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Decision 89 01 017 JAN 11 1989

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Investigation into procurement and system reliability issues deferred from D.86-12-010.	I.87-03-036 (Filed March 25, 1987)
Order Instituting Rulemaking into natural gas procurement and system reliability issues.	R.88-08-018 (Filed August 10, 1988)

OPINION ON PETITIONS FOR MODIFICATION OF DECISION 88-11-034 REGARDING THE 1989-90 PILOT PROGRAM FOR GAS STORAGE BANKING SERVICE

In Decision (D.) 88-11-034, we created a "blueprint" for gas storage banking service, to start with the 1990-91 injection/withdrawal cycle, and authorized a smaller scale storage "pilot program" for use in 1989-90. Several parties have filed timely applications for rehearing and/or petitions for modification. Today, we deal with the petitions of Pacific Gas and Electric Company (PG&E), Southern California Gas Company (SoCal), and California Industrial Group (CIG) to the extent that they affect the pilot program. We also correct two errors in Appendix E (summary of approved gas storage banking services) of D.88-11-034. A later decision will address the applications for rehearing and remaining issues from the petitions.

PG&E's and SoCal's Petitions

SoCal seeks five modifications, two of which affect gas operations during the pilot program and are dealt with in today's decision. PG&E seeks three modifications; one of these affects the pilot program. Division of Ratepayer Advocates (DRA) has filed a response generally opposing SoCal's requests but agreeing that clarification is needed on the billing of transportation charges to banking customers.

Concerning balancing charges, SoCal asks us to clarify that the provisions governing what we called "unscheduled" banking (i.e., overdeliveries exceeding a 10% tolerance after notice and opportunity to correct: see D.88-11-034 mimeo. p. 31 and Finding of Fact 38) apply not only to banking customers but also to transportation customers who have not contracted for storage banking. DRA suggests that we defer this issue to the procurement rulemaking (R.88-08-018). We agree. We do not share all of DRA's reasoning,[1] but we note that the storage proceeding was never intended or announced as a forum for rewriting rules for transportation-only customers. We conclude that a proper basis does not presently exist to apply a charge for unscheduled banking to transportation-only customers.

There is logic to SoCal's arguments (1) that a transportation-only customer whose "deposits" exceed its nominations by more than 10%, after notice and opportunity to correct, is in fact receiving storage service without contracting for and scheduling such service, and (2) that the utility providing the unscheduled banking should have the same remedies against both the banking customer and the transportation-only customer. On the other hand, CIG has argued strenuously that the charge for unscheduled banking (equal to 1.25 times the monthly reservation fee for scheduled banking) is unduly punitive considering the other

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1 DRA believes that charges for unscheduled banking are like the standby charges under consideration in R.88-08-018. We disagree. Standby charges are to cover commodity service provided in the event of underdeliveries to a particular customer's account; the imbalance charges under consideration here cover storage service provided in the event of overdeliveries to a particular customer's account.

remedies available to the utility.[2] The proper course is to consider eliminating the unscheduled banking charge, or retaining and possibly even extending it to transportation-only customers, when we assess the results of the pilot program in implementing regular banking service later this year.

SoCal's other concern (which is shared by PG&E) is with the timing of bills for the transportation of gas injected into and then withdrawn from storage facilities. In D.88-11-034, mimeo. p. 19, we directed that half of the fees be billed on injection and half on withdrawal. SoCal prefers simply to bill for transportation charges once, when the banked gas is withdrawn. PG&E has made this proposal during the hearings and again in its petition. This billing method lessens the utility's administrative burden without disadvantage to banking customers. Furthermore, PG&E argues that there is no clear way to implement the 50/50 approach; the transportation "rate" is actually made up of four discrete charges (the customer, D1 and D2 demand charges, and a volumetric charge) calculated on different bases.

We modify D.88-11-034 so that all transportation charges for banking gas volumes are billed upon their withdrawal. The complexity of the default transportation rate, combined with the tight frame for implementation of the pilot program, cause us to prefer the simplicity of a single billing. Also, the timing of the billing (upon delivery of the gas to the banking customer) will motivate the utilities to deliver banked volumes as promptly as possible.

In accepting PG&E's proposal on the timing of bills for the transportation of banking gas volumes, we are not accepting

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2 These other remedies are either (1) to purchase the excess volumes at the lower of the customer's cost of gas or the utility's lowest current cost of gas, or (2) reduce the customer's storage nomination in the month following the notice period to bring the customer's storage account balance within the 10% tolerance.

PG&E's attempt to inflate the variable costs assessed banking customers based on the time lag between deposit and withdrawal. PG&E seems to be fully compensated already. First, PG&E already uses all available storage cycling capacity on its system, so we doubt that the banking program would result in any shrinkage costs not already compensated through PG&E's existing rates. Moreover, since the difference between cycling capability and PG&E-owned gas will be customer-owned gas, PG&E will not have to use its own funds to fill the difference and accordingly will retain the time value of these funds.

<u>CIG's Petition</u>

CIG generally reargues in its petition certain positions that it has previously presented and briefed, and that we rejected in D.88-11-034. Specifically, CIG asks that we:

1. Treat gas storage service as a rental of space rather than a reservation of capacity.

2. Impose a cost-based ceiling on storage banking fees.

3. Include charges for storage variable costs only after existing rates no longer cover such costs.

4. Increase the balancing tolerance and opportunity to cure after notice of an imbalance.

5. Eliminate the 25% penalty for "unscheduled" banking.

Basically, CIG thinks that the utilities' transportation programs are presently too unreliable for the adopted banking service to be attractive, and that banking customers should not pay variable costs when the utilities' storage operations are already fully compensated through rates. DRA has filed a response opposing CIG's petition.

We share CIG's concern over the utilities' transportation programs, but we do not draw CIG's conclusions, and accordingly we deny its petition. No noncore customer is forced to bid for storage, and those that do bid will surely take risk into consideration when deciding how much to bid. We also do not think our storage program hurts noncore customers that do not submit bids (or submit losing bids). PG&E and SoCal will continue to store gas to serve the "system integration function" both in the pilot program and (through their revised targets) when regular banking service begins. Concerning the variable costs of banking service, the pilot program would simply give the wrong signal to potential banking customers if we were not to collect such costs from them. Of course, revenues collected for these variable costs should be credited back to noncore customers in the appropriate annual cost allocation proceeding (see Section IV.B.3 of D.88-11-034), and we will modify the decision to emphasize this.[3]

Corrections to Appendix E

Appendix E of D.88-11-034 is a summary of the various banking services authorized in that decision. We indicated that the language of the decision itself would control, should the summary conflict with the decision in any respect. We have found three typographical errors in the summary, which we correct here to remove inconsistencies with the decision.

Findings of Fact

1. Billing banking customers for the transportation of banking volumes at the time such volumes are delivered to the customers is more readily implemented than billing half of the transportation charges upon injection and half upon withdrawal.

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3 CIG agrees that banking customers should bear the variable cost of the service once these costs are treated on a forecast basis, as will be the case when our regular banking program is in place.

2. CIG's petition reargues previously rejected positions.

3. Appendix E of D.88-11-034 has three typographical errors that may cause inconsistencies or confusion.

4. During the pilot program, the variable costs of storage are fully allocated and recovered by the PG&E and SoCal in fees other than those paid by banking customers.

Conclusions of Law

1. SoCal's request to apply the fee for "unscheduled" banking to transportation customers that have not contracted for storage banking service should be denied.

2. PG&E's and SoCal's request to bill, at the time of withdrawal, for all charges for transportation of banking gas should be granted.

3. CIG's petition should be denied.

4. Typographical errors in Appendix E of D.88-11-034 should be corrected.

5. D.88-11-034 should be clarified to indicate that variable costs of storage collected from banking customers for banking service during the pilot program are to be credited back to noncore customers.

6. In order to smooth implementation of the pilot program, this order should be made effective immediately.

O R D E R

IT IS ORDERED that:

1. The petition of California Industrial Group for modification of Decision (D.) 88-11-034 is denied.

2. The petitions of Pacific Gas and Electric Company (PG&E) and Southern California Gas Company (SoCal) for modification of D.88-11-034 are granted to the extent that they seek to bill, at the time of withdrawal, for all charges for transportation of banking gas.

3. The petition of SoCal for modification of D.88-11-034 is denied to the extent that it seeks to apply the fee for "unscheduled" banking to transportation customers that have not contracted for storage banking service.

4. Except to the extent indicated in Ordering Paragraphs 2 and 3 above, disposition of the petitions of PG&E and SoCal for modification of D.88-11-034 is continued to a later order.

5. Appendix E of D.88-11-034 is modified as follows:

a. On page 1, second paragraph, next-to-last line, delete the words "is likely to" and substitute the word "will" so that the end of the last sentence reads "the LDC incentive will be revised when we implement unbundled storage banking."

b. On page 8, ¶ 54, third line, change "Therefore" to "Thereafter".

c. On page 8, ¶ 57, third line, change "¶ 53" to "¶ 52".

6. Consistent with Ordering Paragraph 2 above, D.88-11-034 is modified as follows:

a. On page 19, delete the second full paragraph and add the following paragraphs:

"Given the complexity of the transportation 'rate' (which consists of four discrete and differently calculated charges), we adopt PG&E's approach as easier to implement than either SoCal's or the 50-50 approach developed by Poco in its comments on the ALJ's Proposed Decision. Thus, all transportation charges for banking gas volumes shall be billed upon their withdrawal under the customer's transportation schedule in effect at that time. A broker/supplier banking on its own account (which would happen only through the as-available service) would pay the charges applicable to the customer receiving the gas for consumption.

"However, we reject PG&E's attempt to inflate the variable costs assessed banking customers based on the time lag between deposit and withdrawal. The LDC benefits from having the use of banked volumes in the interim; moreover, PG&E already uses all available storage cycling capability on its system, so we doubt that the banking program would result in shrinkage costs not already recovered through existing rates."

b. On page 38, delete the full paragraph.

c. On page 39, modify the first paragraph to read in full (except for footnote 32, which is retained but not reproduced here) as follows:

"Procedures governing the billing of transportation charges for banking gas volumes; priority and curtailment; nominations to and from storage; balancing charges; and accounting should generally follow the principles established for unbundled banking service. See Sections IV.B.2, IV.E, IV.F, V, and IX.B."

d. Finding of Fact 17 is modified to read in full as follows:

"17. The transportation charges for banking volumes should be billed upon their withdrawal. A broker or supplier that banks on its own account (under the as-available banking service) would pay the charges applicable to the customer receiving the gas for consumption."

7. The following sentence is added at the end of the second full paragraph on page 37 of D.88-11-034: "Since the utilities are already compensated through existing rates for their variable costs of storage operations during the pilot program, the variable costs collected from banking customers during the pilot program shall be credited back to noncore customers in the LDCs' respective ACAPs."

This order is effective today.

Dated JAN 11 1989, at San Francisco, California.

G. MITCHELL WILK
President
FREDERICK R. DUDA
JOHN B. OHANIAN
Commissioners

Commissioner Stanley W Hulett being necessarily absent, did not participate.

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

Victor Weisser, Executive Director

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