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800 SEP 25 1996 0-104

Decision 96-09-104 September 20, 1996

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA  
REDOCS (2001) 285 PC 1070 ET SEQ. (LINE NUMBER) 0-104

In the Matter of the Application of  
**SOUTHERN CALIFORNIA GAS COMPANY**) Application 91-03-039  
for Authority to Revise Its Rates ) (Motion filed May 24, 1996)  
Effective October 1, 1991, in Its Biennial Cost Allocation Proceeding (BCAP).)

ORIGINAL

In the Matter of the Application of  
**SOUTHERN CALIFORNIA GAS COMPANY**) Application 93-09-006  
for Authority to Revise Its Rates ) (Filed September 1, 1993)  
Effective April 1, 1994, in Its Biennial Cost Allocation Proceeding (BCAP).

**OPINION**

Southern California Gas Company (SoCalGas) and the City of Vernon (Vernon) (the parties) move for an order adopting in its entirety a Stipulation and Settlement Agreement (Agreement) which is intended to resolve the issues currently pending before the Commission raised by Vernon in its applications for rehearing of Decision (D.) 94-09-033 and D. 94-12-052, as well as two earlier decisions, D.93-05-008 and D. 93-11-072. Vernon's applications for rehearing will be withdrawn by Vernon upon approval of the Agreement. The parties allege that the Agreement is the result of a negotiation process regarding wholesale rates for gas service from SoCalGas to the Vernon Municipal Gas Department. The Agreement is submitted pursuant to Rule 51 et seq. of the Commission's Rules of Practice and Procedure and, with one exception for which a waiver is requested, the parties assert that it fully meets the standards of these

<sup>1</sup>For good cause shown, the parties request a waiver of Commission Rule 51.1(f) to allow the parties to file one consolidated document to be considered with their joint opportunity to participate prior to all parties prior to signing the stipulation or settlement.

A.91-03-039, A.93-09-006

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Docket No. 93-09-006

rules.<sup>1</sup> They believe that the Agreement satisfies the criteria contained in D.88-12-083, 30 CPUC2d 189 (1988) (Diablo Canyon) and D. 92-12-019, 46 CPUC2d 538 (1992) (SDG&E).

In D. 92-12-019, the Commission defined its all party settlement criteria as requiring Commission satisfaction that:

- a. the settlement commands the unanimous sponsorship of all active parties to the instant proceeding;
- b. the sponsoring parties are fairly reflective of the affected interests;
- c. no term of the settlement contravenes statutory provisions or prior Commission decisions; and
- d. the settlement conveys to the Commission sufficient information to permit us to discharge our future regulatory obligations with respect to the parties and their interest. (D. 92-12-019, 46 CPUC2d at 550-551.)

The parties allege that they are fully representative of the entire range of affected interests. By providing for the finality of prior Commission orders regarding all issues relating to appropriate interim and permanent wholesale rates for wholesale service to Vernon, the Agreement ensures that this lengthy controversy--one requiring a significant commitment of resources by the Commission as well as the non-parties-- is finally put to rest. All affected interests, including all classes of customers served by SoCalGas, are, in the opinion of the parties, served by the cessation of costly and time-consuming debate on these matters, particularly when the consideration offered by SoCalGas to bring finality to the Commission's orders will be borne exclusively by its shareholders and not by other gas consumers. The parties claim that they were represented by competent attorneys, technical experts, and senior management personnel, and that the negotiations were at arms' length.

Background

On May 7, 1993, the Commission issued D. 93-05-008 in Application (A) 91-03-039 (SoCalGas).

<sup>1</sup>For good cause shown, the parties request a waiver of Commission Rule 51.1(b) requiring at least one conference to be convened with notice and opportunity to participate provided to all parties prior to signing any Stipulation or Settlement.

1991 Biennial Cost Allocation Proceeding (BCAP).) addressing the request of Vernon for wholesale equity service rates for the transportation of natural gas by SoCalGas at the transmission service level. In that decision, the Commission determined the basis for the wholesale service rates that would apply to Vernon as a wholesale customer of SoCalGas. Vernon filed an application for rehearing and a petition for modification of D.93-05-008. D.93-11-072 denied Vernon's request for rehearing but made certain minor modifications to D.93-05-008.

After the issuance of D.93-11-072, a disagreement arose between Vernon and SoCalGas regarding the appropriate method of implementing the wholesale rate that would apply to Vernon during the interim period of time prior to its completing the construction of a distribution system capable of serving all of the customers in Vernon (the interim wholesale rate). As a result of the disagreement, Vernon filed a petition for modification requesting the Commission to clarify D.93-11-072 with respect to (1) the basis on which the interim wholesale rate would be established; and (2) the extent to which the interim wholesale rate methodology would be subject to further litigation in subsequent SoCalGas BCAP proceedings. D.94-09-033 denied Vernon's petition. Vernon filed an application for rehearing of D.94-09-033. That application is currently pending.

During this same period, the interim wholesale rate was also an issue of contention in A.93-09-006 (SoCalGas' 1993 BCAP) which resulted in D.94-12-052. In that decision, the Commission adopted SoCalGas' proposed methodology for establishing an interim wholesale rate for Vernon. Vernon filed an application for rehearing of D.94-12-052. That application is currently pending.

As a result of the encouragement of the Commission and members of the California State Legislature, representatives of Vernon and SoCalGas met to discuss a proposal by SoCalGas that would hopefully resolve the matters of contention between the two parties and, in particular, the issues raised by Vernon in its two applications for rehearing. Vernon and SoCalGas held settlement discussions over a period of several months and reached the Agreement presented for our approval.

The full proposed Agreement is set forth in Appendix A. Its principal features are:

**A. Interim Wholesale Rate**

Upon approval of the Agreement, Vernon will be entitled to an interim wholesale rate. For the first

purpose of calculating the weighted average retail rate of the customers expected to be served by Vernon<sup>1001</sup> which is to be used to determine the interim wholesale rate applicable to Vernon; such calculation shall be based on the actual rates paid by core and noncore customers in Vernon and shall incorporate fully deaveraged G-10 and G-20 rates in Vernon or any applicable negotiated core or noncore rates.<sup>1002</sup>

**B. Traditional Wholesale Rate**

SoCalGas agrees to the provisions of the Commission's decisions regarding the applicability of a "traditional wholesale rate" to Vernon if and when Vernon completes construction of a distribution system capable of serving all customers in Vernon.<sup>1003</sup> With respect to the reference in D.94-12-052 regarding the Commission's intent to reconsider the phrase "traditional wholesale rate," SoCalGas agrees not to put forth, or cause to be put forth, any position or proposal that is inconsistent with traditional wholesale rate methodology, as it would apply to Vernon.<sup>1004</sup> The parties intend that the term "traditional wholesale rate" means, among other attributes, a rate which reflects none of SoCalGas' own distribution-level cost of all costs incurred for the exclusive benefit of SoCalGas' retail customers.<sup>1005</sup> The settlement parties also agree that by approving the Agreement, the Commission affirms that Vernon will receive a "traditional" wholesale rate<sup>1006</sup> and if and when Vernon completes construction of a distribution system capable of serving all customers located in Vernon.<sup>1007</sup>

**C. Accelerated G-10 Deaveraging**

(i) The Commission shall authorize the immediate implementation of full core rate deaveraging for those SoCalGas customers located in Vernon and served under the series of SoCalGas' G-10 tariff rate schedules (e.g., GN-10 and GT-10).<sup>1008</sup>

(ii) The settlement parties agree that, for the purpose of accelerated core deaveraging, the rate savings afforded under the Agreement shall apply to those G-10 and G-20 customers located in Vernon as of August 1, 1995.<sup>1009</sup>

SoCalGas agrees that its shareholders will absorb all of the revenue shortfall resulting solely from the accelerated implementation of full core rate deaveraging in Vernon. The total amount of the revenue shortfall (or core rate savings) resulting from accelerated deaveraging in Vernon shall be fixed at \$2.5 million. SoCalGas further agrees that its shareholders will be at full risk for any revenue shortfall resulting from any negotiated core contracts with its G-10 and G-20 customers in Vernon.<sup>1010</sup>

Upon Commission approval of the Agreement, SoCalGas shall establish a one-way regulatory memorandum account with a balance of \$2.5 million upon implementation of fully deaveraged G-10 rates in Vernon. SoCalGas shall use the one-way memorandum account to track the core revenue shortfall resulting from the accelerated deaveraging of core rates in Vernon and thereby make the necessary adjustments to its Core Fixed Cost Account (CFC) in order to avoid a reallocation of such revenue shortfall to SoCalGas' customers.

The settlement parties agree that the recorded revenue shortfall will be determined as the difference between (1) the revenue SoCalGas would have collected in Vernon at the ratified G-10 or G-20 rates then applicable system wide for the volumes of gas actually consumed by customers meeting the definition of those classes and (2) the actual revenue collected by SoCalGas from customers in Vernon at the fully deaveraged G-10 or G-20 rates for those same volumes. SoCalGas agrees that the customer rate savings resulting from any negotiated core contract or decrease in volumes shall not be counted when satisfying the fixed \$2.5 million rate savings amount.

#### D. Negotiated Core Contracts

The parties request the Commission to grant SoCalGas authority to enter into discounted short-term and long-term transportation service contracts with its G-10 and G-20 customers in Vernon with usage of at least 50,000 therms per year. The authority granted to SoCalGas by the Commission shall be the same as that existing for non-core customers with the exception that there shall be no minimum usage requirement for long-term contracts filed by Expedited Application Docket pursuant to the provisions of D.92-11-052.

#### Discussion

The assigned Administrative Law Judge has concluded that the settlement cannot be approved as an all party settlement under the criteria established in *Re San Diego Gas & Electric*, 46 CPUC 2d 538, 550-51 (1992). Specifically, he has concluded that two active parties, our Division of Ratepayer Advocates and TURN, have refused to join as sponsoring parties. We agree with this conclusion and thus address the settlement as a non-all party proposal which requires an independent determination of the public interest.

In seeking to ascertain the public interest it is vital to place this settlement proposal in the context

of the lengthy and contentious history which has marked the relationship of the settling parties as well as those of the City of Vernon with this Commission. In two prior sessions of the California Legislature measures have been introduced seeking to resolve this matter through legislation. The Commission has opposed the passage of such legislation and it was not enacted. Most recently, our opposition was coupled with an offer to seek to mediate the differences between the parties. Such efforts have played no small role in the current proceeding and it would be difficult, if not impossible, to reconcile our rejection of the result with fidelity to our repeatedly expressed hope that a settlement was possible.

As noted in our brief history of the proceeding, the City and SoCalGas urge that we recognize the value of bringing to finality proceedings which have proven costly in terms of our resources as well as those of the parties. All SoCalGas ratepayers stand to benefit from a cessation of circumstances which have commanded the attention of the utility's management as well as considerable legal expenses.

The Administrative Law Judge finds that the terms of the settlement respecting the "traditional wholesale rate" are objectionable in terms of limiting our future freedom of decision making. He also notes that neither the Commission nor its staff has participated in the "discussions leading up to this Agreement." Both points may be conceded without joining in his conclusion that the settlement is contrary to the public interest. The very essence of this controversy is the desire of the City of Vernon to have a final determination of the methodology under which a "traditional wholesale rate" would be calculated for retail customers within its territory. It claims that without this information it cannot make a rational decision on whether it is to go forward with completion of a distribution system capable of serving all customers located in Vernon. We are persuaded that the City's position in this matter is sound. A refusal on our part to provide certainty in this matter would condemn both it and the utility to decision making on this vital infrastructure issue predicated upon a guesstimate of future regulatory outcomes. We owe it to the parties to remove this uncertainty and do so by adopting the settlement terms respecting the calculation of a traditional wholesale rate.

The terms of the settlement also seek approval and authorization for an "immediate but temporary implementation of full core rate deaveraging for those SoCalGas customers located in Vernon and served under (the utility's G-10 tariff)." Notwithstanding his recognition that all other SoCalGas customers are to be held harmless against any financial loss incurred as a result of this move, the ALJ concluded that our

agreement to this proposal would create a preference for Vernon's G-10 tariff customers in violation of Section 453 of the Public Utilities Code. We disagree.<sup>2</sup> The import of Section 453(a) was recently traced by the Court of Appeal in *Anderson v. Pacific Bell*, 204 Cal.App.3d 277, 285 (1988).

The Supreme Court has called section 453, subdivision (a), an effort to prohibit public utilities from making an explicit statutory prohibition of discrimination by a public utility. *Gay, Leinenweber & Kammel v. Law Students Assn. v. Pacific Tel. & Tel. Co.* (1979) 24 Cal.3d 458, 475. It is important to note that the statute does not use the term "discrimination"; its import is that of bona fide intent as follows:

"No public utility shall, as to rates, charges, services, facilities, or in other respects, make or grant any preference or advantage to any person or to no person but to others, or to one corporation or person or subject any corporation or person to any prejudice or to no person but to others, or to one corporation or person or subject any corporation or person to any disadvantage."  
(Pub. Util. Code § 453, subd. (a))

This broad language prohibits discrimination in rates, charges, services, facilities, or in other respects. It prohibits many forms of arbitrary discrimination, including rate discrimination. But unless discrimination in some form is present, it will not apply.

In our view the proposed decision of the ALJ confuses the finding of a difference for a determination of discrimination and thus transgresses the seminal construction of the statutory prohibition rendered nearly/ seventy-three years ago in *Live Oak Water Users' Assn. v. Railroad Commission*, 192 Cal. 132, 219 Pac. 65 (1923).<sup>3</sup> There the Supreme Court established that not every recognition of difference in rates to be charged by a public utility may be classified as unlawful since they may be taken in recognition of reasonable and just distinctions. Such is the case here. The G-10 customers in Vernon are to be distinguished from other G-10 customers in that they are the objects of litigation premised upon circumstances said to be confined to the City. We need not decide the merits of this contention merely that it is colorable and held in good faith by the settling parties.

One other aspect of the settlement dealing with negotiated core contracts troubled the ALJ. He concluded that we would violate our generic position on noncore transportation discounts should we grant

<sup>2</sup> The original intent of section 453 was to prohibit public utilities from giving preference to certain classes of customers.

<sup>3</sup> The *Live Oak Water Users' court* was addressing the content of the predecessor to our current Code provision then denominated as Chapter 91, § 19 of the Statutes of 1915.

SoCalGas authority to enter into discounted short-term and long-term transportation service contracts with its G-10 and G-20 customers who use at least 50,000 therms per year. Reliance was placed on *Re Southern California Gas Company*, 46 CPUC2d 444 (1992). Again, we find ourselves in disagreement.<sup>3</sup> Our reading of that decision finds that it does not contain the articulation of a generic policy save for its expression of a willingness to tolerate discount contracts in circumstances where uneconomic bypass may be imminent. It is true that the criteria established in our 1992 decision set forth throughput volumes<sup>4</sup> that pertained to individual large customers capable of bypassing the utility system. Yet the very nature of that proceeding, which responded to a joint emergency motion, is clear evidence that it was not intended as our last word on the subject.<sup>5</sup> Here, the bypass threat is the one posed by the City which would aggregate in the context of a municipal infrastructure users with a volume more than sufficient to meet our earlier criteria. We find no inconsistency in the context of this settlement in finding that the objective articulated in *Re Southern California Gas* has been met in these circumstances.

Finally, the issue of whether ratepayers would be liable for a revenue shortfall should the \$2.5 million credit account be depleted and the Commission has not authorized implementation of fully deaveraged core rates system wide is not addressed in the Agreement itself. However, SoCalGas and Vernon clarified this issue when they stated, "in such an event, Schedule G-10 customers in Vernon would revert to the rate then specified in the Schedule G-10 tariff." (Joint Motion For Order Adopting Stipulation and Settlement Agreement, p.4, fn.2, May 24, 1996). With this clarification we believe the general body of ratepayers are protected from having to pay in rates for any revenue shortfall resulting from this Agreement.

Given the fact that Vernon is a municipality with constitutional authority to construct and operate a gas distribution utility, has a concentrated industrial and commercial base of potential gas utility

<sup>3</sup>In *Re Southern California Gas Company*, 46 CPUC2d at 450, the expedited application docket procedure for discount contracts due to uneconomic bypass was limited to customers with demand of more than 730,000 therms per year.

<sup>4</sup>Indeed, we noted our intention to propose more generic rules to forestall uneconomic bypass by "...providing the utilities with incentives to negotiate noncore transportation rates which would preclude uneconomic bypass without compromising the interests of other ratepayers. *Id.* at 447.

customers, and has taken certain limited steps toward developing a municipal gas utility, the threat that Vernon might bypass SoCalGas' facilities within the city should be considered realistic and imminent.

Since the settlement addresses the underlying economics motivating the threat of uneconomic bypass with a rate structure which will benefit customers in Vernon without placing SoCalGas' other ratepayers at financial risk, the Agreement between SoCalGas and the City of Vernon is a reasonable regulatory outcome and is in the public interest.

(SEC1) 021.111

### Findings of Fact

1. On May 24, 1996, SoCalGas and Vernon moved for an order adopting in its entirety a Stipulation and Settlement Agreement (Agreement) which is intended to resolve the issues currently pending before the Commission raised by Vernon in its applications for rehearing of D.94-09-033 and D.94-12-052 as well as two earlier decisions, D.93-05-008 and D.93-11-072.

2. The Agreement does not command a unanimous sponsorship of all active parties to the proceeding. DRA and TURN, who are active parties, do not sponsor the Agreement.

3. SoCalGas has offered to absorb \$2.5 million of the revenue shortfall (or core rate savings) resulting from accelerating deaveraging in Vernon leaving all other ratepayers financially indifferent to the Agreement.

4. The Agreement provides that there shall be immediate implementation of full core rate deaveraging for those SoCalGas customers located in Vernon and served under SoCalGas' G-10 rate schedule.

5. The Agreement requests Commission authorization for SoCalGas to enter into discount transportation service contracts with its G-10 and G-20 customers in Vernon with usage of at least 50,000 therms per year.

6. Potential bypass by the City of Vernon would result in a loss of aggregated load greater than the 730,000 therms per year criteria established for discounted gas transportation contracts established in *Re Southern California Gas Company*, 46 CPUCd 444, 450 (1992).

7. The general body of ratepayers are protected from having to pay in rates for any revenue shortfall resulting from this Agreement if the \$2.5 million credit account is depleted and the Commission has not authorized implementation of fully deaveraged core rates system wide.

not result in a significant increase in gas prices to consumers and does not violate the public interest.

**8. The Agreement is in the public interest.**

**Conclusions of Law**

1. **Approval of the Agreement is not violative of the standards set forth in PU Code § 453.**
2. **Approval of the Agreement does not contravene the volume criteria established for discounted gas transportation service contracts established in *Re Southern California Gas Company*, 46 CPUC2d 444, 450 (1992).**
3. **The Agreement does not qualify for approval of an all party settlement under the criteria established in *Re San Diego Gas & Electric*, 46 CPUC2d 538, 550-51 (1992). Thus, the Agreement should be addressed as a non-all party proposal which requires an independent determination of the public interest.**
4. **The Agreement should be approved as being in the public interest.**

**ORDER**

**IT IS ORDERED** that the motion of Southern California Gas Company and the City of Vernon for an order adopting in its entirety the Stipulation and Settlement Agreement dated May 24, 1996 is in the public interest and is approved.

This order is effective today.

Dated September 20, 1996, at San Francisco, California.

P. GREGORY CONLON  
 DANIEL Wm. FESSLER  
 JESSIE J. KNIGHT, JR.  
 HENRY M. DUQUE  
 JOSIAH L. NEEPER  
 Commissioners

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## APPENDIX A

claim does not seek to recover or modify the initial judgment into two separate judgments.

520-51-33393 sub E30-00-12.DJL

13. *With the aim of reaching a binding settlement in accordance with the principles of the Settlement*  
14. *the parties to the dispute have agreed to the following terms:*  
15. *The settlement parties propose to resolve the issues in dispute with regard to D. 93-05-008, D. 93-11-072, D. 94-09-033 and D. 94-12-052 as follows:*  
16. *A. An Interim Wholesale Rate was to apply in respect of D. 93-05-008 on 01.01.1995.*

#### **Women access to power**

18 Vernon agrees to withdraw its pending Applications for Rehearing of  
19 D.94-09-033 and D.94-12-032 within 30 days after the Commission has approved the  
20 settlement. Vernon further agrees to accept and abide by the provisions of these  
21 decisions as they relate to the interim wholesale rate that will be applicable to Vernon  
22 and not seek to reverse or modify these provisions before the Commission, in a court of  
23 law, or in any other forum where such reversal or modification could be accomplished.  
24 Moreover, Vernon agrees not to resist SoCalGas' efforts to implement the interim  
25 wholesale rate so long as SoCalGas is in compliance with the provisions of these  
26 decisions and the terms of the S&SA. It is expressly understood by the settlement  
27 parties, however, that no provision of the S&SA prohibits Vernon from pursuing any

existing or future claims for damages or other legal relief in a civil court where such claim does not seek to reverse or modify the interim wholesale rate provisions provided in D.94-09-033 and D.94-12-052.

For the purpose of calculating the weighted average retail rate of the  
customers expected to be served by Vernon which is to be used to determine the  
interim wholesale rate applicable to Vernon, such calculation shall be based on the  
actual rates paid by core and noncore customers in Vernon and shall incorporate fully  
deaveraged G-10 and G-20 rates in Vernon or any applicable negotiated core or  
noncore rates.

**Based on Traditional Wholesale Rate**

In principle, SoCalGas agrees to the provisions of the Commission's decisions regarding the applicability of a "traditional wholesale rate" to Vernon if and when the City completes construction of a distribution system capable of serving all customers in Vernon. With respect to the reference in D.94-12-052 regarding the Commission's intent to reconsider the phrase "traditional wholesale rate," SoCalGas agrees not to put forth, or cause to be put forth, any position or proposal that is inconsistent with traditional wholesale rate methodology, as it would apply to Vernon. The parties intend that the term "traditional wholesale rate" means, among other attributes, a rate which reflects none of SoCalGas' own distribution-level cost or costs incurred for the exclusive benefit of SoCalGas' retail customers. The settlement parties also agree that by approving the S&SA, the Commission affirms that Vernon will receive a "traditional

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1 wholesale rate" if and when Vernon completes construction of a distribution system, ed  
 2 capable of serving all customers located in Vernon as such completion is defined in page  
 3 Ordering Paragraph No. 23 on page 31 of D.93-11-072, amending Ordering Paragraph  
 4 No. 3 on page 25 of D.93-05-008. The parties further agree that at any time a col16 1200  
 5 wholesale rate design is proposed by SoCalGas or approved by the Commission for any  
 6 other wholesale customer of SoCalGas which, in Vernon's sole opinion, is preferable to  
 7 the wholesale rate design proposed or approved for Vernon, Vernon may seek to have  
 8 the same wholesale rate design or treatment applied as well to Vernon, to be effective at  
 9 the same time. SoCalGas shall bear the burden of establishing that denying such a such  
 10 preferred rate design to Vernon is not unduly discriminatory. The parties agree, and the  
 11 Commission affirms, that, without prejudice to other arguments of either party, it would  
 12 be unduly discriminatory for Vernon to be denied such a preferred wholesale rate. 01200  
 13 design (1) on the grounds that Vernon has built facilities duplicating those of SoCalGas  
 14 within the City of Vernon; or (2) because of the status or classification for rate purposes  
 15 purposes of Vernon's retail customers, or their status as prior customers of SoCalGas.  
 16 C. Accelerated G-10 Deaveraging

17 The settlement parties agree that as a condition of its approval of the  
 18 S&SA, the Commission shall authorize the immediate implementation of full core rate  
 19 deaveraging for those SoCalGas customers located in Vernon and served under the  
 20 series of SoCalGas' G-10 tariff rate schedules (e.g., GN-10 and GT-10). Moreover, the  
 21 settlement parties agree that immediate full core rate deaveraging in Vernon shall be  
 22 implemented as follows:

23 Upon Commission approval of the S&SA, SoCalGas agrees to file tariff  
 24 schedules implementing revised rates for G-10 customers located in Vernon. The  
 25 revised G-10 rates shall become effective for service on the first day of the first month  
 26 following the effective date of Commission approval of the S&SA. The revised G-10  
 27 rates in Vernon shall be set equal to what SoCalGas' system average G-10 rates would  
 28

## APPENDIX II

1 be without including the "core averaging" revenue requirement currently applicable to  
2 such rates. The resulting core deaveraged G-10 rates are shown in Attachment A hereto.  
3 These illustrative core rates are based on SoCalGas' revenue requirement and  
4 cost allocation as established on January 1, 1995 pursuant to D.94-12-052. The fully  
5 deaveraged G-10 rates applicable to customers located in Vernon shall be revised from  
6 time to time pursuant to any Commission decision that modifies SoCalGas' G-10 rates,  
7 (e.g., a change in cost allocation or revenue requirement for the G-10 class).  
8 The settlement parties agree that, for the purpose of accelerated core  
9 deaveraging, the rate savings afforded under the S&SA shall apply to those G-10 and  
10 G-20 customers located in Vernon as of August 1, 1995, and to any new customers  
11 commencing service after that date that meet the definition of the G-10 and G-20  
12 customer class in effect on August 1, 1995.  
13 SoCalGas agrees that its shareholders will absorb all of the revenue giveback  
14 shortfall resulting solely from the accelerated implementation of full core rates  
15 deaveraging in Vernon. The total amount of the revenue shortfall (or core rate savings)  
16 resulting from accelerated deaveraging in Vernon shall be fixed at \$2.5 million.  
17 SoCalGas further agrees that its shareholders will be at full risk for any revenue  
18 shortfall resulting from any negotiated core contracts with its G-10 and G-20 customers  
19 in Vernon (see Section II.D herein).  
20 Upon Commission approval of the S&SA, SoCalGas shall establish a  
21 one-way regulatory memorandum account with a balance of \$2.5 million upon  
22 implementation of fully deaveraged G-10 rates in Vernon. Further, SoCalGas shall use  
23 the one-way memorandum account to track the core revenue shortfall resulting from the  
24 accelerated deaveraging of core rates in Vernon and thereby make the necessary  
25 adjustments to its Core Fixed Cost Account ("CFCAs") in order to avoid a reallocation  
of such revenue shortfall to SoCalGas' customers.  
26  
27

The settlement parties agree that the recorded revenue shortfall will be determined as the difference between (1) the revenue SoCalGas would have collected in Vernon at the tariffed G-10 or G-20 rates then applicable systemwide for the volumes of gas actually consumed by customers meeting the definition of those classes and (2) the actual revenue collected by SoCalGas from customers in Vernon at the fully deaveraged G-10 or G-20 rates for those same volumes. SoCalGas agrees that the customer rate savings resulting from any negotiated core contract or decrease in volumes shall not be counted when satisfying the fixed \$2.5 million rate savings amount.

The settlement parties agree that, if and when full core deaveraging is implemented for SoCalGas' entire service territory, any remaining balance in the memorandum "savings" account shall be used to fund a further reduction in G-10, and G-20 rates for customers in Vernon, or to provide a direct refund to these same customers. SoCalGas and Vernon agree to meet and confer at least sixty (60) days prior to the implementation date of fully deaveraged rates for SoCalGas' other customers in order to reach agreement on a mutually acceptable method for the disposition of any remaining balance in the memorandum savings account.

#### **D. Negotiated Core Contracts**

19 The settlement parties agree that as a condition of the Commission's approval  
20 of the S&SA, the Commission shall grant SoCalGas authority to enter into discounted short-term and long-term transportation service contracts with its G-10 and G-20 customers in Vernon with usage of at least 50,000 therms per year. The authority granted to SoCalGas by the Commission shall be the same as that existing for noncore customers with the exception that there shall be no minimum usage requirement for long-term contracts filed by Expedited Application Docket pursuant to the provisions of

26 D. 92-11-052.

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1       ed New Mexico's answer to the complaint filed in the United States Court of  
2       Appeals over blow as to the Socorro Reservation.  
3       The S&SA represents a negotiated compromise among the parties, on a  
4       number of issues. Except as expressly provided in Section II.A and II.B herein, the  
5       execution of this S&SA by the parties shall not be deemed to constitute or represent an  
6       admission or acceptance of any fact, principle, or position contained herein by any  
7       party. In addition, except as expressly provided in Section II.B herein, adoption by the  
8       Commission of this S&SA shall not be deemed to constitute approval of, or precedent  
9       regarding, any principle or issue in this proceeding or in any other proceeding, present  
10      or future. Nothing contained herein shall be deemed to constitute or represent an  
11      admission of an acceptance of any fact, principle, or position contained herein by any  
12      party.

13        00002 02 The settlement parties have bargained earnestly and in good faith to  
14 achieve this S&SA. The settlement parties intend that the S&SA be treated as an entire  
15 package and not as a collection of separate agreements on discrete issues. In short, the  
16 agreements and compromises reflected in the various sections of the S&SA are closely  
17 interrelated. Accordingly, the settlement parties respectfully request the Commission  
18 promptly approve the S&SA without modification. The S&SA shall not be effective

19 // The Settlement shall be made as a condition of the Commission's  
20 // approval of the S&SY, the Commission shall grant SocGiggs authority to enter in  
21 // discounted short-term and long-term transmission service contracts with the G-100  
22 // customers in Victoria with usage of at least 20,000 MWhns per year. The same  
23 // applies to SocGiggs by the Commission shall be the same as that existing for non-  
24 // customers with the exception that there shall be no minimum usage requirement for  
25 // long-term customers held by Hydro-Quebec and its DSOs per annum to the following:

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1 until receipt of mutually acceptable approval from the Commission and any material  
 2 change to this S&SA shall render it null and void.

3 This S&SA is agreed to by the undersigned parties on the dates indicated:

4 THE CITY OF VERNON

5 Date: 03-10-96

6 022.00

7 021.00

8 By: Hilario Gonzales Date: March 27, 1996  
 9 LEONIS COMMISSIONER, HILARIO GONZALES, Councilman & Acting  
 10 Presiding Officer  
 11 4305 Santa Fe Avenue  
 12 Vernon, California 90058 (10.5E) 13 021.00  
 14 [Telephone: (818) 336-3408] 15 021.00

16 ATTEST:

17 BRUCE V. MALKENHORST, City Clerk

18 Date: 03-10-96

19 022.00

20 021.00

21 APPROVED AS TO FORM:

22 021.00

23 021.00

24 David B. Brearley  
 25 DAVID B. BREARLEY, City Attorney  
 26 CITY OF VERNON  
 27 021.00 000.00 021.00 022.00

28 Date: 03-10-96

29 SOUTHERN CALIFORNIA GAS COMPANY

30 103.0 103.0 900.0 020.3

31 Date: 3-22-96

32 By: Eric B. Nelson  
 33 ERIC B. NELSON, Vice President  
 34 555 West Fifth Street  
 35 Los Angeles, California 90017  
 36 [Telephone: (213) 895-5134]

37 Date: 03-10-96

38 103.0 000.0 000.0 020.3

39 021.00

40 APPROVED AS TO FORM:

41 David B. Follett  
 42 DAVID B. FOLLETT, Attorney for SOUTHERN CALIFORNIA GAS COMPANY

43 Date: 03-10-96

## APPENDIX A

## Attachment A

Initial receipt of tariffally acceptable information from the Commission and such material  
G-10 Settlement Rates

copy has been filed in Case A232 and of

## Current G-10 Tariff Volumetric Rates (50% Deaveraged) (in cents per therm)

GN-10	Tier I	=	77.691	cents per therm
	Tier II	=	49.456	
GT-10	Tier I	=	60.247	
	Tier II	=	32.011	cents per therm

## S&amp;SA Tariff Volumetric Rates (100% Deaveraged):

GN-10	Tier I	=	77.691	cents per therm
	Tier II	=	39.556	
GT-10	Tier I	=	60.247	
	Tier II	=	22.111	

## Average Rate Comparison:

		3 Mth	20 Mth	60 Mth	180 Mth
GN-10	Current	66.397	51.997	50.303	49.738
	S&SA	62.437	42.988	40.700	39.937
GT-10	Change	3.960	9.009	9.603	9.801
	Current	48.953	34.552	32.858	32.293
	S&SA	44.993	25.543	23.255	22.492
	Change	3.960	9.009	9.603	9.801

Notes: All rates are shown in cents per therm.  
 Tariff rates in effect as of January 1, 1996 pursuant to D. 94-12-052, D. 95-12-060, et al.  
 GN-10 provides both procurement and transportation service; GT-10 provides only transportation.  
 Tier I applies to the first 100 therms of monthly use during April through November  
 and the first 250 therms of use during December through March.  
 Tier II applies to all usage above Tier I quantities.  
 Average rate comparison calculated for indicated annual G-10 usage (Mtherms).  
 Average rate comparison excludes monthly customer charge and applicable surcharges.

(END OF APPENDIX A)