File #: 13-0284, **Version:** 1

Recommendation to authorize City Manager to execute the Partial Settlement Agreement in Phase 2 of California Public Utilities Commission Docket A.11-11-002, the San Diego Gas & Electric Company and Southern California Gas Company Triennial Cost Allocation Proceeding. (Citywide)

The City of Long Beach (City) contracts for the purchase of out-of-state natural gas supply which is transported by interstate pipelines to the California border. The City utilizes intrastate pipelines owned by the Southern California Gas Company (SoCalGas) to transport this natural gas from the California border to Long Beach Gas and Oil's (LBGO) natural gas utility distribution system.

On January 18, 2000, the City Council authorized the City Manager to execute a long-term Master Services Contract (No. 26729) in conjunction with Schedule A, the Intrastate Transmission Service Agreement, between the City and SoCalGas. Schedule A sets forth the terms and conditions of intrastate transmission service as approved by the California Public Utilities Commission (CPUC). On October 6, 2009, the City Council authorized the City Manager to execute the current Schedule A, which became effective November 1, 2009. Later, the CPUC revised the intrastate transmission service which became effective on February 1, 2010.

In November 2011, SoCalGas and San Diego Gas & Electric Company (SDG&E) filed Application 11-11-002 with the CPUC for authority to revise their rates effective January 1, 2013, through the CPUC's Triennial Cost Allocation Proceeding (TCAP) process. The TCAP is a process by which the CPUC revises rates for natural gas service to reflect changes in the cost of SoCalGas and SDG&E providing service and the allocation of such costs among different customer classes for the three-year TCAP period 2013-2015.

The proceeding has been conducted in phases. Phase 1 addressed issues pertaining to the costs SoCalGas and SDG&E are expected to incur in providing service, including very significant additional costs for inspection, testing, and safety upgrades to SoCalGas' natural gas transmission system under the CPUC-ordered Pipeline Safety Enhancement Plan (PSEP). Hearings have been concluded in Phase 1 and the matter has been submitted for a decision by the CPUC.

Phase 2 is addressing cost allocation and rate design issues. In February 2013, the parties actively participating in the proceeding reached an agreement in principle to settle certain issues in Phase 2. The issues resolved through settlement include: demand forecast, allocation of customer cost function, rate design, and natural gas storage. A written Settlement Agreement regarding these issues is expected to be submitted by the parties to the CPUC shortly. No resolution has yet been reached regarding allocation of PSEP costs. Further settlement negotiations are anticipated by the parties regarding PSEP allocation following issuance by the CPUC of a decision on TCAP Phase 1 issues.

LBGO participated in Phase 2 of this proceeding and its regulatory attorneys and experts recommend that the City join in the partial settlement of Phase 2 issues by executing the Settlement Agreement.

Under the terms of the Settlement Agreement, a newly redesigned intrastate transmission service structure with new options and rate schedules will be established. The redesigned rate structure is anticipated to be approved by the CPUC and take effect in the fourth quarter of 2013.

Following such approval, a new Schedule A will need to be executed for the City to designate the optimal rate option for its gas utility needs. The new Schedule A is expected to extend for a three-year term with an option for automatic renewal. The new Schedule A will continue to be an attachment to the long-term Master Services Contract.

This matter was reviewed by Deputy City Attorney Richard Anthony on March 11, 2013 and Budget Management Officer Victoria Bell on March 12, 2013.

City Council action is requested on April 2, 2013 authorizing the City Manager to execute the Settlement Agreement of Phase 2 issues as the Settlement Agreement is expected to be submitted to the CPUC for its review and approval shortly.

Current gas transmission costs are budgeted in the Gas Fund (EF 301) and in the Long Beach Gas and Oil Department (GO). Under the proposed new contract structure, the annualized gas transmission costs are estimated to be $2,260,515, yielding an estimated savings of as much as $288,788 to the Gas Fund. These savings will be utilized to support funding of long-term infrastructure and pipeline replacement projects. There is no impact to local jobs.

Approve recommendation.

CHRISTOPHER J. GARNER
DIRECTOR OF LONG BEACH GAS AND OIL

APPROVED:

PATRICK H. WEST
CITY MANAGER