

6/22/98

Decision 98-06-082

June 18, 1998

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

Order Instituting Rulemaking Into
Natural Gas Procurement and System
Reliability Issues

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

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 GRANTING REHEARING FOR DECISION
MODIFICATION AND DENYING REHEARING OF
DECISION NO. 98-03-057 AS MODIFIED**

I. SUMMARY

On April 27, 1998, Southern California Edison Company (Edison) filed an application for rehearing of Decision (D.) 98-03-057. In the decision, the Commission denied Edison's petition to modify a prior decision, D.97-11-070, with respect to certain changes to gas imbalance rules in the tariffs of Southern California Gas Company (SoCalGas). Edison has identified a legal error in D.98-03-057 where we did not sufficiently express the rationale for denying Edison's request to allow shippers to decrease the natural gas volumes delivered to SoCalGas when the volumes originally nominated are in excess of the quantity needed for ultimate usage. Edison also faults a finding of fact which is stated in less than precise terms. We will, therefore, grant limited rehearing solely to modify D. 98-03-057 to explain the basis for our conclusion, but we will also

affirm our denial of Edison's request regarding the right to decrease overnominations.

The Commission also wants to clarify a procedural point. An application for rehearing of a decision on a petition to modify may be denied as untimely. In such cases, the Commission recognizes that the petition to modify was actually used to raise an issue for rehearing after the 30-day limit for filing an application for rehearing had elapsed. (Cal.Pub.Util.Code §1731.) A party may try to keep an issue alive for possible judicial review by first filing a petition to modify, for which there is no filing deadline, and then the belated application for rehearing.

We find in the present case that Edison did not use this ploy. Edison's petition to modify D.97-11-070 was filed December 19, 1997, within 30-days of the mailing date of the decision. Edison, therefore, was not remiss in pursuing its interests promptly. The petition, furthermore, concerned matters which Edison understood to be possible oversights in the drafting of the decision. Edison, therefore, acted in a timely fashion, filing the petition to modify on matters suited for consideration in such a petition. After the Commission considered the proposed modifications and issued D.98-03-057, Edison then alleged legal error on a matter appearing in this latter decision which it properly presented in a timely-filed application for rehearing. We want to make clear, therefore, that the procedure applicable to Edison's present application cannot not be viewed as precedent for using a petition to modify to circumvent the 30-day rule for filing applications for rehearing.

II. BACKGROUND

In an earlier petition to modify, Edison requested that the Commission modify D.97-11-070 to require SoCalGas to allow shippers to increase or decrease their nominations for gas volumes delivered to the pipeline. In response to the petition, we modified D.97-11-070 to expressly state that SoCalGas was to accept

changes of gas nominations for shippers who wish to increase the delivery of gas volumes to the pipeline in order to more closely balance the delivered volumes with the quantity needed for shipment to end-users. (D.98-03-057, mimeo, p.3, Ordering Paragraph 2.) We thus addressed the problem of undernominations, when shippers nominate less than the volumes needed.

Edison here pursues the inverse question of how the gas imbalance rules of SoCalGas's tariff treat overnominations, that is, circumstances in which gas volumes nominated are in excess of the supply needed for delivery. Edison wants SoCalGas to accept decreases, as well as increases, of delivered volumes. We will not order the change in SoCalGas's tariff sought by Edison because allowing a noncore shipper to decrease a nomination already made for gas deliveries would seriously disrupt pipeline operations to the detriment of core customers as well as other noncore shippers.

III. DISCUSSION

Edison states in its application for rehearing, at page 2, that D. 98-03-057 "...is void of any discussion or rationale as to how allowing noncore customers to decrease intra-day nominations would transfer risk to core customers." Edison also specifically claims a factual error in Finding of Fact No. 1 of D.98-03-057 where the Commission concluded: "Edison's petition to modify D.97-11-070 asks the Commission to change SoCalGas balancing rules in ways that would transfer risk from noncore gas customers to core customers."

As Edison indicates, our discussion on the treatment of over- or excess nominations in D.98-03-057 was not as explicit as it might have been. We recognize that the focus of the Commission and most of the parties to this proceeding has been on the problem of undernominations, particularly during winter months, rather than overnominations, the concern of Edison. After considering Edison's application, however, we must reaffirm our conclusion that

allowing noncore shippers to decrease gas nominations already made would work against balanced and efficient pipeline operations.

When shippers nominate gas volumes on SoCalGas's system, they in effect are reserving pipeline capacity. The volumes nominated are subsequently delivered into the pipeline, usually the day after nominations are made. If shippers do not nominate sufficient supplies, then the volumes delivered cannot meet customer needs. SoCalGas has often been required to make up noncore underdeliveries with gas that had been stored to serve core customers. We, therefore, determined in this proceeding that shippers should be allowed to increase their nominations on delivery day to correct for undernominations. SoCalGas, as the pipeline operator, and noncore shippers could thereby meet the paramount objective of serving all pipeline customers without wasting pipeline capacity.

This condition of pipeline undernominations, however, is quite different from circumstances in which shippers have nominated excess supplies for delivery to the pipeline. The problem of overnominations, of concern to Edison in the present application, cannot be corrected by simply allowing noncore shippers to decrease their nominations on delivery day. Unlike the beneficial effect of allowing nomination increases on delivery day in order to fill the pipeline with required volumes, allowing nomination decreases would invite misuse of pipeline capacity and aggravate pipeline operational problems.

If the Commission permitted nomination decreases at the will of each noncore shipper on delivery day (i.e., an intra-day nomination decrease), we would be encouraging the reservation of excess pipeline capacity with overnominations. The shipper would know a decrease is possible without penalty, if it is determined that the actual gas volumes needed for end-users are less than are nominated. Overnominations, however, like hoarding, inefficiently remove capacity that would otherwise be available to other customers, both noncore and core customers.

Furthermore, if intra-day decreases were possible without penalty, overnominations might become more frequent, and therefore a greater problem, should noncore shippers find them useful for arbitrage purposes in dealing with fluctuating market prices.

We also understand that if Edison's proposal were granted, it could invite the use of pipeline capacity, effectively, for temporary storage, again giving the noncore shipper more flexibility in dealing with market price changes while avoiding proper storage facilities and their costs. Rather than maintain gas volumes in storage facilities for needs which may precipitously arise, a shipper may find it beneficial to regularly reserve excess pipeline capacity by overnominating supplies.

In addition, if intra-day decreases of gas nominations were allowed, the problem of underdeliveries could possibly be exacerbated. Should a significant number of shippers choose for price arbitrage purposes, for instance, to decrease nominations on delivery day, they may find, depending on unpredictable weather conditions, that at the end of five days they have insufficient supplies for their customers' needs.¹ By allowing intra-day decreases, therefore, we could possibly undermine the rule corrections we have ordered in this proceeding to alleviate, if not eliminate, the serious problem of not having sufficient gas flowing in the pipeline to meet customer requirements.

To the extent, therefore, that a shipper reserves excess capacity with overnominations, the shipper encroaches on capacity that should be available to all other shippers, and reduces SoCalGas's flexibility in serving core customers with prudent purchases and the reliable distribution of natural gas. Our new gas imbalance rules are intended to correct unreasonable impacts on core service and

¹ SoCalGas's winter delivery tariff Rule 30(G) requires shippers to deliver at least 50% "of burn" over a five day period, from November through March with the daily requirement increasing to 70% to 90% depending on inventory relative to peak day minimums.

costs, and provide for efficient and fair use of pipeline capacity for all customers. We have determined that these rules are necessary to discipline pipeline usage. Edison's proposal to allow nomination decreases on delivery day could weaken that required discipline. Edison, moreover, has not established that the benefits of allowing nomination decreases outweigh the overall detrimental effects on pipeline operations.

We also have no grounds to find unreasonable or inadequate the buyback provisions provided in SoCalGas Tariff Schedule G-IMB (Cal.Pub.Util. Sheet No.29871-G) which are available when a shipper has positive imbalances, i.e., deliveries in excess of usage. Though Edison may characterize the buyback provisions as penalties because the buyback prices may be less than the price paid for the gas by the shipper, they are judged by the Commission as striking a balance of interests among all pipeline customers and as encouraging an efficient use of capacity. Shippers with excess deliveries also have options other than the buyback provisions, such as using storage facilities and parking services, or trading imbalances.

Generally, therefore, Edison's request appears to be another expression of its opposition to a policy that this Commission has lawfully adopted in the public interest. However, to achieve finality on the issue presented, we will grant rehearing to modify D.98-03-057 at page 2, as set out below in Ordering Paragraph 1. The modifications, as well as the present discussion, will clarify the basis for the Commission's decision to deny shippers on SoCalGas's system the right to intra-day (delivery day) nomination decreases.

IT IS THEREFORE ORDERED that:

1. Limited rehearing of D.98-03-057 is granted solely for the purpose of making the following modifications:

- a) The following sentence, which appears as the next to last sentence of the discussion portion of the decision, at page 2, shall be deleted:**

“We reject Edison’s proposal for that reason.”

- b) The last sentence of the discussion portion of the decision, at page 2, shall be modified to read:**

“We therefore reject Edison’s proposal to allow noncore customers to make intra-day nomination decreases, but we shall permit nomination increases of gas deliveries to alleviate conditions of negative imbalances, a determination we adopted but inadvertently omitted from D.97-11-070.”

- c) The following paragraph shall be added to the end of the discussion portion of D. 98-03-057, at page 2:**

“We will order a change in SoCalGas’ tariff to require that SoCalGas accept intra-day nominations from shippers who wish to increase the volumes delivered to the pipeline. However, we will not provide for intra-day nomination decreases, other than as is provided in SoCalGas’s Tariff Rule 30 (F) with respect to nominations in excess of system capacity. Were we to permit intra-day nomination decreases at the will of each shipper, SoCalGas’s operation of the pipeline would be disrupted to the detriment of all other shippers and would impinge on SoCalGas’s obligation to purchase and deliver natural gas to core customers efficiently and economically in a competitive gas market.”

d) Finding of Fact No. 1 of D.98-03-057 shall be deleted and replaced with the following finding:

“Allowing intra-day nomination decreases as requested by Edison would seriously disrupt pipeline operations to the detriment of noncore shippers as well as core customers since it would encourage shippers to occupy capacity for purposes other than meeting customer delivery requirements and would unreasonably impact SoCalGas’s efficient and economic management of deliveries for all its customers.”

2. D.98-03-057 having been so modified, Edison’s application for rehearing is denied.

3. Rulemaking (R.) 88-08-018 is closed.

4. Rulemaking (R.) 90-02-008 is closed.

This order is effective today.

Dated June 18, 1998, at San Francisco, California.

RICHARD A. BILAS
President
P. GREGORY CONLON
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners