PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION G-3209
MAY 6, 1997

R E S O L U T I O N

RESOLUTION G-3209. SOUTHERN CALIFORNIA GAS COMPANY (SOCALGAS) REQUESTS APPROVAL OF AMENDMENT NO. 1 (AMENDMENT) TO A LONG TERM TRANSMISSION SERVICE CONTRACT ENTERED INTO WITH PROCTER AND GAMBLE PAPER PRODUCTS CO. ON APRIL 28, 1992.

BY ADVICE LETTERS 2484 FILED ON MARCH 6, 1996.

SUMMARY

1. Southern California Gas Company (SoCalGas) seeks approval to implement the terms of Amendment No.1 (Amendment) to a long term (five years or longer) transmission service contract (Contract) entered into with Procter and Gamble Paper Products Co. (P&G) on April 28, 1992. SoCalGas proposes to revise Section 3.2 of Article 3 of the Contract 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) now Office of Ratepayer Advocates (ORA) in SoCalGas' Test Year 1994 General Rate Case. The index is the weighted average formula using the information obtained from the DRI/McGraw Hill U.S. Cost Information Service - Utility Cost Forecasting Service (DRI Cost Service). The escalation factor is the ratio of the New Index value for the first December following the contract's commencement date and the Base Index value for the month when the Contract became effective.

2. SoCalGas' proposal would establish new values for the Base Index and New Index based on quarterly index values because the DRI Cost Service values are published quarterly and not monthly as presumed by the Contract. SoCalGas claims that this had made it difficult for it to implement timely the escalation clause since the December index value is not released before January 1 when new rates become effective. The Amendment indicates that SoCalGas will recalculate customer's bills based on the new index values.

3. SoCalGas further requests that the Contract quantity (CQ) be revised to include the non-cogeneration base volumes amounting to 5,032 therms per day (ths/d) without increasing the maximum daily quantity (MDQ) of 182,500 ths/d under Tier I

Contract Rate. SoCalGas seeks the change pursuant to D.93-09-082 which amends the qualification requirements for noncore customers. The base volumes are to be billed at the negotiated rate for Tier I instead of the tariff rates. In addition, pursuant to Section 10.1 of the Contract dealing with incremental load, SoCalGas proposes to increase the Contract's base load by 8,303 ths/d because P&G began to operate a new gas fired facility on April 1, 1993. This brings the total non-cogeneration base load contract quantities to 13,335 ths/d SoCalGas would want to bill under Tier I Contract Rate without increasing the MDQ.

4. SoCalGas requests to replace Attachment B to the Contract with a new Attachment B to the Amendment and approval of a new point of entry.

5. No protests to Advice Letter 2484 were received.

6. This Resolution approves SoCalGas' requests as contained in the Amendment to enable the contracting parties to implement the terms and conditions of their Contract.

BACKGROUND

1. On April 28, 1992, SoCalGas entered into three long term transmission service agreements (Agreements) with three customers to serve their facilities located in Oxnard, California. SoCalGas requested approval of the Agreements by Advice Letter 2126, dated July 20, 1992. Resolution G-3016 (G-3016) of December 16, 1992, conditionally approved the Agreements which included that of P&G. On April 1, 1993 SoCalGas filed Advice Letter 2168 that it had accepted the conditions imposed by G-3016 and would implement the Agreements on the same 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, TURN (now The Utility Reform Network) for rehearing of G-3016. D.93-11-021 reactivated G-3016 and the Agreements became effective December 1, 1993. Consequently, P&G's Contract became effective December 1, 1993.

3. Article 3 of the Contract deals with Contract 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, the escalation formula or index developed by SoCalGas with the Division of Ratepayers Advocate (DRA) in SoCalGas' Test Year 1994 general rate case proceeding (GRC). The index is a weighted average formula using the information obtained from the DRI Cost Service. D.93-12-043 approved the joint nonlabor index. SoCalGas states that the DRI Cost Service information is published quarterly with monthly values or statistics.

4. Section 3.2 shows 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 value or the index value for the month of Contract's commencement. Thereafter, the New Index values are the values for each successive Decembers for the life of the Contract.

5. The original Contract presumed using monthly index for both the Base Index and New Index. The Contract states that "...the New Index values shall be the index values for each successive December for the life of the Contract." The values for succeeding December are, however, not available to effect the timely rate changes because the DRI Cost Service information is published quarterly. SoCalGas claims that this has led to the difficulty of escalating Contract Rates effective January 1 of each Contract Year as required by the Contract. SoCalGas and P&G propose to resolve the problem by amending Section 3.2 of the Contract by the proposed Amendment.

6. Specifically, the Amendment requires that the Base Index be calculated using the data published by the DRI Cost Service for the third quarter of 1993 instead of December 1, 1993. The value established for this third quarter is 1.5650. The New Index value for each successive Contract Year is the value for the successive third quarter. The new index for 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). According to the Amendment, P&G's 1995 bills are to be recalculated based on the new escalation factor for the purpose of rebilling.

7. SoCalGas also requests to recategorize the non-cogeneration base volumes of 5,032 ths/d priced at tariff rates because D.93-09-082 changed the qualification requirements for noncore customers. Ordering paragraph (OP) 1 in part states "The alternate fuel requirement and economic practicality test for gas customers adopted in Decision 87-12-039 is removed." These volumes are to be priced at Tier I negotiated rate. In addition, pursuant to Section 10.1 of the Contract, SoCalGas proposes to increase the non-cogeneration base load by 8,303 ths/d because P&G added a new gas-fired facilities on April 1, 1993. SoCalGas is to price the incremental load under the terms, conditions, and the negotiated rates of the Contract. SoCalGas therefore, requests approval of a new Attachment B to the Amendment to replace Amendment B to the Contract and a new point of entry.

8. SoCalGas signed the Amendment on December 4, 1995 and P&G signed it on November 17, 1995. SoCalGas filed Advice Letter 2484, on March 6, 1996 requesting approval of the Amendment so that the terms could be implemented. On January 31, 1997 SoCalGas responded to the Energy Division's request to clarify the intent of the second portion of the Amendment.

9. G-3202 of February 19, 1997 approved a similar Amendment pertaining only to the change in the index values for the other two customers, Sithe Energies, Inc. and Willamette Industries, Inc.

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 General Order (GO) 96-A.

PROTESTS

1. The Energy Division (ED) has received no protests to Advice Letter 2484.

DISCUSSION

1. ED has reviewed Advice Letter 2484 including the proposed Amendment and certain parts of the original Contract. On January 31, 1997 SoCalGas provided additional information to clarify the intent of a portion of the Amendment in response to questions raised by the Energy Division.

2. SoCalGas has proposed to amend Section 3.2 of Article 3 of its Contract with P&G to enable the parties to implement the escalation provision affecting Contract Rates because the New Index value for the month of December following the commencement of the Contract is published quarterly and not monthly. SoCalGas states that the information for the fourth quarter is not released before January 1 when new rates are required to take effect. SoCalGas claims that as a result it has been unable to adjust rates on time. One of the amendments to the Contract resolves this problem.

3. SoCalGas proposed that the Base Index Value be based on the 1993 third quarter index instead of December 1993 monthly index. Similarly, the New Index value for each successive Contract Year will be based on the index value for the third quarter for each Contract Year instead of December index. This change is needed to enable the parties to implement the escalation provision of the Contract and does not affect the effective date of the Contract in any manner. We find SoCalGas' proposed amendment in this instance reasonable because it would allow the parties to carry out the intention of their Contract. It is also reasonable for SoCalGas to adjust P&G's bills based on the new index values.

4. In addition, SoCalGas proposes to include the non-cogeneration base volumes of 5,032 ths/d under the MDQ requirement for Tier I and price these at the negotiated rate instead of tariff rates. P&G and SoCalGas agree to make this change because D.93-09-082 removed the qualification requirements for noncore customers. SoCalGas and P&G also agree to include the non-cogeneration incremental load of 8,303 ths/d necessitated by additional facilities operated by P&G since April 1, 1993 under the terms and conditions for Tier I as allowed by Section 10.1 of the Contract. We find SoCalGas' proposals in compliance with the Commission's decision and the language in the Contract.

FINDINGS

1. On April 28, 1992 SoCalGas signed three long term transmission service Contracts with its customers including P&G.

2. SoCalGas filed Advice Letter 2126 requesting approval of these 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. The Contracts became effective December 1, 1993.

6. SoCalGas signed Amendment to the Contract December 4, 1995 and P&G signed it on November 17, 1995.

7. SoCalGas filed Advice Letter 2484 on March 6, 1996 requesting approval of the Amendment.

8. The Contract requires a rate adjustment based on the ratio of the New Index value to the Base Index value effective January 1 of each Contract Year. These index values are published quarterly by the DRI Cost Service.

9. SoCalGas claims it is difficult to implement the escalation provision of the Contract because the basis for new rates are not published until after they are suppose to be in effect.

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

11. SoCalGas proposal to move the index value dates for both the Base Index and the New Index to the third quarter respectively is reasonable and convenient for the implementation of the escalation provision of the Contract.

12. We find SoCalGas' proposals to include the non-cogeneration base volumes and the incremental base load in the MDQ requirement under Tier I in compliance with the Commission's decision and the language in the Contract.

THEREFORE, IT IS ORDERED that:

1. Advice Letter 2484 is hereby 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 May 6, 1997. The following Commissioners approved it:

Wesley Franklin
WESLEY FRANKLIN
Executive Director

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