BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Rulemaking on the Commission's Own Motion to Assess and Revise the Regulatory Structure Governing California's Natural Gas Industry.

ORDER INSTITUTING RULEMAKING

By this order, we open a rulemaking to assess the current market and regulatory framework for California's natural gas industry and to adopt reforms which emphasize market-oriented policies that will benefit all California natural gas consumers.

For over a decade, federal and state regulatory agencies have instituted and implemented policies to provide customers with access to competitive natural gas supplies. Reform of California's natural gas industry has opened access to highly competitive production supply markets serving the state, encouraged competition for transporting those supplies over interstate and intrastate pipelines, and provided alternatives for managing and hedging gas supply options such as storage services. The Commission encouraged these changes by adopting market-oriented policies with respect to unbundling a limited number of utility services, the pricing of utility services, and building new facilities for transmission and storage.

The majority of California's large consumers now purchase gas from competing non-utility providers such as marketers, brokers, or suppliers, and arrange to transport their supplies over the interstate and intrastate transportation systems. In this manner, these customers are able to select from competitively-priced service options. To a limited degree, residential and small commercial customers may make similar arrangements by aggregating their purchasing requirements.

These reforms have brought benefits to California consumers, but we expect that additional benefits to consumers will be realized by expanding opportunities for competition in the natural gas industry. Additionally, we believe that restructuring
R.98-01-011 DSP/abc *

restructuring policies, has sought to bring small consumers the benefits of direct, unfiltered access to competitive services. We establish this rulemaking to ensure that all California consumers have a multitude of meaningful choices in energy services and that they have every opportunity to benefit from the greater efficiencies and service innovations we expect from competitive energy markets.

QUESTIONS/COMMENTS

In order to provide the Commission with additional insight and information, we invite interested parties to respond to questions in Attachment A, which focus on the DSP report.

Interested parties are invited to file written responses to the questions on or before February 20, 1998. Written responses to this rulemaking must be filed with the Commission Docket Office and served on all parties on the service list of the proceeding and on the Division of Strategic Planning.

Within ten days from the date of this order, any person or representative of an entity interested in monitoring or participating in this rulemaking should send a letter to the Commission's Process Office 1) asking that his or her name be placed on the service list, and 2) stating his or her interest as either "monitoring" or "participating." ² A service list will be created and distributed shortly thereafter. We note that we will be posting significant documents (e.g., rulings, decisions, comments) in this proceeding on the Commission's web site (www.cpuc.ca.gov), and many people may find it more convenient to follow this proceeding by checking the web site. No letter is needed to monitor in this fashion.

² Persons stating an interest in monitoring the proceeding will be placed on the “Information Only” portion of the service list and not have party status. Only rulings and Commission decisions are distributed to the “Information Only” portion of the service list. Persons stating an interest in participating (i.e., intention to file comments) will be placed on the service list as a party.
If any party to this proceeding believes that an evidentiary hearing for the presentation of adjudicative facts is required in this proceeding, that party must file a motion no later than ten days after the filing of comments. The motion must request an evidentiary hearing and justify the need for an evidentiary hearing by identifying the material disputed factual issues on which a hearing should be held. In addition, this motion should identify the general nature of the adjudicative evidence the party proposes to introduce at the requested hearing. Any right a party may otherwise have to an evidentiary hearing for the presentation of adjudicative facts will be waived if the party does not follow the above procedure for a timely request.

A copy of this rulemaking and the attachments may be obtained from the Commission’s web site. Alternatively, a copy may be obtained by contacting the Commission’s Central Files Office at (415) 703-2045 or the Commission’s Public Advisor’s Office in Los Angeles, California (213) 897-3544.

If parties are interested in participating in this rulemaking and are unfamiliar with Commission procedures, they should contact the Commission’s Public Advisor Office at either (415) 703-2074 or (213) 897-3544.

**IT IS ORDERED** that:

1. A rulemaking is instituted on the Commission’s own motion to assess the regulatory structure governing California’s natural gas industry. The rulemaking will consider reforms to the current regulatory framework governing natural gas services in California to expand the use of market-oriented policies to benefit all California natural gas consumers. The initial focus of this rulemaking will be the Division of Strategic Planning’s report, *Strategies for Natural Gas Reform: Exploring Options for Converging Energy Markets* (Attachment C) and issues raised in response to the questions contained in Attachment A of this order.

2. Any person or representative of an entity interested in participating in the rulemaking as a party must send a letter to the Commission’s Process Office within ten (10) days from the date of this order. Any person or representatives of an entity not seeking party status but interested in being placed on the “Information Only” portion of
adjudicative facts, and preliminary scoping memo, including the description of issues and the timetable for resolving this proceeding.

7. If any party to this proceeding believes that an evidentiary hearing for the presentation of adjudicative facts is required in this proceeding that party must file a motion making that request no later than ten (10) days after the filing of comments. Any right a party may otherwise have to an evidentiary hearing for the presentation of adjudicative facts will be waived if the party does not follow this procedure for a timely request.

8. The Executive Director shall cause a copy of this order to be served upon all California electric and natural gas corporations, and all interested parties in Application (A.) 96-03-031/A.96-04-030, A.96-08-043, A.94-05-010, A.91-01-006, Rulemaking (R.) 97-04-011, and R.90-02-008.

This order is effective today.


P. GREGORY CONLON
President
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
RICHARD A. BILAS
Commissioners
ATTACHMENT A

Rulemaking Questions

In general, the Commission wants to hear any comments with respect to the Division of Strategic Planning's report, *Strategies for Natural Gas Reform: Exploring Options for Converging Energy Market*, in Attachment C of the rulemaking. In addition, the Commission seeks responses to the following questions on the report.

**General questions:**

1. What reforms to California's regulatory policies governing its natural gas marketplace are necessary? What are the industry's and other stakeholders' priorities for natural gas reform in California?

2. Are the reform categories (i.e., consumer protection, unbundling and other reforms, regulatory streamlining, market structure reform) upon which the report is based the appropriate areas for the Commission's attention? Are there others?

3. The report discusses the synergy between the gas and electric industries, and the resulting need to establish largely parallel reforms and structures between them in order to maximize the benefits of competition. Are there differences between the gas and electric industries that make it unnecessary to establish parallel reforms:
   - in promoting customer choice for residential and small commercial consumers?
   - in consumer protections and public purpose programs?
   - in services to be unbundled, such as revenue cycle services like real-time and time-of-use metering, and in the safety issues related to providing competitive metering and after-meter services?
   - in market power or anti-competitive behavior concerns?

4. Is the converging marketplace described in the report a fair assessment of utility industry trends?

5. How should the Commission proceed in implementing the report's recommended strategies? What kinds of processes would be necessary and/or useful in considering the issues and recommendations raised in the report? Discuss a timeframe in which the recommended strategies should be implemented?

**Questions on Competitive Issues:**

6. Does the set of recommended strategies for regulatory reform (Chapter VIII) create an appropriate market and regulatory framework for California's natural gas industry? Does that structure enhance the benefits of competition for consumers?
on this issue from industry participants with day-to-day gas industry experience on
this issue.

17. Are the options for mitigating potential anti-competitive behavior the appropriate
options the Commission should consider? Are there others? What are the legal
implications and/or impediments to the options?

18. Does the gas utility’s access to, and use of, financial market tools (such as
derivatives, hedging, etc.) raise anti-competitive issues? If so, how? And, how
should these concerns be resolved?

19. Respond to the report’s discussion on the implications of eliminating the utility
procurement function. Are there other implications not raised in the report?

20. Respond to the criteria and other transitional measures presented in the report for
eliminating the utility procurement function. What are specific criteria that should
be used? Are the transitional mechanisms discussed in the report appropriate or
adequate?

21. What should be the utility’s role in the emerging energy marketplace with respect to
the provider-of-last-resort and backstop provider?

22. Is a default provider necessary? What are the relative merits of the default provider
alternatives described for Option 3 in Chapter VI?

Questions on Consumer Protection and Public Purpose Programs:

23. In Chapter VII, the report emphasizes the need to have consumer protections which
are similar to those in the electric industry. Is this necessary? Why or why not? Are
there other protections which should be considered?

24. Are there other state agencies or other entities better positioned to ensure consumer
protection and monitor for customer fraud and other marketing abuses?

25. The report emphasizes the need to treat the administration and funding of gas
public purpose programs similar to electric public purpose programs. Is this
necessary? Why or why not?

26. What public purpose programs should be included in a nonbypassable natural gas
surcharge?

(End of Attachment A)
# ATTACHMENT B
## Proposed Timetable for the Rulemaking

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
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<tbody>
<tr>
<td>February 20, 1998</td>
<td>Comments due from respondents and interested parties on the Division of Strategic Planning’s report (Attachment C). Comments should include any objections to the Order regarding categorization of the proceeding, need for hearing, and the preliminary scoping memo.</td>
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<td>March 2, 1998</td>
<td>Motions for evidentiary hearings, if any, are due to be filed.</td>
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<td>March 1998</td>
<td>Assigned Commissioner Scoping Memo Ruling issued.</td>
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<td>Appeals to categorization may be filed no later than ten days after Assigned Commissioner Scoping Memo Ruling. (Rule 6.4(a).)</td>
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<td>Response to the appeals may be filed no later than fifteen days after the date of categorization from which timely appeal has been taken. (Rule 6.4(b).)</td>
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<td>April 1998</td>
<td>Full panel hearings on the rulemaking.</td>
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<td>Reply comments filed.</td>
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<td>June 1, 1998</td>
<td>Draft decision issued for comment.</td>
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<tr>
<td>July 1998</td>
<td>Comments filed on draft decision.</td>
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<td>August 1998</td>
<td>Commission considers draft decision.</td>
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(End of Attachment B)
ATTACHMENT C

Strategies for Natural Gas Reform:
Exploring Options for Converging Energy Markets

Division of Strategic Planning
January 1998

(End of Attachment C)