PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION & COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-2684
June 5, 1986

RESOLUTION

PACIFIC GAS AND ELECTRIC COMPANY (PG&E) ORDER AUTHORIZING APPROVAL OF A CONTRACT BETWEEN PG&E AND CHEVRON U.S.A., INC. (CHEVRON) FOR THE RETAIL SALE AND/OR TRANSPORTATION OF NATURAL GAS FOR CHEVRON'S RICHMOND REFINERY.

By Advice Letter No. 1359-G, filed May 22, 1986, and pursuant to Sections 491 and 532 of the Public Utilities Code, PG&E requests a deviation from its regular G-50 - Natural Gas Service (Priority 3 and 4 customers) tariff schedule in order to enter into a special contract with Chevron for sale and transportation of natural gas.

BACKGROUND

PG&E reports that Chevron is its largest retail gas customer. In 1985, sales to Chevron were approximately 271 million therms, providing a contribution to margin of over $25 million.

The rapid decline in world oil prices, with the corresponding declines in the prices of liquid fuels available to Chevron, have made it economic for Chevron to switch to alternative fuels. PG&E believes it is in the interest of all its ratepayers to continue service to Chevron at a rate that will provide a substantial contribution to the fixed costs of the operating system. The contract is submitted in order to continue service to Chevron.

SUMMARY

This Agreement will give Chevron the ability to both purchase gas from PG&E and to transport gas over the system on a monthly nomination process.

In exchange for a $1.2 million monthly demand charge, Chevron can purchase up to 20 million therms of gas per month at a commodity charge not greater than PG&E's average cost of spot gas and short-term purchases plus a payment of $0.05 per decatherm for administration and direct costs in securing the contract volumes of gas. This arrangement will allow Chevron to purchase, transport or any combination of purchase and transported gas for the first block of 20 million therms per month.

- For purchases and or transportation volumes above 20 million therms per month, Chevron will pay PG&E the Commodity charge plus $0.50 per Decatherm for purchases or just $0.50 per Decatherm for transportation of its own gas. Again, $0.05 per Decatherm will be added for administration.

- This Agreement is for a term of six months or until November 30, 1986, whichever occurs first.

DISCUSSION

PG&E intends to purchase gas for Chevron pursuant to Paragraph 4 of Schedule B of the April 1, 1986 amending agreement to the gas sales contract between the Alberta and Southern Gas Co. Ltd. and Pacific Gas Transmission Company. Any purchases under that agreement will be at a cost no less than PG&E's average cost at the California border of all spot and Canadian discount gas purchases.

PG&E believes that, unless there is a prompt action on this advice filing, Chevron will quickly make arrangements to burn substantial quantities of alternative fuels. Consequently, PG&E requests under the provisions of Section 491 of the California Public Utilities Code, that this filing be approved on an emergency basis on less than statutory notice, in order that PG&E may be able to continue earning a contribution to margin from Chevron for the benefit of all ratepayers.

This resolution is intended to keep Chevron from switching to alternate fuels by providing competitive gas alternatives thereby maximizing contribution to margin on the PG&E system. It should provide a stable, cost justified contribution towards the system fixed costs ($1.2 million per month demand charge) of providing service to Chevron, while directly communicating the commodity cost of gas to Chevron and the PG&E suppliers.

This Resolution is consistent with the concept of "unbundled" rate design proposed in Decision No. 86-03-057. In addition, equal margin contributions for the use of PG&E's system will be obtained from retail sales or transportation. The proposed contract is also for a limited six-month term, coinciding with our consideration of new long-term gas rate design policies. Thus, the proposed contract will not be an obstacle to the imposition of new rates based upon our final decision in the rate design proceedings.

The purpose of this Special Emergency Contract is to avoid the loss of a market that may occur absent this contract with Chevron. PG&E has been informed and believes that the current oil prices and the availability of liquid fuels to Chevron have made it economical or Chevron to switch fuels for their operations at the Richmond Refinery. Regaining customers can be very difficult once they have switched to other fuels. PG&E has negotiated with Chevron at length and has reached contract terms which are acceptable to the parties involved. This contract agreement is presented here to obtain Commission approval.

Public notification of this filing has been made by mailing copies of the advice letter to other utilities, governmental agencies, and to all interested parties who requested them. The Commisssion has received no protests in this matter.

FINDINGS

1. Chevron has indicated that, based on the current price of oil, they intend to burn liquid fuels instead of natural gas at their Richmond Refinery.

2. This emergency deviation is required to avoid loss of a market that may occur absent approval of this Special Contract. If Chevron discontinued use of natural gas for plant operations its contribution to the fixed costs would cease. This would possibly result in increased revenue requirements from the losses on higher priority customers.

3. It is reasonable for PG&E to provide service under this special short-term contract to maintain competitive natural gas prices, while the Commission considers the appropriate long-term gas rate design for PG&E's customers.

4. Notice of the following order did not appear on the Commission's agenda as required by the Public Utilities Code Section 306. 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 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 A.86-03-030.

THEREFORE:

1. Under the provisions of Public Utilities Code Sections 491 and 532, Pacific Gas and Electric Company is authorized to enter into a contract with Chevron USA, Inc., for the sale or transport of natural gas subject to the terms set forth in this advice letter and the sample form contract submitted with the advice letter.

2. Pacific Gas and Electric Company shall take all reasonable actions necessary to ensure that the gas, both spot and system supplies, which it purchases through the Alberta and Southern Gas Co. Ltd. and Pacific Gas Transmission systems is, on the average marketable to Chevron according to the contract.

3. Pacific Gas and Electric Company will be required to furnish data to establish the volumes and prices used for this contract. PG&E is required to furnish the contribution to margin from this contract quarterly, beginning 30-days after the first three months of operation to the Executive Director of this Commission.

4. The above advice letter and contract form shall be marked to show that they were authorized for filing by Commission Resolution G-2684.

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

6. This Resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission on June 5, 1986. The following Commissioners approved it:

Victor Weisser

Executive Director

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