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Decision 90-11-034 November 9, 1990

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking into )  
natural gas procurement and system )  
reliability issues. )

**ORIGINAL**  
R. 88-08-018

(Filed August 10, 1988)

O P I N I O N

On July 24, 1990, Mobil Natural Gas Inc. (Mobil) filed a Petition for Modification of Decision (D.) 88-12-099. Mobil seeks an increase in priority for delivery of natural gas from P-5 to P-4B in order to reduce the likelihood of gas curtailments to its enhanced oil recovery (EOR) operations.

Mobil states its request for a higher priority transportation service is justified by the existence of circumstances unique to Mobil. Mobil has agreed to burn only natural gas as a condition of a Kern County permit to expand its operations at Mobil's Kern County EOR site and therefore has no alternative fuel capability. It currently receives gas at the EOR default rate as a P-5 customer pursuant to D.88-12-099. Mobil believes the Commission should upgrade its priority to recognize the air quality benefits which result from the permit condition. The upgrade would be reasonable, according to Mobil, because EOR customers have been curtailed with increasing frequency and because Mobil's long-term contract with Southern California Gas Company (SoCalGas) was rejected by the Commission due to changes in Commission policy. While other EOR steamflood customers are able to continue operation during curtailment by using an alternate fuel, Mobil "now carries the substantial possibility that EOR operations will be shut down" (Petition of Mobil, p. 6). Mobil states it has made its investment decisions in reliance on past Commission statements assuring EOR customers of reliable transportation service.

Mobil regards the upgrade as in the public interest. Not only are the air quality benefits present, Mobil argues, but the production of on shore, domestic crude reserves in light of the recent events in the Middle East serves the public interest on both a statewide and national basis. Not granting its petition, Mobil states, would result in the cessation of operations at Mobil's EOR facilities.

Southern California Edison Company (Edison) and the Division of Ratepayer Advocates (DRA) protested the petition for modification. The protests argue that granting the relief requested by Mobil would likely require utility electric generation (UEG) customers to be curtailed more often. Increased UEG curtailments, they argue, would result in higher electric rates and increased air pollution in the south coast area.

Both DRA and Edison argue that Mobil's decision to expand its EOR facilities and the permit conditions to which Mobil agreed were voluntary business decisions and that Mobil should accept the consequences of its decisions. Edison and DRA believe Mobil's proposed long-term contract with SoCalGas would not have improved the reliability of Mobil's gas service because the contract did not provide for a priority upgrade. Edison points out that Commission decisions which promoted EOR interests were made during a period of excess pipeline capacity, a circumstance which no longer exists.

Although we are encouraging the market to bring new pipeline capacity to California, the reality is that P-5 customers will face another winter of curtailments before such capacity is available and that they will turn to their alternate fuels during those curtailments. We find that Mobil is distinguished from other EOR customers in that the permit to operate its expanded facilities precludes the burning of alternate fuels and that it would necessarily cease EOR operations during curtailment. We understand Mobil to be unique in this regard.

We therefore are persuaded by Mobil that its unique circumstances warrant a temporary change in priority as soon as its permit becomes effective. We recently issued D.90-09-089, which establishes four levels of transportation services. When those services become available, Mobil may improve its position in the transportation queue by purchasing from Service Levels 2 or 3 when they are offered beginning in 1991. Until August 1, 1991, the date additional service options should be in place pursuant to D.90-09-089, Mobil may purchase transportation from SoCalGas as a P-4B customer when its permit becomes effective which would prohibit it from using fuels other than natural gas. In the event of a curtailment at the P-4 level Mobil will not be distinguished from other P-4 customers, even though Mobil does not have fuel switching capability as required in Rule 23.

The relief we grant to Mobil is predicated on its unique circumstances and is not intended to apply to other EOR customers which knowingly and by design alter their fuel switching capability in an attempt to receive similar relief. Any customer applying for similar treatment will bear a heavy burden of proof.

#### Findings of Fact

1. Under the terms of a county permit to expand its operations, Mobil states it is not permitted to switch from gas to other fuels.
2. An inability to switch fuels would distinguish Mobil from other EOR customers purchasing transportation services from SoCalGas.

#### Conclusion of Law

Mobil's Petition for Modification of D.88-12-099 should be granted in part to permit it to purchase transportation services from SoCalGas as a P-4B customer, subject to tariffed terms and conditions, for those portions of its Kern County operations which are subject to fuel use restrictions, until August 1, 1991, the

date other transportation options are available, pursuant to D.90-09-089.

ORDER

IT IS ORDERED that the petition of Mobil Natural Gas Inc. and Mobil Corporation for modification of D.88-12-099 is granted in part. Mobil may purchase transportation services from Southern California Gas Company as a P-4B customer, subject to tariffed terms and conditions, for those portions of its Kern County operations which are subject to fuel use restrictions requiring the burning of natural gas only, until August 1, 1991, the date other transportation options should be in place pursuant to D.90-09-089. In the event of a curtailment at the P-4 level Mobil will not be distinguished from other P-4 customers.

This order is effective today.

Dated November 9, 1990, at San Francisco, California.


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

Commissioner Stanley W. Hullett,  
being necessarily absent, did not  
participate.

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

I will file a written concurring opinion.  
/s/ JOHN B. OHANIAN  
Commissioner

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

*Neal J. Stulman*  
NEAL J. STULMAN, Executive Dir.  *JB*

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COMMISSIONER FREDERICK R. DUDA, Concurring:

Although I support today's decision, I want to emphasize that I consider this decision justified only because of Mobil's unique circumstances and the temporary nature of this action. Based on the facts of this case, I believe Mobil to be uniquely situated with respect to other EOR customers. I do not believe this decision should in any way be viewed as precedent setting for other EOR customers wishing to obtain higher priority by knowingly altering their fuel switching capability. Any customer applying for similar treatment should bear a heavy burden of proof in my opinion.

I strongly believe that the rules this Commission recently issued in D.90-09-089 will address this circumstance in the future by allowing customers, Mobil included, to improve their position in the transportation queue by purchasing from one of the firm service levels beginning in August of 1991. Until this option becomes available, granting Mobil's request for a higher priority transportation service in the interim is acceptable to me.



Frederick R. Duda, Commissioner

November 9, 1990  
San Francisco, California

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Commissioner John B. Ohanian, Concurring

Today's decision grants a modification of D.88-12-099 to move Mobil Oil Company up in end-use priority for purposes of curtailment. The basis of my support for this decision is recognition of long term air quality improvements in Kern County. Mobil's agreement to burn only gas guarantees such long term improvements.

Southern California Edison and DRA note that this will lead to degradation of air quality in Los Angeles. That effect will be temporary. With the advent of new interstate pipeline capacity the air quality impacts of this decision for Los Angeles will be completely mitigated.

Yet, there are many concerns raised by this modification which need to be addressed. I believe it is fundamentally poor policy to grant changes in the curtailment priority queue without a hearing on the entire curtailment system. Arranging priorities to address individual grievances opens the door to endless filings and unproductive Commission time sorting out meritorious arguments from those merely seeking economic gain from such filings. I am relieved that the adopted decision narrowed the scope of future filings for similar treatment. However, such filings will be made, and I encourage my fellow Commissioners to carefully scrutinize them.

I am concerned about this modification's implications for future tariff enforcement. We have granted a customer a level of

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service which requires alternate fuel even though Mobil does not have alternate fuel capability. It is impossible to predict the reaction of those similarly situated customers that were required to comply with our rules to obtain that level of service. At a minimum we should anticipate significant resentment from industrial customers.

As a technical matter, Mobil revenues should be removed from the EOR balancing account and treated as general non-core revenue. The reason is Mobil is no longer an EOR customer as that term is used in ratemaking.

I am concerned about resentment by core transportation customers who have no alternate fuel capability and are required to pay higher rates than Mobil. These customers can point to five years of established and unchallenged Commission policy that higher priority comes with higher rates.

We must also recognize another serious problem with this exception to our long term policy. Mobil has been reclassified from a P-5 to a P-4 customer. As a P-5 customer Mobil has been entitled to certain operational flexibility during curtailments. This has taken the form of scheduled curtailments during the year, consideration of operational and economic hardships before curtailment has been enforced, and other special considerations granted to EOR operators. As a P-4 customer Mobil is no longer entitled to these considerations. In the event of P-4 curtailment Mobil will be required to completely cease operations. This operational hardship is not force majeure. In such an event Mobil is expected to comply expeditiously with the

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curtailment order. Failure to comply should result in immediate reclassification of Mobil as a Core Transportation customer paying the default rate from the effective date of this decision and be backbilled accordingly.

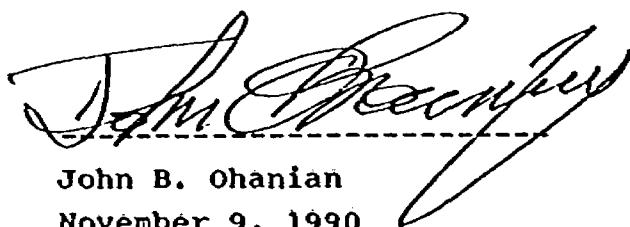
Edison and DRA point out that today's decision also increases rates for electric customers. This effect should last for only a few months. However, such increases will occur as UEG customers are forced to shoulder more of the burden for gas curtailments by burning more high cost oil in Los Angeles. What makes this cost increase more problematic is another reversal of long term Commission policy. The Commission has firmly established EOR load, and especially incremental EOR load, as last in priority for curtailment purposes.

While I encourage California's industry to convert to gas from oil, I would hope that such a move is done in concert with the development of the infrastructure to support that conversion. Mobil's move is worthy of our special consideration at this time because of its long term commitment. We must be sympathetic to environmental concerns and encourage such conversions. At the same time, additional exceptions should be tied to either expanded pipeline capacity or increase in the transportation rate.



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A handwritten signature in cursive script, appearing to read "John B. Ohanian", written over a horizontal dashed line. The signature is fluid and extends to the right of the line.

John B. Ohanian

November 9, 1990