

Decision 90 10 038 OCT 12 1990**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Investigation into)
 procurement and system reliability)
 issues deferred from D.86-12-010.)

I.87-03-036
 (Filed March 25, 1987)

(See Appendix A to Decision 88-11-034 for appearances.)

INTERIM OPINION ON GAS STORAGE BANKING SERVICESummary of Decision

The Commission grants a request by Pacific Gas and Electric Company (PG&E) to extend the current pilot program for gas storage banking service until April 1, 1992. Requests by Southern California Edison Company (Edison) and Southern California Gas Company (SoCalGas) to allow storage of "smog season" gas by utility electric generation (UEG) customers past October 31, 1990 are denied, but UEG customers are allowed to sell or transfer smog season storage quantities among themselves by written agreement. Other pending motions and petitions are resolved.

Background

This investigation was opened in March 1987 to explore natural gas issues deferred from Decision (D.) 86-12-010, which established a new framework for gas rate design and regulatory policy. The issues deferred were underground gas storage, firm interstate pipeline capacity, and a PG&E proposal on commodity pricing flexibility. In response to comments on storage issues the Commission in D.87-10-043 established a conceptual framework for unbundled storage service. Following evidentiary hearings, D.88-11-034 established a pilot program that would start with solicitation of customer bids for noncore storage service to begin April 1, 1989. The Commission anticipated a one year pilot program, with a permanent program in place by 1990. PG&E and

SoCalGas filed implementation plans for the new service, and the Commission Advisory and Compliance Division held workshops to consider program details. D.89-01-017, D.89-02-068, and D.89-02-082 resolved implementation issues.

Under the pilot program the utilities offer fixed quantities of storage space for bid each March. Injection of customer gas takes place from April 1 through October 31, with subsequent withdrawal from November 1 through March 31 of the following year. The bidding process determines a uniform reservation fee (per unit quantity of gas) assessed to the winning bidders. Incremental injection fees are charged by the utilities for gas actually delivered to the utility systems for storage. The pilot program is a system of accounting transactions operating in conjunction with the gas priority system, rather than actual rental of storage space.

In D.89-07-017, issued within Investigation (I.) 86-06-005, the Commission revised SoCalGas' storage accounting rules to improve operating flexibility and thereby avoid UEG customer curtailments during the summer and fall "smog season", defined as the period from June 1 through October 31 each year. The pilot storage program was extended through the 1990-91 storage season by D.89-09-047. In D.89-12-046 SoCalGas was ordered to set aside storage capacity in the spring of 1990 to allow UEG customers to inject gas in anticipation of the 1990 smog season. SoCalGas was denied the opportunity to store its own gas for smog season requirements. D.90-03-037 confirmed that UEG customer smog season storage should have higher priority than pilot program storage, and set UEG customer storage reservation fees for the 1990 season equal to the 1989 pilot program fee level. That decision also denied permission for UEG customers to "roll over" or retain stored gas which is not used by October 31, 1990, but allowed filing of additional comments on the issue within 60 days. D.90-05-052 and

D.90-07-028 resolved motions, petitions, and corrections to the terms of D.90-03-037.

D.89-12-046 also addressed issues not directly related to smog season storage. The decision ordered continued utility reports, authorized "as-available" banking services, granted reservation fee refunds for SoCalGas' storage customers, denied requests for more flexible storage nomination rules, permitted participation by gas brokers, denied storage bid withdrawals, deferred core-elect fee issues to the permanent program, and allowed storage revenue credits to noncore customers to continue on a recorded rather than forecast basis.

During this lengthy administrative process, I.87-03-036 had been consolidated with Rulemaking (R.) 88-08-018 and Case 89-05-016. By Administrative Law Judges' Ruling issued May 3, 1990, the investigation was severed from the other proceedings.

PG&E and SoCalGas have filed periodic reports on the pilot storage banking program, beginning in May 1989. PG&E offered 5 billion cubic feet (bcf) of storage for bid in 1989. The full amount was successfully bid, injected, and withdrawn. The 1989 reservation fee was \$0.004 per therm, reduced from \$0.016 per therm by the forced withdrawal of a single bidder. In 1990 PG&E again awarded 5 bcf of storage space, at a reservation fee of \$0.012 per therm. According to PG&E, its pilot storage banking program is running smoothly, without significant problems. PG&E offers storage banking service under Schedule G-IB.

The experience for SoCalGas has been complicated by concerns about utility burning of oil in the Los Angeles basin, especially during the smog season. In 1989 SoCalGas awarded 13.2 bcf of storage space to 27 bidders at a price of \$0.012 per therm. However, pipeline capacity constraints, core storage needs, and higher priority smog season storage limited pilot program injections to about 5 bcf. In 1990 SoCalGas awarded 16.0 bcf of pilot program storage at a price of \$0.012 per therm. SoCalGas

believes its capacity constraints and air quality concerns are significant impediments to a successful storage banking program. SoCalGas offers storage banking service under Schedule No. G-STOR and UEG customer smog season storage under Schedule No. G-STAQ.

The purposes of this decision are: (1) to address a petition by PG&E to extend the pilot program for another year before implementing a permanent program; (2) to resolve requests by UEG customers for extended storage of gas not withdrawn by October 31, 1990; and (3) to catch up on unresolved motions, petitions, and administrative matters.

Petition to Extend the Pilot Program

On August 2, 1990 PG&E filed a "PETITION TO MODIFY DECISION D.88-11-034 TO EXTEND STORAGE BANKING PILOT PROGRAM UNTIL AFTER IMPLEMENTATION OF PROCUREMENT OIR (R.90-02-008)." PG&E requests the Commission extend the pilot storage program for one year until April 1, 1992, to allow implementation and evaluation of the new gas industry structure anticipated in R.90-02-008. PG&E believes the new structure is not likely to be in place before August 1991, and a permanent storage banking program should not be ordered before then. Storage customers should have a firm understanding of their access to gas supply before a final storage program is ordered.

In its petition PG&E claims the requested extension is supported by SoCalGas, San Diego Gas and Electric Company, Toward Utility Rate Normalization, and other parties to R.90-02-008. The Southern California Utility Power Pool and Imperial Irrigation District (SCUPP/IID) jointly filed a response to PG&E's petition, stating they have no objection to PG&E's request. Edison supports the one year extension, recommending the terms of the current pilot program extension be continued next year. The terms include, among others, refund of storage reservation fees if SoCalGas is not able to provide 50% of a customer's awarded storage service. No party opposes the proposed extension.

We agree with PG&E and the other parties that a one year extension of the pilot storage banking program is reasonable. Access to gas supply and pipeline capacity are crucial elements in any customer's consideration of storage banking. Deferral of a permanent banking program until the procurement issues in R.90-02-008 are resolved makes good sense.

The 1990-91 pilot program rules ordered in D.89-12-046 will be extended through the 1991-92 season, including rules on refunds, broker participation, and continued quarterly reports by PG&E and SoCalGas. Pilot program storage quantities will remain at 5 bcf for PG&E and 16.7 bcf for SoCalGas, except that SoCalGas' quantity will be reduced by higher priority smog season storage for UEG customers. SoCalGas will be ordered to report the volume reserved for 1991 smog season injections by the end of January 1991.

Full refunds of reservation fees were made for storage quantities not delivered by SoCalGas during its 1989-90 pilot program. The refund plan for 1990-91 was described in Conclusion of Law 5 in D.89-12-046:

"5. SoCalGas should be ordered to refund reservation fees, on a pro rata basis, to the extent it is unable to provide at least 50% of their contracted storage capacity volumes during the 1990-1991 storage injection season."

We take this opportunity to clarify any ambiguity over how the pro rata refunds of reservation fees should work. If SoCalGas makes available to a customer 50% or more of its awarded storage space, the customer receives no refund. A customer receiving less than 50% of its storage allotment would receive a refund, prorated from a 50% refund if no storage is available to a zero refund if 50% of the awarded storage is available. For example, a customer receiving 40% of its reserved storage quantity would be refunded 10% of its reservation fee obligations.

During SoCalGas' 1990 smog season program UEG customers have been assessed reservation fees equal to the pilot program fees from the 1989-90 season. For the 1991 season UEG customers should pay the 1990-91 level of reservation fees. It is not possible to assign reservation fees from the 1991-92 pilot program because smog season injection begins March 1, before pilot program bids are received and one month before pilot program injection begins.

Requests to Extend Smog Season Storage

In D.90-03-037 the Commission ordered that SoCalGas' UEG customers are not permitted to roll over or extend storage of gas that is not withdrawn by October 31, 1990. Instead, remaining gas is to be treated according to pilot program rules, which require sale to SoCalGas. However, parties were allowed to file comments on the issue. The Commission anticipated reconsideration if it could be shown that allowing extended smog season storage would mitigate curtailments or contribute to more efficient use of SoCalGas' system without being unduly disadvantageous to other storage customers.

In May 1990 three parties filed comments. Edison commented that it expects to have excess storage at the end of the smog season in 1990. Edison proposes that UEG customers be permitted to: (1) convert excess smog season storage to pilot program storage to the extent they have been awarded pilot program storage and (2) sell excess smog season storage to other smog season storage customers or pilot program participants. Edison argues that its proposal meets the tests set forth in D.90-03-037.

SoCalGas filed comments opposing any rollover of unused smog season storage,¹ arguing that SoCalGas should be entitled to

¹ Despite explicit warning in D.90-03-037 about late filing of pleadings, SoCalGas filed its May 1990 comments one day late, accompanied by a request for permission for the late filing. For good cause shown, we will grant the request.

purchase any gas left in storage. That gas would reduce its need for flowing supplies to meet core requirements in the winter of 1990-91, and the resulting pipeline capacity would be available to noncore customers.

The Cogenerators of Southern California (CSC) agreed with SoCalGas, commenting that allowing rollover of stored gas would provide UEG customers with a higher priority than other noncore customers, which is contrary to California law. Rollover would also reduce the storage quantities available under the pilot program, undermining its value.

On August 17, 1990 SoCalGas filed a motion for leave to file revised comments, accompanied by the proposed comments. After reviewing actual operations experience since filing the May 1990 comments, SoCalGas has revised its position. SoCalGas now recommends the deadline for smog season withdrawal be extended to December 31, 1990. At that time any remaining gas in storage could be: (1) purchased by SoCalGas, (2) held by UEG customers without right to withdrawal until June 1, 1991, or (3) converted to pilot program storage if the UEG customer was awarded such storage in the 1991 bidding process. SoCalGas believes its new proposal meets the reasonableness tests in D.90-03-037.

Edison filed comments in support of SoCalGas' revised proposal. SCUPP/IID filed comments supporting rollover of smog season gas, but they recommend modifications to rules regarding withdrawal flexibility and payment of both reservation and injection fees. CSC also responded, opposing SoCalGas' revised proposal.

The arguments of SoCalGas and Edison do not persuade us that allowing extended storage of smog season gas will mitigate overall curtailments or make more efficient use of SoCalGas' system without being unduly disadvantageous to other customers. Because pipeline capacity to the Southern California region is constrained throughout the year, neither smog season storage nor the pilot

program will increase annual gas deliveries or increase net storage of gas. For practical purposes, the smog season storage program works to provide UEG customers with a higher place in the gas priority system during the smog season. Electric utility ratepayers pay for the resulting air quality benefits through storage reservation fees. Until additional pipeline capacity is installed, no storage program can increase system reliability. It can only trade reliability among customer groups or provide timing benefits like those derived from the smog season program.

The smog season program provides UEG customers with higher priority service from June to October, but over the remaining seven months of the year UEG customers remain at the bottom of the priority ladder. Allowing special consideration for UEG customers in those months would be contrary to the intentions of the priority system, as CSC has argued.

As well, the rollover rules proposed by SoCalGas for disposing of remaining gas on December 31 are unnecessarily cumbersome and would confuse future evaluation of the pilot storage banking program.

For these reasons we will deny SoCalGas' revised proposal. However, we will modify the smog season storage program to allow increased flexibility for transfer of smog season storage. Edison requested that UEG customers be allowed to sell smog season storage space to other smog season storage customers or pilot program participants. We will authorize such transfers or sales, but they will be limited to customers eligible for smog season storage service. Sales may not be made to other noncore customers. We do not wish to encourage Edison to enter the gas brokering business. We also advise Edison that any financial gains resulting from such sales should accrue to its ratepayers. This could be accomplished by ECAC balancing account treatment of both storage fees and sale revenues.

Other Petitions and Motions

On December 4, 1989, SCUPP/IID filed a petition for modification of D.88-11-034, on the issue of refunds of reservation fees in the event storage quantities were not made available by SoCalGas. The issue was resolved in D.89-12-046. The petition will be denied.

On February 14, 1990, SoCalGas filed a motion for expedited consideration of its January 29, 1990 petition for modification of D.89-12-046, regarding smog season curtailments. The substantive issues were dealt with in D.90-03-037, issued March 14, 1990. The motion is moot and will be denied.

On February 20, 1990 the California Industrial Group (CIG), California League of Food Processors (CLFP), and California Manufacturers Association (CMA) filed a petition for modification of D.89-12-046. The petition asked the Commission first to investigate the reasonableness of the quantity of gas set aside by SoCalGas for smog season storage. If the remaining storage space available for the pilot storage banking program is not significant, then fixed storage costs should be eliminated from noncore transmission rates. Such an investigation is not necessary. SoCalGas' storage facilities increase the reliability of service for all of its customers, as we found in D.87-10-043. Elimination of fixed storage costs from noncore transmission rates would be unfair to other ratepayers. The petition supports application of reservation fees to smog storage customers, and recommends a separate proceeding for establishing those fees. This issue was resolved in D.90-03-037, and another proceeding is not necessary. The petition also opposes participation of UEG customers in the pilot storage program, adding that SoCalGas should not be allowed to store its own gas for use by UEG customers. Participation by UEG customers was resolved in D.88-11-034 and will not be reconsidered now. Storage of gas owned by SoCalGas was denied in D.90-03-037. We will deny the petition of CIG, CLFP, and CMA.

On February 27, 1990 SCUPP/IID filed a petition for modification of D.89-12-046, seeking elimination of reservation fees and carrying costs for UEG customers participating in the smog storage program. The issues were decided in D.90-03-037, but the decision did not grant or deny the petition. We will now deny the petition.

On August 17, 1990, in conjunction with a response to PG&E's petition to extend the pilot storage banking program until 1992, Edison filed a motion that the Commission conduct hearings in order to establish a factual basis for modifying the smog season storage program. Edison specifically seeks consideration of: (1) the need for reservation fees, (2) carryover of excess smog season storage gas, (3) elimination of injection fees, and (4) contingency storage space available to UEG customers. Although we concur with Edison that these issues should be revisited before implementation of a permanent program, we do not agree that they should be addressed now. Each of the issues has been carefully considered in development of the pilot storage banking program and the present smog season storage program. We will deny Edison's motion.

Scope of This Investigation

The issues originally under consideration in this proceeding were underground gas storage, firm interstate pipeline capacity, and a PG&E proposal on commodity pricing flexibility. Storage issues were explicitly reserved for this investigation by the Administrative Law Judges' Ruling of May 3, 1990, but issues not directly related to storage are still formally attached. The other issues are now being reviewed in R.88-08-018 and R.90-02-008. We will revise the scope of this proceeding to include only storage issues henceforth.

Findings of Fact

1. On August 2, 1990 PG&E filed a petition for modification of D.88-11-034, seeking to extend the pilot storage banking program for one year until April 1, 1992. No party opposes the proposed extension.

2. Access to gas supply and pipeline capacity, which are crucial elements in customer consideration of storage banking service, are issues now being reviewed in R.88-08-018 and R.90-02-008.

3. It is reasonable to defer a permanent storage banking program until customer access to gas supply and pipeline capacity are resolved.

4. It is reasonable to extend the pilot storage banking program until April 1, 1992.

5. It is reasonable that 1991 reservation fees for smog season storage be set equal to the reservation fees from the 1990-91 pilot storage banking season.

6. SoCalGas, Edison, and SCUPP/IID have requested that UEG customers of SoCalGas be allowed to store smog season gas beyond the October 31, 1990 deadline now in place. CSC opposes the requests.

7. In D.90-03-037 the Commission stated it would reconsider the smog storage deadline if parties could demonstrate that allowing extended UEG customer storage will mitigate curtailments or contribute to more efficient use of SoCalGas' system without being unduly disadvantageous to other storage customers.

8. As long as SoCalGas' pipeline capacity is constrained, the storage program can only trade reliability among customer groups or provide timing benefits like those derived from the smog season program. Until additional capacity is available, the storage program cannot mitigate the overall level of curtailments or increase overall system reliability.

9. Allowing UEG customers special consideration for storage outside the smog season would be contrary to the intentions of the gas priority system.

10. SoCalGas, Edison, and SCUPP/IID have not shown that extended UEG customer storage will meet the tests for reconsideration set forth in D.90-03-037.

11. Allowing increased flexibility for transfer or sale of storage capacity among SoCalGas' smog season storage customers will be beneficial for those customers without being unduly disadvantageous to other storage customers.

12. Authorization of such transfers or sales is reasonable.

13. The issues in the December 4, 1989 petition for modification of D.88-11-034 by SCUPP/IID were resolved in D.89-12-046.

14. An investigation of the reasonableness of the quantity of gas reserved by SoCalGas for smog season storage is not necessary.

15. The issues of smog season storage reservation fees, participation by UEG customers in the pilot storage banking program, and storage of gas owned by SoCalGas were resolved in D.89-12-046 and D.90-03-037. Further investigation is not necessary.

16. The issues raised in Edison's motion of August 17, 1990 were carefully considered in establishing the present smog season storage program. Until a permanent program is considered further hearings are not necessary.

Conclusions of Law

1. The pilot gas storage banking program and smog season storage program should be extended until April 1, 1992, subject to the revised rules ordered in this decision.

2. The requests by SoCalGas, Edison, and SCUPP/IID to extend smog season storage past October 31, 1990 should be denied.

3. Edison's request for authorization to transfer or sell smog season storage should be granted to the extent ordered in this decision.

4. The December 4, 1989 petition for modification of D.88-11-034 by SCUPP/IID should be denied.

5. The February 14, 1990 motion of SoCalGas for expedited consideration is moot and should be denied.

6. The February 20, 1990 petition for modification of D.89-12-046 by CIG, CLFP, and CMA should be denied.

7. The February 27, 1990 petition for modification of D.89-12-046 by SCUPP/IID should be denied.

8. The August 17, 1990 motion by Edison for hearings on smog season storage should be denied.

9. The scope of this investigation should be restricted to gas storage issues.

INTERIM ORDER

IT IS ORDERED that:

1. The petition for modification of Decision (D.) 88-11-034 filed August 2, 1990 by Pacific Gas and Electric Company (PG&E) is granted. The pilot storage banking program for PG&E and Southern California Gas Company (SoCalGas) is extended until April 1, 1992.

2. Rules for the 1991-92 pilot storage banking program shall be the same as rules for the 1990-91 program, except that reservation fees for SoCalGas' 1991 smog season storage under Schedule No. G-STAQ shall be set equal to SoCalGas' pilot storage banking reservation fees under Schedule No. G-STOR for the 1990-91 season.

3. PG&E and SoCalGas shall continue to file quarterly reports as ordered in D.88-11-034 and D.89-12-046.

4. SoCalGas shall no later than January 31, 1991 report to the Director of the Commission Advisory and Compliance Division, all parties to this proceeding, and all customers under Schedule No. G-STOR and Schedule No. G-STAQ the quantity of smog season storage it intends to reserve for utility electric generation customers in 1991.

5. With the exception of the revision to rules on transfer of smog season storage quantities authorized in this order, the requests by SoCalGas, Southern California Edison Company (Edison), Southern California Utility Power Pool and Imperial Irrigation District (SCUPP/IID) to extend the deadline for smog season storage withdrawal beyond the present October 31, 1990 deadline are denied.

6. SoCalGas is authorized to file within fifteen (15) days of the effective date of this decision revised tariff sheets, to become effective five (5) days after filing, which amend Schedule No. G-STAQ such that customers eligible for service under that schedule may transfer or sell smog season storage quantities among themselves by mutual written agreement. Such transfers or sales shall not extend storage eligibility beyond the October 31 termination dates for the 1990 or 1991 smog storage seasons.

7. The December 4, 1989 petition for modification of D.88-11-034 by SCUPP/IID is denied.

8. The February 14, 1990 motion by SoCalGas for expedited consideration is denied.

9. The February 20, 1990 petition for modification of D.89-12-046 by California Industrial Group, California League of Food Processors, and California Manufacturers Association is denied.

10. The February 27, 1990 petition for modification of D.89-12-046 by SCUPP/IID is denied.

11. The May 15, 1990 request by SoCalGas for permission for late filing of comments is granted.

12. The August 17, 1990 motion by SoCalGas for leave to file revised comments is granted.

13. The August 17, 1990 motion by Edison for hearings to modify the smog season storage program is denied.

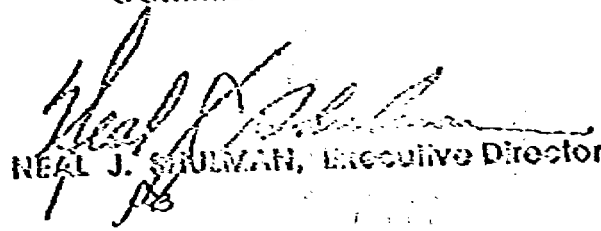
14. The scope of this investigation is henceforth restricted to gas storage issues, including gas storage banking and smog season storage.

This order is effective today.

Dated OCT 12 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. SCHULMAN, Executive Director