Decision 90 02 044 FEB 23 1990

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

Investigation on the Commission's own motion into the curtailment of gas service to industrial and utility electric generation customers of Southern California Gas Company. (U 904 G)	I.88-02-013 (Filed February 10, 1988)
And Related Matters.	Application 88-07-006 (Filed July 1, 1988) Application 87-12-057 (Filed December 31, 1987) Application 86-09-030 (Filed October 10, 1986)

(Appearances are listed in Appendix A.)

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I N D E X

OPINION

I. Summary

This opinion reviews the reasonableness of Southern California Gas Company's (SoCalGas) gas supply and storage operations for the periods 1985-86, 1986-87 and 1987-88. The Commission concludes that the company's operations were generally reasonable; however, the Commission finds that the company has failed to sustain its burden of proof with regard to its 1987-88 storage operating criteria. Accordingly, the Commission imposes a disallowance on the company of $1.7 million.

The Commission shifts the risk to SoCalGas' stockholders for collecting $7.7 million dollars allegedly due from 52 industrial customers who improperly took advantage of lower rate schedules and failed to transfer to their alternate fuel sources when called upon to curtail their use of gas in January 1988.

II. Procedural Summary

On February 10, 1988, the Commission issued its Order Instituting Investigation (I.) 88-02-013 following informal reports by SoCalGas to the Commission that it experienced operational difficulties causing it to curtail its utility electric generation (UEG) customers in December 1987, followed by curtailments of industrial customers in January of 1988. Hearings were consolidated with the 1987-88 review.

Because of overlapping or closely related issues, pursuant to an Administrative Law Judge's (ALJ) ruling issued on June 2, 1988, Application (A.) 86-09-030, A.87-12-057 and A.88-07-006, excepting the Monterey Park landfill issue in A.86-09-030, were consolidated for decision.

III. 1985-86 Reasonableness Review

Evidentiary hearings in A.86-08-030 were held during August 1, 2, and 8, 1988. Opening briefs were filed on September 30, 1988. Reply briefs were filed on October 14, 1988. Briefs were filed by SoCalGas, Southern California Edison Company (Edison), and Division of Ratepayer Advocates (DRA).

A. The Issue

Should SoCalGas have instructed El Paso Natural Gas Company (El Paso) to keep SoCalGas' pipelines filled to capacity regardless of the economics and to fill-in for nonperforming spot gas suppliers during the months of July, August, and September 1985?

1. Position of SoCalGas

SoCalGas notes that by adding up daily "shortfalls" as small as 2 million cubic feet (MMcf) (on October 26, 1985) and 8 MMcf (on October 9, 1985), DRA arrives at a cumulative "shortfall" of 4.8 billion cubic feet (Bcf) (which equates to 4,800 MMcf). These amounts should be compared with interstate pipeline capacity available during this period ranged between 2,400 and 2,500 MMcf per day.

Testimony was presented why 100% perfect use is not a reasonable standard of performance. SoCalGas witness Wilson explained that the company must nominate supplies on the interstate pipelines 48 hours in advance of deliveries, and that there are wide and unpredictable swings in the day-to-day demand for gas by customers. Gas delivered into the SoCalGas system must not exceed combined market and storage injection capacity on a given day, or pressure will back up into the interstate pipelines and cause gas to be vented to the atmosphere. Therefore, SoCalGas must make its interstate pipeline nominations so that there is a margin of safety in case actual demand falls below the demand forecast 48 hours in advance. This concern is particularly significant on weekends when demand declines. The dates of alleged underutilization in DRA's testimony are largely Saturdays and Sundays. Furthermore, the interstate pipelines and suppliers do not always perform as requested.

Regarding DRA's contention that about 4 Bcf of the 4.8 Bcf shortfall occurred on the "southern system," SoCalGas asserts that the southern system cannot be operated at sufficient pressure to get gas from Blythe to the storage fields at Honor Rancho and Goleta, and only a very limited amount of gas can reach Aliso Canyon from Blythe. On weekends, when demand falls, some capacity has to be left unused. If the 4 Bcf is excluded, the amount of capacity that DRA would penalize SoCalGas for not using is minuscule.

The principal causes of increased UEG demand for gas could not have been anticipated until the events of June and July of 1985. As SoCalGas witnesses Owens and Wilson testified, the company attempted to fill all available interstate pipeline capacity with spot gas beginning in July, although it did not initially ask the interstate pipelines to backstop nonperformance of spot gas with pipeline commodity supplies.

SoCalGas did not arrange for backstop supplies because in mid-1985 the company had just initiated its full-scale spot gas purchasing program. This was an innovative program that reduced gas costs to customers very substantially and was highly praised in DRA's testimony. The spot gas program caused reductions in purchases of commodity gas that the interstate pipelines did not like. El Paso even refused to transport some spot gas for periods in September and October 1985. Therefore, it was important that SoCalGas not give the interstate pipelines an incentive to interrupt transportation of spot gas by guaranteeing that SoCalGas would buy the higher priced commodity gas supplies if spot gas transportation was interrupted.

However, SoCalGas did ask for backstop pipeline supplies when it became clear in October that it needed to take additional steps to store more gas. Backstop supplies were substantially more expensive than spot gas. Furthermore, El Paso's commodity rate in September of 1985 was $3.3493 per decatherm (Dth). To prevent curtailment in December of UEG customers paying a rate of $3.0673/Dth, such a purchase would have been uneconomic.

According to SoCalGas, the only step which any party has identified that the company did not take was to ask the interstate pipelines to deliver pipeline commodity (backstop) supplies in an amount greater than SoCalGas' desired level of pipeline purchases in order to fill in for nonperforming spot supplies during the months of July, August, and September. As SoCalGas' witness Wilson testified, it did not seem prudent to incur this substantial additional unit cost when the chances of reaching the storage target still looked good. SoCalGas entered July with about 10 Bcf more in storage than it needed to be on track for its November 1, 1985 storage target.

SoCalGas takes exception to DRA's argument that it is insignificant that pipeline commodity gas in July-September 1985 was more expensive than the rate UEG's would have paid in December. If DRA had used the price SoCalGas would have paid to get more gas in storage, DRA would have calculated that no margin was lost as a result of curtailment.

Also, SoCalGas disagrees with DRA's argument that gas flowing into storage then was directed to high priority customers who routinely paid for commodity gas as the major part of their portfolio. This may be a reasonably accurate description of the regulatory system in effect since May 1, 1988; however it is totally inaccurate about how things worked in 1985. In 1985 there were no core/noncore portfolios, gas in storage was not directly billed to any particular class of customers, and neither high priority rates nor UEG rates were directly tied to the cost of gas (indeed, UEG rates were indexed to the cost of oil).

Regarding Edison's argument, SoCalGas submits that economics are virtually always a factor in whether or not curtailments occur. Any increase in rate base associated with an increase in the unit cost of gas in storage would have been automatically passed through in rates to ratepayers. Therefore, SoCalGas was not making an economic decision to protect its shareholders, but rather to protect its ratepayers.

In summary, it is SoCalGas' position that the brief curtailment experienced by UEG customers in December of 1985 was not extreme or unusual in the context of the operation of SoCalGas' system over many years.

2. Position of DRA

DRA contends that during the summer and fall of 1985, SoCalGas failed to fill its pipelines to capacity. During those seasons, SoCalGas could have taken at least an additional 4.8 Bcf of gas. If SoCalGas had taken the gas, it could have injected it into storage fields for later sale to UEG customers. Because SoCalGas did not take this action, it had to curtail UEG customers in December by 4.8 Bcf more than if it had taken and stored the gas earlier. Accordingly, DRA recommends a disallowance of $617,000 for lost UEG sales.

DRA points out that, as early as June, SoCalGas had indications of increased UEG demand. SoCalGas knew about plant outages, such as the outage at Edison's Mohave coal plant in early June, when they occurred. By July, SoCalGas knew that there would be a "dramatic" increase in system demand. SoCalGas talked almost daily with UEG customers such as Edison to determine their gas needs. DRA believes that SoCalGas should have used its knowledge of high UEG demand to procure all the additional gas that it could inject into storage.

DRA disagrees with SoCalGas' contention that, even if it could have obtained an additional 4.8 Bcf of gas, it would have been unable to inject it into storage. DRA points out that at Aliso Canyon, which can hold 70 Bcf of gas, the highest storage level SoCalGas reached during the 1985 winter was 47.2 Bcf. Therefore, DRA argues that SoCalGas enjoyed significant unused capacity at Aliso Canyon and could have put the entire 4.8 Bcf of gas there.

While conceding that SoCalGas' claim that it could not easily transfer gas from the southern system to storage in Aliso Canyon may be correct, DRA believes that it is irrelevant. DRA argues that storage and flowing supply serve gas customers. If additional gas comes through the southern system, an equal amount of gas flowing on the northern system is freed from serving customers (displaced) and instead could be injected into Aliso Canyon. According to DRA, SoCalGas has not identified any obstacles which precluded such action.

DRA recognizes that SoCalGas' decisions appear to be based on the higher price of commodity gas. SoCalGas' witness Wilson stated that in July the company's policy was to fill the pipelines with spot gas, but not with commodity gas. At that time commodity gas was more expensive than spot gas. DRA argues that the price difference, however, was not a valid reason for SoCalGas to fail to buy enough additional commodity gas to fill the pipelines. DRA believes that the price difference was insignificant.

In summary, it is DRA's position that SoCalGas did not provide service at the lowest reasonable cost. DRA seeks a disallowance of $617,000 for lost UEG sales related to the 4.8 Bcf of gas that could have been taken.

3. <u>Position of Edison</u>

Edison argues that SoCalGas' decision to curtail UEG customers between December 3 and December 24, 1985 was based upon economic, not operational considerations. Edison cites SoCalGas witness Owens' testimony as follows:

> "The reason that we curtailed when we did, it appeared to us, all things considered, that if we did not curtail we would be compelled to draw these storage fields down below 58 billion cubic feet.
>
> "Had we taken the field below 58 billion [cubic] feet, we would have gotten into a level of gas that was priced at about 61 cents a Mcf; and had we gotten into that, we would have had to replace the gas with more expensive layers of gas. This would have led to having to have a rate base on which our ratepayers gave us a return which would have been greater than it had had we curtailed at 58 billion [cubic] feet.
>
> "<u>It was for economic reasons</u> to protect the ratepayers." (Emphasis added.)

According to Edison, consideration of economic concerns is not provided for under SoCalGas' Rule 23, "Shortage of Gas Supply, Interruption of Delivery and Priority of Service." Rule 23 was adopted in a period of gas supply shortages. It was never intended to apply to curtailments based on economic decisions. It allows curtailment, after taking underground storage into consideration, when "operating conditions," not economic concerns, necessitate curtailment. Edison's objection is that in this review period, SoCalGas took its storage inventory into consideration and decided not to serve its UEG load solely because SoCalGas believed it would be uneconomic to draw its storage inventory down below 58 Bcf.

Also, Edison disagrees with SoCalGas' assertions that it promptly responded to increased UEG demands. Edison concedes that SoCalGas could not have anticipated the June events. However, according to Edison, once SoCalGas became aware of those events, it failed to initiate appropriate action in time to avert curtailment to UEG customers.

Lastly, Edison argues that SoCalGas' failure to curtail enhanced oil recovery (EOR) customers in accordance with its filed tariffs was arbitrary and discriminatory. This issue is discussed later in the 1987-88 reasonableness review.

4. Discussion

According to DRA, the price of commodity gas was no reason for SoCalGas not to have filled its pipelines, and it is insignificant that backstop commodity gas would have been more expensive than the rate SoCalGas would have charged Edison. Apparently, DRA believes that in order to avoid curtailment of UEG customers, SoCalGas should have instructed El Paso to keep the pipelines filled with the more expensive commodity gas to make up for nonperformance by spot gas suppliers.

Commission policy during 1985 on purchase of gas to meet UEG requirements was clear. In 1980, SoCalGas purchased volumes of Pacific Gas and Electric Company (PG&E) and Pacific Interstate-Northwest (NW) gas "to maintain a high level of service to the P5 (UEG) customers." In disallowing over $11 million on account of these purchases, the Commission stated:

> "We find that SoCalGas was imprudent in its purchases of NW gas. This judgment is based on circumstances prevailing at the time of the purchases. We are not persuaded that SoCalGas has operated its system in an <u>economically sound manner</u>.
>
> "The matter of discretionary purchases of high-priced gas has been before the Commission previously, in SoCalGas and PG&E proceedings. The burden of proving the reasonableness of such purchases is on the utility applicant. SoCalGas has failed to meet that burden.
>
> "Discretionary gas purchases are reasonably matched with the priority system and the user of the gas identified. <u>The threshold test of the reasonableness is the prevailing retail rate</u>. For example, if the gas is found to have been served to P-5 customers, the first measure is the GN-5 rate. If the cost of gas is less

> than the rate, then the purchase of the gas creates a rebuttable presumption that the purchase is reasonable." (Decision (D.) 82-04-113, p. 18, emphasis added.)

DRA's report states: "The DRA has performed simple calculations for keeping the pipeline full even if commodity gas had to be purchased." (Emphasis added, Exh. 104, pp. 4-15.) DRA then sets forth its calculation of the $617,000 recommended disallowance. DRA uses a rate of $2.9778/Dth for commodity gas (column 7, pp. 4-40) which is the rate for December. But DRA's argument is that SoCalGas should have purchased additional gas in July, August, and September, kept it in storage, and sold it to UEG customers in December. For this reason, instead of using the lower December rate, DRA should have used the higher commodity gas rate for July, August, and September. It should also have added transportation, storage, and carrying costs. The appropriate commodity rates were $3.2861/Dth and $3.493/Dth. Those rates should be compared with the December UEG rate of $3.0673/Dth that would have been paid by Edison. Since the UEG rate is less than the cost of commodity gas not taken, there can be no lost margin related to commodity gas not taken.

SoCalGas' decisions about gas purchase have been based on both price and system constraints. Commission policy during the 1985-86 review period (D.82-04-113) made it clear that gas purchased for the benefit of UEG customers should be purchased at a price less than the prevailing UEG rate. The Commission has always recognized that curtailment of UEG customers on the SoCalGas system is necessary and unavoidable. There was no requirement that SoCalGas keep its out-of-state supply pipelines filled to maximum capacity regardless of cost in order to provide a higher level of service to UEG customers.

More importantly, we believe SoCalGas had valid reason for not asking El Paso to backstop spot purchases with higher priced commodity gas. El Paso had obvious incentives to maximize its commodity gas sales.

DRA may have a valid argument with regard to any spot gas which could have been taken but was not taken. DRA's report (Exh. 104, pp. 4-36) implies that such spot gas was passed up. Spot gas was priced about $0.50/Dth less than commodity gas. Given the UEG rate, and after adding transportation, storage and carrying costs, it is possible that such spot gas could have been sold to the UEG's at no loss.

However, based on DRA's $617,000 figure for all gas not taken, we can reasonably conclude that any lost margin related to spot gas was minimal, particularly when viewed in the context of SoCalGas' successful overall spot gas program initiated in 1985.

The testimony of SoCalGas witness Wilson is that because of system configuration, SoCalGas can transport little or no gas from its southern system to its major storage fields. Some capacity on the southern system must go unused, especially on weekends. This is an important factor which we will recognize in reviewing the overall reasonableness of SoCalGas' operations.

Further, we are not persuaded that "displacement" was a practical alternative to not taking the small amounts of spot gas at issue. The quantities were small and were available, if at all, on an intermittent basis and mostly on weekends. It is not reasonable to expect SoCalGas to arrange for displacement of such small quantities given the complexity of its system operation.

We will now address Edison's argument that economic considerations should not determine the level of service of UEG customers. SoCalGas' testimony is that absent curtailment, it would have had to replace gas in storage priced at 61¢/Dth with gas significantly more expensive. This would have resulted in an indefinite increase in rate base and would not have been in the best interest of SoCalGas' ratepayers. Therefore, we are not persuaded by Edison's argument. Neither Edison nor DRA have shown convincingly that SoCalGas could have moved additional purchased gas to storage fields.

In summary, we conclude that SoCalGas operated its system in an economical fashion given the Commission's guidelines and the system limitations. The DRA recommendation of a $617,000 disallowance is not adopted.

B. Other Issues

On May 26, 1988, DRA filed a motion to compel SoCalGas to provide data responses. DRA filed its motion in I.88-02-013, which was consolidated with the three reasonableness proceedings. DRA argued that SoCalGas denied DRA discovery rights until SoCalGas was ready to file its reasonableness report.

This issue is discussed in the 1987-88 reasonableness review, later in this opinion.

IV. 1986-87 Reasonableness Review

Evidentiary hearings in A.87-12-057 were held during October 17 and 31, 1988. Opening briefs were filed on December 9, 1988. Reply briefs were filed on December 30, 1988. Briefs were filed by SoCalGas, DRA, and California Gas Producers Association.

In contrast to the prior review period, during 1986-87 there was no curtailment of UEG customers. Therefore, this review resulted in little controversy regarding management of storage.

A. California Gas

Are SoCalGas' contracting practices and the price it pays for California gas reasonable?

1. Position of SoCalGas

SoCalGas points out that the California gas contracts that DRA criticizes are long-term contracts which were entered into by the parties 20 to 30 years ago under much different market conditions than exist today. SoCalGas believes that its ability to change the terms of these contracts unilaterally is extremely limited. Nonetheless, SoCalGas submits that these contracts were prudent when signed (D.58677, June 29, 1959) and should not be now criticized by DRA as a result of changed circumstances.

SoCalGas' policy is, and has been for years, to avoid continuation of border price formulas to the extent possible and to renegotiate these contracts where possible.

SoCalGas emphasizes that it sequences California gas consistently using its incremental cost sequencing method which is the best way to analyze its gas purchases. In sequencing this and other gas, SoCalGas takes those volumes to which it is contractually committed first and then takes into account the California Gas Policy Act (Public Utilities (PU) Code § 785) in a manner consistent with its incremental least cost purchasing policy.

Taken as a whole, SoCalGas believes that its dealings with California producers have resulted in the best possible service under the circumstances to its customers, and the most efficient means of dealing with this secure and reliable supply.

2. **Position of the California Gas Producers Association (California Gas Producers)**

The California Gas Producers believe there is no basis for any criticism of SoCalGas' purchases of California produced gas pursuant to the annual and monthly border price contracts during the 1986-87 Reasonableness Review period. First, the annual and monthly border price contracts were entered into under strikingly different natural gas supply-demand circumstances. Second, at the time of their execution the annual (and later monthly) border price contracts were approved by the Commission. Third, today, the annual and monthly border price contracts fully comply with the "actual delivered price" standards set forth in the California Gas Policy Act for the purchase of California produced gas. If anything, with their 100% load factor pricing provisions, the annual and monthly border price contracts provide a lower than actual "border price."

In addition, California Gas Producers point out that as a result of the virtual elimination of El Paso as an interstate natural gas supplier to SoCalGas, a substantial price revision is expected to result in the annual and monthly border price levels effective December 1988, and this revision will be a factor in SoCalGas' future 1988-89 reasonableness review proceedings.

Further, California Gas Producers note that SoCalGas' highest cost gas purchases are its Pan Alberta Canadian gas purchases. The next highest cost purchases are SoCalGas' El Paso and Transwestern gas supplies--along with the delivered cost of SoCalGas purchases of Exxon, Pacific Offshore Production Company (POPCO), gas supplies. Of all SoCalGas' long term firm natural gas supplies, the California produced gas is the least cost source, and the annual and monthly border price contracts comprise the bulk of these lowest cost long-term gas supplies. Only the delivered cost of SoCalGas spot month-to-month, or short-term, gas supplies are any cheaper.

According to California Gas Producers, SoCalGas should be commended, and not criticized, for its long-term firm, secure, 100% load factor annual and monthly border price purchases of low-cost California produced gas. In this regard the guideposts (PU Code § 785) set out by the Legislature, and not those presented by DRA, should be followed.

3. <u>Position of DRA</u>

DRA has long been concerned with the price that SoCalGas pays for California gas. DRA notes that the price of California gas has increased from 84% of the weighted average cost of gas (WACOG) for the 1984-85 record period to 102% of SoCalGas' system WACOG for the current review period.

SoCalGas purchased about 10% of its system supply requirements from California producers. DRA expects that

California gas will continue to increase in importance, particularly to core customers.

DRA finds it particularly disturbing that California gas supplies are greater in the summer than in the winter, whereas, the needs of the core customer are greater in the winter than in the summer. This issue is discussed later in the 1987-88 review.

Also, DRA has concerns about SoCalGas' manner of contracting for new California gas supplies. The problem, as DRA sees it, is that SoCalGas includes an interstate demand charge in prices it pays to California producers, and also that SoCalGas begins it negotiations by offering 100% load factor contracts to California producers.

DRA believes that these contracting practices are flawed. When SoCalGas offers 100% load factor contracts, it reduces the opportunity to offer load factor concessions to the producer in exchange for a producer price reduction. By including the demand charge in the price, SoCalGas fails to price the gas according to its own incremental cost sequencing.

DRA recommends that SoCalGas continue it efforts to obtain supplies from nearby California sources, but take into account the requirements of the new gas market and its own sequencing guidelines when contracting for new California supplies.

DRA does not seek a disallowance for any California contract or any contracting practice. DRA instead asks that SoCalGas report, in its next reasonableness filing, changes in its California gas contracts. SoCalGas does not object to this requirement.

DRA also recommends that the Commission continue to calculate transition costs for California gas until the cost of California gas is equal to or less than core cost of gas using the method followed in D.87-12-039. These transition charges should then be allocated across all through-put on an equal cents per therm basis during SoCalGas' ACAP. SoCalGas does not object to this recommendation.

4. Discussion

SoCalGas has provided a report on its California gas contracts and recent renegotiated contracts and price reduction efforts. According to SoCalGas its savings in this area total $2.6 million.

Further, according to SoCalGas, monthly border price contract purchase levels will decrease drastically (about 58%) in the next few years because of termination of SoCalGas' largest monthly border price contract and SoCalGas' refusal to extend this contract under similar terms. SoCalGas' new, more currently market-responsive contracts that it has been developing in response to the major changes occurring in the gas industry, will in time show the desired results of lowering California gas prices. These changes do not as yet show enough beneficial results to offset purchases under contracts that have been in effect for much longer periods.

While we appreciate DRA's concerns, we recognize that the long-term contracts were negotiated 20 to 30 years ago when different market conditions existed. At the time the contracts were entered into, they were prudent. Also, SoCalGas sequences its takes of California gas along with other supplies. There is no recommendation for a disallowance at this time. However, we direct SoCalGas to provide DRA with all changes in its California gas contracts.

B. Affiliate Transactions

The issue is whether the cost of gas supplied by SoCalGas affiliates is reasonable.

SoCalGas states it has closely monitored the total costs that are passed through by its affiliates, and has placed continual pressure on its affiliated suppliers to minimize those costs. These affiliated suppliers are federally regulated and charge

SoCalGas under tariffs approved by the Federal Energy Regulatory Commission (FERC) which reflect only those costs which are found by the FERC to be just and reasonable. These determinations are made in FERC proceedings in which the Commission participates. SoCalGas has participated by reviewing FERC filings before they are made and by carefully reviewing affiliates' budgets, plans of operation, quarterly reports, and so forth. If there are any disputes between SoCalGas and its affiliated suppliers over some aspect of a FERC filing, or the terms of service generally, these disagreements are handled internally and settled to the satisfaction of all involved. Therefore, SoCalGas believes that it would be an expensive redundancy for it to proceed to Washington to pursue cost reductions in FERC proceedings as recommended by DRA when it has already done so through more efficient processes.

SoCalGas takes issue with the criticisms by DRA of rents and salaries, which represent less than 2% of the total bills. The increase in rents was a result of the physical relocation of the offices of SoCalGas' affiliates, and the billing for some 1986 rent costs during the 1987 review period. Further, the increase in salaries was a result of the necessarily increased activities by SoCalGas' affiliates in rate cases, contract renegotiations, and transporters' FERC rate proceedings. SoCalGas argues that it would be counterproductive to make small savings in salaries by not performing these essential tasks.

Taken as a whole, SoCalGas believes that it has taken a pro-active approach to negotiations of gas contracts between affiliates and their suppliers including making substantial contributions to the extremely favorable second and third amendments to the Exxon/POPCO contract.

On the other hand, DRA has definite concerns regarding SoCalGas' dealings with its affiliates. DRA points out that SoCalGas buys 15% of its gas from four affiliated companies. That the price of gas from SoCalGas' affiliates remains high relative to other major gas supply sources. The average cost of gas from affiliates during the record period was only slightly cheaper than El Paso and Transwestern gas cost two years earlier. DRA believes that operation and maintenance (O&M) expenses for SoCalGas' affiliates should track these expenses for other pipelines.

On an average cost basis, POPCO gas costs $6.22/Dth during the record period. Therefore, DRA recommends that the Commission direct SoCalGas to pursue aggressively cost reductions in FERC proceedings involving its affiliates and take any other steps necessary to effect cost reductions in its ratepayers interests. DRA also recommends that the Commission direct SoCalGas to report in its next three reasonableness reports on the specific steps and actions it has taken to obtain cost reduction from its affiliates.

We note that there is no recommendation for a disallowance at this time. In its 1989-90 reasonableness report, as requested by DRA, we direct SoCalGas to report on the specific steps and actions it has taken to obtain cost reductions from its affiliates.

C. <u>Polychlorinated Biphenyls (PCB)</u>

DRA has a continuing concern about clean-up of Polychlorinated Biphenyls (PCB) in the SoCalGas system. DRA is also concerned that the correct party or parties bear the costs. Apparently, PCB entered the SoCalGas system in the 1970s through the Transwestern Pipeline Company (Transwestern) system before Transwestern was sold by Texas Eastern to Entron.

In December 1986, DRA discovered that SoCalGas had not discussed clean-up with Transwestern since signing a standstill agreement in 1983. DRA was concerned that the agreement was due to expire at the end of 1987, and that SoCalGas and Transwestern had not discussed the clean-up issue since Transwestern's ownership had changed. After DRA's inquiries, SoCalGas began discussions with Transwestern. DRA's recommendations are simply for the Commission to encourage SoCalGas to continue pursuing discussions with Transwestern, to keep DRA informed of all developments, and to actively pursue its ratepayers' interests to recover PCB clean-up costs from responsible parties. SoCalGas objected to none of these requests.

This issue was addressed in SoCalGas' current general rate case (D.90-01-016). We direct SoCalGas to keep DRA informed.

D. Transition Losses

DRA raises the question of a transition loss related to certain UEG sales. During December 1986, SoCalGas bought pipeline commodity gas to avoid curtailment to its UEG and/or transportation customers. El Paso charged $2.57/Dth, and Transwestern charged $2.23/Dth for the gas. The resale price of this gas to interruptable customers was less than the purchase price, and so a loss resulted on the resale. DRA calculates the loss as $2,993,783. DRA believes that the loss occurred because of the transition of intrastate rate design, and thus the dollars should be considered transition costs.

DRA recommends that the Commission find that a $2,993,783 loss on resale occurred during the record period.. DRA further recommends that the Commission retain this amount in the Consolidated Adjustment Mechanism (CAM) account until SoCalGas' next Annual Consolidated Adjustment Proceeding (ACAP), where the Commission can determine whether the loss is appropriately considered as a transition cost.

SoCalGas agrees with all of these recommendations, except for DRA's recommendation for a finding that the resale was at a loss. It is SoCalGas' position that it used spot gas for UEG sales, and that commodity gas was used to serve higher priority customers.

SoCalGas offered no testimony that disputes that this gas was purchased for interruptible customers. Since SoCalGas' resale rates are less than the purchase price of the gas, we conclude that there was a loss of $2,993,783 on resale of this gas. This transition cost should be allocated in the ACAP proceeding.

V. Curtailment Investigation and 1987-88 Reasonableness Review

Consolidated evidentiary hearings on I.88-02-013 and A.88-07-006 were held during January 17 and 27, 1989. Opening briefs were filed on December 21, 1989. Reply briefs were filed on May 19, 1989. Briefs were filed by SoCalGas, DRA, Edison, Southern California Utility Power Pool and Imperial Irrigation District (SCUPP/IID), California Energy Commission (CEC) and Toward Utility Rate Normalization (TURN).

Curtailment of UEG customers commenced on December 17, 1987 and extended through February 1, 1988. From January 5 to 17, SoCalGas curtailed 847 of its P3B and P4 customers. Such a curtailment had not been necessary since the winter of 1978-79. The principal difference between this reasonableness review period and other recent curtailments is that this curtailment went deeper into the end use priority system than any curtailment in the prior nine years.

Because of the unusual level of the curtailment a special hearing was held for SoCalGas' industrial and commercial customers on June 13, 1988. These customers received notice of the hearing by a separate mailing. Several customers made statements. They generally expressed satisfaction with the level of technical assistance and information provided by the company.

A. Storage Management

Has SoCalGas demonstrated that it managed its 1987-88 storage operations in a prudent manner and, in doing so, met its burden of proof?

1. <u>Position of SoCalGas</u>

Despite aggressive efforts to obtain large volumes of economical supplies on behalf of its customers, SoCalGas did encounter some major gas supply problems that contributed to the curtailment. Cold winter weather in producing regions and well freeze-ups in gas producing areas reduced supplies. Nonperformance by producers supplying spot market and customer transportation volumes, apparently as a result of uncertainty about the effect of FERC Order 500 regarding pipeline credit against take-or-pay obligations, contributed to the problem.

This occurred at the same time that SoCalGas experienced extremely high UEG demand in October 1987 as a result of record-breaking warm weather, followed by near record-breaking cold weather in December 1987. In combination, all of these factors led to the necessity to curtail gas supplies to industrial and UEG customers, in order to protect service to higher priority customers.

SoCalGas believes that this curtailment was implemented in a manner consistent with Commission guidelines and was necessary to protect SoCalGas' most important operating objective: to serve P1-P2A customer requirements under extreme peak day conditions.

SoCalGas was not imprudent because it did not curtail its P5 sales load earlier in order to minimize higher priority curtailment, and DRA is incorrectly recommending that $1,682,538 be disallowed as a result of lost margin. SoCalGas believes that DRA reached this conclusion only by misinterpreting the year-end minimum storage inventory of volume on the SoCalGas system.

DRA is incorrect in arguing that SoCalGas dropped below its year-end P4 minimum on November 14, 1987 without curtailing its UEG customers. DRA continues this argument by stating that during late November and early December, SoCalGas was "consistently below" its P4 minimum yet "continued to serve its UEG load" and thus abandoned its operating objective to serve its P3B and P4 customers during a cold year.

According to SoCalGas, this is incorrect. SoCalGas did not drop below the year-end level required for service to P1-P4 customers of 48.8 Bcf. In fact, SoCalGas was precisely on that target at month end. SoCalGas used the P1-P4 plus transportation requirements in calculating the year-end minimum. The December 31, 1987 P4 minimum of 48.8 Bcf in storage in the Big 4 fields was at no time breached without the curtailment of UEG sales.

SoCalGas emphasizes that it continued to serve its P5 customers as long as it could do so without threatening service to any higher priority customers.

Also, SoCalGas points out it doesn't make sense to curtail P5's earlier just so they can be served later. The need to curtail P3B and P4 customers during the review period was brought on by extraordinary weather that amounted to a one-in-100 year event that allowed SoCalGas no other option but to curtail. The curtailment of the P3B and P4 customers was not a result of mismanagement of storage and it was not a result of the timing of the P5 curtailment. It was a direct result of the extraordinary demand on the SoCalGas system and the difficult supply situation that faced SoCalGas during the review period.

Next, SoCalGas addresses Edison's argument that SoCalGas should have purchased 14 Bcf of higher priced commodity gas from El Paso during the 1987 injection season in order to provide a higher level of service to Edison and to other UEG customers. Edison claims that SoCalGas violated its tariffs (Rule 23) by not purchasing gas that SoCalGas knew would be needed later in the year. SoCalGas submits that Edison is incorrect in its assertion.

The gas purchase sequencing method used during the review period included the purchase of minimum quantities from El Paso. Purchases were targeted to segmented markets and reflected the rate indexing of spot market gas for a portion of the UEG market pursuant to Commission decision (D.86-08-082, Finding of Facts 13 and 14).

Under these guidelines, SoCalGas purchased short-term (30-day or less) gas for the Tier II electric utility market on a monthly basis. SoCalGas purchased spot supplies to meet targeted markets, with excess spot purchases credited to the overall system supply. If short-term volumes were not available, SoCalGas had the option to purchase other gas and offer it to the UEG's at the incremental rate. However, SoCalGas' obligation to the UEG market was to provide service on a best-efforts basis of the required volumes of short-term gas (D.86-08-082). Had SoCalGas purchased the high priced 14 Bcf of gas, Edison would have been under no obligation to purchase the gas from SoCalGas. The risk of purchasing this gas several months in advance would have been entirely on SoCalGas, or on SoCalGas' other ratepayers. It is SoCalGas' position that unless Edison had not ahead-of-time obligated itself to take such gas from SoCalGas, Edison should not expect SoCalGas to speculate with high cost purchases for the potential benefit of Edison and the likely detriment of all other customers.

Next SoCalGas addresses SCUPP/IID's argument that the Commission should disallow SoCalGas' recovery of $2.2 million as a penalty for imposing economic curtailment in alleged violation of Rule 23(a). SCUPP/IID argued that the 1987-88 curtailment violated SoCalGas' Rule 23 because it resulted in part from economic reasons, and that SoCalGas should have purchased any gas that was available, regardless of the cost, early during the review period in order to offer it to UEG customers later during the review period. SoCalGas contends that SCUPP/IID is simply misinterpreting the tariff. There is no requirement in Rule 23(a) that SoCalGas must provide service to UEG customers regardless of the economic detriment that its other customers would suffer as a result.

SoCalGas notes that the Commission has, since the end of the 1987-88 review period, made a number of changes in its policies governing service to noncore customers such as Edison. Principal among those policy changes was the Commission finding in D.89-02-071 that a higher level of service is warranted for noncore customers. The Commission has also stated that "the primary mode of service to noncore customers will be negotiated service contracts" (D.86-12-010, p. 29).

2. Position of DRA

DRA believes SoCalGas mismanaged its storage facilities by failing to keep enough gas in storage to serve its P3B and P4 customers if adverse conditions occurred. DRA contends that if SoCalGas had curtailed its UEG customers earlier, it could have served additional P3B and P4 customer load. Accordingly, DRA recommends that the Commission disallow $1,682,583 of lost margin because of the company's imprudent storage management.

Curtailment of some customers is a tool that both DRA and SoCalGas recognize as appropriate to prevent service disruptions to other classes of customers. In this case, when SoCalGas' storage levels became too low, SoCalGas should have curtailed its UEG customers starting in November. SoCalGas chose not to do so. DRA notes that SoCalGas' storage target for November 1, 1987 was 92 Bcf. However, on November 1, SoCalGas had only 75.7 Bcf in storage. By December 1, 1987 SoCalGas had only 63.1 Bcf in storage, below its P4 cold year minimum of 70.3 Bcf then in place.

But SoCalGas is contending that its year ending guideline for P1-P4 cold year protection was really 48.8 Bcf, rather than the 70.3 Bcf used by DRA in its analysis. The inference by SoCalGas is that DRA's analysis is wrong, because it compared actual storage levels to a storage guideline that SoCalGas no longer used.

DRA believes that SoCalGas' contention is wrong for two reasons. First, whatever changes SoCalGas made to its storage criteria, it did not make them until December 16, 1987. By that time, SoCalGas should have curtailed its UEG customers. Second, SoCalGas has provided almost no documentation and no reasonable explanation of how it was able to change its storage criteria so drastically, and still maintain adequate storage protection for its customers. The changes that SoCalGas made to its storage monthly minimums and year end guideline are big changes. These changes require reasonable justification and documentation. SoCalGas has provided neither.

DRA submits that SoCalGas appears to have changed its storage protection criteria because it simply couldn't meet the criteria then in place. DRA believes that it is no coincidence that SoCalGas' storage criteria changed only a few days after cold weather arrived in December, when SoCalGas must have realized that it couldn't meet its previous storage criteria.

SoCalGas' argument is that it was unable to meet its storage targets, minimums, or guidelines because of events beyond its control. However, DRA points out that SoCalGas can react to those events by curtailing customers, which provides the company with the ability to control the level of its storage. SoCalGas had plenty of advance warning before December of every one of the events which adversely affected (reduced) SoCalGas' December 1987 storage levels, except for the arrival of cold weather. SoCalGas' own storage planning criteria required it to assume a worst case (coldest) weather scenario.

DRA contends that SoCalGas should have realized by mid-November at the latest that the prevailing conditions dictated curtailment of UEG customers, thus increasing storage, so that SoCalGas would not face the substantial risk of losing the much greater margin contribution from P3B and P4 customers.

3. Position of Edison

Edison objects to DRA's suggestion that curtailment of P3B and P4 customers was unnecessary because it could have been avoided by earlier UEG curtailment. To the contrary, Edison believes that UEG curtailment should not be used as a management tool to avoid curtailment of other gas customers. This is especially so when any curtailment whatsoever is readily avoidable. However, in the event that a curtailment is not avoidable, Edison believes then it should occur only to the extent necessary and it should be managed in such a way as to minimize the impact to all energy consumers. Edison believes that it has demonstrated that there is a severe impact to all energy consumers when UEG customers are curtailed, and that DRA has not adequately considered this fact.

Edison's operational response to the winter 1987-88 curtailment consisted of burning approximately 1.2 million barrels of low sulfur fuel oil (LSFO) and purchasing additional off-system power. These actions resulted in Edison's electric ratepayers incurring approximately $1.1 million in additional direct fuel costs.

In addition, Edison points out that electric ratepayer costs are indirectly increased as a result of higher avoided cost payments made to Qualifying Facilities (QF). The cumulative impact of a $1 increase in gas costs, considering both direct and indirect impacts, is a $2 increase in Edison's costs of providing electricity to its ratepayers.

According to Edison, Rule 23 requires SoCalGas to provide service to its customers unless operating problems or a supply shortage occurs. Rule 23 provides as follows:

> "The Utility will exercise reasonable diligence and care to furnish and deliver a continuous and sufficient supply of gas to the customer, and to avoid any shortage or interruption of delivery of same."

Specifically, Edison contends that SoCalGas did not purchase sufficient gas supplies to allow its planning and operating objectives to be met. Edison points out that during the review period, SoCalGas established 92 Bcf as its November 1, 1987 storage target. This storage target was set at the level of gas service needed for P1 through P7 requirements during a year with average temperature conditions. Although the November 1 storage target level appeared to be adequate to meet SoCalGas' principal operating objectives, SoCalGas only injected 66.4 Bcf by November 1, 1987.

According to Edison, SoCalGas did not achieve its storage target because it intentionally chose not to purchase available gas supplies for economic reasons. SoCalGas' operating records unambiguously disclose that had "economic supplies" been available, an additional 14 Bcf of gas from El Paso could have been brought to southern California, possibly reducing the 17 Bcf inventory shortfall to 3 Bcf.

Edison witness Huettemeyer's testimony illustrates that no significant change would have resulted in SoCalGas' WACOG if the additional El Paso gas had been purchased. Edison argues that SoCalGas' decision to not purchase gas supplies to meet the reasonable and foreseeable needs of its customers cannot be justified on economic grounds. SoCalGas' decision, based on the cost rather than physical limitations of gas supply or transportation capacity, resulted in curtailment and economic harm to Edison and its ratepayers.

Edison believes that rules should be developed to ensure that a gas utility's decision to decline to purchase available gas supply for economic reasons is made in the best interests of all ratepayers, both gas and electric.

Edison also believes that current UEG rate design does not provide proper incentives for SoCalGas to serve its UEG customers. During curtailment, Edison's current UEG rate design allows SoCalGas to continue to collect the fixed monthly demand charge from Edison, requiring Edison's ratepayers to bear higher costs as a result of the curtailment while other non-UEG noncore customers who are not curtailed receive the benefit of lower-cost gas supply. Also, during periods of curtailment, the UEG's average cost of gas increases due to reduced volume combined with the fixed demand charge. And due to the requirement for cogeneration parity, SoCalGas can charge cogeneration customers higher rates because the UEG's average cost of gas has increased.

Edison further points out that SoCalGas' decisions also affect the ability of its customers to transport gas because SoCalGas uses its senior transportation or "grandfathered" demand rights to bump customers off the interstate pipeline systems.

While noting that D.89-03-053 does not allow for prorating UEG demand charges during periods of supply or capacity curtailment, nevertheless, Edison requests that the Commission review UEG rate design in SoCalGas' Annual Cost Allocation Procedure (ACAP).

Lastly, Edison requests that the Commission consolidate this record with I.88-08-052, R.88-08-018, and SoCalGas' 1989 ACAP to specifically address rules and guidelines for economic curtailment.

4. Position of SCUPP/IID

SCUPP/IID believes that this curtailment was just the beginning of a string of increasingly severe SoCalGas curtailments. Since the winter of 1987-88, there have been two more curtailments, each more egregious than the last. The level of service on the SoCalGas system has deteriorated to the point where it ranks among the worst in the nation and no other gas utility, in a time of natural gas surplus, imposes year-in, year-out curtailments on its customers as does SoCalGas. Thus, SCUPP/IID believes that while many of the issues in this case are couched in technical terms, the overarching objective should be very straightforward: restoration of a decent level of service on the SoCalGas system.

SCUPP/IID argues that SoCalGas tries to put the blame for the curtailment on its own customers, claiming that there was unusually high demand by UEG customers in October 1987. SoCalGas witness Wilson, for example, testified that UEG demand was high throughout 1987. Witness Walsh, testifying on behalf of the California Energy Commission, refuted this by stating that UEG demand in 1987 was about the same as that experienced in 1985.

SCUPP/IID's concern is that in spite of Rule 23(a), SoCalGas refused to purchase volumes of gas which could have substantially, if not completely, eliminated the need for the curtailment experienced during the winter 1987-1988. SoCalGas was aware as early as September 2, 1987 (and possibly even earlier) that it would not achieve its established storage target for November 1, 1987. Nevertheless, until December 1, SoCalGas continued to decline El Paso's standing offer to sell commodity gas on a "backstopping" basis so that there would be full utilization of the pipelines. Yet, as Edison witness Huettemeyer testified, the impact of permitting El Paso to backstop SoCalGas spot purchases with sales of El Paso commodity gas would have had a very small impact on SoCalGas' WACOG.

SCUPP/IID strongly supports Edison's position with regard to economic curtailment and the need for prorating fixed UEG demand charges. SCUPP/IID agrees with Edison, that the present procedure raises the total cost of energy for all southern California consumers. SCUPP/IID requests that the Commission impose a disallowance on SoCalGas in this reasonableness proceeding for violating Rule 23. The disallowance should be at least $2.2 million. This reflects the $1.1 million in additional fuel costs borne by Edison's electric ratepayers, and $1.1 million in additional fuel costs borne by the ratepayers of the Los Angeles Department of Water and Power.

SCUPP/IID believes that the proposed $2.2 million disallowance figure is extremely conservative. It omits the increased fuel costs that were imposed on other SoCalGas UEG customers such as Burbank, Glendale, Pasadena, and IID, and it omits all of the additional costs of curtailment that the UEG customers were forced to bear. These include the increased cost of economy energy purchases and the cost of increased payment to QFs.

SCUPP/IID agrees with DRA that SoCalGas mismanaged its gas storage and supply operations, and that factors such as supply difficulties, growth in demand, and the effects generated by FERC Order 500 neither fully explain nor justify SoCalGas' performance during the review period. SCUPP/IID disagrees, however, with DRA's assertion that SoCalGas should have curtailed the delivery of natural gas earlier than December 1987.

SCUPP/IID takes issue with DRA's argument that it is proper to curtail UEG loads because (1) curtailment poses no operational problems for those customers, and (2) curtailing UEG customers' loads poses no financial risk to SoCalGas. SCUPP/IID disagrees with both of these contentions. Although SCUPP members and IID maintain reserves of alternative fuel so that they can maintain the highest degree of reliability to all of their customers all of the time, SCUPP/IID points out that fuel oil is generally more costly than natural gas, and it may be more polluting.

In order to accomplish a more comprehensive prospective solution to what is perceived to be a deteriorating service problem, SCUPP/IID also requests that the Commission consider in the upcoming SoCalGas ACAP (1) UEG rate design reform, (2) rules governing economic curtailment, and (3) rules for sharing the costs that UEG customers incur as a result of economic curtailment.

5. Position of California Energy Commission (CEC)

CEC witness Walsh believes that the Commission's requirement that California's utilities can sell only short-term spot market supplies to interruptible customers, coupled with the very low rates adopted for large volume gas sales to utility power plants, helped set the scene for creating an imbalance between supply and demand in southern California--before the extreme cold weather in December 1987 precipitated the curtailment. According to witness Walsh, SoCalGas' movement away from long-term purchase commitments with interstate pipeline suppliers towards less expensive, but unreliable, spot market purchases increased the utility's exposure to a shortage situation. At the same time, administrative and accounting problems caused by the transition to a more competitive market structure and delay in establishing interutility transportation agreements prevented full use of interstate pipeline delivery capacity.

Based on her review of the events leading to the December 1987 curtailment, witness Walsh concluded that even if gas supplies had been available, El Paso and Transwestern had relatively little spare capacity during the curtailment period. Transwestern delivered at 100% of nominal rated capacity in December and January. El Paso shipments used 94% of total capacity in December and 100% in January. Over the course of the year, but particularly in October 1987, capacity constraints on the interstate pipelines contributed to the development of the supply shortfall by limiting the amount of gas SoCalGas could deliver into storage.

The CEC witness concludes that gas demand in southern California was so high during all of 1987 that some curtailment of UEG customers might have occurred even if the interstate pipeline had delivered at maximum capacity throughout the year. Nonetheless, the delivery of additional gas into SoCalGas' storage reservoirs would have reduced the scope, duration, and impact of the curtailment.

6. <u>Discussion</u>

We will address the Edison and SCUPP/IID contention that if SoCalGas had purchased an additional 14 Bcf of higher priced El Paso commodity gas and injected that gas into storage earlier in the year, the 17 Bcf of curtailment that was experienced in December and January could have been almost eliminated. They contend that because SoCalGas chose not to purchase this gas, the electric utilities' ratepayers in southern California incurred additional fuel expense in excess of $2.2 million.

As noted in our review of SoCalGas' operations for 1985-86, the threshold test of reasonableness of gas purchases to serve UEG customers is the prevailing retail rate (D.82-04-013, p. 18). Edison and SCUPP/IID argue that the gas purchases at issue would have had a very small impact on SoCalGas' WACOG. We agree that this is so, but the Commission's policy was clear. There was no provision in effect at the time that made a "small increase" in the WACOG an acceptable departure from the Commission's guidelines. The UEG rates were not designed to fully recover such costs. The UEG rates were indexed to the price of cheaper spot gas (D.86-08-082, Finding of Fact 13). The record indicates that SoCalGas took all the cheaper spot gas that was readily available. Therefore, the pipelines could only be backstopped with higher priced commodity gas. If SoCalGas had purchased the additional commodity gas, it would have been entirely at risk in this matter. And Rule 23(a) does not require SoCalGas to provide service to UEG customers regardless of cost. Therefore, we reject SCUPP/IID's proposed disallowance of $2.2 million.

Next, we will address SCUPP/IID's concerns with regard to the level of service provided to UEG customers. Understandably, SCUPP/IID is disturbed by the two subsequent curtailments that occurred. Those curtailments are the subject of another proceeding which is SoCalGas' next reasonableness review. However, for the 1987-88 review period, we find that there is no exhibit that clearly sets out the level of service provided. Accordingly, in the next reasonableness review, we direct SoCalGas and DRA to provide a more complete analysis of the level of service provided during the last few years to UEG customers.

With regard to Edison's and SCUPP/IID's argument that demand charges for UEG's should be prorated, we deny this request for the same reasons set forth in D.89-03-053.

Next, we will address DRA's argument that when storage levels became too low, SoCalGas should have begun curtailing its UEG customers in November 1987.

Our review of the record indicates that SoCalGas failed to provide a satisfactory explanation of when and why it changed its storage targets, monthly minimums, and storage year end guidelines. As noted by DRA in its brief (Opening Brief p. 10), the changes that SoCalGas made to its storage criteria were major changes which required reasonable justification and documentation. These concerns were called to the attention of SoCalGas by the ALJ during the course of the hearing. Having reviewed the record on this issue, we conclude that SoCalGas has failed to properly satisfy our concerns. Accordingly, we adopt the DRA recommended disallowance of $1,682,583 for lost margin because of SoCalGas' failure to meet its burden of proof (D.92496 and D.83-05-036).

Lastly, we note that the CEC Curtailment Report makes four findings: (1) additional pipeline delivery capacity would probably be needed much sooner than had previously been anticipated; (2) the Commission should allow the gas utilities the flexibility of offering fuel switching customers a choice of short, medium, and longer-term commitments; (3) better information about future gas demand to determine if and when additional delivery capacity is needed; and (4) a commitment to conservation to alleviate the need for future curtailments is needed.

We generally concur with the findings of the CEC. However, we will not specifically address these matters in this proceeding since they are being examined in detail in other proceedings. In particular, we note that the Commission has in I.88-12-027 completed hearings on a new interstate pipeline(s) and a decision is pending.

B. Mutual Assistance Agreement Gas

From December 25, 1987 to January 17, 1988 SoCalGas purchased and received deliveries of gas from PG&E under a Mutual Assistance Agreement (MAA) in order to continue service to or minimize service curtailments to certain of its customers.

Because PG&E provided this gas, it was forced for a time to burn oil, rather than gas, to generate electricity in its power plants. PG&E therefore insisted that SoCalGas pay for the gas at a price equivalent to PG&E's cost price of buying oil. SoCalGas paid PG&E $3.05 per million British thermal unit (MMBtu) and $3.10/MMBtu for two shiploads of oil purchased by PG&E for its power plants. SoCalGas received a total of 5.1 Bcf from PG&E under the agreement and paid PG&E a total price of $16,522,996.

1. Position of SoCalGas

SoCalGas takes exception to DRA's proposal that this "lost revenue" be classified as a transition cost and allocated among SoCalGas' noncore customers in the next ACAP. According to SoCalGas, the cost of the MAA gas should be treated as any other source of system supply and should not receive special treatment as a transition cost on the theory that it was purchased only for P2B-P4 customers.

SoCalGas witness Owens, the individual responsible for the decision to purchase the gas, testified that the gas was purchased to ensure that service to P1 and P2A high priority residential and small commercial customers would not be threatened, although SoCalGas was very concerned at the time that its P3B and P4 commercial and industrial customers with alternate fuel capability would suffer hardship as a result of curtailment.

The decision to invoke the agreement and to take MAA gas from PG&E reflected SoCalGas' best judgment on how to respond to an extremely difficult set of operational realities. At the time SoCalGas first implemented the agreement, storage levels were about 10 Bcf above the January 31 peak-day storage minimum needed to protect SoCalGas' highest priority customers. A one-in-100 year cold snap had just been experienced, and SoCalGas was aware that January is historically a colder month than December in southern California. In addition, as SoCalGas had experienced supply problems with both spot and commodity gas, the outlook for gas supply in January was uncertain, and large volumes of lower priority transport gas continued to flow through the SoCalGas system without being curtailed as a result of the Commission's rules on this point.

SoCalGas agrees that while it is true that service to the P1 and P2A customers was never threatened, SoCalGas, in fact, decided to purchase the MAA gas to ensure that these highest priority customers had an adequate supply of gas available throughout the entire winter heating period. They benefited from this decision; the benefit was security of an essential service.

SoCalGas can agree with the proposition that the purchase of this gas resulted in some benefit to the P2B-P4 customers. In fact, it resulted in the same benefits as the purchase of any system supply would under the same circumstances. However, the intent of SoCalGas in purchasing this gas was primarily to protect the highest priority customers, not the P2B-P4 customers as contended by DRA. Therefore, the cost of this gas should not be separated out for special treatment as a result.

SoCalGas submits that supply security for residential customers is the company's paramount objective. SoCalGas did not believe then and does not believe now that it is appropriate to gamble with service to highest priority customers and purchased the mutual assistance gas with that policy firmly in mind. Therefore, the MAA gas should be treated as system supply and not as a transition cost to be billed only to lower priority customers.

2. <u>Position of DRA</u>

According to DRA, SoCalGas resold the gas at a loss of $3,777,003 to its P2B-P4 customers. DRA recommends that the

Commission allocate the $3.7 million loss, during SoCalGas' next ACAP proceeding, to those customer classes that benefited from the MAA gas.

In DRA's view, SoCalGas' highest priority customers, P1 and P2A, received no benefit from the MAA gas. SoCalGas wants its P1 and P2A customers to pay for a portion of the $3.7 million loss because SoCalGas believes that its P1 and P2A customers benefited from the MAA gas. DRA contends that a review of SoCalGas' actual storage levels and its curtailment options during this period demonstrates that SoCalGas' P1 and P2A customers were not threatened with curtailment.

On January 4, 1988, during the cold weather when SoCalGas bought the MAA gas, SoCalGas' actual storage level was 33 Bcf. The P1 and P2A minimum on that date was 24 Bcf. As of January 4, SoCalGas had nearly 10 Bcf more in storage than the minimum needed to provide peak day deliverability protection to all its P1 and P2A customers. Peak day protection means that the company plans to keep enough gas in storage to provide enough pressure to provide deliverability to serve all its P1 and P2A customers during a very cold day (when demand for heating is highest). Thus, according to DRA, under the worst conditions that SoCalGas plans for, SoCalGas still had a storage reserve of almost 10 Bcf for its P1 and P2A customers.

DRA does not contend that SoCalGas was imprudent in buying MAA gas.. DRA finds that "it was reasonable for SoCalGas to believe that without invoking the MAA a deeper curtailment might have been necessary." DRA recommends no disallowance for the $3.7 million loss.

DRA only seeks a finding that service to P1 and P2A customers was not threatened, and thus these customers did not benefit from the gas, and that SoCalGas sustained a loss of

$3.7 million. SoCalGas may during the next ACAP suggest allocating MAA gas expenses among other customer classes which benefited from the purchase.

3. Position of TURN

Toward Utility Rate Normalization (TURN) supports DRA's position that the MAA gas was purchased to increase the level of service to SoCalGas' lower priority customers, and not because reliable service to P1-P2A core customers was ever "threatened." According to TURN, the only evidence supporting SoCalGas' argument to the contrary is the assertion of its witness Owens, which is contradicted by the evidence cited by DRA, as well as the independent analysis of the CEC's witness. TURN concedes that while it may be true that any incremental gas purchase increases the security of core service to some minimal degree, TURN believes that this instance the primary purpose of the MAA gas was to restore service to P2B-P4 customers as quickly as possible. Also, the MAA gas was resold at a loss.

TURN agrees with DRA that the company cannot be deemed unreasonable or imprudent. As recommended by DRA, these dollars should be classified as transition costs and allocated to noncore customers in the upcoming ACAP proceeding.

4. Position of Edison

Edison argues that DRA's recommendation should be rejected. Edison disagrees with the principles underlying DRA's argument because they require "targeting" gas supplies to certain customer classes.

Edison agrees with SoCalGas that the MAA gas was purchased for system supply, and therefore benefits all customers. MAA gas, however, does require different accounting treatment because the MAA cannot be invoked until low priority customers are curtailed.

Edison points out that during the review period, UEG customers' P5 usage was curtailed, and it was not until P2B-P4 customers also were curtailed that SoCalGas called upon PG&E for MAA gas. Edison contends that with the exception of UEG P3 and P2A usage, UEG customers could not have benefited from the purchase of this gas supply. Allocation of MAA costs to the UEGs should therefore appropriately include only those costs associated with UEG P3 and P2A service.

5. <u>Position of SCUPP/IID</u>

SCUPP/IID takes no position as to whether the MAA gas purchases benefited P1 and P2A customers. However, SCUPP/IID shares Edison's view that the gas was not purchased for the benefit of P5 customers, whose service was curtailed during that period. Thus, the cost of that gas should not be allocated to P5 customers.

6. <u>Discussion</u>

As we view the situation that SoCalGas faced, in order to protect the residential and small commercial customer (P1-P2A) reliability, SoCalGas had two choices: (1) continue to curtail P2B-P4, or (2) buy expensive MAA gas and sell it to P2B-P4 customers. The effect on core (P1-P2A) reliability is the same in either case.

In the event the 10 Bcf reserve got depleted and P1-P2A was threatened, SoCalGas could have waited until then to ask PG&E to supply MAA gas. The point is that SoCalGas could have delayed its request for MAA gas until P1-P2A was actually threatened. As noted by TURN, while any gas purchase increases security of service, the primary purpose of MAA gas was to restore service to P2B-P4 customers as quickly as possible. Therefore, the MAA gas was not purchased to meet an immediate need of the P1-P2A customers.

We agree with Edison and SCUPP/IID that there was no benefit to the P5 (UEG) customer since they were already curtailed.

Accordingly, we conclude that service to P1 and P2A customers was not threatened. These customers and P5 customers received no benefit from the MAA purchase. In the next ACAP proceeding the cost should be allocated among the other customer classes which benefited from the purchase.

C. EOR Curtailment Credits

Should SoCalGas continue to offer "planned curtailments" to EOR customers since there is no provision for this service in its tariffs?

1. Position of SoCalGas

SoCalGas points out that the issue of planned curtailment credits was examined extensively in the 1985-86 reasonableness review (A.86-09-030), which was consolidated with this case. DRA's testimony at that time was that during the 1985-86 review period planned curtailment was implemented by SoCalGas to help customers who might otherwise have been economically harmed or had their operations disrupted by short-duration curtailments, and that only a small volume of gas was sold under this program. DRA stated that "SoCalGas' actions with respect to this program were not unreasonable during this record period," and that it would monitor SoCalGas' participation in these types of programs in the future "to ensure that no harm to higher priority customers occurs." According to SoCalGas, no such harm has occurred and extremely small volumes of gas were sold under this program during the review period at issue here.

During the winter of 1987-88, the total amount curtailed was 15.1 Bcf. The total planned curtailment volume for EOR customers during that period was 0.022 Bcf (or 22.2 MMcf) which amounted to 0.15% of the total volume curtailed. While planned curtailment for these EOR customers provided a significant benefit to them in terms of avoiding major operational problems in their enhanced oil recovery operations, providing this incremental volume to UEG customers such as those represented by SCUPP/IID would have provided additional benefits to those customers so small as to be negligible. The benefits of this program outweigh the trivial added burdens that may be imposed on SCUPP/IID and other UEG customers. SoCalGas believes that it should be authorized to continue to provide this needed service.

SCUPP/IID relies on PU Code § 453 as standing for the proposition that planned curtailment is prohibited. SoCalGas argues that PU Code § 453 prevents only "unreasonable" differences as to rates, charges, service, facilities either as between localities or as between classes of service. The Commission is not prohibited from allowing reasonable distinctions between service to different classes of customers. As in the 1985-86 review period, planned curtailment continues to be a reasonable distinction between customers, and should remain in effect for future periods.

2. <u>Position of SCUPP/IID</u>

SCUPP/IID argues that SoCalGas has been operating a "planned curtailment credit" scheme for EOR customers in violation of Rule 23(d). Under this program, EOR customers are allowed to accumulate "curtailment credits" before a curtailment is imposed. Then, when other customers are being curtailed, the EOR customer can use up his credits to avoid curtailment.

SCUPP/IID notes that in response to a data request, SoCalGas described its planned curtailment credit scheme as follows:

> "This voluntary program provides for accumulation of curtailment credits and subsequent 'out-of-pattern' curtailment. During a SoCalGas initiated curtailment, planned curtailment customers may use accumulated days of credit. If the customer has not accumulated credit because their planned curtailment period has not yet occurred, the number of days of the SoCalGas curtailment is debited from their future planned curtailment period.
>
> "Customers receive one day of planned curtailment payback credit for each day they cease normal operation, or for each day SoCalGas refuses gas deliveries from out-of-state suppliers due to insufficient demand on

> the SoCalGas system, including the ability to inject into underground storage." (Exh. 162, p. 2.)

SCUPP/IID points out that not only could an EOR customer build up curtailment "credits" before a curtailment period began, but he could build up credits without even reducing gas consumption. SCUPP/IID argues that there is no provision in SoCalGas' tariff for planned curtailment credits, particularly credits that are built up without the customer even reducing gas consumption. The SoCalGas tariff only provides for out-of-pattern curtailment that is offered to a customer in the event of an operating emergency:

> "1.5 Operating Emergency
>
> "In the event of an operating emergency as declared by a customer, service may be made available out of the normal curtailment pattern, if in the judgment of the Utility it is possible to do so. Out of pattern deliveries will be provided to critical customers whenever they declare an operating emergency. In the event of such a condition, subsequent out of pattern curtailment will be imposed on such customer in order to balance the amount of curtailment with other customers served at the same priority." (Rule 23(d) 1.5 (1988).)

Thus, SCUPP/IID argues that SoCalGas' planned curtailment credit violates SoCalGas' tariff.

Additionally, according to SCUPP/IID the "planned curtailment credit" program is discriminatory (PU Code $ 453). It has been offered to EOR customers but not to other classes of customers. It has certainly not been offered to UEG customers even though the curtailment priority for most of their usage is the same as for EOR steamflood usage. Accordingly, SCUPP/IID requests that the Commission order SoCalGas to cease the discriminatory offer of the highly preferential planned curtailment credit program to EOR customers.

3. Position of Edison

Edison agrees with SCUPP/IID that the EOR curtailment credits program is discriminatory. Edison argues that this program of allowing EOR customers to accrue curtailment credits without reducing their gas consumption only extends the curtailment for other customers and results in unfairly increasing electric ratepayer costs.

4. Discussion

The volumes of gas at issue are small. The planned curtailment treatment that these customers receive is a significant benefit to them in terms of avoiding operational problems in their enhanced oil recovery operations. SCUPP/IID has not demonstrated that it has suffered any real harm. The benefits provided by the program seem to outweigh the detriments.

However, SoCalGas is not providing service strictly in accordance with its tariffs. SoCalGas is offering planned curtailment to EOR customers more as a routine service rather than as a response to an operating emergency. In the future, we will expect SoCalGas to cease providing credits to EOR customers without the customer actually reducing gas consumption. SoCalGas should not allow customers to accumulate credits prior to curtailment. We expect SoCalGas to provide service to EOR customers strictly in accordance with its filed tariffs. If SoCalGas' filed tariffs do not realistically reflect the current gas supply situation, or are not responsive to customer needs, then SoCalGas should take steps to modify its filed tariffs.

D. Exchange of Gas

Should exchange gas be treated as supply for curtailment purposes?

1. Position of SoCalGas

During the review period, exchange gas was specifically covered by Rule 23. Section 1.3 of Rule 23, as in effect during the review period stated, "exchange service is basically classified in accordance with end-use priorities and curtailed in parallel with those priorities." This was attached to SoCalGas' application in this case (A.88-07-006, at Appendix F, Table F-1, Sheet 5). Moreover, subsequent to the review period, in conformance with D.87-12-039, SoCalGas filed advice letters regarding this matter. Curtailment of exchange service is still addressed in Rule 23, Sections 1.3 and 1.4 as approved by Commission Resolutions G-2787 and G-2783. According to SoCalGas, there is no need for further amendment to these rules at this time.

2. <u>Position of SCUPP/IID</u>

SCUPP/IID argues that SoCalGas should be required to file an advice letter specifically classifying exchange gas as "supply for curtailment purposes." Approximately 80 MMcf per day of gas on the SoCalGas system during the review period was "exchange gas" delivered for EOR customers. This is gas which producers deliver into the SoCalGas system at some point and which SoCalGas redelivers back to the producer at a different point. For example, EOR producers deliver gas into the SoCalGas system in the San Joaquin Valley. Gas is then redelivered to the producers' refineries in the Los Angeles Basin.

SCUPP/IID states that during the review period, SoCalGas treated the 80 MMcf per day of exchange gas as curtailable P7 gas along with 680 MMcf per day of UEG Tier 2 sales gas and 15 MMcf per day of P8 sales gas. Yet, it appears that SoCalGas did not curtail the exchange volumes along with other P7 gas.

SCUPP/IID argues that currently, SoCalGas' tariff is completely silent with regard to the substantial volume of exchange gas on its system. As shown by its treatment of exchange gas during the 1987-88 curtailment, SCUPP/IID believes that SoCalGas takes advantage of this omission to exercise discretion in deciding whether or not to curtail EOR exchange volumes. SCUPP/IID requests that the Commission direct SoCalGas to submit an advice letter revising SoCalGas' Rule 23 to provide specifically that exchange gas shall be treated as "supply" for curtailment purposes. SCUPP/IID requests, further, that the Commission direct SoCalGas to abide by the revised Rule 23 so that P5 exchange gas will be curtailed when UEG gas is curtailed.

3. Position of Edison

Edison agrees with SCUPP/IID that SoCalGas' tariffs do not address the treatment of exchange gas during periods of curtailment and recommends revision to provide for treatment of exchange gas as "supply" for curtailment purposes.

4. Discussion

Although SoCalGas states that Rule 23 already covers curtailment of exchange gas and no further amendment to this rule is necessary, apparently during the review period, SoCalGas had neglected to curtail exchange gas in parallel with other priorities.

The purpose of tariff rules is to protect all customers from discriminatory treatment. We realize that there is an administrative burden in curtailing exchange gas. Since the quantities of exchange gas are small, the administrative burden of implementing curtailment may not justify the benefits. However, SoCalGas must follow its filed tariffs. We place SoCalGas on notice that we expect it to curtail exchange gas in parallel with other end-use priorities. If the administrative burden does not justify the end result, then SoCalGas should propose modifications to its filed tariffs.

E. Backbilling

SoCalGas' P3B and P4 customers were curtailed from January 4, 1988 to January 18, 1988. Of the 849 customers subject to the curtailment, 81 could curtail only part of their equipment served under P3B, or did not curtail at all. Prior to January 4, 1988 most of these customers were served under Rate Schedule GN-3 which is an interruptible schedule requiring alternate fuel capability. Following a protracted investigation, SoCalGas rebilled 52 of these 81 accounts. The reasons for not rebilling the remaining 29 accounts are described in late-filed Exhibit 171. The total of the 52 bills rebilled is $7,676,190 (Exh. 141A). It is expected that this amount will be further reduced as SoCalGas continues with its investigations and negotiations with these customers. As a result of the backbilling, several of these customers have filed informal complaints with the Commission. In addition, several customers have filed formal complaints which will go to hearing shortly.

As recommended by DRA, should the risk of collecting the $7,676,190 be shifted to SoCalGas stockholders?

1. Position of SoCalGas

SoCalGas argues that DRA's proposal is beyond the scope of this proceeding. The 1987-88 reasonableness review covers the period from July 1, 1987 to March 31, 1988. SoCalGas did not send the first bill until after the review period had ended. Each individual backbilling matter belongs in the reasonableness review covering the period during which the final resolution of the individual customer's backbilling issue occurred.

Nevertheless, SoCalGas believes that during the review period, its actions with respect to backbilling customers, who either would not or could not comply with the curtailment, were, at all times, reasonable. DRA has attempted in its report to characterize thoroughness as negligence, commenting that "it took SoCalGas six months to carefully review these accounts."

SoCalGas requests that before considering the reasonableness of its actions with respect to backbilling, the Commission should recall that during late 1987 and early 1988, SoCalGas was addressing a number of substantial and dramatic changes. The implementation of D.87-12-039 required preparing tariffs and drafting and negotiating contracts with over 1,000 noncore and large core customers involving end-use priority, rates, transportation and procurement options. The implementation of this decision also required complete changes to SoCalGas' billing systems and administrative procedures.

SoCalGas believes that in light of these surrounding circumstances, it handled the rebilling of its customers in a reasonable, competent, and timely manner. Due to the substantial impact that the rebilling would have had, not only on SoCalGas but also its customers, SoCalGas carefully examined each issue involved. Since each customer's situation was unique, each investigation required time-consuming measures by both SoCalGas and the individual customer.

SoCalGas contends that it acted prudently with respect to the detection of customers assigned to the wrong tariff. It takes issue with DRA's statement that "with reasonable diligence the utility should be able to detect many of the customers inappropriately assigned to a particular class," contending that there is no basis in fact for DRA's statement. Ninety-five percent of SoCalGas' interruptible customers were, in fact, able to curtail after a nine-year period of no curtailment. Inappropriately assigned customers were identified and reclassified on an ongoing basis in accordance with existing tariffs.

SoCalGas argues that DRA fails to recognize that alternate fuel capability cannot always be ascertained with "reasonable," or even exceptional diligence. For example, some customers who were unable to curtail did routinely test-fire their systems. However, due to major alternate fuel system malfunctions, these customers could not sustain alternate fuel operation for a prolonged period and could not immediately correct their operating problems during the curtailment period. Additionally, some customers who could not curtail had removed their tanks as recently as December 1987.

SoCalGas points out that each customer has the obligation to comply with the rate tariff under which it is being served. Under Rule 29, it is the customer's responsibility to immediately give the company written notice of any equipment changes. Rule 29 states that if a customer makes any change "either in the amount or character of the gas appliances" on their premises, it must give immediate notice to SoCalGas in writing. Additionally, the Customer Personnel Notification Record, Form 3549, which the customer signs annually, states that SoCalGas must be notified of any projected change in equipment or operation which could permanently increase or decrease its natural gas requirement.

Furthermore, each interruptible customer was required to sign a contract that referred to the rate schedule under which it was served. Thus, customers served under rate schedule GN-3 acknowledged by signing the contract that they were aware of a special condition that required standby equipment and fuel.

SoCalGas notes that the most recent backbilling revenue estimate is now at $7,053,807 (Exh. 141A, p. 3). This number is subject to change as more information becomes available to SoCalGas.

While SoCalGas agrees with DRA's conclusion that billing adjustments are best handled between SoCalGas and its customers, SoCalGas strongly disagrees with DRA's recommendation to remove these revenues from the CAM balancing account. Undercollections resulting from customers' noncompliance with alternate fuel requirements of rate schedule GN-3 should be treated as billing errors, consistent with accepted accounting procedures. Existing accounting procedures that were in place at the time should not be changed after the fact.

In accordance with long-standing Commission procedures, backbilled amounts should be credited to the CAM balancing account as those adjusted bills are prepared and issued to customers. SoCalGas will then address any disputes with customers pertaining to those backbilling adjustments through the normal Commission-approved procedures.

SoCalGas argues that if DRA's recommendation is accepted, SoCalGas will, when and if it adjusts any of the bills in question, be penalized the amount of the adjustment. This is not an "incentive." Instead, it is an unfair penalty to SoCalGas. It is also unfair to the customer and creates a strong financial incentive for SoCalGas to remain unyielding in each and every one of these cases and not resolve them fairly.

2. Position of DRA

Since customers on the wrong rate schedule represent lost revenue, DRA believes that SoCalGas wants its other customers to be at risk for these lost revenues. SoCalGas has been negligent in permitting some customers to receive service under the wrong rate schedule. Therefore, DRA recommends that SoCalGas' shareholders bear the risks of SoCalGas' collection of lost revenues. This is to be done by a Commission order directing SoCalGas to credit the amount of $7,676,190 to the consolidated adjustment mechanism (CAM) accounts, and by requiring an affirmative showing by SoCalGas on its reasons for not rebilling the remaining 29 accounts.

According to DRA, SoCalGas' backbilling performance until now has been inefficient and unenthusiastic, primarily because SoCalGas' shareholders have nothing at stake. SoCalGas has been extremely slow to identify customers for backbilling, to bill them, and to collect from them. One year after the curtailment and SoCalGas' awareness of the backbilling problem, SoCalGas had collected a total of about $300,000 from 13 customers, out of a total amount of $7,676,190.

DRA believes that SoCalGas probably will continue reducing the amount of backbilled revenues to be collected unless it has an incentive to aggressively seek and collect backbilled revenues.

DRA argues that in several instances, SoCalGas acted imprudently. For example, SoCalGas originally determined that one customer should be backbilled for $355,500 because it had removed its alternate fuel tank. However, SoCalGas stopped pursuing backbilling from the customer because SoCalGas discovered that its personnel had been aware of the tank removal, but had not changed the customer to an appropriate rate schedule. SoCalGas' excuse is that it expected the new rate design to go into effect seven months after it became aware of the tank removal, and SoCalGas saw no reason to insist that the customer pay rates under the correct schedule.

DRA believes that this excuse is completely invalid. For one thing, SoCalGas' failure to collect the higher rates for even seven months is unfair, because other customers bear the margin loss. Also, it was completely foreseeable on January 1, 1987 that the Commission might be unable to put an entire new rate design into effect in R.86-06-006. Of course, as it turned out, the new rate system did not become effective for two more years, during which customers stayed on the inappropriate rate schedule with SoCalGas' full knowledge. DRA points out that the customers who complied with their rate schedules in good faith cannot be expected to subsidize customers that avoided their tariff requirements, with or without SoCalGas' help.

Several customers have objected to DRA's proposal (e.g. January 6, 1989 written motion to strike of Ideal Dyeing & Finishing Co., Inc.). According to DRA, much of their objection is based on their assumption that, if the Commission adopts DRA's recommendation, they will have no rights to dispute backbills by using the complaint process at the Commission. DRA disagrees. Any customer may continue to dispute its backbill by direct negotiations with SoCalGas and by using the complaint process at the Commission.

DRA is not surprised that customers oppose DRA's recommendation. Theso customers know that SoCalGas will pursue backbilling much more vigorously if its shareholders have a financial stake in the matter, as they will if the Commission adopts DRA's recommendation.

3. Motion of Ideal Dyeing & Finishing Co., Inc. (Ideal)

On January 6, 1989, Ideal filed a motion requesting that DRA's testimony related to the backbilling issue be struck, arguing that this Chapter affects the rights of the real parties of interest. Following oral argument on January 23, 1989, the presiding ALJ denied the motion to strike. On January 24, 1989, Ideal filed a motion appealing the ALJ's ruling. SoCalGas, Edison, and Great Western Malting Company (Great Western) filed responses supporting Ideal.

In summary, the arguments supporting Ideal's motion are:

1. It would be a denial of due process if the rebilling issue was addressed in the current reasonableness proceeding, since the affected customers received no notice that this issue was being heard.

2. DRA's proposal would prejudice the rights of the affected customers and SoCalGas would have no choice but to be unyielding in resolving the billing disputes.

3. Each customer is entitled, pursuant to Commission rules, to individual resolution of its billing dispute.

4. A finding as to SoCalGas' prudency in its original billing of these customers is premature, since such a finding must necessarily assume that all customer rebillings were correct. At this time that assumption cannot be made.

4. Discussion

Essentially, DRA's recommendation is that SoCalGas' stockholders be required to reimburse the $7,676,190 and recover their money, as best they can, from the customers that were or should be backbilled. DRA recommends this unusual approach, because it believes that SoCalGas has been imprudent and not enforced its filed tariff. If SoCalGas does not collect the dollars that it rightfully should collect, the other ratepayers will be subsidizing customers that improperly took advantage of the lower interruptible rates. Therefore, DRA believes that the risk should be transferred to the stockholders of SoCalGas.

§ 532 of the PU Code prohibits utilities from charging or receiving a different compensation for any product or commodity furnished than the rates and charges in its schedules on file and in effect at the time. § 453 of the PU Code prohibits a public utility from making or granting any preference or advantage to any corporation or person as to rates, charges, services, facilities, or in any other respect. "Scheduled rates must be inflexibly enforced in order to maintain equality for all customers and to prevent collusion which might otherwise be effectively disguised." (Empire West v. Southern California Gas Company (1974) 12 Cal. 3d 805, 809.) "Tariffs are strictly construed and no understanding or misunderstanding of either or both of the parties is enough to change the rule." (Transmix Corp. v. Southern Pac Co. (1960) 187 Cal. App. 2d 257, 264.) The law requiring public utilities to collect the tariffed rate is well established.

SoCalGas has a legal duty to backbill. If the alternate fuel requirement of the interruptible rate is not enforced, then customers not in compliance would have obtained a rate even though they had not met the conditions of service set forth in the tariff. It would constitute an advantage to such customers, which is prohibited by § 453 of the PU Code. This is not fair to the customers who have invested in alternate fuel capability in order to properly qualify for the interruptible rate or to the other ratepayers who are burdened with the difference in margin contribution.

If the tariffs were inappropriate, because of the pending major rate design changes under consideration by the Commission, SoCalGas could have filed a deviation from its tariff rules for such customers. SoCalGas, apparently, took a wait-and-see approach and took no action to request a temporary deviation for these customers, or to enforce its filed tariffs.

DRA's testimony convinces us that SoCalGas was not strictly enforcing its interruptible rate tariffs in accordance with PU Code §§ 532 and 453. Therefore, SoCalGas stockholders must accept the risk of collecting the backbilled revenue since it would be unfair for all ratepayers to absorb any loss due to SoCalGas' lack of diligence in administering its tariffs. Accordingly, we will order SoCalGas to credit the CAM account by $7,676,190 and to provide further evidence on the 29 accounts not backbilled.

We note that DRA agrees that a customer may continue to dispute its backbill by direct negotiations with SoCalGas. But DRA does not explain how SoCalGas should recover any adjustments that it properly makes.

We believe that SoCalGas should make all adjustments to individual customer accounts that are proper and be compensated after it has met its burden of proof through a reasonableness review. There should be no adverse influence on SoCalGas' ability to make adjustments that are appropriate. Therefore, to enable such adjustments to be made, we will provide SoCalGas with a memorandum account to accumulate the cost of these adjustments. SoCalGas may not debit its CAM account for billing adjustments made to the disputed accounts, as would be the usual procedure. SoCalGas may seek recovery of the memorandum account amounts in its 1989-90 reasonableness review. As well, the reasonableness of not backbilling the 29 identified accounts is explicitly reserved for that proceeding. SoCalGas will have the burden of justifying each adjustment. The memorandum account will be terminated following SoCalGas' 1989-90 reasonableness review.

Ideal's motion to strike Chapter 2 of the DRA report is denied. Ideal and others in the same situation should proceed with litigation in the complaint cases that they have filed or are in the process of filing with the Commission. All customers that have been backbilled will have every opportunity to avail themselves of the informal and formal complaint processes at the Commission for resolution of their individual cases. We believe that the memorandum account removes any perverse incentive for the company to treat these customers unfairly.

F. Affiliate Relations

During the review period, SoCalGas participated in the settlement of a take-or-pay dispute between Exxon and Pacific Offshore Production Company (POPCO), a SoCalGas affiliate. These settlement discussions resulted in a $2.5 million payment by POPCO to Exxon for take-or-pay buydown, buyout, and contract reformation costs. The issue is whether SoCalGas treated POPCO preferentially by making payments to POPCO before it was required to do so pursuant to a final order by FERC.

1. Position of SoCalGas

SoCalGas argues that the settlement was reasonable and prudent. The $2.5 million settlement resulted in savings to SoCalGas and its customers of approximately $31.5 million. The settlement included reformation of the pricing and take-or-pay provisions and a settlement of take-or-pay liabilities at a cost of eight cents on the dollar.

SoCalGas points out this settlement was substantially below previous take-or-pay settlements approved by FERC and less than one-half of the industry average as reported by the Interstate Natural Gas Association of America (INGAA). The FERC approved the recovery of these costs, subject to refund by POPCO through a FERC-authorized tariff.

SoCalGas argues that DRA's testimony on this issue recommends that the Commission overrule a decision of the FERC and disallow prudently incurred costs that are being charged to SoCalGas under a federally-approved filed rate.

2. Position of DRA

DRA contends that during the record period, SoCalGas indulged in favoritism toward POPCO, an affiliated company, which supplies gas to SoCalGas from an offshore oil/gas platform operated by Exxon.

Since December 1987, POPCO has billed SoCalGas for take-or-pay costs as part of its cost of service. SoCalGas has been paying POPCO for these costs. DRA argues that SoCalGas' payment directly violates SoCalGas' stated policy on take-or-pay claims. SoCalGas' stated policy is the following:

> "Prudence of each pipeline's TOP (take-or-pay) liability should be established in its general rate case proceedings prior to allowing flow through of those costs." (DRA Data Request #4, Question 4.) (Exh. 151, p. 704.)

DRA states that according to SoCalGas' own stated policy, SoCalGas should not have made payments to POPCO reflecting these costs. DRA points out that this is treatment which SoCalGas has not afforded unaffiliated companies. SoCalGas has paid POPCO under cost-of-service instead of insisting on other considerations which SoCalGas urged the FERC to adopt for other companies such as El Paso and Transwestern.

Accordingly, DRA urges the Commission to adopt the same treatment for POPCO as it would for other non-affiliated companies.

3. Discussion

SoCalGas' argument misses the point. The issue is not whether the $2.5 million settlement amount was reasonable. The issue is SoCalGas' eagerness to make payments to its affiliate POPCO. SoCalGas does not make settlement payments to nonaffiliates until FERC issues a general rate case decision.

DRA only wants carrying costs for the payments that SoCalGas made to POPCO because SoCalGas made the payments before it legally had to do so. DRA's argument is that SoCalGas would not have made the payments before it had to do so if POPCO had not been an affiliate. SoCalGas does not make such payments to nonaffiliates until the date it legally has to do so, which is after FERC approves the settlement. SoCalGas' payments to POPCO before FERC approval resulted in loss of the time value of money to the ratepayers.

We conclude that SoCalGas has not demonstrated that it has dealt with POPCO with an even hand. The interest amount is not significant. However, there is a principle at issue. We direct SoCalGas, in its CAM account, to credit the ratepayers with the interest amount in dispute.

G. California Gas

Since deliveries of California gas are less in the winter, should this supply be categorized as "unreliable"?

1. Position of SoCalGas

SoCalGas argues that DRA's conclusion as to the reliability of California gas supplies is both incorrect and misapplied. Use of the correct data, which SoCalGas supplied to the DRA, shows that the actual California gas purchases are considerably more stable than the DRA's report concludes.

According to SoCalGas, the wide monthly 5,000 Dth variation of California purchases presented by the DRA is in error. Calculations using SoCalGas' data reveal that in many months, total purchases are less than 5,000 Dth/month. Thus, DRA's assertion that SoCalGas' takes vary by over 5,000 Dth/month from summer to winter during the current record period is incorrect (Exh. 132, p. 23).

2. Position of DRA

DRA seeks a finding that it did not request in the 1987-88 review period. DRA requests a finding that California gas deliveries to SoCalGas vary widely, with low production in the winter and high production in the summer. DRA seeks this finding because currently California gas supply is supply for SoCalGas' core customers. According to DRA, core customer gas supply is supposed to be the most reliable gas supply available. That is why the core portfolio includes gas under contract for longer than one month and the noncore portfolio does not include such gas.

DRA contends that California gas is not a reliable core gas supply source. DRA's Exhibit 170, which was prepared using SoCalGas' data, shows that California gas deliveries increase greatly during the summer and decrease greatly during the winter. However, SoCalGas is a winter peak company, and SoCalGas' core (P1-P2A) customers peak their usage during winter. The availability of California gas is lowest during the months when the customers paying for the gas have the highest demand for it. Also, other core gas sources are nowhere near as seasonal.

3. <u>Discussion</u>

We have reviewed DRA's Exhibit 170 which is a graph showing deliveries of California gas during the period 1985-88. The cyclical pattern of gas deliveries is repeated each year. The graph indicates that in the winter deliveries are as low as 4.4 million decatherm (MMDth) per month, and in the summer deliveries are as high as 7.2 MMDth per month. DRA's assertion that the variation is 5 MMDth per month (Exh. 151, pp. 6-2) appears to be in conflict with its own graph.

Also, we have reviewed SoCalGas Exhibit 135 which is a tabulation of monthly figures. These figures roughly approximate the points shown on DRA's graph. Both exhibits are not significantly at variance; they confirm that deliveries during November, December, January are lower--roughly the ratio is 160:200 based on daily averages.

DRA's argument appears to be that because California gas deliveries increase in the summer and decrease in the winter, and other gas sources are not as seasonal, that calls for a conclusion that the California gas supply is unreliable. It is not clear why California gas supplies should be categorized as "unreliable" simply because deliveries are less in the winter. Based on the three years of historical data, the extent of the fluctuation appears predictable. If the fluctuations are predictable, the supply can hardly be categorized as unreliable.

If DRA wishes to pursue this matter, it may do so in the next reasonableness review.

H. Audit Issues

Since SoCalGas separately paid a commission fee, after some delay, for a consignment of spot gas, should the fee be included in the cost of gas and charged to the ratepayers?

1. Position of SoCalGas

SoCalGas argues that DRA is incorrect in concluding that the fee could have been avoided and that it was an unreasonable expenditure. SoCalGas was obligated to pay the fee in question. SoCalGas was aware when it purchased the gas that it might have to pay the fee. Even with the fee included, the purchase in question fits within SoCalGas' least cost sequencing method and was prudently purchased. With the fee included in the bid price, the gas was still cheaper than the next bid on the list.

According to SoCalGas, the fee was paid pursuant to an agreement between SoCalGas and the Natural Gas Clearinghouse (NGC). This agreement called for SoCalGas to pay a fee to NGC in the event that spot gas was purchased from one of several companies including Panhandle Gas Company (Panhandle).

SoCalGas states that at the time the spot gas bid was made by Panhandle, it was unclear whether the fee was included in the price of the bid or whether the fee would have to be paid separately and directly to NGC. Consequently, SoCalGas factored in the fee in evaluating the Panhandle bid. Subsequently, SoCalGas verified that Panhandle had not paid the fee to NGC and that the fee had not been included in the price of the bid. Subsequently, SoCalGas paid the fee to NGC as required by its agreement with NGC. During the same period SoCalGas was acquiring other spot gas packages that were priced higher than the Panhandle bid, including the fee.

2. Position of DRA

In January of 1988, SoCalGas included a commission fee of $132,592 from NGC in the monthly purchased gas costs. DRA argues that this expense could have been avoided by SoCalGas if it had more closely monitored its spot market gas contracts.

SoCalGas had entered into a two-year Gas Marketing Agreement with NGC on December 18, 1984 pursuant to which NGC agreed to act as a broker for sales to SoCalGas. The terms of the agreement committed SoCalGas to pay NGC a commission on all purchases by SoCalGas from sellers of gas identified by NGC to SoCalGas. The seller identified in the agreement was Panhandle.

In 1985, SoCalGas developed its spot market program and solicited bids from producers and brokers of natural gas including Panhandle. According to DRA, neither SoCalGas nor Panhandle thought that the prior arrangement applied to spot gas sales. In 1986, NGC demanded payment for the commissions on the SoCalGas spot market purchases from Panhandle and was finally paid the $132,592 in question.

SoCalGas claimed that legal review in 1988 by Pacific Lighting Corporation determined that NGC was entitled to the $132,592 commission. DRA contends that this determination should have been made prior to the purchase, so that it could have been included in the least cost spot market considerations.

The DRA is recommending that the $132,592 be removed from the CAM balancing account. DRA argues that this expense could have been avoided, and was an unreasonable expenditure. The basis for DRA's recommendation is that the utility was aware of the potential liability prior to the commitment to Panhandle for the delivery of spot gas, but failed to resolve the commission issue prior to delivery.

3. Discussion

The testimony is that this was a needed cost effective purchase. There is no dispute that the fee had to be paid. With the fee included, the gas was cheaper than the next bid. The ratepayers have suffered no detriment. The proposed DRA adjustment is not adopted.

I. Discovery Issues

Should SoCalGas deny discovery rights to DRA until SoCalGas is ready to file its reasonableness report?

1. Position of SoCalGas

SoCalGas has attempted to reply to all requests in a timely manner. During this proceeding, however, a limited SoCalGas staff was faced with numerous data requests from three reasonableness reviews, two curtailment investigations, and several other proceedings that required immediate attention. In addition to preparing responses to the data requests, SoCalGas was also answering requests from the DRA and intervenors in the storage investigation and the implementation proceeding for the Commission's new regulatory framework, as well as preparing for reasonableness review hearings and the general rate case. In order to comply with every schedule and deadline, and continue to provide complete and accurate responses, SoCalGas would be required to make major additions to its staff. However, in that instance it was necessary for SoCalGas to establish priorities in targeting its resources in order to comply with these various schedules.

Despite this workload, SoCalGas states that it completed the majority of responses to DRA's data requests within the time limit requested by DRA. During the review period, SoCalGas responded to 253 questions in the 1987-88 Reasonableness Review I.88-02-013, and completed 60% of these responses on, or before, the requested deadline. In fact, SoCalGas completed 80% of the total responses within one week of the requested deadline. In all possible cases, the reasons for the delay and requests for an extension of the deadline were communicated to the DRA staff. SoCalGas has made every effort to respond fully and accurately to the data requests within practical limitations.

SoCalGas notes that on January 27, 1989, the Commission issued a decision (D.89-01-040) that sets forth a calendar for reasonableness reviews. This includes discovery dates that will apply in all future reasonableness proceedings. SoCalGas states that is pleased to work within this schedule.

2. Position of DRA

DRA's difficulties with SoCalGas on discovery issues are set forth in Exhibit 151, Chapter I. DRA contends that SoCalGas delayed and frustrated legitimate discovery by making DRA wait until SoCalGas had filed its reasonableness application and report.

DRA cites the testimony of SoCalGas witness Owens on this issue:

> "Q. Do you agree with the proposition that the DRA should not need to wait until the company files a reasonableness application before DRA can engage in legitimate discovery of SoCal?
>
> "A. Well, I think we realistically have to have some kind of limitation.
>
> "If the gas company is to be able to answer any time during the year anything that occurs to anybody to ask, we'll be forever at that, as we simply can't do it without adding substantial staff, at cost to the ratepayers.
>
> "I believe there should be a limit on the extent of the questions that can be asked and the time frame in which they can be asked; otherwise it became an unlimited fishing expedition that really doesn't serve the ratepayers well." (Tr. Vol. 7, pp. 486, 487.)

DRA believes that SoCalGas needs guidance about its discovery obligations.

3. <u>Discussion</u>

The Commission in D.89-01-040 has set forth the discovery dates that will apply in all future reasonableness reviews.

As indicated in D.89-01-040, page 21, SoCalGas should make a reasonable effort to respond to all data requests on time. We also expect SoCalGas to deal with DRA's advance data requests as promptly as possible. We believe that the discovery dates set forth in D.89-01-040 should be allowed to operate for a period of time before we consider requests to modify it.

Lastly, as discussed in the Assigned Commissioner's Ruling dated March 15, 1989 in SoCalGas' 1990 test year general rate case proceeding (A.88-12-047), it is expected that SoCalGas cooperate fully and attempt, in good faith, to resolve its differences with DRA.

<u>Section 311 Comments</u>

On January 24, 1990, the ALJ's proposed decision on this matter was filed with the Docket Office and mailed to all parties of record pursuant to Rule 77 of the Commission's Rules of Practice and Procedure.

Comments on the ALJ's proposed decision were filed by SoCalGas, DRA, Ideal, SCUPP/IID and Edison.

Reply comments were filed by SoCalGas.

Having reviewed the comments of all parties, we conclude that the ALJ's proposed decision should remain essentially unchanged. Certain clarifications, technical and legal corrections, and added findings have been adopted and included as appropriate in this decision.

Findings of Fact

1. Supply curtailment, heavy UEG requirements which persisted for six months, and the onset of exceedingly cold weather resulted in some curtailment of UEG customers between December 3 and December 24, 1985.

2. Edison and SCUPP/IID were under no obligation to take any higher priced commodity gas that SoCalGas may have purchased in anticipation of their needs. SoCalGas was entirely at risk for such purchases.

3. SoCalGas must nominate supplies on the interstate pipelines 48 hours in advance of deliveries, and there are wide and unpredictable swings in the day-to-day demand for gas by customers.

4. SoCalGas must make its interstate pipeline nominations so that there is a margin of safety in case actual demand falls below the demand forecast. This concern is particularly significant on weekends when demand declines.

5. The dates of alleged pipeline underutilization in DRA's testimony are largely Saturdays and Sundays.

6. Some pipeline capacity through Blythe has to be left unused because gas cannot readily be delivered to available storage fields (Aliso Canyon) through SoCalGas' southern system.

7. If DRA had used the price SoCalGas would have paid to place more gas in storage, then after adding storage, transportation and carrying costs, DRA would have calculated that no margin was lost in 1985 due to SoCalGas not purchasing El Paso commodity gas.

8. Economics are virtually always a factor in whether or not curtailment will occur.

9. D.82-04-113 confirms that gas purchased for the benefit of UEG customers should be purchased at a price less than the prevailing UEG rate.

10. Commencing in July 1985, SoCalGas ordered spot gas to fill available capacity, but nonperformance of spot gas bids was a significant problem.

11. SoCalGas has explained why it did not request El Paso to backstop undelivered spot gas supplies with higher priced El Paso commodity gas. SoCalGas wanted to maximize spot gas takes.

12. With regard to any spot gas which could have been taken but was not taken, any lost margin in 1985 was minimal given the overall success of the spot gas program.

13. The curtailment experienced by UEG customers in December 1985 was not extreme or unusual in the context of the operation of SoCalGas' system over many years.

14. The California gas contracts that DRA criticizes are long-term contracts which were entered into by the parties 20 to 30 years ago under much different market conditions than exist today.

15. SoCalGas' policy is, and has been for years, to avoid continuation of border price formulas to the extent possible and to renegotiate these contracts where possible.

16. SoCalGas sequences California gas consistently with its incremental cost sequencing method which is the best way to analyze its gas purchases.

17. SoCalGas' purchases of California gas during the 1986-1987 review period were cost effective.

18. SoCalGas' purchases from affiliates during the 1986-1987 review period represented a cost-effective supply source.

19. During the period of December 1987 through February 1988, SoCalGas experienced natural gas supply shortages which caused it to curtail service to approximately 850 lower priority industrial and commercial customers. No similar need for curtailment had occurred since the winter of 1978-79.

20. The depletion of SoCalGas' storage inventories during the extreme cold weather in the last two weeks of December 1987 triggered the curtailment decision.

21. Commission policy continues to approve the use of curtailment as a tool to provide economical service on the SoCalGas system.

22. If SoCalGas had curtailed its UEG customers earlier, it could have served additional P3B and P4 customer load.

23. The lost margin because of SoCalGas' failure to curtail UEG customers beginning in November 1987 was $1,682,583.

24. SoCalGas failed to show that whatever changes it made to storage criteria, it did not make them until December 16, 1987 at the earliest. By that time, SoCalGas should have curtailed its UEG customers.

25. The record shows that SoCalGas failed to provide a satisfactory explanation of <u>when</u> and <u>why</u> it changed its 1987-88 storage targets, monthly minimums, and storage year end guidelines.

26. An additional 14 Bcf of higher priced commodity gas from El Paso could have been brought to Southern California in 1987, possibly reducing the 17 Bcf inventory shortfall to 3 Bcf.

27. Permitting El Paso to backstop spot gas purchases with 14 Bcf of higher priced El Paso commodity gas in 1987 would have caused a small increase on SoCalGas' WACOG.

28. Had SoCalGas purchased the 14 Bcf of higher priced commodity gas in 1987, Edison would have been under no obligation to take that gas. The risk of purchasing that gas several months in advance and holding it in storage would have been entirely on SoCalGas.

29. During the 1987-88 review period, the threshold test of reasonableness of gas purchases to serve UEG customers is the prevailing retail rate (D.82-04-013, p. 18).

30. There was no provision in effect that made a "small increase" in the WACOG an acceptable departure from the Commission's guidelines. Also, there was no provision for taking into account any additional fuel costs incurred by the electric utilities.

31. SoCalGas received a total of 5.1 Bcf of MAA gas from PG&E under the MAA agreement and paid PG&E a total price of $16,522,996. SoCalGas resold the gas at a loss of $3,777,003 to its P2B-P4 customers.

32. When SoCalGas bought the MAA gas, SoCalGas still had a storage margin of almost 10 Bcf for its P1 and P2A customers.

33. SoCalGas agrees that service to the P1 and P2A customers was never threatened at the time it called upon PG&E for MAA gas.

34. Since service to P1 and P2A customers was not threatened, these customers did not benefit from the MAA gas.

35. During the 1987-88 review period, UEG customers' P5 usage was curtailed, and it was not until P2B-P4 customers also were curtailed that SoCalGas called upon PG&E for MAA gas. With the exception of UEG P3 and P2A usage, UEG customers could not have benefited from the purchase of this gas supply.

36. During the 1987-88 review period SoCalGas did not curtail EOR customers in parallel with other priorities.

37. SoCalGas' tariff requires it to curtail EOR customers in parallel with other priorities.

38. During the 1987-88 review period, SoCalGas did not curtail exchange gas in parallel with other priorities.

39. SoCalGas' tariff requires it to curtail exchange gas in parallel with other end-use priorities.

40. From January 5 to January 18, 1988, SoCalGas imposed curtailment on many of its P3B and P4 industrial and commercial customers which were required by special conditions of their rate schedules to have alternate fuel capability.

41. Several of these customers had no alternate fuel capability. SoCalGas was serving such customers under rate schedules appropriate for customers with fuel-switching capability.

42. Some of the customers were in breach of special conditions on their rate schedules at the time of the curtailment.

43. Customers on the wrong rate schedule represent lost revenue.

44. SoCalGas has not been diligent in administering its filed tariffs related to customers with alternate fuel requirements, and shareholders should be at risk for backbilling those customers.

45. SoCalGas rebilled 52 accounts for a total of $7,676,190. It is expected that this amount will be reduced after each account is carefully reviewed.

46. A credit of $7,676,190 to SoCalGas' CAM account will transfer the risk of collecting this amount to SoCalGas' stockholders.

47. SoCalGas should be prohibited from debiting its CAM account for any adjustments to the backbills, pending further reasonableness review.

48. SoCalGas' reasonableness in not backbilling the 29 commercial and industrial accounts identified in this proceeding should be explicitly reserved for consideration in the 1989-90 reasonableness review.

49. An interest bearing memorandum account is necessary so that SoCalGas can fairly adjust customer accounts that were improperly rebilled, and recover in rates any amounts that were properly adjusted.

<u>Conclusions of Law</u>

1. Rule 23 does not require SoCalGas to provide UEG customers with a 100 percent level of service regardless of cost.

2. It is permissible for SoCalGas to curtail UEG customers for economic reasons.

3. The threshold test of the reasonableness of providing gas service to UEG customers is the prevailing retail rate (D.82-04-113, p. 8).

4. SoCalGas had valid reason for not asking El Paso to backstop with higher priced commodity gas.

5. During the 1985-1986 review period, SoCalGas operated its system in an economical fashion given the Commission's guidelines and the system limitations. The DRA recommendation of a $617,000 disallowance should not be adopted.

6. SoCalGas' purchases of California gas during the review period are reasonable.

7. The cost of gas purchased from SoCalGas affiliates during 1986-87 is reasonable.

8. SoCalGas should actively pursue recovery of its PCB clean-up costs with Transwestern and keep DRA informed.

9. SoCalGas incurred transition losses of $2,993,783 in 1986-87 on account of gas purchased for interruptible customers.

10. Because SoCalGas has failed to provide a satisfactory explanation of when and why it changed its storage targets, monthly minimums, and storage year end guidelines for the 1987-88 review period, it has not sustained its burden of proof.

11. In proceedings which review the reasonableness of energy and fuel costs sought to be recovered through energy cost adjustment clauses, the burden of proof is upon the utility seeking such recovery (D.83-05-036).

12. Since SoCalGas has not met its burden of proving, with clear and convincing evidence, the reasonableness of all the expenses it seeks to have reflected in rate adjustments those costs will be disallowed (In re Southern Counties Gas Co., 51 CPUC 533). Therefore, DRA's recommended disallowance of $1,682,583 related to the storage criteria change issue should be adopted.

13. The memorandum account, as discussed in this opinion, will permit SoCalGas to recover in its 1989-90 reasonableness review all reasonable adjustments that it makes to the customer accounts that have been backbilled. Such ratemaking treatment will remove any perverse incentive for SoCalGas to deal unfairly with these customers.

14. SoCalGas has failed to demonstrate that it dealt with its affiliate POPCO no differently than it treats other suppliers of gas. SoCalGas should refund to its ratepayers the carrying cost amount related to the POPCO payments.

O R D E R

IT IS ORDERED that:

1. Southern California Gas Company (SoCalGas) shall adjust its Consolidated Adjustment Mechanism (CAM) account by $1,682,583 with interest to reflect the 1987-88 reasonableness review disallowance related to storage operations as set forth in this opinion.

2. SoCalGas shall credit its CAM account $7,676,000 to reflect the backbilled amount due from interruptible customers that were unable to curtail during the 1987-88 review period.

3. SoCalGas shall create a separate interest bearing memorandum account to accumulate adjustments made to interruptible customers who were backbilled. SoCalGas shall not make any such adjustments to the $7,676,000 amount in its CAM account. The memorandum account will terminate following a reasonableness review in SoCalGas' 1989-90 proceeding. Then the amount in the memorandum account that is found reasonable will be applied to SoCalGas' CAM account.

4. The reasonableness of SoCalGas' decision not to backbill for the 1987-88 period the 29 accounts identified in this opinion is reserved for review of the 1989-90 period.

5. SoCalGas shall adjust its CAM account to reflect the disallowance of carrying costs related to its premature payments to POPCO during the 1987-88 reasonableness review period.

6. I.88-02-013, A.87-12-057, and A.88-07-006 shall be closed. A.86-09-030 shall remain open for hearings on the Monterey Park landfill issue.

This order becomes effective 30 days from today.

Dated FEB 23 1990, 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

Neal J. Shulman

NEAL J. SHULMAN, Executive Director

APPENDIX A

List Of Appearances

Respondent: Thomas D. Clarke, Glen J. Sullivan, and Jeffrey E. Jackson, Attorneys at Law, and Roy M. Rawlings, for Southern California Gas Company.

Interested Parties: Brady & Berliner, by Roger Berliner, for Brady & Berliner; Morrison & Foerster, by Jerry R. Bloom, Attorney at Law, for California Cogeneration Council; Robert E. Burt, for California Manufacturers Association; Steven M. Cohn, Attorney at Law, for California Energy Commission; Lindsay, Hart, Neil & Weigler, by Frederick J. Dorey, Attorney at Law, for Cogenerators of Southern California; Karen Edson, for KKE & Associates; Michel Peter Florio, Attorney at Law, for Toward Utility Rate Normalization; James Frey, Attorney at Law, for State of California - State Lands Commission; Heller, Ehrman, White & McAuliffe, by Arturo Gandara, Attorney at Law, for himself; Richard K. Durant, Frank J. Cooley, and Michael Gonzales, Attorneys at Law, for Southern California Edison Company; Steven M. Harris, for El Paso Natural Gas Company; Graham & James, by Martin A. Mattes, Attorney at Law, for Kern River Gas Transmission Company; Roger Peters, Judy Mosley, and Steven F. Greenwald, Attorneys at Law, and Joshua Bar-Lev, for Pacific Gas and Electric Company; Patrick J. Power and Richard Alesso, Attorneys at Law, for Long Beach Gas Department; Paul Premo, for Chevron; John D. Quinley, for Cogeneration Service Bureau; Skaff & Anderson, by Andrew J. Skaff, Attorney at Law for Skaff & Anderson; Armour, St. John, Wilcox, Goodin & Schlotz, by James Squeri, Attorney at Law, for Transwestern Pipeline Company; Downey, Brand, Seymour & Rohner, by Phil Stohr, Attorney at Law, for Industrial Users; Gordon W. Toews, for Western Gas Marketing, Limited; Michael R. Weinstein, Attorney at Law, for San Diego Gas & Electric Company; Edward Duncan, for himself; Graham & James, by Norman A. Pedersen, Attorney at Law, for Southern California Utility Power Pool and Imperial Irrigation District; and Patrick J. Power, Attorney at Law, for Ideal Dyeing and Finishing Company, Inc.

Division of Ratepayer Advocates: Robert Cagen, Attorney at Law.

(END OF APPENDIX A)