

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION & COMPLIANCE DIVISION
Energy BranchRESOLUTION G-2679
May 28, 1986

RESOLUTION

SOUTHERN CALIFORNIA GAS COMPANY (SoCal Gas) ORDER
AUTHORIZING SPECIAL EMERGENCY CONTRACT FOR PURCHASE AND
SALE OF NATURAL GAS FOR UTILITY ELECTRIC GENERATION (UEG)
TO LOS ANGELES DEPARTMENT OF WATER AND POWER (DWP).

BACKGROUND

By Advice Letter No. 1630, filed May 12, 1986, and pursuant to Section 491 of the Public Utilities Code, SoCal Gas requests a deviation from the rates for service and sales volumes of gas served under Rate Schedules GN-5, GN-5A, and Resolution G-2666.

By this special emergency contract, SoCal Gas will continue to provide service to the DWP for a rate of \$2.25 per MMBtu with a margin contribution of at least \$0.30 per MMBtu.

SoCal Gas was authorized to serve the DWP at these rates under Resolution G-2666 until May 12, 1986.

DISCUSSION

This Resolution will reinstate the term of the contract as long as SoCal Gas can obtain sufficient natural gas supplies to provide the authorized margin and until a Decision is rendered on SoCal Gas' Application 86-03-058 (The Consolidated Adjustment Mechanism, CAM). The contract further provides that during Episode Days as defined in Rate Schedule GN-5 the Episode Day rate then in effect will be applicable and that gas and not oil will be used for the contract term.

The purpose of this Special Emergency Contract is to avoid loss of market that may occur absent the extension of this contract. SoCal Gas has been informed and believes that the current oil prices make it uneconomical for the DWP to use natural gas for U.E.G. at the currently authorized rates (GN-5 or GN-5A). Extension of this emergency contract will retain the DWP as a customer while efforts continue to reach a more permanent service agreement similar to that approved by Resolution G-2674 between Southern California Edison Company (SCE) and SoCal Gas.

Regaining customers can be very difficult once they have switched to other fuels. SoCal Gas and DWP should continue to negotiate a longer term solution to the fuel switching problem so that we are not faced with emergency advice letter filings on a monthly basis. As part of these negotiations, we expect SoCal Gas and DWP to negotiate an interim demand charge which would go into effect as soon as possible, and to bring the combined contribution to margin in the special commodity rate and the negotiated demand charge to the \$0.45 contribution to margin urged by staff on other U.E.G. contracts. Similar negotiations have taken place with other U.E.G. customers.

PROTEST

On May 27, 1986 Public Staff Division (PSD) filed its comments and Limited Protest to Advice Letter 1630. In its limited protest PSD recommended that the Commission should extend the \$2.25 per MMBtu rate as requested by SoCal Gas until June 30, 1986 with the proviso that the Commission require that all sales under the rate contribute no less than 45 cents per MMBtu. PSD concludes that if the Commission does not impose this limitation on the special contract rate, it will be providing potential counter incentives to SoCal Gas' other GN-5 customers who negotiated in good faith for service agreements with SoCal Gas believing that the special emergency rate would lapse on May 12, 1986.

The Energy Branch staff has discussed this matter with representatives of SoCal Gas and they agreed that the 45 cents per MMBtu contribution does not present any problem at this time since the gas to be sold to LADWP is being purchased at approximately \$1.64 per MMBtu. Therefore, the \$2.25 per MMBtu rate produces a current contribution of 61 cents per MMBtu.

We expect that the issue of the appropriate level of demand charges will be an issue in SoCal Gas' CAM proceeding. In the meantime, the terms of this special emergency contract and subsequently the negotiated demand charge will provide SoCal Gas with some reasonable fixed cost recovery.

FINDINGS

1. SoCal Gas has indicated that, based on the current price of oil, DWP intends to burn oil instead of natural gas in their electric generating plants unless they can obtain natural gas at a price of \$2.25 per MMBtu during the period June and July 1986.

2. This emergency deviation is required to avoid loss of market that may occur absent approval of this special contract. Should utility electric 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 for a limited time to DWP under Rate Schedules GN-5, GN-5A and this Resolution No. G-2679 at \$2.25 per MMBtu.
4. We expect SoCal Gas to take all steps reasonably possible to bring down both their long-term and spot gas supply costs.
5. As part of its longer-term negotiations with U.E.G. customers, we expect SoCal Gas to negotiate interim demand charges to be instituted as soon as possible.
6. 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 because of lower oil prices and without the special contract in effect, a greater fixed cost and financial burden would have to be placed on SoCal Gas' other high priority customers. Extensive noticing of this filing has taken place through individual mailings to the General Order 96-A list and the parties of record in OII 84-04-079.

THEREFORE:

1. Southern California Gas Company is hereby authorized to extend its current U.E.G. contract granted by Resolution No. G-2666 for a period until a long-term contract is signed with the Los Angeles Department of Water and Power or until a Decision is rendered on SoCal Gas' Application No. 86-03-058.
2. Southern California Gas Company shall take whatever actions necessary to ensure that the gas, both spot and system supplies, which it purchases through the El Paso and Transwestern systems is, on the average, marketable to the Los Angeles Department of Water and Power for Utility Electric Generation.
3. Southern California Gas Company shall secure a margin contribution to their system of at least \$0.45 per MMBtu from U.E.G. sales to the Los Angeles Department of Water and Power.
4. Consistent with existing tariff Schedules GN-5 and GN-5A these contract rates shall not apply on Episode Days and existing tariff rates will apply.
5. The above Advice Letter shall be marked to show that they were authorized for filing by Commission Resolution G-2679.

6. The Los Angeles Department of Water and Power upon entering into a contract with the Southern California Gas Company will be required to furnish an affidavit attesting to the forecasted purchase price of oil for utility electric generation and SoCal Gas will provide copies of the affidavits to the Commission.

7. Southern California Gas Company is required to furnish a copy of the contract with DWP to the Commission.

8. This Resolution shall be served on all parties to the Commission's ongoing Gas Long Term Rate Design proceeding in OII 84-04-079.

9. This Resolution is effective today.

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

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

Howard A. Sarason

Howard A. Sarason
Acting Executive Director

