

PUBLIC UTILITY COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND
COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-3185
May 8, 1996

R E S O L U T I O N

RESOLUTION G-3185. SOUTHERN CALIFORNIA GAS COMPANY (SOCALGAS) REQUESTS APPROVAL TO ESTABLISH A MEMORANDUM ACCOUNT TO TRACK ALL COSTS AND ANY COST SAVINGS ASSOCIATED WITH ITS RELINQUISHMENT OF FIRM INTERSTATE TRANSPORTATION CAPACITY OF EL PASO AND TRANSWESTERN ON JANUARY 1, AND NOVEMBER 1, 1996, RESPECTIVELY.

BY ADVICE LETTER 2468, FILED ON DECEMBER 29, 1995.

SUMMARY

1. In SoCalGas' attempt to comply with Decision (D.)95-12-037, Ordering Paragraph (OP) 1, it filed tariff sheets by Advice Letter 2468 to establish a memorandum account, "Interstate Capacity Step-Down Account" (ICSDA). The account would track all costs and cost savings associated with SoCalGas relinquishment of 300 million cubic feet a day (MMcf/day) of El Paso Natural Gas Company (El Paso) capacity on January 1, 1996 and 450 million cubic feet per day (MMcf/day) of Transwestern Pipeline Company (Transwestern) capacity on November 1, 1996.
2. Toward Utility Rate Normalization (TURN) protests Advice Letter 2468, on grounds that SoCalGas' proposed tariff does not provide sufficient accounting detail to fully implement D.95-12-037. SoCalGas disagrees with TURN.
3. This Resolution grants TURN's protest and orders SoCalGas to modify its advice letter.

BACKGROUND

1. SoCalGas has contractual commitments for 750 MMcf/day of firm interstate transportation over Transwestern's system and 1450 MMcf/day of firm interstate transportation over El Paso's system. In (D.) 91-11-025, the Commission allocated these interstate capacities between noncore and core ratepayers as part of its efforts to promote more customer choice in interstate transportation markets. Core customers were allocated the costs of 1067 MMcf/day of firm capacity and the remaining capacity was to be brokered to noncore customers.

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2. The remaining capacity, however, could not be brokered because the costs of SoCalGas' firm transportation commitments to El Paso and Transwestern were substantially higher than market prices. In anticipation of that outcome, D.91-11-025 allocated 90% of unrecovered portion of capacity not brokered to noncore customers and 10% to core customers by way of the Interstate Transportation Cost Surcharge (ITCS). D.91-11-025 did not specifically spell out how to allocate the savings associated with SoCalGas' relinquishment of El Paso and Transwestern capacities.

3. SoCalGas' commitments to El Paso and Transwestern are changing in 1996. On January 1, 1996 SoCalGas reduced its commitment to El Paso by 300 MMcf/day. Also, on November 1, 1996, SoCalGas has the option to reduce its commitment to Transwestern by 450 MMcf/day. These reductions should cause the cost of interstate transportation to SoCalGas to decrease by several millions of dollars per year.

4. The Federal Regulatory Energy Commission (FERC) recently considered the effect of the step-down on Transwestern. According to D.95-12-037 "It has adopted a settlement that requires Transwestern shareholders to assume the risk associated with 70% of the unsubscribed capacity; customers must assume 30% of the costs for a five year period (72 FERC 61, 085)." D.95-12-037 further states that "The FERC has not resolved similar issues for El Paso."

5. In SoCalGas' attempt to comply with D.95-12-037 of December 18, 1995, OP 1, SoCalGas filed Advice Letter 2468 to establish a memorandum account, "Interstate Capacity Step-Down Account" or (ICSDA) to track all costs and cost savings associated with the step-downs of El Paso and Transwestern firm capacity. SoCalGas states that the entries to ICSDA for El Paso shall be entered for January 1996 and monthly thereafter and similarly for Transwestern after the relinquishment occurs.

NOTICE

1. Public notice of this filing has been made by publication in the Commission's calendar and copies of the advice letter have been distributed by SoCalGas in accordance with Section III Paragraph G, of the General Order (GO) 96-A, and to all parties of record in R.90-02-008 and R.88-08-018.

PROTESTS

1. On January 18, 1996, TURN protested Advice Letter 2468. TURN contends that SoCalGas' proposed "...tariff language does not provide for the tracking of sufficient accounting detail to fully comply with D.95-12-037." TURN states further that SoCalGas' proposed tariff language would track only the net savings in pipeline charges. It urges the Commission to direct SoCalGas to supplement its proposal with further accounting details.

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2. On January 24, 1996, SoCalGas responded to the protest by TURN. This response was timely. SoCalGas contends that "the memorandum account established by Advice No. 2468 tracks actual "costs" of interstate pipeline capacity on the El Paso and Transwestern systems as of the date of the relinquishment (January 1, 1996 for El Paso and November 1, 1996 for Transwestern) and calculates any "savings" associated with capacity relinquishments by also recording the actual interstate pipeline costs which existed immediately prior to the relinquishment." SoCalGas concludes that "... the memorandum account records precisely what the Commission ordered."

DISCUSSION

1. CACD has reviewed D.95-12-037, Advice Letter 2468, the protest by TURN, and the response by SoCalGas.

2. TURN believes that SoCalGas' proposed tariff language to establish a memorandum account in compliance with D.95-12-037 lacks sufficient accounting details. SoCalGas disagrees with TURN because SoCalGas believes its filing is in compliance with D.95-12-037. The issue is whether Advice Letter 2468 filed by SoCalGas is in compliance with the intent of D.95-12-037.

3. D.95-12-037 recognizes that the contractual commitments of SoCalGas to El Paso and Transwestern are going to change in 1996. The decision in Finding of Fact #3, p.4 (mimeo) states in part:

By the terms of its contract, SoCalGas may relinquish 300 MMcf/d on El Paso's system January 1, 1996. It may relinquish 450 MMcf/d on Transwestern's system November 1, 1996. These relinquishments will reduce SoCalGas' interstate transportation costs. They are also expected to create transition costs for El Paso and Transwestern some of which will be borne by SoCalGas pursuant to FERC order.

From the above reference it is apparent that the Commission intends to track the entries for both the savings associated with the step-downs and any "transition costs" that might be ordered by FERC for El Paso and Transwestern for recovery from their customers.

4. D.95-12-037 also states that because the savings from the El Paso step-down will begin to accrue before the next Biennial Cost Allocation Proceeding (BCAP) for SoCalGas, the Commission should preserve its "discretion with regard to how these savings and any transition cost surcharges associated with unsubscribed capacity" should be allocated. By D.95-12-037, the Commission solicits comments "on how amounts in these accounts should be allocated between core and noncore customers." (Emphasis Added) TURN may be correct in its observation that the Commission may not prescribe the same treatment for both the savings and the "transition costs" which SoCalGas wants to lump together into "current cost entry" of the memorandum account because of the above statements.

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5. CACD agrees with TURN that the Commission may not prescribe the same allocation method for both the savings and the "transition cost" surcharges. TURN's request is granted. CACD recommends that these two items be separately accounted for in the memorandum account so that the Commission will have opportunity to review the entries in each account with no difficulty.

5. SoCalGas agrees with TURN that the ICSDA should be interest-bearing, similar to other authorized memo accounts. SoCalGas should correct its tariff sheet to include the interest language when it files a supplement to Advice Letter 2468.

FINDINGS

1. SoCalGas has relinquished 300 MMcf/day of capacity on El Paso's system on January 1, 1996 and has the option to relinquish 450 MMcf/day on Transwestern's system on or after November 1, 1996. These relinquishments should reduce SoCalGas' interstate transportation costs by several millions of dollars per year.

2. D.95-12-037 ordered SoCalGas to establish a memorandum account to track the savings and costs resulting from the step-downs of El Paso and Transwestern firm capacity by advice letter.

3. SoCalGas filed Advice Letter 2468 on December 29, 1995, requesting authority to establish "Interstate Capacity Step-Down Account" in compliance with D.95-12-037.

4. On January 18, 1996, TURN protested Advice Letter 2468 contending that the tariff language proposed by SoCalGas lacks sufficient accounting details to be in compliance with D.95-12-037.

5. On January 24, 1996, SoCalGas responded to the protest in disagreement.

6. SoCalGas failed to recognize that the Commission may not treat the savings accruing from the step-downs in the same manner as the expected "transition costs" that may be imposed by FERC on El Paso and Transwestern customers.

7. TURN correctly observes that the savings and "transition costs" associated with the step-downs may be treated differently by the Commission.

8. When the resulting savings are separated from the "transition costs" it will be readily possible for the Commission to review the entries in each account.

9. The proposed ICSDA has a provision for the account to bear interest, similar to other memorandum accounts authorized by the Commission.

THEREFORE, IT IS ORDERED that:

1. Southern California Gas Company (SoCalGas) Advice Letter 2468 is authorized subject to the following modifications:

a. SoCalGas shall file the necessary tariff sheets on which the procedure for recording the savings and the expected "transition costs" in the memorandum account are detailed separately.

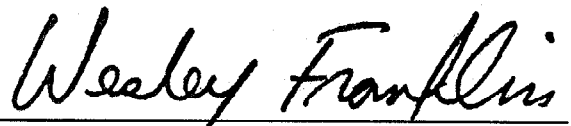
b. SoCalGas shall state that the memorandum account shall bear three-month commercial paper interest similar to other authorized memo accounts.

2. SoCalGas shall implement the above modifications by filing a supplemental advice letter with tariff sheets consistent with this resolution by May 15, 1996. The supplemental advice letter shall be effective on the date filed.

3. TURN's request is granted.

4. This resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on May 8, 1996. The following Commissioners approved it:



WESLEY M. FRANKLIN
Executive Director

P. GREGORY CONLON
President
DANIEL Wm. FESSLER
JESSIE J. KNIGHT, Jr.
HENRY M. DUQUE
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