

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-3087
OCTOBER 20, 1993

R E S O L U T I O N

RESOLUTION G-3087. PACIFIC GAS & ELECTRIC COMPANY.
SUBMITS PROPOSED TARIFFS AND RULES TO EFFECTUATE FULL
IMPLEMENTATION OF THE CAPACITY BROKERING PROGRAM
PURSUANT TO DECISION 93-09-084 AND CONSISTENT WITH THE
PROVISIONS IN DECISIONS 91-11-025, 92-07-025, ET AL.

BY ADVICE LETTER 1714-G-F, FILED ON OCTOBER 8, 1993.

SUMMARY

1. Decision (D.)93-09-084 required Pacific Gas & Electric Company (PG&E) to file by advice letter the necessary revisions to its tariffs to implement full capacity brokering over the PG&E system by November 1, 1993.
2. PG&E filed, by Advice Letter 1714-G-F, the necessary tariff revisions on October 8, 1993.
3. The Commission's Division of Ratepayer Advocates and Sunrise Energy Services, Inc. and SunPacific Energy Management protested Advice Letter 1714-G-F.
4. This Resolution requires PG&E to book all core-related Canadian demand charges to a subaccount within its Purchased Gas Account. None of these charges will be included in core rates until found reasonable by the Commission.
5. PG&E is also required to establish a subaccount, within the Purchased Gas Account, to book all upstream Canadian pipeline demand charges that are directly related to serving the needs of core subscription customers.
6. PG&E must file monthly revisions of its Canadian reservation fee in order to reflect the actual cost of procuring gas for core subscription service.
7. This Resolution approves PG&E's tariffs as modified by the Commission.

BACKGROUND

1. In Rulemaking (R.)88-08-018, the Commission undertook to develop a program to allow end-users the ability to directly acquire the rights to use interstate pipeline capacity currently held by California's gas utilities. This process, called capacity brokering, was being developed by the Commission at the same time that the Federal Energy Regulatory Commission (FERC) was developing similar rules regarding the allocation of interstate pipeline capacity at the federal level.
2. In Decision (D.)91-11-025 and D.92-07-025 the Commission developed the policy framework and rules that would apply to capacity brokering by California's gas utilities.
3. On August 27, 1993, PG&E filed a petition for modification of D.91-11-025 and D.92-07-025 so that PG&E could broker capacity over the Pacific Gas Transmission (PGT) system effective November 1, 1993.
4. The Commission, in D.93-09-084, granted, with certain modifications, PG&E's petition to modify D.91-11-025 and D.92-07-025. This decision ordered that PG&E submit a compliance filing to revise its service agreements and Rule 21.1 requirements for capacity brokering. This would allow PG&E to conduct an open season for interested parties to acquire PG&E's interstate capacity on the PGT system. On September 22, 1993, PG&E filed Advice Letter 1714-G-E to implement these changes.
5. D.93-09-084 also required that PG&E file a subsequent advice letter containing all other revised tariffs necessary to implement full capacity brokering by November 1, 1993. The advice letter was to have an abbreviated protest and response period.
6. On October 8, 1993, PG&E filed Advice Letter 1714-G-F, superseding Advice Letters 1714-G-A, 1714-G-B, 1714-G-C and 1714-G-D. Combined with PG&E's previously approved filing in Advice Letter 1714-G-E, PG&E has filed all tariffs necessary to implement full capacity brokering by November 1, 1993.

PROTESTS

1. The Commission's Division of Ratepayer Advocates (DRA) protested PG&E's filing on October 15, 1993. In its protest, DRA believes that there is still far too much uncertainty regarding the amount of PG&E's upstream Canadian pipeline demand charges that should be recovered in rates from core and core-subscription charges. DRA protests that PG&E has appeared to overstate the amount of Canadian demand charges to be paid by core ratepayers. Accordingly, DRA recommends that all of PG&E's Canadian charges be booked in a separate memorandum account and allowed into rates only after the Commission has approved their reasonableness. DRA is also concerned that, given the complexity of the rate changes proposed by PG&E, adequate time

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is not available to review the rates for accuracy and consistency with Commission policy.

2. Sunrise Energy Services, Inc. and SunPacific Energy Management (Sunrise) also protested PG&E's filing on October 15, 1993. Sunrise protests PG&E's calculation of the experimental core transportation rate (Schedule G-CT). Although PG&E removed Canadian demand charges in calculating the Core Fixed Cost Account (CFCA) component of the rate, PG&E neglected to add Canadian demand charges back into the core cost of gas as required by D.93-09-084. According to Sunrise, PG&E's core cost of gas as referenced in Schedule G-CT should be 1.784 cents per therm higher than is shown in PG&E's advice letter filing.

3. PG&E responded to these protests on October 18, 1993.

DISCUSSION

Exclusion in Rates of Upstream Canadian Pipeline Demand Charges

1. In pro forma tariffs filed with its August 27th Petition to Modify D.91-11-025 and D.92-07-025, PG&E proposed to recover in rates all of its costs associated with upstream Canadian pipeline demand charges through its Core Fixed Cost Account (CFCA). This included approximately \$100 million per year associated with pipeline capacity on the NOVA, ANG, and Westcoast pipeline systems within Canada as well as the revenue requirement associated with Alberta & Southern (A&S), the aggregator for PGT's gas purchases in Canada. Previously, these costs were billed by A&S to PGT and, through PGT's tariffs, on to PG&E which allocated these costs between core and non-core customers according to the Commission's cost allocation procedures.

2. As the Commission stated in D.93-09-084, given the unbundling of interstate pipeline rates and the end of the PGT Sales Agreement as of November 1, 1993, PG&E's request to book all of these costs into its rates "appears to us to be too much costs, as well as the wrong account to which to book these costs" (D.93-09-084, p. 5, 11-12). Accordingly, the Commission ordered PG&E to include in CFCA rates for this advice letter filing only the costs associated with the core's share of PGT capacity. PG&E has done so in this filing.

3. As part of this advice letter filing, D.93-09-084, Ordering Paragraph #6 also allows PG&E to:

[B]ook to its Purchased Gas Account (PGA) any gas costs or demand charges associated with north-of-the-border Canadian pipelines, but only to the extent that they are directly related to serving core needs (emphasis added).

4. In this advice letter filing, DRA protests that once again, PG&E appears to have included far too much costs associated with Canadian demand charges into its proposed tariffs. PG&E responds to DRA's protest that since PG&E was not given

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authority to change BCAP adopted costs for the purpose of calculating core rates, "PG&E allocated only those BCAP adopted Canadian charges associated with reserving 600 MMcf/d for the core." (PG&E Response to Protests, October 18, 1993, p. 2).

5. CACD agrees with DRA that once again PG&E appears to have booked excessive costs related to Canadian demand charges into its tariffs for core customers. Although CACD realizes that there are still uncertainties regarding the restructuring of Canadian gas arrangements, it also appears that PG&E has included in its tariffs costs that PG&E should already have known would no longer be incurred by PG&E's core ratepayers. For example, PG&E appears to have included in its rates the core's share of A&S revenue requirement, despite the fact that PG&E's ratepayers will no longer be responsible for these costs after November 1, 1993.¹

6. Similarly, although PG&E states that it has calculated the core's share of Canadian demand charges based on reserving 600 MMcf/d of capacity for the core, in actuality PG&E has calculated its core rates based on the core's percentage (not volume) of upstream Canadian demand charges. Thus, PG&E's advice letter filing has core ratepayers² responsible for 58% of all upstream capacity on the NOVA and ANG pipeline systems. Although 58% of upstream capacity on the ANG system is approximately 600 MMcf/d, 58% of NOVA's upstream capacity is almost 1,300 MMcf/d.³ PG&E's calculations therefore appear inconsistent.

7. D.93-09-084, Ordering Paragraph #9 requires that:

PG&E's October 8, 1993 filing shall include all necessary revisions to include: the most current rates authorized by the Commission; any changes resulting from the restructuring of Canadian gas supply agreements; the

1 On November 1, 1993 PGT's Purchased Gas Adjustment (PGA) mechanism will be terminated and PGT will no longer have authority to make cost-based sales to PG&E (See Pacific Gas Transmission Company, 64 FERC 61,052 at 61,483-485 (1993)). Therefore, specific costs, such as upstream Canadian transportation costs and A&S costs, will no longer be part of PGT's sales rates. In addition it appears that the International Agreement between PGT and A&S will be terminated as of November 1, 1993, and PGT will become solely a transporter of natural gas (See Pacific Gas Transmission Company, 65 FERC 61,005 mimeo at p. 4, ftn. 9 (1993)).

2 Including core subscription customers.

3 See "Full Capacity Brokering Model Assumption Area Table" in PG&E's workpapers accompanying Advice Letter 1714-G-F. See also DRA's protest p. 1-2.

results of PG&E's intrastate and core subscription open seasons; and any other modifications required by either the Commission or FERC.

Given the failure of PG&E to adequately reflect known changes (such as the elimination of the A&S revenue requirement) as well as the continuing uncertainty regarding the amount of Canadian pipeline capacity, if any, needed to serve core needs, CACD shares DRA's concerns about billing to the core any costs related to Canadian demand charges.

8. Although CACD shares DRA's concerns about Canadian upstream costs, CACD disagrees with DRA's proposed remedy. DRA requests that the Commission establish a separate memorandum account to track all upstream Canadian demand charges. This approach is inconsistent with D.93-09-084 which allows PG&E to book all Canadian demand charges directly related to meeting core needs to its PGA.

9. But, given the failure of PG&E to accurately reflect known changes in Canadian demand charges, and in order to provide adequate protection to core ratepayers, CACD recommends that PG&E establish a subaccount, within the PGA, to book all core-related Canadian demand charges. None of these charges should be included in rates until found reasonable by the Commission. By this action, PG&E, its shareholders and ratepayers are on notice that all costs incurred by PG&E for Canadian demand charges are subject to future reasonableness and allocation decisions.

Canadian Reservation Charges for Core Subscription Service

10. PG&E proposes that the costs assigned to core subscription customers for Canadian demand charges be paid by means of a monthly reservation charge. This charge would be similar in nature to the interstate reservation fee currently paid by core subscription customers for their share of interstate pipeline costs. PG&E, in its response to Sunrise's protest, states that it will update its Canadian costs once its Canadian procurement contracts are finalized and have received the appropriate regulatory approval.

11. Although CACD recommends that PG&E should not be allowed to collect in rates any Canadian costs associated with service to core customers, CACD believes that PG&E's proposal to collect, through a reservation fee, the Canadian demand charges associated with core subscription service is reasonable.

12. The reason for this different treatment between core and core-subscription customers is due to the different true-up mechanisms that exist for each class. Core rates for PG&E customers will not be changed until PG&E files its next cost-allocation proceeding. Core subscription rates, by contrast, are changed monthly to reflect actual changes in costs.

13. CACD strongly recommends that the costs that PG&E assigns to its Canadian reservation charge be modified in a timely manner to reflect the actual cost of procuring gas for core subscription service. On an ongoing basis, PG&E should incorporate any changes to its Canadian reservation charge in its routine monthly revision of the weighted average cost of gas (WACOG) for core subscription customers.

14. Additionally, CACD recommends that PG&E establish a subaccount, within the PGA, to record all Canadian demand charges related to its core subscription service. Consistent with Commission rules and D.93-09-084, all costs recorded into this subaccount remain subject to reasonableness review.

FINDINGS

1. In its Advice Letter 1714-G-F, PG&E has removed all upstream Canadian pipeline demand charges from its Core Fixed Cost Account (CFCA) as required by D.93-09-084.

2. D.93-09-084 allows PG&E to book to its Purchased Gas Account (PGA) any gas costs or demand charges associated with Canadian pipelines, but only to the extent that they are directly related to serving core needs.

3. In Advice Letter 1714-G-F, PG&E appears to have booked excessive costs related to Canadian demand charges into its tariffs for core customers, including some costs PG&E should already have known would not be borne by core ratepayers.

4. D.93-09-084, requires that Advice Letter 1714-G-F should include all necessary revisions to include: the most current rates authorized by the Commission; any changes resulting from the restructuring of Canadian gas supply agreements; the results of PG&E's intrastate and core subscription open seasons; and any other modifications required by either the Commission or FERC.

5. There is still too much uncertainty regarding not only the restructuring of Canadian gas arrangements but also the amount of Canadian pipeline capacity, if any, PG&E needs to serve core customers.

6. Given the apparent failure of PG&E to adequately reflect known changes in its Canadian costs; the uncertainty regarding the restructuring of Canadian gas arrangements; and the continuing uncertainty regarding the amount of Canadian pipeline capacity, if any, needed to serve core needs; PG&E should not include in its rates for core customers any costs related to Canadian demand charges.

7. PG&E should establish a subaccount, within the PGA, to book all core-related Canadian demand charges. None of these charges will be included in core rates until found reasonable by the Commission.

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8. PG&E should be allowed to recover its Canadian-related costs from core subscription customers through a reservation charge, provided that PG&E updates its Canadian costs once its Canadian procurement contracts are finalized and have received the appropriate regulatory approval. This reservation charge should be continually modified in a timely manner to reflect the actual cost of procuring gas for core subscription service.

9. Canadian demand charges collected by reservation fee from core subscription customers are subject to reasonableness review by the Commission.

THEREFORE, IT IS ORDERED that:

1. PG&E shall file revised tariffs on October 25, 1993 necessary to implement full capacity brokering on the PGT system by November 1, 1993 and shall include all changes ordered by the Commission in today's Resolution.

2. PG&E's October 25, 1993 filing shall incorporate all necessary revisions including: the most current rates authorized by the Commission; any changes resulting from the restructuring of Canadian gas supply agreements; the results of PG&E's intrastate and core subscription open seasons; and any other modifications required by either the Commission or FERC.

3. PG&E shall establish a subaccount, within the PGA, to book all upstream Canadian pipeline demand charges that are directly related to serving core needs. None of these charges shall be included in core rates until found reasonable by the Commission.

4. PG&E shall establish a subaccount, within the PGA, to book all upstream Canadian pipeline demand charges that are directly related to serving the needs of core subscription customers. PG&E shall collect these costs from its core subscription customers through use of a monthly reservation fee. All rates collected from core subscription customers for Canadian-related charges shall remain subject to reasonableness review.

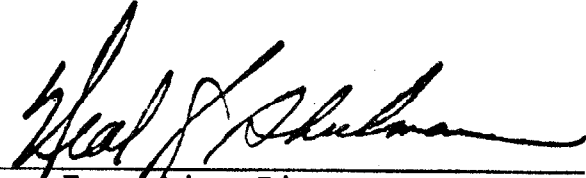
5. PG&E shall revise its monthly core subscription reservation fee for Canadian-related costs as soon as its Canadian procurement contracts are finalized and have received the appropriate regulatory approval. PG&E shall file monthly revisions to this charge to reflect the actual cost of procuring gas for core subscription service.

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6. All costs reflected in the rates of PG&E's filed tariffs, including Canadian pipeline costs, shall be subject to further reasonableness review in accordance with Commission rules.

7. This resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on October 20, 1993. The following Commissioners approved it:



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