

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
ENERGY BRANCH

RESOLUTION G-3097
FEBRUARY 16, 1994

R E S O L U T I O N

RESOLUTION G-3097. SOUTHERN CALIFORNIA GAS COMPANY
(SOCAL GAS) AND SAN DIEGO GAS & ELECTRIC COMPANY (SDG&E)
REQUEST APPROVAL OF A MUTUAL ASSISTANCE AGREEMENT.

BY SOCAL GAS ADVICE LETTER 2195-G AND SDG&E ADVICE
LETTER 880-G, FILED ON JULY 21, 1993.

SUMMARY

1. Southern California Gas Company (SoCal Gas) and San Diego Gas & Electric Company (SDG&E) request approval of a mutual assistance agreement (MAA) that allows each utility to request temporary emergency assistance from the other utility in the event of insufficient gas supplies to satisfy core requirements.
2. Protests were filed by the Cogeneration Service Bureau (CSB) and Southern California Utility Power Pool and Imperial Irrigation District (SCUPP/IID).
3. This Resolution approves the mutual assistance agreement and addresses the rate treatment of any costs and revenues generated by the agreement. Any costs incurred by a utility requesting assistance under the agreement shall be assigned to that utility's purchased gas account. Any net revenues received by the utility that is providing assistance also shall be applied to that utility's purchased gas account. Any costs incurred by SDG&E under the MAA shall be included in the calculation of SDG&E's performance-based ratemaking (PBR) approach for gas procurement.

BACKGROUND

1. Decision (D.)91-11-025 states that:

SoCalGas and SDG&E shall operate as independent gas systems to the extent operationally feasible. Noncore customers will be curtailed by SDG&E or SoCalGas to the extent necessary to maintain service to each LDC's own core customers. SDG&E or SoCalGas will not curtail noncore requirements to serve the core requirements of the other except as provided by a mutual assistance agreement to be agreed to by the two utilities. (D.91-11-025, Appendix B, p. 15-16).

2. In response to this directive, both SoCal Gas and SDG&E have developed a Mutual Assistance Agreement (MAA) and have submitted it to the Commission for approval.

3. Under the MAA, each utility may request temporary emergency assistance from the other in the event of insufficient gas supplies to satisfy core requirements. The utility providing emergency relief will make all reasonable efforts to assist the party seeking relief by delivering gas at a price determined through the payment structure outlined in the MAA.

4. Any utility that requests mutual assistance must pay a price per decatherm (Dth) equal to three times the cost of the gas supplied by the other utility. The utility requesting assistance must also compensate the supplying utility for all other costs incurred such as non-core revenues lost due to curtailment, increased operational costs, and (in the case of SDG&E) the cost of any alternate fuel used by SDG&E's utility electric generation (UEG) units as a result of curtailment.

5. The agreement does not apply to non-core volumes and is not intended to provide an on-going peaking or load-balancing program for either utility.

6. The agreement would become effective when approved by the Commission and shall remain in effect until terminated by either party at least 90 days prior to the start of a calendar year or as a result of Commission action.

NOTICE

1. Notice of this filing was made by SoCal Gas and SDG&E to all interested parties as required under General Order 96-A, Section III-G.

PROTESTS

1. The Cogeneration Service Bureau (CSB) protested the proposed MAA on August 2, 1993. CSB argues that the agreement provides inadequate compensation to non-core customers who would be curtailed to provide core service. CSB also protests SoCal Gas compensating SDG&E for the cost of any alternate fuel used by SDG&E's electric generation units in the event of a curtailment while not compensating cogenerators who are similarly curtailed.

2. The Southern California Utility Power Pool and Imperial Irrigation District (SCUPP/IID) protested the proposed MAA on August 10, 1993. According to SCUPP/IID, under the MAA SoCal Gas would not be able to divert or otherwise curtail gas being transported across the SoCal Gas system by SDG&E for use by utility electric generation (UEG) customers on the SoCal Gas system unless SoCal Gas invoked the MAA. The result of this provision, according to SCUPP/IID is that SoCal Gas' UEG customers would be curtailed before SDG&E's UEG load despite the fact that air quality conditions in Southern California would

argue for curtailing SDG&E's UEG load prior to SoCal Gas' UEG load.

3. SoCal Gas and SDG&E collectively responded to CSB's protest on August 11, 1993 and to SCUPP/IID's protest on August 19, 1993.

4. With regards to CSB's protest, SoCal Gas and SDG&E state that for SoCal Gas customers the Service Interruption credit currently in effect already provides adequate compensation to non-core customers in the event of a curtailment. Non-core customers on the SDG&E system would not be curtailed as all curtailments on the SDG&E system would come from SDG&E's own electric generation units. Therefore non-core customers on both systems are either adequately compensated (in the case of SoCal Gas) or will not be curtailed (in the case of SDG&E's non-UEG load.) SDG&E is also willing to execute diversion contracts with firm cogenerators on the SDG&E system willing to be curtailed in exchange for compensation.

5. With regards to SCUPP/IID's protest, SoCal Gas and SDG&E state that SCUPP/IID has misconstrued the terms of the MAA. Under the agreement, SDG&E must first curtail all of its UEG-load prior to receiving assistance from SoCal Gas. Only then would SoCal Gas begin curtailing its non-core customers (both UEG and otherwise) as necessary to help SDG&E meet its core demand. Only if SoCal Gas were the utility requesting assistance would SoCal Gas have to curtail its UEG load prior to invoking the MAA, at which time SDG&E would then begin curtailing its UEG load. As SoCal Gas notes, this latter scenario is 1) exceedingly unlikely to occur since in all probability it will be SDG&E (and not SoCal Gas) which will request assistance under the MAA and 2) is consistent with the mandates of D.91-11-025 which states that SoCal Gas and SDG&E "shall operate as independent gas systems to the extent operationally feasible" (D.91-11-025, Appendix B, p. 15).

DISCUSSION

Systemwide Benefits to Core Customers

1. The MAA submitted by SoCal Gas and SDG&E provides each utility with an added measure of service reliability for core customers. The MAA is also consistent with the Commission's directive in D.91-11-025.

Compensation to Non-Core Customers

2. CACD agrees with SoCal Gas and SDG&E that there is no need for further compensation to non-core customers curtailed under this agreement. As the Commission noted in D.93-09-082, non-core customers already receive lower rates than do core customers as compensation for their willingness to be curtailed. SoCal Gas, through its Service Interruption Credit, has also already agreed to pay a penalty to any firm-service customer who

suffers more than one curtailment in any ten-year period.¹ D.91-11-025 (p.16) also allows for the utilities to negotiate voluntary diversions of non-core supplies to meet excess core demands after the utility has curtailed interruptible customers. Non-core customers who curtail voluntarily can negotiate compensation up to 150% of their cost of gas. On the SDG&E system, curtailments would only occur among SDG&E's own UEG load.

3. CSB does have a valid point about the program's applicability to cogenerators located on the SDG&E system. Although these customers would not be curtailed under the MAA, SoCal Gas and SDG&E may want to pursue further negotiations with these customers regarding their voluntary curtailment in times of emergency in exchange for compensation. These customers could provide SoCal Gas with an additional source of emergency gas supplies at a negotiated price that might be less than the price that would be paid to SDG&E's UEG operations.

SCUPP/IID's Protests Regarding UEG Curtailments between air basins

4. SCUPP/IID's protest regarding the possibility of curtailments between air basins contradicts the policies adopted by the Commission in its capacity brokering proceeding (D.91-11-025). In this proceeding, the Commission adopted in large part a settlement proposed by a variety of parties (including SCUPP/IID) that eliminated "end-use distinctions within the non-core class" (p. 27) and required that "interruptible customers would be curtailed (to meet core needs) according to level of payment" (p. 28). This decision also noted that "air quality regulations may place...constraints on the use of gas by UEGs and cogenerators" but nonetheless "decline(d) to establish a system which grants preference to UEGs on the basis that UEGs face air quality constraints" (D.91-11-025, p.29). This lack of preference was extended to SDG&E in the decision's requirement that SDG&E's UEG "should bid for capacity as any other customer" (D.91-11-025, p.44).

5. SoCal Gas and SDG&E are correct in noting that each utility should operate as a separate utility to the extent operationally feasible. Given the relative size of the SoCal Gas system relative to SDG&E's core load, it is also unlikely that SoCal Gas would have to curtail all of its non-core customers in order to meet SDG&E's core needs under the MAA. Therefore, non-core customers, such as UEG customers, located in the SoCal Gas service territory that are concerned about the possibility of curtailment can directly minimize their chances of being curtailed by purchasing firm intrastate service, signing up for

¹ This program was adopted by the Commission in D.91-11-025 (p. 29). Any payments under this program are at shareholder expense.

storage capacity, or maintaining an alternate fuel capability. Under the "unbundled" gas market developing in California, non-core customers are now given the opportunity to choose, and pay for, the level of reliability they desire. Accordingly, SCUPP/IID's concerns are not warranted.

Costs from the MAA

6. SoCal Gas and SDG&E both have agreed that they will not hold the other party liable for any cost disallowances through reasonableness reviews that might occur under the MAA. CACD sees no problem with this approach but reminds each utility that any costs incurred under this agreement by either utility remain subject to reasonableness review by the Commission if applicable.

7. SDG&E also requests that any gas costs incurred under this agreement should be excluded from SDG&E's Performance-Based Ratemaking (PBR) incentive mechanism adopted by the Commission in D.93-06-092. The PBR mechanism rewards SDG&E if it is able to purchase its gas supplies below certain benchmark standards that reflect market conditions. SDG&E requests this exemption since it believes that any invocation of the mutual assistance agreement on SDG&E's part is likely to occur in an emergency situation outside the scope of normal operations.

8. CACD disagrees with SDG&E's request and believes that it is inconsistent with both the letter and spirit of SDG&E's PBR proposal as adopted by the Commission. The PBR mechanism does not exempt SDG&E from its obligation to provide reliable core service.

9. The PBR decision establishes two mechanisms (Part A and Part B) to determine the benchmarks under which SDG&E's performance will be judged. Part B of the PBR mechanism;

[F]ocuses on the interaction between commodity and transportation components of total delivered gas costs. It is designed to provide SDG&E positive incentives to make the lowest total cost decisions based on available supply and delivery alternatives, while maintaining core service reliability. (D.93-06-092, p. 31, emphasis added).

Exempting SDG&E from the PBR mechanism could undermine SDG&E's need to maintain core service reliability in favor of purchasing lower cost supplies. Under certain scenarios, such as if SDG&E were to overrely on cheaply priced yet unreliable gas supplies, it might even be SDG&E's own procurement strategy that would result in SDG&E having to invoke the MAA. SDG&E's request for a blanket exemption from the PBR mechanism any time it invokes the MAA thus negates the balance between core reliability and low price that the Commission sought to achieve.

10. Secondly, many of the benchmarks used to assess SDG&E's performance (such as the cost of spot gas supplies), should themselves reflect the emergency conditions existing at the times the MAA would be in effect. A significant reduction in Southwest gas deliverability (due to well-head freeze-ups for example), would immediately be reflected in the price of Southwest spot gas supplies and in the gas price paid in the Southern California market.

11. The Commission not only explicitly recognized this connection between emergency conditions and spot prices but also stated that dealing with this problem was a normal part of a utility's procurement strategy under the PBR mechanism. As the Commission noted in D.93-06-092;

Seasonal shortages could cause price spikes in the spot market, as demand peaks in winter and severe cold can hamper gas production and pipeline operations at many points before gas from out of state reaches the California city gate. However, the LDCs are used to dealing with this winter situation, for example, by storing gas in the summer, so seasonal shortages alone do not justify modifying the proposed benchmark. (D.93-06-092, p. 35)

12. D.93-06-092 also explicitly dealt with the treatment of unique and/or extraordinary conditions. In discussing the benchmark for electric production prices, for example, the Commission rejected the use of a "Z" factor to adjust benchmark prices to reflect unusual events.² There was no discussion in D.93-06-092 regarding any proposal for a similar Z-factor for SDG&E's gas benchmarks. Should an extraordinary event occur that requires SDG&E to invoke the MAA, D.93-06-092 already allows that:

If an external event occurs that clearly, uncontrollably, and massively affects the benchmarks, or other crucial aspect of the PBR mechanism, we should take remedial action or halt the experiment. (D.93-06-092, Conclusion of Law #3, p. 59)

Therefore, SDG&E should seek any deviations from its PBR benchmarks through modification of D.93-06-092 and not through a blanket exemption sought by Advice Letter.

Revenues from the MAA

13. Neither Advice Letter addresses the disposition of any net revenues that one utility would receive for supplying gas to another utility under the MAA. Although most of the revenues that would be received by a utility under the MAA would merely

² See D.93-06-092, p. 10-13.

compensate that utility for expenses either directly incurred or revenues otherwise foregone, some provisions of the agreement (such as the receiving utility paying three times the cost of gas supplied by the supplying utility) could result in a utility making a profit off of the agreement. Any net revenues that SoCal Gas receives should be credited to its Purchased Gas Account for crediting back to core ratepayers. Similar rate treatment should apply to SDG&E, except that in order to ensure symmetrical rate treatment, any net revenues received by SDG&E should also be included in its PBR mechanism.

FINDINGS

1. SoCal Gas and SDG&E have developed a mutual assistance agreement (MAA) under which each utility may request temporary emergency assistance from the other in the event of insufficient gas supplies to satisfy core requirements. The utility providing emergency relief will make all reasonable efforts to assist the party seeking relief by delivering gas at a price determined through the payment structure outlined in the agreement.
2. The MAA does not apply to non-core volumes and is not intended to provide an on-going peaking or load-balancing program for either utility.
3. The MAA provides each utility with an added measure of service reliability for core customers. The agreement is also consistent with the Commission's directive in D.91-11-025.
4. There is no need for further compensation to non-core customers on the SoCal Gas system curtailed under this agreement. On the SDG&E system, curtailments would only occur among SDG&E's own UEG load.
5. SoCal Gas and SDG&E are to curtail non-core customers to meet MAA gas needs according to existing curtailment rules except for SDG&E's voluntary decision to curtail its electric generation units first.
6. D.91-11-025 eliminated end-use distinctions within the non-core class and requires that interruptible customers be curtailed to meet core needs according to level of payment. There should not be a preference given to UEGs even though air quality constraints may place constraints on the use of gas by UEGs and cogenerators.
7. Non-core customers located in the SoCal Gas service territory that are concerned about the possibility of curtailment can directly minimize their chances of being curtailed by purchasing firm intrastate service, signing up for storage capacity, or maintaining an alternate fuel capability.
8. SoCal Gas and SDG&E should not be liable for any cost disallowances incurred by the other utility for providing service to that utility as a result of the mutual assistance agreement.

9. SoCal Gas and SDG&E are subject to reasonableness review, if applicable, for any costs that they incur under the mutual assistance agreement.
10. Any gas costs incurred by SDG&E under the Mutual Assistance Agreement to meet its core gas needs are to be included in SDG&E's Performance-Based Ratemaking (PBR) incentive mechanism adopted by the Commission in D.93-06-092.
11. Any net revenues from the MAA that a utility receives are to be assigned to that utility's purchased gas account and, in SDG&E's case, included in its PBR mechanism.

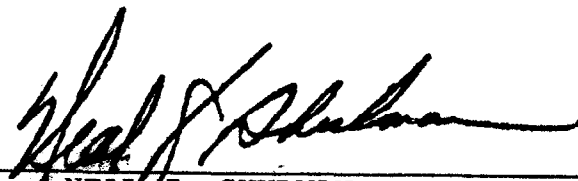
THEREFORE, IT IS ORDERED that:

1. The Mutual Assistance Agreement between Southern California Gas (SoCal Gas) and San Diego Gas & Electric (SDG&E) is approved.
2. SoCal Gas and SDG&E shall be subject to reasonableness review, if applicable, for any costs that they incur to meet their core needs under the mutual assistance agreement.
3. SDG&E shall include in its Performance-Based Ratemaking (PBR) incentive mechanism adopted by the Commission in D.93-06-092 any costs incurred or net revenues received by SDG&E under the Mutual Assistance Agreement.
4. Net revenues received by either SoCal Gas or SDG&E for providing gas to the other utility under the Mutual Assistance Agreement shall be assigned to each utility's purchased gas account. In SDG&E's case any net revenues received also shall be included in calculating SDG&E's performance under its PBR mechanism.

February 16, 1994

5. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on February 16, 1994. The following Commissioners approved it:



NEAL J. SHULMAN
Executive Director

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