PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-3073
November 23, 1993

R E S O L U T I O N

RESOLUTION G-3073. SOUTHERN CALIFORNIA GAS COMPANY REQUESTS APPROVAL OF A LONG-TERM STORAGE CONTRACT WITH SOUTHWEST GAS COMPANY PURSUANT TO THE GUIDELINES ESTABLISHED IN DECISION 93-02-013.

BY ADVICE LETTER 2181, FILED ON MAY 26, 1993.

SUMMARY

1. On May 26, 1993, Southern California Gas Company (SoCal Gas) filed Advice Letter 2181 requesting approval of a 15-year storage contract between SoCal Gas and Southwest Gas Company (Southwest), an off-system customer. The contract would provide annual revenues to SoCal Gas of $9.5 million. SoCal Gas filed for contract approval under the requirements of Decision (D.)93-02-013 (the storage decision) that unbundled non-core storage services from non-core transportation services.

2. This Advice Letter was protested by Southern California Edison (Edison), Mc Farland Energy/Ten Section Storage Group (Mc Farland), and Wild Goose Gas Storage (Wild Goose). They protest the contract's 1) provision of zero-cost transportation service to Southwest; 2) anti-competitive and rate discrimination effects; 3) assignment of shareholder risk; and, 4) potential jurisdictional (Hinshaw exemption) problems.

3. This Resolution approves the long-term storage contract as filed by SoCal Gas as a "discounted" contract under Rule 9.1 of the storage decision and as a "fixed price" contract under Rule 5.1 of the decision. The Resolution assigns a transportation rate for all volumes transported under this contract of 22.5 cents per decatherm, to be assigned to a subaccount of SoCal Gas' Non-Core Fixed Cost Account (NCFA).

BACKGROUND

1. In D.93-02-013, the Commission separated the transportation and storage of gas for non-core customers into two separate tariffed services. Previously, except for "pilot" programs operated by each utility (See D.88-11-034 and D.89-12-046), non-core customers paid for storage services as part of their gas transportation rates. D.93-02-013 separated or "unbundled" from SoCal Gas non-core transportation rates approximately $20 million per year in storage-related revenue requirement.

2. D.93-02-013 established tariffed rates for SoCal Gas' non-core storage services based on the Long-Run Marginal Cost (LRMC) principles adopted by the Commission in D.93-05-066. SoCal Gas' tariffed rates were approved by the Commission in Resolution G-3050 (March 24, 1993). D.93-02-013 also allowed utilities to offer, subject to certain conditions, long-term (3 to 15-year) contracts to provide storage service to customers.

3. D.93-02-013 also envisioned the potential development of a competitive storage market where third-party providers other than the current gas utilities could offer storage services to non-core customers. D.93-02-013 therefore requires that existing utilities do not exercise an unfair advantage in competing against third-party storage providers.

4. On May 26, 1993, SoCalGas filed Advice Letter 2181 requesting approval of a long-term storage contract with Southwest. The term of the contract would be for 15 years, the maximum length allowed by D.93-02-013.

5. Under the contract, SoCal Gas would provide 10 million decatherms [approximately 10 billion cubic feet (bcf)] of annual storage inventory and 300,000 decatherms per day of firm withdrawal capacity to Southwest. Southwest will use this storage service to help meet gas needs for its East-of-California (EOC) customers in Arizona and Nevada.

6. Southwest will pay SoCal Gas' tariffed rates for storage service for the years 1993 through 1996. For the remaining years of the contract, Southwest would either continue to pay the tariffed rate or elect to have its payments escalated yearly according to the Consumer Price Index - All Urban Consumers (CPI). Southwest will also receive a discount of $217,545 per year off of the tariffed rate if it maintains a minimum inventory of 1,632,000 decatherms (dth) in storage through the winter season. Annual revenues to SoCal Gas from the contract will be approximately $9.5 million, roughly 40% of SoCal Gas' revenue requirement allocated to non-core storage.

7. Under the terms of the contract, Southwest will pay an intrastate transportation rate of 22.5 cents for each decatherm injected into storage. Upon Southwest's withdrawal of gas from storage, however, SoCal Gas will credit back to Southwest its transportation rate of 22.5 cents/dth. This results in Southwest paying a zero-cost or free transportation rate for the

transportation services needed to inject and withdraw its gas from storage.

NOTICE

1. Public notice of Advice Letter 2181 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. Edison, Mc Farland, and Wild Goose separately protested Advice Letter 2181 on June 15, 1993.

2. McFarland and Wild Goose both protest SoCal Gas providing free no-charge transportation (as well as free load-balancing services) as part of the storage contract with Southwest Gas. This no-charge rate is inconsistent with SoCal Gas' own testimony in the storage decision. The only way that SoCal Gas can provide free transportation services, according to McFarland and Wild Goose, is by SoCal Gas using its interstate pipeline capacity held for its captive core customers to provide subsidized transportation service to Southwest Gas. This arrangement rebundles not only storage and transportation services (precluded by D.93-02-013) but also rebundles core and non-core services. Both parties argue that allowing SoCal Gas to combine its monopoly access to core transportation with its provision of competitive non-core storage service prevents the development of a competitive storage market as envisioned in D.93-02-013 and Assembly Bill 2744 (Statutes of 1992, Chapter 1337).

3. McFarland and/or Wild Goose also raise concerns regarding the contract's assignment of shareholder vs. ratepayer risk and the contract's effect on SoCal Gas' Hinshaw exemption.

4. Edison, in their protest, alleges that the free transportation service provided to Southwest Gas is "unjustified and discriminatory" against on-system customers, all of whom are paying a higher transportation rate than Southwest will be paying under the contract.

5. SoCalGas responded to these protests on June 24, 1993.

DISCUSSION

Transportation Rate

1. By far the most controversial aspect of SoCal Gas' proposed contract is its offering of a zero-cost transportation rate to Southwest. Although SoCal Gas meets the requirements of the storage decision by assessing a transportation fee upon the injection of gas into storage (D.93-02-013, Appendix B, Rule 4.1), SoCal Gas then credits back the entire transportation fee

upon Southwest's removal of gas from storage, thus netting out the transportation rate to zero.

2. SoCal Gas states that it can offer this rate because there will be no net increase in throughput over the SoCal Gas system. Southwest will inject its gas into storage during the summer months, using its own interstate pipeline capacity to deliver gas to the California border. In the winter, Southwest's stored gas will not be redelivered to Southwest but instead will be diverted to meet core gas needs in SoCal Gas' service territory. An equivalent amount of flowing core gas that would otherwise have been delivered across the El Paso interstate pipeline system into the SoCal Gas system will instead be diverted and delivered to Southwest. As a result of this arrangement total throughput over the SoCal Gas system will not increase, thereby justifying the zero-cost transportation rate.

3. Although the physical movement of gas may occur as SoCal Gas states, the Commission has traditionally assessed rates based upon the "contractual" movement of gas between its designated receipt and delivery points. In this case, the contractual flow of gas across the SoCal Gas system is from the California border into storage during the summer injection season, and thence back from storage to the border in the winter. McFarland protests that this rate treatment should be used to assign transportation costs to Southwest. McFarland, citing the testimony of SoCal Gas' lead policy witness for the storage proceeding, states that the proper transportation rate should be at least 22.5 cents per decatherm.[1]

4. The Commission's Advisory & Compliance Division (CACD) is unable to find, in Commission approved tariffs, any previous examples of a zero-cost transportation rate similar to that proposed by SoCal Gas. To the contrary, at its last meeting, the Commission approved interim rates for the Pacific Gas & Electric (PG&E) pipeline expansion project that assessed full tariffed rates for all backhauls occurring on that system.[2] Although by no means binding upon the Commission, a review of how the Federal Energy Regulatory Commission (FERC) has dealt with backhaul arrangements reveals similar treatment. In Panhandle Eastern,[3] FERC expressed its policy that back-hauls should be assessed at the full forward haul rate, unless they provide system benefits in which case the back-haul rate is 50% of the forward haul rate.

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1 See Testimony of H.W. Bush, I.87-03-036, Tr. Vol. 21, p. 2341.

2 See D.93-09-069, PG&E Advice Letter 3087-G, filed October 26, 1993.

3 See 57 FERC 61,264 (Nov. 26, 1991).

5. In the present case, SoCal Gas has not shown any reason for the Commission to deviate from its previous policies.

6. Mc Farland, in their protest, argue that the applicable transportation rate for this contract should be 22.5 cents/decatherm based not only on the contractual flow of the gas but also on SoCal Gas' testimony in the storage proceeding. CACD accepts McFarland's recommendation, although it also puts both Southwest and SoCal Gas on notice that the Commission may at any time and at its own discretion reevaluate this rate. If the underlying cost structure of the transportation services offered under this contract change, transportation rates will correspondingly change.

Non-Discriminatory Treatment

7. Through assignment of an appropriate transportation rate to the Southwest contract based on the contractual flow of gas, CACD has resolved the potential anti-competitive concerns raised by McFarland and Wild Goose in their protests.

8. D.93-02-013, Appendix B, Rule 3.2 requires that:

> The terms and conditions applicable to customers of an independent storage provider regarding access and transportation service over utility facilities--including priority, scheduling, balancing, curtailment, designation of receipt and delivery points, billing, and any other term or condition of service--shall be the same as the terms and conditions applicable to utility transportation customers having similar loads.

9. As a result of Rule 3.2, CACD would expect SoCal Gas to offer similar rate treatment to third-party storage providers who are offering storage services to off-system customers, although differing rate treatment is justified if the circumstances of the transaction are different.[4] The actual rate applicable to third-party storage providers will of necessity be addressed in appropriate future proceedings (such as a third-party storage provider's CPCN application) and the Commission should ensure at that time that the storage

4 It is even possible that SoCal Gas may choose to negotiate transportation rates to third-party storage providers that are lower than those applicable to the Southwest contract since SoCal Gas benefits from increased system throughput. Any negotiated rate must consider both the forward <u>and</u> back-haul transportation services provided to off-system customers.

decision's Rule 3.2 requirements are met.[5]

Discounted Contract

10. Rule 9.1 of the storage decision allows SoCal Gas to offer "discounted" contracts to customers. Discounted contracts occur where the utility must discount its services, below LRMC-based rates, in order to acquire or retain a customer (D.93-02-013, p. 19, 36). Although not specifically requested by SoCal Gas, the Southwest contract qualifies as a discounted contract under the storage decision. As SoCal Gas stated in its response to protests:

> [SoCal Gas sought to]..."Obtain the best deal possible for its ratepayers, regardless of the particular form of the deal..."
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> ...
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> "[T]he best overall deal for SoCal Gas' ratepayers precluded receipt of such a [intrastate transportation] fee." (p.3)
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> ...
>
> "[T]he Commission must review the agreement as a whole in terms of whether it promotes the interests of SoCal Gas' ratepayers." (p.7)
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> ...
>
> [and that]..."The agreement represents SoCal Gas' best opportunity to capture significant benefits for its ratepayers. (p.8)

11. From its statements, SoCal Gas has amply "justified...that the discount [granted by the utility] is necessary to prevent uneconomic bypass of utility service" as required in Rule 9.1.[6]

12. SoCal Gas also meets all other applicable requirements needed to qualify as a discounted contract. Rule 9.2 requires that discounted contracts "make a substantial contribution to margin" and exceed "short-run marginal cost". In the present case, SoCal Gas' contract, even including applicable transportation rates, is priced only slightly below its LRMC-based rates. Rule 9.4 requires that "long-term contracts...must

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5 This is the same approach taken by the Commission in Resolution G-3064 (June 3, 1993) regarding the appropriate curtailment priority applicable to withdrawals from third-party storage providers.

6 Although bypass is usually considered to apply solely to existing utility customers, there is no such prohibition in the storage decision. Additionally, as noted below, Southwest Gas has been a de facto user of SoCal Gas' storage capacity as a result of its upstream diversions of SoCal Gas' flowing supplies.

not offer discounts extending into any period when facilities expansions are required", a requirement that SoCal Gas has shown is not applicable.[7] Rules 9.3 and 9.5, also related to discounted contracts, are not applicable in the present case.[8]

$217,545 Per Year Discount for Minimum Inventories

13. In addition to SoCal Gas' decision to structure its storage contract to forego load-balancing and transportation costs, SoCal Gas also provides Southwest with a discount of $217,545 for each year in which Southwest maintains a minimum volume of 1,632,000 decatherms (dth) in storage throughout the winter heating season. Wild Goose protests that SoCal Gas has not provided adequate justification for the discount. In their response, SoCal Gas notes that the increased storage volumes "will enable SoCal Gas to provide an increased level of withdrawal capacity from existing facilities and as a result, potentially generate greater storage service revenues."

14. We agree with SoCal Gas' analysis, and find that the discount is reasonable. As the storage decision notes:

> SoCalGas can increase its withdrawal capacity by increasing the quantity of gas held in storage. Added gas inventory [also known as "drive gas"] increases pressure in the storage fields, allowing gas to be withdrawn at a higher rate. (D.93-02-013, p. 46)

Southwest's agreement to keep roughly 1.6 bcf of gas in storage could increase SoCal Gas' withdrawal capacity by approximately 50 MMcfd and potentially worth over $550,000 per year[9], an amount substantially greater than the discount given to Southwest. Penalty provisions in the contract ensure that this drive gas should always be available.

15. Wild Goose is correct, though, that SoCal Gas's decision to offer the $217,545 discount makes the contract a "discounted" contract. SoCal Gas has essentially chosen to trade the certainty of offering its storage services at tariffed rates in exchange for the potentially greater revenues to be gained from

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7 See SoCal Gas' supplemental Advice Letter filing (Advice Letter 2181-A, filed July 23, 1993).

8 Rule 9.4, relating to transition cost recovery was superseded by the Commission. Rule 9.5 applies solely to "new or expanded facilities."

9 SoCal Gas' withdrawal capacity can be increased by up to 500 MMcfd if 15 bcf of drive gas is held in storage (D.93-02-013 p. 46). Southwest's agreement to store a minimum of 1.6 bcf should increase withdrawl capacity by roughly 50 MMcfd (50,000 dth) at a tariffed rate of $11.66 per decatherm.

selling withdrawal capacity. While CACD expects SoCal Gas to aggressively market this increased withdrawal capacity, CACD reminds SoCal Gas that it "must take the core's forecasted reliability requirements into account when making long-term Drive Gas available to noncore customers" (D.93-02-013, p. 47).

Fixed Price Contract

16. The Southwest contract, in addition to being a "discounted" contract under the storage decision, also is a fixed price contract because it contains a price cap mechanism. Reservation charges for storage service for the early years of the contract (1993-1996) are based on SoCal Gas' G-LTS Long-Term Storage Service rate schedule. Increases in reservation charges for all subsequent years of the contract could be limited, at Southwest's election, to increases in the Consumer Price Index.

17. D.93-02-013 allows SoCal Gas to enter into fixed price contracts for storage service provided that the risks of over- or undercollections are assigned to shareholders.

Accounting and Rate Treatment

18. As SoCal Gas has stated in its response to protests, the Commission should not "cherry-pick" parts of the agreement but "must review the agreement as a whole in terms of whether it promotes the interests of SoCal Gas' ratepayers." (SoCal Gas Response to Protests, June 24, 1993, p.7).

19. CACD agrees with SoCal Gas. As long as the appropriate costs associated with the contract are properly reflected on the utility's books, utilities should have flexibility to structure storage contracts, particularly discounted ones. This approach is consistent with the "let the market decide" policy adopted by the Commission.[10]

20. Under this arrangement, Southwest will not only receive the storage services for which it contracted, but also shall pay for them according to the terms of its contract with SoCal Gas. Revenues and associated costs of the contract, however, will be assigned to the appropriate SoCal Gas accounts to reflect their correct allocation. This is the identical approach currently taken by the Commission in dealing with fixed-price storage

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10 A useful analogy is the Commission's authorization of "non-standard" contracts for power purchases from Qualifying Facilities provided that they offer the same or greater benefits to ratepayers than would a standard-offer contract (See D.82-01-103).

contracts.[11]

21. Consequently, although Southwest Gas will continue to pay for the storage services it receives under its contract as if it were paying $9.5 million per year for storage services, for accounting purposes SoCal Gas should record this contract in its books as if it were a $7.3 million discounted storage contract with $2.2 million of associated transportation service.[12] All transportation revenues associated with this contract should be booked to SoCal Gas' Non-Core Fixed Cost Account (NFCA).

22. Under the requirements of the storage decision, utility shareholders are responsible for 25% of any revenue shortfalls associated with a discounted contract. This makes SoCal Gas shareholders responsible for 25% of the roughly $2.2 million discount offered to Southwest. In the short term SoCal Gas shareholders are indifferent to this loss, as they correspondingly benefit by receiving 25% of the roughly $2.2. million in transportation revenues generated by the Southwest contract.[13]

23. In the longer term, however, SoCal Gas shareholders could be liable for revenue shortfalls associated with the Southwest contract, a prospect the Commission finds troubling. As the Commission noted in the storage decision:

> Unrecovered transition costs should not be borne by shareholders but should be amortized by all ratepayers for whom the facilities were built, including SDG&E and other wholesale customers. (D.93-02-013, p. 36)

24. In the present case, Southwest Gas, through its upstream diversion of flowing SoCal Gas supplies, was partially responsible for the large volumes of storage facilities built by SoCal Gas to maintain system reliability. Having Southwest now contribute towards the costs of SoCal Gas' storage system, as all other wholesale customers must currently do, is only appropriate.

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11 <u>See</u> Resolution G-3064 (June 3, 1993) regarding the accounting treatment of fixed-price contracts.

12 Transportation rate based on 10,000,000 dth of throughput times 22.5 cents. These figures are illustrative only. Actual costs and revenues will be used for recording to the utility's books.

13 Shareholders are currently liable for 25% of any under/over collection in the NFCA and get to keep any incremental revenues generated by new load, at least until the utility's next cost-allocation proceeding.

25. Therefore the Commission must attempt to balance two conflicting goals. First, it is clear that the Southwest contract is a discounted contract. Second, it is also clear that Southwest has been a de facto wholesale customer of SoCal Gas through its diversion of SoCal Gas upstream supplies. The Southwest contract therefore presents an opportunity for SoCal Gas to recover transition costs directly from the party responsible for SoCal Gas incurring storage-related costs. Recovering a utility's costs from the party that incurred those costs is a basic tenet of Commission ratemaking policy.

26. Accordingly, although CACD recommends that the Commission approve the Southwest contract as a discounted contract, CACD also recommends that the Commission recognize the transitional nature and unique circumstances associated with the Southwest contract. To a large extent, the Southwest contract is more akin to a transition cost incurred by the utility as it moves from a regulated to a competitive environment. Since the rules adopted by the Commission in the storage decision regarding discounting of storage contracts were interim in nature, pending further review in a variety of proceedings such as Rulemaking (R.)92-12-016, CACD is reluctant to penalize SoCal Gas shareholders (through the discounting mechanism), absent the Commission having the opportunity to further examine the unique nature of the Southwest contract. CACD therefore recommends that SoCal Gas be allowed to book all transportation revenues from the Southwest contract to a subaccount within the NFCA. Transportation revenues from the contract, as well as forecasted throughput volumes, should not be included in SoCal Gas' throughput forecasts used in their cost-allocation proceedings pending a final resolution of the rate treatment of these revenues in other Commission proceedings currently underway.[14] Due to the unique nature of the Southwest contract, CACD does not envision any other storage contract that would qualify for similar treatment.

Re-Sale Prohibitions

27. Edison is concerned that SoCal Gas' provision of free transportation gives Southwest an unfair advantage relative to other gas marketers who sell gas to California end-users. As an example, Edison notes the possibility that Southwest may choose to sell its California stored-gas, for which it paid a zero transportation fee, into the Southern California market. Through the adoption of a cost-based transportation rate applicable to this storage contract, Edison's concerns are now unfounded.

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14 In addition to R.92-12-016, there is also the so-called "Global Settlement" proposed by a number of parties to resolve a number of outstanding Commission proceedings.

28. Additionally, both Edison and SoCal Gas (in their response to Edison's protest)[15] overlook the Commission's prohibition against the secondary marketing of discounted storage contracts. As the Commission noted in the storage decision:

> We will order SoCal Gas...to permit free-trading of firm and as-available storage rights with appropriate caution that customers do not side-step eligibility requirements by trading or changing customer status. Discounted contracts shall not be traded, because discounts must be justified by customer specific bypass threats. (D.93-02-013, p. 25)

Accordingly, SoCal Gas shall ensure that Southwest (as well as any other marketer, broker, or end-user) do not provide any gas service to end-users on the SoCal Gas system that utilizes Southwest's storage rights under its contract.

Hinshaw Exemption Concerns

29. McFarland's protests that the proposed contract could violate SoCal Gas' Hinshaw exemption[16] under the Natural Gas Act. SoCal Gas responds that its blanket transportation certificate from FERC[17] allows SoCal Gas to provide transportation of natural gas in interstate commerce and that the contract can be terminated by SoCal Gas if it jeopardizes SoCal Gas' Hinshaw exemption.[18]

30. Although it appears that the contract does not affect SoCal Gas' Hinshaw exemption, the Commission strongly emphasizes to SoCal Gas the importance of terminating the contract immediately should it in anyway jeopardize the exemption.

Curtailment Priority

31. Although Southwest is planning to use its storage services obtained from SoCal Gas in order to provide primarily core service to its East-of-California customers, Southwest is nonetheless classified as a non-core customer of SoCal Gas for purposes of the storage decision. Accordingly, Southwest should be aware that its storage service will be curtailed if necessary

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15 In their response, SoCal Gas states that if Southwest did sell any of its storage gas to a California end-user, the end-user would have to pay its applicable intrastate transportation rate and this would negate any any competitive advantage Southwest might have.

16 The Hinshaw exemption exempts from federal regulation pipelines that are primarily intrastate in nature.

17 See Southern California Gas Company, 41 FERC 61,173 (1987).

18 See Section 6-g of the contract.

for SoCal Gas to serve core reliability needs (D.93-02-013, p.14).[19]

Miscellaneous Issues

32. The following are miscellaneous issues that the Commission must address under the guidelines established under D.93-02-013 for approving long-term storage contracts.

33. **Contract Duration:** The contract filed in Advice Letter 2181 will be for 15 years. This is the maximum term allowed for contracts.

34. **Use of Existing Facilities:** Storage services offered under this contract qualify for balancing account protection as all storage services are provided from existing facilities.

35. **On-System Preference:** Southwest is an "off-system" customer since it is not located within the SoCal Gas' service territory. SoCal Gas may offer its storage services to off-system customers only after it first offers storage services to all on-system customers. SoCal Gas has met this requirement (See Advice Letter 2162-G).

36. **Contract Approval:** Storage contracts that do not contain any discounts, load balancing premiums, or other special features may become effective 7 days after filing. The Southwest contract contains discounts and special features that preclude SoCal Gas from requesting a 7-day effective date. Additionally, D.93-02-013 requires that all contracts with off-system customers shall be treated under the conventional protest rules of General Order 96-A (D.93-02-013, p. 35).

FINDINGS

1. SoCal Gas' proposed contract with Southwest Gas will provide annual revenues to SoCal Gas of approximately $9.5 million.

2. SoCal Gas meets the requirements of the storage decision by assessing a transportation fee upon the injection of gas into storage, although SoCal Gas then credits back the entire transportation fee upon Southwest's removal of gas from storage.

3. The Commission has traditionally assessed rates based upon the "contractual" movement of gas between its designated receipt

19 See also Resolution G-3064, Finding #7 where SoCal Gas states that the exercise of firm withdrawl service by storage customers will not affect firm transportation rights at the Wheeler Ridge and Kern River stations.

and delivery points. In the present case, SoCal Gas has not shown any reason for the Commission to deviate from this policy.

4. 22.5 cents per decatherm is an appropriate rate for intrastate transportation services provided under this contract.

8. If the underlying cost structure of the transportation services offered under this contract change, transportation rates should correspondingly change.

9. The storage decision requires utilities to offer non-discriminatory access and transportation service with similar terms and conditions to customers of third-party storage providers.

10. SoCal Gas is expected to offer similar rate treatment to third-party storage providers who are offering storage services to off-system customers although differing rate treatment is justified if the circumstances of the transaction are different.

11. The actual rate applicable to third-party storage providers will of necessity be addressed in appropriate future proceedings.

12. SoCal Gas has shown that it was necessary to structure the Southwest contract as it did in order to secure Southwest as a storage customer.

13. The Southwest contract, even including applicable transportation rates and other discounts, is not priced significantly below the long-run marginal costs of the services provided.

14. SoCal Gas' contract with Southwest qualifies as a "discounted" contract under the storage decision.

15. SoCal Gas' discount provided to Southwest of $217,545 is reasonable given the increased withdrawal capacity made available by Southwest's commitment to maintain a minimum inventory of gas in storage.

16. SoCal Gas must take the core's forecasted reliability requirements into account when making long-term Drive Gas available to noncore customers.

17. The Southwest contract is a fixed price contract because it contains a price cap mechanism indexed to an understandable cost escalation measure.

18. As long as the appropriate costs associated with a discounted storage are properly reflected on the utility's books, utilities should have flexibility to structure their contracts.

19. Under the requirements of the storage decision, utility shareholders are responsible for 100% of any over- or undercollections resulting from the use of a price-cap mechanism

in a storage contract and 25% of any revenue shortfalls associated with a discounted contract.

20. Provided that costs and revenues are correctly allocated in SoCal Gas' books, the Commission can approve the Southwest contract.

21. Southwest should be allowed to receive the storage services for which it contracted and pay for them according to the terms of its contract with SoCal Gas.

22. Although Southwest will continue to pay for the storage services it receives under the terms of its contract with SoCal Gas, for accounting purposes SoCal Gas should record this contract in its books as if it were a discounted storage contract with associated transportation service.

23. The proposed treatment of costs and revenues associated with the Southwest contract is identical to the treatment of costs and revenues associated with fixed-price contracts offered under the storage decision.

24. Southwest Gas, through its upstream diversion of flowing SoCal Gas supplies, has been a de facto wholesale customer of SoCal Gas and was partially responsible for the large volumes of storage facilities built by SoCal Gas to maintain system reliability. Having Southwest now contribute towards the costs of SoCal Gas' storage system, as all other wholesale customers must currently do, is only appropriate.

25. The Southwest contract presents an opportunity for SoCal Gas to recover transition costs directly from the party responsible for SoCal Gas incurring storage-related costs.

26. Although a discounted contract, in many respects the Southwest contract is more akin to a transition cost incurred by the utility as it moves from a regulated to a competitive environment.

27. The rules adopted by the Commission in the storage decision regarding discounting of storage contracts were interim in nature pending further review.

28. SoCal Gas should be allowed to book all transportation revenues from the Southwest contract to a subaccount within the NFCA. Transportation revenues from the contract, as well as forecasted throughput volumes, should not be included in SoCal Gas' throughput forecasts used in their cost-allocation proceedings pending a final resolution of the rate treatment of these revenues in other Commission proceedings.

29. Discounted contracts should not be traded, because discounts must be justified by customer specific bypass threats.

30. SoCal Gas should terminate its contract immediately if it in anyway jeopardize SoCal Gas' Hinshaw exemption.

31. Southwest is a non-core customer of SoCal Gas for purposes of the storage decision and may be curtailed if necessary for SoCal Gas to serve core reliability needs.

32. The Southwest contract meets the guidelines related to contract duration, use of existing facilities, on-system preference, and approval process established under D.93-02-013.

THEREFORE, IT IS ORDERED that:

1. The contract between Southern California Gas Company (SoCal Gas) and Southwest Gas Company, submitted in Advice Letter 2181, is approved provided that SoCal Gas submits within 5 days to the Director, Commission Advisory & Compliance Division, a letter acknowledging its acceptance of the assignment of costs and revenues associated with the contract as set forth in this Resolution.

2. SoCal Gas shall:

   a. Record into its Noncore Storage Balancing Account at the full tariff rate all storage services provided under this contract to Southwest Gas;

   b. Create a Southwest Contract Transportation subaccount within its Non-Core Fixed Account;

   c. Record to this subaccount a transportation rate of 22.5 cents per decatherm whenever any gas volumes associated with this contract are injected into storage;

   c. Credit to its Noncore Storage Balancing Account all <u>net</u> revenues received from Southwest Gas from this contract excluding the applicable transportation rate of 22.5 cents per decatherm but including any variable transportation charges associated with the redelivery of gas paid by Southwest under the contract.

   d. Record to the Non-Core Storage Transition Account no revenue shortfalls associated with the fixed-cost provisions of this contract and only 75% of any revenue shortfall associated with the discounted storage services offered under this contract, provided that;

   e. Any yearly revenues greater than $217,545 per year associated with the sale of incremental "drive gas" services associated with this contract may be credited against any discount-related revenue shortfalls.

3. All revenues booked to the Southwest Contract Transportation Subaccount shall not be included in determining SoCal Gas' revenues or throughputs used for assigning costs in SoCal Gas' cost allocation proceedings pending further resolution by the Commission on this issue.

4. Final disposition by the Commission of the rate treatment of transportation revenues generated by the Southwest contract

qualifies as a "material change in...transportation charges" under Exhibit A of the Storage Agreement (p. 8).

5. SoCal Gas shall ensure that Southwest Gas (as well as any other marketer, broker, or end-user) does not utilize Southwest's storage rights under this contract to provide any gas service to end-users on the SoCal Gas system.

6. SoCal Gas shall terminate its contract with Southwest Gas immediately if it in any way jeopardizes SoCal Gas' Hinshaw exemption.

7. SoCal Gas shall file as a supplement to its Advice Letter any necessary tariff revisions required by this Resolution.

8. This Resolution is effective when SoCal Gas files the necessary tariff revisions.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on November 23, 1993. The following Commissioners approved it:

Executive Director

DANIEL Wm. FESSLER
President
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
P. GREGORY CONLON
JESSIE J. KNIGHT, JR.
Commissioners