PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION **RESOULTION G-3260**
AUGUST 5, 1999

RESOLUTION

Resolution G-3260. Southern California Gas Company. Approves authorization to terminate the old long term Gas Transportation Service Contract and approve the new Ten Year Tariff Agreement between AES Placerita, Inc. and Southern California Gas Company. Approved.

By Advice Letter 2806, Filed on May 5, 1999.

SUMMARY

By Advice Letter (A.L.) 2806, filed May 5, 1999, Southern California Gas Company (SoCalGas) submits for Commission approval the following:

a) A Termination Agreement between AES Placerita, Inc. (Placerita or Customer) and SoCalGas that was entered into on April 8, 1999, which terminates their Long Term Agreement of April 29, 1988, and provides two subcontract agreements:

1) Gas Transmission Service Contract (GTSC) Guarantee of AES Placerita to pay all past due amounts from the original contract of April 29, 1988, plus interest, through a third party Escrow Account.

2) Tariff Agreement Guarantee, from AES Corporation, that Placerita will honor all its obligations in the new Ten Year Tariff Agreement of April 9, 1999.

b) A new Ten Year Tariff Agreement, signed April 9, 1999, between Placerita and SoCalGas.

This Resolution approves A.L. 2806 and the request of SoCalGas that the Termination Agreement should remain confidential under the provisions of General Order No. 66-C, Section 2, Subsection 2.2(b), and Public Utilities Code Section 583.

The purpose of the Termination Agreement is to provide benefits to SoCalGas as follows:

a) the Utility is scheduled to collect all past due amounts from Placerita,
b) SoCalGas will avoid additional litigation expenses to enforce the prior GTSC upon the Customer,
c) a new standard tariff service agreement between Placerita and SoCalGas will be established, and
d) the parent company of Placerita, AES Corporation, is obligated to guarantee the tariff requirements through the executed subcontract as part of the termination agreement.

BACKGROUND

SoCalGas and Placerita entered into a long term gas transportation service contract that provided for the Utility's transportation within California of Customer's natural gas for its enhanced oil recovery (EOR) operations and associated cogeneration facility operations. The Commission approved the first GTSC on September 14, 1988, by Resolution G-2808 for A.L. 1800. The term of the contract was for twenty years, and had an annual "Transport-or-Pay" obligation of 75% of the daily transmission capacity in effect for each day of the contract year. The GTSC also contained an escalation clause that bounded the annual escalation rate between a minimum of three percent and a maximum of five percent.

Even though the Customer's tariff rate schedule, which provided for gas sales in the event of under-deliveries, was terminated as of July 31, 1991, the Customer became subject to the rates, terms and conditions, effective August 1, 1992, as set forth in Tariff Rate Schedule G-IMB or its legal successor.

On March 2, 1992, the GTSC was amended (First Amendment) to include an additional delivery point for the customer at the outlet of the Kern River/Mojave interconnect with SoCalGas located at or near Wheeler Ridge, California. On August 11, 1992, the GTSC was amended for the second time (Amendment 2) to comply with the gas procurement decision (D.90-09-089) and subsequent Commission decisions.

Coincidentally, at about the same time as a dispute over the GTSC occurred between Placerita and SoCalGas, in October of 1994, the process of restructuring of the power generation sector in the California electric industry began. As the electric restructuring was moving forward, it became apparent that many Power Purchase Agreements (PPA) could no longer be justified economically. In D.96-12-077, the Commission provided an incentive mechanism for electric utility shareholders to renegotiate the PPA it had entered into with Qualifying Facilities (QF). The incentive mechanism specifies that electric utility shareholders are to receive ten percent of the ratepayer benefits from a renegotiated QF contract.

Placerita has entered into a PPA buyout agreement with Southern California Edison Company (SCE). SoCalGas filed comments in SCE's application (A.99-05-006) proceeding with the Commission for approval of the buyout of SCE's PPA with Placerita.

Placerita has executed a standard SoCalGas tariff service agreement for Placerita's full gas requirements, which is also dependent upon the approval of the CPUC. Placerita shall obtain the tariff service applicable to its end-use category and pay the approved tariff rates for such service. Furthermore, Placerita agrees to take its full natural gas requirements from SoCalGas at the existing site. This means any expansions or repowering of the facility at the existing site or any affiliate construction of a new site at this location will continue to take its full natural gas requirements from SoCalGas.

SoCalGas may assign Placerita's full gas requirements agreement to any new owner or operator of the facilities, in any such case where the facility is sold to another party and the facility continues to perform its same function.

Placerita's parent company, AES Corporation, has agreed to provide a guarantee to SoCalGas. Guarantor, AES Corporation, guarantees that the gas services to Placerita will be paid according to the applicable Commission tariff rates in effect, and the Obligations as stated within the Tariff Agreement Guarantee Contract.

Placerita and SoCalGas have agreed to terminate the prior long term gas transmission service contract upon approval of the new contract by the Commission.

NOTICE

Advice Letter 2806 was served on other utilities, government agencies, and to all interested parties who request such notifications, in accordance with the requirements of General Order 96-A. Public notice of this filing has been made by publication in the Commission Calendar.

PROTESTS

No party protested Advice Letter 2806.

DISCUSSION

As a package, the Termination Agreement is in the best interest of SoCalGas and its ratepayers. The acceptance of Placerita and, through its guaranty from its corporate owner, AES Corporation, the ten year liability for the full gas requirements at the existing site or any new affiliates' construction at this location, provides SoCalGas with the opportunity to capture existing and potential future economic benefits related to transporting gas for electric generation. Moreover, the lingering dispute between the parties will be resolved, with Placerita paying SoCalGas the disputed amount. Placerita agrees to obtain gas transportation through SoCalGas' standard tariff service agreement at tariff rates, eliminating the potential need for litigation. SoCalGas is spared the cost of litigation fees.

SCE's request to approve the PPA buyout agreement with Placerita in A.99-05-006 is adopted today in D.99-08-008.

COMMENTS

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code Section 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

FINDINGS

1. By Advice Letter 2806, filed May 5, 1999, SoCalGas requests approval of a Termination Agreement and a new standard tariff transmission service contract with AES Placerita, Inc.

2. The Termination Agreement contains two subcontract agreements that guarantee that the prior disputed amounts will be paid and the guarantee from the parent company, AES Corporation, that Placerita will abide by the terms and agreements within the new gas transmission service contract.

3. The initial GTSC was approved on September 14, 1988, by Resolution G-2808.

4. The GTSC was amended twice in 1992, and a dispute developed between the SoCalGas and Placerita in 1994.

5. As a direct result of the electric industry restructuring, Placerita has entered into a PPA buyout agreement with Southern California Edison Company (SCE).

6. The acceptance of Placerita and, through its Guarantor, AES Corporation, for ten years of the liability for the full gas requirements at the existing site or any new affiliates's construction at this location, provides SoCalGas with the opportunity to capture existing and potential future economic benefits related to transporting gas for electric generation.

7. Advice Letter 2806 is reasonable.

THEREFORE, IT IS ORDERED that:

1. Southern California Gas Company's request in Advice Letter 2806 for approval to its termination agreement and its new Ten Year Tariff Agreement between AES Placerita, Inc. is approved.

2. This Resolution is effective today.

I hereby certify that the foregoing Resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission held on August 5, 1999, the following Commissioners voting favorably thereon:

Wesley Franklin

WESLEY M. FRANKLIN
Executive Director

RICHARD A. BILAS
President
HENRY M. DUQUE
JOSIAH L. NEEPER
JOEL Z. HYATT
CARL W. WOOD
Commissioners