

DEC 4 1997

Decision 97-12-032 December 3, 1997

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company to Continue the Unbundling of Interstate Transmission Charges from Core Transport Rates, and to Address Canadian Transmission Capacity and Charges As They Relate to Core Transport Rates, Beginning January 1, 1998.

ORIGINAL
Application 96-09-028
(Filed September 18, 1996)

O P I N I O N

In Decision (D.) 97-05-093, the Commission approved the uncontested application of Pacific Gas and Electric Company (PG&E) for authority to unbundle, or separately identify, the interstate portion of the charges to core customers for the transportation of natural gas. The goal was to provide core aggregators the opportunity to purchase interstate transportation service from other providers during the remainder of 1997. Core customers are currently defined as those customers with demand not exceeding 250,000 therms/year (customers with larger annual demand that were classified as core customers under prior rules are still allowed to qualify as core customers if they do not have the capability of switching to the use of fuel other than natural gas). A core aggregator is an entity that uses PG&E's transportation system to supply natural gas to a group of core customers with a minimum combined load of 120,000 therms/year. (See p. 55 of Appendix 1 to the Gas Accord as approved by the Commission in D.97-08-055. The Gas Accord is a settlement encompassing several phases of the first general rate case for Line 401, the California segment of a pipeline expansion project owned and operated by PG&E.)

In this application, PG&E seeks authority to continue offering unbundled interstate transportation rates in 1998 and beyond. This request is consistent with the Commission's instructions set forth in D.95-07-048 that PG&E implement transportation unbundling no later than January 1, 1998. As we explained in D.97-05-093, the purpose of unbundling the interstate transportation charges is to allow core aggregators more

flexibility in purchasing gas supplies from different supply regions in an effort to make core transportation services more attractive to customers and thus stimulate growth of the core transportation market.

If this application is approved, as of January 1, 1998, PG&E would do the following:

1. Eliminate the Core Transport Transition surcharge of 1.9¢/therm and the Core Transport Rate Credit of 0.95¢/therm from the transportation rates currently paid by core transport customers,
2. Preserve the core aggregators' preferential right to a pro rata share of Pacific Gas Transmission system (PGT) capacity at the full as-billed rate,
3. Once the amount of PGT capacity that PG&E holds for its core portfolio diminishes to the point where it matches PG&E's Canadian capacity holdings, allow aggregators to accept an assignment of PG&E's firm Canadian capacity at the full as-billed rate when requesting an assignment of PGT capacity,
4. Make available to the market Canadian capacity that is offered to, but not accepted by aggregators,
5. Require a 50%-50% sharing by PG&E's shareholders and core transport customers of any transition costs that result when Canadian capacity is not taken by core aggregators to serve core transport customers, and
6. Recover 100% of any core transition costs for PGT capacity from all core customers.

PG&E's current capacity reservations for the core portfolio on the PGT and El Paso pipelines are 1,153.7 million cubic feet per day (MMcf/d). This amount will decrease significantly on January 1, 1998 when the PG&E-El Paso Firm Transportation Service Agreement expires. As of January 1, 1998, PG&E will hold only 600 MMcf/d on PGT for core transportation. PG&E would determine the available unbundled aggregation transport volumes as a fraction of this amount, which would be calculated using the methodology currently described in PG&E's Schedule G-CT-Core Gas Transportation Service (as filed in Advice 2024-G). In D.97-05-093, the Commission approved Application (A.) 96-09-029 as it was amended to ensure that any credits reflecting the difference between the full as-built rate paid by the aggregator and the

core mitigated rate would flow through to the end-use customer, rather than to the aggregator.

Another element of this proposal worthy of note is the treatment of revenue credits that result when capacity on PGT is assigned to core aggregators. A settlement approved by the Federal Energy Regulatory Commission (FERC) in FERC Docket Number RP94-149-000 et al., on September 11, 1996, requires PG&E to pay 75% of PGT's firm reservation charges for capacity reserved for the core through October 31, 2002 (see Article 4 Section 1(b)(ii)). This is referred to as the mitigated rate. This settlement also requires that when PGT collects more than the mitigated rate for any of the capacity it has reserved for PG&E, it will provide a credit to PG&E to reflect the difference between the collected rate and the mitigated rate. The settlement explicitly provided that the benefits of the mitigated rate would flow through to core customers. Thus, in D.97-05-093, the Commission required that the credits resulting from the assignment of reservation rights to core aggregators would flow to the customers, as opposed to the aggregators. As PG&E has acknowledged, the same requirement will apply if this application is approved.

The Protest

With one exception, this application is unopposed. The exception is the Limited Protest of The Utility Reform Network (TURN, which at the time of its protest was still calling itself Toward Utility Ratepayer Normalization). TURN objects to PG&E's proposal, listed as subparagraph 6, above, to require all core transportation customers to pay any transition costs resulting from existing PGT contracts. Under PG&E's proposal, this treatment of transition costs would be reconsidered if such transition costs were to exceed \$5 million per year. In its application, PG&E argued that this treatment is consistent with the Commission's general approach of allocating transition costs to the larger group of customers expected to benefit from the type of unbundling giving rise to those costs. PG&E cited D.91-11-025 in which noncore customers were required to pay their share of transition costs resulting from the unbundling of noncore interstate pipeline demand charges. The company argues that in this case, all core

customers will benefit from the unbundling of core interstate pipeline demand charges and should share any resulting transition costs.

TURN rests its opposition to this proposal on two arguments. First, even if the Commission were to consider only the class of customers that stands to benefit, it would not allocate transition costs to the entire core class. Instead it would allocate the costs to the core aggregation customers, who are the ones who stand to gain a direct benefit from the unbundling of these costs. Second, TURN argues that the Commission has not solely applied the "benefits" test in allocating transition costs. TURN argues that all customers were required to share in the transition costs which resulted from the unbundling that was approved in D.91-11-025 (see D.92-07-025 at 18, 45 CPUC 2d 47).

PG&E responds that since no one is suggesting that the 600 MMcf/d of PGT capacity assigned to core customers should be taken away from those customers as part of unbundling, all of the cost of that unbundling should remain with the core, as well. In addition, PG&E argues that because no one really expects that there will be any transition cost and because PG&E proposes that the allocation approach should be reconsidered if transition costs ever exceed \$5 million per year, the Commission should adopt PG&E's approach. Finally, PG&E suggests that the Commission has already decided this issue in the company's favor by approving the Gas Accord in D.97-08-055. The parties to the Gas Accord had agreed that PG&E should file the separate application that is the subject of this decision and that the application should include the cost allocation proposal that PG&E supports here.

TURN was not a party to the Gas Accord. TURN states that it expected that the place to engage PG&E on this issue was in the separate application called for in the settlement. However, a reading of the unambiguous language in the Gas Accord does not support TURN's interpretation. At page 52, Subsection F. addresses Core Aggregators' Holdings of Interstate Capacity. Subsection F.1. identifies the two filings, including this one, that PG&E was to make with the Commission to unbundle interstate transmission rates. In this subsection, the parties specified various components of the applications. The specified components did not include any discussion of the treatment of transition costs. It is Subsection F.4., which is not a part of the description of the two

applications, that addressed the treatment of PGT transition costs. It stated the following:

"4. Beginning January 1, 1998, any pipeline transition costs resulting from existing PGT commitments on behalf of core transport customers will be allocated to all core customers for the term of the Gas Accord. This provision will be reexamined if transition costs exceed \$5 million per year."

This language is consistent with PG&E's request in this application and was approved in D.97-08-055. Without addressing the broader policy implications underlying this approach, we will permit PG&E to implement this portion of the Gas Accord.

However, we remind all parties that the provisions of the Gas Accord, as is true with all Commission-approved settlements, are non-precedential.

Conclusion

In approving A.96-09-029, which allowed for a similar unbundling process to be in effect in 1997, we concluded that offering unbundled interstate transportation rates would improve customer choice within the core aggregation program. We also found that while this effort may not improve system efficiency in the short run, it will treat core transportation customers fairly and will improve long-term system planning by the utilities. PG&E has designed its longer-term unbundling approach in a manner that is consistent with that approved for 1997 in D.97-05-093, and the participants in our natural gas policy proceedings remain unopposed. We will approve this application as proposed.

Findings of Fact

1. No party has protested PG&E's basic proposal to continue offering unbundled interstate natural gas transportation rates as described in this order.
2. Unbundling interstate transportation costs from core rates will improve customer choice within PG&E's core aggregation program.
3. The elements of PG&E's proposal for implementing this unbundling program beginning on January 1, 1998 are consistent with Commission policy as expressed in

A.96-09-028 ALJ/SAW/rmn

previous decisions or otherwise consistent with the terms of the Gas Accord approved in D.97-08-055.

Conclusions of Law

1. The application should be approved.
2. This order should become effective today to allow for implementation on January 1, 1998.

O R D E R

IT IS HEREBY ORDERED that:

1. Application 96-09-028 is approved.
2. This proceeding is closed.

This order is effective today.

Dated December 3, 1997, at San Francisco, California.

P. GREGORY CONLON
President

JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
RICHARD A. BILAS
Commissioners