

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION & COMPLIANCE DIVISION
Energy BranchRESOLUTION G-2710
December 22, 1986

RESOLUTION

PACIFIC GAS & ELECTRIC COMPANY (PG&E). ORDER AUTHORIZING
EXTENSION OF SPECIAL CONTRACT WITH CHEVRON USA FOR PURCHASE
AND SALE OF NATURAL GAS.BACKGROUND

1. By Advice Letter No. 1386-G, Filed November 24, 1986 PG&E proposes to extend an existing sale/transportation contract with Chevron until the implementation of new rates resulting from the Commission's gas-industry-restructuring investigation OII 86-06-005 and OIR 86-06-006 or until June 30, 1987, whichever occurs first.
2. By Advice Letter No. 1359-G and Resolution G-2684 dated June 5, 1986 the Commission approved 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. 1368-G and Resolution G-2692 dated August 20, 1984, the Commission extended the contract for one month from November 30, 1986 to December 31, 1986.
3. PG&E has filed supplemental Agreement No. 2 with Advice Letter No. 1386-G to modify and amend the Chevron contract approved by Resolution G-2684. In addition to the time extension, this Resolution will include three amendment conditions which will be effective January 1, 1987.

ANALYSIS

1. 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.
2. This Resolution will amend the existing contract to extend the expiration date from December 31, 1986 to May 31, 1987.

This may be rescinded by a future decision in the Commission's OII 86-06-005 or OIR 86-06-006 at any time during the extension period. These proceedings are part of the Commission's gas-industry-restructuring investigation and interim decisions were approved by the Commission on December 3, 1986.

3. This Resolution will also institute a flat-fee customer charge of \$3500 per month payable by Chevron. The customer charge was introduced in Decision 86-10-032 by Schedule G-DC and this is merely a uniform application of the charge. In addition, the two-tier system of demand charges will be eliminated and in its place will be a ratcheted, fixed-rate demand charge of 6.0 cents per therm, applied to all gas delivered under this agreement.

4. The minimum billed demand charge in any month shall be the highest historical demand charge incurred since commencement of this contract amendment. This amendment together with the original contract will allow PG&E to meet Chevron's price objectives. Any purchases by PG&E for Chevron 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.

5. PG&E has negotiated with Chevron to reach contract terms, including the amendments herewith addressed, which are acceptable to the parties involved. The amended contract terms are presented here for Commission approval.

6. A protest was received by the Commission from the California Gas Producers Association (CGPA) opposing the 3.4 cents per therm additional charge for the transportation of Chevron gas produced within the State of California. CGPA states that:

The inclusion of this additional charge is wholly unwarranted under the "actual delivered cost" terms of the California Gas Policy Act, effective January 1, 1986. The additional charge is also unjustified as a matter of California PUC "sequencing" policy. It is also unsupported by any probative evidence and beyond the scope of any previous Commission decision.

The California gas producers ask that the Commission require the striking of Paragraph B.2.e. from the proposed PG&E-Chevron Supplemental Agreement No. 2 as requested on PG&E's Advice Letter No. 1386-G.

7. 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.

FINDINGS

1. PG&E and Chevron have entered the existing agreement in order to preserve Chevron as a viable customer 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 together with Supplemental Agreement No. 2 should be extended to May 31, 1987 unless earlier cancelled or otherwise modified by further order of this Commission.
4. 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.
5. The Commission has previously considered the protest of the California Gas Producers Association with regard to the 3.4 cents per therm gathering charge. In Decision 86-04-057, dated April 16, 1986 (Application 85-09-062-Pacific Gas & Electric Company) the Commission in finding of Fact Number 13, states that the 34. cents per MMBtu (3.4 cents per therm) gathering cost currently used by PG&E is reasonable and should be used in sequencing California gas. We will therefore allow the charge to stand as stipulated in the PG&E/Chevron contract.
6. 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 January 1, 1987.
7. 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-2684, 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 ending December 31, 1986," and to substitute in its place: "term ending May 31, 1987," plus the term "unless earlier cancelled or otherwise modified by further order of this Commission".

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

3. Advice Letter No. 1386-G and revision to the gas service agreement shall be marked to show that they were authorized for filing by Commission Resolution No. G-2710.

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

5. This Resolution is effective as of January 1, 1987, which constitutes regular statutory notice.

I certify this Resolution was adopted by the Public Utilities Commission on December 22, 1986. The following Commissioners approved it:

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



Executive Director