

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
ENERGY BRANCH

RESOLUTION G-2786
April 27, 1988

R E S O L U T I O N

RESOLUTION G-2786, SOUTHERN CALIFORNIA GAS COMPANY REQUESTING APPROVAL OF A GAS TRANSMISSION SERVICE CONTRACT WITH CATERPILLAR CAPITAL INCORPORATED FOR ENHANCED OIL RECOVERY USE; BY ADVICE LETTER 1773, FILED MARCH 10, 1988.

SUMMARY

By Advice Letter No. 1773, filed March 10, 1988, Southern California Gas Company (SoCal Gas) submitted for approval a Gas Transmission Service Contract with Caterpillar Capital, Inc. (CCI) in accordance with Decision (D.) 86-12-009 and Schedule GLT, Long Term Transportation of Customer-Owned Natural Gas. This Resolution grants approval of the contract.

BACKGROUND

1. Schedule GLT is applicable to long-term transportation of customer-owned natural gas for use in Enhanced Oil Recovery (EOR) facilities as provided by Decision 86-12-009, including gas used for combined EOR/cogeneration facilities. Transportation service under this schedule is governed by a negotiated contract, and is limited to volumes equal to, or in excess of, 250,000 therms per year to each customer's premises as defined in SoCal's Rule No. 1, Definitions.
2. Schedule GLT provides that the Utility and the customer shall negotiate a Transmission Rate, a Customer Charge and an appropriate escalation factor to be stated in the Gas Transmission Service Contract. A separate priority charge may be negotiated, a Demand Charge component also may be included. The negotiated transmission rate shall be set neither below the floor rate (short-term marginal cost) nor above the ceiling, default rate (long-term marginal cost).
3. The negotiated rate also will include any applicable taxes, fees, regulatory surcharges, intra-or-interstate pipeline charges imposed as a result of transporting gas under the schedule. In the event customer delivers more or less gas into

the Utility system than it accepts on redelivery, such imbalances shall be specifically provided for in the contract.

4. To renew the terms of service under the Service Contract, notice from the customer is required at least fifteen days prior to the expiration of the existing contract, and renewal is subject to available capacity on the Utility system as determined by the Utility. At the end of the initial term, the original rate will be revised to an appropriate negotiated rate at the time of renewal.

5. Customers may receive service under the GLT schedule (a) separately or (b) in combination with an applicable sales rate schedule. Where service is rendered under (b), a separate monthly customer charge shall be applicable for service under each schedule. If service is rendered under (a), the customer must still meet the terms and conditions of the customer's otherwise applicable sales rates schedule.

6. Caterpillar Capital, Inc. is engaged in Enhanced Oil Recovery (EOR) operations in Kern County. The contract provides for a monthly customer charge of \$500 per premises and a transmission rate of 3.785 cents per therm for gas delivered. An escalation formula is included and provides that the transmission rate shall be adjusted upward beginning January 1, 1989 and each January 1 thereafter by a factor equal to the change in SoCal Gas' authorized margin as determined in its most recent general rate case or attrition allowance. Annual rate adjustments may not be less than three percent and may not exceed five percent of the rate in effect on January 1 of each year.

7. Included in the contract is a provision requiring CCI to transport-or-pay for fifty percent (50%) of the maximum daily transmission capacity at the end of each contract year at the rate in effect at that time. CCI has two years to use any shortfall in quantities tendered for transportation except for shortfalls occurring in the last contract year, which Caterpillar has one year to use.

8. The initial term of the contract is approximately thirteen and one-half years and may be extended annually by mutual agreement. The volumes agreed to be transported shall be 60,000 therms per day for combined enhanced oil recovery and cogeneration use.

DISCUSSION

1. The Commission segregated EOR customers from other ratepayers in Decision 85-12-102, allowing the utilities the negotiating flexibility they required to meet the needs of their EOR customers. The Commission limited the escalation rate to a range of three to five percent, but added further that the

"utilities will be free to negotiate any type of appropriate escalation factors (such as an escalation index based on changes in field crude oil prices) or other rate provisions as appropriate for EOR customers."

2. D.85-12-102 also stated that "should a negotiated rate ever become less than the floor described above (3 cents per therm at the time), shareholders will be at risk for making up the deficiency." And, Finding 54 (at p.46) states: "A 50% take-or-pay provision is a reasonable condition to all long-term transportation agreements in order to encourage transportation customers to transport their own gas for the entire life of their contract."

3. D.85-12-102 set contract term minimums at 5 years, envisioning contracts that could be as long as 20 years. No conditions were placed on the utilities to establish contract reopeners, but instead, the utilities were urged to negotiate the best terms possible with this new, emerging market.

4. In D.86-12-009, the Commission required the utilities to file all long-term contracts (contracts with terms of five years or more) with the Commission for approval by advice letter. The advice letter review procedure affords the Commission the opportunity to assure that all long-term contracts are consistent with the guidelines established in D.86-12-009 and D.86-12-010.

5. The Commission Advisory and Compliance Division (CACD) has reviewed the terms of SoCal Gas's EOR contract with Caterpillar Capital Inc. and has determined that it is in compliance with the intent of Commission Decisions 85-12-102, 86-12-009, 87-05-046, and 87-12-039. However, this review does not relieve utilities from their responsibility to negotiate reasonable long-term contracts in the interest of all utility ratepayers. The Commission stated in D.86-12-009 that the utilities bear some of the risks of long-term contracts and are responsible for negotiating contracts that are consistent with market realities.

6. Public notification of these filings has been made by mailing copies of the advice letter to other utilities, governmental agencies, all parties of record in OII 86-06-005 and OIR 86-06-006, and to all interested parties who requested them.

PROTESTS

1. No protests were received regarding this advice filing.

FINDINGS

1. The proposed contract complies with our guidelines for long term gas transportation rates.
2. It is reasonable for SoCal Gas to provide service to Caterpillar Capital, Incorporated under the terms and conditions of this contract to maintain sales at competitive natural gas prices, in accordance with Decision 86-12-009, therefore,

IT IS ORDERED, that:

1. Southern California Gas Company is authorized, under the provisions of Public Utilities Code Sections 491 and 532, to enter into the agreement with Caterpillar Capital, Incorporated for the transportation of natural gas as submitted by Advice Letter 1773-G.
2. Southern California Gas shall furnish data to establish the volumes, price, and priority used for this contract, and the contribution to margin from this contract annually, and at the time of each revision in the transportation rate, beginning sixty (60) days after the first such revision in rates. This information shall be sent to the Commission Advisory and Compliance Division.
3. Advice Letter 1773 and the accompanying agreement shall be marked to show that they were approved by Commission Resolution G-2786.
4. This Resolution shall be served on all parties to the Commission's on-going Rate Design proceedings in OII 86-06-005 and OIR 86-06-006.
5. This Resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting of April 27, 1988. The following Commissioners approved it:

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


Executive Director