PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION & COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-2671
April 16, 1986

RESOLUTION

SOUTHERN CALIFORNIA GAS COMPANY (SoCal)
ORDER AUTHORIZING EMERGENCY CONTRACT FOR
PURCHASE AND SALE OF NATURAL GAS TO
SAN DIEGO GAS & ELECTRIC COMPANY (SDG&E)

BACKGROUND

By Advice Letter No. 1613, filed March 25, 1986, and pursuant to Section 491 of the Public Utilities Code, SoCal 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 G-61.

SoCal submits for Commission approval a short-term purchase and sale agreement between SoCal and SDG&E. This filing is made at Commission's directive (meeting of March 19, 1986) that SoCal should file an advice letter compatible to SDG&E's Advice Letter 566-G.

Under a Spot Market Gas Purchase Agreement negotiated by SDG&E and HNG Internorth (HNG), SDG&E is able to purchase gas at $1.95/MMBtu (defined as one million Btu or 10 therms) at the point of interconnect between the facilities of the Transwestern Pipeline System and the Southern California Gas Company near Needles, California. By supplemental to Advice Letter 566-G, SDG&E now reports that the contract price has been reduced to $1.7225 MMBtu. SDG&E is seeking to have this gas delivered to their facilities at a price of $1.7725 MMBtu by SoCal, resulting in a margin contribution to SoCal of $0.05 per MMBtu.

SoCal furnishes natural gas under Rate Schedule No. G-61 to SDG&E. The rights and obligations of both parties under their Wholesale Gas Agreement would remain in effect. The terms of this schedule and the corresponding agreement between the two utilities provide that SoCal's overall system gas supply along with SoCal's extensive underground storage facilities are used to provide year-round gas service for SDG&E's consumers at parity with SoCal's consumers.

SoCal will undertake to deliver, on a temporary deviation from Schedule G-61, such volumes to SDG&E as are tendered in conformance with the following conditions:

1. SDG&E will provide at least 48 hours advance notice of the volumes to be delivered each day.

2. All volumes delivered to SDG&E will be used in their Interdepartmental Rate Schedule GN-5 for utility electric generating (UEG).

SoCal is filing this advice letter as directed by the Commission however, it does not believe that SDG&E's contribution to margin is sufficient to cover the fixed costs on their system. SoCal has filed a protest to this effect and has cited the Commission's Resolution G-2668 as a reference for the minimum margin contribution from UEG customers.

Protests and Comments

TURN protested both this advice letter and the related Advice Letter 566-G of SDG&E "to reduce the rate charged for gas sold to its electric department for electric generation". Comments and a limited protest were received from the City of Long Beach. A letter from El Paso supported the concept of sales to SDG&E power plants for a $0.05 Dth margin contribution over the price of spot gas delivered to SoCal. The Public Staff Division also submitted comments generally supporting SDG&E's filing and recommends approval.

TURN's protest and comments are fully covered in Resolution No. G-2670 which addresses SDG&E's Advice Letter No. 566-G.

The City of Long Beach simply wants to be accorded the same treatment from SoCal as SDG&E is requesting. Long Beach requests that within this special proceeding relating to Advice Letter No. 1613, the Commission allow Long Beach to make a contribution to SoCal's margin of $0.05 through a similar arrangement between Long Beach and SoCal and Long Beach's gas supplier, either by way of emergency short-term transportation or on the basis of a purchase by SoCal of the gas as Long Beach's agent for re-delivery to Long Beach.

El Paso points out in its comments that SDG&E currently pays a substantial wholesale demand charge to SoCal of approximately $0.28/Dth (one decatherm, Dth, is equal to MMBtu or 10 therms). Adding the $0.05 MMBtu proposed by SDG&F would make a "respectable" marginal recovery of $0.33 MMBtu. If SoCal was authorized the full $0.30 MMBtu, El Paso believes SDG&E would essentially be contributing $0.58 MMBtu to margin. That would be substantially above that which the Commission viewed as minimum for the UEG - targeted sale to SCE of $0.30 per MMBtu.

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.

DISCUSSION

In Resolution No. G-2670 approving SDG&E's Advice Letter No. 566-G, with amendment, we have thoroughly discussed the positions of the parties, and their protests and comments. As we noted, 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 cents per therm 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.

Finally, 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.

FINDINGS:

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

2. We agree that the proposed $0.05/MMBtu contribution to margin is too low, but a contribution of $0.15/MMBtu to margin is reasonable.

3. For both SDG&E and the City of Long Beach, we will also 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. Approval of this advice letter and our 45 cents per MMBtu 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.

5. We find all other aspects of this gas purchase and delivery agreement under Advice Letter 1613-G to be reasonable.

THEREFORE:

1. Under the provisions of Public Utilities Code Sections 451 and 491, Southern California Gas Company is authorized to enter into a short-term purchase and sale agreement with San Diego Gas & Electric Company to deliver gas to SDG&E at a margin contribution of $0.15 per MMBtu where the gas will be used for Utility Electric Generation.

2. This special emergency filing is approved for service coincident with the approval of Advice Letter 566-G and Resolution G-2670 for San Diego Gas & Electric Company.

3. Southern California Gas Company is directed to furnish a copy of the Purchase and Sale Agreement with SDG&E to the Executive Director of the Public Utilities Commission. SoCal is further directed to furnish to the Executive Director a tabulation of the quantities sold and the margin contributions gained under this resolution.

4. 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:

Joseph E. Bodovitz
Executive Director

DONALD VIAL
President
VICTOR CALVO
FREDERICK R. DUDA
Commissioners

I abstain.

PRISCILLA C. GREW, Commissioner