PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-2787
April 13, 1988.

INTERIM

RESOLUTION

RESOLUTION G-2787; TO RESOLVE MAJOR PROTEST ISSUES AFFECTING THE GAS IMPLEMENTATION FILINGS OF PACIFIC GAS AND ELECTRIC COMPANY, SOUTHERN CALIFORNIA GAS COMPANY, AND SAN DIEGO GAS AND ELECTRIC COMPANY, SUBMITTED IN COMPLIANCE WITH D.87-12-039 (I.86-06-005 and R.86-06-006, et al).

SUMMARY

On February 1, 1988 Pacific Gas and Electric Company (PG&E) filed Advice Letter 1453-G and Southern California Gas Company (SoCal) filed Advice Letter 1767 to comply with the Gas Implementation Decision (D.)87-12-039. San Diego Gas and Electric Company (SDG&E) filed Advice Letter 634-G on March 1, 1988, as allowed by Commission ruling. On March 8, 1988, SoCal filed Advice Letter Supplemental 1767-A, to respond to some of the protests received and to correct some of the errors and omissions contained in its initial filing.

This resolution addresses the major issues raised by the protestors to these filings. The remaining issues will be the subject of three resolutions placed on the agenda for April 27, 1988: Resolution G-2779 for PG&E, Resolution G-2783 for SoCal, and Resolution G-2780 for SDG&E.

BACKGROUND

1. On December 9, 1987, the Commission issued D.87-12-039. This decision established rates to implement the policy decisions which the Commission had made in December 1986, in D.86-12-009 (OII 86-06-005) and D.86-12-010 (OIR 86-06-006), concerning natural gas rate regulation in California.

2. Numerous applications for rehearing, petitions for modification, and corresponding responses were filed in response to D. 87-12-039. Decisions 88-03-041 and 88-03-085

issued March 9 and March 23, respectively, addressed the issues raised in the applications and petitions.

3. Some of the protest issues were duplicated in the applications for rehearing and petitions to modify. In addition, SoCal's Supplemental Advice Letter filing made many of the changes sought by the protests. PG&E's response to the protests of its initial filing agrees to many changes not addressed by this Resolution.

4. Protests to the advice letters of PG&E, SoCal, and SDG&E were received from: Squire, Sanders & Dempsey representing the California Manufacturers Association (CMA); Graham and James representing Southern California Utilities Power Pool (SCUPP) and Imperial Irrigation District (IID); Southern California Edison Company (SCE); Toward Utility Rate Normalization (TURN); Hadson Gas Systems (Hadson); San Diego Gas & Electric Company (SDG&E); Luce, Forward, Hamilton & Scripps representing Mock Resources, Inc. (Mock); the City of Long Beach (Long Beach); and Armour, St. John, Wilcox, Goodin & Schlotz representing the Kelco Division of Merck & Co., Inc. (Kelco). The protests of Mock, Kelco, Long Beach will be addressed in the subsequent resolutions of April 27, 1988.

5. While none of the issues addressed below respond to specific protests levied against SDG&E, the company is included in this resolution to insure utility consistency in the California gas implementation.

DISCUSSION

ISSUES COMMON TO ALL UTILITIES

1. Forgiving Demand Charges during Curtailments - Hadson, SCE and CMA have complained that both PG&E and SoCal have failed to include tariff language which would excuse customers from paying their demand charges in the event of either a supply or a capacity curtailment.

SoCal responds that demand charges pay for intrastate transmission capacity. Therefore, it is willing to excuse customers from paying demand charges only if the curtailment is due to intrastate capacity constraints. PG&E claims that what CMA and Hadson request is unsupported by any Commission decision, and notes that the utility is not relieved of its fixed costs during a supply or capacity curtailment.

The California utilities are now required to provide intrastate transmission service for all customers, and core procurement service for core customers and for those noncore

customers who are willing to obligate themselves to buy core gas for at least one year (the so-called "core-elect"). The utilities' obligation to supply gas to other noncore customers is only a "best efforts" requirement to provide short-term spot gas.

The demand charges reflect a customer's usage pattern over twelve full months, and entitle the customer to best-efforts transmission service from the utility. Forgiving demand charges in any month in which the customer is curtailed would have two effects: (1) the utility would not be fully compensated for transmission service already provided (for the last twelve months), and (2) the customer would benefit by lower demand charges for the next twelve months, because one month of zero usage is factored into the ratchets.

The sales forecasts account for this future lessening of demand charges, but do not account for forgiveness of demand charges incurred by past usage. Therefore, to excuse a customer from demand charges in the event of a curtailment erodes the utilities' revenues contributing to transmission service.

Additionally, an interstate or intrastate capacity curtailment does not constitute a failure by the utilities to provide a contracted-for service, as is argued by the protestors. Non-core transmission service is on a best-efforts basis, and that means it is interruptible. In the event of a curtailment, customers will pay lower demand charges for the next year as the lower usage is factored in. We consider this the appropriate compensation for a curtailment.

2. Force Majeure. SCUPP has protested SoCal's force majeure clause, stating that it is narrower than the existing clause in SoCal's long-term transportation contracts. D. 87-12-039 specifically provided that "the force majeure conditions in the utilities' existing long-term contracts represent appropriate conditions for the default contracts" (p. 109). CMA notes that PG&E's tariffs fail to excuse demand charges in the event of force majeure.

PG&E's response to CMA indicates that there is no explicit language in D. 87-12-039 requiring them to excuse demand charges in the event of force majeure. SoCal, however, has agreed to include in its form contract a simplified clause which excuses demand charges for force majeure.

PG&E is technically correct about the language in D. 87-12-039. However, the clear intent of the discussion on page 109, as SoCal recognizes, is that demand charges should be excused in the event of force majeure, just as take-or-pay

obligations were waived for force majeure in the long-term contracts approved under the interim transportation program. SoCal should be required to make its new force majeure clause consistent with the clauses in its existing long-term transportation contracts and PG&E should be required to excuse demand charges for force majeure.

3. 30-day Notice of Scheduled Maintenance. CMA, Hadson, and SCUPP argue that the PG&E and SoCal filings fail to provide customers with relief from customer and demand charges in the event that the customer provides the utility with 30 days notice of a planned maintenance shutdown.

This condition has a long history, extending back to D. 85-12-102, in which we instituted our first program of gas transportation. In that order (p. 33), we allowed customers to avoid the take-or-pay requirements of long-term transportation contracts during periods of scheduled maintenance, provided that they gave the serving utility six months prior notice of the maintenance shutdown.

In subsequent workshops to refine the transportation program, customers complained that six months' notice was too long. PG&E eventually acquiesced in shortening the notice to 30 days, and debate on this point apparently ceased. With little further discussion, this provision was reaffirmed in R. 86-06-006 (pp. 11-12), D. 86-12-010 (p. 30), and D. 87-12-039 (p. 109).

CMA, Hadson, and SCUPP now argue that since demand charges have replaced take-or-pay provisions as the means to provide the utilities with some degree of revenue certainty, the 30-day notice of a scheduled maintenance shutdown should now allow customers to avoid payment of demand charges. This argument derives some support from D. 87-12-039, in which the 30-day notice of scheduled maintenance provision is mentioned in the context of a discussion of relieving customers of demand charges in the event of force majeure. These two issues were presented together in CMA's brief, and D. 87-12-039 adopted the CMA position on the related force majeure issue.

In response, PG&E notes that the Commission has never specifically stated that the 30-day notice provision was intended to relieve customers of demand charges. SoCal argues that this provision in essence would allow the customer to shift a portion of his maintenance costs to the utility, and notes that SoCal's system stands ready to serve the customer even when the customer is performing maintenance. SoCal has thus deleted the provision from its tariffs.

Because the utilities are now at risk for recovering revenues allocated to the noncore market, they are understandably reluctant to allow demand charges to be waived, for any reason. We are concerned about the possibility for abuse of this provision: customers will clearly have an incentive to schedule maintenance during winter months when demand charges are the highest, and disputes may arise over exactly what constitutes "scheduled maintenance."

But, it is clear that D. 87-12-039 adopted a 30-day notice provision in the context of a discussion of forgiving demand charges. In addition, the record in the implementation case makes clear that the utilities include scheduled maintenance downtime in making their forecasts of industrial sales. On balance, demand charges should be forgiven during periods of scheduled maintenance, provided the customer gives 30 days notice of the shutdown. Customer charges, however, will not be forgiven since they represent customer-dedicated equipment.

4. Allocation of Attrition Adjustments. TURN is concerned with the utilities' attrition allocation adjustments which the Commission adopted last December, after D. 87-12-039 was issued. TURN notes that the Commission's attrition orders do not provide an adequate basis for the functionalization and allocation of the revenue requirement changes which they authorize. Thus, there is not enough information with which to verify or to contest how the utilities have functionalized and allocated the attrition adjustments in their advice filings. Given this uncertainty, TURN proposes that all cost categories be changed by an equal percentage, except for certain cost items (LNG expenses and the carrying costs of gas in storage, for example) whose treatment has been clearly established.

PG&E admits that it did perform a new cost-of-service study in order to incorporate the attrition changes into the cost allocation adopted in D. 87-12-039. However, PG&E does note that it made no changes in the allocation methodology adopted in D. 87-12-039, and argues that its new study is the most accurate way to reflect the revenue requirement changes adopted in the attrition order. SoCal's response is similar.

TURN's essential complaint is with the lack of detail in how the utilities have allocated the attrition order's changes in cost levels, not with the use of a new cost-of-service study as the most accurate way to reflect those changes. The clear remedy is to require the utilities to provide the necessary additional detail with their attrition filings to enable CACD and other parties to verify the allocation of

the attrition changes. This requirement can be applied prospectively, as there appear to be no serious problems with how the utilities have allocated the attrition changes approved in December, 1987.

5. Termination Fees for Core-elect Customers. SCUPP has protested Special Condition 7 of SoCal's new Schedule GN-60 requiring termination fees (documented in the contract) for core-elect customers. TURN, on the other hand, has noticed that such a provision does not appear in PG&E's Schedule G-PC, and has recommended that it be added. PG&E supports TURN's recommendation.

This condition concerns the liability of a core-elect customer for any unavoidable costs which the utility incurs as a result of that customer not using its full contracted quantity of gas on a monthly basis. SCUPP claims that D. 87-12-039 declined to decide this issue, and thus, such a tariff condition is inappropriate at this time. SoCal points out that this condition was taken verbatim from the rules adopted in D. 86-12-010. SoCal also notes that while D. 87-12-039 declined to determine such unavoidable costs at the time, the decision did make clear that "customers who contract for core-elect service must be responsible for the excess costs which they may impose if they fail to meet the terms of that agreement" (p. 107).

SoCal's reading of D. 86-12-010 and D. 87-12-039 is correct, and TURN is right in recommending that PG&E include such a provision in its core-elect tariff. However, SoCal's language refers to a customer failing to purchase contracted quantities on a <u>monthly</u> basis, whereas the rules in D. 86-12-010 only speak of <u>annual</u> shortfalls. Our order on the petitions for modification changed this section of D. 86-12-010 to allow reasonable restrictions on <u>monthly</u> contract quantities in order to address the problem of "winter-only" core election. Thus, SoCal's language is now technically correct.

Core-elect customers are liable for any unavoidable costs incurred by the utility as a consequence of that customer not using their full contracted quantity of gas on an annual basis. To rectify this inconsistency, the utilities should revise their tariffs to address both annual and monthly shortfalls. One condition of service should deal with annual shortfalls and a second condition containing PG&E's language dealing with "winter-only" core election.

6. Payment for Diverted Gas. SDG&E and Hadson have protested the SoCal and PG&E provisions dealing with the makeup of customer-owned gas which the utility diverts to serve high priority customers during a Commission-declared

emergency. These provisions allow for makeup of diverted volumes paid in-kind, or for the utility to purchase diverted gas at the customer's cost of gas. Similar provisions are included in the utilities' existing transportation contracts.

Both SDG&E and Hadson point out that during this winter's supply shortage in southern California, the Commission allowed gas to be diverted from PG&E's powerplants to SoCal. SoCal paid PG&E for this gas based upon the value of the gas -- that is, at a fuel oil equivalent price -- rather than at the cost of the gas to PG&E. The protesters feel that they should likewise receive a value-based price if gas which they own is diverted.

This protest has merit and highlights an important difference between the old and new gas industry structure. As happened with PG&E's powerplants this winter, if a customer has his gas diverted, he will most likely be forced to burn oil. If the customer is reimbursed for the diverted gas only at his cost of gas, he will suffer a loss, equal to the oil-gas price differential times the diverted volumes, as a result of the diversion. Thus, the current provision potentially requires noncore customers to subsidize the core in the event of a supply emergency. This may seem to be unfair, especially since noncore customers are unlikely to be the cause of the emergency. However, it is also exactly the situation which large gas users have faced and accepted for many years under our end-use priority system: when gas was in short supply, they have been required to use higher-cost oil in order to make gas available for higher priority uses. The makeup provisions for diverted gas in the utilities' existing transportation contracts reflect this established practice.

This winter, when gas supplies ran short in southern California, the spot gas price rose sharply, approaching the fuel oil equivalent price. Had customer-owned spot gas been diverted, it would likely have been priced at roughly the same level as the PG&E powerplant gas which SoCal actually bought. Had gas been diverted, the big losers would have been those customers buying their gas under contracts with prices more stable than the spot price. Thus, the existing diversion provisions can be seen as discouraging customers from purchasing their own gas under longer-term contracts with stable prices, and will not encourage noncore customers to cooperate with the Commission and the utilities during a supply emergency.

In addition, by the time the Commission declares a supply emergency, the utilities are likely to be buying gas from neighboring utilities under mutual assistance agreements, at

value-based prices, as happened this winter. For these reasons, some good and no great harm will occur in revising the diversion makeup provision, as the protesters request, to provide that the utilities purchase diverted gas at a value-based price.

PG&E - SPECIFIC ISSUES

1. Twelve Months' Notice for Service Termination. Hadson and CMA originally protested the failure of both PG&E and SoCal to include in their tariffs a provision allowing customers to avoid customer and demand charges following the termination of service, provided that the utility received at least 12 months notice of that termination. SoCal has acquiesced to such a clause. PG&E claims that such a provision would allow a customer to avoid demand and customer charges whenever he switched fuels, simply through the artifice of each month giving the utility notice of termination in 12 months.

There is a simple way to avoid the loophole which PG&E fears. If each notice supersedes all prior notices, then the artifice which PG&E has conjured up would not work. PG&E should be ordered to add such a clause, and to include, if the company desires, language making only the latest termination notice effectual.

2. Deferred Issues: Balancing and gathering. Hadson's protest criticizes the portions of PG&E's tariff which deal with charges for load balancing and gas gathering. Hadson's arguments generally repeat points which they have made in other forums. The Commission will soon address balancing charges in the gas storage case, and will issue an OII on gas gathering once it has reviewed a forthcoming report from CACD on this issue. PG&E points out that its provisions simply continue existing language in its current gas transportation tariffs.

The tariffs which PG&E has filed appear to continue their current practices with respect to balancing and gathering charges. Hadson has raised these issues in the wrong forum. Since these issues will be heard by the Commission in other proceedings, we will defer comment on these issues to those proceedings.

SOCAL - SPECIFIC ISSUES

1. Storage Inventory Carrying Costs. TURN questions the inclusion of $8.7 million of storage inventory carrying costs in SoCal's updated revenue requirement. TURN calculates a storage inventory carrying cost of $2.8

million, based on general information in the record in I. 86-06-005. SoCal responds that its much higher number reflects the unexpectedly deep drawdown of storage volumes during the record cold weather of December 1987. SoCal's estimate is based upon the expected monthly cost of gas that will be required to replenish these withdrawals.

SoCal's response appears to be adequate, although its estimate has not been subject to detailed review. However, such costs are subject to balancing account treatment, so whatever estimate is adopted now will ultimately be trued-up against the actual carrying costs in the Annual Cost Allocation Proceeding (ACAP).

2. Derivation of Core Transmission Charge. Hadson maintains that SoCal has incorrectly calculated the transmission rate for large core customers. This rate is set using an equivalent margin method, by subtracting the core portfolio WACOG from the average bundled core rate. The controversy seems to be how the core balancing account is treated in this rate calculation.

There should be no problem here, since under the accounting rules adopted in D. 86-12-010, the core balancing account will consist of separate balancing accounts for both core fixed costs (margin) and purchased gas costs. When the average bundled core rate is set in the annual cost allocation proceeding, it will reflect the current status of both accounts. At that time the core WACOG will also be set; it will reflect the current status of the core PGA (purchased gas) account. Subtracting the two will yield the core transmission rate, which will reflect the current status of the core fixed costs account (including the storage account), as is appropriate for an equivalent margin rate.

3. Minimum Charge for Cogenerators. Hadson protested SoCal's provision specifying a minimum charge for cogenerators based on the customer and demand charges of the cogenerator's otherwise applicable rate schedule. Our adopted definition of rate parity for cogenerators allows them to pay the lower of a bill based upon the average UEG rate or a bill based upon their otherwise applicable industrial or comercial rate.

SoCal notes that this minimum charge is necessary because the UEG-based bill will be calculated on a volumetric basis. Thus, if a customer on this volumetric rate were to use little or no gas during a month, he could avoid the minimum monthly payment for the availability of utility capacity that is reflected in the customer and demand charges of all

other noncore customers. The minimum charge avoids this inequity.

SoCal's language appears to be consistent with our adopted interpretation of cogeneration parity. The minimum charge will impact cogenerators only in the months they use little gas.

FINDINGS

1. Demand charges should not be waived by the utilities during supply or capacity curtailments.
2. Demand charges should be waived by the utilities under force majeure conditions.

3. The force majeure conditions in the utilities' existing long-term contracts represent appropriate conditions for the default contracts.

4. PG&E's proposed tariffs do not comply with D.87-12-039 for they fail to excuse demand charges in the event of force majeure.

5. SoCal's proposed tariffs do not comply with D.87-12-039 for they fail to reflect the force majeure clauses adopted in D.87-12-039.

6. It is appropriate for the utilities to provide customers with relief from demand charges in the event that the customer provides the utility with 30 days notice of a planned maintenance shutdown.

7. Additional detail outlining the basis for the functionalization and allocation of attrition adjustments shall be filed with the Commission and interested parties with each general rate case and attrition filing.

8. Customers who contract for core-elect service must be responsible for the excess costs which they may cause on an annual and monthly shortfall basis if they fail to meet the terms of that agreement.

9. Customer-owned gas diverted by the utilities in the event of a Commission declared emergency curtailment (supply/capacity) shall be purchased at a value-based price, tied to the customer's alternate fuel price at the time of the curtailment.

10. It is reasonable that the utilities allow customers to avoid customer and demand charges following the termination

of service, provided that the utility receives at least 12 months notice of that termination. Only the latest notice of such termination is effectual.

11. Charges for load balancing are deferred to OII 87-03-036 and charges for gas gathering shall be addressed in a future OII.

12. Storage inventory carrying costs are subject to balancing account treatment. Estimates will be trued-up against the actual carrying costs in the Annual Cost Allocation Proceeding (ACAP).

13. The core transmission charge is based on the difference between the core portfolio WACOG and the average bundled core rate.

14. Cogenerators' minimum bill payments are equitable for they capture the availability of utility capacity provided to all noncore customers.

15. Notice of this matter did not appear on the Commission's public agenda. However, an emergency exists in that without this resolution, significant questions would remain which could adversely impact the decision of industrial customers to enter into new contracts under the gas implementation program beginning May 1, 1988. Sufficient time is required for gas utilities and their industrial customers to negotiate these contracts prior to that date. This situation justifies our action today under Public Utilities Code Section 306(b).

THEREFORE IT IS ORDERED THAT:

1. Pacific Gas and Electric Company shall file revised tariff sheets and a model contract in accord with the provisions of General Order 96A, consistent with each of the findings listed above when it makes its compliance filing pursuant to Resolution G-2779.

2. Southern California Gas Company shall file revised tariff sheets and a model contract in accord with the provisions of General Order 96A, consistent with each of the findings listed above when it makes its compliance filing pursuant to Resolution G-2783.

3. San Diego Gas and Electric Company shall file revised tariff sheets and a model contract in accord with the provisions of General Order 96A, consistent with each of the findings listed above when it makes its compliance filing pursuant to Resolution G-2780.

4. The authorization granted herein will be subject to any change or modification resulting from the Commission adopting its final Resolutions G-2779, G-2783 and G-2780 to be addressed on April 27, 1988.

5. This order is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on April 13, 1988. The following Commissioners approved it:

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

Executive Director