

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

**ENERGY DIVISION**

**RESOLUTION G-3255**  
**June 10, 1999**

**RESOLUTION**

**RESOLUTION G-3255. THIS APPROVES A CONTRACT WITH LARKIN & ASSOCIATES TO MONITOR, AUDIT, AND REPORT TO THE COMMISSION CONCERNING SEVERAL ASPECTS OF THE COMBINED OPERATIONS OF SOUTHERN CALIFORNIA GAS COMPANY AND SAN DIEGO GAS & ELECTRIC COMPANY, AS REQUIRED UNDER D.98-03-073, OP #7.**

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**SUMMARY**

Decision 98-03-073 approved a plan of merger between Pacific Enterprises (parent company of Southern California Gas Company) and Enova Corporation (parent company of San Diego Gas & Electric Company) on March 26, 1998. The decision requires that the Commission contract with an independent firm to perform a management audit of the combined companies to measure compliance with the conditions and requirements specified in the decision. We have selected Larkin & Associates for this task and approve the contract developed by the Executive Director.

**DISCUSSION**

Ordering Paragraph (OP) #7 of the decision requires that the Executive Director "take the necessary steps to develop a contract for the hiring of an independent firm with sufficient technical expertise to carry out the duties assigned to it over the time period specified in this decision." OP# 7 further specifies that the firm chosen shall "monitor, audit, and report on how the combined utilities

- a) operate their gas system,
- b) comply with adopted safeguards to ensure open and nondiscriminatory service,
- c) comply with the restrictions and guidelines in Attachment B and to raise concerns of market power abuse identified during its review."

The chosen firm is to have unfettered access to the utility gas control rooms and the data and records necessary in the opinion of the project manager to perform this task. Finally, the utilities shall reimburse the Commission for the cost of this contract. Shareholders

shall bear this cost.

The Commission issued a Request for Proposal (RFP), #98PS-5019, concerning this management audit and analysis on November 9, 1998. Five companies responded and Larkin & Associates submitted the lowest bid of the firms found to be the most qualified, under the conditions enumerated by the RFP. Larkin & Associates is a firm of certified public accountants and regulatory consultants located in Livonia, Michigan.

The California Department of General Services has reviewed and approved the contract #98PS-5019 with Larkin & Associates. A copy of the contract is attached to this resolution.

As specified in the RFP, the contractor is to adhere to the following schedule:

1	Draft Report provided to the Energy Division	11 months after the effective date of the contract
2	Energy Division provides Consultant with comments	11 months and one week after the effective date of the contract
3	Final Report is provided to the Energy Division	11 months and 3 weeks after the effective date of the contract
4	Final Report is issued	12 months after the effective date of the contract

Also as specified in the RFP, the contractor is to report on how the combined utilities:

- A. operate their gas system;
- B. comply with adopted safeguards to ensure open and nondiscriminatory service; and,
- C. comply with restrictions and guidelines in Section I, II & III of Attachment B of D. 98-03-073 and to raise concerns of market power abuses identified during its review.

The contractor will need to verify that the merged utilities comply with Commission decisions and are not abusing their market power. The consultant will provide the Commission's Project Manager a monthly written status report. In addition, the consultant will immediately report to the staff any violations of the safeguards contained in Section III of Attachment B to D. 98-03-073, or any other abuse of market power. The Commission may choose to amend, extend, or terminate the contract in the Commission's Gas Strategy proceeding, Order Instituting Rulemaking (R.) 98-01-011.

In addition to the requirements specified above, the contractor may be asked to prepare a report and submit recommendations for the Commission's use in the Gas Strategy proceeding on the adequacy of the Commission's adopted market power safeguards.

In D.98-03-073 we found that "SoCalGas has a near monopoly in the gas transmission market in southern California." (FOF #45) To help mitigate the effects of this existing market power, as well as the additional market power produced by the merger, Section III of Attachment B to D. 98-03-073 requires the following remedial measures be implemented by the combined companies:

1. The Terms and Conditions of the tariff provisions relating to transportation shall be applied in the same manner to the same or similarly situated persons if there is discretion in the application of those tariff provisions. (Remedial Measure 1.)
2. SoCalGas shall strictly enforce a tariff provision for which there is no discretion in the application of the provision. (Remedial Measure 2.)
3. SoCalGas shall not, through a tariff provision or otherwise, give its marketing affiliates (including SDG&E) preference over non-affiliated shippers in matters relating to transportation including, but not limited to, scheduling, balancing, transportation, storage or curtailment priority. (Remedial Measure 3.)
4. SoCalGas shall process all similar requests for transportation in the same manner and within the same period of time. (Remedial Measure 4.)
5. SoCalGas shall not disclose to its marketing affiliates or to employees of SDG&E engaged in the gas or electric merchant function any information SoCalGas receives from a non-affiliated shipper or potential non-affiliated shipper. (Remedial Measure 5.)
6. To the extent SoCalGas provides information related to transportation of natural gas to its marketing affiliates or to employees of SDG&E engaged in the gas or electric merchant function, SoCalGas shall provide that information contemporaneously to all potential shippers, affiliated and nonaffiliated, on its system. (Remedial Measure 6.)
7. To the maximum extent practicable, SoCalGas' operating employees and the employees of its marketing affiliates, including employees of SDG&E engaged in the electric merchant function, shall function independently of each other. (Remedial Measure 7.)

8. If SoCalGas offers a transportation discount to a marketing affiliate, including the SDG&B gas or electric merchant function, or offers a transportation discount for a transaction on its intrastate pipeline system in which a marketing affiliate, or the SDG&B gas or electric merchant function, is involved, SoCalGas shall make a comparable discount contemporaneously available to all similarly-situated non-affiliated shippers; and within 24 hours of the time at which gas first flows under a transportation transaction in which a marketing affiliate receives a discounted rate or a transportation transaction at a discounted rate in which a marketing affiliate is involved, SoCalGas shall post a notice on its Electronic Bulletin Board, operated in a manner consistent with 18 C.F.R. § 284.10(a), providing the name of the marketing affiliate involved in the discounted transportation transaction, the rate charged, the maximum rate, the time period for which the discount applies, the quantity of gas scheduled to be moved, the receipt points into the SoCalGas system under the transaction, any conditions or requirements applicable to the discount, and the procedures by which a non-affiliated shipper can request a comparable offer. The posting shall remain on the Electronic Bulletin Board (EBB) for 30 days from the date of the posting. The posting shall conform with the requirements of 18 C.F.R. § 284.10(a). (Remedial Measure 8.)
9. SoCalGas shall file with the CPUC procedures that will enable shippers and the CPUC to determine how SoCalGas is complying with the standards of 18 C.F.R. § 161. (Remedial Measure 9.)
10. SoCalGas shall maintain its books of account and records (as prescribed under Part 201) separately from those of its affiliate. (Remedial Measure 10.)
11. SoCalGas shall maintain a written log of waivers that it grants with respect to tariff provisions that provide for such discretionary waivers and provide the log to any person requesting it within 24 hours of the request. (Remedial Measure 11.)
12. The merged company's Gas Operations<sup>1</sup> shall operate independently and shall be physically separate from Gas Acquisition.<sup>2</sup> (Remedial Measure 12.)
13. Communications pertaining to gas transportation between Gas Operations and any shipper on the SoCalGas system, including Gas Acquisition, shall, except as specifically exempted below, occur on a nondiscriminatory basis, preferably through SoCalGas' interactive GasSelect EBB. The merged company shall not permit any employee or third party to be used as a conduit to avoid enforcement of any of these rules. (Remedial Measure 13.)
14. The SoCalGas GasSelect EBB shall be the primary means of communication between Gas Operations and any shipper on the SoCalGas system, including

<sup>1</sup>"Gas Operations" includes the SoCalGas Gas Operations Center at the Spence Street facility and its employees, the SoCalGas Gas Transactions group, and the SDG&E Gas Operations group.

<sup>2</sup>"Gas Acquisition" means the gas acquisition function at SoCalGas and SDG&E and all energy marketing affiliates unless otherwise stated.

- Gas Acquisition. Telephonic and facsimile communications between Gas Operations and any shipper on the SoCalGas system, including Gas Acquisition, shall be limited to the status and administration of that shipper's transportation and storage capacity, volumes, and, if relevant, expected gas usage. Telephonic communications shall be tape recorded. In addition, SoCalGas shall permit a representative of the CPUC and/or the California Power Exchange to audit or monitor the application of the procedures and protocols being used to operate the system and respond to the service requests of all system users. (Remedial Measure 14.)
15. The merged company shall preclude Gas Operations or Gas Acquisition from learning the financial positions in futures markets of any affiliate. If non-public information of this nature is received by personnel working at Gas Operations or Gas Acquisition, it shall be contemporaneously posted on the GasSelect EBB. (Remedial Measure 15.)
  16. Unrestricted communications shall be permitted between Gas Operations and SoCalGas Gas Acquisition to the extent necessary for Gas Acquisition to provide system reliability and balancing services. Such communications shall be posted on the GasSelect EBB no later than seven (7) days after the communication to avoid an artificial increase in the cost of such services that may result from posting this information contemporaneously. (Remedial Measure 16.)
  17. SoCalGas shall propose to the Commission in the upcoming Gas Industry Restructuring proceeding<sup>3</sup> a set of provisions designed to eliminate the need for SoCalGas Gas Acquisition to provide system balancing. If the system reliability and balancing function is separated from SoCalGas Gas Acquisition, all communications between Gas Operations and SoCalGas Gas Acquisition shall be through, and posted contemporaneously on, the GasSelect EBB, except for the telephonic and facsimile communications addressed above in (3). (Remedial Measure 17.)
  18. Any affiliate of SoCalGas (including SDG&E) or of SDG&E shipping gas on the system of SoCalGas, SDG&E, or both for use in electric generation shall use the GasSelect EBB to nominate and schedule such volumes separately from any other volumes that it ships on either system. Such gas will be transported under rates and terms (including rate design) no more favorable than the rates and terms available to similarly-situated non-affiliated shippers for the transportation of gas used in electric generation. (Remedial Measure 18.)
  19. SoCalGas shall seek prior Commission approval of any transportation rate discount or rate design offered to any affiliated shipper on the SoCalGas system using existing procedures established by the Commission for review of discounted transportation contracts. (Remedial Measure 19.)

<sup>3</sup> Order Instituting Rulemaking (OIR) 98-01-011.

20. SoCalGas shall continue to maintain an EBB that is an interactive same-day reservation and information system. In any case where SoCalGas is required to post information on the Gas Select EBB, it shall post such information within one hour of an executed transaction or the receipt/transmission of any relevant information. (Remedial Measure 20.)
21. SoCalGas shall post daily on the GasSelect EBB the following information for that day: estimated gas receipts by receipt point; necessary minimum flows at each receipt point; estimated system sendout; estimated storage injections and withdrawals; and estimated day-end system underground storage inventory. SoCalGas shall post within one hour the following information: gas receipts by receipt point, and net storage injections and withdrawals. SoCalGas shall also post daily on the GasSelect EBB information depicted in graphic form to show the relationship between storage inventory levels and underdeliveries to the SoCalGas system. (Remedial Measure 21.)
22. SoCalGas shall post daily the following "next-day" information: capacity available at each receipt point; total confirmed nominations by receipt point; estimated system storage injections and withdrawals; estimated as-available storage capacity; and the status of system balancing rules (daily or monthly). (Remedial Measure 22.)
23. SoCalGas shall post system status data such as maintenance information, facilities out-of-service, expected duration of outage, etc., as soon as such information is known to SoCalGas. (Remedial Measure 23.)
24. SoCalGas shall provide any customer requesting a transportation rate discount an analysis of whether the discount would optimize transportation revenues. (Remedial Measure 24.)
25. SoCalGas shall provide a transportation rate discount to any shipper on the SoCalGas system if such a discount will optimize transportation revenues, regardless of any impact on affiliate revenues. (Remedial Measure 25.)

The contractor's duties will include determining whether and to what extent the utilities have incorporated each of these safeguards, and to report its findings to the Commission. It is reasonable to award this contract #98PS-5019 to Larkin & Associates.

#### COMMENTS

The draft resolution of the Energy Division in this matter was mailed to the parties in accordance with PU Code §311(g). No comments were filed with the Commission.

**FINDINGS OF FACT:**

1. D.98-03-073 approved a plan of merger between SoCalGas and SDG&E.
2. D.98-03-073 found that the merged companies have market power, and this market power would be enhanced by the merger. In order to mitigate this market power, the decision specified several conditions and remedial measures to be implemented and followed by the merged companies.
3. OP #7 of the decision requires that the Commission choose an independent firm with sufficient technical expertise to monitor, audit, and report on how the combined utilities a) operate their gas system, b) comply with adopted safeguards to ensure open and nondiscriminatory service, c) comply with the restrictions and guidelines in Attachment B and to raise concerns of market power abuse identified during its review.
4. The chosen firm is to have unfettered access to the utility gas control rooms and the data and records necessary in the opinion of the project manager to perform this task.
5. The utilities shall reimburse the Commission for the cost of the contract. Shareholders shall bear this cost.
6. The Commission issued a Request for Proposal (RFP), 98PS-5019, concerning this management audit and analysis on November 9, 1998. Five companies responded and Larkin & Associates submitted the lowest bid of those firms that were found to be the most qualified, under the conditions enumerated by the RFP.
7. Larkin & Associates is a firm of certified public accountants and regulatory consultants located in Livonia, Michigan.
8. The California Department of General Services has reviewed and approved the contract with Larkin & Associates. A copy of this contract is attached to this resolution.
9. It is reasonable to award this contract to Larkin & Associates.

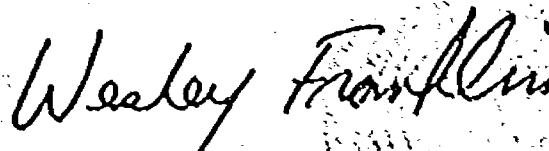
**IT IS THEREFORE ORDERED THAT:**

1. The contract for this effort (contract #98PS-5019) is awarded to Larkin & Associates.
2. SoCalGas and SDG&E shall cooperate with the contractor and provide unfettered access to the utility gas control rooms and all data and records that are necessary in the opinion of the project manager to perform this task.

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3. SoCalGas and SDG&B shall reimburse the Commission for all charges paid for this task using shareholder funds.
4. This Resolution is effective today.

I hereby 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 June 10, 1999, the following Commissioners voting favorably thereon:



WESLEY M. FRANKLIN  
Executive Director

RICHARD A. BILAS  
President

HENRY M. DUQUE

JOSIAH L. NEEPER

LORETTA M. LYNCH

JOEL Z. HYATT

Commissioners