Mailed SEP. 8 1995

Decision 95-09-029 September 7, 1995

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHERN CALIFORNIA GAS COMPANY for Approval Pursuant to the Expedited Application Docket of a Long-Term Agreement with West Kern Water District. (U 904 G)

(EAD)
Application 95-05-051
(Filed May 31, 1995)

ORIGINAL

O P I N I O N

Southern California Gas Company (SoCalGas) seeks approval of a long-term gas transportation agreement between West Kern Water District (West Kern) and SoCalGas which was executed by West Kern on April 26, 1995. The agreement provides for gas transportation service to West Kern's two pumping stations near Taft, California, under negotiated rates. A copy of the agreement is attached to the application.

SoCalGas requests that the Commission approve this agreement unconditionally and without modification. SoCalGas also requests that the Commission find as follows:

1. As of the time SoCalGas negotiated the terms of the agreement, there was a substantial and imminent threat of bypass by the customer and that the agreement would prevent uneconomic bypass.

2. Revenues over the life of the agreement will generate a positive contribution to margin (CTM) and will not fall below the class average long-run marginal cost (LRMC) of serving high-pressure customers (customer bands using between 100 Mdth/yr and 200 Mdth/yr, and 25 Mdth/yr to 100 Mdth/yr, respectively, for the two accounts) as quantified in the recent order adopting the LRMC implementation settlement (Decision (D.) 93-05-006).

3. That the terms of the agreement are reasonable given the bypass options that were available to the customer. SoCalGas also requests that the Commission make a specific finding that SoCalGas has been prudent in negotiating this agreement, which finding would be dispositive of any future prudence issues that might arise at a later date, absent a showing of certain circumstances as enumerated in D.92-11-052.

SoCalGas and West Kern assert that they entered into the agreement in order to avoid uneconomic bypass of SoCalGas' gas distribution system at West Kern's two pumping stations near Taft, California. West Kern supplies water to agricultural and enhanced oil recovery operations in western Kern County. Two of its pumping stations are located around Taft, California, approximately two miles east and west, respectively, of the existing Mojave Pipeline Company pipeline. SoCalGas estimates that the spurs and meters to serve the two pumping stations from Mojave could be installed and in service within two months. Given the proximity of the Mojave system to West Kern's facilities, it is contended that the existing Mojave line constitutes an immediate and viable bypass alternative for West Kern.

The Mojave bypass notwithstanding, SoCalGas intends to compete for West Kern's load and thus entered into the agreement to retain such load and avoid what would otherwise be an uneconomic bypass of its gas distribution system. Had SoCalGas been unwilling or unable to negotiate the agreement with this customer, West Kern would have entered into a long-term transportation service agreement with Mojave. In this regard, attached to the application is the declaration of West Kern's Director of Finance, who describes the status of West Kern's negotiations with Mojave and its intention to bypass SoCalGas if the Commission does not approve the agreement between SoCalGas and West Kern.

The terms of the long-term contract SoCalGas negotiated with West Kern were designed to respond directly to the competitive option afforded by the Mojave interstate pipeline system. In being so designed, the contract retains the maximum feasible revenues for SoCalGas in light of the conditions existing at the time the contract was negotiated. SoCalGas believes it obtained a fair price given its competition.

The Mojave pipeline is already in place and underutilized; consequently, the cost-based rate needed to recover Mojave's costs is not relevant to the issue of the imminence of the bypass option. Any increase in throughput and revenue increases contribution to margin since incremental operating costs (in-kind fuel costs) are paid by the customer.

West Kern's two pumping stations near Taft, California are approximately two miles east and west, respectively, from Mojave's existing pipeline. All of the customer's load at the two stations is at risk. SoCalGas estimates that a two-inch nominal spur of approximately four miles in total length would be required to connect West Kern's two pumping station loads to Mojave, at an estimated cost of $190,400. SoCalGas estimates that the spurs and meters to serve the two pumping stations from Mojave could be installed and in service within two months.

To estimate the benefit of providing service to West Kern over the term of the agreement, SoCalGas has compared the revenue which would be retained through the agreement to the LRMC of maintaining service to West Kern's facilities. This analysis shows that, using the class average cost of service for high pressure customers (customer bands using between 100 Mdth/yr and 200 Mdth/yr, and 25 Mdth/yr to 100 Mdth/yr, respectively, for the two accounts), SoCalGas estimates that this contract will contribute $0.34 million (net present value at 7.8%) more to margin than SoCalCas could hope to collect without the contract. SoCalGas does not feel there is any contribution to margin without the contract.

since the customer could receive service from Mojave before the expedited application docket (EAD) process is complete. In fact, SoCalGas receives at least two extra months of contribution to margin at the existing tariff rate while the EAD is being submitted and processed. Of the total $0.34 million contribution to margin, the proposed discount contract itself will account for $0.33 million. Bypass of SoCalGas' system for service to West Kern's facilities, the probable result in the absence of a discounted rate, would thus have been uneconomic and not in the best interest of ratepayers.

We will approve the agreement. It meets the three-pronged test for approval: the threat of bypass by the customer was imminent; there will be a positive CTM; and the terms of the agreement are reasonable. We will, however, impose the condition that (1) any discount to the Interstate Transition Cost Surcharge (ITCS) must be borne by utility shareholders and (2) SoCalGas shall not recover in rates, or include in cost allocation forecasts, 100% of revenue shortfalls, if any, resulting from this agreement. (See SoCalGas Global Settlement, Section II, approved in D.94-04-088.)

<u>Findings of Fact</u>

1. This application appeared on the Commission's Daily Calendar of June 6, 1995. There are no protests. A public hearing is not necessary.

2. SoCalGas has filed this application seeking approval of a gas transportation agreement with West Kern.

3. There is an imminent threat of bypass posed by the Mojave interstate pipeline.

4. The agreement may provide a positive CTM. In the absence of the agreement, bypass by West Kern may be uneconomic.

5. It is the Commission's policy that all ratepayers are responsible on an equal basis for the stranded investment costs making up the ITCS, and thus the ITCS is to be applied in a nondiscriminatory manner, on an equal cents-per-therm basis.

6. The bypass threat in this case warrants the approval of the agreement, but only on condition that SoCalGas' shareholders shall assume 100% of the risk for the ITCS costs associated with this agreement and 100% of any revenue shortfall.

7. Except as set forth below, the rates and terms of the agreement do not pose an unreasonable risk to ratepayers.

8. Based upon all facts and circumstances known to the Commission at the time of this decision, SoCalGas' decision to enter into the agreement is prudent.

<u>Conclusions of Law</u>

1. The agreement should be approved as set forth below.

2. Because of the imminent threat of bypass, this decision should be effective today.

ORDER

IT IS ORDERED that:

1. Except as expressly set forth in Ordering Paragraphs 2 and 3, the long-term intrastate natural gas transportation service agreement between Southern California Gas Company (SoCalGas) and West Kern Water District, executed on April 26, 1995, is approved under the procedures, terms, and conditions of the Expedited Application Docket established by Decision 92-11-052.

2. The agreement is approved on the condition that SoCalGas' shareholders shall assume 100% of the risk for the Interstate Transition Cost Surcharge costs associated with the agreement. SoCalGas shall file with the Commission Advisory and Compliance Division on or before October 1, 1995 written acceptance of this condition.

3. The agreement shall expressly provide that SoCalGas shall obtain the Commission's approval, prior to effectiveness, of any modifications, including modifications which may be the result of mediation.

4. Sections IX and X of General Order 96-A are suspended to the extent that those sections require that this agreement be subject to future modification by the Commission.

5. SoCalGas shall not recover in rates, nor include in cost allocation forecasts, 100% of revenue shortfalls resulting from this agreement.

6. Approval of the agreement is dispositive of all prudence questions which might arise at a later date regarding the agreement, absent a showing of:

   a. Misrepresentation or omission of material facts of which the utility is aware in connection with the utility's request for contract approval;

   b. Gross negligence in determining whether a realistic threat of bypass exists; or

   c. Imprudence in the utility's performance under the negotiated agreement.

This order is effective today.

Dated September 7, 1995, at Los Angeles, California.

DANIEL Wm. FESSLER
President
P. GREGORY CONLON
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
Commissioners

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

Wesley Franklin

Acting Executive Director