

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION G-3202
February 19, 1997

R E S O L U T I O N

RESOLUTION G-3202. SOUTHERN CALIFORNIA GAS COMPANY (SOCALGAS) REQUESTS APPROVAL OF TWO IDENTICAL AMENDMENTS REFERRED TO AS AMENDMENT NO. 1 (AMENDMENT) TO EACH OF TWO LONG TERM TRANSMISSION SERVICE CONTRACTS ENTERED INTO WITH SITHE ENERGIES, INC. AND WILLAMETTE INDUSTRIES, INC. ON APRIL 28, 1992.

BY ADVICE LETTERS 2483 FILED MARCH 6, 1996 AND SUPPLEMENTAL ADVICE LETTER 2483-A FILED OCTOBER 16, 1996.

SUMMARY

1. Southern California Gas Company (SoCalGas) seeks approval to implement the terms of two identical Amendments individually referred to as Amendment No. 1 (Amendment) to two long term (five years or longer) transmission service contracts (Contracts) entered into with Sithe Energies, Inc. (Sithe) and Willamette Industries, Inc. (Willamette) or Customers on April 28, 1992. SoCalGas proposes to revise Section 3.2 of Article 3 of the Contracts which deals with escalation of Tier I and Tier II rates (Contract Rates) by 25 percent on January 1 of each Contract Year based on nonlabor operations and maintenance cost escalation index developed by SoCalGas and the Division of Ratepayer Advocates (DRA) in SoCalGas' Test Year 1994 General Rate Case. This index is a weighted formula using the information obtained from the DRI/McGraw-Hill U.S. Cost Information Service-Utility Cost Forecasting Service (DRI Cost Service). The escalation value is determined by dividing the New Index value for the first December following the contract's commencement date by the Base Index or the index for the month the Contract is effective.
2. SoCalGas' proposal would establish new values for the Base and New Indexes as defined by the Contract because the DRI Cost Service values are published quarterly and not monthly as presumed by the Contracts. This has made it difficult for SoCalGas to implement the escalation clause of the Contracts on time since the December index value is not published before January 1 when new rates become effective. SoCalGas plans to recalculate customers' bills based on the new values.
3. No protests to Advice Letter 2483 and Supplemental Advice Letter 2483-A were received.
4. This Resolution approves SoCalGas' request to enable the contracting parties to implement the terms of their original Contracts more easily.

BACKGROUND

1. On April 28, 1992, SoCalGas entered into three long term Contracts with three different customers to serve their facilities located in Oxnard, California. SoCalGas requested approval of the Contracts by Advice Letter 2126, dated July 20, 1992. Resolution G-3016 (G-3016) of December 16, 1992, conditionally approved the Contracts which included that of Sithe and Willamette. On April 1, 1993 SoCalGas filed Advice Letter 2168 that it had accepted the conditional approval imposed by G-3016 and would implement the Contracts on that date.
2. On August 4, 1993, Decision (D).93-08-027 vacated G-3016. This decision was in response to an application (A.93-01-018) filed by Toward Utility Rate Normalization, now named The Utility Reform Network (TURN) for rehearing of G-3016. D.93-11-021 issued November 2, 1993, reactivated G-3016 and the Contracts became effective December 1, 1993.
3. Article 3 of the Contracts deals with Rates for gas transmission service. Section 3.2 provides that twenty five percent (25%) of the Contract Rates be escalated on January 1 of each Contract Year by an escalation factor. This is equal to the increase in the nonlabor operations and maintenance costs - escalation formula or index developed by SoCalGas with the Division of Ratepayer Advocates (DRA) in SoCalGas' Test Year 1994 GRC. The index is a weighted average formula using information obtained from the DRI Cost Service. According to SoCalGas, this information is published quarterly with monthly information in the report. D.93-12-043 approved the joint nonlabor index.
4. Section 3.2 states that the escalation factor is determined by dividing the New Index value for the month of December following the commencement of the Contract by the Base Index. Thereafter, the New Index values shall be the values for each successive December for the life of the Contract.
5. The original Contracts presumed using the monthly index for both the Base Index and New Index. The Contracts state that "...the New Index values shall be the index values for each successive December for the life of the Contract." SoCalGas states that the values for successive Decembers are not available to effect rate changes timely because DRI Cost Service values are published quarterly. SoCalGas claims that this has led to the difficulty of escalating Contract Rates effective January 1 as required by the Contracts. SoCalGas and the Customers therefore propose to resolve the problem by amending Section 3.2 of the Contracts.
6. The Contract Amendment between SoCalGas and Sithe was signed by SoCalGas on October 12, 1995. Sithe signed it on November 14, 1995. On January 3, 1996 SoCalGas signed a similar Amendment with Willamette, which signed it on December 17, 1995. On March 6, 1996, SoCalGas filed Advice Letter 2483, requesting

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that the Amendments to the Contracts between Sithe and Willamette be approved so that their terms could be implemented.

7. Specifically, the Contract Amendment between SoCalGas and Sithe requires that the Base Index be the index for the third quarter of 1993 instead of December 1, 1993. The index value established for the third quarter of 1993 is 1.5650. The New Index for each successive Contract Year is the index for the third quarter for each year following the commencement of the Contract for the life of the Contract. The new index for the 1995 Contract Year is established at 1.6091, which is the index for the third quarter of 1994. The escalation factor is calculated at 1.0281, i.e. $(1.6091/1.5650)$. The Amendment states that Sithe's 1995 bills will be recalculated based on the new index values for the purpose of rebilling.

8. Similarly, SoCalGas and Willamette agreed to amend the Base and New Index values as described above, resulting in the same escalation factor of 1.0281. Willamette's bills for 1995 are to be recalculated. This information was excluded from Willamette's original proposed Amendment. SoCalGas did correct the oversight.

9. On October 16, 1996, SoCalGas filed Supplemental Advice Letter 2383-A to modify Willamette's Amendment to conform to language similar to Sithe's Amendment. The modified Amendment was signed by SoCalGas on July 11, 1996. Willamette signed it on July 23, 1996.

NOTICE

1. Public notice of this filing has been made by publication in the Commission's calendar and copies of the advice letter have been distributed in accordance with Section III-G of the General Order (GO) 96-A.

PROTESTS

1. The Energy Division (ED) has received no protests to Advice Letter 2483 and its supplement, 2383-A.

DISCUSSION

1. ED has reviewed Advice Letter 2483 and Supplemental Advice Letter 2383-A, which include the proposed Amendments. Certain parts of the original Contracts were also reviewed.

2. SoCalGas proposes to amend Section 3.2 of Article 3 of the Contracts with Sithe and Willamette to enable the parties implement the escalation provision affecting Contract Rates. The publication where the value for the New Index for the month of December can be located is published quarterly by DRI Cost Service. According to SoCalGas, the information for the fourth quarter (October to December) is not released before January 1 when new rates are effective as required by the Contracts. SoCalGas has therefore been unable to adjust rates timely. SoCalGas' proposal will resolve this problem.

3. SoCalGas' proposal establishes a Base index value for Sithe and Willamette based on the data published by DRI Cost Service for the third quarter of 1993 instead of December 1, 1993, the Contracts' effective date. The New Index value is also established for each successive Contract Year based on the index for the third quarter of each successive Contract Year instead of successive month of December following the commencement of the Contract.

4. SoCalGas' proposal should allow it to adjust rates timely as anticipated by the original Contracts and we find this to be reasonable. It is also reasonable for SoCalGas to adjust customers' bills based on the new index values.

FINDINGS

1. On April 28, 1992 SoCalGas signed three long term Contracts with its customers which included Sithe and Willamette.

2. SoCalGas filed Advice Letter 2126 requesting approval of the Contracts.

3. The Contracts were conditionally approved by G-3016, issued December 16, 1992.

4. On April 1, 1993 SoCalGas filed Advice Letter 2168, informing the Commission that it had accepted the conditional approval of G-3016 and would make the Contracts effective on the same date.

5. D.93-08-027 vacated G-3016 but subsequently, D.93-11-021 reinstated G-3016. Therefore, the Contracts became effective December 1, 1993.

6. SoCalGas signed Amendments to the Contracts with Sithe and Willamette on October 12, 1995 and January 3, 1996 respectively.

7. On March 6, 1996, SoCalGas filed Advice Letter 2483, requesting approval of the Amendments, and also filed Supplemental Advice Letter 2483-A on October 16, 1996.

8. The Contracts allow for rate adjustment based on the ratio of the New Index value to Base Index value effective January 1 of each Contract Year. Monthly and quarterly index values are published quarterly by DRI Cost Service.

9. It is difficult to implement the escalation provision of the Contracts because the basis for new rates are not published until after they are supposed to be in effect.

10. The Amendment establishes a Base Index value based on 1993 third quarter index instead of December 1, 1993, and a New Index value for 1995 Contract Year also based on 1994 third quarter index. These values are used to determine the escalation factor to apply to 25% of the Contract Rates.

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11. SoCalGas' proposal to move the index value dates to the third quarter for the Base and New Indexes is reasonable and convenient for the implementation of the escalation provision of the Contracts.

THEREFORE, IT IS ORDERED that:

1. Advice Letter 2483 and its supplement are approved.
2. This resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on February 19, 1997. The following Commissioners approved it:


WESLEY FRANKLIN
Executive Director

P. Gregory Conlon, President
Jessie J. Knight, Jr.
Henry M. Duque
Josiah L. Neep
Richard A. Bilas
Commissioners