

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND
COMPLIANCE DIVISION
ENERGY BRANCH

RESOLUTION G-3193
SEPTEMBER 4, 1996

R E S O L U T I O N

RESOLUTION G-3193. SOUTHERN CALIFORNIA GAS COMPANY
REQUESTS APPROVAL OF A LONG TERM CONTRACT WITH IGI
RESOURCES, INC. APPROVED WITH CONDITIONS.

BY ADVICE LETTER 2496, FILED ON APRIL 19, 1996.

SUMMARY

1. On April 19, 1996 Southern California Gas Company (SoCalGas) filed Advice Letter (AL) 2496 requesting approval of an off-system storage contract with IGI Resources, Inc. (IGI) for inventory, withdrawal, and injection service. The contract includes a provision for redelivery in Idaho.
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 expansion storage facilities.
4. This resolution grants SoCalGas' request on the condition that any contract renewals be subject to Commission approval.

BACKGROUND

1. Decision (D.) 93-02-013 allows gas utilities to file off-system storage contracts under the advice letter process, but requires that such contracts be explicitly approved by Commission resolution. D.93-02-013 also allowed 75 percent balancing account protection for the costs of off-system storage contracts using existing storage facilities. No protection is allowed for contracts based on expansion facilities.
2. On April 19, 1996 SoCalGas filed AL 2496 for a six year off-system storage contract with IGI for firm inventory of 450,000 decatherms (Dth), firm withdrawal of 15,000 Dth per day, and injection service on an as-available basis. The contract also provides for 450,000 Dth of intrastate transportation service from storage, and 15,000 Dth firm citygate redelivery service, including mainline transportation capacity on Northwest Pipeline Corporation's system to interconnections with the Intermountain Gas Company in Idaho. SoCalGas has contracted

with Pacific Interstate Transmission Company (PITCO), a SoCalGas affiliate, to effectuate the redelivery service.

3. AL 2496 provides for contract inventory and as-available injection service to be provided through existing storage facilities. IGI's firm withdrawal service shall be provided through either existing or expanded storage capacity to be determined by the SoCalGas 1996 Biennial Cost Allocation Proceeding (BCAP). SoCalGas also defers to the BCAP the contract revenue allocation. In the mean time, all annual storage reservation fees less the PITCO fee will be booked to the Noncore Storage Balancing Account.

4. The original six year contract is proposed to be automatically renewed, subject to a one year written notice by either party to cancel.

NOTICE

Public notice of AL 2496 was made by publication in the Commission's April 24, 1996 Calendar and by SoCalGas mailing copies to interested parties and adjacent utilities.

PROTESTS

1. On April 8, 1996, Wild Goose Gas Storage (Wild Goose) protested the contract because it is concerned SoCalGas may unfairly use its regulated activities to gain a competitive advantage in providing storage services. Wild Goose has the following concerns and recommendations:

1. Wild Goose requests the determination of whether withdrawal capacity is from existing or expanded facilities should be made before the Advice Letter is approved;

2. Wild Goose is concerned that the PITCO contract may subsidize storage rates at ratepayer expense. To prevent this Wild Goose requests that SoCalGas and PITCO offer the same terms for transportation service to other storage providers;

3. Finally, because ratepayers have historically borne the cost of SoCalGas' contract with PITCO, Wild Goose requests the fee paid to PITCO for redelivery be credited against the cost of gas service to SoCalGas.

2. On May 16, 1996, SoCalGas responded to Wild Goose's protest. SoCalGas believes Wild Goose's recommendations seek to ensure Commission rules and orders are followed. SoCalGas responded that Wild Goose's recommendations are not necessary and the Commission is capable of administering its own rules. SoCalGas also states that PITCO will provide transportation capacity for redelivery, to third parties, under FERC regulations to the extent FERC authorizes, pursuant to an application which PITCO will soon file.

DISCUSSION

1. AL 2496 raises the following issues:
 - 1) Wild Goose and CACD are concerned that it has not been determined whether withdrawal capacity will come from exiting or expansion facilities,
 - 2) Wild Goose is concerned the PITCO contract may subsidize storage rates,
 - 3) Wild Goose requests the fee paid to PITCO be credited against the cost of gas to SoCalGas, and
 - 4) CACD is concerned the proposed six year contract renews automatically without an opportunity for Commission review.
2. Wild Goose, in its protest, expressed concern that SoCalGas did not specify whether withdrawal capacity will come from existing or expanded facilities. Wild Goose wants to ensure that SoCalGas shareholders bear the risk of any expanded facilities. CACD agrees.
3. SoCalGas' advice letter stated that the availability of existing withdrawal capacity was not known when the Advice Letter was filed. At that time the availability of withdrawal capacity was dependent on whether SoCalGas' storage contract with Southern California Edison (Edison) was renewed. If the Edison contract was renewed SoCalGas planned on using expansion facilities for the IGI contract. If the Edison contract was not renewed the IGI contract would use existing facilities.
4. SoCalGas requests that the revenues from the IGI contract should be logged to the storage balancing account. 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. Since filing AL 2496, SoCalGas has indicated to CACD that the Edison contract has not been renewed. Therefore, SoCalGas anticipates using existing withdrawal capacity for the IGI contract, but that determination will be made in the BCAP.
5. CACD understands the uncertainty the market for storage services can create. Its main concerns are that existing (ratepayer funded) capacity is not being stranded in favor of expansion capacity and that on-system customers are not forced to use higher cost capacity because of off-system contracts. CACD believes this contract will not cause either condition to occur. Still, the disposition of existing and expansion storage capacity is an issue in SoCalGas' BCAP and that is the appropriate proceeding to decide whether existing or expansion withdrawal facilities are used for this contract.
6. Wild Goose is concerned that the PITCO contract may subsidize storage rates at ratepayer expense. It requests that SoCalGas and PITCO offer the same terms for transportation to other storage providers. SoCalGas states that PITCO will

provide transportation to third parties under FERC regulations. CACD has reviewed the PITCO contract and does not believe it subsidizes the rates in the IGI Storage Contract. The IGI storage contract reflects market rates and generates revenues in excess of the cost of providing the service. The concern of Wild Goose appears to be unfounded. In addition, the regulation of interstate transportation is beyond the jurisdiction of this Commission, therefore Wild Goose's request to obtain similar terms for interstate transportation must be denied.

7. Wild Goose requests that the fee paid to PITCO for redelivery be credited against the cost of gas service to SoCalGas. Decision 94-04-088 in Rulemaking 92-12-016 adopted a "Global Accord" that governs the relationship between PITCO and SoCalGas until December 31, 2003. The term of the proposed contract is covered by the Global Accord. To the extent the Global Accord includes the request of Wild Goose, Wild Goose's request should be granted.

8. CACD is concerned that the proposed automatic renewal of the contract, after its six year term, does not provide for Commission review to determine if the contract continues to be in the ratepayer's interest. Much can happen in six years and changes to the gas supply system, as well as, changes in overall usage could dramatically change the public's interest in this contract.

9. CACD recommends that SoCalGas be required to submit an advice letter requesting Commission approval, in the fifth year of the contract, if SoCalGas wishes to extend or renew the IGI Gas Storage Contract beyond its original six year term. Commission approval must be obtained before the sixth year of the contract begins in order to meet the contract's one year notice requirement.

FINDINGS

1. D. 93-02-013 requires that off-system storage contracts be approved by Commission resolution.
2. D. 93-02-013 provides that discounted storage contracts from existing facilities shall have 75% balancing account protection from the ratepayers, with 25% of the risk borne by the shareholders.
3. D. 93-02-013 allows the utilities to discount storage contracts based on facilities expansions at 100% shareholder risk.
4. SoCalGas filed AL 2496 on April 15, 1996, requesting approval of a long term off-system storage contract between SoCalGas and IGI.
5. The storage contract generates incremental revenues for SoCalGas ratepayers at market-based prices.

September 4, 1996

6. CACD recommends approval of the contract on the condition that SoCalGas shall file an advice letter and request Commission approval of any contract extensions and/or renewals.

THEREFORE IT IS ORDERED that:

1. SoCalGas AL 2486 is authorized on condition that any contract extensions and/or renewals beyond the initial six year term shall require Commission approval by resolution before it becomes effective.

3. Any part of Wild Goose's protest not granted in Ordering Paragraph 1 is denied.

4. This resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on September 4, 1996. The following Commissioners approved it:


WESLEY FRANKLIN,
Executive Director

DANIEL Wm. FESSLER
JESSIE J. KNIGHT Jr.
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners

President P. Gregory Conlon, being necessarily absent,
did not participate.