PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND
COMPLIANCE DIVISION

RESOLUTION G-3163
AUGUST 11, 1995

R E S O L U T I O N

SOUTHERN CALIFORNIA GAS COMPANY (SOCALGAS) REQUESTS APPROVAL OF A GAS TRANSPORTATION SERVICE AGREEMENT EXECUTED BETWEEN SOCALGAS AND VIE-DEL COMPANY PROVIDING LONG-TERM GAS TRANSPORTATION SERVICE TO VIE-DEL AT NEGOTIATED RATES.

BY ADVICE LETTER 2348-G, FILED ON AUGUST 8, 1994.

SUMMARY

1. Southern California Gas Company (SoCalGas) seeks approval of a Gas Transportation Service Agreement (Agreement) with the Vie-Del Company (Vie-Del). Parties entered into the Agreement to avoid uneconomic bypass of SoCalGas' gas distribution system at Vie-Del's Kingsburg winery. The threat of bypass was represented by the proposed Mojave North pipeline route located on the adjacent property 950 feet away from Vie-Del.

2. In D.92-11-052 the Commission determined that a utility submitting a long-term discount contract for Commission approval must demonstrate that the revenues to be derived over the life of the contract exceed the class-average long run marginal cost (LRMC) adopted by the Commission in I.86-06-005 or, failing that, the revenues exceed the customer-specific LRMC. SoCalGas estimates that the Agreement will contribute $60,000 (NPV at 8%) more to margin than SoCalGas would realize without the Agreement.

3. This resolution approves SoCalGas' request as modified. SoCalGas shareholders will assume the risk of any losses associated with the Agreement. The requested waiver of future Commission modifications to the contract is denied.

BACKGROUND

1. SoCalGas serves Vie-Del's Kingsburg winery. Vie-Del's average annual load is 65 MDth. The Agreement meets all the requirements for filing under the Expedited Application Docket (EAD) except for the minimum of 73 MDth per year and is therefore presented in an advice letter.

2. According to Advice Letter 2348-G, SoCalGas entered into the Agreement in response to the imminent threat of bypass presented

by the Mojave North pipeline route. The winery is 950 feet from Mojave's proposed pipeline on an adjacent property.

3. The Agreement is for firm service consistent with overall curtailment rules and provides for an initial rate greater than Mojave's initial rate. SoCalGas believes it has obtained a fair price. SoCalGas points out that the contract price is greater than the class-average LRMC rate for high-pressure industrial customers transporting 25 to 100 MDth per year.

4. Given Mojave's history of pipeline construction SoCalGas believed Mojave's advertised in-service date of early-1996 was realistic at the time of contract negotiations.

5. Section 6.2 of the Agreement provides for the suspension of Sections IX and X of General Order 96-A to the extent those sections require the Agreement to be subject to future modification by the CPUC. This provision is similar to that found in contracts approved in the EAD process.

NOTICE

1. Public notice of AL 2348-G was recorded in the Commission's calendar on August 26, 1994, and by mailing copies of the filings to all parties on the service lists for A.92-07-047 A.92-07-049, A.93-09-006, and A.92-11-017 and adjacent utilities and interested parties.

PROTESTS

1. The Commission Advisory and Compliance Division (CACD) received no protests to AL 2348-G.

DISCUSSION

1. Ordinarily SoCalGas would file a Gas Transportation Service Agreement by the EAD process as authorized in D.92-11-052. Vie-Del, however, does not meet the minimum load of 73 MDth per year. Accordingly, SoCalGas filed the Agreement as an advice letter.

2. Looking at the advice letter on procedural grounds, CACD notes that Vie-Del does not meet the minimum load requirement for an EAD contract. SoCalGas, thus, requests the protections of the EAD in the advice letter process. If the Commission considers SoCalGas' request on its face, then the advice letter should be rejected because requests for long term gas transportation contracts are to be considered in the EAD procedure, not the advice letter process.

3. Rather than rejecting the advice letter, CACD considered reviewing the Agreement and seeing if it could be approved if modified. CACD turned to the merits of the advice letter, CACD first considered whether the three pronged test used to review

contracts under our EAD procedure had been met. For approval, the Commission must find: (1) customer bypass is imminent, (2) bypass by that customer would be uneconomic, and (3) the contract terms and rates are reasonable.

4. CACD has reviewed the contract and appendices and determined the threat of bypass was imminent under the standard and for the reasons set forth in D.93-08-027. According to the declaration of Richard Watson, Treasurer of Vie-Del, Vie-Del had been negotiating with both SoCalGas and Mojave, and absent this Agreement would continue to seek competitive options.

5. The Agreement will provide a positive contribution to margin (CTM) estimated to be $60,000 (NPV at 8%). The contract price is above the class average LRMC rate for high pressure industrial customers transporting 25 to 100 MDth per year. The CTM will decrease as the proposed in-service date gets revised to a later date. While there is some risk that the CTM may become negative, all (100%) risk is assumed by SoCalGas.

6. CACD then examined Section 6.2 of the Agreement which would provide for the suspension of Sections IX and X of General Order 96-A to the extent those sections require the Agreement to be subject to future modification by the Commission. CACD objects to his provision since this portion of the Agreement waives a major requirement of the General Order through the advice letter process. With the exception of Section 6.2 of the Agreement the terms of the Agreement are reasonable. The Commission will retain its authority to review and modify contracts if future conditions should warrant.

7. With the exception of Section 6.2, CACD recommends approval of the Agreement. It meets the three-pronged test for approval: the threat of bypass by the customer was imminent under the standard and for the reasons set forth in D.93-08-027; this agreement will provide a positive contribution-to-margin; and the terms of the agreement are reasonable. Additionally, CACD recommends imposition of the condition that any discount to the Interstate Transition Cost Surcharge (ITCS) must be borne by utility shareholders. This reaffirms Commission policy that ITCS costs will be allocated even-handedly, on an equal-cents-per-therm basis.

FINDINGS

1. Southern California Gas Company (SoCalGas) filed Advice Letter No. 2348 on August 24, 1994 requesting approval of a Gas Transportation Service Agreement with Vie-Del Company.

2. The Agreement provides for long-term firm gas transportation to Vie-Del's Kingsburg facility. The Agreement allows SoCalGas to continue to provide service to Vie-Del.

3. Agreements for long-term gas transportation contracts are to be considered in the Expeditied Application Docket.

4. Vie-Del does not qualify for the EAD's average annual load requirement.

5. SoCalGas' negotiated contract price is greater than the class average LRMC for Vie-Del.

6. The threat of bypass is imminent under the standard and for the reasons set forth in D.93-08-027, and the terms of the Agreement are reasonable as modified herein.

7. SoCalGas estimates it will retain approximately $60,000 (NPV at 8%) contribution to margin.

8. It is reasonable to have SoCalGas' shareholders assume 100% of the risk for the ITCS costs associated with this Agreement.

9. It is reasonable that Section 6.2 of the Agreement, which precludes future Commission modification of the Agreement, be rejected.

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

THEREFORE, IT IS ORDERED that:

1. SoCalGas' Advice Letter No. 2348-G is authorized subject to the following modifications:

   a. Deletion of Section 6.2 of the Agreement so that the Commission retains its authority to review and modify the Agreement in the future if conditions warrant.

   b. SoCalGas shareholders shall assume the risk for the ITCS costs associated with the advice letter.

2. Should SoCalGas choose to implement the Agreement as modified, and after consultation with the Commission Advisory and Compliance Division, it shall file a supplemental advice letter with a modified Agreement, consistent with this resolution within 30 days. The supplemental advice letter shall be effective on the date filed.

3. SoCalGas shall revise its List of Contracts and Deviations to include this new Agreement with Vie-Del and shall file such revised tariff sheets with the Commission within 30 days with the supplemental letter.

4. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on August 11, 1995.

The following Commissioners approved it:

Wesley Franklin

WESLEY M. FRANKLIN
Acting Executive Director

DANIEL Wm. FESSLER
President
P. GREGORY CONLON
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
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