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Decision 89-02-040 February 14, 1989

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)

OPINION

On February 8, 1989, Southern California Gas Company (SoCalGas) filed an emergency motion in Order Instituting Rulemaking (R.) 86-06-006 requesting that the Commission immediately declare a supply emergency that would give SoCalGas the discretion to divert transportation gas owned by lower-priority customers to serve core (P1 and P2A) customers. After reviewing a declaration under penalty of perjury from William H. Owens, SoCalGas' Vice President-Gas Supply, and taking further testimony at an en banc hearing in this proceeding convened to address the claim of emergency conditions, the Commission issued Decision (D.) 89-02-036 which found that a supply emergency would exist if SoCalGas' main storage facilities held less than 16 Bcf of gas from the present until February 24, 1989. SoCalGas was also directed to explore assignments with transportation customers to increase supplies and to make an effort to determine if diverted gas would continue to flow to California. Further, SoCalGas was directed to provide daily reports on the situation and to make a complete report to the Director of CACD by February 14, 1989 regarding its efforts to comply with D.89-02-036.

On February 14, 1989, SoCalGas did meet with the Director of CACD and his staff. The results of that meeting were reported to the Commission at a continuation of its February 8, 1989 meeting held on February 14, 1989. SoCalGas reported that it has experienced vastly increased flows of gas from its interstate

transportation gas will expire on February 24th unless extended by further action of the Commission. Should SoCalGas desire to apply for such an extension, it must file such a request and brief the Director of CACD prior to noon on February 23, 1989.

Several other issues require clarification. First, while SoCalGas may obtain authorization to divert transportation gas if the trigger storage volume is reached, the utility is still within its managerial discretion to refrain from such a diversion if other means of adequately supplying core customers are available. One such means may involve purchases of gas on a non-firm basis at prices greater than current pipeline commodity prices. Even at such prices, the utility and its ratepayers may save a substantial amount of money. The Commission has received inquiries regarding the applicability of SoCalGas' tariff Rule No. 30 in this situation. It does, indeed, apply. If SoCalGas actually diverts transportation gas under our conditional authority, the transportation customer has the option to receive payment in the amount of the value-based price of alternative fuel used during the diversion. As some fuel oil prices are considerably in excess of commodity gas prices, SoCalGas clearly has an incentive to purchase all available gas at a lower cost than the cost of diverted supplies under Rule 30.

More importantly, however, during the reasonableness review of this incident SoCalGas will be required to demonstrate that prior to any diversion it purchased all available gas, for as we indicated in D.89-02-036, an emergency which justifies diversion of transportation gas presumes that all other gas supplies are physically unavailable.

Finally, SoCalGas should continue to pursue agreements for the voluntary assignment of gas from its transportation customers. Such assignments can help SoCalGas immediately by providing additional gas supplies. Moreover, even if agreement for voluntary assignments cannot be obtained from all customers, the

CORRECTION

**THIS DOCUMENT HAS
BEEN REPHOTOGRAPHED**

TO ASSURE

LEGIBILITY

pipeline suppliers. In addition, well freeze-up problems have eased and additional supplies have been procured by the pipelines. SoCalGas further indicated that its withdrawals from storage have lessened significantly from the record levels experienced during the week of February 6th. SoCalGas' storage inventory stands at 17.5 Bcf today. Thus, while SoCalGas faces less of a threat that it will prematurely drop below its end-of-the-month target of 12 Bcf in storage, SoCalGas' inventory will likely fall below the 16 Bcf trigger for diversion authorization before the 24th of this month unless the Commission takes further action. Conversely, there remains a risk that a change in weather which would once again send core demand to record levels could require the diversion of transportation gas in order to fulfill the utility's obligation to serve high priority customers.

The Commission's intent is to avoid the use of the diversion of transportation gas if possible while ensuring that SoCalGas has the ability to quickly obtain such authorization to protect high priority customers if it becomes necessary before the Commission's next meeting. Therefore, the Commission will continue to use a trigger mechanism to provide conditional authorization to divert transportation gas while adjusting the trigger volume down to 14 Bcf. This lower figure will ensure that diversions will not occur before the Commission's next regularly scheduled meeting on February 24, 1989 unless storage withdrawals accelerate again. If such a problem arises, SoCalGas can take action to divert gas immediately, without the need for seeking an additional order from this Commission. In our view, this mechanism provides the correct balance between our determination to ensure adequate service to high-priority customers and our desire to avoid unnecessary disruption of the transportation markets.

We shall direct SoCalGas to continue to make daily reports until our next meeting on February 24, 1989. It is still our intention that the conditional authorization for diversion of

transportation gas will expire on February 24th unless extended by further action of the Commission. Should SoCalGas desire to apply for such an extension, it must file such a request and brief the Director of CACD prior to noon on February 23, 1989.

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negotiations should facilitate the prompt assignment or diversion of gas in the event that the Commission's conditional authorization to divert is triggered.

Findings of Fact

1. SoCalGas' withdrawals from storage inventory have declined from the unusually high levels seen during the first week of February, 1989. Additional withdrawals will continue to be necessary through February 24, 1989, although it is uncertain how quickly storage inventory will decline.

2. SoCalGas has curtailed sales service to P2B, P3, P4, and P5 customers during this supply shortage.

3. From the time that SoCalGas first applied for emergency authorization to divert transportation gas, SoCalGas' storage inventory has been reduced from 20 Bcf to 17.5 Bcf as of today. At current rates of storage withdrawals, and without further action, SoCalGas' level of storage inventory will drop below the 16 Bcf trigger level set by the Commission in D.89-02-039 and may be reduced within several days to 12 Bcf, the minimum it has established to provide "peak day" service protection to core customers as of the beginning of March.

4. If SoCalGas' storage inventory level in its "big four" storage fields drops below 14 Bcf before the Commission's next regularly scheduled meeting on February 24, 1989, there will be a severe threat to the reliability of core service.

5. SoCalGas should attempt to enter into agreements with transportation customers for voluntary assignment of customer-owned gas to SoCalGas.

6. It would minimize disruption to the transportation markets if the gas supply shortage can be managed by SoCalGas without resort to diversion of transportation gas, while still ensuring adequate service to high-priority customers.

7. SoCalGas' latest estimate is that there would be a minimum of 150 MMcf/d of non-core customer-owned gas that could be relied upon if diverted pursuant to Commission order.

8. SoCalGas may be able to purchase additional supplies of natural gas in lieu of diverting transportation gas at this time.

Conclusions of Law

1. Pursuant to D.89-02-039 and based on SoCalGas' representations to the Director of CACD, if SoCalGas' storage inventory levels in its "big four" major storage fields fall below 14 Bcf before the Commission's regularly scheduled meeting on February 24, 1989, this will constitute a supply emergency for core (P1-P2A) customers within the meaning of D.86-12-010 and SoCalGas' tariffs.

2. SoCalGas is responsible for demonstrating in its next regularly scheduled reasonableness review that it purchased all available gas supplies before diverting transportation gas pursuant to Commission order.

3. SoCalGas Tariff Rule No. 30 does apply to define the compensation due transportation customers whose gas is diverted pursuant to Commission order.

4. This matter did not appear on the Commission's public agenda; however, a sufficient emergency exists to justify action on an emergency basis under Public Utilities Code Section 306(b) without such notice.

ORDER

IT IS ORDERED that:

1. If Southern California Gas Company's (SoCalGas) storage inventory in its "big four" major storage fields falls below 14 Bcf, a supply emergency is declared for core (P1-P2A) service on SoCalGas' system from that time until February 24, 1989 unless extended by a subsequent Commission order.

2. SoCalGas shall exercise its best efforts to obtain voluntary assignments of customer-owned gas from its major transportation customers and to obtain prompt cooperation from transportation customers who do not execute such assignments in the event of the Commission-ordered diversion of customer-owned gas.

3. SoCalGas shall continue to make a full and complete daily report (in original and 3 copies) to the Director, Commission Advisory and Compliance Division (CACD), of its gas supply operations including, but not limited to: total sendout, storage withdrawals, the amount of diverted transportation gas, and the deliveries from each of its interstate pipelines and other major sources of gas, and any other information required by CACD. SoCalGas shall also serve a copy of this report on each Commissioner.

4. Should SoCalGas desire an extension of the conditional authority for diversion of customer-owned gas granted herein beyond February 24, 1989, on or before noon on February 23, 1989 SoCalGas shall file with the Commission's Docket Office (in original and 12 copies) and serve on all parties a request for such authority and a written report on the results of its efforts to comply with D.89-02-039 and Ordering Paragraphs 1 and 2 above. The Director of CACD shall report orally to the Commission at its regularly scheduled meeting on February 24, 1989 at 10:00 a.m. evaluating the contents of SoCalGas' filing and report as well as any comments received from other parties concerning these matters.

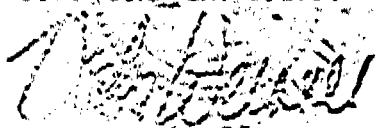
5. The Executive Director is directed to serve copies of this order on all parties in I.88-08-052 and in R.86-06-006.

This order is effective today.

Dated February 14, 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.


Vernon Wilkins, Executive Director

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ORIGINAL*Looks good
Mury*Decision 89-02-040 February ¹⁴24, 1989

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This order is effective today.

Dated February 14, 1989, at San Francisco, California.

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President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OHANIAN
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