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Decision 89 02 030 FEB 8 1989

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE Mailed FORNIA

FEB 10 1989

In the Matter of the Investigation on the Commission's own motion into the Pacific Gas and Electric Company's gas gathering operations, including the reasonableness of its charges and how it shall structure and offer the service in the future.	I.88-11-012 (Filed November 9, 1988)

O P I N I O N

In this order we address a petition for modification of Order Instituting Investigation 88-11-012 (I.88-11-012), filed by Pacific Gas and Electric Company (PG&E). We also address an emergency motion filed by the Gas Producers' Gathering Group (GPGG) asking the Commission to modify PG&E's transportation tariffs and a motion filed by the California Gas Producers' Association (CGPA).

I. PG&E's Petition for Modification

A. PG&E's Filing

PG&E filed on December 23, 1988 a petition to modify I.88-11-012. PG&E requests that the cost study ordered by our decision be modified, and that the date for its submittal to the Commission and the parties in this proceeding be changed.

We ordered PG&E to complete the study by March 9, 1989. PG&E's petition states that PG&E cannot comply with the cost study requirements in the amount of time provided. PG&E states it does not have the accounting information to determine the capital costs and expenses for each of the 100 gas fields used for transportation and gas gathering, primarily because it has not had to gather such cost data in the past. PG&E also states that it cannot provide information regarding 1990 costs because it cannot control or anticipate drilling activity or construction of new wells.

PG&E proposes to modify the cost study parameters by aggregating costs based on general geographic areas rather than by individual field. It also proposes a more extended schedule for completing the study:

1. By March 1, 1989, PG&E would provide a report regarding the geographic configuration of its system. The report would group together gas fields and develop data regarding the capital cost of facilities within each of these areas. The cost of gathering would be assumed to be the same throughout each area. The Commission would have an opportunity to provide feedback as to whether the proposed configuration was reasonable.

2. By April 15, PG&E would provide data regarding operation and maintenance expenses associated with each area.

3. By June 1, PG&E would provide data regarding revenue requirements and per unit costs, comments regarding whether gas gathering should be performed by a subsidiary and whether it should cease installing new gathering and processing facilities.

PG&E states the requested delay will not prevent the Commission from issuing its order in this proceeding by the end of the year.

B. Response of Division of Ratepayer Advocates (DRA)

DRA filed a response to PG&E's petition. DRA states that PG&E's cost study proposal does not adequately define the study to be performed. It proposes an alternative cost study outline (see Appendix A of this order), which provides for no less than 40 study areas. DRA believes that PG&E be required to explain how it applied the "primary function test" to the facilities in a given area in order to allow the parties to challenge the propriety of PG&E's classifications.

DRA's cost study outline requires that PG&E provide all information based on recorded 1987 data, with a projection of 1990 costs, as required by the Commission's order in I.88-11-012. DRA does not agree that PG&E cannot forecast 1990 costs, since PG&E has in-house job estimates by project. DRA also notes that the information required regarding geographic gas supply sources is the same information PG&E filed in its second annual cost allocation proceeding (ACAP).

DRA proposes a three-part filing procedure, although it does not propose a specific schedule. In the first phase of the cost study, PG&E would provide maps showing areas which PG&E proposes to aggregate and identify facilities located in each file a complete cost study for the areas which will encompass PG&E's Line 141 to illustrate how PG&E intends to develop area rates.

In the second phase, PG&E would provide cost information regarding capital costs and expenses to be allocated to specific gas gathering areas.

In the third phase, PG&E would provide a proposed revenue requirement for gas gathering facilities, a forecast of 1990 gas costs from its various supply sources, and its comments on other issues in the OII.

C. GPGG

GPGG is amenable to extending PG&E's deadline to April 14, 1989 as a compromise which will allow the Commission to issue its final order in this proceeding prior to the end of 1989. It proposes a phased procedure for the filing of PG&E's cost study. On February 15, PG&E would file information proposed as DRA's Phase I cost study. The parties would be permitted to comment on this portion of the study by February 27. The remainder of the study would be presented by April 14. GPGG also proposes that the hearings be rescheduled from the current date of June 19 to July 24.

GPGG proposes a cost study outline like that of DRA and considers it a reasonable alternative to that ordered by the Commission in I.88-11-012.

D. Amerada Hess Corporation (AHC)

AHC proposes the same cost study suggested by DRA. ACH states the proceeding should not be delayed, and suggests the Commission give PG&E a reasonable but strict schedule for completing the cost study.

E. California Independent Petroleum Association (CIPA)

CIPA states that PG&E's proposed modifications are a "bare bones" concept. CIPA states that PG&E has sold short the negotiations between PG&E and the other parties, and suggests that the cost study format is not an issue as a result of those negotiations. Only the timing of the study remains at issue. CIPA supports the cost study format suggested by the other parties. CIPA argues the Commission should hold PG&E to the original filing date of March 9, 1989.

F. Discussion

We have stated our intention to expedite this proceeding and will not grant PG&E's request to defer completion of its cost study until June 1. That delay would make it almost impossible for this Commission to develop a complete record in this case and issue an order by the end of 1989. We agree with GPGG that a reasonable final completion date for the cost study is April 14. We will not rule in this order on other filing or hearing dates in order to retain the administrative law judge's procedural flexibility.

We do agree that it is reasonable to change the cost study parameters so that the study areas are grouped by geographic areas rather than by individual fields, as proposed by DRA. We believe a sample cost study for a single area will give the parties an advance opportunity to determine discovery needs and to understand the additional cost studies to follow, without delaying the proceeding.

II. Motions of GPGG and CGPA

A. CGPA's Motion

On December 22, 1988, CGPA filed a motion requesting the elimination of PG&E's $.34 gathering charge for gas that is transported on the grounds that SB 1937 requires the elimination of the charge effective January 1, 1989. CGPA cites that portion of the bill which states "No gas corporation shall charge...a higher rate for the transportation of gas produced in this state than for the transportation of gas from any other source." CPGA adds that "transportation" is defined by the bill to include "any related gathering or processing of the gas."

B. GPGG's Motion

On December 30, 1988, GPGG filed a similar motion requesting immediate elimination of PG&E's gas gathering charge for transported gas. Like CPGA, GPGG cites language in SB 1937 which refers to rates for interstate and intrastate gas transportation. GPGG argues that the bill requires elimination of the gas gathering charge by January 1, 1989.

In additional comments filed January 6, 1989, GPGG adds that proposals to order the rates "subject to refund" or to establish escrow accounts would not comply with SB 1937. GPGG states that the elimination of the charge will not put PG&E at risk for lost revenues since gas gathering costs are already being recovered in other core and noncore transmission rates.

C. Responses to the Motions

CIPA concurs with the essence of the GPGG and CGPA's motions. It adds that the Commission could establish a balancing or memorandum account pending the outcome of this proceeding. CIPA objects to any account which would require the continuance of the charges subject to later review.

The City of Palo Alto and Mission Resources also support the motions.

In response, PG&E states that it is studying the costs of gas gathering, pursuant to Commission order. Once the Commission has determined PG&E should ultimately recover these costs, the gathering charge may be eliminated from PG&E's tariffs or given some other treatment. PG&E also states that if the gathering charge is eliminated from the interutility tariff, on-system ratepayers would subsidize interutility transportation. PG&E states that the gas gathering charge is currently designed to avoid a subsidy from the general body of ratepayers to California producers. In general, PG&E believes the Commission must complete its investigation before taking any action regarding the charge.

DRA also filed a reply to the motions. DRA states that SB 1937 does not require immediate elimination of the gas gathering charge. The charge was adopted following a full evidentiary record and was found by the Commission to be reasonable. SB 1937 specifically permits a gas corporation to charge for processing and gathering. Further the bill does not specify a date by which rate changes must be implemented as other bills have. DRA opposes any type of balancing or tracking account because of burdensome accounting and billing problems. According to DRA, the Commission should proceed with its investigation and take no action until it has developed a complete record.

Toward Utility Rate Normalization (TURN) also opposes elimination of the charge on the grounds that a gas producer who makes use of gas gathering facilities at no charge is being subsidized by other ratepayers. TURN points out that SB 1937 indicates recognition of the fact that the Commission will have to adopt rules and orders to carry out the terms of the legislation. As a compromise solution, TURN suggests a balancing account could be established whereby refunds could be made to those who overpaid, with the remainder credited back to ratepayers.

D. Discussion

CGPA and GPGG have filed motions asking us to eliminate a charge for a utility service on the grounds that it is required by legislation. Their motions generally propose no method of recovery by the utility for revenues which are part of PG&E's revenue requirement. PG&E and DRA object to any change to the rate pending our final orders. TURN and CIPA propose various accounting methods which would allow PG&E to, now or later, recover this portion of its revenue requirement.

We do not agree with the parties who argue that SB 1937 requires immediate elimination of gas gathering charges. First, as DRA points out, SB 1937 recognizes that the Commission must take action and issue orders to implement the law. The legislation does not specify a date by which the law must be implemented.

Second, SB 1937 explicitly permits gas corporations to charge for gathering and processing services. Therefore, the Commission is not required to eliminate the charge. Instead, the charge must be based on "actual expenses." We are proceeding to determine the actual expenses. In the interim, the $.34 charge is lawful because it was found by the Commission to be reasonable.

We will not grant the motions of GPGG or CGPA. We believe we are not required, under the law, to order elimination of the charge. We may in fact be precluded from it. Further, we will not take any action which would prejudice our final determinations in this proceeding following the development of a full evidentiary record.

Although we will not eliminate the gas gathering charge at this time, we recognize that the intent of SB 1937 is to fairly allocate transportation costs as expeditiously as possible. We have initiated a proceeding and a schedule which seeks to effect this intent. Even so, we may not resolve these issues until the end of this year.

In an attempt to fulfill the spirit of SB 1937, we will order PG&E's gas gathering charges for transported gas to be levied subject to refund. If some gas transporters ultimately pay less than $.34 pursuant to our order in this case, they will be refunded the difference between that lesser amount and the existing $.34 charge from the effective date of this order. Customers who may ultimately pay more than $.34 for gas gathering services will not be liable for retroactive payments.

We will order the gas gathering charges subject to refund, as of the effective date of this order, for the specific purpose of determining PG&E's actual costs of gas gathering and processing and their allocation to customers.

PG&E should not suffer revenue losses as a result of this refund program. Accordingly, PG&E should establish a balancing account in which PG&E will record refunds if and when we order them. If we order refunds in a subsequent order, we intend that associated revenue losses will be allocated and recovered in PG&E's subsequent ACAP.

Findings of Fact

1. PG&E's proposal to delay until June 1, 1989 the completion of its cost study in this proceeding will cause unacceptable delay in the resolution of the issues.

2. DRA's proposal to change the cost study parameters as provided for in Appendix A of this order will allow the Commission to set rates which are reasonably unbundled by geographic area.

3. Delaying completion of PG&E's cost study to April 14, 1989 would not unduly delay this proceeding. It is reasonable to permit PG&E to file its study in three parts, as provided for in Appendix B of this order, as long as PG&E files information required in Phase One on or before March 9, 1989.

4. The revenue PG&E receives from gas gathering charges is part of its revenue requirement.

5. The Commission has established a schedule in this proceeding intended to assure expeditious resolution of the issues.

6. Eliminating the gas gathering charge at this time would be prejudicial to the outcome of this proceeding.

7. PG&E could suffer revenue losses if gas gathering charges are made subject to refund if some mechanism for recovery is not permitted.

Conclusions of Law

1. PG&E should be permitted to defer completion of its cost study to April 14, 1989.

2. PG&E should be permitted to change the cost study parameters in I.88-11-012 according to the outline in Appendix A of this order.

3. SB 1937 does not require immediate elimination of the gas gathering charge.

4. SB 1937 permits gas corporations to charge for gas gathering and processing based on the actual costs of the service.

5. The Commission has found that the $.34 gas gathering charge levied by PG&E is reasonable.

6. PG&E should not be ordered to eliminate the gas gathering charge from its transportation tariff.

7. PG&E's gas gathering charges for transported gas should be made subject to refund as of the effective date of this order.

8. Gas transporters who may ultimately be charged higher gas gathering charges as a result of the Commission's order in this proceeding should not be retroactively liable for the difference between those ultimate charges and the $.34 charge currently in effect.

9. PG&E should be permitted to establish a balancing account in which PG&E shall record refunds if and when they are ordered.

If refunds are ordered in this case, disposition of associated revenue losses should be considered in PG&E's ACAP.

10. GPGG's emergency motion should be denied except to the extent provided for in this order.

11. CGPA's motion should be denied except to the extent provided for in this order.

12. PG&E's petition to modify I.88-11-012 should be denied except to the extent provided for in this order.

ORDER

IT IS ORDERED that:

1. Appendix A of I.88-11-012 is replaced by Appendix A and Appendix B of this order.

2. The second full sentence on page 3 of I.88-11-012 is modified to read: "The study which we order today breaks costs down to the level of cost incurred in connection with plant and facilities devoted to gas gathering and processing in no less than forty geographic areas."

3. Ordering Paragraph 2 of I.88-11-012 is modified to read: "On or before March 9, 1989, PG&E shall file with the Docket Office, as a compliance filing in this proceeding, the information required in Phase One of the cost study as outlined in Appendix A and Appendix B of this OII. The information required for Phase Two and Phase Three of the cost study shall be filed with the Docket Office on or before April 14, 1989."

4. Pacific Gas and Electric Company's (PG&E) gas gathering charges, as applied to its transportation tariffs, are subject to refund, as of the effective date of this order. The rates are subject to refund for the limited purpose of accounting for our determination of PG&E's actual costs of providing gas gathering and processing, and their allocation to customers.

5. PG&E shall establish a balancing account in which it shall record refunds if and when they are ordered.

6. The motion of Gas Producers' Gathering Group is denied except to the extent provided for in this order.

7. The motion of California Gas Producers' Association is denied except to the extent provided for in this order.

8. Disposition of balancing account undercollections, should they occur as a result of ordered refunds, shall be determined in PG&E's annual cost allocation proceeding.

9. PG&E's petition to modify I.88-11-012 is denied except to the extent provided for in this order.

This order is effective today.

Dated FEB 8 1989, at San Francisco, California.

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

I CERTIFY THAT THIS DECISION WAS APPROVED BY THE ABOVE COMMISSIONERS TODAY.

Victor Weisser, Executive Director

APPENDIX A

Outline For a Cost Study of PG&E's Gas Gathering and Processing

The results of the following cost study shall be shown on both an aggregated or total company basis, and by individual gas gathering area. PG&E shall determine the extent of each area, consisting of one or more gas fields, based on the location and configuration of its gathering facilities. The minimum number of areas will be forty (40).

PG&E facilities shall be classified following the FERC "primary function" test, so facilities will be classified as needed for gas gathering when their primary function is for gathering, irrespective of secondary functions. PG&E shall provide a discussion of its rationale for including various facilities within the gas gathering and processing system. For all facilities classified as gathering, PG&E shall identify and provide the quantitative and/or qualitative information relied upon by PG&E to conclude that gas gathering is the "primary function" of such facilities.

PG&E shall provide information on the gathering facilities in each gathering area based on recorded 1987 data. In addition, PG&E will forecast the 1990 gathering costs.

I. For pipelines, for each number line, and line segment where data are available:

   A. Physical Description:

      1. Location;
      2. Fields served;
      3. Wells served and production volume; and
      4. Length, diameter, operating pressure.

   B. Year Installed.

C. Original Cost

D. Depreciation:

1. Book depreciation expense;
2. Book depreciation reserve; and
3. Tax depreciation expense.

II. For meters, compressors and other equipment (including liquid removal, dehydration, inhibitor injection, odorant injection, mixing and other):

A. Physical Description:

1. Location;
2. Fields served;
3. Wells served and production volume; and
4. Rated capacity and pressure.

B. Year Installed

C. Original Cost.

D. Depreciation:

1. Book depreciation expense;
2. Book depreciation reserve; and
3. Tax depreciation expense.

III. Operation and maintenance (O&M) expenses recorded for 1987 shall be assigned or allocated to each gathering area based on data available:

1. By PG&E Division;
2. By FERC Account;
3. By PG&E Activity Number; and
4. By PG&E Responsibility Center.

O&M expenses incurred for dispatching or otherwise controlling the gas gathering system shall be allocated to each gathering area. PG&E shall provide a discussion of its rationale for assignment of particular O&M expenses to gathering and to each gathering area, including a detailed description of the extent to which specific O&M activities are performed with respect to each gathering area.

IV. Administrative and General (A&G) expense shall be allocated to gas gathering based on the volume production of California gas as a percentage of total gas that enters the PG&E system transmission and distribution system (including third-party gas). Provide, also, an estimate of 1990 PG&E A&G expense for its gas transmission system.

V. The revenue requirement for each gathering area shall be determined by combining:

1. Return on rate base (original cost plant less book depreciation reserve less deferred taxes, if any, plus an allowance for working capital);
2. Income taxes on equity income, including the effects of tax timing differences due to accelerated tax depreciation, computed at statutory State and Federal tax rates;
3. Property taxes on plant in service;
4. Depreciation expenses; and
5. O&M and A&G expenses, including payroll taxes, franchise fees and uncollectible accounts expense.

VI. For test year 1990, provide projections of PG&E's purchase of gas from the following sources:

1) Canadian gas under long term contracts
2) Canadian tier II gas
3) El Paso system gas
4) Southwest spot gas
5) California producers
6) Other Southwest supplies (specify)

(END OF APPENDIX A)

APPENDIX B

Three-Phase Schedule For Cost Study of PG&E's Gas Gathering and Processing

PG&E shall file the cost study in three phases. The information provided in the three phases shall be as follows:

A. <u>Phase One:</u> PG&E will provide:

(1) Maps showing the location of the areas which PG&E believes should be grouped together for purposes of establishing area rates. The Commission and the parties of record will have an opportunity to review the maps and to provide input as to whether the configuration of the areas is reasonable. The minimum number of areas for the study shall be forty (40), unless PG&E provides the Commission with a showing of good cause as to why the number of areas must be less than forty (40).

(2) The identity of the facilities located in each area, including information and supporting work papers regarding: (i) physical description of the facilities including location, length, diameter and pressure of pipe, fields and wells served, and production volumes; (ii) year of installation; (iii) original cost; and (iv) depreciation (including book expense, tax expense and book reserve.)

(3) A complete cost study for the area which will encompass PG&E's Line 141 to illustrate how PG&E intends to develop area rates.

Phase Two: PG&E will provide:

(1) Information and supporting work papers regarding PG&E's plant costs of (i) meters, (ii) compressors, and (iii) other equipment (including liquids removal, inhibitors and injectors, dehydrators, odorant injectors, mixing equipment and miscellaneous). The information will include (i) physical description including location, rated capacity and pressure of pipe, fields and wells served, and production volumes; (ii) year of installation; (iii) original cost; and (iv) depreciation information including book expense, tax expense and book reserve.

(2) Information and supporting work papers regarding PG&E's operation and maintenance costs. The information will be broken down by: (i) PG&E division; (ii) FERC account; (iii) PG&E activity number; and (iv) PG&E responsibility center. This information will be allocated or assigned to specific gas gathering areas.

Phase Three:

(1) PG&E will calculate the revenue requirement associated with the facilities in each gas gathering area by combining: (i) return on rate base (original cost plant less book depreciation reserve less deferred taxes, if any, plus an allowance for working capital); (ii) income taxes on equity income, including the effects of tax timing differences due to accelerated tax depreciation, computed at statutory State and Federal tax rates; (iii) property taxes on plant in service; (iv) Depreciation expenses; and (v) O&M and A&G expenses, including payroll taxes, franchise fees and uncollectible accounts expense.

(2) For test year 1990, PG&E will provide projections of PG&E's purchase of gas from the following sources:

(i) Canadian gas under long term contracts
(ii) Canadian tier II gas
(iii) El Paso system gas
(iv) Southwest spot gas
(v) California producers
(vi) Other Southwest supplies (specify)

(3) PG&E will file comments on the issues which the Commission ordered it to address in Ordering Paragraphs One (1) and Two (2) of the OII.

(END OF APPENDIX B)

be established whereby refunds could be made to those who overpaid, with the remainder credited back to ratepayers.

D. Discussion

CGPA and GPGG have filed motions asking us to eliminate a charge for a utility service on the grounds that it is required by legislation. Their motions generally propose no method of recovery by the utility for revenues which are part of PG&E's revenue requirement. PG&E and DRA object to any change to the rate pending our final orders. TURN and CIPA propose various accounting methods which would allow PG&E to, now or later, recover this portion of its revenue requirement.

We do not agree with the parties who argue that SB 1937 requires immediate elimination of gas gathering charges. First, as DRA points out, SB 1937 recognizes that the Commission must take action and issue orders to implement the law. The legislation does not specify a date by which the law must be implemented.

Second, SB 1937 explicitly permits gas corporations to charge for gathering and processing services. Therefore, the Commission is not required to eliminate the charge. Instead, the charge must be based on "actual expenses." We are proceeding to determine the actual expenses. In the interim, the $.34 charge is lawful because it was found by the Commission to be reasonable after review of PG&E cost studies.

We will not grant the motions of GPGG or CGPA. We believe we are not required, under the law, to order elimination of the charge. We may in fact be precluded from it. Further, we will not take any action which would prejudice our final determinations in this proceeding following the development of a full evidentiary record.

Although we will not eliminate the gas gathering charge at this time, we recognize that the intent of SB 1937 is to fairly allocate transportation costs as expeditiously as possible. We have initiated a proceeding and a schedule which seeks to effect