PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-2813
OCTOBER 14, 1988.

R E S O L U T I O N

RESOLUTION G-2813; SOUTHERN CALIFORNIA GAS COMPANY (SOCAL) REQUESTS REVISIONS TO SPECIAL SERVICE CONDITIONS OF GAS TRANSPORTATION TARIFF SCHEDULES AND CONTRACTS; BY ADVICE LETTER 1804, FILED JULY 22, 1988.

SUMMARY

1. Southern California Gas Company (SoCal) filed Advice Letter 1804 on July 22, 1988 requesting Commission approval to clarify the procurement and transmission rates to be charged under Schedules GLT-1 and GLT-2, Long-Term Transportation of Customer-Owned Gas. The revisions specify what happens when the customer fails to secure adequate supplies of gas and desires to purchase SoCal-owned supplies.

2. This Resolution grants approval of the requested revisions.

BACKGROUND

1. When a transportation customer fails to secure adequate gas supplies, the customer's procurement rate is the weighted average cost of gas (WACOG) from the applicable utility portfolio. For deliveries of either customer-owned or SoCal-owned supplies (up to the volume level specified in the negotiated contract under Rate Schedules GLT-1 or GLT-2), SoCal proposes to use the transportation rate in effect at the time of delivery as specified in the negotiated contract. After depletion of any excess credit balances, any additional volumes used above the volumes specified in the contract will be delivered at the tariffed rate under the otherwise applicable rate schedule or the rate specified in a separately negotiated contract. Purchases of gas from SoCal will be applied to any take-or-pay minimum requirements under Schedules GLT-1 and GLT-2.

2. Schedules GLT-1 and GLT-2 have been closed to new service since December 3, 1986. However, transmission contracts in effect under those schedules were ordered to remain in effect for the full term. The contracts are for three and five years with renewal options. The proposed revision provides for an equivalent transmission rate for utility-supplied gas.

3. Once these contracts expire, SoCal will request withdrawal of these rate schedules. At that time, service to these customers, whether sales or transportation, will be arranged under the then effective schedules.

PROTEST and COMMENTS

1. A protest to Advice Letter 1804 was received from Toward Utility Rate Normalization (TURN). Comments on TURN's protest and SoCal's Advice Letter were received from the California Industrial Group (CIG) and from U.S. Borax (Borax). SoCal responded to the comments.

2. TURN argues that under the proposed revision, the current GLT-1 and GLT-2 customers would benefit from a low contract transmission rate for volumes up to the level specified in the transportation contract, even though the contract originally applied only to the transportation of customer-owned gas. TURN protests this modification stating it would expand the rights of long-term contract customers beyond those encompassed in their original contracts, and would grant them additional, unwarranted subsidies which would be paid by the remaining ratepayers.

3. TURN argues that this "clarification" confers the benefit of a subsidized rate for sales gas that did not exist before the May 1, 1988 implementation of the new regulatory framework. Prior to May 1, TURN argues that "a long-term transport customer who purchased utility-owned gas had to pay the full tariff rate and effectively lost the benefit of the low (subsidized) GLT-1 and GLT-2 transport rate." TURN cites the current language:

> "Customer accounts shall be reviewed and adjusted for excess usage as appropriate whenever the actual volumes delivered to the customer exceed the monthly transport volumes delivered to the Utility. Such excess usage will be billed at the customer's appropriate regular sales rate in accordance with Special Condition 4."

4. TURN argues that this language, maintained before and after the gas implementation, requires a GLT-1 or GLT-2 customer who purchases utility-owned gas to lose the benefit of the subsidized long-term transport rate by becoming a sales customer of the utility. In addition, TURN argues that even the schedule titles, Long-Term Transportation of Customer-Owned Gas, limits the use of these schedules to customer-owned gas only, not utility-purchased gas. TURN concludes that the proposal would confer an additional benefit upon long-term transport customer that they never bargained for at all.

5. Borax and CIG submitted comments in support of SoCal's proposal, criticizing TURN's protest. Although Borax is a long-term transport customer under Pacific Gas and Electric Company (PG&E), it responded to the TURN issues, since an adverse decision may affect the rights of long-term transportation customers on other utility systems.

6. Borax submits that the same transportation rate should apply whether a pre-existing long-term transportation contract customer purchases its gas from a third-party supplier or from the utility. Borax cites Decision (D.) 85-12-102 (p. 16), as supporting their contention that a customer's procurement choice should be independent of the level of its transportation rate. In addition, under the same decision's discussion of the "equivalent margin" approach to transportation rates, the long-term transportation rates were set based upon the difference between a customer's retail sales rate and the "cost of purchased gas avoided by transportation".

7. Borax argues further that pre-existing long-term transportation rates are not subsidized by other customers on the utility system, but instead that these rates are substantially in excess of the marginal costs of providing service to them.

8. Finally, Borax argues that "under TURN's approach, the utilities would receive a windfall gift from the long-term contract customer. The utilities already have calculated the "shortfall" [of revenues below embedded costs] attributable to long-term transportation service and have spread this shortfall to all other customers' rates as a "transition" cost. (D.87-05-046, p.16) If the utilities collect more revenues from long-term transportation customers than were forecast by the utilities, this overcollection would constitute a windfall for the utilities." Also, "adoption of TURN's proposal would discourage any pre-existing long-term transportation customer from electing procurement service from the utilities for any portion of their gas supply....the

utilities would effectively be eliminated from competition because procurement from the utility would trigger a higher transportation rate for such volumes."

9. CIG supports the expansive argument of Borax, and comments that SoCal's Advice Letter fails to reflect the balancing procedures set forth in its own tariff and underlying service agreement, citing the paragraph quoted previously.

10. SoCal responds that the Advice Letter only set out to clarify the transportation rate when a customer cannot procure gas and requests procurement gas from the utility. SoCal assures CIG that no other provisions have changed, including the provisions establishing the month-to-month balancing account for excess deliveries.

11. SoCal explains that customer-owned quantities and utility-owned quantities will be counted towards the contract amount. When a customer delivers more gas into the system than is used in a given month, the excess goes into a balancing account for use in the next month. Excess gas is not allowed to build up. SoCal may require the customer to reduce its deliveries or it may purchase the excess gas. If a customer uses more gas than is delivered into the system on its behalf, excess quantities in the balancing account are used first. After depletion of this gas, the customer must purchase the additional gas used from the utility at the otherwise applicable sales rate.

DISCUSSION

1. Long-term transportation customers, other than Enhanced Oil Recovery (EOR) customers, signing contracts under Decision 85-12-102 were allowed to sign up under two options: Actual Margin Recovery (SoCal's GLT-1) and Fixed Margin Recovery (SoCal's GLT-2). Contract lengths were limited to three and five years, with an option to renew. The initial, unbundled transportation rate was set at 3.5¢ per therm. Rate changes were limited to a minimum of no change to a maximum of the annual percentage change in the Consumer Price Index (CPI) for the preceding year. The schedules were closed on December 3, 1986, pursuant to D.86-12-009, pending the outcome of the gas implementation proceedings.

2. The Commission Advisory and Compliance Division (CACD) informally contacted SoCal to establish the number of affected customers, the volumes and the prices paid for transported gas. SoCal responded that, to date, there were 22 customer contracts transporting approximately 21.7

billion cubic feet per year (Bcfy) under rates ranging from 5.057¢ per therm to 11.358¢ per therm. (This combines a volumetric and a demand charge. Higher volumetric prices are paid by customers using No. 2 fuel oil as an alternate fuel.)

3. CACD researched the various gas decisions to locate an answer to the questions posed by the Advice Letter. No previous Commission decision has expressly dealt with the transport rate to be charged in the situation where a customer is unable to secure enough gas to meet the minimum transportation volumes in the contract. Only one discussion (D. 87-12-039, p.8a, as modified by D. 88-03-041) stated that should customer-procured supplies become unavailable, that the customer could return to the utility to procure gas.

4. TURN raises serious questions and presents persuasive arguments against adoption of to SoCal's Advice Letter filing. Borax and CIG, in their comments to TURN's protest, presented equally persuasive arguments. The issues involve equity, rates, contract negotiations and the sanctity of those contracts, future contracts, and balancing customer gas.

5. A key point to TURN's argument is the allegation that if this proposal were adopted, additional, unwarranted subsidies would be carried by the remaining ratepayers.

6. CACD verified from the rate design workpapers of the May 1 implementation date utility submittal, that the projected volumes of customer's gas under these contracts are separated from the calculation of the default rates for transportation. The attributable revenues from these customers flow to the core and noncore, allocated on an equal cents per therm basis. If the expected transport volumes are not met, an undercollection of expected revenues would occur in the Core Fixed Cost Balancing Account and the Negotiated Revenue Stability Account (NRSA).

7. Looking at this issue from another perspective, if the transport rate charged was the higher default transportation rate associated with procurement of utility gas for those volumes up to the contracted-for amounts, the utility would be overcollecting beyond the expected revenues from this group of customers. Also, if the utility did charge the default transportation rate, such action might trigger a potential revenue loss to ratepayers, because the gas might not flow.

8. Another one of TURN's arguments is that the language concerning balancing for excess deliveries would imply two

different meanings, one prior to and another after the May 1 implementation date, if this Advice Letter is adopted. TURN asserts that the cited condition of service requires that prior to May 1, any long-term transport customer who purchased gas from the utility, had to pay the full tariffed rate and effectively lost the benefit of the contracted-for rate. Since this language is carried intact after May 1, this same requirement should apply after May 1 as well. TURN argues that it is this condition of change which would bestow a new right to this group of customers.

9. In response to this argument, CACD must disagree. TURN misreads the intent of this condition of service. It applies only to volumes in excess of the contracted-for volumes and covers the metered takes of utility gas when the customer depletes its delivered gas. This language refers to a month-to-month balancing account for gas. Every transport customer is subject to the same rules, before and after May 1. When a customer delivers more gas into the system than is used in a given month, the excess goes into a balancing account for use in the next month. Excess gas is not allowed to build up. SoCal may require the customer to reduce its deliveries or it may purchase the excess gas. If a customer uses more gas than is delivered into the system on its behalf, excess quantities in the balancing account are used first. After depletion of this gas, the customer must purchase the additional gas used from the utility at the otherwise applicable sales rate. What is omitted from Schedules GLT-1 and GLT-2 is a statement about the applicable transport rate if the customer cannot secure the gas it expected to use when it initially forecast its transported volumes in 1985.

10. TURN's most compelling argument is that these transportation customers would gain a right they had not bargained for in the first place, if the Advice Letter proposal was adopted. CACD agrees, but submits that the key question is, that if these customers contracted for reserving transportation space on a regular basis, and if their gas could not be secured, why should they not expect to pay the same transportation rate for those amounts up to their contracted volumes? Why should they not be allowed to have the rate they negotiated? If they can buy gas from anyone else under the same rate, why not the utility? What causes the negation of the contract? The schedule title announcing that the schedule is for customer-owned gas surely cannot be the ultimate answer.

11. Over the past four years, the Commission has endeavored to initiate a program that separates the procurement choice from the service function, to foster gas-to-gas competition. CACD believes that in consideration of the overall

transportation program and rate design that it would be discriminatory if this group of customers were forced to pay a higher price for transportation under these circumstances.

FINDINGS

1. It is reasonable for the utility to charge the same negotiated transmission rate up to the contracted-for volumes to those long-term GLT-1 and GLT-2 transportation customers who choose to buy utility gas.

2. Authorization of this negotiated rate would not confer an additional subsidy on the remaining ratepayers.

3. Charging the default transportation rate in this instance would bestow an unanticipated benefit to the utility not handled by the new gas rate design implemented May 1, 1988.

4. The language cited on page 3 of this resolution concerning balancing of excess customer gas, neither terminates a long-term transportation customer's contract nor does it require the customer to pay a default transmission rate when purchasing utility gas up to the contracted-for volumes.

4. The additional language, as proposed by SoCal for Schedules GLT-1 and GLT-2, will bestow a right to these customers which they had not bargained for. However, the authorization of the language is reasonable, for it will serve to clarify an element heretofore unaddressed and unanticipated. Therefore,

IT IS ORDERED, that:

1. Southern California Gas Company is authorized to make the tariff language modifications requested in Advice Letter 1804.

2. Advice Letter 1804 and the accompaning agreement shall be marked to show that they were approved by Commission Resolution G-2813.

3. This Resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting of October 14, 1988. The following Commissioners approved it:

Victor Weisser

Executive Director

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