PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-3072
July 8, 1993

# R E S O L U T I O N

RESOLUTION G-3072. SOUTHERN CALIFORNIA GAS COMPANY REQUESTS APPROVAL OF A NEW TARIFF RATE SCHEDULE, SCHEDULE G-ITC, AND PRO FORMA CONTRACT WHICH PROVIDE FOR THE RECEIPT OF NATURAL GAS DELIVERIES INTO ITS INTRASTATE SYSTEM AT POINTS OF INTERCONNECTION WITH THE PIPELINE SYSTEMS OF THE KERN RIVER GAS TRANSMISSION COMPANY, THE MOJAVE PIPELINE COMPANY AND PACIFIC GAS AND ELECTRIC COMPANY'S PIPELINE EXPANSION PROJECT. SOUTHERN CALIFORNIA GAS COMPANY ALSO SEEKS APPROVAL TO CONDUCT AN OPEN SEASON TO OBTAIN COMMITMENTS FROM FIRM INTERSTATE SHIPPERS TO PAY DIRECTLY FOR THE FACILITIES ON A FIRM BASIS AND DETERMINE THE EXTENT TO WHICH NEW FACILITIES WILL BE CONSTRUCTED.

BY ADVICE LETTER 2176, FILED ON MAY 7, 1993.

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## SUMMARY

1. On May 7, 1993, SoCalGas filed Advice Letter 2176 requesting Commission approval of the following proposals:

   a. a new tariff rate schedule, Schedule G-ITC

   b. a pro forma contract, the Access Agreement

   c. an Interim Interconnect Rate Memorandum Account

   d. to conduct an open season in order to obtain commitments from firm interstate shippers to pay directly for the interconnect facilities which will provide shippers access to SoCalGas' system on a firm basis and determine the extent to which new "firm access" facilities will be constructed.

   e. for ratemaking purposes, that costs related to the construction and operation of interconnection and attendant facilities necessary to receive firm deliveries into SoCalGas' system be treated on a consolidated basis.

2. This Resolution approves with modification Advice Letter 2176 filed by Southern California Gas Company (SoCalGas).

**BACKGROUND**

1. In decision (D.) 93-02-055, the Commission approved the interconnection of the SoCalGas system with the interstate pipeline facilities of Kern River Gas Transmission Company and the Mojave Pipeline Company (Kern/Mojave) at the Wheeler Ridge interconnection.

2. In D.93-05-009, the Commission approved the interconnection of the SoCalGas and Pacific Gas and Electric Company (PG&E) systems at SoCalGas' Kern River Station interconnection to accommodate deliveries of firm gas volumes from the PG&E Expansion.

3. The Commission, in both D.93-02-055 and D.93-05-009, among other rules, adopted the following:

a. Incremental pricing for the interconnections and compression facilities.

b. Kern/Mojave and PGT/PG&E shippers' existing rates should be based on the principle of segmentation of SoCalGas' transmission system into northern, eastern and Los Angeles basin loops.

c. Deferred rate segmentation to SoCalGas' next cost allocation proceeding (CAP).

d. Incremental rates would be determined in SoCalGas' next CAP as well.

4. D.93-05-009 recognized that the costs of the Kern/Mojave and the PG&E Expansion are common facilities and, therefore, the costs associated with both facilities are considered common costs.

5. D.93-05-009, Finding of Fact 43, states, "In order to have a rate in effect upon the in-service date of the new facilities SoCalGas' incremental rate should be placed into effect using an interconnection surcharge which shall be subject to further adjustment and/or refund in SoCalGas' next cost allocation proceeding."

6. Ordering Paragraph 3 of D.93-05-009, orders SoCalGas to file an advice letter proposing the interim incremental surcharge.

7. On May 7, 1993, SoCalGas filed Advice Letter 2176 requesting Commission approval of the following proposals:

a. a new tariff rate schedule, Schedule G-ITC.

b. a pro forma contract, the Access Agreement.

c. an Interim Interconnect Rate Memorandum Account.

d. to conduct an open season in order to obtain commitments from firm interstate shippers to pay directly for the interconnect facilities which will provide shippers access to SoCalGas' system on a firm basis and determine the extent to which new firm access facilities will be constructed.

e. for ratemaking purposes, that costs related to the construction and operation of interconnection and attendant facilities necessary to receive firm deliveries into SoCalGas' system be treated on a consolidated basis.

8. The proposed rates in Schedule G-ITC are interim and are subject to refund pending Commission approval of final rates in SoCalGas' CAP.

9. The scheduled in-service date for the facilities necessary to provide firm access to Kern/Mojave shippers is July 1, 1993.

10. The scheduled in-service date for PG&E Expansion shippers is November 1, 1993.

11. SoCalGas states that an opportunity still exists to allow for modifications to the construction of these facilities without jeopardizing the in-service dates. Results of an open season would aid in determining the extent to which shippers will financially commit for firm access and whether to adjust the size of its overall interconnect facilities based on the results of the open season.

12. The minimum term of the Access Agreement is thirteen (13) years. If the existing firm capacity at the interconnects is not fully subscribed, shippers may contract for firm capacity on a first-come-first-served basis.

13. Shippers may obtain interruptible access at the volumetric rate in Schedule G-ITC at the interconnects any time on an as-available basis.

14. Transportation nominations for firm access at the Wheeler Ridge and Kern River Station interconnections (interconnects) are proposed to be accepted by SoCalGas prior to any nominations for interruptible access.

15. As proposed in G-ITC, transportation nominations for deliveries at the interconnects into the SoCalGas system shall be accepted on a pro rata basis.

16. The proposed Interim Interconnect Rate Memorandum Account (IIRMA) will record the total revenues collected by SoCalGas for firm and interruptible access service under Schedule G-ITC.

17. The IIRMA will be used to facilitate the allocation of any applicable refunds to shippers served under Schedule G-ITC at interim interconnect rates, to the extent such rates are higher

than the final rates adopted by the Commission in SoCalGas' next CAP.

**PROTESTS**

1. The following parties filed protests to AL 2176 on May 27, 1993:

- o The Commission's Division of Ratepayer Advocates (DRA).
- o The Indicated Producers.
- o Kern River Gas Transmission Company (Kern River).
- o Pacific Gas and Electric Company (PG&E).
- o San Diego Gas and Electric (SDG&E).
- o Southern California Edison Company (Edison).
- o Southern California Utility Power Pool and Imperial Irrigation District (SCUPP/IID).
- o Washington Energy Exploration, Inc (Washington Exploration).

2. SoCalGas filed its consolidated response to the above protests on June 3, 1993.

**NOTICE**

1. Public notice of Advice Letter 2176 was made by publication in the Commission calendar, and by SoCalGas' mailing copies to all parties of record in A.90-11-035 and A.92-04-031 as well as to all interested parties who requested notification.

**PROTEST ISSUES**

1. **SoCalGas' Open Season and Implementation of an Interim Interconnect Surcharge should be rejected.**

A. The Indicated Producers believe that the issues related to the development and implementation of a new rate surcharge are too complex and should not be handled through the standard advice letter process. Indicated Producers state that SoCalGas' next CAP is the best forum to analyze SoCalGas' proposal.

B. The Indicated Producers and Kern River state that D.93-02-055 and D.93-05-009 are not consistent with respect to rate implementation. In D.93-02-055, Finding of Fact 50, the

Commission stated that it would defer the development of both the incremental rate and the zone transmission credit until SoCalGas' next CAP. In Ordering Paragraph 3 of D.93-05-009 the Commission ordered SoCalGas to submit by advice letter an interim incremental surcharge rate for "the use of the facilities subject to this decision." Indicated Producers believes it was not made clear that the Commission intended to reverse its earlier decision and implement interim surcharge rates for the Kern/Mojave interconnect.

C. SCUPP/IID protest SoCalGas' proposed open season for nominations of long-term firm service and recommend that it be suspended until after revised interconnection rates and zone rates have been established in SoCalGas' next CAP. Customers should not be required to make long-term service decisions without knowing the net rate impact of those decisions.

In response, SoCalGas states that the Commission in D.93-05-009, Finding of Fact 43, pp.27-28, explicitly directed SoCalGas to file an advice letter to ensure that the interim rates are in place when the new interconnection facilities go into service. The filing of Advice Letter 2176 is in compliance to this Commission decision.

SoCalGas also states that SCUPP/IID's proposal to postpone the open season until after the next CAP would bring additional months of delay well into 1994 before SoCalGas would have any right to charge for the use of these facilities. During the interim, shippers would be receiving service at the interconnect facilities for free. SoCalGas also notes that if demand for additional expansion can be determined during the planned open season, SoCalGas can modify its construction plans to accommodate additional capacity.

## 2. Applicability of An Incremental Surcharge

A. The Indicated Producers find that the proposal fails to recognize that only those volumes that will flow south out of Wheeler Ridge will physically flow through the compression facilities at Wheeler Ridge. The incremental surcharge should not apply for shippers whose volumes flow north from Wheeler Ridge to San Joaquin Valley.

B. The Indicated Producers also protest SoCalGas' proposal to apply the incremental surcharge to shippers whose gas is delivered under long-term transportation contracts with Wheeler Ridge delivery points. Over the last year, SoCalGas has amended certain of its intrastate transportation contracts to provide for delivery at Wheeler Ridge and clarify that such shippers are not entitled to firm deliveries at Wheeler Ridge under the terms of their contract unless a shipper has executed a Facilities Amortization Agreement, but the amendment does allow for interruptible deliveries under these contracts and does not specify or reference an additional charge for such interruptible deliveries. To impose the surcharge on these customers, therefore, would cause SoCalGas to breach its contracts. Moreover, unless the long-term contract customers were guaranteed to receive the zone transmission credit, an issue which may arise in the determination of the credit, the net access charge applied to these customers would exceed the charge imposed on other shippers. Such discrimination would be contrary to California Public Utilities Code Section 453.

SoCalGas responds by stating that the surcharge should apply to all supplies entering SoCalGas' system at the points of interconnection without regard to their ultimate destination or a need to trace gas molecules to identify their direction of travel either north or south on SoCalGas' system. As a group, all firm access shippers already receive credits in the form of reduced interconnection facilities costs because northbound volumes normally do not require additional compression. Individual daily shipper credits would be superfluous and impossible to administer.

SoCalGas also notes that the amount of gas which physically flows north depends only on "net load" north of Wheeler Ridge, and not on whether a certain shipper markets gas north or south of Wheeler Ridge. As a result, no special consideration is owed to shippers who market volumes to customers north of Wheeler Ridge.

As to application of the interconnect surcharge to end-users who already have transportation agreements with SoCalGas, the shipper supplying the end-user should not be exempt from the incremental surcharge applicable to access at the interconnection facilities. Transportation agreements are with end-users and access rights reside with shippers: The two are not related.

**3. Applicability of the Surcharge to Interstate Shippers**

A. The Indicated Producers argue that applying the surcharge to interstate shippers rather than intrastate shippers will distort the interconnection rate and present both jurisdictional and practical problems. It is apparent that SoCalGas cannot apply the incremental surcharge to the delivering shipper, since the delivering shipper is an interstate transporter and has no transportation relationship with SoCalGas. This could cost SoCalGas its Hinshaw exemption. Thus, the only point at which SoCalGas is entitled to impose the charge is at or after the point of receipt by the intrastate shipper.

The Indicated Producers recommend that to the extent an interstate shipper desires firm access, that shipper can establish a relationship with SoCalGas by executing a firm Access Agreement. This would not be the case with respect to interruptible access. The Indicated Producers recommend that an end-use customer execute an Access Agreement or bear the responsibility for the incremental surcharge on an interruptible basis rather than automatically apply the surcharge to the interstate shipper.

B. Another practical problem arises in cases where a natural gas marketer delivers gas at Wheeler Ridge into the possession of an end-use customer transporting under its own intrastate arrangements with SoCalGas, when the marketer will pay the surcharge. The end-user, and not the marketer will receive the transmission zone credit under its intrastate transportation arrangement. Thus, the net access rate to the responsible shipper will be distorted.

Indicated Producers recommend that the transmission zone credit be provided to the shipper that actually pays the interconnect surcharge.

SoCalGas believes that this and similar matters should be resolved by the shippers with their respective marketers/end-users. It is certainly true that interstate shippers will bear the cost of the access facilities while end-users are responsible for SoCalGas' intrastate facilities. SoCalGas suggests that shippers should work with their end-users to ensure that their services are appropriately priced.

**4. Return on Equity**

A. Indicated Producers states that SoCalGas' proposed return on equity (ROE) of 14% with a provision for a 5% upside gain is excessive. SoCalGas has stated that Kern River and Mojave, two of SoCalGas' competitors, are authorized similar capital structures combined with an ROE of 14%. Also, SoCalGas points out that the proposed leveraged financing would incorporate a 70% debt, 30% equity capital structure, which is much more highly leveraged than typical utility operations.

The Indicated Producers argue that the ROEs granted to Kern River and Mojave in January 1990 were based on certain factors which were relevant at that time such as a prime rate of 10.5% and a federal discount rate of 7.0%. Such factors are wont to change based on current economic and financial circumstances. The Indicated Producers point out that the prime rate is now down to 6.0 % and the federal discount rate is 3.0% and, therefore, it is simply unjustified to grant SoCalGas a 14% ROE.

B. SCUPP/IID also protest SoCalGas' proposed ROE and points out that a 14% ROE is substantially higher than the ROE allowed by the Commission for any of the local distribution companies serving California. SCUPP/IID find the 14% ROE unreasonable given that SoCalGas proposes to charge a reservation fee based on the straight fixed variable methodology under which all fixed costs <u>including</u> ROE will be recovered through a monthly reservation charge.

SoCalGas states that an increase of 210 basis points for these facilities over the currently-authorized ROE of 11.90% applicable to its rolled-in rate base is reasonable. SoCalGas' current ROE does not presuppose incremental treatment for these facilities. SoCalGas believes that this matter can be properly considered when rates are finalized in its next CAP.

**5. Depreciation**

A. The Indicated Producers protest SoCalGas' proposed 25-year depreciation schedule because it is inconsistent with D.93-05-009 which approved a 30-year depreciation period for the compression facilities.

B. SCUPP/IID protest SoCalGas' proposal to "levelize" the annual revenue requirement of its interconnection project by designing depreciation rates so that debt costs will be amortized over 13 years, with ROE capital being deferred until the 14th year at which point SoCalGas' equity capitalization will reach 100% of the remaining rate base. Beginning in Year 14 and continuing through Year 25, equity capital will be recovered on a straight line basis.

Insofar as the cost of equity is greater than the cost of debt, SoCalGas' proposed levelization scheme will tend to increase overall costs to interconnection ratepayers over the long run and increase the total ROE recovered from SoCalGas' investment in the project. Conventional straight line depreciation would result in faster amortization of the equity component of SoCalGas' proposed capitalization and is appropriate.

C. Edison protests the negative 35% salvage value as unjustifiably high.

In response to the Indicated Producers' protest, SoCalGas states that the Commission, in D.93-06-046, deleted the 30-year requirement and substituted language which leaves discretion of the determination of an appropriate capital recovery period to SoCalGas.

In response to SCUPP/IID's argument that levelized rates are objectionable, SoCalGas concludes that the marketability of this project would be adversely affected by the application of conventional straight-line depreciation. It is not SCUPP/IID's role to dictate the manner in which SoCalGas manages its exposure to market risk.

SoCalGas adds that its proposal for a levelized revenue requirement serves to reduce the cost of access during the early years these facilities will be in service.

SoCalGas notes that salvage values of negative 35% are common and appropriate in the energy industry. Also, a negative 35% salvage in nominal terms following a 25-year useful life represents a much smaller percentage in real terms.

6. **Term of the Access Agreements**

A. Indicated Producers recommend that the Commission direct SoCalGas to provide for greater flexibility in the term of the Access Agreement and that SoCalGas take a more flexible approach in its open season to ascertain the interest of the market in long-term arrangements.

B. Edison argues that the term of the Access Agreement should parallel that of the contracts signed by PG&E Expansion shippers for a 30-year term and the 30-year life of the facilities which the Commission has recognized. The contract should be modified so the contract continues until terminated by the shipper and termination is allowed at any time after the initial term once reasonable notice of termination is given.

C. SCUPP/IID and Washington Exploration protest that the term is excessive. SCUPP/IID believe that the 13 year term does not accommodate those customers who have business or operational constraints which may prevent them from entering into lengthy transmission arrangements and, therefore, will be forced to rely on interruptible service. SCUPP/IID recommend that the term of the Access Agreement mirror that of the Commission's storage proceeding, I.87-03-036, in which the Commission permitted storage customers to execute firm contracts having a duration as short as 3 years.

D. Washington Exploration states that although it has an interest in the Wheeler Ridge and Kern interconnects in order to serve southern California markets, it is reluctant to become obligated for the cost of the interconnects for a 13 year term. Washington Exploration believes that a shorter term firm commitment to the new facilities is reasonable as long as rates remain competitive with the rates other shippers pay at the interconnect.

In response to Edison's concern, SoCalGas states that the option to extend the term of the agreement on a year-by-year basis can easily be left to negotiations between Edison and SoCalGas.

In response to Washington Exploration's protest, SoCalGas emphasizes that as proposed in Advice Letter 2176, the long-term facilities provide no return on SoCalGas' equity investment for the first 13 years. Therefore, SoCalGas is reluctant to tie up these facilities based on short-term commitments when there are other customers who are willing to make the long-term commitments SoCalGas requires to support the financing arrangements associated with these facilities.

## 7. The Difference Between the pre-BCAP Rate and the post-BCAP northern zone rate.

A. PG&E protests SoCalGas' lack of clarity with regard to whether shippers would receive a refund equal to the difference between the pre-BCAP rate and the northern zone rate that will be adopted in SoCalGas' next CAP. SoCalGas should be directed to establish an accounting mechanism to record the amount of the difference between the pre-BCAP rate and the post-BCAP northern zone rate and to refund the difference to shippers.

SoCalGas did not respond to this protest issue.

## 8. Crediting of Interruptible Revenues

A. Both SDG&E and Washington Exploration protest the provision that if the sum of firm and interruptible service revenues exceeds SoCalGas' authorized revenue requirement for the interconnection facilities by more than 5%, SoCalGas intends to refund 75% of such excess revenues to holders of firm capacity. SDG&E agrees with the basic concept of this credit, but believes that the amount of excess revenues refunded to firm capacity holders should be even greater.

Both parties propose that SoCalGas be required to refund to the firm shippers 95% of <u>all</u> revenues which exceed the authorized revenue requirement for the interconnection facilities. In addition, Washington Exploration recommends that upon the full recovery of interconnect costs, SoCalGas should credit <u>all</u> revenue received from interruptible service to firm shippers.

B. Edison and SCUPP/IID also protest SoCalGas' retention of 25% of excess interruptible revenues. Edison and SCUPP/IID recommend that SoCalGas be required to follow the Federal Energy Regulatory Commission's (FERC) Order No. 636 program, whereby FERC determined that a 90/10 sharing between ratepayers and shareholders is appropriate when a pipeline overrecovers costs allocated to interruptible transmission service. SCUPP/IID also believe that crediting should commence when firm revenues and interruptible revenues exceed the revenue requirement and not when the revenue requirement is exceeded by 5% . Lastly, if the firm service rate is reduced through crediting, the interruptible rate, which is based on the firm rate, should be reduced concomitantly.

SoCalGas states that it has borne, and continues to bear, all the risk of loss from undersubscription of the facilities. Furthermore, if the facilities become fully subscribed, SoCalGas' recovery on equity capital will have been deferred for the first 13 years. SoCalGas believes that without this risk-enhancing concession, rates would have been considerably higher and marketability greatly impaired.

## 9. A Transmission Zone Rate Credit

The application of zone rates will result in lower transmission rates for customers who deliver their gas through the interconnection facilities. The avoidance of duplicative transmission charges through zone rates is an essential part of the Commission's incremental rate decisions, D.93-02-055 and D.93-05-009. The implementation of this lower zone transmission rate will not become effective until the establishment of rates in SoCalGas' next CAP proceeding.

A. SDG&E protests SoCalGas' lack of a provision for shippers to receive a refund or credit for the difference between the transmission rate actually paid and the lower transmission rates that they would have paid had zone rates been in effect during this interim time period.

SDG&E believes it is imperative that once the interim zone rate differential has been determined in the next CAP, the differential should be refunded to shippers using the interconnection facilities. Otherwise, SoCalGas will double-recover the cost of the interconnection facilities from the rates paid by the shippers using the interconnection facilities and again in transmission rates paid by the same shippers.

B. Kern River argues SoCalGas significantly disadvantages shippers on new pipelines and distorts the competition that this Commission has attempted to foster. As proposed by SoCalGas, shippers using the interconnection would experience a rate <u>increase</u> of approximately $0.0387 per decatherm (dth) for firm service and $0.0427/dth for interruptible service, and if geographical segmentation were taken into effect and SoCalGas' illustrative zone credit of $0.0435/dth is correct, the total cost of service to customers receiving gas through the Wheeler Ridge interconnection would actually <u>decrease</u> by $0.0008/dth (interruptible) - $0.0048/dth (firm). In a competitive area such as gas supply and transportation, a $0.04 to $0.05 swing is significant.

Furthermore, shippers may be paying the incremental surcharge longer without the offsetting zone rate being recognized. On May 20, 1993 at the prehearing conference held in R.88-08-018, SoCalGas announced that it intends to ask for a delay in filing its next CAP.

SoCalGas states that the Commission has already declared that the incremental surcharge will be recovered on an interim basis but that the zone rate credit will be deferred until the next CAP.

Also, SoCalGas emphasizes that SDG&E's allegation of a double recovery is completely erroneous. SoCalGas must recover the costs of the interconnection facilities in addition to continuing to recover the costs of its existing system in order to have an opportunity to recover all of its costs. A retroactive zone rate credit to shippers for the interim period would cause SoCalGas to underrecover authorized revenues.

**10. Access Rate**

A. Edison recommends that the language in Section 4 of the firm Access Agreement be modified so the facility costs included in the rate charged for firm service are fixed based on the results of the open seasons and should remain fixed for the term of the Agreement subject to limited adjustment.

SoCalGas responded by stating that Edison apparently overcame its fears of committing to estimated rates when it subscribed to capacity on the PG&E Expansion and that SoCalGas is willing to negotiate fixed rates up front in cases where there are concerns associated with tariff rates.

**11. Effective Date of the Facilities**

A. SoCalGas has stated that only two of the three compressors at Wheeler Ridge will be in service by July 1, 1993. Thus, the rates proposed by SoCalGas recover, in part, the costs of a compressor that will not be used and useful as of the dates the proposed rates are to become effective. SCUPP/IID recommend that the rates proposed by SoCalGas for effectiveness on July 1, 1993 are unjust and unreasonable and should be rejected as unlawful.

B. Edison recommends that SoCalGas clarify in Section 3 of the Access Agreement that service for PG&E Expansion shippers will begin on the date the project enters into commercial operation, and no earlier. The absence of such a provision could result in these shippers paying for firm access service with no ability to use this service.

SoCalGas points out that the surcharge contains a built-in undercollection to account for the portion of the total interconnect facilities attributable to the PG&E Expansion which will not be operational until November 1, 1993.

**12. Load Factor**

A. SCUPP/IID protest SoCalGas' proposal of a 90% load factor upon which an interruptible rate is designed. If the proposed interconnection facilities were used at a 100% load factor by interruptible customers, SoCalGas would overrecover the cost of the interconnection project, including the allowed ROE, by 10%. SCUPP/IID recommend that the maximum load factor of 100% be used in designing interruptible rates.

SoCalGas did not respond to this protest issue.

**13. Other Issues:**

**A. Interruptible Access to Interconnect Facilities**

Advice Letter 2176 provides only that "Shippers may obtain interruptible access at the interconnects at any time, based upon total available capacity." Washington Exploration requests that the Commission require SoCalGas to specifically state the terms upon which interruptible access will be made available and that such terms should provide that allocation of available capacity for interruptible takeaway service should be made on a first-come-first-served basis.

**B. Rights During an Event of Default**

Edison protests Section 6.3 of the Access Agreement, which gives SoCalGas broad rights following an Event of Default and whose exercise is not limited. SoCalGas should be required to provide written notice and promptly exercise any termination right after an Event of Default.

Also, Section 6.3 only identifies Events of Default by shippers and no Event of Default by SoCalGas.

**C. Assignment of Access Rights**

Edison recommends that SoCalGas revise Section 8.5 of the Access Agreement and not limit the assignment of access rights to "temporary" situations. The assignment of unused capacity under these circumstances will result in a more efficient use of these facilities.

**D. An Audit**

Edison proposes that a new audit right should be included in Section 8.9 of the Access Agreement which would allow any shipper to request an audit by a CPA firm with experience in accounting for gas distribution facilities. SoCalGas would then be required to make available its books, records, and other supporting information, and the books and records of each cost reimbursable contractor, supplier, or consultant for use by the CPA firm in performing an audit.

**E. Definition of Firm Access**

Edison proposes that a definition of "firm access" should be added to the tariff Schedule G-ITC which is consistent with the one in the 10-year curtailment standard described in the interconnection proceedings.

**F. Refunds Upon Implementation of the Zone Rate Credit**

Edison believes that Special Condition 7 of tariff Schedule G-ITC should be clarified to reflect that refunds will be provided if the implementation of zone rates and other charges requires an adjustment in the firm access rate.

**G. Curtailment**

Edison states that Section 6 of the special conditions in tariff Schedule G-ITC incorrectly suggests SoCalGas could provide less than the full amount of firm access service nominated by a firm access shipper. Edison proposes that the tariff indicate that the only circumstance under which nominated firm capacity will not be delivered is when the capacity itself is curtailed, and then curtailment of firm service will occur on a pro rata basis.

SoCalGas points out that these suggestions are minor or altogether irrelevant and do not require resolution before interim rates can be implemented as proposed.

**14. The Costs of Compressor Fuel**

A. DRA states that SoCalGas' proposed rates are not intended to recover fuel costs required to operate compression facilities at Wheeler Ridge. DRA believes that an appropriate rate for shippers should cover all of the fixed and variable costs associated with the system upgrades. The end-use customer who takes gas delivered over these pipelines through Wheeler Ridge should, in turn, receive a credit for fixed and variable costs associated with system components not used by the customer. That credit, which <u>may</u> include a fuel cost credit, will be determined in the next cost allocation proceeding (CAP).

SoCalGas states that it excluded the costs of compressor fuel at Wheeler Ridge from the interim surcharge since use of the interconnect facilities will displace volumes flowing on SoCalGas' eastern system and result in no incremental fuel use.

Customers already pay for fuel in their existing transmission rates and SoCalGas believes that to charge shippers again for fuel use associated with the interconnect facilities would result in double recovery of fuel costs during the interim period preceding implementation of final rates.

SoCalGas is willing to revise the interim rate as proposed by DRA to include Wheeler Ridge fuel costs provided that duplicative fuel costs paid by the shippers will be refunded on a dollar-for-dollar basis to end-users on whose behalf the gas is delivered into SoCalGas' system.

## 15. Outage Credit

A. SDG&E protests an apparent limitation of the outage credit provision in the Access Agreement which provides that if in any month SoCalGas is unable to accept at least 98% of the gas nominated by a shipper for which the shipper has contracted firm access then, that shipper will receive a credit equal to:

> [T]he daily reservation charge per MMcf pursuant to Schedule G-ITC multiplied by the quantity of gas tendered for Firm Access by Shipper at the Entry Point that SoCalGas was unable to accept during such month, <u>which quantity shall be no greater than shipper's average quantity tendered over a comparable period of time during the prior month,</u> but not in excess of Shipper's MDQ [maximum daily quantity].

SDG&E believes that the limitation set forth in the language underlined immediately above is illogical and unfair and should be eliminated from the Access Agreement. SDG&E states that if a shipper nominates less than its full MDQ for one day or more, the clause would limit the shipper's rights in the next month - rights that the firm shipper has paid demand charges to obtain. Furthermore, there is no logical relationship between a shipper's nomination in one month and SoCalGas' ability to provide access in the next.

B. Edison believes the outage credit should be provided to all shippers based on payment of the reservation charge and not based on the amount of gas they are delivering when SoCalGas refuses their nominations. Also, the language on a reduction in the credit for planned interruption should be clarified so it only applies when the shipper has been given reasonable notice of the interruption.

C. SCUPP/IID find SoCalGas' proposal inadequate. If SoCalGas curtails firm service, it would have the rest of the month to make up the shortfall. Determination of whether or not there should be a credit should be on a daily, not a monthly basis. If SoCalGas curtails service through the Wheeler Ridge interconnection for reasons other than testing or repair of the SoCalGas facilities, SoCalGas should provide a credit to its firm interconnection customers.

D. Washington Exploration believes that firm access shippers should receive relief of their obligation to pay the firm access rate upon an event of force majeure claimed by SoCalGas <u>on any point on its system</u> that would prevent a shipper from transporting gas to the shipper's nominated delivery point on the system. Also, an event of force majeure on the PG&E or Kern/Mojave systems which prevents a shipper from delivering gas to the interconnects should be a cause for relief of firm access obligations.

Washington Exploration believes that at a minimum the Commission should require SoCalGas to provide rate relief, directly or through the proposed outage credit, to a shipper when SoCalGas is unable to accept gas at the interconnects due to failure of any portion of its system. Additionally, where the Shipper is unable to transport gas beyond the points of interconnection because of operational failure of the SoCalGas facilities at this point, SoCalGas should be prohibited from assessing any imbalance penalties which accrue on its system.

SoCalGas agrees to delete the language identified by SDG&E so that the outage credit is no longer dependent on nominations in the prior month.

SoCalGas believes that the issue of providing a reduction of the outage credit for planned interruptions only if reasonable notice has been given should be explored in the formal proceeding. In the interim, SoCalGas believes it is sufficient that scheduled maintenance is not included as a factor in developing the interim surcharge.

In response to Washington Exploration's protest, SoCalGas states that the purpose of the force majeure provision is to excuse performance upon a failure at the point of interconnect, which is the subject of the Access Agreement. It would not be appropriate to provide such a credit to firm access shippers when at present a shipper on SoCalGas' system receives no relief, and it would be inappropriate to create such a right simply because a shipper signs the Access Agreement. It would also be unreasonable for SoCalGas to provide relief of shippers' obligations if there is an event of force majeure on the PG&E or Kern/River systems.

## 16. Straight-fixed Variable Rate Design

A. Both the Indicated Producers and SCUPP/IID protest SoCalGas' proposal for straight-fixed variable (SFV) rate design. Indicated Producers states that SoCalGas and the Commission recognize that the interconnection facilities at issue represent a "market" project rather than a project based on a traditional "need" determination. Therefore, it is not unreasonable to expect SoCalGas to bear some risk of revenue recovery for this project. The use of an SFV rate design in this case substantially reduces SoCalGas' risk and reduces its incentive to market interruptible capacity. Indicated Producers and SCUPP/IID recommend that the Commission should direct SoCalGas to examine modified fixed variable (MFV) rate alternatives.

SoCalGas states that without the fixed reservation charge implicit in SFV rate design, there will not be the kind and quality of shipper commitments envisioned by the Commission to support the stand-alone financing this project requires. SoCalGas emphasizes that the logic of SFV rate design follows directly from cost causation principles. It follows then that since the degree of investment and thus fixed costs is caused by how much capacity is reserved, not by its utilization, it is appropriate to include fixed costs in the reservation charge, leaving variable costs to be recovered by means of the volumetric rate.

## DISCUSSION

The Commission Advisory and Compliance Division (CACD) believes that pursuant to D.93-05-009, SoCalGas is indeed authorized to charge an interim incremental surcharge to recover the common costs associated with the common interconnect facilities.

In order to allow SoCalGas the opportunity to determine the necessity to expand its interconnection facilities beyond what is currently planned, and have a rate in effect upon the in-service date of the new facilities, CACD believes it is reasonable to approve Advice Letter 2176 with the following modifications:

a. CACD recommends that the protest of DRA be granted with respect to the inclusion of fuel costs associated to the Wheeler Ridge interconnect provided that SoCalGas refund any duplicative costs paid by shippers on a dollar-for-dollar basis to end-users on whose behalf the gas is delivered into SoCalGas' system.

b. CACD recommends that the protest of SDG&E be granted with respect to the deletion of a portion of the outage credit provision in the Access Agreement which provides that if in any month SoCalGas is unable to accept at least 98% of the gas nominated by a shipper for which the shipper has contracted firm access then, that shipper will receive a credit which is dependent on the shipper's "average quantity tendered over a comparable period of time during the prior month . . ."

c. CACD recommends the protests of the Indicated Producers and SCUPP/IID be granted with respect to the use of MFV rate design methodology rather than the SFV rate design.

CACD recommends the first two modifications as stated above to Advice Letter 2176 because SoCalGas has conceded such changes would be appropriate. CACD, therefore, has no reason to reject the recommendation of DRA.

As to the third modification recommended by CACD, unlike the other issues, future adjustments can never undo or fully remedy the effects on the marketplace caused by an improper rate design. Thus, since SoCalGas has not sufficiently justified its use of SFV, CACD must recommend that the Commission reject SoCalGas' proposal on this issue, unlike the other proposals which CACD has recommended for approval.

Since the Indicated Producers and SCUPP/IID, who are parties that would use or benefit from the interconnect, have urged the Commission to direct SoCalGas to use the MFV rate design, we find it appropriate to require SoCalGas' use of MFV for its interim rates for its interconnect. This rate design issue should be further examined in SoCalGas' next CAP.

Finally, CACD recommends the Commission reject without prejudice all other protest issues filed by the parties. CACD encourages these parties to present their concerns in the next CAP or other relevant forums if appropriate and desired.

It should not be assumed that CACD's recommendation for Commission approval of Advice Letter 2176 is a judgement as to the reasonableness and appropriateness of the proposed provisions. Such a determination must be made in SoCalGas' next CAP based on the establishment of a full record and an indepth review. <u>All</u> provisions of the rate Schedule G-ITC, the pro forma Access Agreement, and the memorandum account are subject to modification or adjustment in SoCalGas' next CAP. Also, any differences between the interim incremental surcharge and the final rate that will be decided in the next CAP are subject to refund.

## FINDINGS

1. The Commission, in D.93-02-055, approved the interconnection of the Southern California Gas Company (SoCalGas) system with the interstate pipeline facilities of Kern River Gas Transmission Company and the Mojave Pipeline Company (Kern/Mojave) at the Wheeler Ridge interconnection.

2. In D.93-05-009, the Commission approved the interconnection of the SoCalGas and Pacific Gas and Electric Company (PG&E) systems at SoCalGas' Kern River Station interconnection to accommodate deliveries of firm gas volumes from the PG&E Expansion.

3. In both D.93-02-055 and D.93-05-009, the Commission adopted: (1) incremental pricing for the interconnections and

compression facilities, (2) Kern/Mojave and PG&E shippers' existing rates should be based on the principle of segmentation of SoCalGas' transmission system into northern, eastern and Los Angeles basin loops, (3) rate segmentation would be deferred to SoCalGas' next cost allocation proceeding (CAP) and, (4) incremental rates would be determined in SoCalGas' next CAP as well.

4. Pursuant to D.93-05-009, the costs of the Kern/Mojave and the PG&E Expansion are common facilities and, therefore, the costs associated with both facilities are common costs.

5. D.93-05-009, Finding of Fact 43, states, "In order to have a rate in effect upon the in-service date of the new facilities SoCalGas' incremental rate should be placed into effect using an interconnection surcharge which shall be subject to further adjustment and/or refund in SoCalGas' next cost allocation proceeding."

6. Ordering Paragraph 3 of D.93-05-009, orders SoCalGas to file an advice letter proposing the interim incremental surcharge.

7. On May 7, 1993, SoCalGas filed Advice Letter 2176 requesting Commission approval of the following proposals:

a. a new tariff rate schedule, Schedule G-ITC.

b. a pro forma contract, the Access Agreement.

c. an Interim Interconnect Rate Memorandum Account.

d. to conduct an open season in order to obtain commitments from firm interstate shippers to pay directly for the interconnect facilities which will provide shippers access to SoCalGas' system on a firm basis and determine the extent to which new firm access facilities will be constructed.

e. for ratemaking purposes, that costs related to the construction and operation of interconnection and attendant facilities necessary to receive firm deliveries into SoCalGas' system be treated on a consolidated basis.

8. The rates proposed in Schedule G-ITC are interim and subject to refund pending Commission approval of final rates in SoCalGas' CAP.

9. The scheduled in-service date for the facilities necessary to provide firm access to Kern/Mojave shippers is July 1, 1993.

10. The scheduled in-service date for PG&E Expansion shippers is November 1, 1993.

11. SoCalGas states that an open season would aid in determining the extent to which shippers will financially commit

for firm access and whether to adjust the size of its overall interconnect facilities based on the results of the open season.

12. The minimum term of the proposed Access Agreement is thirteen (13) years.

13. If the existing firm capacity at the interconnects is not fully subscribed, SoCalGas proposes that shippers may contract for firm capacity on a first-come-first-served basis.

14. SoCalGas proposes that shippers obtain interruptible access at the volumetric rate in Schedule G-ITC any time on an as-available basis.

15. Transportation nominations for firm access at the Wheeler Ridge and Kern River Station interconnects are proposed to be accepted by SoCalGas prior to any nominations for interruptible access.

16. The proposed tariff Schedule G-ITC states that nominations for deliveries at the interconnects into the SoCalGas system shall be accepted on a pro rata basis.

17. The proposed Interim Interconnect Rate Memorandum Account (IIRMA) will record the total revenues collected by SoCalGas for firm and interruptible access service under Schedule G-ITC.

18. The IIRMA will be used to allocate any applicable refunds to shippers served under Schedule G-ITC at interim interconnect rates, to the extent such rates are higher than the final rates adopted by the Commission in SoCalGas' next CAP.

19. The Indicated Producers believe that the issues related to the development and implementation of a new rate surcharge are too complex and should not be handled through the standard advice letter process.

20. The Indicated Producers and Kern River Gas Transmission Company (Kern River) state that D.93-02-055 and D.93-05-009 are not consistent with respect to rate implementation.

21. Southern California Utility Power Pool and Imperial Irrigation District and Imperial Irrigation District (SCUPP/IID) protest SoCalGas' proposed open season for nominations of long-term firm service and recommend that it be suspended until after revised interconnection rates and zone rates have been established in SoCalGas' next CAP.

22. SoCalGas states that the Commission in D.93-05-009, Finding of Fact 43, pp.27-28, explicitly directed SoCalGas to file an advice letter to ensure that the interim rates are in place when the new interconnection facilities go into service.

23. SoCalGas also states that SCUPP/IID's proposal to postpone the open season until after the next CAP would bring additional months of delay well into 1994 before SoCalGas would have any right to charge for the use of these facilities.

24. SoCalGas notes that if demand for additional expansion can be determined during the planned open season, SoCalGas can modify its construction plans to accommodate additional capacity.

25. The Indicated Producers find that the proposal fails to recognize that only those volumes that will flow south out of Wheeler Ridge will physically flow through the compression facilities at Wheeler Ridge. The incremental surcharge should not apply for shippers whose volumes flow north from Wheeler Ridge to San Joaquin Valley.

26. The Indicated Producers also protest SoCalGas' proposal to apply the incremental surcharge to shippers whose gas is delivered under long-term transportation contracts with Wheeler Ridge delivery points.

27. SoCalGas states that the surcharge should apply to all supplies entering SoCalGas' system at the points of interconnection without regard to their ultimate destination or a need to trace gas molecules to identify their direction of travel either north or south on SoCalGas' system.

28. SoCalGas believes that as a group, all firm access shippers already receive credits in the form of reduced interconnection facilities costs because northbound volumes normally do not require additional compression. Individual daily shipper credits would be superfluous and impossible to administer.

29. SoCalGas notes that the amount of gas which physically flows north depends only on "net load" north of Wheeler Ridge, and not on whether a certain shipper markets gas north or south of Wheeler Ridge.

30. SoCalGas believes that the shipper supplying the end-user should not be exempt from the incremental surcharge applicable to access at the interconnection facilities.

31. The Indicated Producers argue that applying the surcharge to interstate shippers rather than intrastate shippers will distort the interconnection rate and present both jurisdictional and practical problems.

32. The Indicated Producers recommend that to the extent an interstate shipper desires firm access, that shipper can establish a relationship with SoCalGas by executing a firm Access Agreement.

33. The Indicated Producers recommend that an end-use customer execute an Access Agreement or bear the responsibility for the incremental surcharge on an interruptible basis rather than automatically apply the surcharge to the interstate shipper.

34. Indicated Producers recommend that the transmission zone credit be provided to the shipper that actually pays the interconnect surcharge.

35. SoCalGas suggests that shippers should work with their end-users to ensure that their services are appropriately priced.

36. Indicated Producers protest SoCalGas' proposed return on equity (ROE) of 14% with a provision for a 5% upside gain as being excessive.

37. SCUPP/IID protest SoCalGas' proposed ROE and points out that a 14% ROE is substantially higher than the ROE allowed by the Commission for any of the local distribution companies serving California.

38. SoCalGas states that an increase of 210 basis points for these facilities over the currently-authorized ROE of 11.90% applicable to its rolled-in rate base is reasonable.

39. The Indicated Producers protest SoCalGas' proposed 25-year depreciation schedule because it is inconsistent with D.93-05-009 which approved a 30-year depreciation period for the compression facilities.

40. SCUPP/IID protest SoCalGas' proposal to "levelize" the annual revenue requirement of its interconnection project.

41. Southern California Edison Company (Edison) protests the negative 35% salvage value as unjustifiably high.

42. The Commission, in D.93-06-046, deleted the 30-year depreciation period.

43. SoCalGas believes that the marketability of this project would be adversely affected by the application of conventional straight-line depreciation.

44. SoCalGas adds that its proposal for a levelized revenue requirement serves to reduce the cost of access during the early years these facilities will be in service.

45. SoCalGas notes that salvage values of negative 35% are common and appropriate in the energy industry.

46. Indicated Producers recommend that the Commission direct SoCalGas to provide for greater flexibility in the term of the Access Agreement and a more flexible approach in its open season.

47. Edison argues that the term of the Access Agreement should parallel that of the contracts signed by PG&E Expansion shippers for a 30-year term and the 30-year life of the facilities which the Commission has recognized.

48. Edison believes the contract should be modified so the contract continues until terminated by the shipper and termination is allowed at any time after the initial term once reasonable notice of termination is given.

49. SCUPP/IID and Washington Energy Exploration (Washington Exploration) protest that the term is excessive.

50. SCUPP/IID recommend that the term of the Access Agreement mirror that of the Commission's storage proceeding in which the Commission permitted storage customers to execute firm contracts having a duration as short as 3 years.

51. Washington Exploration states that it is reluctant to become obligated for the cost of the interconnects for a 13 year term.

52. Washington Exploration recommends a shorter term firm commitment to the new facilities is reasonable as long as rates remain competitive with the rates other shippers pay at the interconnect.

53. SoCalGas states that the option to extend the term of the agreement on a year-by-year basis can be left to negotiations between Edison and SoCalGas.

54. SoCalGas is reluctant to tie up these facilities based on short-term commitments when there are other customers who are willing to make the long-term commitments SoCalGas requires to support the financing arrangements associated with these facilities.

55. PG&E recommends that SoCalGas should be directed to establish an accounting mechanism to record the amount of the difference between the pre-BCAP rate and the post-BCAP northern zone rate and to refund the difference to shippers.

56. San Diego Gas and Electric Company (SDG&E) and Washington Exploration propose that SoCalGas be required to refund to the firm shippers 95% of <u>all</u> revenues which exceed the authorized revenue requirement for the interconnection facilities.

57. Washington Exploration recommends that upon the full recovery of interconnect costs, SoCalGas should credit <u>all</u> revenue received from interruptible service to firm shippers.

58. Edison and SCUPP/IID recommend that SoCalGas be required to follow the FERC Order No. 636 program, whereby FERC determined that a 90/10 sharing between ratepayers and shareholders is appropriate when a pipeline overrecovers costs allocated to interruptible transmission service.

59. SCUPP/IID believe that crediting should commence when firm revenues and interruptible revenues exceed the revenue requirement and not when the revenue requirement is exceeded by 5%. If the firm service rate is reduced through crediting, the interruptible rate, which is based on the firm rate, should be reduced concomitantly.

60. SoCalGas states that if the facilities become fully subscribed, SoCalGas' recovery on equity capital will have been deferred for the first 13 years.

61. The avoidance of duplicative transmission charges through zone rates was adopted in D.93-02-055 and D.93-05-009.

62. The implementation of this lower zone transmission rate will not become effective until the establishment of rates in SoCalGas' next CAP proceeding.

63. SDG&E believes shippers should receive a refund or credit for the difference between the transmission rate actually paid and the lower transmission rates that they would have paid had zone rates been in effect during this interim time period.

64. SDG&E believes it is imperative that once the interim zone rate differential has been determined in the next CAP, the differential should be refunded to shippers using the interconnection facilities.

65. Kern River argues SoCalGas significantly disadvantages shippers on new pipelines and distorts the competition that this Commission has attempted to foster.

66. SoCalGas states that the Commission has already declared that the incremental surcharge will be recovered on an interim basis but that the zone rate credit will be deferred until the next CAP.

67. SoCalGas states that it must recover the costs of the interconnection facilities in addition to continuing to recover the costs of its existing system in order to have an opportunity to recover all of its costs.

68. SoCalGas believes a retroactive zone rate credit to shippers for the interim period would cause SoCalGas to underrecover authorized revenues.

69. Edison recommends that the language in Section 4 of the firm Access Agreement be modified so the facility costs included in the rate charged for firm service are fixed based on the results of the open seasons and should remain fixed for the term of the Agreement subject to limited adjustment.

70. SCUPP/IID believe the rates proposed by SoCalGas for effectiveness on July 1, 1993 are unjust and unreasonable because only two of the three compressors at Wheeler Ridge will be in service by July 1, 1993.

71. Edison recommends that SoCalGas clarify in Section 3 of the Access Agreement that service for PG&E Expansion shippers will begin on the date the project enters into commercial operation, and no earlier.

72. SoCalGas points out that the surcharge contains a built-in undercollection to account for the portion of the total interconnect facilities attributable to the PG&E Expansion which will not be operational until November 1, 1993.

73. SCUPP/IID protest SoCalGas' proposal of a 90% load factor upon which an interruptible rate is designed and recommend a 100% load factor.

74. Washington Exploration requests that the Commission require SoCalGas to specifically state that interruptible access will be made available on a first-come-first-served basis.

75. Edison recommends SoCalGas revise Section 6.3 of the Access Agreement to state that SoCalGas will provide written notice and promptly exercise any termination right after an Event of Default.

76. Edison recommends that SoCalGas revise Section 8.5 of the Access Agreement and not limit the assignment of access rights to "temporary" situations.

77. Edison proposes that a new audit right should be included in Section 8.9 of the Access Agreement which would allow any shipper to request an audit by a CPA firm with experience in accounting for gas distribution facilities.

78. Edison proposes that a definition of "firm access" should be added to the tariff Schedule G-ITC which is consistent with the one in the 10-year curtailment standard described in the interconnection proceedings.

79. Edison believes that Special Condition 7 of Schedule G-ITC should be clarified to reflect that refunds will be provided if the implementation of zone rates and other charges requires an adjustment in the firm access rate.

80. Edison proposes that Schedule G-ITC indicate that the only circumstance under which nominated firm capacity will not be delivered is when the capacity itself is curtailed, and then curtailment of firm service will occur on a pro rata basis.

81. SoCalGas points out that many of the recommendations presented by the protest parties are minor or altogether irrelevant and do not require resolution before interim rates can be implemented as proposed.

82. DRA states that SoCalGas' proposed rates are not intended to recover fuel costs required to operate compression facilities at Wheeler Ridge.

83. DRA recommends that the end-use customer who takes gas delivered over these pipelines through Wheeler Ridge should, in turn, receive a credit for fixed and variable costs associated with system components not used by the customer.

84. SoCalGas is willing to revise the interim rate as proposed by DRA to include Wheeler Ridge fuel costs provided that duplicative fuel costs paid by the shippers will be refunded on a dollar-for-dollar basis to end-users on whose behalf the gas is delivered into SoCalGas' system.

85. SDG&E states that if a shipper nominates less than its full MDQ for one day or more, the outage credit provision in the Access Agreement would limit the shipper's rights in the next month - rights that the firm shipper has paid demand charges to obtain.

86. Edison believes the outage credit should be provided to all shippers based on payment of the reservation charge and not based on the amount of gas they are delivering when SoCalGas refuses their nominations.

87. Edison recommends that the language on a reduction in the credit for planned interruption should be clarified so it only applies when the shipper has been given reasonable notice of the interruption.

88. SCUPP/IID recommend that determination of whether or not there should be an outage credit should be on a daily, not a monthly basis.

89. SCUPP/IID believe that if SoCalGas curtails service through the Wheeler Ridge interconnection for reasons other than testing or repair of the SoCalGas facilities, SoCalGas should provide a credit to its firm interconnection customers.

90. Washington Exploration believes that firm access shippers should receive relief of their obligation to pay the firm access rate upon an event of force majeure claimed by SoCalGas <u>on any point on its system</u> that would prevent a shipper from transporting gas to the shipper's nominated delivery point on the system.

91. Washington Exploration believes that an event of force majeure on the PG&E or Kern/Mojave systems which prevents a shipper from delivering gas to the interconnects should be a cause for relief of firm access obligations.

92. Washington Exploration believes that at a minimum the Commission should require SoCalGas to provide rate relief, directly or through the proposed outage credit, to a shipper when SoCalGas is unable to accept gas at the interconnects due to failure of any portion of its system.

93. Washington Exploration states that where the Shipper is unable to transport gas beyond the points of interconnection because of operational failure of the SoCalGas facilities at this point, SoCalGas should be prohibited from assessing any imbalance penalties which accrue on its system.

94. SoCalGas agrees to delete the language identified by SDG&E so that the outage credit is no longer dependent on nominations in the prior month.

95. SoCalGas believes that the issue of providing a reduction of the outage credit for planned interruptions only if reasonable notice has been given should be explored in the formal proceeding.

96. SoCalGas states that the purpose of the force majeure provision is to excuse performance upon a failure at the point of interconnect, which is the subject of the Access Agreement. It would also be unreasonable for SoCalGas to provide relief of shippers' obligations if there is an event of force majeure on the PG&E or Kern/River systems.

97. Indicated Producers and SCUPP/IID recommend that the Commission should direct SoCalGas to examine modified fixed variable (MFV) rate alternatives.

98. SoCalGas states that without the fixed reservation charge implicit in straight-fixed variable (SFV) rate design, there will not be the kind and quality of shipper commitments envisioned by the Commission to support the stand-alone financing this project requires. SoCalGas emphasizes that the logic of SFV rate design follows directly from cost causation principles.

99. It is reasonable that SoCalGas charge an interim incremental surcharge to recover the common costs associated with the common interconnect facilities.

100. In order to allow SoCalGas the opportunity to determine the necessity to expand its interconnection facilities beyond what is currently planned, and have a rate in effect upon the in-service date of the new facilities, it is reasonable to approve Advice Letter 2176 with the following modifications:

a. the protest of DRA should be granted with respect to the inclusion of fuel costs associated to the Wheeler Ridge interconnect provided that SoCalGas refund any duplicative costs paid by shippers on a dollar-for-dollar basis to end-users on whose behalf the gas is delivered into SoCalGas' system.

b. the protest of SDG&E be granted with respect to the deletion of a portion of the outage credit provision in the Access Agreement which provides that if in any month SoCalGas is unable to accept at least 98% of the gas nominated by a shipper for which the shipper has contracted firm access then, that shipper will receive a credit which is dependent on the shipper's "average quantity tendered over a comparable period of time during the prior month . . ."

c. the protests of the Indicated Producers and SCUPP/IID be granted with respect to the use of MFV rate design methodology rather than the SFV rate design.

101. SoCalGas has conceded to the first two modifications as stated above in Finding 100.

102. Unlike the other issues, future adjustments can never undo or fully remedy the effects on the marketplace caused by an improper rate design.

103. SoCalGas has not sufficiently justified its use of SFV.

104. SoCalGas' proposal to use an SFV rate design should be rejected.

105. It is appropriate to require SoCalGas to use MFV rate design for its interim interconnect rates.

106. The rate design issue should be further examined in SoCalGas' next CAP.

107. All other protest issues should be rejected without prejudice.

108. Determination of the reasonableness and appropriateness of the proposed provisions must be made in SoCalGas' next CAP based on the establishment of a full record and an indepth review.

109. <u>All</u> provisions of the rate Schedule G-ITC, the pro forma Access Agreement, and the memorandum account are subject to modification or adjustment in SoCalGas' next CAP.

110. Any differences between the interim incremental surcharge and the final rate that will be decided in the next CAP are subject to refund.

**THEREFORE, IT IS ORDERED that:**

1. Southern California Gas Company's Advice Letter 2176 shall be approved subject to the following modifications:

   a. The fuel costs associated with the Wheeler Ridge interconnect should be included in the calculation of the interim incremental surcharge. Southern California Gas Company shall refund any duplicative costs paid by shippers on a dollar-for-dollar basis to end-users on whose behalf the gas is delivered into Southern California Gas Company's system.

   b. Southern California Gas Company shall delete the following underlined language of the outage credit provision of the Access Agreement which states that if in any month SoCalGas is unable to accept at least 98% of the gas nominated by a shipper for which the shipper has contracted firm access then, that shipper will receive a credit equal to:

      > [T]he daily reservation charge per MMcf pursuant to Schedule G-ITC multiplied by the quantity of gas tendered for Firm Access by Shipper at the Entry Point that SoCalGas was unable to accept during such month, <u>which quantity shall be no greater than Shipper's average quantity tendered over a</u>

comparable period of time during the prior month, but not in excess of Shipper's MDQ.

c. the allocation of costs between the reservation charge and the volumetric rate shall be based on the modified fixed variable rate design methodology.

2. Southern California Gas Company shall file a supplemental advice letter with the modifications stated in Ordering Paragraph 1 on or before July 14, 1993.

3. Advice Letter 2176 shall be marked to show that it has been superseded by the new supplemental advice letter filing.

4. The new supplemental advice letter shall become effective upon filing.

5. Southern California Gas Company is authorized to conduct an open season so as to obtain commitments from firm interstate shippers to pay directly for the interconnection facilities on or after it has filed the supplemental advice letter as ordered in Ordering Paragraph 2.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on July 8, 1993. The following Commissioners approved it:

Executive Director

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