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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking on the Commission's own motion to change the structure of gas utilities' procurement practices and to propose refinements to the regulatory framework for gas utilities.	**FILED PUBLIC UTILITIES COMMISSION FEBRUARY 7, 1990 SAN FRANCISCO OFFICE R.90-02-008**

ORDER INSTITUTING RULEMAKING

By this order, we open a rulemaking proceeding which seeks to change the structure of gas utilities' procurement practices for the noncore market and solicits proposals for balanced incentives to provide efficient procurement and transmission service to all customers. This Order Instituting Rulemaking (OIR) is the companion to D.90-01-021 (Interim Order in I.86-06-005), issued on January 9, 1990, which sets forth a schedule for consideration of cost allocation and rate design policy issues in an effort to move forward with long-run marginal cost-based ratemaking. Together, these two orders comprise the Commission's initiative in response to the mid-course evaluation of its natural gas program which began with an en banc hearing on November 1, 1989. The decision to move forward with this initiative is based on the information received through both oral and written comments at the en banc hearing.

This OIR will be conducted in a somewhat different manner than is usual. Today's order sets forth proposed rules for the gas utilities' procurement practices. However, these are not final, detailed rules. This order is limited to an outline of a revised industry structure. The utilities and other interested parties are directed to comment on the proposals of the Commission and to propose detailed rules to implement these proposals as written. All parties may also submit rules to implement such other proposals as they might suggest as alternatives. Following receipt of these

initial comments, the Commission will draft a detailed proposed rules which will be subject to a final round of initial and reply comments. After consideration of those comments, the Commission will issue a decision setting forth the final rules and the gas utilities will be ordered to file tariffs consistent with the adopted revised industry structure.

In this order we also include a discussion of various incentive mechanisms which the Commission may consider for implementation in this or a following proceeding. We request that parties comment on these mechanisms, discuss others which they would propose, and suggest a procedural schedule for future consideration of such mechanisms by the Commission.

BACKGROUND

Since the implementation of our new gas program on May 1, 1988, parties have raised many concerns regarding its effects. Specifically, we have received complaints alleging excessive market power of the regulated utilities in gas procurement for the noncore, problems with nomination procedures for transporting natural gas, and unfair or inefficient cost allocation factors and rate design policies. Though we realized that some of these problems will be alleviated in the future as we continue to implement the individual components of the new gas program, we wished to respond to the suggestions and criticisms by initiating a mid-course evaluation.

The mid-course evaluation began with an en banc hearing held on November 1, 1989. Preceding that hearing, we asked all interested parties to submit written comments on a broad set of noncore procurement and transmission issues. We received written comments from 36 parties and heard oral comments from many of them on the day of the hearing. Appendix A to this order contains the Notice of En Banc Hearing, the agenda, and the list of parties who submitted comments.

Based on the comments we received, we are concerned that the ongoing proceedings will not sufficiently address the

structural problems which exist with the current gas program and therefore our objectives for the new gas structure may be in jeopardy. It is with these concerns that we open this OIR and issued its companion order, D.90-01-021, in I.86-06-005.

INDUSTRY STRUCTURE

As we have made clear in the past, we would like to see a dual market evolve for natural gas service. Specifically, we envision a market where:

1. The regulated Local Distribution Company (LDC) will provide bundled procurement and transportation service to the core and those noncore customers who require supply security and may not be able to or do not wish to arrange for this service through the competitive market. This service will be provided with a high degree of reliability, and at reasonable and efficient prices.

2. All noncore customers will have equal access to a competitive procurement market where they will have the opportunity to choose a certain level of reliability and obtain it at competitive prices. Marketers, brokers, producers, customers, and unregulated affiliates of the LDCs would have equal access to compete in this market.

Although these goals are not entirely new for the Commission, we believe that modifications to the industry structure are necessary in order to achieve them. We no longer believe that the regulated utility serves a necessary role in the noncore procurement market. Further, we believe that access to gas transportation would be improved by removing the regulated utility from the noncore procurement business. Utilities should be able to create separate, unregulated affiliates to compete in the noncore procurement market, but such affiliates would only be able to obtain access to transmission and storage services on exactly the same basis as their competitors in the procurement market.

We also believe that some of the problems that exist in the current industry structure may be due to core-election. For many noncore customers, especially in the PG&E service territory, core-election does not simply provide a bundled service for customers who do not care to participate in the competitive market. Rather, it has become a way to gain transmission access to less-expensive supply sources. An argument can be made that this is a problem fundamentally related to capacity constraints, not the structure of the core-elect system itself. If noncore customers choose between core-elect and noncore service on the basis of price and transmission priority, however, then core-election does not just serve the "safety net" function the Commission initially envisioned for it. It also provides the regulated utilities with an advantage in marketing gas. We conclude that more structural changes are required to ensure that the competitive procurement market is "enabled" by the assurance of equal access to transmission and storage for all noncore market participants.

As we stated above, core-election was primarily intended to provide a safety net for noncore customers who did not wish to enter the competitive markets. We now believe that the best way to provide service to customers who do not wish to make their own procurement choices is to require them to <u>be</u> core customers for a specified length of time. In this way the commitment to become a core customer will hinge on the value of long-term service reliability to the customer and not on short-term gas price or transmission access considerations.

We have frequently stated our view that transmission access should be addressed through an unbundled capacity allocation mechanism such as brokering. We continue to desire prompt implementation of such a brokering system. Brokering will indeed play an indispensible role in the market structure we discuss in this order. We recognize, however, that the changes we are proposing to noncore procurement will seriously color the parties' views of the best system for brokering. We expect that the proposals discussed herein will substantially alleviate the concerns of many brokers, shippers and producers that the gas

utilities would unfairly dominate a brokerage system with their core-elect and noncore nominations. As a result, we concur with the Administrative Law Judge's decision to cancel the hearings set for capacity brokering in R.88-08-018. We will order those proceedings reconvened to consider prompt adoption of a brokering system as soon as the market structure changes at issue in this proceeding have become clear enough to permit parties to take them into consideration in developing their brokering proposals.

With the above modifications to industry structure, we believe that we will be in the best position to proceed with a pipeline capacity allocation mechanism which rationally allocates existing capacity for noncore customers. The structure will also be consistent with the increasing competition which will accompany any new pipeline capacity to California. In a final order issued today in our pipeline investigation (I.88-12-027), we have made findings on the need for new pipeline capacity and stated our intent to rely on competitive forces to determine the pipeline projects which will be constructed, once certain minimum regulatory conditions have been satisfied. One of those conditions is a requirement that capacity brokering be permitted on all new pipeline facilities serving California. It is important, obviously, that consistent brokering programs are in place for both new and existing pipelines to avoid any distortions in the more competitive markets that will accompany the new industry structure.

PROPOSED CHANGES TO INDUSTRY STRUCTURE

Outline of Proposed Rules

1) Discontinue the noncore portfolio of the regulated LDCs. They will offer gas to their procurement customers from a single portfolio at a single price.

2) Unregulated affiliates will be allowed to participate in the noncore procurement market under specific conditions including:

   a) They will be structurally separated from the LDC, with necessary requirements to prevent cross-subsidization of unregulated activities.

b) They will be treated the same as other unregulated gas marketers, brokers, etc. by the regulated utility in all transactions including pipeline nominations, and access to: storage, firm capacity, and information about customer demand and capacity availability.

c) Costs from the affiliate will not be allocated to core rates or noncore transportation rates.

d) Commission staff will have access to all records of the affiliate.

3) Discontinue the current core-elect option and therefore the portfolio switching ban. This will be replaced by the option for noncore customers to become core customers for a significant time commitment. These customers will be able to purchase bundled core service from the LDC for all or part of their demand under specific terms set by the Commission:

a) A minimum commitment (to be set between 3 and 5 years).

b) A take-or-pay obligation on the annual committed quantity (to be set between 50% and 80%).

c) Core transmission rates. An equivalent price will be charged for equivalent service.

4) Utility Electricity Generation (UEG) departments of combined utilities will be required to set up a gas purchasing department separate from the core gas procurement department. Following a period of transition (see p. 14), this department will operate under the following rules:

a) The UEG department of a combined utility will be allowed to purchase core service, on the same terms as other noncore customers, for some portion of their demand (a maximum amount, to be set by the Commission between 25% and 50%). The Commission feels that the lower end of this range may be more appropriate under our restructuring effort.

b) The UEG will have the same access to pipeline capacity or storage as any other noncore customer.

c) The UEG's gas purchasing department may buy from an affiliate of the regulated utility if one exists.

5) LDCs will provide balancing service for the noncore. Transportation imbalances up to the lower of 5% of customer nominations or 30,000 Dthms/month may be carried

forward without charge, provided that they are made up within 45 days of notification. Negative imbalances not made up in that time will be subject to the rate charged for noncore standby service. Standby service will be provided on a best-efforts basis. The utility will have no obligation to obtain any given level of gas supplies to provide such service. Positive imbalances not made up in that time will be purchased by the LDC at a rate equal to 95% of the system average cost of gas.

6) Negative imbalances in excess of the lower of 5% of customer nominations or 30,000 Dthms/month will be considered standby service. When standby gas is available, LDCs will charge a rate equal to the cost of the incremental core gas supply during that month plus 10% for this service. Standby gas sales will be the lowest priority, after all core obligations have been met. The existing end use priority system will determine curtailment order within the core. When demand for standby gas service exceeds supply, the existing noncore priority system will allocate service. For positive imbalances, the LDC will purchase all deliveries in excess of the lower of 5% or 30,000 Dthms/month over a customer's nominations at a rate equal to 95% of the system weighted average cost of gas.

7) LDCs will not be allowed to sell excess core gas to the noncore. Shareholders will be responsible for cost incurred from committing to excess core gas unless it is injected into storage for core procurement customers.

Discussion

For months we have heard complaints about the inability of noncore customers, producers, and marketers to effectively compete in the noncore procurement market. The reason most cited is the inability of the noncore to gain access to firm transportation capacity. Parties have alleged that this is caused by four factors: 1) real or perceived abuses by LDCs in the noncore procurement market, 2) monopoly control of access to Canadian gas, exacerbated by the situation with core-elect, 3) lack of a market-based system to allocate capacity, and 4) an absolute need for new pipeline capacity. We have moved forward to address the need for new pipeline capacity in I.88-12-027 and will continue to seek a market-based capacity allocation program in R.88-08-018. As we stated earlier, we believe that progress toward a capacity allocation system may be hindered by the LDCs' role in the noncore

procurement market. Further, it is our view that the industry structure issue must be close to resolution before we can continue with capacity brokering hearings.

LDCs Out of Noncore Procurement: The comments received at the November 1, 1989 en banc hearing reaffirmed our belief that procurement is a competitive service for noncore customers. We are distressed that the current industry structure is hindering the development of a competitive market for noncore procurement service. Though en banc comments do not prove LDCs to be at fault for abusive procurement practices, we believe that even perceptions of these practices hinder the development of this market. Further, we believe that any benefits associated with allowing a regulated entity to remain in this competitive market are far outweighed by these costs. Our firm view is that the regulated LDCs should be removed from the noncore procurement market.

Unregulated Affiliates: We believe that unregulated, structurally separated affiliates should be allowed to compete in the noncore procurement market under specific conditions. This belief is tempered by our concern that these conditions might permit self-dealing and marketing abuses by the LDC's. This would undermine our efforts in this proceeding to foster a competitive market. Strict requirements therefore will be necessary to prevent cross-subsidization of unregulated affiliate activities. We are aware of the FERC's efforts to control abuses by interstate pipeline marketing affiliates and have studied the safeguards subsequently adopted for that purpose.[1] Given our concerns and the experience of the FERC, we have outlined the general requirements we think should condition the creation of unregulated affiliates. We are interested in the comments of all parties on these and any other requirements which might be necessary to prevent abuse through affiliate transactions.

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1 See FERC Order No. 497-A, Inquiry into Alledged Anticompetitive Practices Related to Marketing Affiliates of Interstate Pipelines, Docket No. RM87-5-000, issued December 15, 1989, 54 Federal Register 52,781 (December 22, 1989).

Supply Security through Bundled Core Service: We understand that for a variety of reasons, some noncore customers may not wish or be able to arrange for gas service through the competitive market. We feel strongly that these customers should be able to obtain reliable bundled service from the LDC at reasonable and efficient prices if they so desire. At the same time, we understand that the current core-elect portfolio has attracted other customers, seeking access to firm capacity to access cheaper supply sources. This situation has given PG&E a virtual monopoly over access to Canadian gas and therefore a huge advantage over other competitors in the noncore procurement market in its service territory. If Southwest gas were to become relatively less expensive, it is conceivable that the same situation would occur in Southern California. We now believe that the current core-elect option is not the appropriate way to serve those noncore customers seeking the ease and reliability of core service.

As we have outlined above, we assert that the appropriate way to address this situation is to require that these customers become core customers for a significant time commitment. Customers who choose to make this commitment might be called the "subscription core". Our goal is to create an option with conditions onerous enough to discourage price chasing, but which are reasonable and efficient for security-seeking noncore customers. We believe that the rules outlined above, combined with a capacity allocation system and new pipeline capacity, will set up the appropriate structure. Though we think that a significant time commitment and take-or-pay requirement are integral to this structure, we are open as to the specific levels to be adopted. The ranges in the proposed outline indicate our current judgment as to reasonable levels. Finally, we defer firm commitment to any specific cost allocation methodology. D.90-01-021 set forth a schedule to consider cost allocation and rate design issues in a separate proceeding. We do not believe it premature to state our firm guiding principle, however; an equivalent price should be charged for equivalent service.

UEG Departments of Combined Utilities: Utility electric generation customers, whether separate utilities or electric departments of combined utilities, are the gas systems' largest customers. We believe that an industry structure that treats UEGs solely as noncore customers will most effectively achieve the goals stated above. This would mean that UEGs would face the same procurement choices as other noncore customers (including the option to commit to the "subscription core").

Equal treatment would also mean that UEGs could not have superior access to capacity under our final capacity brokering system. Electric departments of combined utilities holding rights to interstate capacity could not be assigned those rights except through the workings of an open capacity brokering mechanism. If we fail to ensure that all noncore market participants have equal access to capacity, we suspect that many of the benefits of open access transportation, and the generally more open and flexible industry structure, will flow into the hands of the few UEGs, rather than the many noncore customers. Some benefits, such as greater price competition within individual producing regions, might not materialize at all.

Despite our desire to position UEGs as precisely equal to other noncore customers as possible, we are wary of creating a structure which allows electric departments of combined utilities to become core customers of their own gas departments. Our experience with the operations of the gas systems since the implementation of our new gas structure has taught us that great scope exists for utilities to be **perceived** to be using their control over the operations of the systems to favor one group over another. Whether this abuse actually occurs or not, we believe that the mere perception of its possibility will continue to undermine our new structure if we allow electric departments of combined utilities to buy all of their procurement services directly from the associated gas department as core customers. Further, we believe UEGs to be the most sophisticated gas users, quite capable of contracting themselves for the supply and capacity rights which core service provides.

At the same time, we must pay strict attention to our responsibility to protect the customers of the UEGs. Under any gas structure we implement, we must be assured that UEGs will have access to gas service which is as reliable as that which the regulated gas utility would provide. We are acutely aware that UEGs have an obligation to serve at reasonable rates. Further, UEGs are increasingly subject to air quality restrictions which limit their fuel use options. For these reasons, along with our objective to equalize UEGs with other noncore customers, we are reluctant to entirely prohibit electric departments of combined utilities from becoming core customers of their own gas departments.

Faced with competing objectives, we suggest a compromise in our outline of proposed rules. Our proposal would allow electric departments of combined utilities to purchase a set percentage of their total demand from their own gas departments as core service. We believe that a reasonable percentage may be between 25% and 50% of total demand, though we are open to other suggestions. We have chosen a percentage higher than the minimum amount necessary for igniter fuel because we believe that UEGs, like all other noncore customers, should be able to choose to become core customers to diversify their gas supply portfolio. Electric departments of combined utilities may, if they wish, purchase any amount of procurement services from unregulated affiliates of the parent company. We believe this to be a workable solution to address the situation described above. We welcome alternate solutions, especially ones which allow for equal treatment for all noncore customers. We are particularly interested in hearing the views of the respondents and interested parties on this issue.

We are aware of the contention that this policy may expose PG&E to take-or-pay liability under its agreements with PGT and Alberta and Southern (A&S). We request that parties comment on whether renegotiation of those agreements to reflect the new market structure is both possible and desirable, as well as whether there will be take-or-pay expenditure. Additionally, we note that to

date PG&E has excluded PGT from its capacity brokering proposals. It should be clear that we regard capacity brokering as a necessary and positive development for all interstate systems serving California. Brokering of PGT capacity by PG&E should form an important part of any future agreements with PGT and A&S. We also note that capacity brokering on the entire PGT system will be required as a minimum condition for Commission support of any expansion of the PGT system. See the discussion in our final order in I.88-12-027, also issued today, regarding capacity brokering on new pipeline facilities.

Balancing, Standby, and Excess Core Gas: No matter how regulators and the marketplace set the relationships among customers, utilities, producers, and all the interests in the gas industry, the fact remains that the LDC's gas control room is and will continue to be the focus of physical control over the system. Customers can arrange with marketers and pipelines to move gas to the California border, but the LDC ensures that pressures are high enough throughout its distribution network to provide service on demand. Small variations will occur between what an end-user nominates and what arrives at the California border. **A balancing service** is entirely appropriate for the LDC to provide to help smooth out, within prescribed limits, these day-to-day variations between plans and circumstances. In the outline of rules above, we propose a fairly limited amount of balancing service which would be provided at no charge. We believe that customers should be given appropriate incentives to manage their monthly gas nominations and takes. We wish to parallel the rules which the Federal Energy Regulatory Commission implements for interstate pipelines. Our proposed rules are generally consistent with rules which have been filed in the Transwestern general rate case currently before the FERC.[2]

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2 See Transwestern's filing in FERC Docket Nos. RP89-222-000, RP89-222-001, and RP89-48-000.

At times customers will experience more than the normal, small variation in nominations and border deliveries. Again, it is appropriate for the LDC to provide a backup, or **standby** source of gas supply in these cases, if for no other reason than the difficulty and expense of shutting off gas flows to those customers experiencing large negative imbalances for whatever reason. Our proposed rules also allow LDCs to be standby "purchasers" for excess positive imbalances a customer might experience. Our standby proposal is designed to provide this service without placing the LDC's core customers in the position of subsidizing the noncore or providing noncore customers an incentive to overly rely on it. We ask parties to comment on whether we should consider imposing a penalty on customers which habitually take standby service from the LDC.

We have wrestled for nearly two years now with the difficult questions surrounding the marketing of **excess core supplies**, and have found them to be among the more difficult we have had to face. Under the structure we propose today, we again must grapple with whether to allow the LDCs to sell core gas to non-core customers when core loads cannot absorb core supplies.

We propose to forbid such marketing because the fundamental tenet of today's order is the desirability of removing the LDCs entirely from non-core procurement, and we are concerned that excess core supply marketing is a backdoor approach to maintaining LDC presence in that market. Under well-developed risk-management approaches to portfolio construction, LDCs should rarely if ever find themselves unable to make a core sale or inject their monthly core deliveries; should that occur, we would suspect that long-term supplies might form too high a percentage of the core portfolio. We are aware of the argument that this policy may cause LDCs to rely too heavily on short-term supplies and welcome suggestions on how to avert this situation. We believe it is essential that LDCs balance their reliance on long-term and short-term gas supplies for core customers.

Transition: Moving from the existing policies to the ones proposed here will be difficult. We invite interested parties to comment on the proper sequence, timing, and procedures for implementing our new policies. Broadly, we expect to order implementation of our final rules on the effective date of a final capacity brokering program, or on some specified date, no longer than one year from today, whichever is sooner. As we already stated, we intend to reactivate our capacity brokering proceeding when we issue proposed final rules in this Rulemaking.

Our proposed policy on the amount of "subscription core" service to which UEG departments of combined utilities will be allowed to commit may be particularly difficult to transition. We will not be precipitous in implementing any rule on this issue. We invite comments from all interested parties on the appropriate policy, the proper coordination with a capacity allocation mechanism and new pipeline capacity to California, and a reasonable schedule for implementation.

Comments: Though we are firmly committed to the goal of a "dual market" we articulated above, we encourage a broad range of comments on the policies we have proposed to achieve them. We invite all parties also to suggest innovative alternates to those policies, implementation procedures, and to advise us of any unforseen effects on related issues. Though we invite parties to comment as broadly as they wish, we would like to emphasize that the respondents to this Rulemaking MUST comment on the policies we propose here and propose detailed rules for their implementation.

INCENTIVES

The Commission is interested in exploring and possibly adopting new incentive mechanisms in this rulemaking. We are particularly interested in mechanisms which provide <u>both</u> positive and negative incentives to promote efficiency in core gas procurement and nongas costs. As a matter of policy, we prefer balanced incentives which have symmetrical upside and downside risk and which match the interests of shareholders with the interests of

ratepayers. With such incentives, we believe that utility management is more effectively challenged to pursue opportunities for increased efficiency. These mechanisms should mitigate the need to rely solely on reasonableness reviews to assure just and reasonable rates.

We are concerned that the current regulatory structure may rely too heavily on negative incentives to promote efficiency. We therefore invite parties to propose balanced incentive mechanisms and detailed rules for implementation in addition to their comments on changes to industry structure.

Core Gas Procurement

The prudency of core gas purchases is reviewed through reasonableness reviews. Currently, when utilities purchase gas to sell to core customers, the resulting costs and revenues are placed in a balancing account. This account ensures that utilities recover the cost of all prudent gas purchases, despite the gas prices and volumes forecasted in the Annual Cost Allocation Proceedings (ACAPs). If a utility buys gas at a lower cost than forecasted in the ACAP, utility shareholders must return these savings to ratepayers. Similarly, shareholders are not penalized if prudently incurred gas costs are higher than forecasted.

In this regulatory structure, utilities face only a negative incentive to minimize the cost of reliable gas supplies for the core. If any core gas purchases are found to be imprudent, the Commission may adopt a disallowance. The utility is not rewarded for good performance in core gas purchases. Some parties argue that this encourages utilities to be risk averse.

We note two possible mechanisms which might provide balanced incentives for efficient core gas procurement: an Annual Gas Rate (AGR), and a partially indexed gas rate. We invite parties to propose and evaluate other incentives mechanisms, but we particularly desire comments on these alternatives.

Annual Gas Rate: An AGR could be instituted as an incentive for LDCs to minimize core gas costs just as the Annual Energy Rate (AER) is currently used as an incentive to minimize

fuel and purchased power costs for electric utilities. The AER is an annually set rate designed to recover approximately 10% of these Commission adopted fuel costs, without balancing account protection for the utility. If a utility spends more on fuel and purchased power than is forecasted, its shareholders forfeit the difference on the portion of costs covered by the AER. If a utility spends less than forecasted, its shareholders keep the difference. The AER fraction is set at a level such that there would be a significant but reasonable amount of financial risk for utilities. Adopted fractions range from 8 to 22% depending on the electric utility.

Utilities recover the rest of their fuel and purchased power costs through Energy Cost Adjustment Clause (ECAC) balancing account rates. One advantage is that when shareholders benefit through the AER mechanism, ratepayers also benefit because lower total fuel costs create a refund for them in the ECAC balancing account. In this way shareholder and ratepayer interests are united.

Although the AER provides the correct incentives in theory, it has a number of disadvantages. First, its existence makes fuel and power purchase forecasts controversial in ECAC proceedings. Similarly, an AGR could make core gas cost forecasts more controversial in ACAPs. Second, annual readjusting of the AER distorts the effects of the incentive mechanism with regard to long run contracts. All of the associated savings or prudently incurred costs after the first year accrue to ratepayers when the AER is adjusted in the next ECAC proceeding. Finally, when major uncertainties that are out of the utilities' management control have arisen, utilities have successfully petitioned the Commission to suspend the incentive mechanism and reinstate full balancing account treatment.

We invite comments on the advantages and disadvantages of an AGR mechanism for core gas purchases. In particular we are interested in the appropriate level of financial risk, the effective time period for the AGR, the appropriate percentage of

gas costs to be covered by the AGR, and any other features that would help make an AGR an effective and balanced incentive.

Indexed Gas Costs: This mechanism would provide for core gas rates that change according to an index. For ratemaking purposes, a percentage or a specific quantity of core gas costs could be indexed to a general gas purchase price index. This index might be, for example, a national or North American city gate average cost of gas. The portion of gas costs tied to an index would be removed from balancing account treatment. It would be set in the ACAP forecast to equal the price of or change at the same rate as the index, regardless of utility or California-specific conditions. This is a balanced incentive mechanism. If the utility makes purchases that are more costly, on average, shareholders forfeit the difference. Conversely, if the utility makes purchases that are less costly, on average, the shareholders keep the difference. An advantage of this mechanism is that less costly purchases would also lower the average cost of core gas. This would benefit core ratepayers through the balancing account. The indexed portion of core gas costs could be made permanent, or instituted for a fixed number of years. A multi-year commitment to a particular index is important to prevent gaming on the choice of the index. This mechanism should give utilities an incentive to construct core portfolios which minimize long run gas costs.

As with the AGR alternative, we invite parties to comment on this alternative and to propose, if the Commission were to adopt partially indexed core gas costs, how the incentive should be constructed, what amount of core gas should be subject to the index, what should the index be, and for how long the mechanism should remain in place.

Nongas Costs

The Commission currently has two incentive mechanisms in place for the utilities to minimize nongas costs. The first is future test-year ratemaking. With this mechanism, forecasted base rates are used to adopt a forecast of nongas costs for a future test year. We use these forecasts to set rates in general rate

cases which are effective for three years. These rates are changed only by limited operational and financial attrition decisions each year. If the utility is inefficient and spends more than forecasted, it is limited in its ability to seek rate relief until the next rate case proceeding. If the utility is efficient and lowers costs, shareholders accrue the economic profits until rates are set again in the next general rate case. Future test year ratemaking therefore provides a balanced incentive to reduce nongas costs, though the incentive is limited because any cost differentials are shifted to ratepayers in the next rate case.

The Commission adopted the second incentive mechanism in the new gas regulatory framework (D.86-12-009, D.87-12-039). The Commission allocates only a portion of the utilities' rates of return to core rates. They must recover the remaining return in noncore gas transportation rates. If noncore transportation rates are too high, noncore customers may switch to alternate fuels, depriving the shareholder of part of their return. There is a balanced incentive for utilities to maximize noncore transportation volumes. If they exceed the forecast adopted in the ACAP, their shareholders benefit. If transportation volumes fall below the forecast, shareholders lose. This provides an incentive to minimize the nongas costs that are allocated to the noncore and included in transportation rates. When the utilities minimize such costs in order to be competitive with alternate fuels, these cost reductions also benefit core customers. Noncore transportation costs and revenues are subject only to partial balancing account treatment through the Negotiated Revenue Stability Account (NRSA). NRSA provides a "safety net" by mitigating very large differentials from forecasted costs. This account is set to expire in May 1990.

We ask parties to comment on whether these two incentives should be continued in their present form. We also ask parties to consider how the following three proposals might work alone or in concert with one another or the mechanisms currently in place.

Multi-year ACAPs: Under the current regulatory structure, a utility's incentive to maximize transportation volumes is diminished by the short time period between ACAPs. If a utility

successfully increases noncore transportation volumes in a year, thereby increasing returns to shareholders, those increases are conceptually incorporated into the next ACAP forecast. Some of the benefit of the increased volumes then flows to noncore customers. Even the competitive advantage of lower noncore costs could be decreased as higher volumes allocate more nongas costs to the noncore. One proposal to address these problems is to extend the period between cost allocation proceedings to two or three years. We invite comments on the advantages and disadvantages of implementing such a plan.

Base Rate Indexing: Indexing was described above as a balanced incentive mechanism to promote efficient core gas procurement. Similarly, it could be used to provide an incentive to minimize nongas costs. This approach has been recently adopted for phone companies because we saw major benefits due to more balanced incentives, less litigation, matching with competitive developments, and a guarantee that productivity benefits would be shared by ratepayers (D.89-10-031). We realize that the gas and telecommunications industries are quite different, and we urge parties to identify reasons why this approach may or may not be advantageous for the natural gas industry.

Risk Sharing Mechanisms: Full balancing account treatment and full rate indexing represent different ends of a risk and return spectrum. Balancing accounts provide minimal risk and minimal opportunity for improved earnings. Indexed rates provide greater earning opportunities but also greater risks. Any incentive mechanism which puts the utility at some level of risk for its transportation volumes may need a countervailing financial safety net which is triggered under certain extreme conditions. Such a net was created when the Commission adopted the NRSA, mentioned above. The purpose of this account has been to prevent both ratepayers and shareholders from experiencing large gains or losses from the lack of balancing account treatment for noncore transportation costs and revenues during a period of transition. The NRSA has effectively banded the effect that current incentive mechanisms could have on utilities' returns to a 300 basis point

difference from the authorized level. The NRSA is set to expire May 1, 1990. We invite parties to comment on whether such a safety net is necessary in conjunction with or without balanced incentive mechanisms. We note that during the initial year of our new program, both SDG&E and SoCalGas demonstrated the ability to meet or slightly exceed their throughput targets, and thus recovered additional earnings on non-core transmission. PG&E, largely as the result of a forecasting error, experienced the maximum revenue loss.

Conservation and Promoting Gas Use

There is increasing concern about meeting air quality standards in California's South Coast Air Basin as well as the Central Valley and the Bay Area. As discussed above, the current and proposed incentive mechanisms promote the use of natural gas by noncore customers. When gas usage displaces the use of alternate fuels there are air pollution control benefits, as gas is a cleaner burning fossil fuel. We recognize though, that these incentives to promote gas usage give utilities a disincentive to promote efficiency improvements by noncore customers. Natural gas conservation also has significant air pollution benefits and we are committed to reinvigorating the energy conservation programs of all regulated utilities.

This situation calls for an incentive mechanism which will promote gas usage by noncore customers vis-a-vis alternate fuels and at the same time promote efficient gas use. Given the potentially contradictory nature of these objectives we believe that such an incentive mechanism would be difficult if not impossible to construct. We may therefore be forced to place a higher priority on one of the two objectives.

We are inclined to maintain an incentive structure which ties LDC earnings to throughput to increase noncore transportation volumes. If utilities were not given an incentive to promote gas usage by noncore customers, the use of more polluting fuels would increase and average gas rates would rise. Further, noncore customers are generally profit motivated businesses which have the

resources to make cost effective energy usage decisions. We will consider comments, however, on the desirability of instituting balancing account treatment of noncore transportation costs and revenues in order to promote gas conservation. We would most welcome any suggestions on how we might promote both gas usage vis-a-vis alternate fuels and efficient gas use.

SCHEDULE

This rulemaking will proceed according to the following schedule with procedural dates for the second round of comments to be determined in a subsequent order:

1. February 7, 1990: Commission serves order on respondents and appearances in R.88-08-018 and I.86-06-005.
2. March 23, 1990: Respondents and interested parties file comments with the Commission.
3. Commission issues proposed rules.
4. Respondents and interested parties file comments and reply comments with the Commission.
5. Commission adopts final rules.

IT IS ORDERED that:

1. The following utilities are respondents to this rulemaking: Pacific Gas and Electric Company, Southern California Gas Company, and San Diego Gas and Electric Company. The Executive Director shall serve a copy of this order on each respondent, as well as on all appearances in R.88-08-018 and I.86-06-005.

2. The respondents and interested parties shall file an original and twelve copies of their comments with our Docket Office by March 23, 1990, forty five days from the effective date of this order. Comments shall be served on the respondents and on the appearances in R.88-08-018 and I.86-06-005. All parties filing comments shall attach a certificate of service to the comments which are tendered to the Docket Office. There will be no reply comments.

3. The proper scope of any comments filed in this proceeding shall be detailed rules consistent with the outline of proposed changes to industry structure as described in this order. Parties proposing alternate industry structures, if they expect them to receive serious consideration, must submit detailed rules for implementation which are consistent with that structure.

4. Parties are invited to propose balanced incentive mechanisms, specific rules for their implementation, and a procedural schedule for their consideration.

5. The service list for this rulemaking is appended to this order.

This order is effective today.

Dated **February 7, 1990**, at San Francisco, California.

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners

I will file a written concurring opinion.
/s/ G. MITCHELL WILK
President

I will file a written concurring opinion.
/s/ FREDERICK R. DUDA
Commissioner

G. MITCHELL WILK, Commissioner, concurring:

Today, we issue two orders that should be viewed together as the next logical steps in our evolving gas regulatory framework.

Without question, the most vital next step is resolution of the pipeline capacity issue. What began as a narrowly defined debate over gas supply to the Enhanced Oil Recovery (EOR) market has now been appropriately addressed by this Commission as a long-term strategic policy for access to a greater diversity of additional gas supplies for California's future. It couldn't have come at a better time. Had we listened to parties calling for a pipeline to serve only the EOR market, we might have seriously short-changed this State's economic and energy future.

California enjoys a position as the largest single domestic market for natural gas, and our needs are growing, especially in the face of new environmental priorities. We should exercise this market power to serve the best interests of both our core and noncore markets. Today's order on pipeline capacity reflects our long-held priorities and policies, with which most of the pipeline proponents have, to varying degrees, complied. It is now up to the considerable competitive forces between the various proposed projects and their intended customers to determine which project(s) should be constructed, when, and how large they should be. It is appropriate, and consistent with my long-held view, that such forces are able to make these decisions without the implied arrogance of government intervention into such details.

While the delay in reaching this decision may have frustrated some parties, all factual evidence as reflected in the ever-evolving project proposals demonstrates conclusively that our process has worked. It is now up to the project sponsors and their customers, including the utilities, to accept their responsibilities and make the market work: The ball is no longer in our court; the regulators have acted.

The ultimate costs associated with new pipeline capacity designed for California's growing needs should be born by those who benefit, and both core and noncore are advantaged by additional, even reasonable "excess" capacity. Any future cost allocation proceedings before the Commission should recognize this result.

Turning to the OIR, I believe this rulemaking is an essential and logical follow-up to the process of "re-examination" started by last fall's En Banc hearing. I have been frustrated with the direction and results of our original gas policies, and thus felt both the En Banc and the OIR approach would serve to expeditiously identify problems and correct them.

The proposed rules address noncore issues and the occasionally awkward participation of our gas and electric utilities in the noncore marketplace. The overwhelming evidence from the En Banc was the need to "level the playing field" (assuming, of course, both new pipeline capacity and a program of capacity allocation are in place). Today's OIR will hopefully stimulate more than just the predictable expressions of economic self-interest, whether producer, transporter, or user. Instead, I look to the parties to help this Commission formulate policies that will both promote and realize the benefits of a competitive noncore market. I strongly believe there can be no sacred cows except the insulation of the core (both electric and gas) from excessive risk.

In the final analysis, the success of our gas program will be evidenced by <u>both</u> a secure core at fair prices <u>and</u> a competitive noncore marketplace where buyer can meet seller on fair terms.

G. MITCHELL WILK, Commissioner

February 7, 1990
San Francisco, California

FREDERICK R. DUDA, Commissioner, concurring.

I strongly support the majority opinion because it sets California more clearly in a position to make gas procurement truly competitive. Moreover, by separating the merchant function the incentives are better defined for LDC's and for gas merchants. With gas procurement more clearly defined by market forces, gas capacity allocation and gas storage transactions will occur without the encumbrance of complex gas procurement rules and mixed incentives.

I am particularly concerned to ensure that capacity allocation and storage be more competitive and more market driven under procurement procedures such as those defined in the draft rules. If core-election is discontinued, it will signal that all gas procurement is subject to the same rules (the proverbial level playing field is created) and that gas capacity brokering can occur without undue advantage to any party. This seems especially important in light of recent proposals before the FERC, such as the proposal by Transwestern, to set forth capacity brokering. In order for other interstate pipelines to embrace capacity brokering, special advantages in procurement and the use of pipeline capacity must be eliminated.

This Order and the companion interstate pipeline Order clearly signal that California wants intra-regional and inter-regional gas-on-gas competition, as well as pipeline-on-pipeline competition.

With respect to these proposed changes in procurement rules, the proper sequence, timing, and procedures are of great importance. As I said today, I intend to carefully examine the appropriate timing of these changes in light of other developments such as new pipeline construction.

/s/ FREDERICK R. DUDA
Frederick R. Duda, Commissioner

February 7, 1990
San Francisco, California

APPENDIX A

1. Notice of November 1, 1989 En Banc Hearing
2. Agenda and Questions for Panelists at En Banc Hearing
3. Written Comments Submitted for En Banc Hearing

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

N O T I C E O F E N B A N C H E A R I N G

I. INTRODUCTION

The Commission believes it is time to conduct a mid-course evaluation of its natural gas program. The current regulatory framework, the product of a series of investigations and rulemakings beginning in 1984, has been in place since May 1, 1988. At that time, the gas transportation function was unbundled from the gas procurement function for noncore customers in California, allowing noncore customers to purchase gas from a variety of sources. The program has increased competition for the provision of natural gas to noncore customers and has given regulated natural gas utilities incentives to operate more efficiently. For core customers, the natural gas utility continues to procure and transport gas under traditional regulation.

Much progress has been made, but the program is still evolving and may require changes to make it better. Complaints have been raised which include: excessive market power of the regulated utilities in gas procurement for the noncore, unfair or inefficient cost allocation factors, and problems with nomination procedures for transporting natural gas.

Some of these problems will be solved in the near future as developments in the new gas program continue to be implemented. Outstanding issues in the gas procurement rulemaking (R.88-08-018) still exist. As part of that proceeding, hearings will be held during December 1989 and January 1990 to determine methods of allocating firm pipeline capacity. The Commission's gas storage banking program (I.87-03-036) will continue to be conducted as a pilot program for another year. As part of the "fine tuning" of the gas storage program, workshops are scheduled in October 1989. Finally, the Commission is conducting an ongoing investigation to

determine the need for new pipeline capacity to California. Proposals for new capacity are currently under consideration and further hearings are scheduled for October 1989.

Much of California's gas program also hinges on the actions of the Federal Energy Regulatory Commission (FERC). The FERC's decisions allowing customer-owned transportation and open-access pipelines paved the way for the new industry structure in California. Until the FERC approves a method for allocating firm pipeline capacity at the interstate level, however, California noncore gas customers will not have a satisfactory method of obtaining desired levels of transportation reliability.

The Commission is committed to implementing the essential structure of the new gas program. Rather than wait for the conclusion of these existing proceedings, however, the Commission would like to respond to the suggestions and criticisms that have been made by beginning an evaluation process. Such an evaluation has the benefit of giving the Commission a comprehensive overview of the existing program and the market outside the framework of existing formal proceedings.

The Commission will begin its mid-course evaluation with an *en banc* hearing beginning at 9:30 a.m. on November 1, 1989, to be held in the Commission Auditorium, 505 Van Ness Avenue, San Francisco, CA 94102. The *en banc* will focus on noncore procurement and transmission issues. Specifically, the Commission is most interested in hearing about problems and proposed solutions relating to regulated utility involvement in noncore procurement, current cost allocation and rate design, system reliability, and capacity allocation.

The Commission wishes to hear the broadest possible spectrum of opinion at its *en banc*. We seek written comments from all interested parties on the issues outlined in this Notice. These comments will help us to ensure that the speakers at the *en banc* accurately reflect the full range of interests and opinions on noncore gas procurement and transmission issues. Later in this Notice, we raise specific questions and list the procedures for filing comments.

Following this, the Commission may convene workshops to further consider solutions to problems which were identified at the *en banc*. If workshops are scheduled, they will take place in early 1990 allow for completion of already-scheduled hearings and workshops in the procurement, storage, and pipeline capacity proceedings.

II. THE CURRENT GAS PROGRAM

The current gas program is the result of over five years of rulemakings, investigations, and decisions. Attachment A summarizes the major proceedings that led to the current regulatory framework.

The regulatory framework for natural gas in California separates customers according to their demand characteristics and alternative fuel capability. Core customers have no alternative fuel capability. They continue to receive traditional, bundled gas service from the utility. Noncore customers have actual or potential alternative fuel capability or are sophisticated enough to arrange for their gas supply. For these customers, the transportation function has been unbundled from the procurement function.

Although the transmission services have been unbundled from the procurement services for noncore customers, regulated gas utilities retain their monopoly status in gas transmission. Most noncore transportation tariffs are made up of four components: (1) a customer charge, (2) a demand charge that is based on average annual usage, (3) a demand charge that is based on peak usage, and (4) a variable transportation rate. To enable the utility to compete against alternative fuels, the utility is allowed to discount transportation rates to noncore customers as necessary to keep large customers on utility systems. Thus, tariffed transporation rates are effectively ceiling rates for noncore customers who are unable to negotiate a better deal with the utility.

To give gas utilities the incentive to keep load factors high, the Commission's transmission rate design allocates part of the utility earnings to the variable transportation rate. Utilities are at risk for recovery of fixed costs allocated to the noncore, although this risk has been partially mitigated by the negotiated revenue stability account (NRSA).

Using the gas transmission services of the regulated utility, noncore customers can buy gas directly from a producer, a natural gas broker, or one of the Commission-approved gas portfolios offered by the regulated gas utility. The utility is allowed to offer gas from one of two gas portfolios designed exclusively for the noncore: a spot gas portfolio and a 30-day firm gas portfolio. The 30-day firm portfolio was authorized in D.89-04-080, but currently no utility is offering gas from such a portfolio. The utility is also allowed to offer core portfolio gas to noncore customers who "elect" to receive this gas for a period of one year or more. Noncore customers are allowed to elect core portfolio procurement service only when the core portfolio price is higher than the current noncore portfolio price. Utilities may not target gas supplies to particular noncore customers, nor can they offer any other type of noncore portfolio.

III. ISSUES FOR THE EN BANC HEARING

The Commission requests written comments on the following set of specific questions. These questions are meant to elicit responses in areas of particular interest to the Commission. The Commission wishes to hear the broadest spectrum of opinion on noncore procurement and transmission issues. Parties are welcome to include information in other areas if necessary to support their opinions in these two areas.

I. NONCORE PROCUREMENT

1) What are the problems and benefits associated with continued regulated utility procurement for noncore customers? What facts, particularly from the first one and one-half years of the new gas program, support your answer?

a) If there are significant problems, are there solutions short of removing regulated utilities from noncore procurement? (e.g. implementing a capacity brokering program)

b) What would be the best procedural course (OII, rulemaking, workshops, etc.) for the Commission to consider further the role of utilities in noncore procurement?

2) Assume that the Commission decides to adopt a policy which prohibits regulated utilities from procuring gas for noncore customers. What would your proposal be? In your answer, please comment specifically on:

a) What should be done with the core-elect procurement option?

b) Should utilities be allowed to participate in noncore procurement through unregulated affiliates? If so, should they be allowed to contract with the parent (regulated) utility?

c) If the Commission allowed utilities to set up unregulated affiliates, what safeguards against cross-subsidization between parent and affiliate would be necessary?

d) If the Commission allowed utilities to set up unregulated gas procurement affiliates, how should the combined electric and gas utilities arrange for gas supply for their utility electric generation (UEG) load?

e) How would such a proposal interact with current gas issues under consideration by the Commission:

1) Capacity brokering, both intra- and interstate;
2) Storage;
3) Additional pipelines; and
4) Other procurement issues

f) How will this policy benefit noncore customers? What will be its effect on the commodity price? Is there a danger that a few gas procurers could dominate the market, thus lessening competition? What effect, if any, will this policy have on gas-on-gas and oil-on-gas competition? What facts support your answer?

g) How would the Commission maintain current levels of supply reliability and price stability for core customers? Is there a danger that more supply or price risk would be placed on the core portfolio? What facts support your answer?

II. NONCORE TRANSMISSION

1) System Reliability

a) Which problems with the current gas program can be attributed to a lack of capacity?

b) Do current curtailment policies need reform? Be specific and briefly document you response.

c) Has the pilot storage banking program been successful? By what criteria? What changes, if any, does it need to make it a permanent service to the noncore?

d) Will a capacity brokering program help to solve current problems?

2) Cost Allocation and Rate Design

a) Are existing Commission cost allocation and rate design policies seriously inequitable or inefficient?

b) Should the Commission develop a long-run marginal cost allocation or improve the existing embedded-cost allocation when considering reform of cost allocation policies?

c) Has the Commission gained enough experience with the new gas program to consider changing the noncore rate design? If so, what changes should be made? What would be the likely impact of these changes on core customers?

IV. PROCEDURE FOR FILING COMMENTS

Parties responding to the issues raised in this Notice should file 25 copies of their comments with the Strategic Planning Division, c/o Jody Pocta, 505 Van Ness Avenue, San Francisco, California 94102. Comments must be received no later than October 23, 1989 and should be no longer than 40 pages. Documentation to support claims made within the page limit may be filed as appendices attached to the comments. Filed comments should include a summary of no more than three pages. Commenters should also mail copies of their comments to all parties in R.88-08-018 and I.88-12-027 (service list attached as Attachment B) and to any other party requesting such information.

R.90-02-008 DSP/ /lmz

The *en banc* hearing will be conducted in a panel debate format. The panel topics will be similar to those presented above for written comment. Parties invited to speak at the *en banc* will be notified.

/s/
WESLEY FRANKLIN
Acting Executive Director

September 22, 1989
San Francisco, California

ATTACHMENT A

THE CPUC'S REGULATORY FRAMEWORK FOR NATURAL GAS:
SUMMARY OF MAJOR INVESTIGATIONS, RULEMAKINGS, AND DECISIONS

I.84-04-079 "Investigation of the Owens-Illinois gas transportation complaint"

D.85-12-102 The Commission adopts a long-term gas transportation program.

D.86-03-057 The Commission orders short-term gas transportation tariffs and outlines new rate design and regulatory structure.

R.86-06-006 "Proposed refinements for new regulatory framework for gas utilities"

I.86-06-005 "Implementing a rate design for unbundled gas utility services consistent with policies adopted in D.86-03-057"

These concurrent proceedings developed details of the new regulatory framework for natural gas.

D.86-12-009 In this decision, the Commission adopted rate design principles for the new gas industry structure including the unbundling of noncore rates. The decision suspends non-EOR, long-term transportation tariffs.

D.86-12-010 In this decision, the Commission adopted the new rules for the regulatory and industry structure for natural gas in California. Formalized the transmission/procurement framework for the natural gas industry in California. Defined large and alternative fuel customers as "noncore" and set principles for future unbundled service. Adopted core and noncore procurement guidelines. Adopted the stipulation endorsing the negotiated revenue stability account (NRSA, a temporary risk-sharing mechanism for utility earnings in noncore transmission) and the Annual Cost Allocation Proceeding (ACAP).

D.86-12-009 and D.86-12-010 were modified in part by D.87-02-029, D.87-03-044, D.87-05-046, D.87-07-044, D.88-03-085, and D.89-07-017. Specifically, D.87-03-044 retained embedded cost-based rates during initial years of the gas program and ordered long-run marginal cost studies. Also, D.86-12-010 was modified by D.89-07-017 in regard to certain cost-of-gas accounting procedures.

D.87-12-039 The Commission adopted rates based on the rate design principles and industry structure set forth in D.86-12-009 and D.86-12-010 for implementation on May 1, 1988. Decision adopted necessary parameters for implementation such as cost of gas and throughput forecasts. Among other things, this decision addressed transition costs. D.87-12-039 was modified in part by D.88-03-041, D.88-03-085, and D.89-07-017.

I.87-03-036 "Procurement and System Reliability issues deferred from D.86-12-010"

Issues considered in this OII include consideration of PG&E's commodity pricing flexibility proposal, the Tussing/Barlow proposal, underground storage proposals, firm interstate pipeline capacity access, and multiple noncore gas portfolios offered by utilities. Also in this investigation, the Commission set out to review core procurement guidelines.

In addition to issues identified in D.86-12-010, further issues were deferred from D.87-12-039 and added to this investigation. These issues included brokerage fees and priority charges.

D.88-11-034 After hearings on various storage banking proposals, the Commission authorized a pilot storage banking program. The decision also provides the principles and policy for a permanent gas storage banking program.

R.88-08-018 "Natural gas procurement and system reliability issues"

This rulemaking, when opened, was immediately consolidated with I.87-03-036. The OIR addressed

the outstanding issues from the procurement OII. In the rulemaking order, the Commission found, among other things, that the Tussing/Barlow proposal was premature at that time.

D.88-12-099 First decision from the procurement rulemaking. In it the Commission supported the concept of market-based utility pipeline allocation proposals and ordered utilities to file detailed proposals. The Commission retained the core-elect option. EOR steamflood customers were assigned End-Use Priority 5.

D.89-03-014 Commission adopts policies regarding brokerage fees for utility procurement services.

D.89-04-080 Commission addresses core procurement and marketing policies. Detailed core sequencing guidelines were not adopted. A policy of optional Commission approval of long-term gas supply contracts was set. The Commission ordered that the portfolio price for core-elect customers was to be updated monthly. A new 30-day firm noncore gas portfolio was authorized. The Commission also set the scope of noncore procurement reasonableness reviews.

I.88-12-027 "Interstate natural gas pipeline supply and capacity available to California"

D.89-02-071 Commission directs utilities to continue negotiations for capacity assignments and new capacity. Indicated that a higher level of utility service is appropriate.

End of ATTACHMENT A

ATTACHMENT B

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End of ATTACHMENT B

R.90-02-008 DSP/ /lmz

California Public Utilities Commission
Natural Gas Program En Banc Hearing
November 1, 1989

AGENDA

9:30-9:45 Introduction and comments by Commissioners

9:45-10:30 Paul Clanon and Mike Day, CPUC

Where is the gas program today?
Summary of Comments received

10:30-10:45 Break

10:45-12:15 **Panel A:** Removal of Regulated Utilities from Noncore Procurement

Panel Members: Arlon Tussing, 5 Producers
Roger Berliner, Canadian Producer Group
Keith McNair, Mock Resources
Southern California Gas Company
Pacific Gas and Electric Company

12:15-1:15 Lunch

1:15-2:15 **Panel B:** Implementation and Alternatives

Panel Members: Norman Pederson, So. Calif. Utilities Power Pool/Imperial Irrigation District
Keith McCrea, Calif. Industrial Group/Calif. League of Food Processors
Erik Jacobson & Mark Pocta, CPUC Division of Ratepayer Advocates
San Diego Gas and Electric Company

2:15-2:30 Break

2:30-3:30 **Panel C:** Cost Allocation and Rate Design

Panel Members: Mike Florio, Towards Utility Rate Normalization

Kenneth Baskin, Southern California Edison Company
Terry Murray, CPUC Division of Ratepayer Advocates
Southern California Gas Company
Pacific Gas and Electric Company

3:30-4:45 5 Minute presentations

4:45-5:00 Commissioner closing comments

R.90-02-008 DSP/ /lmz

California Public Utilities Commission
Natural Gas Program En Banc Hearing
November 1, 1989

PARTIES SCHEDULED FOR 5-MINUTE PRESENTATIONS

Manuel Alvarez, California Energy Commission

Matt Brady, California Department of General Services

Ron Merritt, State of New Mexico
Ken Randolph, Natural Gas Clearinghouse

Steven Boss, Sunrise Energy Co.

Christopher Foster, Trigen Resources Co.

Pat Power; Long Beach, Bonus, SPURR

Andrew Safir, City of Palo Alto

Steve Harris, Transwestern Pipeline

Indicated Producers

R.90-02-008 DSP/ /lmz

California Public Utilities Commission
Natural Gas Program En Banc Hearing
November 1, 1989

INFORMATION FOR PANELISTS

Format: Each panel will begin with 5 minute opening statements by the panel members. The panelists are asked to address the appropriate questions below. The remainder of the panel time will be for discussion among the panelists and questions by the Commissioners.

Panel A: Removal of Regulated Utilities from Noncore Procurement

1. Why should the Commission consider any proposal of this type?

2. If the Commission adopts such a policy in general, what would your specific proposal be?

3. How will Core-elect fit into your proposal?

Panel B: Implementation and Alternatives

1. If the Commission adopts a policy to remove utilities from noncore procurement, how do you recommend addressing some of the implementation issues?

   Such as:

   o Affiliate transactions

   o System reliability

   o Standby service

2. If you don't think this kind of proposal is necessary, what other solutions are appropriate?

   For instance:

   o Capacity Brokering

   o New pipelines

   o The existing program with minor adjustments

Panel C: Cost Allocation and Rate Design

1. Is the Commission's existing natural gas cost allocation methodology seriously inequitable or inefficient?

2. Should the Commission change its cost allocation methodology or noncore rate design? What will be the effect of your recommendation on the various customer classes?

3. What should be the role of long run marginal cost in the Commission's natural gas cost allocation and rate design policies?

Written Comments Submitted for November 1, 1989 En Banc Hearing

1. Bonus Gas Processors (Bonus)
2. School Project for Utility Rate Reduction (SPURR)
3. City of Long Beach
4. California Industrial Group and California League of Food Processors
5. El Paso Natural Gas Company
6. Trigen Resources Corporation
7. Cogenerators of Southern California
8. San Diego Gas & Electric Company
9. Oryx Energy Company
10. GasMark Incorporated
11. California Gas Producers Association
12. Salmon Resources Limited and Mock Resources Incorporated
13. City of Palo Alto
14. Southern California Utility Power Pool and Imperial Irrigation District
15. Toward Utility Rate Normalization (TURN)
16. Sunrise Energy Company
17. Indicated Producers Group
18. Canadian Producer Group
19. Natural Gas Clearinghouse
20. Alberta Petroleum Marketing Commission
21. California Energy Commission
22. University of California
23. Amoco Production Company
24. State of New Mexico

25. Poco Petroleums Limited
26. Division of Ratepayer Advocates, CPUC
27. Shell Western Exploration and Production Incorporated and Shell Oil Company
28. ARTA Incorporated
29. Southern California Edison Company
30. Pacific Gas & Electric Company
31. Southern California Gas Company
32. Transwestern Pipeline Company
33. Carlton Forge Works
34. Energy Factors
35. California Department of General Services

End of APPENDIX A

R.9 02-008 DSP| |lmz

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I, WINNIE LEE, declare:

I am over the age of 18 years, not a party to this proceeding, and am employed by the California Public Utilities Commission at 505 Van Ness Ave., San Francisco, California.

On, FEB 14 1990, I deposited in the mail at San Francisco, California, a copy of:

(DECISION NUMBER or TYPE of HEARING)

(DATE of HEARING)

R 90 02 003

(APPLICATION/CASE/OII/OIR)

in a sealed envelope, with postage prepaid, addressed to the last known address of each of the addressees in the attached list.

I declare under penalty of perjury that the foregoing is true and correct and that this declaration was executed on FEB 14 1990, at San Francisco, California.

Winnie Lee *

WINNIE LEE

*Signature and stamped name

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A. 87-01-033
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