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Decision 92-05-070 May 20, 1992

Before the Public Utilities Commission
of the State of California

ORIGINAL

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

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

In The Matter Of The Application Of)
SOUTHERN CALIFORNIA GAS)
COMPANY (U 904 G) For Authority To)
Revise Its Rates And Recover Costs For)
Implementation Of Its Customer Storage)
Program.)
_____)

Application 92-03-038
(Filed March 18, 1992)

OPINION ON GAS STORAGE SERVICE BIDDING

1. Summary of Decision

The Commission denies the motions filed by the Southern California Power Pool¹ and Imperial Irrigation District (SCUPP/IID) and other parties. The Commission orders Southern California Gas Company (SoCalGas) to make certain revisions to its pro forma agreement for its gas storage service that potential bidders received in its "open season." In addition, the Commission orders SoCalGas to notify its customers of any modifications to its storage program resulting from Commission approval of SoCalGas' program.

The open season in question is a limited time period during which SoCalGas has pursued bids from customers for firm gas storage service. According to utility information, the open season began March 16, 1992, and ends June 4, 1992.

2. Motions by SCUPP/IID

On March 10, 1992, SCUPP/IID filed a motion in Investigation (I.) 87-03-036 for a stay of the open season. If the Commission does not grant the stay, then SCUPP/IID requests a Commission order that customer bids are for information purposes only and

¹Members are the Cities of Burbank, Glendale, and Pasadena, and the Department of Water and Power of the City of Los Angeles.

are not binding. SCUPP/IID requested an expedited Commission response to its motion. On March 27, 1992, SCUPP/IID filed a similar motion in Application (A.) 92-03-038. The motions also made certain scheduling requests. The Administrative Law Judge's (ALJ) April 27, 1992 ruling resolved those matters.

SCUPP/IID attached to its first motion a copy of a three-page letter dated February 27, 1992, which SoCalGas allegedly sent to customers eligible for storage service. In the letter, SoCalGas specified that the open season for bidding would begin on March 10 and end on April 10, 1992, or April 20, 1992, for cogenerators. (These dates conflict with the dates stated in A.92-03-038.) According to the letter, SoCalGas stated to its customers that: (1) the new storage service would begin April 1, 1993, replacing pilot program services now offered under tariff Schedule Nos. G-STOR and G-STAQ, (2) SoCalGas would file an application to the Commission for the new service on March 10, 1992, (3) customers may not be able to obtain long-term storage if they do not participate in the current open season, and (4) SoCalGas would further explain the new program in a series of customer meetings scheduled for March 11 through March 13, 1992.

On March 18, 1992, SoCalGas filed with the Commission A.92-03-038, its gas storage proposal. The April 27, 1992, ALJ ruling consolidated the application with I.87-03-036.

In support of its motion, SCUPP/IID argues that: (1) SoCalGas is seeking an unfair advantage over its storage service competitors by binding customers to utility service before they can consider nonutility alternatives, (2) SoCalGas' proposal would exacerbate cost allocation problems for pipeline capacity, because oversubscription of storage would increase stranded pipeline capacity, (3) customers would be bidding on storage service without knowing the terms of service that might be approved by the Commission, and (4) SoCalGas' threat of lost storage opportunities will unfairly induce customers to enroll in the new service before customers or the Commission have reviewed other possibilities.

3. Responses to SCUPP/IID's Motions

On March 24, and April 10, 1992, SoCalGas responded to SCUPP/IID's motions. SoCalGas opposes the motions on three grounds: (1) Commission rules do not allow for the requested stay, (2) the stay would deprive SoCalGas, its customers, and the Commission of vital information on the demand for storage services, and (3) SCUPP/IID has unfairly characterized SoCalGas' proposed program.

Five other parties (Chevron U.S.A. Inc., Conoco Inc., Meridian Oil Inc., Mobil Natural Gas Inc., and Texaco Inc.) jointly responded in support of SCUPP/IID's first

motion, noting the similarity of SoCalGas' actions with an open bidding season on pipeline capacity brokering held in early 1991. The California Gas Marketers Group responded in support of SCUPP/IID's second motion.

4. Motion by Other Parties

On March 30, 1992, several parties (McFarland Energy, Inc.; California Gas Marketers Group; State of New Mexico Energy, Minerals and Natural Resources Department and New Mexico State Land Office; Watson Cogeneration Company; Chevron U.S.A. Inc.; Conoco Inc.; Meridian Oil Inc.; and Texaco Inc.) filed a joint motion for a Commission order that the open season is not binding on customers. The joint motion in essence repeats SCUPP/IID's request.

SoCalGas opposed the joint motion, repeating its argument in response to the SCUPP/IID motions.

5. Discussion

We disagree with SCUPP/IID's arguments. SoCalGas wishes to market its storage capacity now. Through an open season, SoCalGas seeks to determine, among other things, the demand for storage capacity and the price customers are willing to pay before the Commission approves the program. Simply because gas storage alternatives may not be ready to compete does not mean SoCalGas is seeking an unfair advantage. Further, an absence of storage alternatives does not mean we should delay SoCalGas' open season or declare it "informational only." We believe that it is reasonable for SoCalGas to offer storage through an open season now provided that there are contractual provisions to protect customers from changes to the program upon Commission approval. With certain contractual provisions present, the market should be able to operate as freely as possible. Information gathered in an open season can only benefit those involved and will enable the Commission to address critical issues in SoCalGas' storage application such as the price customers are willing to pay for storage expansion.

SCUPP/IID's argument that SoCalGas' proposal will exacerbate cost allocation problems for pipeline capacity is completely unfounded. Cost allocation concerns do not depend on the timing of SoCalGas' open season. Sooner or later, customers will balance the economics of purchasing pipeline capacity and/or storage capacity. Delaying SoCalGas' open season would simply delay that process with no benefits to customers. We will address cost allocation issues in our review of SoCalGas' storage program, not during the open season.

With respect to the binding nature of bids awarded in SoCalGas' open season, the motions are wrong. In its response to the SCUPP/IID motion, SoCalGas appended its "Pro Forma Agreement for Gas Storage Service," (Agreement). As SoCalGas points out

in its response, the Agreement contains provisions to allow winning bidders to terminate the Agreement if certain parameters change as a result of the Commission's approval of a storage program. The Agreement includes attached provisions located in the "SoCalGas Cost Guarantee," and in the "Customer Letter."

The SoCalGas Cost Guarantee allows winning bidders to unilaterally terminate the Agreement if: (1) existing capacity cost estimates vary by more than 20% between the date of the bid award and date of final storage program approval, (2) expansion cost estimates vary by more than 10% between the date of the bid award and date of final storage program approval or (3) guarantees different than above are provided to any other storage customer. In addition, the Customer Letter offers winning bidders the opportunity to terminate the Agreement if the final program is changed in other more general economic and operating aspects.

We believe that SoCalGas' open season, as proposed, should go forward. The Pro Forma Agreement for Gas Storage Service, with certain minor revisions, provides enough protection to prospective bidders in an open season to allow SoCalGas to proceed before the Commission approves SoCalGas' program. In the meantime, bidders are free to participate in any other program for either utility or nonutility storage.

Even though both the SoCalGas Cost Guarantee and the Customer Letter are each executable, the Agreement contains no reference to either document. To clarify that the attached SoCalGas Cost Guarantee and the Customer Letter are part of the Agreement, we will order SoCalGas to label the SoCalGas Cost Guarantee, EXHIBIT E, and the Customer Letter, EXHIBIT F.

In addition, paragraph 4 of the SoCalGas Cost Guarantee refers, parenthetically, to "the attached exhibit." This language is unclear. We will order SoCalGas to revise the parenthetical language in paragraph 4 of the SoCalGas Cost Guarantee to read: "(including the attached exhibits A, B, C, D, E, and F)." As further protection, SoCalGas should notify winning bidders of any modifications the Commission ultimately makes to their storage program so that bidders can exercise their options under the Agreement. In notifying customers, the term "final CPUC order" in the Customer Letter should be defined as a Commission decision on rehearing.

Findings of Fact

1. SoCalGas has announced to its customers a limited duration "open season" to accept bids for firm storage service.
2. SCUPP/IID and other parties have moved for a stay of the open season or a Commission order that the open season is not binding on customers.

3. The Commission has neither reviewed nor approved SoCalGas' proposal for a permanent gas storage program.

4. SoCalGas' Pro Forma Agreement for Gas Storage Service includes provisions to allow customers to unilaterally terminate the agreement.

Conclusions of Law

1. SoCalGas' open season should go forward.

2. SoCalGas should be ordered to make revisions to its Pro Forma Agreement for Gas Storage Service as set forth above.

3. SoCalGas should be ordered to notify its customers of the content and outcome of this decision, and of the decision approving a final storage program in Application 92-03-038. For notification purposes, the term "final CPUC order" in the Customer Letter should be defined as a Commission decision on rehearing.

4. The motions of SCUPP/IID and other parties should be denied.

5. In order to expedite notice to customers, this decision should become effective today.

ORDER

IT IS ORDERED that:

1. The March 10 and March 27, 1992 motions of the Southern California Utility Power Pool and Imperial Irrigation District, and the March 30, 1992 motion by McFarland Energy, Inc. and other parties are denied.

2. Southern California Gas Company (SoCalGas) shall revise its Pro Forma Agreement for Gas Storage Service as described above.

3. SoCalGas shall notify its customers of the content and outcome of this decision, and of the decision approving a final storage program in Application 92-03-038. For notification purposes, the term "final CPUC order" in the Customer Letter is defined as a Commission decision on rehearing.

This order is effective today.

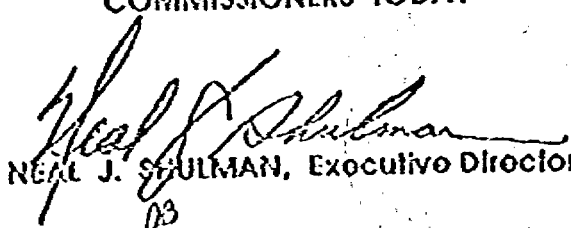
Dated May 20, 1992, at San Francisco, California.

DANIEL Wm. FESSLER
President

JOHN B. OHANIAN
NORMAN D. SHUMWAY
Commissioners

Commissioner Patricia M. Eckert,
being necessarily absent, did not
participate.

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


NEAL J. STULMAN, Executive Director