

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-2841
NOVEMBER 23, 1988

R E S O L U T I O N

RESOLUTION G-2841, PACIFIC GAS AND ELECTRIC COMPANY (PG&E). ORDER AUTHORIZING A SIXTEEN YEAR GAS TRANSPORTATION CONTRACT FOR GAS TRANSPORTATION SERVICE WITH DEXZEL, INC. AN ENHANCED OIL RECOVERY CUSTOMER IN KERN COUNTY; BY ADVICE LETTER 1503-G FILED OCTOBER 14, 1988.

SUMMARY

1. By Advice Letter 1503-G filed October 14, 1988, PG&E requests authorization to enter into a long-term natural gas transportation agreement with Dexzel, Inc., an enhanced oil recovery (EOR) customer in Kern County, California.
2. This resolution grants the request.

BACKGROUND

1. The Commission has acknowledged the potentially large new EOR market for natural gas in Kern County. Enhanced oil recovery is a process where gas is burned to produce steam, which in turn is injected into the ground to heat oil so that it may be extracted more efficiently.
2. Pacific Gas and Electric Company has requested approval of a contract with Dexzel, Inc., a wholly-owned subsidiary of Diamond Energy, Inc., which itself is a wholly-owned subsidiary of Mitsubishi Corporation.
3. The rates and terms, as proposed in this agreement, follow the guidelines established in Decision (D.) 86-12-009. The contract contains the following elements:
 - a. A monthly customer charge of \$2,500.
 - b. A monthly demand rate of 0.0¢ per therm.

- c. A four percent monthly fuel use and line loss payment in-kind on delivered volumes.
 - d. A monthly capacity priority charge of 0.0¢ per therm.
 - e. An initial transportation rate of 4¢ per therm.
 - f. An adjustment of the above charges each July 1 based on positive or negative changes in the Implicit Price Deflator of the Gross National Product.
 - g. Price reopeners every five years, with an option by either party to preclude reopening by imposing a fixed increase in the volumetric charge.
4. Gas delivered under this agreement is designated the same end use priority as gas delivered under the otherwise applicable rate schedule for Dexzel which, as of the effective date of the agreement, is Priority 3-A.
5. The maximum daily usage under this agreement is 60,000 therms with no take-or-pay provisions.

DISCUSSION

1. The Commission segregated EOR customers from other ratepayers in D.85-12-102, allowing the utilities the flexibility needed 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.
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 an 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 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.85-12-102¹ 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 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 so that they are consistent with all effective regulations and guidelines.

6. 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.

7. 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.

8. No protests to this Advice Letter filing 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. It is reasonable for PG&E to provide service to Dexel 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 Decisions 85-12-102, 86-12-009, 86-12-010, and 87-12-039; therefore,

[1] Previously, based on the 3¢ floor set in D.85-12-102, the incentive mechanism was applied to amounts collected above 3¢ per therm, allocating 25% of any overage to shareholders and 75% to ratepayers.

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 contract with Dexzel Inc. for the transportation of natural gas as submitted by Advice Letter 1503-G.
2. Pacific Gas and Electric Company 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. This information shall be sent to the Chief of the Energy Branch, Commission Advisory and Compliance Division.
3. Advice Letter 1503-G and the accompanying agreement shall be marked to show that they were approved by Commission Resolution G-2841.
4. This Resolution is effective today.

I certify that Resolution G-2841 was adopted by the Public Utilities Commission at its regular meeting of November 23, 1988. The following Commissioners approved it:

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



Executive Director