ALJ/KIM/pc *

H-4

Decision 89 07 017 JUL 6 1989

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

JUL 7 1989

Order Instituting Investigation on the Commission's Motion into implementing a rate design for unbundled gas utility services consistent with policies adopted in Decision 86-03-057.	I.86-06-005 (Filed June 5, 1986)
And Related Matters.	R.86-06-006 (Filed June 5, 1986) Application 87-01-033 (Filed January 20, 1987) Application 87-01-037 (Filed January 27, 1987) Application 87-04-040 (Filed April 20, 1987)

OPINION

On April 28, 1989, Southern California Gas Company (SoCal) filed a petition to modify Decision (D.) 86-12-010 and D.87-12-039. The petition seeks modification of existing accounting and regulatory rules to improve operating flexibility and thereby avoid utility electric generation (UEG) curtailments during the summer and fall smog season.

The Division of Ratepayer Advocates (DRA), Toward Utility Rate Normalization (TURN), California Industrial Group and California League of Food Processors (CIG), Salmon Resources, Ltd., and Mock Resources, Inc. (Salmon/Mock), and Southern California Edison Company (SCE) filed responses to SoCal's petition.

I. Background

Under existing rules, utilities are required to book gas purchases on a monthly basis into either the short-term or long-term purchase accounts. Long-term gas is generally used to supply the core portfolio while short-term gas supplies all of the noncore portfolio and a portion of the core portfolio. The rules require the utilities to book all storage related gas costs into the core portfolio. Utilities are also required to post the noncore portfolio price based upon short-term purchases in the month the rate will be applied. These rules do not contemplate the storage of noncore gas since all storage of utility-owned gas is deemed to be on behalf of the core portfolio.

SoCal believes these restrictions will require UEG curtailment during the summer and fall smog season. SoCal asserts it has insufficient system capacity to meet both the noncore demand for reliable summer service and the summer storage injection schedule required to satisfy core reliability and cost minimization goals under the current regulatory framework. Accordingly, it asks that the Commission permit it to store short-term supplies for the noncore market in the spring.

SoCal also requests changes to core procurement policies in order to minimize costs to core customers. SoCal seeks to purchase long-term supplies for the core in summer months in excess of summer core demand plus net storage injection, and reconcile long-term purchases on an annual basis.

In order to implement these program changes, SoCal requests the following specific accounting changes:

1. A utility should have to reconcile long-term supply purchases with core demand over a twelve month period, rather than on a monthly basis as currently required;

2. There should be separate last in/first out (LIFO) accounting for core portfolio gas and noncore portfolio gas injected or withdrawn from storage; and

3. Posted noncore procurement charges should reflect not only the current month's short-term supply price, but also the cost of noncore gas withdrawn from storage (on a LIFO basis) in months when noncore procurement service is expected to exceed short-term purchases.

DRA and TURN generally support SoCal's request, with some reservations. SCE supports the goals of SoCal's petition, but suggests other means for achieving those goals. CIG opposes the petition if rule changes would affect P-3 curtailment. Salmon/Mock opposes the petition.

II. Annual Reconciliation of Long-term Supplies

SoCal states that long-term supplies should be reconciled on an annual basis in order to simplify the rules. It submits that to ensure compliance with the Commission's requirement that only short-term gas be included in the noncore portfolio, all that is necessary is that the utility's annual long-term purchases not exceed annual core demand, regardless of the monthly pattern of storage injection and withdrawal.

Although SoCal plans to include short-term supplies in the core portfolio on an annual basis, as we require, SoCal believes that unforeseen events could result in long-term supply purchases in excess of core demand. If this were to occur, the Commission's rules for transfer of long-term supplies to the noncore portfolio would apply.

CIG, TURN, and DRA oppose this accounting change. TURN states as long as the storage of noncore portfolio gas is explicitly permitted, as SoCal's petition requests, there is no need to abandon monthly accounting and reconciliation. The adopted accounting rules were designed to prevent the arbitrary assignment of gas costs to one portfolio or the other and thereby prevent targeting of less expensive gas to noncore customers. The accounting change requested by SoCal would remove this protection provided core customers. DRA and CIG make similar observations. CIG is also concerned that such a procedure could disguise marketing of excess core supplies to noncore customers in contravention of the guidelines established in D.89-04-080.

We concur with DRA, TURN, and CIG that SoCal has not demonstrated a need for this accounting change, and that its adoption could result in an arbitrary assignment of gas costs to core and noncore customers.

III. Storage of Noncore Gas

SoCal requests that the Commission permit it to store noncore gas during the spring injection season. By storing an amount of noncore gas in the spring equivalent to the amount of core gas to be stored during the summer, the utility can maximize the amount of pipeline capacity available for the transmission of gas available for immediate use. SoCal expects that, without the requested change, it may have to curtail P-5 service during the summer and fall of 1989 in order to inject long-term supplies purchased in excess of the core demand.

DRA supports SoCal's proposal as a reasonable approach for avoiding curtailments during the summer peak season, at least on an interim basis. It supports the following two accounting changes proposed by SoCal:

1. There should be separate LIFO accounting for core portfolio gas and noncore portfolio gas injected/withdrawn from storage.

2. The posted noncore procurement charges should reflect not only the current month's short-term supply price, but also the cost of noncore gas withdrawn from storage (on a LIFO basis) in months when noncore procurement service is expected to exceed short-term purchases.

Although DRA supports this change on an interim basis, it questions the wisdom of the policy on a permanent basis and does not agree with SoCal that its proposed changes are minor or merely simple accounting changes. According to DRA, noncore customers should be permitted to store their own gas during the spring injection season even if they are being partially curtailed at the time, rather than being forced to accept storage of SoCal's spot gas. DRA raises a number of implementation issues and suggests that they be addressed in workshops and supplementary pleadings.

TURN's comments are similar to DRA's. It supports SoCal's proposal in the interest of improving air quality. It recommends that the utility be required to specify in advance how much gas it intends to store each month for the noncore portfolio. This condition would prevent arbitrary assignment of gas costs to core or noncore portfolios. TURN does not support SoCal's proposed modifications on a permanent basis, suggesting that SoCal be required to propose in ACAP proceedings whether continuation of these measures would be required in the forthcoming year.

SCE supports the curtailment of gas consumption during the spring season in order to increase storage injection. However, it objects to SoCal substituting its own short-term gas for gas SCE could procure and flow on a long-term contract. SCE argues that noncore customers should have the option of storing their own gas in lieu of SoCal gas stored for the noncore. It also notes that SoCal's petition needs to be reconciled with D.89-04-080, mailed one day before the date of SoCal's petition. That decision establishes new rules for the sale of excess long-term supplies to the noncore market. The rules permit gas utilities to sell excess long-term supplies into the noncore portfolio at the core portfolio WACOG to avoid gas inventory or similar charges or because of unexpected shortfalls in the availability of short-term supplies.

Salmon/Mock objects to SoCal's proposal as antithetical to the Commission's gas regulatory program. Inclusion of long-term supplies and storage gas in the noncore portfolio is contrary to the Commission's intention to develop a portfolio that provides short-term gas at current spot prices. The proposal is anti-competitive because independent producers and marketers will not be able to provide customers with long-term supplies, storage, and preferential access to transportation capacity.

CIG also objects to SoCal's proposal on the grounds that it may adversely affect P-3 customers. CIG suggests any additional costs associated with storage of noncore gas supplies should be borne by the UEG class, and that the program should not be approved if it results in a transfer of curtailments from P-5 or P-4 customers to P-3 customers. CIG suggests that hearings be held to consider these issues.

We will permit SoCal to store noncore gas during the spring season, as outlined in Appendix A. We recognize that this action is a step backward from our previous decisions which have sought to improve competition in utility gas markets. On the other hand, we are very concerned about the effects of UEG curtailments on air quality in Southern California. On balance, air quality concerns must take precedence at this time.

We will adopt the changes, as DRA and TURN suggest, on an interim basis and require SoCal to estimate volumes of noncore injection gas in advance. Of course, this estimate cannot be made for this year since the spring injection season has passed; however, as TURN proposes, we will adopt the volumes provided by SoCal in Appendix B of its filing as actual volumes injected into storage in March and April 1989. This decision does not prejudge the reasonableness of any action SoCal may have already taken. In this context, we are very concerned that SoCal delayed filing this petition until after the storage injection season began.

As the responses to SoCal's petition point out, the program we adopt today cannot resolve a number of outstanding significant issues related to these program changes. We will order SoCal to submit, within 45 days of the effective date of this order, comments addressing the following issues:

1. Should SoCal's noncore storage gas be allocated separate carrying costs and storage banking rental charges?

2. Are there other options for mitigating summer/fall UEG curtailment which are less damaging to competition?

3. What are the effects on P-3 customers of this program and how may they be mitigated?

4. How does this program change affect policy established in D.89-04-080 and how should the two policies be reconciled?

The parties may, within 15 days of SoCal's filing, respond to these questions in writing. Since we intend to review our banking program in I.87-03-036, the appropriate forum for these comments is that ongoing proceeding. We encourage the parties to attempt to resolve these issues outside of hearings. If the parties cannot reach some agreement on these various issues, we will consider hearings to resolve them or address them in our order addressing a full-scale banking program.

Findings of Fact

1. Reconciliation of long-term and short-term gas purchases with core and noncore sales on an annual basis, rather than a monthly basis, could result in arbitrary assignment of gas costs to one portfolio or the other and thereby remove certain protections to the core class.

2. SoCal has not demonstrated that reconciliation of long-term and short-term gas purchases with core and noncore sales on an annual basis is required to minimize costs or provide operational flexibility to address air pollution problems.

3. Storage of noncore gas in the spring will improve SoCal's ability to meet summer/fall UEG demand, and thereby forestall curtailment of UEG customers.

4. Curtailment of UEG customers during the summer/fall smog seasons is likely to result in increased air pollution in SoCal's territory.

5. Storage of long-term supplies for noncore customers may reduce the competitiveness of Southern California gas markets under current circumstances.

6. SoCal's proposal to store noncore gas raises a number of issues which cannot be resolved in this order.

7. The Commission does not have adequate information at this time to determine whether the volumes in Appendix B or SoCal's storage operations during 1989 are reasonable.

8. Expeditious treatment of this petition for modification is required because resolution of these issues are required in order to permit SoCal to increase operating flexibility during the summer smog season, which is imminent.

Conclusions of Law

1. SoCal's petition to modify D.86-12-010 and D.87-12-039 should be granted to the extent set forth in this order, and according to guidelines adopted as Appendix A to this order.

2. Noncore injection volumes for March through June 1989, as set forth in Appendix B of this order, should be adopted.

3. SoCal should be ordered to file, within 45 days of the effective date of this order, comments on various issues relating to storage and UEG curtailment. Those comments should be filed in I.87-03-036.

4. The noncore injection volumes adopted in Appendix B should not be considered either reasonable or unreasonable at this time.

O R D E R

IT IS ORDERED that:

1. Southern California Gas Company's (SoCal) petition to modify Decision (D.) 86-12-010 and D.87-12-039 which request accounting changes to: (1) employ last in/first out accounting for core portfolio gas and noncore portfolio gas injected or withdrawn

√

from storage; and (2) post noncore procurement changes to reflect current month short-term supply price and the cost of noncore gas withdrawn from storage on a last in/first out basis in months where noncore procurement service is expected to exceed short-term purchases is granted according to the guidelines adopted as Appendix A to this order. In all other respects, the petition is denied.

2. SoCal shall file in I.87-03-036, within 45 days of the effective date of this order, responses to the following:

1. Should SoCal's noncore storage gas be allocated separate carrying costs and storage banking rental charges?

2. Are there other options for mitigating summer/fall UEG curtailment which are less damaging to competition?

3. What are the effects on P-3 customers of this program and how may they be mitigated?

4. How does this program change affect policy established in D.89-04-080 and how should the two policies be reconciled?

It shall serve copies of those comments on all parties to this proceeding and to I.87-03-036.

This order is effective today.

Dated JUL 6 1989, at San Francisco, California.

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

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

Victor Weisser

Victor Weisser, Executive Director

APPENDIX A

Interim Gas Accounting Procedures

I. Spring Injection Season

A. Short-term purchases will be balanced with noncore demand. Resulting excess short-term supply is assigned to core portfolio or treated as noncore portfolio gas-in-storage injections priced at short-term cost.

B. Monthly core purchases will be balanced with core demand, resulting:

1. Excess supply is net core portfolio gas-in-storage injection.

2. Shortfall of supply is balanced by net core portfolio gas-in-storage withdrawal.

II. Summer Withdrawal Season

A. Monthly short-term purchases will be balanced with monthly noncore demand, resulting shortfall of short-term supply is balanced by withdrawal of previously injected short-term noncore portfolio gas-in-storage.

B. Monthly core purchases are balanced with monthly core demand, resulting excess supply or shortfall is accounted for similar to procedures during injection season.

III. Gas-In-Storage

A. Noncore and core injections/withdrawals are accounted for and priced separately based upon applicable separate LIFO layers.

B. Separately priced noncore gas-in-storage will have no impact on interim LIFO pricing adjustments and year-end accounting for income tax purposes, on the premise that this gas will be fully withdrawn by completion of summer withdrawal season. If a balance does remain, excess noncore supply will be cleared to the core portfolio.

(END OF APPENDIX A)

APPENDIX B

Southern California Gas Company
Illustrative Operating Plan
1989-1990
MMcf/d

	(A)	(B)	(C)	(D)	(E)	(F)	(G)
	Core Supply Purchases				Storage (Injection)/Withdrawal		
1989	Long-term	Spot	Total	Core Reqmnt.	Core Storage	Noncore Storage	Net Storage
Mar	* 1205	0	1205	1085	(120)	(285)	(405)
Apr	1140	230	1370	1150	(220)	(44)	(264)
May	1115	225	1340	900	(440)	(90)	(530)
Jun	945	75	1020	760	(260)	(170)	(430)
Jul	935	0	935	710	(225)	225	0
Aug	825	0	825	700	(125)	125	0
Sept	960	0	960	720	(240)	240	0
Oct	830	0	830	830	0	0	0
Nov	1015	0	1015	1215	200	0	200
Dec	950	0	950	1700	750	0	750
1990							
Jan	1395	0	1395	1715	320	0	320
Feb	1380	0	1380	1570	190	0	190
Mar	1110	190	1300	1470	170	0	170
13 Mo. Avg.	1062	55	1117	1117	0	0	0

* Recorded March 1989

(based on average temperature conditions)

(END OF APPENDIX B)

ALJ/KIM/pc

6 #-4

Decision ___________

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Investigation on the Commission's Motion into implementing a rate design for unbundled gas utility services consistent with policies adopted in Decision 86-03-057.	I.86-06-005 (Filed June 5, 1986)
And Related Matter.	R.86-06-006 (Filed June 5, 1986)

O P I N I O N

On April 28, 1989, Southern California Gas Company (SoCal) filed a petition to modify Decision (D.) 86-12-010 and D.87-12-039. The petition seeks modification of existing accounting and regulatory rules to improve operating flexibility and thereby avoid utility electric generation (UEG) curtailments during the summer and fall smog season.

The Division of Ratepayer Advocates (DRA), Toward Utility Rate Normalization (TURN), California Industrial Group and California League of Food Processors (CIG), Salmon Resources, Ltd., and Mock Resources, Inc. (Salmon/Mock), and Southern California Edison Company (SCE) filed responses to SoCal's petition.

I. Background

Under existing rules, utilities are required to book gas purchases on a monthly basis into either the short-term or long-term purchase accounts. Long-term gas is generally used to supply the core portfolio while short-term gas supplies all of the noncore portfolio and a portion of the core portfolio. The rules require the utilities to book all storage related gas costs into the core portfolio. Utilities are also required to post the noncore portfolio price based upon short-term purchases in the month the rate will be applied. These rules do not contemplate the storage of noncore gas since all storage of utility-owned gas is deemed to be on behalf of the core portfolio.

SoCal believes these restrictions will require UEG curtailment during the summer and fall smog season. SoCal asserts it has insufficient system capacity to meet both the noncore demand for reliable summer service and the summer storage injection schedule required to satisfy core reliability and cost minimization goals under the current regulatory framework. Accordingly, it asks that the Commission permit it to store short-term supplies for the noncore market in the spring.

SoCal also requests changes to core procurement policies in order to minimize costs to core customers. SoCal seeks to purchase long-term supplies for the core in summer months in excess of summer core demand plus net storage injection, and reconcile long-term purchases on an annual basis.

In order to implement these program changes, SoCal requests the following specific accounting changes:

1. A utility should have to reconcile long-term supply purchases with core demand over a twelve month period, rather than on a monthly basis as currently required;

2. There should be separate last in/first out (LIFO) accounting for core portfolio gas and noncore portfolio gas injected or withdrawn from storage; and

3. Posted noncore procurement charges should reflect not only the current month's short-term supply price, but also the cost of noncore gas withdrawn from storage (on a LIFO basis) in months when noncore procurement service is expected to exceed short-term purchases.

DRA and TURN generally support SoCal's request, with some reservations. SCE supports the goals of SoCal's petition, but suggests other means for achieving those goals. CIG opposes the petition if rule changes would affect P-3 curtailment. Salmon/Mock opposes the petition.

II. Annual Reconciliation of Long-term Supplies

SoCal states that long-term supplies should be reconciled on a annual basis in order to simplify the rules. It submits that to ensure compliance with the Commission's requirement that only short-term gas be included in the noncore portfolio, all that is necessary is that the utility's annual long-term purchases not exceed annual core demand, regardless of the monthly pattern of storage injection and withdrawal.

Although SoCal plans to include short-term supplies in the core portfolio on an annual basis, as we require, SoCal believes that unforeseen events could result in long-term supply purchases in excess of core demand. If this were to occur, the Commission's rules for transfer of long-term supplies to the noncore portfolio would apply.

CIG, TURN, and DRA oppose this accounting change. TURN states as long as the storage of noncore portfolio gas is explicitly permitted, as SoCal's petition requests, there is no need to abandon monthly accounting and reconciliation. The adopted accounting rules were designed to prevent the arbitrary assignment of gas costs to one portfolio or the other and thereby prevent targeting of less expensive gas to noncore customers. The accounting change requested by SoCal would remove this protection provided core customers. DRA and CIG make similar observations. CIG is also concerned that such a procedure could disguise marketing of excess core supplies to noncore customers in contravention of the guidelines established in D.89-04-080.

DRA and TURN generally support SoCal's request, with some reservations. SCE supports the goals of SoCal's petition, but suggests other means for achieving those goals. CIG opposes the petition if rule changes would affect P-3 curtailment. Salmon/Mock opposes the petition.

II. Annual Reconciliation of Long-term Supplies

SoCal states that long-term supplies should be reconciled on a annual basis in order to simplify the rules. It submits that to ensure compliance with the Commission's requirement that only short-term gas be included in the noncore portfolio, all that is necessary is that the utility's annual long-term purchases not exceed annual core demand, regardless of the monthly pattern of storage injection and withdrawal.

Although SoCal plans to include short-term supplies in the core portfolio on an annual basis, as we require, SoCal believes that unforeseen events could result in long-term supply purchases in excess of core demand. If this were to occur, the Commission's rules for transfer of long-term supplies to the noncore portfolio would apply.

CIG, TURN, and DRA oppose this accounting change. TURN states as long as the storage of noncore portfolio gas is explicitly permitted, as SoCal's petition requests, there is no need to abandon monthly accounting and reconciliation. The adopted accounting rules were designed to prevent the arbitrary assignment of gas costs to one portfolio or the other and thereby prevent targeting of less expensive gas to noncore customers. The accounting change requested by SoCal would remove this protection provided core customers. DRA and CIG make similar observations. CIG is also concerned that such a procedure could disguise marketing of excess core supplies to noncore customers in contravention of the guidelines established in D.89-04-080.

We concur with DRA, TURN, and CIG that SoCal has not demonstrated a need for this accounting change, and that its adoption could result in an arbitrary assignment of gas costs to core and noncore customers.

III. Storage of Noncore Gas

SoCal requests that the Commission permit it to store noncore gas during the spring injection season. By storing an amount of noncore gas in the spring equivalent to the amount of core gas to be stored during the summer, the utility can maximize the amount of pipeline capacity available for the transmission of gas available for immediate use. SoCal expects that, without the requested change, it may have to curtail P-5 service during the summer and fall of 1989 in order to inject long-term supplies purchased in excess of the core demand.

DRA supports SoCal's proposal as a reasonable approach for avoiding curtailments during the summer peak season, at least on an interim basis. It supports the following two accounting changes proposed by SoCal:

1. There should be separate LIFO accounting for core portfolio gas and noncore portfolio gas injected/withdrawn from storage.

2. The posted noncore procurement charges should reflect not only the current month's short-term supply price, but also the cost of noncore gas withdrawn from storage (on a LIFO basis) in months when noncore procurement service is expected to exceed short-term purchases.

Although DRA supports this change on an interim basis, it questions the wisdom of the policy on a permanent basis and does not agree with SoCal that its proposed changes are minor or merely simple accounting changes. According to DRA, noncore customers should be permitted to store their own gas during the spring injection season even if they are being partially curtailed at the time, rather than being forced to accept storage of SoCal's spot gas. DRA raises a number of implementation issues and suggests that they be addressed in workshops and supplementary pleadings.

TURN's comments are similar to DRA's. It supports SoCal's proposal in the interest of improving air quality. It recommends that the utility be required to specify in advance how much gas it intends to store each month for the noncore portfolio. This condition would prevent arbitrary assignment of gas costs to core or noncore portfolios. TURN does not support SoCal's proposed modifications on a permanent basis, suggesting that SoCal be required to propose in ACAP proceedings whether continuation of these measures would be required in the forthcoming year.

SCE supports the curtailment of gas consumption during the spring season in order to increase storage injection. However, it objects to SoCal substituting its own short-term gas for gas SCE could procure and flow on a long-term contract. SCE argues that noncore customers should have the option of storing their own gas in lieu of SoCal gas stored for the noncore. It also notes that SoCal's petition needs to be reconciled with D.89-04-080, mailed one day before the date of SoCal's petition. That decision establishes new rules for the sale of excess long-term supplies to the noncore market. The rules permit gas utilities to sell excess long-term supplies into the noncore portfolio at the core portfolio WACOG to avoid gas inventory or similar charges or because of unexpected shortfalls in the availability of short-term supplies.

Salmon/Mock objects to SoCal's proposal as antithetical to the Commission's gas regulatory program. Inclusion of long-term supplies and storage gas in the noncore portfolio is contrary to the Commission's intention to develop a portfolio that provides short-term gas at current spot prices. The proposal is anti-competitive because independent producers and marketers will not be able to provide customers with long-term supplies, storage, and preferential access to transportation capacity.

CIG also objects to SoCal's proposal on the grounds that it may adversely affect P-3 customers. CIG suggests any additional costs associated with storage of noncore gas supplies should be borne by the UEG class, and that the program should not be approved if it results in a transfer of curtailments from P-5 or P-4 customers to P-3 customers. CIG suggests that hearings be held to consider these issues.

We will permit SoCal to store noncore gas during the spring season, as outlined in Appendix A. We recognize that this action is a step backward from our previous decisions which have sought to improve competition in utility gas markets. On the other hand, we are very concerned about the effects of UEG curtailments on air quality in Southern California. On balance, air quality concerns must take precedence at this time.

We will adopt the changes, as DRA and TURN suggest, on an interim basis and require SoCal to estimate volumes of noncore injection gas in advance. Of course, this estimate cannot be made for this year since the spring injection season has passed; however, as TURN proposes, we will adopt the volumes provided by SoCal in Appendix B of its filing as actual volumes injected into storage in March and April 1989. This decision does not prejudge the reasonableness of any action SoCal may have already taken. In this context, we are very concerned that SoCal delayed filing this petition until after the storage injection season began.

As the responses to SoCal's petition point out, the program we adopt today cannot resolve a number of outstanding significant issues related to these program changes. We will order SoCal to submit, within 45 days of the effective date of this order, comments addressing the following issues:

1. Should SoCal's noncore storage gas be allocated separate carrying costs and storage banking rental charges?

2. Are there other options for mitigating summer/fall UEG curtailment which are less damaging to competition?

3. What are the effects on P-3 customers of this program and how may they be mitigated?

4. How does this program change affect policy established in D.89-04-080 and how should the two policies be reconciled?

The parties may, within 15 days of SoCal's filing, respond to these questions in writing. Since we intend to review our banking program in I.87-03-036, the appropriate forum for these comments is that ongoing proceeding. We encourage the parties to attempt to resolve these issues outside of hearings. If the parties cannot reach some agreement on these various issues, we will consider hearings to resolve them or address them in our order addressing a full-scale banking program.

Findings of Fact

1. Reconciliation of long-term and short-term gas purchases with core and noncore sales on an annual basis, rather than a monthly basis, could result in arbitrary assignment of gas costs to one portfolio or the other and thereby remove certain protections to the core class.

2. SoCal has not demonstrated that reconciliation of long-term and short-term gas purchases with core and noncore sales on an annual basis is required to minimize costs or provide operational flexibility to address air pollution problems.

3. Storage of noncore gas in the spring will improve SoCal's ability to meet summer/fall UEG demand, and thereby forestall curtailment of UEG customers.

4. Curtailment of UEG customers during the summer/fall smog seasons is likely to result in increased air pollution in SoCal's territory.

5. Storage of long-term supplies for noncore customers may reduce the competitiveness of Southern California gas markets under current circumstances.

6. SoCal's proposal to store noncore gas raises a number of issues which cannot be resolved in this order.

7. The Commission does not have adequate information at this time to determine whether the volumes in Appendix B or SoCal's storage operations during 1989 are reasonable.

8. Expeditious treatment of this petition for modification is required because resolution of these issues are required in order to permit SoCal to increase operating flexibility during the summer smog season, which is imminent.

Conclusions of Law

1. SoCal's petition to modify D.86-12-010 and D.87-12-039 should be granted to the extent set forth in this order, and according to guidelines adopted as Appendix A to this order.

2. Noncore injection volumes for March through June 1989, as set forth in Appendix B of this order, should be adopted.

3. SoCal should be ordered to file, within 45 days of the effective date of this order, comments on various issues relating to storage and UEG curtailment. Those comments should be filed in I.87-03-036.

4. The noncore injection volumes adopted in Appendix B should not be considered either reasonable or unreasonable at this time.

ORDER

IT IS ORDERED that:

1. Southern California Gas Company's (SoCal) petition to modify Decision (D.) 86-12-010 and D.87-12-039 which request accounting changes to: (1) employ last in/first out accounting for core portfolio gas and noncore portfolio gas injected or withdrawn

from storage; and (2) post noncore procurement changes to reflect current month short-term supply price and the cost of noncore gas withdrawn from storage on a last in/first out basis in months where noncore procurement service is expected to exceed short-term purchases is granted according to the guidelines adopted as Appendix A to this order. In all other respects, the petition is denied.

2. SoCal shall file in I.87-03-036, within 45 days of the effective date of this order, responses to the following:

1. Should SoCal's noncore storage gas be allocated separate carrying costs and storage banking rental charges?

2. Are there other options for mitigating summer/fall UEG curtailment which are less damaging to competition?

3. What are the effects on P-3 customers of this program and how may they be mitigated?

4. How does this program change affect policy established in D.89-04-080 and how should the two policies be reconciled?

It shall serve copies of those comments on all parties to this proceeding and to I.87-03-036.

This order is effective today.

Dated ____________________, at San Francisco, California.

APPENDIX A

Interim Gas Accounting Procedures

I. Spring Injection Season

A. Short-term purchases will be balanced with noncore demand. Resulting excess short-term supply is assigned to core portfolio or treated as noncore portfolio gas-in-storage injections priced at short-term cost.

B. Monthly core purchases will be balanced with core demand, resulting:

1. Excess supply is net core portfolio gas-in-storage injection.

2. Shortfall of supply is balanced by net core portfolio gas-in-storage withdrawal.

II. Summer Withdrawal Season

A. Monthly short-term purchases will be balanced with monthly noncore demand, resulting shortfall of short-term supply is balanced by withdrawal of previously injected short-term noncore portfolio gas-in-storage.

B. Monthly core purchases are balanced with monthly core demand, resulting excess supply or shortfall is accounted for similar to procedures during injection season.

III. Gas-In-Storage

A. Noncore and core injections/withdrawals are accounted for and priced separately based upon applicable separate LIFO layers.

B. Separately priced noncore gas-in-storage will have no impact on interim LIFO pricing adjustments and year-end accounting for income tax purposes, on the premise that this gas will be fully withdrawn by completion of summer withdrawal season. If a balance does remain, excess noncore supply will be cleared to the core portfolio.

(END OF APPENDIX A)

APPENDIX B

Southern California Gas Company
Illustrative Operating Plan
1989-1990
MMcf/d

	(A)	(B)	(C)	(D)	(E)	(F)	(G)
	Core Supply Purchases				Storage/(Injection)/Withdrawal		
1989	Long-term	Spot	Total	Core Reqmnt.	Core Storage	Noncore Storage	Net Storage
Mar	* 1205	0	1205	1085	(120)	(285)	(405)
Apr	1140	230	1370	1150	(220)	(44)	(264)
May	1115	225	1340	900	(440)	(90)	(530)
Jun	945	75	1020	760	(260)	(170)	(430)
Jul	935	0	935	710	(225)	225	0
Aug	825	0	825	700	(125)	125	0
Sept	960	0	960	720	(240)	240	0
Oct	830	0	830	830	0	0	0
Nov	1015	0	1015	1215	200	0	200
Dec	950	0	950	1700	750	0	750
1990							
Jan	1395	0	1395	1715	320	0	320
Feb	1380	0	1380	1570	190	0	190
Mar	1110	190	1300	1470	170	0	170
13 Mo. Avg.	1062	55	1117	1117	0	0	0

* Recorded March 1989

(based on average temperature conditions)

(END OF APPENDIX B)