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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY  
AND COMPLIANCE DIVISION  
ENERGY BRANCH

RESOLUTION G-2765  
December 17, 1987

R E S O L U T I O N

PACIFIC GAS AND ELECTRIC COMPANY (PG&E). ORDER AUTHORIZING THREE LONG-TERM AGREEMENTS WITH ENHANCED OIL RECOVERY CUSTOMERS IN KERN COUNTY FOR NATURAL GAS TRANSPORTATION SERVICE. (Advice Letter 1435-G, Filed October 21, 1987)

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SUMMARY

1. By Advice Letter 1435-G, filed October 21, 1987, PG&E request authorization to enter into three long-term natural gas transportation agreements with enhanced oil recovery (EOR) customers in Kern County, California. Authorization of these agreements will comport with the intent of Commission Decision (D.) 86-12-009 and will give EOR customers greater security of gas supply at more predictable rates.
2. The term of these agreements is 15-years
3. By this Resolution, we are authorizing PG&E to enter into these three agreements as requested.

BACKGROUND

4. The Commission has acknowledged the potentially large new EOR market for natural gas in Kern County. EOR consists of using natural gas to produce steam which is injected into the ground to heat the oil so that it may be produced more efficiently. Usually, the steam is also used to cogenerate electricity.
4. The Commission has investigated various ways to serve the EOR market with natural gas, including several proposals to serve it directly by an interstate pipeline which would bypass PG&E and SoCal Gas completely. The Commission has determined that sufficient capacity currently exists to supply the EOR market through PG&E's and SoCal Gas' distribution systems without the need to build a dedicated pipeline (Finding of Fact 4, D.86-12-009).

5. D.86-12-009 authorized and encouraged gas utilities to negotiate long-term agreements for gas transmission rates with EOR customers within its established floor and ceiling rate limits. The established floor rate was set at the short-run marginal cost including a shortage cost component. The ceiling rate was set at the long-run marginal cost. As such, floor rates could approach one cent per therm for basic reliability.

6. By this advice filing, PG&E requests authorization to enter into agreements with High Sierra Limited, Kern Front Limited and Double "C" Limited, each of which has a general partner that is a wholly owned subsidiary of Power Systems Engineering of Houston, Texas.

#### DISCUSSION

7. The three agreements are essentially identical and specify the terms of service to each customer.

8. The rates, as proposed in these three agreements, comport to the guidelines established in D.86-12-009. The initial rates are made-up of the following components:

- (a) A monthly charge of \$1200.00.
- (b) A monthly demand rate of 0.0 cents per therm. The monthly demand charge is the demand rate times the maximum monthly usage.
- (c) A monthly volumetric rate of 3.7 cents per therm. The monthly volumetric charge is volumetric rate times the total therms delivered to the customer during the month.
- (d) A monthly fuel-use and line loss (shrinkage) of 2 percent in-kind.
- (e) A monthly capacity priority charge of 0.0 cents per therm.

9. The monthly minimum charge is the customer charge and the monthly capacity priority charge (if applicable). In addition, the customer will be charged for any applicable taxes, fees, surcharges and gathering charges (for gas produced within PG&E's service territory).

10. There are no take-or-pay provisions.

11. The rates are subject to escalation on July 1 of each year as follows: 60 percent of the customer charge, and the demand rate, the priority rate and the volumetric rate will be revised to reflect the rate of inflation in effect in the current year

as reflected by a positive change in the Implicit Price Deflator (IPD) of the Gross National Product using the rate in effect on the effective date as the base rate. The shrinkage rate is specifically excluded from inflation.

12. Every 5-years from the date of the first deliveries either party may, within 30-days of such anniversary, request a good faith renegotiation of the rates and charges.

13. The Commission Advisory and Compliance Division (CACD) staff has reviewed this advice letter and accompanying agreements and has determined that the terms and rates of the agreements are within the guidelines established by D.86-12-009. PG&E is put on notice that it will not be allowed to recover revenue shortfalls resulting from these long-term agreements with EOR customers from other customer classes.

14. No protests were received regarding this advice filing.

#### FINDINGS

1. We find that said agreements comply with our guidelines for long-term gas transportation rates, therefore,

IT IS ORDERED, that:

1. Pacific Gas and Electric Company is authorized, under the provisions of Public Utilities Code Sections 491 and 532, to enter into the agreements with High Sierra Limited, Kern Front Limited, and Double "C" Limited for the transportation of natural gas as submitted by Advice Letter 1435-G.
2. PG&E shall be required to furnish data to establish the volumes, prices, and priority used for these contracts, and the contribution to margin from these contracts annually, and at the time of each revision in the transportation rates, beginning sixty (60) days after the first such revision in rates. This information shall be sent to the Chief of the Energy Branch, Commission Advisory and Compliance Division.
3. Advice letter 1435-G and accompanying agreements shall be marked to show that they were approved by Commission Resolution G-2765.
4. This Resolution shall be served on all parties to the Commission's ongoing Rate Design proceedings in OII 86-06-005 and OIR 86-06-006.

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5. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 17, 1987. The following Commissioners approved it:

STANLEY W. HULETT  
President  
DONALD VIAL  
G. MITCHELL WILK  
JOHN B. O'HANIAN  
Commissioners

Commissioner Frederick R. Duda,  
being necessarily absent, did not  
participate.



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Executive Director