

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

**RESOLUTION G-3254
MAY 13, 1999**

RESOLUTION

**RESOLUTION G-3254. SOUTHERN CALIFORNIA GAS COMPANY.
APPROVES AUTHORIZATION TO REVISE THE INTERCONNECT
CHARGE MEMORANDUM ACCOUNT SURCHARGE TO AMORTIZE
FULLY THE RECORDED BALANCE IN THE MEMORANDUM
ACCOUNT OVER THE NEXT SIX MONTHS.**

BY ADVICE LETTER 2763, FILED ON NOVEMBER 20, 1998.

SUMMARY

1. By Advice Letter (A.L.) 2763, filed November 20, 1998, Southern California Gas Company (SoCalGas) submits for filing and approval with the Commission a request to revise the Interconnect Charge Memorandum Account (ICMA) Surcharge contained in Schedule No. G-ITC. SoCalGas proposes to amortize the December 31, 1998 ICMA undercollection (estimated to be \$1.545 million) over a six-month period ending June 30, 1999.
2. The Energy Division received one protest to A.L. 2763. Coral Energy Resources, L. P. (Coral) objects to SoCalGas' proposal to include, in the ICMA balance, a \$1.890 million refund ordered by the Federal Energy Regulatory Commission (FERC).
3. With a minor modification to the amortization period, this Resolution approves A.L. 2763.

BACKGROUND

1. SoCalGas filed A.L. 2763 on November 20, 1998, proposing to revise the ICMA Surcharge contained in Schedule No. G-ITC. SoCalGas has recorded \$1.890 million into the ICMA to reflect a refund that was ordered by FERC on November 2, 1998. See Union Pacific Fuels, Inc., et al. v. Southern California Gas Company, 85 FERC ¶61,177 (1998). That refund, when combined with a \$0.345 million surplus that previously existed, results in a \$1.545 million undercollection. By increasing the existing surcharge, SoCalGas proposes to zero-out the undercollection within six months.
2. The history of the ICMA dates back to 1993. In D.93-02-055 and D.93-05-009, the Commission approved the interconnection of the Kern/Mojave and PG&E Expansion Project

pipelines with SoCalGas' pipeline system. The Commission found that the costs of additions and improvements to SoCalGas' system should be recovered from those who used the interconnection, not from all ratepayers in general. SoCalGas was ordered to institute a surcharge that would be levied on shippers moving gas through the interconnect.

3. On May 7, 1993, SoCalGas filed A.L. 2176 requesting approval of an "Interconnect Access Service" charge. The charge was to be applicable to natural gas transportation deliveries nominated by shippers into SoCalGas' intrastate system at the Wheeler Ridge and Kern River Station points of receipt.

4. The Commission received a number of protests to A.L. 2176. Resolution G-3072 ordered modifications that were suggested in the protests and agreed to by SoCalGas. The Resolution became effective on July 8, 1993; SoCalGas established Schedule G-ITC and began to charge for the service at Wheeler Ridge on July 13, 1993.

5. Several parties applied for rehearing of Resolution G-3072. As a result of that application, the Commission issued D.94-01-048, which found that the tariff (G-ITC) containing the Interconnection Access Service charge conflicted with previous decisions. That tariff was annulled, but SoCalGas was allowed to file a new tariff that was in accord with the principles set forth in D.94-01-048. SoCalGas was ordered to refund all the Interconnection Access Service charges it had collected under its defective tariff. However, SoCalGas was ordered to continue tracking charges that would have been assessed under Schedule G-ITC in a memorandum account until such time that a new tariff could be put in place.

6. In compliance with Ordering Paragraph No. 3 of D.94-01-048 (which authorized SoCalGas to continue to track, in a memorandum account, those charges previously assessable under the original G-ITC), SoCalGas filed A.L. 2279. That advice letter established the Interconnect Charge Memorandum Account (ICMA). Permissible additions to the ICMA included revenues collected under the old Schedule G-ITC (prior to its annulment) that were scheduled for refund, as well as interconnect charges that would have been assessed end-use customers for the period between the end of the old G-ITC and the start of the new G-ITC. A new revised Schedule G-ITC became effective on April 13, 1994 by A.L. 2284-A.

7. Shortly after D.94-01-048 was issued, the Executive Director extended the time for compliance with the refund provisions of the decision. Prior to the time the decision became final, the Division of Ratepayer Advocates (DRA) filed a petition for modification, requesting an emergency stay of the refund provision. In D.94-04-087, the emergency stay was granted until such time as an order was issued disposing of DRA's petition.

8. The Commission disposed of DRA's petition in D.94-09-038. Further hearings were ordered on the use of the interconnect facilities; the stay order on the refunds was continued until a new decision was issued.

9. The Commission issued D.95-04-078 in Phase II of SoCalGas' 1993 Biennial Cost Allocation Proceeding (BCAP). That decision addressed the charges SoCalGas would have collected from the interconnect customers during the period of January 1, 1994 to April 13, 1994 had a G-ITC tariff been in place. That time period represented the interval between the cancellation of the original G-ITC tariff (December 31, 1993) and the implementation of the new G-ITC (April 13, 1994). The decision noted that the shortfall over that period amounted to \$2.527 million. In Appendix A of that decision, an ICMA Surcharge of 0.0270¢ per therm was found reasonable.

10. In A.L. 2410, SoCalGas sought to modify its Schedule G-ITC by adding an Interconnect Charge Memorandum Account (ICMA) Surcharge to recover the \$2.527 million that would have been assessed during the January 1, 1994 through April 13, 1994 period. Pursuant to D.95-04-078, an ICMA Surcharge of 0.0270¢ per therm was proposed. This A.L. became effective on May 1, 1995.

11. The Commission issued D.95-07-012 in Phase III of SoCalGas' 1993 BCAP. That decision reexamined the refund (of the charges SoCalGas received while the first Schedule G-ITC was in effect) ordered by D.94-01-048. In Conclusion of Law (Conclusion) No. 4, D.95-07-012 found that the tariff approved by Resolution G-3072 (which set up the initial G-ITC) was valid. In Conclusion No. 5, the decision found that the Commission was in error in annulling G-3072. In Conclusion No.6, it found that D.94-01-048 should be rescinded and that the refund order should be annulled.

12. D.95-07-012 had no impact on either the ICMA balance or the ICMA Surcharge. Since the initial refund order (of the amounts received by SoCalGas while the initial Schedule G-ITC had been in effect) had been stayed, no refunds had actually taken place. Therefore, those dollars had never been included in the ICMA. Similarly, the ICMA Surcharge of 0.0270¢ per therm was designed to recover only those charges that were lost during the period from the end of the first Schedule G-ITC to the start of the second G-ITC; it had never been designed to recover any potential refunds from the first G-ITC.

13. Following the issuance of D.95-07-012, there ensued a long series of hearings, orders, and lawsuits involving the Commission, FERC, and various courts. The culmination of this process was an order by FERC on November 2, 1998 that required SoCalGas to provide refunds to upstream interstate shippers for the period between July 13, 1993 and December 31, 1993, the period that the first Schedule G-ITC was operating.

14. Pursuant to the FERC order, SoCalGas refunded \$1.890 million. That amount was therefore added to the ICMA balance and was the precipitating factor in SoCalGas filing this Advice Letter.

NOTICE

1. Advice Letter 2763 was served on other utilities, government agencies, and to all interested parties who requested such notification, in accordance with the requirements of General Order 96-A. Public notice of this filing has been made by publication in the Commission's calendar.

PROTESTS

1. On December 10, 1998, Coral Energy Resources, L. P. (Coral), filed a protest to A.L. 2763. Coral objects to SoCalGas' proposal to add the \$1.890 million to the ICMA balance. Coral alleges that the current Wheeler Ridge interconnect customers are not the same as the customers that received gas deliveries in 1993. Coral claims that current customers will be paying twice for the Wheeler Ridge facilities – once through the G-ITC charge, and once again through the proposed surcharge. Coral also alleges that the imposition of the proposed surcharge would constitute retroactive ratemaking on the end-use customers that were served over Wheeler Ridge from July to December 1993. Coral would like to see this matter addressed in SoCalGas' current BCAP proceeding.

2. On December 17, 1998 SoCalGas filed a response to Coral's protest. It claims that Coral's allegations are without merit and are based upon misstatements of fact.

DISCUSSION

1. The Energy Division has reviewed Advice Letter 2763, and has been in contact with representatives of SoCalGas and Coral.

2. To facilitate the understanding of the issues in this A.L., it is helpful to describe both the rate schedule and the memo account that are at the heart of the discussion.

3. The rate schedule in question is Schedule G-ITC, the Wheeler Ridge Interconnect Access Service schedule. As discussed in greater detail in the "Background" section, the Commission has found that the customers who use the Wheeler Ridge interconnect should be the customers who pay for it. To that end, Schedule G-ITC was initially set up on July 13, 1993; users of the interconnect are charged various fees in order to pay for the facilities.

4. The memo account in question is the ICMA. As described below, there were two periods of time during which SoCalGas was unable to receive interconnect charges for Wheeler Ridge. The ICMA was created to track that lost revenue. In order to recover the lost revenue, an ICMA Surcharge was added to Schedule G-ITC; once the memo account reaches zero, the surcharge would be discontinued.

5. The original G-ITC became effective on July 13, 1993 and ran through December 31, 1993 before being terminated by D.94-01-048. That decision also ordered that the charges that had been collected during that initial time period should be refunded. A second Schedule G-ITC went into effect on April 13, 1994. Therefore, SoCalGas lost Wheeler Ridge interconnect charges for two consecutive periods – the July 13, 1993 through December 31, 1993 period of the first G-ITC (which SoCalGas' was ordered to refund), and the January 1, 1994 to April 13, 1994 period (during which no Schedule G-ITC was in place).
6. The lost revenue for these two periods was tracked in the ICMA, which was established by A.L. 2279 pursuant to D.94-01-048. A description of this memo account was included in Part VI of SoCalGas' Preliminary Statement. That description clearly states that the ICMA should include the total charges that would have been assessed under Schedule G-ITC between July 13, 1993 (the original effective date) and the effective date of the revised G-ITC.
7. Because the refund order for the initial G-ITC period was stayed, those dollars were not initially included in the ICMA. However, based on the way the memo account is described in the Preliminary Statement, it is clear that the Commission intended the ICMA to include the initial G-ITC dollars if and when the refund ever took place.
8. D.95-04-078 set the initial ICMA Surcharge at 0.0270¢ per therm. That surcharge was designed to recover the \$2.527 million that SoCalGas failed to collect during the period between the end of the first G-ITC and the start of the second. At the time SoCalGas filed A. L. 2763, it estimated that the balance would be paid off (absent the FERC-ordered refund) by the end of 1998, and that the ICMA would contain an overcollection of \$0.345 million.
9. Pursuant to the November 2, 1998 FERC order, SoCalGas has finally refunded the interconnect charges that it received during the period the first G-ITC was in effect; \$1.890 million has been returned to the upstream interstate shippers who originally paid the charges. Per the language in SoCalGas' Preliminary Statement, it has added the \$1.890 million to the ICMA balance. When combined with the \$0.345 million overcollection, the new ICMA balance is approximately \$1.545 million.
10. SoCalGas wants to amortize this balance over a six-month period. The current ICMA Surcharge is 0.0270¢ per therm. Based on the number of therms it expects to handle at Wheeler Ridge over that period, the existing surcharge will be insufficient to zero-out the balance. SoCalGas has proposed increasing the surcharge to 0.1247¢ per therm.
11. In its protest, Coral does not object to the six-month amortization period. It does object to the inclusion of the \$1.890 million in the ICMA balance.
12. Coral argues that if A.L. 2763 is adopted, current Wheeler Ridge customers would be paying twice for the use of the facilities – once through the G-ITC charge, and once again through the proposed surcharge. This argument seems to imply that these charges are somehow duplicative and/or unfair; neither is the case.

13. The Commission found that the costs of the Wheeler Ridge interconnect should be recovered from those customers who used the interconnection, not from ratepayers in general; this is the reason Schedule G-ITC was authorized. The Commission also found that SoCalGas should be made whole for those periods when it was unable to collect (or keep) the interconnect charges provided by Schedule G-ITC; the ICMA Surcharge serves that purpose. Clearly, the schedule and the surcharge are distinct entities that are designed for different purposes; they are not duplicative.

14. Schedule G-ITC and the ICMA Surcharge are also fair. Coral argues that FERC determined that the charges imposed by the first G-ITC were unlawful; therefore, SoCalGas should not be allowed to impose (in the form of a surcharge) the refunded amounts upon current Wheeler Ridge customers. The first charges were "unlawful" only in the sense that they were levied upon interstate customers rather than intrastate customers. The current Schedule G-ITC levies interconnect charges on the "correct" users of Wheeler Ridge. From the inception of the ICMA, the Commission has expected that if there ever were a refund of the first G-ITC charges, such a refund would be included in the ICMA balance. In describing the ICMA, Part VI of SoCalGas' Preliminary Statement specifically allows the charges of the first G-ITC to be included in the memo account balance. Therefore, since current Wheeler Ridge customers are the only "correct" customers that can be charged, and since the ICMA was designed to recover these specific charges, Coral's allegations of unfairness are without merit.

15. Coral also argues that the imposition of the new ICMA Surcharge would result in retroactive ratemaking for the end-use customers that were served over the Wheeler Ridge facilities during the period of the first Schedule G-ITC. We do not understand how the charge of retroactive ratemaking can legitimately be made. Since the creation of the ICMA, all users of the interconnect have been on notice that the ICMA Surcharge would include any refunds of the charges from the first G-ITC; users of Wheeler Ridge presumably took that into consideration when they decided to use that facility. In addition, the surcharge merely recovers the costs of the Wheeler Ridge facilities which SoCalGas has not yet recovered (due to FERC's refund order), and all current users benefit from the use of the facilities. Because current users of Wheeler Ridge can avoid this surcharge by not using Wheeler Ridge, we do not believe that retroactive ratemaking is an issue here.

16. Based on our analysis, we believe that SoCalGas' request to revise the ICMA Surcharge so as to amortize the \$1.890 million refund ordered by FERC should be approved; the revised surcharge amount should be 0.1247¢ per therm. In its A. L. filing, SoCalGas originally requested that the ICMA balance be amortized over a six-month period beginning January 1, 1999. We believe that a six-month amortization period is reasonable, but the January 1st date has already come and gone. Instead, the six-month amortization period should begin as soon as practical after the effective date of this Resolution, but no later than July 1, 1999.

17. Coral's December 10, 1998 protest should be denied.

COMMENTS

1. The Draft Resolution of the Energy Division in this matter was mailed to the parties in accordance with PU Code Section 311(g). Comments were filed on April 23, 1999 by SoCalGas; it identified no factual, legal, or technical errors in the Draft Resolution, and requested that no modifications be made. Therefore, we see no need to make any changes to the Resolution.

FINDINGS

1. By Advice Letter 2763, SoCalGas requests authorization to revise the Interconnect Charge Memorandum Account (ICMA) Surcharge to fully amortize the balance in the account over the next six months.

2. Schedule G-ITC was authorized by Resolution G-3072 and became effective July 13, 1993. That schedule imposes various charges on the users of the Wheeler Ridge interconnect facilities. Those charges are imposed because the Commission found that the costs of the facilities should be recovered from those who use the interconnect, not from all ratepayers in general.

3. The original Schedule G-ITC was annulled by D.94-01-048; no interconnect charges were collected after December 31, 1993. Those charges that had been collected while G-ITC was in effect were ordered refunded. SoCalGas was ordered to continue tracking charges that would have been assessed under Schedule G-ITC in a memorandum account until such time that a new tariff could be put in place. A new Schedule G-ITC became effective April 13, 1994.

4. The ICMA was created pursuant to D.94-01-048 to account for the lost interconnect charges.

5. The ICMA Surcharge became effective May 1, 1994. That surcharge was added to Schedule G-ITC in order to recover the lost interconnect charges and zero-out the ICMA.

6. The refund of the charges collected during the original G-ITC was stayed by D.94-04-087.

7. On November 2, 1998, FERC ordered SoCalGas to refund \$1.890 million to the interstate shippers who had used Wheeler Ridge during the first Schedule G-ITC period, July 13, 1993 to December 31, 1993.

8. SoCalGas has added the \$1.890 million refund to the ICMA balance. It estimates that on December 31, 1998, the ICMA will be undercollected by \$1.545 million. (The \$1.890 million refund, when combined with an existing \$0.345 million surplus, nets to \$1.545 million.)

9. On December 10, 1998, Coral Energy Resources, L. P. (Coral), filed a protest to A. L. 2763. Coral objects to SoCalGas' proposal to add the \$1.890 million to the ICMA balance. Coral alleges that the current Wheeler Ridge interconnect customers are not the same as the customers that received gas deliveries in 1993. Coral claims that current customers will be paying twice for the Wheeler Ridge facilities. Coral also alleges that the imposition of the proposed surcharge would constitute retroactive ratemaking.
10. SoCalGas' inclusion of the \$1.890 million in the ICMA is proper. Part VI of SoCalGas' Preliminary Statement specifically provides for that inclusion.
11. SoCalGas' request to increase the ICMA Surcharge to 0.1247¢ per therm is approved. This rate should be sufficient to fully amortize the ICMA balance within approximately six months.
12. Rather than beginning January 1, 1999, the six-month amortization period will begin as soon as practical after the effective date of this Resolution, but no later than July 1, 1999.
13. Retroactive ratemaking (as alleged by Coral) is not an issue in this proceeding. Users of Wheeler Ridge have been on notice that the ICMA Surcharge would include any refunds of the charges from the first G-ITC; in addition, the surcharge merely recovers the costs of the Wheeler Ridge facilities which SoCalGas has not yet recovered (due to FERC's refund order), and all current users benefit from the use of the facilities.
14. Coral's December 10, 1998 protest is denied.

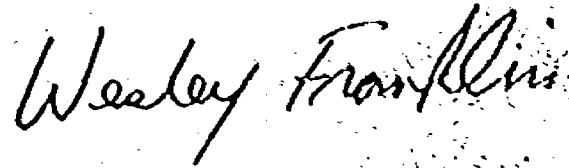
THEREFORE, IT IS ORDERED that:

1. Southern California Gas Company's request to revise the Interconnect Charge Memorandum Account (ICMA) Surcharge to fully amortize the balance in the account over the next six months is approved.
2. SoCalGas' request to increase the ICMA Surcharge to 0.1247¢ per therm is approved. This rate should be sufficient to fully amortize the ICMA balance within approximately six months.
3. Rather than beginning January 1, 1999, the six-month amortization period will begin as soon as practical after the effective date of this Resolution, but no later than July 1, 1999.
4. Coral's December 10, 1998 protest is denied.
5. Advice Letter 2763 shall be marked to show that it was approved by Commission Resolution G-3254.

May 13, 1999

6. This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the state of California held on May 13, 1999, the following Commissioners voting favorably thereon:



WESLEY M. FRANKLIN
Executive Director

RICHARD A. BILAS
President
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners