

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND
COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-3115
April 6, 1994

R E S O L U T I O N

RESOLUTION G-3115. PACIFIC GAS AND ELECTRIC COMPANY.
REQUEST FOR APPROVAL OF AN EXCEPTIONAL CASE FACILITIES
GAS LINE EXTENSION AGREEMENT WITH PHILLIPS
LABORATORY AT EDWARDS AIR FORCE BASE.

BY ADVICE LETTER 1807-G, FILED ON OCTOBER 28, 1993

SUMMARY

1. Pacific Gas and Electric Company (PG&E) requests approval of an Exceptional Case Facilities Agreement (Agreement) between PG&E and Phillips Laboratory, (Phillips), at Edwards Air Force Base (Edwards AFB) in Kern County. The Agreement covers a 5.1 mile gas transmission main extension by PG&E to serve Phillips.
2. The Cogeneration Service Bureau protested PG&E Advice Letter 1807-G. The protest was that PG&E's allowance to Phillips towards the cost of the extension is supported by base annual revenue and not total annual revenue. Based on PG&E's response, Cogeneration Service Bureau withdrew its protest.
3. This Resolution grants the request.

BACKGROUND

1. The extension would serve Phillips at a site in Edwards AFB. It would be installed on property owned by the Bureau of Land Management (BLM) for about one-half mile and extend onto Edwards AFB property for 4.4 miles. There is no planned future development along this route. The possibility of additional service requests on BLM property and Edwards AFB's property is remote. Edwards AFB has existing gas service, but at a location several miles from the Phillips site. Additionally, Phillips eventually plans to purchase its own gas and transport it through PG&E's system. This will cause a significant reduction in base annual revenues. For these reasons, PG&E considers the extension speculative.
2. The utility's extension Tariff Rule 15 has an "Exceptional Cases" provision for unusual circumstances. The text of that provision is as follows:

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"In unusual circumstances, when the application of this Rule appears impractical or unjust to either party, PG&E or the applicant shall refer the matter to the Public Utilities Commission for special ruling or for the approval of special conditions which may be mutually agreed upon, prior to commencing construction."

3. Phillips Laboratory would initially take gas service under Gas Rate Schedule G-NR2. The base annual revenue would cover PG&E's capital costs and therefore no customer advances will be required. If and when Phillips purchases its own gas, the Agreement would require Phillips to pay a monthly cost-of-ownership charge on the portion of the capital costs not supported by base annual revenues. These terms assure that the unsupported capital costs will not become a burden to other ratepayers.

4. The cost-of-ownership charge issue was addressed in Commission Decision 86-12-014 on Complaint 84-10-037. The methodology for the Tariff Rule 2 was developed during workshops. In previous PG&E filings involving speculative ventures, the Commission has approved a cost-of-ownership formula (e.g. Resolutions E-3253, E-3256, E-3264, and E-3341). The cost-of-ownership charges were derived from the utility's Tariff Rule 2, Description of Service. The charges compensate the utility for the costs of owning, maintaining and replacing facilities and permits PG&E to recover its expenses from specific customers responsible for the expenditure, relieving other ratepayers of this burden.

5. This filing will not increase any rate or charge, cause the withdrawal of service or conflict with any rate schedule or rule except potentially to Phillips Laboratory.

6. PG&E's List of Contracts and Deviations would be revised to reflect the Agreement.

NOTICE

1. Public notification of this filing has been made by placing it on the Commission Calendar and by mailing copies of this filing to other utilities, governmental agencies, and to all interested parties who requested such notification.

PROTESTS

1. By letter of November 15, 1993, the Cogeneration Service Bureau protested PG&E Advice Letter 1807-G. The protest was that PG&E's allowance to Phillips toward the cost of the extension is base annual revenue times 3 and not total annual revenue.

2. Based on PG&E's November 23, 1993 response clarifying Advice Letter 1807-G, the Cogeneration Service Bureau withdrew its protest. The Bureau stated in its response that "The allowance actually provided to Phillips, one-year's base revenue divided by the utility financed annual cost-of-ownership percentage, is

comparable to, if not better than, one year's total revenue as provided in Gas Rule 15.D...".

DISCUSSION

1. PG&E has requested approval of an Exceptional Case Facilities Agreement between itself and Phillips Laboratory. An extension agreement qualifies for consideration as an exceptional case if it meets the following guidelines developed by the Commission Advisory and Compliance Division and PG&E and adopted by the Commission in Resolution E-3341:

- A. The extension is beyond the applicant's free footage allowance; and
- B. The characteristics of the proposed extension departs from utility "optimal" construction conditions as described in Note 1 (not included) and has one or more of the following characteristics:
 - The extension is speculative in nature; or
 - The extension involves unusual service requirements or
 - has unusual local site characteristics; or
 - The extension is in an isolated location; or
 - The connected load is small, intermittent or nonexistent; (e.g. sprinkler controls); and
- C. The total estimated cost of the job is greater than \$10,000; and
- D. PG&E has provided the applicant with the greater of either
 - a revenue based allowance or
 - a free footage allowance equivalent to \$10,000.

2. The speculative nature of this extension is the prime reason for exceptional case consideration. Expected revenues from Phillips may decrease significantly in the near future. Although Phillips will qualify for Gas Rate Schedule G-NR2 as the initial rate, Phillips will likely switch to a different supplier if offered a less costly source of supply.

3. Phillips is required by federal mandate to evaluate annually the costs of purchasing natural gas from PG&E or from an independent supplier for its Phillips site. Regardless of supplier, PG&E will continue to transport the gas on Tariff Rate Schedule G-FTS.

The likelihood of Phillips' leaving Schedule G-NR2 is high because of the following factors:

- (A) Phillips stated that it plans to evaluate the option of transporting its own natural gas supply after June, 1994.
- (B) Approximately 70% of the Air Force Bases in the United States purchase their own natural gas supplies.

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- (C) The United States Air Force has created a centralized procurement section to facilitate the acquisition of third-party gas and alternative gas sources.
 - (D) McClellan Air Force Base in Sacramento and Castle Air Force Base in Atwater transport their own natural gas supply.
 - (E) Richard Chais, a representative of Phillips, indicated in a meeting with Commission staff representative William Gaffney that Edwards would switch if offered a lower gas cost from another supplier.
4. The estimated cost of extending the gas transmission facilities is \$300,000 and the base annual revenue when Phillips transports their own gas is estimated at \$15,400.
5. The total estimated cost of this extension exceeds \$10,000.
6. According to PG&E's Gas Rule 15.D--"Main Extensions to Applicants for other than Priority P1 Service", the applicable construction allowance for an extension of this type is the gross annual revenue, as determined by PG&E. Phillips will take service under gas PG&E Rate Schedule G-NR2--Gas Sales to Large Nonresidential Core Customers. The associated gross annual revenue is estimated at \$127,100, with a base annual revenue of \$63,750. As the construction costs for the extension are \$300,000, another requirement for an exceptional case is met. (Job costs greater than \$10,000.)
7. Based on the application of the adopted guidelines, this main extension is an exceptional case. The Commission Advisory and Compliance Division supports PG&E's position that this is an exceptional case and recommends approval of the Agreement between PG&E and Phillips.

FINDINGS

1. PG&E filed Advice Letter 1807-G on October 28, 1993.
2. PG&E requests approval of an Exceptional Case Facilities Agreement between PG&E and Phillips Laboratory at Edwards Air Force Base in Kern County. The Agreement covers a 5.1 mile gas transmission main extension by PG&E to serve Phillips.
3. The extension would serve Phillips at a site in Edwards Air Force Base. It would be installed on property owned by the Bureau of Land Management for about one-half mile and extend onto Edwards Air Force Base property for 4.4 miles.
4. There is no planned future development along this route. The possibility of additional service requests on Bureau of Land Management property and Edwards Air Force Base property is remote.

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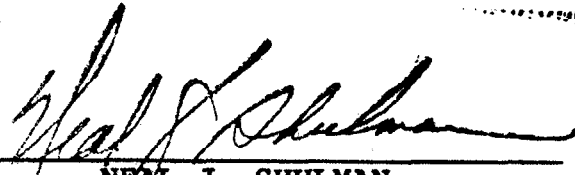
5. Edwards Air Force Base has existing gas service, but at a location several miles from the Phillips site.
6. Since Phillips eventually plans to purchase its own gas and transport it through PG&E's system which will cause a significant reduction in base annual revenues, PG&E considers the extension speculative.
7. Since this location for the main extension is in a remote area, is speculative, and has a job cost greater than \$10,000, the extension meets the guidelines for consideration as an Exceptional Case in PG&E Tariff Rule 15.E.7.
8. Phillips Laboratory at Edwards Air Force Base will not pay any costs initially for PG&E's construction of the 5.1 mile transmission line if Phillips stays with PG&E Rate Schedule G-NR2.
9. Should Phillips procure gas from another supplier (instead of PG&E), PG&E will assess cost-of-ownership charges for the unsupported portion of the facilities (the portion of the capital costs that is not supported by base annual revenues).
10. Based on the application of the adopted guidelines, this gas transmission line extension is an exceptional case.
11. The Commission Advisory and Compliance Division supports PG&E's position that this is an exceptional case and recommends approval of the Agreement between PG&E and Phillips Laboratory at Edwards Air Force Base.

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THEREFORE, IT IS ORDERED that:

1. The Agreement for a gas transmission line extension between Pacific Gas and Electric Company and Phillips Laboratory at Edwards Air Force Base is approved.
2. Pacific Gas and Electric Company is authorized to file the above Agreement in its List of Contracts and Deviations.
3. Advice Letter 1807-G shall be marked to show that it was approved by Commission Resolution G-3115.
4. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on April 6, 1994. 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