PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND
COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-3113
April 6, 1994

RESOLUTION

RESOLUTION G-3113. SOUTHERN CALIFORNIA GAS COMPANY REQUESTS APPROVAL OF A LONG-TERM STORAGE CONTRACT WITH WASHINGTON WATER POWER COMPANY PURSUANT TO THE GUIDELINES ESTABLISHED IN DECISION 93-02-013.

BY ADVICE LETTER 2245, FILED ON DECEMBER 1, 1993.

SUMMARY

1. On December 1, 1993, Southern California Gas Company (SoCal Gas) filed Advice Letter 2245 requesting approval of a 6-year storage contract (with an option to extend the contract for an additional 9 years) between SoCal Gas and the Washington Water Power Company (WWP), an off-system customer. The contract would provide annual revenues to SoCal Gas of approximately $780,000 per year. 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 Mc Farland Energy/Ten Section Storage Group (Mc Farland), and Wild Goose Gas Storage (Wild Goose). They protest the contract's 1) uncertainty regarding the transportation arrangements used to redeliver the gas from SoCal Gas to WWP; 2) pricing of the "as-available" injection service offered to WWP; and, 3) the contract's pricing (albeit at the tariffed rate) of the withdrawal services offered to WWP.

3. This Resolution approves the long-term storage contract as filed by SoCal Gas provided that SoCal Gas seek separate Commission approval if it 1) desires to use its own interstate pipeline capacity to effect redelivery of gas supplies to WWP; or 2) seeks to extend the contract beyond the 15-year maximum term for long-term storage contracts authorized by the Commission in D.93-02-013.

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 December 1, 1993, SoCalGas filed Advice Letter 2245 requesting approval of a long-term storage contract with WWP. The initial term of the contract would be for 6 years effective as of June 1, 1994 with WWP having an option to extend the term of the contract through March 31, 2009. After 2009, the contract could continue in effect yearly with the mutual agreement of both parties.

5. Under the contract, SoCal Gas would provide 480,000 decatherms [approximately 0.45 billion cubic feet (bcf)] of annual storage inventory and 48,000 decatherms per day of firm withdrawal capacity to WWP. WWP will use "as-available" injection service in order to inject its gas into the storage inventory it has reserved. WWP will use the storage services that it receives under this contract to provide back-up natural gas service to a new 175 megawatt (Mw) power plant that WWP is constructing at Radthurm, Idaho.

6. WWP will pay SoCal Gas' tariffed rates for storage service over the life of the contract except that during the initial 6-year term of the contract WWP's rate changes shall be no greater than changes in the Consumer Price Index - All Urban Consumers (CPI). WWP will also pay an intrastate transportation rate of 22.5 cents per decatherm (Dth) for all gas that it injects into storage. Annual revenues to SoCal Gas from this contract are approximately $780,000 for WWP's reservation of firm inventory and withdrawal service plus an undetermined additional amount of revenues from WWP's use of as-available injection and intrastate transportation services associated with the contract.

NOTICE

1. Public notice of Advice Letter 2245 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. Mc Farland and Wild Goose separately protested Advice Letter 2245 on December 21, 1993.

2. McFarland and Wild Goose both protest the contract's uncertainty regarding the transportation arrangements that will be used to redeliver gas from SoCal Gas' storage facilities back to WWP. Both parties express concerns that SoCal Gas may use its own interstate pipeline capacity held on the Pacific Gas Transmission (PGT)[1] pipeline system to redeliver the gas. This raises potential problems that other SoCal Gas ratepayers will be adversely affected if WWP is either not adequately charged for this capacity or if WWP's use affects the amount of service available to other SoCal Gas customers. McFarland and Wild Goose also fear that SoCal Gas may discriminate in its use of its captive pipeline capacity by offering this capacity solely to SoCal Gas' own storage customers and not to the customers of third-party storage providers such as McFarland and Wild Goose. Such an approach would violate the non-discriminatory treatment provisions of the storage decision.[2]

3. McFarland also protests the pricing of "as-available" (or interruptible) injection service offered to WWP under the contract. McFarland states that SoCal Gas is only charging WWP the <u>variable</u> costs of injection and that WWP is not making any contribution to the fixed costs of SoCal Gas' rate base associated with injection service. According to McFarland this outcome is inconsistent with general rate-making principles which usually require that all utility services (including

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1. SoCal Gas is currently the sole customer and holder of capacity rights on the Pacific Interstate Transmission Company (PITCO). PITCO transports gas from Canada to Southern California over pipeline capacity operated by other utilities including PGT. The PGT transmission line is adjacent to WWP's proposed power plant.

2. 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."

interruptible or as-available services) should make some contribution to margin.

4. Finally, Wild Goose protests the price paid by WWP for withdrawal services under its contract. Although WWP will pay for its withdrawal services at the tariffed rates currently contained in SoCal Gas' long-term storage tariffs (G-LTS), Wild Goose nonetheless states that these tariffed rates are too low when compared with alternative valuation methods that the Commission is currently considering in its review of Pacific Gas & Electric's (PG&E's) unbundled storage program (I.87-03-036 and I.92-03-038) and that the Commission has already adopted in establishing rates for pipeline expansion projects (See D.92-10-076.)

5. SoCalGas responded to these protests on December 29, 1993.

6. Although not allowed by the Commission's General Order 96-A, first McFarland (on January 7, 1994) and SoCal Gas, in response to McFarland (on January 27, 1994), filed further comments regarding the pricing and use of as-available injection service.

DISCUSSION

Transportation Rate

1. Under its contract with WWP, SoCal Gas will charge WWP an intrastate transportation rate of 22.5 cents per decatherm for all gas that WWP injects into storage. This is the rate approved by the Commission in Resolution G-3073 to cover the transportation costs incurred by SoCal Gas in transporting gas for an off-system customer from the borders of SoCal Gas' system into storage and then redelivering the gas from storage back to the system's borders.[3]

2. CACD shares McFarland's and Wild Goose's concerns regarding the redelivery arrangements of WWP's gas back from SoCal Gas' storage fields to WWP's Radthurm plant but only to the extent that SoCal Gas may use its own interstate pipeline capacity to effect redelivery.

3. In discussions with CACD staff, both SoCal Gas and WWP stated that they were still evaluating a number of options on how redelivery would occur. One potential scenario would be for WWP to arrange with a PGT customer an upstream diversion of that customer's flowing supplies in exchange for WWP's gas in storage. Other redelivery options are also feasible, none of which would involve use of SoCal Gas' interstate capacity.

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3 See Resolution G-3073, Discussion (p. 4-5) and Finding #4 (p. 13).

4. CACD would be concerned, however, should SoCal Gas use its own interstate pipeline capacity reserved for core customers to effectuate redelivery of WWP's gas via displacement. In this case, SoCal Gas must seek separate approval from the Commission by Advice Letter in order for the Commission to ensure that WWP pays adequate compensation for the use of SoCal Gas' interstate capacity. In their response to McFarland's and Wild Goose's protests, SoCal Gas offers several examples where they claim to be able to effect redelivery of WWP's gas at no incremental cost to SoCal Gas ratepayers (<u>See</u> SoCal Gas' Response to Protests, p. 2). SoCal Gas' examples, however, are inconsistent with the rate-design policies utilized by the Commission in setting utility rates as well as the capacity brokering rules we have established for pipeline capacity rights held by local distribution companies. As the Commission previously noted in Resolution G-3073 regarding transportation rates applicable to storage contracts, even in cases where gas moves by displacement the Commission has traditionally assessed rates based upon the "contractual" movement of gas between its designated receipt and delivery points.[4] Such pricing should be utilized if SoCal Gas chooses to use its capacity rights to move gas from storage back to WWP. Similar rate treatment should also be made available to other storage providers consistent with the non-discriminatory provisions of the storage decision.[5]

<u>Fixed Price Contract</u>

5. The WWP contract is a fixed price contract because it contains a price cap mechanism. Reservation charges for storage services under the contract will change in accordance with SoCal Gas' tariffed rates for these services, except that the amount of increase and/or decrease will be capped to changes in the Consumer Price Index.

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

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4 <u>See</u> Resolution G-3073, p. 4. In WWP's case the contractual rate would be the appropriate back-haul rate from SoCal Gas to WWP across the PG&E and PGT systems.

5 <u>See</u> D.93-02-013, Appendix B, Rule 3.2. In response to McFarland's and Wild Goose's protests, SoCal Gas states that they would offer similar terms, if any, offered to WWP to other storage providers. (<u>See</u> SoCal Gas' Response to Protests, p. 2-3).

Construction of Additional Withdrawal Facilities

7. According to the terms of SoCal Gas' contract with WWP, initially all withdrawal services offered by SoCal Gas to WWP will take place through the use of expanded storage facilities currently under construction. There is also the potential that SoCal Gas may construct even more withdrawal capacity, beyond that currently under construction, in order to meet the withdrawal needs of the WWP contract. Under the requirements of the storage decision, SoCal Gas shareholders, and not ratepayers, are fully at risk for 100% of any costs associated with the construction of new storage facilities.[6] Therefore, SoCal Gas should not book any costs or revenues from its withdrawal service offered to WWP into SoCal Gas' Non-Core Storage Balancing Account (NSBA).

8. The expansion facilities to be constructed by SoCal Gas to meet WWP's withdrawal needs will be priced at SoCal Gas' G-LTS tariffed rate for withdrawal service consistent with the requirements of the storage decision.

9. Wild Goose protests the price paid by WWP for withdrawal services under this contract arguing that the tariffed rates are too low. Wild Goose's complaint is inappropriate for this Advice Letter filing as the storage rates have been set by Commission decision. Wild Goose is free to pursue modifications or changes to SoCal Gas' storage decision if it believes that the rates set by the Commission in that decision are incorrect.

Variable Injection Services

10. WWP has chosen an "as-available" injection service for injecting its gas into storage. McFarland protests this portion of the contract arguing that as-available service only covers SoCal Gas' variable costs in injecting gas into storage but does not cover any of SoCal Gas's fixed costs. SoCal Gas responds to McFarland's protest by correctly noting that the Commission envisioned as-available injection services being sold at a "first price auction" which could result in prices which are either at or slightly above SoCal Gas' variable costs. The Commission has also approved the use of as-available injection service to customers signing up for long-term storage.[7]

Contract Duration

11. D.93-02-013 allows long-term contracts for a maximum of 15 years. Assuming that WWP exercises its options, the contract filed in Advice Letter 2245 will be for the maximum term of 15

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6 See D.93-02-013, Appendix B, Section 5.1

7 See Resolution G-3064.

years. The SoCal Gas-WWP contract also provides that, even at the end of the 15-year period, the contract can be automatically extended from year to year by the concurrence of both parties. This provision is inconsistent with the 15-year limit for storage contracts contained in D.93-02-013. Accordingly, SoCal Gas is prohibited from exercising its option to renew the contract beyond the 15-year term without first seeking and obtaining reauthorization from the Commission to extend the contract.

Load-Balancing Premiums

12. In its Advice Letter filing, SoCal Gas states that there is no need for a load-balancing premium (as required by D.93-02-013, Section 9.4) since SoCal Gas has structured its contract in such a way that such imbalances will never occur. CACD has problems not only with SoCal Gas' claims that imbalances between nominations and deliveries of gas will never occur but also with SoCal Gas' statement that it will only record the delivered volumes of gas associated with the WWP contract into storage. This latter approach is inconsistent with our treatment of other non-core customers and would excuse WWP from paying for the costs of any system imbalances it occurs.

13. Although we reject SoCal Gas' claim that imbalances will never occur in the WWP contract, nonetheless we see no need to assess a separate load-balancing charge upon the WWP contract. This is because the costs of load-balancing that off-system customers such as WWP impose upon the SoCal Gas system are already incorporated into the 22.5 cent per decatherm intrastate transportation rate that they pay.[8]

FINDINGS

1. SoCal Gas' proposed contract with WWP will provide annual revenues to SoCal Gas of approximately $780,000.

2. 22.5 cents per decatherm is an appropriate rate for intrastate transportation services provided under this contract.

3. SoCal Gas' redelivery arrangments with WWP under the contract are reasonable provided that SoCal Gas does not use any of its own interstate pipeline capacity to effectuate redelivery.

4. SoCal Gas should file, by separate advice letter, to request Commission approval if it chooses to use its own interstate pipeline capacity to effectuate redelivery of gas to WWP under this contract. If SoCal Gas offers such service, it should be priced based on the contractual movement of the gas,

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

be consistent with our capacity brokering rules, and comply with the non-discriminatory provisions of the storage decision.

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

6. Withdrawal services offered under the WWP contract will be provided by the use of expanded storage facilities. The storage decision requires that utility shareholders are responsible for 100% of any revenue shortfalls for storage services offered from expanded storage facilities.

7. Withdrawal services offered under this contract are priced according to the requirements of the storage decision.

8. The advice letter process is not the correct forum for Wild Goose to address its concerns regarding the pricing of withdrawal services. Wild Goose's protest regarding the pricing of withdrawal services is dismissed without prejudice and if it desires, it should pursue this issue through the appropriate procedural forums.

9. SoCal Gas' pricing of as-available injection services offered to WWP is reasonable.

10. The maximum term for long-term contracts under the storage decision is 15 years. SoCal Gas should be prohibited from exercising its option to renew the contract beyond the 15-year term without first seeking and obtaining reauthorization from the Commission to extend the contract.

11. SoCal Gas is incorrect in its claims that its contract with WWP is structured in such a way that imbalances between nominations and deliveries of gas will never occur.

12. There is a load balancing premium already included in the 22.5 cent per decatherm intrastate transportation rate applicable to off-system storage customers.

THEREFORE, IT IS ORDERED that:

1. The contract between Southern California Gas Company (SoCal Gas) and Washington Water Power Company (WWP), submitted in Advice Letter 2245 is approved.

2. SoCal Gas shareholders shall be responsible for 100% of any revenue shortfall resulting from the use of a price-cap mechanism and expanded storage facilities as part of the WWP long-term storage contract.

3. SoCal Gas shall not utilize any of its interstate pipeline capacity to effectuate redelivery of WWP's gas absent a separate approval from the Commission through the Advice Letter process.

4. SoCal Gas shall not exercise its option to renew its contract with WWP after the end of the extended term unless prior to doing so it has received Commission approval to do so.

5. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on April 6, 1994. The following Commissioners approved it:

NEAL J. SHULMAN
Executive Director

DANIEL Wm. FESSLER
President
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
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