

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

**RESOLUTION G-3243
APRIL 1, 1999**

RESOLUTION

RESOLUTION G-3243. SOUTHERN CALIFORNIA GAS COMPANY REQUESTS AUTHORIZATION TO ADJUST ITS COGENERATION DEFAULT RATES DUE TO THE SALE OF A UTILITY GENERATING FACILITY. THIS REQUEST IS RENDERED MOOT BY G-3242. DENIED.

BY ADVICE LETTER 2701, FILED ON APRIL 20, 1998.

SUMMARY

1. By Advice Letter (A.L.) 2701, filed April 20, 1998, Southern California Gas Company (SoCalGas) submits for filing and approval with the Commission a request to revise its cogeneration default rates due to the sale of Southern California Edison's (Edison) Mandalay generating facility.
2. The Energy Division received one protest to A.L. 2701; it was submitted by The California Cogeneration Council and Watson Cogeneration Company (CCC/Watson). They claim that SoCalGas' proposal would violate Public Utilities Code Section 454.4 (PU Code §454.4).
3. In Resolution G-3242, the Commission ruled that the Collateral Discount Rule (CDR) would be terminated. SoCalGas' request to revise its cogeneration default rates in compliance with the CDR is moot since the CDR no longer exists. A.L. 2701 is denied.

BACKGROUND

1. SoCalGas filed A.L. 2701 on April 20, 1998, proposing to adjust its default cogeneration transmission rates.
2. PU Code §454.4 requires that rates for gas that is utilized by cogenerators shall not be higher than the rates established for gas utilized as a fuel by an electric plant. Because of this code section, SoCalGas includes in its rate schedules the special condition that it will adjust the default rate for cogeneration customers whenever a discounted transmission contract with a utility electric generation (UEG) customer becomes effective or expires. As a result of this requirement, any discount for gas transmission service extended to a UEG customer results in an effective "collateral discount" for all cogeneration customers that receive service at tariffed rates.

3. Edison's Mandalay generating facility had a discounted contract with SoCalGas. Pursuant to the computation methodology outlined in Commission Resolution G-3062 (adopted July 21, 1993), the discount given to the Mandalay facility became a component of the calculation to implement the Collateral Discount Rule.
4. As of April 7, 1998, Edison's Mandalay facility became an exempt wholesale generator upon the transfer of its title to Houston Industries Power Generation, Inc., pursuant to D.97-12-106; since Mandalay is no longer owned by Edison, it is no longer a UEG.
5. Service by SoCalGas to the Mandalay facility is now subject to a negotiated long-term contract approved by the Commission in D.95-02-043 at rates below those that would normally be applicable to UEGs. Edison has assigned this discount contract to the new owners of Mandalay.
6. In A.L. 2701, SoCalGas is proposing to remove the Mandalay discount from its rate parity calculation, asserting that only discounts to UEGs should be reflected in the calculation.

NOTICE

1. Advice Letter 2701 was served on other utilities, government agencies, and to all interested parties who requested such notification, in accordance with the requirements of General Order 96-A. Public notice of this filing has been made by publication in the Commission's calendar.

PROTESTS

1. On May 11, 1998, CCC/Watson filed a protest to A.L. 2701. They believe that PU Code §454.4 applies to former UEG power plants that have been divested as a part of the electric industry restructure. Therefore, divested plants that receive a discount, such as Mandalay, should remain in the cogeneration rate parity calculation.
2. In SoCalGas' reply (filed May 18, 1998), it rebuts CCC/Watson's arguments, and discusses why it believes A.L. 2701 should be approved as submitted.

DISCUSSION

1. SoCalGas views A.L. 2701 as a compliance filing. It believes that PU Code §454.4 and Resolution G-3062 require that the collateral discount be recalculated to reflect the removal of electric generating plants that have been divested.
2. In relevant part, PU Code §454.4 states, "The commission shall establish rates for gas which is utilized in cogeneration technology projects not higher than the rates established for gas utilized as a fuel by an electric plant in the generation of electricity." In previous decisions (most

recently SoCalGas' 1997 Biennial Cost Allocation Proceeding (BCAP) decision, D.97-04-082), the Commission has ruled that "To comply with §454.4, utilities cannot ignore discounts offered to UEGs when establishing gas rates for cogenerators." (slip opinion, p. 93)

3. In Resolution G-3062, the Commission specified the procedure for how the collateral discount should be calculated.

4. In interpreting these documents, SoCalGas and CCC/Watson reach opposite conclusions as to whether the Mandalay station should be incorporated into the cogeneration parity calculation. As discussed below, based on the conclusions that we reached in Resolution G-3242, SoCalGas' request in this A.L. is moot.

5. In Resolution G-3242, we concluded that the Collateral Discount Rule would be eliminated. SoCalGas' request to revise its cogeneration default rates in compliance with the CDR is moot since the CDR no longer exists.

6. CCC/Watson's May 11, 1998 protest regarding the recalculation of the collateral discount for cogenerators should be considered moot and should be denied.

COMMENTS

1. The Draft Alternate Resolution of the Energy Division in this matter was mailed to the parties in accordance with PU Code Section 311(g). Comments were filed on March 25, 1999 by SCUPP/IID. Their comments consisted of stating their support for the draft alternate of Resolution G-3243. Consequently, there is no need to revise the Alternate Resolution.

FINDINGS

1. By Advice Letter (A.L.) 2701, SoCalGas requests authorization to adjust the collateral discount to cogenerators to reflect the sale of Edison's Mandalay generating station.

2. On May 11, 1998, CCC/Watson filed a protest to A.L. 2701. They believe that gas-fired electric generating facilities that have been divested by utilities should continue to be included in the calculations to derive the collateral discount for cogenerators. On May 18, 1998, SoCalGas responded to the protest.

3. Mandalay receives a discount from SoCalGas for its transmission service. Therefore, pursuant to Resolution G-3062 and PU Code §454.4, Mandalay has been included in the calculation of the collateral discount for cogenerators.

4. Effective April 7, 1998, Edison's Mandalay generating facility was sold to Houston Industries Power Generation, Inc. Mandalay is therefore no longer a utility electric generation

(UEG) facility.

5. In A.L. 2701, SoCalGas has requested a recalculation of its tariffs based on the CDR requirements of §454.4. A "companion" resolution, G-3242, finds that the Collateral Discount Rule (CDR) should be terminated. Since the CDR no longer exists, SoCalGas has no basis for recalculating its tariff. Therefore, SoCalGas' request is moot, and the A.L. is denied.

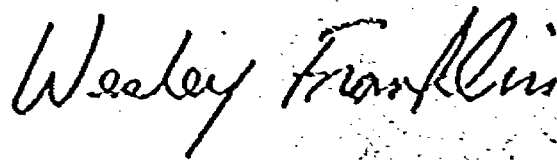
6. CCC/Watson's protest is moot and is denied.

THEREFORE, IT IS ORDERED that:

1. Southern California Gas Company's Advice Letter (A.L.) 2701 is denied.
2. Based on our findings in Resolution G-3242, the Collateral Discount Rule (CDR) has been terminated. Since the CDR no longer exists, SoCalGas has no basis for recalculating its tariff. Therefore, SoCalGas' request is moot.
3. The protest by CCC/Watson to reject A.L. 2701 is moot and is denied.
4. Advice Letter 2701 shall be marked to show that it was denied by Commission Resolution G-3243.
5. This Resolution is effective today.

Resolution G-5243
SoCalGas/AL 2701/COM/RB1

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the state of California held on April 1, 1999, the following Commissioners voting favorably thereon:



WESLEY M. FRANKLIN
Executive Director

RICHARD A. BILAS
President
HENRY M. DUQUE
JOSIAH L. NEPPER
Commissioners