

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION G-3211  
JUNE 25, 1997

R E S O L U T I O N

RESOLUTION G-3211. PACIFIC GAS AND ELECTRIC COMPANY REQUESTS APPROVAL OF ITS REVISED METHOD OF CALCULATING CORE SUBSCRIPTION INTERSTATE RESERVATION AND COMMODITY CHARGES FOR PACIFIC GAS TRANSMISSION COMPANY SERVICE.

REQUEST IS GRANTED.

BY ADVICE LETTERS 1999-G AND 1999-G-A, FILED ON DECEMBER 31, 1996 AND FEBRUARY 28, 1997, RESPECTIVELY.

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SUMMARY

1. Pacific Gas and Electric Company [PG&E] is proposing to revise the method of calculating its interstate reservation and commodity charge for non-residential rate schedule G-CSP (gas core subscription procurement) and interstate gas transportation service to non-core customers. The changes reflect the Pacific Gas Transmission Company's [PGT] firm capacity costs for non-core customers which became effective November 1, 1996.
2. Enserch Energy Services, Inc. [Enserch], Enron Capital and Trade Resources [Enron], the Commission's Office of Ratepayer Advocates [ORA], Department of General Services [DGS], and The Utility Reform Network [TURN] protested PG&E's request. The protests are denied.
3. This resolution approves PG&E's request.

BACKGROUND

1. ALs 1999-G and 1999-G-A address the PGT interstate pipeline reservation charge component of PG&E's core subscription rate. PG&E proposes a new method to calculate the reservation charge for PGT service.
2. Core subscription customers are those non-core customers who receive both procurement and transportation services from PG&E under tariff Schedule G-CSP.

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3. On September 11, 1996, the Federal Energy Regulatory Commission (FERC) issued its Order Approving Contested Settlement concerning ratemaking for PGT capacity. [see FERC dockets RP-94-149, RP94-145, and RP95-141]. The Order, at page 10, stipulates that effective November 1, 1996, PG&E shall pay seventy-five percent of each component of the maximum base reservation rate for Schedule FTS-1 [firm gas-transport service] until October 31, 2002, for the service rights of 609,968 MMBtu/d that PG&E has reserved for its core customers.

4. To reflect this "core-mitigated" rate change in its gas rates, PG&E updated rate Schedule G-CSP effective January 1, 1997 [see AL 1997-G]. PG&E realizes that by charging this "core-mitigated" rate, core subscription customers now receive firm interstate capacity service from PG&E at a tariff rate that is not available to the non-core market. PG&E, therefore, proposes to charge its core subscription customers a rate that is closely aligned with the rate paid by non-core customers for firm capacity rights on PGT.

5. The FERC Order mentioned above provides that

...if PG&E permanently releases...any portion of these service rights, PGT shall, until October 31, 2002, pay to PG&E all reservation charge revenues paid by the replacement shipper...less an amount equal to the mitigated rate...times the replacement shipper's reservation charge billing determinants. Any permanent release of the service rights reserved for PG&E's core customers shall be up to the maximum rate, i.e., the system average rate... [p.9 of the Stipulation and Agreement approved by FERC. See 76 FERC para. 61,246]

6. To be consistent with the above Order, PG&E proposes to charge its core subscription customers the FTS-1 base rate which is effectively the PGT system average rate. PG&E will then credit core customers with the rate differential between the FTS-1 base rate and the core-mitigated rate.

7. After reviewing the protest letters to AL 1999-G and discussions with the protesting parties, PG&E compromised on its initial proposed method and in the supplemental AL 1999-G-A made adjustments to the calculation of commodity charges in Schedule G-CSP. PG&E claims that the adjustments are consistent with Commission policy and ensure that core customers will not pay increased prices as a result of this filing.

8. PG&E contends that it will continue to provide core subscription service from one portfolio and include a reservation charge for interstate capacity. PG&E further states that the proposed price adjustment will ensure that core subscription prices will more accurately reflect the market alternatives available to non-core customers. According to PG&E, the proposal will prevent conditions whereby non-core customers would be encouraged to migrate to core subscription service during the next open season which starts on July 1, 1997.

NOTICE

1. PG&E served notice of ALs 1999-G and 1999-G-A by mailing copies to other utilities, government agencies, and parties that requested such information. ALs 1999-G and 1999-G-A were noticed in the Commission Calendar.

PROTESTS

1. Enserch Energy Services, Inc. (Enserch), Enron Capital and Trade Resources (Enron), the Commission's Office of Ratepayer Advocates (ORA), Department of General Services (DGS), and The Utility Reform Network (TURN) filed timely protests of PG&E's proposals. PG&E responded timely to the protests.

DISCUSSION

Summary of Protests by Enserch, Enron, and ORA

1. Enserch, Enron, and ORA have common concerns regarding AL 1999-G. They state that it is improper for PG&E to use the PGT system average rate (FTS-1 base rate) as the PGT reservation rate in the core subscription charge. Other non-core customers and suppliers generally do not have access to PGT capacity at the system average rate; they have to pay rates higher than the system average rate. PG&E has provided its core subscription customers with a rate advantage over all other non-core customers, thereby causing core customers to subsidize core subscription sales. PG&E's calculation of the core subscription price, therefore, distorts the current market for non-core gas sales. ORA specifically states that PG&E's pricing of core subscription has caused an inequity in the market because the core subscribers now have access to the 600 MMcf/d of core capacity. ORA contends that the FERC decision approving the PGT settlement made it clear that the 600 MMcf/d was intended to serve the requirements of the core customers only. Core subscription customers now have access to core capacity to which they are not entitled. This increases the commodity cost of gas for the core customers.

PG&E's response to the above protests

2. PG&E consulted with Enserch, Enron, and the ORA to discuss their concerns. Based on these discussions, PG&E came up with a new proposal [AL 1999-G-A]. As a result, Enron, Enserch, and ORA withdrew their protests and now support the alternative.

3. In the new proposal, core subscription would be priced using a reservation component with the method in AL 1999-G and a commodity portion based on an index consisting of a 50/50 cost split between the San Juan Basin and Canadian gas prices, including volumetric costs to the California border. The

proposed price calculation for the commodity portion of core subscription service becomes the higher of:

- o the cost of flowing supplies in the core portfolio, or
- o an index-based price, which accounts for both southwest and Canadian prices at the California border.

Actual purchases for core subscription supplies will continue to be made in a single portfolio. Any revenues collected above costs will be credited to either the Core Subscription Pipeline Demand Charge Account or to the core subaccount of the Purchased Gas Account.

#### Protests of DGS and TURN

4. DGS and TURN protested the supplemental AL 1999-G-A on the grounds that the filing is not about a Commission approved action which is the appropriate subject of an advice letter. Rather, the request represents a shift from the Commission policy which should be implemented through an application. If the proposal is a technical modification of a Commission decision, that change should be made through a petition to modify the decision that authorized the G-CSP tariff. Both parties state that the supplemental filing is a substantial change from the initial filing. Whereas the earlier request [AL 1999-G] dealt with the transportation rate for core subscription to meet the requirements of the PGT settlement, the latter [AL 1999-G-A] proposes a complete change in the method by which core subscription commodity prices are set.

5. PG&E's response to DGS and TURN is that its proposed changes are not deviations from Commission policy. The Commission has repeatedly stated that core subscription service is a premium service for the non-core who do not seek competitive alternatives [see, e.g., D.91-11-025, 41 CPUC 2d 668, 683]. PG&E's proposal in AL 1999-G-A ensures that this policy is carried out. The Commission has also supported the policy of limiting the scope of core subscription. PG&E's proposal to have its proposal effective before the next open season is to ward off a real danger that a large number of non-core customers will flock to the service in that period to benefit from the current low prices. PG&E further asserts that its proposals are consistent with the Commission policies because:

- o Core customers will not pay increased prices because of the filing.
- o PG&E will continue to provide core subscription service from one portfolio.
- o Core subscription pricing will continue to include a reservation charge [as opposed to a one-part volumetric charge] for interstate capacity.

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- o Pricing under AL 1999-G-A will restore core subscription to prices that will more accurately reflect the market alternatives available to non-core customers.

### Conclusion

6. The Energy Division has reviewed the proposals by PG&E and related protests. It is the Energy Division's view that the adjustments proposed to the calculation of core subscription price are to eliminate a distortion in that rate due to the pricing of transportation capacity held by PG&E for its core market. Through the use of core capacity, PG&E's core subscription customers are able to purchase gas at prices that are below those available to non-core customers. This pricing distortion was not intended by the Commission to be part of core subscription service. The Commission, in Decision (D).90-07-065, established rules for the California gas utilities' core subscription service in which it states:

The purpose of the core subscription service should be to provide a premium service for noncore customers who place a high value on reliability for all or a portion of their gas requirements... (The purpose of the core subscription service is not to provide noncore customers with access to utility gas supplies when they happen to be priced comparatively low, and we do not intend to design the service to encourage subscription to the core. [D.90-07-065, 37 CPUC 2d, 102])

PG&E's proposal in AL 1999-G-A is consistent with the Commission's policy to provide reliable and premium service to core and non-core customers. PG&E's core subscription service is currently priced below market levels. Current pricing relies on transportation capacity that is held for PG&E's core market. Continued pricing under this approach could attract substantial non-core load to core subscription service. An increase in the size of the core subscription market would increase the cost of gas for core customers by diluting the effect of the capacity held by PG&E for the core. The Energy Division believes that core customers will not be expected to pay higher rates as a result of AL 1999-G-A.

7. It is also the Energy Division's view that DGS's main concern has been satisfied. DGS has expressed that if PG&E's proposal to adjust current calculation of core subscription price is to be approved, the implementation should be delayed until July 1, 1997, when all existing G-CSP contracts terminate. The Energy Division agrees with DGS's concern and recommends that this Resolution be effective today and that PG&E's requested rates become effective on July 1, 1997.

8. As for TURN's protest and its recommendation that PG&E file a petition to modify D.91-11-025, 92-07-025, and 95-12-053, which authorized and subsequently modified the G-CSP tariff, it is the Energy Division's view that the proposal in AL 1999-G-A

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is a clarification, rather than modification, of calculation methods in those decisions and leaves the Commission policy towards core subscription intact, and so requires no such petition to modify.

9. The Energy Division recommends that PG&E's request in AL 1999-G-A be approved because it will help prices return to a level consistent with the Commission's intention that the core subscription service provide a reliable service to a limited number of non-core customers who do not seek competitive alternatives offered by other gas suppliers.

#### FINDINGS

1. Pacific Gas and Electric Company [PG&E] filed Advice Letters 1999-G and 1999-G-A on December 31, 1996 and February 28, 1997, respectively, requesting revision of the method of calculation of core subscription reservation and commodity charges for Pacific Gas Transmission Company [PGT] service.

2. Enserch Energy Services, Inc. [Enserch], Enron Capital and Trade Resources [Enron], the Commission's Office of Ratepayer Advocates [ORA], Department of General Services [DGS], and The Utility Reform Network [TURN] protested the request. Enron, ORA, and Enserch withdrew their protests.

3. PG&E's implementation of Federal Energy Regulatory Commission's Order concerning ratemaking for PGT capacity [76 FERC--September 11, 1996] will cause core subscription customers to pay, at core customers' expense, below market rates which are not available to the non-core market.

4. PG&E's proposal in AL 1999-G-A are consistent with the Commission's policy to provide reliable and premium service to core and non-core customers.

5. Core customers are not expected to pay higher rates as a result of this filing.

6. As a result of this filing, core subscription prices will more accurately reflect the market alternatives available to non-core customers.

7. The PG&E proposal will discourage non-core customers to migrate to core subscription service.

8. PG&E's proposal is a clarification of the method of calculation of G-CSP tariff and does not require a petition to modify D.91-11-025, 92-07-025, and 95-12-053.

9. PG&E's proposal is fair and reasonable.

10. PG&E's proposal should be approved.

11. Protests by TURN and DGS should be denied.

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THEREFORE, IT IS ORDERED that:

1. Pacific Gas and Electric Company request in Advice Letter 1999-G-A is granted.
2. The protests of The Utility Reform Network and the Department of General Services are hereby denied.
3. The methods and rates approved in this Resolution shall be effective July 1, 1997.
4. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on June 25, 1997. The following Commissioners approved it:

  
WESLEY FRANKLIN  
Executive Director

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