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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION & COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-2725
April 22, 1987.

R E S O L U T I O N

PACIFIC GAS AND ELECTRIC COMPANY (PG&E) REQUESTS AUTHORIZATION TO EXTEND THE EFFECTIVE DATES OF RATE SCHEDULES G-85, G-87, AND G-88 FOR CONTRACT SERVICE AND EXPERIMENTAL CONTRACT SERVICES.

By Advice Letter No. 1400-G, Filed March 19, 1987, Pacific Gas and Electric Company (PG&E) requests Commission authorization to extend the effective date of Rate Schedules G-85, G-86, and G-88 for contract service and experimental contract services. The facts are as follows:

BACKGROUND

1. The Commission found in Decision 86-12-092, dated December 22, 1986, that PG&E's Schedules G-85, G87, and G-88 should remain in effect until May 31, 1987, at which time the new gas rates resulting from OII 86-06-005 and OIR 86-06-006 were expected.

2. By this filing, PG&E requests an effective date extension for contract service and experimental contract service. PG&E believes Commission authorization of the requested changes will provide for an orderly transition following a final implementation decision in the combined proceedings OII 86-06-005 and OIR 86-06-006 (herein referred to as the "implementation decision").

3. PG&E is concerned with the current date restrictions for Schedule No. G-85, G-87 and G-88 service contracts. When the Decision 86-12-092 was issued, the May 31 date appeared to be a reasonable amount of time to assure an orderly transition to the new rate schedules. However, since the expected implementation decision for OII 86-06-005 and OIR 86-06-006 is still pending, PG&E has requested an extension to allow more time.

4. PG&E feels it must be able to assure its customers of a smooth transition from the existing contracts and schedules to the new schedules, otherwise there may be a significant loss of sales to alternative fuel sources. This is especially true for its seasonal customers who are now making arrangements for their summer fuel requirements. Due to the uncertainty surrounding the outcome of the implementation decision, many seasonal customers are being forced to negotiate alternative fuel contracts in the absence of any available PG&E rate or definitive knowledge of the structure and substance of such rates.

5. PG&E requests that the termination date for Schedules G-85, G-87 and G-88 be extended to the later of August 31, 1987, or 60 days after the implementation decision date, but no later than December 31, 1987.

PROTEST BY MOCK RESOURCES, INC.

1. A protest was received from Mock Resources, Inc. (Mock). Mock protests Advice Letter 1400-G for inconsistency with the Commission's December 3, 1986 OII/OIR decisions and for the rate continuance under Schedules G-85, G-87, and G-88, excluding Mock Resources from direct gas sales to end-users within PG&E's service territory.

2. Schedule G-85 provides Mock's example:

"(1) PGandE is allowed to offer Schedule G-85 to non-core customers at the incremental cost of gas plus 4.5 cents per therm. However, Mock is not given the same opportunity to transport gas to these end-users for less than 8.5 to 9.0 cents per therm.

(2) PGandE also represents to the non-core customers that G-85 insulates them from demand charges otherwise required under G-50, G-58 and GC-4. Since GC-4 (transport) includes these demand charges, PGandE again excludes Mock from the marketplace. The seasonal customers, most of whom want to use natural gas, are forced to accept G-85 in lieu of transportation."

3. Mock further states: "PGandE will attempt to convince the Commission that G-85 is used to compete with 'b-fuels', when actually it competes with transportation. This is merely another way for PGandE to create an advantage over Mock through regulation."

4. Mock requests that the Commission reject PGandE's Advice Letter 1400-G or "allow Mock the same opportunity to transport natural gas at 4.5 cents or less and ignore other than real time demand charges under GC-4. If the Commission would agree to this proposal, then non-core customers would have an equal opportunity to transport their own natural gas."

PROTEST BY SHELL CANADA LIMITED (SHELL CANADA)

1. A protest was received from Shell Canada in opposition to PG&E Advice Letter No. 1400-G on three fundamental grounds.

2. "First, PG&E's rate schedules are inconsistent with the Commission's December 3, 1986 OII/OIR decisions. In its decisions, the Commission ruled that the utilities may not discount the commodity portion of their rates below the weighted

average cost of the noncore portfolio (WACOG). Each of the rate schedules in question, however, permit PG&E to discount the commodity portion of its rate below the noncore portfolio WACOG.

3. Second, Commission approval of an extension of the effectiveness of PG&E's discount rate schedules would negate the competitive benefits intended through the opening of the PGT pipeline to interruptible transportation on behalf of end-users in California. Continuation of PG&E's discount rate schedules would effectively prevent competing producer-suppliers from making direct sales to California end-users.

4. Third, extension of PG&E's rate schedules would preempt the Commission's role in determining the appropriateness of multiple supply portfolios and other utility discount pricing proposals in the context of the upcoming gas supply procurement proceedings. In I.87-03-036 (March 25, 1987), the Commission stated that such issues will be addressed through comments and other proceedings to be held later in the year. PG&E's rate schedules are just the type of discount programs that the Commission must consider in be approved for extended use at this time."

RESPONSE TO PROTESTS BY PG&E

1. "When the CPUC originally approved these rate schedules, the intention was clearly to give PG&E a tool to compete with alternative fuels not subject to CPUC regulation. A large loss of customers to the alternative-fuel market will affect current ratepayers because of the shortfall in contribution to fixed costs that will occur from the lost sales."

2. "These special schedules are PG&E's sole means of dealing with its still-existing bypass threat; it is imperative that the Company have the opportunity to offer potential fuel switchable customers one of these special rates until PG&E has instituted new gas rates resulting from the OII/OIR. Up until the time a final decision is issued in the gas restructuring case, PG&E must be able to continue to provide rate stability and price certainty to those customers with alternative energy sources."

3. "Mock and Shell Canada contend that other parties are not able to compete in the gas market with PG&E's 4.5 cent minimum margin because they are subject to transportation rates that are higher than 4.5 cents. Mock and Shell Canada misunderstand the purpose of Schedule G-85. PG&E's goal in negotiating G-85 contracts is to obtain a contribution to margin from sales that would otherwise be lost to alternative fuels."

4. "If by taking service under PG&E's short-term transportation rates the customer is able to obtain gas at a price competitive with alternative fuels, PG&E would have no incentive to offer to negotiate a G-85 contract, since the margin contribution from transport is higher than that provided by some sales under G-85."

5. "The requirement that customers provide an affidavit documenting an alternative fuel at a price below PG&E's otherwise

applicable rate schedule should provide added assurance that PG&E intends to compete with alternative fuels and not transportation. PG&E only uses G-85 when the regular sales and/or transportation schedules do not compete with the customer's alternative. G-85 was designed to compete with the alternative fuel market, not with PG&E's own transportation schedules."

6. "Mock and Shell Canada incorrectly contend that these schedules allow PG&E to discount the commodity portion of its rate below the noncore portfolio weighted average cost of gas. The minimum G-85 rate is based on the utility's incremental cost of gas, the same figure used to calculate GC-4 transportation rates. The incremental cost of gas and PG&E's short-term gas transport rates have generally been within the same range. Rate schedules G-87 and G-88 are based on the average cost of PG&E's short-term gas supplies. In fact, in Resolution G-2690 dated August 20, 1987, the Commission stated "we will not allow PG&E to selectively discount gas below the average spot price plus a reasonable margin."

7. "PG&E, in compliance with Resolution G-2690, has not discounted below the average spot price under any rate schedule, including G-85, G-87, and G-88. PG&E is not manipulating the pricing terms under these rate schedules."

8. "Finally, Shell Canada contends that extending these rate schedules would allow PG&E to continue to monopolize direct sales to noncore customers to the exclusion of direct sales and transport by Canadian producer-suppliers. PG&E is currently serving nearly fifty percent of its industrial market through transportation. PG&E fully supports offering transportation service to its customers as a viable option to help prevent bypass of the PG&E system, and as a means of providing substantial margin contribution."

9. "Shell Canada and Mock suggest that by permitting PG&E to continue using its rate schedules G-87 and G-88, the CPUC will be foreclosing competition in serving PG&E's customers. In fact, the opposite is true. If the aforementioned rate schedules are discontinued, PG&E's customers will have fewer competitive service options available to them. Thus, contrary to their claims, the Shell Canada and Mock protests represent bald-faced attempts to reduce competitive forces in PG&E's market. They attempt to tilt the "playing field" so that PG&E does not have an opportunity to compete with other gas and alternative fuel supplies that are currently available to PG&E's customers and will continue to be available until the time the Commission's restructuring decisions are fully implemented.

10. "PG&E fully supports the move towards unbundled rates as outlined in the ongoing OII/OIR decisions. PG&E is only asking that these schedules be maintained until the opportunity exists to negotiate new agreements under the OII/OIR industry structure. PG&E does not believe that the extension of these rate schedules will materially impact potential competitive benefits associated with opening the PGT pipeline or preempt the Commission's role in

determining the appropriateness of multiple supply protfolios and other discount pricing proposals in the context of the upcoming gas supply procurement hearings. In the interim, extension of these schedules is necessary to allow PG&E to maintain competitive alternatives for these customers and keep them on gas to the benefit of all customers. For these reasons, Mock and Shell Canada protests should be rejected and Advice No. 1400-G accepted."

DISCUSSION

1. The Evaluation and Compliance Division has reviewed this Advice Letter filing and generally finds no objection to granting a limited time extension through December 31, 1987, subject to any modifications of the rate schedule due to future decisions in the Commission's proceedings in OII 86-06-005 and/or OIR 86-06-006.

2. Southern California Gas Company (Advice Letter No. 1692) also has requested a similar time extension for its GST-1 and GST-2 schedules, but has requested the expiration dates for current contracts to be effective no later than 180 days after the implementation decision, and that contract schedules expire at 11:59 p.m. the day before the effective date of the implementation decision. PG&E has requested 60 days beyond the implementation decision date, with no request for a specific time.

3. However, the protests received regarding the negotiated G-85 rates raise a legitimate complaint, for these rates are bundled and may be as low as PG&E's incremental cost of gas plus 4.5 cents/therm. This gives PG&E a significant advantage in marketing its sales gas compared to gas marketers such as Mock and Shell Canada, who must rely on short-term transportation rates which are currently higher than the 4.5 cent minimum allowed under the G-85 schedule.

4. To maintain consistency with the Commission's new regulatory framework, which requires the utilities to unbundle the cost of gas from transmission and distribution service, customers should have the option of either purchasing their gas from PG&E or any other supplier.

5. The G-85 floor rate should be based on PG&E's spot WACOG rather than its incremental cost of gas, since the spot WACOG rule is in effect for the G-87 and G-88 schedules. (See Resolution G-2713-A) The issue of commodity pricing flexibility is to be considered further in I. 87-03-036.

6. To conclude, the extension of the G-85 schedule should be conditioned upon PG&E's offering these negotiated rates on an unbundled basis, and upon the rate being no lower than PG&E's spot WACOG plus 4.5 cents/therm. Transmission and distribution service should be offered as a separate service at negotiated rates no lower than 4.5 cents/therm. If G-85 customers elect to

purchase gas from the utility, the charge for such sales gas should be no lower than PG&E's spot WACOG plus 4.5 cents/therm. The G-87 and G-88 schedules should be extended without further conditions.

7. This filing will not cause the withdrawal of service nor conflict with any rule or schedule. PG&E requests that this filing become effective for service on regular notice, 40 days after the filed date of March 12, 1987.
or April 22, 1987.

8. Public notification of this filing has been made by supplying copies of the filing to other utilities, governmental agencies, and to all interested parties who requested such notification.

FINDINGS

1. We find it reasonable to grant an extension of time to allow Schedules G-85, G-87 and G-88 to remain in effect until December 31, 1987, unless otherwise rescinded or modified by Commission Decision in OII 86-06-005 or in OIR 86-06-006, with the G-85 schedule extension conditioned upon PG&E's offering these negotiated rates on an unbundled basis, and upon the rate being no lower than PG&E's spot WACOG plus 4.5 cents/therm.

2. Commission authorization of the requested changes will provide for an orderly transition following a final implementation decision in the combined proceedings OII 86-06-005 and OIR 86-06-006.

THEREFORE:

1. Pacific Gas and Electric Company is authorized to extend contract service under tariff Schedule Nos. G-85, G-87, and G-88 to expire at 11:59 p.m. the day before the effective date of the implementation decision in OII 86-06-005 and/or OIR 86-06-006 or December 31, 1987, whichever occurs earlier, subject to the modifications noted below.

2. Pacific Gas and ELectric Company is hereby ordered that the existing contracts in effect under the contract tariff provisions are to expire either upon their normal expiration dates or the effective dates of customers' new service agreements implementing the OII or OIR decision, but not later than 60 days after the effective date of the implementation decision.

3. On and after the effective date of this Resolution, Pacific Gas and Electric Company is authorized to extend contract service under tariff Schedule G-85, subject to PG&E's offering these negotiated rates on an unbundled basis, and upon the rate being no lower than PG&E's spot WACOG plus 4.5 cents/therm. This order

is prospective only. All existing contracts under Schedule G-85 shall remain unchanged until their normal expiration date.

4. The Commission reserves the right to examine, modify, or cancel these Schedules at any time to determine the appropriateness of the contract service rates.

5. Schedules G-85, G87, and G-88 shall be subject to modification or cancellation by further Commission Decision in OII 86-06-005 or OIR 86-06-006.

6. The Commission shall be kept informed of all contracts entered into with customers under Rate Schedules G-85, G-87, and G-88 and notified of the margin contribution secured from each contract. This information shall be sent to the Chief of the Fuels Branch of the Public Staff Division.

7. Pacific Gas and Electric Company is hereby directed to submit revised tariff sheets for Schedule G-85, offering the negotiated rates on an unbundled basis. The G-87 and G-88 schedules are approved as Filed.

8. This advice letter and revised tariff sheets shall be marked to show that they were accepted for filing by Commission Resolution G-2725. This Resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular scheduled meeting on April 22, 1987. The following Commissioners approved it:

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

Victor Weisser

Executive Director