

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY  
AND COMPLIANCE DIVISION  
Energy Branch

RESOLUTION G-2824  
September 14, 1988

R E S O L U T I O N

RESOLUTION G-2824; SOUTHERN CALIFORNIA GAS COMPANY REQUEST TO TEMPORARILY MODIFY RULE 23, "SHORTAGE OF GAS SUPPLY, INTERRUPTION OF DELIVERY AND PRIORITY OF SERVICE", TO MAKE UP TO 10 BCF (BILLION CUBIC FEET) OF GAS AVAILABLE FOR UTILITY ELECTRIC GENERATION CUSTOMERS LOCATED IN THE SOUTH COAST AIR BASIN; BY ADVICE LETTER 1816, FILED AUGUST 26, 1988.

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SUMMARY

1. Southern California Gas Company (SoCal) requests expedited Commission approval of a temporary service to offer its utility electric generation (UEG) customers located in the South Coast Air Basin (SCAB). SoCal proposes a temporary modification of Rule No. 23, Shortage of Gas Supply, Interruption of Delivery and Priority of Service to make up to 10 Bcf of gas available for UEG purposes on expected episode days to minimize air quality problems in the SCAB.
2. Five protests have been received in response to Advice Letter 1816. There is insufficient time to receive and incorporate any response to the protests from SoCal.
3. This advice letter is rejected, without prejudice. The advice letter and all protests, comments and responses will become a part of the record in Order Instituting Investigation (OII) 88-08-052.

BACKGROUND

1. In response to the curtailment of Utility Electric Generation (UEG) natural gas deliveries in the Los Angeles area, the Commission issued OII 88-08-052 on August 25, 1988, and an emergency order authorizing waiver of the curtailment rules through November 1, 1988, to implement a

program to meet the unusual circumstances faced by the energy utilities in southern California.

2. Southern California Gas Company submitted Advice Letter 1816 the next day, August 26, proposing a UEG gas banking service to the SCAB UEGs on an historical prorata basis, using a 10 Bcf (billion cubic feet) allocation of gas to these same customers on episode days, and requesting temporary waiver of Rule 23, "Shortage of Gas Supply, Interruption of Delivery and Priority of Service". This gas would be in addition to those customer's daily allocation of gas during the curtailment period. The over-parity portion of the 10 Bcf of gas which is used by UEG customers would be "paid-back" by the user, at the request of SoCal, through additional individual curtailments on non-episode days.

3. The delivery of gas on episode days could occur at one price and the subsequent pay back could occur at a different price. SoCal requests that the Commission address this possibility.

4. SoCal requests expedited Commission approval of this filing under the provisions of Section 491 of the California Public Utilities Code and Section X, Subsection A of General Order 96-A on less than statutory notice. This is to allow additional natural gas to be made available within the South Coast air basin for electric power generation in order to minimize air quality problems associated with burning fuel oil during August, September and October episode day periods.

5. Protests to this advice letter have been received from Southern California Edison Company (SCE), the Division of Ratepayer Advocates (DRA), Southern California Utility Power Pool (SCUPP), Imperial Irrigation District (IID), and the City of Long Beach Gas Department (Long Beach).

#### PROTESTS

1. Briefly, SCE argues that:

The Advice Letter, by setting a limit on gas availability on episode days, violates the Commission's clear intent in OII 88-08-052 to prevent curtailment of UEG load on episode days and minimize oil burn on non-episode days.

The Advice Letter, by setting a storage inventory target level that includes the full winter needs of interruptible industrial customers (P-2B through P-4) cold-year needs), violated the Commission's clear

intent that SoCal protect the winter needs of high priority residential and commercial customers (P-1 and P-2A) cold-year needs) only.

The Advice Letter mischaracterizes the conditions leading to the present situation which triggered the Advice Letter.

The Advice Letter, by setting a limit on gas availability on episode days and by withholding gas from UEG customers for electric generation in the summer to store the gas for use by fuel switchable customers in the winter would exacerbate air quality problems rather than improve air quality as claimed.

2. The DRA argues that:

The requested authorization and ratemaking treatment is clearly an issue in the Commission's investigation into the curtailment of natural gas to UEG customers in OII 88-08-052, and that the issues should be discussed in that proceeding.

Should the Commission find that the requested authorization is not at issue in OII 88-08-052, DRA protests on the grounds that insufficient information has been provided in the filing to allow for reasoned decision making and that the proposal is not in the best interest of ratepayers.

3. Graham and James, representing SCUPP and IID argues that:

SoCal's proposed 68 Bcf storage target is excessive and should be reduced to the level needed to protect high priority (Residential and Commercial) needs.

The Commission should reject SoCal's proposal to limit out-of-pattern curtailment on episode days to 10 Bcf.

Pending the outcome of the currently scheduled October 3, 1988 hearings in the proceeding, the appropriate storage target to be used by SoCal for P-1 - P-2A peak season needs should be no more than 55 Bcf.

If the Commission approves limiting out-of-pattern deliveries to the amount in SoCal's proposed 10 Bcf "bank", it should require SoCal to deliver "bank" gas before "targeted" gas and direct SoCalGas to

eliminate the "payback" proposal.

4. Long Beach argues that:

SoCal has designated the curtailment a "capacity curtailment", rather than a "supply curtailment."

SoCal has claimed that it cannot meet UEG demand and fill storage simultaneously. Long Beach does not understand how this claim affects SoCal's need to limit Long Beach deliveries to its UEG customer, SCE.

SoCal's pro-rata allocation has the effect of limiting the amount of gas that SCE may receive from Long Beach. SCE should be free to decide where it will consume the gas that is available.

The "pay-back" provision renders the allocation irrelevant, since the result is a net of zero. Why allocate capacity, when the gas has to be returned to SoCal?

If any pricing issues relating to the episode-day gas delivery and pay back are resolved by the Commission, they should only operate prospectively.

To the extent that SoCal curtails UEG load in the summer to store gas to serve industrial customers in the winter, it increases its own margin recovery. While this motive is obvious, it should not be the basis for curtailment.

Long Beach has understood that UEG requirements would be served to the extent that gas is "available." Long Beach contends that gas that is otherwise stored to serve noncore requirements is "available" to serve UEG load.

Long Beach has been unable to transport gas. SoCal appears to have preempted pipeline capacity for its own purposes and has improperly allocated Long Beach's spot gas flowing into the interstate pipeline systems.

DISCUSSION

1. In opening the investigation in OII 88-08-052, the Commission outlined the objective of establishing the reasonableness of the emergency measures set forth in the order issued August 25, 1988. These measures are:

Require SoCal and SCE to work with other utilities to maximize the amount of natural gas brought to California.

Require that up to 0.1 Bcf per day of additional El Paso Natural Gas Company (El Paso) supplies be included in the non-core portfolio for sale to non-core procurement customers.

Require any additional supplies in excess of 0.1 Bcf per day obtained will be targeted to SCAB UEGs.

Temporarily waive portions of SoCal's Tariff Rule 23.

Authorize SCE to purchase natural gas at prices above the cost of low-sulphur fuel oil.

Order San Diego Gas and Electric (SDG&E) and PG&E to make gas supplies available to the extent needed by SoCal by burning low-sulphur fuel oil in their UEG plants as allowed by system operation requirements and local air quality regulations.

2. The protestors question SoCal's winter storage target of 68 Bcf and also their inclusion in storage of amounts for P-3 and P-4 noncore customers, rather than limiting the storage target to the level needed to protect high priority (Residential and Commercial, P1 - P2A) needs only. The Commission's policy is to allow the utilities to control the operation of their systems. The storage target of 68 Bcf and the inclusion of the P-3 and the P-4 customers in this storage target is a management decision to be made by SoCal, not the Commission. The Commission, through its reasonableness review process, will subsequently address SoCal's decisions for prudence. In addition, the Commission is reviewing overall storage policy in OII 87-03-036.

3. The protestors also question what gas sequencing should occur. Should "targeted" gas be used before or after "bank" (the 10 Bcf) gas? The Commission will address this issue in OII 88-08-052.

4. SCUPP and IID ask if it is reasonable to limit out-of-pattern curtailment on episode days to 10 Bcf. This issue is implicitly contained in the subject matter of the

Commission's OII 88-08-052 and is more properly addressed in that proceeding.

5. If the SoCal proposal is found reasonable, SoCal asks the Commission to determine the appropriate rate mechanism and rate. The Commission Advisory and Compliance Division (CACD) has reviewed SoCal's proposal and identifies a number of rate design and environmental issues requiring exploration. Such issues involve equity to other utility customers vs. SCAB customers, transmission rates for interutility gas, pay-back prices, the impact on other utility rates, equity among other utilities, and the environmental concerns of burning oil elsewhere in California.

6. Many of the issues raised by SoCal's Advice Letter 1816 are common to the pending OII issues outlined above. Because of the timeliness and the general scope of the proceeding, CACD recommends that the Commission consider all the issues identified above in that forum.

#### FINDINGS

1. It is the policy of the Commission to allow the utilities to manage the operation of their systems. The Commission views storage targets and other such operational choices as management decisions to be made by the utilities.

2. Many of the issues raised by the protestors to SoCal's Advice Letter 1816 are common with issues pending in OII 88-08-052 and should be reviewed in one forum.

3. SoCal's Advice Letter 1816, the protests, comments, data requests, and responses should be appended to OII 88-08-052. Therefore,

IT IS ORDERED, that:

1. Southern California Gas Company's Advice Letter 1816 is rejected, without prejudice, with regard to Ordering Paragraph No. 2, below.
2. All materials received, the advice letter proposal, and this resolution shall be appended to OII 88-08-052.
3. Southern California Gas Company will propose a method of ratemaking treatment for pay-back. This proposal will be submitted at the pre-hearing conference for OII 88-08-052, on September 23, 1988 and mailed to the service list and the protestors to Advice Letter 1816. Interested parties may submit supplemental testimony to this rate proposal by the OII hearing date, October 3, 1988.
4. Advice Letter No. 1816 shall not be reused.
5. This Resolution is effective today.

I certify that this Resolution was approved by the Public Utilities Commission at its regular meeting of September 14, 1988. The following Commissioners approved it:

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



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Executive Director