

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION & COMPLIANCE DIVISION
Energy BranchRESOLUTION G-2678
May 28, 1986

RESOLUTION

SAN DIEGO GAS AND ELECTRIC COMPANY (SDG&E) AUTHORIZATION TO IMPLEMENT A GAS RATE SCHEDULE CHANGE TO INCORPORATE THE BENEFITS OF AN AGREEMENT WITH HNG INTERNORTH (HNG), A PIPE-LINE SUPPLIER, FOR PURCHASE OF SPOT MARKET GAS.

By Advice Letter No. 570-G filed May 9, 1986, San Diego Gas and 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 \$1.700/MMBtu delivered to the California border.

This offer would provide gas dedicated to SDG&E's power plants for the period April 18 through May 17, 1986, if 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 proposing to have this gas delivered to SDG&E by SoCal at a price that includes a margin contribution of \$.15 per MMBtu or 1.5 cents per therm to SoCal.

SUMMARY

While the text of this resolution is quite lengthy, it merely corrects a prior Commission Resolution G-2670, and recognizes certain minor reductions in the cost of natural gas currently being purchased by SDG&E. In addition it allows SDG&E to negotiate still better natural gas purchase agreements as long as it continues to contribute \$0.15/MMBtu to SoCal for delivering the gas to the SDG&E system.

DISCUSSION

Resolution G-2670 dated April 16, 1986, authorized SDG&E to enter into an agreement with Southern California Gas Company (SoCal), whereby, SoCal will in turn deliver gas from HNG Internorth to SDG&E at a price to include a \$0.15/MMBtu contribution to SoCal's margin. SDG&E has entered into such an agreement with SoCal.

Additionally, this advice filing is intended to clear up confusion and correct errors associated with Resolution G-2670, and

SDG&E's Advice Letter 566-G and subsequent Supplements 1 and 2.

Following is the chain of events related to Advice Letter 566-G:

1. On March 17, 1986 SDG&E filed Advice Letter 566-G which requested CPUC approval of a thirty day gas purchase with HNG/InterNorth for SDG&E's power plant use. SDG&E requested that its Schedule GN-5 rate be lowered to \$.30379/therm for this contract period. This requested rate reflected the following factors:

A. HNG gas purchase price	-	\$1.95/MMBtu
B. SDG&E's transportation payment to SoCal	-	\$.05/MMBtu
C. Maintenance of existing power plant contribution to margin.	-	<u>\$1.0379/MMBtu</u>
New Schedule GN-5 rate	-	<u>\$3.0379/MMBtu</u> (\$.30379/therm equivalent)

2. On March 28, 1986 SDG&E filed its first supplement to Advice Letter 566-G to reflect a new lower gas purchase price offered by HNG/InterNorth of \$1.7225/MMBtu. The revised Schedule GN-5 rate requested was determined as follows:

A. HNG gas purchase price	-	\$1.7225/MMBtu
B. SDG&E 's transportation payment to SoCal	-	\$.05/MMBtu
C. Maintenance of existing power plant contribution to margin.	-	<u>\$1.0379/MMBtu</u>
New Schedule GN-5 rate	-	<u>\$2.8104/MMBtu</u> (\$.28104/therm equivalent)

3. On April 16, 1986, the CPUC adopted Resolution G-2670. That resolution authorized SDG&E to pay SoCal \$0.15/MMBtu for transporting spot gas that SDG&E contracted to purchase from HNG InterNorth at \$1.7225/MMBtu. It also stated in Ordering Paragraph No. 2, "The rates authorized herein are authorized to remain in effect until modified by further order of the Commission". The rates and charges authorized by Resolution G-2670 resulted in a revised SDG&E GN-5 rate of \$0.29104 per therm.

4. On April 17, 1986 SDG&E filed its Second Supplement to Advice Letter 566-G intending to be in compliance with the Commission's Resolution G-2670. This filing reflected the following Schedule GN-5 rate components:

- A. A more recently negotiated gas purchase arrangement with HNG/InterNorth - \$1.70/MMBtu
- B. SDG&E's transportation payment to SoCal - \$.15/MMBtu
- C. Maintenance of SDG&E's existing power plant contribution to margin - \$1.04/MMBtu
New Schedule GN-5 rate - \$2.89/MMBtu
(\$2.8900/therm equivalent)

The Tariff Unit (Tariffs), of the Energy Branch refused to accept the April 17, 1986 supplemental filing because it did not comply with either General Order 96-A or the intent of Resolution G-2670.

SDG&E'S POSITION

Tariffs rejected the April 17, 1986 Second Supplemental filing in which SDG&E requested a Schedule GN-5 rate of \$2.89/MMBtu and instead approved the First Supplemental filing dated March 28th enacting a Schedule GN-5 rate of \$.28104/therm effective April 16, the effective date of Resolution G-2670. This action created several problems.

First, the adopted Schedule GN-5 rate of \$.28104/therm did not include the 1 cent per therm increase in SDG&E's contribution to SoCal's margin (1.5 cents per therm total) ordered by the Commission Resolution G-2670. Secondly, the \$.28104/therm did not reflect the actual contract gas purchase price of \$1.70/MMBtu, but instead reflects an earlier price of \$1.7225/MMBtu. On the first point, the Staff indicated to SDG&E that the \$.28104/therm GN-5 rate they approved is in error because it did not include the one cent per therm margin increase ordered in Resolution G-2670.

On the second point, Staff maintains that the \$1.70/MMBtu price cannot be incorporated into the new Schedule GN-5 rate, even though it is lower than the \$1.7225/MMBtu rate because Resolution G-2670 does not specifically address the lower \$1.70/MMBtu price. As a result, the Staff requested SDG&E to file a new advice letter including a revised Schedule GN-5 price of \$.29104/therm to correct for their omission of the one cent per therm "Transportation Charge" increase ordered in Resolution G-2670, and to be retroactive to April 18, 1986 which was the first date of receipt of the special purchase gas.

SDG&E made such a filing in Advice Letter No. 569-G on May 9, 1986 and it was accepted by the Staff. The Staff considered that Advice Letter 569-G was necessary to correct previous errors, and to bring the current status of the GN-5 tariff up to date.

To further clarify the situation, SDG&E is making this advice letter filing concurrent with the filing of Advice Letter 569-G and is requesting that this filing be adopted in place of Advice

Letter 569-G effective April 18, 1986 through the purchase contract period to May 17, 1986. SDG&E is requesting that the Commission adopt a schedule GN-5 rate of \$.289/therm which reflects purchase price of \$1.70/Therm. This requested rate contains the cost factors as noted in Item No. 4, above. The Staff recommends that Advice Letter 569-G be allowed to stand as filed in the interim, until the Commission approves Advice Letter No. 570-G herein.

By lowering the GN-5 rate as described above, the benefit of this gas purchase arrangement will also be passed onto SDG&E's cogeneration customers. SDG&E believes that this filing is in conformance with Commission Resolution G-2670. At the end of the contract period the Schedule GN-5 rate shall revert back to its original level unless SDG&E has entered into a new spot purchase agreement and requests a rate change for a new 30-day period, (i.e., after May 17).

It was SDG&E's understanding that Resolution G-2670 provided a blanket approval for gas purchase arrangements as discussed above, as long as the new purchase arrangement provided net benefits to SDG&E's ratepayers and that the resulting Schedule GN-5 rate included a 1.5 cents per therm contribution to SoCal's margin and 10.4 cents per therm contribution to SDG&E's margin.

SDG&E's request is reasonable and by this Resolution we will grant such blanket approval. This blanket approval should remain in effect until this issue is resolved as part of the Rate Design portion of the upcoming Spring 1986 CAM Hearings. The Commission desired this procedure in order to avoid a rash of advice letters filed on this subject and to allow the utilities the opportunity to negotiate these beneficial short-term purchase arrangements independent of Commission meeting scheduling restraints. Both SDG&E and the Staff agree that Resolution G-2670 is difficult to interpret on these points and requests that the Commission provide clarification to facilitate future filings by SDG&E.

STAFF POSITION

After Commission adoption of Resolution G-2670 on April 16, 1986 Tariffs took two actions relating to that resolution and Advice Letter 566-G which are of concern to SDG&E. The first action taken by Tariffs made the First Supplemental tariff sheets effective April 16, 1986. Those tariffs reflected the \$1.7225/MMBtu spot purchase price, \$1.0379/MMBtu to margin and \$0.05/MMBtu for transportation for a total of \$2.8104/MMBtu. Tariffs should not have made those tariffs effective because the rate was too low in that it did not include the additional \$0.10/MMBtu transportation charge required by the Commission in Resolution G-2670. The correct rate as authorized on April 16, 1986, including the extra \$0.10, is \$2.9104/MMBtu. Revised tariffs reflecting the \$2.9104/MMBtu were filed by SDG&E Advice Letter 569-G. Since that filing was made to correct an error, those revised tariffs were made effective April 16, 1986 and resolved that particular issue.

In its second action, Tariffs refused to accept further supplemental or substitute tariffs that it deemed were not in compliance with Resolutions G-2670 and that were not filed in accordance with General Order 96-A. Compliance with Resolution G-2670 was the major issue. Ordering Paragraph No. 2 of Resolution G-2670 states: "The rates authorized herein are authorized to remain in effect until modified by further order of the Commission". On April 17, 1986 SDG&E filed tariffs which differed from those authorized in Resolution G-2670 due to the fact that the contract price of gas had decreased from \$1.7225 to \$1.7000/MMBtu. Those were not the tariffs authorized by the Commission and Tariffs refused to accept them for filing. If the resolution had given SDG&E blanket approval to file revised tariffs as spot contract prices dropped, Tariffs would not have had a reason to refuse the filing provided it was filed in accordance with General Order 96-A. Apparently what SDG&E wants is the blanket approval to change its rates as spot gas contract prices change. In this instance, where the contract price dropped from \$1.7225 to \$1.7000/MMBtu shortly after Resolution G-2670 was adopted, SDG&E wants the lower priced tariffs made effective from May 18, 1986. Tariffs has no objections to SDG&E's request provided all interested parties are made aware of what is happening and it is authorized by a Commission Order.

The rules for filing tariffs also became an issue in SDG&E's second supplemental filing to Advice Letter 566-G on April 17, 1986. In that instance, the Commission acted upon and approved Advice Letter 566-G with modifications by adopting Resolution G-2670. That action used number 566-G and put it in the records forever. General Order 96-A clearly states that advice letter numbers shall not be reused. In filing in compliance with Resolution G-2670, SDG&E should have used the next sequential number in its advice letter numbering series instead of considering that filing as a supplement to Advice Letter 566-G. This issue is important from the standpoint of tariff administration and all tariffs must be filed in strict accordance with General Order 96-A, otherwise no party will be able to determine which are the correct filed and effective tariffs.

FINDINGS

1. SDG&E's efforts to obtain spot market natural gas have resulted in a good price that will reflect savings to its electric department customers.
2. SDG&E will be allowed to contract with HNG InterNorth or any other supplier for gas to meet its UEG load as long as it results in an additional contribution of \$0.15/MMBtu to SoCal. This 1.5 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.

3. This approval should remain in effect until this issue is further resolved as part of the Rate Design portion of the upcoming Spring 1986 CAM Hearings.

THEREFORE:

1. San Diego Gas and Electric Company is authorized to enter into an agreement with HNG InterNorth, and with Southern California 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 to be effective from April 18, 1986 through May 17, 1986 and may remain in effect unless modified by contract change according to Ordering Paragraph No. 3, or unless modified or rescinded by further order of the Commission.

3. San Diego Gas and Electric Company is further granted authorization to negotiate with HNG InterNorth or any other supplier for gas to meet its UEG load, provided it meets these conditions:

A. The rate includes at least a \$0.15/MMBtu contribution to the margin of Southern California Gas Company.

B. The resulting GN-5 rate does not exceed the GN-5 rate that was in effect prior to April 16, 1986, of \$0.43494 per therm.


This authorization is to remain in effect until modified or rescinded by further order of the Commission.

4. San Diego Gas and Electric Company shall notify the Commission by Advice Letter of additional or modified spot market contracts negotiated pursuant to Order No. 3 above.

5. San Diego Gas and Electric Company shall continue to state the GN-5 rate in terms of \$/therm.

6. The above Advice Letter and tariff sheets shall be marked to show that they were authorized for filing by Commission Resolution G-2678. This Resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission on May 28, 1986. The following Commissioners approved it:


Acting Executive Director

DONALD VIAL
President
VICTOR CALVO
FREDERICK R. DUDA
STANLEY W. HULETT
Commissioners

I abstain.

PRISCILLA C. GREY Commissioner