PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION & COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-2690
August 20, 1986

RESOLUTION

PACIFIC GAS AND ELECTRIC COMPANY (PG&E), REQUEST FOR AUTHORITY TO IMPLEMENT TWO NEW GAS TARIFF SCHEDULES; G-87 AND G-88, EXPERIMENTAL CONTRACT SERVICE, FOR LARGE INDUSTRIAL CUSTOMERS.

BACKGROUND

By Advice Letter 1367-G, filed July 10, 1986, PG&E has submitted for filing two new gas tariffs, Schedule G-87 -- Experimental Contract Service, and Schedule G-88 -- Experimental Contract Service for Coal and Crude Oil Customers.

POSITION OF PG&E

PG&E states that these new experimental schedules will provide PG&E with the tools to capture natural gas sales lost or about to be lost to other fuels in a manner consistent with the unbundled rate design proposed in Decision No. 86-03-057. Several customers currently using other fuels have expressed an interest in the type of service described in these schedules. Among PG&E's largest customers there exists a potential for additional gas sales of up to 25 million therms per month.

The specific components of the proposed schedules are as follows:

- Schedules G-87 and G-88 will be available only to customers who are using or who have access to an alternative fuel at equivalent cost less than PG&E's otherwise-applicable rate schedule, and who can contract for at least 1,000,000 therms per month.

- The customer will pay a fixed monthly customer/demand charge reflecting the customer's contribution towards PG&E's fixed costs of providing sales and/or transportation service.

- By payment of the demand charge, the customer has the ability to purchase gas from PG&E at a cost no greater than the current month's average cost per therm of short-term purchases at the California border, plus up to $.01 per therm for administrative costs. Gas will be transported for the customer at no additional charge.

- Under Schedule G-87 the demand charge will equal $.06 per therm times the contract quantity.

In order to compete with crude oil and coal (two of the least expensive alternative energy sources available), PG&E proposes to provide Schedule G-88 for customers capable of using either of those two fuels. The demand charge under Schedule G-88 will be $.04 per therm.

PG&E proposes that the term of an agreement under Schedules G-87 or G-88 will not extend beyond December 31, 1986.

DISCUSSION

Under these tariffs, the customer may buy gas from PG&E or from others for transport on PG&E's system. If the customer buys from PG&E, then PG&E intends to purchase gas for these customers 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.

PG&E states that in order to compete with alternative energy sources, it may be necessary for purchases under that agreement to be at a cost less than PG&E's average cost at the California border of all spot and Canadian discount gas purchases.

PG&E contends that by adopting these tariffs the Commission Staff can evaluate many of the rate design concepts now under consideration in the current rate design proceedings. In addition, PG&E's other ratepayers will benefit from the substantial contributions to margin that can be earned.

PROTEST

A timely protest to PG&E's proposal was submitted by El Paso Natural Gas Company (El Paso), a pipeline supplier to PG&E and other California Utilities. El Paso states that in general it supports the concept of the two proposed rate schedules as "tools to capture natural gas sales lost or about to be lost to other fuels in a manner consistent with the unbundled rate design proposed in Decision No. 86-03-057." Moreover, El Paso appreciates the fact that in this Advice Letter filing, and consistent with the comments which El Paso submitted concerning Advice Letter Nos. 1359-A and 1366-G, PG&E has clearly indicated that individual customers under either of the two proposed schedules will have the choice either to buy gas from PG&E or from others for transport on PG&E's system.

In these circumstances, El Paso states that it must oppose PG&E's request for approval unless such approval is conditioned to require PG&E to make public the names and addresses of all customers who might be eligible for the services contemplated by the proposed schedules, and to do so preferably in advance of any contact between those customers and PG&E's own marketing representatives or other persons representing PG&E affiliates or unaffiliated Canadian suppliers to PG&E, but in all events before any agreement for the sale of Canadian gas to the customer is actually consumated. Further, El Paso requests that PG&E be required to report monthly to the Commission in writing, with copies to all persons requesting same, the names of the customers actually receiving service under Rate Schedules G-87 and G-88, the nature of the service--whether sales by PG&E of Canadian gas or transportation--which each such customer is receiving, the actual sales price paid by the customer if PG&E is selling, and the total volumes delivered to the customer broken down between sales and transportation.

El Paso further states that inclusion of these conditions is an absolute prerequisite to the establishment of a "level playing field" for competition among potential gas suppliers under the two proposed schedules. The potential customers are located within PG&E's service territory; they are already known to PG&E; and in all likelihood, their first contact concerning the possibility of receiving service under one or the other of the new schedules will be with PG&E. El Paso believes that, unless the proposed schedules are conditioned as suggested, these factors will give PG&E and its Canadian affiliate a virtually insurmountable advantage over other potential suppliers in competing to sell gas to such customers.

El Paso continues to note PG&E's bias in favor of selling Canadian gas under the proposed new schedules in the Advice Letter. PG&E there makes the claim that its Canadian affiliate is currently the only one of its firm supply sources to offer the requisite market-responsive flexibility to permit PG&E to sell gas to potential customers under the proposed new schedules. This statement fails to note the El Paso Spot Release Program through which market-responsive supplies currently totalling as much as 800 MMcf/d are being made available from El Paso's dedicated sources.

El Paso also states that it should be a matter of indifference to this Commission and to PG&E's other ratepayers where the gas comes from to serve potential customers under the proposed new rate schedules. While PG&E itself would clearly prefer to serve potential customers with gas purchased from its Canadian affiliate and delivered through the PGT pipeline, the margin contribution is precisely the same whether PG&E sells Canadian gas or transports domestic gas delivered through the El Paso system.

In these circumstances, El Paso sees no discernible reason why the Commission should not hesitate to adopt the conditions it proposed.

On August 1, 1986, PG&E filed a supplement to this Advice Letter to add language to the above agreements which will allow PG&E to release to interested third parties the names of customers who sign such agreements.

The addition of this language to the two agreements is being made in response to El Paso Natural Gas Company's July 29, 1986 letter to the Commission regarding Advice Letter 1367-G, and El Paso's concern that suppliers of gas will not know which of PG&E's customers have contracted for service under these schedules and hence, will not be able to bid for the customer's business.

PG&E is willing to release the names of G-87 and G-88 customers to gas suppliers given prior approval from the customers. By this filing, PG&E submits a revised page 6 for each of the two agreements (Form Nos. 79-721 and 79-722) to obtain such approval. This revised page for each agreement contains a new paragraph, 7.12, which will allow G-87 and G-88 customers to authorize PG&E to release their names to interested parties.

Additionally, PG&E will notify the Commission whenever a G-87 or G-88 contract is signed. Parties interested in receiving a copy of such notification should contact PG&E's rate department. PG&E believes that implementing these measures will establish a "level playing field" which gives all gas suppliers a fair chance at this market.

DISCUSSION

We will approve PG&E's Advice Letter 1367-G on an interim basis so that it may better compete with crude oil and coal alternative energy sources. However, we will not allow PG&E to selectively discount gas below the average spot price plus a reasonable margin.

PG&E's proposal for such selective discounting is inconsistent with the Commission's proposed rules in R.86-06-006 governing gas sales within a utilities' service territory. In this Rulemaking we envisioned non-core commodity rates being based on the average price of the utilities' non-core supply portfolio (R.86-06-006 at p.22). Furthermore, due to our concern over utilities' current favorable market position within their own service territories, we proposed that they be required to file cost-based tariffs for non-core procurement and transmission service rates and to apply them in a non-discriminatory manner. We also proposed to specifically prohibit utilities from forming marketing affiliates to procure gas for non-core customers within their existing service territories (see R.86-06-006 at p. 37-38). While this proposed rulemaking is not final, we have serious reservations about providing PG&E with flexibility to discount below average spot prices within its service territory. Such unfetted marketing of Canadian gas within PG&E's service territory is not only contrary to the intent of R.86-06-006, but it is highly inappropriate in view of the affiliate relationship that PG&E has with Gas Transmission (PGT) and Alberta and Southern Gas Co. (A&S).

This Commission has had a policy of encouraging gas-to-gas competition and it is, therefore, with some reluctance that we reject PG&E's proposal to discount below average spot gas prices. We are nonetheless concerned that such discounting would allow PG&E to unreasonably discriminate between non-core customers and it would have the undesirable effect of segmenting the spot gas market. Therefore, we will not allow PG&E to discount as below the monthly average spot price plus the non-gas margin.

It is unfortunate that this decision has the practical effect of reducing the marketability of Canadian supplies. Clearly, if PGT had open access status under FERC Order No. 436, Canadian producers would have access to the California market and would not have to rely on marketing by PG&E's sales force in order to compete with unregulated gas brokers such as El Paso Marketing. Open access status on the PGT system would, therefore, appear to resolve the problem being addressed in this Resolution. We remind PG&E that in D.86-03-012, we expressed our concern over the lack of non-discriminatory accesss to Canadian gas supplies. Should PGT alleviate these concerns by filing an application at FERC for open access status under Order No. 436, we would be willing to reconsider our decision to prohibit discounting gas below average spot prices plus the non-gas margin.

FINDINGS

1. The staff has reviewed the protest and reply and finds that this filing is consistent with Commission Decision 86-03-057 which discusses competition from alternative fuels, the unbundling of gas rates in response to the increased options available to gas users in today's fuel markets, and the authorization of Short-Term Gas Transportation.

2. Public notification of this filing has been made by supplying copies of the filing to other utilities, governmental agencies, and to all interested parties including Parties of Record in OII 86-06-006.

3. This filing will not increase any rate or charge, cause the withdrawal of service, nor conflict with other schedules or rules.

4. We find these new rate schedules to be just and reasonable for the contract period requested in this advice letter. The Commission may re-examine the appropriateness of Schedules G-87 and G-88 before December 31, 1986, in order to determine the compatability of the rates with regard to the on-going rate design proceedings.

THEREFORE

1. Pacific Gas and Electric Company is authorized, under Sections 451 and 491 of the Public Utilities Code, to place Rate Schedules G-87 and G-88 into effect, on or after August 19, 1986.

2. The Commission may re-examine the appropriateness of Schedules G-87 and G-88 and reserves the right to cancel or modify these schedules if necessary.

3. The Commission shall be kept informed of all G-87 and G-88 contracts negotiated with customers and notified of the margin contribution secured from each contract. This information shall be sent to the Executive Director with a copy to the Energy Branch of the Evaluation & Compliance Division.

4. This advice letter and accompanying tariff sheets shall be marked to show that they were accepted for filing by Commission Resolution G-2690. This Resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular scheduled meeting on August 20, 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