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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Investigation on the Commission's own motion into the curtailment of utility electric generation natural gas deliveries in the Los Angeles area.	)))))	I.88-08-052 (Filed August 25, 1988)

(For appearances see Appendix A.)

INTERIM OPINION

On August 25, 1988, the Commission issued its Order Instituting Investigation 88-08-052 following the announcement by Southern California Gas Company (SoCalGas) on August 16 of curtailment of gas service to its utility electric gas (UEG) customers. The Commission noted that there is an urgent need to avoid oil-fired generation in the Los Angeles Basin during the current period of low air quality, implemented limited emergency measures to make additional gas available to the electric utilities through November 1, 1988, and ordered expedited hearings limited to the reasonableness of the emergency measures.

However, SoCalGas announced that the curtailment of its UEG customers pursuant to the Commission's emergency order had ended at midnight on September 30. On October 4, during oral argument in this proceeding, SoCalGas requested that the Commission clarify its August 25 emergency order. SoCalGas believes that a further order is necessary since "it will clear up virtually all of the areas of dispute" between itself and the UEG customers. Upon receiving such clarification, SoCalGas will bill its UEG customers for gas supplied during the emergency in accordance with the Commission's order.

Southern California Edison Company (Edison), Southern California Utility Power Pool (SCUPP) and Imperial Irrigation

District (IID), and the City of Long Beach argued that SoCalGas' implementation of the emergency measures was unreasonable. They requested that if the Commission does not order immediate hearings on the reasonableness of SoCalGas' implementation of the emergency measures, then the Commission should order SoCalGas to hold in a suspense account the incremental costs resulting from the emergency measures.

The suspense account would accrue the difference between the cost of noncore Weighted Average Cost of Gas (WACOG) gas and the cost of other gas which was targeted. The UEGs would pay for volumes of gas they used at the noncore WACOG price with determination after subsequent hearings as to who should pay the excess cost of gas that was targeted to the UEGs.

The Division of Ratepayer Advocates (DRA) stated that it certainly has not found SoCalGas acted reasonably with regard to the emergency measures; nevertheless, DRA agrees with SoCalGas that review of the utilities' actions should be deferred to a regularly filed reasonableness review. For this reason DRA supported the proposal for a suspense account.

We note that the immediate concerns of the UEG customers relate to billing problems. Also, it is apparent that in an effort to respond in a very short time to the need to make more gas available to avoid burning oil in the Los Angeles basin during a period of worsening air quality, the Commission's August 25 order was less than clear. Further, we believe that clarification of this order will allow SoCalGas to properly bill its UEG customers for service provided during the emergency period.

We appreciate the UEG customer's reasons for wanting an immediate hearing on SoCalGas' compliance with the emergency order. However, we recognize that there are numerous related issues pertaining to SoCalGas' operations prior to and after the emergency period. Therefore, it would not be productive to limit the hearing to the emergency period itself. Accordingly, we agree with DRA that such issues properly belong in a regularly scheduled reasonableness review. Hearings should commence as soon as practicable after SoCalGas' 1988 winter underground storage cycle is completed, consistent with a regularly scheduled reasonableness review of SoCalGas' entire operations for the period. The assigned

Administrative Law Judge should take all reasonable steps to expedite the hearings so that an early decision may be issued.

Regarding the question of billing for service provided under the emergency order, we conclude that since SoCalGas was acting pursuant to a Commission order, it is not appropriate to defer full payment by UEG customers for service received during the emergency period. Therefore, we will not adopt the proposal for a suspense account but will clarify our August 25 order so that SoCalGas can bill UEG customers accordingly. However, all incremental costs resulting from the emergency order will be collected by SoCalGas and held subject to refund with interest pending a determination of reasonableness.

Termination of Emergency Measures

By its terms, the emergency order terminates on November 1, 1988. SoCalGas announced during this proceeding that it had reached its storage target by September 30 and had ended the curtailment effective the same day. There was consensus among the parties that it is appropriate to suspend the emergency measures immediately since the primary objectives of the emergency order have been met and the curtailment has ended. We believe that the Commission's existing rules, regulations, and policies are adequate to provide ongoing direction to both utilities and customers without further comment from the Commission at this time. Accordingly, we will accept SoCal's termination of the emergency measures effective midnight September 30, 1988.

SCUPP and IID argued that SoCalGas should not have waited until September 30 to end the emergency curtailment. We conclude that this is an issue for the reasonableness proceeding. In the meantime, SoCalGas should use the September 30 date for billing purposes.

The Benchmark for Incremental Supplies

The emergency order established August 22, 1988 as the standard for current supply availability in order to obtain a practical benchmark for deferring the amount of incremental and targeted gas which might be supplied to SoCalGas and Pacific Gas and Electric Company (PG&E) by El Paso Natural Gas Company (El Paso). This benchmark was discussed between the Commission,

Edison, PG&E, SoCalGas, and others. Each of these parties supported revision of the benchmark to the average volume delivered from El Paso to SoCalGas for the period from August 1 through August 22, 1988. Such a new benchmark would provide a more realistic standard for the measurement of incremental and targeted supplies. The result of this change is to increase the benchmark for supplies to SoCalGas from El Paso from 1466 MMcfd to 1542 MMcfd. A revised benchmark results in a decrease in the calculation of targeted supplies. We conclude that SoCalGas should use this revised benchmark in calculating the volume of targeted gas to be billed to its customers.

Sequencing of Supplies to UEG and Wholesale Customers

SoCalGas, SCUPP and IID, and Edison have disagreed on how targeted gas volume and air quality episode account gas should be sequenced by SoCalGas to UEG customers. Edison stated its views at Tr. Volume 2, p. 149. SoCalGas stated its views in documents circulated to all the parties to this proceeding on October 3. Both parties noted that this matter was discussed extensively at informal meetings that included Commissioner Hulett, staff members, and various utility representatives.

The Commission's policy on this matter is stated at p. 4 on the emergency order as follows: "...it is our desire to ensure that the cost of implementing this contingency plan and obtaining alternative sources of energy to reduce oil-fired generation is borne by the Los Angeles area electric utility ratepayers to whom the energy is provided."

SoCalGas believes that it was the Commission's intent that this policy be implemented by having SoCalGas sequence its gas deliveries to the Los Angeles area electric utilities in the following order: first, Tier I and Tier II UEG volumes based on supplies received up to the benchmark plus 100 MMcfd of incremental

supplies; next, target supplies based on volumes acquired above the benchmark plus 100 MMcfd; and finally, air quality episode day volumes.

Edison, and SCUPP and IID disagree with SoCalGas' contention that targeted gas should be sequenced ahead of episode-day gas from the noncore portfolio. Edison argues that the Commission describes targeted gas in the emergency order as "additional supplies of gas" available on El Paso. According to Edison, by definition, targeted gas supplies are in excess of existing supplies as of August 22, 1988, plus a 100 MMcfd increment added to the noncore portfolio. Therefore, Edison contends that targeted gas must be sequenced for delivery after existing supplies plus the 100 MMcfd incremental amount.

We are not persuaded by Edison's argument. It appears from SoCalGas' response to DRA's data request that episode-day gas would have to be taken from gas that would normally be injected, and such reductions from injection amounts would necessarily have to be later replaced with higher priced gas. However, this is an issue that may be addressed during the reasonableness proceeding. In the meantime, for purposes of billing, SoCalGas' sequencing of UEG deliveries should be used.

The costs associated with targeted gas volumes were to be paid for by Los Angeles area UEG customers in their August and September 1988 billings. If that has not been done, these amounts should be reflected in their billings as soon as possible.

Gas Episode Day Account Pay-Back

In Advice Letter 1816, SoCalGas requested expedited Commission approval of a temporary service for its South Coast Air Basin UEG customers. SoCalGas requested temporary modification of Rule 23 to make up to 10 Bcf of gas available on anticipated air quality episode days to minimize air quality problems in the South Coast Air Basin.

By Resolution G-2824 (September 14, 1988) the Commission rejected the SoCalGas advice letter without prejudice. The Commission ordered that SoCalGas file a proposal for a method of ratemaking treatment for pay-back of volumes associated with certain aspects of its service during the review period. SoCalGas submitted this proposal at the prehearing conference in this proceeding. The SoCalGas proposal was to retroactively include both San Diego Gas & Electric Company and IID in the 10 Bcf allocation under the air quality episode-day account.

To resolve the episode-day account issues, SoCalGas is directed to ensure that all gas supplies delivered to UEG customers during the curtailment period August 16 through September 30 are in strict parity allocation according to SoCalGas' Rule 23. To the extent deliveries by SoCalGas were made in amounts out of parity, SoCalGas shall adjust future deliveries to return all UEG customers to parity. In addition, to the extent future adjustments are necessary to achieve parity, SoCalGas shall take into consideration, through its billing process, the price difference, if any, for such out of parity deliveries.

Storage Level

This proceeding generated considerable controversy as to the meaning of the Commission's emergency order in that several parties alleged that SoCalGas should have lifted its curtailment as soon as storage levels were high enough to protect P-1 through P-2A service. We note that in rejecting Advice Letter 1816, the Commission observed in Resolution G-2824 that:

> "The Commission's policy is to allow the utilities to control the operation of their systems. The storage target of 68 Bcf and the inclusion of the P-3 and P-4 customers in this storage target is a management decision to be made by SoCalGas, not the Commission. The Commission, through its reasonableness review process will subsequently address the SoCalGas decision for prudency. In addition, the Commission is reviewing overall storage policy in OII 87-03-036." (Resolution G-2824.)

We confirm that we have not changed our view of this matter since Resolution G-2824 was issued on September 14, 1988. SoCalGas announced a curtailment on August 16 in order to inject enough gas into storage to meet its storage targets. The Commission issued the emergency order authorizing waiver of certain curtailment rules on August 25, 1988 to assist SoCalGas in meeting that target, and to minimize the negative impact that curtailment could have on air quality in the South Coast Air Basin. Neither the emergency order nor this order clarifying the emergency order is intended to pre-judge whether SoCalGas acted properly in establishing its storage target. It should be reiterated that storage targets are a policy matter which are being considered by the Commission elsewhere, and current levels are a management decision appropriately made by SoCalGas. The reasonableness of SoCalGas' storage target will be decided in the annual reasonableness review of SoCalGas' operations.

Findings of Fact

1. On August 25, 1988 the Commission issued an emergency order which implemented limited emergency measures to make additional gas available to SoCalGas' UEG customers to avoid oil-fired generation in the Los Angeles Basin during a period of low air quality.

2. SoCalGas announced that curtailment of its UEG customers pursuant to the emergency order had ended at midnight September 30, 1988.

3. The UEG customers and SoCalGas have several areas of dispute with regard to interpretation of the Commission's emergency order.

4. These areas of dispute need to be clarified to the extent that SoCalGas may properly bill its UEG customers for service received during the period of emergency.

5. The reasonableness of the implementation of the emergency order by SoCalGas is a matter which should be resolved in its next regularly scheduled reasonableness proceeding which will examine SoCalGas' entire operations for the current period.

Conclusions of Law

1. Because of SoCalGas' announcement that curtailment of its UEG customers pursuant to the emergency order had ended at midnight September 30, 1988, the emergency measures should be terminated effective that date.

2. It is appropriate for the Commission to clarify its August 25, 1988 emergency order so that SoCalGas can bill its UEG customers accordingly.

3. Neither the emergency order nor this order clarifying the emergency order is intended to pre-judge whether SoCalGas acted properly in this matter, or whether its operations were reasonable.

4. UEG customers should pay now in full for gas service received under the emergency order. Any adjustments resulting from the implementation by SoCalGas of the emergency order should wait until completion the next regularly scheduled reasonableness review of SoCalGas' operations for the current period. In the meantime, SoCalGas should collect all incremental costs resulting from the emergency order subject to refund with interest pending a determination of reasonableness.

INTERIM ORDER

IT IS ORDERED that:

1. The emergency measures set forth in the Commission's order issued August 25, 1988 are terminated effective midnight September 30, 1988.

2. Southern California Gas Company (SoCalGas) shall bill its Utility Electric Gas customers in accordance with the clarification provided in this order.

3. All revenues to recover incremental costs resulting from the Commission's August 25, 1988 emergency order shall be collected and held by SoCalGas subject to refund with interest pending a determination by the Commission of the reasonableness of SoCalGas' operations.

4. The record in this proceeding shall be consolidated with the record of the next regularly scheduled reasonableness review of SoCalGas' operations for the current period. The hearings shall commence as soon as practicable after SoCalGas' 1988 winter underground storage cycle is completed.

5. This proceeding shall remain open.

This order is effective today.

Dated NOV 9 1988, at San Francisco, California.

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

I CERTIFY THAT THIS DECISION WAS APPROVED BY THE ABOVE COMMISSIONERS TODAY.

Victor Weisser, Executive Director

List of Appearances

Respondents: Thomas D. Clarke, Lisa T. Horwitz, Jeffrey E. Jackson, Attorneys at Law, and Roy M. Rawlings, for Southern California Gas Company; Richard K. Durant, Frank J. Cooley, and Michael Gonzales, Attorneys at Law, for Southern California Edison Company; Daniel G. Lubbock, Attorney at Law, for Pacific Gas and Electric Company; and Barton M. Myerson, Attorney at Law, and Judy G. Obst, for San Diego Gas & Electric Company.

Interested Parties: Messrs. Lindsay, Hart, Neil & Weigler, by Michael P. Alcantar, Attorney at Law, and Paul Kaufman, for Cogenerators of Southern California; Richard O. Baish, Michael D. Ferguson, and Randolph L. Wu, Attorneys at Law, for El Paso Natural Gas Company; Messrs. Brady & Berliner, by Roger Berliner, Attorney at Law, for Canadian Producer Group, Independent Petroleum Association of Canada, and Canadian Petroleum Association; Matthew Brady, Attorney at Law, for California Department of General Services; W. H. Weitstruck, by Arnel S. Brown, for Texaco, Inc.; W. E. Cameron, for the City of Glendale; Steven M. Cohn, Attorney at Law, and Manuel Alvarez, for California Energy Commission; Harvey M. Eder, for Public Solar Power Coalition; Messrs. Jackson, Tufts, Cole & Black, by Joseph S. Faber, Attorney at Law, for Luz International; Michel P. Florio, Attorney at Law, for Toward Utility Rate Normalization (TURN); David T. Helsby, for R. W. Beck and Associates; Henry C. Lee, for the City of Pasadena; Messrs. Luce, Forward, Hamilton & Scripps, by John W. Leslie, Attorney at Law, for Mock Resources, Inc.; Messrs. Graham & James, by James McCaffrey, Martin A. Mattes, and Norman A. Pedersen, Attorneys at Law, for Kern River Gas Transmission Company and Southern California Utility Power Pool and Imperial Irrigation District; Messrs. Squire, Sanders, & Dempsey, by Keith R. McCrea, for California Industrial Group; Mark A. Meier, Attorney at Law, for California State Land Commission; Ronald H. Merrett and William J. Lemay, for State of New Mexico; Leamon W. Murphy, for Imperial Irrigation District; Robert L. Pettinato, for Los Angeles Department of Water & Power; Patrick J. Power and Richard Alesso, Attorneys at Law, for City of Long Beach; Paul Premo, for Chevron, U. S. A.; Stephen P. Reynolds, for Pacific Gas Transmission Company; Donald W. Schoenbeck, for RCS, Inc.; Andrew Skaff, for Mojave Pipeline Company; James Squeri, Attorney at Law, for Transwestern Pipeline Company; Roland V. Stassi, for the City of Burbank; Messrs. Downey, Brand, Seymour & Rohwer, by Philip Stohr and Deborah K. Tellier, Attorneys at

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Division of Ratepayer Advocates: Robert C. Cagen, Attorney at Law, and Richard E. Dobson.

Commission Advisory and Compliance Division: Scott Sanders.

(END OF APPENDIX A)

Decision _____

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We recognize that there are numerous issues related to SoCalGas' operations just prior to and during the period of the emergency. However, we agree with DRA that such issues properly belong in a regularly scheduled reasonableness review. This review will commence in the latter part of 1989 with a decision issued sometime in 1990. Notwithstanding that it is the incremental cost

over the noncore WACOG price that is at issue, we conclude that it is not appropriate to defer full payment by UEG customers for service received during the emergency period to, possibly, 1990. Therefore, we will not adopt the proposal for a suspense account but will clarify our August 25 order so that SoCalGas can bill UEG customers accordingly. However, all incremental costs resulting from the emergency order will be collected by SoCalGas and held subject to refund pending a determination of reasonableness.

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Storage Level

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> "The Commission's policy is to allow the utilities to control the operation of their systems. The storage target of 68 Bcf and the inclusion of the P-3 and P-4 customers in this storage target is a management decision to be made by SoCalGas, not the Commission. The Commission, through its reasonableness review process will subsequently address the SoCalGas decision for prudency. In addition, the Commission is reviewing overall storage policy in OII 87-03-036." (Resolution G-2824.)

We confirm that we have not changed our view of this matter since Resolution G-2824 was issued on September 14, 1988. SoCalGas announced a curtailment on August 16 in order to inject enough gas into storage to meet its storage targets. The Commission issued the emergency order authorizing waiver of certain curtailment rules on August 25, 1988 to assist SoCalGas in meeting that target, and to minimize the negative impact that curtailment could have on air quality in the South Coast Air Basin. Neither the emergency order nor this order clarifying the emergency order is intended to pre-judge whether SoCalGas acted properly in establishing its storage target. It should be reiterated that storage targets are a policy matter which are being considered by the Commission elsewhere, and current levels are a management decision appropriately made by SoCalGas. The reasonableness of SoCalGas' storage target will be decided in the annual reasonableness review of SoCalGas' operations.

Findings of Fact

1. On August 25, 1988 the Commission issued an emergency order which implemented limited emergency measures to make additional gas available to SoCalGas' UEG customers to avoid oil-fired generation in the Los Angeles Basin during a period of low air quality.

2. SoCalGas announced that curtailment of its UEG customers pursuant to the emergency order had ended at midnight September 30, 1988.

3. The UEG customers and SoCalGas have several areas of dispute with regard to interpretation of the Commission's emergency order.

4. These areas of dispute need to be clarified to the extent that SoCalGas may properly bill its UEG customers for service received during the period of emergency.

5. The reasonableness of the implementation of the emergency order by SoCalGas is a matter which should be resolved in its next regularly scheduled reasonableness proceeding which will examine SoCalGas' entire operations for the current period.

Conclusions of Law

1. Because of SoCalGas' announcement that curtailment of its UEG customers pursuant to the emergency order had ended at midnight September 30, 1988, the emergency measures should be terminated effective that date.

2. It is appropriate for the Commission to clarify its August 25, 1988 emergency order so that SoCalGas can bill its UEG customers accordingly.

3. Neither the emergency order nor this order clarifying the emergency order is intended to pre-judge whether SoCalGas acted properly in this matter, or whether its operations were reasonable.

4. UEG customers should pay now in full for gas service received under the emergency order. Any adjustments resulting from the implementation by SoCalGas of the emergency order should wait until completion the next regularly scheduled reasonableness review of SoCalGas' operations for the current period. In the meantime, SoCalGas should collect all incremental costs resulting from the emergency order subject to refund pending a determination of reasonableness.

INTERIM ORDER

IT IS ORDERED that:

1. The emergency measures set forth in the Commission's order issued August 25, 1988 are terminated effective midnight September 30, 1988.

2. Southern California Gas Company (SoCalGas) shall bill its Utility Electric Gas customers in accordance with the clarification provided in this order.

3. All incremental costs resulting from the Commission's August 25, 1988 emergency order shall be collected and held by SoCalGas subject to refund with interest pending a determination by the Commission of the reasonableness of SoCalGas' operations.

4. The record in this proceeding shall be consolidated with the record of the next regularly scheduled reasonableness review of SoCalGas' operations for the current period.

5. This proceeding shall remain open.

This order is effective today.

Dated _____, at San Francisco, California.

3. All incremental costs resulting from the Commission's August 25, 1988 emergency order shall be collected and held by SoCalGas subject to refund with interest pending a determination by the Commission of the reasonableness of SoCalGas' operations.

4. The record in this proceeding shall be consolidated with the record of the next regularly scheduled reasonableness review of SoCalGas' operations for the current period. The hearings shall commence as soon as practicable after SoCalGas' 1988 winter underground storage cycle is completed.

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Dated _____, at San Francisco, California.

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Respondents: Thomas D. Clarke, Lisa T. Horwitz, Jeffrey E. Jackson, Attorneys at Law, and Roy M. Rawlings, for Southern California Gas Company; Richard K. Durant, Frank J. Cooley, and Michael Gonzales, Attorneys at Law, for Southern California Edison Company; Daniel G. Lubbock, Attorney at Law, for Pacific Gas and Electric Company; and Barton M. Myerson, Attorney at Law, and Judy G. Obst, for San Diego Gas & Electric Company.

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