

ORIGINAL

Decision No. 81802

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

SAN DIEGO GAS & ELECTRIC COMPANY,
a corporation,

Complainant,

vs.

SOUTHERN CALIFORNIA GAS COMPANY,
a corporation,

Defendant.

Case No. 9474
(Filed November 22, 1972)

Chickering & Gregory, by Sherman
Chickering, C. Hayden Ames, and
Donald J. Richardson, Jr.,
Attorneys at Law, and Gordon
Pearce, Attorney at Law, for
complainant.

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Peasley, Attorneys at Law, for
defendant.

Ralph Guy Wesson, Arthur T. Devine,
Attorneys at Law, and John O.
Russell, for the Department of
Water and Power, City of Los Angeles;
Rollin E. Woodbury, Robert J. Cahall,
and Robert Barnes, Jr., Attorneys at
Law, for Southern California Edison
Company; John W. Witt, City Attorney,
Robert J. Logan, Deputy City Attorney,
and Manley W. Edwards, Rate Consultant,
for City of San Diego; intervenors.

Henry F. Lippitt II, Attorney at Law,
for California Gas Producers Association,
interested party.

Janice E. Kerr, Attorney at Law, and
Colin C. Garrity, for the Commission
staff.

O P I N I O N

Southern California Gas Company (SoCal) sought to modify the service agreements under Schedules G-58, G-58-A, and G-61 in its Application No. 52696 for a rate increase.

In that proceeding SoCal sought to modify the delivery levels of service to supply the utility electric generation plants of its wholesale customer, San Diego Gas & Electric Company (SDG&E), vis-a-vis its retail utility generation plants served under Schedule G-58; and to modify the definition of contract demand to include any firm peaking requirements of SDG&E. In Decision No. 80430, the Commission took note of the gas supply shortage and its effects on the various steam-electric customers served by SoCal. The Commission weighed SoCal's proposal to deliver approximately equal percentages of the gas requirements of its three largest utility electric generating customers, namely, Southern California Edison Company (SCE), the Los Angeles Department of Water and Power (LADWP), and SDG&E.^{1/} The Commission staff supported SoCal's utility electric parity proposal with two major modifications, one of which would prevent some of the gas presently going to utility steam-electric plants being diverted to other customers and the other to apply a parity concept to Burbank, Glendale, and Pasadena (to discontinue the short-terming of the three cities' contracts). SoCal concluded that parity of deliveries to SDG&E steam plants could be made with the then existing G-58 customers, LADWP and SCE, without modification of the G-61 agreement, subject to Commission concurrence. Decision No. 80430 states in part, "Such concurrence will be forthcoming because it provides a fair basis upon which to resolve the relative level of service

^{1/} Utility electric gas supplied as a portion of wholesale delivery to SDG&E.

which SDG&E is to receive for its utility electric generation plants. That level of service will be set to approximate the levels of service of SCE and LADWP and to be operative until such time as a higher level of service would result under the G-61 agreement.

"Consistent with the G-61 agreement, the total annual deliveries to SDG&E including "make up" gas is intended to equal not less than the product of the contract demand of 221,000 Mcf per day times the 365 or 366 days in the year. This means that comparable levels of service with SCE and LADWP will be maintained only until the floor on level of service to SDG&E is reached as determined in relation to contract demand quantity. Thereafter, the level of service to SDG&E's utility electric generation plants would not, however, remain constant but would continue to decline as a result of growth in SDG&E's firm and regular interruptible customer requirements in relation to a fixed contract demand quantity of 221,000 Mcf per day."

Decision No. 80430 did not adopt SDG&E's proposal to continue to allow SDG&E's entitlement to gas supplies to be based upon its own Schedule G-54 nor did it modify the gas service agreement between SoCal and SDG&E. In that proceeding SoCal proposed to continue to maintain a parallel priority of deliveries to SDG&E's firm customers and regular interruptible customers, with deliveries to its own firm and regular interruptible customers, giving consideration to SDG&E's peak shaving ability.

Decision No. 80430 did not address itself to the question of the relationship of the peaking gas requirements of SDG&E as related to the floor level established for annual deliveries to SDG&E. The decision anticipated that the floor level would be reached at which time SDG&E's utility electric

supplies would no longer be governed by parity, achieved through establishment of a SDG&E electric DCQ of 157.1 MMcfd, but would be governed by SDG&E's other requirements and the floor. Due to continuing declines in the gas supply^{2/} of SoCal, it now appears that the floor level of deliveries to SDG&E will be reached in the near future.

SoCal filed Advice Letter No. 857 on November 20, 1972. This advice letter gave consideration to the increased daily and seasonal peaking demands of San Diego, modified charges for this change in service, and added the following sentence under the additional peaking demand paragraph of Section IV of the gas service agreement between SoCal and SDG&E: "It is understood that additional peaking demand gas volumes delivered to buyer under this paragraph during the winter period are not additive to the total volumes deliverable to buyer under other provisions of the gas service agreement."

SDG&E filed a protest as to provisions of the advice letter and concurrently filed the subject complaint case. On December 5, 1972, the Commission issued Resolution No. G-1566 which authorized SoCal to file rate sheets included with Advice Letter No. 857 to be effective on November 1, 1972. The resolution states in part "SoCal is willing to provide the required peaking service pending the Commission resolution of the issue as to whether such gas is additive to the total volumes deliverable under other provisions of the gas service agreement,...".

^{2/} Involving curtailments, greater than anticipated, from SoCal's out-of-state suppliers and major declines in California gas supplies.

Hearings in this matter were held before Examiner Levander in Los Angeles on February 27 and 28 and on March 1, 2, and 5, 1973. This matter might have been processed more expeditiously if SDG&E had made timely advance service of its exhibits upon the parties.

SDG&E's argument and evidence seeks to demonstrate that SoCal was attempting to change its service obligation from contract demand plus additional peaking gas to a lesser obligation of simply contract demand which would be deemed to include any peaking gas provided; that these deliveries of the same volume of gas at a higher price would result in an appreciable increase in the charges to SDG&E if it took peaking gas volumes. SDG&E contends that they would have to pay a demand charge under the basic gas service agreement and pay a second demand charge under the peaking gas contract for the right to take the identical total volume of gas; in addition it would have to pay a substantially higher commodity price for peaking gas taken; and that such increases in rates violate Section 454 of the Public Utilities Code. SDG&E sought to have the gas service agreement modified to eliminate the above-quoted addition to Section IV of the gas service agreement.

SDG&E submitted evidence concerning past agreements for peaking service; its requests to SoCal to increase its contract demand; the adverse and increasing economic effect upon it if the Commission should support SoCal's position; and explained their interpretation of the intent of Decision No. 80430 as related to peaking deliveries.

The city of San Diego (San Diego) supported SDG&E's position since adoption of SoCal's position would have adverse effects upon SDG&E's cost of operations which would result in increased charges to the citizens of San Diego and to the city as a major customer of SDG&E.

SoCal submitted evidence on past negotiations with its wholesale customers, the city of Long Beach and SDG&E; of the influence of the gas supply situation on SoCal's refusal to increase Long Beach's annual contract quantity or SDG&E's daily contract demand quantity. SoCal explained the cost basis for load equation service used by it in determining additional peaking charges. There are fixed and service charges associated with storage capability to deliver volumes over the contract demand quantity and additional commodity charges associated with such volumes delivered. SDG&E's position that SoCal is inconsistent in objecting to its supplier, El Paso, levying a demand charge on it for volumes not delivered vis-a-vis its position in regard to peaking charges to SDG&E does not consider that the El Paso demand charge is a DCQ, not a peaking charge, and that SoCal is holding itself out to deliver all of the quantities called for in the daily contract quantity plus daily peaking volumes (up to the daily and seasonal limits in Advice Letter No. 857) to meet SDG&E's peak firm demands.

SoCal's position is that it is their intent to assist their wholesale customers meet their peaking requirements if they could do so without endangering their other service responsibilities; that they would have to annually review their capability to provide the peaking services requested; and that their commitment to serve SDG&E is limited to and not apart from their contract.^{3/}

SoCal submitted an analysis of providing gas service for SDG&E under various conditions and the related effects on their retail customers for estimated years 1973 and 1974. The analysis

^{3/} The issue of SoCal's continuing obligation to supply gas to SDG&E need not be decided at this time; however, we would remind SoCal that we retain continuing jurisdiction in this area (Sec. 761, Public Utilities Code).

showed that (1) 1973 deliveries to SDG&E when governed by parity considerations for similar classes of service would exceed deliveries governed by the floor^{4/} under average year and cold year conditions but that deliveries governed by the floor plus peaking gas (SDG&E's position) would exceed deliveries on a parity basis; (2) 1973 hot year, 1974 hot, average, or cold year deliveries to SDG&E on a parity basis would be less than deliveries governed by the floor or the floor plus peaking; and (3) whether the 1973 or 1974 deliveries to SDG&E were governed by parity, the floor, or the floor plus peaking gas, the supply for SDG&E's firm and regular interruptible customers would not change for a particular temperature year (hot, average, or cold) but all of the variations for a particular temperature year would represent different levels of delivery to SDG&E's utility electric generation plants.

The level of service for SDG&E's utility electric generation plants slightly exceeds corresponding levels for SoCal's retail utility electric generation plants in 1973 under all temperature conditions. SoCal's estimated sales volumes will decline sharply from 1973 to 1974. The floor level of service as opposed to parity prevents a decline in SoCal's 1974 estimated deliveries to SDG&E of 8,685 MMcf on a cold year, 1,206 MMcf on an average year, and 11,866 MMcf on a hot year. The 1974 level of service to SDG&E's utility electric plants is over twice the level of service to SoCal's retail utility electric service for hot; average, and cold year conditions.

^{4/} 221 million cubic feet per day times 365 days per year equals 80,665 million cubic feet (MMcf) per year.

The following tabulation shows delivery levels to electric generating plants at the floor level plus peaking, and at the floor level:

SoCal Annual Deliveries :	Hot Year		Average Year		Cold Year	
For Electric Generating :	221 MMD	221 MMD	221 MMD	221 MMD	221 MMD	221 MMD
Plants :	Plus	:	Plus	:	Plus	:
:	Peaking	Floor	Peaking	Floor	Peaking	Floor

Volumes MMcf

SDG&E	26,724	26,441	22,168	21,063	19,532	17,442
Retail	83,298	83,465	60,712	61,366	48,001	49,252

Level of Service %

SDG&E	30.6	30.2	25.4	24.1	22.3	20.0
Retail	14.8	14.9	10.8	10.9	8.5	8.8

Deliveries to SDG&E in 1974 at the floor level would result in curtailment to SoCal's regular interruptible customers below parity levels. Curtailment of SoCal's regular interruptible customers would be increased if SDG&E received deliveries at the floor level plus peaking. SDG&E's peaking requirements are expected to increase in the future. Adoption of SDG&E's position would result in further disparity between comparable classes of customers in future years. SoCal's revenues would reflect the differentials in charges to the various customers curtailed. There would be a negligible effect on SoCal's revenues under the floor level plus peaking concept as opposed to the floor level concept if the decrease in retail utility electric service equaled increased sales to SDG&E,^{5/} and there will be a minor decrease in SoCal's revenues when additional curtailment affects SoCal's

^{5/} Under hot and average year 1973 conditions.

regular interruptible customers^{6/} (Tr 294). The major impact of this decision will be whether SoCal's G-58 and regular interruptible customers or SDG&E will have to buy additional quantities of a higher cost alternate fuel, if available, to offset SDG&E's peaking gas volumes.

It is this impact which leads SCE and LADWP to support SoCal and San Diego to support SDG&E. The Commission staff supports SoCal's position. LADWP and SoCal raised the issue of the equity of the floor concept in their briefs in view of the deterioration in gas supplies not contemplated in the proceedings in Application No. 52696. This proceeding is not the proper forum for making a determination of parity relationships between interruptible customers or if the floor level concept should be retained, nor is it the proper forum to evaluate increasing SDG&E's contract demand to include peaking requirements. These matters may be properly raised in the SoCal general rate increase proceeding, Application No. 53797.

The issue to be resolved in this decision is whether or not SoCal's peaking deliveries to SDG&E should be in addition to the floor level of deliveries. Since this point is not explicitly dealt with in Decision No. 80430 or in the gas service agreement we must look to our intent in establishing the floor. Our intent was to rectify the then existing service level imbalance between electric generation plants served at retail and by SoCal's wholesale customer; to initially establish comparable levels of utility electric generating service for SDG&E's, LADWP and SCE by establishing a DCQ for SDG&E; to provide equitable levels of service to SoCal's interruptible customers; and to establish an annual floor governing deliveries to SDG&E.

^{6/} Under cold year 1973, or hot, cold, and average year 1974 conditions.

Findings

1. Peaking gas deliveries to SDG&E should be a part of the floor level of annual deliveries. The floor is a minimum annual volume of deliveries to SDG&E. SoCal is obligated to deliver up to the contract demand volume of gas in any day to satisfy SDG&E's firm requirements, to avoid a reduction in charges provided for in the agreement. SoCal is obligated to deliver additional daily peaking demand gas volumes above the daily contract demand to meet SDG&E's firm requirements, subject to the terms of the gas service agreement.

2. SoCal's Advice Letter No. 857 contains a modification of its gas service agreement with SDG&E which includes peaking gas deliveries as a part of the floor level of annual deliveries, in conformity with our intent in Decision No. 80430.

3. Adding peaking gas deliveries to the floor would exacerbate disparities in service levels between SoCal's and SDG&E's interruptible classes of customers.

4. SoCal's charges to SDG&E are reasonable.

Conclusions

1. This complaint should be dismissed.

2. SoCal's Advice Letter No. 857 should be adopted as filed.

O R D E R

IT IS ORDERED that:

1. The complaint is dismissed.

2. The modifications to the gas service agreement as filed by Southern California Gas Company in their Advice Letter No. 857 are adopted as filed. ✓

The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 28th day of AUGUST, 1973.

Vernon L. Sturgeon
President
William J. Sturgeon
William J. Sturgeon
Commissioners

Commissioner D. W. Holmes, being necessarily absent, did not participate in the disposition of this proceeding.

I dissent.

Thomas M. ...

THOMAS MORAN, COMMISSIONER, Dissenting.

This Commission hereby dismisses the complaint of San Diego Gas and Electric Company against Southern California Gas Company, and thereby authorizes Southern California Gas Company to unilaterally modify its contractual obligations to San Diego Gas and Electric.

It appears that the Commission is taking this action on the simplistic rationale that the extra cost of fuel oil which will be incurred in the future by electric generating companies due to natural gas shortages should be borne more or less equally by customers of San Diego Gas and Electric, Southern California Edison, and the Department of Water and Power of the City of Los Angeles.

The direct effect will be to increase the cost of electricity to residents of San Diego County and decrease the cost to residents of Orange and Los Angeles Counties.

However, much more is involved. If this Commission is going to nullify contractual agreements simply to spread the extra cost of fuel oil above that of natural gas for the generation of electricity more evenly among residents of these three Southern California counties, I then see no justification for not going further and taking similar action to equalize the burden as among all 20,000,000

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residents of the State of California. Indeed why should not the Federal Government intervene and arbitrarily restructure priorities and even rates throughout the fifty states so as to equalize the impact of the natural gas shortage as among all citizens of the United States?

It appears to me therefore that by this decision, no matter how well-intentioned, this Commission (1) deprives the customers of San Diego Gas and Electric of the benefit of foresight and prudent judgment heretofore shown by San Diego Gas and Electric, (2) reduces the incentive of management of electric utility companies to use foresight and prudent judgment in the future, and (3) opens a Pandora's box of problems which may well affect in the future not only all residents of California but all residents of the United States.

August 28, 1973
San Francisco, California


Thomas Moran, Commissioner