# PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION & COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-2688
August 6,1986

## RESOLUTION

PACIFIC GAS AND ELECTRIC COMPANY (PG&E) ORDER AUTHORIZING APPROVAL OF A CONTRACT BETWEEN PG&E AND SHELL CALIFORNIA PRODUCTION INC. (SCPI) FOR THE RETAIL SALE AND/OR TRANSPORTATION OF NATURAL GAS FOR SCPI's ENHANCED OIL RECOVERY (EOR) OPERATIONS IN THE COALINGA OIL FIELD IN FRESNO COUNTY, CALIFORNIA.

By Advice Letter No. 1366-G, filed July 2, 1986, and pursuant to Section 532 of the Public Utilities Code, PG&E requests authority to enter into a special contract with SCPI for sale and transportation of natural gas.

## BACKGROUND

The enhanced oil recovery market represents the largest new market for gas in California. PG&E first served gas to this market in November of 1984 under Schedule G-59. PG&E reports that sales to the enhanced oil recovery market provided a contribution to margin of approximately $9 million from February 1985 through January 1986.

However, the rapid decline in world oil prices, with the corresponding declines in crude oil prices, have made it economic for SCPI to switch from gas to crude oil. It is apparent that the G-59 rate schedule will not allow PG&E to recapture this important new market under current conditions. By this contract, PG&E will retain the ability to offer conditions of service that meet the needs of EOR customers. At the same time, other ratepayers will benefit from the substantial contribution towards the fixed costs of the operating system provided by this sale.

## SUMMARY

The SCPI contract is similar in form to the contract between PG&E and Chevron approved by the Commission, in Resolution G-2684 on June 5, 1986. The contract is based on the proposed rate design principles outlined in Decision No. 86-03-057.

Service for SCPI is being "unbundled," with SCPI having the flexibility to determine whether it wants to purchase gas from the utility or enter into transportation of its own gas. The specific components of the contract are as follows:

- o SCPI will pay a fixed customer/demand charge of $206,833.33 per month. This charge reflects SCPI's contribution towards PG&E's fixed costs of providing sales and/or transportation service. This charge equals approximately $.40 per decatherm.

- o By payment of the customer/demand charge, SCPI may take any combination of sales and/or transportation service up to 517,083 decatherms per month. PG&E will offer to sell gas at the California border based on a formula equating the price of gas to the costs associated with SCPI burning lease crude oil. Gas will be transported for SCPI at no additional charge except when that gas is produced within the State of California in which case an additional $.34 per decatherm gathering charge applies.

- o For volumes above 517,083 decatherms per month, the monthly demand charge will be increased by an additional $.40 per decatherm.

PG&E intends to purchase gas for SCPI pursuant to paragraph 4 of Schedule B of the April 1, 1986 amending agreement to the gas sales contract between Alberta and Southern Gas Co. Ltd. and Pacific Gas Transmission Company. The price of this incremental gas supply at the California border will be such that the delivered price to SCPI will be competitive with the price of crude oil. PG&E will earn $.02 per decatherm to cover the administrative costs of securing the contract volumes.

As stated above, the contract employs an indexing mechanism to ensure that the price of gas will be competitive with the costs associated with using lease crude oil as an alternative fuel, and as such is based on confidential operating cost information provided by SCPI. Since operating costs vary, not only from operator to operator but from field to field, PG&E states that public release of this cost information would disadvantage SCPI's competitive position with other EOR/refinery operators.

PG&E and SCPI request that the specific pricing provisions set forth in paragraph 2d of this contract be kept confidential. Therefore, PG&E proposes that the original agreement enclosed with this filing will be the only copy to contain paragraph 2d, and PG&E requests that the contents of paragraph 2d be kept confidential in accordance with Public Utilities Code Section 583. In all other copies paragraph 2d will be deleted.

DISCUSSION

As noted above, this proposed contract is similar in form to the contract between PG&E and Chevron, approved by the Commission, in Resolution G-2684 on June 5, 1986. There is, however, a significant difference; that is, PG&E requests that the specific pricing provisions be kept confidential, in accordance with PUC Code Section 583. This request for confidentiality was made recently by another California utility for a special rate schedule for non-residential customers. In that instance, the Commission disallowed the confidential treatment of the rate, (Resolution G-2669, Dated April 2, 1986.)

Additionally, the Public Staff Division has stated its objections to confidential treatment of current PG&E Rate Schedules G-84 and G-85, by filing a motion dated May 15, 1986 in Application 86-03-058 et al. to revoke the confidential status. The Legal Division has also cautioned the staff of the E&C Division that the confidentiality of rates could be unlawful under Sections 453, 459 and 1702 of the P.U. Code.

Therefore, we will reject PG&E's request to maintain the rates under this contract agreement as confidential.

PROTESTS

The Commission has received no protests in this matter.

PUBLIC NOTICE

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, including the parties of Record in Application 86-03-030 (Spring 1986 CAM).

FINDINGS

1. The enhanced oil recovery market currently represent the largest new market for natural gas in California.

2. The rapid recent decline in world oil prices and crude oil prices have made it economic for SCPI to switch from gas to crude oil.

3. It is reasonable for PG&E to provide service to SCPI under this contract to maintain sales at competitive natural gas prices.

4. The potential loss of load by PG&E could result in increased revenue requirements being placed on higher priority customers.

5. Special condition 2.e. of the contract, as it pertains to confidential treatment of the rate, will not be made a part of the agreement with SCPI.

THEREFORE:

1. Under the provisions of Public Utilities Code Sections 454 and 532, Pacific Gas and Electric Company is authorized to enter into a contract with Shell California Production, Inc., for the sale or transport of natural gas subject to the terms set forth in this advice letter and the contract submitted with the advice letter.

2. The confidential treatment provision will be deleted from Special Condition 2.e. of the contract.

3. 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 Shell California Production Inc.

4. 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.

5. The above advice letter and contract form shall be marked to show that they were authorized for filing by Commission Resolution G-2688, to be effective on and after August 11, 1986.

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

7. This Resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission on August 6, 1986. The following Commissions approved it:

Victor Weisser

Executive Director

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