PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-2982
March 31, 1992

RESOLUTION

RESOLUTION G-2982. PACIFIC GAS AND ELECTRIC COMPANY REQUESTS TO REVISE THE PROCUREMENT CHARGE FOR THE PURCHASE OF NATURAL GAS UNDER SCHEDULE G-CS, AND TO REVISE THE MONTHLY EQUIVALENT-AVERAGE GAS TRANSPORTATION RATE UNDER SCHEDULE G-PO3 FOR THE MONTHS OF OCTOBER, 1991 THROUGH MARCH, 1992.

BY ADVICE LETTER (AL) 1665-G, FILED SEPTEMBER 25, 1991; AL 1669-G, FILED OCTOBER 24, 1991; AL 1675-G, FILED NOVEMBER 25, 1991; AL 1676-G, FILED DECEMBER 23, 1991; AL 1679-G, FILED JANUARY 27, 1992; AND AL 1682-G, FILED FEBRUARY 24, 1992.

SUMMARY

1. On September 25, 1991, Pacific Gas & Electric Company (PG&E) filed Advice Letter 1665-G requesting Commission authority to 1) revise the procurement charge for the purchase of natural gas under Schedule G-CS, and 2) revise the monthly equivalent-average gas transportation rate under Schedule G-PO3.

2. The methodology for the G-PO3 calculation was protested. The protests impact each of the monthly advice letter filings subsequent to AL 1665-G, because they each use the same methodology. These advice letters are: AL 1669-G, filed October 24, 1991; AL 1675-G, filed November 25, 1991; AL 1676-G, filed December 23, 1991; AL 1679-G filed January 27, 1992; and AL 1682-G, filed February 24, 1992. Also, a filing for the month of April will be affected.

3. This Resolution conditionally approves Advice Letter 1665-G. PG&E is required to comply with D.90-05-029, by billing cogenerators under Schedule G-PO3 based on actual Utility Electric Generation (UEG) costs. Additionally, PG&E will be required to revise its methodology for calculating its monthly revised rates for Schedule G-PO3 for all the subsequent monthly advice letter filings based on actual UEG costs.

BACKGROUND

1. Decision (D.)90-09-089 was issued under Order Instituting Rule Making (OIR) 90-02-008, which sets forth rules for utility gas procurement and transportation service effective August 1, 1991. Schedule G-CS, for Core Subscription Service to Noncore Commercial-Industrial Customers, provides for combined natural gas procurement and transportation service by PG&E. The Commodity Charge component of the Procurement Charge under this schedule is updated monthly and is based on the recorded average cost of gas, lagged 30 days, of PG&E's core supply portfolio, plus all applicable fees. Schedule G-PO3 (gas transportation service to Interim Standard Offer No.4 Energy Payment Option 3 Noncore Cogeneration Facilities) is updated monthly and is based on recorded Utility Electric Generation (UEG) costs, lagged 60 days.

2. Additionally, D.90-09-089 adopted a surcharge of 1.2 cents/therm for Firm Service (Service Level 2). It also directed the utilities to credit the revenues collected from this surcharge to the interruptible Service Levels 3 thru 5. Further, D.90-09-089 eliminated demand charges for all industrial customers except UEGs. Later, D.90-12-100 concluded the UEG customers are not distinguished from other noncore customers in terms of paying demand charges for transportation, and eliminated demand charges for UEG customers. However, D.91-05-039 reinstated the demand charge for the UEGs as a result of a stipulation filed pursuant to D.90-09-089.

3. Under D.91-05-029, PG&E proposed to change the current method of establishing the cogeneration (Schedule G-COG) rates on a monthly basis based on the actual average UEG rate (lagged by 60 days) to a rate based on the adopted UEG/Cogeneration cost allocation and throughput forecast of the Annual Cost Allocation Proceeding (ACAP). The Commission believed that PG&E's proposal would have benefits for a significant number of cogenerators and PG&E. However, the Commission was aware of the adverse affect on the Standard Offer No. 4, Payment Option 3 (SO4, Payment Option 3) cogenerators, and was concerned with changing rules in the middle of the game for this group.

4. When the Commission conditionally adopted PG&E's proposal in D.91-05-029, it did not require the SO4 Payment Option 3 cogenerators to move to a PG&E G-COG rate based on a forecast. The decision states:

> "This is a temporary measure which will be in effect only until the appropriate modifications are made to the SO4 Payment Option 3 cogeneration contracts in the subsequent phase of the Biennial Resource Plan Updating Proceeding (BRPU) in I.89-07-004. At that time, this issue will be reviewed and the temporary exemption from the forecast gas rates under PG&E's G-COG tariff will be lifted for SO4 Payment Option 3 cogenerators. We expect the Payment Option

3 cogenerators to pursue modifications of their avoided cost contracts in good faith in the BRPU based on their methodological support of PG&E's proposal in this proceeding.

Partially implementing PG&E's proposal will require PG&E to establish tariffs which provide for both a G-COG rate based on forecast of UEG rates and G-COG tariff based on actual UEG rates. The G-COG tariff based on actual UEG rates will be eliminated once the issue is addressed in the BRPU."

5. Decision 91-05-029 provides that cogeneration customers under SO4 Payment Option 3 (PG&E Schedule G-PO3), will receive transportation service based on the recorded average UEG transportation rate. The average transportation rate is based on the actual charges and throughput lagged by 60 days. In accordance with Decisions 87-12-039 and 88-03-041 and Section 454.4 of the Public utilities Code, such customers are billed at the lower of this average transportation rate or the rate under their otherwise applicable transportation schedule(s).

6. Advice Letters 1665-G, 1669-G, 1675-G, 1676-G, 1679-G, and 1682-G serve as five days' notice of a change in the Schedule G-CS and G-PO3 prices as provided in Decisions 87-12-039, 88-03-041, and 91-05-029. In accordance with Section 111, Paragraph G of General Order 96-A, PG&E mailed the advice letters to interested parties and utilities.

PROTESTS

1. Protests were received on October 15, 1991 from Luz Partnership Management (LUZ) and the California Cogeneration Council (CCC). These protests address Schedule G-PO3 only; Schedule G-CS was not protested. PG&E responded to the protests in separate letters dated October 23, 1991.

2. LUZ protested PG&E's Advice Letter 1665-G on the grounds that:

(1) "The method which PG&E has used to calculate the October Schedule G-PO3 rate is contrary to the method which this Commission has established for setting the relative level of firm and interruptible transportation rates;

(2) The method which PG&E has used produces an irrational firm/interruptible rate differential for October, and is very likely to produce irrational and controversial results in future months; and

(3) PG&E's chosen method would allow the utility to manipulate the G-PO3 rate in order to charge firm G-PO3 customers rates which exceed PG&E's UEG

transportation rate, in violation of Public Utilities Code Section 454.4."

3. PG&E responded to LUZ's protest by letter dated October 23, 1991 as follows:

(1) "The methodology that PG&E has used to calculate the Schedule G-PO3 rate should not be a surprise to any party that has followed the CPUC's Gas Procurement Order Instituting Rulemaking (OIR) 90-02-008. The implementation of the methodology that PG&E supported in its November 1, 1990 testimony in OII 86-06-005 (which was later adopted in D.91-05-039) was supplied to interested parties in workpapers with PG&E's Advice letter 1624-G-B dated May 30, 1991.

For the month of October (or any month hereafter), PG&E set the firm and interruptible rates under Schedule G-PO3, such that cogenerators taking firm service pay the same firm service rates as the UEG and cogenerators taking interruptible service pay the same interruptible rate as the UEG. PG&E agrees that this is a change in methodology relative to how the Schedule G-PO3 rate was calculated for August and September.

The change in methodology was necessary because in October, the 60-day lagged rates reflected that the UEG was taking two types of service, firm and interruptible, for the first time. The firm and interruptible transportation rates for Schedule G-PO3 are based on the rates contained in Schedules G-UEG, G-NR1, and G-NR2 and actual UEG use from two months previous to the effective month of the Schedule G-PO3 rate.

The demand charge for Schedule G-UEG is actually made up of two components: 1) the firm service demand charge; and 2) the interruptible service demand charge. The firm service demand charge is based on UEG nominated firm deliveries, which equal 65 percent of the UEG demand forecast in the 1991 Annual Cost Allocation Proceeding (ACAP). The firm service demand charge includes an additional 1.2 cents/therm for each therm of forecasted firm service. The interruptible service demand charge is based on the forecast of interruptible deliveries, which is the forecasted ACAP throughput less forecasted firm volumes. The interruptible service demand charge is reduced by 1.307 cents/therm for each therm of forecasted interruptible throughput. Since the demand charges are set on a forecasted basis, they do not change with new assumptions of throughput (for example, a new forecast adopted in the Energy Cost Adjustment Clause proceeding) or with actual throughput."

(2) PG&E contends that "...the variability in the differential between the firm and interruptible rates under Schedule G-PO3 is appropriate and does not require modification by the CPUC. The UEG is limited, in that it can only take 65 percent of ACAP forecasted demand as firm service and it has elected to do so. Therefore, to the extent that this is the upper limit on how much firm service the UEG can sign up for, any difference between forecasted and actual volumes will necessarily be interruptible volumes.

LUZ is also concerned that in months where there may not be any interruptible service taken by the UEG that there will be no interruptible rate. Although the likelihood that the UEG will take no interruptible service in any month is minimal, under this circumstance, the rate charged for interruptible service would be the "base rate" described above.

Finally, LUZ states that PG&E's methodology does not maintain the 2.5 cent/therm differential between firm and interruptible service "which the CPUC intended in D.90-09-089 and subsequent orders" (page 5 of LUZ's protest). Nowhere in any CPUC decision or resolution was a differential of 2.5 cents/therm ordered by the CPUC. In fact, the CPUC gave the three California gas utilities latitude in how to calculate firm and interruptible rates such that the differential can change every month.'

(3) LUZ alleges..."PG&E's method allows the utility to manipulate G-PO3 rates in order to inflate the SL-2 G-PO3 rate." LUZ believes that this is so because PG&E's UEG can shift its firm volumes from month to month and is only obligated to take 75 percent of its firm volumes. PG&E states that "...although the UEG (like all other noncore customers) does have some flexibility from month to month within each season as to how much of its firm service nomination it takes, the UEG intends to take 100 percent of its nominated Core Subscription."

PG&E continues..."although there may be firm rate variability from month to month during a season, the average rates paid for firm service will be the same as if the UEG took exactly 65 percent of the ACAP demand in each month, i.e., slightly higher rates in some months would be offset by lower rates in other months. This variability in rates is no different than the potential variability that existed prior to the August 1 rate structure.

4. CCC protested PG&E's Advice Letter 1665-G on the grounds that:

(1) "the transportation rate for Service Level 2 ("SL-2") proposed therein is excessive;

(2) the methodology used to allocate PG&E'S utility electric generator ("UEG") demand charge violates California Public Utilities Commission ("Commission") Decision ("D.") 91-05-029

(3) The methodology used to allocate the firm surcharge and interruptible credit violates the rules adopted in Order Instituting Rulemaking (OIR) 90-02-008."

5. PG&E responded to CCC's protests as follows:

(1) "CCC believes that PG&E's methodology "violates" D.91-05-029 because PG&E has "applied its underlying demand charge to the G-PO3 rates based upon the UEG's forecasted use of SL-2 and SL-5 rather than its actual use of these services" (page 2 of CCC's protest). CCC's understanding of how PG&E calculated its Schedule G-PO3 rates is absolutely correct. However, this calculation does not violate D. 91-05-029.

The Schedule G-PO3 rate methodology treatment of firm and interruptible demand charges in AL 1665-G mirrors that used prior to August 1. Prior to August 1, the UEG demand charge was set in an Annual Cost Allocation Proceeding (ACAP) based on the forecast of UEG throughput or updated forecasts of UEG throughput. Likewise, when calculating the firm and interruptible demand charges, ...PG&E used the forecast of firm and interruptible service established for UEG service beginning on August 1. Like the pre-August 1 demand charge, it is inappropriate, once these demand charges are set, to change them to reflect new assumptions of UEG throughput."

"The firm and interruptible transportation rates for Schedule G-PO3 are based on the rates contained in Schedules G-UEG, GNR1, and actual UEG use from two months previous to the effective month of the Schedule G-PO3 rate.

The demand charge for Schedule G-UEG is actually made up of two components: 1) the firm service demand charge, and 2) the interruptible service demand charge. The firm service demand charge is based on UEG nominated firm deliveries, which equal 65 percent of the UEG demand forecast in the 1991 ACAP. The firm service demand charge includes an additional 1.2 cents/therm for each therm of forecasted firm service. The interruptible service demand charge is based on the forecast of interruptible deliveries, which is forecasted ACAP throughput less forecasted firm volumes. The interruptible service demand charge is reduced by 1.307 cents/therm for each therm of forecasted interruptible throughput."

(2) "... the firm service rate under Schedule G-P03 is correctly calculated and is not "excessive." UEG is limited in that it can only take 65 percent of ACAP forecasted demand as firm service, and it has elected to do so. Therefore, to the extent that this is the upper limit on how much firm service UEG can sign up for, any difference between forecasted and actual volumes will necessarily be interruptible volumes.

Futhermore, to the extent that CCC feels that the firm service rate under Schedule G-P03 is "excessive" in October, over the course of the season this "excessive" rate should be balanced out by a lower rate. This is true because, as previously stated, although UEG (like all other noncore customers) does have some flexibility from month to month within each season as to how much of its firm service nomination it takes, UEG intends to take 100 percent of its nominated firm service."

(3) "CCC is concerned that PG&E's Schedule G-P03 rate methodology "increases the amount of the surcharge that will be assessed to firm G-P03 volumes" (page 6 of CCC's protest). As previously explained, although there may be some variation from month to month in the rate paid by Schedule G-P03 cogenerators within a season, UEG intends to take the firm service that is was forecast to take and that its firm demand charge is based on. This means that if the UEG takes less firm service in a month relative to the forecast of firm service, then the rate will be higher than forecast. However, offsetting that higher rate will be a month (or months) in which the UEG takes more firm service than forecast and a resulting lower firm service rate than forecast. Since UEG, within a season, will actually use the firm service that it was forecast to use, the average rate paid for the

service over the season will be equal to the forecast rate.

From the above explanation, it is clear that CCC's concern that Schedule G-PO3 customers will be charged a higher surcharge than other noncore customers is simply unfounded. Since Schedule G-PO3 cogenerators will, on average within a season, pay a 1.2 cents/therm surcharge for firm service, there is no basis for CCC's concern that Schedule G-PO3 customers "will subsidize the interruptible rate of all other noncore customers."

CCC is also concerned that, if interruptible volumes are greater than forecast, the actual interruptible credit received by cogenerators will not be equal to the credit received by other noncore customers. PG&E agrees with CCC that this is true because the total credit to be received by UEG and included in the Schedule G-UEG demand charge is set based on forecasted UEG volumes, and if actual volumes vary from the forecast, the actual interruptible credit would be more or less than that received by other noncore customers. However, PG&E continues to support its position that the interruptible credit was appropriately credited to UEG on a forecast basis and included in its demand charge."

DISCUSSION

1. The Commission has indicated that the objective of the rate differential between SL-2 and SL 3-5 service is to reflect the relative reliability of service that customers will receive and will further the Commission's competitive goals. The Commission in D.90-09-089 (p.45) comments that it is "sensible to have a surcharge to firm service which would offset rates for interruptible services. This allocation mechanism will reflect customer value reasonably well, at least until we have developed a capacity brokering program". The Commission reaffirms this view in D.90-02-046 (p.4), where it describes the price differential as a mechanism to "promote rate levels which reflect, more or less, the value of service to customers in each service level. Customers whose reliability is low because of high demand for firm service will pay relatively lower rates for service."

2. Allowing the firm/nonfirm differential to change on a monthly basis for G-PO3 is inappropriate because there is no corresponding change in service reliability for those customers. The price differential is solely affected by changes in UEG procurement plans, which do not substantially change service reliability to G-PO3 customers. The fact that the firm/nonfirm

differential in PG&E's October rate filing has risen from 2.5 cents, to 7.7 cents per therm without any particular change in customer service reliability, demonstrates the flaw in PG&E's proposod methodology.

3. In protests to AL 1665-G, both LUZ and CCC ask the Commission to order PG&E to calculate the Schedule G-PO3 rate based upon the actual average UEG transportation default rate in the month, two months prior to the current month, without including either firm service surcharges or interruptible service credits in the calculation of the default rate. And further, the protestants request that the Service Level 2, G-PO3 rate be set at $0.12 per Dth higher than the default rate and the SL 3-5, G-PO3 rate at $0.13 per Dth (surcharge credit) lower than the default rate.

4. CACD differs with LUZ and CCC's recommendation because of the way that the default rate is calculated. In particular, D.91-09-085 allows PG&E to incorporate the firm surcharge and nonfirm credit into the UEG demand charge. This may result in monthly variations for the UEG from the 1.2 cent surcharge and the resulting credit adopted by the Commission in D.90-09-089. Since the G-PO3 rate is designed to mirror the actual UEG gas costs, it should be made clear that the default rate is equal to PG&E's lagged monthly gas costs. This should include the firm service surcharge and nonfirm credit that PG&E's UEG department actually pays in the month used to calculate rates, notwithstanding the fact that the surcharge may be higher than 1.2 cents per therm and the credit may be less than 1.3 cents per therm. Basing the G-PO3 rates upon the UEG's actual gas costs is required by D.91-05-029.

5. In the same light, however, PG&E's method of allocating the UEG's demand charge to the firm and interruptible G-PO3 rates fails to comply with D.91-05-029. PG&E proposes to allocate the demand charge based upon the UEG's forecasted use of these services as opposed to its actual use of these services. There is no basis for using the UEG's forecasted use of these services to determine actual UEG gas costs. In fact, most of the discrepancy between the firm and interruptible G-PO3 rates is caused by this methodology. As such, CACD recommends that PG&E be required to allocate its demand charge between firm and interruptible rates based upon the UEG's actual use of these services lagged 60 days, as was ordered in D.91-05-029.

FINDINGS

1. D.91-05-029 orders that PG&E's Schedule G-PO3 customers are to receive transportation service based on the recorded average UEG transportation rate.

2. PG&E changed the methodology for G-PO3 customers for the month of October 1991, and for the subsequent months of November and December, 1991, and January, February, and March, 1992.

3. PG&E proposes to allocate the demand charge based upon the UEG's forecasted use of its elections for SL-2 and SL 3-5 services.

4. D.91-09-085 allows PG&E to incorporate the firm surcharge and nonfirm credit into the UEG demand charge, a component of the calculation of the G-PO3 rate.

5. PG&E's method of allocating the forecasted rather than actual UEG's demand charge to the firm and interruptible G-PO3 rates fails to comply with D.91-05-029.

6. PG&E should be required to allocate its demand charge between firm and interruptible rates based upon the UEG's actual use of these services, lagged 60 days.

7. The methodology used by PG&E to calculate the G-PO3 rate is not authorized.

THEREFORE, IT IS ORDERED that:

1. PG&E shall recalculate the rates for Schedule G-PO3 customers based on actual UEG demand charges lagged 60 days.

2. PG&E shall submit supplemental advice letters to Advice Letters 1665-G, 1669-G, 1675-G, 1676-G, 1679-G, and 1682-G with supporting workpapers, within 5 business days of the effective date of this Resolution.

3. PG&E shall refund any overcharges in the G-PO3 rates charged for the month of October 1991, and in the subsequent months.

4. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on March 31, 1992. The following Commissioners approved it:

NEAL J. SHULMAN
Executive Director

DANIEL Wm. FESSLER
President
JOHN B. OHANIAN
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
Commissioners