LEXSEE 48 CPUC2D 107

Order Instituting Investigation into procurement and system reliability issues deferred from D.86-12-010; In The Matter Of The Application Of SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) For Authority To Revise Its Rates And Recover Costs For Implementation Of Its Customer Storage Program

Decision No. 93-02-013, Investigation No. 87-03-036 (Filed March 25, 1987), Application No. 92-03-038 (Filed March 18, 1992)

California Public Utilities Commission

1993 Cal. PUC LEXIS 66; 48 CPUC2d 107; 140 P.U.R.4th 282

February 3, 1993

(See Appendix A for appearances.)

PANEL: [*1] Daniel Wm. Fessler, President; Patricia M. Eckert, Norman D. Shumway, Commissioners

OPINION: OPINION

1. Summary of DecisionPolicies and rules are adopted for permanent natural gas utility storage programs. Unbundling of noncore storage service is authorized, consistent with Federal policies, previous unbundling of noncore gas supply and transportation service, and legislative urgings. A "let the market decide" policy is adopted for construction or expansion of storage facilities. Market-based noncore storage rates are adopted, including incremental rates for service derived from new or expanded facilities.Utilities must continue to operate and expand storage on behalf of core customers. They are obliged to provide firm service to noncore customers using existing facilities that are not needed for core service. Utilities are not obliged to expand their facilities to provide firm noncore service unless customers guarantee recovery of costs. Independent storage providers can enter the storage market and compete with today's local distribution companies, subject to legal requirements.A regime of utility revenue protections is ordered, under [*2] which core ratepayers will not support facilities expansions to serve the noncore. Interim policies on uneconomic storage bypass are adopted, pending further review in Rulemaking (R.) 92-12-016 and Investigation (I.) 92-12-017. Rules for storage service are adopted.The proposed permanent gas storage programs of Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) are approved with revisions, effective April 1, 1993. The unbundled service proposal of Pacific Gas and Electric Company (PG&E) is rejected. PG&E is ordered to unbundle storage service into the basic functions of injection, inventory, and withdrawal as SoCalGas has done. PG&E's permanent program should become effective April 1, 1994.

2. Procedural BackgroundThis investigation was opened in March 1987 to explore issues deferred from Decision (D.) 86-12-010, which established a new regulatory framework for California's natural gas utilities. The deferred issues were underground storage, firm interstate pipeline capacity, and commodity pricing flexibility. The scope of the proceeding is now restricted to gas storage issues, including storage banking and smog season storage. [*3] n1

n1 D.90-10-038; 38 Cal. PUC 2d 31, 38 (1990), Ordering Paragraph 14.

In March 1992, SoCalGas filed Application (A.) 92-03-038, requesting approval of a permanent program for gas storage service. The application was consolidated with the investigation by Administrative Law Judge's (ALJ's) ruling. On September 2, 1992, SoCalGas amended its application and served additional testimony. PG&E also proposes a permanent gas storage program, but PG&E makes its proposal in testimony, not by separate application.The history of this proceeding through October 1990 is summarized in D.90-10-038. That decision extended a pilot program for storage banking service until April 1, 1992. In Resolution G-2973, approved December 4, 1991, the Commission extended SoCalGas' pilot storage service until April 1, 1993. SoCalGas offers pilot program storage for noncore gas customers under Schedule No. G-STOR. Utility electric generation (UEG) customers of SoCalGas are authorized to store gas in anticipation of the summer smog season under Schedule No. G-STAQ. The smog season is defined as June 1 through October 31 each year.

In D.91-02-019 the Commission allowed UEG customers to begin storage [*4] injections under Schedule No. G-STAQ on February 8, 1991, earlier than the March 1 date previously authorized.In D.92-03-030, approved March 11, 1992, the Commission extended PG&E's pilot program until April 1, 1993. PG&E offers pilot program storage under Schedule G-IB.In D.92-05-070 the Commission approved a SoCalGas proposal to hold an "open season" to solicit binding bids from noncore customers for unbundled storage service. SoCalGas proposed to unbundle service into components of injection capacity, inventory, and withdrawal capacity. n2 On June 24, 1992, SoCalGas wrote the assigned ALJ, with copies to all parties, to report the results of the open season: (1) existing firm withdrawal capacity — after reservation for core needs — is oversubscribed, (2) firm injection capacity and firm inventory are significantly undersubscribed, and (3) customer bids for expansion of withdrawal capacity are lower than SoCalGas' incremental costs of adding facilities. At the time of the letter, implementation of the storage program proposed in A.92-03-038 would generate only $3.5 million of the $17.5 million in revenue requirement that SoCalGas asked to be removed from existing gas [*5] transportation rates to unbundle noncore storage service. Therefore, SoCalGas revised its permanent program to respond to customer demand and to improve the marketability of firm injection and inventory services. According to SoCalGas, all potential customers will be permitted to acquire storage services under the enhanced program.

n2 These are the basic physical actions that comprise storage service. Injection is the delivery of gas — typically using mechanical compressors — from pipeline supply into an underground storage field; inventory is the usable storage volume in the field; and withdrawal is the return of stored gas — by natural pressure or using compressors — to pipeline supply.

In September and October 1992, the Commission convened 14 days of evidentiary hearings on a permanent gas storage program. Thirteen parties filed opening briefs: SoCalGas; PG&E; SDG&E; Southern California Edison Company (Edison); the Division of Ratepayer Advocates (DRA); Toward Utility Rate Normalization (TURN); McFarland Energy, Inc. and the Ten Section Storage Group (McFarland); Southern California Utility Power Pool and Imperial Irrigation District (SCUPP/IID); Watson Cogeneration [*6] Company (Watson); California Industrial Group, California Manufacturers Association, and California League of Food Processors (CIG, collectively); California Cogeneration Council (CCC); City of Palo Alto (Palo Alto); and Northern California Power Agency and Turlock Irrigation District (NCPA/TID). All of those parties except Watson, Palo Alto, and NCPA/TID filed reply briefs. This phase of the proceeding was submitted November 25, 1992, on receipt of reply briefs.

3. Appearance of NCPA/TIDCoincident with filing its opening brief, NCPA/TID filed a "Notice of Appearance" which announced for the first time its appearance in this proceeding. On November 18, 1992, PG&E filed a motion to deny the appearance and to reject NCPA/TID's brief. PG&E argues that the appearance does not comply with Rule 54 of the Commission's Rules of Practice and Procedure, and that the brief seeks to raise new issues in the proceeding. According to PG&E, Rule 54 allows appearances to be made only at hearings, and hearings in this matter are concluded.NCPA/TID responded promptly to the motion, arguing that Rule 54 is not strictly applied by the Commission. Rule 54 allows an appearance to be entered [*7] if, among other requirements, the party's position is stated fairly. According to NCPA/TID, this requirement is not applied in Commission proceedings. As well, PG&E did not object when NCPA/TID filed a notice of appearance along with its opening brief in R.88-08-018. Finally, NCPA/TID argues that its appearance will not unduly broaden the issues in this proceeding.We will grant the motion of PG&E and reject the appearance by NCPA/TID. Rule 54 states that an appearance may be entered at a hearing "if the interest of such persons or entities in the proceeding and position intended to be taken are stated fairly. . . ." It is true that many appearances at Commission hearings are made without statements of interest or position, largely because the interests are obvious to both the Commission and other parties, and positions are developed following the prehearing conferences at which initial appearances are taken. However, if those appearances are questioned or protested, the Commission — represented by the presiding ALJ — stands ready to apply Rule 54 and resolve any disputes over the entering of appearances. If disputes over positions should arrive following the service of testimony, [*8] they can be resolved promptly, prior to the conclusion of hearings and prior to argument by the parties.In the present dispute we must apply Rule 54 rigorously and deny the appearance of NCPA/TID. The distinction between our decision now and acceptance of NCPA/TID's appearance in R.88-08-018 is that the earlier appearance was not protested. PG&E has made a timely protest to NCPA/TID's appearance in this proceeding. If NCPA/TID had appeared at hearings in this matter, PG&E might have protested at the time and NCPA/TID might have defended its participation by stating its interest and position, in compliance with Rule 54. Had the appearance been accepted, PG&E might have presented testimony or argument in response to NCPA/TID's position. To allow NCPA/TID to appear now would deny PG&E that opportunity.

4. Peaking and Standby RatesIn A.92-03-038, as part of its proposed storage program, SoCalGas seeks Commission approval of a peaking rate service, under which customers that receive gas service from both SoCalGas and "bypass projects" would be assigned to a special rate schedule. DRA served testimony on a standby rate for the same customers.On September 24, 1992, Edison [*9] filed a motion to strike testimony on peaking and standby rates. During hearings several parties joined Edison in objecting to the testimony. The parties argued that bypass issues are beyond the scope of storage hearings and should be heard in other Commission proceedings. The assigned ALJ ruled that bypass issues and peaking rate proposals are beyond the scope of this phase of the storage proceeding. n3 The ALJ removed the disputed issues to a later phase of the proceeding and suggested that the Commission might better review peaking rates in SoCalGas' next Biennial Cost Allocation Proceeding (BCAP), where rate design issues would normally be heard.

n3 Tr. 20:2263-2264.

We will adopt the ALJ's suggestion and exclude peaking and standby rate proposals from this proceeding. The parties should resubmit their testimony or restate their proposals in SoCalGas' next BCAP or its successor. n4

n4 Revisions to existing BCAP procedures are proposed in R.92-12-016 and I.92-12-017.

5. Policy ConsiderationsIn its opening brief, TURN has reminded the Commission of the hazards of designing new regulatory programs. TURN cites a passage written in 1513 by Niccolo Machiavelli: [*10] n5"It must be remembered that there is nothing more difficult to plan, more doubtful of success, nor more dangerous to manage than the creation of a new system."

n5 "The Prince," Chapter VI, circa line 60; Crofts Classics edition, translated by Thomas G. Bergin, AMH Publishing, Northbrook, IL.

Nonetheless, we accept those hazards because they are preferable to the hazards of continuing with the present system of regulation for bundled gas storage service. A permanent program of unbundled gas storage is necessary to meet the express needs of noncore customers and to harmonize storage service with previously adopted programs and policies for gas supply and transportation service.First, in 1986 we distinguished core and noncore customers, and established service priorities and separate supply portfolios for the two classes. n6 In time utility noncore supply portfolios were abandoned. n7 Second, in 1990 we found that new pipeline capacity was needed in California, and we set forth a policy framework to allow competitive forces to operate. n8 This led to rules which allow pipeline capacity brokering. n9 Today we take a third step and authorize the unbundling of storage services. [*11]

n6 D.86-12-010; 22 Cal. PUC 2d 491 (1986).n7 D.90-09-089; 37 Cal. PUC 2d 583 (1990).n8 D.90-02-016; 35 Cal. PUC 2d 196 (1990).n9 D.92-07-025, issued July 1, 1992.

We do not suggest that the scope or importance of storage unbundling matches the unbundling of supply portfolios or transportation service. Combined gas supply revenues for SoCalGas, SDG&E, and PG&E are approximately $1,900,000,000 annually. Noncore gas transportation revenues for the same utilities are approximately $880,000,000 annually. Annual revenues for unbundled storage service will be approximately $30,000,000. This comparison warns us that storage service need not be regulated as finely as gas supply or transportation service, because the monetary risks of unbundling storage service are smaller.

5.1 "Let the Market Decide" PolicyIn D.90-02-016, to help alleviate a shortage of gas for noncore customers, we reiterated our objective of creating an environment for competitive forces to work in the gas pipeline industry. Although utilities no longer have an obligation to supply noncore customers with gas, we stated that they do have an obligation to provide gas transportation for those customers. [*12] We concluded that gas market participants should decide among themselves whether or not capacity additions are economically viable. Thus began what is now known as a "let the market decide" policy for pipeline construction. We found that a competitive gas market would efficiently allocate gas supplies, provide access to diverse gas supplies, and lower costs through gas-on-gas competition. We concluded that these benefits would extend to core customers, although noncore demand is the primary factor in the need for new pipeline capacity. But these benefits must be pursued prudently. Utility subscription to additional pipeline capacity must be based on reasonable projections of core needs and resource plans that include cost-benefit analysis, renewed emphasis on conservation programs, and consideration of the uncertainty inherent in demand forecasts.These policy principles extend to gas storage service. Making the necessary distinctions between transportation and storage service, we adopt a "let the market decide" policy for gas storage. We begin by setting forth the goals of a new gas storage policy. The goals flow from the fundamental utility obligation to provide safe, [*13] reliable service at reasonable, nondiscriminatory rates:*

To ensure that adequate, reasonably priced, stable, and reliable gas supplies are available to core customers.* To achieve and maintain access to diverse gas sources so that all gas customers in California can obtain adequate, reliable, reasonably priced gas supplies.* To reduce the likelihood of peak period curtailments in a cost-effective manner.* To avoid the negative consequences of uneconomic bypass. n10

n10 Characterization of bypass as economic or uneconomic depends on the relationship among three variables: utility incremental cost of service, customer incremental cost, and tariff rates. The incentive to bypass at all arises when tariff rates are higher than customer incremental cost; utility service is more expensive than obtaining service from others or building facilities. That bypass is uneconomic if utility incremental cost is less than customer incremental cost; the customer should not be encouraged to build or cause to be built additional capacity if the utility could do so at a lower cost. Bypass is economic if utility incremental cost is higher than customer incremental cost; society is best served by allowing the customer to leave the utility system and use less expensive facilities.

[*14] * To ensure that the costs of existing storage facilities — including unsubscribed capacity — and facility expansions are fairly allocated among customer classes.The principal distinctions between transportation and storage service are: (1) the scale of the utility revenues at stake, (2) the risk of bypass, and (3) the likelihood of core benefits. We adopted a "let the market decide" policy for gas transportation when there was a clear need for additional pipeline capacity. The need for additional storage capacity is less certain, as shown by the evidence in this proceeding. First, the potential storage inventory available from independent providers — most notably McFarland — is relatively large and is accessible to the intrastate pipelines of both SoCalGas and PG&E. Compare McFarland's potential inventory of about 40 billion cubic feet (bcf) of working storage — purchased from SoCalGas and PG&E — against about 115 bcf for SoCalGas and about 100 bcf for PG&E. Second, only withdrawal capacity was oversubscribed in SoCalGas' recent open season. These distinctions lead to opposite conclusions about the threat of bypass. The potential for independent storage suggests that [*15] bypass is possible. On the other hand, weak customer demand and the small scale of utility revenues reduce the risks of bypass.Core customer benefits of unbundled storage are similar to the benefits of unbundled transportation, but they are offset in part by the loss of storage access if utilities are allowed to provide firm storage service to the noncore. In SoCalGas' service territory core customers gain certainty of storage during the smog season. That advantage will extend to PG&E's customers if air quality regulations become more stringent in the future.In D.92-10-056, regarding PG&E pipeline expansions, we were more explicit about the "let the market decide" policy. We ordered that expansion costs should be recovered through incremental rates, determined by assigning the incremental costs of expansion to the customers subscribing to the expansion. We rejected the opposing ratemaking philosophy of rolled-in rates, determined by setting rates for both existing facilities and expansions combined into a single revenue requirement. In this way California ratemaking policy is consistent with Federal policies for regulation of new interstate pipelines. The risk to customers [*16] using existing facilities that is caused by undersubscription of new facilities is limited. Utility managers will determine market demand for expansions, and shareholders will bear most of the risk of expansions, with limited protection against market-based decisions. These policies do not unduly discriminate among customer classes.In D.92-11-016 we recapped the "let the market decide" policy and noted that it has been extended from interstate pipelines to intrastate pipelines in D.90-12-119. We also noted that, "According to the record in [R.88-08-018 and I.88-12-027], PG&E does not have enough storage capacity to offer storage services to noncore customers after the introduction of capacity brokering."In sum, although we must guard against risks of storage service that differ from the risks of transportation service, we adopt a "let the market decide" policy for storage. There is a need for unbundled storage service, and a "let the market decide" policy is the best way to serve that need.

5.2 Storage Service HierarchyIf there is any risk at all that demand may exceed the supply of storage, we must adopt a hierarchy of customer interests. Utilities should follow [*17] the hierarchy as they manage deliveries during shortage or curtailment situations. Before adopting a hierarchy, we will list the services that unbundled gas storage will provide:* Load balancing - daily - monthly* Core reliability* Core price function* Unsubscribed storage capacity* Noncore firm service* Facility expansions for the noncore

This list does not rigorously define utility service options, but is a framework for the regulatory treatment of storage. Price function is the economic opportunity to store gas when prices are low for later use when prices are higher. Note that nonfirm or as-available noncore service is not listed, and no distinction is made between noncore reliability and noncore price function. As will be seen, as-available service for both core and noncore customers will be taken from unsubscribed capacity. We expect no facility expansions until existing unsubscribed capacity is used.Noncore customers can make their own distinctions between reliability and price function. This has an important impact on SoCalGas'

smog season storage. Noncore reliability now has a higher service priority than core price function during the summer smog [*18] season. Under unbundled service noncore customers, including UEG customers, are responsible for smog season reliability. They must purchase flowing supplies and storage capability sufficient to meet air quality needs without recourse to interruption of other services. This is the obligation assigned to noncore customers in exchange for utility offers of firm storage service. If noncore customers find themselves short of gas during the smog season, they must curtail gas service or purchase other supplies at whatever prices the market will bear.As discussed elsewhere in this decision, load balancing service will remain bundled, and associated costs will remain embedded in each utility's revenue requirement. This requires an allocation of costs to the noncore transportation revenue requirement, and it removes load balancing from the storage service hierarchy. The adopted hierarchy of customer interests is: (1) core reliability, (2) noncore firm service, limited by reservation of core price function storage on a forecast basis, coequal with core price function, and (3) as-available service. Service provided by facility expansions will be assigned to core or noncore services in [*19] advance of construction, as part of the adopted incremental pricing policy. As we expect for transportation service, we count on utilities to meet all customer requirements at one hierarchy level before serving customers at a lower level. Utilities may not balance service at different levels at their discretion.Hierarchy (2) quantities are determined in two steps. First, core firm price function quantities are determined. Second, noncore firm service is awarded. Thereafter, core price function service and noncore firm service are equal in priority. We do not imply that the core can engage in economic curtailment of firm noncore service in order to take advantage of short-term price fluctuations. Core customers can pursue such short-term advantages after the core reservation amounts are served, by competing for as-available capacity on an equal footing with noncore customers.Each utility should allocate existing storage capacity by first determining load balancing needs, then reserving core storage for both reliability and price function, then offering firm service to noncore customers (including UEG customers) for all remaining capacity. Any unsubscribed capacity should [*20] be sold on an as-available basis to core and noncore customers. If there is no unsubscribed capacity, utilities may expand facilities to meet demand, subject to the obligation to serve discussed elsewhere in this decision. Operationally, if unforeseen circumstances require curtailments into level (2) of the hierarchy, noncore firm service and reserved amounts of core price function service should be curtailed proportionally.Utilities must curtail noncore service to serve core reliability needs. We recognize that this possibility compromises the firmness of noncore service, but the likelihood of such curtailments is small. In such situations, utilities should withdraw noncore gas from storage or divert noncore flowing supplies in a manner that is fair and economic to noncore customers.It is a utility's responsibility to set core reservation quantities prudently, to maximize the value of price function storage for the core.

5.3 CompetitionStorage is one alternative in a spectrum of gas service opportunities. Noncore customers individually and utilities acting on behalf of core customers can manage gas service through use of pipeline capacity, storage facilities, the [*21] emerging gas futures market, demand-side management, and peak shaving methods. Independent storage providers can interact with virtually all of these markets.McFarland believes that independent storage providers should be lightly regulated, to overcome three natural advantages of local distribution utilities: (1) ownership of depreciated storage facilities, an advantage over market entrants that must build new facilities; (2) economies of scope remaining from the days of bundled gas service; and (3) customer preferences for service from large, multi-service utilities. We agree in small measure, but utility advantages do not convince us to order special rules to allow independent providers to enter the storage market. To the extent that inventory capacity is depreciable, McFarland's inventory was depreciated when it was purchased from SoCalGas and PG&E. Economies of scope can be subsumed by stranded assets as storage is unbundled. Large gas customers, to whom storage is likely to be most appealing, may be swayed more by economic advantage than preference for utility service.PG&E argues that McFarland is not yet offering storage service, and the storage market is not yet workably [*22] competitive. We agree, but lack of workable competition does not convince us to adopt policies that work best in monopoly situations. Although no independent provider now offers storage service, utility storage must compete with other alternatives for gas service. Most importantly, new pipelines compete with storage for reliability of service. Pipelines do not directly compete with price function storage, but increased pipeline capacity may reduce the historical winter price peak for spot gas. The threat of uneconomic bypass is a crucial issue in a partially competitive storage market, but we will not wait until workable competition arrives to order market-based storage regulation.McFarland argues that there are three barriers to competition in the storage market, and the Commission should now remove those barriers: (1) utility storage service is bundled with other services that independent storage providers cannot offer, (2) there are no utility interconnection rules for customers that might take storage service from independent providers, and (3) there are no rules requiring nondiscriminatory rates and nondiscriminatory access to utility services necessary for provision of [*23] independent storage. McFarland does not request special consideration for independent storage providers, but seeks the opportunity to compete fairly with regulated utilities.We accept McFarland's description

of the barriers to storage competition, and we will move forward to remove them. By this decision we unbundle storage service by regulated utilities. We will order appropriate interconnection rules or clarify the applicability of existing rules, and adopt nondiscrimination rules and policies as appropriate.

5.4 Unbundling of StorageUnbundling of storage from other utility functions does not require a physical partitioning of utility assets, but is essentially a financial partitioning of utility facilities dedicated to storage services. This partitioning is followed by cost allocation, as costs now embedded in utility rates are assigned to unbundled storage services.SoCalGas and PG&E have presented two markedly different proposals for unbundling of storage services. SoCalGas unbundles storage into the elemental functions of injection, inventory, and withdrawal. Inspection of the physical units of each function helps understand how customers can purchase one function [*24] independent of the others. Inventory has the units of volume, for example bcf. Inventory is the usable volume of underground storage capacity. Injection and withdrawal have units of flow rate, or volume per unit of time. They represent compressor capability or pressurized flow rate as gas moves into or out of a storage field. PG&E offers storage services that are partly unbundled. The services are essentially pre-defined packages of injection, inventory, and withdrawal functions. PG&E describes its unbundled services as Abnormal Peak Day core demand protection, system load balancing, and "storage cycling." Although Watson agrees with packaging of unbundled services, several parties — notably DRA, McFarland, and CIG — object to PG&E's proposal.We endorse SoCalGas' concept of storage unbundling. By breaking storage into its basic functions, SoCalGas allows customers to rebundle the functions into service packages to suit each circumstance. SoCalGas also offers a standard package of rebundled service, but in limited quantities to ensure that adequate unbundled service is available.We will order PG&E to unbundle storage service and costs as SoCalGas has done, and to submit [*25] a revised storage proposal which unbundles injection, inventory, and withdrawal. This should not impair PG&E's ability to offer unbundled service by April 1, 1994, the effective date it proposes.Load balancing is a relatively passive utility function which allows all customers some flexibility in the matching of gas supply quantities with gas consumption at customer premises. Because different parties are responsible for deliveries and consumption, load balancing capability is necessary. The utilities distinguish daily load balancing from monthly balancing. Daily balancing allows for hour-to-hour mismatches of demand and supply. Monthly balancing allows suppliers to deliver noncore gas to utility pipelines at rates that may not match plant production schedules. In general, utilities do not charge for monthly balancing within certain tolerances. They do charge for imbalances that exceed the tolerances.McFarland argues that the utilities should unbundle load balancing services, because electronic metering of customer deliveries would allow real time balancing services. The utilities and several customer interests oppose McFarland's proposal to unbundle load balancing. We [*26] will not unbundle load balancing. Electronic metering is not installed for all customers, there is no such metering at the supplier end of the transmission system, and there are time lags between deliveries and consumption of gas. Load balancing should remain a bundled service, with appropriate allocation of costs to core and noncore customers. (The load balancing arguments remind us that utilities do not simply deliver noncore customer gas. Physically, utilities operate an exchange service for a fungible commodity.)PG&E points out that with increasing demand for transportation service, customers may stray from compliance with load balancing tolerances. Utilities should carefully monitor compliance with load balancing rules. Revisions to load balancing charges or reallocation of balancing costs to the noncore may be required in the future.The parties dispute the appropriate rate design policy for unbundled storage services. Watson prefers a second price auction for all storage services, but most other parties prefer firm service rates based on long-run marginal cost (LRMC). We will adopt LRMC-based rates for firm services and a first price auction for as-available services. [*27] Firm service rates should equal LRMC, scaled to match the embedded revenue requirement. The scaling will be on a "total" basis, not a subfunctional basis, as we recently decided in D.92-12-058. n11

n11 At mimeo. pp. 48-52, and Finding of Fact 58.

5.5 Obligation to ServeUtilities are obliged to manage storage on behalf of core customers and are obliged to serve core customers by building and using storage facilities as necessary to provide reliable core service. The obligation to pursue core storage price benefits has two parts. First, utilities must optimize storage reservations for core price function. This is firm service for the core, equal in priority with firm noncore storage. Second, utilities must pursue cost-effective as-available storage for the core price function, in competition with noncore customers. Utilities are obliged to offer as-available storage to noncore customers, to minimize assignment of stranded costs to all customers.Utilities are obliged to offer firm service derived from existing facilities to the noncore, after core reservations are made for both reliability and price functions. Core needs may eventually grow, and currently unsubscribed [*28] storage capacity may vanish. Utilities should then pursue core use of existing facilities that are no longer needed for noncore firm service, in preference

to expansion or new construction.Utilities are not obliged to expand or construct facilities to serve noncore customers unless customers will guarantee recovery of utility costs. Absent those guarantees, utilities may expand facilities at their own risk. If they decline the risks of market-based rates, they need not offer noncore service beyond use of existing facilities. This policy differs slightly from present policy for gas transportation service. The distinction is reasonable because storage service is smaller in scope than transportation service. Because utilities are not obliged to serve the noncore without revenue protections, we need not wait for workable competition to arrive in the storage market before setting market-based rates.PG&E opposes the obligation to expand or construct storage facilities. PG&E argues that such expansions may burden the utility system or disadvantage core customers, and they would not be dedicated to public service. We disagree. We find that noncore storage service is necessary. [*29] Availability of transportation service can partly offset the reliability function of storage, but it cannot substitute for price function benefits or offset the risk of interstate supply curtailments.The obligation to expand or construct facilities is consistent with PU Code § 762 and with the transportation service policies announced or confirmed in D.90-02-016. n12 We recognize that the obligation to serve is not absolute, but must consider associated burdens on the utility and ratepayers. n13 We have made such considerations in resolving this issue and have balanced customer need for service, utility duties, and revenue protections.

n12 35 Cal. PUC 2d 196, 203 (1990).n13 For example, see D.82-09-110, 9 Cal. PUC 2d 713 (1982).

5.6 Storage BypassWe are currently investigating gas service bypass in R.92-12-016 and I.92-12-017. Pending further orders in that consolidated proceeding, we will adopt an interim policy on storage bypass that is based on prior policies for electric bypass.SoCalGas argues for authority to offer discounts for noncore customers to prevent uneconomic bypass, but SoCalGas seeks 100% balancing account protection against lost revenues due [*30] to the discounting. DRA argues that any bypass threat must be proven before utilities can offer rates at less than LRMC, scaled to meet revenue requirement. SCUPP/IID accepts discounting of rates, and recommends an expedited application docket for bypass contracts. SCUPP/IID also recommends floor prices, after discounting, of: (1) LRMC for long-term contracts that require facilities expansions, and (2) short-run marginal cost (SRMC) for short-term service that uses existing facilities. DRA and SCUPP/IID believe that shareholders should bear a portion of discounting costs, to give utility management an incentive to minimize the discounts offered.We agree that bypass threats must be proven, and we adopt a short-term price floor substantially above SRMC for service using existing facilities. The requirement for substantial contribution to margin — defined as utility revenue exceeding SRMC — is necessary to offset the uncertainty of any bypass threat and to overcome the general cost to all ratepayers of discriminatory rate treatment for individual customers. Offering service on a breakeven basis, without a substantial contribution to margin, would be unduly discriminatory to [*31] other customers. Findings of substantial contribution will be made upon review of individual contracts. Discounted contracts should not extend into any period when facilities expansions are required. We do not adopt a floor price for long-term contracts served by expansion of facilities, consistent with our adopted incremental pricing policy. As will be discussed, all risk of undercollections for facilities expansions to serve the noncore will be assigned to shareholders, making floor price protection for other ratepayers unnecessary.

5.7 Core Storage ReservationUtilities should reserve storage quantities — of injection, inventory, and withdrawal — for core customers that provide, on a forecast basis, certainty of gas supply to meet winter peak requirements at the lowest possible overall cost. This is consistent with the core service policies announced in D.89-04-080. Core reservations should include reliability and price function quantities.To enhance price function flexibility, utilities should make an initial capacity reservation for the core, then make annual adjustments as necessary to take additional core reservations from unsubscribed capacity.SoCalGas recommends [*32] core reservation of 70 bcf of inventory for the first year of its permanent storage program. DRA accepts this figure. McFarland recommends 84 bcf, and TURN recommends 62 bcf. For SoCalGas, the evidence shows that anticipated overall core cost is not strongly dependent on the inventory reserved. Total core gas service costs would be $699,600,000 at 71.5 bcf of inventory, or $709,700,000 at only 48.2 bcf of inventory. n14 We accept SoCalGas' recommendation of 70 bcf of inventory.

n14 SoCalGas witness Steven W. Miller, Exhibit 113, p. 1.

Because core injection requirements follow directly from inventory reservations, we also accept SoCalGas' core reservation of 327 million cubic feet per day (MMcf/d) for injection.The parties dispute the appropriate level for core reservation of withdrawal capacity. SoCalGas recommends reservation of 3507 MMcf/d. DRA recommends no more than 3207 MMcf/d, or 300 MMcf/d less than SoCalGas, endorsing in part the position of TURN. TURN recommends further allocation of 341 MMcf/d to noncore balancing service. DRA has three concerns about SoCalGas' method for determining withdrawal requirements: (1) although SoCalGas' winter peak day temperature [*33] of 36 degrees

Fahrenheit is acceptable on an interim basis, it is 2 degrees too low, resulting in excess core reliability, (2) SoCalGas' peak day temperature estimation technique is inadequate because it fails to use appropriate statistical methods to predict extreme events, and (3) SoCalGas' estimate of flowing supplies available on the peak day is too conservative. TURN's arguments concern withdrawal capacity to serve noncore customers that fail to curtail on a peak day, and other issues. We are persuaded by DRA's arguments and technical explanations of these issues. SoCalGas should reserve only 3207 MMcf/d for core withdrawal. Both SoCalGas and PG&E should revise their estimation techniques to better incorporate DRA's statistical suggestions and to better reflect the realities of flowing supply availability. SoCalGas should market all quantities exceeding the core and load balancing reservations adopted in this decision.TURN raises a cost allocation issue related to gas service curtailments. SoCalGas assumes that noncore customers will fail to curtail 41 MMcf/d of load on a peak day. Therefore, if SoCalGas uses a peak day cost allocation scheme, it should allocate 41 MMcf/d [*34] of storage withdrawal capacity to noncore customers. We agree with TURN in general, but we include the disputed 41 MMcf/d in the reduction of withdrawal capacity from SoCalGas' requested 3507 MMcf/d to the adopted 3207 MMcf/d.PG&E recommends reservation of 36 bcf of cycling capacity, of which 25.5 bcf is for core and core subscription customers. DRA opposes this estimate, claiming that it does not include cold winter price function reservations. We will require PG&E to revise its core reservations when it unbundles storage into injection, inventory, and withdrawal functions. The revised estimates should include both reliability and price function service for the core.We cannot comfortably resolve the apparent conflict between PG&E's cycling capacity reservations in this proceeding and its assertions about storage availability in R.88-08-018. n15 PG&E should explain this apparent conflict when it resubmits its storage program.

n15 See Section 5.1 herein.

5.8 Load Balancing ReservationBecause load balancing will remain a bundled service, utilities must reserve storage inventory and injection capacity to accommodate imbalances.SoCalGas recommends a load balancing [*35] inventory reservation of 4.5 bcf, determined as 10% of the average annual transportation throughput by noncore customers. The 10% is equal to the monthly limitation on free balancing service, beyond which customers pay balancing charges. In its testimony, McFarland recommends reservation of 2.6 bcf, equal to the inventory capacity of SoCalGas' Playa del Rey storage field, but in its comments to the proposed decision in this matter McFarland recommends a workshop and further cost studies. CIG introduced evidence on recent recorded imbalances and supports the reservation of 2.6 bcf.The evidence on this issue is scanty, but it is adequate to adopt an inventory reservation for SoCalGas. Utility charges for load imbalances began in August 1991. The evidence includes recorded imbalances since April 1991, but noncore customers clearly responded to imposition of imbalance charges by reducing their monthly imbalances. Thus previous data are obsolete. From August 1991 through August 1992 the average monthly overdelivery by transportation customers was 2.24 million decatherms (Dth). The highest net monthly imbalance — equal to overdelivery less underdelivery — during the same time [*36] period was 2.27 million Dth. The average monthly net imbalance for the same 13 months was less than zero.We adopt 2.6 bcf inventory reservation for SoCalGas, based on the highest recorded net monthly imbalance. The adopted amount is equal to 2.27 million Dth, converted from heat content to volume using a typical heating value of 1050 Btu/cf, and adjusted to a cold year requirement by the ratio of cold year noncore throughput to average year noncore throughput. n16 Absent better information, the highest net monthly imbalance during the 13-month period is a reasonable measure of load balancing needs. Core load balancing inventory, managed by SoCalGas, is apparently negligible because SoCalGas has not included core needs in its own analysis. Although the adopted reservation of 2.6 bcf equals McFarland's recommended value, the equality is coincidental. We do not adopt McFarland's reasoning because the Playa del Rey field is used for daily load balancing, not monthly balancing. Nor do we adopt SoCalGas' reasoning, because it assumes that all noncore customers will overdeliver by 10% each month.

n16 2.27 x (1000/1050) x (5.37/4.5) = 2.6 bcf. Cold year and average year throughputs are taken from Exhibit 166, pp. 3-4.

[*37] SoCalGas should reserve 2.6 bcf for load balancing during the year beginning April 1, 1993. SoCalGas and other parties may present further analyses of future load balancing needs in cost allocation or other appropriate proceedings. PG&E should also base its load balancing reservations on recorded data if possible.SoCalGas recommends reservation of 300 MMcf/d of injection capacity for load balancing requirements, estimated from net daily injection rates during the 1990 and 1991 summer storage seasons. McFarland recommends a range of 125 MMcf/d to 170 MMcf/d, based on injection capacity at the Playa del Rey field. SoCalGas' analysis is more persuasive. We accept SoCalGas' estimate.Load balancing costs should be allocated on the basis of equal-cents-per-therm of throughput. This allocation may be revised following further analysis in other proceedings, effective no earlier than April 1, 1994. If further analysis confirms that core load balancing needs are small, then a better cost allocation method will be ordered.

5.9 Other Policy IssuesThree other policy matters require discussion at this point. Cogeneration parity and cogeneration preference also flow from policy [*38] decisions, but they will be discussed in the section on ratemaking.

5.9.1 Secondary MarketEdison requests that the Commission establish a secondary market for storage services. SCUPP/IID recommends that the Commission permit a secondary market to operate. DRA opposes creation of a secondary market now, but recommends filing of proposals as soon as possible.In general we endorse the concept of a secondary storage market, but it is not the Commission's responsibility to establish such a market. Instead, we will order SoCalGas, SDG&E, and PG&E to permit free trading of firm and as-available storage rights, with appropriate caution that customers not sidestep eligibility requirements by trading or by changing customer status. Discounted contracts shall not be traded, because discounts must be justified by customer-specific bypass threats. Customers that execute storage trades should notify the affected utilities promptly, and information about the trades should be available to the public, consistent with Federal rules for trading of interstate pipeline capacity rights.SoCalGas should incorporate storage trading in its advice filing following this decision.

5.9.2 [*39] Wholesale CustomersPalo Alto argues that wholesale core customers should have access to utility storage that is equivalent to access by utility core customers, and wholesale customers should have access to utility information needed to plan and execute their storage operations. Palo Alto recommends that the Commission accept PG&E's proposed storage program, as long as PG&E calculates wholesale core entitlements in the same way it calculates entitlements for its own core customers.We agree that wholesale core customers should not be disadvantaged when utilities compute core reservations. We leave to PG&E and Palo Alto their mutual information needs.SoCalGas' reservation of storage capacity for SDG&E is complicated by present contract arrangements between the two utilities. The issue is discussed elsewhere in this decision.

5.9.3 Assembly Bill 2744Late in 1992 the Legislature passed and the Governor approved Assembly Bill (AB) 2744, now Chapter 1337 of the California Statutes of 1992. AB 2744 does not require action by the Commission, but it does make legislative findings about gas storage and urges certain actions by the Commission.In summary, AB 2744 finds that: [*40] (a) storage has gas service benefits; (b) there are barriers to investment in new storage facilities, primarily the inability of independent storage providers to compete in an open storage market; and (c) unbundling of utility storage service will greatly increase the benefits of storage. The Legislature then urges that the Commission: (1) expeditiously unbundle utility storage service, (2) encourage the development of independent storage by establishing interconnection rules and reasonable cost allocations, (3) adopt market-based storage rates, (4) give expedited consideration of applications for certificates of public convenience and necessity (CPCNs) filed by independent storage providers, and (5) ensure that storage costs borne by core customers are commensurate with benefits.This decision directly responds to all of the Legislature's urgings except the item on expedited handling of CPCN applications. We intend to give CPCN applications a high administrative priority, but we cannot overlook due process and other statutory requirements in doing so.

6. Cost AllocationParties representing large gas customers, for example CIG and SCUPP/IID, argue that the Commission [*41] should immediately remove from gas transportation rates all costs for unbundled storage services. The utilities generally agree. TURN would defer this action to the upcoming implementation phase of I.86-06-005, the gas marginal cost investigation. We will take the cost allocation step, effective April 1, 1993 for SoCalGas. The effective date for PG&E will be April 1, 1994 or sooner, depending on the content of PG&E's unbundling resubmittal.The next issue is how to allocate the costs. In D.92-10-051 we retained cold year peak season throughput as the measure for allocating PG&E's storage costs. In this proceeding SoCalGas uses a different measure, but DRA agrees to its interim use until the implementation phase of I.86-06-005 is completed. SoCalGas accepts the deferral, but requests that storage rates remain fixed for two years irrespective of the outcome of the marginal cost investigation.SoCalGas and PG&E should continue work on their storage programs based on the requested cost allocation measures. SoCalGas should continue to use the plant expansions presented in this proceeding, which differ slightly from the costs used recently in I.86-06-005. When the I.86-06-005 [*42] implementation phase is completed, storage cost allocations and storage rates should be revised promptly. Once a cost allocation method is adopted in I.86-06-005, storage allocations should be revised in BCAPs or their successors. We deny SoCalGas' request for a two-year rate change moratorium. Any costs stranded by signing long-term, fixed rate contracts must be borne by shareholders.SoCalGas requests that $27,006,000 be allocated out of transportation rates and into core revenue requirement or noncore storage rates. n17 We accept SoCalGas' construction of this figure, but it should be revised to reflect 3207 MMcf/d of withdrawal capacity for the core. Adoption of a

corresponding figure for PG&E must await PG&E's resubmission of unbundled costs.

n17 Exhibit 137, Revised Table 8.

7. Resource PlanningDRA and TURN believe the Commission should approve any major expansions or new construction of storage facilities, after review of the need for new facilities. DRA proposes regular resource planning reviews by the Commission, of reduced scope compared to electric resource planning studies. TURN argues that even if the risk of overcapacity is assigned to shareholders, [*43] California's infrastructure should not be saddled with unused storage facilities.SCUPP/IID and McFarland oppose resource planning proceedings. SCUPP/IID would entrust expansion decisions to market participants, consistent with a "let the market decide" policy. McFarland opposes any test of need. Edison argues that the risk of overbuilding is small.We conclude that the Commission should not be in the business of testing storage projects for need, as long as all of the risk of unused new capacity resides with the builders and users of the new facilities. This includes the risk that actual costs of expansions may exceed cost estimates used to develop LRMCs, upon which customer prices will be based. We implement this policy as follows: For new facilities dedicated to noncore customers we rely on the judgment of the market; we will not test utility construction plans for need except to affirm that the utility and customers agree to expanded storage service. For new facilities dedicated to core customers we will rigorously test for need, basing our decisions on the factors announced in D.90-02-016: (1) reasonable projections of core need, and (2) resource plans that include [*44] cost-benefit analysis, renewed emphasis on conservation, and the uncertainty inherent in demand forecasts. This policy is entirely consistent with Public Utilities (PU) Code §§ 451 and 1001 and with the urgings of AB 2744.We stress that we are not abandoning regulation of gas storage. CPCNs are still necessary, to the extent required by law. We will continue regulation of safety, reliability, and rate discrimination in the gas storage industry.Although we are tempted to order the resource planning proceeding proposed by DRA, we defer that decision for now. We are concerned that SoCalGas and PG&E may not properly evaluate the interaction of pipeline capacity, storage, and other service options as they make resource decisions, but we are not yet prepared to assign Commission resources to a gas resource planning proceeding.

7.1 Interconnection FacilitiesMcFarland proposes three rules for interconnection of utility pipelines with independent storage facilities: (1) the utility should be obliged to interconnect, absent a showing that the interconnection will impair service to existing customers, (2) the utility should install necessary facilities, unless the parties agree [*45] otherwise, and (3) the utility should bear the costs of standard interconnections for customers having similar loads.SoCalGas agrees to build interconnections, provided that independent storage providers pay all costs. PG&E generally agrees to build, and argues that costs of interconnections and transmission system upgrades should be assigned according to PG&E's Rule 2. Edison agrees to customer payment of minimum costs and suggests five interconnection rules. n18 DRA opposes mandatory interconnection, fearing that such a policy would strand costs of existing storage facilities. DRA believes that interconnection rules are premature, given the state of the record in this proceeding.

n18 Edison opening brief, pp. 21-23.

We will order the rules suggested by McFarland, with modifications. Utilities should interconnect with independent storage providers as if the latter were consumers of gas. Thus standard interconnection costs will be recovered on a rolled-in basis. Special facilities costs will be charged to the storage provider. We recognize that independent providers have more impact on utility systems because they require an extra transportation "trip" when gas is withdrawn [*46] from independent storage and delivered to the customer. However, we do not find that the second exchange causes increased interconnection costs. The second exchange may increase operational costs on the transmission and distribution system, but that is a transportation rate problem only minimally related to interconnection facilities.PG&E's Rule 2 is a reasonable model for determination of what are standard facilities costs and what are special facilities costs.

7.2 Transmission and Distribution UpgradesTransmission and distribution system upgrades may be necessary to deliver customer-owned gas to independent storage providers. PG&E's position on this issue is recited above. DRA believes the issue of cost allocation of transmission and distribution upgrades should be deferred. TURN argues that the costs of such upgrades should be assigned to the storage provider, whether it is the utility or an independent provider. McFarland believes we should not decide this issue based on the present record, for two reasons. First, we should take a closer look at utility incentives to discourage independent storage. Second, cost assignment of upgrades must consider the choice [*47] between incremental and rolled-in transportation rates, an issue that has been excluded from this proceeding.We agree with DRA. The choice of incremental or rolled-in pricing for transmission and distribution upgrades is not ripe for decision. We anticipate hearing further argument on the issue in any CPCN proceeding that McFarland or another

provider might initiate, or in other proceedings that the parties find convenient.

8. Independent StorageThe scale and location of its storage facilities make McFarland an obvious candidate to compete with utility storage. McFarland has announced its intention to enter the storage business, but in this proceeding it has carefully skirted the issue of dedication of its facilities to public use. McFarland requests rules that allow competition, but it may not enter the competition if our actions in this decision are not to its liking.With only these facts before us, we might decline to adopt rules for independent storage in advance of a commitment from such a provider. However, the facts are reinforced by the legislative urgings of AB 2744. Therefore, we will set rules in advance of the arrival of independent providers. The [*48] rules will allow free entry into the storage market, with the attendant risk of uneconomic bypass and stranding of existing utility facilities. Given that prospect, independent providers should be aware of our obligations to utility ratepayers. Independent providers may become price followers of today's multi-service utilities, and our future gas bypass policies and ratemaking practices may sharpen this competition. This may be necessary if customers are to achieve the efficiencies of market-based pricing.Absent actual entry into the storage market, we need not address whether independent providers are public utilities. Commission jurisdiction, dedication of facilities, and related issues are matters of law, not policy. McFarland and other candidates should be well aware of their obligations if they become public utilities, and of the case law supporting Commission decisions declaring corporations to be public utilities.On the other hand, ratemaking is driven more by policy than law. If independent providers become public utilities, we intend that storage rates for multi-service utilities and independent providers will be market-based, and that competition among them will [*49] be fair. Firm storage rates for SoCalGas and PG&E will initially be based on LRMCs, which act as proxies for fully competitive prices. If workable competition ever arrives in the storage market, we may adopt forms of ratemaking with increased rate flexibility, to the extent such policies are consistent with law. Utilities and potential independent providers should understand the risks.

9. Long-Term ContractsWe will grant utilities the authority to offer long-term storage contracts. Four contract issues have arisen.

9.1 DurationThe parties dispute SoCalGas' offering of long-term contracts with 15 year durations. SoCalGas believes 15 years is necessary to assure recovery of costs. Except for SoCalGas' Basic Storage Service and Extended Balancing Service, DRA supports SoCalGas' proposal for long-term contracts with 15-year durations. Edison and Watson suggest durations of less than 15 years. SCUPP/IID argues that contract duration can be less than 15 years, with revenue guarantees if expansions are needed to serve the customer.SCUPP/IID's proposal points out an important distinction between service from existing facilities and service from new or expanded [*50] facilities. Existing facilities were built for all customers, but new facilities will be dedicated to specific customers or customer groups. The risk of unused existing capacity should be assigned to the customers for whom a facility is built.We choose three years as a minimum contract duration. For service using existing facilities, utilities can offer contracts of any duration of three years or more without revenue guarantees, as long as the duration does not extend into a period when expansion is needed. This need can be determined by the utility on a forecast basis, to allow certainty of contract duration. For service requiring new facilities, utilities can offer contracts of any duration of three to 15 years, if customers will guarantee full recovery of expansion costs or if the utility accepts the risk of underrecovery.

9.2 PricingSoCalGas seeks to offer long-term contracts with price certainty, even faced with revised LRMCs. SCUPP/IID prefers contract price adjustments when the Commission revises LRMCs following the implementation phase of I.86-06-005. We will allow fixed price contracts, but the risks of over-or undercollections are assigned to shareholders. [*51] In cost allocation proceedings, we intend that costs and revenues from fixed price contracts will be based on LRMCs, plus risk premiums. If LRMCs, scaled to meet revenue requirement, are revised such that they differ from contract fixed prices, over-or undercollections will not be assigned to utility ratepayers.We encourage indexing of contract prices to available, understandable cost escalation measures.Long-term contract prices should be based on LRMCs, scaled to meet revenue requirement. Utilities can offer discounts to avoid uneconomic bypass of existing facilities, but the costs of discounting of contracts requiring facilities expansions should not be recovered from other ratepayers.

9.3 Revenue ShortfallsSoCalGas seeks 100% balancing account protection for its entire storage revenue requirement, for several reasons: to allow discounting needed to avoid uneconomic bypass, to offset the risk of uncertain demand for unbundled storage service, and to recover revenue requirement that might be lost when LRMCs are revised in I.86-06-005. Other parties oppose 100% revenue protection, principally to ensure that utilities have an incentive to bargain

effectively when [*52] offering long-term contract discounts. DRA suggests 90% protection now, then 75% protection in the future, to match the current ratemaking treatment of transportation costs.We will allow partial balancing account protection of noncore firm service contracts for existing facilities, and no protection of contracts for facilities expansions. The protection for existing facilities contracts will be 75%, the same as for transportation revenues. The utilities may create a new balancing account similar to SoCalGas' Noncore Fixed Cost Account (NFCA), or amend noncore fixed cost tariffs to include contract costs and revenues. In either circumstance, shortfalls will be recovered from all noncore customers. There is no need for the transition period that DRA suggests.

9.4 ApprovalAll storage contracts must be filed with the Commission by advice letter, but contracts that have durations within the announced guidelines and that are priced at LRMC scaled to meet system revenue requirement — without discounts, load balancing premiums, or other special features — will not be subject to further Commission approval. Contracts meeting the guidelines will become effective seven days [*53] after filing. This short delay is necessary to allow time for staff review of conformance with the duration and price guidelines.In order to protect ratepayers against support of unnecessary price discounts, contracts that contain bypass discounts require Commission approval by resolution. The advice filings must contain information sufficient to demonstrate that the interim bypass guidelines — regarding credibility of the bypass threat, duration, floor price, and contribution to margin — are met. Conventional protest rules under General Oder 96-A will apply to these advice filings. Contracts with off-system customers should be treated similarly, to allow review of the reasonableness of load balancing price premiums.We are also concerned about disputes between utilities and customers over the reasonableness of risk premiums, but we will not order special procedures for handling the disputes. There is a potential for undue discrimination or unfair utility practices in authorization of price premiums, especially as they might be required for small storage customers. We expect utility risk premiums to be fair and reasonable.Utilities should file standard storage contract [*54] forms with the Commission Advisory and Compliance Division, for inclusion in utility tariffs. Advice filings for storage contracts, or the contracts themselves, should include: (1) verification that the customer is informed of the on-system customer preference rules if they are still in effect, and (2) identification of the instant service or services as being derived from existing or new or expanded facilities.

10. RatemakingThere are many ratemaking issues inherent in establishing a permanent gas storage program.

10.1 Revenue ProtectionsWe need not recite the positions of the parties on revenue protections. In general, each party argues that the risk of underrecovery should be borne by someone else. To complete the adopted revenue protections, we return to the list of services that gas storage will provide:Daily and monthly load balancing remain bundled, and no added ratemaking protection is needed. If utilities are able to manage core monthly imbalances better than noncore customers manage their own monthly imbalances, as suggested by SoCalGas' load balancing inventory testimony, n19 then cost allocations should reflect that fact.

n19 Rebuttal testimony of Larry Flexer, Exhibit 166, p. 3-4.

[*55] Core reliability and core price function services also remain bundled, and no added ratemaking protection is needed. The utilities are currently guaranteed 100% recovery of all forecasted core service costs, including bundled core storage costs.The costs of unsubscribed existing storage capacity are in part transition costs, or costs incurred during the previous regulatory regime which might not be recovered under unbundled service. 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. However, present utility accounting may not effectively distinguish among true transition costs caused by creation of a new regulatory regime, stranded costs induced by uneconomic bypass, and discounting costs to prevent uneconomic bypass. We will allow both types of bypass costs to be recovered from all ratepayers on an temporary basis, but we may revise the policy on discounting costs in R.92-12-016 and I.92-12-017. In the interim we expect utilities to make good faith efforts to avoid uneconomic bypass, despite a perverse incentive not to grant discounts [*56] that would benefit ratepayers. If utilities offer contract discounts, customers will be retained and they will contribute to margin, but shareholder earnings are reduced by 25% of the discounts granted. On the other hand, if utilities decline to offer discounts, shareholders retain short-term earnings at the expense of customer retention and contribution to margin. We encourage the utilities to offer discounts necessary to avert uneconomic bypass until bypass issues are more thoroughly studied.As previously discussed, utilities are guaranteed recovery of 75% of forecast noncore firm service costs for existing facilities. The remaining 25% gives utilities an incentive to offer contract discounts only as necessary to avoid uneconomic bypass. No protection is granted for noncore firm service costs for facilities expansions.These protections are consistent with a "let the market decide" policy and with incremental pricing of storage capacity additions.

They vary slightly from present protections for gas transportation service, in that shareholders bear all of the risk of unused storage expansions.The utilities should develop practical, fair methods for assignment of storage [*57] customers to existing or new facilities, to ensure that the various revenue protections — for unsubscribed capacity, bypass shortfalls, bypass discounts, customer reliability, and load balancing requirements — can be correctly implemented.

10.2 Cogenerator ProtectionsCCC opposes the unbundled storage programs proposed by SoCalGas and PG&E because they do not provide parity between cogenerator and UEG gas rates, and they do not provide service priority for cogenerators. CCC argues that rate parity and service priority are required by PU Code §§ 454.4 and 454.7, respectively. Regarding rate parity, CCC requests that the utilities provide cogenerators with: (1) five days notice of UEG elections for storage service offered in open seasons; (2) either advance disclosure of UEG bid terms including price, or advance notice excluding price but with rate equalization provisions similar to capacity brokering provisions for storage services offered at auction; and (3) storage packages similar to those offered to UEGs. Regarding service priority, CCC requests: (1) curtailment of firm storage service only after curtailment of UEGs, and (2) curtailment of as-available storage service [*58] only after curtailment of UEG service when cogenerators pay the same or more for service than UEGs. Many of these requests are consistent with Commission rules for other gas services. n20

n20 See D.86-12-009, D.89-12-045, D.90-09-089, D.90-12-100, D.91-11-025, and D.92-07-025.

PU Code §§ 454.4 and 454.7 order cogenerator parity for "rates for gas" and cogenerator service priority for "purchase of natural gas." The laws were written at a time when gas service was bundled, but CCC argues that they apply to each portion of unbundled service.In this circumstance we need not address CCC's legal argument. We have previously ordered rate parity and service priority for capacity brokering, and we now continue those cogenerator protections for storage. We will adopt the rules proposed by CCC, with minor revisions. This is a policy choice, not a legal consequence.

10.3 Storage Reservation for PG&E's Electric DepartmentOf its 36 bcf reserved for cycling capacity, PG&E proposes to reserve 2.3 bcf for UEG service to its Electric Department. DRA does not object to this reservation.We reject this preference by PG&E, consistent with our policies and findings on capacity brokering. [*59] In D.91-11-025 we found that UEG preference could disadvantage PG&E's gas customers, n21 and concluded that denial of UEG reservation is not a taking of PG&E's property. n22 The record did not support a finding that UEG service provides more public benefit than service to cogenerators. We therefore retained a policy to allow cogenerators to compete on an equal basis with UEG customers.

n21 D.91-11-025, Finding of Fact 30, at mimeo. p. 70.n22 D.91-11-025, Conclusion of Law 14, at mimeo. p. 73.

Nor does the record in this proceeding support findings which justify UEG preference. PG&E should pursue firm storage for its Electric Department in competition with other noncore customers, and may pursue as-available storage in competition with all customers. If PG&E purchases as-available storage for both its core customers and its Electric Department, it should bid for the two customers separately.

10.4 Transportation BillingConventional billing practice for transportation service is for utilities to bill customers when gas is delivered to the burner tip. However, storage of customer-owned gas requires two separate transportation trips, or exchanges of gas: one delivery [*60] from the supplier to storage, and a second delivery from storage to the burner tip. Confronted with this distinction, utilities at first billed customers for half of the transportation charge upon each delivery. Utilities now bill only with the second delivery.TURN recommends a return to split billing. PG&E suggests billing with any first delivery to independent providers, then rebilling with the second delivery and crediting the first customer for the first charge. In this way the utility is assured of revenue if the gas leaves storage through a pipeline owned by a customer or another utility.Independent storage could increase uncertainty over customer identity and could allow for deliveries to and from storage by different parties. Therefore, we adopt PG&E's billing proposal. In order to treat all customers equally, the proposal should be extended to deliveries to both utility and independent storage. Independent providers should notify delivering utilities of transfers of gas ownership, to assure the effectiveness of the revenue crediting process.

10.5 Storage and CurtailmentsAlthough we authorize firm storage service for noncore customers, it is possible that [*61] noncore withdrawals will be curtailed to meet core reliability requirements on a peak day. SCUPP/IID argues that noncore customers should receive a service interruption credit in those circumstances, to guarantee the reliability standard built into noncore service. DRA opposes any compensation for service interruptions. We agree with DRA on this issue. Interruptions are unlikely, and credits are unnecessary considering the scale of storage operations. Noncore customers must accept the risk that in rare instances core needs will require curtailments.

10.6 Off-System CustomersSoCalGas requests the opportunity to offer storage service to off-system customers, but notes that contracts for such service cannot become effective until Federal Energy Regulatory Commission (FERC) Order No. 636 on capacity brokering becomes effective. Off-system customers are utilities, marketers, brokers, and other entities that might bid for storage of gas to be consumed outside SoCalGas' service territory. Most off-system storage consumption will likely be east of California.SCUPP/IID believes that on-system customers should have a preference over off-system customers for use of storage [*62] derived from existing facilities. SoCalGas offers no such priority or preference. We agree with SCUPP/IID. Existing facilities may generate stranded costs, which are eventually borne by on-system customers. The preference should not be extended to new or expanded facilities. Nor should it be limited in duration. If the preference were extended indefinitely, off-system sales might be weakened by the uncertainty of on-system preferences. SoCalGas should limit the preference to the latest of: (1) 30 days from the effective date of this decision, (2) April 1, 1993, or (3) the effective date of FERC Order No. 636.SoCalGas should propose simple rules for such preference in the advice filing that implements this decision, and should promptly notify eligible on-system customers of the preference limitations.Edison points out that off-system customers might impose load balancing burdens on SoCalGas without payment of associated costs. Storage prices for off-system customers should include a reasonable premium to compensate SoCalGas for added load balancing requirements.

10.7 Continuation of G-STAQ ServiceThe record in this proceeding is unclear about the future of UEG storage [*63] service under SoCalGas' Schedule No. G-STAQ. In A.92-03-038 SoCalGas requests that Schedule No. G-STAQ be terminated, but in Advice No. 2148 SoCalGas seeks to extend G-STAQ service from October 31, 1992, when the service expired, until a permanent storage program becomes effective. The Commission has not acted on Advice No. 2148. Edison and SCUPP/IID support continuation of G-STAQ service.We will terminate Schedule No. G-STAQ as SoCalGas requests. It is uncertain how SoCalGas intends to handle the April 1, 1993 transition from G-STAQ service to unbundled service, if Advice No. 2148 is approved. What should happen to any UEG gas already injected into storage under Schedule No. G-STAQ as of April 1? SoCalGas should propose a transition procedure in its implementation advice filing.

11. ImplementationAs anticipated in the ALJ's scheduling ruling issued September 4, 1992, we will order SoCalGas to file an implementation advice letter on or before February 11, 1993. Three implementation issues merit our attention now.

11.1 Program RevisionsSoCalGas requests that storage rates and service rules be fixed for two years, except for necessary minor corrections. [*64] SoCalGas seems especially concerned about possible revisions in response to the implementation phase of I.86-06-005, the gas marginal cost investigation. Edison and other parties oppose SoCalGas' request.We intend to limit program changes unless they are necessary, but we deny SoCalGas' proposal. If LRMCs are revised, then storage rates should also be revised as required. As we previously discussed, the risk of underrecovery of costs under fixed price contracts falls to shareholders. If SoCalGas is unwilling to take that risk, then it should not offer fixed price contracts. If storage customers insist on fixed prices, SoCalGas may include a risk premium in the prices. We will not assign the risk to other customers.We will accept petitions for modification of utility storage programs at any time, intending to give due weight to needs for program stability and fairness to all parties. Utilities may seek minor revisions by advice filing, but substantive changes should be requested by petition.

11.2 Coordination With Other ProceedingsAt the outset of this phase of the storage investigation, TURN opined that coordination among the Commission's gas industry proceedings [*65] may be impossible. We hold a slightly more optimistic view.Participants in I.86-06-005 filed LRMC implementation testimony on February 1, 1993, prior to this decision, but they were able to incorporate the ALJ's thoughts from the proposed decision that preceded this order. As we have discussed previously, SoCalGas' showing on incremental storage expansions in this proceeding is more current than its showing in I.86-06-005. Other methodological issues on allocating storage costs should be pursued in I.86-06-005.SoCalGas is scheduled to file a BCAP application in August 1993. Nonetheless, SoCalGas should revise transportation rates in advance of that proceeding, effective April 1, 1993. SoCalGas should revise its core revenue requirement effective April 1, 1993, but it need not revise core base rates on April 1. The core balancing account can undercollect from April 1 until BCAP rates become effective. This will minimize the number of core rate changes, and the dollar amounts are small relative to the core base revenue requirement.In its resubmitted testimony, PG&E should incorporate the results of the implementation phase of I.86-06-005, if possible, and the results of [*66] the storage open season ordered in D.92-11-016. PG&E can defer the resubmission until those matters are completed, but no later than August 16, 1993. If hearings are necessary, they should be held promptly. We will order workshops, chaired by the

assigned ALJ, hoping to avoid further hearings.

11.3 Deferred IssuesDRA proposes another phase of this proceeding, to address issues on resource planning and a secondary storage market. McFarland suggests further investigation of electronic metering and other issues. We are not convinced that another phase is necessary. After SoCalGas achieves some experience with its storage program, and after we order a permanent program for PG&E, parties requesting further investigation should file motions for a prehearing conference. There we can assemble interested parties to discuss prospects for more formal proceedings.

12. SoCalGas' ProgramThe first step in unbundling storage for SoCalGas is to remove unbundled costs from noncore transportation rates. SoCalGas proposes to remove $27,006,000, including $12,636,000 to be allocated to core customers. The remaining $14,370,000 will be assigned to unbundled noncore storage [*67] service. n23 SoCalGas will attempt to recover the $14,370,000 through marketing of its program offerings.

n23 Exhibit 137, Revised Table 8.

We accept SoCalGas' unbundling proposal, except that the cost allocations must be adjusted to reflect a core withdrawal reservation of 3207 MMcf/d and load balancing inventory reservation of 2.6 bcf.SoCalGas' unbundled service proposal is summarized in the table reproduced below: n24SOUTHERN CALIFORNIA GAS COMPANYCUSTOMER STORAGE PROGRAMA.92-03-038SERVICE OPTIONS

	BASIC STORAGE SERVICE	DRIVE GAS
CAPACITY RESERVED EXISTING CAPACITY	150 MMcfd	500 MMcfd with-drawal provided by 15 Bcf Inventory
NEW FACILITIES	None	None
BUNDLED SERVICE OR INJECTION, WITHDRAWAL INVENTORY SOLD SEPARATELY	Bundled: withdrawal award defines inventory and injection award	Firm withdrawal determined by inventory purchase
TARIFFED RATE OR CONTRACT RATE	Tariffed rate, changes as cost allocation changes	Contract rate based on LRMC: independent of Cost Allocation
DURATION OF CUSTOMER COMMITMENT	One year; rollover at customer's option	15 years
PRICING	Prices based on current rates in effect may change annually	LRMC based rates; changes based on predefined index
FIRMNESS OF SERVICE INVENTORY	Firm	Firm
WITHDRAWAL	Firm	Firm
INJECTION	Firm	As Available or firm
ELIGIBILITY		

	BASIC STORAGE SERVICE	DRIVE GAS
ON-SYSTEM CUSTOMERS	Yes	Yes
OFF-SYSTEM CUSTOMERS	No	Yes

[*68]

	EXTENDED BALANCING	LONG-TERM INDIVIDUAL SERVICE CONTRACTS
CAPACITY RESERVED		
EXISTING CAPACITY	24 Bcf	All Remaining
NEW FACILITIES	As needed assuming long-term contract at LRMC rates	As needed assuming long-term contract at LRMC rates
BUNDLED SERVICE OR INJECTION, WITHDRAWAL INVENTORY SOLD SEPARATELY	Inventory must be purchased; sale of other services is optional	Inventory must be purchased; firm injection and withdrawal services are optional
TARIFFED RATE OR CONTRACT RATE	Contract rate based on LRMC: Independent of Cost Allocation	Contract rate based on LRMC: Independent of Cost Allocation
DURATION OF CUSTOMER COMMITMENT	15 years for long term LRMC based contracts or annually for G-STOR Auction	15 years
PRICING	LRMC based rates for contract with changes based on index: annual price changes for inventory acquired through auction	LRMC based rates; changes based on predefined index
FIRMNESS OF SERVICE		
INVENTORY	Firm	Firm
WITHDRAWAL	As Available or firm	As Available or firm
INJECTION	As Available or firm	As Available or firm
ELIGIBILITY		
ON-SYSTEM CUSTOMERS	Yes	Yes

	LONG-TERM INDIVIDUAL SERVICE CONTRACTS	
EXTENDED BALANCING OFF-SYSTEM CUSTOMERS	Yes	Yes

G-STOR TYPE AUCTION	GAS SWAP	
CAPACITY RESERVED		
EXISTING CAPACITY	Inventory not sold through other options	None
NEW FACILITIES	None	None
BUNDLED SERVICE OR INJECTION, WITHDRAWAL INVENTORY SOLD SEPARATELY	Inventory sold through auction	No purchases required
TARIFFED RATE OR CONTRACT RATE	Determined through auction; price bid is price paid	Initially no charge provided service is countercyclic
DURATION OF CUSTOMER COMMITMENT	Annual	Annual
PRICING	Equal to amount bid will change annually as result of auction	Initially no charge provided service is countercyclic
FIRMNESS OF SERVICE		
INVENTORY	Firm	Firm
WITHDRAWAL	As Available	As Available
INJECTION	As Available or firm	As Available
ELIGIBILITY		
ON-SYSTEM CUSTOMERS	Yes	Yes
OFF-SYSTEM CUSTOMERS	Yes	No

[*69]

n24 Exhibit 109.

We will authorize SoCalGas to implement its proposed services, with a few revisions suggested by DRA. SoCalGas should also make program changes necessary to comport with the policies and rules adopted in this decision.

12.1 Basic Storage ServiceBasic Storage Service will provide smaller noncore customers with a package of firm injection,

inventory, and withdrawal rights. The customer will receive withdrawal service equal to average winter daily usage, and injection and inventory service necessary to support the withdrawal. The withdrawal capacity available for Basic Storage Service is 150 MMcf/d, served by a facility that SoCalGas expected to complete in January 1993. Prices for the service are based on marginal costs. The term of service is one year.SoCalGas plans to execute contracts for service requested in 197 bids received during the June 1992 open season authorized in D.92-05-070. However, Basic Storage Service prices apparently will exceed the bid package prices by more than 20%, due to SoCalGas' switching from embedded cost pricing to marginal cost pricing. Because of the price increase, customers are allowed to cancel their previous [*70] commitments. Therefore, demand for service at the higher prices is uncertain.We approve SoCalGas' offering of Basic Storage Service. We characterize the recently completed 150 MMcf/d withdrawal capacity as existing facilities, not an expansion.

12.2 Drive GasSoCalGas can increase its withdrawal capacity by increasing the quantity of gas held in storage. Added gas inventory increases pressure in the storage fields, allowing gas to be withdrawn at a higher rate. Under the Drive Gas option, customers can increase withdrawal capacity to a maximum of 500 MMcf/d by storing up to 15 bcf of gas. SoCalGas proposes a minimum inventory commitment of 15 years, and an initial reservation charge of $0.388/Mcf.DRA agrees with the Drive Gas proposal in general, but opposes reservation of 500 MMcf/d for 15 years. DRA believes Drive Gas service should be limited so it will not preclude core customers from using economical storage inventory to meet their future Abnormal Peak Day (APD) needs. The core's APD requirements will increase during the 15 year period anticipated by SoCalGas. DRA recommends that Drive Gas offerings be limited to quantities that exceed core requirements in [*71] a given year. This approach would require filing and Commission review of a 15 year resource plan.We approve SoCalGas' Drive Gas proposal without DRA's recommended revision, but amended to allow contract durations of three to 15 years. Also, annual withdrawal capacity offerings should not preclude core customers from using economical storage inventory to meet APD needs. SoCalGas must take the core's forecasted reliability requirements into account when making long-term Drive Gas available to noncore customers.

12.3 Extended Balancing ServiceSoCalGas' noncore transportation customers are allowed a 10% monthly imbalance between delivered supplies and gas consumption. A penalty is imposed for imbalances exceeding 10%. Under Extended Balancing Service customers can avoid penalties by purchasing firm inventory rights for quantities exceeding the 10% tolerance. SoCalGas' proposed inventory charge is $0.388/Mcf, the same rate applied to the Drive Gas option. Injection and withdrawal rights can be as-available or firm. As-available injection and withdrawal rights will be free. SoCalGas' proposed reservation fee for firm injection capacity is $4.59/MMcf/d per month. [*72] DRA generally supports Extended Balancing Service, but would limit offers to three years for customers that combine firm inventory rights with as-available injection and withdrawal. This limited commitment is appropriate because the as-available services will not recover their respective LRMCs. DRA also recommends that SoCalGas be authorized the flexibility to provide "near firm" injection and withdrawal rights by imposing appropriate seasonal demand charges. The "near firm" rights would have priority over injection and withdrawal capacity awarded in the auction of unsubscribed storage services.We approve SoCalGas' Extended Balancing Service proposal, limited to three year durations as DRA recommends. SoCalGas may offer "near firm" injection and withdrawal rights at its option, imposing seasonal demand charges or other appropriate charges.

12.4 Gas SwapAs proposed by SoCalGas, the Gas Swap option is a free storage service aimed at noncore customers with "countercyclical" loads, or loads which peak during months when other customers are storing gas. Gas Swap service should appeal primarily to UEG customers with summer smog season requirements. Gas Swap allows customers [*73] to store gas during winter months when SoCalGas is withdrawing gas to serve core customers. The gas will never reach storage, but will enhance flowing supplies serving the core. Gas Swap is in part a substitute for G-STAQ service, now expired.SoCalGas claims this gas exchange will require no variable injection costs. DRA argues that Gas Swap cannot be relied on, and the core must still inject storage gas in anticipation of the APD. Therefore, DRA recommends imposition of variable injection and withdrawal costs on Gas Swap customers. SCUPP/IID argues that variable costs are avoided during the following season, when core gas is still in storage.We approve Gas Swap service, with reduced injection and withdrawal charges. In this situation both core and noncore customers receive storage service, but together they incur only one set of injection and withdrawal costs. In fairness, Gas Swap customers should pay one half of those costs. Gas Swap revenues should be credited to core customer balancing accounts, because core customers are assigned injection and withdrawal costs in the cost allocation process. As well, carrying costs for Gas Swap deliveries should not be charged to [*74] the core but should be charged to Gas Swap customers.

12.5 Auction of Unsubscribed CapacitySoCalGas proposes an annual auction of any inventory rights that remain after all firm storage commitments are met. The auction resembles SoCalGas' pilot program offering under Schedule No. G-STOR, except that customers will pay their bid prices instead of the lowest accepted bid price.DRA generally supports the proposed auction, and recommends that it be extended to injection and withdrawal service. Auctioned services could be further separated into peak and off-peak periods and into varying reliability levels (1-in-5 year reliability, 1-in-10 year reliability, etc.). DRA also recommends that revenues resulting from auctions of core inventory rights should be credited to core customers, because the core is responsible for associated costs.SCUPP/IID recommends capping of auction prices at LRMCs, scaled to meet revenue requirement.We approve SoCalGas' auction proposal, amended to include injection and withdrawal services, and revised to credit core customers for revenues resulting from sale of core inventory rights. Unbundling for peak and off-peak service or for varying reliability [*75] levels is unnecessary, given the scale of storage revenues. We reject capping of auction prices.

13. SDG&E's ProgramSoCalGas has allocated to SDG&E 12.7 bcf of storage inventory, in accordance with a comprehensive service agreement between the two utilities. The agreement expires in approximately three years, at the end of the 1995-1996 storage season. The agreement was executed prior to consideration of storage unbundling. SDG&E now asserts that it needs only 6 bcf of storage inventory, along with 30 MMcf/d of injection capacity and 232 MMcf/d of withdrawal capacity.The reduction of inventory to 6 bcf would require an amendment to the service agreement. DRA opposes such an amendment because it could increase stranded costs for SoCalGas' other customers. SoCalGas agrees to renegotiate this item with SDG&E, but the parties have not come to terms. SoCalGas believes the Commission should not order reservation of 6 bcf of inventory, but should allow SoCalGas and SDG&E to freely negotiate revisions to the agreement that are consistent with the guidelines adopted in this proceeding.If 6 bcf of inventory is found to be reasonable, SDG&E proposes an unbundled storage [*76] program with four elements: (1) firm service, (2) interruptible service, (3) system balancing, and (4) peak day protection. Peak day protection is identical to core reliability storage, with costs bundled in core rates. Firm service will comprise packages of injection, inventory, and withdrawal rights offered at auction. Contract durations will vary from two years to the time when the service agreement with SoCalGas expires. Interruptible service will be priced at variable costs of injection and withdrawal, and inventory will be auctioned. Service priority will be established by inventory bid prices, with the highest bid getting first priority. System balancing is equivalent to SoCalGas' load balancing. Costs will remain embedded in transportation revenue requirement for all customers.If SDG&E is held to 12.7 bcf of inventory, it will operate the same four program elements but will offer increased bid quantities and will offer service to off-system customers. Neither DRA nor SoCalGas objects to SDG&E's unbundled program.We will honor the terms of the service agreement between SoCalGas and SDG&E, as SoCalGas suggests. We encourage the parties to renegotiate storage reservation [*77] terms, with attention to assignment of stranded costs. Until then, SDG&E should proceed with unbundled storage service based on 12.7 bcf of inventory. Stranded costs remain the responsibility of SDG&E's ratepayers. We note that overall costs to SDG&E's customers will increase by approximately $1,600,000 due to the oversubscription, but reserving only 6 bcf of inventory would reduce SoCalGas' revenues by a similar amount. n25

n25 Exhibit 130, Table 1, p. 2-6.

14. PG&E's ProgramDRA asserts that PG&E's annual storage revenue requirement is approximately $54,000,000, derived from BCAP figures. n26 Under PG&E's proposed cost allocation scenario, $11,277,000 in annual storage costs would be removed from transportation rates. However, DRA argues that allocated costs will change substantially in response to orders in the implementation phase of the gas LRMC proceeding. As a result, DRA recommends that storage cost allocation and transportation rates should remain unchanged until PG&E implements a revised storage program. We agree with DRA. PG&E's cost allocation should await the principles and methods adopted in I.86-06-005, as long as the April 1, 1994 implementation [*78] date is not compromised.

n26 DRA Opening Brief, p. 41.

PG&E proposes three storage services: APD core demand protection, system load balancing, and storage cycling. APD protection and load balancing costs would remain embedded in core rates and noncore transportation rates. PG&E proposes to unbundle 36.0 bcf of storage cycling capacity, defined as the general practice of injecting gas into storage during the summer months (April through October) when demand is low and withdrawing gas during the winter months (November through March) when gas prices and demand are typically higher. n27 Storage cycling includes injection, inventory, and withdrawal functions, but they are not priced separately. PG&E would dedicate the 36.0 bcf to various market segments as follows:

Core/core subscription	25.5	bcf
Wholesale	0.5	
PG&E's Electric Department	2.3	
Cogenerators	2.3	
Noncore	+ 5.4	
TOTAL	36.0	bcf

n27 Exhibit 155, p. 1-1.

By comparison, PG&E's pilot storage banking program is limited to 5 bcf of as-available capacity. The Commission has ordered PG&E to offer open season bidding for storage in D.92-11-016. The open season closed on January 31, 1993, but PG&E has [*79] not yet analysed the bidding results. PG&E's fully allocated costs of cycling service are much higher than recent market clearing prices for pilot program service, although cycling would be a firm service. n28 Given this rapid growth and anticipated price increases, we can only conclude that demand for storage cycling on PG&E's system is highly uncertain.

n28 Exhibit 135, p. 5-11; and DRA Opening Brief, p. 39.

PG&E proposes that firm service rates be based on fully allocated costs, not LRMCs. Unsubscribed storage capacity would be offered at auction, with 100% balancing protection of stranded costs.PG&E states that it now has an annual cycling volume of 36 bcf, a maximum injection capability of 191 to 271 MMcf/d, and a maximum withdrawal rate of 1,679 to 2,089 MMcf/d. n29 PG&E has made a preliminary analysis of storage expansion opportunities, and concludes that benefits — due to reduced interstate pipeline capacity and seasonal price differentials — outweigh costs. However, release of pipeline capacity could incur exit fees or transition costs. PG&E is evaluating those risks. According to PG&E, there is a need for storage expansion beginning in 1996.

n29 Exhibit 155, p. 3-1.

[*80] Based on the record, we are unable to make much progress on necessary revisions to PG&E's proposal for unbundled storage service. We must send PG&E back to the drawing board. The proposed April 1, 1994 implementation date will allow the parties and the Commission to respond to PG&E's revised storage showing. PG&E should submit testimony on a revised storage program which: (1) unbundles storage service and costs into injection, inventory, and withdrawal functions; (2) comports with the policies and rules adopted in this decision; (3) incorporates the results of the recent open season into forecasts of demand for storage services; (4) reflects the cost allocation principles adopted in the implementation phase of I.86-06-005, if possible; and (5) refines storage expansion plans, including the expansion facilities assumed in calculation of marginal costs.

15. Comments to Proposed DecisionIn compliance with PU Code § 311, the assigned ALJ prepared a proposed decision in this matter. The proposed decision was mailed to all parties on January 4, 1993. Ten parties filed comments: SoCalGas, PG&E, SDG&E, Edison, DRA, TURN, McFarland, SCUPP/IID, CIG, and CCC. Seven parties filed [*81] reply comments: SoCalGas, PG&E, Edison, DRA, TURN, McFarland, and CCC.We have reviewed and carefully considered the comments of the parties in adopting this Opinion. With the concurrence of the ALJ, we have made substantive changes to the proposed decision in the following areas: (1) load balancing inventory reservation and cost allocation, (2) contract approval, (3) PG&E Electric Department storage bids, (4) price ceiling rules, (5) transmission and distribution upgrades, and (6) load balancing for off-system customers. Other minor revisions and clarifications have been incorporated as necessary throughout the text.

Findings of Fact1. The purpose of this phase of I.87-03-036 is to authorize a permanent program of natural gas storage service.2. In amended A.92-03-038, now consolidated with I.87-03-036, SoCalGas seeks Commission approval of a permanent program for gas storage service. PG&E also proposes a permanent storage program, but PG&E makes its proposal in testimony, not by separate application.3. Allowing NCPA/TID to appear in this phase of the proceeding would deny PG&E the opportunity to present testimony or argument in response to NCPA/TID's position. [*82] 4. The ALJ's suggestion that peaking and standby rates should be removed from this proceeding in favor of SoCalGas' next BCAP is reasonable and should be adopted.5. A permanent program of unbundled gas storage service is necessary to meet the express needs of noncore customers and to harmonize storage service with previously adopted policies and programs for unbundled gas supply and transportation service.6. Unbundled storage service is smaller in scope and in

monetary risk than unbundled gas supply or transportation service.7. Incremental rates and a "let the market decide" policy are reasonable and should be adopted for expansion or construction of new storage facilities.8. The goals of the adopted gas storage policy are:* To ensure that adequate, reasonably priced, stable, and reliable gas supplies are available to core customers.* To achieve and maintain access to diverse gas sources so that all gas customers in California can obtain adequate, reliable, reasonably priced gas supplies.* To reduce the likelihood of peak period curtailments in a cost-effective manner.* To avoid the negative consequences of uneconomic bypass.* To ensure that the costs of existing [*83] storage facilities — including unsubscribed capacity — and facility expansions are fairly allocated among customer classes.9. Core customer benefits of unbundled storage service are more efficient allocation of gas supplies, access to diverse gas supplies, and lower costs through gas-on-gas competition. In SoCalGas' service territory core customers benefit from certainty of storage during smog season.10. Core customer benefits are offset in part by the loss of storage access if utilities are allowed to provide firm storage service to noncore customers.11. Under unbundled service, noncore customers — including UEG customers — are responsible for smog season reliability.12. Daily and monthly load balancing service should remain bundled, and associated costs should remain embedded in each utility's revenue requirement.13. The adopted hierarchy of customer interests is: (1) core reliability, (2) noncore firm service, limited by reservation of core price function storage on a forecast basis, coequal with core price function, and (3) as-available service.14. Utilities should meet all customer requirements at one hierarchy level before serving customers at a lower [*84] level.15. If unforeseen circumstances require curtailments into level (2) of the hierarchy, noncore firm service and core price function should be curtailed proportionally.16. The gas storage market is not yet workably competitive.17. The gas storage program adopted in this decision will remove barriers to competition in the storage market.18. Unbundling of storage from other utility functions does not require physical partitioning of utility assets, but is a financial partitioning of utility facilities dedicated to storage services.19. SoCalGas' proposal to unbundle storage into elemental functions of injection, inventory, and withdrawal is reasonable and should be approved.20. PG&E's proposal to unbundle storage into predefined packages of injection, inventory, and withdrawal is inadequate and should be rejected.21. It is necessary that utilities expand or construct storage facilities, with adequate revenue protections, to secure adequate service to noncore customers.22. Utilities should carefully monitor customer compliance with load balancing rules.23. LRMC-based rates for firm storage service and a first price auction for as-available storage service [*85] are reasonable and should be adopted.24. On an interim basis for storage service derived from existing facilities, contracts necessary to avoid uneconomic bypass are reasonable if: (1) the bypass threat is proven, (2) the net price will make a substantial contribution to margin, and (3) the contract does not extend into any period when facilities expansion is necessary, on a forecast basis.25. SoCalGas' reservation of 70 bcf of storage inventory for core requirements is reasonable and should be approved.26. SoCalGas' reservation of 327 MMcf/d of storage injection capacity for core requirements is reasonable and should be approved.27. Reservation of 3207 MMcf/d of storage withdrawal capacity for SoCalGas' core requirements is reasonable and should be adopted.28. SoCalGas and PG&E should revise their peak day temperature estimation techniques to better incorporate DRA's statistical suggestions and to better reflect the realities of flowing supply availability.29. Reservation of 2.6 bcf of load balancing inventory for SoCalGas is reasonable and should be adopted for the year beginning April 1, 1993.30. SoCalGas' reservation of 300 MMcf/d of load balancing injection [*86] capacity is reasonable and should be approved.31. Load balancing costs should be allocated on an equal-cents-per-therm basis, pending further analysis in other proceedings.32. The gas storage programs of SoCalGas, SDG&E, and PG&E should allow for free trading of storage rights.3. Wholesale core customers should not be disadvantaged when utilities compute core reservations.34. Costs for unbundled storage service should be removed from gas transportation rates promptly. For SoCalGas the effective date of this reallocation should be April 1, 1993. For PG&E the effective date should be April 1, 1994 or sooner.35. The interim cost allocation measures used by SoCalGas and PG&E for storage unbundling are reasonable and should be adopted, pending revision in the implementation phase of I.86-06-005.36. The Commission should rigorously test the need for new storage projects intended to serve core customers.37. The Commission should entrust noncore storage expansion decisions to market participants. The Commission should not review the need for new storage projects intended to serve noncore customers, as long as all the risk of unused capacity resides with the builders [*87] and users of the new facilities.38. It is not necessary to order gas resource planning proceedings at this time.39. The gas storage service rules set forth in Appendix B to this decision are reasonable and should be adopted.40. The choice of incremental of rolled-in pricing for transmission and distribution upgrades necessary to provide utility access to independent storage providers is not ripe for decision.41. Future revisions to present gas bypass policies and ratemaking practices may sharpen the competition among today's local distribution companies and independent storage providers.42. If independent storage providers become public utilities, the Commission intends that storage rates for local distribution companies and independent providers will be market-based, and competition among them will be fair.43. The risk of unused existing storage capacity should be assigned to the customers for whom a facility

is built.44. Three years is a reasonable minimum duration for long-term storage contracts.45. The risks of over-or undercollections caused by fixed prices or inaccurate cost estimates should be assigned to shareholders. Costs for service under fixed [*88] price contracts should be allocated using latest available marginal costs.46. Long-term contract prices should be based on LRMCs, scaled to meet revenue requirement. Utilities can offer discounts to avoid uneconomic bypass of existing facilities, but the costs of price discounts for contracts requiring facilities expansions should not be recovered from other ratepayers.47. Partial balancing account protection of noncore firm storage contracts for existing facilities, and no protection of contracts for facilities expansions, are reasonable and should be adopted.48. The utility revenue protections adopted in this decision are consistent with a "let the market decide" policy and with incremental pricing of storage capacity additions.49. The cogenerator rate parity and service priority rules proposed by CCC, with minor revisions, are reasonable and should be adopted.50. The record in this proceeding does not support a finding that storage service to UEG customers provides more public benefit than storage service to cogenerators.51. PG&E's Electric Department should not receive storage service in preference to service to any other noncore customer group.52. PG&E's [*89] proposal for transportation service billing for gas delivered to independent storage providers is reasonable and should be adopted for deliveries to both utility and independent storage.53. SoCalGas should be authorized to include risk premiums in fixed price, long-term storage contracts and in all long-term contracts for service derived from new or expanded facilities.54. SoCalGas' proposed removal of $27,006,000 from noncore transportation rates, modified to reflect a core withdrawal reservation of 3207 MMcf/d, is reasonable and should be approved.55. SoCalGas' Basic Storage Service proposal is reasonable and should be approved, on the condition that customers be allowed to cancel previous service commitments if tariffed rates exceed rates offered in bid packages by 20% or more.56. SoCalGas' Drive Gas proposal, modified such that annual withdrawal capacity offerings do not preclude core customers from using economical storage inventory to meet APD needs, is reasonable and should be approved.57. SoCalGas' Extended Balancing Service proposal, modified to limit contract durations to three years for service with as-available injection or withdrawal rights, is reasonable [*90] and should be approved.58. It is reasonable that SoCalGas be authorized to offer "near firm" injection and withdrawal rights under its Extended Balancing Service, at its option.59. SoCalGas' Gas Swap proposal, modified such that customers will pay storage carrying costs and one half of variable injection and withdrawal costs, is reasonable and should be approved.60. SoCalGas' proposal to auction unbundled storage capacity, modified to include injection, inventory, and withdrawal capacity and modified to credit core customers for revenues resulting from sale of core storage rights, is reasonable and should be approved.61. SDG&E's proposed unbundled storage program, based on the 12.7 bcf of inventory specified in the service agreement between SoCalGas and SDG&E, is reasonable and should be approved.62. SDG&E's ratepayers should bear the costs of: (1) unsubscribed storage capacity included in the service agreement between SoCalGas and SDG&E, and (2) SDG&E's share of the costs of unsubscribed storage capacity on SoCalGas' system.63. Customer demand for the storage cycling service proposed by PG&E is highly uncertain.

Conclusions of Law1. The "Notice of Appearance" [*91] and opening brief of NCPA/TID should be rejected.2. Issues regarding peaking and standby rates for customers that receive gas service from both SoCalGas and bypass projects should be removed from this proceeding, to be heard in SoCalGas' next BCAP or its successor proceeding.3. Incremental rates and a "let the market decide" policy for expansion or construction of new storage facilities do not unduly discriminate among customer classes.4. PG&E should be ordered to unbundle storage into elemental functions of injection, inventory, and withdrawal. In its showing in compliance with that order PG&E should explain the apparent conflict between the cycling capacity reservations proposed in this proceeding and assertions about noncore storage availability in R.88-08-018.5. Under unbundled storage service, utilities are obliged to manage storage on behalf of core customers and are obliged to serve core customers by building and using storage facilities as necessary to provide reliable core service at the lowest possible cost.6. Under unbundled storage service, utilities are obliged to offer firm service derived from existing facilities to noncore customers, after core reservations [*92] are made for both reliability and price function.7. Under unbundled storage service, utilities are not obliged to expand or construct facilities to serve noncore customers unless customers will guarantees recovery of utility costs. Absent those guarantees, utilities may expand facilities at their own risk.8. The adopted unbundled storage program responds directly to the Legislature's urgings in AB 2744.9. Rigorous testing of the need for new facilities dedicated to core service is consistent with PU Code §§ 451 and 1001 and with AB 2744.10. Offering discounted storage service without a substantial contribution to margin would be unduly discriminatory to other utility customers.11. SoCalGas and SDG&E should be ordered to file advice letters to implement the policy and program choices made in this decision.12. SoCalGas' request for a two-year moratorium on revisions to storage program rates and rules should be denied.13. PG&E should be ordered to resubmit a storage service proposal which: (1) unbundles storage service and costs into injection, inventory, and withdrawal functions; (2) comports with the policies and rules adopted in this decision; (3) incorporates [*93] the results of the open season ordered in D.92-11-016

into forecasts of demand for storage services; (4) reflects the cost allocation principles adopted in the implementation phase of I.86-06-005, if possible; and (5) refines storage expansion plans, including the expansion facilities assumed in calculation of marginal costs.14. This decision should become effective today, so that SoCalGas' unbundled storage program can become effective April 1, 1993.ORDERIT IS ORDERED that:1. The "Notice of Appearance" and opening brief of Northern California Power Agency and Turlock Irrigation District are rejected.2. Issues regarding peaking and standby rates for customers that receive gas service from both Southern California Gas Company (SoCalGas) and bypass projects are removed from this proceeding, to be heard in SoCalGas' next Biennial Cost Allocation Proceeding or successor proceeding.3. Incremental rates and a "let the market decide" policy for expansion or construction of new gas storage facilities are adopted.4. Pacific Gas and Electric Company (PG&E) shall resubmit testimony which revises its proposed permanent gas storage program in accordance with Conclusion of [*94] Law 13 above. The resubmission shall explain the apparent conflict between the cycling capacity reservations proposed in this proceeding and PG&E's assertions about noncore storage availability in Rulemaking 88-08-018. The resubmission shall be served on or before the later of: (1) 30 days after closing of the open season for storage service ordered in Decision 92-11-016, and (2) 30 days after the effective date of a decision in the implementation phase of Investigation 86-06-005, if possible, but no later than August 16, 1993.5. Following PG&E's resubmission, the assigned Administrative Law Judge shall promptly convene a workshop for the purpose of discussing the revised gas storage program.6. The gas storage service rules set forth in Appendix B to this decision are adopted.7. On or before February 11, 1993, SoCalGas shall file with this Commission and serve on all parties to this proceeding revised tariff sheets and associated workpapers which implement a permanent gas storage program in compliance with the terms of this decision.8. On or before February 18, 1993, San Diego Gas & Electric Company (SDG&E) shall file with this Commission and serve on all parties to [*95] this proceeding revised tariff sheets and associated work papers which implement a permanent gas storage program in compliance with the terms of this decision.9. The revised tariff pages shall become effective April 1, 1993 and shall comply with General Order 96-A. The revised tariffs shall apply to service rendered on or after their effective date.10. The Commission Advisory and Compliance Division shall, if requested by any party and if necessary in its judgment, promptly convene workshops to discuss the details of SoCalGas' February 11, 1993 advice filing and/or SDG&E's February 18, 1993 advice filing.11. SoCalGas' Schedule No. G-STOR is terminated, effective April 1, 1993. Schedule No. G-STAQ is terminated, effective April 1, 1993, if SoCalGas' Advice No. 2148 is approved.12. SoCalGas' request for a two-year moratorium on revisions to storage program rates and rules is denied.13. PG&E's present pilot storage banking program, authorized in Decision 92-03-030, is extended until April 1, 1994 unless terminated by further order of the Commission.14. Utilities seeking minor revisions to storage service rates or rules may do so by advice filing. Parties seeking substantive [*96] changes may do so only by petitions for modification of this and other relevant Commission decisions.This order is effective today.Dated February 3, 1993, at San Francisco, California.APPENDIX APage 1List of Appearances

Respondents: Roger Peters, Dan G. Lubbock, and Merek E. Lipson, Attorneys at Law, for Pacific Gas and Electric Company; Keith Melville, David Clark, and Susan Ackerman, Attorneys at Law, for San Diego Gas & Electric Company; Steven D. Patrick, Attorney at Law, and Robert Ballew, for Southern California Gas Company.

Interested Parties: C. Hayden Ames, Attorney at Law, for Chickering & Gregory; Armour, St. John, Wilcox, Goodin & Scholtz, by James D. Squeri, Attorney at Law, for Kelco Division of Merck & Company; Baker & Botts, by Steve Hunsicker, Attorney at Law, for Tenneco Oil Company and Conoco, Inc.; Brady & Berliner, by Roger A. Berliner and John W. Jimison, Attorneys at Law, for Amoco Canada and Amoco Energy Trading Corporation (jointly), Poco Petroleums, Ltd., Dome Petroleum Ltd., and Canadian Producer Group; Matthew V. Brady, for Department of General Services; Sutherland, Asbill & Brennan, by Keith R. [*97] McCrea and Michael T. Mishkin, Attorneys at Law, for California Industrial Group, California League of Food Processors and California Manufacturers Association Thomas Carmel, Attorney at Law, for Conoco, Inc.; Deborah M. Chance, for Meridian Oil, Inc.; Charles E. Doering, for the City of Long Beach; Richard A. Drom, for Exxon Corporation; Alex Szabo, for City of Pasadena; Florence J. Pinigis, Attorney at Law, for Southern California Edison Company; David Dyck, for AOGC; Karen Edson, for KKE & Associates; Steve Harris, for Enron Corporation and Transwestern Pipeline Company; Ronald V. Stassi, for the City of Burbank; Michel Florio and Peter Allen, Attorneys at Law, for Toward Utility Rate Normalization (TURN); Graham & James, by Martin A. Mattes, and Peter W. Hanschen, Attorneys at Law, for Kern River Gas Transmission Company, Amerada Hess Corporation, and Southern California Utility Power Pool; Rand L. Havens, for Mission Resources; Fred Dorey, Attorney at Law, for Kern River Cogeneration Company; Ater, Wynne, Dodson, Hewitt & Skerritt, by Paul J. Kaufman, Attorney at Law, for Kern River Cogeneration; Thomas R. Hunt, [*98] II, for California Independent Producers Association; Ater, Wynne, Hewitt, Dodson & Skerritt, by Michael Peter Alcantar, Attorney at Law, for Cogenerators of Southern California; Henry F. Lippitt,

2nd, Attorney at Law, for California Gas Producers Association; Jackson, Tufts, Cole & Black, by William H. Booth, Evelyn K. Elsesser and Jacob D. Werksman, Attorneys at Law, for Indicated Producers; Luce, Forward, Hamilton & Scripps, by John W. Leslie, Attorney at Law, for California Gas Marketers Group; Marron, Reid & Sheehy, by Melanie S. Best; Patrick McDonnell, for Agland Energy Service, Inc.; Leamon V. Murphy, for Imperial Irrigation District; Judy Obst, for San Diego Gas & Electric Company; Robert L. Pettinato, for Los Angeles Department of Water and Power; Patrick J. Power, Attorney at Law, for Hadson Gas Systems; Patrick J. Power, Attorney at Law, and Ariel Calonne, for City of Palo Alto; Patrick J. Power and Richard Alesso, Attorneys at Law, for City of Long Beach; Paul M. Premo, for California Independent Petroleum Association (CIPA); Phyllis Rainey, Attorney at Law, for Tenneco Oil Company; Norma J. Rosner, Attorney at [*99] Law, for Arco Oil and Gas Company; Michael Hopkins, for City of Glendale; Catherine M. Elder, for Watson Cogeneration Company; Law Offices of Andrew J. Skaff, by Andrew J. Skaff, Attorney at Law, for Natural Gas Clearinghouse; Downey, Brand, Seymour & Rohwer, by Phillip Stohr, Debbie Tellier, and Christopher Ellison, Attorneys at Law, for Industrial Users Group; Brian Sway, for California Gas Cooperative and Capitol Oil Corporation; Robert R. Weisenmiller, for Morse, Richard, Weisenmiller & Associates; Harry K. Winters, for University of California; Morrison & Foerster, by Jerry R. Bloom, and Lynn Haug, Attorneys at Law, for California Cogeneration Council; Ken Wilcox and Steven Cohn, Attorneys at Law, for California Energy Commission; Robert K. Weatherwax, for Sierra Energy & Risk Assessment, Inc. (SERA); Philip J. DiVirgilio, for Agrico Cogeneration Corporation; Earl L. Fisher, for Aquila Energy Corporation; Andrew Brown, for Barakat and Chamberlin; John Quinley, for Cogeneration Service Bureau; Greg Blue, for Destec Energy, Inc.; Richard O. Baish, Attorney at Law, for El Paso Natural Gas Company; Wayne Lepire [*100] and Randy Wu, Attorneys at Law, for El Paso Natural Gas Company; Leamon W. Murphy, for Imperial Irrigation District; Ed Perez, Attorney at Law, for City of Los Angeles; Richard M. Blumberg, for Meridian Oil, Inc.; Brian E. Bates, for Mock Resources, Inc.; Rand Carroll, Attorney at Law, for State of New Mexico; Roger Vanhoy and Yan Meng, for M-S-R Public Power Agency; Andy Edling and Thomas Deal, for Oryx Energy Company; Alex Szabo for City of Pasadena; Gary S. Fiske, for Q E I, Inc.; Donald W. Schoenbeck, for Regulatory & Cogeneration Services; Andrew Safir, for Recon Research Corporation; Charles T. Gilfoy, for City of Redding; Peter Allen, Attorney at Law, for City of San Diego; Victor Scocci, for Simpson Paper Company; Nancy Day, for Southern California Gas Company; John C. Walley, and Thomas K. Sheets, for Southwest Gas Corporation; Malcolm H. Mossman, for Tehachapi-Cummings Water District; Tony O. Hemming, Attorney at Law, for Texaco, Inc.; Michael Shames, for Utilities Consumer Action Network; David A. Minor, for Unocal; William R. Peitzke, for William Resource Company; Wright & Talisman, by [*101] Joseph M. Koury and Jerome F. Candelaria, Attorneys at Law, for McFarland Energy, Incorporated and Ten Section Storage; Ann Gilbert, Attorney at Law, for PSI, Inc.; Billy Gonzales, for Panhandle Eastern; Leslie Little, for Agland Energy Services, Inc.; William Marcus, for JBS Energy; Thomas J. O'Rourke, for Southwest Gas Corporation; Adrian J. Hudson for California Natural Gas Bulletin; Morrison & Foerster, by Joseph M. Karp, Attorney at Law, for Inland Container Corporation; Luce, Forward, Hamilton & Scripps, by Steve Wall and Bruce Lundstrom, Attorneys at Law, for Tran Am Energy, Inc.; Kevin Woodruff, for Henwood Energy Services, Inc.; Barkovich & Yap, by Barbara R. Barkovich; Dian M. Grueneich, Attorney at Law; Anderson, Donovan and Poole, by Edward G. Poole and Elliot J. Roseman; Robert J. Hohne; for themselves.

Division of Ratepayer Advocates: Diana L. Lee, and Patrick L. Gileau, Attorneys at Law, Ramesh Ramchandani, Richard Myers, Robert M. Pocta and Linda Gustafson.

Commission Advisory and Compliance Division: Lorann King, and Cherrie A. Conner.APPENDIX BADOPTED RULES: Gas Storage Service

1. Definitions [*102]

1.1 As used in this rule, "utility" means any one of today's local distribution companies that offer gas storage service, i.e. Southern California Gas Company, Pacific Gas and Electric Company, or San Diego Gas & Electric Company. "Utility" does not refer to any independent storage provider declared to be a public utility according to the terms of the Public Utilities Code.

1.2 "Market-based rates" are rates for unbundled gas storage service that emulate or act as proxies for rates that would result in an open and competitive storage market, as specified in the Statutes of 1992, Chapter 1337, identified as Assembly Bill 2744 in this proceeding.

2. Interconnection

2.1 A utility must interconnect its transmission facilities with an independent storage facility that requests such interconnection, unless the utility can make a clear showing that such interconnection will impair its ability to serve existing utility customers. Interconnection obligations shall not differ from obligations to serve gas transportation customers having similar loads.

2.2 The utility must install taps, meters, minor line extensions, and related facilities necessary to interconnect utility [*103] facilities with an independent storage facility, except by agreement of the parties.

2.3 The utility shall be responsible for the cost of standard interconnection facilities required, installed, and paid by the utility for transportation customers having similar loads. Responsibility for special facilities in excess of standard interconnection facilities will be assigned by agreement of the parties or will be submitted to the Commission for resolution. Utility ratepayers shall not be responsible for costs of special facilities. The utility shall not delay installation of interconnection facilities pending resolution of any dispute regarding cost responsibility.

3. Nondiscriminatory Access

3.1 The utility shall provide open and nondiscriminatory access by customers of any independent storage provider to utility facilities necessary to transport gas to and from the independent storage facility.

3.2 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 [*104] other term or condition of service — shall be the same as the terms and conditions applicable to utility transportation customers having similar loads.

4. Transportation Charges

4.1 The utilities must modify their tariffs as necessary such that customer-owned gas transported to and from a storage facility — whether operated by the utility or an independent provider — is assessed no more than one transportation charge on each utility system performing the transportation service. Transportation charges for gas delivered into storage facilities shall be imposed upon delivery into storage. Transportation charges for gas withdrawn from storage and delivered to customer premises shall be imposed upon delivery to the customer premises. If the second delivery is made by the utility that performed the first delivery into storage, the utility must credit or reverse the transportation charges for the first customer of record, without interest. If the transporting utility and the customer of record do not change for the second delivery, the second billing transaction is not required.

4.2 Independent storage providers must notify transportation utilities of all transfers of [*105] ownership of gas in storage.

4.3 The utility must not assess any additional transportation fee or charge, or impose any restriction or condition, because transportation service is provided for a customer of an independent storage provider. This rule does not limit Commission action on incremental vs. rolled-in pricing of transportation service.

5. Storage Rates

5.1 Utilities must charge market-based rates for unbundled noncore storage service. Rates for service derived from existing storage facilities need not be identical to rates for service derived from new or expanded facilities, due to the different risks assigned to utilities. Shareholder risk for noncore service using existing facilities should match shareholder risk for other noncore costs of service, i.e. 75% revenue guarantee under noncore fixed cost accounts or their successors. Shareholders should bear all the risk of cost recovery for new or expanded storage facilities dedicated to noncore service. These principles apply to tariffed rates and contract service.

5.2 Absent findings by the Commission that the market for storage services is workably or effectively competitive, rates for firm noncore [*106] storage service must not exceed long-run marginal cost (LRMC), scaled to meet revenue

requirement, plus premiums necessary to compensate utilities for the risk of underrecovery of the costs of new or expanded facilities or for load balancing requirements.

5.3 Customer complaints regarding market power abuse in pricing of gas storage services by utility or independent storage providers may be filed with the Commission.

6. Cogenerator Rate Parity

6.1 Utilities must provide cogenerators with 5 days advance notice of utility electric generation (UEG) customer elections for gas storage service offered in open seasons, i.e. firm service.

6.2 Utilities must provide cogenerators with either: (a) advance disclosure of all UEG customer bid terms, including price, for gas storage service offered at auction, i.e. as-available service; or (b) advance notice of all UEG customer bid terms, excluding price, with rate equalization provisions equivalent to the rate equalization provisions ordered in Decision 92-07-025 on pipeline capacity, for storage service offered at auction.

6.3 Utilities must provide cogenerators with gas storage service packages equivalent to service packages [*107] that may occasionally be offered to UEG customers.

7. Cogenerator Service Priority

7.1 Utilities must curtail firm gas storage service to cogenerators only after curtailment of firm service to UEG customers.

7.2 Utilities must curtail as-available gas storage service to cogenerators only after curtailment of as-available or interruptible service to UEG customers when cogenerators pay the same or more than UEG customers for such service.

8. On-System Customer Preference

On-system customers have preference over off-system customers for gas storage service derived from existing facilities. Utilities should serve off-system customers only after requests for service from on-system customers are satisfied. Utilities may offer firm service to off-system customers before offering as-available service to on-system customers.

9. Bypass

9.1 On an interim basis, noncore firm storage rates for service derived from existing facilities that are discounted from LRMC, scaled to meet revenue requirement, must be justified by a showing that the discount is necessary to prevent uneconomic bypass of utility service.

9.2 On an interim basis, discounted contracts [*108] for service derived from existing facilities must make a substantial contribution to margin, defined as utility revenue exceeding short-run marginal cost.

9.3 On an interim basis, revenues lost due to discounting of service derived from existing facilities may be included in the cost of unsubscribed storage service, to be recovered from all ratepayers as a transition cost, on an equal cents per therm basis.

9.4 On an interim basis, long-term contracts for service derived from existing facilities must not offer discounts extending into any period when facilities expansions are required. The period may be determined by utilities on a forecast basis.

9.5 On an interim basis, revenues lost due to discounting of service derived from new or expanded facilities may not be recovered from other ratepayers.

10. Noncore Customer Contracts

10.1 Utilities may offer gas storage service contracts of any duration from 3 to 15 years, subject to the limitation on

discounted contracts in Rule 9.4.

10.2 Absent findings by the Commission that the market for storage services is workably or effectively competitive, utility contract rates must be based on LRMC, scaled to meet revenue [*109] requirement. Utilities can offer discounts to avoid uneconomic bypass of existing facilities, but the costs of discounting of contracts requiring facilities expansions must not be recovered from other ratepayers.

10.3 Absent findings by the Commission that the market for storage services is workably or effectively competitive, utility contracts for service derived from new or expanded facilities must include a customer guarantee of revenue recovery, or the utility must accept the risk of underrecovery of revenues. Contract rates may include a reasonable price premium to compensate utilities for the risk of underrecovery, including the risk that the customer may not survive the term of the contract.

10.4 Absent findings by the Commission that the market for storage services is workably or effectively competitive, utility storage prices under contracts with off-system customers must include a reasonable price premium to compensate utilities for added load balancing requirements.