

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-2793
June 17, 1988.

R E S O L U T I O N

RESOLUTION G-2793, SOUTHERN CALIFORNIA GAS COMPANY
REQUESTING APPROVAL OF A GAS TRANSMISSION SERVICE CONTRACT
WITH SHELL WESTERN EXPLORATION & PRODUCTION, INC. FOR
ENHANCED OIL RECOVERY USE; BY ADVICE LETTER 1787, FILED
APRIL 27, 1987.

SUMMARY

By Advice Letter No. 1787, filed April 27, 1987 Southern California Gas Company (SoCal) submitted for approval a twenty year Gas Transmission Service Contract with Shell Western Exploration & Production, Inc. (Shell) in accordance with Decision (D.) 86-12-009 and Rate Schedule GLT, Long Term Transportation of Customer-Owned Gas. This resolution approves the contract.

BACKGROUND

1. SoCal Rate 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 and under the terms of a negotiated Gas Transmission Service Contract. Transportation service under this schedule 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. The rate schedule provides that the Utility and 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 run marginal cost) nor above the ceiling, default rate (long run marginal cost).

3. The 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 rate schedule.

6. Shell is currently involved in oil and gas operations and related cogeneration in various locations in Southern California, including the Kern County area. The volumes to be transported under this contract for EOR and related uses will begin with a maximum of 1,750,000 therms per day in 1988, increasing to 2,500,000 therms per day by 1990.

SUMMARY OF CONTRACT TERMS

1. This contract is submitted by SoCal For approval under the terms of the GLT schedule as provided by D. 86-12-009.

2. The contract contains rates and charges which are summarized below:

- a. **Customer Charge:** The customer shall pay a monthly customer charge of Five Hundred Dollars (\$500.00) per premise.
- b. **Transmission Charges:** The customer shall pay a two tier Transmission Charge.

Customer shall pay a Tier I transmission charge of 2.8¢ per therm for each therm of gas accepted at the points of delivery up to and including 50% of the then current monthly contract quantity.

Customer shall pay a Tier II transmission charge of 2.2¢ per therm for each therm of gas accepted at the points of delivery after 50% of the then current monthly contract quantity has been used under Tier I.

- c. Escalation: The Transmission Charge and the Customer Charge under the contract will be escalated on July 1, 1989 and on each July 1 thereafter by an escalation factor equal to changes in SoCal's total authorized margin. In any event, the charges shall be escalated by not less than 3% of the current rates nor increased by more than 5% of the current rates.

3. Service Term: The term of the contract is twenty (20) years as requested by Shell. Shell may suspend performance under this contract if its operations at any redelivery point become economically unfeasible as defined in the contract.

4. Minimum Transmission Obligation: There is no fixed demand charge, however, Shell is required to transport, and/or to purchase from SoCal, a quantity not less than 50% of its annualized contract quantity. If this quantity is not delivered to Shell, Shell will pay the transmission costs associated with 50% of its annualized contract quantity. Make-up is allowed in the two year period following the underdelivery, however, the right to make-up only extends for one year after contract termination.

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 and to meet the competition of the interstate pipeline proposals. 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 set contract term minimums at 5 years, envisioning contract terms up to 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.
3. D.85-12-102 also stated that "should a negotiated rate ever become less than the floor described above (3¢ 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."
4. In an continuing effort to support the utilities in negotiating EOR contracts at substantially competitive rates to the extent that the EOR customers would be retained on the utility systems and the utilities would avoid the threat of bypass, the Commission determined that all EOR revenues were to be treated as incremental. D. 86-12-009 established that the floor for this market was to be the variable cost of transmission, then estimated at 1¢ per therm. D.87-05-046 changed the incentive mechanism established in D.85-12-102[1] to reflect the lower floor rate of 1¢ per therm, allocating revenues above the floor rate 5% to shareholders and 95% to ratepayers.
5. The contract submitted with Shell herein was negotiated in compliance with these Commission imposed requirements. Making greater use of utility facilities will contribute to recovery of the utility's fixed costs for the benefit of all ratepayers.
6. In order to closely supervise the utilities' actions, the Commission requires that each long-term contract be submitted individually to the Commission for review. This procedure was instituted to protect ratepayers from some of the risks inherent in long-term contracts that offer pricing certainty. It also assures that the Commission is regulating these contracts directly to assure that they are consistent with all effective regulations and guidelines.

1 Based on 3¢ per therm, the incentive mechanism applied to amounts collected above 3¢ per therm, allocating 25% of any overage to shareholders and 75% to ratepayers.

7. The contract with Shell submitted herein includes the factors and provisions which the Commission has cited as important to EOR customers including service reliability, volume flexibility, points of delivery options, and the obligation to transport minimum quantities of gas.
8. The staff of the Commission Advisory and Compliance Division (CACD) has reviewed the terms of SoCal's Shell EOR contract and has determined that it is in compliance with Commission Decisions 85-12-102, 86-12-009, 87-05-046 and 87-12-039.
9. Public notification of these filings has been made by mailing copies of the advice letter to other utilities, governmental agencies, and to all interested parties who requested them.
10. No protests to this Advice Letter filing have been received by the Commission Advisory and Compliance Division (CACD).
11. The Division of Ratepayer Advocates (DRA) filed timely comments on May 16, 1988, requesting that Southern California Gas Company endeavor to negotiate better conditions in future contracts with EOR customers. Specifically, DRA believes that fuel use should be provided "in kind" by the transporter of the gas, which is the industry norm, and also that SoCal's margin could escalate greater than the 5% maximum annual rate increase despite actions taken by SoCal to control increases in its margin.

FINDINGS

1. The enhanced oil recovery market currently represents the largest new market for natural gas in California. It is a benefit to all California ratepayers for this market to be served through utility service, and therefore, the Commission has ordered Southern California Gas Company to serve as much of the market as possible and, where appropriate, to sign contracts having terms of up to twenty (20) years. This is necessary to allow SoCal to compete successfully with interstate pipelines and/or other non-utility alternatives for the benefit of all California ratepayers. We find this contract to be the product and result of these Commission orders.
2. It is reasonable for SoCal Gas to provide service to Shell under the terms and conditions of this contract to maintain utility transportation of gas to the EOR market and to benefit all ratepayers, in accordance with Decision 86-12-009.

3. We find that said agreements comply with our guidelines for long-term gas transportation service and rates, and we will actively regulate service under this contract through the reporting requirements set forth below, therefore,

IT IS ORDERED, that:

1. Southern California Gas Company is authorized, under the provisions of Public Utilities Code Section 532, to enter into the agreements with Shell Western Exploration & Production, Inc. for the transportation of natural gas as submitted by Advice Letter 1787.
2. Southern California Gas shall be required to 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 Chief of the Energy Branch, Commission Advisory and Compliance Division.
3. Advice Letter 1787 and the accompanying agreement shall be marked to show that they were approved by Commission Resolution G-2793.
4. This Resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting of June 17, 1988. The following Commissioners approved it:

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


Executive Director