PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION & COMPLIANCE DIVISION
Energy Branch

Resolution G-2670
April 16, 1986

RESOLUTION

SAN DIEGO GAS & ELECTRIC COMPANY (SDG&E)
AUTHORIZATION TO IMPLEMENT A GAS RATE SCHEDULE CHANGE
TO INCORPORATE THE BENEFITS OF AN AGREEMENT
WITH HNG INTERNORTH (HNG), A PIPELINE SUPPLIER,
FOR PURCHASE OF SPOT MARKET GAS AT $1.7225 PER MMBTU.

BACKGROUND

By Advice Letter No. 566-G filed March 17, and supplement filed March 28, 1986, San Diego Gas & Electric Company (SDG&E) has submitted proposed changes in tariff schedules applicable to its Gas Department to amend its Schedule GN-5 rate to incorporate the benefits of a tentative agreement with HNG Internorth to purchase spot market gas at a price of $1.7225/MMBtu delivered to the California border.

This offer would provide gas dedicated to SDG&E's power plants for 30 days and would become effective on the date the Commission grants its approval. HNG Internorth will deliver the gas through either the Transwestern or El Paso Natural Gas Company pipeline systems to Southern California Gas Company (SoCal) on behalf of SDG&E. SDG&E is seeking to have this gas delivered to SDG&E by SoCal at a price that includes a margin contribution of 5¢ per MMBtu or 0.5¢ per therm to SoCal.

SDG&E is requesting that the rate change become effective co-incident with the approval of the above-referenced agreement, and remain effective for the length of the contract period. At the end of the contract period the Schedule GN-5 rate shall revert back to its original level of $4.3494 per MMBtu until such time as SDG&E obtains Commission approval for a new spot purchase agreement and rate change.

The requested Schedule GN-5 rate of $2.8104/MMBtu includes the contract cost of gas and delivery to SDG&E's system of $1.7725/MMBtu total plus a maintenance of the current interdepartmental contribution to margin of the existing Schedule GN-5 rate (approximately $1.04/MMBtu).

Therefore, under this arrangement the margin contribution from the power plants would be maintained, and the remaining rate reduction from the current GN-5 Schedule of $4.3494 to $2.8104 per MMBtu would be passed through to electric customers.

Because of the above-mentioned conditions, SDG&E requests, under the provisions of Section 491 of the California Public Utilities Code, that this special emergency filing be approved for service co-incident with the approval of an order authorizing SoCal to deliver this gas to SDG&E at $1.7725/MMBtu on and after April 2, 1986, which is on less than statutory notice.

POSITIONS OF PARTIES

Protests and comments were received from the Public Staff Division (PSD), The City of San Diego, Southern California Gas Company (SoCal) and Toward Utility Rate Normalization (TURN). The comments and protests are summarized below.

The City of San Diego supports SDG&E's request since it will pass through to electric customers the benefit of the cost reduction. The City further reiterated that with the current high electric rates, an effort by SDG&E to reduce them is commendable.

The Public Staff Division (PSD) generally supports SDG&E's filing and recommends that the Commission approve SDG&E's proposed gas rate with Conditions 1 and 2 proposed by SoCal in Advice Letter No. 1613 so long as any specially targeted spot gas is excluded from SoCal's system average cost of gas for the purpose of calculating SDG&E's wholesale rate. The key issue for the Commission is whether the rate proposed by SDG&E includes an adequate contribution to margin. In Resolution G-2668 adopted March 12, 1986, the Commission ordered SoCal to maintain a minimum contribution of $0.30 per MMBtu after April 1, 1986 from UEG sales. SDG&E currently pays a capacity charge to SoCal of $25.89 million per year whether SDG&E purchases any gas or not. PSD believes that this translates to an equivalent margin contribution of $0.268 per MMBtu to SoCal allocating this charge across all sales to SDG&E, and including the proposed transportation of spot gas for SDG&E's UEG sales. Adding the additional five cents per MMBtu, the margin contribution increases to over $0.30 per MMBtu. Thus, SDG&E's proposal meets the Commission's minimum margin contribution for sales to UEG customers.

PSD takes note of TURN's constructive comments regarding cross-subsidies resulting from the wholesale rates. PSD believes that a simpler solution can accommodate TURN's concerns and ensure that SDG&E's high priority customers do not receive cheaper gas at the expense of SoCal's high priority customers. The wholesale rate paid by SDG&E (or City of Long Beach) should not be lower than the <u>effective</u> system average cost of gas. This could be accomplished by excluding any "special contract" spot gas (for example, the gas sold to SCE and other electric utility customers per SoCal's recent Advice Letter No. 1610) from the memorandum record kept for wholesale customers under SoCal's Consolidated Adjustment Mechanism (CAM) Balancing Account. The wholesale balancing account would then be based on the effective cost of gas to SoCal's non-UEG customers.

In conclusion, the PSD recommends approval of this rate on a temporary basis pending in-depth review of the appropriate UEG contribution to margin in the Spring CAM proceedings and other further hearings dealing with long-term gas rate design.

Southern California Gas Company (SoCal) protested the Advice Letter and the proposed contribution to margin by stating, "As described in SDG&E's Advice Letter, these volumes would be purchased for such price at the border by SoCal and then resold by SoCal to SDG&E for $2.00/MMBtu, (per original filing) representing a contribution to SoCal's costs of only 0.5¢/therm, a level so unacceptably low that no alternative is left to SoCal but to protest SDG&E's proposal."

"SoCal currently pays fixed annual demand charges to El Paso Natural Gas Company, Transwestern Pipeline Company and others totalling $285.3 million. Based on total system sales, such fixed demand charges equate to approximately 3.0¢/therm. At an absolute minimum and to be equitable in any sense, SoCal must at least recover SDG&E's pro rata share of these pipeline demand charges amounting to 3.0¢/therm. This principle was underscored by the Commission in its recent gas transportation decision when it was noted that at least a portion of such pipeline demand charges are included in SoCal's wholesale commodity rates and may not be avoided by SoCal merely because system sales are displaced by transportation or other alternate arrangements such as those proposed by SDG&E's Advice Letter". (Decision No. 85-12-102, mimeo p. 27.)

SoCal continues, "Furthermore, the PSD has urged on minimum margin contributions from UFG customers of 4.5¢/therm (CPUC Resolution G-2668, p. 8, March 12, 1986.) and the Commission itself has stated that "SoCal shall make every effort to secure a margin contribution of (3.0¢/therm) from UFG sales, (RES G-2668) and in view of the fact that unavoidable fixed pipeline demand charges amounting to 3.0¢/therm are not recovered by means of the capacity charge, it seems somewhat whimsical for SDG&E to suggest that SoCal should be satisfied for purposes of the subject spot market volumes with a contribution from SDG&E of only 0.5¢/therm."

Thus, for the foregoing reasons, SoCal submitted that SDG&E Advice Letter No. 566-G should be rejected, or, in the alternative, should the Commission determine to authorize the temporary purchase of the spot market supplies proposed by SDG&E, the ultimate sale to SDG&E should reflect a margin to SoCal no less than 3.0¢/therm above the price paid by SoCal at the border.

TURN filed comments and a limited protest in which it makes the following points:

1. TURN is concerned that the matter result in fair treatment of the ratepayers of both companies.

2. The HNG Internorth spot gas agreement may well be moot due to lower spot bids to SoCal for the month of April.

3. The problem is one of rate design which should include demand charges and tiered rates of long-term supply cost and expected spot gas cost.

4. Any solution should be a temporary, interim approach until hearings can be held.

DISCUSSION

In Resolution G-2668, we rejected requests by both SDG&E and the City of Long Beach for a special contract rate of $2.05/MMBtu from SoCal. At that time, spot gas was being purchased at $2.05/MMBtu. We therefore concluded that "while the required margin contribution that should be recovered in SoCal's wholesale commodity rates is certainly less than it would be absent the demand charges, we are not prepared to say that it should be zero as proposed by SDG&E and the City."

Now, SDG&E has proposed to purchase contract gas from Transwestern for $1.72/MMBtu and pay an additional $0.05/MMBtu to SoCal for transporting this gas to SDG&E. This would make the delivered price of gas to SDG&E $1.77/MMBtu which is currently competitive with oil. SDG&E argues that this $.05/MMBtu plus the nearly $0.30/MMBtu margin it currently pays SoCal in a monthly capacity charge would be more than the 30 cent minimum margin required of Edison in Resolution G-2668.

Two significant events have transpired subsequent to our issuance of Resolution G-2668. First, the average price of SoCal's spot gas purchases has decreased from $1.95 to $1.82/MMBtu for the month of April. This increased Edison's margin contribution from $0.30 to $0.43/MMBtu - very close to the $0.45/MMBtu minimum contribution recommended earlier by PSD in Advice Letter filing 1610. Second, SoCal and Edison have reached a negotiated longer term agreement which would apparently provide a margin contribution close to or above $0.45/MMBtu. SoCal has filed Advice Letter 1619 for approval of this agreement. While we have yet to act on this advice letter filing and are not intending to prejudge such action, we note that a $0.45/MMBtu contribution level would be consistent with Resolution G-2668. In that resolution we directed SoCal and Edison to negotiate an agreement to "bring the combined contribution to margin in the special commodity rate and the negotiated demand charge to the 45 cent contribution to margin urged by staff."

For these reasons, it appears reasonable to establish a short-term minimum margin contribution for SDG&E's UEG load at $0.45/MMBtu. This minimum margin contribution target will remain in effect until we visit this issue in the spring CAM proceeding or until further Commission order since SDG&E already pays a capacity charge to SoCal equivalent to about $0.30/MMBtu (the precise figure depends on the sales level assumed), we will require an additional contribution of $0.15/MMBtu to be made on the commodity rate. This is more than the 5 cents SDG&E proposed, but less than SoCal's proposal of April 1, 1986.

SDG&E will be allowed to contract with Transwestern or any other supplier for gas to meet its UEG load as long as it results in an additional contribution of $0.15/MMBtu. This 15 cent contribution will more than cover SoCal's variable cost of transporting gas to SDG&E and it will provide economic benefits to both SoCal and SDG&E ratepayers. In addition, the City of Long Beach will be permitted to purchase special contract gas for its UEG load under this arrangement, provided that the minimum margin contribution of $0.45/MMBtu is met.

For both SDG&E and the City of Long Beach, we will also adopt PSD's recommendation to exclude all specially targeted spot gas (e.g., gas sold to Edison and other UEG customers) from SoCal's system average cost of gas for the purpose of calculating SDG&E's wholesale rate. This will address the "double dip" problem cited by TURN in its comments and limited protest of March 26, 1986.

Finaly, we note that our approval of this advice letter and our 45 cent minimum margin contribution target is only a short-term solution to a much larger rate design problem that we will examine in the SDG&E and SoCal spring CAM proceedings. In its comments to this advice letter filing, TURN did an excellent job of identifying some of the critical problems with wholesale rate design. While we do not adopt TURN's recommendations today because of their complex nature, we look forward to exploring these and other wholesale rate design options in the spring CAMs.

Findings:

1. San Diego's efforts to obtain spot market natural gas have resulted in a good price that will reflect savings to its electric department customers.

2. We agree with SoCal that the proposed 0.5¢ per therm contribution to margin is too low. If SDG&E wishes to effect its agreement with HNG, we will direct SDG&E to amend its filing to include 1.5¢ per therm that it must contribute to SoCal's margin.

3. For SDG&E, we will adopt the recommendation to exclude all specially targeted spot gas (e.g., gas sold to Edison and other UEG customers) from SoCal's system average cost of gas for the purpose of calculating SDG&E's wholesale rate.

4. We find the requested rate change as modified in Findings Nos. 2 and 3 above to be reasonable.

5. Notice of the following order did not appear on the Commission's agenda as required by the Government Code. This matter is an emergency issue in that oil prices are falling precepitously and without the special contract in effect, a greater fixed cost and financial burden would have to be placed on SDG&E's residential and other high priority customers. Extensive noticing of this finding has taken place through individual mailings to the General Order 96-A list.

THFRFFORE:

1. San Diego Gas & Electric Company is authorized to enter into an agreement with So. Calif Gas Company, whereby, SoCal will in turn deliver the gas from HNG to SDG&E at a price to include a $0.15 per MMBtu contribution to margin.

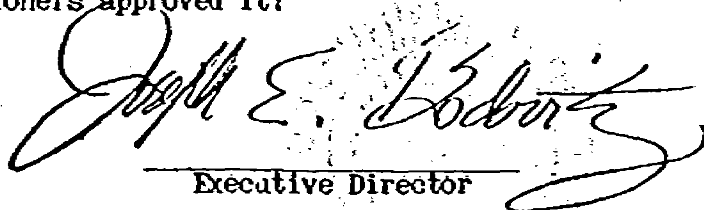
2. The rates authorized herein are authorized to remain in effect until modified by further order of the Commission.

3. This special emergency filing is approved for service coincident with the approval of an order authorizing SoCal to deliver this gas to San Diego on and after April 16, 1986, which is on less than statutory notice.

4. The above Advice Letter and supplemental tariff sheets shall be marked to show that they were authorized for filing by Commission Resolution G-2670.

5. This Resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission on April 16, 1986. The following Commissioners approved it:



Executive Director

DONALD VIAL
President
VICTOR CALVO
FREDERICK R. DUDA
Commissioners

I abstain.

PRISCILLA C. GREW, Commissioner