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Decision 89-02-034 February 8, 1989

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

INTERIM OPINION

In this order, we address a joint proposed interim stipulation filed, on January 3, 1989, by Southern California Gas Company (SoCalGas), the California Industrial Group (CIG), and Mock Resources, Inc. (Mock). The stipulation addresses the issue of the California gas utilities' use of interruptible transportation capacity on the interstate pipelines of El Paso Natural Gas Company (El Paso) and Transwestern Pipeline Company (Transwestern).

Background

On October 14, 1988, Mock and CIG filed a "Joint Emergency Motion of Mock Resources, Inc. and the California Industrial Group Requesting That the Commission Direct Southern California Gas Company and Pacific Gas and Electric Company to Develop a Plan to Use Their Interruptible Interstate Transportation Capacity on Behalf of Noncore Customers and Their Suppliers" (Joint Motion). The Joint Motion asserted that non-core customers and their suppliers had encountered difficulties transporting gas stemming from rate design changes on the El Paso system effective July 1, 1988.

As explained in the Joint Motion,

> "The availability of capacity on the El Paso system changed...with the implementation of El Paso's new rates on July 1, 1988 in accordance with a ruling by the FERC on June 30, 1988. An 'unbundling' of El Paso's rates for mainline transmission, field transportation (gathering) and production area charges, in combination with an increase in each of the elements of El Paso's rates, created economic incentives for interruptible shippers transporting on the El Paso system, including particularly SoCal and PG&E, to purchase 'off-system' gas and move that gas to interstate pipeline interconnections with El Paso rather than to purchase gas from producers connected to the El Paso gathering system.
>
> "As a consequence of this gas purchasing strategy by the utilities and other 'grandfathered' shippers, capacity constraints at receipt points in the Permian and Anadarko Basins (where most interstate pipeline interconnections with El Paso are located) became severe in August 1988. In large measure, Mock and other 'non-grandfathered' interruptible shippers, including many noncore customers in California, were prevented from scheduling deliveries on the El Paso system [footnote omitted]." (Joint Motion, pgs. 4-5.)

The Joint Motion requested the Commission to order Pacific Gas and Electric Company (PG&E) and SoCalGas to use their grandfathered interruptible capacity on behalf of non-core transporters. The Commission held two publicly noticed workshops (October 6, 1988 in Los Angeles, and December 22, 1988 in San Francisco) to discuss issues raised by the Joint Motion and possible solutions. On January 3, 1989, SoCalGas, Mock, and CIG submitted the proposed stipulation.

<u>Summary of the Stipulation</u>

The intention of the stipulation is to protect third party interstate gas transporters from unexpected disruptions that may occur when noncore procurement demand exceeds utilities'

"The availability of capacity on the El Paso system changed . . . with the implementation of El Paso's new rates on July 1, 1988 in accordance with a ruling by the FERC on June 30, 1988. An 'unbundling' of El Paso's rates for mainline transmission, field transportation (gathering) and production area charges, in combination with an increase in each of the elements of El Paso's rates, created economic incentives for interruptible shippers transporting on the El Paso system, including particularly SoCal and PG&E, to purchase 'off-system' gas and move that gas to interstate pipeline interconnections with El Paso rather than to purchase gas from producers connected to the El Paso gathering system.

"As a consequence of this gas purchasing strategy by the utilities and other 'grandfathered' shippers, capacity constraints at receipt points in the Permian and Anadarko Basins (where most interstate pipeline interconnections with El Paso are located) became severe in August 1988. In large measure, Mock and other 'non-grandfathered' interruptible shippers, including many noncore customers in California, were prevented from scheduling deliveries on the El Paso system [footnote omitted]." (Joint Motion, pg. 4-5)

The Joint Motion requested the Commission to order PG&E and SoCal to use their grandfathered interruptible capacity on behalf of non-core transporters. The Commission held two publicly-noticed workshops (October 6, 1988 in Los Angeles, and December 22, 1988 in San Francisco) to discuss issues raised by the Joint Motion forecasts. The stipulation also seeks to provide third party shippers some flexibility in bringing nominations and deliveries into balance over the course of a month.

The stipulation asks the Commission to direct SoCalGas and PG&E to implement the following specific provisions:

1. Execute new interruptible transportation agreements with El Paso (SoCalGas and PG&E) and Transwestern (SoCalGas), if they have not already done so.

2. Use existing grandfathered transportation agreements to transport their monthly forecast core and noncore sales requirements. The forecasts shall fix the amount of grandfathered transportation capacity reserved by SoCalGas and PG&E for noncore sales requirements for the entire month. If actual noncore sales requirements exceed the forecast, the utilities will transport excess volumes under the new agreements. If actual noncore requirements are less than the forecast, the utilities shall reduce their takes in accordance with current practices. None of the procedures will affect the utilities' ability to increase or decrease the use of their grandfathered rights to meet the needs of core customers.

3. Permit noncore customers to exceed the maximum daily quantity (MDQ) in their agreements with the California utilities, at the utilities' discretion. A customer will be permitted to exceed its MDQ only in order to "make up" for prior underdeliveries during the current month. A customer is not permitted to build up a "cushion" of gas by exceeding its MDQ on a particular day in anticipation of future underdeliveries during the month. A customer is not permitted to exceed its MDQ in order to make up for underdeliveries in a previous month.

The parties to the stipulation propose their agreement as an interim measure which may be superseded by a final Commission decision in R.88-08-018 or other Commission proceeding. The parties state the stipulation would provide significant benefits to transportation customers in California, such as better assurance of uninterrupted transportation, easier administration for the utilities and pipelines, and increased stability of deliveries. Utility forecasting will be improved because more reliable service will minimize mid-month shifts by noncore customers from transportation service to procurement services.

The parties to the stipulation also state that, contrary to the concerns of some parties, the noncore WACOG is unlikely to rise and the stipulation balances the interests of noncore transportation customers with noncore procurement customers. The stipulation also protects the core WACOG by protecting the grandfathered rights for core customer transportation.

<u>Positions of the Parties</u>

1. <u>Division of Ratepayer Advocates</u>

Division of Ratepayer Advocates (DRA) generally supports the stipulation as long as it applies to both PG&E and SoCalGas. DRA states that the program may provide valuable experience, and appropriately offers both risks and opportunities for noncore customers.

DRA states that the stipulation should apply to both SoCalGas and PG&E so that the utilities and their customers face similar market risks and conditions. Unequal implementation of the stipulation, according to DRA, would allow one utility to exercise grandfathered rights to obtain more gas to meet unexpected noncore demand and "bump off" customers in its territory and the territory of the utility operating under the terms of the stipulation. One utility could use its rights to obtain gas to meet unexpected needs of the other, earn monopoly profits, and shut out competitors. DRA does not support the stipulation unless it applies to both utilities.

DRA also proposes that the Commission require the establishment of an Interruptible Short Term Purchase Account (ISTPA) under which 100 percent of excess interruptible purchases are allocated to noncore customers. DRA believes such a procedure is required in order to insulate core customers from the risks associated with the terms of the stipulation. This accounting would not require the creation of new sales portfolios.

DRA acknowledges that the provisions of the stipulation may not protect the utilities from losing some of their grandfathered capacity to east-of-California customers (EOCs) if the utilities do not nominate all of that capacity. DRA does not believe, however that this is a sufficient reason for rejecting the stipulation.

2. PG&E

PG&E does not oppose implementation of the stipulation for SoCalGas, but argues that imposition of the stipulation on PG&E is unnecessary and undesirable. PG&E does not agree that the stipulation offers any additional service reliability to third party shippers. An interim program would require the utilities to change their operating procedures twice.

PG&E states that under the terms of the stipulation its transportation tariffs should be modified to reflect the lower reliability of unforecast noncore supply quantities. PG&E Gas Rule No. 14 should be modified so that those customers causing the greater risk would be subject to interruption prior to customers with forecasted demand.

If the Commission adopts the stipulation, PG&E recommends the following modifications:

a. Short term purchases made pursuant to the stipulation should be assigned directly to the noncore portfolio account in order to protect core customers.

b. The stipulation should be terminated upon implementation of a permanent program and subject to future modifications to ensure consistency with the balancing provisions in PG&E's storage banking implementation plan and standby/imbalance charge proposals.

c. The Commission should clearly indicate that core and core-elect procurement customers would continue to have full access to the supply and price benefits achieved through use of PG&E's grandfathered rights on the El Paso system.

d. Third party supplier service to unforecast changes in customers' demand should also be based on lower transport capacity rights, and third party suppliers should be provided lowest transportation priority for increased level of service which was not being provided by that supplier at the beginning of the month.

3. TURN

TURN does not object to the stipulation as long as it is implemented with protections for core customers. TURN proposes that the utilities be required to report the impact of the new arrangement on core customers. In addition, the stipulation should automatically terminate after six months. This will insure, according to TURN, that negative impacts on the core will be detected and the parties will have an opportunity to object to the continuation of the experiment.

4. Transwestern

Transwestern supports the stipulation as a reasonable interim measure. It proposes that further steps are necessary, however, to address ongoing concerns regarding third-party access to interstate pipeline capacity.

5. Mobil Oil Corporation

Mobil Oil Corporation (Mobil) supports the stipulation as an interim measure for assuring that the interstate transportation of third-party gas is not unnecessarily disrupted simply because utility noncore sales demand unexpectedly exceeds the utility's forecast.

Mobil does raise concerns that the utilities may have an incentive to over-nominate under the terms of the stipulation but does not propose a method for changing that incentive. It also recommends that the Commission consider a means by which shippers could balance their accounts on a monthly basis in order to avoid penalties associated with underdeliveries.

6. <u>Shell Western E&P Inc.</u>

Shell Western E&P Inc. supports the stipulation as a reasonable interim measure.

7. <u>Southern California Edison Company</u>

Southern California Edison Company (SCE) opposes the stipulation. If it is adopted, the Commission should first conduct a full investigation on the financial impacts of use of grandfathered transportation rights.

SCE believes the stipulation will increase SoCalGas' noncore WACOG, thereby increasing SCE's customers' rates. SCE believes higher rates will result because SoCalGas will not have access to the most desirable delivery points where least expensive gas is available. Related to this, SCE is concerned that UEG customers will be subject to "economic curtailment", further increasing UEG and core customer rates.

Further, SCE believes that the "winners" under the stipulation will be EOCs rather than third party shippers because EOCs will be able to increase their ability to purchase lower cost gas supplies by using their grandfathered rights, which would be superior to the new interruptible rights.

Like PG&E, SCE is concerned that the stipulation would create additional administrative procedures that the gas utilities would have to change pursuant to a permanent solution. Finally, SCE argues that the stipulation leaves many issues unresolved, so the Commission should hold hearings on the impacts and implementation of the stipulation.

8. SDG&E

San Diego Gas & Electric Company (SDG&E) does not object to the stipulation, but recommends two conditions if the Commission approves it. First, the Commission should state that priorities among shippers shall be governed by the Federal Energy Regulatory Commission's (FERC) priority scheme of Orders 436 and 500. This provision, according to SDG&E, would address unauthorized use of intrastate priorities for interstate transportation.

Second, SDG&E believes the stipulation should be terminated as soon as SoCalGas gains the ability to and does assign portions of its firm pipeline capacity to its wholesale and/or noncore customers. This type of sunset provision is preferable to a specific cutoff date, which could leave shippers with unnecessary uncertainty as the end of the period neared.

9. El Paso

El Paso supports the stipulation, but comments that it is unlikely to solve capacity problems since EOCs would still have the ability to "bump" lower priority shippers at any specific receipt or delivery point. El Paso states it will continue to support a long term solution to the issue of capacity allocation.

10. City of Long Beach

The City of Long Beach (Long Beach) opposes the stipulation because it believes the stipulation fails to recognize the interests of wholesale core customers. Long Beach states the stipulation would deny wholesale customers access to interstate pipelines if the utilities forecast high sales. The Commission should acknowledge that wholesale customers need core-equivalent access to transmission on behalf of their own core requirements in order to implement their own portfolio planning.

11. New Mexico

The State of New Mexico supports the stipulation so long as the measures are considered interim.

Discussion

We have embarked on a restructuring of the natural gas market in California that promises to bring the benefits of increased flexibility and competition to all ratepayers, core and non-core alike. Since our implementation of the new structure on May 1, 1988 we have continued to develop the program further by unbundling storage (D.88-11-034) and by re-examining our procurement policies (R.88-08-018). We have adopted in principle the concept of capacity assignment as the best means of allocating interstate pipeline capacity among customers (D.88-12-099), and we continue to pursue the implementation of such a program.

We are optimistic about the long-term effectiveness of our gas framework, but we are concerned that non-core customers' confidence in and reliance on our program has been jeopardized by the short-term operational difficulties recited by SoCalGas, Mock, and CIG. We will act to alleviate these temporary difficulties without turning from the longer-range goals of our program, including capacity assignment, and without slowing down in our movement toward those goals. We share PG&E's desire to continue to focus on practical long-term solutions to the many issues surrounding our transportation program, and we believe that an interim solution to the problems raised in the SoCalGas/Mock/CIG agreement will actually enhance our ability to do so by helping to retain the confidence and creative energies of third-party transporters, their suppliers, and their shippers.

Our consideration of the proposed interim stipulation has focused on the following concerns, all of which were raised and discussed in the comments of one or more parties:

Will the stipulation achieve its stated goal of enhancing non-core customers' ability to move gas reliably over the interstate pipelines? By its nature, this central question must remain unresolved in the absence of operational experience with the procedures called for in the stipulation. Both PG&E and Edison argue that EOCs would garner benefits from the stipulation equal to those given to third-party transporters, at least with respect to firmer access to interstate capacity. We agree with DRA, however, that the measures proposed in the stipulation contain the promise of easing transporters' difficulties, and that there is value in implementing even an uncertain solution so long as the risks are carefully monitored and managed.

What effect will the stipulation have on the core and non-core WACOGs? Edison argues that the stipulation would necessarily increase the non-core WACOG by denying the utilities access to low-cost receipt points should their non-core sales forecasts prove in mid-month to have been set too low. We note that because of our accounting rules, it follows from Edison's argument that the core WACOG would increase as well, as relatively higher-priced gas flows through the short-term purchase account and into both WACOGs. DRA's proposed ISTPA would prevent core WACOG increases.

We are unconvinced. As DRA correctly notes (DRA comments, pg. 3), increasing the reliability of non-core transportation would improve the market signals between well-head and burnertip, the end result of which could be higher or lower prices. Edison's static analysis ignores the dynamic responses to be expected from a market when price signals are allowed to flow freely. We can certainly imagine competition among suppliers being enhanced by aggressive non-core transportation customers confident of their ability to move gas to their burnertips.

How long should the stipulation remain in effect? As we noted previously, we consider this proposal to be interim and we expect our final procurement policies, including capacity assignment, to obviate the need for the measures contained in the stipulation. We adopt TURN's proposed six-month sunset date and invite the parties to request an extension of the program if experience has shown that this is warranted.

We approve the proposed stipulation because we believe that the proposed measures promise real benefits to non-core customers by increasing the certainty of interruptible transportation on the interstate pipelines. In adopting the interim stipulation, we stress that we do not consider the stipulation a substitute for the long-term resolution of capacity allocation, which we will continue to pursue.

We do not grant PG&E's request to excuse it from the terms of the stipulation. As DRA points out, the result would be to place PG&E at an advantage over SoCalGas and customers in the southern California market. We take the unusual step of applying the terms of a stipulation to a non-signatory because PG&E has challenged no facts and has not requested hearing, and has exercised its full measure of due process. We have adopted some of PG&E's proposed clarifications and modifications.

We deny Edison's request for a hearing. We are not convinced that the factual issues raised by Edison would lend themselves to further clarification in a hearing process. We note that the adopted procedures are interim in nature, and the experience we gain during the implementation will allow us the benefit of answers to Edison's questions in our consideration of a long-term program.

We sympathize with the concerns voiced by Long Beach over wholesale core customers' access to interstate capacity, but as we discussed in D.88-12-099 we must wait for action by the FERC in order to address those concerns.

In order to ensure that core customers are insulated from the enhanced price risk inherent in the program, we adopt DRA's proposed ISTPA to record the purchases under the new interruptible agreements, and order that all costs associated with the new agreements be allocated entirely to the non-core. The ISTPA will work in concert with the already-existing long-term and short-term purchase accounts.

A number of commenters requested clarification of certain points in the event that the Commission approved the stipulation. We now provide clarification where appropriate.

SDG&E requests that we clarify that shippers' interstate priorities will continue to be governed by FERC orders 436 and 500. We agree.

PG&E requests clarification that core-elect customers' volumes will continue to be made through grandfathered priority rights. We agree. No change to core portfolio procedures is contemplated by this order.

We decline to adopt PG&E's proposal that we require procedures to place the risks of interruption and higher cost supplies on "those customers whose unforecast gas needs created the risks". We rely on the utilities' expertise in forecasting to minimize forecast errors and in so doing minimize the use of the new interruptible agreements.

We also decline to adopt PG&E's proposal that we require third-party shippers to execute new interruptible agreements with the pipelines. We doubt the efficacy of the proposal, and it is certainly beyond our authority to order.

We share Mobil's concerns over the practical workings of the stipulation's balancing provisions, but we will allow the stipulation's procedures a chance to work before we consider modifying them.

We will require the utilities to provide monthly reports allowing us to monitor the workings of the measures we approve today.

Findings of Fact

1. The Joint Proposed Interim Stipulation seeks to resolve the issue of the California gas utilities' use of interruptible transportation capacity.

2. The stipulation provides for the implementation of a reasonable program on an interim basis.

3. Nominations by shippers EOC may stand in the way of the fulfillment of the stipulation's objectives.

4. PG&E would realize an unfair competitive advantage over SoCalGas and southern California shippers if PG&E were not a part of the agreement.

5. Core and core-elect customers' rates could rise under the terms of the stipulation.

6. An ISTPA would shield core and core-elect customers from any negative effects of the program if all entries are allocated to the noncore WACOG.

7. The Commission intends that the benefits to core and core-elect customers of utilities' grandfathered transportation rights be retained.

8. Terminating the program on August 31, 1989 would allow the Commission to reconsider its risks and benefits after gaining some operational experience.

Conclusions of Law

1. The Joint Stipulation filed by SoCalGas, CIG, and Mock should be adopted.

2. PG&E and SoCalGas should be ordered to establish ISTPAs to track all purchases made under the new interruptible transportation agreements. All volumes from the ISTPA should flow directly to the non-core portfolio.

3. Approval of the Joint Stipulation should expire August 31, 1989.

INTERIM ORDER

IT IS ORDERED that:

1. The motion to adopt the Joint Proposed Interim Stipulation filed by Southern California Gas Company (SoCalGas), Mock Resources Incorporated, and California Industrial Group is granted as clarified herein. Approval of the measures in the stipulation shall expire August 31, 1989.

2. Pacific Gas and Electric Company (PG&E) and SoCalGas shall establish ISTPAs for all volumes purchased under the new interruptible agreements established pursuant to the interim stipulation.

3. PG&E and SoCalGas shall submit monthly reports to the Commission Advisory and Compliance Division giving total volume and average cost of spot gas moved by the utility under each transportation agreement, broken down by individual shipping number.

4. This order becomes effective 30 days from today.

Dated February 8, 1989, at San Francisco, California.

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

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

Victor Weisser, Executive Director

ALJ/KIM/

Decision 89 02 034 FEB 8 1989

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3. Permit noncore customers to exceed the maximum daily quantity (MDQ) in their agreements with the California utilities, at the utilities' discretion. A customer will be permitted to exceed its MDQ only in order to "make up" for prior underdeliveries during the current month. A customer is not permitted to build up a "cushion" of gas by exceeding its MDQ on a particular day in anticipation of future underdeliveries during the month. A customer is not permitted to exceed its MDQ in order to make up for underdeliveries in a previous month.

The parties to the stipulation propose their agreement as an interim measure which may be superseded by a final Commission decision in R.88-08-018 or other Commission proceeding. The parties state the stipulation would provide significant benefits to transportation customers in California, such as better assurance of uninterrupted transportation, easier administration for the utilities and pipelines, and increased stability of deliveries. Utility forecasting will be improved because more reliable service will minimize mid-month shifts by noncore customers from transportation service to procurement services.

The parties to the stipulation also state that, contrary to the concerns of some parties, the noncore WACOG is unlikely to rise and the stipulation balances the interests of noncore transportation customers with noncore procurement customers. The stipulation also protects the core WACOG by protecting the grandfathered rights for core customer transportation.

Positions of the Parties

1. DRA

DRA generally supports the stipulation as long as it applies to both PG&E and SoCalGas. DRA states that the program may provide valuable experience, and appropriately offers both risks and opportunities for noncore customers.

DRA states that the stipulation should apply to both SoCalGas and PG&E so that the utilities and their customers face similar market risks and conditions. Unequal implementation of the stipulation, according to DRA, would allow one utility to exercise grandfathered rights to obtain more gas to meet unexpected noncore demand and "bump off" customers in its territory and the teritory of the utility operating under the terms of the stipulation. One utility could use its rights to obtain gas to meet unexpected needs of the other, earn monopoly profits, and shut out competitors. DRA does not support the stipulation unless it applies to both utilities.

DRA also proposes that the Commission require the establishment of an Interruptible Short Term Purchase Account under which 100 percent of excess interruptible purchases are allocated to noncore customers. DRA believes such a procedure is required in order to insulate core customers from the risks associated with the terms of the stipulation. This accounting would not require the creation of new sales portfolios.

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If the Commission adopts the stipulation, PG&E recommends the following modifications:

a. Short term purchases made pursuant to the stipulation should be assigned directly to the noncore portfolio account in order to protect core customers.

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d. Third party supplier service to unforecast changes in customers' demand should also be based on lower transport capacity rights, and third party suppliers should be provided lowest transportation priority for increased level of service which was not being provided by that supplier at the beginning of the month.

3. TURN

TURN does not object to the stipulation as long as it is implemented with protections for core customers. TURN proposes that the utilities be required to report the impact of the new arrangement on core customers. In addition, the stipulation should automatically terminate after six months. This will insure, according to TURN, that negative impacts on the core will be detected and the parties will have an opportunity to object to the continuation of the experiment.

4. Transwestern Pipeline Company

Transwestern Pipeline Company (Transwestern) supports the stipulation as a reasonable interim measure. It proposes that further steps are necessary, however, to address ongoing concerns regarding third-party access to interstate pipeline capacity.

5. Mobil Oil Corporation

Mobil Oil Corporation (Mobil) supports the stipulation as an interim measure for assuring that the interstate transportation of third-party gas is not unnecessarily disrupted simply becaue utility noncore sales demand unexpectedly exceeds the utility's forecast.

Mobil does raise concerns that the utilities may have an incentive to over-nominate under the terms of the stipulation but does not propose a method for changing that incentive. It also recommends that the Commission consider a means by which shippers could balance their accounts on a monthly basis in order to avoid penalties associated with underdeliveries.

6. Shell Western E&P Inc.

Shell Western E&P Inc. (Shell) supports the stipulation as a reasonable interim measure.

7. SCE

Southern California Edison Company (SCE) opposes the stipulation. If it is adopted, the Commission should first conduct a full investigation on the financial impacts of use of grandfathered transportation rights.

SCE believes the stipulation will increase SoCalGas' noncore WACOG, thereby increasing SCE's customers' rates. SCE believes higher rates will result because SoCalGas will not have access to the most desirable delivery points where least expensive gas is available. Related to this, SCE is concerned that UEG customers will be subject to "economic curtailment", further increasing UEG and core customer rates.

Further, SCE believes that the "winners" under the stipulation will be east-of-California customers (EOC) rather than third party shippers because EOCs will be able to increase their ability to purchase lower cost gas supplies by using their grandfathered rights, which would be superior to the new interruptible rights.

Like PG&E, SCE is concerned that the stipulation would create additional administrative procedures thatthe gas utilities would have to change pursuant to a permanent solution. Finally, SCE argues that the stipulation leaves many issues unresolved, so the Commission should hold hearings on the impacts and implementation of the stipulation.

8. SDG&E

San Diego Gas and Electric Company (SDG&E) does not object to the stipulation, but recommends two conditions if the Commission approves it. First, the Commission should state that priorities among shippers shall be governed by the Federal Energy Regulatory Commission's (FERC) priority scheme of Orders 436 and 500. This provision, according to SDG&E, would address unauthorized use of intrastate priorities for interstate transportation.

Second, SDG&E believes the stipulation should be terminated as soon as SoCalGas gains the ability to and does assign portions of its firm pipeline capacity to its wholesale and/or noncore customers. This type of sunset provision is preferable to a specific cutoff date, which could leave shippers with unnecessary uncertainty as the end of the period neared.

9. El Paso

El Paso Natural Gas Company (El Paso) supports the stipulation, but comments that it is unlikely to solve capacity problems since EOCs would still have the ability to "bump" lower priority shippers at any specific receipt or delivery point. El Paso states it will continue to support a long term solution to the issue of capacity allocation.

10. City of Long Beach

The City of Long Beach (Long Beach) opposes the stipulation because it believes the stipulation fails to recognize the interests of wholesale core customers. Long Beach states the stipulation would deny wholesale customers access to interstate pipelines if the utilities forecast high sales. The Commission should acknowledge that wholesale customers need core-equivalent access to transmission on behalf of their own core requirements in order to implement their own portfolio planning.

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Discussion

We have embarked on a restructuring of the natural gas market in California that promises to bring the benefits of increased flexibility and competition to all ratepayers, core and non-core alike. Since our implementation of the new structure on May 1, 1988 we have continued to develop the program further by unbundling storage (D.88-11-034) and by re-examining our procurement policies (R.88-08-018). We have adopted in principle the concept of capacity assignment as the best means of allocating interstate pipeline capacity among customers (D.88-12-099), and we continue to pursue the implementation of such a program.

We are optimistic about the long-term effectiveness of our gas framework, but we are concerned that non-core customers' confidence in and reliance on our program has been jeopardized by the short-term operational difficulties recited by SoCal, Mock, and CIG. We will act to alleviate these temporary difficulties without turning from the longer-range goals of our program, including capacity assignment, and without slowing down in our movement toward those goals. We share PG&E's desire to continue to focus on practical long-term solutions to the many issues surrounding our transportation program, and we believe that an interim solution to the problems raised in the SoCal/Mock/CIG agreement will actually enhance our ability to do so by helping to retain the confidence and creative energies of third-party transporters, their suppliers, and their shippers.

Our consideration of the proposed interim stipulation has focused on the following concerns, all of which were raised and discussed in the comments of one or more parties:

Will the stipulation achieve its stated goal of enhancing non-core customers' ability to move gas reliably over the interstate pipelines? By its nature, this central question must remain unresolved in the absence of operational experience with the procedures called for in the stipulation. Both PG&E and Edison argue that customers east of California (EOCs) would garner benefits from the stipulation equal to those given to third-party transporters, at least with respect to firmer access to interstate capacity. We agree with DRA, however, that the measures proposed in the stipulation contain the promise of easing transporters' difficulties, and that there is value in implementing even an uncertain solution so long as the risks are carefully monitored and managed.

What effect will the stipulation have on the core and non-core WACOGs? Edison argues that the stipulation would necessarily increase the non-core WACOG by denying the utilities access to low-cost receipt points should their non-core sales forecasts prove in mid-month to have been set too low. We note that because of our accounting rules, it follows from Edison's argument that the core WACOG would increase as well, as relatively higher-priced gas flows through the short-term purchase account and into both WACOGs. DRA's proposed Interruptible Short-Term Purchase Account would prevent core WACOG increases.

We are unconvinced. As DRA correctly notes (DRA comments, pg. 3), increasing the reliability of non-core transportation would improve the market signals between well-head and burnertip, the end result of which could be higher <u>or lower</u> prices. Edison's static analysis ignores the dynamic responses to be expected from a market when price signals are allowed to flow freely. We can certainly imagine competition among suppliers being enhanced by aggressive non-core transportation customers confident of their ability to move gas to their burnertips.

<u>How long should the stipulation remain in effect</u>? As we noted previously, we consider this proposal to be interim and we expect our final procurement policies, including capacity assignment, to obviate the need for the measures contained in the stipulation. We adopt TURN's proposed six-month sunset date and invite the parties to request an extension of the program if experience has shown that this is warranted.

We approve the proposed stipulation because we believe that the proposed measures promise real benefits to non-core customers by increasing the certainty of interruptible transportation on the interstate pipelines. In adopting the interim stipulation, we stress that we do not consider the stipulation a substitute for the long-term resolution of capacity allocation, which we will continue to pursue.

We do not grant PG&E's request to excuse it from the terms of the stipulation. As DRA points out, the result would be to place PG&E at an advantage over SoCalGas and customers in the southern California market. We take the unusual step of applying the terms of a stipulation to a non-signatory because PG&E has challenged no facts and has not requested hearing, and has exercised its full measure of due process. We have adopted some of PG&E's proposed clarifications and modifications.

We deny Edison's request for a hearing. We are not convinced that the factual issues raised by Edison would lend themselves to further clarification in a hearing process. We note that the adopted procedures are interim in nature, and the experience we gain during the implementation will allow us the benefit of answers to Edison's questions in our consideration of a long-term program.

We sympathize with the concerns voiced by Long Beach over wholesale core customers' access to interstate capacity, but as we discussed in D.88-12-099 we must wait for action by the FERC in order to address those concerns.

In order to ensure that core customers are insulated from the enhanced price risk inherent in the program, we adopt DRA's proposed "Interruptible Short Term Purchase Account" (ISTPA) to record the purchases under the new interruptible agreements, and order that all costs associated with the new agreements be allocated entirely to the non-core. The ISTPA will work in concert with the already-existing long-term and short-term purchase accounts.

A number of commenters requested clarification of certain points in the event that the Commission approved the stipulation. We now provide clarification where appropriate.

SDG&E requests that we clarify that shippers' interstate priorities will continue to be governed by FERC orders 436 and 500. We agree.

PG&E requests clarification that core-elect customers' volumes will continue to be made through grandfathered priority rights. We agree. No change to core portfolio procedures is contemplated by this order.

We decline to adopt PG&E's proposal that we require procedures to place the risks of interruption and higher cost supplies on "those customers whose unforecast gas needs created the risks". We rely on the utilities' expertise in forecasting to minimize forecast errors and in so doing minimize the use of the new interruptible agreements.

We also decline to adopt PG&E's proposal that we require third-party shippers to execute new interruptible agreements with the pipelines. We doubt the efficacy of the proposal, and it is certainly beyond our authority to order.

We share Mobil's concerns over the practical workings of the stipulation's balancing provisions, but we will allow the stipulation's procedures a chance to work before we consider modifying them.

We will require the utilities to provide monthly reports allowing us to monitor the workings of the measures we approve today.

Findings of Fact

1. The Joint Proposed Interim Stipulation seeks to resolve the issue of the California gas utilities' use of interruptible transportation capacity.

2. The stipulation provides for the implementation of a reasonable program on an interim basis.

3. Nominations by shippers east of California may stand in the way of the fulfillment of the stipulation's objectives.

4. PG&E would realize an unfair competitive advantage over SoCalGas and southern California shippers if PG&E were not a part of the agreement.

5. Core and core-elect customers' rates could rise under the terms of the stipulation.

6. An Interruptible Short-Term Purchase Account would shield core and core-elect customers from any negative effects of the program if all entries are allocated to the noncore WACOG.

7. The Commission intends that the benefits to core and core-elect customers of utilities' grandfathered transportation rights be retained.

8. Terminating the program on August 31, 1989 would allow the Commission to reconsider its risks and benefits after gaining some operational experience.

Conclusions of Law

1. The Joint Stipulation filed by SoCalGas, CIG, and Mock Resources should be adopted.

2. PG&E and SoCalGas should be ordered to establish Interruptible Short-Term Purchase Accounts to track all purchases made under the new interruptible transportation agreements. All volumes from the ISTPA should flow directly to the non-core portfolio.

3. Approval of the Joint Stipulation should expire August 31, 1989.

O R D E R

IT IS ORDERED that,

1. The motion to adopt the Joint Proposed Interim Stipulation filed by Southern California Gas Company, Mock Resources Incorporated, and California Industrial Group is granted as clarified herein. Approval of the measures in the stipulation shall expire August 31, 1989.

2. Pacific Gas and Electric Company and Southern California Gas Company shall establish Interruptible Short-Term Purchase Accounts for all volumes purchased under the new interruptible agreements established pursuant to the interim stipulation.

3. Pacific Gas and Electric Company and Southern California Gas Company shall submit monthly reports to the Commission Advisory and Compliance Division giving total volume and average cost of spot gas moved by the utility under each transportation agreement, broken down by individual shipping number.

4. This order is effective in 30 days.

Dated FEB 8 1989 at San Francisco, California.

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