

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND  
COMPLIANCE DIVISION  
Energy Branch

RESOLUTION G-3064  
June 3, 1993

**R E S O L U T I O N**

RESOLUTION G-3064. SOUTHERN CALIFORNIA GAS COMPANY REQUESTS APPROVAL OF A LONG-TERM STORAGE CONTRACT WITH SOUTHERN CALIFORNIA EDISON COMPANY PURSUANT TO THE GUIDELINES ESTABLISHED IN DECISION 93-02-013.

BY ADVICE LETTER 2172, FILED ON APRIL 29, 1993.

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**SUMMARY**

1. On April 29, 1993, Southern California Gas Company (SoCalGas) filed Advice Letter 2172 requesting approval of a long-term storage contract between SoCalGas and Southern California Edison Company (Edison).
2. This Resolution approves the long-term storage contract effective today.

**BACKGROUND**

1. In Decision (D.) 93-02-013, the Commission set forth guidelines for approval of long-term storage contracts. Specifically, all storage contracts must be filed with the Commission by advice letter and must meet duration, pricing, and approval guidelines which include the following:
  - a. Contracts must be for a minimum of three years.
  - b. Fixed price contracts are allowed, however, 1) the risks of over- or undercollections are assigned to shareholders, 2) costs and revenues will be based on long run marginal cost (LRMC), 3) contracts may include a risk premium, and 4) contracts should be indexed to understandable cost escalation measures.
  - c. Discounts for contracts requiring facilities expansions should not be recovered from other ratepayers.

- d. Contracts that have durations within the specified guidelines and that are priced at LRMC -- without discounts, load balancing premiums, or other special features -- will become effective 7 days after filing without further Commission approval.
  - e. Advice letter filings for storage contracts should include identification of whether the services will be derived from existing, new, or expanded facilities.
2. On April 29, 1993, SoCalGas filed Advice letter 2172 requesting approval of a long-term storage contract between SoCalGas and Edison. The contract provides 9.3 million decatherms of annual storage inventory service to Edison through existing storage facilities, and approximately 540,000 decatherms per day of firm withdrawal through a combination of existing and expanded storage capacity. SoCalGas estimates that the annual reservation charge revenues from the services provided under the contract will be just over \$10 million.

#### NOTICE

Public notice of Advice Letter 2172 was made by publication in the Commission calendar and by SoCalGas mailing copies to all parties of record in A.92-03-038 and I.87-03-036.

#### PROTESTS

1. The California Industrial Group, the California Manufacturers Association, and the California League of Food Processors (collectively CIG) protested Advice Letter 2172 on May 18, 1993.
2. The California Cogeneration Council (CCC) protested Advice Letter 2172 on May 19, 1993.
3. SoCalGas responded to these protests on May 24, 1993.

#### DISCUSSION

##### CIG and CCC Protests

CIG protests the provisions of Section 6 in Exhibit B of the SoCalGas/Edison contract which state that firm withdrawal service, including intrastate transportation of firm gas withdrawals, shall be curtailed after all other noncore firm, interruptible, and core subscription transportation. CIG argues that this provision "rebundles" transportation and storage services which were unbundled by D.93-02-013 and disadvantages other noncore firm transportation customers unless they have a storage service contract with SoCalGas. According to CIG, the provision would also give SoCalGas an advantage over other storage suppliers who could not offer transportation in the event of curtailment.

CCC protests Section 6 of the Contract because it could be interpreted to give higher curtailment priority to Edison than to cogenerators' firm storage volumes. In addition, CCC states that Section 6 violates Capacity Brokering decisions 91-11-025 and 92-07-025 because it gives Edison's transportation service higher priority than cogenerators' and other noncore customers transportation service. According to CCC, this provision violates the unbundling of storage in D.93-02-013 because it forces a customer to purchase firm storage as well as firm transportation to achieve the same priority as Edison receives under this contract. CCC proposes that storage volumes be curtailed according to SoCalGas' intrastate transportation priority system.

In response to these protests, SoCalGas states that with respect to CCC's concern over curtailment of cogeneration customers, cogeneration customers with firm withdrawal rights shall have their firm withdrawal service curtailed only after all such service to UEG customers is curtailed. SoCalGas agrees to modify Section 6 to make this more clear.

Furthermore, SoCalGas responds to both CIG and CCC that the provisions of Section 6 are a fundamental aspect of SoCalGas' unbundled storage program, and any customer who subscribes to firm withdrawal service can obtain the same level of service reliability described in Section 6. According to SoCalGas, the approved storage program is designed to provide any noncore customers the opportunity to obtain one week of storage withdrawal protection during a curtailment. If the protests of CIG and CCC are granted, SoCalGas believes that its storage program would be meaningless and the \$10 million per year storage contract with Edison could be jeopardized. SoCalGas also contends that the Commission approved this service reliability feature as an integral part of the design and focus of SoCalGas' proposed program when it approved A.92-03-038 in D.93-02-013. SoCalGas does not believe that its storage program violates Capacity Brokering decisions because these decisions preceded the Commission's storage decision and did not address a relationship between intrastate transportation and firm storage service.

Finally, SoCalGas responds that customers of third party storage will not be disadvantaged because SoCalGas has stated that withdrawals delivered directly into SoCalGas' system would be treated as firm storage withdrawals under SoCalGas' Rule 23 to the extent system upgrades to provide such service are installed.

Discussion. After reviewing D.93-02-013, the Commission Advisory and Compliance Division (CACD) believes that offering curtailment priority to customers who sign up for firm storage service was authorized in the storage decision. In D.93-02-013, the Commission separated storage and transportation into two distinct services. Pursuant to D.93-02-013, Appendix B, Rule 4.1, transportation charges are paid upon delivery of gas into storage. Storage withdrawal, therefore, includes delivery of a customer's stored gas from the storage location to the

burnertip. Customers who pay additional charges for firm storage withdrawal service in addition to transportation charges should receive a higher priority during a curtailment for the withdrawal of gas from storage. This higher priority for firm storage withdrawals is a fundamental feature of storage service.

Furthermore, CACD does not believe this higher priority conflicts with Capacity Brokering decisions because all noncore customers have the option to purchase storage services to obtain a higher level of curtailment priority. Moreover, CACD notes that cogeneration customers with firm withdrawal rights shall have their firm withdrawal service curtailed only after all such service to UEG customers is curtailed.

CACD does have a concern that capacity constraints on SoCalGas' system could lead to curtailment of firm transportation service in order to serve firm storage withdrawal customers such as Edison under this contract. On June 2, 1993, SoCalGas sent a letter to CACD stating that customers exercising their firm withdrawal rights under SoCalGas' storage program will not impact the firm transportation of gas supplies delivered at the Wheeler Ridge or Kern River Station receipt points.

With regard to SoCalGas having an advantage over independent storage providers, CACD notes that Appendix B, Rule 3.1 of the storage decision states that the utility shall provide open and nondiscriminatory access by customers of any independent storage provider to utility facilities necessary to transport gas to and from the independent storage facility. CACD notes that the curtailment priority given to firm storage withdrawal gas should apply to customers of both the utility or any independent storage provider to the extent system upgrades to provide such service are installed. CACD recommends that during future proceedings pertaining to independent storage, the Commission should address modifications to SoCalGas' tariffs to clarify the rights of customers of independent storage facilities.

Based on the above analysis, CACD recommends that the Commission deny the protests of CIG and CCC.

**Compliance with Guidelines Established in D.93-02-013**

a. **Contract Duration.** The contract filed in Advice Letter 2172 will be a few months shorter than three years because it will begin when authorized by the Commission and will expire on March 31, 1996.

**Discussion.** CACD notes that the deviation from the three year minimum established in D.93-02-013 is insignificant. CACD recommends that the contract become effective on the date of this Resolution.

b. **Fixed Price Contract.** The contract filed in Advice Letter 2172 is a fixed price contract because it contains a price

cap mechanism. However, the contract does not contain a risk premium. Under the contract's terms, reservation charges for storage service in 1993 are based on rates contained in the G-LTS Long-Term Storage Service rate schedule. The G-LTS rates are based on the utility's long run marginal costs. However, if the G-LTS tariff increases, reservation charges under the contract in 1994, 1995, and 1996 are limited to the Gross Domestic Product Implicit Price Deflator for the appropriate calendar year plus two percent.

Discussion. CACD finds that the contract is indexed to an understandable cost escalation measure and does not contain a risk premium. Therefore, the pricing requirements set forth in D.93-02-013 have been met. However, CACD wishes to clarify that any over- or undercollections resulting from the price-cap mechanism will be assigned to SoCalGas' shareholders. CACD recommends that SoCalGas record revenues from this contract into its Noncore Storage Balancing Account at the full tariff rate to ensure that revenue over- or undercollections are not absorbed by ratepayers.

- c. Discount for Facility Expansion. This contract includes provisions for a facility expansion. However, the services provided by these expansion facilities will be charged at the tariff rate subject to the price cap mechanism described above.

Discussion. In D.93-02-013, the Commission states that it will not allow balancing account protection of contracts for facilities expansions. CACD notes that this contract does not contain a discount for the proposed facility expansion. However, CACD again wishes to clarify that any over- or undercollection due to the price cap should be assigned to shareholders and not to ratepayers.

- d. Contract Approval. SoCalGas requested that the contract filed in Advice Letter 2172 become effective 7 days after filing pursuant to the procedure described in D.93-02-013 for contracts without discounts, load balancing premiums, or other special features. CACD did not approve this contract within the 7 day period because it was unclear if the contract fell within the announced guidelines in D.93-02-013 for approval without further Commission approval.

Discussion. Based on conversations with SoCalGas, CACD understands that SoCalGas intends to file several additional long-term storage contracts which will contain a similar price cap mechanism to the contract filed in Advice Letter 2172. Pursuant to the guidelines established in D.93-02-013 for fixed price contracts, future filings containing a price cap mechanism should be handled within 7 days if:

- 1) The advice letter filed with a fixed price contract specifies that any over- or undercollections from the

fixed price contract will be assigned to SoCalGas shareholders; and

- 2) The contract does not contain a risk premium; and
  - 3) The contract meets the pricing and duration guidelines set forth in D.93-02-013 and does not contain any special features other than a price cap mechanism.
- e. Advice Letter Filing Features. In Advice Letter 2172, SoCalGas specifies that the contract will provide inventory and some firm withdrawal through existing facilities as well as an additional 307,000 decatherms per day of firm withdrawal from expansion facilities. SoCalGas estimates the costs of the expansion facility to provide this service will be approximately \$11 million.

Discussion. CACD notes that SoCalGas has fulfilled the mandate of D.93-02-013 by identifying that the storage services under this contract will be derived from both existing and expansion facilities. However, CACD wishes to clarify that SoCalGas should not include any costs or revenues associated with these expansion facilities in its Noncore Storage Balancing Account.

#### FINDINGS

1. In D.93-02-013, the Commission separated storage and transportation into two distinct services.
2. In D.93-02-013, the Commission established that transportation charges are paid upon delivery of gas into storage.
3. In D.93-02-013, the Commission intended that storage withdrawal includes delivery of a customer's stored gas from the storage location to the burnertip.
4. Customers who pay additional charges for firm storage withdrawal service in addition to transportation charges should receive a higher priority during a curtailment for the withdrawal of gas from storage.
5. All noncore customers have the option to purchase storage services to obtain a higher level of curtailment priority.
6. Cogeneration customers with firm withdrawal rights shall have their firm withdrawal service curtailed only after all such service to UEG customers is curtailed.
7. SoCalGas sent a letter to CACD stating that customers exercising their firm withdrawal rights under SoCalGas' storage program will not impact the firm transportation of gas supplies delivered at the Wheeler Ridge or Kern River Station receipt points.

8. Curtailment priority given to firm storage withdrawal gas should apply to customers of both the utility or any independent storage provider to the extent system upgrades to provide such service are installed.

9. The rights of customers of independent storage facilities can be addressed during future proceedings pertaining to independent storage.

10. The storage contract filed in Advice Letter 2172 should become effective today.

11. The contract is indexed to an understandable cost escalation measure and does not contain a risk premium.

12. Any over- or undercollections resulting from the price-cap mechanism is assigned to SoCalGas' shareholders.

13. SoCalGas should record revenues from this contract into its Noncore Storage Balancing Account at the full tariff rate to ensure that revenue over- or undercollections are not absorbed by ratepayers.

14. Any future fixed price storage contracts should be handled according to the 7 day approval period if:

- 1) The advice letter filed with a fixed price contract specifies that any over- or undercollections from the fixed price contract will be assigned to SoCalGas shareholders; and
- 2) The contract does not contain a risk premium; and
- 3) The contract meets the pricing and duration guidelines set forth in D.93-02-013 and does not contain any special features other than a price cap mechanism.

15. SoCalGas should not include any costs or revenues associated with these expansion facilities in its Noncore Storage Balancing Account.

**THEREFORE, IT IS ORDERED that:**

1. The contract between Southern California Gas Company and Southern California Edison Corporation, submitted in Advice Letter 2172, is approved.

2. Any over- or undercollections resulting from this contract shall be assigned to shareholders of Southern California Gas Company.

3. Southern California Gas Company shall not include any costs or revenues associated with expansion facilities resulting from this contract in its Noncore Storage Balancing Account.

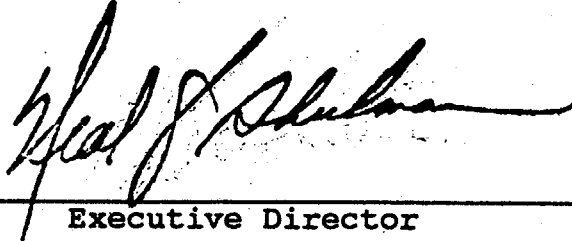
4. The contract shall be effective today.

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5. Any future fixed price storage contracts shall be handled according to the 7 day approval period if:

- 1) The advice letter filed with a fixed price contract specifies that any over- or undercollections from the fixed price contract will be assigned to SoCalGas shareholders; and
- 2) The contract does not contain a risk premium; and
- 3) The contract meets the pricing and duration guidelines set forth in D.93-02-013 and does not contain any special features other than a price cap mechanism.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on June 3, 1993. The following Commissioners approved it:



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Executive Director

DANIEL Wm. FESSLER  
President  
PATRICIA M. ECKERT  
NORMAN D. SHUMWAY  
P. GREGORY CONLON  
Commissioners