

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION & COMPLIANCE DIVISION  
Energy Branch

RESOLUTION G-2664  
February 11, 1986

RESOLUTION

SOUTHERN CALIFORNIA GAS COMPANY (SoCal Gas). ORDER  
AUTHORIZING EMERGENCY CONTRACT FOR PURCHASE AND SALE  
OF NATURAL GAS FOR UTILITY ELECTRIC GENERATION.

BACKGROUND

By Advice Letter No. 1600, dated February 10, 1986 and pursuant to Section 491 of the Public Utilities Code, SoCal Gas requests a temporary deviation from the rates for service and sales volumes of gas provided under contracts now in effect for service in accordance with Rate Schedule GN-5A.

GN-5A customers have notified SoCal Gas that the precipitous drop in world oil prices makes it uneconomical for them to continue to purchase natural gas for steam-electric generation at the currently authorized rates.

Discussion

SoCal Gas proposes to provide service to existing GN-5A customers based on a monthly forecasted weighted average price of spot purchases plus \$.50 per MMBtu, at a rate of \$2.80 per MMBtu, by special contract.

The term of the proposed agreement is for thirty days. Five days before the end of the contract term, SoCal and its customer proposed to meet and extend the term for another 30-day period. The subsequent contract rate would be the weighted average price of SoCal's projected monthly spot purchase price plus a minimum of \$.50 per MMBtu. The contract provides that gas and not oil will be used by the customer for the contract term.

We will approve SoCal Gas Advice Letter No. 1600 with one modification regarding the duration of the proposed deviation. We are not inclined to approve a deviation from current rates beyond our regularly scheduled meeting of March 19, 1986. At that time we will re-examine market conditions to determine if a deviation is still warranted. In particular, we are keenly interested in what actions SoCal's interstate pipeline suppliers take to keep gas rates

competitive with declining alternate fuel prices. At the Commission's meeting of March 19, 1986, we may approve an extension of SoCal's proposed GN-5A rate deviation if the price of long-term suppliers is reduced to a level at which that gas is marketable to customers with the ability to switch fuels.

In essence, SoCal's proposal envisions that significant amounts of spot gas will be targeted to one class of customers, namely UEG customers. Segmentation is generally not an acceptable proposition as it has an adverse impact on remaining customers and it deprives core customers of benefits they currently receive from spot gas purchases. Although we may ultimately decide to target certain amounts of spot gas to industrial customers, that change in policy would be accompanied by our examination of the utilities' supply mix so that core customers also receive an appropriate mix or portfolio of long and short-term supplies.

By allowing this temporary deviation, we are providing SoCal's long-term suppliers with a "grace period" in which to react to the declining fuel oil market and adjust their commodity rates to levels that are competitive with alternate fuel prices. If they succeed, all utility customers will benefit from reduced gas prices. If the pipelines cannot respond, however, some fuel switching may result. Furthermore, there is no reason for California utilities to continue to commit to a 60% purchase level (a level this Commission has never ratified) for long-term supplies unless there is assurance that such gas will be marketable to fuel switching customers.

Both of SoCal's major interstate suppliers will be filing their semi-annual PGA (Purchase Gas Adjustment) on about March 1, 1986. Based on these filings and market conditions at the time, we will decide whether to extend or modify the GN-5A rate deviation approved today. Parties may submit comments to the Commission no later than March 10, 1986 regarding this matter.

The Public Staff Division filed comments in support of a strictly temporary deviation for GN-5A customers. Their concerns regarding market segmentation are reflected in our discussion above.

The staff of the Evaluation and Compliance Division has reviewed this filing and finds that it is in the public interest to authorize the Contract for Purchase and Sale of Natural Gas for Utility Electric Generation filed for Commission approval under SoCal Gas Advice No. 1600.

#### Findings

1. Southern California Edison Company states that based on the current price of fuel oil, it intends to burn oil instead of natural gas in its electric generating plants unless it can obtain natural gas at a weighted average cost of \$2.80 MMBtu, or less, during the months of February and March 1986.

2. This emergency deviation is required to avoid the certain loss of market that would occur absent approval of this special contract. Should steam-electric generation customers discontinue use of natural gas for electrical generation, the fixed costs associated with the resulting revenue losses would fall on higher priority customers.

3. It is reasonable for SoCal Gas to provide service to existing GN-5A customers at \$2.80. per MMBtu. This price consists of the current monthly forecasted weighted average price of spot purchases, \$2.30, plus a margin contribution of \$.50 per MMBtu.

If the 30 day contract period expires before March 19, 1986 and the parties agree to an extension pursuant to Paragraph 3 of the contract, the sales price shall include a minimum margin contribution of \$.50 per MMBtu.

4. Notice of the following order did not appear on the Commission's agenda as required by the Government Code. This matter is an unforeseen emergency in that without the special contract in effect, a greater fixed cost and financial burden would have to be placed on SoCal Gas' domestic and other high priority customers.

THEREFORE, BE IT RESOLVED THAT:

1. Under the provisions of Public Utilities Code Sections 451 and 491, SoCal Gas is authorized to enter into the "Contract for the Sale of Natural Gas for Utility Electric Generation" that is the subject of SoCal Gas Advice No. 1600, filed February 10, 1986, modified to incorporate the following terms and conditions.

a. All contracts entered into pursuant to this resolution shall expire no later than March 19, 1986.

b. Paragraph 3 of the Contract shall be amended accordingly.

2. The above advice letter and contract form shall be marked to show that they were authorized for filing by Commission Resolution No. G-2664.

3. Each GN-5A customer who enters into an agreement with SoCal Gas will supply an affidavit attesting to the forecasted purchase of oil for steam-electric generation and SoCal Gas will provide the forecasted weighted average price of spot purchases of natural gas. SoCal Gas will in turn provide copies of the affidavits to the Commission.

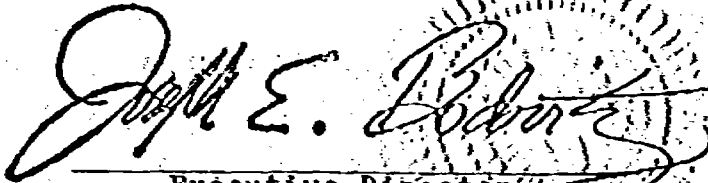
4. As soon as the March 1986 PGA filings are made by Transwestern and El Paso, SoCal Gas' two major pipeline suppliers, SoCal shall provide copies of those filings to the Public Staff of the Commission, along with SoCal's current projected monthly spot market purchase prices.

5. This Resolution shall be served on all parties to the Commission's ongoing Gas Long Term Rate Design proceeding I:84-04-079. Any person wishing to comment on the terms of this Resolution and whether it should be extended or modified beyond March 19, 1986, shall do so by filing written comments with the Evaluation and Compliance Division and serve a copy on SoCal Gas, PG&E SCE, SDG&E, LADP, TURN, and each Commissioner no later than March 10, 1986.

6. This resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission on February 11, 1986. The following Commissioners approved it:

DONALD VIAL  
President  
VICTOR CALVO  
WILLIAM T BAGLEY  
FREDERICK R. DUDA  
Commissioners

  
Executive Director

PROOF OF SERVICE BY MAIL

I, Rita Jayin, declare:

I am over the age of 18 years, not a party to this proceeding, and am employed by the California Public Utilities Commission at 350 McAllister Street, San Francisco, California.

On, FEB 13 1986, I deposited in the mail at San Francisco, California, a copy of:

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(DECISION NUMBER or TYPE of HEARING)

\_\_\_\_\_  
(DATE of HEARING)

Res. R-2664

\_\_\_\_\_  
(APPLICATION/CASE/OII/OIR)

MAILED TO ALL PARTIES IN OII 84-04-079 et al  
in a sealed envelope, with postage prepaid, addressed to the last known address of each of the addressees in the attached list.

I declare under penalty of perjury that the foregoing is true and correct and that this declaration was executed on FEB 13 1986, at San Francisco, California.

Rita Jayin \*  
Rita Jayin