PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

LEGAL DIVISION

RESOLUTION L-237
JUNE 24, 1987

R E S O L U T I O N

ORDER AUTHORIZING COMMENTS IN SUPPORT OF A PROPOSED SETTLEMENT IN FEDERAL ENERGY REGULATORY COMMISSION DOCKET NO. RP86-157-000 AND APPROVING ALLOCATION OF COSTS PURSUANT TO SUCH SETTLEMENT

SUMMARY

El Paso Natural Gas Company (El Paso) has filed an Offer of Settlement in Docket No. RP86-157-000 before the Federal Energy Regulatory Commission (FERC). The Offer of Settlement would permit El Paso to directly bill its customers, including California local distribution companies, for the unrecovered undercollection in its FERC rates due to reduced revenues from the sale of natural gas liquids. As a part of the settlement, El Paso agrees to absorb a substantial portion of the undercollection and to waive interest costs such that the California distribution companies and their customers will save approximately $75 million in gas costs. As a further part of the settlement Pacific Gas and Electric Company (PG&E) and Southern California Gas Company (SoCal) have agreed to an allocation of the costs to be directly billed to California. This order finds that allocation to be reasonable and authorizes the filing of comments on behalf of the Commission which support the proposed settlement under consideration by the FERC.

BACKGROUND

1. In El Paso's last general rate case before the FERC, Docket No. RP85-58, El Paso and its customers stipulated to a settlement which included a credit against the cost of service of the pipeline for revenues obtained through the sale of natural gas liquids removed from the gas produced for El Paso's system supply.

2. However, since the 1985 settlement in that rate case, the combination of drastically lower prices for petroleum products and reduced sales on the El Paso system has led to a substantial undercollection of costs to the extent that liquids revenues have not been as great as the credit applied against El Paso's cost of service. The RP85-58 settlement provided that any such undercollection would be recovered by a surcharge on El Paso's commodity rate.

3. The surcharge as presently calculated renders El Paso's gas uncompetitive with alternative supplies available to California distributors, thus further reducing takes of El Paso system supply gas. In order to avoid the negative consequences of the surcharge, El Paso filed Docket No. RP86-157-000 at the FERC,

seeking to directly bill the accumulated undercollection and to remove the surcharge from its commodity rates. Subsequent to a technical conference between El Paso, the FERC staff and other intervenors in the proceeding, including the Commission staff, a settlement has been proposed to the FERC and submitted for formal comment by the parties.

4. Under the terms of the settlement, on July 1, 1987 El Paso will terminate the liquids revenue credit and tracking mechanism currently in its rates and will begin to directly bill each of its customers for its respective allocated share of the undercollection owing to reduced liquids revenues which would have accrued through July 1, 1988, when the next El Paso rate case is scheduled to become effective. The amount to be directly billed to each customer will be amortized over a 36 month period. El Paso will assume all further risk of underrecovery of liquids revenues through the period ending July 1, 1988 and will further waive all interest costs associated with the undercollection during that time.

5. The amount to be directly billed to California as contrasted with El Paso's East of California customers is allocated on the original allocation adopted in Docket No. RP85-58, that is to say approximately $299 million (87%) to California and $44 million (13%) to East of California.

6. PG&E and SoCal have agreed to stipulate to the allocation of California's share of the amount to be directly billed as between their respective companies. PG&E's share of the amount to be billed to California is to be $82,039,880, while SoCal's share is to be $217,000,000.

DISCUSSION

1. The proposed settlement achieves an approximate reduction of 20% in the amount of liquids undercollections and interest which California ratepayers would have otherwise faced under El Paso's existing rate treatment of liquids revenues, saving California ratepayers some $75 million.

2. El Paso will retain all risk of further undercollections of liquids revenues and will thus retain an incentive to maintain a competitive commodity cost of gas to as to maintain a certain level of sales.

3. The Commission also takes note of the fact that in order to arrive at a settlement SoCal and PG&E agreed to an allocation of liquids revenue undercollections to be billed to both distributions which does not follow the precise allocation ratios adopted in the settlement of Docket No. RP85-58. However, as this allocation was agreed to by the two distributors for the purpose of facilitating a settlement intended to be beneficial to the ratepayers of both companies, the Commission is content that

the allocation as between SoCal and PG&E is reasonable and neither distributor's agreement to the allocation of direct billing costs as between their respective companies shall be the subject of a reasonableness review in future proceedings before this Commission.

4. In consideration of the foregoing, the Commission should authorize the filing of comments on its behalf before the FERC indicating that the Commission supports the Offer of Settlement now under consideration in Docket No. RP86-157-000.

FINDINGS

1. The settlement proposed in FERC Docket No.RP86-157-000 will reduce the cost of liquids revenues undercollections to California ratepayers by approximately $75 million.

2. The allocation of costs to be directly billed to California as between PG&E and SoCal is reasonable.

THEREFORE:

1. The General Counsel is authorized to file comments in FERC Docket No. RP86-126-000 indicating that the Commission supports the Offer of Settlement now under consideration therein.

2. The allocation of direct billing costs associated with El Paso's liquids revenue undercollection as between PG&E and SoCal is found to be reasonable and shall not be an issue in any reasonableness review in future proceedings before this Commission.

3. This Resolution is effective immediately.

I certify that this Resolution was adopted by the Public Utilities Commission at its regularly scheduled meeting June 24, 1987. The following Commissioners approved it:

Victor Weisser

Executive Director

STANLEY W. HULETT
President
FREDERICK R. DUDA
JOHN B. OHANIAN
Commissioners

Commissioner Donald Vial, being necessarily absent, did not participate.

Commissioner G. Mitchell Wilk, being necessarily absent, did not participate.