PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION & COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-2692
August 20, 1986

RESOLUTION

PACIFIC GAS AND ELECTRIC COMPANY (PG&E) ORDER AUTHORIZING REVISION OF A GAS SALES AND TRANSPORTATION CONTRACT BETWEEN PG&E AND CHEVRON U.S.A., INC. (Chevron) PREVIOUSLY APPROVED BY COMMISSION RESOLUTION AND CLARIFICATION OF THAT PRIOR RESOLUTION.

By Advice Letter No. 1368-G, filed July 21, 1986, PG&E requests approval of a supplement to a gas service agreement with Chevron previously submitted by Advice Letter No. 1359-G, on May 22, 1986 and approved by Commission Resolution No. G-2684 on June 5, 1986.

BACKGROUND

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

Due to the rapid decline in world oil prices, with the corresponding decline in the price of liquid fuels available to Chevron, PG&E found it necessary to provide service to Chevron at a rate competitive with alternative fuel prices, but which would still provide a substantial contribution to the fixed costs of the operating system. The contract for such service was submitted to the Commission and approved by Resolution No. G-2684 on June 5, 1986.

SUMMARY

The current provisions of the contract include an expiration date of November 30, 1986. PG&E proposes to extend the expiration date by one month to December 31, 1986. This date will allow for an orderly transition between the terms of the current agreement and the new industrial gas rates scheduled to take effect on January 1, 1987, as a result of PG&E's 1987 General Rate Case Decision.

ANALYSIS

Under the existing contract, service to Chevron is "unbundled", with Chevron having the flexibility to choose whether it wants to purchase gas from PG&E or transport its own gas. The contract allows for a stable, cost-justified contribution towards the fixed costs of providing service to Chevron, while at the same time directly communicating to Chevron the wellhead cost of gas.

Under this arrangement, 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 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. However, Advice Letter 1359-G stated that the gas purchased by PG&E for Chevron would be: "at a cost no less than PG&E's average cost of gas at the California border of all spot and Canadian discount gas purchases." This provision is included in the Discussion portion of Resolution No. G-2684 but is not specifically clarified in the ordering paragraphs.

Because of changing events in the oil and gas markets, this price floor has become unduly restrictive and does not allow PG&E to compete on an equal footing with transported gas supplies or, at times, with alternative fuel sources. Therefore, PG&E now proposes to purchase gas for Chevron at a cost that may, from time to time, be less than PG&E's average cost of gas at the California border of all spot and Canadian discount gas purchases.

This will allow PG&E to meet Chevron's price objectives in accordance with the contract, which does allow the cost of purchased gas to be less than PG&E's average cost of short-term supplies. This change in plans does not require any change in wording of the contract but will require clarification of Resolution No. G-2684 to insure that no Commission order requires PG&E to set a price floor on its purchase of gas for Chevron.

PG&E has negotiated with Chevron at length and has reached contract terms, including the amendments herewith addressed, which are acceptable to the parties involved. The amended contract terms are presented here for 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.

Such notification is made in accordance with the provisions of Section III (G) of General Order No. 96-A. The Commission Staff has received no protests in this matter.

COMMENTS

The Public Staff Division (PSD) filed comments to Advice Letter No. 1368-G. The PSD is concerned that some very important elements of this proposal are inconsistent with the restrictions on utility brokering activities proposed by the Commission in OIR 86-06-006. PSD, therefore, believes that the Commission should move cautiously in approving this advice filing by placing some restrictions on the approved activities. Also, to achieve procedural consistency between this contract and the implementation of the final Commission rule in OIR 86-06-006, PSD recommends that the Commission accept this contract on an interim basis only until the Commission clearly establishes its policies in the final rule at which time the new gas regulatory framework will supercede any or all terms and conditions of this contract.

DISCUSSION

We will approve PG&E's Advice Letter 1368 to extend the contract term to December 31, 1986. 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 unfettered 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 inapropriate in view of the affiliate relationship that PG&E has with Pacific 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 gas 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 access 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 discountig gas below average spot prices plus the non-gas margin.

FINDINGS

1. PG&E and Chevron have entered in the existing agreement in order to preserve Chevron as a viable customer for PG&E in light of the currently unstable price of oil.

2. The result of the loss of this customer, absent such special agreement, would be increased revenue requirements from the losses on higher priority customers.

3. The original contract was for a term of six months from date of first deliveries or until November 30, 1986, whichever occurs first. The first gas deliveries under the existing agreement commenced June 6, 1986.

4. Revision of the term of the contract until December 31, 1986 with deletion of any six month provision will allow for an orderly transition between the terms of the contract and the new industrial gas rates scheduled to take effect on January 1, 1987, as a result of PG&E's 1987 General Rate Case Decision.

5. Commission Resolution No. G-2684 should not be modified to stipulate that PG&E may purchase gas at less than the average cost of gas at the California border of all spot and Canadian discount gas purchases, if necessary to maintain a competitive edge with transported gas supplies and/or alternative fuel costs.

6. The Commission has already determined, by Resolution No. G-2684, that 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 customers. Approval of these proposed amendments will in no way alter this reasonableness.

7. This filing of amendments to the previously approved agreement will not increase any rate or charge, cause the withdrawal of service nor conflict with other schedules or rules. Therefore, approval should be granted to become effective on regular statutory notice, which is no less than the 40th calendar day from the date of filing.

8. In all other respects not noted above, the original agreement between PG&E and Chevron, as submitted by Advice Letter No. 1359-G and approved by Commission Resolution No. G-2584, remains in full force and effect.

THEREFORE:

1. Under the provisions of Public Utilities Code Sections 490 and 532, Pacific Gas and Electric Company is authorized to revise Section 1 of its gas service agreement with Chevron U.S.A. Inc., to delete the phrase: "term of six (6) months from such date of first deliveries, or until November 30, 1986, whichever occurs first" and to substitute in its place: "term ending December 31, 1986."

2. The authorization granted herein will be subject to any change or modification resulting from the Commission adopting its Final Order in OIR 86-06-006.

3. In all other respects, the provisions of Commission Resolution G-2684 shall remain in full force and effect.

4. Advice Letter No. 1368-G and revision to the gas service agreement shall be marked to show that they were authorized for filing by Commission Resolution No. G-2692.

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 as of August 30, 1986, which constitutes regular statutory notice.

I certify that this resolution was adopted by the Public Utilities Commission on August 20, 1986. The following Commissioners approved it:

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

Victor Weisser

Executive Director