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Decision 95-11-048 November 21, 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 Mobil Oil Corporation (U 904 G)	(EAD) Application 95-07-036 (Filed July 14, 1995)

O P I N I O N

Southern California Gas Company (SoCalGas) seeks approval of a long term gas transportation agreement between Mobil Oil Corporation (Mobil) and SoCalGas which was executed by Mobil on June 2, 1995. The agreement provides for gas transportation service to Mobil's refinery located in the city of Torrance, California, under negotiated rates.

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 weighted average of class average long-run marginal cost (LRMC) of service for medium/high-pressure customers having gas requirements greater than 200 Mdth/yr and for cogenerators on SoCalGas' system as quantified in the recent order adopting the LRMC implementation settlement (Decision (D.) 93-05-006).

> 3. 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 Mobil assert that they entered into the agreement in order to avoid uneconomic bypass of SoCalGas' gas distribution system at Mobil's Torrance refinery. Had SoCalGas been unwilling or unable to negotiate the agreement with this customer, it asserts Mobil would most likely have entered into a long-term transportation service agreement with one of the following bypass projects serving the Los Angeles basin: Tenneco, Kern River Gas Transmission Company, Mojave Pipeline Company, Pacific Gas Transmission Company/Pacific Gas & Electric Company, or Los Angeles Department of Water and Power/Southern California Power Pool projects.

For confidentiality reasons, Mobil has not disclosed details of its discussions with alternative service providers. In the declaration SoCalGas filed, Mobil's natural gas supplies and transportation manager states that Mobil has held discussions with two competing companies proposing to construct pipelines. Mobil asserts that it would be eligible for services on one or more of the new bypass pipelines during the time frame envisioned by the agreement with SoCalGas. Further, Mobil states its intent to exercise its option to terminate the agreement with SoCalGas and to pursue its alternatives with other service providers absent timely approval of this agreement.

This affidavit documents Mobil's intent to bypass the SoCalGas system imminently absent Commission approval of the agreement with SoCalGas.

Under the terms of the Global Settlement (adopted in D.94-04-088), SoCalGas shareholders accept the full risk of any revenue shortfalls created by this discounted agreement over the next five years. Under that same settlement and the resulting decision, SoCalGas shareholders will remain at risk for shortfalls from tariff rates over the next decade as long as the current LRMC cost methodology remains in place. Therefore, this agreement seems to entail little risk to ratepayers.

To estimate the benefit to ratepayers of providing service to Mobil 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 Mobil's facilities. At its Torrance facility, Mobil receives gas service as a large industrial customer and as an electric generator. Therefore, in preparing the analysis of the benefit of the contract, SoCalGas' estimate of the tariff rate and the LRMC are both weighted averages of the tariff rate, on the one hand, and LRMC on the other, for service to medium/high-pressure customers having gas requirements greater than 200 Mdth/yr and for cogenerators on SoCalGas' system. SoCalGas estimates that this contract will contribute $4.4 million more to margin than SoCalGas 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 one of the pipelines competing for Los Angeles basin customers.

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.)

Findings of Fact

1. Notice of this application appeared on the Commission's Daily Calendar of August 7, 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 Mobil.

3. There is an imminent threat of bypass posed by various pipelines.

4. The agreement will provide a positive CTM. In the absence of the agreement, bypass by Mobil would 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.

Conclusions of Law

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

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

O R D E R

IT IS ORDERED that:

1. Except as expressly set forth in Ordering Paragraphs 2, 3, and 5, the long-term intrastate natural gas transportation service agreement between Southern California Gas Company (SoCalGas) and Mobil Oil Corporation, executed on June 2, 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 December 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 November 21, 1995, at San Francisco, California.

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