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**ORIGINAL**

Decision 89 02 082 FEB 24 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)

ORDER MODIFYING DECISION 88-11-034 AND DENYING REHEARING

In Decision (D.)88-11-034, we created a blueprint for the Pacific Gas and Electric Company (PG&E) and the Southern California Gas Company (SoCal) to provide gas storage banking service, based on the integrated use of their pipelines and the cycling capability of their underground storage fields. This service is to start with the 1990-91 injection/withdrawal cycle. In this same decision, we also authorized a smaller scale storage "pilot program" for use in 1989-90. Several parties filed timely applications for rehearing and/or petitions for modification of D.88-11-034, to which various parties filed responses.

In D.89-01-017, we dealt with the petitions for modification of PG&E, SoCal, and California Industrial Group (CIG) to the extent that they affected the pilot program. Today's decision resolves the remaining issues from PG&E's and SoCal's petitions, all the issues raised by San Diego Gas & Electric Company's (SDG&E's) petition (filed considerably later than the others), and the issues raised by the applications for rehearing filed by SoCal and the City of Long Beach.

We have reviewed all of the allegations of error raised in the applications for rehearing and are of the view that insufficient grounds have been stated to warrant granting rehearing. We have also reviewed the petitions for modification,

and while we reject most of the proposed modifications, we do accept several of those requested by SDG&E. We further discuss our rationale below.

Before we do so, however, we note that it has come to our attention, through a letter which PG&E and SoCal sent to our Executive Director, that the implementation schedule set forth by Appendix C to D.88-11-034 is very difficult for the utilities to comply with. We will, therefore, revise the schedule as follows: solicitation of bids is changed from March 1 to March 6; due date for bids is changed from March 10 to March 17; and announcement of winners changed from March 15 to March 23. Also, the reference in Appendix C to publication of initial storage targets is in error, and will be deleted.

Applications for Rehearing.

We view as specious SoCal's argument that we have unlawfully failed to allow the LDCs to store enough gas to provide protection to the core in the event of an extremely cold day. SoCal simply disagrees with this Commission over how to provide the storage functions under our new program. SoCal would allow banking only after it has stored an amount of its own gas determined under its own planning criteria; D.88-11-034, on the other hand, recognizes that some of the traditional storage functions can be served by customer-owned gas. SoCal's differences with the Commission on how to determine storage targets do not equate to legal error.

We find equally unpersuasive Long Beach's argument that our decision unlawfully discriminates against wholesale customers concerning the determination of the storage entitlement for core requirements. We reiterate that the storage banking program is concerned with system optimization for the primary utility, i.e., maximizing the use of all system facilities throughout the year. In our view, this principle does not apply in the same way to the wholesale utilities, which do not have storage facilities or interconnections with interstate pipelines, and hence do not have the same optimization responsibilities. Moreover, as Long Beach

well recognizes, the current entitlement system for wholesale customers is a transitional one, to be utilized during the pilot program. The decision makes clear that the Commission invites and will seriously consider alternative proposals.

Petitions for Modification.

A. SoCal. We consider today the three remaining issues in SoCal's petition for modification. SoCal first argues that the Commission's decision to adopt the definition of a "cold year" based on a 2.0 standard deviation winter (the coldest winter that statistically may be expected once every 35 years) is not supported by the evidence. SoCal requests that the Commission modify D.88-11-034 to remove this definition and leave it up to management discretion (SoCal has traditionally used a 2.46 standard deviation winter - coldest in 100 years).

We note initially that the proper vehicle for raising an issue of evidentiary deficiency is an application for rehearing, not a petition for modification. We note secondly that D.88-11-034 thoroughly discusses SoCal's own evidentiary failings relative to this issue. We do not find SoCal's arguments persuasive, and we reject its requested modification.

SoCal secondly takes issue with the statement on page 3 of the decision that "both the initial and final storage targets will be subject to reasonableness review." The objection is directed only to the noncore targets, and is based on the fact that the primary utilities are no longer responsible for any more than "best efforts" in providing gas for noncore customers. SoCal requests that the decision be modified to make clear that reasonableness review will not be undertaken on the utility's choices for initial and final storage targets concerning noncore service. ✓

SoCal's point is misplaced. The decision in no way loses sight of the fact that the primary utilities now have only a best efforts responsibility toward noncore customers. In imposing a reasonableness review requirement, we were not talking about core vs. noncore storage; rather, we were talking about the

functioning of the utility's entire system. If the storage program is not managed prudently, the utility incurs costs needlessly. The purpose of reasonableness review is to assess the prudence of that management and those costs; not to assess the reasonableness of the utility's service to its noncore customers. SoCal's proposed modification is denied.

SoCal thirdly disagrees with the Commission's requirement that it prepare an "imputation" of its storage banking revenues for its 1989 ACAP based on bids received in the pilot program. SoCal argues that without the experience of the pilot program, the situation is far too uncertain to require such imputation. SoCal requests that the decision be modified to state that the Commission will consider in the utilities' 1990 ACAPs whether there is a sufficient basis for establishing a forecast level of storage banking revenues.

The requirement that both SoCal and PG&E submit projected revenue information in their 1989 ACAPs is not a mistake. Because SoCal's bid winners will not actually be accepted and announced until March 23, 1989, SoCal will clearly have to make a supplemental filing. We will adopt DRA's recommendation that SoCal should forecast its storage banking fee revenues and file this forecast on March 15, 1989 in its 1989 ACAP, thus complying with the directive in D.88-11-034, and then update this forecast using data from its pilot program bidding. This update should be filed by April 1, 1989.

B. PG&E. PG&E raises three issues. First, it concurs with SoCal that it should not have to forecast its storage banking revenues without having gone through a full storage season. For the reasons given above, PG&E's request is denied.

PG&E secondly argues that the treatment afforded to banking reservation fees by the decision (i.e., the LDC can keep any revenues exceeding the LDC's forecast) unreasonably fails to provide shareholders any opportunity for financial benefit, which PG&E argues is only fair in the context of the increased risk created by the new banking program. PG&E proposes that the LDCs

be allowed to keep 10% of reservation fee revenues, and credit 90% (instead of the present 100%) of the forecasted revenues against noncore customers' fixed costs.

PG&E thirdly contends that there should be no ceiling rate applied to as-available banking service, because that service could, under certain circumstances be more valuable (or less, for that matter) than regular banking service.

The California Industrial Group (CIG) opposes PG&E's petition, arguing strenuously that it should be denied for the same reason that CIG's petition was denied -- i.e., that it raised issues which had been raised earlier without providing any additional reasons why its positions should be adopted.

CIG also contends that PG&E's view of banking reservation fee revenues is myopic, recognizing only risks and not rewards. According to CIG, forecasting creates an incentive for the LDCs to market and operate their programs in a way which encourages noncore customers to use banking services. If the LDCs are successful marketers, revenues should exceed the forecasts. In addition to agreeing with CIG, our review of the record confirms that the reservation fee issue is largely attempted relitigation by PG&E.

CIG also disagrees with PG&E's request that there be no ceiling attached to as-available banking. In addition to PG&E's failure to present any new arguments to justify its proposed modification, CIG contends that giving the utilities complete discretion in setting the price for banking services creates the potential for abuse. This could happen, according to CIG, if a utility caused a "shortage" of banking capacity by setting its initial storage target too high, thus artificially driving up the demand and price of as-available banking and creating a windfall for itself. We also find CIG to be more persuasive on this issue. PG&E's proposed modification will be denied.

C. SDG&E. SDG&E raises four issues in its petition, two of which have merit. SDG&E first contends that its noncore customers should bid for and obtain their storage allocations

directly from SDG&E, just as noncore customers of the primary utilities will obtain storage allocations from the LDCs. However, exactly what SDG&E is requesting is less than clear.

On the one hand, SDG&E proclaims that "the fairest procedure" would allow SDG&E "to administer, on behalf of all its customers [core and noncore], that proportion of SoCal's storage represented by the ratio SDG&E's total contribution to SoCal's storage costs bore to the total of SoCal's storage costs." On the other hand, SDG&E does not "believe it should have to bid for storage to serve its noncore customers ... and then hop[e] to resell the storage to its own noncore customers, without necessarily knowing what its customers would be willing to pay for it."

Without more clarification, we find it difficult to assess SDG&E's request. In any event, D.88-11-034 does not prohibit wholesale customers from acting as agents for their own noncore customers; SDG&E is free to play this role if it wishes to. We think this is adequate for purposes of the pilot program; SDG&E may refine and clarify its proposal prior to the commencement of regular banking (April 1990).

SDG&E secondly asserts that wholesale LDCs should have the same discretion to use unsubscribed storage paid for by their customers as the decision provides to primary LDCs. This is a variation on the theme espoused by Long Beach, and for the same reasons should be rejected.

SDG&E thirdly argues that wholesale LDCs should not be required to "zero out" their core storage accounts annually, i.e., to have the primary LDC purchase any gas remaining in their storage accounts, when the primary LDCs are not subject to such a requirement. This appears to make sense, as the wholesale LDCs do have an ongoing entitlement to storage and thus are not equivalent to contract storage customers. We will clarify the decision on this point.

Finally, SDG&E argues that the decision will result in users paying twice for carrying costs of gas they place in

storage. SDG&E, as one of SoCal's customers, pays SoCal a portion of SoCal's carrying costs of gas in storage, which portion was determined in the December 1987 implementation decision--(D.87-12-039)--. However, SDG&E also places gas in storage with SoCal for SDG&E's own use, pursuant to the Commission's having given SDG&E core gas banking authorization in mid-1988. Thus SDG&E pays twice: once for its own gas which it banks with SoCal, and again for the gas SoCal would have been storing for SDG&E but for the Commission's allowing SDG&E to store its own gas.

SDG&E contends it does not have enough information to calculate the amount of no-benefit carrying charges it is paying SoCal. It requests that we modify the decision to allow SDG&E to show the extent of such costs in the ACAP proceedings, and to receive a credit therefore. It also requests authority to recover its carrying costs of gas in inventory from its own customers, in its ACAP proceedings. We will modify the decision to grant these requests.

IT IS ORDERED that D.88-11-034 is modified as follows:

1. The following language is inserted at the following places -- the end of Section IV.C.1, p. 21; the end of Section IV.F., p. 32; Finding 39, p. 56; paragraph \*57, Appendix E:

"Wholesale customers have an ongoing entitlement to banking capability on the LDC's system. Therefore, these customers need not balance their injections and withdrawals over the 12-month cycle, but instead may have gas remaining in their accounts at the end of the cycle, so long as the amount remaining is within this entitlement (plus the 10% tolerance)."

2. The following sentence is added to the first paragraph on page 34 (continued from page 33):

"Because SoCal's bid winners will not actually be accepted and announced until March 23, 1989, SoCal should file a forecast of its storage banking fee revenues on March

15, 1989, and make a supplemental filing by April 1, 1989 which uses data from its pilot program bidding."

3. New Finding 49 is added to read:

"SDG&E should be allowed to make a showing in the ACAP proceedings of the extent of no-benefit carrying charges it is paying SoCal, for the purposes of possible credit back to SDG&E. SDG&E should also be allowed, in the course of the same proceedings, to recover from its own customers its carrying costs of gas in inventory."

4. Appendix C is modified to revise the March, 1989 dates, and to delete the reference to PG&E and SoCal publishing initial storage targets, as follows:

March 6, 1989	PG&E, SoCal solicit bids
March 17, 1989	Due date for bids
March 23, 1989	Bid winners and volumes announced

IT IS FURTHER ORDERED that except as indicated above, the petitions for modification of D.88-11-034 are denied.

IT IS FURTHER ORDERED that rehearing of D.88-11-034 is denied.

This order is effective today.

Dated FEB 24 1989 at San Francisco, California.

Commissioner Frederick R. Duda,  
being necessarily absent, did not  
participate.

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

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

*Victor Weiser*  
Victor Weiser, Executive Director  
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(Appropriate findings and conclusions and ordering paras, etc. to be added.)

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