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Decision 95-12-037 December 18, 1995

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

Order Instituting Rulemaking on the Commission's own motion to change the structure of gas utilities' procurement practices and to propose refinements to the regulatory framework for gas utilities.	R.90-02-008 (Filed February 7, 1990)
Order Instituting Rulemaking into natural gas procurement and system reliability issues.	R.88-08-018 (Filed August 10, 1988)

OPINION

This decision directs Southern California Gas Company (SoCalGas) to establish an account that tracks the savings from reduced reservation charges for interstate pipeline transportation which occur as a result of reduced contractual commitments with El Paso and Transwestern Pipeline Company. We also establish a process for reviewing how those savings should be allocated among customer groups.

Background

Currently, SoCalGas has contractual commitments for 750 million cubic feet a day (MMcf/d) of firm interstate transportation over Transwestern's system and 1450 MMcf/d of firm interstate transportation over El Paso's system. As part of our efforts to promote more customer choice in interstate transportation markets for noncore customers, we allocated this firm interstate capacity between noncore and core ratepayers in Decision (D.) 91-11-025. We found that core ratepayers should bear the costs of 1067 MMcf/d of firm capacity. The remaining capacity was to be brokered to noncore customers.

The costs of SoCalGas' firm transportation on the El Paso and Transwestern systems are substantially higher than market prices. SoCalGas, therefore, cannot broker the capacity at prices that will allow it to recover associated contractual costs. In anticipation of such an outcome, D.91-11-025 allocated the costs associated with firm capacity that could not be brokered at market prices 90% to noncore customers and 10% to core customers.

Beginning January 1, 1996, SoCalGas has an option to reduce its commitment to El Paso by 300 MMcf/d. Beginning November 1, 1996, SoCalGas has an option to reduce its commitment to Transwestern by 450 MMcf/d. These "step downs" from existing commitments may reduce SoCalGas' cost of interstate transportation by many millions of dollars.

The FERC has already considered the effect of the step-down on Transwestern. It has adopted a settlement requiring Transwestern shareholders to assume the risk associated with 70% of the unsubscribed capacity; customers must assume 30% of the costs for a five-year period (72 FERC 61,085). Taking into account the transition cost surcharge, SoCalGas ratepayers' obligation for the Transwestern demand charges will be reduced by $53.6 million as of November 1, 1996.[1] The FERC has not resolved similar issues for El Paso. SoCalGas' current cost for the El Paso capacity which it will relinquish January 1, 1996 is $34.6 million annually.[2]

<u>Allocation of Cost Savings Resulting from Step-Downs</u>

Among other things, D.95-07-048 asked the gas utilities and other parties to comment generally on whether and how the

1 This amount does not include SoCalGas' demand charges for San Juan Lateral capacity as provided in D.94-07-064.

2 Although El Paso's rates are scheduled to increase substantially as of January 1, 1996, these new rates are subject to refund pending the outcome of RP 95-363-000.

core's commitment to interstate capacity should be modified as the utilities relinquish interstate pipeline capacity. In its response to this invitation, SoCalGas proposes that the core's financial commitment to firm capacity should not change because its requirement for reliable capacity has not changed. By implication, SoCalGas proposes that noncore customers receive all of the benefits of the step downs.

Other parties commented on this issue, offering a variety of perspectives. Edison shares SoCalGas' view that core customer allocations should not change from those adopted in D.91-11-025. DRA suggests any savings should be allocated between core and noncore customers in proportion to each classes' relative commitment to the capacity. Toward Utility Rate Normalization (TURN) proposes all customer classes pay for interstate capacity at the market price and that the costs of stranded capacity be shared equally by all utility customers. Broad Street Oil and Gas Company (Broad Street) proposes a similar strategy.[3]

Discussion

We adopted the existing allocations between customer classes assuming SoCalGas' prevailing commitments for El Paso and Transwestern capacity. Because those commitments will change in 1996, we intend to review the reasonableness of the allocations we adopted in D.91-11-025. We also intend to consider the existing allocations in light of market changes that have occurred over the past several years.

Savings from the El Paso step-down will begin accruing before we have had an opportunity to consider specific allocation proposals and the broader issues raised in D.95-07-048. In order

3 PG&E also submitted comments on this issue. Its comments are offered in the context of a specific proposal PG&E offers for changes on its own system.

to preserve the Commission's discretion with regard to how these savings and any transition cost surcharges associated with unsubscribed capacity should be allocated, we direct SoCalGas to establish an account to track the savings and costs resulting from the step-downs of El Paso and Transwestern firm capacity. We intend to allocate those savings at a later date, pursuant to policy we develop in this proceeding.

We invite any party to comment on how the amounts in these accounts should be allocated between core and noncore customers. Parties may assume a continuation of existing policy with regard to core customer access to interstate capacity or changes to policy, such as those TURN and Broad Street suggest, or both.

We also schedule an oral argument on this issue so that the Commission may hear from the parties directly and engage in a dialogue regarding the Commission's policy options.

Findings of Fact

1. D.91-11-025 established allocations of firm capacity costs between core and noncore customers for SoCalGas assuming SOCalGas' commitment to 1450 MMcf/d of firm capacity over El Paso's system and 750 MMcf/d of firm capacity over Transwestern's system.

2. D.91-11-025 did not consider the issue of how costs and savings associated with utility relinquishments of firm interstate capacity should be allocated between customer classes.

3. By the terms of its contract with El Paso, SoCalGas may relinquish 300 MMcf/d on El Paso's system January 1, 1996. It may relinquish 450 MMcf/d on Transwestern's system November 1, 1996. These relinquishments will reduce SoCalGas' interstate transportation costs. They are also expected to create transition costs for El Paso and Transwestern, some of which will be borne by SoCalGas pursuant to FERC order.

4. The savings resulting from SoCalGas' relinquishing El Paso capacity will begin to accrue before the Commission has

allocated associated savings between core and noncore customers. The savings resulting from SoCalGas' relinquishing Transwestern capacity may begin to accrue before the Commission has allocated associated savings between core and noncore customers.

Conclusions of Law

1. The Commission should consider how to allocate the savings and transition costs from SoCalGas' relinquishment of El Paso and Transwestern capacity between core and noncore customers.

2. In order to preserve the Commission's discretion with regard to how savings and transition costs should be allocated, the Commission should direct SoCalGas to establish an account to track the savings and costs resulting from relinquishment of El Paso and Transwestern capacity.

O R D E R

IT IS ORDERED that:

1. Southern California Gas Company shall establish an account by advice letter filing to track all costs and cost savings associated with its relinquishment of 300 MMcf/d on El Paso's system January 1, 1996 and its relinquishment of 450 MMcf/d on Transwestern's system November 1, 1996.

2. The parties may file comments which propose how the savings and transition costs from SoCalGas' relinquishment of El Paso and Transwestern capacity should be allocated between core and noncore customers no later than January 24, 1996 .

3. The Commission will hear oral argument on these matters on February 14, 1996 at 2:00 p.m. in the Commission Courtroom Room, 505 Van Ness Avenue, San Francisco. This hearing date may be changed by ruling of the assigned administrative law judge or assigned commissioner.

This order is effective today.

Dated December 18, 1995, at San Francisco, California.

DANIEL Wm. FESSLER
President
P. GREGORY CONLON
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners