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Decision 92-11-014 November 6, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking into )  
natural gas procurement and )  
reliability issues. )

R.88-08-018  
(Filed August 10, 1988)

**ORIGINAL**

**OPINION ON PETITION TO MODIFY  
DECISION 92-07-025 BY SUNRISE ENERGY COMPANY  
AND SUNPACIFIC ENERGY MANAGEMENT, INC.,  
KERN RIVER GAS TRANSMISSION COMPANY, INDICATED  
PRODUCERS<sup>1</sup> AND THE DIVISION OF RATEPAYER ADVOCATES**

**1. Summary**

In our July 1, 1992 capacity brokering implementation Decision (D.) 92-07-025, we granted two motions to establish an interim tracking account for interstate pipeline demand charges that are embedded in the intrastate transportation rates of customers that receive their gas over interstate capacity that is not owned and controlled by California local distribution companies. The first motion was jointly filed January 14, 1992 by Kern River Gas Transmission Company, Amoco Production Company, Chevron U.S.A. Inc., Mobil Natural Gas Inc., and Union Pacific Resources Company (jointly, Kern River). The second motion was filed on April 9, 1992 by Sunrise Energy Company and SunPacific Energy Management, Inc. (Sunrise).

Our July decision did not relieve parties of the responsibility for paying the interstate pipeline demand charges embedded in utility intrastate transportation rates. By authorizing the establishment of the tracking account, we merely recognized the doctrine of retroactive ratemaking, and provided parties a vehicle for possible future recovery in their intrastate

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<sup>1</sup> The Indicated Producers, for the purposes of this Petition for Modification, include ARCO Oil and Gas Company, Amoco Production Company, Chevron U.S.A. Inc., Conoco Inc., Meridian Oil Inc., Mobil Natural Gas Inc., Texaco Inc., Union Oil Company of California, and Union Pacific Fuels, Inc.

transportation rate. In D.92-07-025 we deferred determination of the allocation of the tracking account dollars among customer classes pending each utility's cost allocation proceeding.

In petitions to modify the Commission's capacity brokering implementation decision, Sunrise, Kern River Gas Transmission Company, and the Indicated Producers request that the Commission modify and/or clarify its decision to direct Pacific Gas and Electric Company (PG&E) and Southern California Gas Company (SoCalGas) to remove interstate pipeline demand charges from the intrastate transportation rates of customers that rely upon interstate capacity that is not owned and controlled by the utilities. In its petition for modification, the Division of Ratepayer Advocates (DRA) requests that the Commission modify its July decision and eliminate the tracking account.

We deny these petitions. The additional protection requested by Sunrise, Kern River Gas Transmission Company, and the Indicated Producers is unwarranted given the uncertainty all parties confront surrounding the issue of stranded capacity and transition costs associated with unbundling interstate pipeline demand charges. We have already established a regulatory accounting mechanism which gives the Commission the discretion to act on this issue in the fullness of time.

DRA's concern that the tracking account does not solve any problem and instead creates a new one regarding the method used to track costs and the ultimate disposition of the account is also unwarranted and does not justify eliminating the tracking account. As we previously stated, the tracking account does solve potential retroactive ratemaking problems associated with the Commission's future disposition of the double demand charge issue. We do not find that the unresolved issue of the ultimate disposition of the dollars and the contentiousness that is likely to arise in such a cost allocation proceeding as reason to eliminate the tracking account. Finally, we will use the opportunity of this opinion to clarify methodological ambiguities from our July decision with respect to the establishment and the tracking of costs into this account.

**2. Petitions for Modification by Sunrise, Kern River Gas Transmission Company, and the Indicated Producers**

Sunrise in its July 13, 1992 petition for modification and Kern River Gas Transmission Company, and the Indicated Producers in their August 3, 1992 petitions all urge through the

Commission to direct PG&E and SoCalGas to remove interstate pipeline demand charges from the intrastate transmission rates of customers that rely upon interstate capacity that is not owned and controlled by the utilities. They go on to state that the revenue shortfall associated with the removal of interstate demand charges should be included in the tracking account that the Commission directed PG&E and SoCalGas to establish.

All three petitions contend that the tracking account mechanism the Commission established in its July capacity brokering implementation decision does not adequately solve the problem of the double demand charge and continues to cause what the parties claim to be serious anticompetitive effects that undermine the Commission's policy of fostering a competitive natural gas market. The parties argue that by not removing interstate pipeline demand charges from intrastate rates the Commission is artificially tilting the playing field in favor of utility-owned interstate pipeline capacity.

### 3. Petition for Modification by DRA

DRA urges through its August 17, 1992 petition for modification that the Commission eliminate the tracking account established in our July 1, 1992 decision. According to DRA, the primary problem with the tracking account is it does not solve any problem and instead creates a new one regarding the method used to track costs and the ultimate disposition of the account. DRA goes on to state that if the Commission does not eliminate the tracking account, the Commission should clarify certain methodological issues associated with this account. DRA's primary concern revolves around the issue of cost allocation of dollars that accrue to the tracking account, including the appropriate methodology used to track costs.

DRA requests that if the Commission does not eliminate the tracking account, the Commission should identify the method which it believes the local distribution companies should use to track these costs and what costs they should be tracking. Specifically for SoCalGas, DRA argues that it is unfair that the demand charges for Pacific Interstate Transmission Company (PITCO) and Pacific Offshore Pipeline Company (POPCO) be tracked given that they are currently allocated to all customers and according to the Commission's July decision will continue to be allocated to all customers after unbundling of interstate demand charges occurs.

**4. Discussion**

We deny the opposing petitions for modification by DRA who, on the one hand, requests we eliminate the tracking account and by Sunrise, Kern River Transportation Company, and the Indicated Shippers who, on the other hand, urge we immediately unbundle interstate demand charges. Both positions are at odds with the aim of our July order in which we granted the motions of Sunrise and Kern River by establishing the double demand charge tracking accounts.

DRA would have us eliminate the tracking account and thereby foreclose any possibility to address the double demand charge issue in the future when interstate pipeline demand charges are unbundled. Without a mechanism in place to account for the dollars, any future allocation of these dollars would be foreclosed because of retroactive ratemaking implications.

Sunrise, Kern River Transportation, and the Indicated Shippers would all have us begin the unbundling of interstate demand charges immediately for a select group of customers rather than await the implementation of capacity brokering. This piecemeal approach to industry restructuring issues surrounding the unbundling of interstate pipeline capacity and the associated transition costs strikes us as poor public policy.

The intent in establishing the tracking account was to recognize the double demand charge issue in a way that allows the Commission in the fullness of time the discretion to act when the entire dimension of the transition costs associated with industry restructuring is known. As Sunrise points out in its petition, the duration of time between July 1, 1992 (when the tracking account was established) and the implementation of capacity brokering is unknown. Given the uncertainty surrounding the costs to be booked in this account, in addition to all other transition costs associated with the unbundling of interstate demand charges, it is inadvisable to effectively unbundle interstate pipeline demand charges before capacity brokering is in place and the full cost ramifications of the program are known.

We have seen nothing since our July 1, 1992 order or in the subsequent petitions of the parties that merits a change with respect to our policy on the double demand charge tracking account. Shippers who do not utilize the utilities' interstate capacity rights should continue to be responsible for the interstate demand charges bundled in SoCalGas' and PG&E's intrastate

transportation rate. The utilities will continue to track the interstate demand charge component in intrastate transportation rates for these shippers via the tracking account that was established in our July 1, 1992, D.92-07-025, as clarified below.

We take this opportunity to clarify certain points that have been raised by DRA and the Commission's Advisory and Compliance Division. First, because of potential future ratemaking considerations, the tracking account we established in our July 1, 1992 order is more appropriately characterized as a memorandum account. D.92-07-025 should be modified to reflect this change.

Second, we want to clarify any uncertainties surrounding what interstate costs are to be included in the memorandum account. Only those demand charges for interstate pipelines subject to unbundling as described in the July 1, 1992 capacity brokering implementation decision should be booked to the memorandum account. For example, the interstate demand charges for PITCO and POPCO that are included SoCalGas' intrastate transportation rates should not be included in the dollars that are booked to the double demand charge memorandum account. As DRA correctly pointed out in its petition, it is inappropriate to include these demand charges in the memorandum account, since they are currently allocated to all customers and will continue to be allocated to all customers after unbundling of interstate demand charges based on our July 1, 1992 decision.

Finally, we want to clarify that only those shippers who move gas to the local distribution companies using either 1) their firm transportation rights on El Paso Natural Gas Company (El Paso), Transwestern Pipeline Company (Transwestern), or Pacific Gas Transmission Company (PGT) or 2) the expansion pipelines, are eligible to have the interstate demand charge component in their intrastate transportation rates booked to the memorandum account. Those shippers who move gas over the El Paso, Transwestern, and/or PGT systems on an interruptible basis are not eligible to have the interstate demand charge component in their intrastate transportation rates booked to the memorandum account.

#### Findings of Fact

1. The Commission in its July 1, 1992 capacity brokering implementation decision, D.92-07-025, granted motions filed by Sunrise and Kern River to establish an interim tracking account for SoCalGas and PG&E for interstate pipeline demand charges that are embedded in the

intrastate transportation rates of customers that receive their gas over interstate capacity that is not owned and controlled by California local distribution companies.

2. Sunrise, Kern River Transportation Company, and the Indicated Shippers filed petitions for modification requesting that the Commission immediately unbundle the interstate demand charges from intrastate transportation rates and relieve shippers of paying into the double demand tracking account.

3. DRA filed a petition for modification requesting the elimination of the double demand charge tracking account.

4. Capacity brokering has yet to be effectuated on the interstate pipelines serving SoCalGas and PG&E.

5. Because of potential future ratemaking implications, the tracking account established in D.92-07-025 is more appropriately characterized as a memorandum account.

6. The demand charges for PITCO and POPCO that are embedded in SoCalGas' intrastate transportation rates are currently allocated to all customers and based on D.92-07-025 will continue to be allocated to all customers after unbundling of interstate demand charges occurs.

#### Conclusions of Law

1. The petitions for modification by Sunrise, Kern River Transportation Company, and the Indicated Shippers should be denied.

2. The petition for modification by DRA should be denied.

3. The tracking account that was established in D.92-07-025 should be renamed a memorandum account. D.92-07-025 should be modified to reflect this change.

4. Demand charges for PITCO and POPCO that are embedded in SoCalGas' intrastate transportation rates should not be included as a part of the interstate demand charges that are part of the double demand charge memorandum account.

5. SoCalGas and PG&E should book interstate demand charges embedded in intrastate transportation rates only for those shippers who either 1) move gas on one of the expansion pipelines or 2) move gas on the El Paso, PGT and/or Transwestern systems using firm transportation rights.

**ORDER**

**IT IS ORDERED that:**

1. The petition for modification filed by Sunrise Energy Company and SunPacific Energy Management, Inc. is denied.
2. The petition for modification filed by Kern River Transportation Company is denied.
3. The petition for modification filed by the Indicated Shippers is denied.
4. The petition for modification filed by the Division of Ratepayer Advocates is denied.
5. The tracking account established in D.92-07-025 is hereby renamed a memorandum account. Ordering Paragraph 29 in D.92-07-025 is changed to read as follows:
  29. PG&E and SoCalGas shall establish memorandum accounts for interstate demand charges paid by noncore customers who do not use utility-held interstate pipeline facilities.



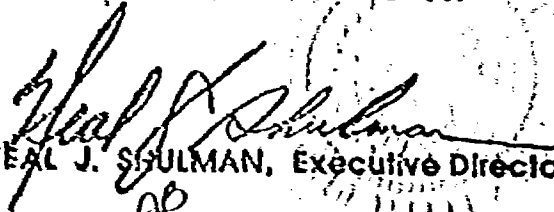
6. The clarifications discussed in this order with respect to the scope and definition of the memorandum account are adopted.

This order is effective today.

Dated November 6, 1992, at San Francisco, California.

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

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

  
NEAL J. SCHULMAN, Executive Director  
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