PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-2817
September 14, 1988

R E S O L U T I O N

RESOLUTION G-2817, PACIFIC GAS AND ELECTRIC COMPANY (PG&E). ORDER AUTHORIZING A FIFTEEN YEAR GAS TRANSPORTATION CONTRACT WITH MT. POSO COGENERATION COMPANY, AN ENHANCED OIL RECOVERY CUSTOMER IN KERN COUNTY FOR NATURAL GAS TRANSPORTATION SERVICE. (Advice Letter 1478-G, filed July 28, 1988).

SUMMARY

1. By Advice Letter 1478-G, filed July 28, 1988, PG&E requests authorization to enter into a long-term natural gas transportation agreement with Mt. Poso, an enhanced oil recovery (EOR) customer in Kern County, California. By this Resolution we are authorizing PG&E to enter into this agreement as requested.

BACKGROUND

1. 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.

2. Mt. Poso Cogeneration Company is an enhanced oil recovery EOR customer operating in PG&E's territory.

SUMMARY OF CONTRACT TERMS

1. The rates, as proposed in this agreement, comport to the guidelines established in D.86-12-009. The initial rates are made-up of the following components:

(a) A monthly customer charge of $1,200.

(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.

2. The monthly minimum charge is the monthly customer charge plus 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).

3. The contract maximum daily amount is 67,200 therms with no take-or-pay provisions.

4. 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 specifially excluded from inflation.

5. 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.

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."

4. In a continuing effort to support the utilities in negotiating EOR contracts at substantially competitive rates so that the EOR customers would be retained on the utility systems, 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 this lower floor rate of 1¢ per therm, and to allocate revenues above the floor rate 5% to shareholders and 95% to ratepayers.

5. The Commission requires that each long-term contract be submitted individually 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 so that they are consistent with all effective regulations and guidelines.

6. The staff of the Commission Advisory and Compliance Division (CACD) has reviewed the terms of the 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, the gas implementation decision.

9. Public notification of this filing has been made by mailing copies of the advice letter to other utilities, governmental agencies, and to all interested parties who requested them.

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[1] Previously, based on the the incentive mechanism was applied to amounts collected above 3 cents per therm, allocating 25% of any coverage to shareholders and 75% to ratepayers.

10. No protests have been received by CACD.

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.

2. The proposed contract under which PG&E will provide service to Mt. Poso Cogeneration Company will maintain utility transportation of gas to the EOR market, is a benefit to all ratepayers, and is in accordance with Decisions 85-12-102, 86-12-009, 86-12-010, and 87-12-039; therefore:

IT IS ORDERED that:

1. Pacific Gas and Electric Company is authorized, under the provisions of Public Utilities Code Section 532, to enter into the agreement with Mt. Poso Cogeneration Company for the transportation of natural gas as submitted by Advice Letter 1478-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 1478-G and the accompanying agreement shall be marked to show that it was approved by Commission Resolution G-2817.

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.

5. This Resolution is effective today.

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

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

Executive Director