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Decision 89-12-016 December 6, 1989

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Investigation on the Commission's own motion into the Pacific Gas and Electric Company's gas gathering operations, including the reasonableness of its charges and how it shall structure and offer the service in the future.	I.88-11-012 (Filed November 9, 1988)

(Appearances are listed in Appendix A.)

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OPINION

This decision resolves outstanding issues in our investigation into Pacific Gas and Electric Company's (PG&E) gas gathering operations. We initiated this investigation to determine how gas gathering costs should be assessed, whether PG&E should form a separate subsidiary to offer gas gathering services, and whether PG&E should continue to install gas gathering facilities.

Summary

Our objective in developing gas gathering costs is to permit PG&E to compare, on a more equivalent basis, the prices of California gas to prices of out-of-state gas supplies. We find that PG&E's definition of the gas gathering system is consistent with that objective. We adjust PG&E's gathering cost study by reducing its estimates of administrative and general expenses, and certain other expenses. Using 1987 California production volumes, we arrive at an average gas gathering cost of $.294 per decatherm.

To permit accurate comparisons of the cost of California gas to the cost of out-of-state gas, the gas gathering charge should reflect the much shorter distances PG&E must transport California gas compared to out-of-state gas. Accordingly, we discount the gathering charge by $.072 per decatherm. We will therefore apply $.222 per decatherm as the cost of gas gathering in reviewing PG&E's sequencing decisions.

This decision also states our intent to phase out PG&E's gas gathering operations. To that end, we encourage PG&E to sell certain gathering facilities when it receives offers for those facilities which are at or above the net book value of the plant. We will not include in future revenue requirement investments in gas gathering plant, except those facilities which are required to fulfill existing contract obligations. We also direct PG&E to accelerate depreciation of its existing gathering plant.

We believe PG&E's participation in gas gathering operations should be phased out for several reasons. Because investments are put into rate base, PG&E may have an incentive to overbuild gathering plant. PG&E ratepayers, under the existing arrangements, are at risk for these investments.

In addition, existing law creates certain pricing distortions if PG&E is the primary provider of gathering services. Producers who sell California gas to PG&E are affected by the costs of gathering because PG&E uses those costs in making sequencing decisions and in determining the fair market value of California gas. Producers who sell to third parties, however, are not so affected by gas gathering costs because PG&E may not charge transportation customers for gathering services.

In summary, our treatment of PG&E's gas gathering services is intended to promote more efficient investments in plant, and improve pricing signals among gas supplies from various sources.

I. Procedural Background

General. We initiated this investigation following issuance of a report written by CACD which provided an overview of gas gathering services and charges. I.88-11-012 directed PG&E to (1) submit a cost study of its gathering operations, (2) show cause why it should not be required to form a separate subsidiary for gas gathering services, and (3) address whether it should cease installing gas gathering and processing facilities for new wells and fields. It also directed PG&E to file comments explaining how it intended to comply with and implement Senate Bill (SB) 1937.

Subsequently, we issued Decision (D.) 89-02-030, which addressed petitions for modification of I.88-11-012 filed by PG&E, Gas Producer Gathering Group (GPGG), and California Gas Producers' Association (CGPA). That decision modified the parameters of the cost study we required PG&E to submit. It also denied the requests of GPGG and CGPA to eliminate the $.34 gas gathering charge which was part of PG&E's gas transportation tariffs.

On April 26, 1989, we issued D.89-04-089 which responded to applications for rehearing of D.89-02-030. In that decision, we reversed our earlier decision in part and found that SB 1937 requires PG&E to eliminate the gas gathering charge included in its transportation tariffs. We also directed PG&E to establish a memorandum account to track the gas gathering charge revenues collected from the effective date of D.88-02-030 to the effective date of D.89-04-89, pending a Commission order regarding the disposition of those revenues.

D.89-04-089 also commented that a number of outstanding issues remained unresolved:

> Whether existing gas gathering operations should be divested or made part of a separate subsidiary;
>
> Whether new gas gathering operations should be treated the same as existing operations, made part of a separate subsidiary or not offered at all by PG&E;
>
> The appropriate level and allocation of gas gathering costs, whether they remain within the utility's operation or are made part of a separate subsidiary;
>
> The treatment of "processing" costs for purposes of allocation and rate design; and
>
> The actual cost of PG&E's gas gathering operations for sequencing purposes.

Eleven days of hearings were held in this proceeding. The matter was submitted October 10, 1989. Briefs were filed by PG&E, Division of Ratepayer Advocates (DRA), GPGG, Amerada Hess Corporation (Amerada Hess), California Independent Petroleum Association (CIPA), and CGPA.

During the course of the proceeding, several parties moved to strike testimony. GPGG moved to strike that portion of PG&E's testimony which recommended that the cost of gas gathering be allocated to interutility rates as it is currently allocated to other transportation rates. The Administrative Law Judge (ALJ) denied the motion on the grounds that the Commission sought proposals for allocating gas gathering costs.

PG&E moved to strike portions of the testimony of GPGG, Amerada Hess, and CIPA which addressed (1) reallocating costs not related to gas gathering, (2) PG&E's sequencing policies, and (3) cost studies which did not use the "primary function test." The ALJ granted PG&E's motion to strike testimony which addressed reallocation of costs not related to gathering and PG&E's sequencing policies. Those topics are properly the subject of other proceedings. The ALJ denied PG&E's motion to strike testimony which presented cost studies that did not apply the "primary function test" because the Commission did not adopt that test in I.88-11-012. Rather, the Commission required PG&E to use that test as the basis for its cost study.

Finally, GPGG moved to strike those portions of PG&E's testimony which identified gas gathering facilities on the grounds that PG&E failed to comply with the Commission's order requiring PG&E to base its cost study on the "primary function test." The ALJ denied the motion because the record did not demonstrate that PG&E's study was not based on the primary function test, a matter which could be addressed on brief.

<u>The Settlement Signed By PG&E, DRA, and TURN</u>. Prior to hearings, PG&E, DRA and Toward Utility Rate Normalization (TURN) entered into a settlement which PG&E filed on August 18, 1989. The settlement would apply a $.29 per decatherm gas gathering charge. It anticipates the accelerated depreciation of remaining plant, limits the construction by PG&E of new gas gathering plant, and

assesses a $.06 per decatherm gas gathering charge after existing plant is fully depreciated.

The settlement was filed 11 days before hearings were to begin in this case. Accordingly, PG&E requested that the hearing schedule be suspended in order for the Commission and the parties to consider the terms of the settlement. The ALJ denied the motion to delay hearings and set forth a schedule for submitting comments on the settlement.

GPGG and Amerada Hess filed comments on the settlement, contesting its terms and requesting hearings.

On September 28, 1989, the assigned ALJ issued a ruling stating that the Commission would not schedule hearings on the settlement at that time because a full evidentiary record had been created through the hearing process and because additional hearings would create further delay in this proceeding.

We confirm the ALJ's ruling and deny PG&E's motion to adopt the settlement. We have a complete record upon which to base today's decision. Moreover, the settlement was reached between three parties who did not contest one another's positions on the record. TURN did not participate in this proceeding by filing testimony or cross-examining witnesses. DRA's primary proposal--to accelerate depreciation of existing plant--was not contested by PG&E. DRA supported PG&E's gas gathering cost study. The settlement was strongly contested by GPGG and Amerada Hess. Therefore, the settlement did not resolve any conflict between the parties. We will decide the issues based upon the evidence in this proceeding.

II. Gas Gathering Services and Pricing Practices

PG&E performs gas gathering services for California gas producers. Gas gathering generally refers to moving gas from fields and wells to transmission pipelines. As the gas moves from the field to transmission pipelines, PG&E processes the gas to make it commercially marketable. Gas processing includes dehydration, compression, odorization, and mixing to improve heating values.

The gas PG&E purchases from out-of-state sources is delivered to the California border already gathered and processed. The price of non-California supplies therefore includes the cost of gas gathering and processing.

The Commission has recognized that PG&E has performed a service to California producers which it did not need to provide to out-of-state producers. Accordingly, D.85-12-102 directed PG&E to impute $.34 into the cost of California gas for purposes of determining the cost of that gas to PG&E's ratepayers relative to the cost of gas from other sources. Thus, the gas gathering costs were to be used in determining appropriate "sequencing" of gas supplies from various sources.

More recently, PG&E amended its transportation tariffs, effective May 1, 1988, to include a $.34 gas gathering surcharge for customers who transported California gas. This charge was eliminated in compliance with SB 1937, discussed above.

Currently, PG&E applies the $.34 cost in sequencing decisions. PG&E also uses the $.34 gas gathering cost estimate in determining the "fair market value" of California gas when it contracts with gas producers. That is, the price PG&E is willing to pay for gas from individual producers is reduced to reflect the cost of gathering. Third party transporters of California gas are not charged for gas gathering and processing services. Currently, costs of gas gathering and processing are included in PG&E's revenue requirement and are allocated to transportation rates.

III. Defining Gas Gathering Facilities

The issues in this case require us to determine which facilities are used for gas gathering because such gathering plant has not historically been distinguished, for accounting purposes, from transmission facilities. The definition of gas gathering facilities was perhaps the most controversial issue in this proceeding.

To determine which facilities are associated with gathering, I.88-11-012 directed PG&E to define gas gathering facilities using the "primary function test," applied by the Federal Energy Regulatory Commission (FERC) and described in various FERC decisions. Pursuant to that directive, PG&E filed, as part of its affirmative showing, 46 maps identifying gathering facilities consistent with its interpretation of the primary function test.

PG&E states the FERC has set forth five main criteria in determining whether the primary function of a facility should be classified as transportation or gathering:

1. The diameter and length of the facility;

2. The location of compressors and processing plants;

3. The extension of the facility beyond the central point in the field;

4. The location of wells along all or part of the facility; and

5. The geographical configuration of the system.

PG&E states it used the FERC criteria, to the extent possible, in distinguishing gas gathering facilities from transmission facilities. It cautions, however, that the primary function test is subject to considerable interpretation, and that the FERC has applied the test on a case-by-case basis. PG&E is unaware of any case where the FERC has applied the primary function test to as large and diverse a system as PG&E's.

PG&E used the primary function test in combination with a conceptual framework which would permit an "apples to apples" comparison between California gas and out-of-state gas. That is, it included costs for the type of gathering facilities which it believed were included in out-of-state gas prices for out-of-state facilities. DRA generally supports PG&E's definition of gas gathering facilities.

The gas producers object strongly to PG&E's study. Amerada Hess, like PG&E, observes the difficulty of distinguishing gathering facilities from transmission facilities. It states the primary function test requires subjective judgments according to the circumstances of the field. It also believes that PG&E's gathering system is unlike other such systems because it is integrated (performing transmission, processing, distribution, and processing functions), and was built at PG&E's sole discretion.

Amerada Hess, however, disagrees with PG&E's application of the test. Amerada Hess states that, contrary to the FERC test, PG&E rigidly defined gas gathering as extending to the last point of processing. Amerada Hess believes PG&E located processors further downstream than they would have been located if gathering cost had always been separately determined. Amerada Hess argues that FERC's Uniform System of Accounts includes as "transmission facilities" those compressors used to bring gas to transmission pressure. Amerada Hess also believes that PG&E ignored the primary function test by including in its study pipelines used to mix gas so that PG&E can distribute it in one of its specific thermal billing areas.

In general, the breadth of facilities PG&E defined as gathering often extend far from the field and occur where the primary activity is transportation and accumulation of gas supplies, according to Amerada Hess. Amerada Hess also believes PG&E should not have characterized pipelines as gathering facilities simply because wells were located along the lines. It argues that PG&E's definitions are inconsistent with FERC decisions and the Uniform System of Accounts.

Amerada Hess undertook a detailed examination of the Rio Vista facilities, applying its understanding of the primary function test. Its study eliminates 55% of the pipeline PG&E identified as gathering facilities. It also eliminated compressors, consistent with its conceptual framework.

GPGG believes that PG&E has erred in defining gathering as facilities upstream of the point where gas becomes "commercial quality," and comments in any event that PG&E's definition of "commercial quality" is too stringent. PG&E has applied the primary function test incorrectly, according to GPGG. GPGG's comments on PG&E's application of the primary function test are similar to those of Amerada Hess.

GPGG also argues that the primary function test should not be applied in this proceeding because it is used by the FERC to ascertain the jurisdictional status of pipelines or facilities. In this proceeding, all of PG&E's facilities are within the Commission's jurisdiction. GPGG defines gathering facilities as those which PG&E would abandon if production in a particular producing field were to cease. More specifically, GPGG proposes four basic rules be applied in determining PG&E's gathering system:

1. Gathering facilities end where gas from two or more fields is commingled;

2. Pipelines are not "gathering" lines if they distribute gas to an end user;

3. Pipelines or facilities that are downstream of dehydration, compression, or mixing facilities are transmission rather than gathering facilities; and

4. Pipelines and facilities that perform any function except gathering are not gathering facilities.

GPGG applied its conceptual framework to all of the 46 gathering areas, eliminating numerous facilities from PG&E's study.

CGPA makes comments similar to GPGG's regarding PG&E's "liberal" inclusion of transmission mains in its definition of gathering. It argues that gathering facilities should be defined according to those facilities which would be required for future wells or groups of wells since "sunk costs" (those which have already been invested in plant) should not be used to determine pricing.

CIPA comments that drilling of and exploration for California supplies are discouraged by gas gathering charges, contrary to the intent of the California Natural Gas Act.

Discussion. We appreciate the parties' attention to defining gathering facilities, which was a complex and highly technical endeavor. As the parties note, PG&E's gathering system is unusual because it was built by a single utility, rather than individual producers, to serve a variety of functions. For these reasons it is difficult to distinguish gathering facilities from those which should be characterized as performing other functions.

In seeking to define gathering facilities, the parties debated the wisdom and application of the primary function test. We required PG&E to apply the primary function test in its gathering cost study because the test would provide some guidance in defining gathering facilities. The primary function test is used by the FERC to establish jurisdictional boundaries between facilities which it regulates and gas gathering facilities, which it does not regulate.

As the parties point out, the test is not simple to apply, requiring substantial judgment in its application. Moreover, applying it in the case of PG&E is even more difficult because of the unique nature of PG&E's gathering system, and because the test was designed for a purpose we believe is unlike our own.

In applying the primary function test, or any other costing methodology, we must consider our purpose in defining gas gathering facilities and their costs. As PG&E and CGPA recognize, that purpose is to permit PG&E to compare interstate gas prices with California gas prices and thereby assure that PG&E is purchasing the most economic gas supplies.

With that purpose in mind, the primary function test provides a valuable framework. However, strict application of its many parameters--even if they could be applied to PG&E's system--would likely define PG&E's gathering system in a way that would not be useful in this proceeding.

After reviewing the proposals of the parties, we come to several conclusions. Gas gathering, for purposes of this proceeding, includes certain processing facilities. Most California gas purchased by PG&E is unprocessed. In contrast, interstate gas supplies are delivered to the border compressed, with adequate heating values, odorized, and dehydrated. Therefore, we will not, as the gas producers suggest, define gas gathering in California to include only those facilities which would move the gas to the first point of processing. Compressors, mixing facilities, dehydrators, and odorizing equipment which are used to bring California gas to a quality comparable to interstate gas will be considered gathering facilities for purposes of this proceeding.

Similarly, PG&E appropriately included pipeline used to mix gas in order that it can distribute gas to one of its thermal billing areas. As PG&E's witness testified, thermal billing areas were developed for the purpose of marketing California gas, which has various heating values. Out-of-state gas sources do not require such mixing.

For our purposes, gas gathering also includes pipelines required to carry gas to processing facilities, even if those facilities are not in the fields or close to them. The gas producers believe that pipeline serving remote processing plant should not be considered gathering plant since it was a PG&E management decision to site the plants in those locations.

As PG&E points out, however, some processing plants were sited some distance from wellheads in order to avoid construction of duplicative facilities at each gas field. We believe these siting decisions are likely to have made efficient use of remote processing plant. Siting processors downstream from wells is economic especially considering that processing facilities tend to be useful long after the average producing life of a well. We cannot determine from the record whether specific siting decisions resulted in the most efficient use of processing facilities and gathering pipelines. We believe, however, that the gas producers would object to paying for processing equipment at every wellhead or field and that they generally benefit from a system which was designed to take advantage of economies of scale. Accordingly, the cost of gas gathering should include the pipelines moving the gas to processors.

We believe the proposals of GPGG, Amerada Hess, and CGPA are too narrow. They apply methodologies which do not permit realistic comparisons of California gas to out-of-state gas. Although their methodologies may be useful in defining gas gathering facilities for some purposes, they do not fulfill the purpose of this proceeding. Moreover, we believe the conceptual frameworks proposed by the gas producers fail to recognize the economies of scale and scope inherent in PG&E's system, and which benefit California gas producers.

PG&E is correct that gas gathering, for purposes of our proceeding, should include all necessary processing facilities and all pipelines required to carry gas to those facilities. We conclude that PG&E's definition of gathering is the best available on the record, and will use it to determine gas gathering costs.

IV. The Cost of Gas Gathering

As required by D.88-02-030, PG&E submitted a cost study of gas gathering operations based on the 46 geographic areas and using a 1987 test year. PG&E estimates the average cost of gas gathering is $.48 per decatherm. PG&E's cost study estimates the total revenue requirement for gas gathering services is $66 million. Of this amount, $33 million is for operating expenses and $33 million is for capital cost. The cost study was developed according to the outline established in D.89-02-030.

DRA generally supported PG&E's cost study results and methodology.

Amerada Hess and GPGG provided cost estimates which were much lower than PG&E's. Amerada Hess believes the gas gathering charge should be zero because it believes PG&E is not treating California producers on an equal basis with out-of-state producers. CIPA implicitly advocates a similar position by pointing out that the gas gathering charge discourages California gas production.

Although Amerada Hess believes there should be no gas gathering charge, Amerada presented a cost study in the event the Commission determined that a gas gathering charge was appropriate. Amerada Hess estimates a total revenue requirement of $17 million, or $.134 per decatherm. GPGG also presented a cost study, estimating a total revenue requirement of $17.9 million, or $.1049 per decatherm. (Differences in the per unit rates are attributable to differing assumptions regarding production volumes.) GPGG and Amerada Hess adjusted several elements of the PG&E cost study, discussed below.

<u>Administrative and General Expenses</u>. In allocating Administrative and General (A&G) expenses to gathering, PG&E multiplied total Gas Department A&G expenses by the percentage of California gas to total gas purchased in 1988. The producers expressed particular concern with PG&E's estimate of A&G costs.

Amerada Hess believes PG&E's estimate for A&G expenses of $25 million, or approximately 84% of total gathering expenses, is excessive. Most gathering overheads, according to Amerada Hess, are likely to be included in the category for Operation and Maintenance (O&M) expenses, which comprise only about 15% of PG&E's estimate of gathering expenses. A&G costs include only those overheads that cannot be readily categorized.

In determining its own estimate, Amerada Hess applied the A&G amount identified in D.89-05-073 (PG&E's Phase I Annual Cost Allocation Proceeding (ACAP) decision) relating to gas transmission, including gathering, for 1989. It multiplied that amount by the percentage of gathering O&M expenses identified by PG&E, and again by the percentage of California gas to total supplies. This method allocates 10.6% of the transmission A&G adopted in the ACAP, or $1.816 million, to gathering costs.

GPGG also recommends an adjustment to PG&E's A&G estimates. GPGG used the cost allocation approved in D.89-05-073, allocating 100% of A&G expenses attributable to production and allocating transmission-related A&G costs according to the percentage of California gas purchases relative to total system throughput. GPGG points out that PG&E agreed that storage and distribution costs are not related to gathering, and that not all items in the "general" A&G category are related to gathering. GPGG believes its methodology therefore more accurately reflects, even overstates, A&G costs attributable to gathering. Its recommended A&G expense is $4.3 million.

CGPA also believes PG&E's A&G estimates are too high given the capital intensive nature of the gas gathering function.

PG&E responds to proposals for lower A&G expenses by referring to the cost study in D.89-02-030. PG&E states it included all A&G expenses, all gas volumes, and all of its gas system in determining A&G allocations to gathering, consistent with the cost study parameters.

We agree with CGPA, GPGG and Amerada Hess that PG&E's estimates of A&G expenses are higher than what we would expect for a system that is as capital intensive as the gathering system. Gas gathering A&G expenses are unlikely to be equal to the average spent for all gas operations, as PG&E's methodology assumes. Allocating A&G based on production and transmission costs, as GPGG has done, provides a reasonable estimate of A&G, and we will adopt it. We believe this adjustment is consistent with the cost methodology in D.89-02-030.

Depreciation Expenses. CGPA, Amerada Hess and GPGG also challenge PG&E's depreciation methodology. PG&E used a 23-year average remaining useful life in determining its gathering system rate base. It used an eight-year depreciation period to compute the annual depreciation expense for 1987.

According to GPGG, PG&E's approach improperly inflates the rate base and increases the depreciation expense for the test year 1987. In contrast to PG&E's use of an accelerated depreciation methodology, GPGG applied PG&E's historical depreciated plant values. GPGG used a 23-year average remaining life for pipelines and an 18-year average remaining life for facilities, significantly reducing the value of net plant.

In rebuttal, PG&E argues that GPGG incorrectly assumes that plant with less than the average remaining life is fully depreciated. However, plant may be older than the average and still not be fully depreciated.

CGPA argues that if plant is not originally priced according to an appropriate depreciation rate, past depreciation should not, as PG&E assumes, be "made up" with a faster rate at a later time. If it is, it will cause inappropriate pricing signals.

Amerada Hess recommends a 1987 system average depreciation rate of 15% compared to PG&E's annual rate of 8.53%. Amerada Hess agrees with PG&E that depreciation should be taken in parallel with the useful life of the plant, although its calculation is different from PG&E's. Amerada Hess used a current depreciation accrual for the gathering facilities which is consistent with the remaining life of California gas reserves, estimated to be 6.4 years. Amerada Hess also adjusted PG&E's cost study by restating the accumulated reserve for depreciation.

PG&E takes exception to Amerada Hess' use of the current year's accumulated reserve without recognizing the impact of the additional depreciation expense that would have been required in each of the years that is being restated. This technique, according to PG&E, underestimates the reserve at the expense of gas customers.

PG&E's use of an eight-year depreciation rate for calculating annual depreciation expense is reasonable because, as PG&E stated, gas wells have an expected production life of about eight years. We agree with PG&E that all depreciation expenses should be included in the cost study. Although PG&E's study attempts to "make up" some deferred depreciation expense, we believe that alternative is preferable to allocating past depreciation expenses to PG&E's ratepayers. Moreover, PG&E's method for determining the depreciation reserve is reasonable because it reflects an appropriate historical allocation of the reserve for each plant vintage. We will adopt PG&E's depreciation methodology for purposes of establishing the cost of gas gathering plant.

Federal Taxes. Amerada Hess and GPGG believe PG&E should use the current marginal tax of 34%, rather than the higher tax rate that was effective in 1987. The companies make this recommendation for the simple reason that the Commission will be applying the gathering charge prospectively.

We agree with GPGG and Amerada Hess that using more recent federal tax rates is an appropriate adjustment to PG&E's cost study.

<u>Franchise Fees and Uncollectibles</u>. Amerada Hess and GPGG recommend that uncollectibles not be included in the cost estimates because those costs are associated with distribution and retail operations. GPGG also believes franchise fees are inappropriately included in PG&E's study because they represent surcharges on the revenue requirement to be recovered from end-use customers.

We agree with Amerada Hess and GPGG that PG&E's cost study should not include franchise fees or uncollectibles since neither cost is associated with gas gathering functions. Gathering functions do not result in franchise fees, nor are producers responsible for causing uncollectibles.

<u>O&M Expenses</u>. GPGG accepts PG&E's allocation of "production-related" O&M costs, but altered the calculation of "transmission-related" O&M costs assigned to gathering based upon its estimates of appropriate pipeline mileage.

We will not make any adjustment to O&M expenses since we find PG&E's definition of gathering facilities is appropriate.

<u>Gas Volumes</u>. PG&E estimates total volumes of 136,107 MMcf, based on actual 1987 volumes. GPGG uses an estimate of 170,962 MMcf. It arrived at that estimate by weighting production volumes for the 1965-1987 period. It made this adjustment to reflect the fact that PG&E's system was constructed to move volumes which are substantially higher than those moved in 1987. Moreover, according to GPGG, the low volumes of production in 1987 reflect the high gathering charge: PG&E should expect higher volumes if a lower gathering charge is implemented.

We believe PG&E's volume estimate is a reasonable estimate of California production in the future. Averaging past production levels in this case is unrealistic because production has fallen consistently in recent years. We do not agree with GPGG that we should reduce the cost study estimates to improve production. We seek an accurate estimate of costs. Addressing production incentives is more appropriately considered in rate design and other policies, some of which are considered in this opinion.

Discussion. As our discussion on the determination of gathering facilities implies, we do not believe the imputed gas gathering charge used in sequencing should be eliminated. PG&E's determination of fair market value for California gas does impute the cost of gathering, a cost which it does not apply to out-of-state gas supplies, as Amerada Hess states. The reason is simple: PG&E performs gathering and processing services for California producers which are not required for out-of-state supplies.

On the other hand, California gas requires less intrastate transportation than out-of-state supplies. In their testimony, the gas producers ask us to consider that California gas is cheaper to transport because it is closer to ultimate consumers. We agree that California gas does require much less transportation than gas supplies from Canada or the Southwest. Gas from the Southwest and Canada travels through Lines 300 and 400 which together span about 800 miles within the state. On average, that gas moves about 400 miles before reaching ultimate consumers. In contrast, California gas purchased by PG&E is mostly in the northern central part of the state, not far from PG&E's largest markets.

To account for the shorter distances required to transport California gas, we will discount our estimated cost of gas gathering. The discount will be based on the approximate cost of moving interstate gas 300 miles. We will apply the interutility rate because it is derived from the embedded costs of Lines 300 and 400. To calculate the discount, we determine the average cost of moving gas one mile ($.196 divided by 820 miles) over Lines 300 and 440, and multiply that amount by 300 miles. The resulting discount is $.072 per decatherm. This estimate, while not perfect, is reasonable based on our review of the maps which PG&E presented during hearings. We will subtract this amount from our adopted estimate of the unit cost of gas gathering in determining an appropriate gas gathering charge.

After considering the analyses of GPGG and Amerada Hess, we have concluded that some adjustments should be made to PG&E's cost study. As stated above, the cost study should be modified to reflect current federal tax rates and lower A&G expenses. Franchise and uncollectibles expenses should be removed from the cost estimate. We also agree with PG&E that if we use the 1988 federal tax rate, we should also update the cost study for the current cost of money and changes in rate of return. The resulting total revenue requirement is $40 million, or $.294 per decatherm, as shown in Appendix B of this decision. Subtracting the discount to reflect different transportation distances, the net cost of gas gathering is $.222 per decatherm. We will consider this benchmark value for purposes of reviewing PG&E's purchasing practices.

V. Rate Design for Gas Gathering Charge

I.88-11-012 sought comments on whether gathering charges should be "deaveraged" according to production areas. A deaveraged rate would reflect the costs of serving each area, and may thereby promote more efficient production.

PG&E's cost study provides cost information by each of the 46 gathering areas. PG&E's estimated costs of serving those areas range from $.05 to $14.67 per decatherm. PG&E recommends against a deaveraged rate.

CIPA, GPGG, and Amerada Hess agree with PG&E that deaveraging is not sensible at this time, primarily because of the variability of production within a production area, the associated administrative burden, and the arbitrary nature of area boundaries.

In addition, GPGG argues against "unbundling" gas gathering costs from transportation rates. Such unbundling, according to GPGG, would be inequitable unless it were undertaken in conjunction with unbundling other supply-related costs from transportation rates.

Discussion. We agree that deaveraged rates create administrative burdens which are unlikely to be offset by the benefits of deaveraged rates. In addition, in the case of gas gathering, they may fail to send appropriate price signals because gathering costs are based on embedded plant and are calculated according to volumes for each production area. Accordingly, areas with low production during 1987 would be assessed an excessively high gas gathering cost. This cost is unlikely to be recovered if rates are set accordingly because gas production will be discouraged.

A more efficient pricing method would be for PG&E to negotiate rates which are at or above marginal costs. CGPA makes this point throughout its testimony. We are not considering marginal costs in this proceeding, in part because of the difficulty of determining them. Moreover, if PG&E applied marginal costs to all gathering services, a portion of revenue requirement might have to be recovered from other PG&E customers.

We have applied the concept of marginal cost pricing in cases where such pricing would discourage uneconomic bypass. In the case of gas gathering bypass does not appear to be a significant problem at this time, although production levels may fall as gas gathering charges increase. In any event, this type of pricing option is available to PG&E because we have, in past decisions, declined to set forth rules on sequencing policy or PG&E's contractual agreements with producers.

Although we have declined to review PG&E's sequencing and purchasing practices in this proceeding, it goes without saying that PG&E should consider, in determining fair market prices, maximizing revenues and minimizing costs. Therefore, circumstances may exist where, in order to retain or increase California gas production, PG&E imputes a gas gathering charge in sequencing which might not recover all embedded costs, but would recover more than marginal costs.

No party proposed that processing costs should be identified and charged for separately. We believe it may be appropriate for PG&E to charge for processing services separately; however, for the sake of administrative simplicity and because the amounts in question are relatively small, PG&E should continue to "bundle" the costs of processing with the costs of gathering. As a general matter PG&E should, in determining gas gathering charges to producers, consider the extent to which a producer provides its own processing facilities, and thereby reduces PG&E's costs.

We will continue to estimate gas gathering costs using a "postage stamp" or averaged rate and will not require PG&E to unbundle processing costs from gathering costs.

VI. Divestiture of PG&E's Existing Gas Gathering System

I.88-11-012 directed PG&E to show why it should not be required to form a separate subsidiary for its gas gathering operations. PG&E opposes placing existing plant in a separate subsidiary because such an arrangement would create significant operational and administrative inefficiencies. It expresses concerns over gathering lines which serve customers near gas fields and about gathering facilities which may be needed to assure safe operation of PG&E's system.

CIPA shares PG&E's concerns regarding a PG&E subsidiary. Moreover, CIPA opposes any divestiture of gathering plant to a subsidiary unless a new cost study is examined. CIPA argues that a regulated subsidiary would fail to improve efficiencies; it would, in fact result in lost economies of scale and scope. CIPA especially opposes the formation of an unregulated PG&E subsidiary because that subsidiary would, as a competitor with producers, have an incentive to overprice gathering services.

DRA proposes as one of its alternatives that PG&E be required to sell its gas gathering system. DRA points out that "getting PG&E out of the gas gathering business" will improve efficiencies and promote competition between California gas and out-of-state supplies. DRA recognizes, however, that this course could cause higher rates if PG&E cannot recover its total remaining investment costs through sale of its system.

GPGG recommends that if the Commission requires divestiture that PG&E should be directed to present another study identifying facilities which should be divested. That study should be subject to cross-examination. Further, producers using the facilities should be given a first opportunity to purchase the facilities at the cost identified by the Commission. If those producers do not wish to purchase the facilities, the facilities should be auctioned to the highest bidder, and then producers using the facilities should have a right to match the highest bid. GPGG believes PG&E should be able to retain existing facilities if bids fail to meet some minimum percentage of the value of the facilities.

Discussion. We share PG&E's view that placing PG&E's gas gathering operations in a separate subsidiary would create inefficiencies by eliminating some economies of scope (those which occur when two or more products are jointly produced) realized when PG&E offers gathering services while failing to resolve other problems. Because PG&E owns most existing gas gathering operations in its territory, a PG&E subsidiary would be, in effect, a near-monopoly. Under these circumstances, the subsidiary would require regulatory oversight. On balance, any potential benefits of a PG&E gathering subsidiary are likely to be offset by the costs.

We are concerned, however, that PG&E ownership of gas gathering facilities creates several problems. PG&E may be able to apply gas gathering charges so as to favor other supply sources. Because of the difficulty of determining costs, gathering charges may fail to promote optimal development of individual gas resources. Additionally, existing law does not permit PG&E to charge transporters of California gas for the cost of gas gathering services, although those costs are reflected in the price of interstate sources and California gas purchased by PG&E. This price differential creates a preference for transportation of California gas over purchases of PG&E gas and out-of-state gas for reasons unrelated to actual cost.

Finally, PG&E may overbuild its gathering facilities if the costs of those facilities are included in rate base and PG&E consequently faces little risk for those investments. In general, the existing set of circumstances does not promote efficient investments in California gas production or efficient purchasing decisions.

On the other hand, we hesitate to require divestiture at this time. Divestiture of PG&E's gathering system may:

- o Create safety hazards on PG&E's system or require PG&E to build duplicative facilities for emergency needs;
- o Require PG&E to build new facilities to continue to serve customers located near gathering fields;
- o Require PG&E to abrogate existing contract obligations; or
- o Create many small public utilities which, except under a limited set of circumstances, would be subject to Commission jurisdiction.

Limiting divestiture to sales which would not pose these problems might be possible, but it would still raise uncertainties which were not resolved by the evidence in this proceeding.

We will not order divestiture now. However, we strongly encourage PG&E to sell gathering plant when it is offered net book value or more for the plant, consistent with our view that PG&E should phase out its gathering operations. In the event that an affiliate or subsidiary of PG&E purchases any gathering facility, PG&E must seek Commission approval of the acquisition. We will review the terms and conditions of the sale to determine if the transaction was at arms length, and to assure that the interests of the ratepayers are fully protected. If PG&E does sell such plant, it should record those sales in appropriate accounts for future consideration of gain-on-sale issues. We explicitly make no decision on disposition of gains-on-sale herein.

VII. Treatment of New Gas Gathering Facilities

I.88-11-012 sought comments on whether PG&E should be permitted to install and operate new gas gathering facilities. PG&E opposes an order to cease installing new facilities because such a prohibition may create market inefficiencies. As an example, PG&E points out that it may be more expensive for a producer to connect a new pipe to PG&E's transmission system than for PG&E to connect a new producer to the existing gathering system. PG&E suggests that when it builds new plant, the full cost of the plant be charged directly to the producer for whom the plant was constructed.

Amerada Hess agrees that PG&E should continue to install new facilities, providing that rules are developed to ensure that PG&E will treat equally producers wanting to sell gas to PG&E and producers wanting to sell gas to third parties.

DRA strongly recommends that we decline to include any future gas gathering plant in PG&E's rate base. DRA makes this recommendation on the grounds that PG&E may otherwise have an incentive to overbuild plant. Requiring producers to install their own facilities will, according to DRA, promote competition between California gas and out-of-state gas supplies. DRA also believes the transportation rate would eventually be reduced.

CGPA agrees with DRA that gathering is not a monopolistic market and PG&E may have an incentive to overbuild gathering plant. It appears to support elimination of PG&E's gas gathering function.

CIPA also proposes that PG&E should not install new facilities in order to promote a more efficient and fair market for California gas.

Discussion. Like CGPA, we do not consider it necessary for gas gathering services to be provided by a public utility. Gas producers may construct and operate their own decentralized facilities. Accordingly, we believe there is no compelling reason for PG&E to continue to include in its revenue requirement the costs and expenses associated with new gas gathering and processing facilities. If gas producers invest in their own facilities, they will make more economically efficient investments than PG&E is able to make for them. Further, PG&E's ratepayers will not need to absorb the risk of those investments.

In the future, we will not permit PG&E to include in its ratebase the costs associated with any new gas gathering or processing facilities. Neither may it include in its revenue requirement any O&M or other expenses for operating new plant. In this context, we define "gas gathering" facilities as any pipelines and/or processing facilities which connect wells to PG&E's gas gathering system as defined in Section III of this decision. In addition, any pipeline which connects a well to PG&E's transmission system, as defined in Section III of this decision, also constitutes a gathering facility. PG&E shall therefore not include in revenue requirement the costs of installing any new processing facilities not associated with transmission or any new pipeline upstream of those processing facilities.

The exception to our decision on this issue is any contract obligation, which became effective on or before November 8, 1989, committing PG&E to construction of new facilities. As we stated earlier in this decision, we do not wish to require PG&E to abrogate contracts which were negotiated in good faith and under a different regulatory framework. PG&E may build new gathering plant or repair and replace facilities according to existing contract terms.

Finally, PG&E may, as it requests, contract with gas producers and buyers for the construction of such facilities, the costs and expenses of which should be fully recovered from the contracting producers or noncore buyers. PG&E may not add to its ratebase plant built in return for discounted gas.

VIII. Ratemaking Issues

We have established a gas gathering cost which PG&E should use in its sequencing decisions. The costs of gathering and processing plant must still be allocated among ratepayer groups. Currently, those costs are allocated to core and noncore transportation rates. The rate design and cost allocation issues addressed in this proceeding are as follows.

Interutility Rates. PG&E recommends that we allocate a portion of gathering costs to interutility rates. PG&E reasons that otherwise PG&E's on-system customers will be paying for gas gathering costs while off-system customers would not when California gas is transported off-system. PG&E does not propose to implement any rate change in this proceeding.

GPGG strongly objects to PG&E's proposal to allocate gathering costs to transportation rates. According to GPGG, doing so would discourage interutility transportation, and would be unfair since interutility rates include interstate demand charges which are not associated with California gas. Moreover, GPGG argues that PG&E's proposal is not a proper subject for this investigation.

PG&E responds to GPGG's opposition by stating that its interutility rate does not include demand charges; those charges are paid by shippers directly. Discouraging interutility transportation, according to PG&E, does not justify a cross-subsidy between on-system and off-system customers.

Discussion. We agree with PG&E that allocating a share of gathering costs to the interutility rate will eliminate an inequity which exists between on-system and off-system customers. Currently, on-system customers pay for the entire cost of gathering. PG&E is correct that demand charges are not allocated to the interutility rate. Therefore, allocating gathering costs to the interutility rate will not create further pricing distortions, as GPGG argues.

We do not agree with GPGG that this ratemaking adjustment should not be resolved in this proceeding. D.89-04-089, which addressed applications for rehearing in this proceeding, expressly stated our intention to consider the allocation of gas gathering costs.

Neither do we agree with GPGG that allocating gathering costs to transportation rates is contrary to the Commission's objective in establishing an interutility tariff, which is to benefit all customers on the PG&E system by reducing their rates. Allocating gathering costs to the interutility rate reduces the total costs allocated to transportation rates. Accordingly, ratepayers are no worse off. They are in fact better off because rates more closely match costs, promoting more efficient purchasing and transportation decisions. While we agree that we should seek to promote California gas, a more important objective is to promote low cost, reliable gas supplies, whatever their source.

PG&E should, in its pending ACAP application, propose changes to its interutility rates which would include an allocation of gathering costs equal, on a cents per therm basis, to amounts allocated to the transportation rates. The gathering cost should not include the $.072 discount, which was derived for the purpose of comparing gas prices.

<u>Accelerated Depreciation</u>. DRA proposes that existing costs be removed from rate base over a five- to ten-year period consistent with its view that PG&E should phase out its gas gathering operations. DRA recommends that no action be taken on this matter until additional study be undertaken to determine an "optimum" period of depreciation. DRA also states its accelerated depreciation option should not be implemented until 1991, when the prohibition on re-allocation under SB 987 is removed.

PG&E does not object to DRA's proposal.

CIPA concurs with DRA's approach but argues that DRA incorrectly accepted PG&E's cost study in determining undepreciated plant.

GPGG objects to DRA's proposal to accelerate depreciation of gathering costs if the result would be to increase the gathering charge.

<u>Discussion</u>. We agree with DRA that accelerating recovery of the cost associated with gathering is consistent with our ultimate goal of gradually eliminating PG&E's role in gathering.

Consistent with the depreciation rate adopted for estimating costs, we will adopt an estimated period for full depreciation of eight years. Assuming future volumes are equal to 1987 volumes, and no plant is added or sold, gathering plant would be fully depreciated after eight years. This period could be lengthened or shortened depending upon changes in total gathering plant which could occur because of contractual obligations or sales of plant. It may also be longer or shorter depending on transportation volumes over the depreciation period.

DRA is concerned that SB 987 would not permit this change in depreciation until 1991. Under SB 987, we do not need to defer implementation of accelerated depreciation if we do not change any cost allocations. Our adopted accounting treatment of gas gathering costs continues allocation of gathering costs using the current methodology.

Contrary to GPGG's assumption, accelerating depreciation for this purpose would not necessarily increase rates or gas gathering charges. Under PG&E's proposal, an increase in revenue requirement is avoided by assuming that the remaining life for nongathering transmission plant is slightly longer. This does not preclude PG&E from segregating gathering and nongathering plant for the purpose of establishing appropriate depreciation rates for nongathering plant in future general rate cases. We believe this approach is sensible and will adopt it.

Disposition of the Memorandum Account Balances. D.89-04-089 commented that we must determine the disposition of balances in the gas gathering memorandum account which accrued between the issuance of D.88-02-030 in February 8, 1989, and D.89-04-089 in April 26, 1989. The balances accrued for gathering charges imposed on transportation customers prior to the elimination of those charges, effective as of the date of our first order in this proceeding which addressed the gathering surcharge.

PG&E does not have strong views about the treatment of these balances. GPGG argues that they should be returned to the customers who paid them. Moreover, according to GPGG, the Commission should require PG&E to refund all revenues associated with surcharges beginning January 1, 1989, the effective date of SB 1937.

We will order PG&E to refund memorandum account accruals to the customers who originally paid the gathering charges. We will not order PG&E to make refunds back to January 1, 1989. PG&E's charges at that time were pursuant to effective tariffs, and to order refunds of utility revenues not booked into the memorandum account might constitute retroactive ratemaking. PG&E should terminate the memorandum account after refunds are made.

IX. Implementation of the Ratemaking Treatment for Gas Gathering

We have found that $.222 per decatherm is the appropriate current gathering charge that PG&E should use for sequencing of gas purchases. In her proposed decision the ALJ created a Gas Gathering Tracking Account, for the purpose of determining when to discontinue gas gathering charges. The tracking account would have monitored utility plant in service, and gathering charges would have ceased only when net plant in service reached zero. We conclude that such a tracking account is unnecessary. Instead we rely on PG&E's use of an eight year remaining life for depreciation expenses. For the purposes of PG&E's sequencing decisions and determinations of book value, we will assume that PG&E no longer incurs identifiable gas gathering costs after eight years, which will be at the end of calendar year 1997.

At that time gas gathering revenue requirement included in transportation rates should be diminished by reduction of plant in service, due to depreciation, the prohibition against new plant entering rate base, and possible sale of properties. We recognize that some plant may remain in service as capital additions are made to keep existing plant working, so gas gathering rate base may not disappear entirely. PG&E will also incur continuing operations and maintenance expenses related to the plant it still owns.

However, to simplify gas gathering ratemaking and because the remaining costs are likely to be small we will eliminate the gathering charge completely at the end of 1997.

The remaining question is the appropriate level of gathering charges for the intervening years from now until 1997. The capital costs per unit of gas throughput may be reduced due to depreciation, which would argue for reduced gathering charges, but ordinary inflation would increase operating expenses. Because these factors are offsetting and because remaining producers using

PG&E facilities after 1997 will be relieved of operating and maintenance costs, we will continue the flat charge of $.222 per decatherm during every year through 1997.

X. Nondiscriminatory Access to PG&E Plant

CIPA and GPGG ask the Commission to adopt specific rules which seek to prohibit discriminatory treatment of California gas producers who seek to connect to PG&E's plant. CIPA states that clearly-stated principles and procedures designed to limit discrimination are essential in order to maximize the benefits of California gas production. GPGG states that such rules are necessary because of PG&E's monopsony position in the market (that is, PG&E is the sole purchaser of California gas).

CIPA and GPGG propose several specific rules. They generally impose information requirements on PG&E, and require PG&E to hook up new wells within certain time periods.

Discussion. We decline to adopt specific rules regarding producer interconnection to PG&E's system for several reasons. California gas producers are already protected from arbitrary discrimination by PG&E under Public Utilities Code Section 453, which states that "No public utility shall, as to rates, charges, service, facilities, or in any other respect...subject any corporation or person to any prejudice or disadvantage." Section 785 establishes policy which provides a preference for California natural gas when its price and quality are comparable to gas from other sources. We expect PG&E to comply with these laws.

We did not anticipate addressing rules for access to PG&E plant in this proceeding. On that basis alone, we could deny the relief sought by GPGG and CIPA. That procedural matter notwithstanding, the evidence does not demonstrate that California gas producers are, because of PG&E's market position, incapable of negotiating fair and reasonable contracts with PG&E. PG&E is no longer the only purchaser of California natural gas: under our new regulatory program, third parties may purchase and transport California gas. Nor does the evidence demonstrate that PG&E has denied producers timely access to its system.

Even if GPGG and CIPA had provided evidence to show that PG&E possesses unequal bargaining power or denies producers timely and fair access to its system, the evidence does not demonstrate that the proposed rules would redress any imbalance in bargaining power between PG&E and the producers.

In general, we believe PG&E and California producers should negotiate contracts suited to the specific circumstances of the producer, PG&E, and the facilities involved. We will not adopt any rules at this time addressing producer access to PG&E plant.

Conclusion

This decision adopts gas gathering costs which PG&E should apply in sequencing decisions and in determining fair market value. In general, we find that PG&E should phase out its investments in gas gathering in order to promote a more efficient and equitable gas market. To that end, we encourage PG&E to sell gathering plant for which it can receive at least net book value of that plant and state our intention to discontinue including in revenue requirement the costs and expenses associated with future additions to PG&E's gas gathering plant.

Our implementation of the framework adopted in this decision is developed with administrative simplicity in mind. The adopted gas gathering cost is an estimate which, while not perfect, should fulfill our major objective of permitting PG&E to compare more accurately the prices of California gas and gas from other sources.

In recognition that perfect costing and pricing information is not available, and its development is too costly for the purpose at hand, we will not entertain any modifications to the revenue requirement or cost of gathering adopted in this decision.

Finally, we believe our decision today is fully consistent with code sections which seek to promote California gas production, while assuring California gas consumers receive low cost gas supplies. The gas gathering charge reflects both the cost of a service PG&E provides to California gas producers, and the relative efficiency of California gas supplies resulting from their close proximity to PG&E customers.

Findings of Fact

1. I.88-11-012 was opened to investigate the cost of PG&E's gas gathering facilities and whether PG&E should continue to own gas gathering facilities in California.

2. D.89-04-089 required PG&E to eliminate from its transportation tariffs the gas gathering surcharge pursuant to the Commission's interpretation of SB 1937.

3. On August 18, 1989, PG&E, DRA, and TURN filed a settlement in this proceeding. Because the settlement was filed shortly before initiation of hearings, the ALJ ruled that the settlement would be considered after the completion of hearings.

4. PG&E performs gas gathering and processing services for California gas producers.

5. The gas PG&E receives from out-of-state arrives at the California border already gathered and processed. The price of that gas to PG&E includes the cost of gathering and processing.

6. PG&E has imputed $.34 into the total cost of California gas for purposes of comparing California gas prices to the prices of out-of-state supplies and is a factor considered in determining the "fair market value" of California gas supplies.

7. The purpose of determining the actual cost of PG&E's gas gathering and processing operations is to permit more accurate comparisons of the prices of California gas and out-of-state gas.

8. The FERC's "primary function test" provides general guidance in defining PG&E's gas gathering facilities. Strict application of that test, however, would not permit a definition of

PG&E's gas gathering facilities which would fulfill the Commission's objectives in this proceeding.

9. Gas gathering, for purposes of this proceeding, includes all processing facilities required to make the quality of California gas comparable to that of out-of-state gas supplies.

10. Gas gathering facilities which are required to make the quality of California gas comparable to out-of-state gas includes compressors, odorizers, mixing equipment, and dehydrators.

11. Siting processing facilities downstream from gas wells and fields permits efficient use of those facilities, especially since processing facilities tend to have a useful life which is longer than the average producing life of a well.

12. PG&E estimates the cost of gas gathering to be $.48 per decatherm.

13. PG&E's estimate of A&G costs is higher than what would be expected for gas gathering operations. Gas gathering A&G expenses are unlikely to be equal to the average spent for all gas operations because gas gathering operations are capital intensive.

14. PG&E estimated depreciation by using historical values for the depreciation reserve and by applying an eight-year depreciation period to reflect the expected economic life of gas production facilities.

15. The federal tax rate for 1988 was 34%.

16. Franchise fees and uncollectibles expenses are not caused by California gas producers.

17. Averaging past production volumes for use in determining a per unit cost of gas gathering overstates potential future production since California production volumes have fallen in recent years.

18. In calculating "fair market value," of California gas, PG&E considers the cost of gas gathering to California gas but not for out-of-state gas because PG&E does not perform gas gathering services for out-of-state producers.

19. The fact that California gas requires significantly less intrastate transportation than out-of-state gas is one factor that may be considered in other proceedings where PG&E's purchasing practices may be considered.

20. Applying a gas gathering charge according to the costs of serving individual gas fields would create administrative burdens, the disadvantages of which would not be offset by potential improvements in efficiency or ability to recover revenue requirement.

21. Requiring PG&E to form a separate gas gathering subsidiary would cause lost economies of scope without providing offsetting benefits.

22. PG&E's ownership of gas gathering facilities may fail to promote efficient pricing policies and investment decisions.

23. Ratepayers will not be harmed by divestiture if PG&E receives net book value or more for gathering facilities.

24. Some of PG&E's existing gas gathering facilities are required to assure the safe operation of PG&E's system, to serve end-use customers, or to fulfill existing contract obligations.

25. Gas gathering operations need not be provided by public utilities.

26. Gas producers are more likely than PG&E to make economically efficient investment decisions regarding gathering plant.

27. The costs of gas gathering are currently allocated to transportation rates but not to interutility rates. Accordingly, on-system customers pay for the costs of gathering and processing California gas but off-system customers do not.

28. Accelerating cost recovery of gas gathering plant is consistent with the objective of phasing out PG&E's investments in gas gathering plant.

29. Accelerating cost recovery of gas gathering plant will not require a change in cost allocation.

30. Accelerating cost recovery of gas gathering plant will not increase PG&E's revenue requirement if transmission plant not related to gathering is assumed to have a remaining life which is longer than the 23-year average for all transmission plant.

31. The evidence does not demonstrate that California gas producers cannot, because of PG&E's market position, negotiate fair and reasonable contracts with PG&E, or that the rules proposed by CIPA and GPGG would redress any problems related to unequal bargaining power between PG&E and California gas producers.

32. D.89-04-089 ordered PG&E to establish a gas gathering memorandum account in which PG&E would enter revenues received for gas gathering charges billed to transportation customers.

<u>Conclusions of Law</u>

1. The Commission should deny PG&E's motion to adopt the settlement signed by PG&E, DRA and TURN.

2. PG&E's definition of gas gathering facilities is reasonable because it includes facilities which are required to make California gas of comparable quality to out-of-state gas.

3. Nothing in this decision should be construed as a finding of the reasonableness of PG&E's investments in gas gathering facilities.

4. GPGG's method for estimating A&G costs associated with gas gathering is reasonable.

5. PG&E's use of an eight-year depreciation life for calculating annual depreciation expense is reasonable because gas wells have an average expected production life of about eight years.

6. PG&E's use of a 23-year average remaining life for purposes of determining rate base is reasonable because it reflects historical treatment of gathering facilities.

7. It is reasonable to use 1988 federal tax rates, money costs, and rate of return in calculating the cost of PG&E's gas gathering system.

8. Franchise fees and uncollectibles should not be allocated to the cost of gas gathering because California gas producers are not responsible for the incurrence of those costs.

9. It is reasonable to use 1987 California gas production volumes in determining the per unit cost of gas gathering services.

10. A reasonable estimate of PG&E's cost of gas gathering through the end of 1997 is $.294 per decatherm.

11. It is reasonable to discount the cost of gas gathering to account for the shorter distances required to transport California gas compared to out-of-state gas supplies. That discount should be based on the embedded cost of Line 300 and Line 400, which transport out-of-state gas supplies.

12. It is reasonable to assume that California gas is transported within California, on average, approximately 300 miles less than out-of-state gas supplies.

13. It is reasonable to discount the gas gathering cost by $.072, for purposes of determining the cost of California gas relative to out-of-state gas, to account for the shorter distances required to transport California gas.

14. The Commission should not require PG&E to "deaverage" gas gathering charges by production area for purposes of sequencing.

15. PG&E should not be required to calculate and charge separate rates for processing. The gas gathering charge and costs used to determine them in this proceeding should include the costs of processing.

16. PG&E should not be permitted to include in future rate base or revenue requirement the costs or expenses associated with additions to gas gathering plant, except new construction which is required to fulfill existing contract obligations.

17. PG&E should be permitted to construct gas gathering plant if the costs of that construction are fully recovered from the buyers of that construction service.

18. Gas gathering costs should be allocated to interutility rates equal, on a cents per therm basis, to the amounts allocated to transportation rates. PG&E should modify, in its test year 1990 ACAP, interutility rates to reflect an allocation of the costs of gas gathering as set forth in this decision.

19. PG&E should be required to implement accelerated depreciation of its gas gathering plant.

20. SB 987 will not be violated if PG&E accelerates depreciation of its gas gathering plant because costs will not be reallocated between customer classes.

21. The period of depreciation for nongathering transmission plant should be assumed to be longer than the 23-year average so as to avoid a revenue requirement increase which would otherwise occur due to accelerating depreciation of gathering plant over an eight-year period.

22. Section 453 protects California gas producers from any prejudice or disadvantage by PG&E.

23. Section 785 establishes policy which states a preference for California gas when the price and quality of that gas is comparable to gas from other sources.

24. PG&E should be ordered to refund revenues for gas gathering charges billed between February 8, 1989 and April 26, 1989. Those refunds should be made to the customers who originally paid the charges.

O R D E R

IT IS ORDERED that:

1. The motion of Pacific Gas and Electric Company (PG&E) to adopt its settlement with the Division of Ratepayer Advocates (DRA) and Toward Utility Rate Normalization (TURN) is denied.

2. PG&E shall file, in its 1990 Annual Cost Allocation Proceeding, a rate proposal allocating an equal share of gas

gathering costs, on a cents per therm basis, to interutility rates and transportation rates.

3. PG&E shall refund the balances in the memorandum account established in Decision (D.) 89-02-030. The refunds shall be made to those customers who paid the gas gathering surcharge for services rendered between February 8, 1989 and April 26, 1989.

This order is effective today.

Dated December 6, 1989, at San Francisco, California.

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners

I CERTTIFY THAT THIS DECISION WAS APPROVED BY THE ABOVE COMMISSIONERS TODAY.

Wesley Franklin

WESLEY FRANKLIN, Acting Executive Director

PB

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Respondent: Judi K. Mosley, Joshua Barlev, and Shirley A. Woo, Attorneys at Law, for Pacific Gas and Electric Company.

Interested Parties: C. Hayden Ames, Attorney at Law, for Chickering & Gregory; Patrick J. Power, Attorney at Law, and Randy Baldschun, for City of Palo Alto; Barkovich & Yap, by Barbara R. Barkovich, for State of New Mexico Oil Conservation Division; Brady & Berliner, by Roger Berliner, Attorney at Law, and Tom Beach, for Canadian Producer Group (Anderson Exploration, Amoco Canada, Chevron Canada, Gulf Canada, Home Oil, and Petro Canada); M. J. Castro, for Casex Company; Karen Edson, for KKE & Associates; Michel Peter Florio, Attorney at Law, for Toward Utility Rate Normalization; Messrs. Armour, St. John, Wilcox, Goodin & Schlotz, by Barbara Snider, Attorney at Law, for Steve Harris, for Transwestern Pipeline Company; Messrs. Armour, St. John, Wilcox, Goodin & Schlotz, by Barbara Snider, Attorney at Law, for James Squeri, Attorney at Law, for Enron Corporation; Rand L. Havens, for Mission Resources; Messrs. Luce, Forward, Hamilton & Scripps, by Steven S. Wall, John W. Leslie, and Daniel A. Lawton, Attorneys at Law, for Gas Producer Gathering Group (Chevron USA, Inc., Union Oil Company of California, Texaco, and Mobil Oil Corporation); Henry F. Lippitt, II, Attorney at Law, for California Gas Producers Association; Messrs. Graham & James, by Martin A. Mattes, Boris H. Lakusta, and Peter W. Hanschen, Attorneys at Law, for Amerada Hess Corporation; Messrs. Squire, Sanders & Dempsey, by Keith McCrea, Attorney at Law, for California Industrial Group; Patrick McDonnell, for Agland Energy Services, Inc.; Steven M. Cohn, Attorney at Law, for California Energy Commission; Judy Obst and Barton M. Myerson, Attorneys at Law, for San Diego Gas & Electric Company; O'Rourke & Company, by Thomas J. O'Rourke, for Southwest Gas Corporation; Andrew Safir, for Gas Producer Gathering Group and City of Palo Alto; J. Russell Sherman, for Atlantic Oil Company; Dennis Shigeno, for UNOCAL; Messrs. Skaff & Anderson, by Andrew J. Skaff, Attorney at Law, for Natural Gas Clearinghouse; Messrs. Downey, Brand, Seymour & Rohwer, by Philip A. Stohr, Attorney at Law, for California Independent Petroleum Association and David Choisser, TXO Production Corporation; David Choisser, for TXO Production Corporation and California Independent Petroleum Association; Brian Sway, for Capitol Oil Corporation; Messrs. Morse, Richard, Weisenmiller & Associates, by Robert B. Weisenmiller, for Morse, Richard, Weisenmiller & Associates, Inc.; Richard O. Baish, Michael Ferguson and Randolph L. Wu, by Phyllis Huckabee, Attorney at Law, for El Paso Natural Gas Company; E. D. Yates, for California League of Food Processors; L. Erkie, for Southern

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California Gas Company; Kevin Woodruff, for Henwood Energy Services, Inc.; and Adrian J. Hudson and Messrs. Barakat, Howard & Chamberlin, by Nancy Thompson, for themselves.

Division of Ratepayer Advocates: Kathleen C. Maloney, Attorney at Law, and Brian Schumacher.

Commission Advisory and Compliance Division: Lorann King and Ramesh Ramchandani.

(END OF APPENDIX A)

APPENDIX B

PACIFIC GAS AND ELECTRIC COMPANY
SUMMARY OF GATHERING CHARGE REVENUE AND RATE

	COSTS ($000)	RATE ($/MMCF) (@136,107 MMCF VOLUMES)
FACILITIES		
Plant Carried in Primary Accounts	137,963	
Accumulated Depreciation	46,422	
Net Plant	91,541	
Rate Base	84,501	
CAPITAL RELATED COST OF FACILITES		
Return on Rate Base at 11.44%	9,667	
Income Taxes (34%)	7,914	
Property Taxes	844	
Depreciation	11,768	
Total Capital-Related Cost	30,193	
Unit Cost		0.222
OPERATING EXPENSES		
Transmission	2,802	
Production	2,111	
A&G	4,348	
Payroll and Other Taxes	533	
Franchise and Uncollectible	0	
Total Operating Expenses	9,794	
Unit Cost		0.072
SUMMARY		
Capital Related Cost of Facilities	30,193	
Operating Expenses	9,794	
Total Revenue Requirement	39,987	
Total Unit Cost		0.294
Transport Discount		0.072
Gathering Charge		0.222

(END OF APPENDIX B)

Decision 89 12 016 DEC 6 1989

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

In the Matter of the Investigation on the Commission's own motion into the Pacific Gas and Electric Company's gas gathering operations, including the reasonableness of its charges and how it shall structure and offer the service in the future.	I.88-11-012 (Filed November 9, 1988)

(Appearances are listed in Appendix A.)

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OPINION

This decision resolves outstanding issues in our investigation into Pacific Gas and Electric Company's (PG&E) gas gathering operations. We initiated this investigation to determine how gas gathering costs should be assessed, whether PG&E should form a separate subsidiary to offer gas gathering services, and whether PG&E should continue to install gas gathering facilities.

Summary

Our objective in developing gas gathering costs is to permit PG&E to compare, on a more equivalent basis, the prices of California gas to prices of out-of-state gas supplies. We find that PG&E's definition of the gas gathering system is consistent with that objective. We adjust PG&E's gathering cost study by reducing its estimates of administrative and general expenses, and certain other expenses. Using 1987 California production volumes, we arrive at an average gas gathering cost of $.294 per decatherm.

To permit accurate comparisons of the cost of California gas to the cost of out-of-state gas, the gas gathering charge should reflect the much shorter distances PG&E must transport California gas compared to out-of-state gas. Accordingly, we discount the gathering charge by $.072 per decatherm. PG&E should therefore apply $.222 per decatherm as the cost of gas gathering in sequencing decisions and determining its "fair market value."

This decision also states our intent to phase out PG&E's gas gathering operations. To that end, we require PG&E to sell certain gathering facilities when it receives offers for those facilities which are at or above the net book value of the plant. We will not include in future revenue requirement investments in gas gathering plant, except those facilities which are required to fulfill existing contract obligations. We also direct PG&E to accelerate depreciation of its existing gathering plant.

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This decision also states our intent to phase out PG&E's gas gathering operations. To that end, we require PG&E to sell certain gathering facilities when it receives offers for those facilities which are at or above the net book value of the plant. We will not include in future revenue requirement investments in gas gathering plant, except those facilities which are required to fulfill existing contract obligations. We also direct PG&E to accelerate depreciation of its existing gathering plant.

We believe PG&E's participation in gas gathering operations should be phased out for several reasons. Because investments are put into rate base, PG&E may have an incentive to overbuild gathering plant. PG&E ratepayers, under the existing arrangements, are at risk for these investments.

In addition, existing law creates certain pricing distortions if PG&E is the primary provider of gathering services. Producers who sell California gas to PG&E are affected by the costs of gathering because PG&E uses those costs in making sequencing decisions and in determining the fair market value of California gas. Producers who sell to third parties, however, are not so affected by gas gathering costs because PG&E may not charge transportation customers for gathering services.

In summary, our treatment of PG&E's gas gathering services is intended to promote more efficient investments in plant, and improve pricing signals between gas supplies from various sources.

I. Procedural Background

General. We initiated this investigation following issuance of a report written by CACD which provided an overview of gas gathering services and charges. I.88-11-012 directed PG&E to (1) submit a cost study of its gathering operations, (2) show cause why it should not be required to form a separate subsidiary for gas gathering services, and (3) address whether it should cease installing gas gathering and processing facilities for new wells and fields. It also directed PG&E to file comments explaining how it intended to comply with and implement Senate Bill (SB) 1937.

Subsequently, we issued Decision (D.) 89-02-030, which addressed petitions for modification of I.88-11-012 filed by PG&E, Gas Producer Gathering Group (GPGG), and California Gas Producers' Association (CGPA). That decision modified the parameters of the

the field to transmission pipelines, PG&E processes the gas to make it commercially marketable. Gas processing includes dehydration, compression, odorization, and mixing to improve heating values.

The gas PG&E purchases from out-of-state sources is delivered to the California border already gathered and processed. The price of non-California supplies therefore includes the cost of gas gathering and processing.

The Commission has recognized that PG&E has performed a service to California producers which it did not need to provide to out-of-state producers. Accordingly, D.85-12-102 directed PG&E to impute $.34 into the cost of California gas for purposes of determining the cost of that gas to PG&E's ratepayers relative to the cost of gas from other sources. Thus, the gas gathering costs were to be used in determining appropriate "sequencing" of gas supplies from various sources.

More recently, PG&E amended its transportation tariffs, effective May 1, 1988, to include a $.34 gas gathering surcharge for customers who transported California gas. This charge was eliminated in compliance with SB 1937, discussed above.

Currently, PG&E applies the $.34 cost in sequencing decisions. PG&E also uses the $.34 gas gathering cost estimate in determining the "fair market value" of California gas when it contracts with gas producers. That is, the price PG&E is willing to pay for gas from individual producers is reduced to reflect the cost of gathering. Third party transporters of California gas are not charged for gas gathering and processing services. Currently, costs of gas gathering and processing are included in PG&E's revenue requirement and are allocated to transportation rates.

III. <u>Defining Gas Gathering Facilities</u>

The issues in this case require us to determine which facilities are dedicated to gas gathering services because such gathering plant has not historically been distinguished, for accounting purposes, from transmission facilities. The definition of gas gathering facilities was perhaps the most controversial issue in this proceeding.

To determine which facilities are associated with gathering, I.88-11-012 directed PG&E to define gas gathering facilities using the "primary function test," applied by the Federal Energy Regulatory Commission (FERC) and described in various FERC decisions. Pursuant to that directive, PG&E filed, as part of its affirmative showing, 46 maps identifying gathering facilities consistent with its interpretation of the primary function test.

PG&E states the FERC has set forth five main criteria in determining whether the primary function of a facility should be classified as transportation or gathering:

1. The diameter and length of the facility;
2. The location of compressors and processing plants;
3. The extension of the facility beyond the central point in the field;
4. The location of wells along all or part of the facility; and
5. The geographical configuration of the system.

PG&E states it used the FERC criteria, to the extent possible, in distinguishing gas gathering facilities from transmission facilities. It cautions, however, that the primary function test is subject to considerable interpretation, and that the FERC has applied the test on a case-by-case basis. PG&E is unaware of any case where the FERC has applied the primary function test to as large and diverse a system as PG&E's.

PG&E used the primary function test in combination with a conceptual framework which would permit an "apples to apples" calculation is different from PG&E's. Amerada Hess used a current depreciation accrual for the gathering facilities which is consistent with the remaining life of California gas reserves, estimated to be 6.4 years. Amerada Hess also adjusted PG&E's cost study by restating the accumulated reserve for depreciation.

PG&E takes exception to Amerada Hess' use of the current year's accumulated reserve without recognizing the impact of the additional depreciation expense that would have been required in each of the years that is being restated. This technique, according to PG&E, underestimates the reserve at the expense of gas customers.

PG&E's use of an eight-year depreciation rate for calculating annual depreciation expense is reasonable because, as PG&E stated, gas wells have an expected production life of about eight years. We agree with PG&E that all depreciation expenses should be included in the cost study. Although PG&E's study attempts to "make up" some deferred depreciation expense, we believe that alternative is preferable to allocating past depreciation expenses to PG&E's ratepayers. Moreover, PG&E's method for determining the depreciation reserve is reasonable because it reflects an appropriate historical allocation of the reserve for each plant vintage. We will adopt PG&E's depreciation methodology for purposes of establishing the cost of gas gathering plant.

Federal Taxes. Amerada Hess and GPGG believe PG&E should use the current marginal tax of 34%, rather than the higher tax rate that was effective in 1987. The companies make this recommendation for the simple reason that the Commission will be applying the gathering charge prospectively.

We agree with GPGG and Amerada Hess that using more recent federal tax rates is an appropriate adjustment to PG&E's cost study.

design and other policies, some of which are considered in this opinion.

<u>Discussion</u>. As our discussion on the determination of gathering facilities implies, we do not believe the imputed gas gathering charge used in sequencing should be eliminated. PG&E's determination of fair market value for California gas does impute the cost of gathering, a cost which it does not apply to out-of-state gas supplies, as Amerada Hess states. The reason is simple: PG&E performs gathering and processing services for California producers which are not required for out-of-state supplies.

On the other hand, California gas requires less intrastate transportation than out-of-state supplies. In their testimony, the gas producers ask us to consider that California gas is cheaper to transport because it is closer to ultimate consumers. We agree that California gas does require much less transportation than gas supplies from Canada or the Southwest. Gas from the Southwest and Canada travels through Lines 300 and 400 which together span about 800 miles within the state. On average, that gas moves about 400 miles before reaching ultimate consumers. In contrast, California gas purchased by PG&E is mostly in the northern central part of the state, not far from PG&E's largest markets.

To account for the shorter distances required to transport California gas, we will discount our estimated cost of gas gathering. The discount will be based on the approximate cost of moving interstate gas 300 miles. We will apply the interutility rate because it is derived from the embedded costs of Lines 300 and 400. To calculate the discount, we determine the average cost of moving gas one mile ($.196 divided by 820 miles) over Lines 300 and 440, and multiply that amount by 300 miles. The resulting discount is $.072 per decatherm. We will subtract this amount from our adopted estimate of the unit cost of gas gathering in determining an appropriate gas gathering charge.

After considering the analyses of GPGG and Amerada Hess, we have concluded that some adjustments should be made to PG&E's cost study. As stated above, the cost study should be modified to reflect current federal tax rates and lower A&G expenses. Franchise and uncollectibles expenses should be removed from the cost estimate. We also agree with PG&E that if we use the 1988 federal tax rate, we should also update the cost study for the current cost of money and changes in rate of return. The resulting total revenue requirement is $40 million, or $.294 per decatherm. Subtracting the discount to reflect different transportation distances, the net cost of gas gathering is $.222 per decatherm. PG&E should consider this benchmark value for purposes of sequencing and in determining fair market value.

V. Rate Design for Gas Gathering Charge

I.88-11-012 sought comments on whether gathering charges should be "deaveraged" according to production areas. A deaveraged rate would reflect the costs of serving each area, and may thereby promote more efficient production.

PG&E's cost study provides cost information by each of the 46 gathering areas. PG&E's estimated costs of serving those areas range from $.05 to $14.67 per decatherm. PG&E recommends against a deaveraged rate.

CIPA, GPGG, and Amerada Hess agree with PG&E that deaveraging is not sensible at this time, primarily because of the variability of production within a production area, the associated administrative burden, and the arbitrary nature of area boundaries.

In addition, GPGG argues against "unbundling" gas gathering costs from transportation rates. Such unbundling, according to GPGG, would be inequitable unless it were undertaken in conjunction with unbundling other supply-related costs from transportation rates.

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In addition, GPGG argues against "unbundling" gas gathering costs from transportation rates. Such unbundling, according to GPGG, would be inequitable unless it were undertaken in conjunction with unbundling other supply-related costs from transportation rates.

Discussion. We agree that deaveraged rates create administrative burdens which are unlikely to be offset by the benefits of deaveraged rates. In addition, in the case of gas gathering, they may fail to send appropriate price signals because gathering costs are based on embedded plant and are calculated according to volumes for each production area. Accordingly, areas with low production during 1987 would be assessed an excessively high gas gathering cost. This cost is unlikely to be recovered if rates are set accordingly because gas production will be discouraged.

A more efficient pricing method would be for PG&E to negotiate rates which are at or above marginal costs. CGPA makes this point throughout its testimony. We are not considering marginal costs in this proceeding, in part because of the difficulty of determining them. Moreover, if PG&E applied marginal costs to all gathering services, a portion of revenue requirement might have to be recovered from other PG&E customers.

We have applied the concept of marginal cost pricing in cases where such pricing would discourage uneconomic bypass. In the case of gas gathering bypass does not appear to be a significant problem at this time, although production levels may fall as gas gathering charges increase. In any event, this type of pricing option is available to PG&E because we have, in past decisions, declined to set forth rules on sequencing policy or PG&E's contractual agreements with producers.

Although we have declined to review PG&E's sequencing and purchasing practices in this proceeding, it goes without saying that PG&E should consider, in determining fair market prices, maximizing revenues and minimizing costs. Therefore, circumstances may exist where, in order to retain or increase California gas production, PG&E imputes a gas gathering charge in sequencing which might not recover all embedded costs, but would recover more than marginal costs.

No party proposed that processing costs should be identified and charged for separately. We believe it may be appropriate for PG&E to charge for processing services separately; however, for the sake of administrative simplicity and because the amounts in question are relatively small, PG&E should continue to "bundle" the costs of processing with the costs of gathering. As a general matter PG&E should, in determining gas gathering charges to producers, consider the extent to which a producer provides its own processing facilities, and thereby reduces PG&E's costs.

We will continue to estimate gas gathering costs using a "postage stamp" or averaged rate and will not require PG&E to unbundle processing costs from gathering costs.

Finally, we agree with GPGG at this time that gas gathering costs should not be unbundled from the transportation rate since other costs are allocated to that rate which may not be incurred by California producers.

VI. Divestiture of PG&E's Existing Gas Gathering System

I.88-11-012 directed PG&E to show why it should not be required to form a separate subsidiary for its gas gathering operations. PG&E opposes placing existing plant in a separate subsidiary because such an arrangement would create significant operational and administrative inefficiencies. It expresses concerns over gathering lines which serve customers near gas fields and about gathering facilities which may be needed to assure safe operation of PG&E's system.

CIPA shares PG&E's concerns regarding a PG&E subsidiary. Moreover, CIPA opposes any divestiture of gathering plant to a subsidiary unless a new cost study is examined. CIPA argues that a regulated subsidiary would fail to improve efficiencies; it would, in fact result in lost economies of scale and scope. CIPA especially opposes the formation of an unregulated PG&E subsidiary because that subsidiary would, as a competitor with producers, have an incentive to overprice gathering services.

DRA proposes as one of its alternatives that PG&E be required to sell its gas gathering system. DRA points out that "getting PG&E out of the gas gathering business" will improve efficiencies and promote competition between California gas and out-of-state supplies. DRA recognizes, however, that this course could cause higher rates if PG&E cannot recover its total remaining investment costs through sale of its system.

GPGG recommends that if the Commission requires divestiture that PG&E should be directed to present another study identifying facilities which should be divested. That study should be subject to cross-examination. Further, producers using the facilities should be given a first opportunity to purchase the facilities at the cost identified by the Commission. If those producers do not wish to purchase the facilities, the facilities should be auctioned to the highest bidder, and then producers using the facilities should have a right to match the highest bid. GPGG believes PG&E should be able to retain existing facilities if bids fail to meet some minimum percentage of the value of the facilities.

Discussion. We share PG&E's view that placing PG&E's gas gathering operations in a separate subsidiary would create inefficiencies by eliminating some economies of scope (those which occur when two or more products are jointly produced) realized when PG&E offers gathering services while failing to resolve other problems. Because PG&E owns most existing gas gathering operations in its territory, a PG&E subsidiary would be, in effect, a near-monopoly. Under these circumstances, the subsidiary would require regulatory oversight. On balance, any potential benefits of a PG&E gathering subsidiary are likely to be offset by the costs.

We are concerned, however, that PG&E ownership of gas gathering facilities creates several problems. PG&E may be able to apply gas gathering charges so as to favor other supply sources. Because of the difficulty of determining costs, gathering charges may fail to promote optimal development of individual gas resources. Additionally, existing law does not permit PG&E to charge transporters of California gas for the cost of gas gathering services, although those costs are reflected in the price of interstate sources and California gas purchased by PG&E. This price differential creates a preference for transportation of California gas over purchases of PG&E gas and out-of-state gas for reasons unrelated to actual cost.

Finally, PG&E may overbuild its gathering facilities if the costs of those facilities are included in rate base and PG&E consequently faces little risk for those investments. In general, the existing set of circumstances does not promote efficient investments in California gas production or efficient purchasing decisions.

In order to mitigate these problems and reduce the period over which ratepayers are liable for gathering facilities, we will require a very limited divestiture of the existing system. We will require PG&E to sell those gathering and processing facilities for which it can recover at least the depreciated book value of those facilities. Permitting only those sales which would recover the full value of the facilities will address DRA's concern that ratepayers should not pay higher rates as a result of divestiture. We will not require PG&E to provide a right of first refusal of plant at book value to producers using the plant, as GPGG requests. We believe PG&E should seek to obtain the highest bid for the property in order to protect ratepayers and producers in general.

The framework for divestiture we adopt today protects producers. Divestiture will not result in the creation of an unregulated monopoly which could overprice gathering services. A party purchasing gathering plant and selling gathering services, except under a limited set of circumstances, would be considered a public utility subject to our jurisdiction and the ratemaking principles we would apply. We therefore expect that only producers, producer consortia, and their tenants will seek to purchase PG&E's gathering plant.

Under the divestiture framework we adopt, gas producers will not be forced to pay more for gathering services. We are not requiring PG&E to sell its gathering system. We are only requiring PG&E to sell those portions of its system which are attractive to producers at a price which is at or above net book value.

Both PG&E and the gas producers have expressed concern that existing contracts not be abrogated as a result of this proceeding. We do not intend that PG&E be required to sell existing gathering and processing facilities which are required in order for PG&E to fulfill existing contract obligations. When those contracts expire, however, we expect PG&E to offer such plant for sale.

PG&E has stated that if divestiture is required, it should be permitted to retain certain gathering facilities. Those facilities include pipelines which, in addition to serving gathering functions, transport local gas to PG&E customers. Some plant, according to PG&E, should be retained for safety reasons.

We will not require PG&E to offer for sale any gathering plant which is distinguished in the ways identified above. That is, we will not require PG&E to offer for sale any gathering plant which, if it were sold, would:

- Create safety hazards on PG&E's system;
- Require PG&E to build new facilities to continue to serve customers located near gathering fields; and
- Require PG&E to abrogate existing contract obligations.

To identify facilities which should be offered for sale, we will require PG&E to submit to the CACD, within 60 days of the public utility subject to our jurisdiction. We do not intend to create new regulated utilities by our action today, therefore, PG&E should sell its facilities only to producers, producer consortia, and their tenants. In the event that a subsidiary or affiliate of PG&E purchases any portion of the divested gathering facility, PG&E must seek approval of such acquisition from the Commission. The Commission will review the terms and conditions of any such acquisition by a PG&E subsidiary or affiliate to determine if the transaction was at arms length, and to ensure that the interests of ratepayers are fully protected.

Under the divestiture framework we adopt, gas producers will not be forced to pay more for gathering services. We are not requiring PG&E to sell its gathering system. We are only requiring PG&E to sell those portions of its system which are attractive to producers at a price which is at or above net book value.

Both PG&E and the gas producers have expressed concern that existing contracts not be abrogated as a result of this proceeding. We do not intend that PG&E be required to sell existing gathering and processing facilities which are required in order for PG&E to fulfill existing contract obligations. The contracts shall not be renewed. When those contracts expire, however, we expect PG&E to offer such plant for sale.

PG&E has stated that if divestiture is required, it should be permitted to retain certain gathering facilities. Those facilities include pipelines which, in addition to serving gathering functions, transport local gas to PG&E customers. Some plant, according to PG&E, should be retained for safety reasons. For example, some plant is used to transport gas during emergencies.

We will not require PG&E to offer for sale any gathering plant which is distinguished in the ways identified above. That is, we will not require PG&E to offer for sale any gathering plant which, if it were sold, would:

effective date of this decision, maps which identify gas gathering facilities which should not be offered for sale, consistent with this decision. The maps shall be those submitted by PG&E in this proceeding. Each map should highlight those sections which should not be sold and shall be accompanied by an explanation of why each facility should not be sold. Each map should be modified when existing contracts with producers expire and release PG&E's obligations for serving a producer with plant which should be offered for sale. All maps will remain on file for public information, and PG&E should provide copies of the maps, upon request, to all interested parties. We do not believe we need to review these maps in additional hearings; we are requiring PG&E to sell plant under certain conditions in order to mitigate the ratemaking effects of plant ownership on ratepayers. PG&E must sell only that plant which the market values to be at or above a "floor price" which is net book value. We retain regulatory oversight over plant which is not sold. Therefore, we believe gas producers are adequately protected.

PG&E shall auction all appropriate facilities to the highest bidder and should solicit bids for those facilities within 120 days of the effective date of this order. After the initial auction, PG&E shall sell plant at or above net book value to any interested buyer.

In determining an appropriate floor price, PG&E shall use the cost study it has submitted in this proceeding. The value of plant in each of the 46 gathering areas shall be determined by reducing PG&E's estimated cost of each facility by 9%, which is the percentage change we make to the capital component of PG&E's cost study. If PG&E sells pipeline facilities in increments which are smaller than those identified in its cost study, the net book value of the plant shall be determined by calculating the proportion of plant sold to the proportion of plant identified in the cost study.

- Create safety hazards on PG&E's system or require PG&E to build duplicative facilities for emergency needs;
- Require PG&E to build new facilities to continue to serve customers located near gathering fields; and
- Require PG&E to abrogate existing contract obligations.

To identify facilities which should be offered for sale, we will require PG&E to submit to the CACD, within 60 days of the effective date of this decision, maps which identify gas gathering facilities which should not be offered for sale, consistent with this decision. The maps shall be those submitted by PG&E in this proceeding modified to account for additions and retirements which have occurred since 1987. Each map should highlight those sections which should not be sold and shall be accompanied by an explanation of why each facility should not be sold. Each map should be modified when existing contracts with producers expire and release PG&E's obligations for serving a producer with plant which should be offered for sale. All maps will remain on file for public information, and PG&E should provide copies of the maps, upon request, to all interested parties. We do not believe we need to review these maps in additional hearings: we are requiring PG&E to sell plant under certain conditions in order to mitigate the ratemaking effects of plant ownership on ratepayers. PG&E must sell only that plant which the market values to be at or above a "floor price" which is net book value. We retain regulatory oversight over plant which is not sold. Therefore, we believe gas producers are adequately protected.

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VII. Treatment of New Gas Gathering Facilities

D.88-11-012 sought comments on whether PG&E should be permitted to install and operate new gas gathering facilities. PG&E opposes an order to cease installing new facilities because such a prohibition may create market inefficiencies. As an example, PG&E points out that it may be more expensive for a producer to connect a new pipe to PG&E's transmission system than for PG&E to connect a new producer to the existing gathering system. PG&E suggests that when it builds new plant, the full cost of the plant be charged directly to the producer for whom the plant was constructed.

Amerada Hess agrees that PG&E should continue to install new facilities, providing that rules are developed to ensure that PG&E will treat equally producers wanting to sell gas to PG&E and producers wanting to sell gas to third parties.

DRA strongly recommends that we decline to include any future gas gathering plant in PG&E's rate base. DRA makes this recommendation on the grounds that PG&E may otherwise have an incentive to overbuild plant. Requiring producers to install their own facilities will, according to DRA, promote competition between California gas and out-of-state gas supplies. DRA also believes the transportation rate would eventually be reduced.

CGPA agrees with DRA that gathering is not a monopolistic market and PG&E may have an incentive to overbuild gathering plant. It appears to support elimination of PG&E's gas gathering function.

CIPA also proposes that PG&E should not install new facilities in order to promote a more efficient and fair market for California gas.

<u>Discussion</u>. Like CGPA, we do not consider it necessary for gas gathering services to be provided by a public utility. Gas producers may construct and operate their own decentralized facilities. Accordingly, we believe there is no compelling reason

In determining an appropriate floor price, PG&E shall use the cost study it has submitted in this proceeding. The value of plant in each of the 46 gathering areas shall be determined by reducing PG&E's estimated cost of each facility by 9%, which is the percentage change we make to the capital component of PG&E's cost study (due to adjustments made to reflect the current cost of funds). The floor price shall not change over time to reflect changed depreciation. If PG&E sells pipeline facilities in increments which are smaller than those identified in its cost study, the net book value of the plant shall be determined by calculating the proportion of plant sold to the proportion of plant identified in the cost study.

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DRA strongly recommends that we decline to include any future gas gathering plant in PG&E's rate base. DRA makes this recommendation on the grounds that PG&E may otherwise have an incentive to overbuild plant. Requiring producers to install their for PG&E to continue to include in its revenue requirement the costs and expenses associated with new gas gathering and processing facilities. If gas producers invest in their own facilities, they will make more economically efficient investments than PG&E is able to make for them. Further, PG&E's ratepayers will not need to absorb the risk of those investments.

In the future, we will not permit PG&E to include in its ratebase the costs associated with any new gas gathering or processing facilities. Neither may it include in its revenue requirement any O&M or other expenses for operating new plant. In this context, we define "gas gathering" facilities consistent with our definition in Section IV of this decision. PG&E shall therefore not include in revenue requirement the costs of installing any processing facilities not associated with transmission or any pipeline upstream of those processing facilities.

The exception to our decision on this issue is any contract obligation, which became effective on or before November 8, 1989, committing PG&E to construction of new facilities. As we stated earlier in this decision, we do not wish to require PG&E to abrogate contracts which were negotiated in good faith and under a different regulatory framework. PG&E may build new gathering plant according to existing contract terms.

Finally, PG&E may, as it requests, contract with gas producers and buyers for the construction of such facilities, the costs and expenses of which should be fully recovered from the contracting producers or buyers.

VIII. Ratemaking Issues

We have established a gas gathering cost which PG&E should use in its sequencing decisions. The costs of gathering and processing plant must still be allocated among ratepayer groups.

own facilities will, according to DRA, promote competition between California gas and out-of-state gas supplies. DRA also believes the transportation rate would eventually be reduced.

CGPA agrees with DRA that gathering is not a monopolistic market and PG&E may have an incentive to overbuild gathering plant. It appears to support elimination of PG&E's gas gathering function.

CIPA also proposes that PG&E should not install new facilities in order to promote a more efficient and fair market for California gas.

Discussion. Like CGPA, we do not consider it necessary for gas gathering services to be provided by a public utility. Gas producers may construct and operate their own decentralized facilities. Accordingly, we believe there is no compelling reason for PG&E to continue to include in its revenue requirement the costs and expenses associated with new gas gathering and processing facilities. If gas producers invest in their own facilities, they will make more economically efficient investments than PG&E is able to make for them. Further, PG&E's ratepayers will not need to absorb the risk of those investments.

In the future, we will not permit PG&E to include in its ratebase the costs associated with any new gas gathering or processing facilities. Neither may it include in its revenue requirement any O&M or other expenses for operating new plant. In this context, we define "gas gathering" facilities as any pipelines and/or processing facilities which connect wells to PG&E's gas gathering system as defined in Section III of this decision. In addition, any pipeline which connects a well to PG&E's transmission system, as defined in Section III of this decision, also constitutes a gathering facility. PG&E shall therefore not include in revenue requirement the costs of installing any processing facilities not associated with transmission or any pipeline upstream of those processing facilities.

currently, those costs are allocated to core and noncore transportation rates. The rate design and cost allocation issues addressed in this proceeding are as follows.

Interutility Rates. PG&E recommends that we allocate a portion of gathering costs to interutility rates. PG&E reasons that otherwise PG&E's on-system customers will be paying for gas gathering costs while off-system customers would not when California gas is transported off-system. PG&E does not propose to implement any rate change in this proceeding.

GPGG strongly objects to PG&E's proposal to allocate gathering costs to transportation rates. According to GPGG, doing so would discourage interutility transportation, and would be unfair since interutility rates include interstate demand charges which are not associated with California gas. Moreover, GPGG argues that PG&E's proposal is not a proper subject for this investigation.

PG&E responds to GPGG's opposition by stating that its interutility rate does not include demand charges; those charges are paid by shippers directly. Discouraging interutility transportation, according to PG&E, does not justify a cross-subsidy between on-system and off-system customers.

Discussion. We agree with PG&E that allocating a share of gathering costs to the interutility rate will eliminate an inequity which exists between on-system and off-system customers. Currently, on-system customers pay for the entire cost of gathering. PG&E is correct that demand charges are not allocated to the interutility rate. Therefore, allocating gathering costs to the interutility rate will not create further pricing distortions, as GPGG argues.

We do not agree with GPGG that this ratemaking adjustment should not be resolved in this proceeding. D.89-04-089, which addressed applications for rehearing in this proceeding, expressly

The exception to our decision on this issue is any contract obligation, which became effective on or before November 8, 1989, committing PG&E to construction of new facilities. As we stated earlier in this decision, we do not wish to require PG&E to abrogate contracts which were negotiated in good faith and under a different regulatory framework. PG&E may build new gathering plant or repair and replace facilities according to existing contract terms.

Finally, PG&E may, as it requests, contract with gas producers and buyers for the construction of such facilities, the costs and expenses of which should be fully recovered from the contracting producers or noncore buyers. PG&E may not add to its ratebase plant built in return for discounted gas.

VIII. Ratemaking Issues

We have established a gas gathering cost which PG&E should use in its sequencing decisions. The costs of gathering and processing plant must still be allocated among ratepayer groups. Currently, those costs are allocated to core and noncore transportation rates. The rate design and cost allocation issues addressed in this proceeding are as follows.

Interutility Rates. PG&E recommends that we allocate a portion of gathering costs to interutility rates. PG&E reasons that otherwise PG&E's on-system customers will be paying for gas gathering costs while off-system customers would not when California gas is transported off-system. PG&E does not propose to implement any rate change in this proceeding.

GPGG strongly objects to PG&E's proposal to allocate gathering costs to transportation rates. According to GPGG, doing so would discourage interutility transportation, and would be unfair since interutility rates include interstate demand charges which are not associated with California gas. Moreover, GPGG stated our intention to consider the allocation of gas gathering costs.

Neither do we agree with GPGG that allocating gathering costs to transportation rates is contrary to the Commission's objective in establishing an interutility tariff, which is to benefit all customers on the PG&E system by reducing their rates. Allocating gathering costs to the interutility rate reduces the total costs allocated to transportation rates. Accordingly, ratepayers are no worse off. They are in fact better off because rates more closely match costs, promoting more efficient purchasing and transportation decisions. While we agree that we should seek to promote California gas, a more important objective is to promote low cost, reliable gas supplies, whatever their source.

PG&E should, in its pending ACAP application, propose changes to its interutility rates which would include an allocation of gathering costs equal, on a cents per therm basis, to amounts allocated to the transportation rates.

<u>Accelerated Depreciation</u>. DRA proposes that existing costs be removed from rate base over a five- to ten-year period consistent with its view that PG&E should phase out its gas gathering operations. DRA recommends that no action be taken on this matter until additional study be undertaken to determine an "optimum" period of depreciation. DRA also states its accelerated depreciation option should not be implemented until 1991, when the prohibition on re-allocation under SB 987 is removed.

PG&E does not object to DRA's proposal.

CIPA concurs with DRA's approach but argues that DRA incorrectly accepted PG&E's cost study in determining undepreciated plant.

GPGG objects to DRA's proposal to accelerate depreciation of gathering costs if the result would be to increase the gathering charge.

argues that PG&E's proposal is not a proper subject for this investigation.

PG&E responds to GPGG's opposition by stating that its interutility rate does not include demand charges; those charges are paid by shippers directly. Discouraging interutility transportation, according to PG&E, does not justify a cross-subsidy between on-system and off-system customers.

Discussion. We agree with PG&E that allocating a share of gathering costs to the interutility rate will eliminate an inequity which exists between on-system and off-system customers. Currently, on-system customers pay for the entire cost of gathering. PG&E is correct that demand charges are not allocated to the interutility rate. Therefore, allocating gathering costs to the interutility rate will not create further pricing distortions, as GPGG argues.

We do not agree with GPGG that this ratemaking adjustment should not be resolved in this proceeding. D.89-04-089, which addressed applications for rehearing in this proceeding, expressly stated our intention to consider the allocation of gas gathering costs.

Neither do we agree with GPGG that allocating gathering costs to transportation rates is contrary to the Commission's objective in establishing an interutility tariff, which is to benefit all customers on the PG&E system by reducing their rates. Allocating gathering costs to the interutility rate reduces the total costs allocated to transportation rates. Accordingly, ratepayers are no worse off. They are in fact better off because rates more closely match costs, promoting more efficient purchasing and transportation decisions. While we agree that we should seek to promote California gas, a more important objective is to promote low cost, reliable gas supplies, whatever their source.

PG&E should, in its pending ACAP application, propose changes to its interutility rates which would include an allocation

Discussion. We agree with DRA that accelerating recovery of the cost associated with gathering is consistent with our ultimate goal of gradually eliminating PG&E's role in gathering.

Consistent with the depreciation rate adopted for estimating costs, we will adopt an estimated period for full depreciation of eight years. Assuming future volumes are equal to 1987 volumes, and no plant is added or sold, gathering plant would be fully depreciated after eight years. This period could be lengthened or shortened depending upon changes in total gathering plant which could occur because of contractual obligations or sales of plant. It may also be longer or shorter depending on transportation volumes over the depreciation period.

DRA is concerned that SB 987 would not permit this change in depreciation until 1991. Under SB 987, we do not need to defer implementation of accelerated depreciation if we do not change any cost allocations. Our adopted accounting treatment of gas gathering costs continues allocation of gathering costs using the current methodology.

Contrary to GPGG's assumption, accelerating depreciation for this purpose would not necessarily increase rates or gas gathering charges. Under PG&E's proposal, an increase in revenue requirement is avoided by slightly lengthening the depreciation period for transmission plant not related to gathering. We believe this approach is sensible and will adopt it.

Disposition of the Memorandum Account Balances. D.89-04-089 commented that we must determine the disposition of balances in the gas gathering memorandum account which accrued between the issuance of D.88-02-030 in February 8, 1989, and D.89-04-089 in April 26, 1989. The balances accrued for gathering charges imposed on transportation customers prior to the elimination of those charges, effective as of the date of our first order in this proceeding which addressed the gathering surcharge.

of gathering costs equal, on a cents per therm basis, to amounts allocated to the transportation rates. The gathering cost should not include the $.072 discount, which was derived for the purpose of comparing gas prices.

Accelerated Depreciation. DRA proposes that existing costs be removed from rate base over a five- to ten-year period consistent with its view that PG&E should phase out its gas gathering operations. DRA recommends that no action be taken on this matter until additional study be undertaken to determine an "optimum" period of depreciation. DRA also states its accelerated depreciation option should not be implemented until 1991, when the prohibition on re-allocation under SB 987 is removed.

PG&E does not object to DRA's proposal.

CIPA concurs with DRA's approach but argues that DRA incorrectly accepted PG&E's cost study in determining undepreciated plant.

GPGG objects to DRA's proposal to accelerate depreciation of gathering costs if the result would be to increase the gathering charge.

Discussion. We agree with DRA that accelerating recovery of the cost associated with gathering is consistent with our ultimate goal of gradually eliminating PG&E's role in gathering.

Consistent with the depreciation rate adopted for estimating costs, we will adopt an estimated period for full depreciation of eight years. Assuming future volumes are equal to 1987 volumes, and no plant is added or sold, gathering plant would be fully depreciated after eight years. This period could be lengthened or shortened depending upon changes in total gathering plant which could occur because of contractual obligations or sales of plant. It may also be longer or shorter depending on transportation volumes over the depreciation period.

DRA is concerned that SB 987 would not permit this change in depreciation until 1991. Under SB 987, we do not need to defer

PG&E does not have strong views about the treatment of these balances. GPGG argues that they should be returned to the customers who paid them. Moreover, according to GPGG, the Commission should require PG&E to refund all revenues associated with surcharges beginning January 1, 1989, the effective date of SB 1937.

We will order PG&E to refund balancing account accruals to the customers who originally paid the gathering charges. We will not order PG&E to make refunds back to January 1, 1989. PG&E's charges at that time were pursuant to effective tariffs and therefore lawful. PG&E should eliminate the memorandum account as soon as refunds are made.

IX. Implementation of the Ratemaking Treatment for Gas Gathering

The conclusions we reach in this decision require the establishment of a gas gathering account which would track remaining gathering plant costs and related expenses. Accordingly, we will order PG&E to establish a Gas Gathering Tracking Account (GGTA). The purpose of the account will be to track the costs and revenues associated with gas gathering for the purpose of determining when to discontinue gas gathering charges. The account will also provide ratemaking information regarding remaining gas gathering rate base and expenses. The account will not be considered a balancing account; that is, PG&E will still be at risk for recovery of transportation revenues pursuant to our regulatory program.

PG&E will initially enter into the GGTA the total revenue requirement adopted in this decision. That amount will be amortized over an estimated eight-year period. PG&E shall deduct from the amount revenues associated with gas gathering. The appropriate rate for calculating this revenue is the adopted total revenue requirement for gas gathering (not including the "discount" implementation of accelerated depreciation if we do not change any cost allocations. Our adopted accounting treatment of gas gathering costs continues allocation of gathering costs using the current methodology.

Contrary to GPGG's assumption, accelerating depreciation for this purpose would not necessarily increase rates or gas gathering charges. Under PG&E's proposal, an increase in revenue requirement is avoided by assuming that the remaining life for nongathering transmission plant is slightly longer. This does not preclude PG&E from segregating gathering and nongathering plant for the purpose of establishing appropriate depreciation rates for nongathering plant in future general rate cases. We believe this approach is sensible and will adopt it.

<u>Disposition of the Memorandum Account Balances</u>. D.89-04-089 commented that we must determine the disposition of balances in the gas gathering memorandum account which accrued between the issuance of D.88-02-030 in February 8, 1989, and D.89-04-089 in April 26, 1989. The balances accrued for gathering charges imposed on transportation customers prior to the elimination of those charges, effective as of the date of our first order in this proceeding which addressed the gathering surcharge.

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which is adopted only for purposes of comparing the cost of California gas to out-of-state gas costs) divided by eight. That amount is to be divided by current transportation volumes (including interutility volumes effective the date the interutility rate includes an allocation of gathering costs) because revenue is recovered through transportation rates. This amount shall be used for ratemaking purposes until the account is zero.

PG&E will also be ordered to enter into that account any reductions in revenue requirement associated with the sale of gathering plant, including a factor for reduced expenses. It will enter into the GGTA any increases in revenue requirement associated with the new investments in gathering plant which result from existing contractual obligations.

When the balance in the GGTA is zero, we will assume, for purposes of addressing PG&E's sequencing decisions and determinations of fair market value, that PG&E no longer incurs gas gathering costs. At that time, transportation rates will fall to reflect a lower rate base. PG&E will still incur O&M and related expenses for plant it may still own. For simplicity and because those expenses are likely to be small, we will require PG&E to eliminate the charge altogether, even though O&M costs will continue to be incurred. As PG&E's gathering operations are phased out, expenses will fall. In the meantime, O&M costs will be allocated to transportation and interutility rates unless we determine that they should be allocated elsewhere.

X. Nondiscriminatory Access to PG&E Plant

CIPA and GPGG ask the Commission to adopt specific rules which seek to prohibit discriminatory treatment of California gas producers who seek to connect to PG&E's plant. CIPA states that clearly-stated principles and procedures designed to limit discrimination are essential in order to maximize the benefits of

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PG&E will initially enter into the GGTA the net plant adopted in this decision. PG&E shall deduct from the amount the book value (net plant) for any facilities sold and subtract the average depreciation expense (computed as adopted depreciation expense divided by adopted California production) for each Mcf of gas produced and flowing through the gathering system.

It will enter into the GGTA any increases in revenue requirement associated with the new investments in gathering plant which result from existing contractual obligations. PG&E shall also establish a memorandum account which tracks revenues received for gas gathering plant. Those revenues will be used to reduce total revenue requirement.

When the balance in the GGTA is zero, we will assume, for purposes of addressing PG&E's sequencing decisions and determinations of fair market value, that PG&E no longer incurs gas gathering costs. At that time, transportation rates will fall to reflect a lower rate base. PG&E will still incur O&M and related expenses for plant it may still own. For simplicity and because those expenses are likely to be small, we will require PG&E to eliminate the charge altogether, even though O&M costs will

California gas production. GPGG states that such rules are necessary because of PG&E's monopsony position in the market (that is, PG&E is the sole purchaser of California gas).

CIPA and GPGG propose several specific rules. They generally impose information requirements on PG&E, and require PG&E to hook up new wells within certain time periods.

Discussion. We decline to adopt specific rules regarding producer interconnection to PG&E's system for several reasons. California gas producers are already protected from arbitrary discrimination by PG&E under Public Utilities Code Section 453, which states that "No public utility shall, as to rates, charges, service, facilities, or in any other respect...subject any corporation or person to any prejudice or disadvantage." Section 785 establishes policy which provides a preference for California natural gas when its price and quality are comparable to gas from other sources. We expect PG&E to comply with these laws.

We did not anticipate addressing rules for access to PG&E plant in this proceeding. On that basis alone, we could deny the relief sought by GPGG and CIPA. That procedural matter notwithstanding, the evidence does not demonstrate that California gas producers are, because of PG&E's market position, incapable of negotiating fair and reasonable contracts with PG&E. PG&E is no longer the only purchaser of California natural gas: under our new regulatory program, third parties may purchase and transport California gas. Nor does the evidence demonstrate that PG&E has denied producers timely access to its system.

Even if GPGG and CIPA had provided evidence to show that PG&E possesses unequal bargaining power or denies producers timely and fair access to its system, the evidence does not demonstrate that the proposed rules would redress any imbalance in bargaining power between PG&E and the producers.

In general, we believe PG&E and California producers should negotiate contracts suited to the specific circumstances of continue to be incurred. As PG&E's gathering operations are phased out, expenses will fall. In the meantime, O&M costs will be allocated to transportation and interutility rates unless we determine that they should be allocated elsewhere.

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Conclusion

This decision adopts gas gathering costs which PG&E should apply in sequencing decisions and in determining fair market value. In general, we find that PG&E should phase out its investments in gas gathering in order to promote a more efficient and equitable gas market. To that end, we require PG&E to sell gathering plant for which it can receive at least net book value of that plant and state our intention to discontinue including in revenue requirement the costs and expenses associated with additions to PG&E's gas gathering plant.

Our implementation of the framework adopted in this decision is developed with administrative simplicity in mind. The adopted gas gathering cost is an estimate which, while not perfect, should fulfill our major objective of permitting PG&E to compare more accurately the prices of California gas and gas from other sources.

In recognition that perfect costing and pricing information is not available, and its development is too costly for the purpose at hand, we will not entertain any modifications to the revenue requirement or cost of gathering adopted in this decision. If the GGTA appears to be amortizing at a significantly slower or faster pace than we anticipate in this decision, we will consider changing PG&E's transportation rates to adjust the pace of account amortization. That adjustment and change in transportation rates would require a corresponding change to the gas gathering charge.

Finally, we believe our decision today is fully consistent with code sections which seek to promote California gas production, while assuring California gas consumers receive low cost gas supplies. The gas gathering charge reflects both the cost of a service PG&E provides to California gas producers, and the negotiating fair and reasonable contracts with PG&E. PG&E is no longer the only purchaser of California natural gas: under our new regulatory program, third parties may purchase and transport California gas. Nor does the evidence demonstrate that PG&E has denied producers timely access to its system.

Even if GPGG and CIPA had provided evidence to show that PG&E possesses unequal bargaining power or denies producers timely and fair access to its system, the evidence does not demonstrate that the proposed rules would redress any imbalance in bargaining power between PG&E and the producers.

In general, we believe PG&E and California producers should negotiate contracts suited to the specific circumstances of the producer, PG&E, and the facilities involved. We will not adopt any rules at this time addressing producer access to PG&E plant.

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In recognition that perfect costing and pricing information is not available, and its development is too costly for the purpose at hand, we will not entertain any modifications to the relative efficiency of California gas supplies resulting from their close proximity to PG&E customers.

Findings of Fact

1. I.88-11-012 was opened to investigate the cost of PG&E's gas gathering facilities and whether PG&E should continue to own gas gathering facilities in California.

2. D.89-04-089 required PG&E to eliminate from its transportation tariffs the gas gathering surcharge pursuant to the Commission's interpretation of SB 1937.

3. On August 18, 1989, PG&E, DRA, and TURN filed a settlement in this proceeding. Because the settlement was filed shortly before initiation of hearings, the ALJ ruled that the settlement would be considered after the completion of hearings.

4. PG&E performs gas gathering and processing services for California gas producers.

5. The gas PG&E receives from out-of-state arrives at the California border already gathered and processed. The price of that gas to PG&E includes the cost of gathering and processing.

6. PG&E has imputed $.34 into the total cost of California gas for purposes of comparing California gas prices to the prices of out-of-state supplies and determining the "fair market value" of California gas supplies.

7. The purpose of determining the actual cost of PG&E's gas gathering and processing operations is to permit more accurate comparisons of the prices of California gas and out-of-state gas.

8. The FERC's "primary function test" provides general guidance in defining PG&E's gas gathering facilities. Strict application of that test, however, would not permit a definition of PG&E's gas gathering facilities which would fulfill the Commission's objectives in this proceeding.

9. Gas gathering, for purposes of this proceeding, includes all processing facilities required to make the quality of California gas comparable to that of out-of-state gas supplies.

revenue requirement or cost of gathering adopted in this decision. If the GGTA appears to be amortizing at a significantly slower or faster pace than we anticipate in this decision, we will consider changing PG&E's transportation rates to adjust the pace of account amortization. That adjustment and change in transportation rates would require a corresponding change to the gas gathering charge.

Finally, we believe our decision today is fully consistent with code sections which seek to promote California gas production, while assuring California gas consumers receive low cost gas supplies. The gas gathering charge reflects both the cost of a service PG&E provides to California gas producers, and the relative efficiency of California gas supplies resulting from their close proximity to PG&E customers.

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6. PG&E has imputed $.34 into the total cost of California gas for purposes of comparing California gas prices to the prices of out-of-state supplies and is a factor considered in determining the "fair market value" of California gas supplies.

10. Gas gathering facilities which are required to make the quality of California gas comparable to out-of-state gas includes compressors, odorizers, mixing equipment, and dehydrators.

11. Siting processing facilities downstream from gas wells and fields permits efficient use of those facilities, especially since processing facilities tend to have a useful life which is longer than the average producing life of a well.

12. PG&E estimates the cost of gas gathering to be $.48 per decatherm.

13. PG&E's estimate of A&G costs is higher than what would be expected for gas gathering operations. Gas gathering A&G expenses are unlikely to be equal to the average spent for all gas operations because gas gathering operations are capital intensive.

14. PG&E estimated depreciation by using historical values for the depreciation reserve and by applying an eight-year depreciation period to reflect the expected economic life of gas production facilities.

15. The federal tax rate for 1988 was 34%.

16. Franchise fees and uncollectibles expenses are not caused by California gas producers.

17. Averaging past production volumes for use in determining a per unit cost of gas gathering overstates potential future production since California production volumes have fallen in recent years.

18. In calculating "fair market value," PG&E applies the cost of gas gathering to California gas but not to out-of-state gas because PG&E does not perform gas gathering services for out-of-state producers.

19. California gas requires significantly less transportation than out-of-state gas. California gas is produced relatively close to PG&E's largest gas markets in contrast to gas received from Canada and the southwest.

7. The purpose of determining the actual cost of PG&E's gas gathering and processing operations is to permit more accurate comparisons of the prices of California gas and out-of-state gas.

8. The FERC's "primary function test" provides general guidance in defining PG&E's gas gathering facilities. Strict application of that test, however, would not permit a definition of PG&E's gas gathering facilities which would fulfill the Commission's objectives in this proceeding.

9. Gas gathering, for purposes of this proceeding, includes all processing facilities required to make the quality of California gas comparable to that of out-of-state gas supplies.

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15. The federal tax rate for 1988 was 34%.

16. Franchise fees and uncollectibles expenses are not caused by California gas producers.

17. Averaging past production volumes for use in determining a per unit cost of gas gathering overstates potential future

20. Applying a gas gathering charge according to the costs of serving individual gas fields would create administrative burdens, the disadvantages of which would not be offset by potential improvements in efficiency or ability to recover revenue requirement.

21. Requiring PG&E to form a separate gas gathering subsidiary would cause lost economies of scope without providing offsetting benefits.

22. PG&E's ownership of gas gathering facilities may fail to promote efficient pricing policies and investment decisions.

23. Ratepayers will not be harmed by divestiture if PG&E receives net book value or more for gathering facilities.

24. Some of PG&E's existing gas gathering facilities are required to assure the safe operation of PG&E's system, to serve end-use customers, or to fulfill existing contract obligations.

25. Gas gathering operations need not be provided by public utilities.

26. Gas producers are more likely than PG&E to make economically efficient investment decisions regarding gathering plant.

27. The costs of gas gathering are currently allocated to transportation rates but not to interutility rates. Accordingly, on-system customers pay for the costs of gathering and processing California gas but off-system customers do not.

28. Accelerating cost recovery of gas gathering plant is consistent with the objective of phasing out PG&E's investments in gas gathering plant.

29. Accelerating cost recovery of gas gathering plant will not require a change in cost allocation.

30. Accelerating cost recovery of gas gathering plant will not increase PG&E's revenue requirement if transmission plant not related to gathering is depreciated over a period slightly longer than the existing period of 23 years.

production since California production volumes have fallen in recent years.

18. In calculating "fair market value," of California gas, PG&E considers the cost of gas gathering to California gas but not for out-of-state gas because PG&E does not perform gas gathering services for out-of-state producers.

19. The fact that California gas requires significantly less intrastate transportation than out-of-state gas is one factor that may be considered in other proceedings where PG&E's purchasing practices may be considered.

20. Applying a gas gathering charge according to the costs of serving individual gas fields would create administrative burdens, the disadvantages of which would not be offset by potential improvements in efficiency or ability to recover revenue requirement.

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26. Gas producers are more likely than PG&E to make economically efficient investment decisions regarding gathering plant.

27. The costs of gas gathering are currently allocated to transportation rates but not to interutility rates. Accordingly,

31. The evidence does not demonstrate that California gas producers cannot, because of PG&E's market position, negotiate fair and reasonable contracts with PG&E, or that the rules proposed by CIPA and GPGG would redress any problems related to unequal bargaining power between PG&E and California gas producers.

32. D.89-04-089 ordered PG&E to establish a gas gathering memorandum account in which PG&E would enter revenues received for gas gathering charges billed to transportation customers.

<u>Conclusions of Law</u>

1. The Commission should deny PG&E's motion to adopt the settlement signed by PG&E, DRA and TURN.

2. PG&E's definition of gas gathering facilities is reasonable because it includes facilities which are required to make California gas of comparable quality to out-of-state gas.

3. Nothing in this decision should be construed as a finding of the reasonableness of PG&E's investments in gas gathering facilities.

4. GPGG's method for estimating A&G costs associated with gas gathering is reasonable.

5. PG&E's use of an eight-year depreciation rate for calculating annual depreciation expense is reasonable because gas wells have an average expected production life of about eight years.

6. PG&E's use of a 23-year average remaining life for purposes of determining rate base is reasonable because it reflects historical treatment of gathering facilities.

7. It is reasonable to use 1988 federal tax rates, money costs, and rate of return in calculating the cost of PG&E's gas gathering system.

8. Franchise fees and uncollectibles should not be allocated to the cost of gas gathering because California gas producers are not responsible for the incurrence of those costs.

on-system customers pay for the costs of gathering and processing California gas but off-system customers do not.

28. Accelerating cost recovery of gas gathering plant is consistent with the objective of phasing out PG&E's investments in gas gathering plant.

29. Accelerating cost recovery of gas gathering plant will not require a change in cost allocation.

30. Accelerating cost recovery of gas gathering plant will not increase PG&E's revenue requirement if transmission plant not related to gathering is assumed to have a remaining life which is longer than the 23-year average for all transmission plant.

31. The evidence does not demonstrate that California gas producers cannot, because of PG&E's market position, negotiate fair and reasonable contracts with PG&E, or that the rules proposed by CIPA and GPGG would redress any problems related to unequal bargaining power between PG&E and California gas producers.

32. D.89-04-089 ordered PG&E to establish a gas gathering memorandum account in which PG&E would enter revenues received for gas gathering charges billed to transportation customers.

Conclusions of Law

1. The Commission should deny PG&E's motion to adopt the settlement signed by PG&E, DRA and TURN.

2. PG&E's definition of gas gathering facilities is reasonable because it includes facilities which are required to make California gas of comparable quality to out-of-state gas.

3. Nothing in this decision should be construed as a finding of the reasonableness of PG&E's investments in gas gathering facilities.

4. GPGG's method for estimating A&G costs associated with gas gathering is reasonable.

9. It is reasonable to use 1987 California gas production volumes in determining the per unit cost of gas gathering services.

10. A reasonable estimate of PG&E's cost of gas gathering is $.294 per decatherm.

11. It is reasonable to discount the cost of gas gathering to account for the shorter distances required to transport California gas compared to out-of-state gas supplies. That discount should be based on the embedded cost of Line 300 and Line 400, which transport out-of-state gas supplies.

12. It is reasonable to assume that California gas is transported within California, on average, approximately 300 miles less than out-of-state gas supplies.

13. It is reasonable to discount the gas gathering cost by $.072, for purposes of determining the cost of California gas relative to out-of-state gas, to account for the shorter distances required to transport California gas.

14. The Commission should not require PG&E to "deaverage" gas gathering charges by production area for purposes of sequencing.

15. PG&E should not be required to calculate and charge separate rates for processing. The gas gathering charge and costs used to determine them in this proceeding should include the costs of processing.

16. PG&E should be required to sell gas gathering facilities for which it can recover at least the depreciated book value of those facilities, and which are not required to assure safe operation of PG&E's system, to serve end-use customers, or to fulfill existing contract obligations. The plant should be auctioned and sold to the highest bidder and bids for such facilities should be solicited with 120 days of the effective date of this order. Thereafter, PG&E should be required to sell facilities to interested buyers at or above net book value.

17. PG&E should be required to submit to CACD maps which identify gas gathering facilities which should not be offered for

5. PG&E's use of an eight-year depreciation rate for calculating annual depreciation expense is reasonable because gas wells have an average expected production life of about eight years.

6. PG&E's use of a 23-year average remaining life for purposes of determining rate base is reasonable because it reflects historical treatment of gathering facilities.

7. It is reasonable to use 1988 federal tax rates, money costs, and rate of return in calculating the cost of PG&E's gas gathering system.

8. Franchise fees and uncollectibles should not be allocated to the cost of gas gathering because California gas producers are not responsible for the incurrence of those costs.

9. It is reasonable to use 1987 California gas production volumes in determining the per unit cost of gas gathering services.

10. A reasonable estimate of PG&E's cost of gas gathering is $.294 per decatherm.

11. It is reasonable to discount the cost of gas gathering to account for the shorter distances required to transport California gas compared to out-of-state gas supplies. That discount should be based on the embedded cost of Line 300 and Line 400, which transport out-of-state gas supplies.

12. It is reasonable to assume that California gas is transported within California, on average, approximately 300 miles less than out-of-state gas supplies.

13. It is reasonable to discount the gas gathering cost by $.072, for purposes of determining the cost of California gas relative to out-of-state gas, to account for the shorter distances required to transport California gas.

14. The Commission should not require PG&E to "deaverage" gas gathering charges by production area for purposes of sequencing.

15. PG&E should not be required to calculate and charge separate rates for processing. The gas gathering charge and costs

sale, consistent with this decision. PG&E should be required to provide copies of those maps to interested parties, upon request.

18. PG&E should not be permitted to include in future rate base or revenue requirement the costs or expenses associated with additions to gas gathering plant, except new construction which is required to fulfill existing contract obligations.

19. PG&E should be permitted to construct gas gathering plant if the costs of that construction are fully recovered from the buyers of that construction service.

20. Gas gathering costs should be allocated to interutility rates equal, on a cents per therm basis, to the amounts allocated to transportation rates. PG&E should modify, in its test year 1990 ACAP, interutility rates to reflect an allocation of the costs of gas gathering as set forth in this decision.

21. PG&E should be required to implement accelerated depreciation of its gas gathering plant.

22. SB 987 will not be violated if PG&E accelerates depreciation of its gas gathering plant because costs will not be reallocated between customer classes.

23. The period of depreciation for transmission plant should be lengthened so as to avoid a revenue requirement increase which would otherwise occur due to accelerating depreciation of gathering plant over an eight-year period.

24. Section 453 protects California gas producers from any prejudice or disadvantage by PG&E.

25. Section 785 establishes policy which states a preference for California gas when the price and quality of that gas is comparable to gas from other sources.

26. PG&E should be required to establish a Gas Gathering Tracking Account (GGTA) to track costs and revenues associated with gas gathering costs and expenses, as set forth in this decision.

27. PG&E should be ordered to refund revenues for gas gathering charges billed between February 8, 1989 and April 26,

used to determine them in this proceeding should include the costs of processing.

16. PG&E should be required to sell gas gathering facilities for which it can recover at least the depreciated book value of those facilities, and which are not required to assure safe operation of PG&E's system, to serve end-use customers, or to fulfill existing contract obligations. The plant should be auctioned and sold to the highest bidder and bids for such facilities should be solicited with 120 days of the effective date of this order. Thereafter, PG&E should be required to sell facilities to interested buyers at or above net book value.

17. PG&E should be required to submit to CACD maps which identify gas gathering facilities which should not be offered for sale, consistent with this decision. PG&E should be required to provide copies of those maps to interested parties, upon request.

18. PG&E should not be permitted to include in future rate base or revenue requirement the costs or expenses associated with additions to gas gathering plant, except new construction which is required to fulfill existing contract obligations.

19. PG&E should be permitted to construct gas gathering plant if the costs of that construction are fully recovered from the buyers of that construction service.

20. Gas gathering costs should be allocated to interutility rates equal, on a cents per therm basis, to the amounts allocated to transportation rates. PG&E should modify, in its test year 1990 ACAP, interutility rates to reflect an allocation of the costs of gas gathering as set forth in this decision.

21. PG&E should be required to implement accelerated depreciation of its gas gathering plant.

22. SB 987 will not be violated if PG&E accelerates depreciation of its gas gathering plant because costs will not be reallocated between customer classes.

1989. Those refunds should be made to the customers who originally paid the charges.

ORDER

IT IS ORDERED that:

1. The motion of Pacific Gas and Electric Company (PG&E) to adopt its settlement with the Division of Ratepayer Advocates (DRA) and Toward Utility Rate Normalization (TURN) is denied.

2. PG&E shall submit to the Commission Advisory and Compliance Division (CACD), within 60 days of the effective date of this order, maps identifying gathering plant pursuant to this decision. It shall provide copies of those maps, upon request, to all interested parties.

3. PG&E shall, within 120 days of the effective date of this order, solicit bids for the sale of gas gathering facilities, pursuant to this decision. Following the completion of the initial auction, PG&E shall sell to any interested party gas gathering facilities at or above depreciated book value, pursuant to this decision.

4. PG&E shall file, in its 1990 Annual Cost Allocation Proceeding, a rate proposal allocating an equal share of gas gathering costs, on a cents per therm basis, to interutility rates and transportation rates.

5. PG&E shall establish a Gas Gathering Tracking Account (GGTA), and enter into that account revenues and costs associated with gas gathering, consistent with this decision.

23. The period of depreciation for nongathering transmission plant should be assumed to be longer than the 23-year average so as to avoid a revenue requirement increase which would otherwise occur due to accelerating depreciation of gathering plant over an eight-year period.

24. Section 453 protects California gas producers from any prejudice or disadvantage by PG&E.

25. Section 785 establishes policy which states a preference for California gas when the price and quality of that gas is comparable to gas from other sources.

26. PG&E should be required to establish a Gas Gathering Tracking Account (GGTA) to track costs and revenues associated with gas gathering costs and expenses, as set forth in this decision.

27. PG&E should be required to establish a memorandum account which shall track revenues from the sale of gathering plant. Those revenues shall be used in the future to reduce PG&E's revenue requirement.

28. PG&E should be ordered to refund revenues for gas gathering charges billed between February 8, 1989 and April 26, 1989. Those refunds should be made to the customers who originally paid the charges.

ORDER

IT IS ORDERED that:

1. The motion of Pacific Gas and Electric Company (PG&E) to adopt its settlement with the Division of Ratepayer Advocates (DRA) and Toward Utility Rate Normalization (TURN) is denied.

2. PG&E shall submit to the Commission Advisory and Compliance Division (CACD), within 60 days of the effective date of this order, maps identifying gathering plant pursuant to this decision. It shall provide copies of those maps, upon request, to all interested parties.

6. PG&E shall refund the balances in the memorandum account established in Decision (D.) 89-02-030. The refunds shall be made to those customers who paid the gas gathering surcharge for services rendered between February 8, 1989 and April 26, 1989.

This order is effective today.

Dated ____________________, at San Francisco, California.

3. PG&E shall, within 120 days of the effective date of this order, solicit bids for the sale of gas gathering facilities, pursuant to this decision. Following the completion of the initial auction, PG&E shall sell to any interested party gas gathering facilities at or above depreciated book value, pursuant to this decision. PG&E shall within 150 days of the effective date of this order, designate the winning bidders. At this time, PG&E must inform CACD and DRA of the identity of all winning bidders, and the price paid. In the event that the purchase of gas facilities, whether through the initial bidding procedure, or subsequent to the initial auction, is by a PG&E subsidiary or affiliate, PG&E shall so inform CACD and DRA, and the Commission reserves the right to review the terms and conditions of any such transaction to determine that the transaction was an "arms-length" transaction.

4. PG&E shall file, in its 1990 Annual Cost Allocation Proceeding, a rate proposal allocating an equal share of gas gathering costs, on a cents per therm basis, to interutility rates and transportation rates.

5. PG&E shall establish a Gas Gathering Tracking Account (GGTA), and enter into that account revenues and costs associated with gas gathering, consistent with this decision.

6. PG&E shall establish a memorandum account in which it shall enter amounts received from the sale of gathering plant.

7. PG&E shall refund the balances in the memorandum account established in Decision (D.) 89-02-030. The refunds shall be made to those customers who paid the gas gathering surcharge for services rendered between February 8, 1989 and April 26, 1989.

This order is effective today.

Dated DEC 6 1989, at San Francisco, California.

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners

APPENDIX A
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Respondent: Judi K. Mosley, Joshua Barlev, and Shirley A. Woo, Attorneys at Law, for Pacific Gas and Electric Company.

Interested Parties: C. Hayden Ames, Attorney at Law, for Chickering & Gregory; Patrick J. Power, Attorney at Law, and Randy Baldschun, for City of Palo Alto; Barkovich & Yap, by Barbara R. Barkovich, for State of New Mexico Oil Conservation Division; Brady & Berliner, by Roger Berliner, Attorney at Law, and Tom Beach, for Canadian Producer Group (Anderson Exploration, Amoco Canada, Chevron Canada, Gulf Canada, Home Oil, and Petro Canada); M. J. Castro, for Casex Company; Karen Edson, for KKE & Associates; Michel Peter Florio, Attorney at Law, for Toward Utility Rate Normalization; Messrs. Armour, St. John, Wilcox, Goodin & Schlotz, by Barbara Snider, Attorney at Law, for Steve Harris, for Transwestern Pipeline Company; Messrs. Armour, St. John, Wilcox, Goodin & Schlotz, by Barbara Snider, Attorney at Law, for James Squeri, Attorney at Law, for Enron Corporation; Rand L. Havens, for Mission Resources; Messrs. Luce, Forward, Hamilton & Scripps, by Steven S. Wall, John W. Leslie, and Daniel A. Lawton, Attorneys at Law, for Gas Producer Gathering Group (Chevron USA, Inc., Union Oil Company of California, Texaco, and Mobil Oil Corporation); Henry F. Lippitt, II, Attorney at Law, for California Gas Producers Association; Messrs. Graham & James, by Martin A. Mattes, Boris H. Lakusta, and Peter W. Hanschen, Attorneys at Law, for Amerada Hess Corporation; Messrs. Squire, Sanders & Dempsey, by Keith McCrea, Attorney at Law, for California Industrial Group; Patrick McDonnell, for Agland Energy Services, Inc.; Steven M. Cohn, Attorney at Law, for California Energy Commission; Judy Obst and Barton M. Myerson, Attorneys at Law, for San Diego Gas & Electric Company; O'Rourke & Company, by Thomas J. O'Rourke, for Southwest Gas Corporation; Andrew Safir, for Gas Producer Gathering Group and City of Palo Alto; J. Russell Sherman, for Atlantic Oil Company; Dennis Shigeno, for UNOCAL; Messrs. Skaff & Anderson, by Andrew J. Skaff, Attorney at Law, for Natural Gas Clearinghouse; Messrs. Downey, Brand, Seymour & Rohwer, by Philip A. Stohr, Attorney at Law, for California Independent Petroleum Association and David Choisser, TXO Production Corporation; David Choisser, for TXO Production Corporation and California Independent Petroleum Association; Brian Sway, for Capitol Oil Corporation; Messrs. Morse, Richard, Weisenmiller & Associates, by Robert B. Weisenmiller, for Morse, Richard, Weisenmiller & Associates, Inc.; Richard O. Baish, Michael Ferguson and Randolph L. Wu, by Phyllis Huckabee, Attorney at Law, for El Paso Natural Gas Company; E. D. Yates, for California League of Food Processors; L. Erkie, for Southern

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California Gas Company; Kevin Woodruff, for Henwood Energy Services, Inc.; and Adrian J. Hudson and Messrs. Barakat, Howard & Chamberlin, by Nancy Thompson, for themselves.

Division of Ratepayer Advocates: Kathleen C. Maloney, Attorney at Law, and Brian Schumacher.

Commission Advisory and Compliance Division: Lorann King and Ramesh Ramchandani.

(END OF APPENDIX A)

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