

SEP, 4, 1992

Decision 92-09-045 September 2, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

R.88-08-018
(Filed August 10, 1988)

ORDER TO SHOW CAUSE

We direct Pacific Gas and Electric Company (PG&E) to show cause why it should not be ordered to develop a contingency plan designed to protect California customers in the event of a supply shortage, transportation constraints, or discriminatory pricing for gas moved over the Pacific Gas Transmission (PGT) pipeline. We also direct PG&E to show cause why it should not take immediate steps to improve the reliability and flexibility of its intrastate gas transportation system as necessary in order to meet the operational requirements of a contingency plan.

Background

In 1990, the California Legislature made it explicit that, in addition to other ratepayer protection objectives:

"...a principal goal of electric and natural gas utilities resource planning and investment shall be to minimize the cost to society of the reliable energy services that are provided by natural gas and electricity and to improve the environment...."

Public Utilities Code § 701.1 has caused us to revisit our concerns regarding the ability of PG&E's gas transportation system to function in a manner which achieves these vital objectives. As we shall recount, projected physical shortage, the impact of recent accidents, and the emerging pattern of discriminatory barriers erected in the path of California buyers, unite to occasion this order to show cause.

Canadian authorities have indicated that, for the first time, the reliability of Canadian gas supplies may be jeopardized this coming winter due to production constraints. In January 1992, a fire on the Nova pipeline, which connects to the PGT pipeline, disrupted Canadian gas supplies to California. Equally irreconcilable with Commission policy and legislative findings and declarations are the recent actions of the National Energy Board (NEB) and the Province of Alberta which have as their announced objectives inhibiting the operation of market forces and restricting the purchasing flexibility permitted by PG&E's transportation system.

On February 13, 1992, the Alberta Provincial Government enacted the Nova Terms of Service Regulation. It limits interruptible transportation on the Nova system so that only gas moved under a firm transportation arrangement may be delivered to the Alberta Natural Gas Company Ltd. pipeline which transports gas to PGT for sale to Northern California.

The impact of this Provincial action was exacerbated by the NEB which recently took what we deem to be drastic and discriminatory measures to assure that Canadian gas supplies which flow over the PGT pipeline to Northern California are not subjected to competitive pricing. (See NEB Orders MO-2-92 and TG-5-92 issued on June 24, 1992 in File No. 7200-A004-12.) The NEB has singled out for prohibition the export of Canadian gas supplies over the PGT pipeline which are under short-term export arrangements and by suspending interruptible transportation service over Canadian pipelines for gas sold at the PGT receipt point. This action discriminates against the economic interest of Northern California ratepayers by limiting purchases of Canadian supplies to those acquired under existing contracts held by the Alberta and Southern Company (A&S). Such discrimination prompts grave insecurity in our view and contradicts professed goals of jurisdictions on both sides of the international frontier respecting the freedom of buyers and

sellers to deal in this vital commodity free of governmental barriers and restraints. Our views are more fully expressed in D.91-02-025 and D.91-02-049. Our insecurity is not misplaced given the undeniable fact that half of the gas supplies provided to Northern California customers are carried over a single pipeline which is vulnerable to manipulation by both humans and nature.

To date our response to these actions has been measured if not muted. By D.92-03-036 and an Assigned Commissioner's Ruling dated February 13, 1992, we directed a review of whether PG&E should expand capacity over Line 300 or increase storage capacity at McDonald Island. We initiated this review because of concern that PG&E's existing transportation system may not provide optimal levels of reliability and purchasing flexibility. Hearings on these subjects were held in June and the matter was submitted on August 11, 1992. We now take the next step.

The Need for a Contingency Plan and System Improvements

The circumstances described above and scenarios which we can anticipate suggest that PG&E's ratepayers may be vulnerable to supply shortages. Without doubt, these ratepayers are presently victimized by the discriminatory interference with the rights of purchasers to import competitively priced gas supplies from Canada. In such circumstances we must consider whether PG&E should (1) develop a contingency plan which would increase its ability to receive competitively priced gas supplies from non-Canadian sources, and (2) take immediate steps to increase system reliability and flexibility in accordance with such contingency plan.

We direct PG&E to show cause why it should not be ordered to develop a contingency plan and be prepared to take one or more of the following steps in anticipation of a system emergency or in order to take advantage of competitively priced gas supplies from pipelines other than the existing PGT pipeline:

Purchase economy energy, interutility
electricity, and other off-system power for its

utility electric generating department (UEG) rather than burning gas in existing plants.

Make required system improvements, if any are necessary, in order to purchase interutility supplies from Southern California Gas Company (SoCalGas) by way of SoCalGas' Line 225.

Purchase maximum supplies from the southwest during both off-peak and on-peak periods.

Increase compression and cycling capability using existing capacity at McDonald Island.

Pursue other alternatives which would improve total system reliability by increasing PG&E's capability to take more natural gas from regions other than Canada.

We also direct SoCalGas to respond to our inquiry regarding the viability of moving gas supplies from its system into PG&E's system going north from Line 225 into Line 300.

In addition to considering these options, we will soon issue a decision regarding whether PG&E should expand storage capacity on Line 300, pursuant to the record already developed in this proceeding.

Responses of PG&E and SoCalGas to this order shall be filed no later than October 23, 1992. Other parties may file comments no later than November 13, 1992.

Findings of Fact

1. PG&E relies extensively on gas supplies from Canada but does not have contingency plans to protect ratepayers from curtailments in the event of an extended supply curtailment.

2. The NEB and Province of Alberta have taken steps to preclude competitive pricing of Canadian gas.

Conclusions of Law

1. PG&E should be ordered to show cause why the Commission should not require it to develop a contingency plan designed to

allow PG&E to respond to circumstances which result in shortfalls of gas supplies from Canada.

2. PG&E should be ordered to show cause why it should not be prepared to take one or more of the following steps in anticipation of a system emergency or in order to take advantage of competitively priced gas supplies from pipelines other than the pipeline system to Canada:

Purchase economy energy, interutility electricity, and other off-system power for its UEG rather than burning gas in existing plants.

Make required system improvements, if any are necessary, in order to purchase interutility supplies from SoCalGas by way of Line 225.

Purchase maximum supplies from the southwest during both off-peak and on-peak periods.

Increase compression and cycling capability using existing capacity at McDonald Island.

Pursue other alternatives which would improve total system reliability by increasing PG&E's capability to take more natural gas from regions other than Canada.

3. SoCalGas should be ordered to comment on the viability of moving gas from Line 225 to PG&E's Line 300 and provide estimates of system changes and associated costs required to effect such interutility sales.

IT IS ORDERED that:

1. Pacific Gas and Electric Company (PG&E) is ordered to show cause why it should not be required to develop a contingency plan designed to allow PG&E to respond to circumstances which would result in a shortfall of gas supplies from Canada.

2. PG&E is ordered to show cause why it should not be prepared to take one or more of the following steps in anticipation of a system emergency or in order to take advantage of competitively priced gas supplies from pipelines other than the pipeline system to Canada:

Purchase economy energy, interutility electricity, and other off-system power for its utility electric generating department rather than burning gas in existing plants.

Make required system improvements, if any are necessary, in order to purchase interutility supplies from Southern California Gas Company (SoCalGas) by way of Line 225.

Purchase maximum supplies from the southwest during both off-peak and on-peak periods.

Increase compression and cycling capability using existing capacity at McDonald Island.

Pursue other alternatives which would improve total system reliability by increasing PG&E's capability to take more natural gas from regions other than Canada.

3. SoCalGas shall file, with the Commission's Docket Office, a comment on the viability of moving gas from Line 225 to PG&E's Line 300 and provide estimates of system changes and associated costs required to effect such interutility sales.

4. PG&E shall file, by October 23, 1992, with the Commission's Docket Office a response to Ordering Paragraphs 1 and 2.

5. SoCalGas shall file, by October 23, 1992, with the Commission's Docket Office a response to Ordering Paragraph 3.

6. Other parties may respond to the matters raised in this order by filing comments, on or before November 13, 1992, with the Commission's Docket Office.

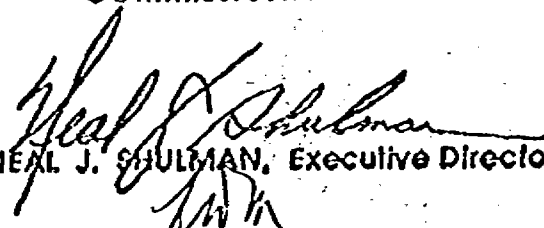
This order is effective today.

Dated September 2, 1992, at San Francisco, California.

DANIEL Wm. PESSLER
President
JOHN B. OHANIAN
NORMAN D. SHUMWAY
Commissioners

Commissioner Patricia M. Eckert,
being necessarily absent, did not
participate.

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


NEAL J. SHULMAN, Executive Director