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Decision 90-12-100 December 19, 19

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking on the Commission's own motion to change the structure of gas utilities' procurement practices and to propose refinements to the regulatory framework for gas utilities.	R.90-02-008 (Filed February 7, 1990)

ORIGINAL

ORDER MODIFYING DECISION

In response to several petitions for modification, this decision makes several minor changes to Decision (D.) 90-09-089. In that decision, we adopted new rules for gas utility procurement and transportation. Petitions for modification of D.90-09-89 have been filed by Southern California Gas Company (SoCal), the California Industrial Group (CIG), California League of Food Processors, and the California Manufacturers Association, Indicated Producers, the City of Palo Alto, the School Project for Utility Rate Reductions (SPURR), and the City of Long Beach. Responses have been filed by Southern California Edison Company (Edison), the Southern California Utility Power Pool and Imperial Irrigation District (SCUPP), the Alberta Petroleum Marketing Commission (APMC), Toward Utility Rate Normalization (TURN), SoCal and the Division of Ratepayers Advocates (DRA).

Demand Charges for UEGs

D.90-09-089 eliminated demand charges for non-core customers. SoCal asks the Commission to retain demand charges for utility electric generation (UEG) customers as the settlement proposed. SoCal argues that although industrial customers have found demand charges to be confusing and unpredictable, UEG customers have not. Their demand charges are fixed each month based on forecasted throughput. SoCal believes UEG demand charges

are valuable for keeping UEG volumetric rates competitive and reducing volatility in gas utility earnings.

Edison objects to SoCal's proposal, stating that imposing demand charges on UEGs but not other noncore customers will preclude UEGs from negotiating competitive rates. On the issue of revenue stability for the gas utilities, Edison reminds the Commission that it adopted a 75% balancing account for gas revenues and take-or-pay penalties for customers using less than 75% of their nominated volumes. These provisions assure reasonable revenue stability for the gas utilities, according to Edison. DRA and SCUPP object to SoCal's proposal on similar grounds.

D.90-09-089 did not adopt the Settlement's provision for eliminating demand charges for all noncore customers except UEGs. We concur with Edison that retaining demand charges for UEG customers is not required in order to provide the gas utilities with revenue stability. D.90-09-89 provides substantial revenue stability for the gas utilities by way of a 75% balancing account and take-or-pay obligations on customers. We see no reason to distinguish between UEGs and other customers for purposes of this rate design issue.

Priority Levels for Wholesale Customers

Palo Alto, Long Beach, and TURN point out that D.90-09-089 did not address service level priorities for wholesale customers. Palo Alto comments that the Commission has, in past decisions, recognized wholesale customers' responsibilities to core customers and should not overlook those responsibilities under the new program. It urges the Commission to assure that wholesale subscription service provide wholesale customers services comparable to those offered to retail customers.

Long Beach believes that the Commission should require the utilities to provide wholesale customers firm capacity for their core and noncore loads. Wholesale customers' core demand, according to Long Beach, should be allocated capacity through

constrained receipt points on a pro rata basis with utility core loads. Long Beach also believes it should be allocated an amount of firm interstate pipeline capacity based on the adopted forecast of its requirements, and that Long Beach should be free to reallocate its capacity among its own customers as it sees fit. It also seeks additional storage volumes.

TURN recommends wholesale core loads be entitled to pipeline access proportional to the capacity reserved for the serving utility's own core. The 12-cent firm service surcharges, according to TURN, should not apply to the wholesale core. With respect to the wholesale noncore, TURN suggests wholesale customers should have the option to allow their own noncore customers to participate directly in obtaining capacity from the gas utility or to secure capacity on behalf of noncore customers. These noncore customers would have the same options as other noncore customers of the gas utility.

DRA generally agrees with the comments of Palo Alto and Long Beach, but objects to reallocating the costs of PITCO and POPCO, and to providing wholesale customers with access to storage for their full requirements.

We agree with the parties that we must address treatment of wholesale customers. We will not, however, provide what have been considered core services, such as guaranteed storage, to noncore of wholesale customers as the comments of Long Beach and Palo seem to suggest.

TURN's proposal to allocate core services to wholesale customers according to their core demands is reasonable. We will also adopt Long Beach's proposal that its core load should share access to the El Paso and Transwestern pipelines on a pro rata basis with SoCal's core load. Allocation of PG&E's transportation for wholesale customers' core loads should also be comparable to that provided to PG&E's core customers.

As DRA points out, this is not the appropriate proceeding for reallocating the costs of PITCO and POPCO. We also agree that the wholesale utilities should have the option of serving their noncore customers directly or permitting those customers to participate directly in the gas utility programs. Our final modified rules will include a section for wholesale services to reflect these additional guidelines, beginning on page 8 of Appendix A.

Balancing Account for Noncore Revenues

SoCal points out that the Commission does not appear to have adopted the settlement provision for a balancing account to assure that the revenues from the $.12 per decatherm surcharge for Service Level (SL-2) service are fully credited to lower priority service customers. SoCal urges the Commission to adopt such a balancing account on the basis that no one can reasonably forecast election to SL-2 at this time. TURN supports the balancing account.

We agree that it is unreasonable to expect an accurate forecast of SL-2 customers before having had any experience with our new priority system. No purpose would be served by putting the gas utilities and their lower priority customers at risk for forecast errors. The utilities may therefore establish accounts to track the revenues received from the $.12 pre decatherm surcharge. This change is included on page 7 of Appendix A.

A related issue was raised by APMC in its response to SoCal's petition. APMC proposes that rather than setting up a balancing account or forecasting revenues for each class, the utilities should collect SL-2 revenues in a tracking account and return the revenues to all customers on an equal cents per therm basis.

APMC's suggestion is consistent with SoCal's request for a balancing account but APMC goes a step farther by suggesting a rate design change. D.90-09-089 provided that the revenues from

the 12-cent surcharge would be credited to interruptible services. Under that method of allocating the 12-cent surcharge, rate differentials between firm and interruptible services would be unpredictable. APMC's proposal would maintain the 12-cent differential. This predictability is sensible, especially during the initial period of our new program. We will adopt APMC's recommendation to reallocate revenues from the surcharge to Service Levels 2 through 5. These revenues will be used to reduce equally the per therm rate for each service level.

Existing Long-Term Contracts

SoCal, Shell Western, and TURN comment that D.90-09-089 preserves the sanctity of certain existing long-term contracts but fails to include reference to enhanced oil recovery (EOR) steamflood customers or SoCal's contract with Texaco and Unocal (approved by Resolution Nos. G-2639 and G-2646).

It was our intent to extend to all existing long-term contracts the provisions set forth in D.90-09-089. This decision clarifies D.90-09-089 to include the long-term contracts between the utilities and EOR steamflood customers, and the contract between SoCal and Texaco and Unocal. The rules adopted in D.90-09-089 do not require modification because they do not draw distinctions between types of existing long-term contracts.

Transportation of PITCO Volumes

SoCal's petition seeks a clarification of appropriate treatment of its long-term contract for gas supplies from Pacific Interstate Transmission Company (PITCO). SoCal believes a strict application of the pro rata allocation principle set forth in D.90-09-089 could interfere with its ability to take core supplies from PITCO and impose unnecessary costs on ratepayers. It recommends the Commission exempt SoCal from the pro rata allocation of noncore capacity to the extent that allocation would restrict SoCal's ability to obtain deliveries of gas from PITCO, or to the

extent necessary for SoCal to avoid penalties, inventory charges, or minimum payments under the existing contracts.

TURN supports SoCal's request but suggests the Commission reconsider the treatment of PITCO supplies in its pending capacity brokering proceeding.

We will exempt SoCal's PITCO deliveries from the pro rata allocation requirements of D.90-09-089 as set forth on page 4 of Appendix A. As TURN suggests, we will consider, in R.88-08-018, whether continued priority treatment of these volumes is appropriate.

Balancing and Standby Services

SoCal's petition seeks a minor change to the language in D.90-09-089 regarding balancing and standby services. D.90-09-089 refers to the allowed imbalances begin measured with reference to the customer's "nominations." SoCal believes the decision is attempting to address the difference between the amount of gas delivered to SoCal and the amount of gas actual consumed, rather than nominated, by the customer. It suggests the rule be changed to reflect that customer nominations are irrelevant unless the amount of gas acutely delivered exactly matches the amount of the customer's gas delivered to the utility. TURN supports the modification.

We agree that the term "nominations" was inadvertently used to refer to the gas actually consumed by the customer. We will amend our rules to reflect this change (see page 9 of Appendix A).

Core Transportation Customers

SPURR asks the Commission to clarify that core transportation customers will have superior access to pipeline capacity over noncore customers opting for core subscription service. TURN supports SPURR's request.

The utilities have existing tariff provisions that offer core transportation. D.90-09-089 did not intend to change this

offering or to provide core transportation customers a lower transportation priority than other core customers. We will clarify D.90-09-089 to provide that core transportation customers are permitted to use the utility's capacity rights and are not part of the pro rata allocation mechanism established for noncore customers. Core transportation customers shall be offered firm service under SL-1 tariffs, as set forth on page 3 of Appendix A.

Priority for Cogeneration and UEG Customers

CSC's petition for modification expresses concern that the rules for SL-4 and SL-5 do not provide cogenerators with a priority that is superior to UEG customer. According to CSC, cogenerators that pay the same rate in those service levels are subject to curtailment before UEGs if cogenerators pay less than UEGs due to the pro rata curtailment provisions.

Within those service levels where rates are negotiable and curtailment is allocated on a pro rata basis among customers paying the same transportation rate, UEG and Cogeneration load with equivalent transmission rates shall be combined to determine a pro rata curtailment volume in relation to other non-core customers. However, while the UEG and Cogeneration volumes are combined to determine a pro rata allocation, all the actual curtailment so allocated to the two classes of customers shall be imposed against the UEG volumes until they are exhausted, so that no Cogeneration volumes will be curtailed before any UEG volumes within the same transmission rate and service level.

Interstate Transportation and Procurement

Indicated Producers raises two issues which deserve comment here. First, it argues the "best efforts" standard for utility purchases of identified gas supplies is vague and leaves room for abuse by the gas utilities. It believes the utilities could purchase their own system supplies and then "bump" third party supplies that must be transported through constraint points.

We are aware that our program providing for utility purchases of third party gas is an imperfect substitute for a truly

competitive system of allocating pipeline capacity, in large part because customers must rely on the utilities to purchase gas on their behalf. We warn the utilities that they must not interfere with third party supply transactions to pursue their own purchasing strategies. If we become aware that the utilities have improperly taken advantage of their access to capacity or supply information provided by customers, we will not hesitate to take appropriate action in reasonableness reviews or complaint cases.

The other area of concern raised by Indicated Producers is the Commission's failure to address, in its rules regarding excess core gas, sales that the utilities should not use interstate rights to move noncore gas for sale in California. We agree with Indicated Producers that such use would be appropriate only if the use resulted from an exercise of the utilities' rights by noncore customers through a FERC-approved capacity brokering program. Any other transportation arrangement would essentially transform a sale at the receipt point into a sale at the California border. We will clarify our rules accordingly (see page 9 of Appendix A).

Transportation Rate Ceilings

Indicated Producers believe that the Commission intended to provide a ceiling for interruptible rates under Service Levels 3 through 5. It argues that a ceiling would ensure that the utilities do not charge higher rates for interruptible service than customers are presently paying for the same or greater service reliability.

The Settlement provided that "the charge for Service Levels 3 to 5 will have a ceiling equal to the applicable default rates for the various customer classes." We agree with Indicated Producers that this rule will provide guidance and promote fairness in negotiations which may be especially critical during the early stages of the new program. We will modify our rules accordingly (see page 5 of Appendix A).

Restrictions on Election of High Priority Services

D.90-09-089 provides that UEG and other P-5 customers may not nominate more than 65% of their requirements into Service Levels 2 and 3. Indicated Producers asks the Commission reconsider this restriction as it applies to non-UEG P-5 customers on the grounds that the restriction was conceived over concerns regarding UEG customers only.

We adopted the load restrictions in recognition that PG&E's UEG loads appeared to restrict noncore customer access to Canadian gas. We concur with Indicated Producers that there does not appear to be a problem with non-UEG customer loads dominating pipeline capacity, and we will change the rules accordingly (see page 8 of Appendix A).

Notice to Cogenerators of UEG Elections

CSC proposes that cogenerators receive notice of UEG service level elections in advance of the cut-off date for cogenerators to select their transportation services. CSC argues that such notice is necessary in order to assure that cogenerators have an opportunity to pay the same rate paid by the UEG and thereby achieve parity between cogenerators and UEGs as required by Section 454.4.

We believe CSC's request is reasonable, and consistent with parity provisions of Section 454.4. We will amend the rules to direct the utilities to provide cogenerators an additional five business days to make their transportation decisions, and to notify cogenerators of UEG elections at least five business days before cogenerators must elect their own transportation services (see page 6 of Appendix A).

Conclusion

This decision addresses several issues raised in petitions for modification. It leaves other unresolved pending our decision addressing applications for rehearing of D.90-09-089.

Findings of Fact

1. Several parties to this proceeding seek clarification or changes to the rules adopted in D.90-09-89.

2. UEG customers are not distinguished from other noncore customers in terms of whether they should pay demand charges for transportation services.

3. D.90-09-89 adopted take-or-pay provisions and a balancing account mechanism which improves revenue stability for the gas utilities.

4. The utilities do not have experience with the transportation rules adopted in D.90-09-089. A tracking account for the 12-cent per decatherm surcharge on firm transportation services will eliminate the need to forecast transportation volumes for each service level.

5. D.90-09-089 intended that existing long-term contracts for EOR steamflood customers be treated the same as existing long-term contracts for other EOR customers.

6. D.90-09-089 intended that core transportation-only customers be offered Service Level 1 transportation.

Conclusions of Law

1. The Commission should modify D.90-09-089 to provide that UEG customers shall continue to pay demand charges for transportation services.

2. The Commission should modify the rules adopted in D.90-09-089 to clarify the terms and conditions of transportation services for wholesale customers.

3. The Commission should modify the rules adopted in D.90-09-089 to direct the utilities to establish tracking accounts and to enter into those accounts revenues associated with the 12-cent per decatherm surcharge on Service Level 2 rates.

4. The Commission should modify D. 90-09-089 to clarify that the rules adopted in that decision which apply to existing long-term contracts apply to contracts with EOR steamflood customers and contracts between SoCal and Texaco and Unocal.

5. The Commission should modify the rules adopted in D.90-09-089 to direct the utilities to determine customer imbalances according to customer consumption rather than customer nominations.

6. The Commission should modify the rules adopted in D.90-09-089 to clarify that core transportation-only customers shall be offered firm service under Service Level 1 tariffs.

7. The Commission should modify the rules adopted in D.90-09-089 to eliminate the restriction placed on non-UEG P-5 customers that they cannot nominate more than 65% of their requirements into Service Levels 2 and 3.

8. The Commission should modify the rules adopted in D.90-09-089 to provide that gas utilities shall not use their interstate rights to move noncore gas for sale in California except where the utilities exercise their rights on behalf of noncore customers through a FERC-approved capacity brokering program.

9. The Commission should modify the rules adopted in D.90-09-089 to provide that interruptible rates should not exceed the applicable default rates.

10. The Commission should modify the rules adopted in D.90-09-089 to require the utilities to provide cogenerators five days notice of UEG transportation elections prior to the date cogenerators must elect their own transportation options.

11. This decision should be made effective immediately in order to provide the gas utilities with time to design tariff changes to meet the January 10, 1991 tariff filing deadline ordered in D.90-09-089.

O R D E R

IT IS ORDERED that:

The rules adopted in Decision 90-09-89 are modified as set forth in Appendix A of this decision.

This order is effective today.

Dated December 19, 1990, at San Francisco, California.

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

I CERTIFY THAT THIS DECISION WAS APPROVED BY THE ABOVE COMMISSIONERS TODAY

NEAL J. SHULMAN, Executive Director

RULES FOR GAS UTILITY PROCUREMENT
(Changes Underlined)

Utility Gas Marketing Affiliates and Gas Sales to Noncore Customers

Utility gas marketing affiliates shall maintain separate facilities, books and record of account, which shall be available for inspection by the Commission staff upon reasonable notice.

Employees of the gas utilities shall not perform any functions for utility affiliates except those services which they offer to others on an equal basis, and utilities shall not share employees with marketing affiliates.

Gas utilities shall not reveal to their affiliates any confidential information provided by customers or non-affiliated shippers to secure service. Confidential utility information shall be made made available to all shippers if it is made available to utility marketing affiliates.

Utilities shall identify and remove from their cost of service all costs, including administrative, general, operating and maintenance costs, incurred by a marketing affiliate, and thereafter prohibit the booking to the partner utilities' system of account costs incurred or revenues earned by their marketing affiliates.

Utilities shall not condition any agreement to provide transportation service, to discount rates for such service, or to provide access to storage service or interstate pipeline capacity to an agreement by the customer to obtain services from any affiliate of the gas utility, except for the provisions contained herein respecting the direct purchase of gas by noncore customers from PG&E's affiliate, A&S, for the period specified herein.

Utilities shall disclose in reasonableness reviews or other such regulatory proceedings each transaction between the parent utility and its marketing affiliate, with sufficient information on the terms and conditions of each transaction as to permit an evaluation of the nature of such transactions. The same information shall be provided to Commission staff at any time upon reasonable notice.

Each gas utility shall submit, within 90 days of the effective date of this decision, a written report, available for public inspection, stating how the utility plans to implement these standards of conduct with respect to any existing affiliate activities in the California market.

Gas utilities shall not procure gas for or sell gas to noncore customers except as otherwise permitted by these rules.

Core Subscription Service

Each gas utility shall offer a core subscription service. That service shall provide to qualified noncore customers both gas and transportation for gas. Noncore customers customers may take all or a portion of their requirements as core subscription customers.

Core subscription customers' gas shall receive the same priority as the highest level priority for noncore customers. Curtailments of transportation among core subscribers shall be according to existing end use priorities. Core subscription customers' cost of transportation will be equal to the rate for the utility's highest priority noncore transportation rate.

Core subscription customers' cost of gas will equal that offered to core customers except that the price shall be set each month at the actual recorded WACOG lagged one month, as set forth in D.89-04-080. In addition, core subscription customers shall pay a brokerage fee in the amount adopted in utilities' cost allocation proceedings or other appropriate proceedings.

In order to qualify for core subscription, customers must make a two-year commitment for 75% of their annual nomination. Nominations may be for full requirements or partial requirements. Partial nominations shall be a stated annual volume which may be adjusted seasonally in accordance with the customer's historic usage patterns as provided in D.88-03-085, Ordering Paragraph 2. Utility sales gas will be deemed to be the first gas through the meter.

Take-or-pay penalties for procurement services shall be forgiven to the extent the customer's reduced gas consumption is due to force majeure, curtailments, or service interruptions imposed by the utility.

Take-or-pay penalties for procurement services shall be equal to the utility's average cost of gas inventory charges or similar unavoidable costs, if any. Until issuance of a decision setting forth a cost-based charge, the take-or-pay procurement service charge will be stated 14% of the current WACOG of the utility gas supply portfolio.

Use-or-pay penalties for core subscription transportation services shall be equal to those imposed for the highest level noncore transportation service option.

To the extent that the UEG department of a combined utility purchases gas from sources other than the utility portfolio, it must do so by contracts separate and distinct from the contract

underlying the utility's system supply. The utility's UEG will pay the cost of gas under such contracts. Any instances in which the gas and electric departments of a combined utility purchase gas under separate contracts from the same or affiliated suppliers shall be fully detailed in the utility's annual reasonableness review report.

The initial offering of core subscription service shall provide noncore customers at least two notices of the changes in utility services. The first notice shall be mailed within five days of the effective date of the utility's tariff amendments. Noncore customers shall have 120 days from the date the first notice is mailed to inform the utility of their intention to subscribe to core service. The utility shall make all reasonable efforts to solicit the customer's response. If the customer has not ordered core subscription service within 120 days of the mailing of the first notice, the utility will designate the customer as a noncore customer except that customers who were previously core-elect customers will be designated core subscription customers. Customers who do not respond to the utilities notice before the end of the 120 notice period will retain their pre-existing services during the 120-day period.

Core customers who qualify for transportation-only service shall be provided firm core transportation under Service Level 1.

Utilities will file cost allocation applications on a two-year cycle.

A utility may file an advice letter requesting a core rate adjustment 45 days before the end of the first year of its cost allocation test year if the percentage adjustment to bundled core rates required to amortize the first year's net over or undercollection in the core PGA and Core Fixed Cost Accounts (nine months recorded and three months forecasted) over one year of previously adopted core sales would exceed 5%. Such an advice filing must include complete workpapers and shall not propose any change in adopted cost allocation or rate design other than the rate changes necessary to amortize the net core over or undercollection.

Transportation Services

After taking into account system supply gas from California production, Pacific Offshore Pipeline Company and Pacific Interstate Offshore Company, SoCal shall reserve for system supply purposes sufficient interstate pipeline capacity on the El Paso and Transwestern systems (1) to serve "cold year" requirements of core (P-1 and P-2A) customers, and (2) to provide a reasonable allowance

for company use and lost and unaccounted for (LUAF) gas. The calculation of the amount of capacity to be reserved for the core market shall also take into account the capacity needed to have sufficient gas in storage to serve core peak day and cold year winter season requirements. The total capacity allocated to the service of P-1 and P-2A customers on El Paso and Transwestern need not be the same each month. SoCal may adjust the amount of capacity reserved for the core market consistent with these rules no more than once a year.

Interstate pipeline capacity will be reserved by SoCal for the core market on a pro rata basis between El Paso Natural Gas Company and Transwestern Pipeline Company with the exception that SoCal need not apply the pro rata allocation method to gas supplies under long term contract with Pacific Interstate Transmission Company in cases where such allocation would resulting penalties, inventory charges, or minimum payments. The pro rata amount will be computed as a ratio of SoCal's capacity rights on an individual pipeline to SoCal's total capacity rights on both pipelines. Capacity reserved for the core market on El Paso and Transwestern will be reserved on a pro rata basis divided at each of the "constraint" points on each of the two pipeline companies to the extent permitted and feasible under their tariffs and FERC regulations. These rules do not modify the terms of the long-term contract between SoCal and SDG&E which was approved by the Commission in Resolution G-2921.

The SoCal contract with SDG&E shall be subject to the outcome of further proceedings in the capacity brokering case with respect to the integration of long-term contracts into the firm transportation program set forth in these rules.

Pacific Gas and Electric Company (PG&E) shall make available to noncore transportation customers 450 MMcf per day of its pipeline capacity. Of this 450 MMcf per day, 250 MMcf per day shall be over PG&E's Pacific Gas Transmission (PGT) line to Canada and 200 MMcf per day over El Paso.

Pursuant to Resolution G-2921, the Commission has approved the assignment of firm interstate pipeline capacity and storage rights by SoCal to SDG&E. Implementation of these provisions remains subject to the tariffs and regulations applicable to the interstate pipeline systems. Upon implementation of the provisions of the SoCal/SDG&E contract and Resolution G-2921, SDG&E's noncore customers will have pro rata access to such rights.

SDG&E may procure gas for its noncore, non-UEG customers with transportation service at all levels. SDG&E's noncore, non-UEG customers receiving transportation service at levels 2 through 5

must, in order to purchase gas from SDG&E, commit to the same obligations as core subscription customers.

The utilities shall make available five levels of transportation service:

Service Level 1 -- core service. All capacity reserved for any customer is recallable to preserve Service Level 1 transportation access for core customers.

Service Level 2 -- firm service for noncore customers under an annual contract with a 75% use-or-pay obligation and a use-or-pay penalty equal to 80% of the firm transportation rate applicable to the customers. This service shall require a two-year commitment. Core subscription service includes Service Level 2 transportation. The transport rate is not negotiable.

Service Level 3 -- interruptible service under an annual contract with a 75% use-or-pay obligation and a use-or-pay obligation penalty equal to 60% of the customer's applicable transportation rate. The utility and the customer may negotiate rates for Service Level 3. The charge for this service shall not exceed the applicable default rate.

Service Level 4 -- interruptible service under a monthly contract subject to a 75% use-or-pay obligation and a use-or-pay penalty equal to 30% of the customer's applicable transportation rate. The utility and the customer may negotiate rates for Service Level 4. The charge for this service shall not exceed the applicable default rate.

Service Level 5 -- interruptible service for nomination periods of less than a full month with no use-or-pay obligation. The utility and the customer may negotiate rates for Service Level 5. The charge for this service shall not exceed the applicable default rate.

Noncore customers shall be permitted to split their requirements among noncore Service Levels. Where the service level requires an annual contract commitment, the customers will nominate quantities consistent with their historic requirements or, otherwise, will be required to demonstrate the basis for such quantities. In lieu of a stated annual contact quantity, a noncore customer also may

select "full requirements" service under Service Level 2. A "full requirements" customer is prohibited from using alternate fuels (except in the event of curtailment, to test alternate fuel systems or where the utility has expressly authorized use of alternate fuels). To the extent that a full requirements customer uses alternate fuels for other reasons, the customer shall be subject to a use-or-pay penalty equal to 80% of its applicable firm transportation rate.

The utilities shall provide cogeneration customers with at least five business days more to nominate transportation services than is provided to UEG customers, and shall notify cogeneration customers of UEG transportation elections at least five business days in advance of the cogenerators' deadlines for electing transportation services.

The coordination of full requirements customers' needs with the nomination of stated contract quantities for firm transportation shall be addressed in the tariff implementation workshops in R.90-02-008.

For monthly service (Service Level 4), the customers's Maximum Daily Quantity (MDQ) will be equal to his contract quantity for the month expressed in MDth per day. For service under annual contracts (Service Levels 2 and 3) the utility shall negotiate an MDQ that is consistent with the expected monthly demand profile of the customer. The customer's average MDQ over the year will have to exceed the annual contract quantity in order to account for daily and monthly fluctuations in gas usage. Implementation of the MDQ procedure shall be addressed in the tariff implementation workshops in R.90-02-008.

Initial allocation of Service Level 2 capacity shall be based on customers' pro rata share of nominations where customers' nominations in total exceed available capacity. The utilities may confirm the reasonableness of customers' nominations by reviewing historical demand and other circumstances, including operational changes designed to accommodate air quality regulations or objectives.

Use-or-pay penalties for transportation services shall be forgiven to the extent the customer's usage falls below the use-or-pay level due to service interruptions imposed by the utility or upstream pipeline or force majeure conditions, excluding required maintenance of customer's facilities, plant closures, economic conditions or variations in agricultural crop production.

Each utility shall file with the Commission Advisory and Compliance Division estimated capacity allocation between transportation

service levels on each interstate pipeline. The filing shall be made no later than the deadline for noncore customers to make their annual and biannual service choices.

The utilities shall enter into balancing accounts revenues associated with noncore transportation services and shall recover in biannual cost allocation proceedings 75% of the difference between forecasted revenues and actual revenues from noncore transportation services. Utility shareholders shall be liable for 25% of the difference between forecasted revenues and actual revenues from noncore transportation services.

The utilities shall enter into tracking accounts revenues collected pursuant to the 12-cent per decatherm surcharge on Service Level 2 transportation. Those revenues shall be applied as a credit in subsequent periods to rates for Service Levels 2 through 5.

Transportation Curtailments

Curtailments for Levels 2 and 3 shall be according to existing end use priorities. For Levels 4 and 5, the utility shall curtail customers according to the level of payment they make for service, with highest paying customers to be curtailed last. For customers who pay the same rates, the utilities shall curtail customers on a pro rata basis.

For Service Levels 2 and 3, UEG customers shall be curtailed ahead of cogeneration customers where the UEG customer pays an equal or lower rate. In Service Levels 4 and 5, where the UEG customer pays more than the cogeneration customer, the cogeneration customer shall be curtailed ahead of the UEG customer.

Long-Term Contracts

Customers with long-term contracts in existence on the effective date of these rules, and whose contracts do not specify otherwise, shall receive at the contract rate Service Level 3 service. Those customers may alternatively opt for Service Level 2 service at a rate to equal to one-half the existing default rate and one-half the existing contract rate, plus a 12-cent per decatherm surcharge. Express contract terms and conditions of existing contracts shall not be changed as a result of the rules herein.

Nothing in these rules shall be construed to amend the Commission's existing policy regarding long-term contracts for pipeline capacity, set forth in D.89-12-045, until and unless the Commission sets forth new policy as part of capacity brokering programs.

Noncore Gas Purchases

Until an integrated interstate-intrastate capacity brokering program is adopted, the utilities will use their capacity rights to purchase gas supplies identified by individual customers on a non-discriminatory "best efforts" basis, and resell the gas to the customer. Alternatives to this arrangement, if required, shall be submitted to the Commission in a petition for modification. Service Level 2 is "firm" at the burner tip until an integrated interstate-intrastate capacity brokering program is adopted.

Noncore transportation customers may transport Canadian gas over PGT subject to the following conditions. Until August 1, 1994, noncore customers may negotiate gas supply arrangements only with producers under contract with Alberta and Southern (A&S). Once a noncore customer has made such an agreement with an A&S supplier, PG&E will arrange to have the gas purchased by A&S under existing gas purchase agreements and will arrange to have the gas transported by PGT. Noncore customers may purchase gas from any Canadian supplier after August 1, 1994.

Services to Electric Utilities Customers

UEGs shall be subject to the same terms and conditions applicable to other noncore customers except that UEG customers shall not be permitted to nominate more than 65% of their requirements into Service Levels 2 and 3 in the aggregate. UEG customers shall not be eligible to receive their full service requirements from utility core subscription services. These conditions may be changed according to rules adopted for capacity brokering programs.

SDG&E may procure gas for its UEG department.

Transportation Services to Wholesale Customers

The gas utilities shall offer to wholesale customers firm transportation services under Service Level 2 proportional to the wholesale customer's core load. The rate for firm service to wholesale customers shall not include the 12-cent per decatherm surcharge added to noncore customers' rates. SoCal shall offer to wholesale customers', in amounts equal to their core loads, pro rata access to the El Paso and Transwestern pipelines. PG&E shall allocate transportation access to wholesale customers' core loads on the same basis as it allocates transportation access for PG&E's own core customer load.

The utilities shall provide wholesale customers the option of serving noncore customers directly in obtaining capacity from the utilities or securing capacity on behalf of the wholesale customers' noncore customers.

Balancing and Standby Services to Noncore Customers

The utilities shall provide balancing services to noncore customers. The tolerance for balancing services shall be 10% of customer takes.

Where positive imbalances fall outside the 10% tolerance at the end of a 30-day period, utilities shall purchase noncore customers' excess gas at a rate equal to the lowest incremental cost of gas on the system for that month or 50% of the core WACOG for the month.

Where negative imbalances fall outside the 10% tolerance at the end of a 30-day period, utilities shall charge customers for standby services. Standby service gas rates shall be equal to the higher of 150% of the core WACOG for the month or the highest incremental cost of gas for the month. Standby service shall have the lowest priority during periods of curtailment.

Noncore customers may trade imbalances to avoid liability for them. The utilities may administer trading programs. If they do so, related costs shall be recovered, if at all, solely from participants in the trading program.

Sales of Excess Core Gas Supplies

The utilities shall sell excess gas when required in order to avoid contractual penalties. The sales shall be conducted by way of sealed bid. The utilities may not use capacity rights to transport excess gas sold off-system. Neither may the utilities use their interstate capacity rights to transport excess gas sold on-system unless the rights are exercised by a noncore customer holding such rights through a FERC-approved capacity brokering program.

PG&E may sell excess core gas to SoCal and SDG&E to meet their core customer requirements.

In each reasonableness review, or related proceeding, the utility shall provide accounting and operational information regarding each sale of excess core gas to noncore customers.

(END OF APPENDIX A)