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Decision 91-06-026 June 5, 1991

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking on the Commission's own motion to change the structure of gas utilities' procurement practices and to propose refinements to regulatory framework for gas utilities.

ORIGINAL

R.90-02-008

(Filed February 17, 1990)

And Related Matter.

Application 91-05-056
(Filed May 28, 1991)

ORDER MODIFYING DECISION 90-09-089

This decision responds to several petitions to modify Decision (D.) 90-09-089, and a petition for modification of Resolution G-2948. This decision denies the petitions to modify portions of D.90-09-089 which provide for biennial cost allocation proceedings. We find that petitioners have failed to consider certain problems which would accompany such a change at this time, and believe other forums may be used to address cost allocation and rate design matters which require resolution between full cost allocation proceedings. This decision also makes a minor change to the contract terms for noncore transportation services adopted in D.90-09-089 in the context of capacity brokering.

Petitions to Modify D.90-09-089 and Petition for Modification of Resolution G-2948

This decision addresses four petitions which have been filed by parties to this proceeding. The first petition to modify D.90-09-089 was filed jointly on February 25, 1991 by Southern California Gas Company (SoCalGas), San Diego Gas & Electric Company (SDG&E), California Industrial Group (CIG), California Manufacturers' Association (CMA), California League of Food Processors (CLFP), Southern California Edison (Edison), Southern

California Utility Power Pool and Imperial Irrigation District (SCUPP/IID), and Toward Utility Rate Normalization (TURN). The second petition was filed by Pacific Gas and Electric Company (PG&E) on April 5, 1991. A third petition entitled "Emergency Supplemental Petition for Modification of D.90-09-089 Regarding Cost Allocation Proceedings" (Emergency Supplemental Petition) was filed jointly on May 28, 1991 by the California Gas Producers Association, CIG, CMA, CLFP, Division of Ratepayer Advocates, SCUPP/IID, TURN, Edison, and Indicated Producers.

All three petitions ask the Commission to (1) review gas cost allocation issues annually rather than every two years; and (2) eliminate the two-year contract commitment for Service Level 2 (SL-2) noncore transportation and core subscription services in favor of a one-year commitment.

On May 28, 1991, CIG, CLFP, CMA, DRA, SCUPP/IID, Indicated Producers, City of Palo Alto, Edison, SoCalGas, and TURN filed an "Emergency Petition for Clarification of Resolution G-2948" as Application (A.) 91-05-056. The petition asks the Commission to clarify how the two-year commitment for SL-2 and core subscription services could be affected by capacity brokering programs which may be implemented in August 1992.

Discussion

D.90-09-089 adopted a firm transportation service for noncore customers, referred to as SL-2, and replaced core election with core subscription services. In order to qualify for these services, customers would be required to make a two-year commitment to them. With these two-year commitments in mind, we also adopted a biennial cost allocation review for the gas utilities.

We recently addressed these matters in Resolution G-2948, issued May 22, 1991. That resolution set forth tariff guidelines for implementation of rules adopted in D.90-09-089, as modified. In the resolution, the Commission attempted to resolve the concerns of the parties to the petitions regarding the two-year contract

terms and the review period for cost allocation proceedings. The resolution stated that once the Commission's capacity brokering program was in effect, "we will be very cognizant of the need to provide an orderly transition. We recognize that a two year commitment for Service Level 2 customers could cause substantial harm to our capacity brokering program. We therefore will be very sympathetic to the issues raised by our adopted two year commitment." The resolution also stated that the Commission might choose, in its capacity brokering decision "to provide customers an option to proceed directly to capacity brokering arrangements."

Cost Allocation Review Period

Petitioners argue that changes in the gas industry and in regulation require that cost allocation proceedings be undertaken every year rather than every two years. The parties suggest annual reviews are convenient forums for considering a wide variety of issues, and reduce risks associated with industry changes, such as the dates new pipeline capacity will become available.

We are unconvinced that cost allocation proceedings are required annually. Many conditions which are considered in allocating costs and estimating throughput, such as dates upon which new capacity will become available, are moving targets even in annual reviews. Others, such as methodologies for low income rate assistance, may be considered biannually or in other forums. We note that many of the industry changes cited by petitioners have been present for some time and are inherent in a competitive business environment.

The risks to utility shareholders of biennial cost allocation proceedings were considered in D.90-09-089. To offset those risks, we adopted balancing accounts for noncore transportation revenues. It would be unfair to ratepayers to retain annual cost allocation proceedings while implementing additional balancing accounts to protect shareholders. In the context of these petitions, we have considered delaying the

implementation of both the balancing accounts and biennial cost allocation reviews. This option, however, would be a complex undertaking because PG&E's balancing account has already been implemented pursuant to a settlement in PG&E's cost allocation proceeding and under the assumption that cost allocation proceedings would take place every two years.

The petitioners express concern that a two year period between cost allocation proceedings could cause "rate shock." The utilities, however, may avoid major rate fluctuations by filing applications to reduce balancing account overcollections or undercollections which accrue between cost allocation proceedings.

Moreover, a forum exists for considering changes in rate design, cost allocation, and throughput forecasts which may be required with the introduction of capacity brokering programs. These issues may be considered in implementation hearings in R.88-08-018 as several parties to that proceeding have suggested.

Customer Commitments for SL-2 and Core Subscription

Petitioners believe that SL-2 transportation and core subscription services should be offered with a one-year commitment rather than a two year commitment. Petitioners believe that capacity brokering will be implemented by August, 1992, before the expiration of two year contracts for SL-2 transportation and core subscription services. Accordingly, they argue, the two-year commitment creates uncertainty for customers and may tie up capacity which would otherwise be available for brokering.

R.90-02-008 and D.90-09-089 sought to reduce utility participation in natural gas procurement markets. To this end, we proposed that core subscription service, whereby utilities provide the gas commodity, should be available only to those noncore customers who did not seek competitive options. To assure that core subscription did not become a competitive option, we proposed that core subscription require a three to five-year commitment by customers. We ultimately adopted a two-year term to honor the

essential elements of the settlement presented in R.90-02-008. This term was also premised on our belief that the Federal Regulatory Commission (FERC) would not approve interstate capacity brokering guidelines in 1991.

The parties now propose that we return to a single year commitment for firm transportation and procurement services to noncore customers in hopes that contract expiration dates will coincide with the date capacity brokering is implemented. Whether the commitment is one year or two years, however, contract expiration dates are unlikely to match the date upon which capacity brokering is implemented.

We understand the parties' need for some certainty, especially that of noncore customers who are in the process of contracting for gas supplies. However, we are not convinced that we should simply reduce the contract commitment for core subscription and SL-2 transportation to one year. Such a solution would still leave room for a period of uncertainty in the unlikely event that capacity brokering is implemented after August 1, 1992. Instead, we will clarify our rules to provide that the commitment for SL-2 transportation and core subscription services will be two years or until the date capacity brokering is implemented in R.88-08-018, whichever occurs sooner. In order to assure a smooth transition to capacity brokering among SL-2 transportation customers, gas utilities should not require SL-2 customers to provide matching two-year supply commitments. This will provide the flexibility to deal with any unforeseen delay of capacity brokering implementation beyond August 1992 in a manner permitting immediate movement to capacity brokering.

The effect of this change is likely to be that SL-2 transportation and core subscription services will require no more than a one year commitment. The parties to R.88-08-018 are nearly unanimous in their support of implementing capacity brokering by August 1, 1992. We have stated our intent to implement capacity

brokering as soon as possible. We do not at this time foresee any barriers to implementing capacity brokering beyond August 1992, especially in light of recent FERC rulings which approve interstate capacity brokering programs. However, retaining flexibility in setting the duration of the contracts is essential to avoid further uncertainty should capacity brokering be delayed.

Notice of this matter did not appear on the Commission's public agenda; however, immediate action is required so that utility customers may become informed of changes in the terms of utility services before utility "open seasons" end. SoCalGas' open season ends June 10, 1991; PG&E's open season ends July 15, 1991. In addition, the parties require a response to the request for an annual cost allocation proceeding in order to prepare for hearings in SoCalGas' pending cost allocation application which are scheduled to begin July 8, 1991.

Findings of Fact

1. D.90-09-089 adopted rules which require customers to make two year commitments in order to qualify for SL-2 transportation and core subscription services.

2. D.90-090-89 determined that the risks to utility shareholders associated with a two year cost allocation review period would be offset by balancing account treatment for noncore transportation revenues.

3. Changes in rate design, cost allocation, and throughput estimates which may be required with the introduction of capacity brokering programs may be considered in hearings in R.88-08-018.

4. Capacity brokering is likely to be implemented on or before August 1, 1992.

5. Modifying the rules adopted in D.90-090-89 to provide that core subscription and SL-2 transportation services should be offered for two years or until capacity brokering is implemented, whichever occurs sooner, is likely to have the effect of requiring a one year commitment of customers. Such a modification will

reduce customer uncertainty regarding the effects of capacity brokering on the gas rules adopted in D.90-09-089, as modified.

6. According to pleadings filed in R.90-020-008, SoCalGas' "open season," during which noncore customers select service options, ends June 10, 1991; PG&E's open season ends July 15, 1991.

Conclusions of Law

1. The Commission should deny portions of petitions to modify D.90-09-089 which seek to retain annual cost allocation reviews and which seek to reduce to one year the customer commitments for SL-2 transportation and core subscription services.

2. The Commission should modify D.90-09-089 to provide that customer commitments for SL-2 transportation and core subscription services shall be two years or until the date capacity brokering is implemented, whichever occurs sooner.

3. Notice of this matter did not appear on the Commission's public agenda; however, immediate action is required to ensure that gas customers have notice of modifications to D.90-09-089 prior to the end of the utilities' open seasons, during which customers select their gas and transportation services.

ORDER

IT IS ORDERED that:

1. The rules adopted in D.90-09-089 are modified to provide that customer commitments for SL-2 transportation and core subscription services shall be for two years or until the date capacity brokering is implemented, whichever occurs first.

2. The petition to modify D.90-09-089, filed jointly on February 25, 1991 by Southern California Gas Company (SoCalGas), San Diego Gas & Electric Company (SDG&E), California Industrial Group (CIG), California Manufacturers' Association (CMA), California League of Food Processors (CLFP), Southern California Edison (Edison), Southern California Utility Power Pool and Imperial Irrigation District (SCUPP/IID), and Toward Utility Rate Normalization (TURN) is denied.

3. The petition to modify D.90-09-089 filed by Pacific Gas and Electric Company (PG&E) on April 5, 1991 is denied.

4. The petition entitled "Emergency Supplemental Petition for Modification of D.90-09-089 Regarding Cost Allocation Proceedings" filed jointly on May 28, 1991 by the California Gas Producers Association, CIG, CMA, CLFP, Division of Ratepayer Advocates, SCUPP/IID, TURN, Edison, and Indicated Producers is denied.

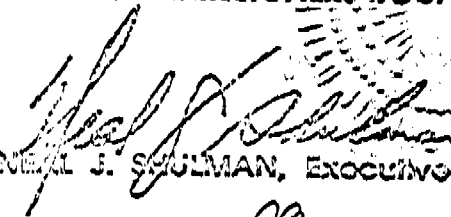
5. There being no outstanding matters to address in Application 91-05-063, that proceeding is closed.

This order is effective today.

Dated June 5, 1991, at San Francisco, California.

PATRICIA M. ECKERT
President
G. MITCHELL WILK
JOHN B. OHANIAN
DANIEL Wm. FESSLER
NORMAN D. SHUMWAY
Commissioners

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


EVERAL J. SCHULMAN, EXECUTIVE DIRECTOR
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