

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-2909
March 28, 1990

R E S O L U T I O N

RESOLUTION G-2909, SOUTHERN CALIFORNIA GAS COMPANY
(SOCAL) ORDER AUTHORIZING SCHEDULE G-STOR, NATURAL GAS
PILOT PROGRAM FOR NON-CORE STORAGE SERVICE, WITH MINOR
CHANGES. BY ADVICE LETTER 1927 FILED DECEMBER 29, 1989.

SUMMARY

1. A pilot program for gas storage was initiated for 1989 by Decision (D.) 88-11-034. The pilot program was extended for a second year by D. 89-12-046.
2. On December 29, 1989 Southern California Gas Company filed Advice Letter 1927 to comply with D. 89-12-046 by modifying its Schedule G-STOR, *Natural Gas Pilot Program for Non-Core Storage Service*. A number of minor changes were made by D. 89-12-046. The most significant of these changes was that brokers and marketers were allowed to participate in the program.
3. This resolution authorizes a modified storage banking program, reflecting compliance with D. 89-12-046 and with D. 90-03-037, issued March 14, 1990, addressing Utility Electric Generation (UEG) smog season gas storage.

BACKGROUND

1. The Pilot Storage Banking Program, adopted by D.88-11-034, was extended as a pilot program for another year by D.89-12-046. Adoption of the permanent program was delayed due to a lack of adequate experience with the current program. At the time of the decision, storage withdrawals for the pilot program had not begun yet. In addition, the absence of firm interstate transportation may have discouraged full participation in the pilot program.
2. Decision 89-12-046 made slight changes to the pilot program and ordered Southern California Gas Company (SoCal) and Pacific Gas and Electric Company (PG&E) to file tariffs to comply. The changes (1) extend reporting, (2) allow as-available service, (3) allow participation of brokers and marketers on their own behalf, and (4) extend the pilot program without imposing the banking reservation fee on core-elect customers.

3. The advice letter filing will not increase any rate or charge, conflict with any rule or schedule, nor cause the withdrawal of service.
4. Advice Letter 1927 was mailed to interested parties, other utilities and governmental agencies, in accordance with General Order 96-A, Section III, Paragraph G.

PROTESTS

1. Protests were received from Salmon Resources Ltd. and Mock Resources, Inc. (Salmon/Mock) on January 16, 1990 and from Southern California Edison Company (SCE) on January 18, 1990. Comments were received from the Division of Ratepayer Advocates (DRA) on January 12, 1990. SoCal responded to the protests and comments in separate letters dated February 8, 1990.
2. Salmon/Mock objects to SoCal's proposal requiring brokers and suppliers participating on their own behalf to prepay 25 percent of the annual reservation fee prior to the commencement of the storage banking season. Salmon/Mock assert that SoCal's proposal is not supported by the Commission's underlying storage banking decisions and is not consistent with the Commission's effort to make storage banking a viable program to enhance transmission reliability for noncore customers.
3. SoCal responded to Salmon/Mock's protest, quoting the December 1989 decision:

"...SoCalGas has several options for addressing and preventing collections problems. To improve their collections capabilities, the utilities should either require payment in advance or impose a penalty for nonpayment as DRA suggests." (D.89-12-046, p. 7)

SoCal argues that Schedule G-STOR is fully within the scope of the remedies suggested in D.89-12-046.

4. SCE protests Advice Letter 1927 on three grounds:
 - SoCalGas' proposed G-STOR tariff does not accurately reflect Commission policy on the seasonality of storage withdrawals;
 - SoCalGas' proposed G-STOR tariff does not accurately reflect the intent of Decision 89-12-046 regarding the refund of storage reservation fees for non-performance; and
 - SoCalGas provides no justification or authorization for its proposed restrictions on the transferability of gas in storage to a different end-use.

5. SCE argues that SoCal has changed the original intent of Decision 89-02-068, when the Commission stated its intent to allow complete flexibility for storage withdrawals after April 1990. SCE requests that Schedule G-STOR be modified to allow deposits and withdrawals throughout the 1990 banking year.

6. SoCal argues that "Advice Letter 1927 is consistent with the Commission's requirement for the pilot program. Decision 89-12-046 extended the pilot program for the April 1990 - March 1991 storage year ..." and "[t]he decision to extend the pilot program for another year postponed the effectiveness of a number of provisions that are part of the permanent program...Allowing withdrawals before August 1 is just one of those aspects of the regular storage banking program that were deferred by the extension of the pilot program."

SoCal continues with:

"the provisions of Advice 1927 are not intended to prevent Edison or any other UEG (Utility Electric Generation) customer from withdrawing during the smog season (i.e., June 1 through October 31) gas that was stored as part of the program to provide protection from curtailment in that period."

SoCal filed a Petition to Modify D.89-12-046, proposing to provide storage service to UEG customers for smog season protection as a service separate and distinct from the second-year of the pilot program storage banking service (D.89-03-037). SoCal assures SCE that it will be allowed to withdraw its gas during the smog season.

7. SCE's second issue centers on SoCal's tariff language in Special Condition 19, which reads:

"Utility shall refund storage reservation fees on failure to meet at least 50% of the total storage banking service obligation for the storage season based on actual deliveries to storage. Refunds are to be prorated according to customers contract performance levels."

SCE is concerned that no refunds of reservation fees would be made if SoCal provided 50% of the storage service contracted for by all customers as a group, even though some individual customers were not provided with 50% of their individual contract quantity.

SoCal responds that it does not believe that the Commission considered this issue when it adopted the 50% threshold for refundability. SoCal states that storage banking customers are not allowed to avoid paying reservation fees simply by failing to store gas when they have the opportunity to do so. SoCal argues that if it actually stores over 50% of the volume storage

customers have contracted for, that this is the best possible evidence that SoCalGas provided the opportunity to store at least 50%. In addition, SoCal states that it is unlikely that any one customer would not have had the opportunity to store 50% of its contracted volume when the class as a whole actually stored over 50%.

SoCal argues that "[w]hile it might be theoretically desirable to examine whether each storage customer had the opportunity individually to store 50%, it simply is not feasible to do so at this time because of the extraordinary daily recordkeeping that would be necessary for each customer."

8. SCE's third objection is to SoCal's Special Condition 22, which limits transferability of storage banking service to a lower end-use priority. SCE argues that this condition is not authorized by any decision.

SoCal replies that D.89-02-068, (p.12) provides that the injection and withdrawal of gas in the storage banking program shall be prioritized according to end-use priority. SoCal states that "[t]herefore it would be improper 'gaming' of the system to allow a customer to obtain a priority to inject when storage injection capacity was constrained by claiming it would be used for a P-3 end-use, but to then later withdraw the gas to serve a P-5 requirement. Absent the prohibition in proposed Special Condition 22 on transfers of end-use priority, a P-5 customer could wrongfully deprive a P-4 customer of the opportunity to store and withdraw gas."

9. The Division of Ratepayer Advocates (DRA) comments recommended that bid winners should be announced no later than March 5, 1990 rather than March 11, 1990 as proposed by SoCal. In addition, DRA questioned the amount of storage SoCal would offer for the 1990-1991 season, stating that the tariff sheets of the advice letter were ambiguous.

10. SoCal responded to DRA, agreeing that the earlier bid date suggested was correct and that it would revise its plan so that bids would be announced on March 5, 1990. SoCal also clarified that the amount of storage it would offer would be the same as last year, 16.7 Bcf, and stated that it had already informed its prospective storage customers.

DISCUSSION

1. By extending the pilot storage program for another year, the Commission's objectives were to continue the same program from last year and to include any small modifications or enhancements which could improve the program's operation. More controversial issues, such as charging the core-elect a reservation fee for gas in storage, were not considered.

2. SoCal has submitted revisions to Schedule G-STOR, previously adopted by Resolution G-2873. Primarily, these revisions add brokers and marketers to the program and prohibit banking under conditions of gas curtailment.

3. Salmon/Mock object to SoCal's provision that brokers and marketers pay 25 percent of their reservation fee before the banking program begins. Pacific Gas and Electric Company (PG&E) has been authorized a similar condition for its pilot storage program, but brokers and marketers are required to pay the full amount of the annual reservation fee prior to the commencement of the storage banking season. (See Resolution G-2908).

4. Decision 89-12-046 suggests that the utilities "should either require payment in advance or impose a penalty for nonpayment" to improve their collections capabilities with brokers and marketers (p. 7). The decision does not prescribe what the conditions of prepayments should be nor what an appropriate penalty would be for nonpayment. SoCal has elected to charge brokers and marketers 25 percent of the reservation fee in advance. SoCal has exercised its rights by following the decision's suggestion.

5. However, neither SoCal nor PG&E proposed to pay interest on these advance collections, a standard practice used with other utility advance deposits, such as for a new, residential customer. SoCal's filing appears to comply with the decision, but it has not extended interest to the advance reservation fee payments. CACD suggests that each banking customer's advance deposit of reservation fees accrue interest on the remaining average monthly balance, tied to the interest rate on three-month Commercial Paper, as reported in the Federal Reserve Statistical Release, G.13, or its successor, and that the accrued interest be returned to the customer upon completion of the banking year.

6. Southern California Edison's first objection to SoCal's Advice Letter 1927 is that it restricts the ability to withdraw storage gas before August 1. The LA basin smog season extends from June through October. SCE, already facing gas curtailments, is concerned that the storage banking program will prohibit it from withdrawing its stored gas when it may need it most.

7. Storage Decision 89-02-068 compromised on the issue of seasonality, providing that at least UEG and cogeneration storage customers be allowed to withdraw their storage volumes beginning August 1 rather than November 1. The latter date had been proposed by both utilities, and SoCal had argued that it needed the additional time in 1989 to develop a mainframe computer program operational for the pilot program. The recent changes adopting UEG smog storage banking allow withdrawals beginning June 1. SoCal offers no valid, current reason why the pilot storage program should have any continuing restriction of August

1 for cogenerators and November 1 for all other storage banking customers, other than as a continuation of the pilot program. CACD recommends that the pilot storage banking program allow all customers to withdraw storage gas on a best efforts basis, beginning June 1.

8. SCE objects to SoCal's restriction on the transferability of gas in storage to a different end-use for withdrawals. SoCal responds that to do otherwise would permit the UEGs to game the system. Decision 90-03-037 provides that UEG storage gas for the smog season has priority over other storage gas. CACD recommends that UEG storage gas retain the same priority designations for injection and withdrawal. SoCal's argument is persuasive and follows the intentions of previous decisions on storage banking. By D. 90-03-037, UEG gas will precede other storage customers' gas, and so, no gaming should occur. SoCal should modify its tariffs accordingly.

9. SoCal's and SCE's construction of the 50% rule for rebating reservation fees is resolved by Decision 89-12-046, which states:

"We will order SoCalGas to refund storage reservation fees to the extent that it was not able to provide service for which bids were accepted in 1989-1990. During the 1990-1991 storage injection season, SoCalGas should refund storage reservation fees in cases where they cannot meet 50% or better of their contract obligations. Refunds should be prorated according to contract performance levels."

The use of the word cases, rather than the singular form, case, requires SoCal to make refunds on the basis of individual customer storage performance, not on the basis of SoCal's total, year-long performance for all storage customers. CACD observes that the 1989-1990 storage banking program data suggests that some banking customers were able to store gas, while others were totally unsuccessful storing any at all. Last year, SoCal refunded reservation fees on an individual basis.

The intent of the 1990-1991 refund provision for SoCal is to cushion the risk faced by SoCal storage customers if the pilot storage program faces the same capacity constraints experienced under the 1989-1990 program. CACD recommends that SoCal provide a refund of reservation fees on an individual basis, not based on SoCal's ability to store 50% of all the 16.7 storage available for the pilot storage banking program. If the storage customer makes no attempts to store up to the total volumes bid, as SoCal fears, then the reservation fees should be paid.

March 28, 1990

FINDINGS

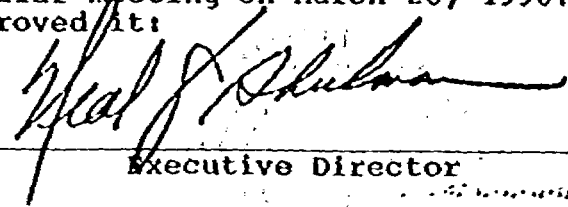
1. SoCal's storage banking Schedule G-STOR may include language requiring brokers and marketers to prepay 25% of the reservation fees for the storage year.
2. Advance payments of reservation fees should be subject to interest. Payment of interest on the accrued average remaining monthly balance should be based on the three-month Commercial Paper rate, as reported in the Federal Reserve Statistical Release, G.13, or its successor. Accrued interest should be refunded to the customer at the end of the storage year.
3. Withdrawals of storage gas under the pilot program will be on a best efforts basis, with priority given to UEG storage gas. Gas withdrawals may begin as of June 1, 1990.
4. Utility Electric Generator companies will designate the priority of their gas destined for storage and such designations will not change under conditions of withdrawals.
5. Refunds of reservation fees will be made on a case-by-case basis. If an individual customer achieves 50% of its bid volumes injected into storage, refunds of annual reservation fees will not be made.

THEREFORE, IT IS ORDERED that:

1. Southern California Gas Company may require brokers and marketers to prepay 25% of the storage reservation fees for the storage year.
2. Southern California Gas Company shall modify and refile Schedule G-STOR tariff sheets, incorporating each of the findings listed above, in accordance with the provisions of General Order 96-A.
3. Southern California Gas Company Advice Letter 1927 and its revised tariff sheets shall be marked to show that they were approved by Commission Resolution G-2909.
4. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on March 28, 1990. The following Commissioners approved it:

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


Executive Director