

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION G-3200
FEBRUARY 19, 1997

R E S O L U T I O N

RESOLUTION G-3200. SOUTHERN CALIFORNIA GAS COMPANY (SOCALGAS) REQUESTS APPROVAL TO MODIFY THE TERMS AND CONDITIONS APPLICABLE TO TRANSPORTATION SERVICE BY ADDING SPECIFIC DETAILED PROCEDURES THAT ARE REFERRED TO AS "UNDERNOMINATIONS." SOCALGAS' REQUEST IS DENIED WITHOUT PREJUDICE.

SOUTHERN CALIFORNIA GAS COMPANY (SOCALGAS) ALSO REQUESTS APPROVAL TO REVISE THE STANDBY PROCUREMENT CHARGE, OPTION 2, TO 250% (THE CURRENT CHARGE IS 150%) OF THE APPLICABLE CORE SUBSCRIPTION PROCUREMENT CHARGE, PLUS A BROKERAGE FEE, DURING THE MONTH THE EXCESS IMBALANCE WAS INCURRED, AND THE BUY-BACK RATE, OPTION 2, TO 25% (THE CURRENT PERCENTAGE IS 50%) OF THE APPLICABLE CORE SUBSCRIPTION PROCUREMENT CHARGE, PLUS A BROKERAGE FEE, DURING THE MONTH THE EXCESS IMBALANCE WAS INCURRED. SOCALGAS' REQUEST IS DENIED WITHOUT PREJUDICE.

BY ADVICE LETTER 2529, FILED ON OCTOBER 10, 1996 AND BY ADVICE LETTER 2532, FILED ON OCTOBER 22, 1996.

SUMMARY

1. SoCalGas seeks approval of modifications to Rule No. 30, which specifies the general terms and conditions applicable to the transportation of customer owned gas. The modifications requested would require daily deliveries of gas, by the customer, to approximately equal the quantity of gas which the customer will receive at the points of delivery. SoCalGas also seeks approval of modifications to Schedule No. G-IMB Transportation Imbalance Service, which specifies the general terms and conditions applicable to imbalance service for individual customers, marketers and aggregators when usage differs from their transportation deliveries into the SoCalGas system. The modifications requested would change the Standby Procurement Charge, Option 2, to 250% from 150% and the Buy-Back Rate, Option 2, to 25% from 50% of the applicable Core Subscription Procurement Charge, plus a brokerage fee, during the month of the excess imbalance was incurred.

2. In Commission Decisions D.90-09-089, D.91-11-025 and D.92-07-025, and Resolution Nos. G-3032, G-3033 and 3043 the

Commission specified the general terms and conditions applicable whenever SoCalGas transports customer-owned gas over its system.

3. Subsequent changes in the marketplace and habits of customers have prompted SoCalGas to request these changes in order to prevent increased costs to core customers as a result of underdeliveries by the noncore transportation customers.

4. This resolution denies the changes requested by SoCalGas without prejudice and grant the protests to Advice Letters 2529 and 2532. SoCalGas is directed to pursue its requested changes through a Petition For Modification of D.90-09-089.

BACKGROUND

1. Commission Decisions D.91-11-025 and D.92-07-025, and Resolution Nos. G-3032, G-3033 and G-3043 specify the general terms and conditions applicable whenever SoCalGas transports customer-owned gas over its system.

Rule 30 - Section B. Quantities No. 1 states:

The Utility shall as nearly as practicable each day redeliver to customer and customer shall accept, a like quantity of gas as is delivered by the customer to the Utility on such day. It is the intention of both the Utility and the customer that daily deliveries of gas by the customer for transportation hereunder shall approximately equal the quantity of gas by which the customer shall receive at the points of delivery. However, it is recognized that due to operating conditions either (1) in the fields of production, (2) in the delivery facilities of third parties, or (3) in the Utility's system; deliveries into and redeliveries from the Utility's system may not balance on a day-to-day basis. The Utility and the customer will use all due diligence to assure proper load balancing in a timely manner.

2. Undernomination conditions occur when forecast receipts of gas supplies, combined with storage withdrawals, are not sufficient to meet the forecast system requirements. SoCalGas may call an Undernomination Day when it believes that operations may be jeopardized by such factors as underdeliveries and low storage inventory. This type of situation appears to have become a real possibility, as monthly and daily imbalances have increased to record levels and total storage inventory is at an all time low. In order to protect delivery service to customers that are efficiently managing their daily deliveries and redeliveries on the SoCalGas system, from those that are not managing efficiently and as a result could jeopardize service reliability, SoCalGas proposes specific rules be added that outline procedures for Undernominations.

3. An Undernomination Day would mirror the current procedures for Overnominations. The general order of the Undernomination procedure would be as follows:

1. Nominations, including storage withdrawals, are determined to be less than forecast requirements and as a result would jeopardize operations.
 2. Nominations for interruptible storage withdrawal service are reduced.
 3. Transportation customers are notified that the system is Undernominated and that they are subject to penalty if they deliver less than 90% of their metered throughput, as recorded by electronic measurement, plus their MinDQ for those facilities not covered by electronic measurement. (The basis for the MinDQ is discussed below.)
 4. Transportation customers are given two (2) hours to voluntarily increase nominations. Customers relying upon firm withdrawals are required to submit a withdrawal nomination.
 5. Standby Procurement service under Schedule No.G-IMB is applied to customer deliveries that are less than metered throughput by more than 10%.
4. SoCalGas proposes to implement a Minimum Daily Quantity (MinDQ), determined by mutual agreement with customers served without automated meters, as an alternative to manual reads. The MinDQ would be no less than the appropriate minimum daily throughput of the facility, based on the connected load and the hours of operation.
5. Customer contracts that contain only customer meters subject to the minimum daily quantity requirements will be subject to the provision of Schedule No. G-IMB, which requires daily standby procurement for negative imbalances less the tolerance band for each Undernomination Day.
6. Customers whose transportation contract includes both automated and non-automated meters will continue to be subject to the daily Standby Procurement service under Schedule G-IMB. The MinDQ for each non-automated meter will be used as the proxy for daily throughput and will be added to the daily reads from the automated meters to calculate the total daily throughput. To the extent deliveries allocated to the transportation contract, less 10%, are less than the total throughput, standby procurement penalties will be assessed.
7. A definition for MinDQ is inserted into Rule No. 1 to specify the MinDQ for noncore customers and core transportation customers not served under the core aggregation tariffs, based on the equipment at the customer facility. The MinDQ for core aggregators is defined as their Daily Contract Quantity (DCQ). This incorporates the requirement from Rule No. 32 that requires core aggregators to not nominate quantities greater than their DCQ as assigned at each border receipt point at times of nominations in excess of system capacity.

8. Commission Decisions Nos. D.91-11-025 and D.92-07-025, and Resolutions Nos. G-3032, G-3033 and G-3034 also required SoCalGas to resolve imbalances in excess of the 10% tolerance band by billing at the Standby Procurement Charge or purchased by Utility at the Buy-Back Rate.

9. The purpose of the Standby Procurement Charge and the Buy-Back Rate is to encourage gas Customers to manage transportation deliveries into the SoCalGas system such that they match usage within a 10% monthly tolerance band. Decision 90-09-089 Section F. - Balancing and Standby Services, states, "We set price levels seeking to protect core customers from increased liabilities and encourage noncore customers to plan nominations carefully. Our adopted rules for balancing services should not replace storage service. They will recognize the costs of using utility resources and also promote well-planned nominations by customers." In order to ensure that the encouragement is sufficient, the Standby Procurement Charge and the Buy-Back Rate were originally set 50% greater and less, respectively, than the Core Subscription Procurement Charge during the month the imbalance occurred.

10. It was initially felt that the rate was sufficiently high or low to encourage the appropriate customer responses. Since customers may also use their storage accounts to offset imbalances, the current prevailing price of gas can quickly become a factor, as compared to the Imbalance Rate, when deciding whether to trade the imbalance or accept the Imbalance Charge or Buy-Back Rate. Recently, we have seen the current prevailing price of gas during the trading period increase by such an extent that it was greater than the Standby Procurement Charge (May 1996 WACOG \$1.24, May Standby Procurement charge \$1.86 and trading period market price of gas \$2.12). This situation may cause unintended results with regard to a customer's management of imbalances. The Customers should always be motivated to approximately match their deliveries with their consumption and not make purchase or sales with the Utility through a gaming of the Transportation Imbalance Service.

11. If the Imbalance Rate is insufficient to motivate noncore customers to manage their imbalances, there is potential harm to core customers, since noncore gas supplies will not be received into the system in times of rapidly increasing gas prices. The utility will be required to procure core supplies at higher prices, or may not be able to meet critical system operating minimums. Therefore, SoCalGas has requested that the imbalance percentages be increased to insure appropriate actions on behalf of noncore customers with regard to imbalance management.

NOTICE

1. Public notice of these advice letters was made by publication in the Commission calendar, and by SoCalGas' mailing copies to other utilities, governmental agencies, and all interested parties who requested notification.

PROTESTS

1. Several protests to both advice letters have been filed. Southern California Edison (Edison), Enserch Energy Services, Inc. and Enron Capital and Trade Resources (hereinafter referred to as the "joint parties"), the City of Long Beach, Mock Energy Resources, Indicated Producers, Watson Cogeneration Company (Watson), and the California Industrial Group and California Manufacturers Association (CIG/CMA) filed protests to Advice Letter 2529. The same parties, the Southern California Utility Power Pool ("SCUPP") and the Imperial Irrigation District ("IID") protested Advice Letter 2532.

2. Edison generally supports SoCalGas' efforts to address issues concerning under-deliveries of customer owned gas that may lead to under pressurization conditions in SoCalGas' system as stated in Advice Letter 2529. Edison is, however, concerned about the potential inequities in the curtailment order. Existing rules do not require that customers causing the problem are the first curtailed. Edison is additionally concerned about the lack of an explanation for what SoCalGas describes as storage levels at historically low levels. To avoid declaring an Undernomination Day, Edison suggests that the Commission instruct SoCalGas to make all of its available inventory capacity available at no cost as an emergency measure to increase inventory levels for the remainder of the 1996/97 winter storage season. Customers should be responsible for the applicable variable injection and withdrawal tariff rates.

3. Edison believes SoCalGas' two-hour window to voluntarily increase nominations is unnecessary and restrictive. Further, should an Undernomination Day be imminent Edison suggests that all Hub Services that contribute to the Undernomination Day event be eliminated, not reduced as proposed by SoCalGas. Lastly, Edison believes that SoCalGas' proposal to reduce withdrawal nominations for service under Schedule G-AUC is discriminatory since service to G-LTS, G-TBS, and G-SWAP, also "as-available" services are not targeted to be reduced.

4. With regard to SoCalGas' proposal in Advice Letter 2532 to increase the Standby Procurement Charge and decrease the Buy-Back Rate under Schedule No. G-IMB Transportation Imbalance Service Edison disagrees with SoCalGas' rationale and believes existing rules provide the necessary incentive for customers to manage their imbalances.

5. The joint parties argue that SoCalGas improperly seeks to alter significantly the monthly imbalance rules that were placed into effect as a result of D. 90-09-089, and that were affirmed in part, or modified in part, in D.91-11-025 and D. 92-07-025. The joint parties contend that these changes are properly addressed in a petition for modification. Further, the joint parties contend that no evidentiary support for SoCalGas' request is provided.

6. The proposed changes are viewed as arbitrary and would impose undue burden upon shippers and their customers according

to the joint parties. There also is no limitation to the number of Undernomination Days, requiring daily balancing, that may be declared. SoCalGas' proposal does not provide an objective measure as to when the condition causing the need for daily balancing has begun or ended.

7. Reiterating what Edison has stated, the joint parties believe the proposed notice is inadequate for shippers to be able to respond. Furthermore, the joint parties contend that the proposal to establish a minimum daily quantity for each core aggregation group is extremely unfair to core aggregation customers. Additionally, the joint parties contend that the current imbalance charges adequately compensate SoCalGas for the cost of any additional gas that SoCalGas has had to purchase (or for the avoided cost of the decremental gas that SoCalGas was not required to purchase), during a delivery month due to transportation customers' under- or overdeliveries.

8. The joint parties suggest that SoCalGas' own storage activities and its loan of core gas to its Hub services may be contributing to the present situation. It is the recommendation of the joint parties that the advice letters be rejected for the above reasons and SoCalGas be directed to seek these changes in a petition for modification of D. 90-09-089.

9. The City of Long Beach protests on the grounds that Advice Letter 2529 would unfairly subject it to the daily balancing requirement as a result of circumstances caused by others beyond its control. The City of Long Beach contends that the imposition of daily balancing requirements should not be placed upon customers who do not contribute to the underdelivery problem. Only those customers failing to deliver a minimum quantity into SoCalGas' system should be impacted.

10. Mock Energy Services protests the advice letters on two grounds. First, Mock Energy Services believes SoCalGas' own actions with regards to storage for the core plays a significant role in any adverse situation it currently asserts exists. Mock Energy Services suggests that additional information detailing SoCalGas' core procurement and storage activities should be reviewed before any changes take place.

11. Secondly, Mock Energy Services, as do most of the protestants, notes that the proposed two hour requirement to adjust nominations is inadequate.

12. The Indicated Producers protest the advice letters for several of the reasons noted by other parties. The undernomination rules would apply system-wide when they may be caused by only a few customers, no empirical support is provided in SoCalGas' filings, SoCalGas' own activities may have contributed to the situation prompting the proposed rule revisions, and the Undernomination Day procedures are flawed. Furthermore, the Indicated Producers note that SoCalGas' line telemetry system is often inaccurate making it difficult to provide customer usage data to customers in a timely fashion.

13. The Indicated Producers note that the proposed imbalance penalties are excessive and unsupported by meaningful data in the advice letter filing. As other parties have suggested, the Indicated Producers believe existing penalties are sufficient to address gaming concerns. In fact, the Indicated Producers point out that there is nothing in the current Schedule G-IMB that precludes SoCalGas from purchasing 1 therm of gas at \$10.00 and using this price as the applicable Standby Procurement Charge.

14. The Indicated Producers suggest that additional data should be provided by SoCalGas and workshops held to address the issues surrounding undernomination days and imbalance penalties before the proposed changes are implemented.

15. Watson's protest raises many of the same issues as the other parties protests. Watson believes that SoCalGas has failed to provide data to support its proposals and that the advice letters should be rejected. Watson suggests that clearer, well defined market conditions, should trigger undernomination procedures, and should not simply be left to SoCalGas' discretion. Further, that the restrictions and penalties proposed should apply to only those customers who have underdelivered by more than the 10% tolerance in either of the two prior months. Additionally, Watson suggests that private communication of the Undernomination Day procedures to affected customers as opposed to a public declaration of an Undernomination Day, which has the potential to drive prices in the market upwards.

16. CIG/CMA merely protest the proposed two hour notice and wish clarification that this two hours refers to two hours prior to the time when nominations must be submitted to the pipelines.

17. SCUPP and IID request that the advice letters be rejected for two reasons: existing rules are adequate and the proposed changes are beyond the scope of an advice letter and are better addressed in SoCalGas' current BCAP proceeding A.96-03-031.

18. SoCalGas' responds that the protests generally reflect a misunderstanding of the advice letter filing or are an "unabashed attempt of gas marketers to profit at the expense of SoCalGas' core and core subscription customers and SoCalGas' shareholders." SoCalGas believes the Commission should deny the protests.

19. Responding to several protests SoCalGas states that it has met its November 1, 1996 storage target and that its purchases for the core have not contributed to the circumstances that have led them to file Advice Letters 2529 and 2532. SoCalGas points out that noncore storage in the aggregate has been depleted as of November 1, 1996. In past years the noncore had storage upon which to draw to balance underdeliveries.

20. SoCalGas agrees with CIG/CMA that the noticing requirements need to be more clear. SoCalGas recognizes the difficulty associated with a two hour notice, but points to the rules of the interstate pipelines when it comes to nominating supplies as

a limiting factor. Customers will be provided with as much notice as possible and will still be able to make Day 2 nominations and "flow day diversions" to make sure deliveries match burn.

21. SoCalGas agrees with the protestants who suggested that those customers or marketers responsible for the problem should be penalized. However, there is insufficient time to devise the new rules required in time for the current winter heating season.

22. In response to the joint parties concerns regarding SoCalGas' storage levels on behalf of the core, SoCalGas points out that it has included in its calculation of the 65-70 Bcf of gas in storage on November 1, 1996 6 Bcf loaned to the Hub.

23. SoCalGas responds to the Indicated Producers concerns with the accuracy of measurement data that to the extent there is a mismeasurement, SoCalGas will immediately rectify any mismeasurement and forgive any penalties resulting from the mismeasurement.

24. Finally, SoCalGas submits that daily balancing is preferable to the alternative of a noncore standby curtailment.

DISCUSSION

1. SoCalGas' Rule 30 - Section B. Quantities No. 1 clearly states: "It is the intention of both the Utility and the customer that daily deliveries of gas by the customer for transportation hereunder shall approximately equal the quantity of gas by which the customer shall receive at the points of delivery." Present circumstances, the lack of noncore storage and underdelivery from the noncore, serve as clear signs that the current rules may no longer be effective incentives for the noncore given current market conditions.

2. We believe valid concerns are raised by the protestants and SoCalGas with regard to SoCalGas' Rule 30 and Schedule G-IMB. The complexity and number of issues are properly addressed in a petition to modify D.90-09-089.

3. We will deny the request by SoCalGas and grant the protests filed. SoCalGas should pursue its requested changes in a petition to modify D.90-09-089.

FINDINGS

1. SoCalGas filed Advice Letter 2529 on October 10, 1996 requesting to revise Rule 30 and filed Advice Letter 2532 on October 22, 1996 requesting to revise Schedule G-IMB.

2. Protests were filed by Southern California Edison, Enserch Energy Services, Inc. and Enron Capital and Trade Resources, the City of Long Beach, Mock Energy Resources, Indicated Producers, Watson Cogeneration Company, and the California Industrial Group and California Manufacturers Association filed protests to Advice Letter 2529. The same parties except the City of Long Beach, along with the Southern California Utility Power Pool and the Imperial Irrigation District protested Advice Letter 2532.

3. The complexity and number of issues raised by these filings can be better resolved through a petition to modify D.90-09-089.

4. Current high gas prices provide an incentive for noncore customers to use the 10% tolerance band for price arbitrage opportunities and thus under deliver gas to SoCalGas' system.

5. SoCalGas' requests are denied without prejudice.

THEREFORE IT IS ORDERED THAT:

1. SoCalGas' requests are denied without prejudice.
2. The protests discussed herein are granted.
3. This resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on February 19, 1997. The following Commissioners approved it:


WESLEY FRANKLIN
Executive Director

P. Gregory Conlon, President
Jessie J. Knight, Jr.
Henry M. Duque
Josiah L. Neeper
Richard A. Bilas
Commissioners