PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-3088
December 17, 1993

R E S O L U T I O N

RESOLUTION G-3088. PACIFIC GAS AND ELECTRIC COMPANY AND SOUTHERN CALIFORNIA GAS COMPANY REQUEST APPROVAL OF A DISPLACEMENT SERVICE AGREEMENT BETWEEN THE UTILITIES TO IMPROVE OPERATIONAL EFFICIENCIES OF THE UTILITIES' SYSTEMS

BY PACIFIC GAS AND ELECTRIC COMPANY ADVICE LETTER 1796-G AND SOUTHERN CALIFORNIA GAS COMPANY ADVICE LETTER 2212 FILED ON SEPTEMBER 20, 1993.

SUMMARY

1. Pacific Gas and Electric Company (PG&E) and Southern California Gas Company (SoCalGas) request approval of a Displacement Service Agreement between the utilities to improve operational efficiencies of the utilities' systems.

2. Under the agreement, a planned pipeline interconnection between SoCalGas' Line 3000 and PG&E's Line 300 at Crater Road in the Mojave Desert, or any other pipeline interconnection on the east end of the SoCalGas system, will be utilized at either party's request to deliver up to 260,000 decatherms per day (Dth/d) during the months of December, January, and February, and up to 200,000 Dth/d during the months of November and March into the SoCalGas system.

3. During such receipts into the SoCalGas system, SoCalGas shall "deliver" an equivalent quantity of gas into the PG&E system at the existing Kern River Station interconnection between SoCalGas' Line 7200 and PG&E's Line 300 A and B or another mutually acceptable interconnect point.

4. Two protests were filed to Advice Letters 1796-G and 2212. One was filed by Union Pacific Fuels, Inc. and Chevron U.S.A. Inc. The other protest was filed by San Diego Gas & Electric Company and Southern California Edison Company.

5. This Resolution grants the utilities' request to enter a Displacement Service Agreement.

BACKGROUND

1. On September 20, 1993, PG&E and SoCalGas filed Advice Letters 1796-G and 2212, respectively, requesting approval of a Displacement Service Agreement (Agreement) between PG&E and SoCalGas.

2. PG&E states that this Agreement will provide the equivalent of an incremental expansion of Line 300 capacity during winter peak months or emergency periods.

3. SoCalGas states that this Agreement is the most cost effective means to optimize efficiency of the SoCalGas eastern system in order to meet firm service load requirements during the winter heating season. The demand in the eastern portion of SoCalGas' system is primarily residential. An example of the benefits of the Agreement is when all SoCalGas' storage fields are on maximum withdrawal and there are low volume deliveries from customers of El Paso and Transwestern pipelines during a 1-in-10 cold day occurrence.

4. Upon 24-hour request by either utility, PG&E shall deliver or SoCalGas shall receive up to 260,000 Dth/d during the months of December, January and February and deliver up to 200,000 Dth/d during the months of November and March at the planned interconnection between PG&E Line 300 and SoCalGas Line 3000 (Crater Road Interconnect) into the SoCalGas system or any other pipeline interconnection on the east end of SoCalGas' system. Such delivery/receipt is subject to the ability of PG&E to deliver or SoCalGas to receive such quantities of gas at the requested point of interconnection.

5. In turn, SoCalGas will actually reduce deliveries from the north end of the system at the existing pipeline interconnection between SoCalGas' Line 7200 and PG&E's Line 300 A and B (Kern River Station) by an equivalent quantity of gas.

6. The Agreement includes a provision for a waiver of reimbursement pursuant to the Compression Facilities Agreement between SoCalGas and PG&E dated February 24, 1992. Under the original terms of the Compression Facilities Agreement, SoCalGas has the option to require PG&E to reimburse SoCalGas for costs associated with the construction of the interconnection and compression facilities.

7. The negotiated rate for displacement service under this Agreement is 3 cents per decatherm for every decatherm delivered into SoCalGas' eastern system. The requesting utility pays the Displacement rate.

8. The rate is requested to be effective July 23, 1993, the date of the Agreement's execution, for a term of two years. After two years, the Agreement will be effective on a month-to-month basis. Either party may terminate the Agreement with three months written notice to the other party.

PROTESTS

1. Union Pacific Fuels, Inc. (UPFI) and Chevron U.S.A. Inc. (Chevron) filed a joint protest to Advice Letters 1796-G and 2212 on October 12, 1993.

2. San Diego Gas & Electric Company (SDG&E) and Southern California Edison Company (SCE) filed a joint protest on October 12, 1993.

3. On October 25, 1993, SoCalGas filed a response addressing the protests of UPFI/Chevron and SDG&E/SCE. Although SoCalGas' response was delinquent, the Commission Advisory and Compliance Division (CACD) has given it full consideration.

DISCUSSION

1. In their joint protest of Advice Letters 1796-G and 2212, UPFI/Chevron state that they are concerned about the waiver of reimbursement provision in the Agreement. Currently, SoCalGas charges an interim access surcharge to shippers delivering gas into the SoCalGas system at the Wheeler Ridge interconnection which receives gas from Kern River, Mojave or the PG&E Expansion. UPFI/Chevron urges that the Commission reject the advice letter filing if SoCalGas cannot provide assurances that the displacement service <u>will not</u> cause an increase in costs which would ultimately result in an increase of the access surcharge.

2. UPFI/Chevron also request that the effect of the Agreement on SoCalGas' Line 225 should be reviewed in SoCalGas' Biennial Cost Allocation Proceeding (BCAP). Line 225 is part of SoCalGas' mainline system which transports gas to Wheeler Ridge and serves the Los Angeles loop transmission system. Modifications to Line 225 were foreseen because shippers had reserved capacity on PG&E's Expansion pipeline which would transport Canadian gas to southern California. In D.93-05-009, the Commission authorized SoCalGas to include the costs of modifications to Line 225 in an access surcharge. This decision also authorized the inclusion of modifications to Line 225 in the interim access surcharge. UPFI/Chevron are concerned because displacement service could increase deliveries at the east end of SoCalGas' system while potentially reducing the need for capacity and compression on Line 225.

3. SoCalGas responds that it is not proposing that the Agreement affect the Wheeler Ridge access surcharge. Neither does the Agreement diminish the need for system enhancements since such modifications were designed to provide firm access on an annual basis to shippers wishing to enter SoCalGas' system.

4. SoCalGas points out that under the Agreement, displacement service is authorized only during winter months. SoCalGas agrees that the BCAP would be the appropriate forum for consideration of issues related to the final access surcharge at Wheeler Ridge.

5. CACD believes that UPFI/Chevron's requests to review, in SoCalGas' BCAP, the impact of the Agreement on shippers delivering gas to Wheeler Ridge and to address the need for enhancements to Line 225 are reasonable.

6. In their joint protest, SDG&E/SCE believe that the utilities' operational efficiencies achieved by displacement service are a direct result of certain shippers transporting Canadian gas via the PG&E Expansion Project and enhancements to the Wheeler Ridge facilities. The parties point out that these shippers must pay an incremental surcharge for these facilities.

7. SDG&E/SCE request that in proceedings related to the PG&E Expansion Project and the Wheeler Ridge Interconnection Facilities[1], SoCalGas and PG&E should quantify the benefits to their systems resulting from the Displacement Agreement and that the Commission consider whether the value of the benefits provided by the Agreement should be credited against the respective costs of these projects.

8. SoCalGas stated that the need for displacement service is attributable to customers subscribing to new pipelines such as the PG&E Expansion in order to transport Canadian gas supplies. This circumstance has caused a shift in delivery points on the SoCalGas system from Transwestern and El Paso to PGT/PG&E Expansion pipelines. With the Displacement Agreement, SoCalGas is seeking a cost-effective approach to assure that peak period demand on the east end of the SoCalGas' system continues to be served using existing capacity on El Paso and Transwestern pipelines.

9. Although SoCalGas agrees that consideration of this issue should be reserved for its pending BCAP, it notes that the Agreement serves to mitigate the "operational consequences" of the new pipelines. Therefore, SoCalGas does not believe it is appropriate that shippers on the new pipelines receive a credit of revenues derived from the Agreement.

10. CACD agrees with both SDG&E/SCE and SoCalGas that consideration of the issue of providing a credit from revenues obtained from displacement service to shippers using the PG&E Expansion and delivering to Wheeler Ridge should be reserved for the SoCalGas BCAP.

11. CACD believes the Displacement Service Agreement is a reasonable means by which both PG&E and SoCalGas can efficiently utilize their systems. Therefore, CACD recommends approval of the Displacement Service Agreement.

---

1 The Commission is reviewing the PG&E Expansion Project in A.92-12-043 and A.93-03-038. The final access surcharge for Wheeler Ridge will be determined in SoCalGas' BCAP, A.93-09-006.

12. Further, CACD recommends the Commission deny without prejudice the protests to Advice Letters 1796-G and 2212. UPFI/Chevron and SDG&E/SCE should present their specific concerns in SoCalGas' BCAP.

13. CACD also notes that both Advice Letters 1796-G and 2212 mention the possibility of constructing a pipeline interconnect between PG&E's Line 300 and SoCalGas' Line 3000 at Crater Road. Through discussions with PG&E and SoCalGas, CACD understands that the utilities will be utilizing SoCalGas' receipt point at the California border. Should use of the receipt point prove to be difficult, the utilities will consider construction of the Crater Road interconnect.

14. CACD wishes to emphasize that its recommendation for approval of the Agreement should not be misconstrued as a determination of reasonableness or feasibility for constructing such an interconnect. CACD's recommendation specifically addresses PG&E and SoCalGas' use of existing facilities.

FINDINGS

1. PG&E and SoCalGas filed Advice Letters 1796-G and 2212, respectively, requesting approval of a Displacement Service Agreement between PG&E and SoCalGas.

2. This Agreement will benefit PG&E because it will provide the equivalent of an incremental expansion of Line 300 capacity during winter peak months or emergency periods.

3. This Agreement is beneficial to SoCalGas because it is the most cost effective means to optimize efficiency of the SoCalGas eastern system in order to meet firm service load requirements during the winter heating season.

4. Upon 24-hour request by either utility, PG&E shall deliver or SoCalGas shall receive up to 260,000 Dth/d during the months of December, January and February and deliver up to 200,000 Dth/d during the months of November and March at the Crater Road Interconnect or any other pipeline interconnect on the east end of SoCalGas' system. This delivery/receipt is subject to the ability of PG&E to deliver or SoCalGas to receive such quantities of gas at the requested point of interconnection.

5. In turn, SoCalGas will reduce deliveries from the north end of the system at its Kern River Station by an equivalent quantity of gas.

6. The Agreement includes a provision for a waiver of reimbursement pursuant to the Compression Facilities Agreement between SoCalGas and PG&E dated February 24, 1992. Under this waiver, PG&E is not required to reimburse SoCalGas for compression facilities at Wheeler Ridge.

7. The rate for displacement service is 3 cents per decatherm for every decatherm delivered into SoCalGas' eastern system. The requesting utility pays the Displacement rate.

8. The rate will be effective December 17, 1993, the date of the Commission's approval of the Agreement, for a term of two years and effective on a month-to-month basis thereafter. Either party may terminate the Agreement with three months written notice to the other party.

9. UPFI/Chevron urges that the Commission reject the advice letter filing if SoCalGas cannot provide assurances that the displacement service <u>will not</u> cause an increase in costs which would ultimately result in an increase of the access surcharge to shippers delivering gas into the SoCalGas system at the Wheeler Ridge interconnection.

10. UPFI/Chevron also request that the effect of the Agreement on SoCalGas' Line 225 should be reviewed in SoCalGas' BCAP. UPFI/Chevron are concerned because displacement service could increase deliveries at the east end of SoCalGas' system while potentially reducing the need for capacity and compression on Line 225.

11. SoCalGas responded that the Agreement does not diminish the need for system enhancements since such modifications were designed to provide firm access on an annual basis to shippers wishing to enter SoCalGas' system.

12. SoCalGas points out that under the Agreement, displacement service is authorized only during winter months.

13. UPFI/Chevron's requests to review, in SoCalGas' BCAP, the impact of the Agreement on shippers delivering gas to Wheeler Ridge and to address the need for enhancements to Line 225 are reasonable.

14. In their joint protest, SDG&E/SCE assert that the utilities' operational efficiencies achieved by displacement service are a direct result of certain shippers transporting Canadian gas via the PG&E Expansion Project and enhancements to the Wheeler Ridge facilities.

15. SDG&E/SCE request that SoCalGas and PG&E quantify the benefits to their systems resulting from the Displacement Agreement and that the Commission consider whether the value of the benefits provided by the Agreement should be credited against the respective costs of these projects.

16. SoCalGas agrees that consideration of this issue should be reserved for its pending BCAP.

17. Consideration of the issue of providing a credit from revenues obtained from displacement service to shippers using the PG&E Expansion and delivering to Wheeler Ridge should be reserved for the SoCalGas BCAP.

18. The Displacement Service Agreement is a reasonable means by which both PG&E and SoCalGas can efficiently utilize their systems.

19. The protests to Advice Letters 1796-G and 2212 should be denied without prejudice. UPFI/Chevron and SDG&E/SCE should present their specific concerns in SoCalGas' BCAP.

20. PG&E and SoCalGas will utilize SoCalGas' receipt point at the California border. Should use of the receipt point prove to be difficult, the utilities will consider construction of the Crater Road interconnect.

21. Approval of the Agreement should not imply a determination of reasonableness or feasibility for constructing such an interconnect.

THEREFORE, IT IS ORDERED that:

1. The displacement service agreement proposed by Pacific Gas and Electric Company, in Advice Letter 1796-G and Southern California Gas Company, in Advice Letter 2212, is approved by today's Resolution.

2. The displacement service agreement shall be effective today.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 17, 1993. The following Commissioners approved it:

Neal J. Shulman

Executive Director

DANIEL Wm. FESSLER
President
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
P. GREGORY CONLON
JESSIE J. KNIGHT, Jr.
Commissioners