PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION & COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-2695
August 20, 1986

RESOLUTION

PACIFIC GAS AND ELECTRIC COMPANY (PG&E) ORDER AUTHORIZING APPROVAL OF A CONTRACT BETWEEN PG&E AND SAN DIEGO GAS AND ELECTRIC COMPANY (SDG&E) FOR THE SALE OF NATURAL GAS TO SDG&E FOR USE IN ELECTRIC GENERATION OR SALE TO SDG&E's OTHER CUSTOMERS.

By Advice Letter 1372-G, Filed August 7, 1986, PG&E requests Commission approval of a contract between PG&E and SDG&E allowing PG&E on a monthly basis to sell natural gas to SDG&E for use in its electric generating plants or for sale to its other customers.

BACKGROUND

The rapid decline in oil prices available to SDG&E has made it economic to use some alternative fuels. PG&E states that it is in the best interest of all of PG&E's ratepayers for PG&E to sell natural gas to SDG&E at a rate that will provide a contribution to the fixed costs of PG&E's gas system. The proposed contract is expected to accomplish this goal.

POSITION OF PARTIES

PG&E will be selling gas made available to its pipeline subsidiary Pacific Gas Transmission Company (PGT) under the provisions of 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. (A&S) and PGT. The gas purchased by PG&E at its interconnection with PGT will be delivered to Southern California Gas Company (SoCal) for SDG&E's account as an addition to the existing spot purchases under SDG&E's bidding program. An equivalent quantity of gas will in turn be delivered to SDG&E on an exchange basis with either a $0.15 per MMBTU contribution to SoCal's margin for electric generating plants or the short-term transportation rate for gas delivered to SDG&E's other customers. PG&E will offer to sell such gas supplies to SDG&E during the contract period as long as PG&E is able to secure gas supplies from A&S on behalf of SDG&E.

PG&E will be earning a margin contribution identical to that which PG&E has proposed in the Inter-Utility Exchange Agreement, which is 24.28 cents per decatherm plus 4.4 percent for fuel and line losses. This transaction is subject to interrruption if supply or capacity requirements of PG&E's customers limit supply or system availability to SDG&E.

This contract will provide PG&E and SoCal with a contribution to margin for a gas sale that would otherwise be lost to fuel oil currently being used in SDG&E's electric generating plants. Ratepayers of both SoCal and PG&E will benefit from this contribution.

SDG&E desires to take advantage of the availability of low cost gas supplies available from PG&E. The price of gas delivered to SDG&E power plants, including the $0.15 per MMBTU contribution to SoCal's margin for service to SDG&E, is competitive with the low end of the natural gas prices bid under the current bidding program administered by SDG&E. Due to the decline of alternative fuel oil prices, however, certain gas purchases have been curtailed in favor of fuel oil for economic reasons. The gas purchases from PG&E will allow for additional gas to be used in SDG&E's electric generation plants and would displace fuel oil currently being burned.

To the extent SDG&E purchases gas under the agreement for its other customers, it would transport such gas through the SoCal system under the short-term transportation tariff. Currently, there are no signed transportation agreements between SDG&E and SoCal to provide that service.

PG&E proposes that this agreement shall continue in full force until January 1, 1987, and month to month thereafter unless terminated by action of the Commission or by either Party on fifteen days prior written notice.

PG&E states that unless there is prompt action on this advice filing, SDG&E may forego the opportunity to burn this additional gas in its electric generating plants. The price of alternative fuel oil available to SDG&E continues to show evidence of softness, which will cause SDG&E to consider further reduction in gas takes from all its suppliers.

Consequently, PG&E has requested 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 and SoCal may be able to begin earning a contribution to margin from SDG&E for the benefit of all ratepayers.

PROTESTS AND COMMENTS

The Commission has received protests and comments in this matter. The Public Staff Division (PSD) filed comments to Advice Letter No. 1372-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 R.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. To achieve procedural consistency between this contract and the implementation of the final Commission rule in R.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.

EL Paso Natural Gas Company (El Paso) states in its protest that the gas that will be used to serve SDG&E is El Paso gas that is being diverted from PG&E under the Advice 1372-G arrangements, that is, PG&E will increase its take of Canadian gas, will back off its El Paso takes, and allow its El Paso gas to be used by SDG&E. As El Paso states: ..."PG&E actually moves no additional gas through its system as its increased takes from PGT are exactly offset by reductions in takes from El Paso. It is therefore not clear that PG&E actually incurs any incremental costs in the movement of the Canadian gas from the Oregon-California border to SoCal Gas' facilities in this manner".

At the same time, El Paso contends that this diversion arrangement requires a transportation agreement between El Paso and PG&E to allow for use of the Topock receipt point. El Paso requests that the Commission withhold it's approval of the PG&E-SDG&E contract until the Commmission is advised that a transportation agreement with El Paso has been executed. Alternatively, the Commission should condition its approval of the PG&E-SDG&E contract to require that deliveries not be made thereunder at El Paso's interconnection with SoCal Gas unless and until a transportation agreement is executed.

PG&E responded to the protest of El Paso on August 19, 1986 as follows: "The contract states that deliveries will be made into the Southern California Gas Company (SoCal) system at (i) the interconnection between El Paso Natural Gas Company... and SoCal Gas at the Topock receipt point; (ii) the interconnection between SoCal Gas and PG&E at valve 0.24 at PG&E's line 300B; and (iii) any other acceptable point of delivery into the SoCal Gas System. El Paso's protest seems to imply that for PG&E to take advantage of the first of these three alternatives (delivery at Topock) PG&E must execute a transportation agreement with El Paso.

"In the past, gas has been moved between PG&E and SoCal by reducing takes from one utility at Topock and increasing takes an equivalent amount to the other utility. This transfer of gas has been accomplished without the need for a transportation agreement.

PG&E also argued that: "El Paso's protest is even more confusing in light of El Paso's July 29 letter to presiding ALJ Patrick Power in the interutility transportation proceeding (a copy of which is attached). As stated by El Paso:

> 'Moreover, El Paso believes that such use of its facilities can be effectuated without amending its existing service agreements with SoCal Gas and with PG&E, and otherwise without the necessity of securing any prior approvals from the Federal Energy Regulatory Commission.'

"This statement, in conjunction with past practices on the part of El Paso, had led PG&E to believe El Paso was willing to cooperate with PG&E and SoCal in this regard. It is difficult to understand what circumstances have changed that now require PG&E to execute a transportation agreement with El Paso.

"Approval of Advice No. 1372-G will provide PG&E and SoCal with a contribution to margin that would otherwise be lost to fuel oil currently used in SDG&E's electric generating plants, in addition to providing SDG&E with a new low cost gas source. Ratepayers of all three utilities stand to benefit from the approval of this contract between PG&E and SDG&E. In the interest of all affected parties, PG&E agrees to exclude as a delivery point under this contract the interconnection between El Paso and SoCal at the Topock receipt point until this newly raised issue can be explored further with El Paso."

DISCUSSION

We recognize that PG&E's proposed exchange rate is just one of several proposals in I.86-05-008. By our approval of this resolution we in no way intend to prejudge the issue of the appropriate inter-utility exchange rate currently being heard in this investigation. We will approve the exchange rate proposed by PG&E in Advice Letter 1372-G only on an interim basis until the appropriate long-term rate is established in I.86-05-008.

By approving Advice Letter 1372-G, we are providing PG&E with the opportunity to market Canadian gas outside its service territory. Such brokerage activities were contemplated in R.86-06-006. In this Rulemaking we proposed that such gas brokering should be accounted for separately and below the line.

Until R.86-06-006 is finalized and the rules regarding utility brokerage activities outside its service territory are more clearly defined, we will only require PG&E to separately account for the sale of gas to SDG&E in a memorandum account as recommended by PSD. We find that this interim arrangement will benefit all ratepayers, improve gas to gas competition, and potentially get SDG&E's electric department on gas at a time when current domestic gas prices are not competitive with fuel oil.

We acknowledge PG&E's statement that the proposed deliveries to SDG&E may require that PG&E negotiate appropriate arrangements with El Paso and SoCal Gas in order to accomplish delivery at the Topock Receipt Point.

Finally, we note that in the decision being issued today in Applications Nos. 86-03-058, 86-03-030 and 86-04-027 of SoCal and SDG&E, we adopt a new transportation rate for SDG&E's UEG and Co-generation loads of $.0985/MMBTU. Therefore, SDG&E should pay a rate equal to $.0985/MMBTU to SoCal rather than the $.15/MMBTU requested heretofore.

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 I.86-06-005 and R.806-006.

FINDINGS

1. The rapid recent decline in world oil prices and crude oil prices have made it economic for SDG&E to switch from gas to crude oil.

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

3. Notice of this matter did not appear on the Commission's public agenda, however an emergency exists in that the loss of gas load which would otherwise occur could be very detrimental to PG&E's other higher priority customers, which justifies our action today under Public Utilities Code Section 306(b).

4. The concerns expressed by El Paso Natural Gas Company should be dealt with by the companies themselves and should not be an issue for this Commission in approving this competitive arrangement.

THEREFORE:

1. Under the provisions of Public Utilities Code 454 and 491, Pacific Gas and Electric Company is authorized to enter into a contract with San Diego Gas & Electric Company, 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. Pacific Gas and Electric Company will be required to furnish data to establish the volumes and prices used for this contract. PG&E is hereby directed to furnish the contribution to margin from this contract quarterly, beginning 30-days after the first three months of operation, to the Chief of the Energy Branch with a copy to the Executive Director of this Commission.

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

4. The above advice letter and contract form shall be marked to show that they were authorized for filing by Commission Resolution G-2695, to be effective on and after August 20, 1986.

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 August 20, 1986. The following Commissioners approved it:

Victor Weisser

Executive Director

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

I abstain.

PRISCILLA C. GREW, Commissioner