

Docket:	:	<u>A.13-12-013</u>
Exhibit Number	:	_____
Reference No.	:	<u>ORA-01</u>
Commissioner	:	<u>M. Florio</u>
ALJ	:	<u>D. Long/</u>
	:	<u>K. Bemederfer</u>
Witness	:	<u>N. Skinner</u>



**OFFICE OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION**

**Prepared Testimony on
Southern California Gas Company and
San Diego Gas & Electric Company
Application For Authority to Recover
North-South Project
Revenue Requirements in Customer Rates
and Related Cost Allocation and Rate
Design Proposals**

**Chapter 1
Executive Summary & Safety**

San Francisco, California
May 8, 2015

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1 **EXECUTIVE SUMMARY**

2 **I. INTRODUCTION – THE OFFICE OF RATEPAYER ADVOCATES**
3 **RECOMMENDS THE REJECTION OF SEMPRA’S NORTH-SOUTH**
4 **PROJECT**

5 The Office of Ratepayer Advocates (ORA) submits its reports and exhibits in
6 response to Southern California Gas Company’s (SoCalGas) and San Diego Gas &
7 Electric (SDG&E) (collectively “Sempra”) Application (A.) 13-12-013 for approval of
8 the North-South Project (NSP or Project).¹ While the final costs of the project are
9 uncertain, the project is forecast to have a fully loaded and escalated cost of \$855.5
10 million² and a total revenue requirement over the service life of the project is
11 estimated to be \$2.782 billion.³

12 ORA recommends the Commission deny Sempra’s Application. As
13 demonstrated by Southern California Generation Coalition (SCGC)⁴ and The Utility
14 Reform Network (TURN),⁵ non-physical solutions are the superior approach to
15 addressing the alleged problems in Sempra’s Southern System.⁶ There are also

¹ SoCalGas/SDG&E Application (A.) 13-12-013 originally filed and dated December 20, 2013, with updated project scope in November 12, 2014, p. 1.

² Updated Testimony of Garry Yee for SoCalGas/SDG&E, November 12, 2014, p. 3, Table 4.

³ Yee, p. 4, Table 5.

⁴ See, Updated Direct Testimony of Catherine Yap on Behalf of SCGC, March 23, 2015.

⁵ See, Updated Direct Testimony of Herbert Emmrich on Behalf of TURN, March 23, 2015.

⁶ TURN suggests firm capacity contracts, returning system reliability purchases to the Core Gas Acquisition Department, providing Low Operational Flow Order authority (requested by Sempra in A.14-06-021), specific Southern System Flow Order authority, reducing monthly balancing to 5%, requiring electric generating facilities to have alternative emergency fuel sources, delaying the NSP 5-10 years, providing electrical generators with the ability to elect into core service, looping line 6916, and/or requiring Sempra to hold an Open Season for all physical supply options.

SCGC recommends, amongst many options, continuing the Memorandum in Lieu of Contracts for core, or by requiring the System Operator contract directly for capacity rights for non-core load’s share of minimum flow requirements, authorizations to buy liquefied natural gas (LNG) from Costa Azul or adding LNG storage, adding summer baseload contracts, having the System Operator enter into longer-term contracts for noncore customers, and purchasing from supply basins and selling at the citygate.

1 other physical options suggested by El Paso Natural Gas (EPNG),⁷
2 Transcanada/North Baja (TCNB),⁸ and Transwestern (TW),⁹ which provide a
3 reasonable solution to the problem Sempra claims to resolve with its proposed
4 Project, but at lower costs to ratepayers.¹⁰ If the Commission denies Sempra's
5 Application, these other alternatives can be considered in a new proceeding.
6 However, if the Commission approves the NSP, Sempra should be subject to a cost
7 cap.¹¹ This cap is consistent with how out-of-state natural gas pipelines are treated
8 and would also protect ratepayers against cost increases, such as have already
9 occurred in this proceeding.

11 **II. OVERVIEW / SUMMARY – SEMPRA PROPOSES A 63 MILE NEW** 12 **PIPELINE FROM ADELANTO TO MORENO**

13 This section provides an overview and summary of Sempra's requests and
14 ORA's recommendations regarding the utility's proposed Project. The Project would
15 involve building approximately 63 miles of 36" steel pipeline from the town of
16 Adelanto to the Moreno Pressure Limiting Station, along with a rebuild of the
17 Adelanto Compressor Station. Preliminarily, the route will go through Cajon Pass,
18 populated regions of San Bernardino, and wetlands.¹²

19 **A. Sempra Requests Authority to Recover Over \$2.7 Billion** 20 **Cumulatively for the NSP**

21 On November 12, 2014, Sempra filed an update to its application requesting
22 that the Commission authorize a CPUC-jurisdictional rate revenue requirement of

⁷ See, Updated Direct Testimony of Anthony Sanabria on Behalf of EPNG, March 23, 2015.

⁸ See, Updated Direct Testimony of James Schoene on Behalf of TCNB, March 23, 2015.

⁹ See, Direct Testimony of Steven Hearn on Behalf of TW, August 15, 2014.

¹⁰ EPNG recommends their alternative, which would loop the Havasu Crossover in Arizona with a 42" diameter pipe and compression facilities. TCNB proposes a pipeline from Needles to Blythe. TW recommends a Needles-Ehrenberg Pipeline.

¹¹ Direct Testimony of Pearlle Sabino for ORA, Section V.A.1.i.

¹² Updated Direct Testimony of David Bisi for SoCalGas/SDG&E, November 12, 2014, p. 9.

1 \$133.6 million for the first full year of the Project.¹³ The total forecast revenue
2 requirement over the lifespan of the project is \$2.782 billion.¹⁴ These costs are
3 subject to adjustment based on the actual project costs, without a cost cap.¹⁵

4 **III. ESTIMATED RATE IMPACT ON SEMPRA'S CUSTOMERS**

5 Sempra estimates that a natural gas residential customer in SoCalGas'
6 territory using an average of 39 therms/month would experience approximately a
7 \$0.49 bill increase (about 1.1%) per month, while a residential customer in SDG&E's
8 territory would experience about a 1% increase, using an average of 28
9 therms/month, or about a \$0.35 bill increase.¹⁶ However, the customers taking
10 service under the Backbone Transmission Service (BTS) rate, will see an 81.3%
11 increase from the current rate of \$0.154 per Dth/D to \$0.279 per Dth/D.¹⁷

12 In contrast, if the Commission adopts non-physical alternatives, in the ranges
13 recommended by TURN or SCGC, residential customer rate increases for
14 customers of both SoCalGas and SDG&E range between 0.3% to 0.4%, or
15 approximately 70% lower than Sempra's forecast.¹⁸ For the BTS rate, this
16 incremental rate impact equals between a 19.5% increase to a 33.4% increase, or
17 between \$0.030 and \$0.052 per Dth/D, well below Sempra's forecast for the NSP of
18 \$0.125 per Dth/D.¹⁹

19 As ORA and SCGC identified in their responses to the questions raised by
20 the Administrative Law Judge,²⁰ the NSP would provide a portion of a gap in high

¹³ Yee, p. 5, Table 5.

¹⁴ Yee, p. 5, Table 5.

¹⁵ Yee, p. 4, lines 11-14.

¹⁶ Updated Direct Testimony of Jason Bonnett for SoCalGas/SDG&E, November 12, 2014, p. 3, Table 2.

¹⁷ Sabino, Table 2-3.

¹⁸ Sabino, Table 2-4.

¹⁹ Sabino, Table 2-3.

²⁰ See ORA Response to Sempra Answers to Questions in ALJ's Ruling, pp. 5-6. See also, SCGC Response to Sempra Answers to Questions in ALJ's Ruling, pp. 14-16.

1 capacity, 36 inch pipeline to bring gas from SoCalGas's Northern System all the way
2 to the Mexican Border.²¹ While Sempra does not explain what need there might be
3 for such a high-capacity corridor capable of delivering a large amount of increased
4 incremental capacity to the border, the actions of its corporate affiliate to team up
5 with the Mexican state-owned energy company PEMEX to convert the affiliate's
6 current LNG import facility located in Costa Azul to an LNG export facility suggest
7 that there could be other justifications for Sempra's application than solely the needs
8 of its regulated utility customers in SDG&E's service territory. The ultimate size of
9 impacts to ratepayers and all end-use consumers of gas in the region are unknown,
10 but increasing the access to an LNG export facility and thus relative demand off the
11 Sempra system without increasing upstream access to interstate supplies will put
12 upward pressure on the commodity costs paid by Sempra's ratepayers and all gas
13 users in the region, in addition to the substantial transportation cost increases
14 proposed.

15 **IV. SAFETY CONSIDERATIONS**

16 Sempra's proposal to build an unnecessary pipeline to serve its utility
17 customers will put more people within the potential impact radius of a major gas
18 transmission line and have ratepayers pay more in rates. At the time the NSP was
19 filed, Sempra did not provide a substantive analysis of the safety implications²² for
20 the NSP, nor did it provide any risk analysis. The supplemental testimony of Haines
21 focuses on compliance with federal regulations. While federal regulations are an
22 important cornerstone of safety, Sempra has not provided a comprehensive analysis
23 of the risks and consequences associated with building its new pipeline relative to

²¹ Sempra has indicated in its Response to Question in ALJ's Ruling, pp. 20-23, that the need for Pipeline Safety Enhancement Plan work on Line 1600 requires replacing a 16" line with a 36" line. The last portion of the 36" pipeline is already in place, as discussed in SCGC Response to Sempra Answers to Questions in ALJ's Ruling, p. 4.

²² Testimony to address safety concerns was only provided by Sempra when requested by the Assigned Commissioner. See Supplemental Direct Testimony of Deanna Haines, July 18, 2014.

1 any benefits. Certain environmentally related factors may be covered in the
2 concurrent California Environmental Quality Act (CEQA) analysis. Assessing risk is
3 a systematic process in which potential hazards arising from operations are
4 identified and the likelihood and consequences of potentially adverse events are
5 estimated.²³ Sempra should provide a risk analysis for the North-South project, given
6 the magnitude of the project and the potential impacts to public safety. The purpose
7 of risk analysis should be to identify the location-specific events and/or conditions
8 that could lead to a pipeline failure. For example:

- 9 • Number of possible injuries and deaths in the event of a pipeline incident
- 10 • Severity of the health effect
- 11 • Number of people exposed to harmful health effects
- 12 • Environment
 - 13 ○ Cost to remediate in the event of a failure
 - 14 ○ Age and fragility of the area impacted
 - 15 ○ Types of species impacted, including listed species and their
 - 16 habitats
 - 17 ○ Air quality impacts
 - 18 ○ Accessibility to every area pipeline runs at all times during the year
 - 19 in the event of a pipeline accident

20 Other parties have proffered non-physical alternatives that will bolster
21 reliability and supply for the Sempra system while not increasing the risks or
22 consequences associated with building new infrastructure.²⁴ The arguments
23 Sempra provides to justify the NSP are: threats of reliable deliveries from El Paso
24 Natural Gas Company (El Paso) at Ehrenberg, long-term flowing supplies, supply

²³ This overall concept is currently taken up in Rulemaking 13-11-006, and the evaluation of the utilities' risk models are to occur over the summer. *Also see*, <http://epa.gov/riskassessment/basicinformation.htm#arisk>

²⁴ Many miles of the proposed project would run through populated areas. This does not mean that Sempra's operations or installation would be unsafe, but that with a new natural gas pipeline, portions of the population in Sempra's service territory would now live in proximity to a gas transmission line. Moreover, El Paso's and TW's alternatives would not involve construction within California.

1 availability during adverse weather conditions, force majeure events on El Paso's
2 system and operational limitations on the Southern system.²⁵ All of these
3 considerations have viable and cheaper alternatives, or are not potential threats at
4 all to the system.²⁶ These are discussed further in ORA-02.

5 **V. PROCEDURAL BACKGROUND AND SCHEDULE**

6 On December 20, 2013, Sempra filed with the Commission its Application for
7 the North-South Project, set to commence service in late 2019. ORA filed a timely
8 Protest to the Application on January 23, 2014. Sempra filed replies to protests on
9 February 3, 2014.

10 A Prehearing Conference (PHC) was held on March 13, 2014. Sempra
11 provided supplemental testimony on March 28, 2014. The Assigned
12 Commissioner's Ruling and Scoping Memo was issued on May 5, 2014, which
13 determined that the Commission was to act as lead agency for environmental review
14 of the proposed North-South Pipeline pursuant to CEQA, and directed SoCalGas
15 and SDG&E to file and serve a Proponent's Environmental Assessment.²⁷ Sempra
16 provided further supplemental testimony, on safety, on July 18, 2014. EPNG,
17 TCNB, and TW provided physical alternative testimony while SCGC and TURN
18 provided non-physical alternative testimony on August 15, 2014. On November 12,
19 2014, Sempra filed a motion to provide updated testimony, removing the Moreno-
20 Whitewater component of the NSP while increasing costs on the remaining portions
21 of the Project. Following Sempra's motion, ORA and SCGC filed a joint motion on
22 November 17 to suspend the schedule and request a PHC, to which Sempra replied
23 on November 18. On November 19, ALJ Long issued a ruling granting Sempra's
24 motion to provide updated testimony and ORA/SCGS's motion to suspend the
25 procedural schedule, and setting a PHC for December 16. On December 12, ALJ

²⁵ Bisi, p. 17; *also* Direct Testimony of Beth Musich for SoCalGas/SDG&E, December 20, 2014, pp. 17-23.

²⁶ These assertions are based on the analysis done by ORA and other parties in this case.

²⁷ Assigned Commissioner's Ruling and Scoping Memo, p. 1.

1 Long issued an email ruling cancelling the PHC because the parties in the
2 proceeding had been able to recommend a joint schedule.

3 On December 24, 2014 ALJ Long provided an email ruling directing Sempra
4 to file and serve answers regarding scope and schedule with an opportunity for other
5 parties to provide subsequent responses. After an extension was granted, Sempra
6 filed its responses on February 2, 2015. On February 23, the day before other party
7 responses were due (also having been granted an extension), the ALJ sent an
8 interim email ruling on scope and schedule. On February 24, ORA, TURN, TCNB,
9 and SCGC provided their responses to the ALJ questions on scope and schedule.
10 On March 9, 2015, TURN provided reply responses. The Amended Scoping Memo
11 was also provided on March 9, 2015.

12 With those rulings, the following procedural schedule was established:

Procedural Schedule for Sempra's North-South Project Application 13-12-013	
Event	Dates
Updated Intervenor Testimony on Alternative Options	March 20, 2015
Concurrent Rebuttal Testimony on Alternative Options	May 8, 2015
Intervenor Testimony on Ratesetting & Safety	May 8, 2015
Rebuttal Testimony on Ratesetting & Safety	June 12, 2015
Evidentiary Hearings (part 1)	July 7-10, 2015
Evidentiary Hearings (part 2)	July 20-24, 2015
Concurrent Opening Briefs	August 21, 2015
Concurrent Reply Briefs	September 11, 2015
Last Opportunity to Request Oral Argument	September 11, 2015
Submission	Pending CEQA

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1 **VI. ORGANIZATION OF ORA'S SHOWING / SUMMARY OF**
2 **DIFFERENCES**

3 This section briefly: (1) indicates how ORA's exhibits are organized; and (2)
4 briefly highlights the major differences between ORA and Sempra with respect to the
5 various elements of revenues, operating expenses, and capital expenditures.
6

7 **A. Summary of ORA's Recommendations**

8 The following briefly summarizes the recommendations contained within each
9 of ORA's report exhibits that address Sempra's application.

ORA-01 Executive Summary & Safety
<p>This exhibit provides a brief overview of Sempra's request; presents the overall organization of ORA's exhibits; summarizes the differences between customer bill impacts of the parties' proposals and raises safety issues that are not addressed by the applicants.</p> <ul style="list-style-type: none">• Recommends rejecting Sempra's North-South Project Application.• Identifies the absence of a risk analysis of the potential impacts of the NSP.

10
11

Exhibit ORA--2 Ratemaking and Need
<p>This exhibit addresses general issues including:</p> <ul style="list-style-type: none">• Reviews the concerns about reliability raised by the Applicants and finds that many of the proffered past problems would not be addressed by the North-South Project.• Describes the alternative proposals and their impacts.• Recommends the use of non-physical alternatives, which can be better assessed through a new proceeding after Sempra's proposal is denied.• If the NSP is approved, recommends a reduction of Sempra's contingency from an aggregate 13.8% to 5%, and a cost cap to protect ratepayers.

12
13

1 **VII. WITNESS QUALIFICATIONS**

2 Q.1 Please state your name and business address.

3 A.1 My name is Nathaniel W. Skinner. My business address is 505 Van Ness
4 Avenue, San Francisco, California, 94102.

5 Q.2 By whom are you employed and in what capacity?

6 A.2 I am employed by the California Public Utilities Commission as a Program
7 and Project Supervisor in the Office of Ratepayer Advocates Energy Cost of
8 Service and Natural Gas Branch.

9 Q.3 Briefly describe your educational background and work experience.

10 A.3 I have a MA degree in International Policy Studies from the Monterey Institute
11 of International Studies, a BA in Political Science from the University of
12 Washington, and a BA with Distinction in Scandinavian Area Studies from the
13 University of Washington. I am currently a PhD Candidate in Public Policy
14 and Administration at Walden University, specializing in Homeland Security
15 and Emergency Management.

16 Since joining the Commission in 2006, I have worked on various matters in an
17 advisory role with the Commission's Energy Division primarily in the area of
18 Long Term Procurement Planning for electric resources including reviewing
19 models and assumptions for renewable energy integration. Since
20 transitioning to ORA in 2013, I have worked on the General Rate Case OIR
21 (R.13-11-006), the PG&E Orders to Show Cause issued August 2013,
22 PG&E's PSEP Update Application (13-10-017), General Order 112-E,
23 Southern California Gas's North-South Project Application (13-12-013), and
24 various issues related to Natural Gas Transmission Safety Plans in R.11-02-
25 019 and its successor proceedings.

26 Q.4 What is your area of responsibility in this proceeding?

27 A.4 I am responsible for Exhibit ORA-01, which addresses the Executive
28 Summary and Safety. I am also ORA's project coordinator on this case.

29 Q.5 Does that complete your prepared testimony?

30 A.5 Yes, it does.
31