

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY  
AND COMPLIANCE DIVISION  
ENERGY BRANCH

RESOLUTION G-2873  
MAY 10, 1989.

R E S O L U T I O N

RESOLUTION G-2873. SOUTHERN CALIFORNIA GAS COMPANY  
AUTHORIZED TO IMPLEMENT A PILOT GAS STORAGE BANKING  
PROGRAM PURSUANT TO DECISION 89-02-068 FOR SERVICE ON  
AND AFTER APRIL 1, 1989. BY ADVICE LETTER 1860, FILED  
MARCH 6, 1989.

SUMMARY

1. Southern California Gas Company (SoCal) submitted Advice Letter 1860 on March 6, 1989 to comply with Decision (D.) 89-02-068 in order to implement a pilot program for Gas Storage Banking. SoCal requested approval of the Advice Letter to be effective on February 24, 1989, the issue date of D.89-02-068, with the new service to begin April 1, 1989.
2. This resolution grants the request.

BACKGROUND

1. The Gas Storage Banking program was first authorized in an interim opinion, D.88-11-034, issued November 9, 1988. The service is based on the integrated use of utility pipelines and the cycling capability of their underground storage fields. The program envisions helping the utilities' noncore customers to benefit from seasonal fluctuations in the price of gas consumed in California, while ensuring that the utilities own storage operations on behalf of core customers continue unimpeded.
2. Decision 88-11-034 prescribed a first year pilot program for noncore participation beginning April 1, 1989, followed by a regular program in 1990. Prospective customers would bid for the service. The winning bid price would establish the monthly reservation fee for the banking service.
3. Decision 88-11-034 directed SoCal and Pacific Gas and Electric Company (PG&E) to submit implementation plans containing proposed additions to or modifications of the Preliminary Statements, Rules and Tariffs, the charge calculations, service contract forms, and a detailed bidding package.

4. Hearing participants submitted written comments on the implementation plans. Subsequently, the Commission Advisory and Compliance Division's (CACD) Energy Branch held workshops to resolve the issues raised by the participants. The participants and the utilities submitted final, written comments to CACD.

5. CACD submitted its report on the workshop to the Commission on January 25, 1989. Two decisions followed on February 24, 1989: D.89-02-068, dealing with the workshop issues, and D.89-02-082, addressing Applications for Rehearing and Petitions for Modification of D.88-11-034.

6. SoCal submitted Advice Letter 1860 to comply with D.88-11-032, D.89-02-068 and D.89-02-082. Bid packages containing the proposed tariff sheets were mailed to all noncore customers so that they could bid for the service due to begin April 1.

7. Advice Letters were mailed also to the gas service list of participating intervenors.

#### PROTESTS

1. Protests were received from Southern California Edison Company (SCE) and Jones, Day, Revis and Pogue on behalf of the Southern California Utility Power Pool and the Imperial Irrigation District (SCUPP/IID). SCUPP/IID supported Edison's protest in full. Also, comments were submitted by the Division of Ratepayer Advocates (DRA).

2. SCE believes that the advice filing as written is not in the best interest of electric ratepayers and banking customers and should be modified to correct the following concerns:

"a. The procedures for nominating storage deposits and withdrawals are too restrictive and are contrary to the intent of Decision 89-02-068 and provide banking customers with inadequate flexibility to respond to actual conditions.

b. SoCal's revised, unsupported Operating and Maintenance Injection (O&M) charge appears to be excessive and should be either reduced to 0.456¢ per therm for the pilot program or the Commission should require SoCal to justify its proposed O&M charge.

c. SoCal's procedures for treating revenue from the pilot storage banking service should be modified or clarified to reflect the treatment of variable charges and franchise fees and uncollectibles as prescribed in Decisions 89-01-017 and 89-02-068."

3. In its response, SoCal disagrees with SCE on the first two of these issues, arguing that its Advice Letter 1860 is in compliance with the Commission's decisions, and the variable charge treatment proposed by Edison in its protest is not consistent with the decisions in the storage case. However, SoCal does agree that modification of its tariff filing is appropriate to clarify the treatment of variable charges, franchise fees and uncollectibles.

4. DRA's comments suggest that SoCal modify its advice letter filing as follows:

a. SoCal should resubmit one of the Preliminary Statement sheets to identify the Reservation Charge for the banking service.

b. SoCal should reword a section in the Preliminary Statement. It should state that the price to be paid by the utility, if it buys the customer's gas back at the end of the storage banking year, should be the current lowest incremental cost of gas, not the lowest cost of gas during the term of the customer's storage service agreement.

c. SoCal should delete the interest penalty in the Storage Service Agreement to be paid by the customer if it fails to pay any bill when the bill becomes due. DRA objects on the grounds that no such penalty exists elsewhere and, that if allowed, would be a higher interest rate than it receives for its balancing accounts.

d. SoCal should indicate how it will account for the O&M charge which storage customers will be paying as part of the rates associated with the service.

5. SoCal is not required to submit a written response to comments and, did not reply.

#### DISCUSSION

1. SCE argues that SoCal did not comply with the intent of D.89-02-068 because it failed to provide banking customers with adequate flexibility to respond to actual conditions. Specifically, SCE objects to the lack of a provision for adjusting nominations during the month in response to changing conditions. SCE argues that Decision 89-02-068 recognizes that "banking service is properly viewed as an adjunct to gas transportation" (p.2) and, therefore, the storage tariffs should provide a degree of flexibility to adjust nominations during the month similar to that afforded transportation customers.

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SCE cites SoCal's Rule 30, which governs the transportation of customer-procured gas: "Customer will give notice to Utility at least by 9:00 a.m. Pacific time two (2) calendar days before initial deliveries, or a change in delivery is requested." (Section C.2, emphasis added). SCE argues that in order to conform to the intent of D.89-02-068, SoCal's tariff should be amended to provide similar flexibility to banking customers.

SoCal answers that its tariff filing conforms exactly to the nomination procedures specified in D.89-02-068, and cites from the decision: "The lead time for pilot program banking service nominations at the beginning of the month should be two days, except for withdrawal nominations during August, September, and October, for which the LDCs (Local Distribution Companies) may require a lead time of not less than four days before the beginning of the month." SoCal argues further that "if the Commission had intended in D.89-02-068 to allow storage customers to make or change storage nominations on two days notice at any time during a month, it would not have specified in D.89-02-068 that the notice should come before the beginning of a month."

CACD agrees with SCE in this instance. Comments made by SoCal in the storage workshops and subsequent written comments, and other published materials all confirm that SoCal should allow at least one monthly adjustment in nominations.

The gas industry spot market revolves around purchases at the beginning of each month. Heavy bidding occurs at this time, causing much competition for the best prices. For planning purposes, nominations for a month's transportation are needed in advance of the first of each month. However, adjustments may be necessary to align received volumes with nominated volumes.

Decision 89-02-068 (pp. 15-16) states that "the two-day lead time presently used for transportation nominations at the beginning of the month is also generally appropriate for banking service. An exception to the latter generalization is where the banking customer seeks to make a withdrawal during what is normally the injection season."

SoCal's "Storage Banking Nomination Procedures", sent to each prospective noncore customer, states that a transport customer "nominates to SoCal based on current transportation rules". In the workshop, this issue was discussed and commented on. In its written comments to the workshop, SoCal stated: "During the period of the Pilot Program, SoCalGas expects to be in a near maximum injection mode throughout the injection period. One adjustment of injection nomination per month is permitted." (Workshop Comments, p.19).

SoCal has declined to incorporate tariff language explaining its stated policy. Further, SoCal has relied on the Commission's lack of a statement regarding adjustments in D.89-02-068 to support its position. No mention of adjustments is made in the tariffs, but statements found in the bid packages indirectly support the notion that adjustments can be made during the month, relying on the transportation rules (Rule 30) for an explanation. For clarity, CACD recommends that SoCal be required to mention in its tariff that adjustments to nominations will be made on a best efforts basis, and that at a minimum, one adjustment per month is permitted with a two day lead time for that adjustment nomination.

2. SCE's second issue involves the Variable Operating and Maintenance Injection (O&M) charges. SCE states that the tariff amount was undocumented and should either be reduced to 0.456¢ per therm (the amount reviewed in the implementation plans and the workshops) or that the O&M charge be justified.

SoCal responded to this issue in its response to SCE's protest with documentation supporting the injection in-kind charge percentages and the variable O&M calculations. CACD reviewed the methodology and the calculations and is satisfied that it complies with the decision and that it is essentially correct.

The new variable O&M charge was calculated averaging SoCal's "Big Four" storage fields. The initial calculation was limited to the Aliso field. The new calculation increased to 0.631¢ per therm from the earlier 0.456¢ per therm. SCE argued that the increase was counter-intuitive and that the charge should have decreased rather than increased.

CACD believes that inclusion of the other three fields and the revision of the GNP Deflator used to escalate the value from 1988 to 1989 dollars caused the increase. Of the "Big Four" storage fields, Aliso and Golita were the most cost efficient fields averaging between 0.4¢ and 0.5¢ per therm. Honor Rancho's eight year average was 0.9¢ per therm, and Montebello was 1.58¢ per therm.

In its review of the O&M calculations and the in-kind injection energy charge, CACD found some minor math errors. The corrected O&M charge amounts to 0.640¢ per therm from 0.631¢ per therm, a 0.009¢ per therm increase in favor of SoCal.

The in-kind energy charge contained some rounding problems. When calculated, the percentage should have been 2.651% instead of 2.710%. When converted into dollars, using an estimate of 0.20¢ per therm for the cost of gas, the net change amounts to a decrease of 0.012¢ per therm.

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When both errors are corrected, SoCal gains a net annual overcharge of \$3,879 for the whole program, using the 0.200 per therm cost of gas. Despite the small net effect of these calculations, CACD recommends that the corrections be made to the tariffs in order to remedy any future misunderstandings.

3. SCE's third issue was that SoCal's tariffs state that the account which records the amount to be credited back to noncore customers will be credited with specified percentages of the reservation charge revenues less an allowance for Franchise Fees and Uncollectibles (F&U). In addition, SCE points out that SoCal's tariff filing does not clearly reflect the provision of D.89-01-017 that pilot program variable charge revenues be credited back to noncore customers.

SoCal states that D.89-02-068 provides that during the pilot program the utilities will not add any F&U costs to their reservation charges. SoCal agrees that the language in the tariffs is confusing for the pilot program and will remove the reference. Regarding the revenue credits, SoCal also agrees that its filing is not sufficiently clear on this point. SoCal will submit revised language to make clear that the account for refund to noncore customers will be credited with all revenues from the O&M injection charge and with the imputed value of in-kind fuel charges paid by storage banking customers.

4. DRA's comments were discussed with SoCal. SoCal agreed that it should identify the Reservation Charge for banking service in its rates summary of the Preliminary Statement and that the accounting of the O&M charge should also be identified. SoCal will substitute sheets correcting these omissions.

5. CACD queried SoCal about the interest penalty found under the Storage Service Agreement to be paid if the customer fails to pay any bill when the bill becomes due. Section 8.3 of the service agreement reads:

"Should Storage Customer fail to pay any bill when the same becomes due, interest shall accrue thereon at an annual interest rate equivalent to one hundred twenty-five percent (125%) of the interest rate applicable to the Utility balancing accounts.... such interest rate shall not exceed the maximum rate permitted by law."

The formula for the interest penalty is :

Amount Due X 1/12 Commercial Paper Rate X 1.25

This rate was not contested in the workshops nor was it protested in the Advice Letter filing. However, DRA commented that it seemed rather high. CACD recommends that the rate be allowed for

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the duration of the pilot banking program on the condition that it receive review before the regular program begins in April 1990.

6. DRA's remaining comment concerned the price the utility was to pay a storage customer for its gas at the end of the storage banking year. DRA believes that in D.88-11-034 the Commission is indicating that the appropriate gas price would be the utility's lowest incremental cost of gas, not the lowest cost of gas during the term of the customer's service agreement. Decision 88-11-034 (pp.31-32) states that the gas price to be used is at the LDC's lowest incremental source.

SoCal's tariff states that "If a customer has gas in its storage account at the end of its contract term, Utility shall buy the remaining gas at Utility's lowest incremental cost of gas during the term of customer's storage service agreement unless another arrangement is mutually agreed upon by the parties...".

Since the tariff also states that another arrangement can be made if mutually agreed upon by the parties, this issue is remedied. CACD recommends no changes be made to this section of the tariff.

#### FINDINGS

1. Nomination adjustments shall be made on a best efforts basis. At a minimum, storage banking customers should be afforded one adjustment of injection nominations per month with a two day lead time.
2. Southern California Gas Company's injection in-kind charge percentages and variable O&M charges for storage banking shall be corrected to 2.651% and 0.640¢ per therm respectively.
3. Southern California Gas Company should submit revisions to clarify that the account for refund to noncore customers will be credited with all revenues from the O&M injection charge and with the imputed value of in-kind fuel charges paid by storage banking customers.
4. Southern California Gas Company should be allowed to use its annual interest penalty for the pilot storage program. This penalty is subject to reconsideration for the regular storage program in April 1990.

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THEREFORE, IT IS ORDERED that:

1. Southern California Gas Company is authorized to implement its pilot gas storage program effective April 1, 1989.
2. Southern California Gas Company shall submit substitute sheets as discussed above.
3. Advice Letter 1860 shall be marked effective on April 1, 1989.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on May 10, 1989. The following Commissioners approved it:

G. MITCHELL WILK  
President  
FREDERICK R. DUDA  
STANLEY W. HULETT  
JOHN B. OHANIAN  
PATRICIA M. ECKERT  
Commissioners

  
Executive Director

