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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-2762
January 28, 1987.

R E S O L U T I O N

RESOLUTION G-2762, AUTHORIZING SOUTHERN CALIFORNIA GAS COMPANY SCHEDULE GIT, INTERRUPTIBLE INTERUTILITY TRANSPORTATION AND CUSTOMER SERVICE AGREEMENT; BY ADVICE LETTER 1732 FILED SEPTEMBER 25, 1987.

SUMMARY

Southern California Gas Company (SoCal) filed Advice Letter 1732 on September 25, 1987 requesting approval of Schedule GIT, Interruptible Interutility Transportation, and a customer service agreement as directed by D.87-05-069, dated May 29, 1987, and as amended by Ordering Paragraph 7 of Decision 87-09-027, dated September 10, 1987.

BACKGROUND

1. Decisions 87-05-069 and 87-09-027 address the subject of interutility transportation within the State of California, and direct Southern California Gas Company (SoCal) and Pacific Gas and Electric Company (PG&E) to file tariffs and model contracts with the Commission.
2. Decision 87-05-069 established a system of interutility gas transportation to allow the owners of natural gas supplies to move those supplies completely across the systems of California's regulated gas utilities. The decision found interutility transportation to be in the public interest, principally because it "promises to provide gas utilities and end-users access to new sources of supply, thus enhancing gas-to-gas competition. Interutility transportation may also allow the gas utilities to utilize their systems more intensively."

3. A Principles of Agreement (PA) was attached to D. 87-05-069, outlining a compromise between SoCal and PG&E for interutility gas transportation. D. 87-05-069 adopted various interutility gas transportation ceiling rates at a level slightly less than those found in the PA. SoCal and PG&E subsequently submitted an amendment to the PA, adopting the ceiling rates as outlined by D. 87-05-069.

4. Decision 87-09-027 slightly modified D. 87-05-069. It also ordered both SoCal and PG&E to file tariffs and model contracts in accordance within the range of rates found reasonable in D. 87-05-069 and under such other terms and conditions as described in the decision.

PROTESTS

1. A number of protests were received in response to PG&E's filed Advice Letter 1429-G, but no direct protests were filed in response to SoCal's filed Advice Letter 1732.

2. However, the protest of Shell Canada Limited (Shell Canada) and Mock Resources, Inc. (Mock), dated October 13, 1987 to PG&E's filing, stated that in some instances their protest applied equally to SoCal. Those issues pertaining to SoCal's advice letter are:

a. Standby Charge - Shell Canada/Mock protest that the language allowing SoCal to pass-through the El Paso "standby charge" of 0.297¢/therm will permit the charge to be collected twice, once by the interutility transporter and once by the serving utility, intrastate.

b. Shrinkage - Shell Canada/Mock submit that a shipper should have the option to pay for fuel use and Lost and Unaccounted For gas (LUF) either in-kind or through an explicit component in the interutility charge.

c. Curtailment of Service - Shell Canada/Mock protest that the tariffs should provide for curtailment among interutility shippers paying the same interutility rate on the basis of end-use priority, rather than on a pro-rata basis. They cite D. 86-12-010 (December 3, 1986, p.25), which orders intra-utility shippers who pay the same priority charge to be curtailed based upon the existing end-use priority system.

d. Service Agreement - Shell Canada/Mock suggest that the tariffs should contain guidelines for the utilities and shippers to follow in discounting the inter-utility transportation rate. Also, that the tariff should state that the utilities and the shipper must bargain in good

faith and the utility may not refuse a reasonable good faith offer from a shipper.

e. Imbalances - Shell Canada/Mock protest the contract provisions which provide that the utility has the right to correct gas imbalances by purchasing the excess gas at the lowest cost of gas available to the utility at that time, or the shipper's actual cost of gas, whichever is lower. They state: "If [the utilities] were permitted to employ this accounting approach, the confidentiality of the contract price between a shipper and an end-user would be undermined. Balancing the deliveries of inter-utility volumes is an issue that should be addressed in an informal workshop. At a minimum, however, no provision should allow [the utilities] to obtain confidential sales prices between producers and end-users."

RESPONSE TO PROTESTS

1. SoCal filed a response to the Shell Canada and Mock protest dated October 23, 1987. SoCal also responds to the "nearly identical protest made by Recon Research on behalf of AEC Oil and Gas Company on October 19, 1987."

2. Briefly, SoCal responds to the specific comments of the Protestants as follows:

a. Standby Charge - Protestants claim that language allowing the pass-through of the El Paso "standby charge" of 0.297¢/therm will permit the charge to be collected twice, once by the interutility transporter and once by the serving utility. SoCal states that "the interutility transporter or the serving utility may pass through the El Paso 'standby charge' only if El Paso actually bills the charge to the interutility transporter or serving utility. El Paso can bill the charge only once with respect to a volume of gas it transports. Therefore, there will not be double billing to shippers." SoCal argues that it is reasonable to include the pass through language in both regular and interutility transportation tariffs because of uncertainty over which party (the interutility transporter or the serving utility) El Paso will bill.

b. Shrinkage - Protestants claim that a shipper should have the option, at his sole discretion, to pay for fuel use and LUAF in kind or in cash. Decision 87-05-069 at mimeo p. 64 discusses recovery of fuel use and LUAF, and states that: "We think that the method outlined in the SoCal/PG&E agreement is a reasonable way to calculate these costs." The PA provided for the payment of fuel use and LUAF in kind. SoCal states that neither decision orders the

interutility transporter to accept payment for fuel use and LWAF in cash and that it is too late to raise new policy issues in response to compliance advice letter filings."

c. Curtailment of Service - Protestants claim that tariffs should provide for curtailment among interutility shippers paying the same interutility rate on the basis of end-use priority. Both PG&E and SoCal tariffs provide for curtailment on a pro-rata basis among interutility shippers paying the same rate. Decision 87-05-069 stated at mimeo p. 75: "Shippers paying the same interutility rate will be curtailed on a pro-rata basis."

d. Service Agreement - Protestants complain that the tariffs should contain guidelines to follow in discounting the rate and that the tariff should state that the utilities must bargain in good faith. SoCal asserts that "the Commission has not ordered that any such language be included in interutility tariffs. Of course, the whole thrust of Decision 87-09-027 is that a utility cannot refuse to provide interutility transportation (as long as there is no harm to on-system customers) at tariff ceiling rates and standard tariff terms and conditions." They argue that there is no need for special tariff language.

e. Imbalances - Protestants complain of a provision in the two contracts that provides that deliveries by the shipper in excess of the amount taken by the shipper from the interutility transporter may be purchased by the transporter at its discretion at the lower of the lowest cost gas available to the transporter or the shipper's actual cost of gas. SoCal states: "such a provision already exists in both PG&E's and SoCal's regular transportation tariffs. The purpose is to prevent shippers from making a profit on what would be essentially a 'forced sale' of gas to the utility by overdelivering (or undertaking) gas. The profit incentive is eliminated if the price paid is the shipper's cost of gas. There will be no disclosure of confidential sales prices so long as the shipper does not get out of balance."

DISCUSSION

1. The Commission Advisory and Compliance Division (CACD) has reviewed all protests, responses, and the formal comments made by the Division of Ratepayer Advocates (DRA). CACD believes that the advice letter filings can be approved, with modifications by resolution, despite the number of issues involved.

2. Standby Charge - An El Paso Standby Charge is billed to SoCal or PG&E for firm, non-incremental gas delivered to the California border. The standby charge billing is associated with each shipment to those customers having a Transportation and Exchange number (T&E). Should any dispute arise stemming from a double billing, the customer holding an El Paso bill with a T&E number would have proof of such an error to settle the argument.

If, however, the double billing is between SoCal, PG&E and a third party, the third party could have a problem resolving the charges. The following billing process should occur in order to prevent such a double billing:

- Interstate Pipeline bills the receiving utility (Utility #1) receiving gas at the California border.
- Receiving Utility bills Utility #2, having transport customer.
- Utility #2 recovers surcharge from customer and pays Utility #1.
- Utility #1 pays Interstate Pipeline charge.

The customer should receive an itemized bill, detailing the dates, volumes delivered, unbundled transportation charges, negotiated rate, LUAF, surcharges, etc., and net excess/undertake gas for the billing month.

3. Shrinkage - The tariffs and contracts currently require that fuel use and LUAF are to be paid in-kind. Shell Canada/Mock propose the utility provide the shipper with an option to pay for fuel use and LUAF either in-kind or through an explicit component in the interutility charge. The protestants offered no compelling reasons for requiring the cost option other than to provide an alternative.

SoCal argues that this cost component is a new issue not previously introduced in the decision and that is is inappropriate to resolve it in a compliance advice letter filing.

In-kind gas payments for fuel use and LUAF is the industry standard. DRA recommends that as long as fuel use and LUAF is made a "separate, identifiable rate component" that they are not opposed to its inclusion, so long as it is a negotiated item clearly stated in the contract.

While this cost component is an amount calculated by both SoCal and PG&E, the utilities have agreed to exchange fuel in-kind rather than monies, and have carried this concept forth in their respective contracts. The component charge alternative could allow both the utility and the shipper additional flexibility.

4. Curtailment of Service - Shell Canada/Mock protest the employment of pro rata curtailment in the tariff and contract, stating that this is counter to the implementation decision, D.86-12-010. The adopted approach of D. 86-12-010 (p.25), reads:

"Curtailment within the noncore customer class will be based on each customer's negotiated priority charge, with those customers paying the highest priority charge being curtailed last. In the event of curtailment among noncore customers paying the same priority charge (e.g. all customers paying no priority charge), curtailment will be conducted based on the end-use priority system."

Further, the decision, at mimeo p. 120, states:

"Public Utilities Code Section 2771 et seq. ...requires the Commission to establish customer priorities based on a consideration of '[a] determination of the customers and uses of electricity and gas, in descending order of priority, which provide the most important public benefits and serve the greatest public need.' We believe that this requirement in the statute can reasonably be construed to allow willingness to pay to serve as a proxy for public benefit and need, at least within the noncore class."

The following statements are made under the Findings of Fact of D. 87-05-069 (p.81):

"25. Priority among interutility transporters will be determined by the total rate paid, with the highest rate having the highest priority, etc. This is consistent with our approach in D. 86-12-009 and D. 86-12-010."

"26. Pro rata curtailment is reasonable for

interutility shippers paying the same rate."

Interutility transport customers constitute an end-use class. The existing end-use priority system utilizes a pro rata system within each priority class.

Rule 23 (d)1.4 Effectuation of Curtailment reads:

"Where curtailment takes place on a partial basis for a given priority block, the Utility will attempt, at the earliest time practical from its operating standpoint, to balance the amount of curtailment for customers in any given curtailment block as closely as feasible."

Further, Rule 23 (d)1.5 Operating Emergency reads:

"In the event of such a condition (operating emergency declared by a customer), subsequent out of pattern curtailment will be imposed on such customer in order to balance the amount of curtailment with other customers served at the same priority."

If curtailment does occur, interutility transport shall be the first class of the noncore groups to be curtailed. Curtailment shall be based on negotiated rates as the basis of priority. Those customers with the lowest negotiated rate are curtailed first, and ties within this subset of customers shall be handled on a pro rata basis.

We are mindful, however, of the requirement that the utility's discretion to curtail interutility transportation not be used by them to hinder the reasonable use of the service. We therefore adopt SDG&E's suggestion that the term "reasonable discretion" be substituted for "sole discretion" both in the tariff and the contracts. We place the utilities on notice that we do not wish interutility transportation service to be curtailed unnecessarily.

5. Service Agreement - Shell Canada/Mock request that negotiation guidelines on discounting the interutility rate be added to the tariffs and that the tariff should state that the utilities and the shipper must bargain in good faith. Ordering paragraph 4 of Decision 87-05-069 states "PG&E and SoCal shall work in good faith with each other and with gas shippers to minimize the transaction costs associated with interutility transportation." Good faith negotiations on interutility transportation rates are expected by the Commission by decision.

SoCal opposed the addition of negotiating language and special phrasing to require negotiations in good faith in the body of the tariff.

Creating guidelines for the purpose of negotiating rates appears unnecessary at this time. The Commission expects that the customers and the utilities will bargain in good faith. We will entertain complaints from shippers if the utilities fail to do so.

6. Imbalances - The SoCal contract provides for excess gas by holding it in a balancing account for application during the following month. At its discretion, SoCal may require the shipper to reduce its deliveries or may require the shipper to sell the excess at the shipper's cost of gas or at SoCal's lowest cost of gas. SoCal will not carry excess gas beyond three months. If SoCal delivers more gas than shipper contracted to receive, the shipper shall buy SoCal's gas at a negotiated rate after having received a credit for quantities remaining in the shipper's balancing account.

If delivery is interrupted and gas is diverted, SoCal shall repay gas in-kind at a mutually acceptable daily delivery rate or SoCal shall reimburse the customer by payment equivalent to customer's actual cost of gas. Make-up for such a diversion shall occur within three months. If make-up quantities are not taken, SoCal shall purchase gas at the customer's cost of gas for the month in which the diversion occurred.

Shell Canada/Mock protest the tariff and contract language that allows the interutility transporter to purchase excess gas at the lower of the lowest cost gas available to the transporter or the shipper's actual cost of gas. The protestors argue against the requirement that they reveal their confidential price of gas to the utility.

The contract language leaves the customer no option but to reveal his gas purchase price in order to provide the company with a gas cost to compare to. The customer is further disadvantaged in that he has no way to verify the utility's lowest gas prices. The utility could use any price, just as the customer could quote any price.

The only remedy for this impasse is to establish a mutually agreeable price negotiated between the utility and the customer. DRA suggests that unless otherwise specifically negotiated and stated in the contract, the imbalances should be priced at the weighted average cost of the noncore portfolio gas for the month during which the excess gas is purchased. In this way, confidentiality is maintained and no particular party benefits over the other.

7. Scheduling and Information - The overall nature of the protests and the controversy generated by interutility transportation, as well as intrautility transportation, points to the lack of clearly stated general operating practices and procedures under which gas dispatch and accounting business occurs. In response to this, the Commission Advisory and Compliance Division and the Division of Ratepayers Advocates jointly recommend that both PG&E and SoCal file general operating practices and procedures, as outlined below:

1. Nomination procedures, including:
 - a. Utility contact, telephone, hours
 - b. Contract negotiations and consummation
 - c. Specification of quantity, timeframe, and pipeline audit procedures.
 - d. Shipment verification and acknowledgement mechanism.
 - e. Set nomination procedure, including scheduling with sufficient notification of changes that are within the control of the utility (at a minimum once a week).
 - f. Notice of nomination procedure changes and curtailment allocations
 - g. Receipt and redelivery point availability, and notice of changes
 - h. Procedure for handling imbalances; notification, penalties

2. Billing resolution, including:
 - a. Billing adjustments (for quantities and frequency)
 - b. Access to relevant records by the affected customer and/or his designated agent.
 - c. Billing reconciliation procedures, rights and obligations
 - d. Invoicing
 - e. Pricing for over/under deliveries.

The procedures outlined above are an initial list. By no means are they an exclusive list. The utilities should publish flexible, non-tariffed guidelines setting forth the procedures which utilities and customers should follow for requesting transportation service, conducting daily nomination, and resolving billing disputes. After some

time, when both customers and the utilities have gained experience with such procedures, modifications and finalization can occur. Eventually, these procedures should be placed under each utility's tariffed rules.

If there are operational differences between interutility and intrautility transportation, the utilities should clearly state and explain the reasons for the differences. Also, if changes in the guidelines are warranted, the utility should provide written notification to all customers of such changes at least two weeks in advance.

Findings of Fact

1. Interutility transporters constitute a customer class. Curtailment within this class is based upon the interutility transportation rate paid, where the transporter with the lowest rate is curtailed first. Pro rata curtailment is used in cases where interutility shippers pay the same rate.
2. Interutility transportation is to be made through a local distribution company to another local distribution company on behalf of any end user or shipper for use within the State of California.
3. Interutility transportation for California service is limited to gas delivered at the California border or produced within California for use by facilities within California.
4. The default payment for gas compressor fuel use is made with gas paid in-kind. If instead a particular customer prefers to pay cash, a factor should be negotiated and identified in the contract.
5. Fuel use formulas and a reporting mechanism for system credits were adopted by Decision 87-05-069.

Conclusions of Law

1. Brief documentation by the utility of each curtailment, denial of service, bottlenecks at points of transfer, and rerouting is reasonable. Such documentation should be provided to the affected customer/agent upon request.
2. The general operating procedures and practice guidelines, as outlined in section 7 of the Discussion, are reasonable and should be developed jointly by Southern California Gas Company and Pacific Gas and Electric Company.

3. In lieu of adopted rules for nominations and billings, corrections of gas imbalances should follow the FERC standard where, after notification of an imbalance is given, the shipper has 45 days to correct the imbalance. Penalties should be prospective, and should provide the shipper with an opportunity to comply.
4. Contract service terms of one month are reasonable.
5. Contract negotiations shall be conducted in good faith by both parties.
6. To provide for the possibility of a double billing of the El Paso Standby surcharge, SoCal and PG&E should adopt the recommended procedure as outlined under section 2 of the Discussion.
7. PG&E may use estimated bills on a monthly basis, but should attempt reconciliation on a quarterly basis.
8. The standard language used by PG&E concerning the inclusion of add-on charges is reasonable.

O R D E R

IT IS ORDERED that:

1. Southern California Gas Company shall file revised tariff sheets and a model contract in accord with the provisions of General Order 96A consistent with each of the findings and conclusions listed above.
2. SoCal and PG&E shall provide interutility transportation service for customers and shippers when it is operationally possible to do so.
3. The purchase price for excess gas paid by SoCal to the shipper shall be based on the weighted average cost of gas of the noncore portfolio for the month in which the imbalance occurred, or may be negotiated by SoCal and the customer separately and incorporated in the contract.
4. Reciprocal warranties concerning the customer's rights to the gas and that the gas is free from all liens or claims shall be included in the model contract by PG&E.
5. Southern California Gas Company shall meet with Pacific Gas and Electric Company to agree on interutility nomination and billing guidelines as outlined in the Discussion. The guidelines shall be submitted to the Chief of the Energy Branch of the Commission Advisory and

Compliance Division within thirty days of the effective date of this Resolution. In addition, each interutility gas transportation customer and shipper shall be provided with these guidelines no later than March 11, 1988. Changes to these guidelines shall be submitted to the Commission and to the customers and shippers when such changes occur.

6. Southern California Gas Company and Pacific Gas and Electric Company shall meet every other month with each other and periodically with interutility customers during 1988 to modify and improve these guidelines. Both companies shall submit finalized, understandable and compatible guidelines by advice letter, following the standard General Order 96A tariff format for Rules, no later than one year beyond the effective date of this Resolution. If operational differences cause a rule's wording to be different between SoCal and PG&E, such difference shall be identified and explained by footnote at the end of the rule.

7. Advice Letter No. 1732 and the compliant substitute tariff sheets shall be marked to show that they were approved by Resolution No. G-2762, effective January 28, 1988.

8. This order is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on January 28, 1988. The following Commissioners approved it:

STANLEY W. HULETT
President
DONALD VIAJ
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners


Executive Director