Advocates (ORA), Pacific Summit Energy LLC, Shell Energy North America (US), L.P., Southern California Edison Company (SCE), Southern California Generation Coalition (SCGC), Southwest Gas Corporation (SWG), Tiger Natural Gas, University of California (UC), and Western Power Trading Forum (WPTF) (collectively referred to as the Settling Parties)<sup>2</sup> hereby move the Commission to adopt the Daily Balancing Proposal Settlement Agreement (Settlement) attached hereto in Attachment A. This Settlement proposes resolution of all issues related to the daily balancing proposal of March 1, 2016, by SoCalGas and SDG&E, and

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<sup>1</sup> The City of Long Beach Gas & Oil Department's inclusion as a Settling Party is contingent on the approval of the Settlement by the Long Beach city council.

<sup>2</sup> In accordance with Rule 1.8 of the Commission's Rules of Practice and Procedure SoCalGas and SDG&E have been authorized to submit this Joint Motion on behalf of all Settlement Parties.

related proposals from other parties. All other contested issues in this proceeding are the subject of a separate Curtailment Procedures Settlement Agreement.

This Settlement provides that during the Settlement term, which will end no later than November 30, 2016, SoCalGas and SDG&E will deal with supply shortages and surpluses using Operational Flow Order (OFO) tariff procedures rather than daily balancing procedures. To facilitate this approach, the Settlement provides that during the Settlement term SoCalGas and SDG&E will make a number of temporary changes to their existing low and high OFO tariff provisions, including changing the existing 110% high OFO tolerance to a default of 105% that can be changed to 110% at SoCalGas and SDG&E's sole discretion.

The Settling Parties also request that the Commission establish a subsequent phase in this proceeding to consider reliability measures that may be needed beyond November 30, 2016. Parties will meet in good faith to address this, and will provide a Status Report to the Commission no later than September 8, 2016. Finally, SoCalGas and SDG&E reserve the right to resubmit their daily balancing proposal during and after the Settlement term if low and high OFO procedures do not provide the necessary supply-related responses, and the other Settling Parties reserve the right to oppose any future daily balancing proposal.

A more detailed description of the Settlement is provided below.

## **I. BACKGROUND**

SoCalGas and SDG&E filed their Application to Revise Their Curtailment Procedures (Application) on June 26, 2015. A prehearing conference (PHC) was noticed and held on October 27, 2015, to discuss the issues raised by the Application and by the parties' protests and responses, the need for evidentiary hearings, and the schedule for resolving the issues. An Assigned Commissioner's Scoping Memo and Ruling (Scoping Memo) was issued on November 6, 2015. The Scoping Memo identified the issues to be considered in this proceeding, set a procedural

schedule, determined the category of the proceeding as ratesetting, and determined there was a need for hearings.

On March 1, 2016, SoCalGas and SDG&E filed a Motion for Interim Order to Establish Daily Balancing requirements. Numerous parties filed comments on the Motion on March 16, 2016. On April 12, 2016, a group of parties calling themselves the Joint Parties filed a Motion Requesting Approval of System Reliability Measures.

Hearings had been scheduled for March 28 through March 30 and April 1, 2016. At the first day of hearings, SoCalGas, SDG&E, and certain Settling Parties notified Administrative Law Judge (ALJ) Bushey that a settlement in principle had been reached regarding all contested issues in this proceeding other than issues related to the SoCalGas and SDG&E daily balancing proposal and related proposals from other parties, and that hearings were no longer necessary on this initial scope of the proceeding. ALJ Bushey ruled that the parties should file any motion for adoption of a settlement regarding such issues by April 29, 2016.

ALJ Bushey also set a PHC for April 20, 2016, to address the SoCalGas and SDG&E daily balancing proposal. Parties were directed to hold Clarification Sessions to attempt to reach a compromise solution before establishing a procedural schedule. On April 14, 2016, an Assigned Commissioner's Amended Scoping Memo and Ruling was issued, which added the following to the scope of this proceeding:

The issues to be addressed in this proceeding are expanded to include the need for temporarily establishing five percent daily balancing on the SoCalGas and SDG&E systems to address operational constraints at the Aliso Canyon storage field."<sup>3</sup>

At the April 20, 2016 PHC, parties notified Commissioner Florio and ALJ Bushey that a settlement in principle had been reached with most active parties regarding the SoCalGas and

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<sup>3</sup> Assigned Commissioner's Amended Scoping Memo and Ruling at 2.

SDG&E daily balancing proposal and related proposals from other parties, and that there did not appear to be any parties who opposed the settlement in principle. Also on April 20, 2016, SoCalGas and SDG&E served a Notice of Settlement Conference, pursuant to Rule 12. That Settlement Conference was held telephonically on April 28, 2016.

## **II. THE SETTLEMENT IS REASONABLE IN LIGHT OF THE WHOLE RECORD, CONSISTENT WITH LAW, AND IN THE PUBLIC INTEREST**

Rule 12.1(d) states that the Commission will not approve a settlement “unless the settlement is reasonable in light of the whole record, is consistent with law, and in the public interest.” As discussed below, the Settlement meets these criteria.

The Commission has consistently recognized the “strong public policy favoring the settlement of disputes to avoid costly and protracted litigation.”<sup>4</sup> This policy supports many worthwhile goals, including reducing the expense of litigation, conserving scarce Commission resources, and allowing parties to reduce the risk that litigation will produce unacceptable results.<sup>5</sup> Moreover, in assessing settlements the Commission evaluates the *entire* agreement, and not just its individual parts:

In assessing settlements we consider individual settlement provisions but, in light of strong public policy favoring settlements, we do not base our conclusion on whether any single provision is the optimal result. Rather, we determine whether the settlement as a whole produces a just and reasonable outcome.<sup>6</sup>

### **A. The Settlement is Reasonable in Light of the Record**

Settling parties participated in numerous settlement negotiation sessions to consider the SoCalGas and SDG&E daily balancing proposal and related proposals from other parties. From April 4 through April 19, SoCalGas and SDG&E met with the other parties at least five times, and a number of these sessions were attended by more than 70 representatives. Throughout these

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<sup>4</sup> D.88-12-083, mimeo., at 54. See also D.11-05-018, mimeo., at 16.

<sup>5</sup> D.92-12-019, mimeo., at 7-8.

<sup>6</sup> D.10-04-033, mimeo., at 9.

sessions the parties devoted substantial time and effort to working collaboratively to identify and achieve a better common understanding of the range of issues in dispute, the various options for narrowing the number of disputed issues, and opportunities to develop compromise positions that would permit resolution of the disputed issues. The Settlement is a product of those efforts. The specific outcomes on the issues covered by the Settlement are within the range of positions and outcomes presented by the parties. The sheer number of interested parties involved in these negotiations helped to ensure that the interests of shippers and end-use customers were fully represented.

**B. The Settlement is Consistent with Law**

The Settling Parties are represented by experienced counsel, and believe that the terms of the Settlement comply with all applicable statutes and prior Commission decisions, and reasonable interpretations thereof. In agreeing to the terms of the Settlement, the Settling Parties considered relevant statutes and Commission decisions and believe that the Settlement is fully consistent with those statutes and prior Commission decisions.

**C. The Settlement is in the Public Interest**

The Commission has determined that a settlement that “commands broad support among participants fairly reflective of the affected interests” and “does not contain terms which contravene statutory provisions or prior Commission decisions” meets the “public interest” criterion.<sup>7</sup> Here, all of the active parties who took positions on the issues covered by the Settlement have joined this motion and have signed the attached Settlement indicating that they believe the agreement represents a reasonable compromise of their respective positions. The volume and range of Settling Parties should provide the Commission comfort, as it includes the applicant utilities and representatives of impacted customer groups that are well-known to the

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<sup>7</sup> D.10-06-015, mimeo., at 11-12, *citing* D.92-12-019, mimeo., at 7.

Commission and bring years (and, in some cases, decades) of experience in Commission proceedings to their work here.

The Settlement, if adopted by the Commission, avoids the cost of further litigation, and frees up Commission resources for other proceedings. The Settlement frees up the time and resources of other parties as well, so that they may focus on other Commission proceedings.

**D. The Settlement Should be Adopted without Modification**

Though each section is discussed separately in the summary below, the Settlement is presented as a whole, and Settling Parties request that it be reviewed and adopted as a whole. Each provision of the Settlement is dependent on the other provisions of the Settlement; thus modification of any one part of the Settlement would harm the balancing of interests and compromises achieved in the Settlement. The various provisions reflect specific compromises between litigation positions and differing interests; in some instances the proposed outcome reflects a party's concession on one issue in consideration for the outcome provided on a different issue. As described further in the following sections, the proposed outcome on each issue is reasonable in light of the entire record. Accordingly, the Commission should consider and approve the Settlement as a whole, with no modification.

**E. The Settlement is Reasonable and Promotes the Public Interest**

The Settlement represents agreement among most parties that actively participated in this proceeding. In addition, though there are a few parties who have not signed on to the Settlement, it does not appear that any of them oppose the Settlement.

Through the negotiation process, the Settling Parties were able to identify preferred outcomes that, if adopted, would represent an acceptable resolution for each party involved in the settlement discussions. Each provision of the Settlement is dependent on the other provisions of the Settlement; thus modification of any one part of the Settlement would harm the balancing of

interests and compromises achieved in the Settlement. The various provisions reflect specific compromises between differing interests; the Settling Parties believe the provisions of the Settlement are reasonable and supported by the record. Accordingly, the Settlement should be considered and approved as a whole by the Commission as reasonable in light of the entire record, with no modification.

The Settlement represents agreement among the Settling Parties regarding resolution of issues and reflects a compromise among the litigation positions taken by the Settling Parties in this proceeding in a manner that promotes the public interest. Longstanding Commission policy favors settlements. The Settlement is therefore reasonable in light of the whole record and promotes the public interest as required by Rule 12.1(d). The issues addressed in this Settlement are discussed below.

**F. Summary of the Proposed Settlement**

Settling Parties seek Commission approval of the terms set forth in the attached Settlement, as summarized below.

1. This Settlement is not intended by the Settling Parties to be precedent for any future proceeding or any issues not included in the Settlement. Except as expressly provided for in this Settlement, each of the Settling Parties expressly reserves its right to advocate, in current and future proceedings, positions, principles, assumptions, arguments and methodologies which may be different than those underlying this Settlement.
2. The term of this Settlement will begin upon adoption by the California Public Utilities Commission (Commission), and conclude upon the earlier of: (1) any superseding decision or order by the Commission, (2) return of Aliso Canyon to at

least 450 MMcfd of injection capacity and 1,395 MMcfd of withdrawal capacity, or (3) November 30, 2016.

3. The Settling Parties request that the Commission establish a subsequent phase in this proceeding to consider reliability measures that may be needed beyond November 30, 2016, in the event that by that date: (1) Aliso Canyon has not returned to the service levels set forth in Section 2, or (2) working inventory at Aliso Canyon is not at least 45 BCF. Parties will meet in good faith to address reliability measures that may be needed beyond November 30, 2016, through Clarification Sessions, informal meetings, and/or Rule 12 settlement discussions, and will provide a Status Report to the Commission no later than September 8, 2016. Settling Parties, individually or jointly, may seek Alternate Dispute Resolution or other procedures earlier than September 8, 2016, and other Settling Parties may oppose such proposals.
4. During the Settlement term, SoCalGas and SDG&E will deal with supply shortages and surpluses using OFO tariff procedures rather than daily balancing procedures, subject to paragraph 7 in this Settlement. To do this, SoCalGas and SDG&E may be required to call both low and high OFOs for the same gas day, as is permitted under current tariffs.
5. During the Settlement term, SoCalGas and SDG&E will make the following temporary changes to their existing low and high OFO tariff provisions. At the end of the Settlement term, unless ordered to do otherwise by the Commission, SoCalGas and SDG&E will remove each of these temporary changes from their tariffs.

- a. The existing 110% high OFO tolerance (specified in G-IMB) will be changed to 105% or 110%. The default will be 105%, but SoCalGas and SDG&E will have the ability to set the tolerance at 110% if, in SoCalGas' and SDG&E's sole discretion, operational circumstances allow.
- b. From the beginning of the Settlement term through July 1, 2016, high OFO buyback rate will be double the otherwise applicable buy-back rate.
- c. Low OFO noncompliance charges for the gas flow day will be waived when the confirmation process limiting nominations to system capacity cuts previously scheduled BTS<sup>8</sup> nominations during any of the Intraday 1-3 Cycles (Cycles 3-5).
- d. SoCalGas and SDG&E will have the discretion to waive OFO noncompliance charges for an electric generation customer who was dispatched after the Intraday 1 (Cycle 3) nomination deadline in response to (1) a SoCalGas System Operator request to an Electric Grid Operator to reallocate dispatched electric generation load to help maintain gas system reliability and integrity, or (2) an Electric Grid Operator request to the SoCalGas System Operator to help maintain electric system reliability and integrity that can be accommodated by the SoCalGas System Operator at its sole discretion. For electric generators served by a contracted marketer, OFO noncompliance charges can be waived under this section only to the extent the contracted marketer nominates their electric generation customer's gas to the electric generation customer's Order Control Code.

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<sup>8</sup> Backbone Transportation Service.

- e. The existing exemption from low OFO noncompliance charges for daily imbalances of 10,000 therms or less will be extended to high OFO buyback rate charges.
  - f. During the Settlement term, low OFO noncompliance charges received from noncore customers will be credited to the noncore fixed cost account and low OFO noncompliance charges received from core customers will be credited to the core fixed cost account.
  - g. These tariff changes are reflected in the redlined tariffs attached to this Settlement. SoCalGas and SDG&E will be authorized to implement these tariff changes via Tier 1 advice filings upon Commission approval of this Settlement. SoCalGas and SDG&E will also be authorized to remove each of these temporary changes from their tariffs via Tier 1 advice filings at the end of the Settlement term.
6. During the Settlement term, SoCalGas and SDG&E will take the following additional actions:
- a. SoCalGas and SDG&E will revise their current Low OFO formula so that the balancing trigger is based on operational constraints. SoCalGas and SDG&E will have the sole discretion to set the level of withdrawal capacity available for balancing based on operational conditions. To the extent operationally feasible, SoCalGas and SDG&E will attempt to maximize the amount of withdrawal capacity available for balancing, up to the amount of withdrawal capacity allocated to the balancing function. SoCalGas and

SDG&E will continue to post any changes to the low OFO formula on Envoy.

- b. Injection nominations will be held to the injection capacity in every flowing cycle regardless of OFO status.
- c. SoCalGas will provide a cycle-by-cycle low OFO calculation on Envoy.
- d. SoCalGas will hold at least two customer education workshops regarding low and high OFO procedures prior to June 1, 2016.

- 7. SoCalGas and SDG&E reserve the right to resubmit their daily balancing proposal during and after the Settlement term if low and high OFO procedures do not provide the necessary supply-related responses, and the other Settling Parties reserve the right to oppose any future daily balancing proposal.

**G. Proposed Reduction of the Motion Comment Period and Proposed Waiver of Comments on a Draft Decision Approving the Settlement**

The Settling Parties believe that the enhanced reliability measures presented by this Settlement should be put into place quickly, so that the measures will be available if needed. To that end, the Settling Parties respectfully request that the Commission reduce the standard 30-day comment period provided by Rule 12.2 to five days. This reduced comment period will enable the Commission to consider the Settlement at least one business meeting earlier than otherwise, and it is particularly appropriate given that all parties to the proceeding have been involved in the settlement discussions leading up to the Settlement, and given that there are numerous parties to this portion of the proceeding—many of whom who do not generally appear in Commission proceedings—and these numerous parties represent a broad range of shipper and end-use customer interests.

For these same reasons, the Settling Parties request that the Commission waive comments on a Proposed Decision if the Proposed Decision adopts the Settlement as presented.

### III. CONCLUSION

As shown herein, the Settlement is reasonable in light of the whole record, is consistent with law, promotes the public interest, and should be approved the Commission. Further, the Commission should reduce the standard 30-day comment period for comments on settlements to five days, and the Commission should waive comments on a Proposed Decision if the Proposed Decision adopts the Settlement as presented.

Respectfully submitted,

By:                     /s/ Michael R. Thorp                      
MICHAEL R. THORP

*Attorney for:*

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**Dated:** April 29, 2016

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A.15-06-020  
(Filed June 26, 2015)

**SOUTHERN CALIFORNIA GAS COMPANY (U 904 G),  
SAN DIEGO GAS & ELECTRIC COMPANY (U 902 G), AND THE INDICATED  
PARTIES SETTLEMENT AGREEMENT REGARDING DAILY BALANCING ISSUES**

Pursuant to Article 12 of the California Public Utilities Commission's (Commission) Rules of Practice and Procedure, Southern California Gas Company (SoCalGas), San Diego Gas & Electric Company (SDG&E), and the Indicated Parties comprised of The Alliance for Retail Energy Markets (AReM), California Independent System Operator (CAISO), California State University (CSU), California Cogeneration Council (CCC), California Manufacturers & Technology Association (CMTA), California League of Food Processors (CLFP), City of Long Beach Gas & Oil Department,<sup>1</sup> City of Vernon, Clean Energy Fuels Corp., Commerce Energy, Commercial Energy, Independent Energy Producers Association (IEPA), Indicated Shippers, Interstate Gas Supply, Inc. (IGS), NRG Energy, Inc., Office of Ratepayer Advocates (ORA), Pacific Summit Energy LLC, Shell Energy North America (US), L.P., Southern California Edison Company (SCE), Southern California Generation Coalition (SCGC), Southwest Gas Corporation (SWG), Tiger Natural Gas, University of California (UC), and Western Power Trading Forum (WPTF) (collectively referred to hereafter as the Settling Parties) respectfully submit to the Commission this Settlement Agreement (Settlement). In this Settlement, the

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<sup>1</sup> The City of Long Beach Gas & Oil Department's inclusion as a Settling Party is contingent on the approval of the Settlement by the Long Beach city council.

Settling Parties provide a recommended resolution of the following item identified in the April 14, 2016 Assigned Commissioner's Amended Scoping Memo and Ruling:

The issues to be addressed in this proceeding are expanded to include the need for temporarily establishing five percent daily balancing on the SoCalGas and SDG&E systems to address operational constraints at the Aliso Canyon storage field.”<sup>2</sup>

## I. REASONABLENESS OF THE SETTLEMENT

The Settling Parties submit that this Settlement complies with the Commission's requirements that settlements be reasonable, consistent with law, and in the public interest. The Settling Parties have recognized that there is risk involved in litigation, and that a party's filed position might not prevail, in whole or in part, in the Commission's final determination. The Settling Parties have reached compromise positions that they believe are appropriate in light of the litigation risks. This Settlement reflects the Settling Parties' best judgments as to the totality of their positions and risks, and their agreement herein is explicitly based on the overall results achieved.

## II. SETTLEMENT TERMS AND CONDITIONS

### A. Effective Date

1. The Effective Date of this Settlement is the date upon which the Commission approves the Settlement.

### B. Settlement Terms

1. This Settlement is not intended by the Settling Parties to be precedent for any future proceeding or any issues not included in the Settlement. Except as expressly provided for in this Settlement, each of the Settling Parties expressly reserves its right to advocate, in current and future proceedings, positions, principles, assumptions, arguments and methodologies which may be different than those underlying this Settlement.

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<sup>2</sup> Assigned Commissioner's Amended Scoping Memo and Ruling at 2.

2. The term of this Settlement will begin upon adoption by the California Public Utilities Commission (Commission), and conclude upon the earlier of: (1) any superseding decision or order by the Commission, (2) return of Aliso Canyon to at least 450 MMcfd of injection capacity and 1,395 MMcfd of withdrawal capacity, or (3) November 30, 2016.
3. The Settling Parties request that the Commission establish a subsequent phase in this proceeding to consider reliability measures that may be needed beyond November 30, 2016, in the event that by that date: (1) Aliso Canyon has not returned to the service levels set forth in Section 2, or (2) working inventory at Aliso Canyon is not at least 45 BCF. Parties will meet in good faith to address reliability measures that may be needed beyond November 30, 2016, through Clarification Sessions, informal meetings, and/or Rule 12 settlement discussions, and will provide a Status Report regarding their discussions to the Commission no later than September 8, 2016. Settling Parties, individually or jointly, may seek Alternate Dispute Resolution or other procedures earlier than September 8, 2016, and other Settling Parties may oppose such proposals.
4. During the Settlement term, SoCalGas and SDG&E will deal with supply shortages and surpluses using OFO tariff procedures rather than daily balancing procedures, subject to paragraph 7 in this Settlement. To do this, SoCalGas and SDG&E may be required to call both low and high OFOs for the same gas day, as is permitted under current tariffs.
5. During the Settlement term, SoCalGas and SDG&E will make the following temporary changes to their existing low and high Operational Flow Order (OFO) tariff provisions. At the end of the Settlement term, unless ordered to do otherwise by the Commission, SoCalGas and SDG&E will remove each of these temporary changes from their tariffs.
  - a. The existing 110% high OFO tolerance (specified in G-IMB) will be changed to 105% or 110%. The default will be 105%, but SoCalGas and SDG&E will have the ability to set the tolerance at 110% if, in SoCalGas' and SDG&E's sole discretion, operational circumstances allow.
  - b. From the beginning of the Settlement term through July 1, 2016, high OFO buyback rate will be double the otherwise applicable buy-back rate.
  - c. Low OFO noncompliance charges for the gas flow day will be waived when the confirmation process limiting nominations to system capacity cuts previously scheduled BTS nominations during any of the Intraday 1-3 Cycles (Cycles 3-5).
  - d. SoCalGas and SDG&E will have the discretion to waive OFO noncompliance charges for an electric generation customer who was dispatched after the Intraday 1 (Cycle 3) nomination deadline in response

to (1) a SoCalGas System Operator request to an Electric Grid Operator to reallocate dispatched electric generation load to help maintain gas system reliability and integrity, or (2) an Electric Grid Operator request to the SoCalGas System Operator to help maintain electric system reliability and integrity that can be accommodated by the SoCalGas System Operator at its sole discretion. For electric generators served by a contracted marketer, OFO noncompliance charges can be waived under this section only to the extent the contracted marketer nominates their electric generation customer's gas to the electric generation customer's Order Control Code.

- e. The existing exemption from low OFO noncompliance charges for daily imbalances of 10,000 therms or less will be extended to high OFO buyback rate charges.
  - f. During the Settlement term, low OFO noncompliance charges received from noncore customers will be credited to the noncore fixed cost account and low OFO noncompliance charges received from core customers will be credited to the core fixed cost account.
  - g. These tariff changes are reflected in the redlined tariffs attached to this Settlement. SoCalGas and SDG&E will be authorized to implement these tariff changes via Tier 1 advice filings upon Commission approval of this Settlement. SoCalGas and SDG&E will also be authorized to remove each of these temporary changes from their tariffs via Tier 1 advice filings at the end of the Settlement term..
6. During the Settlement term, SoCalGas and SDG&E will take the following additional actions:
- a. SoCalGas and SDG&E will revise their current Low OFO formula so that the balancing trigger is based on operational constraints. SoCalGas and SDG&E will have the sole discretion to set the level of withdrawal capacity available for balancing based on operational conditions. To the extent operationally feasible, SoCalGas and SDG&E will attempt to maximize the amount of withdrawal capacity available for balancing, up to the amount of withdrawal capacity allocated to the balancing function. SoCalGas and SDG&E will continue to post any changes to the low OFO formula on Envoy.
  - b. Injection nominations will be held to the injection capacity in every flowing cycle regardless of OFO status.
  - c. SoCalGas will provide a cycle-by-cycle low OFO calculation on Envoy.
  - d. SoCalGas will hold at least two customer education workshops regarding low and high OFO procedures prior to June 1, 2016.

7. SoCalGas and SDG&E reserve the right to resubmit their daily balancing proposal during and after the Settlement term if low and high OFO procedures do not provide the necessary supply-related responses, and the other Settling Parties reserve the right to oppose any future daily balancing proposal.

### III. ADDITIONAL TERMS AND CONDITIONS

#### A. The Public Interest

The Settling Parties agree jointly by executing and submitting this Settlement that the relief requested herein is just, fair and reasonable, and in the public interest.

#### B. Non-Precedential Effect

This Settlement is not intended by the Settling Parties to be precedent for any future proceeding or any issues not included in the Settlement. The Settling Parties have assented to the terms of this Settlement only for the purpose of arriving at the settlement embodied in this Settlement. Except as expressly precluded in this Settlement, each of the Settling Parties expressly reserves its right to advocate, in current and future proceedings, positions, principles, assumptions, arguments and methodologies which may be different than those underlying this Settlement, and the Settling Parties expressly declare that, as provided in Rule 12.5 of the Commission's Rules, this Settlement should not be considered as a precedent for or against them. Likewise, the Settlement explicitly does not establish any precedent on the litigated issues in the case.

#### C. Partial Settlement

This Settlement is a partial settlement of the issues in A.15-06-020. Namely, this Settlement only addresses the following item identified in the April 14, 2016, Assigned Commissioner's Amended Scoping Memo and Ruling:

The issues to be addressed in this proceeding are expanded to include the need for temporarily establishing five percent daily

balancing on the SoCalGas and SDG&E systems to address operational constraints at the Aliso Canyon storage field.<sup>3</sup>

This Settlement is not intended to resolve issues not covered by the Settlement, or to preclude any of the Settling Parties from making any arguments or taking any positions with respect to such issues.

**D. Indivisibility**

This Settlement embodies compromises of the Settling Parties' positions. No individual term of this Settlement is assented to by any of the Settling Parties, except in consideration of the other Settling Parties' assents to all other terms. Thus, the Settlement is indivisible and each part is interdependent on each and all other parts. Any party may withdraw from this Settlement if the Commission modifies, deletes from, or adds to the disposition of the matters stipulated herein. The Settling Parties agree, however, to negotiate in good faith with regard to any Commission-ordered changes to the Settlement in order to restore the balance of benefits and burdens, and to exercise the right to withdraw only if such negotiations are unsuccessful.

The Settling Parties acknowledge that the positions expressed in the Settlement were reached after consideration of all positions advanced in the March 1, 2016 motion of SoCalGas and SDGE, the various responses to that motion, and the April 12, 2016 motion of California Cogeneration Council, California Manufacturers and Technology Association, California League of Food Processors, Commercial Energy, Indicated Shippers, Southern California Generation Coalition, Pacific Summit Energy LLP, the City of Vernon, NRG Energy, Western Power Trading Forum, Shell Energy North America (US), L.P., and The Alliance for Retail Energy Markets, as well as proposals offered during the settlement negotiations. This document sets forth the entire agreement of the Settling Parties on all of those issues, except as

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<sup>3</sup> Assigned Commissioner's Amended Scoping Memo and Ruling at 2.

specifically described within the Settlement. The terms and conditions of this Settlement may only be modified in writing subscribed by all Settling Parties.

Dated this 29<sup>th</sup> day of April, 2016.

**SOUTHERN CALIFORNIA GAS COMPANY and  
SAN DIEGO GAS & ELECTRIC COMPANY**

By: \_\_\_\_\_  
**MICHAEL R. THORP**  
Title: Chief Regulatory Counsel

**THE ALLIANCE FOR RETIAL ENERGY MARKETS  
and SHELL ENERGY NORTH AMERICA (US), L.P.**

By: \_\_\_\_\_  
**JOHN LESLIE**  
Title: Counsel

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR**

By: \_\_\_\_\_  
**ANDREW ULMER**  
Title: Director, Federal Regulatory Affairs

**CALIFORNIA STATE UNIVERSITY**

By: \_\_\_\_\_  
**AARON KLEMM**  
Title: Chief, Energy and Sustainability

**CALIFORNIA COGENERATION COUNCIL**

By: \_\_\_\_\_  
**BETH VAUGHAN**  
Title: Executive Director

**CALIFORNIA MANUFACTURERS & TECHNOLOGY  
ASSOCIATION**

By: \_\_\_\_\_  
**RONALD LIEBERT**  
Title: Counsel

**CALIFORNIA LEAGUE OF FOOD PROCESSORS**

By: \_\_\_\_\_  
**JOHN LARREA**  
Title: Director of Government Affairs

**CITY OF LONG BEACH GAS & OIL DEPARTMENT**

By: \_\_\_\_\_  
**PATRICK WEST**  
Title: City Manager

**CITY OF VERNON**

By: \_\_\_\_\_  
**CARLOS R. FANDINO, JR.**  
Title: City Administrator

**CLEAN ENERGY FUELS CORP.**

By: \_\_\_\_\_  
**J. NATHAN JENSEN**  
Title: Counsel

**COMMERCE ENERGY**

By: \_\_\_\_\_  
**INGER GOODMAN**  
Title: Regulatory Affairs Specialist

**COMMERCIAL ENERGY**

By: \_\_\_\_\_  
**MICHAEL B. DAY**

Title: Counsel

**INDEPENDENT ENERGY PRODUCERS  
ASSOCIATION**

By: \_\_\_\_\_  
**BRIAN CRAGG**

Title: Counsel

**INDICATED SHIPPERS**

By: \_\_\_\_\_  
**EVELYN KHAL**

Title: Counsel

**INTERSTATE GAS SUPPLY, INC.**

By: \_\_\_\_\_  
**JOSEPH OLIKER**

Title: Senior Regulatory Counsel

**NRG ENERGY, INC.**

By: \_\_\_\_\_  
**ABRAHAM SILVERMAN**

Title: Assistant General Counsel, Regulatory

**OFFICE OF RATEPAYER ADVOCATES**

By: \_\_\_\_\_  
**ELIZABETH ECHOLS**

Title: Director, Office of Ratepayer Advocates

**PACIFIC SUMMIT ENERGY LLC**

By: \_\_\_\_\_  
**JIKJA CHUNG**

Title: General Counsel & Chief Compliance Officer

**SOUTHERN CALIFORNIA EDISON COMPANY**

By: \_\_\_\_\_  
**COLIN CUSHNIE**

Title: VP of Energy Procurement & Management

**SOUTHERN CALIFORNIA GENERATION  
COALITION**

By: \_\_\_\_\_  
**NORMAN PEDERSEN**

Title: Counsel

**SOUTHWEST GAS CORPORATION**

By: \_\_\_\_\_  
**KYLE O. STEPHENS**

Title: Assistant General Counsel

**TIGER NATURAL GAS**

By: \_\_\_\_\_  
**GREGORY KLATT**

Title: Counsel

**UNIVERSITY OF CALIFORNIA**

By: \_\_\_\_\_  
**ERIC EBERHARDT**

Title: Associate Director, Energy Services

**WESTERN POWER TRADING FORUM**

By: \_\_\_\_\_  
**DANIEL DOUGLASS**

Title: Counsel

# **Attachments to the Settlement Agreement**

**For reference, the following documents are available upon request at the office of the City Clerk:**

1. SoCalGas Rule 30
2. SoCalGas Rule 41
3. SoCalGas Schedule G-IMB
4. SDG&E Rule 30
5. SDG&E Schedule G-IMB
6. SoCalGas CFCA
7. SoCalGas NFCA