PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-3189
Date August 2, 1996

R E S O L U T I O N

RESOLUTION G-3189. SOUTHERN CALIFORNIA GAS COMPANY REQUESTS APPROVAL OF A LONG TERM STORAGE CONTRACT WITH BC GAS UTILITY LTD.

BY ADVICE LETTER 2486, FILED ON March 18, 1996.

SUMMARY

1. On March 18, 1996 Southern California Gas Company (SoCalGas) filed an advice letter for a storage contract with BC Gas for inventory, withdrawal, and injection service. The contract includes a provision for redelivery near the U.S. - Canada border.

2. Wild Goose Gas Storage protested the Advice Letter because of: (a) inadequate information regarding transportation rights used for the redelivery, and (b) the possibility that SoCalGas might use existing storage facilities to subsidize contracts made for the expansion.

3. The Division of Ratepayer Advocates (DRA) recommends approval of the contract subject to resolution of revenue disposition in SoCalGas' ongoing Biennial Cost Allocation Proceeding (BCAP).

4. This resolution grants SoCalGas' request subject to certain conditions.

BACKGROUND

1. Decision (D.) 93-02-013 allowed the gas utilities to file off-system storage contracts under the advice letter process with the Commission but required that such contracts be explicitly approved by resolution "in order to allow review of the reasonableness of load balancing price premiums." The decision also allowed balancing account protection of 75% at ratepayer risk (with 25% risk being undertaken by shareholders,

as with noncore transportation) for existing facility contracts and no protection for contracts based on expansion facilities.

2. On March 18, 1996 SoCalGas filed Advice Letter 2486 for a storage contract with BC Gas for firm inventory of 1,250,000 Dth, firm withdrawal of 50,000 Dth per day, and injection service on an as-available basis. The contract also covers firm service on the SoCalGas system for 50,000 Dth/day associated with withdrawal and firm redelivery of 50,000 Dth/day from November 15 to February 15 at the interconnection between Northwest Pipeline Corporation's transmission pipeline and Sumas International Pipeline Inc.'s (SIPI) transmission pipeline at or near Sumas, Washington, near the Canadian border.

NOTICE

Public notice of Advice Letter 2486 was made by publication in the Commission calendar and by SoCalGas mailing copies to parties on the General Order 96-A distribution list.

PROTESTS

1. On April 8, 1996, Wild Goose Gas Storage protested the contract on the grounds that SoCalGas did not provide enough information as to how the redeliveries would be made and whether SoCalGas's transportation rights on Northwest or other pipelines would be used. Wild Goose also objected because SoCalGas provided no information on its expansion rates which should be based on allocated incremental rate design in order to ensure that the existing facility customers do not subsidize expansion contracts.

2. In its reply, SoCalGas argues that since Wild Goose is a competitor of SoCalGas, it cannot provide certain information to Wild Goose.

3. SoCalGas has informed the Commission Advisory and Compliance Division (CACD) that SoCalGas' transportation rights do not come into play since SoCalGas will use the marketer's/producer's rights on Northwest to deliver gas. SoCalGas is in the process of contracting with third party shippers to implement the redelivery service. SoCalGas has notified CACD that no load balancing is involved in this contract.

4. DRA filed a protest stating that the contract should be approved subject to resolution of the allocation of revenues in SoCalGas' ongoing BCAP.

DISCUSSION

1. SoCalGas' filing states that the contract will be based on expansion facilities. After the filing of the contract, SoCalGas conducted discussions with DRA regarding the possibility that the contract obligation might be met with existing storage facilities, because, under its currently adopted resource plan, SoCalGas has enough inventory, injection,

and withdrawal capacity on its existing system to fulfill the contract.

2. In its BCAP application filed on March 15, 1996, submitted after contract negotiations were completed, SoCalGas recommended several changes to its inventory, injection, and withdrawal capacity estimates. The changes in withdrawal and injection capacity estimates are not based on physical changes in the system but are in the nature of accounting changes. SoCalGas changes the definition of withdrawal capacity from that based on a peak hour requirement to that based on a twenty-four hour cycle, thereby reducing the stranded capacity estimate from the current level of 315 MMcfd to zero. Similarly, SoCalGas recommends changing the firm injection capacity estimate from 804 MMcfd to 741 Mmcfd based on the actual demands for injection over a 214 day injection cycle. Only the change in the inventory capacity is based on a physical change in the system; SoCalGas claims that liquids removal at the Honor Rancho field have significantly increased the capacity to store gas. However, the BCAP Application shows in Table 6, entitled "Storage Capacity Overview for the 1996 BCAP", that SoCal must expand its withdrawal capacity to meet the demand for additional noncore withdrawal. Moreover, the planned expansion shown in Table 6 does not include withdrawal capacity for off-system sales, which characterizes the contract with BC Gas. Finally, the BCAP Application shows in Table 7 that SoCalGas plans to expand its withdrawal capacity for the core which raises the issue of the allocation of existing capacity if there were an excess of capacity.

3. Another factor to be considered in the determination of existing capacity on the SoCalGas system is the expiration of SoCalGas' storage contract with Edison on March 31, 1996. If the contract is not renewed, additional withdrawal and inventory capacity will become available on SoCalGas' system. Depending on these factors, SoCalGas claims, it may have enough stranded capacity on the existing system to fulfill the contract, or no stranded capacity, in which case the contract obligation will be met from the expansion, at SoCalGas' risk. SoCalGas argues that under either scenario, the contract is economically prudent. However, SoCalGas' BCAP Application shows in Table 6, entitled "Storage Capacity Overview for the 1996 BCAP", that SoCal has reserved 225 MMcfd for Edison and plans to expand capacity by 295 MMcfd also to serve Edison.

4. SoCalGas has submitted preliminary analysis to CACD which indicates that the contract rate is comparable to the current market price of SoCalGas' storage, after making allowance for redelivery costs. SoCalGas argues that if the contract is deemed to be based on existing storage capacity, the ratepayers will benefit from marginal revenues earned from marketing the capacity to BC Gas. However, whether ratepayers will continue to benefit depends not only on a comparison of contract revenues with current tariff rates but also on a comparison of contract revenues with future tariff rates which are unknown. On the other hand, if the contract is determined to be based on expansion capacity, the shareholders will incur the risk in case

of a revenue shortfall. SoCalGas' analysis of its demand and supply for storage withdrawal as shown in Table 6 of its BCAP Application suggests that the withdrawal capacity for the BC Gas contract would require expansion of SoCalGas' storage facilities.

5. SoCalGas recommends that the revenues from the contract should be logged to the storage balancing account and a determination as to whether the contract obligation will be met with expansion capacity or existing facilities, and the resulting allocation of revenues, should be resolved in the upcoming BCAP. If the contract is deemed to use expansion facilities, SoCalGas will reverse the entries in the balancing accounts.

6. CACD has the following concerns about the contract:

(a) The Commission cannot make a definitive determination as to whether the contract is based on existing storage facilities or expansion and therefore cannot make a conclusive finding as to its benefits to the ratepayers.

(b) Since the redelivery arrangements are not yet finalized, the exact magnitude of revenues is uncertain. SoCalGas' estimates indicate that, in the worst case, redelivery costs could amount to as much as a third of the contract revenues.

(c) Neither the advice letter nor the contract specifically detail the transportation arrangements to be used by SoCalGas to fulfill its obligation under the contract. Therefore, CACD is concerned about the possibility that SoCalGas might use its contractual rights on interstate pipelines to meet its obligations to BC Gas at a future date.

(d) Although D. 93-02-013 allowed discounting of contracts using facilities expansions by stating that "utilities can offer discounts to avoid uneconomic bypass of existing facilities, but the costs of discounting of contracts requiring facilities expansions should not be recovered from other ratepayers," this Commission has an obligation to prevent anticompetitive behavior on the part of the utilities through predatory pricing of contracts. SoCalGas has alleged to CACD that since the expansion capacity in question has already been built, it is prudent for SoCalGas shareholders to market the capacity at discount prices.

(e) The cost of SoCalGas' personnel and time resources spent on negotiating and executing the contract have not been taken into account in its cost benefit analysis and it is possible that after such costs are taken into account, the contract generates a negligible or negative amount of marginal revenue for the ratepayers.

(f) SoCalGas claims it has been negotiating this contract for the last three years. At the time the negotiations commenced, SoCalGas has stated that it projected a stranded withdrawal capacity of 315 MMcfd, well in excess of contract capacity of 50 MMcfd. However, this statement is not compatible with Table 6, entitled "Storage Capapcity Overview for the 1996 BCAP" in SoCalGas' BCAP Application.

(g) Since this is a long term contract and since estimates of available capacity on the existing storage facilities are in such a flux, CACD is concerned that in the long term this contract might jeopardize capacity that could be put to better use.

7. CACD is concerned about the BC Gas contract because it is not clear whether the contract will be fulfilled from existing capacity or storage expansion. In its recent BCAP application, SoCalGas projects significant investments in its storage expansion for the planning horizon.

8. CACD is reluctant to recommend approval of a long term storage contract based on rules designed for existing facilities because SoCalGas' BCAP Application indicates that SoCalGas plans expansion for the core and noncore. If in future years, this contract contributes less than it costs SoCalGas to expand capacity to serve the core, then the core is not necessarily better off under the contract. In this case, whether the core is better off depends on the contribution of the contract over the life of the contract which is uncertain. Therefore, CACD recommends approval of the contract under one of the two following alternatives:

a. Under the first alternative, the following conditions apply:

(1) The contract will be deemed to be based on existing storage facilities and the revenues from the contract will be logged in the storage balancing account, with 75% risk allocation to the ratepayers and 25% to the shareholders.

(2) The contract will be approved for an initial term of three years. If SoCalGas and BCGas wish to renew the contract for subsequent periods, SoCalGas should file an advice letter with the Commission, and provide to CACD: (i) estimates of storage capacity from existing and expansion facilities, (ii) an analysis of costs and benefits subject to 9, immediately below, and (iii) estimates of redelivery costs based on contracts executed with shippers.

(3) The contract will not use SoCalGas' transportation rights on any interstate pipelines.

(4) SoCalGas will inform CACD of the redelivery arrangements and the corresponding costs when they are finalized.

(5) In case the redelivery costs are equal to or greater than the contract revenues, the ratepayers will not incur any risk from revenue losses from the contract.

(6) In future, while submitting an analysis of a storage contract to CACD, SoCalGas will include the cost of negotiating and executing the contract in its calculations.

b. Under the second alternative, the following conditions apply:

(1) The contract will be deemed to be based on expansion storage facilities and SoCalGas' shareholders will be 100 percent responsible for cost of storage facilities at the prevailing tariff rates.

(2) The contract will be approved for fifteen years.

(3) The contract will not use SoCalGas' transportation rights on any interstate pipelines.

9. The contract has raised fundamental questions regarding the unbundled storage program this Commission instituted several years ago. In its BCAP application, SoCalGas concedes this, and notes that demand for storage services has declined considerably in recent years. A change in the unbundled storage program might be necessary in order to accommodate changed market conditions. There are indications that a healthy competitive market in storage services has yet to emerge in California. CACD recommends that the Commission should review the storage unbundling program and assess its effectiveness in meeting its original objectives.

10. The above conditions resolve issues raised in the protests of DRA and Wild Goose.

FINDINGS

1. Decision (D.) 93-02-013 required that off-system storage contracts should be approved by the Commission through a resolution.

2. D. 93-02-013 provided that discounted storage contracts from existing facilities will have 75% balancing account protection from the ratepayers, with 25% of the risk borne by the shareholders.

3. D. 93-02-013 allowed the utilities to discount storage contracts based on facilities expansions at 100% shareholder risk.

4. SoCalGas filed Advice Letter 2486 on March 18, 1996, requesting approval of a long term storage contract between SoCalGas and BC Gas.

5. Based on SoCalGas' BCAP Application, CACD concludes that there is not sufficient withdrawal capacity to serve the BC Gas contract for 15 years. CACD recognizes the uncertainty of near term demand estimates and is willing to allow SoCalGas' to sign a three year contract.

6. The storage contract is likely to generate incremental revenues for SoCalGas ratepayers at market-based prices for the next three years.

7. CACD recommends approval of the contract under one of the following two alternatives:

a. Under the first alternative, the following conditions apply:

(1) The contract will be based on the use of existing facilities.

(2) Revenues from the contract will be collected in the storage balancing account, with 75% risk allocation to the ratepayers and 25% to the shareholders.

(3) The contract will be approved for an initial term of three years.

(4) SoCalGas will be required to file an advice letter to renew the contract for subsequent terms.

(5) Along with a request for renewal, SoCalGas will be required to provide CACD information regarding: (i) estimates of storage capacity from existing and expansion facilities, (ii) an analysis of costs and benefits subject to Finding of Fact 8, and (iii) estimates of redelivery costs based on contracts with shippers.

(6) The contract will not use SoCalGas' transportation rights on any pipelines.

(7) SoCalGas will inform CACD of the redelivery arrangements and the corresonding costs when they are finalized.

(8) In case the redelivery costs are equal to or greater than the contract revenues, the ratepayers will not incur any risk from revenue losses from the contract.

b. Under the second alternative, the following conditions apply:

(1) The contract will be deemed to be based on expansion storage facilities and SoCalGas' shareholders will be 100 percent responsible for cost of storage facilities at the prevailing tariff rates.

(2) The contract will be approved for fifteen years.

(3) The contract will not use SoCalGas' transportation rights on any interstate pipelines.

8. In future, while submitting an analysis of a storage contract to CACD, SoCalGas will include the cost of negotiating and executing the contract in its calculations.

9. The protests of DRA and Wild Goose are moot.

THEREFORE IT IS ORDERED that:

1. Southern California Gas Company Advice Letter 2486 is authorized under one of the following two alternatives:

a. Under the first alternative, the following conditions apply:

(1) The contract will be deemed to be based on existing storage capacity on the SoCalGas system.

(2) The revenues from the contract will be accrued in the storage balancing account, with 75% risk protection from the ratepayers and 25% risk protection from the shareholders.

(3) The contract will be approved for an initial term of three years.

(4) SoCalGas will be required to file an advice letter to renew the contract for subsequent terms.

(5) Along with a request for renewal, SoCalGas will be required to provide CACD information regarding: (i) estimates of storage capacity from existing and expansion facilities, (ii) an analysis of costs and benefits subject to Ordering Paragraph 3, and (iii) estimates of redelivery costs based on contracts with shippers.

(6) The contract will not use SoCalGas' transportation rights on any interstate pipelines.

(7) SoCalGas will inform CACD of the redelivery arrangements and the corresonding costs when they are finalized.

(8) In case the redelivery costs are equal to or greater than the contract revenues, the ratepayers will not incur any risk from revenue losses from the contract.

b. Under the second alternative, the following conditions apply:

(1) The contract will be deemed to be based on expansion storage facilities and SoCalGas' shareholders will be 100 percent responsible for cost of storage facilities at the prevailing tariff rates.

(2) The contract will be approved for fifteen years.

(3) The contract will not use SoCalGas' transportation rights on any interstate pipelines.

2. Should SoCalGas choose to execute the contract subject to the conditions imposed herein, it shall file a supplemental advice letter consistent with this resolution within 20 days. The supplemental letter will be effective on the date filed.

3. In future, while submitting an analysis of a storage contract to CACD, SoCalGas shall include the cost of negotiating and executing the contract in its calculations.

4. The protests of Wild Goose and DRA are moot.

5. This resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on August 2, 1996. The following Commissioners approved it:

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