

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

**RESOLUTION G-3235
MARCH 26, 1998**

RESOLUTION

RESOLUTION G-3235. SOUTHERN CALIFORNIA GAS COMPANY SEEKS APPROVAL OF ITS CLARIFICATION TO TARIFF SCHEDULE NO. G-TBS, TRANSACTION BASE STORAGE SERVICE AND TO EXTEND ITS EXPERIMENTAL TARIFF SCHEDULE NO. G-TBS, TRANSACTION BASE STORAGE SERVICE. APPROVED.

BY ADVICE LETTER 2634, FILED ON OCTOBER 3, 1997.

BY ADVICE LETTER 2634-A, FILED ON JANUARY 15, 1998.

BY ADVICE LETTER 2634-B, FILED ON JANUARY 16, 1998.

BY ADVICE LETTER 2674, FILED ON FEBRUARY 10, 1998.

SUMMARY

1. By Advice Letter (AL) 2634, 2634-A, and 2634-B, Southern California Gas Company (SoCalGas) seeks approval of a clarification to tariff schedule No. G-TBS, Transaction Base Storage Service.
2. On October 3, 1997, SoCalGas filed AL 2634 to clarify the description of the maximum price that can be charged for G-TBS customers.
3. A protest was filed against AL 2634 by Southern California Edison Company (Edison) on two grounds. First, Edison contends that granting SoCalGas' request would allow SoCalGas to charge rates greatly in excess of class average long-run marginal cost (LRMC), and, therefore, SoCalGas should be limited to negotiate rates that do not exceed the individual charge for each type of storage service provided as set forth in its G-LTS schedule. Second, Edison argues that there is no secondary competitive storage market in Southern California, and, thus, SoCalGas should address the issue of how it expects providers of gas storage to implement the cost principles in the upcoming natural gas strategy proceeding, Order Instituting Rulemaking, (R) 98-01-011.
4. On January 15, 1998 and January 16, 1998, SoCalGas filed AL 21634-A and AL 2634-B, respectively establishing the maximum charges for G-TBS and clarifying the ambiguity raised by Administrative Law Judge (ALJ) Walker in Complaint (C.) 97-06-041.
5. On February 3, 1998, Edison protested supplemental AL 2634-A. Edison reiterated its

concerns that a functioning competitive storage market does not exist, that SoCalGas seeks to impose a rate cap that allows price gouging, and that SoCalGas should be required to unbundle its storage service such that each service should not exceed the individual charges set forth in SoCalGas' G-LTS tariff schedule.

6. By AL 2674 dated February 10, 1998, SoCalGas requests an extension of its experimental tariff schedule, Schedule No. G-TBS, Transaction Base Storage Service, for either an additional year, beginning April 1, 1998, or until such time the Commission issues a decision in R. 98-01-011 to assess the current market and regulatory framework for California's natural gas industry.

7. A limited protest was filed by Edison stating that it did not object to an extension of the G-TBS tariff, but Edison maintains its objection to SoCalGas' proposed rate cap which Edison claims amounts to more than 70 times the G-LTS rate for inventory capacity and that such a rate cap is inconsistent with the Commission's intent. Further, Edison maintains that SoCalGas' proposed rate cap constitutes a rate change which cannot be permitted without a showing that there is a functioning competitive storage market.

8. This resolution approves AL 2634-B and AL 2674. Edison's protests are denied.

BACKGROUND

1. SoCalGas first sought authorization of its G-TBS tariff schedule in AL 2446. G-TBS tariff schedule was created to implement a new unbundled gas storage service whereby SoCalGas would offer firm storage inventory and firm or as-available injection and withdrawal services for a term of not more than three years. Under G-TBS, gas storage charges are established on a negotiated basis dependent on market conditions and the particular nature of the storage services to be provided by SoCalGas. SoCalGas also proposed that all reservation charge revenues from the service will be used to reduce stranded storage costs and thereby benefit all ratepayers. The G-TBS tariff schedule was originally offered on an experimental basis, effective until April 1, 1998. SoCalGas proposed this storage service as a supplement to the storage services approved in Decision (D.) 93-02-013, which included Basic Storage Service (Schedule G-BSS), Long-Term Storage Service (Schedule G-LTS), Auction Storage Service (Schedule G-AUC), and Gas Swap Service (G-SWAP). There were no protests to AL 2446 and the G-TBS tariff schedule went into effect on its own motion on November 7, 1995.

2. On October 3, 1997, SoCalGas filed AL 2634 pursuant to a suggestion made by ALJ Walker at a prehearing conference called in C. 97-06-041, at transcript page 5, lines 9-17 wherein the ALJ stated:

"The thought that went through my mind was that if the parties were to settle, to the

extent anyone believes that the tariff language is not precisely clear--and we know that there's one apostrophe in there that was left out--then SoCalGas could change the tariff--settle with Edison, change the tariff, if it thought there was any need to do so, and go on its way."

SoCalGas settled with Edison pursuant to the ALJ's suggestion effective September 11, 1997.

3. To clarify the apparent confusion over the description of the maximum price which can be charged for G-TBS service, SoCalGas filed AL 2634 stating that the negotiated price under this tariff schedule sets forth a single reservation charge consisting of inventory, injection, and withdrawal service. This price or charge is based on the composition of the particular services the customer wants SoCalGas to provide and the market condition that exist at the time of the contract for such services. SoCalGas requests the approval of its clarification to its tariff schedule G-TBS, Transaction Base Storage Service, applicable throughout its service territory.

4. On January 15, 1998, SoCalGas filed AL 2634-A revising its tariff schedule G-TBS to include the maximum reservation charge for G-TBS service in response to a protest from Edison in AL 2634.

5. On January 16, 1998, SoCalGas filed AL 2634-B establishing the maximum charges for G-TBS and clarifying the ambiguity raised by ALJ Walker in C. 97-06-041.

6. G-TBS is an experimental rate schedule effective until April 1, 1998.

7. On February 10, 1998, SoCalGas filed AL 2674 requesting an extension of its experimental tariff schedule, Schedule No. G-TBS, Transaction Base Storage Service, for an additional year, beginning April 1, 1998, or until such time the Commission issues a decision in R. 98-01-011 to assess the current market and regulatory framework for California's natural gas industry, whichever occurs later.

NOTICE

1. Notice of AL 2634, 2634-A, and 2634-B were made by mailing copies of the filing to the parties listed on the original General Order 96-A distribution list and other interested parties.

2. Notice of AL 2674 was made by mailing a copy of the filing to the parties listed on the General Order 96-A distribution list.

PROTEST

1. On October 23, 1997, Edison filed a protest against AL 2634 contending that there was no viable competitive alternative to SoCalGas storage because of the lack of a competitive gas storage market in Southern California. Edison believes SoCalGas' storage services should not exceed scaled LRMC because the failure to limit SoCalGas charges to scaled LRMC opens the door for potential price gouging. Edison interpreted the G-TBS tariff schedule to mean that the charge for each type of storage service provided, i.e., firm inventory, firm injection, or firm withdrawal, should be no higher than the charges set forth for that same type of service in SoCalGas' G-LTS tariff schedule.

2. Further, Edison stated it did not have any reason to protest AL 2446 because it interpreted SoCalGas' original advice letter, AL 2446, to corroborate Edison's interpretation that the storage charges were separate for inventory, injection and withdrawal. However, in practice, Edison found that when it sought to acquire only firm inventory, the charge was based on the summation of the G-LTS charges for firm inventory, firm injection, and firm withdrawal. Further, Edison states that it is forced to pay the excessive firm inventory charge as it is highly dependent on the availability of SoCalGas storage, and must procure storage to avoid SoCalGas' substantial imbalance penalties.

3. On October 30, 1997, SoCalGas responded to Edison's October 23, 1997 protest. In its response, SoCalGas argued two points in response to Edison's protest. First, SoCalGas can ask for clarification to any approved rate schedule which may differ from those contemplated by a decision. SoCalGas correctly argues that it is up to the Commission to review the requested clarification and decided whether or not to approve such clarification. Further, the Commission has made no determination as to the competitiveness of the gas storage market in Southern California.¹

4. In its protest, Edison argues that G-TBS only allows SoCalGas to charge for each type of storage service provided individually, i.e., separate individual charges for firm inventory, firm

¹Although the Commission has made no finding that the storage market is workably competitive, SoCalGas cites Wild Goose Storage, Inc., (Wild Goose), Decision 97-06-091, Finding of Facts (FOF) 13-17, as evidence of the Commission's intent. In that decision, the Commission allowed Wild Goose to set its own price cap for storage services without reference to or constraint by LRMC considerations. However, the Commission also stated that to the extent that Wild Goose has unmarketed capacity or to the extent it must discount its services, its shareholders will bear the entire risk, FOF 9 (emphasis added); further, there is no possibility of cross-subsidization in Wild Goose's proposed services, FOF 10.

injection, or firm withdrawal, which should be no higher than the G-LTS charge for that same type of service. In response, SoCalGas argued that it chose the sum of the individual rates for use as the rate cap because a rate cap would enable SoCalGas to recover the full transactional value of storage and at least the same level of revenue that would have been collected under the G-LTS rate schedule if the customer chose the highest level of service available. Moreover, SoCalGas chose the one rate cap for all levels of service because choosing Edison's approach to calculate a different rate cap depending on the level of service would limit the level of revenue that SoCalGas can collect on behalf of ratepayers to assign storage costs even though the transactional value may be much higher. SoCalGas argues Edison's approach is not consistent with the G-TBS premise to collect the full transactional value. Further, Edison's approach would result in lower storage revenues recovered on behalf of ratepayers and would give additional value to the storage buyer rather than the ratepayer. Finally, SoCalGas argues that the G-TBS rate schedule is an approved market based schedule that allows markets, not tariffs, to set the value for customer specific storage services.

5. On November 18, 1997, Edison responded to SoCalGas' October 30, 1997 reply letter, arguing that adopting SoCalGas' clarification allows SoCalGas to negotiate rates for storage service greatly in excess of class average LRMC. Further, Edison raised the issues that the Commission did not intend to give SoCalGas the flexibility to charge captive storage customers a rate that, according to Edison's calculation, exceeds seventy-fold the G-LTS rate for inventory capacity. Moreover, Edison has requested that the Commission address the issue of how it expects providers of gas storage to implement the cost principles in its upcoming Natural Gas Strategy proceeding.

6. On January 15, 1998, Edison submitted a letter with supporting documents explaining its concerns. Edison acknowledged that SoCalGas' supplemental advice letter clarified the rate cap for the G-TBS service and would, therefore, eliminate the ambiguity raised in its protest. However, Edison raised the issue of the lack of a secondary storage market and SoCalGas' failure and/or reluctance to identify one. Edison also claims that allowing SoCalGas to impose such a rate cap is inconsistent with the Commission's intent, as SoCalGas could charge more than what is set forth in its tariff schedule G-LTS. Edison wants the Commission to require SoCalGas to file an application to modify the G-TBS tariff to make a showing as to the existence of a competitive storage market. Further, Edison wants to limit SoCalGas' negotiated rate for storage services not to exceed the individual charges set forth in Schedule G-LTS.

7. On January 15, 1998, SoCalGas submitted supplemental AL 2634-A, revising tariff schedule G-TBS to include the maximum reservation charge for G-TBS service in response to a protest from Edison in AL 2634.

8. On January 16, 1998, SoCalGas filed supplemental AL 2634-B establishing SoCalGas'

maximum charge for G-TBS service. This maximum charge further clarifies the ambiguity raised by ALJ Walker in C. 97-06-041.

9. On February 3, 1998, Edison protested SoCalGas' supplemental AL 2634-B. Edison reiterated its concerns that a functioning competitive storage market does not exist, that Edison is highly dependent on SoCalGas storage service to stay within the imbalance penalties set by SoCalGas, that SoCalGas seeks to impose a rate cap which amounts to more than seventy times the G-LTS rate for inventory capacity, that SoCalGas should be required to file an application to modify the G-TBS tariff, and that SoCalGas should be required to negotiate a rate for unbundled storage services that does not exceed the individual charges set forth in schedule G-LTS.

10. On February 12, 1998, SoCalGas responded to Edison's protest of SoCalGas' AL 2634-B. SoCalGas set forth four reasons for rejecting Edison's protest. First, Edison has admitted that the ambiguity it protested has been resolved. Second, SoCalGas has correctly pointed out that G-TBS, and the Wild Goose decision were approved without a finding for a "workably competitive storage market in Southern California". Third, SoCalGas points out that any enhanced revenues received from services provided under G-TBS go to reduce stranded storage costs currently borne by its customers. Finally, any concerns Edison has with the natural gas storage market should be addressed in OIR 98-01-011.

11. On February 24, 1998, Edison filed a limited protest to AL 2674 stating that it did not object to an extension of the G-TBS tariff, but Edison maintains its objection to SoCalGas' proposed rate cap which Edison claims amounts to more than 70 times the G-LTS rate for inventory capacity, and that such a rate cap is inconsistent with the Commission's intent. Further, Edison maintains that SoCalGas' proposed rate cap constitutes a rate change which cannot be permitted without a showing that there is a functioning competitive storage market.

DISCUSSION

1. Advice letter 2634-B should be approved because SoCalGas has clarified the ambiguity raised by ALJ Walker in C. 97-06-041 by establishing SoCalGas' maximum reservation charge to the G-TBS rate schedule. SoCalGas has clarified the purpose and operations of its G-TBS rate schedule by delineating the applicable rate cap. G-TBS rate schedule is an approved market based schedule that allows markets, not tariffs, to set the value for customer specific storage services.

2. The G-TBS tariff schedule was originally offered on an experimental basis, effective until April 1, 1998. SoCalGas proposed this storage service as a supplement to the storage services approved in Decision (D.) 93-02-013, which included Basic Storage Service (Schedule G-BSS), Long-Term Storage Service (Schedule G-LTS), Auction Storage Service (Schedule G-AUC), and

Gas Swap Service (G-SWAP). SoCalGas also proposed that all reservation charge revenues from the service will be used to reduce stranded storage costs and thereby benefit all ratepayers. There were no protests to the original advice letter and the G-TBS tariff schedule was approved on November 7, 1995.

3. While Edison has admitted that SoCalGas has clarified the ambiguity of the maximum reservation charge in the G-TBS rate schedule, it nevertheless still raises its concerns that a functioning competitive storage market does not exist, that Edison is highly dependent on SoCalGas storage service to stay within the imbalance penalties set by SoCalGas, that SoCalGas seeks to impose a rate cap which amounts to more than seventy times the G-LTS rate for inventory capacity, that SoCalGas should be required to file an application to modify the G-TBS tariff, and that SoCalGas should be required to negotiate a rate for unbundled storage services that does not exceed the individual charges set forth in schedule G-LTS.

4. First, Edison's argument that there is no competitive storage market in Southern California is a different issue from that currently raised in this Advice Letter and would be more appropriately addressed in another forum.

5. Second, without addressing the issue of competitive storage, the G-TBS storage service is one of many storage options available to Edison. As stated above, SoCalGas proposed this storage service as a supplement to the storage services approved in Decision (D.) 93-02-013, which included Basic Storage Service (Schedule G-BSS), Long-Term Storage Service (Schedule G-LTS), Auction Storage Service (Schedule G-AUC), and Gas Swap Service (G-SWAP). The G-TBS storage service is a discretionary service and one of many offered by SoCalGas. If Edison is having problems staying within the imbalance penalties set by SoCalGas, Edison can use other storage services available to it. Edison has choices, including making sure it manages its gas purchases efficiently.

6. Third, in the original Advice Letter approving the G-TBS rate schedule, AL 2446, SoCalGas described the rate schedule as

"Under the new rate schedule presented in this filing, SoCalGas will offer unbundled firm storage inventory service and as-available injection and withdrawal services. The proposed term of such service shall be for a minimum of one month to not more than three years. The reservation charge for the new service will be established on a negotiated basis dependent on market conditions and the particular nature of the storage services to be provided by SoCalGas." (Emphasis added).

Further, SoCalGas set forth what services were available by stating:

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"Through this new service, any prospective storage customer will be able to approach SoCalGas at any time, and, by written offer, request the following:

- the amount of inventory desired;
- the term for which the inventory is desired;
- the period of time the customer seeks to inject the gas to be stored and the period of time during which the gas would be withdrawn;
- the firmness of injection and withdrawal service;
- the charges proposed to be paid to SoCalGas for the requested service package;
- the time by which SoCalGas has to respond to the offer.

SoCalGas may accept the service offer as submitted by the customer or provide a counter-offer to the customer proposing one or more modifications to the request. The time the customer has to agree to the counter-offer will also be designated by SoCalGas." (Emphasis added).

As stated in AL 2446, the original intent of the G-TBS rate schedule required that potential storage customer purchase a package of storage services, which includes not only storage inventory service but also injection and withdrawal service. Further, the purpose behind the G-TBS tariff was to create a tariff where storage charges would be established on a negotiated basis dependent on market conditions and the particular nature of the storage services to be provided by SoCalGas. G-TBS is an experimental tariff effective until April 1, 1998. Edison's argument that G-TBS should be limited to no more than class average LRMC would place a cap on daily service and would be contrary to this purpose.

7. Finally, SoCalGas has one rate cap for all levels of service, whereas Edison is attempting to calculate a different rate cap depending on the level of service. SoCalGas' approach does not limit the level of revenue SoCalGas can collect on behalf of ratepayers to assigned storage costs even though the transactional value may be much higher. Further, Edison's approach would result in lower storage revenues recovered on behalf of ratepayers and would give additional value to the storage buyer rather than the ratepayer.

8. All reservation charge revenues from G-TBS service will be used by SoCalGas to reduce stranded storage costs which are currently borne by SoCalGas' customers. Edison's approach is not consistent with the G-TBS premise to collect the full transactional value.

9. Edison's protest should be denied.

10. In AL 2674, SoCalGas describes the benefit of the G-TBS service as successful.

SoCalGas states that G-TBS customers are not only able to select the amount of inventory desired but the customer can also determine the certainty of the injection service and withdrawal service as well as the term of the service, which may extend from one month up to three years. Further, customers are able to negotiate the rate for G-TBS service. SoCalGas states that negotiations for G-TBS service are dependent on market conditions at the time, and the exact nature of the services requested. Moreover, SoCalGas states that in practice, it found the G-TBS program to work as described in its original advice letter filing, as SoCalGas has been able to gain revenue from storage assets that otherwise would have remained unused, that it was able to sell its entire winter inventory capacity, and that it would not have been able to do this in past years without this program. SoCalGas also states that its customers have also reacted favorably to this program. Customers can tailor a storage service to fit their exact need or choose not to take storage service at all rather than pay for something that does not fit. SoCalGas also found that this program attracted new customers for storage service. Of the \$9 million in revenue produced by this program, SoCalGas stated that a significant portion of these revenues were from new customers. Further, the revenues from the G-TBS program went to offset storage stranded costs, which directly benefit ratepayers. Edison's protest should be denied.

FINDINGS

1. SoCalGas filed AL 2634 on October 3, 1997 requesting clarification of its tariff schedule G-TBS, Transaction Based Storage Service.
2. Edison filed a protest to AL 2634 on October 23, 1997 contending that granting SoCalGas' request would allow SoCalGas to charge rates greatly in excess of class average LRMC, and, therefore, SoCalGas should be limited to negotiate rates that do not exceed the individual charge as set forth in its G-LTS schedule. Further, Edison argues that there is no secondary competitive storage market in Southern California and thus, SoCalGas should address the issue of how it expects providers of gas storage to implement the cost principles in the upcoming natural gas strategy proceeding.
3. On January 15, 1998, SoCalGas filed supplemental AL 2634-A, revising tariff schedule G-TBS to include the maximum reservation charge for G-TBS service in response to a protest from Edison in AL 2634-A.
4. On January 16, 1998, SoCalGas filed supplemental AL 2634-B establishing SoCalGas' maximum charges for G-TBS service. This maximum charge clarifies the ambiguity raised by ALJ Walker in C. 97-06-041.
5. Although Edison admits that AL 2634-B clarifies the ambiguity it protested, it nevertheless still raises its concerns that a functioning competitive storage market does not exist,

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that Edison is highly dependent on SoCalGas storage service to stay within the imbalance penalties set by SoCalGas, that SoCalGas seeks to impose a rate cap which amounts to more than seventy times the G-LTS rate for inventory capacity, that SoCalGas should be required to file an application to modify the G-TBS tariff, and that SoCalGas should be required to negotiate a rate for unbundled storage services that does not exceed the individual charges set forth in schedule G-LTS.

6. G-TBS is an experimental tariff effective until April 1, 1998.
7. All reservation charge revenues from G-TBS service will be used by SoCalGas to reduce stranded storage costs which are currently borne by SoCalGas' customers.
8. The G-TBS rate schedule is an approved market base schedule that allows markets, not tariffs, to set the value for customer specific storage services.
9. Edison's argument that there is no competitive natural gas storage market in Southern California should be raised in R. 98-01-011 which will assess the current market and regulatory framework for California's natural gas industry and adopt reforms which emphasize market-oriented policies that will benefit all California natural gas consumers.
10. The original intent of the G-TBS rate schedule required that potential storage customer purchase a package of storage services, which includes not only storage inventory service but also injection and withdrawal service. Further, the purpose behind the G-TBS tariff was to create a tariff where storage charges would be established on a negotiated basis dependent on market conditions and the particular nature of the storage services to be provided by SoCalGas.
11. On February 10, 1998, SoCalGas filed AL 2674 requesting an extension of its experimental tariff schedule, Schedule No. G-TBS, Transaction Base Storage Service, for an additional year, beginning April 1, 1998, or until such time the Commission issues a decision in R. 98-01-011 to assess the current market and regulatory framework for California's natural gas industry, whichever occurs later.
12. On February 24, 1998, Edison filed a limited protest stating that it does not object to an extension of the G-TBS tariff, but that it maintains its objection to SoCalGas' proposed rate cap which Edison claims amounts to more than 70 times the G-LTS rate for inventory capacity, and that the rate cap is inconsistent with the Commission's intent. Further, Edison maintains that SoCalGas' proposed rate cap constitutes a rate change which cannot be permitted without a showing that there is a functioning competitive storage market.
13. SoCalGas found the G-TBS program to be successful as negotiations for G-TBS service

are dependent on market conditions at the time, and the exact nature of the services requested. This allows customers to tailor a storage service to fit their exact need or choose not to take storage service at all rather than pay for something that does not suit their needs.

14. SoCalGas has been able to gain revenue from storage assets that otherwise would have remained unused, that it was able to sell its entire winter inventory capacity, and that it would not have been able to do this in past years without this program.

15. SoCalGas also found that this program generated over \$9 million of revenue, of which a significant portion of these revenues were from new customers.

16. Further, SoCalGas stated that the revenues from the G-TBS program went to offset storage stranded costs, which directly benefit ratepayers.

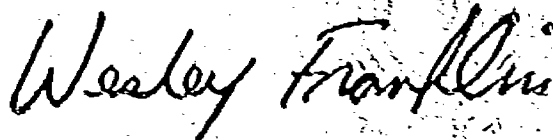
17. Edison's protests of AL 2634, 2634-A, 2634-B, and 2674 should be denied.

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THEREFORE IT IS ORDERED THAT:

1. Southern California Gas Company's request for approval of Advice Letter 2634-B is approved.
2. The protest of Southern California Edison Company is denied.
3. Southern California Gas Company's Advice Letter 2674 requesting extension of its G-TBS tariff schedule for an additional year, beginning April 1, 1998, or until a decision is made in Order Instituting Rulemaking, R. 98-01-011, whichever occurs later, is approved.
4. The limited protest of Southern California Edison Company is denied.
5. This resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on March 26, 1998. The following Commissioners approved it:



WESLEY M. FRANKLIN
Executive Director

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