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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND
COMPLIANCE DIVISION

RESOLUTION G-3157
January 24, 1995

R E S O L U T I O N

RESOLUTION G-3157. SOUTHWEST GAS CORP. (SWG) REQUESTS APPROVAL OF A SERVICE AGREEMENT WITH AFG INDUSTRIES, INC. FOR DISCOUNTED INTRASTATE TRANSPORTATION SERVICE.

BY ADVICE LETTER 487-G, FILED ON OCTOBER 24, 1994.

SOUTHERN CALIFORNIA GAS COMPANY (SOCALGAS) REQUESTS APPROVAL OF AN AMENDMENT TO THE CALIFORNIA WHOLESALE GAS TRANSPORTATION AND STORAGE SERVICE AGREEMENT BETWEEN SOCALGAS AND SWG.

BY ADVICE LETTER 2375-G, FILED ON NOVEMBER 3, 1994.

SUMMARY

1. SWG initiated the filing of Advice Letter 487-G seeking approval of a Service Agreement for Noncore Intrastate Transportation of Natural Gas with AFG Industries, Inc. The Agreement provides long-term discounted intrastate transportation service to AFG's facility located in Victorville. Concurrently, SoCalGas filed Advice Letter 2375-G requesting authority to provide discounted intrastate transportation service to SWG for the volumes of natural gas delivered to AFG's facilities. SWG is a wholesale customer of SoCalGas. AFG is SWG's largest California customer.

2. The Commission, in Decision 93-07-052, adopted the settlement in C.93-02-014. AFG's right to pursue competitive offers and SWG's ability to respond to these competitive offers were included in the settlement.

3. SoCalGas was approached by SWG to discuss the possibility of amending the existing Wholesale Agreement so that SWG could provide AFG a long-term discounted contract. SoCalGas will share the discount necessary to retain the AFG load.

4. These advice letters were not protested.

5. This resolution approves SWG's and SoCalGas' requests. Both SWG and SoCalGas benefit by retaining AFG's load. Consistent

with the provisions of the Global Settlement Decision No. 94-07-064, SoCalGas is at risk for SWG wholesale revenues. Approval of the requests has no revenue impacts on SoCalGas ratepayers.

BACKGROUND

1. SWG serves natural gas at retail in the San Bernardino County area. For over 40 years SWG had been a Pacific Gas & Electric (PG&E) customer. PG&E's and SoCalGas' facilities traverse and parallel the service territory of SWG. On April 12, 1991 SWG notified PG&E by letter that it did not intend to renew their existing agreement that was to expire on April 20, 1993. SWG and PG&E entered negotiations that failed to produce a new agreement. SWG entered into an agreement with SoCalGas for long-term, full requirements service on February 4, 1993.

2. On February 8, 1993 SWG filed a complaint against PG&E requesting a reduction in its full-requirements natural gas service. On March 10, 1993 SoCalGas filed an application with the Commission for authority to carry out the terms of its agreement with SWG and a motion was filed to consolidate the application with SWG's complaint. The application and complaint were consolidated on April 13, 1993 following a prehearing conference held on April 9, 1993. Settlement conferences were held April 22 and May 19, 1993. A Motion for Approval of Settlement was filed on June 11 by the parties and on June 18, 1993 a hearing was held.

3. The Settlement was adopted in D.93-07-052. It approved the California Wholesale Gas Transportation and Service Agreement between SoCalGas and SWG, and the Southwest Exchange Gas Delivery Agreement (SEGDA) between PG&E and SoCalGas. The Settlement recognized AFG's right to pursue competitive options and negotiated rates for service as well as SWG's ability to respond to competitive offers.

4. The level of margin contribution represented in AL 487 from AFG is incorporated in the Stipulation and Settlement Agreement of SWG's General Rate Case in A.94-01-021. The Commission recently approved the above agreement in D.94-12-022.

NOTICE

1. Public notice of AL 487-G was recorded in the Commission's calendar on November 3, 1994 and AL 2375-G was recorded in the Commission's calendar on November 15, 1994, and by mailing copies of the filings to adjacent utilities and interested parties.

PROTESTS

1. The Commission Advisory and Compliance Division (CACD) received no protests to AL 487-G or AL 2375-G.

DISCUSSION

1. The agreement contained in AL 487-G combined with the discounted intrastate transportation service from SoCalGas as contained in AL 2375-G, will allow SWG to retain AFG as a customer. Under the terms of the agreement SWG estimates that AFG will contribute approximately $132,000 in annual margin revenue. This level of contribution was incorporated in the Stipulation and Settlement Agreement in SWG's General Rate Case in A.94-01-021. The effects of the exemptions and discounted rates for intrastate transportation service were reflected in rates proposed in A.94-01-021. The Stipulation and Settlement Agreement was adopted by the Commission in D.94-12-022. Given AFG's options and its unique location, it is reasonable for SWG to attempt to retain AFG's load and contribution to margin revenue through the filing of AL 487-G.

2. SWG approached SoCalGas to discuss the possibility of amending the existing Wholesale Agreement. The result of these discussions is AL 2375-G. SoCalGas will lower the wholesale transmission rate for those volumes SWG delivers to AFG. SWG will pass this savings on to AFG. SoCalGas is willing to discount the wholesale transmission rate in order to retain approximately $420,000 of annual revenue by continuing to serve this load.

3. The discounted rate of $.03479 per therm exceeds SoCalGas' long run marginal cost of serving SWG. Since SWG became a customer of SoCalGas after the 1991 Biennial Cost Allocation Proceeding (BCAP) there are no Commission approved marginal costs adopted for SWG. SoCalGas' long run marginal cost is based on the Balancing Account update cost allocation submitted under A.93-09-006, dated October 14, 1994.

4. The Advice Letters were filed in compliance with the provisions of Section X.A. of General Order No. 96-A. By these filings, SWG and SoCalGas have responded to competitive forces with a mutually beneficial solution. Additionally, SoCalGas ratepayers will not be impacted since SoCalGas is at risk for SWG wholesale revenues as a result of the Global Settlement Decision No. 94-07-064.

5. We will approve the agreements contained herein. They meet the three-pronged test for approval: the threat of bypass by the customer was imminent; this will be a positive contribution-to-margin; and the terms of the agreement are reasonable. We will, however, impose the condition that any discount to the Interstate Transition Cost Surcharge (ITCS) must be borne by SoCalGas' shareholders.

FINDINGS

1. SWG filed Advice Letter No. 487 on October 26, 1994 requesting approval of a service agreement with AFG Industries, INC. for Discounted Noncore Intrastate Transportation Service and SoCalGas filed Advice Letter No. 2375-G on November 3, 1994 requesting approval of an amendment to the California Wholesale Gas Transportation and Storage Service Agreement between SoCalGas and SWG. The Advice Letters will enable SWG to provide discounted service to AFG Industries, INC.

2. SoCalGas' long run marginal cost of serving SWG is based on the Balancing Account update cost allocation submitted under A.93-09-006, dated October 14, 1994.

3. Under the Amendment contained in AL 2375-G the rate is $.03479 which is greater than SoCalGas' long run marginal cost of serving SWG.

4. SWG will retain approximately $132,000 in annual margin revenue. SoCalGas will retain approximately $420,000 of annual revenue.

5. Under Commission Capacity Brokering Rules, the ITCS is not subject to discounting.

6. It is the Commission's policy that the ITCS is to be applied in a nondiscriminatory manner, on an equal-cents-per-therm basis.

7. The advice letters are approved on the condition that SoCalGas' shareholders shall assume 100% of the risk of collection for the ITCS costs associated with this agreement.

8. No protests to the advice letter filing have been received.

THEREFORE, IT IS ORDERED that:

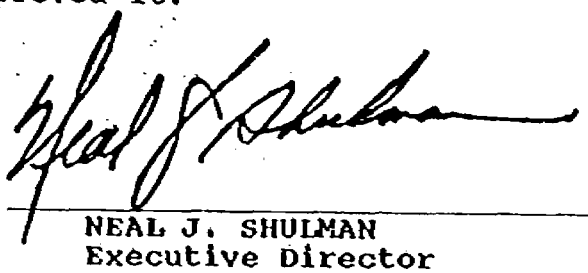
1. SWG's Advice Letter No. 487-G and SoCalGas' Advice Letter No. 2375-G are approved.

2. The advice letters are approved on the condition that SoCalGas' shareholders shall assume 100% of the risk of collection for the ITCS costs associated with the advice letters. SoCalGas shall file with the Commission Advisory and Compliance Division written acceptance of this condition on or before 20 days of the effective date of this Resolution.

3. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on January 24, 1995.

The following Commissioners approved it:



NEAL J. SHULMAN
Executive Director

NORMAN D. SHUMWAY
P. GREGORY CONLON
JESSIE J. KNIGHT, JR.
Commissioners

President Daniel Wm. Fessler, being necessarily absent, did not participate.