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Re: Southern California Generation Coalition Comments on Draft Energy Action Plan II

Dear Ms. Ebke and Mr. Kelly:

In accordance with the instructions included in the agenda for the June 15, 2005 Joint Meeting of the California Energy Commission ("CEC") and California Public Utilities Commission ("CPUC") regarding the draft Energy Action Plan II ("EAP II"), the Southern California Generation Coalition ("SCGC") respectfully submits this comment.

Section 6 of the draft EAP II addresses "Natural Gas Supply and Demand." From the list of seven "Key Actions" that should be undertaken to implement the EAP II, Key Action No. 5 is: "Establish rules for emergency supply and backstop capacity for non-core customers." This Key Action should be eliminated from the EAP II. It contradicts the April 21, 2005 Finding by Assigned Commissioners Peevey and Kennedy in CPUC Rulemaking ("R.") 04-01-025 (Phase II) that: "It does not appear to be useful to expressly and separately consider proposals for emergency reserves and backstop capacity at this time." Ruling of the Assigned Commissioners Setting a Revised Schedule for Phase II, R.04-01-025 (Phase II) at 7 (Apr. 21, 2005) ("Ruling").

The CPUC's Order Instituting Rulemaking ("OIR") 04-01-025 (Jan. 22, 2004) proposed various new policies and rules regarding long-term gas supplies for California. The new policies and rules were to be considered in two phases of the proceeding in R.04-01-025. The CPUC proposed to consider "proposals to provide an emergency reserve for [the California gas utility] systems" in Phase II of the proceeding. OIR at 18. Additionally, the CPUC proposed to consider whether the California gas utilities should "subscribe to a certain amount of interstate pipeline capacity to serve the noncore customers in a service territory." *Id.* at 20. The utilities would subscribe to the interstate pipeline capacity as a "backstop" to assure adequate capacity for service to noncore customers. *Id.*

Comments were filed regarding the OIR Phase II "emergency reserves" and "backstop" proposals on June 4, 2004. Reply comments were filed on July 2, 2004. In its opening comments, SCGC explained at length why the CPUC should not give further consideration to either the "emergency reserves" or the "backstop" proposals. SCGC's June 4, 2004 opening comment is attached. In summary, SCGC explained that the cost of maintaining an emergency gas storage reserve would be significant and would outstrip potential benefits. Further, creation of an emergency gas storage reserve could have unintended consequences that would render the reserve ineffective. Thus, the gas utilities should not be required to establish an emergency reserve. Likewise, the gas utilities should not be required to "backstop" noncore customers. The CPUC, itself, said in the OIR that it would be premature to conclude that the utilities need to acquire interstate pipeline capacity to "backstop" the acquisition of capacity by noncore customers.

After reviewing the June 4, 2004 opening comments and July 2, 2004 reply comments, Assigned Commissioners Peevey and Kennedy determined in their April 21, 2005 Ruling that "[i]t does not appear to be useful to expressly and separately consider proposals for emergency reserves and backstop capacity at this time." Ruling at 7 (Apr. 21, 2005). Consistent with the ruling of the Assigned Commissioners, neither the "emergency reserve" nor the "backstop" proposal will be considered in R.04-01-025 (Phase II). Accordingly, Key Action No. 5 should be eliminated from the list of EAP II Key Actions that are to be undertaken during the coming year to address natural gas supply and demand issues.

Respectfully submitted,

Norman A. Pedersen

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Attorney for the **SOUTHERN CALIFORNIA GENERATION COALITION**

NAP:rfm
attachment

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to establish policies and rules to ensure reliable, long-term supplies of Natural Gas to California.	R.04-01-025 (Phase II)

SOUTHERN CALIFORNIA GENERATION COALITION OPENING COMMENT ON PHASE II PROPOSALS

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Dated: June 4, 2004

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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to establish policies and rules to ensure reliable, long-term supplies of Natural Gas to California.	R.04-01-025 (Phase II)

SOUTHERN CALIFORNIA GENERATION COALITION OPENING COMMENT ON PHASE II PROPOSALS

In accordance with the Administrative Law Judge's ("ALJ") Ruling dated March 5, 2004, in the captioned proceeding, the Southern California Generation Coalition ("SCGC") respectfully submits these opening comments regarding the Phase II Proposals filed by respondents Southern California Gas Company ("SoCalGas"), San Diego Gas & Electric Company ("SDG&E"), and Pacific Gas and Electric Company ("PG&E") on April 23, 2004. SCGC members own and operate electric generation facilities located in the SoCalGas service territory. Accordingly, these comments are directed primarily to the proposals submitted by SoCalGas.

By and large, SCGC's views on the issues presented by the Commission for consideration in Phase II of this proceeding are aligned with the views of SoCalGas as presented in its April 23, 2004 Proposals. SCGC concurs with SoCalGas that SoCalGas should maintain slack capacity on its transmission system. However, SCGC suggests that the amount of slack capacity should be based upon adverse weather conditions as proposed by PG&E rather than average weather conditions as suggested by SoCalGas. SCGC joins SoCalGas in strongly opposing any requirement that SoCalGas establish an emergency gas storage reserve or an emergency reserve of interstate pipeline capacity. Likewise, SCGC agrees with SoCalGas that it would be premature for the Commission to direct SoCalGas to acquire interstate pipeline

capacity to "backstop" noncore customers' acquisition of interstate pipeline capacity. SCGC also joins SoCalGas in supporting PG&E's suggestion that a working group be formed to monitor gas supply, demand, and market developments on a periodic basis to assist the Commission.

SCGC conditionally supports SoCalGas' proposal that SoCalGas should be relieved of responsibility for throughput risk. If SoCalGas is to receive 100 percent balancing account protection against throughput risk for its gas transmission revenue requirement, several conditions should be met. First, SoCalGas should be obligated to maintain slack capacity on its transmission system. Second, SoCalGas should be obligated to continue to offer transmission service to noncore and wholesale customers at volumetric rates. Third, SoCalGas should continue its current practice of contracting for firm transmission service on a biennial basis.

As a fourth condition, SoCalGas' noncore storage rates and revenues should be treated in a manner consistent with treatment of noncore transmission rates and revenues. Accordingly, SoCalGas' rates for storage service should be capped on a cost of service basis, and SoCalGas should receive 100 percent balancing account treatment for its storage revenue requirement. Storage contracts should be offered for up to a maximum of two years with grandfathering of existing contracts that have longer terms, and SoCalGas should be required to expand its inventory, injection, and withdrawal capacity on a timely basis so as to keep pace with customer needs for capacity.

As a fifth condition for receiving 100 percent balancing account treatment for its noncore transmission revenue requirement, SoCalGas should be fully at risk for any shortfall in revenues that results from offering discount rates for noncore transmission or storage service.

Other issues raised in the Phase II Proposals should be left for consideration in other proceedings. For example, as suggested by SoCalGas, energy efficiency issues should be left for consideration in Rulemaking ("R.") 01-08-028 or elsewhere. Likewise, SoCalGas' proposal that the Commission permit deliveries to customers that are located off of the utility system should be left for a later proceeding.

I. THE PROPOSAL THAT THE GAS UTILITIES MAINTAIN SLACK TRANSMISSION CAPACITY IS CONSISTENT WITH CURRENT POLICY AND IS APPROPRIATE, BUT PROPOSALS THAT THE UTILITIES MAINTAIN AN EMERGENCY GAS STORAGE RESERVE AND EMERGENCY RESERVE OF INTERSTATE PIPELINE CAPACITY ARE INCONSISTENT WITH CURRENT POLICY AND ARE INADVISABLE.

In its January 22, 2004 Order Instituting Rulemaking ("OIR") in this proceeding, the Commission proposed that the gas utilities be required to maintain "emergency reserves." OIR at 17. The "emergency reserves" would have three components. One component would be "slack capacity on the interstate pipelines" that would provide for "maximum flexibility of access to storage and interconnecting pipeline facilities ...." *Id.* Maintaining a modicum of slack capacity is consistent with the current practice of both SoCalGas and PG&E, although there is a question about the quantification of the amount of slack capacity that should be held.

In addition to maintaining slack transmission capacity, the Commission proposed in the OIR that both SoCalGas and PG&E maintain "an emergency supply of natural gas in storage in California" and a "limited amount of additional interstate pipeline capacity" that would be held by the California utilities "solely for the emergency needs of the utilities." *Id.* Unlike the slack capacity proposal, the proposals for the utilities to hold emergency reserves of natural gas in storage and emergency reserves of interstate pipeline capacity represent a dramatic switch from current policy and are inadvisable.

A. The Current Policy and Practice of Maintaining Slack Intrastate Gas Transmission Capacity Is Appropriate and Should Be Continued, with Refinements.

The Commission's proposal in the OIR that the gas utilities maintain an amount of slack transmission capacity is consistent with both established policy and utility practice. After the round of curtailments that were experienced in California in the late 1980s, the Commission issued a landmark decision in 1990 recognizing "the wisdom of planning to allow for additional capacity of up to 20% in order to supply the unbundled gas service structure, foster competition (gas-to-gas and pipeline-to-pipeline), and achieve a higher level of reliability of gas service in California." Decision ("D.") 90-02-016 at 57 (Feb. 7, 1990). Although the Commission's observations in 1990 were made in the context of considering the amount of interstate pipeline capacity that was appropriate for California, the observations were appropriate for intrastate pipeline capacity, as well. Accordingly, the California gas utilities have adopted the policy of maintaining a "slack factor" in designing their backbone transmission systems.

SoCalGas presented its most recent gas resource plan in its currently pending cost of service case, Application ("A.") 02-12-027. SoCalGas witness David M. Bisi testified: "SoCalGas designs its backbone transmission system to maintain a 15%-20% annual average slack capacity relative to demand forecast under an average temperature/normal hydro condition." A.02-12-027 (Phase I) Supplemental Testimony of David M. Bisi at DMB-3 (Jun. 16, 2003). Witness Bisi explained the value of maintaining slack capacity: "The slack capacity allows more flexibility to purchase gas supplies at the most favorable time and location, which lowers gas costs and allows SoCalGas' customers to meet unexpected and temporary spikes and demand cost effectively." *Id.*

Consistent with witness Bisi's testimony in the cost of service case, SoCalGas advised the Commission in its Phase I Proposals in the instant proceeding: "SoCalGas uses an average

year supply requirement with a 15 to 20% excess capacity ('slack capacity') at its receipt points to allow for increases in demand during colder than average years and to allow customers the flexibility to choose preferred supply sources – sources that tend to be lower cost at certain times of the year." SoCalGas Phase I Comments at 53 (Feb. 24, 2004).

According to SoCalGas, its currently installed total firm receipt point capacity of 3875 MMcf/d satisfies the slack factor design criteria. SoCalGas stated in its Phase I filing in this proceeding that SoCalGas' "previous five-year flowing supply requirement has only averaged 2897 MMcf/d for a slack factor of 33.8%." *Id.* SoCalGas observed further: "In fact, even during the record demand year of 2001, where demand averaged 3207 MMcf/d, the current receipt point capacity would have provided a 20.8% level of slack capacity." *Id.* SoCalGas projects that its current installed 3875 MMcf/d of receipt point capacity will provide it with a slack factor exceeding 20% under average temperature year conditions through at least the year 2020:

SoCalGas Backbone Transmission Slack Factor, Average Temperature Year Condition

Year	2002 CGR (MMcf/d) (A)	Load Factor (%) (B) = (A)/3875	Slack Factor (%) (C) = 100 – (B)
2004	2449	63.2	36.8
2005	2493	64.3	35.7
2006	2542	65.6	34.4
2007	2602	67.1	32.9
2010	2684	69.3	30.7
2015	2806	72.4	27.6
2020	2968	76.6	23.4

Supplemental Testimony of David M. Bisi on behalf of SoCalGas at DMB-5, A.02-12-027 (Jun. 16, 2003).

PG&E joins SoCalGas in supporting a slack capacity guideline for designing intrastate backbone transmission capacity. The only difference between PG&E and SoCalGas is that SoCalGas advocates maintaining up to 20 percent slack capacity as measured under average year temperature conditions while PG&E advocates maintaining up to 20 percent slack capacity under adverse weather conditions: "For setting the initial guideline, PG&E proposes to use a combined dry hydroelectric and cold temperature year forecast with a 1-in-10-year recurrence based upon the Weather Vintage methodology." PG&E Phase II Proposals at 40. PG&E says that it recommends the 1-in-10-year recurrence interval "because it reasonably covers a risk of stress events without going too far." *Id.* at 41.

SCGC supports the Commission's proposal that the gas utilities continue to maintain a slack capacity factor in designing backbone transmission facilities, and SCGC is pleased to see consensus utility support for maintaining a slack capacity factor. As for the narrower issue of whether the measurement of the appropriate amount of slack capacity should be based on average temperature conditions as advocated by SoCalGas or adverse weather conditions as advocated by PG&E, SCGC recommends the PG&E approach. In its original promulgation of the 20 percent "slack factor" concept in its 1990 decision, D.90-02-016, the Commission found: "Use of cold-year throughput is appropriate for capacity planning purposes," indicating support for measuring the amount of appropriate slack capacity on the basis of adverse rather than average weather conditions. D.90-02-016 at 58. The PG&E approach is consistent with this landmark Commission precedent.

In its Phase II comments, PG&E succinctly summarizes additional reasons why slack capacity should be measured under adverse rather than average year conditions. As PG&E notes, experience in 2000 to 2001 suggests "that prices begin to arise rapidly as demand reaches

about 90% of capacity." PG&E Phase II Proposals at 41. Maintaining up to a 20 percent level of slack capacity under moderately adverse weather conditions as proposed by PG&E would help to mitigate price increases under reasonably frequent adverse conditions as well as under normal conditions. Under either normal or moderately adverse conditions, the maintenance of slack capacity would ensure that the marginal supply source available to California would be able to compete against any other supply source that might attempt to charge a commodity price higher than the otherwise available marginal supply. *Id.* at 39. Accordingly, SCGC recommends the adverse weather criteria suggested by PG&E as a measure for quantifying the amount of slack capacity that should be maintained on intrastate gas transmission systems.

PG&E points out that the cost of the slack capacity is "identical in nature to PG&E's other backbone transmission costs." PG&E Phase II Proposals at 71. The same is true of SoCalGas. Accordingly, the cost of any slack capacity should be included in SoCalGas' transmission revenue requirement and allocated to customers in accordance with adopted principles for allocating the transmission revenue requirement.

B. The Proposal to Maintain an Emergency Supply of Natural Gas in Storage Should Not Be Adopted.

In the OIR, the Commission proposes to require the California gas utilities to maintain "an emergency supply of natural gas in storage in California ...." OIR at 17. SoCalGas calls this an "emergency gas storage reserve" or an "EGSR." SoCalGas Phase II Proposals at 31. SoCalGas appropriately recommends that the Commission evaluate the EGSR proposal by performing a cost/benefit analysis. In performing a cost/benefit analysis, it is first necessary to estimate the cost of the EGSR. Next, it is necessary to estimate the benefit. Insofar as the benefit would be the savings that would be realized by avoiding a price spike, the estimated benefits must be done on a probabilistic basis. When the estimated costs are evaluated in light

the low probability of realizing a reasonable level of offsetting benefits, it becomes clear that the EGSR proposal should not be pursued.

It becomes yet more apparent that the EGSR proposal should not be pursued when the unintended consequences of pursuing the proposal are taken into account. Creating an EGSR could have unintended consequences that would vitiate the effectiveness of the EGSR. Just as the California Energy Commission ("CEC") found that California should not establish an emergency gasoline reserve, this Commission should not proceed with a proposal that the gas utilities create emergency gas storage reserves. Also, the EGSR would be difficult to administer effectively or equitably.

1. The Cost of Establishing an EGSR Would Be Significant.

SoCalGas undertook the task of estimating the annual cost of maintaining EGSRs of 5 Bcf, 10 Bcf, and 15 Bcf. SoCalGas generated a table showing that the estimated annual cost of maintaining an EGSR would be $6.5 million for 5 Bcf, $11.4 million for 10 Bcf, and $16.4 for 15 Bcf:

Recurring Annual Cost ($M) of EGSR

Bcf Size of Reserve	5	10	15
Cost Border Purchase @ $5.00	25.0	50.0	75.0
Return and Taxes on Ratebased Gas (12.38%)	3.1	6.2	9.3
Value of Existing Storage Inventory @ 37 cents*	1.9	3.7	5.6
Value of 166 MMcf/d firm withdrawal @ $9.30/dth/d*	1.5	1.5	1.5
Cost of as-available injection for summer fill	0.0	0.0	0.0
Cost of using existing "excess" slack backbone capacity	0.0	0.0	0.0
Total Annual Cost	6.5	11.4	16.4

*Market value of storage inventory, withdrawal could vary significantly from year to year.

Cite: SoCalGas Phase II Proposals at 34. SoCalGas concludes: "The costs associated with an EGSR are not insignificant." *Id.*

Not only are SoCalGas' estimated costs "not insignificant." The estimated costs are understated. For example, SoCalGas assumes no cost for using as-available injection for summer fill. This, however, is contradictory to SoCalGas' tariff. Under the tariff, the peak season for injection service is April through November. *See* Schedule No. G-BSS, Basic Storage Service; Schedule No. G-TBS, Transaction-Based Storage Service. SoCalGas' tariff provides for recovery of an in-kind energy charge of 2.44 percent that is applied to all quantities that are delivered for injection. *Id.* Under SoCalGas' tariff, the in-kind charge would need to be recovered as a cost of maintaining EGSR. Furthermore, under SoCalGas' tariff, there is an O&M injection charge of 0.127 cents per therm that applies to all quantities injected, less the in-kind charge. *Id.* This charge would also have to be considered as a cost of injection into the EGSR.

SoCalGas further understates the cost of maintaining the EGSR by assuming no "cost of using excess slack backbone capacity." Under its tariff, SoCalGas recovers a transportation charge when it transports gas to storage. *Id.* The charge for transportation of gas to storage is 5.67 cents per therm. *Id.* Some consideration should be given to this cost in estimating the full cost of maintaining an EGSR.

If the Commission required that firm pipeline and storage rights be utilized and that new (incremental) storage capacity be constructed for the EGSR, the cost of the EGSR could escalate dramatically above SoCalGas' very conservative estimate of the recurring annual cost of the EGSR. SoCalGas generated the following estimate of the recurring annual cost of maintaining an EGSR using firm rights instead of interruptible rights and using incremental storage capacity:

Recurring Annual Cost ($M) of EGSR Using Firm Rights

Size of Reserve (Bcf)	5	10	15
Cost of San Juan supply @ $4.80	24.0	48.0	72.0
Return and Taxes on Ratebased Basin Purchase, 12.38%	3.0	5.9	8.9
Cost of dedicated firm interstate capacity at EP tariff, 33 cents	1.7	3.3	5.0
Levelized Cost of Ratebased Inventory Expansion	1.4	2.9	4.3
Levelized Cost of Ratebased Withdrawal Expansion	2.5	2.5	2.5
Levelized Cost of Ratebased 25, 50, 75 MMcf/d Compression	0.8	1.7	2.5
Cost of expanding slack backbone capacity 25, 50, 75 MMcf/d	0.8	1.7	2.5
Total Annual Cost	10.2	17.9	25.6

Cite: SoCalGas Phase II Proposals at 39. Under this estimate of the annual cost of the EGSR using firm rights, the annual cost would escalate from $6.5 million to $10.2 million for 5 Bcf, from $11.4 million to $17.9 million for 10 Bcf, and from $16.4 million to $25.6 million for 15 Bcf.

SoCalGas' estimate of the recurring annual cost of the EGSR using firm rights is understated, just as was SoCalGas' estimate of the cost of EGSR using interruptible rights. For example, SoCalGas assumes that El Paso Natural Gas Company ("El Paso") firm capacity would be dedicated to the EGSR, but SoCalGas assumes that the dedicated capacity (25 MMcf/d for the 5 Bcf case, 50 MMcf/d for the 10 Bcf case, and 75 MMcf/d for the 15 Bcf case) could be sold during the winter when the El Paso capacity would not be needed to fill the EGSR. Under today's market conditions, this assumption is overly optimistic. SoCalGas apparently agrees. In a data response to SCGC about selling the El Paso capacity, SoCalGas said: "We make the assumption that this capacity can be sold near tariff during the winter, in which the capacity would not be needed to fill the reserve. This assumption may be too optimistic, which would mean the costs in the table for El Paso firm capacity are too low." SoCalGas Response to SCGC Second Data Request, Question 7.

In sum, regardless of whether interruptible and existing capacity or firm and new capacity is used for the EGSR, the annual cost of EGSR would be significant. Furthermore, SoCalGas' estimates of the recurring annual costs are conservative.

2. Under Today's as well as Foreseeable Conditions, the Probability of Significant Price Spikes Is so Low that Creating an EGSR Is Not Warranted on a Cost/Benefit Basis.

After estimating the recurring annual cost of maintaining the EGSR, the next step in evaluating whether the EGSR is justified on a cost/benefit basis is to determine the likely benefit. Insofar as the benefit of the EGSR would be preventing a gas price spike, the benefit must be determined on a probabilistic basis. SoCalGas generated tables showing the cost/benefit ratio for both a 5 Bcf reserve and a 10 Bcf reserve. SoCalGas Phase II Proposals at 36, 37. The tables showed that the benefits of either the 5 or the 10 Bcf reserve rose to the level of the costs only if one assumes that there would be a 250 percent price spike such as occurred in 2000-2001 once every ten years, or if one assumes that there would be at least a 100 percent price spike every other year. SoCalGas Phase II Proposals at 37. Assuming continuation of the slack capacity policy as proposed by the Commission in the OIR and as supported by the gas utilities as well as by SCGC, there is little likelihood of a 250 percent price spike once every ten years or a 100 percent price spike every other year. Thus, the benefit of the EGSR would not justify the recurring annual cost.

a. *There Is, and with the Adoption of the Slack Capacity Policy, Should Continue To Be, Sufficient Intrastate Backbone Transmission Capacity to Make It Improbable that there Would Be a Shortfall in Interstate Pipeline Capacity that Would Cause or Contribute to the Occurrence of a Significant Price Spike.*

There is currently enough excess intrastate backbone transmission capacity on the SoCalGas and PG&E systems so that there is a very low probability of an intrastate backbone capacity shortfall that would cause a significant gas price spike. Furthermore, if the Commission

validates continued application of the policy that the gas utilities should maintain up to 20 percent slack capacity on their backbone transmission systems, there should continue to be enough capacity in the future to reduce to an acceptably low level any probability that backbone capacity constraints would cause or contribute to a significant gas price spike.

PG&E correctly observed: "Experience in 2000-2001 suggested that prices begin to rise rapidly if demand reaches about 90% of capacity." PG&E Phase II Proposals at 41. However, SoCalGas and PG&E currently have enough excess intrastate backbone capacity to make it improbable that under foreseeable demand conditions the amount of slack capacity would be reduced to the level that could cause a significant price spike. As discussed above, SoCalGas demonstrated in its currently pending cost of service case, A.02-12-027, that it has and is expected to continue to have a significant amount of slack capacity. Supplemental Testimony of David M. Bisi on Behalf of SoCalGas at DMB-5, A.02-012-027 (Jun. 16, 2003). Even without any further additions to its backbone capacity, SoCalGas forecasts that it will have a 23.4 percent slack factor as late as 2020 under average temperature year conditions. *Id.* at DMB-5.

Likewise, PG&E forecasts that it will have sufficient intrastate slack capacity to prevent a shortfall of intrastate capacity from causing or contributing to a price spike. Under average weather conditions, PG&E forecasts 36 percent slack capacity in 2006. PG&E Phase II Proposals at 16. Under a 1-in-35-year cold and dry weather condition, PG&E says it would still have a 23 percent slack factor in 2006. *Id.* PG&E concludes that, "even under adverse, relatively low probability demand conditions, PG&E's annual slack intrastate capacity would stay above 10 percent." *Id.* at 17. PG&E presented a forecast to 2012 showing that under 1-in-10-year dry hydro condition, PG&E would have a slack factor of 21 percent as late as 2009, and a 17 percent slack factor in 2012. *Id.* at 18.

Clearly, the Commission is concerned about the 250 percent price spike scenario. SCGC shares the Commission's concern. A 250 percent price spike occurred during the 2000-2001 energy crisis. However, as SoCalGas points out, there is a "relatively low probability" that the events that converged to cause the 2000-2001 energy crisis will reoccur:

> The events of 2000-2001 that caused energy prices to spike ... included the convergence of factors such as: reduced capacity available on the interstate pipeline system of El Paso; unusually low hydroelectric production which increased demand for natural gas-fired electricity generation; abnormally hot summer temperatures that increased demand by EG customers; abnormally cold winter temperatures that increased demand for both natural gas and electricity; and "backwardated" natural gas prices that provided an incentive during the summer 2000 for market participants not to fill natural gas storage.

SoCalGas Phase II Proposals at 27-28. Further, even if the factors that converged in 2000-2001 were to converge once again, SoCalGas has added 375 MMcf/d of "take-away" capacity on its backbone transmission system that was unavailable in 2000-2001. *Id.* at 28.

Aside from the SoCalGas addition of capacity, additional factors have further reduced the probability of a reoccurrence of a 2000-2001 event. For example, more efficient electric generation capacity has replaced less efficient generation capacity that was in place in 2000-2001. Likewise, the structure of the electricity market has been dramatically changed. Thus, even if there were a reoccurrence of the weather conditions that were experienced in 2000-2001, not only does SoCalGas have an increased amount of capacity available to meet demand, but the level of demand generated by a replication of 2000-2001 weather conditions would be likely to be significantly less than experienced in 2000-2001.

Clearly, there is such a low probability of an intrastate capacity shortfall which would trigger a 250 percent or even a 100 percent price spike that it would be unwarranted to create an EGSR as a hedge against the occurrence of such a shortfall.

b. *There Is Sufficient Interstate Pipeline Capacity to Make It Improbable that there Would Be a Shortfall in Interstate Pipeline Capacity that Would Cause or Contribute to the Occurrence of a Significant Gas Price Spike*.

Although there is a low probability that a shortfall in *intrastate* capacity would cause or contribute to the creation of a 250 percent or even a 100 percent price spike, consideration must be given to whether there is sufficient *interstate* pipeline capacity to preclude any meaningful probability of an interstate pipeline capacity shortfall causing or contributing to a significant gas price spike. SCGC commends PG&E for presenting an analysis that shows convincingly that there is such a significant excess of slack capacity on the interstate pipeline systems that there is a very low probability that there would be an interstate pipeline capacity shortfall that would cause or contribute to a significant gas price spike.

PG&E makes the important point that the interstate pipelines that serve California also serve other western states, including Arizona, Nevada, New Mexico, Oregon, and Washington. PG&E Phase II Proposals at 22. California, Arizona, New Mexico and southern Nevada are particularly well interconnected. *Id.* As a result of the interconnections, natural gas prices tend to equilibrate across the western region. *Id.* Within the western regional natural gas market, any new interstate pipeline capacity that serves a part of the market provides slack capacity for the entire area. *Id.* at 23.

As PG&E shows, there have been significant additions to interstate pipeline capacity serving the California/Arizona/Nevada/New Mexico market since the energy crisis. Total capacity has increased 1802 MMcf/d from 8670 MMcf/d to 10,472 MMcf/d in 2004. *Id.* at 25. This represents more than a 20 percent increase in capacity serving the California/Arizona/Nevada/New Mexico market area. As a result of this addition of capacity, even if there were a reoccurrence of the all-time peak 12-month level of gas demand for

California/Arizona/Nevada/New Mexico market area (2000-2001), the recent additions of capacity would result in a 22 percent slack factor on the interconnected interstate pipeline system serving the market area. *Id.* at 28. Thus, even under 2000-2001 demand conditions, there would be such a significant slack factor on interstate pipelines that there would be a low probability that load factors would reach the 90 percent level at which the load factor on the interstate pipelines would be likely to start to contribute to a price spike.

In addition to pipeline expansions, there have been significant interstate pipeline reforms since the 2000-2001 energy crisis. A primary reform is that El Paso "full requirements" customers located east of California ("EOC") no longer receive service on a full requirements basis. In 2000-2001 the EOC customers were permitted to receive as much gas as they required on any day without limit. Thus, if the El Paso system became constrained as it did during the energy crisis, service to California would be likely to be cut while the EOC customers continued to received quantities of gas that were sufficient to meet their demand. Today, however, the EOC customers have been converted so that they receive "contract demand" service as do the California customers served by El Paso.

Given the significant reforms on the El Paso system in combination with more than a 20 percent increase in interstate pipeline capacity serving the California/Arizona/Nevada/ New Mexico market area, it would be unreasonable to attribute a significant probability to the occurrence of an interstate pipeline capacity shortfall that would contribute to or cause a significant price spike that would warrant establishment of an EGSR. In sum, there is such a low probability of either an intrastate or an interstate pipeline capacity shortfall that would cause a significant price spike situation that incurring the cost of creating the EGSR cannot be justified.

3. Creation of an EGSR Could Have Unintended Consequences that Would Render the Reserve Ineffective.

Even if there were a high enough probability that either an intrastate or interstate capacity shortfall would trigger a significant price spike, there is a critical question about whether creation of an EGSR would be an effective countermeasure. SoCalGas as well as PG&E expressed a concern that the mere establishment of an EGSR could provide customers with a disincentive to acquire or fill storage capacity or to take other actions to protect themselves against gas price spikes. SoCalGas Phase II Proposals at 34; PG&E Phase II Proposals at 48. The unintended consequences of creating an emergency reserve compelled the California Energy Commission ("CEC") to conclude that an emergency gasoline reserve should not be established. *See* CEC Report, "Feasibility of a Strategic Fuel Reserve in California" (July 2003) ("CEC Report"). The same concerns apply here.

a. *An Emergency Gas Reserve Could Displace or "Crowd Out" Storage by Customers.*

In considering the creation of a strategic gasoline reserve for California, the CEC expressed its concern that "public storage can often displace, or 'crowd out' existing and/or future private inventory." CEC Report at 5. The CEC observed:

> Stocks provide benefits to private holders by smoothing production fluctuations, easing adjustment to seasonal changes in demand, and reducing the likelihood of product outages. Public storage leads to crowding out when private holders perceive lower benefits to keeping stocks and adjust their level of inventories downward accordingly. The amount of crowding out depends upon how well public holdings substitute for private stocks, which is a function of the rules established for release of public inventory as well as other factors such as transportation costs.

CEC Report at 6. If the creation of the emergency gas reserve results in the displacement of storage by customers, the maintenance of an emergency gas reserve could have little or no impact on gas price volatility. As with the gasoline reserve, total displacement of storage by

individual customers would not be likely because it would still be important for customers to hold storage for purposes other than as a hedge against a price spike. However, as concluded by the CEC in assessing the advisability of maintaining a state gasoline reserve, "the degree of crowding out could be high enough to reduce significantly the effectiveness of the SFR in dampening price spikes." *Id.*

b. *Creation of an Emergency Gas Reserve Could Create Arbitrage Opportunities that Could Render the Reserve Ineffective.*

In a gas price spike situation, the gas market would be likely to be in "backwardation." The market is "backwardated" when current prices are higher than forward prices. As the CEC explained: "If the market enters a period of backwardation, this signals the market that prices are expected to fall in the near future." CEC Report at 7. If the market were backwardated, traders could bid for gas in the emergency gas reserve at high prices, planning to return the gas to the reserve at a later date when prices were lower. This behavior could leave the reserve with little supplies at a later time if prices failed to fall in the future as projected. As a result, the reserve could be left with little supply when the expected price spikes occur later in the year. Such premature draining of the reserve could be prevented by putting limits on withdrawals, but then the reserve would not well integrated with the California gas market, and the reserve could lose its potential effectiveness in dampening price spikes. *See* CEC Report at 9.

c. *An Emergency Gas Reserve Could Reduce the Total Supply of Gas.*

As with the gasoline reserve considered by the CEC, the creation of an emergency gas reserve could actually diminish the amount of supply available to the market. In the gas price spike situation, customers may turn to the emergency gas reserve for supplies rather than seeking supplies from gas suppliers. To the extent to which supplies from gas suppliers are not

purchased by the end users who are relying on emergency gas reserve gas, the total amount of gas available to the market could be reduced. *See* CEC Report at 10.

d. *The Significant Potential for Unintended Consequences that Would Make the EGSR Ineffective Indicates that the Commission Should Pursue Alternatives and not the EGSR.*

The potential for unintended consequences to vitiate the effectiveness of an emergency gasoline reserve led the CEC to conclude that rather than pursuing a gasoline reserve, California should pursue alternatives. The same is true of the EGSR. Precisely the same unintended consequences that would have the potential to vitiate the emergency gasoline reserve that was considered by the CEC would have the potential for vitiating the effectiveness of the EGSR that is now being contemplated by this Commission.

As with the emergency gasoline reserve, the Commission should consider alternatives to the EGSR. The most obvious alternative is to continue the current policy and utility practice of maintaining slack capacity on the intrastate pipeline system. As discussed above, maintaining a reasonable degree of slack capacity on the intrastate system, in concert with the existence of slack capacity on the interconnected interstate systems that serve the western region, reduces the probability of a price spike occurrence to such low levels that incurrence of the cost of an EGSR is unwarranted.

e. *The EGSR Would Be Difficult to Administer Effectively or Equitably.*

In addition to not being cost-effective and to being exposed to unintended consequences that would be likely to vitiate any potential effectiveness, the EGSR would be exceedingly difficult to administer effectively or equitably. It would be difficult to determine precisely the right time to release storage from the emergency storage reserve in order to mitigate or preclude a gas price spike. It is easy to identify a right time to release additional gas after a price spike occurs. It is not so easy to know the right time to release gas in the midst of a spike event.

In all likelihood, any release of gas from the EGSR would occur either too early or too late. The release of gas at precisely the right time to preclude or mitigate a price spike would be serendipity.

Additionally, it would be difficult to identify the customers to whom the emergency storage reserves should be released without creating inequities. Customers who had failed to provide for themselves by acquiring storage capacity or interstate pipeline capacity would have the greatest need for EGSR supplies. However, it would be inequitable to those customers that had provided for themselves to release EGSR supplies only to those customers who lacked gas in storage or rights to interstate pipeline capacity.

C. The Commission Should Not Direct California Gas Utilities to Hold an "Emergency Reserve" of Interstate Pipeline Capacity.

In addition to proposing continuation of the slack capacity policy and the establishment of an EGSR, the Commission proposes in the OIR that the California gas utilities be directed to acquire a "limited amount" of interstate pipeline capacity that would be held by the utilities "solely for the emergency needs of the utilities." OIR at 17. The "emergency reserve" of interstate pipeline capacity would not be considered to be dedicated to either core or noncore customers. OIR at 18. Accordingly, the costs associated with the interstate pipeline capacity "emergency reserve" would be recovered through a system-wide charge to all customers. OIR at 19.

SCGC recommends against requiring the California gas utilities to acquire an emergency reserve of interstate pipeline capacity. The concept that the reserve would be beneficial rests upon an erroneous assumption about the importance of holding contractual rights to interstate pipeline capacity. Further, as with the EGSR, the cost of holding the emergency reserve of interstate pipeline capacity cannot be justified in light of the low probability of realizing the

benefit of avoiding price spikes. Additionally, as with the EGSR, there would be unintended consequences of holding the capacity that would vitiate the effectiveness of the emergency reserve. There are also significant questions about how the capacity could be utilized in an effective manner. Lastly, to the extent to which SoCalGas currently holds El Paso "turnback" capacity, SoCalGas should be permitted to allow the turnback capacity contracts to expire and not be renewed.

1. Price Spikes Are Avoided by Having an Adequate Amount of Slack Capacity on the Interstate Pipeline System Rather than by Holding Capacity Under Contract.

The apparent motivation for the Commission to propose that the gas utilities be required to contract for an emergency reserve of interstate pipeline capacity is that the holding of such capacity would enable the gas utilities to avoid price spikes. A distinction should be drawn between having sufficient interstate pipeline capacity to serve the California/Arizona/Nevada/ New Mexico interconnected market and holding capacity rights on individual pipelines to a given utility's service territory. As PG&E points out and as discussed above, interstate pipelines that serve California also serve other western states. PG&E Phase II Proposals at 22. Insofar as the multi-state western area, particularly California, Arizona, Nevada, and New Mexico, are served by the same interstate pipelines and are interconnected, gas prices tend to equilibrate across the broad multi-state area under most conditions. *Id.* If there is sufficient interstate pipeline capacity, any attempt by one or several suppliers to substantially raise prices would be moderated and offset by competition from other suppliers, assuming that there is enough slack capacity on the pipelines serving the western market to permit open gas-on-gas competition.

Currently, as PG&E's analysis of interstate pipeline capacity for the California and nearby western market area demonstrates, there is sufficient slack capacity on the interstate pipelines serving California and the associated western region to assure effective gas-on-gas

competition. PG&E Phase II Proposals at 27. The existence of an adequate amount of slack capacity for the relevant geographic market, assuming that there is also adequate capacity on downstream intrastate pipelines, provides assurance of effective gas-on-gas competition as a prophylactic against price spikes. The existence of that region-wide slack capacity obviates the need for particular utilities to hold capacity under contract to their individual service territories as an "emergency reserve" to avoid the consequence of price spikes.

2. Holding an Emergency Reserve of Interstate Pipeline Capacity Is Not Justifiable on a Cost/Benefit Basis.

Just as holding an EGSR is not justifiable on a cost/benefit basis, holding an emergency reserve of interstate pipeline capacity is not justifiable. The cost of holding the capacity must be evaluated in light of the probability of needing to use the interstate pipeline capacity reserve to avoid a price spike. The cost of the pipeline capacity would be the cost of firm rather than interruptible capacity, insofar as the availability of the capacity would be assured only if the capacity were held under a firm contract. The specific cost would be determined on the basis of the mix of firm pipeline capacity that would be held by the gas utilities. For example, firm Kern River Gas Transmission Company ("Kern River") capacity is more expensive than firm El Paso capacity.

As with the EGSR discussed above, the certainty of incurring a cost of holding an emergency reserve of firm interstate pipeline capacity must be considered in light of the probability of realizing a benefit. As with the emergency gas reserve, the probability of a benefit is low. Due to recent additions of interstate pipeline capacity to the western market, there is sufficient slack capacity so that even if gas demand reached the all-time 12-month peak experienced in 2000-2001, there would still be 22 percent slack capacity. PG&E Phase II

Proposals at 28. The existence of that slack capacity results in a low probability of a price spike that would justify incurrence of the cost of the interstate pipeline capacity emergency reserve.

3. The Unintended Consequences of the Gas Utility Holding of Interstate Pipeline Capacity Emergency Reserve Could Negate the Benefits, if any, of Holding the Reserve.

As with the EGSR discussed above, having the gas utilities hold an emergency reserve of interstate pipeline capacity could have unintended consequences that would negate the benefits of holding the reserve. Customers that seek to obtain interstate pipeline capacity to avoid significant ongoing basis differentials between basin prices and delivery point prices would continue to obtain capacity on desired interstate pipelines. However, to the extent to which customers hold interstate pipeline capacity to protect themselves against price spikes as the SoCalGas core was protected in 2000-2001, the creation of the gas utilities' interstate pipeline capacity emergency reserve could be counterproductive. The customers could rely upon the gas utilities holding a reserve of interstate pipeline capacity, with the customers avoiding the cost of holding capacity. Thus, the total capacity held under contract by the gas utilities in combination with customers located with the utilities' service territory could actually be reduced, negating the benefits of the interstate pipeline capacity emergency reserve. Indeed, even less capacity overall might be held by the gas utilities in combination with the customers than if the utilities were not required to hold an interstate pipeline capacity emergency reserve. In order to avoid the unintended consequence of "crowding out" individual customers from holding interstate pipeline capacity, it would be advisable to avoid creating an emergency reserve of interstate pipeline capacity.

4. The Interstate Pipeline Capacity Emergency Reserve Would Be Difficult to Administer Effectively or Equitably.

The creation of an emergency reserve interstate pipeline capacity would raise troublesome issues about administration of the capacity. An immediate issue would be whether to permit the gas utilities to broker the capacity on the secondary market so as to mitigate the cost of holding firm interstate pipeline capacity on a contract demand basis. If the capacity were brokered even for a short time, the capacity might be held by a third party at precisely the time that a price spike occurs. In that event, the benefit of holding the capacity would be lost. An alternative would be for the gas utilities to broker interstate pipeline capacity subject to recall. However, the imposition of recall rights could significantly reduce the value received for the capacity on the secondary market, thereby increasing the cost of the capacity reserve.

Another troublesome issue would be how to utilize the capacity in the off-chance that a price spike actually occurred. If the gas utility utilized the capacity itself to transport gas purchased at basin prices to the pipeline delivery point for resale to the gas utilities' customers at market prices, the gas utility would realize profit from capturing the basis differential between basin prices and delivery point prices, but the customers would not see an amelioration of spiked prices. On the other hand, the pipeline could allocate the emergency reserve of interstate pipeline capacity to individual customers within the gas utility service territory so that the customers could utilize the capacity to purchase gas at basin rather than spiked delivery point prices. *See* PG&E Phase II Proposals at 51. However, this would give rise to a difficult question about how to allocate the capacity among the gas utilities' customers.

A primary allocation question would be how to treat gas utility customers that, themselves, hold firm interstate pipeline capacity as opposed to customers that rely upon sales by marketers at pipeline delivery points. Presumably, customers that hold interstate pipeline

capacity would avoid high delivery point prices as a result of holding pipeline capacity to gas production basins. Customers that do not hold capacity, would, conversely, be subject to spiking delivery point prices. It would be inequitable, however, to allocate interstate pipeline emergency reserves to the customers that buy gas from marketers at interstate pipeline delivery points to the exclusion of the customers that took the precaution of holding capacity in their own name.

Given the amount of slack capacity on interstate pipelines serving the California and associated western market and the consequent low probability of a price spike, the nettlesome issues about administration of an interstate pipeline capacity emergency reserve can best be avoided by declining the establish the reserve.

5. SoCalGas Should Be Permitted to Allow Contracts for El Paso Turnback Capacity to Expire Without Acquiring Replacement Capacity.

SoCalGas already holds a reserve of interstate pipeline capacity. Pursuant to the Commission's directive in D.02-07-037, SoCalGas acquired 139 MMcf/d of turned-back El Paso capacity in 2002. SoCalGas holds its capacity for the benefit of all customers. SoCalGas recovers the cost of its El Paso turned-back capacity reserve from all customers on a ECPT basis. D.04-01-047 at 15 (Jan. 22, 2004). Just as the establishment of a new emergency reserve of interstate pipeline capacity cannot be justified on a cost/benefit basis, continuation of the existing holding of 139 MMcf/d of El Paso turned-back capacity by SoCalGas cannot be justified. Accordingly, SoCalGas requested in its Phase II Proposals that it should not be required to continue to hold El Paso turned-back capacity after the current contracts expire. SoCalGas Phase II Proposals at 42. SCGC supports SoCalGas' request and urges the Commission to permit SoCalGas to allow its contracts for El Paso turned-back capacity to expire without acquiring replacement capacity.

II. THE COMMISSION SHOULD NOT REQUIRE THE GAS UTILITIES TO "BACKSTOP" NONCORE CUSTOMERS BY SUBSCRIBING TO INTERSTATE

PIPELINE CAPACITY TO SERVE THE NONCORE CUSTOMERS IN THEIR SERVICE TERRITORIES.

In the OIR, the Commission suggests that it might require the gas utilities to "backstop" noncore customers by requiring the gas utilities to subscribe to "a certain amount" of interstate pipeline capacity to serve the noncore customers in the gas utilities' service territories. OIR at 20. The Commission emphasizes that "the backstop function of the utilities is merely a potential function at this time." OIR at 21. The gas utilities should be required to "backstop" the noncore customers "*if* the noncore market participants do not ensure sufficient interstate pipeline capacity to meet the noncore customers' needs in the future." OIR at 19 (emphasis in original). It is "premature" to assume that noncore market participants "will not provide for the necessary infrastructure, including contracts with a firm interstate pipeline capacity to California, to meet their needs." OIR at 19.

In order to assure that it will receive information sufficient to enable it to determine whether it is necessary to direct the gas utilities to commence operating as a "backstop" to noncore customers, the Commission instructed the gas utilities "to propose in their Phase II filings a process by which they will gather information and keep the Commission regularly informed about the infrastructure and services provided to their noncore customers, including the amount of firm interstate pipeline capacity and contracts between interstate pipelines and California noncore customers and/or marketers serving California noncore customers." OIR at 20. According to the Commission: "This information should also include updates as to how much interstate pipeline capacity, which has previously been utilized to serve California, is serving markets outside of California." *Id.*

The Commission emphasizes that its proposal to gather information about the "infrastructure and services" provided to noncore customers and its consideration of potentially

requiring the gas utilities to "backstop" noncore customers is "totally separate" from the proposal that the gas utilities establish an emergency reserve of interstate pipeline capacity. OIR at 19. The emergency reserve of interstate pipeline capacity would be acquired by the gas utilities to serve all customers, with the cost being allocated to all customers. OIR at 18-19. By contrast, the "backstop" function of the utilities would be targeted to noncore customers and would be pursued only at a later date on the basis of information that would be obtained through the information gathering process which the gas utilities were to propose in their Phase II filings. OIR at 19-21.

In response to the OIR, the gas utilities propose to establish a "standing working group" that would provide the Commission with the information that it requests in the OIR. However, the utilities oppose being required to "backstop" noncore customers by having the gas utilities acquire interstate pipeline capacity to serve noncore customer needs. SCGC supports the utilities' proposal to establish a working group to keep the Commission informed about market developments. SCGC also joins the utilities in recommending against having the utilities "backstop" noncore customers by acquiring interstate pipeline capacity to serve noncore customer needs.

A. SCGC Supports PG&E's Proposal to Create a Working Group that Would Submit a Quarterly Report of Publicly Available Information About Developments in the Interstate Pipeline Capacity Market.

In response to the OIR requirement that the gas utilities propose in their Phase II filings a process by which the utilities will "keep the Commission regularly informed about the 'infrastructure and services' provided to the utilities' noncore wholesale customers," PG&E proposed the formation of a working group that would consist of members of the Commission's staff, the CEC, and the gas utilities. PG&E Phase II Proposals at 54. PG&E suggests that the group would submit a quarterly report to the Commission. PG&E says:

At a minimum, such a report would need to include the following information:

- Firm delivery point capacities to California by pipeline.
- Firm capacity subscriptions by California delivery point and customer.
- Capacity releases that result in changes to firm delivery points from California to points upstream of California.
- Summary of expiring contracts within the coming 12-month period.
- Deadlines for exercising rights of first refusal within the coming 12-month period.
- Deadline for capacity expansion open seasons.

PG&E Phase II Proposals at 54. The report would provide the Commission with what PG&E calls a "snapshot" at a particular time with publicly available information about who holds firm contracts on interstate pipelines connected to California. *Id.* PG&E explains that the report would not provide for real-time information about how each contract is used and to which delivery points each shipper is delivering supplies, insofar as such information is not publicly available. *Id.*

SoCalGas supports PG&E's proposal for a working group and quarterly reports. SoCalGas Phase II Proposals at 42-43. SCGC also supports the PG&E proposal. SCGC believes that a well-informed Commission is better positioned to fulfill its constitutional and statutory responsibilities in service to California.

Insofar as PG&E's proposed report would convey publicly available information to the Commission, SCGC recommends that the report itself be publicly available. Further, SCGC recommends that some process be adopted whereby market participants and members of the public can be provided with an opportunity to provide input and to correct any errors or omissions that may otherwise inadvertently appear in the quarterly report. Allowing the report to be publicly available and allowing some opportunity for input and corrections to the report

would result in the Commission being more fully and accurately informed about interstate pipeline capacity market conditions, to the benefit of the Commission and ultimately to California.

B. It Is Premature to Consider Having Utilities Acquire Interstate Pipeline Capacity to Serve Noncore Customers.

The Commission says in the OIR that "the backstop function of the utilities and any specific charges for the backstop function are hypothetical at this time." OIR at 21. The Commission emphasizes that it is "premature" to require the gas utilities to subscribe to interstate pipeline capacity to serve noncore customers in their service territories. OIR at 19-20. SoCalGas agrees that it is premature. SoCalGas Phase II Proposals at 41. SCGC concurs.

The Commission should give careful consideration to the profound consequences of putting the gas utilities back in the business of acquiring interstate pipeline capacity for noncore customers. For more than a decade, the cost of interstate pipeline capacity has been unbundled from the intrastate transportation rates charged to noncore customers by the California gas utilities. D.91-11-025 (Nov. 6, 1991); D.92-07-025 (Jul. 1, 1992). To the extent to which the gas utilities have held contractual rights to interstate pipeline capacity beyond the needs of core customers or core subscription customers, the gas utilities have recovered the cost of the excess capacity through an Interstate Transition Cost Surcharge ("ITCS").

Noncore customers, including wholesale customers, have been free to obtain interstate pipeline capacity or, alternatively, to acquire gas supplies at interstate pipeline delivery points in whatever manner might best suit their individual gas supply procurement requirements. Currently, for example, SDG&E holds interstate pipeline capacity to supply basins, but SDG&E still procures a significant amount of gas through "border" purchases at interstate pipeline delivery points. *See* D.94-01-047 at 10 (Jan. 22, 1994). SCGC members are electric generators

that hold over 500 MMcf/d of interstate pipeline capacity. Nevertheless, SCGC members also purchase substantial amounts of gas at interstate pipeline delivery points rather than in gas production basins.

Permitting noncore customers to design their own gas procurement strategy has been a highly successful Commission program. While noncore customers hold substantial amounts of pipeline capacity on a contract demand basis, as exemplified by SDG&E and the SCGC members, the purchase of substantial supplies at interstate pipeline delivery points such as Topock or Malin has resulted in active markets at interstate pipeline delivery points (although the markets are less liquid today than in prior years due to a decrease in a number of marketers that are participating in the delivery point markets).

If the Commission were to assess the amount of interstate pipeline capacity that is held on a contract demand basis by noncore customers and direct the gas utilities to acquire interstate pipeline capacity to the extent to which noncore customers do not have contract demand rights that are sufficient to meet their needs, the inexorable result would be that noncore customers would be precluded from buying gas at interstate pipeline delivery points. Noncore customers would be relegated to procuring gas in production basins and transporting the gas through interstate pipeline capacity held in the noncore customer's name or through the "backstop" interstate pipeline capacity held by the gas utilities. The result would be a significant decrease in the volume of gas sales transactions at interstate pipeline delivery points and the likely demise of the markets that currently exist at, for example, Topock and Malin.

A further consequence of requiring the gas utilities to buy interstate pipeline capacity to "backstop" noncore customers would be that noncore customers would, most likely, reduce their holdings of interstate pipeline capacity in their own name as existing contractual obligations

expire. Noncore customers would progressively rely upon capacity procured on their behalf and for which they were billed by the gas utilities.

The unintended consequence of "crowding out" noncore customers from the interstate pipeline capacity market could adversely affect the development of new capacity to California. For example, the 2003 expansion of the Kern River pipeline by over 900 Mdth/d was driven by electric generators, including SCGC members, that executed long-term contracts for capacity on the Kern River expansion project. But for those electric generator contracts, the expansion capacity would not have been constructed. It is largely due to the existence of that Kern River expansion capacity that there is over 20 percent slack capacity, overall, on interstate pipelines serving California and the neighboring states. If the gas utilities are put back in the business of acquiring interstate pipeline capacity on behalf of noncore customers, the role that noncore customers have played in providing long-term contractual support for the construction of interstate pipeline capacity would most likely be diminished if not eliminated all together.

Thus, reversing the noncore self-procurement policies of the last decade by putting the gas utilities back in the role of acquiring interstate pipeline capacity for noncore customers would be likely to have profound but unintended consequences for the structure of the western gas supply and capacity market. It would be premature for the Commission to implement the "backstop" proposal that was suggested hypothetically in the OIR without fully and carefully assessing both intended and unintended consequences of implementing the hypothetical proposal.

III. SCGC CONDITIONALLY SUPPORTS SOCALGAS' PROPOSAL THAT IT NO LONGER BE AT RISK FOR NONCORE REVENUE REQUIREMENT.

The Commission observed in the OIR that its current ratemaking policies are aimed at providing the California natural gas utilities with incentives to keep their costs as low as possible

and to operate as efficiently as possible. OIR at 22. The Commission noted that the utilities have "at risk" conditions "for recovering some of their costs based upon the noncore throughput on their systems." *Id.* The Commission expressed a concern that its current ratemaking policies "may create incentives to the utilities to focus too much upon short-term gains or potential losses rather than long-term results." *Id.* The current ratemaking policies may create incentives for the utilities not to have slack capacity, yet "we need slack capacity ...." *Id.* at 23. Further, putting the utilities at risk for noncore throughput "could potentially dominate the utilities' perspective away from insuring adequate and reliable service to all of their customers." *Id.* at 23.

In its last completed Biennial Cost Allocation Proceeding ("BCAP"), SoCalGas entered into a stipulation with various parties in which SoCalGas agreed to a 75%/25% ratepayer/shareholder balancing account treatment for noncore revenues. D.00-04-060, App. A, "Joint Recommendation" at 6 (Apr. 20, 2000). SoCalGas already had 100 percent balancing account protection for core revenues. In D.02-12-027 (Dec. 5, 2002), the Commission granted SoCalGas 100 percent balancing account protection for noncore revenues, effective January 1, 2003, until a decision is issued in a subsequent SoCalGas BCAP. In D.04-05-039 (May 27, 2004), the Commission dismissed the SoCalGas BCAP application that was pending in A.03-09-008 and directed SoCalGas to file a new BCAP application within 120 days after the date that the currently effective stay of the Gas Industry Restructuring Implementation Decision, D.04-04-015 (Apr. 1, 2004), is lifted by affirmative action of the Commission. Insofar as SoCalGas will receive 100 percent balancing account protection for noncore revenue risk "until a decision issues" in a future SoCalGas BCAP, SoCalGas is currently in a position to enjoy 100 percent balancing account treatment for noncore revenues for, potentially, a significant

period of time. The issue presented here is whether the insulation from risk should be made permanent.

In its Phase II Proposals, SoCalGas advocates a permanent elimination of risk for recovering its noncore transmission revenue requirement. SoCalGas Phase II Proposals at 14-23. The result would be that SoCalGas would be completely free of throughput risk.

SCGC conditionally agrees with SoCalGas that it would be appropriate to grant, on a permanent basis, 100 percent balancing account protection for SoCalGas' noncore transmission revenue requirement, which would result in SoCalGas being completely insulated from throughput risk. As expressed by SoCalGas (at 17) as well as by the Commission in the OIR, putting SoCalGas at risk for some portion of the noncore transmission revenue requirement as was done in the last completed SoCalGas BCAP appears to be inconsistent with encouraging SoCalGas to maintain an amount of slack capacity on its system. However, SCGC believes that SoCalGas should be permitted to realize 100 percent balancing account protection only upon condition that SoCalGas maintain a slack capacity factor and further, upon condition that SoCalGas desist from seeking to burden noncore customers unnecessarily with changes in the current rate design or terms and conditions of service.

Thus, if SoCalGas is awarded 100 percent balancing account protection for noncore as well as core revenues, SoCalGas should be required to maintain a slack factor and to continue to offer the Service Interruption Credit. Additionally, SoCalGas should be required to continue to offer noncore customers transmission service at volumetric rates, and SoCalGas should be required to continue to offer firm transmission service under contracts having the maximum term of no more than two years. Additionally, storage rates and revenues should be treated similarly to transmission rates and revenues so that rates for storage service are set on a cost of service

basis and balancing account treatment applies to SoCalGas' storage revenue requirement. Lastly, if SoCalGas offers discounts from tariffed rates for gas transmission or storage service, shareholders rather than ratepayers should bear any shortfall that results from offering the discounts.

A. As a Condition for Receiving 100 Balancing Account Protection for Noncore as well as Core Revenue Requirement, SoCalGas Should Be Required to Maintain a Slack Capacity Factor and Continue to Offer the Service Interruption Credit.

SoCalGas contends that continuing to put SoCalGas at risk for noncore throughput would be inconsistent with a requirement that SoCalGas maintain slack capacity on its backbone system. SoCalGas Phase II Proposals at 18-20. If SoCalGas is permitted complete balancing account protection for its noncore revenue requirement as well as its core revenue requirement, SoCalGas should be required to maintain a slack capacity factor on its backbone transmission system in accordance with whatever standard is ultimately found to be appropriate by the Commission in this proceeding.

In order to provide further assurance that SoCalGas will maintain adequate transmission capacity on its system, the Service Interruption Credit should be continued. SoCalGas' tariff provides that if a firm intrastate transmission customer experiences more than one qualifying interruption during a ten-year period, SoCalGas shall provide such customer with a Service Interruption Credit of $0.25 per therm of gas curtailed or diverted. SoCalGas' Rule No. 23, Sheet 11-12. A qualifying service interruption of firm intrastate transmission is defined as being "any curtailment which is not (1) the result of either force majeure or scheduled maintenance ... or (2) a curtailment of Standby Procurement Service." *Id.* (emphasis in original). The Commission has observed that the Service Interruption Credit has been effective: "Since the inception of the [Service Interruption Credit] in D.91-11-025, SoCalGas has not experienced a

curtailment necessitating payment of the [Service Interruption Credit]. It appears the penalty has been an effective measure in motivating SoCalGas to plan its system capacity." D.02-11-073 at 17 (Nov. 21, 2002).

B. As a Condition for Receiving 100 Balancing Account Protection for Noncore as well as Core Revenue Requirement, SoCalGas Should Be Required to Continue to Offer Noncore Transmission Service at Volumetric Rates.

SoCalGas argues that one of the primary reasons why SoCalGas should be granted 100 percent balancing account treatment for its noncore as well as its core revenue requirement is that noncore customers receive gas transmission service at volumetric rates. SoCalGas Phase II Proposals at 21. SoCalGas says that only 2.9 percent of the fixed costs that are allocated to the noncore customer class as a whole are collected through fixed monthly charges. *Id.*, footnote 35. For electric generation customers, only 0.2 percent of fixed costs are recovered through a fixed monthly charge. *Id.* SoCalGas argues:

> Any difference in actual throughput as compared to the Commission's adopted demand forecast used to set customer rates results in a variation in the recovery of the utility's fixed costs. An "at risk" structure makes utility earnings rise or fall based on whether actual demand is greater or lesser than the adopted demand forecast.

Id. at 21. If SoCalGas is to receive 100 percent balancing account protection for noncore revenues on the assumption that, absent balancing account protection, SoCalGas would be exposed to revenue fluctuations as a result of having volumetric rates for noncore transmission service, SoCalGas should be required to continue to offer transmission service at volumetric rates.

If SoCalGas is granted 100 percent balancing account protection for noncore revenues, there would be no need to shift away from a volumetric rate design for noncore transmission rates. One hundred percent balancing account treatment would already provide SoCalGas with

complete insulation from throughput risk. There would be no point to providing SoCalGas with double insulation from throughput risk by allowing SoCalGas to impose demand charges in addition to having 100 percent balancing account protection for its revenue requirement recovery. Accordingly, SCGC recommends that if the Commission is inclined to grant SoCalGas 100 percent balancing account protection for its noncore as well as core transmission revenue requirement, the protection should be conditioned upon continuation of the current volumetric rate design for noncore transmission rates.

C. As a Condition for Receiving 100 Percent Balancing Account Protection for Its Noncore Revenue Requirement, SoCalGas Should Be Required to Continue to Offer Firm Transmission Service Under Contracts Having a Term of Two Years.

Currently, SoCalGas offers firm transmission service to noncore customers under contracts having a maximum term of two years. *See* Schedule No. GT-F, Special Condition 4. From time to time, such as in its last BCAP application, A.03-09-008, which was dismissed on May 27, 2004 in D.04-05-039, SoCalGas proposed to require large noncore customers to sign 15-year contracts if they desired firm transportation service. A.03-09-008 at R-10. Small noncore customers would be required to sign five-year contracts as a condition for receiving firm service. *Id.* at R-13. If a customer failed to execute a contract for the required long term, the customer would be relegated to interruptible service.

Long-term contracts shift risks from SoCalGas to its customers. If SoCalGas is to receive 100 percent balancing account treatment, it will have received 100 percent protection for recovery of its noncore revenue requirement. It should not be permitted to further burden customers with risk mitigating measures such as long-term contracts. Once risk is completely eliminated, further risk mitigation measures such as long-term contracts are unwarranted and unreasonable.

D. If SoCalGas Is to Receive 100 Percent Balancing Account Treatment for its Transmission Revenue Requirement, Storage Rates and Revenues Should Be Treated Similarly to Transmission Rates and Revenues.

If SoCalGas is to receive 100 percent balancing account protection for its transmission revenue requirement, storage services and revenues should be treated similarly to transmission service and revenues. Currently, storage services and revenues are treated differently from transmission service and revenues. In its last completed BCAP, SoCalGas entered into a stipulation with parties that provides for a 50/50 balancing account treatment for unbundled storage revenues. *See* D.00-04-060, App. A, at 4. In return, SoCalGas is permitted to charge a rate for unbundled storage service under Schedule No. G-TBS that is subject to a cap that is set so high that, effectively, there is no cap at all. *See* SoCalGas Schedule No. G-TBS.

While SoCalGas urges that it be relieved of any shareholder responsibility for the risk of recovery of the noncore transmission revenue requirement, SoCalGas fails to seek balancing account protection for its storage revenue requirement. The clear reason is that the current structure under which SoCalGas is permitted to offer unbundled storage service to noncore customers at effectively uncapped rates is financially beneficial for shareholders. During the last three calendar years, the SoCalGas shareholders' share of storage revenues that exceed the storage revenue requirement is nearly $30 million. *See* Appendix A. If SoCalGas is to be extended the benefit of 100 percent balancing account treatment for its noncore transmission revenue requirement, SoCalGas should be required to accept, as well, 100 percent balancing account treatment for noncore storage revenues. Additionally, SoCalGas should be required to offer storage services at cost-based rates.

Permitting 100 percent balancing account treatment for SoCalGas' noncore storage revenue requirement in combination with establishing cost-based storage rates may have the salutory effect of encouraging SoCalGas to make timely decisions about storage capacity

expansions. Currently, SoCalGas has a disincentive to expand storage. SoCalGas is the sole provider of storage in southern California. If SoCalGas expands its storage capacity, the price that SoCalGas might be able to get for storage service under Schedule No. G-TBS may drop. In the time period since SoCalGas was put at risk for noncore storage revenues, it has undertaken only one significant expansion of its storage capacity, the "cushion gas" project, which added 14 Bcf of inventory capacity. D.02-11-028 (Nov. 7, 2002). SoCalGas proceeded with the project only upon condition that it be permitted 100 percent recovery of the full cost of the expansion from the sale of cushion gas. D.02-11-028 at 35.

If SoCalGas receives balancing account treatment for its noncore as well as its core storage revenue requirement, SoCalGas may be inclined to undertake further storage expansions and even to maintain some modicum of slack capacity, just as SoCalGas would be encouraged to maintain up to 20 percent slack backbone capacity upon being granted 100 percent balancing account treatment for recovery of its transmission revenue requirement.

E. SoCalGas Rather than Ratepayers Should Be 100 Percent at Risk for any Shortfall that Results from Offering Discounts for Gas Transmission or Storage Services.

A further condition for permitting SoCalGas to enjoy the benefit of 100 percent balancing account protection for its transmission revenue requirement is that SoCalGas should be required to bear the full burden of any shortfall in revenue recovery that results from offering any customers discounts for transmission or storage services. If the burden of any shortfall that might result from offering a discount from tariffed rates for transmission or storage services falls on SoCalGas shareholders rather than ratepayers, SoCalGas will be likely to exercise care in offering any discounts.

IV. CONCLUSION.

For the reasons set forth above, SCGC urges the Commission to adopt the utilities' proposal to maintain up to 20 percent slack capacity on intrastate backbone gas transmission systems. Further, SCGC recommends that the amount of slack capacity be measured on the basis of 1-in-10-year adverse weather conditions as proposed by PG&E rather than annual weather conditions as proposed by SoCalGas.

SCGC recommends that the Commission *not* pursue the proposals for the creation of an EGSR or an emergency reserve of interstate pipeline capacity. SCGC recommends that the Commission adopt PG&E's proposal that the Commission form a working group that would monitor and report to the Commission on interstate pipeline capacity market conditions. However, SCGC urges the Commission to set aside as premature consideration of the "backstop" proposal to have the gas utilities acquire backbone capacity on behalf of noncore customers.

Lastly, SCGC recommends that the Commission grant SoCalGas 100 percent balancing account protection for recovery of the SoCalGas' noncore transmission revenue requirement, but only upon condition that (1) SoCalGas maintains slack capacity on its backbone transmission system up to the level found to be appropriate by the Commission, (2) SoCalGas continues to offer the Service Interruption Credit, (3) SoCalGas continues to offer gas transmission service to noncore customers at volumetric rates, (4) SoCalGas continues to offer gas transmission service rates under contracts setting a maximum term of no longer than two years for firm transmission service, (5) SoCalGas offers storage services at cost-based rates rather than market-based rates, with 100 percent balancing account treatment being applied to SoCalGas' unbundled storage

revenue requirement, and (6) SoCalGas bears 100 percent responsibility for any shortfall that results from offering discounts for transmission or storage service.

Respectfully submitted,

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APPENDIX A

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Noncore Storage Balancing Account - NSBA
Memo Account (Shareholder)
For the Year 2001
(Over) / Undercollection

	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01	Jul-01	Aug-01	Sep-01	Oct-01	Nov-01	Dec-01
Storage - Beginning Balance	687,094	767,681	427,167	360,557	(169,219)	(1,669,052)	(2,885,370)	(3,135,195)	(3,415,360)	(3,551,580)	(3,986,261)	(5,274,447)
Prior period adjustment	0	0	0	0	0	0	0	0	0	0	(435,517)	0
Subtotal	687,094	767,681	427,167	360,557	(169,219)	(1,669,052)	(2,885,370)	(3,135,195)	(3,415,360)	(3,551,580)	(4,421,778)	(5,274,447)
Authorized Margin (1/12th)	857,833	857,833	857,833	857,833	857,833	857,833	857,833	857,833	857,833	857,833	857,833	857,833
Storage Company Use Fuel	88,422	108,625	99,341	289,502	279,820	468,092	301,245	198,752	230,721	101,303	100,972	80,385
Adjusted Margin for Month	946,255	966,458	957,174	1,147,335	1,137,653	1,325,925	1,159,078	1,056,585	1,088,554	959,136	958,805	938,218
Reservation Charges	863,475	1,302,795	1,016,275	1,664,666	2,228,896	1,937,618	1,317,049	1,229,135	1,127,769	1,056,088	1,130,823	1,055,656
O&M Charges	1,254	4,581	7,509	12,445	8,945	4,850	2,675	4,309	4,423	3,162	4,672	1,247
In-Kind Fuel Charges	939	(405)	0	0	399,644	599,776	193,870	103,307	92,582	101,303	100,972	80,385
Total Revenues for Month	865,668	1,306,972	1,023,785	1,677,111	2,637,485	2,542,244	1,513,594	1,336,750	1,224,774	1,160,553	1,236,466	1,137,288
Current Month Adjustment	80,587	(340,514)	(66,610)	(529,776)	(1,499,832)	(1,216,318)	(249,825)	(280,165)	(136,220)	(434,680)	(852,669)	(199,070)
Interest	0	0	0	0	0	0	0	0	0	0	0	0
Total Monthly Activity	80,587	(340,514)	(66,610)	(529,776)	(1,499,832)	(1,216,318)	(249,825)	(280,165)	(136,220)	(434,680)	(852,669)	(199,070)
Storage - Ending Balance	767,681	427,167	360,557	(169,219)	(1,669,052)	(2,885,370)	(3,135,195)	(3,415,360)	(3,551,580)	(3,986,261)	(5,274,447)	(5,473,517)

Noncore Storage Balancing Account - NSBA
Memo Account (Shareholder)
For the Year 2002
(Over) / Undercollection

	Jan-02	Feb-02	Mar-02	Apr-02	May-02	Jun-02	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02
Storage - Beginning Balance	(5,473,517)	(5,747,034)	(5,882,095)	(6,363,909)	(8,495,747)	(9,651,910)	(10,695,944)	(11,576,114)	(12,407,851)	(13,402,753)	(14,324,483)	(15,234,514)
Prior period adjustment	0	0	0	0	0	0	0	0	0	0	0	0
Subtotal	(5,473,517)	(5,747,034)	(5,882,095)	(6,363,909)	(8,495,747)	(9,651,910)	(10,695,944)	(11,576,114)	(12,407,851)	(13,402,753)	(14,324,483)	(15,234,514)
Authorized Margin (1/12th)	857,833	857,833	857,833	857,833	857,833	857,833	857,833	857,833	857,833	857,833	857,833	857,833
Unallocated Storage Cost (1/12th)	0	0	0	0	0	0	0	0	0	0	0	0
Storage Company Use Fuel	12,499	13,110	15,685	91,843	217,235	296,472	150,863	206,201	99,814	101,566	107,641	195,321
Adjusted Margin for Month	870,332	870,943	873,518	949,676	1,075,068	1,154,305	1,008,696	1,064,034	957,647	959,399	965,474	1,053,154
Reservation Charges	1,130,215	990,139	1,338,016	2,987,030	2,003,742	1,894,145	1,737,385	1,687,385	1,851,124	1,778,632	1,762,217	1,813,456
O&M Charges	1,135	2,755	1,631	2,641	10,254	7,722	618	2,185	1,611	931	5,648	3,940
In-Kind Injection Charges	12,499	13,111	15,685	91,843	217,235	296,472	150,863	206,201	99,814	101,566	107,641	195,321
Total Revenues for Month	1,143,849	1,006,004	1,355,333	3,081,513	2,231,231	2,198,340	1,888,866	1,895,771	1,952,549	1,881,129	1,875,505	2,012,717
Current Month Adjustment	(273,517)	(135,061)	(481,815)	(2,131,837)	(1,156,163)	(1,044,034)	(880,170)	(831,737)	(994,902)	(921,730)	(910,031)	(959,563)
Interest	0	0	0	0	0	0	0	0	0	0	0	0
Total Monthly Activity	(273,517)	(135,061)	(481,815)	(2,131,837)	(1,156,163)	(1,044,034)	(880,170)	(831,737)	(994,902)	(921,730)	(910,031)	(959,563)
Storage - Ending Balance	(5,747,034)	(5,882,095)	(6,363,909)	(8,495,747)	(9,651,910)	(10,695,944)	(11,576,114)	(12,407,851)	(13,402,753)	(14,324,483)	(15,234,514)	(16,194,077)

Noncore Storage Balancing Account - NSBA
Memo Account (Shareholder)
For the Year 2003
(Over) / Undercollection

	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03
Storage - Beginning Balance	(16,194,077)	(17,141,205)	(17,996,656)	(18,829,309)	(20,726,215)	(21,677,653)	(22,803,388)	(23,844,930)	(24,854,791)	(25,814,730)	(26,777,795)	(28,299,700)
Prior period adjustment	0	0	0	0	0	0	0	0	0	0	0	0
Subtotal	(16,194,077)	(17,141,205)	(17,996,656)	(18,829,309)	(20,726,215)	(21,677,653)	(22,803,388)	(23,844,930)	(24,854,791)	(25,814,730)	(26,777,795)	(28,299,700)
Authorized Margin (1/12th)	857,833	857,833	857,833	857,833	857,833	857,833	857,833	857,833	857,833	857,833	857,833	857,833
Unallocated Storage Cost (1/12th)	0	0	0	0	0	0	0	0	0	0	0	0
Storage Company Use Fuel	16,841	23,693	(54,709)	58,143	100,394	514,359	776,015	323,262	230,965	465,996	412,862	102,889
Adjusted Margin for Month	874,674	881,526	803,124	915,976	958,227	1,372,192	1,633,848	1,181,095	1,088,798	1,323,829	1,270,695	960,722
Reservation Charges	1,795,507	1,689,806	1,667,576	2,762,500	1,808,664	1,980,135	1,886,104	1,864,551	1,816,968	1,813,378	2,369,219	1,938,131
O&M Charges	9,454	23,478	22,910	(7,761)	607	3,433	13,271	3,143	804	7,520	10,519	1,542
In-Kind Injection Charges	16,841	23,693	(54,709)	58,143	100,394	514,359	776,015	323,262	230,965	465,996	412,862	102,889
Amortization												
Total Revenues for Month	1,821,803	1,736,977	1,635,777	2,812,881	1,909,666	2,497,927	2,675,390	2,190,956	2,048,737	2,286,894	2,792,600	2,042,562
Current Month Adjustment	(947,128)	(855,451)	(832,653)	(1,896,906)	(951,438)	(1,125,735)	(1,041,542)	(1,009,861)	(959,939)	(963,065)	(1,521,905)	(1,081,840)
Interest	0	0	0	0	0	0	0	0	0	0	0	0
Total Monthly Activity	(947,128)	(855,451)	(832,653)	(1,896,906)	(951,438)	(1,125,735)	(1,041,542)	(1,009,861)	(959,939)	(963,065)	(1,521,905)	(1,081,840)
Storage - Ending Balance	(17,141,205)	(17,996,656)	(18,829,309)	(20,726,215)	(21,677,653)	(22,803,388)	(23,844,930)	(24,854,791)	(25,814,730)	(26,777,795)	(28,299,700)	(29,381,540)

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the SOUTHERN CALIFORNIA GENERATION COALITION OPENING COMMENT ON PHASE II PROPOSALS on the service list for R.04-01-025 by serving a copy to each party by electronic mail, or by mailing a properly addressed copy by first-class mail with postage prepaid to each party unable to accept service by electronic mail.

Executed on June 4, 2004, at Los Angeles, California.

Rosemarie F. McBride