

ALJ/ALB/abw

Mailed 5/19/2000

Decision D00-05-049 May 18, 2000

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's Own Motion to Consider the Costs and Benefits of Various Promising Revisions to the Regulatory and Market Structure Governing California's Natural Gas Industry and to Report to the California Legislature on the Commission's Findings.

Investigation 99-07-003
(Filed July 8, 1999)

**SECOND INTERIM OPINION
APPROVAL OF COMPREHENSIVE SETTLEMENT ON
PROMISING OPTIONS SET FORTH IN DECISION 99-07-015 AS APPLIED TO
PACIFIC GAS AND ELECTRIC COMPANY'S SYSTEM**

I. Summary

In this opinion, we consider an uncontested settlement proposal addressing all the promising options raised in Decision (D.) 99-07-015 as applied to the Pacific Gas and Electric Company (PG&E) natural gas system. The Settlement Parties¹ move for approval of the attached Comprehensive Gas OII

¹ PG&E, Aglet Consumer Alliance (Aglet); Association of Bay Area Governments Publicly Owned Energy Resources; California Cogeneration Council; California Industrial Group and California Manufacturers Association; California Utility Buyers JPA, a California joint powers authority; Calpine Corporation; Cellnet Data Systems, Inc.; City of Palo Alto; Coalition of California Utility Employees; Dynegy, Inc.; Enron North America and Enron Energy Services, Inc.; GreenMountain.com Company; Interstate Gas Services, Inc.; Northern California Generation Coalition; Northern California Power Agency; Office of Ratepayer Advocated (ORA); PanCanadian Energy Services Inc.; School Project for Utility Rate Reduction, a California joint powers authority; Southern Energy California, L.L.C.; Suncor, Inc.; The Utility Reform Network(TURN); United Energy Management, Inc.; TXU Energy Services; Western Hub Properties, LLC; and Wild Goose Storage, Inc.

Settlement Agreement ("Settlement Agreement") (Attachment I) and request that the Commission makes certain findings.

In keeping with Rule 51 et seq. of the Commission's Rules of Practice and Procedure, we approve the settlement as being reasonable in light of the whole record, consistent with the law, and in the public interest. We also find that under Assembly Bill (AB) 1421 and other relevant law brought to our attention, nothing in this Settlement Agreement shall require PG&E to offer consolidated gas billing for Core Transport Agents (CTAs) prior to its Billing Availability date.

II. Background

On January 21, 1998, the Commission issued an Order Instituting Rulemaking opening Rulemaking (R.) 98-01-011 to assess the market and regulatory framework of California's natural gas industry and to consider reforms that might foster competition and benefit all California natural gas consumers. In D.99-07-015, on July 8, 1999, the Commission identified the most promising options for changes to the regulatory and market structure of the natural gas industry. The Order Instituting Investigation herein issued the same day, designating this as a ratesetting case appropriate for hearing. That order asked parties to prepare more detailed analyses of the costs and benefits of the promising options,² but allowed a short hiatus for exploring the possibility of settlement before prepared testimony was due. At the first prehearing

² We also incorporated the entire record from R.98-01-011 into the record for this proceeding.

conference in this case, on September 1, 1999, an extension of time was granted for the submission of testimony in order to facilitate settlement.³

Meanwhile, the Legislature enacted AB 1421 in 1999, repealing the former Pub. Util. Code § 328,⁴ which had arrested the Commission in its restructuring program until January 1, 2000. In its place the Legislature substituted statutes clarifying its intent that the utilities continue to serve the core with bundled services.⁵

³ Since that time, two further extensions were granted regarding PG&E's system, and a third granted with regard to the natural gas industry in the southern part of the state.

⁴ All statutory references are to the Pub. Util. Code, unless otherwise noted.

⁵ Section 328. Legislative Findings.

The Legislature finds and declares both of the following:

- (a) In order to ensure that all core customers of a gas corporation continue to receive safe basic gas service in a competitive market, each existing gas corporation should continue to provide this essential service.
- (b) No customer should have to pay separate fees for utilizing services that protect public or customer safety.

Section 328.1. Definitions.

As used in this chapter, the following terms have the following meanings:

- (a) "Basic gas service" includes transmission, storage for reliability of service, and distribution of natural gas, purchasing natural gas on behalf of a customer, revenue cycle services, and after-meter services.
- (b) "Revenue cycle services" means metering services, billing the customer, collection, and related customer services.
- (c) "After-meter services" includes, but is not limited to, leak investigation, inspecting customer piping and appliances, carbon monoxide investigation, pilot relighting, and high bill investigation.

Footnote continued on next page

Ultimately, on January 28, 2000, the attached Settlement Agreement was filed, with declarations regarding the public interest supporting adoption of the Settlement Agreement. The Settlement Parties, in the Joint Motion for Approval of Comprehensive PG&E Settlement Agreement, stated that all parties to the cases underlying the Gas Accord Decision (D.97-08-055) had been served with a copy of the settlement proposal and that no party would object to the changes made in the procedures embodied in D.97-08-055 as a result of the tendered comprehensive settlement.⁶

-
- (d) "Metering services" includes, but is not limited to, gas meter installation, meter maintenance, meter testing, collecting and processing consumption data, and all related services associated with the meter.

Section 328.2. Required Gas Service.

The commission shall require each gas corporation to provide bundled basic gas service to all core customers in its service territory unless the customer chooses or contracts to have natural gas purchased and supplied by another entity. A public utility gas corporation shall continue to be the exclusive provider of revenue cycle services to all customers in its service territory, except that an entity purchasing and supplying natural gas under the commission's existing core aggregation program may perform billing and collection services for its customers under the same terms as currently authorized by the commission, and except that a supplier of natural gas to noncore customers may perform billing and collection for natural gas supply for its customers. The gas corporation shall continue to calculate its charges for services provided by that corporation. If the commission establishes credits to be provided by the gas corporation to core aggregation or noncore customers who obtain billing or collection services from entities other than the gas corporation, the credit shall be equal to the billing and collection services costs actually avoided by the gas corporation. The commission shall require the distribution rate to continue to include after-meter services.

⁶ As mandated by § 1708, an opportunity to request a hearing must be afforded to the parties if the Commission plans to alter or amend a previous decision affecting them.

The time for comment on the Settlement Agreement was shortened in a ruling issued February 8, 2000. In the same ruling, the time was shortened for any request for hearing based on the likelihood that the Settlement Agreement would alter D.97-08-055. No comments were filed nor was any request for hearing received. On February 24, 2000, an informal panel was convened to answer the questions of the Administrative Law Judge (ALJ) and Energy Division staff regarding the Settlement Agreement. Subsequently, on March 15, 2000, PG&E filed a document entitled "Clarification of Responses by Pacific Gas and Electric Company to Questions Propounded at the February 24, 2000 Informational Hearing."

III. Discussion

A. Context

In D.98-08-030, we first identified certain goals that we would pursue in assessing the existing natural gas market structures and considering a long-term strategy for regulating the industry. We reiterated them in D.99-07-015 and repeat those goals here to provide a context for the discussion in the remainder of the decision. Our goals are:

1. To complement and enhance the benefits of electric restructuring.
2. To eliminate inappropriate cross-subsidies.
3. To guard against unnecessary barriers to the entry of competitors into various aspects of the natural gas market.
4. To mitigate competitive abuses that may occur because one firm exerts inordinate control over the functioning of the marketplace.
5. To enhance competition by providing separate rates for each major component of utility service and allowing

customers to choose to have other firms substitute their services and charges where appropriate.

6. To ensure that the rates customers pay for utility services reflect the cost of those services.
7. To preserve the low-costs currently enjoyed by California natural gas customers.
8. To provide adequate consumer protection.
9. To ensure that natural gas service is safe and reliable.

In D.99-07-015, *slip op.* at p. 9, we identified a number of "promising options" for further investigation in our continuing revision of the regulatory structure governing California's natural gas industry, options we thought would meet the goals we set forth. These options touched on intrastate transmission, storage, balancing, hub services, core procurement including interstate capacity unbundling, information sharing, revenue cycle services, and statewide consistency. Some of these options pertained to Southern California Gas Company only, not to PG&E.

The settlement discussions undertaken within the context of the instant cost and benefit investigation resulted in D.00-02-050, in which we approved a partial settlement regarding the Operational Flow Order (OFO) protocol on the PG&E system, a subject of much discussion in R.98-01-011. The Settlement Agreement at issue here addresses all the other promising options discussed in D.99-07-015 that pertain to the PG&E system.⁷

B. Summary of Comprehensive Settlement

This Settlement Agreement distinguishes between promising options being put in place, those already in place on the PG&E system, those being

⁷ Although all options are addressed, action is not initiated on each and every one.

negotiated elsewhere, and those addressed in the OFO Settlement approved in D.00-02-050. The Gas Accord, as approved by the Commission in D.97-08-055, will continue through December 31, 2002, as modified here and subject to future decisions by the California Public Utilities Commission. The summary below does not reflect all the details included in the Settlement Agreement.

Section 1, the Introduction to the Settlement Agreement, recites the purpose, parties, background for the agreement, and the parties' reservation of rights in the event of modification by the Commission. Additionally, this section allows PG&E to recover \$700,000 in costs from customers/ratepayers to implement and maintain §§ 2.1, 2.2.2, 2.2.3, and 2.8 of the Settlement Agreement. This recovery will be by way of a debit from the Balancing Charge Account (BCA). The Settlement Parties expect that this recovery will be partially offset by the deposit in the BCA of a portion of certain transaction fees received from trading activities (See e.g., §§ 2.2 and 2.8, discussed below). Implementation timetables are also set forth here, including a shortened timeframe for distributing draft tariffs. Most of the Settlement Agreement is intended to run for the same term as the Gas Accord, through December 31, 2002, with some provisions on other schedules to coincide with PG&E's "storage year."

The Introduction also raises an issue resulting from AB 1421, which became effective on January 1, 2000, as §§ 328, 328.1 and 328.2. Section 328.2 could be interpreted to require PG&E to offer consolidated gas billing for gas-only core aggregators immediately, at the option of the core aggregator. PG&E's billing system is unable to accommodate such a request at this time, and the parties agree that they will interpret § 328.2 and this agreement as not requiring such an offering for gas-only customers prior to the completion of PG&E's billing system replacement project.

The Settlement Parties want the Commission to make a finding of fact that this Settlement Agreement will not substantially change the "existing core aggregation program" so that current core aggregators and those entering the market after this agreement will continue to be operating under the "existing core aggregation program" for the purposes of the statute. Thus, this section states that the Settlement Agreement is contingent on an express finding by the Commission that under AB 1421 and any other relevant law, nothing in the Settlement Agreement requires PG&E to offer consolidated gas billing for gas-only customers prior to billing system readiness. This issue is also discussed in more detail below regarding Section 2.11.

Section 2 of the Settlement Agreement addresses those promising options in D.99-07-015 that are made part of the PG&E system by this Settlement Agreement. Section 2.1 establishes cost and rate separation for balancing services, or, as it is known the self-balancing option.⁸ Currently, customer accounts⁹ are limited to a monthly imbalance of $\pm 5\%$ between usage (burn) and actual supply. They pay for PG&E's balancing services in the backbone transmission rate. The self-balancing option will initiate the voluntary election of daily balancing for customers who would receive a credit for the portion of the

⁸ This aspect of the Settlement Agreement is responsive to Finding of Fact 22 and Conclusion of Law 8 in D.99-07-015. See also, discussion in D.99-07-015, *slip op.* at pp. 38-40.

⁹ "Accounts" generally refer to a one-meter facility. A single account with multiple meters would still make one self-balancing election.

balancing costs being unbundled from the backbone rate.¹⁰ This section provides detailed terms and conditions for those accounts choosing self-balancing, including the possibility of returning to monthly balancing after a year. The term of this section of the Settlement Agreement extends to March 31, 2003, beyond the Gas Accord's term.

PG&E would remain the default provider of bundled balancing service for those not electing self-balancing. But up to 80% of storage assets now devoted to system balancing (2.2 Bcf) will be unbundled and marketed as part of PG&E's at-risk storage capacity, in direct proportion to the number of customers choosing the self-balancing option. Significantly, PG&E's Core Procurement Department (CPD) agrees not to elect self-balancing for the term of the Settlement Agreement.¹¹ Additionally, total elections will not be allowed to exceed 50% of total storage balancing assets; if that limit is approached, the OFO Forum will determine how to respond. By February 1, 2001, the OFO Forum will determine whether and how the amount of storage capacity allocated to balancing service should be revised and make a recommendation to the Commission.

Under the self-balancing option, the noncompliance charge is \$1 per decatherm(dth) per day for each day when the imbalance exceeds $\pm 10\%$ of the

¹⁰ \$0.0050 per dth x actual monthly metered usage. This is not the full amount associated with system balancing (\$0.0060/dth) because self-balancers still have $\pm 10\%$ daily flexibility deriving from system storage assets. (Transcript of February 24, 2000 Informational Panel, (Tr.) p. 16.)

¹¹ However, a Core Procurement Group (CPG) may elect self-balancing, based on a forecast of customers' usage rather than daily metering.

daily metered burn or CPG forecasted usage,¹² as well as for each day when the accumulated daily imbalance exceeds $\pm 1\%$ of the preset monthly usage. These deterrence fees are recorded in the BCA, as are previously instituted OFO and Emergency Flow Order (EFO) non-compliance charges.¹³

Section 2.2 proposes to create a system for electronic trading of monthly gas commodity imbalances, and for OFO-day imbalance rights.¹⁴ A third-party service provider (ALTRA) will have a sole source contract until December 31, 2002, to create and maintain the trading platforms. PG&E's current method allowing customers to confirm monthly imbalance trades will remain in place. The trading of OFO-day imbalance rights is a new service not now available on PG&E's system; it creates value for those entities within the specified OFO day tolerance band but concomitantly reduces OFO noncompliance charges.

Part of the relinquished revenue from non-compliance charges will be regained through trading fees. ALTRA & PG&E will share a capped transaction fee. For OFO imbalance rights trading, the entire one half of PG&E's portion will be a credit to the BCA, to ensure that PG&E has no incentive to call OFOs. For monthly imbalance trading, one quarter of the total fee will be credited to the BCA.

¹² CPGs use a 24 hour-before-gas-day forecast unless they are, as a group or individually, so large that PG&E requires the forecast to be made at the end of the day to ensure that it is as close as possible to the next day's actual usage.

¹³ OFO and EFO noncompliance charges still obtain because OFO and EFO limits supercede the $\pm 10\%$ daily imbalance tolerance for self-balancers.

¹⁴ This section is responsive to pages 41-44 of D.99-07-015 (slip *op.*) and Findings of Fact 24-26.

The limitations and cash-out provisions in PG&E's Schedule G-BAL will apply to an entity's final ending imbalance position as posted on PG&E's existing platform. Significantly, while PG&E will be a guarantor for its customers' trades, if ALTRA allows market makers with no imbalances to participate, ALTRA must be responsible for credit approval and collection from these participants in the market.

Section 2.3 addresses the proposal that the Commission re-examine the utility role in core procurement once a 30% competitor market share has been achieved.¹⁵ The Settlement Agreement concludes that there is no need for the Commission to further examine this issue in this proceeding, in light of AB 1421.

Section 2.4, concerning whether the Commission should further reduce the thresholds for participation in the core aggregation program,¹⁶ concludes that there is no need for the Commission to change the thresholds currently applicable to PG&E customers during the term of this settlement.¹⁷ Indeed, the Settlement Parties affirmatively do not want to change the existing core aggregation program in any fundamental way, in light of the language in AB 1421.

Section 2.5 would partially unbundle core storage costs by allowing CTAs to reject increments of their storage capacity allocation voluntarily.¹⁸

¹⁵ D.99-07-015, slip *op.* at pp. 50-59.

¹⁶ D.99-07-015, slip *op.* at pp. 59-61, Finding of Fact 30, Ordering Paragraph 11.

¹⁷ As part of the Gas Accord, PG&E reduced the minimum threshold for core aggregation participation from 250,000 to 120,000 therms per year. It was estimated that 20 to 25 residential customers or 7 to 8 commercial customers could meet this threshold. (Tr. pp. 50-51.)

¹⁸ This section is responsive to D.99-07-015, slip *op.* at p. 49.

PG&E would still collect storage costs from CPD customers in bundled rates and from those CTAs choosing to accept an allocation of core storage on terms specified in tariffs to be filed and the Settlement Agreement. The unbundling of storage capacity is a phased-in program, with a cap on the total amount of storage that can be rejected by CTAs each year, beginning from the effective date of the implementing tariffs to the April 2002-March 2003 storage season. Of the rejected CTA storage allocation, the CPD must accept up to 1.64 Bcf, associated injection and withdrawal allocations and the gas in the accepted storage. The maximum cost is currently estimated at a little under \$2 million. (Tr. p. 52.) This will be added to the Core Procurement Incentive Mechanism (CPIM) benchmark and slightly change the withdrawal and injection amounts in the CPIM schedule. If CTAs do reject storage, costs will shift between core customer groups. Storage rejected in excess of 1.64 Bcf but only up to 4.92 Bcf (such rejection is only allowed in the later years of the term) will be allocated to PG&E's California Gas Transmission department's at-risk unbundled storage program.

Section 2.6 addresses separate costs and rates for core utility services.¹⁹ The Settlement Agreement concludes that the core brokerage fee, a proxy for the CPD's overhead and costs, should not be changed for the term of the Settlement Agreement. Other cost-based core cost allocation changes and rate design changes may be offered in future Biennial Cost Allocation Proceedings (BCAP) for distribution rates.

Section 2.7 notes the Commission's direction to provide additional details of completed transactions,²⁰ and concludes that the terms of this

¹⁹ This section is somewhat responsive to D.99-07-015, slip *op.* at pp. 49, 62, and 86.

²⁰ D.99-07-015, slip *op.* at pp. 73-78, Finding of Fact 17 and Conclusion of Law 17.

Settlement Agreement and the OFO Settlement in D.00-01-020 provide sufficient information to enhance market liquidity and efficiency.

Section 2.8 creates an electronic trading system for the secondary market in intrastate pipeline capacity.²¹ A voluntary and anonymous system for trading firm backbone transmission capacity will be facilitated by PG&E and run by ALTRA in the same manner as the other trading platforms. One-half of PG&E's half share of transaction fees will be recorded as a credit to the BCA.

Section 2.9 acknowledges the Commission's desire to provide additional real-time customer specific usage data to customers or their agents.²² The Settlement Agreement proposes a survey of interest in dial-in access at customer expense and other meter access and automated meter reading data options. No action beyond the survey is required.

Section 2.10 contains a proposal for a pilot program for non-core customer ownership of new meters and customer ownership of meter add-on devices that would allow customers to obtain their own meter data directly.²³ Customers would be responsible for any incremental costs, while PG&E would do all installation and servicing. This program will involve only 500 new meter installations per year and 1000 customer-owned add-on devices per year. PG&E will report to the Commission six months prior to the end of the pilot, recommending program expansion or termination. The pilot program will begin

²¹ D.99-07-015, slip *op.* at p. 79, Finding of Fact 38.

²² D.99-07-015, slip *op.* at pp. 72-73, Findings of Fact 33 and 36, Conclusions of Law 15 and 16.

²³ D.99-07-015, slip *op.* at pp. 84-85.

when implementing tariffs are effective and continue through December 31, 2002.

Section 2.11 confronts the promising option of having gas companies bill for electric service providers as well as other competitive billing possibilities.²⁴ Currently, PG&E offers consolidated billing (billing for the CTA's gas commodity and PG&E's transportation) for dual commodity customers who also participate in electric direct access. This section provides that PG&E need not offer this consolidated service to gas service on customers until the installment of PG&E's billing system replacement project, several years away. PG&E can bill separately for its transportation service, while the CTAs bill for their commodity gas costs. The CTAs are also authorized to do consolidated billing. Moreover, PG&E would no longer be required to do information only billing to a CTA's consolidated billing customer, upon the CTA's agreement to provide PG&E's billing and information. The agreement between PG&E and a CTA would lapse if gas consumer protection legislation passes authorizing the Commission to enforce consumer protection rules including a CTA certification program, and the Commission chooses to do so. This section also contains provisions for PG&E to pay billing credits²⁵ to CTAs that do consolidated gas billing for their customers.

Section 3 discusses the promising options identified by the Commission that are already in place on PG&E's system for the term of the Gas Accord.

²⁴ D.99-07-015, slip *op.* at pp. 85-86, Finding of Fact 43, Conclusion of Law 19.

²⁵ Residential credit = \$0.71; G-NR1 = \$1; G-NR2 = \$1. This credit only goes to the CTA's customers; there is no avoided overhead component that reduces ratepayer bills generally.

These include firm tradable intrastate transmission rights, the creation of a secondary market for intrastate transmission capacity, reassignment of risk to the utility for unused transmission resources, separation of the procurement and hub services functions, unbundling of interstate capacity costs for core customers, and phasing out core subscription service.

Section 4 sets forth a number of other promising options and other issues that are not to be litigated while further settlement discussions regarding the post-Gas Accord period are pending.²⁶ These include potential reforms to the open season auction procedures,²⁷ Gas Rule 27 issues regarding PG&E's transmission interconnection policy, terms and conditions, and local transmission and direct backbone connect issues.

Section 5 notes the realization of other promising options in D.00-01-020, such as the provision of PG&E's study of balancing needs by March 7, 2000, the implementation of targeted OFOs, and the provision of customer class data with a three-day lag.

Finally, the Settlement Agreement concludes in Section 6 that for PG&E, no issues remain to be litigated in this Investigation.

There are a number of issues raised in the Settlement Agreement that are left for resolution to the revision of tariffs or a future BCAP. We emphasize that approval of this Settlement Agreement does not indicate approval of tariffs not yet submitted for review or allocations not yet proposed. The issues for further elaboration are:

²⁶ In Section 1.51, PG&E commits to initiating talks promptly following approval of this Settlement Agreement.

²⁷ D.99-11-053.

- a. The allocation among customer classes of BCA funds - in the next BCAP case (Tr. pp. 4 and. 32).²⁸
- b. The details of the pilot meter program – within 60 days of settlement approval by Advice Letter (Tr. p. 9).
- c. The method of dealing with oversubscription of self-balancing – by compliance filing (Tr. pp. 16-17).
- d. The methodology for determining monthly usage for CPGs (baseline for measuring accumulated daily imbalance), covering both time of determination and timeframe from which to forecast, – by Advice Letter (Tr. p. 24).
- e. The reevaluation of core intrastate path capacities (release of Silverado Path capacity) in relation to the acceptance of CTA storage – in the next BCAP case (Tr. pp. 56 and 58).
- f. The revision of CPIM winter storage targets if CTAs release storage capacity – not clear where this would be addressed (Tr. pp. 62-63).
- g. The application regarding real-time access methodology if there is sufficient customer interest (Tr. P. 47).
- h. The compliance filing specifying compliance monitoring, cost responsibility, and enforcement measures.

We will order PG&E to address issues f. and g. in proceedings within the next six months so that these issues do not languish unresolved.

Thus, in sum, upon approval, this Settlement Agreement will result in the following changes:

- a. The opportunity for customers other than the core served by the CPD to choose a self-balancing option in lieu of PG&E's bundled balancing.

²⁸ We take official notice of PG&E's application in its BCAP, filed April 3, 2000. In that application at p. 4. (Attachment B), PG&E proposes allocation on an equal-cents-per therm-basis to all end-use customers.

- b. The creation of a system for electronic trading of actual gas imbalances, and for the trading of imbalance rights.
- c. The unbundling of core storage allocations and costs for core aggregators, allowing them to obtain different resources to ensure reliable service to their core customers.
- d. The creation of an electronic trading system for secondary market pipeline capacity.
- e. A survey of interest in new ways for customers or their agents to receive additional real-time usage information.
- f. The creation of a pilot program for customer ownership of meters for new noncore installations, and customer ownership of meter add-on devices.
- g. The delay of PG&E's consolidated billing for gas service providers, but the provision of billing credits for CTAs that perform consolidated gas billing and thus enable PG&E to avoid costs associated with preparing and sending gas bills.

IV. The Legal Standard and the Parties' Contentions

Rule 51.1(e) of the Commission's Rules of Practice and Procedure provides that the Commission must find a settlement "reasonable in light of the whole record, consistent with the law, and in the public interest" before it may approve a settlement. Because this is not an all-party settlement subject to the guidance in D.92-12-019, we follow the criteria set forth in Rule 51.1(e), as explained in D.96-01-011.

"[W]e consider whether the settlement taken as a whole is in the public interest. In so doing, we consider individual elements of the settlement in order to determine whether the settlement generally balances the various interests at stake as well as to assure that each element is consistent with our policy objectives and the law." (*Re Southern California Edison Company*, 64 CPUC2d 241, 267, citing D.94-04-088.)

The Settlement Parties contend that the settlement is in the public interest and reaches a fair compromise at this juncture in the proceeding. No party opposed the settlement. But, other active parties in the proceeding neither joined the settlement nor commented.

A. Consistent With The Law

1. Section 1708

Section 1708 provides that the Commission may alter or amend any decision upon providing parties with an opportunity to be heard. Here, the parties wish to alter the Gas Accord, which was approved in D.97-08-055.

The parties claim that the Settlement Agreement does not change the basic principles, structure or rates agreed to in the Gas Accord and we agree. Many of the changes adopted in this Settlement Agreement are not addressed in the Gas Accord. Specifically, nothing in the Gas Accord prohibits:

- a. The opportunity to have a voluntary self-balancing option.
- b. The creation of a system for electronic trading of imbalances, or for the trading of imbalance rights.
- c. The creation of an electronic trading system for secondary market capacity.
- d. The provision of additional usage information to customers or their agents.
- e. The provision of consolidated billing for gas service providers.
- f. Gas meter ownership or ownership of meter add-on devices.

However, two provisions of the Settlement Agreement depart from the Gas Accord. First, the Gas Accord does not unbundle core storage costs for core aggregators. It provided for a study of the issue due in 2001, but otherwise

did not explicitly unbundle core storage costs from other gas services.²⁹ Second, the Gas Accord does not provide billing credits for CTAs who provide consolidated gas billing to gas customers. In this situation, PG&E avoids certain costs by not having to print and mail a gas bill. The Gas Accord instead contains a provision that "billing and metering costs will remain bundled" for the term of the Gas Accord.³⁰

Nonetheless, the Settlement Parties support these changes to the Gas Accord. After extensive negotiations, they believe that these narrow and specific changes are consistent with their interests. Moreover, PG&E provided general notice to all Gas Accord parties and the service list in D.97-08-055 that the Settlement Agreement might affect certain limited terms of the Gas Accord, and gave them an opportunity to receive confidential settlement documents and to attend a settlement conference to raise any concerns before a settlement was filed with the Commission. Furthermore, the ALJ's Third Ruling Regarding Settlements, served on both the Gas Accord service list and this proceeding's service list, provided another opportunity for a request for hearing. No party to either proceeding raised any opposition to these changes to the Gas Accord.

Under these circumstances, § 1708 does not require that the Commission hold a hearing before approving the Settlement Agreement.

²⁹ Gas Accord Section IV.G.6, p. 54 states that "Within three years after the Gas Accord is implemented, PG&E's will file with the CPUC an examination of storage unbundling for core transportation customers in light of the then-existing market." We accept this Settlement Agreement as the requisite filing.

³⁰ Gas Accord Section IV.H.3, page 55.

2. Section 328 et seq.

Section 328 is no impediment either. On August 25, 1998, Senate Bill (SB) 1602, became effective, creating § 328 of the Pub. Util. Code . That section expressly allowed the Commission to investigate issues associated with the further restructuring of natural gas services, but prohibited the Commission from "enacting" any gas industry restructuring decisions affecting the core prior to January 1, 2000. It stated that if the Commission determined that further natural gas industry restructuring for core customers was in the public interest, the Commission should "submit its findings and recommendations to the Legislature." As of January 1, 2000, § 328 was repealed by virtue of AB 1421, and replaced by a new § 328, as well as new §§ 328.1 and 328.2, setting forth requirements for bundled gas service to the core, among other things. There is no longer a requirement to report to the Legislature before acting to restructure the gas industry.³¹

The Settlement Parties seek a more specific finding with regard to AB 1421. They seek a finding that "under AB 1421 and any other relevant law, nothing in this Settlement Agreement shall require PG&E to offer consolidated gas billing for CTAs prior to the Billing Availability Date, expected by the end of 2002." (Motion of Settlement Parties, p. 10, Section 1.8.4 of the Settlement Agreement.)

Section 328.2 provides that public utility gas corporations shall continue to be the exclusive provider of revenue cycle services (including billing services) to all customers in their service territory, subject to exceptions for:

³¹ In the interests of comity, we have sent the draft decision and attached settlement (Attachment A) to the Legislature as our submission of findings and recommendations.

- a. Parties providing natural gas to noncore customers.
- b. "An entity purchasing and supplying natural gas under the commission's existing core aggregation program ... under the same terms as currently authorized by the commission."

The Settlement Parties agree that the changes resulting from this Settlement Agreement are not changes to "the commission's existing core aggregation program" of the kind that affect core aggregators' ability to qualify for this exception and that the core aggregation program as of January 1, 2000, did not include consolidated billing provided by PG&E.

In addition, the Settlement Parties agree that none of the changes in this Settlement Agreement shall require PG&E to expand its current offerings of consolidated billing for core aggregators until PG&E is able to provide such services through its billing system replacement project, which is expected to be completed by the end of 2002. PG&E is not now able to provide consolidated billing for certain types of customers, and creation of this service for such customers prior to that date could cost substantial amounts of money to develop a temporary billing mechanism that would be discarded when the billing replacement project is completed.

We have no difficulty agreeing that the existing core aggregation program as of January 1, 2000, did not include consolidated billing for gas-only customers by PG&E and that the options offered to CTAs if the Settlement Agreement is approved will not fundamentally change the core aggregation program.³² However, we do want to emphasize that the finding requested should be interpreted very narrowly.

³² Indeed, the billing credits segment of the Settlement Agreement is also consistent with § 328.2, which requires the use of an avoided-cost methodology.

The need for a narrow interpretation stems from the verbs used in § 328.2. Nothing in that section or the Settlement Agreement requires a CTA to perform billing. It "may" do so. On the other hand, if the CTA chooses not to do so, PG&E "shall" continue to provide revenue cycle services to all customers in its service territory. Thus, a CTA could decide to have PG&E do the billing. However, we do not believe that PG&E could be forced to do consolidated billing. It could include a separate CTA commodity bill with its billing.

Accordingly, we are able to make the finding the parties request, with the understanding that it is to be narrowly interpreted.

No other inconsistency with the law has been brought to our attention, and we conclude that there is no other inconsistency with the law. Therefore, there is no impediment to making these changes if we find them reasonable in light of the whole record, and in the public interest. (Rule 51.1(e).)

B. Reasonable In Light Of The Whole Record

We find that this settlement proposal is reasonable in light of the whole record for three reasons. First, while the settlement is not a global one, 29 parties with a range of interests support it; the Settlement Parties represent residential consumers, shippers, municipal customers, and competitors in various market segments. It is agreeable to PG&E. Additionally, no party opposed the settlement. When parties from different viewpoints agree on a solution for a problem, even if only on a time-limited basis, it is an indication that it is a reasonable proposal. When the parties who choose not to sign on still do not oppose, it is a further indication of the proposal's reasonableness.

Second, we incorporated the record in R.98-01-011 into this proceeding and we find that the testimony therein generally supports the reasonableness of this settlement. While our promising options might have resulted in a little more

change than proposed in this Settlement Agreement , we recognize the commitment of the parties to continue talking about reforms for the post-Gas Accord period. We anticipate more restructuring in conformance with our stated goals at that time.

Third, as to those sections of the Settlement Agreement that raised questions regarding fairness and reasonableness, the record was supplemented by the representations of some of the settling parties at the Informational Hearing on February 24, 2000. For instance, the ALJ and Energy Division staff questioned the derivation of the \$700,000 debit for implementation. It appeared that the figure was lower than that originally sought and founded upon cost estimates for each new initiative. PG&E bears the risk of higher implementation costs for §§ 2.1, 2.2.2, 2.2.3, and 2.8, and cannot return to the Commission to request them.

Similarly, the ALJ and Energy Division staff were concerned that it was inequitable to shift the costs of CTA-rejected storage to core ratepayers. PG&E and ORA explained why the CPD should take on about \$2 million in additional costs of storage after allocation rejections by the CTAs. PG&E avers that the additional storage is needed for core reliability and peak-day needs; PG&E has had to supplement existing storage through the market during peak winter periods. (Tr. pp. 54, 57-58.) ORA elaborated by stating that one reason for accepting the additional storage capacity is the growth in the number of core customers since the Gas Accord. (Tr. p. 55.) The second reason for accepting the cost of such capacity, ORA explained, is that the CPD is planning to rid itself of 50 MMcf/d of intrastate transmission capacity on the Silverado Path in the near future as a result of a decline in California gas production. The storage capacity,

ORA claims, could be used in lieu of the transmission capacity to maintain core reliability.³³

In its BCAP, PG&E also estimates that forecasted throughput for the core will rise 13%. Moreover, as recently as December 1998, PG&E experienced a maximum daily core load peak of 2.7 Bcf, while daily maximum transmission and storage capacity for the core is 2.4 Bcf.³⁴ Thus, the potential expenditure for up to 1.64 Bcf in additional inventory capacity for CPD customers appears reasonable.

We note also the safety-conscious approach reflected in the Settlement Agreement. For instance, the 50% cap on self-balancers ensures that the system operators will have some experience with this initiative without sacrificing safety and reliability. The 1% allowance for accumulated imbalances hews closely to the pipeline swing that can be accommodated safely. (Tr. p. 28.) This safety consciousness is in line with our goals and appears reasonable.

Finally, Settlement Agreements must be viewed in their totality, because each segment will not equally benefit each party. For instance, the benefits of self-balancing are not going to be enjoyed directly by the ratepayers served by the CPD at this time, but perhaps they will enjoy them if the

³³ As noted previously, we take official notice of PG&E's application in its BCAP (Attachment B), filed April 3, 2000. In that application at p. 3, PG&E reveals more than it did in the Informational Hearing, and perhaps more than ORA knew at the time. PG&E proposes to reduce its current core portfolio allocation of 48 MDth/day of annual Silverado capacity to 5 MDth/day to reflect the termination of PG&E's California gas contracts. However, PG&E further proposes an increase of 50 MDth/day of seasonal winter Baja capacity to help mitigate the risks associated with peak demand events. The total estimated reduction in cost will be only \$100,000.

³⁴ We also take official notice of PG&E's BCAP Prepared Testimony at pp. 4-2 to 4-3. (Attachment C.)

experiment proves successful, and perhaps if self-balancing does result, as hoped, in fewer OFO days, the ratepayers will benefit from that. Similarly, while the unbundled storage program is not of much use to residential customers at present, the growth in storage competition may ultimately bring some benefit to them and the CPD will participate in other initiatives set forth in this Settlement Agreement.

As noted in the Joint Declaration of Darwin Farrar, James Weil and Marcel Hawiger in Support of Joint Motion for Approval of Comprehensive PG&E Settlement Agreement,³⁵

"[T]he Settlement Agreement is reasonable because: (1) it is a reasonable compromise of strongly held views; (2) negotiations were conducted at arm's length; (3) the settling parties represent all affected interests; (4) the stage of the proceeding allows opposing parties to gauge the strengths and weaknesses of their respective positions; (5) counsel and advocates for the settling parties are experienced in public utility litigation; (6) the Office of Ratepayer Advocates is a governmental participant; and (7) the Settlement Agreement is apparently uncontested. Lack of adverse reaction from affected interests favors approval."

We are convinced that the settlement generally balances the various interests at stake for the period of the settlement. Thus, we find that the proposed settlement is reasonable in light of the whole record.

³⁵ Darwin Farrar is attorney for the ORA. James Weil is the Director of Aglet. Marcel Hawiger is staff attorney for TURN. Each was personally involved in the negotiations that led to the January 28, 2000, "Comprehensive Gas OII Settlement Agreement" among PG&E and other parties.

C. In The Public Interest

We find that the range of parties joining this settlement, and the lack of opposition to it, provides some evidence that the settlement is in the public interest. The Settlement Agreement is the result of many months of discussion and negotiation. It represents a broad-based consensus on issues of concern to the market, balancing the interests of marketers, gas suppliers, shippers, storage operators, wholesale and retail end-use customers, and regulatory representatives, as well as the Coalition of California Utility Employees. As noted by parties in the supporting declarations, considerable time and resources are saved for all parties that would otherwise be spent in litigating the promising options identified in I.99-07-003.

Moreover, we find that the Settlement Agreement does advance our stated goals and does address many of our promising options, particularly in tandem with the previously approved OFO protocol. The Settlement Agreement promotes an unhindered market through the new trading platforms, while at the same time its incremental approach protects safety and reliability. The information garnered at the panel on February 24, 2000, assuages our concern that the core would be providing a subsidy for those customers choosing self-balancing. We look forward to the post-Gas Accord restructuring that will take the natural gas industry further towards our goals.

We note particularly a few of the reasons ORA, TURN, and Aglet support the settlement:

"All ratepayers and the public have an interest in reasonable rates. The Settlement Agreement promotes reasonable rates by offering customers more options in choosing the elements of their gas service, which enhances competition, and by limiting rate recovery of the costs to implement the Settlement Agreement. The settled dollar amount for PG&E

cost recovery is a fair and reasonable compromise of PG&E's interest in cost recovery and ratepayer interests in low rates.

"Gas market participants have an interest in certainty and stability of rates and terms and conditions of service. The Settlement Agreement promotes this interest by fixing PG&E's tariff provisions through the end of 2002, which coincides with the end of the Gas Accord. "

Another consideration in weighing whether the settlement is in the public interest is who bears the costs of implementation of the agreement. The costs of implementation of the provisions of the settlement agreement are partially borne by ratepayers, up to a maximum of \$700,000. Yet some of this cost may be paid by the deposit of a portion of trading fees into the BCA. Other costs are paid directly by the customers benefiting from the opportunity provided. Thus, on balance, we believe that the benefit to the public of these changes outweighs the potential cost to ratepayers of the costs of implementation.

In sum, we conclude that the settlement is consistent with the law, reasonable in light of the whole record, and in the public interest.

V. Waiver of 30-Day Comment Period

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Pub. Util. Code § 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

Findings of Fact

1. In R.98-01-011, the Commission set goals for its restructuring of the natural gas industry and compiled a record concerning different initiatives to move towards those goals.

2. In D.99-07-015, the Commission relied upon the testimony in R.98-01-011 in choosing the most promising options for further analysis and potential adoption as part of our restructuring of the natural gas industry.

3. In I.99-07-003, the Commission allowed the parties to use the promising option framework to negotiate for mutually agreeable changes in the natural gas industry.

4. The Comprehensive Gas OII Settlement Agreement, Attachment I to this opinion, addresses most of the issues raised in the testimony in R.98-01-011 regarding PG&E's system and advances the Commission's goals in restructuring the natural gas industry. The issues addressed include:

- a. The opportunity for some customers to choose a self-balancing option in lieu of PG&E's bundled balancing.
 - b. The creation of a system for electronic trading of actual gas imbalances, and for the trading of imbalance rights.
 - c. The unbundling of core storage allocations and costs for core aggregators, allowing them to obtain different resources to ensure reliable service to their core customers.
 - d. The creation of an electronic trading system for secondary market pipeline capacity.
 - e. A survey of interest in new ways for customers or their agents to receive additional real-time usage information.
 - f. The creation of a pilot program for customer ownership of meters for new noncore installations, and customer ownership of meter add-on devices.
 - g. The delay of utility consolidated billing for gas service providers, but the provision of billing credits for CTAs that perform consolidated gas billing and thus enable PG&E to avoid costs associated with preparing and sending gas bills.
5. The Settlement Agreement does not address the following issues:
- a. The allocation among customer classes of BCA funds.
 - b. The details of the pilot meter program.

- c. The method of dealing with oversubscription of self-balancing.
- d. The methodology for determining monthly usage for CPGs (baseline for measuring accumulated daily imbalance), covering both time of determination and timeframe from which to forecast.
- e. The reevaluation of core intrastate path capacities (release of Silverado Path capacity).
- f. The revision of CPIM winter storage targets if CTAs release storage capacity.
- g. The application regarding real-time access methodology, if there is sufficient customer interest.
- h. Compliance and enforcement details.

6. The Settlement Agreement is the result of many months of discussion and negotiation, and represents a broad-based consensus on issues of concern to the market, balancing the interests of marketers, gas suppliers, shippers, storage operators, wholesale and retail end-use customers, and regulatory representatives, as well as the Coalition of California Utility Employees and the utility itself. There are benefits for each class of customer and the utility in the Settlement Agreement.

7. After adequate notice, no party to the Gas Accord or to this case requested a hearing on the settlement or alterations to D.97-08-055, the decision approving the Gas Accord. No party opposed the settlement.

8. This settlement will not take effect before January 1, 2000.

9. The costs of implementation of §§ 2.1, 2.2.2, 2.2.3, and 2.8 will be borne by ratepayers in the amount of \$700,000. This will be partially offset by trading fees deposited in the BCA.

10. Under AB 1421 and other relevant law brought to our attention, nothing in this Settlement Agreement shall require PG&E to offer consolidated gas billing for CTAs prior to the Billing Availability Date, expected by the end of 2002.

Conclusions Of Law

1. The restructuring goals of the Commission should be advanced by establishing :

- a. An option to choose daily self-balancing in lieu of PG&E's bundled balancing.
- b. A system for electronic trading of actual gas imbalances, and for the trading of imbalance rights.
- c. Unbundled rates for increments of core storage allocations, allowing core transport agents to obtain different resources to ensure reliable service to their core customers.
- d. An electronic trading system for secondary market pipeline capacity.
- e. The level of interest in new ways for customers or their agents to receive additional real-time usage information.
- f. A pilot program for customer ownership of meters for new noncore installations, and customer ownership of meter add-on devices.
- g. Billing credits for CTAs that perform consolidated gas billing and thus enable PG&E to avoid costs associated with preparing and sending gas bills.

2. The issues listed in Finding of Fact 5 should be addressed within six months as appropriate to each issue and as more specifically set forth in the order.

3. No evidentiary hearing is necessary to change the provisions of the Gas Accord affected by this settlement agreement, or to alter D.97-08-055.

4. The proposed settlement is consistent with the law.

5. The proposed settlement is reasonable in light of the whole record.

6. The proposed settlement is in the public interest.
7. This settlement agreement should not be construed as substantially changing the existing core aggregation program so as to disallow billing by core transport agents in lieu of PG&E.
8. This order should be effective today, so that the settlement may be implemented expeditiously.

SECOND INTERIM ORDER

IT IS ORDERED that:

1. The Joint Motion of Pacific Gas and Electric Company (PG&E); Aglet Consumer Alliance; Association of Bay Area Governments Publicly Owned Energy Resources; California Cogeneration Council; California Industrial Group and California Manufacturers Association; California Utility Buyers JPA, a California joint powers authority; Calpine Corporation; Cellnet Data Systems, Inc.; City of Palo Alto; Coalition of California Utility Employees; Dynegy, Inc.; Enron North America and Enron Energy Services, Inc.; GreenMountain.com Company; Interstate Gas Services, Inc.; Northern California Generation Coalition; Northern California Power Agency; Office of Ratepayer Advocates; PanCanadian Energy Services Inc.; School Project for Utility Rate Reduction, a California joint powers authority; Southern Energy California, L.L.C.; Suncor, Inc.; The Utility Reform Network; United Energy Management, Inc.; TXU Energy Services; Western Hub Properties, LLC; and Wild Goose Storage, Inc. For Approval of Comprehensive PG&E Settlement Agreement, filed on January 28, 2000, and set forth as Attachment A, is granted.
2. The settlement shall not be construed as substantially changing the existing core aggregation program so as to exclude core aggregators from providing billing to their customers.

3. PG&E shall file a compliance advice letter to implement the adopted revisions to its currently effective gas tariffs no later than 60 days after the effective date of this decision, as specified in Section 1.7 of the Settlement Agreement. The detailed methods for dealing with oversubscription for the self-balancing option and for determining monthly usage of Core Procurement Groups as a baseline for measuring accumulated daily imbalances shall be set forth in this compliance filing. The compliance filing shall specify compliance monitoring, cost responsibility, and enforcement measures. The advice letter shall be effective upon appropriate review by Commission staff.

4. PG&E shall address the issue of storage capacity allocated to balancing service by filing an application with the Commission no later than March 1, 2001.

5. PG&E shall file an application seeking to expand or terminate the pilot program on customer-owned meters and add-on devices no later than July 1, 2002 and no sooner than June 1, 2002.

6. PG&E shall report to the Energy Division on the interest in real-time access methodology and/or file an application regarding this methodology within six months from the effective date of this decision.

7. PG&E shall file an advice letter revising its Core Procurement Incentive Mechanism winter storage target within 60 days after the end of an election

period during which a Core Transport Agent elected to increase or decrease its allocation of storage.

This order is effective today.

Dated May 18, 2000, at San Francisco, California.

LORETTA M. LYNCH
President

HENRY M. DUQUE

JOSIAH L. NEEPER

RICHARD A. BILAS

CARL W. WOOD

Commissioners

ATTACHMENT A

CPUC Promising Gas Options
I.99-07-003

**Comprehensive Gas OII
Settlement Agreement**

January 28, 2000

Subject to Rule 51 of the CPUC Rules of Practice and Procedure,
Rule 601 et seq. of the FERC Rules of Practice, Rule 408 of the Federal
Rules of Evidence, and Section 1152 of the California Evidence Code

CPUC Promising Gas Options I.99-07-003
Comprehensive Gas OII Settlement Agreement

Table of Contents

1. INTRODUCTION.....	1
2. PROMISING OPTIONS WHICH ARE PUT IN PLACE BY THIS SETTLEMENT AGREEMENT	4
2.1 Cost and Rate Separation for Balancing Services [Self-Balancing Options]	4
2.2 Electronic Trading of Imbalances [Including Rights]	8
2.3 Re-examine Utility Role in Core Procurement Once a Specified Competitor Market Share Has Been Achieved	13
2.4 Eliminate Core Aggregation Transportation Thresholds After Adoption of Consumer Protection Measures	14
2.5 Unbundle Utility Storage Costs for Core Customers [Served by CTAs]	14
2.6 Separate Costs and Rates for Core Utility [Procurement] Services. Treat Utility Core Procurement Departments as Any Other Utility Customer	18
2.7 Provide Details of Completed Transactions.....	19
2.8 Establish a Secondary Market [Trading System] via a Utility Electronic Bulletin Board.....	19
2.9 Provide Real-Time, Customer-Specific Usage Data.....	20
2.10 Provide Competitive Metering Technologies	23
2.11 Provide Competitive Billing Options to Customers Similar to Those Offered in the Electric Industry.....	26
3. PROMISING OPTIONS ALREADY IN PLACE FOR PG&E	28
3.1 Create Firm Tradable Intrastate Transmission Rights.....	28
3.2 Establish a Secondary Market for Intrastate Transmission Capacity.....	28
3.3 Place the Utility At Risk for Unused [Transmission] Resources	28
3.4 Create Firm, Tradable Storage Rights.....	29
3.5 Establish a Secondary Market For Intrastate Storage Capacity	29
3.6 Place the Utility At-Risk for Unused [Storage] Resources	29
3.7 Separate Utility Hub Services From Procurement Functions	30
3.8 Unbundle Utility Interstate Capacity Costs for Core Customers	30
3.9 Eliminate Core Subscription Service	30

CPUC Promising Gas Options I.99-07-003
Comprehensive Gas OII Settlement Agreement

Table of Contents (continued)

4.	PROMISING OPTIONS AND OTHER ISSUES WHICH ARE NOT TO BE LITIGATED PENDING FURTHER SETTLEMENT DISCUSSIONS	31
4.1	Develop Clear Procedures for Allocating [Firm] Capacity	31
4.2	Revise PG&E's Transmission Interconnection Policy, Terms and Conditions (Not an Appendix C Item)	31
4.3	Revise PG&E's Electric Generation Rate Design (Not an Appendix C Item)	31
4.4	Review PG&E's Local Transmission Reliability, Design Standards and Curtailment Provisions (Not an Appendix C Item)	31
4.5	Investigate Mechanisms to Reduce the Costs of Transmission Service for Noncore Customers Connecting To or Located Close To PG&E's Backbone Transmission Facilities (Not an Appendix C Item)	32
5.	PROMISING OPTIONS WHICH WERE SETTLED IN THE OFO SETTLEMENT AGREEMENT	32
5.1	Examine Strategies for Devoting More Assets to PG&E Balancing	32
5.2	Implement Targeted Operational Flow Orders	32
5.3	Provide Pipeline Operator Demand Forecasts Broken Down by Customer Class	33
6.	NO ISSUES REMAIN TO BE LITIGATED IN I.99-07-003	33

CPUC Promising Gas Options I.99-07-003
Comprehensive Gas OII Settlement Agreement

1. INTRODUCTION

- 1.1 Purpose:** The purpose of this Comprehensive Gas OII Settlement Agreement ("Settlement Agreement") is to address the most promising options and other issues presented in Investigation (I.)99-07-003. Specifically, the goal of this Settlement Agreement is to resolve all PG&E issues that would otherwise be litigated in I.99-07-003.
- 1.2 Parties:** This Settlement Agreement is entered into by the Settlement Parties ("Parties"), as identified by their attached signatures. Parties agree to actively support this Settlement Agreement in I.99-07-003 and to not oppose any provision of this Settlement Agreement in any regulatory, legislative or judicial forum. Parties agree that this Settlement Agreement is consistent with the provisions of AB 1421.
- 1.3 Background:** In Decision (D.)99-07-015, the California Public Utilities Commission ("CPUC" or "Commission") identified a number of promising options for continued restructuring of the California natural gas industry. These options were summarized in Appendix C of that decision. This Settlement Agreement uses the Appendix C notation for reference.
- 1.4 Commission Directive:** In her ruling of November 5, 1999, Administrative Law Judge Andrea L. Biren directed parties to file a settlement of all or some of the issues in this docket by January 28, 2000. In the absence of a complete settlement, Parties were directed to file prepared testimony on all non-settled issues by March 7, 2000.
- 1.5 Summary of Agreement and Conditions:** This Settlement Agreement settles all of the issues raised by the most promising options being investigated in I.99-07-003. No issues require further litigation in this proceeding for PG&E. This Settlement Agreement distinguishes between promising options being put in place, those already in place on the PG&E system, those being negotiated elsewhere, and those addressed in the OFO Settlement filed with the Commission on October 22, 1999.

The Gas Accord, as approved by the Commission in D.97-08-055, will continue through December 31, 2002, and is only modified as specifically agreed to in this Settlement Agreement, subject to future decisions by the CPUC. PG&E agrees to initiate post-Gas Accord settlement discussions promptly following the Commission's approval of this Settlement Agreement.

This Settlement Agreement is a negotiated compromise and is broadly supported by parties who are marketers, gas suppliers, shippers, wholesale and retail end-use customers, storage operators and regulatory representatives, as well as the Coalition of California Utility Employees. Nothing contained herein shall be deemed to constitute an admission or an acceptance by any party of any fact, principle, or position contained herein, except to the extent that Parties, by signing this Settlement Agreement, acknowledge that they pledge support for Commission approval and subsequent implementation of all these provisions.

Comprehensive Gas OII Settlement Agreement

This Settlement Agreement is to be treated as a complete package and not as a collection of separate agreements on discrete issues or proceedings. To accommodate the interests of different parties on diverse issues, the Parties acknowledge that changes, concessions, or compromises by a party or parties in one section of this Settlement Agreement necessitated changes, concessions, or compromises by other parties in other sections.

All Parties' obligations under this Settlement Agreement are conditioned upon the CPUC issuing a decision approving this Settlement Agreement without modification. If the CPUC modifies the Settlement Agreement, each party reserves the right to withdraw its support for the Settlement Agreement.

- 1.6 Cost Recovery:** PG&E will recover \$700,000 in costs from customers/ratepayers to implement and maintain the following provisions of this Settlement Agreement. If costs exceed this amount, they will be borne by PG&E.

- Section 2.1 Cost and Rate Separation for Balancing Services [Self-Balancing]
- Section 2.2.2 Anonymous Monthly Imbalance Trading
- Section 2.2.3 Trading OFO Day Imbalance Rights
- Section 2.8 Secondary Market Electronic Trading System

Upon approval of this Settlement Agreement, PG&E will debit the specified amount of \$700,000 to the Balancing Charge Account (BCA). This debited amount will not be subject to a reasonableness review by the Commission. Also as provided in Sections 2.2.2.3.6, 2.2.3.5 and 2.8.4 below, PG&E will credit the BCA with a portion of the transaction fees received from certain trading activities.

- 1.7 Implementation and Term:** Within 60 days of a Commission decision approving this Settlement Agreement without modification, PG&E shall file an advice letter in compliance with that decision. In order to facilitate the implementation of the Settlement Agreement and to enable parties to promptly respond to the compliance advice letter, PG&E agrees to serve the parties in I.99-07-003 with pro forma tariff sheets reflecting the provisions of the Settlement Agreement within 60 days of the filing of this Settlement Agreement. Unless stated otherwise, those provisions of this Settlement Agreement which do not require tariff changes shall become effective upon approval by the Commission. Those provisions requiring tariff changes shall become effective at such time as indicated in a Commission decision, resolution, or letter of approval. This Settlement Agreement shall continue in effect through December 31, 2002, or until such other dates as specified in this Settlement Agreement.

- 1.8 Implementation Date For Changes Put In Place By This Settlement Agreement Which Affect Core Transportation Agents (CTAs):**

- 1.8.1** PG&E is not be able to provide PG&E-consolidated gas billing for gas-only customers until its billing system replacement project is completed ("Billing Availability Date"). PG&E commits to providing PG&E-consolidated billing for such customers upon completion of its billing system replacement project. Absent unforeseen circumstances, PG&E intends to provide this functionality by no later than the end of 2002 based on PG&E's current project plan. In the event of any unexpected delays, PG&E will notify the Parties of the possible delays as soon as

Comprehensive Gas OII Settlement Agreement

is reasonably practical. Parties agree that under AB 1421 and other relevant law, nothing in this Settlement Agreement will require PG&E to offer PG&E-consolidated gas billing for gas-only customers prior to the Billing Availability Date.

- 1.8.2 The following sections of this Settlement Agreement will be implemented independent of the Billing Availability Date:

- 2.1 Cost and Rate Separation for Balancing Services [Self-Balancing Option]
- 2.2.2 Anonymous Monthly Imbalance Trading
- 2.2.3 Trading OFO Day Imbalance Rights
- 2.5 Unbundle Utility Storage Costs for Core Customers [Served by CTAs]
- 2.7 Provide Details of Completed Transactions
- 2.8 Establish a Secondary Market Electronic Trading System
- 2.9 Provide Real-Time Customer-Specific Usage Data
- 2.10 Provide Competitive Metering Technologies
- 2.11.4 Terminate Information Bill Requirement
- 2.11.5 Provide Billing Credits For CTA Consolidated Billing

- 1.8.4 This Settlement Agreement is contingent on a final decision by the CPUC that contains an express finding that under AB 1421 and any other relevant law, nothing in this Settlement Agreement requires PG&E to offer consolidated gas billing for gas-only customers prior to the Billing Availability Date.

- 1.8.5 If, after approval of this Settlement Agreement, the CPUC or a court issues a decision finding that certain changes resulting from this Settlement Agreement require PG&E to offer consolidated gas billing for gas-only customers prior to the Billing Availability Date, then such changes shall not be made available until the Billing Availability Date, notwithstanding Section 1.8.2 of this Settlement Agreement.

Comprehensive Gas OII Settlement Agreement

2. PROMISING OPTIONS WHICH ARE PUT IN PLACE BY THIS SETTLEMENT AGREEMENT

2.1 Cost and Rate Separation for Balancing Services [Self-Balancing Options]

2.1.1 Summary of D.99-07-015: The creation of separate, avoidable rates for balancing services might facilitate the entry of competitors who would provide balancing services along with procurement, storage, as well as intrastate and interstate transmission. Cost and rate separation for balancing services might also facilitate the provision of a variety of balancing services on the part of the utility as well as competitors. Examples of such services would include daily balancing with varying tolerance bands and penalties as well as more generous monthly balancing tariffs, with costlier charges. The provision of a daily balancing option may be necessary in order to implement other reforms such as electronic trading of imbalances as well as cost and rate separation for balancing services. The costs and benefits of the daily balancing option should be considered in the next phase of this inquiry. (*pp. 38-40, Findings of Fact (FoF) 22, Conclusions of Law (CoL) 8, Appendix C*)

2.1.2 Gas Accord Balancing Provisions:

- 2.1.2.1 Currently, PG&E's pipeline (California Gas Transmission or CGT) provides a limited amount of balancing for customers to manage their differences between supplies and usage caused by a variety of factors, including end-user demand uncertainty, unplanned equipment outages, and price arbitrage. PG&E's pipeline must also manage other imbalances including shrinkage, pipeline-to-pipeline imbalances, California gas production imbalances and imbalances due to forecast error for core loads on the day of gas flow.
- 2.1.2.2 The resources used by the pipeline for balancing include the gas in the pipelines (called pipeline inventory or linepack) and the firm storage assets assigned to balancing under the Gas Accord. If the pipeline inventory is forecast to exceed operating limits, Operational Flow Orders (OFOs) are issued, which impose daily balancing limits and penalties for that day. If conditions warrant, Emergency Flow Orders (EFOs), involuntary diversions or trimming receipt point deliveries can also be implemented to protect the integrity of the pipeline.
- 2.1.2.3 Balancing entities are limited to a monthly imbalance of ± 5 percent. After the end of the month, they can trade imbalances outside this range. Following trading, amounts outside ± 5 percent are cashed-out. There are no specific daily balancing limits, except on OFO or EFO days, although customers have daily nomination limits.

Comprehensive Gas OII Settlement Agreement

2.1.3 Self-Balancing Option Provisions: As part of this Settlement Agreement, PG&E will develop and implement an unbundled daily balancing option, which is called the Self-Balancing option. This option allows customers to receive a credit for a portion of the balancing costs currently bundled in the backbone rate, and is designed to reduce the need for PG&E to make systems changes for accounting, operations and tracking of daily imbalances for a significant number of customers. The following provisions will apply to Self-Balancing.

- 2.1.3.1 **Bundled Balancing:** Bundled monthly balancing provided by PG&E remains the default balancing service for any customer who does not elect the Self-Balancing option. The intent of the Parties is that the offering by PG&E and the election by customers of the Self-Balancing option will not adversely affect the availability, reliability or cost of bundled balancing, nor will it cause an increase in the frequency of OFOs or EFOs. As provided in Section 2.1.3.8 below, the OFO Forum will monitor these effects, and meet to discuss and resolve concerns if such adverse effects occur.
- 2.1.3.2 **Availability and Election of Self-Balancing Option:** The Self-Balancing option is available to noncore customers, wholesale customers, and core procurement groups (CPGs). For CPGs, a daily forecast of demand will continue to be used to measure daily imbalances, similar to how OFOs are done. PG&E's Core Procurement Department agrees that for the term of this Settlement Agreement it will not elect the Self-Balancing option. Noncore Balancing Aggregation Agreements (NBAAs) may contain either Self-Balancing customers or monthly balancing customers, but not combine Self-Balancing and monthly balancing customers (since the balancing rules which apply to each are quite different).
- 2.1.3.3 **Transmission Rates:** All of the costs agreed to be included in rates for system balancing in the Gas Accord will continue to be included in backbone transmission rates.
- 2.1.3.4 **Allocation of Balancing Storage Assets:** For purposes of this Settlement Agreement, through March 31, 2003, eighty percent (80%) of the balancing storage assets are unbundled and made available to the self-balancing option. However, all these storage assets remain with the pipeline unless a customer elects the Self-Balancing option. For these customers, their share of the balancing storage assets will be assigned to and remarketed through PG&E's at-risk unbundled storage program. If a customer elects to return to monthly balancing from Self-Balancing during the annual election period, then the same amount of storage is reassigned back to pipeline balancing. The amount is calculated as a *pro rata* share of the unbundled balancing storage assets based on the customer's annual average usage as a percentage of PG&E's average annual system usage.
- 2.1.3.5 **Limitations on Self-Balancing Option:** The elections for Self-Balancing are limited to 50 percent of the total storage balancing assets of 2.2 Bcf of inventory, 50 MMcf per day of injection and 70 MMcf per day of

Comprehensive Gas OII Settlement Agreement

withdrawal. Once this limit is neared or reached, the OFO Forum will meet to consider lifting this cap and whether other adjustments are needed to PG&E's operating parameters to ensure both the integrity of pipeline operations and the benefits to the market of the Self-Balancing option.

2.1.3.6 Credit for Self-Balancing: Those customers and CPGs electing Self-Balancing will receive a credit equal to \$0.0050 per decatherm times their actual monthly metered usage.

2.1.3.7 Analysis of Storage Balancing Assets: The Parties agree that a first priority for the OFO Forum is to evaluate the level of storage assets made available for pipeline balancing. By February 1, 2001, the OFO Forum will recommend to the Commission whether the amount of storage capacity allocated to balancing service should be revised. If the recommendation is for an increase, the OFO Forum will also recommend the source of this additional firm storage capacity. Possible sources include PG&E's at-risk unbundled storage program, capacity rejected by CTAs pursuant to the provisions of Section 2.5, non-PG&E on-system storage, or some combination thereof. Additionally, the OFO Forum will recommend rate treatment for the costs associated with a recommended change in allocated balancing storage capacity. Parties agree that there will be no decrease in assets dedicated to system balancing (except as provided herein for self-balancing elections), nor rate decreases, during the term of this Settlement Agreement Provision.

2.1.3.8 Monitoring the Effect of Self-Balancing on OFOs: The Parties, through the OFO Forum, will monitor the response to the Self-Balancing option and the impact on OFOs. After reviewing the data, the OFO Forum may recommend revising the Self-Balancing option and/or pipeline operating parameters.

2.1.4 Self-Balancing Option Terms and Conditions: Customers electing the Self-Balancing option will be subject to the following terms and conditions.

2.1.4.1 Election of the Self-Balancing option is made annually in February and is effective for a minimum term of one year from April through March 31. After the initial year, a customer who previously elected to Self-Balance, may elect back to monthly balancing during the election period. A multi-year election to Self-Balance may also be made, but not extending beyond March 31, 2003. Circumstances may also arise which would require a customer to change its self-balancing election during the year.

2.1.4.2 Customers will be responsible for tracking their own daily imbalance position. PG&E will not be required to provide warnings or other notice, even if a customer is falling outside the prescribed Self-Balancing requirements.

2.1.4.3 Noncore customers must have meters which record daily usage, even if these meters are only read once per month. The cost of adding daily usage recording devices and/or data access is the responsibility of the customer.

Comprehensive Gas OII Settlement Agreement

Small meters (meter capacity less than 100 dth per day) at a customer facility with large hourly recording meters are exempted from the hourly recording requirement and will be included in daily calculations using a forecast of daily usage based on averages derived from monthly data.

- 2.1.4.4 Daily usage for CPGs electing the Self-Balancing option will be based on a forecast of their customers' gas usage. For CPGs whose demand is smaller than three percent (3%) of the core market (based on annual demand), daily usage will be determined using the first 24-hour forecast available each day. For CPGs whose demand is greater than or equal to three percent (3%) of the core market, daily usage will be determined using an end of the gas day forecast. For any CPG electing Self-Balancing, the applicable daily usage forecast will also be used to calculate its monthly cumulative imbalance available for trading or carry forward as described below in Section 2.1.4.9. If the annual demand of CPGs electing Self-Balancing exceeds ten percent (10%) of the total core market annual demand, then the largest CPG(s) electing to self-balance will have their daily usage determined based on the end of the gas day forecast, such that the sum of the demands for the remaining self-balancing CPGs continuing to use the 24-hour forecast does not exceed the ten percent (10%) limit. The OFO Forum may review and make recommendations to address impacts on OFOs and/or EFOs that may arise due to CPGs electing Self-Balancing.
- 2.1.4.5 Customers electing the Self-Balancing option will be subject to two imbalance limits each day.
 - 2.1.4.5.1 The daily imbalance cannot exceed plus or minus ten percent ($\pm 10\%$) of that day's metered or forecast usage, except on OFO or EFO days; and
 - 2.1.4.5.2 The accumulated daily imbalance cannot exceed plus or minus one percent ($\pm 1\%$) of that month's usage. Each month's usage for this purpose will be set prior to the month based on historical usage and forecast patterns.
- 2.1.4.6 Each balancing entity subject to the Self-Balancing limits specified above is still subject to system-wide and customer-specific OFOs. On those days, the OFO or EFO tolerance band requirements and associated noncompliance charges will be imposed, and the ± 10 percent Self-Balancing requirement will not apply for that OFO or EFO day. However, the accumulated daily imbalance requirement will still apply.
- 2.1.4.7 PG&E will calculate the daily imbalances after the calendar month for each noncore customer or balancing entity electing this option after processing the applicable meter data. Daily imbalances for CPGs will be based on their daily usage as described in Section 2.1.4.4 above.
- 2.1.4.8 Noncompliance charges will be calculated for customers electing the Self-Balancing option as the sum of the following, except as provided in Section 2.1.4.8.4, and will be recorded in the Balancing Charge Account (BCA).

Comprehensive Gas OII Settlement Agreement

- 2.1.4.8.1 For each non-OFO or non-EFO day, a noncompliance charge equal to \$1.00 per decatherm per day for each day when the daily imbalance exceeds ± 10 percent of the daily metered or determined usage.
- 2.1.4.8.2 For each OFO or EFO day, a noncompliance charge is calculated using the applicable OFO or EFO tolerance level and noncompliance charge.
- 2.1.4.8.3 For each day including OFO and EFO days, a noncompliance charge equal to \$1.00 per decatherm per day for each day when the accumulated daily imbalance exceeds ± 1 percent of the preset monthly usage.
- 2.1.4.8.4 For each OFO day or EFO day on which a noncore customer or balancing entity electing the Self-Balancing option is exceeding its accumulated imbalance limit in a direction opposite to that of the OFO or EFO situation, there will be no noncompliance charge under Section 2.1.4.8.3 above. For example, under a high inventory OFO, a balancing entity with a negative accumulated imbalance exceeding -1% of its preset monthly usage would not receive a noncompliance charge for this situation. However, if the accumulated imbalance is not corrected to within the ± 1 percent limit on the next non-OFO or non-EFO day, noncompliance charges will apply.
- 2.1.4.9 Monthly cumulative imbalance trading is allowed. Any gas imbalances remaining after the trading period that are in excess of plus or minus one percent ($\pm 1\%$) of the monthly usage will be cashed out at the highest cash-out price indicated in Schedule G-BAL for imbalances in excess of 10%. Any carry forward amount will set the beginning accumulation level for the next month. No daily trading during the month of imbalance position or rights is allowed. However, trading of OFO day imbalance rights (chips) will be allowed as provided in Section 2.2.3 below.
- 2.1.4.10 Following each annual election period, PG&E will report within 30 days on its Pipe Ranger Web site the percentage (based on annual demands) of the core and noncore markets electing to Self-Balance. Specific customers or entities electing the Self-Balancing option will not be identified.

2.2 Electronic Trading of Imbalances [Including Rights]

- 2.2.1 **Summary of D.99-07-015:** The Commission provisionally finds that shippers should be allowed to trade or sell imbalance rights since they pay for a balancing tolerance as a component of their intrastate transmission rates and are entitled to have the plus or minus tolerance on a daily or monthly basis. The trading of imbalance rights would give shippers the ability to adapt to daily balancing rules, where they apply, during a given day's nomination cycles. The Commission finds the concept of imbalance trading to hold sufficient promise to merit further inquiry. The Commission also encourages parties to consider whether a mechanism could be developed to produce the hoped-for benefits versus its costs. (pp. 41-44, FoF 24-26, Appendix C)

Comprehensive Gas OII Settlement Agreement

2.2.2 Anonymous Monthly Imbalance Trading

2.2.2.1 Current PG&E Platform for Monthly Imbalance Trading: PG&E currently provides a platform on its Pipe Ranger Web site for entities to confirm trades of same month cumulative and operating imbalances. This Internet-based platform allows balancing entities who have negotiated imbalance trades with another balancing entity to inform PG&E of the imbalance trade using the Internet. Basically, one balancing entity electronically enters the results of the negotiated trade, and the other balancing entity confirms the trade. This platform validates whether the confirmed trade is in compliance with the current imbalance trading rules set forth in PG&E's tariff Schedule G-BAL. If not, the trade is rejected. This platform currently does not provide for posting offers to buy or sell monthly imbalances, or for facilitating trading such imbalances. Entities contact each other directly to work out the trade details, including price.

2.2.2.2 Provider of Electronic Imbalance Trading System: PG&E will contract with a Third Party Service Provider (TPSP) to provide anonymous electronic trading of cumulative and operating imbalances, i.e., the trading of actual imbalance gas, not rights. PG&E intends to enter into a sole-source contract with an affiliate of Altra Energy Technologies, Inc. (ALTRA[®]) to provide the monthly imbalance trading platform using their Altrade[®] product. The sole source provision of this contract will be in effect through December 31, 2002. Once PG&E finalizes its contract with ALTRA, a copy of the contract will be provided to the Parties, subject to a confidentiality agreement. At the end of this sole-source period, any other TPSP may provide service in competition with ALTRA. At that time, PG&E will provide a customer service and data interface with all interested TPSPs offering electronic imbalance trading.

2.2.2.3 Principles for Imbalance Trading System: The following principles are agreed to in order to mitigate concerns about the market relying on a sole-source provider during this market development period.

2.2.2.3.1 PG&E will continue to provide its platform for entities to post and confirm monthly imbalance trades without charging transaction fees.

2.2.2.3.2 Use of the anonymous trading platform is voluntary.

2.2.2.3.3 ALTRA is a logical sole-source provider. ALTRA has contracts with about 80% of the entities for gas commodity trading, and is well recognized as an industry leader in building and servicing electronic trading platforms.

2.2.2.3.4 Entities with currently-effective ALTRA contracts will not have to pay added monthly subscription fees. A smaller fixed subscription fee will be made available for those entities who only want to use ALTRA for imbalance trading, and not commodity trading. The monthly subscription fee will be credited against transaction fees up to that amount. Subscription fees are needed in addition to transaction fees because experience is that entities will use the price discovery

Comprehensive Gas OII Settlement Agreement

information available on the trading screens to do their own deals outside the trading platform. These deals can then be reported through PG&E's existing platform, thus avoiding transaction fees.

2.2.2.3.5 Each trade will be subject to buyer and to seller transaction fees for each decatherm traded. The transaction fee provides an incentive for ALTRA to encourage trading volume which in turn improves liquidity and price discovery. These fees will be charged in a non-discriminatory manner, but could include tiered pricing. The transaction fees will be capped during the sole-source period.

2.2.2.3.6 PG&E will retain a share of ALTRA's transaction fee which offsets PG&E's transaction and credit costs, as well as reflects the value PG&E brings to this service. The fee sharing will also provide an incentive to PG&E to encourage use of this trading service. The fee shall be established by ALTRA with any revenues shared between ALTRA and PG&E equally. One-half of the PG&E portion of these transaction fees will be recorded as a credit to the BCA to help offset the costs incurred to implement this trading system. PG&E will include the specific fee provisions in its tariffs pursuant to Section 1.7 above.

2.2.2.3.7 ALTRA will operate the trading system and retain ownership of all software. ALTRA will be responsible for all maintenance and operation costs associated with operating the Altrade trading platform.

2.2.2.3.8 PG&E shall not influence, in any way, ALTRA's selection of trading partners, business associations or contracts with any third party operating on the PG&E system, other than in matters of routine credit and nomination capacities envisioned by this Settlement Agreement.

2.2.2.4 System Features for Electronic Imbalance Trading System: The following provisions will be part of the monthly imbalance trading system limitations and features.

2.2.2.4.1 The electronic trading platform will allow a balancing agent to post either a bid to purchase imbalance gas or to post an asking price to sell imbalance gas. Other parties will be able to monitor these postings and accept the posted offer or make a counter-offer. When two parties agree on price, ALTRA will manage the transaction by adding imbalance gas to the Purchaser's account and subtracting imbalance gas from the Seller's account. The Purchaser is then billed for the agreed upon price, and payment is made to the Seller for the same amount.

2.2.2.4.2 Anonymous trading on ALTRA platform will not be required to abide by all the imbalance trading limitations in Schedule G-BAL during the trading period. However, the final summation of the imbalance trades completed on ALTRA's trading platform and those posted on PG&E's platform will be subject to the Schedule G-BAL limitations and cash-out provisions. The limitations include: no trading across months;

Comprehensive Gas OII Settlement Agreement

trading cumulative imbalances towards zero; trading results in a cumulative imbalance that is within the range of plus or minus three percent of usage past zero; and trading into or out of on-system storage accounts which have documented inventory gas or space available.

- 2.2.2.4.3 PG&E and ALTRA will establish an electronic link to transfer data on current account balances and to update these accounts once the imbalance trading period ends. ALTRA will send its trading results to PG&E. PG&E will add additional trades that are confirmed through PG&E's current platform and add trades between storage accounts. The final ending imbalance position for each balancing entity will be used to determine any cashout or carry forward amounts based on the rules in Schedule G-BAL.
- 2.2.2.4.4 Entities will be subject to trading limitations based on individual credit limits and system operating limitations. PG&E will revise its credit-worthiness requirements in its tariffs to reflect these transactions. PG&E will be responsible for providing ALTRA with these trading limits. ALTRA will not allow an entity to complete a trade if their limit would be exceeded by completing the trade.
- 2.2.2.4.5 PG&E will accept the credit risk for entities which are PG&E customers approved for this program, including designated marketers, NBAAs, and CTAs. If a Purchaser accepts a trade and fails to pay its trading position (either buying or selling imbalance gas) when billed by ALTRA, PG&E will guarantee payment to the Seller in the transaction. PG&E will then take collection action against the Purchaser, including late fees and, if appropriate, cashouts in accordance with the G-BAL requirements.
- 2.2.2.4.6 To encourage additional liquidity, ALTRA may allow market makers that have no imbalances on the PG&E system to participate in imbalance trading. ALTRA will be responsible for credit approval and collection for these market makers, pursuant to its agreement with PG&E. Market makers will be required to have zero imbalances at the end of the trading period. ALTRA may institute additional rules to enforce this requirement and other conditions needed to conduct business.
- 2.2.2.4.7 On-system, non-PG&E storage facilities may participate under the same terms and conditions applicable to imbalance trading with PG&E's storage and/or market center.

Comprehensive Gas OII Settlement Agreement

2.2.3 Trading OFO Day Imbalance Rights

2.2.3.1 Objectives: PG&E and ALTRA will implement a mechanism to allow trading of imbalance rights for each OFO day using the same electronic platform as for monthly imbalance trading. The objective is to provide balancing entities the opportunity after the fact to reduce or eliminate OFO noncompliance charges, and to create value for those entities who are within the specified OFO day tolerance band. Trading these rights does not change the physical imbalance position of the entity or the pipeline. Trading these OFO day rights also avoids the problem of significant retroactive accounting adjustments which would be needed if physical imbalances for the OFO day were traded.

2.2.3.2 Market Benefits: A daily balancing tolerance level is specified for each day an OFO is called. This tolerance level generally ranges from $\pm 2\%$ to $\pm 16\%$. If a balancing entity has an imbalance outside this tolerance level for that OFO day, it is subject to noncompliance charges. If a balancing entity has an imbalance that is within this tolerance level for that OFO day, that entity receives no benefit for helping the situation. With imbalance rights trading, there is an opportunity for the balancing entity that is below the tolerance level to gain value from this position, while helping the balancing entity outside the tolerance band to reduce their noncompliance charges.

2.2.3.3 Establishing and Trading Imbalance Rights: The approach is to establish imbalance rights, or chips, for each balancing entity for each OFO day, and then to allow the trading of these rights. The following describes this mechanism.

2.2.3.3.1 The imbalance rights or chips are calculated as the difference between the entities' imbalance and the tolerance level on that OFO day. Chips are positive (black) for those entities whose imbalances are within the tolerance level, and negative (red) for those entities that are outside the tolerance level and subject to noncompliance charges. One chip is given for each decatherm of difference.

2.2.3.3.2 Each chip is dated corresponding to a specific OFO day. Chips can only be traded with those of the same date. In other words, imbalances and noncompliance charges cannot be traded between OFO days. Unlike cumulative imbalance trading, gas in storage accounts will not be eligible to create positive chips or to offset a negative chip position during the imbalance rights trading period. Trading between different OFO days and using storage after the gas day occurs would change the incentive of balancing agents to comply with the OFO on that particular day. Trading of chips does not change these incentives to comply with the OFO order.

2.2.3.3.3 Chips are cleared after the month is over. For example, if there were five different OFO days during the previous month, each balancing entity would have five separate trading accounts and associated chips.

Comprehensive Gas OII Settlement Agreement

2.2.3.3.4 For each individual OFO day, entities with positive (black) chips will be able to sell them at a mutually agreed upon price to those entities needing to offset their negative (red) chips. The market would establish the price for positive chips. It is likely that the price to buy positive chips would be much lower than the noncompliance charge if a large number of entities are below the tolerance band and are competing to sell their positive chips. When only a few entities have positive chips for sale, the price would likely be close to the noncompliance charge, but should never exceed the noncompliance charge.

2.2.3.3.5 Those entities with net negative (red) chips remaining after the trading period would be billed for the commensurate noncompliance charges for the related OFO. It is possible, although not likely, that an entity who was physically in balance during the OFO could end up in a negative chip position and pay noncompliance charges.

2.2.3.4 Electronic Trading and Confirmation System: Electronic trading and electronic confirmation of offline trades of OFO day imbalance rights (chip) will be included as part of the sole-source contract with ALTRA, and subject to the terms of that contract. Under this contract, ALTRA and PG&E will establish the necessary interfaces, and ALTRA will provide the necessary screens and trading platform. PG&E will modify its GTS and accounting systems to verify compliance with the trading rules, to record the trades, and to adjust the payments of noncompliance charges accordingly.

2.2.3.5 Electronic Trading Fees: A monthly subscription fee will be required if the customer does not already subscribe to ALTRA. A smaller fixed subscription fee will be made available for those entities who only want to use ALTRA for imbalance rights trading, and not commodity trading. ALTRA will charge a transaction fee to both the buyer and seller performing electronic trading or electronic confirmation of offline trades. This fee will be capped, and any discounts made available on a nondiscriminatory basis. PG&E will receive fifty percent (50%) of these fees, which will be recorded as a credit to the BCA to help offset the costs for implementing this trading system. PG&E will include the specific fee provisions in its tariffs pursuant to Section 1.7 above.

2.3 Re-examine Utility Role in Core Procurement Once a Specified Competitor Market Share Has Been Achieved

2.3.1 Summary of D.99-07-015: The Commission recommends the re-examination of local distribution company core procurement and the default provider function if the market share exceeds 30% of the number of customers, but even at that point the Commission has seen no compelling reason to eliminate local distribution company procurement as an option for customers. (*pp. 50-59, Appendix C*)

2.3.2 Resolution: Parties agree that there is no need to litigate nor for the Commission to further examine the utility role in core procurement in this proceeding.

Comprehensive Gas OII Settlement Agreement

2.4 Eliminate Core Aggregation Transportation Thresholds After Adoption of Consumer Protection Measures

- 2.4.1 Summary of D.99-07-015:** The Commission believes the lifting of the core aggregation threshold and core participation cap will expand the competitive options available to residential and small commercial customers. In Ordering Paragraph 11, the Commission recommends to the California Legislature that the consumer protection measures proposed by the Commission's Energy Division be immediately adopted by statute. The Commission also recommends that the Legislature provide an exception to Senate Bill 1602 to allow the Commission to remove the current restrictions that limit participation in the utilities' Core Aggregation Transportation programs. The exception would allow the limits to be removed before January 1, 2000, but after the Commission has implemented the appropriate consumer protection measures. (*pp. 59-61, FoF 30, Ordering Paragraph (OP) #11, Appendix C*)
- 2.4.2 Market Threshold:** Under the Gas Accord, PG&E eliminated the market limit threshold of 10 percent, and no further action is needed.
- 2.4.3 CTA Participation Threshold:** Under the Gas Accord, PG&E reduced the minimum size for core aggregation (CTA) participation from 250,000 to 120,000 therms per year. Parties agree that no change to this threshold is necessary in this proceeding or during the term of this Settlement Agreement.

2.5 Unbundle Utility Storage Costs for Core Customers [Served by CTAs]

- 2.5.1 Summary of D.99-07-015:** The Commission recommends exploration of the unbundling of storage costs for core customers. (*p.49*)
- 2.5.2 Current CTA Storage Requirements:** Under the Gas Accord, each Core Transportation Agent (CTA) is assigned a *pro rata* share of the total core allocated storage. This assignment is based on the total historical winter usage of their customers. PG&E's tariff Schedule G-CT requires that CTAs must fill and maintain their allocated storage inventory within specified limits to aid in customer cold weather system reliability.
- 2.5.3 Unbundling Storage Costs for CTAs:** Parties agree to unbundle core storage costs for CTAs during the remainder of the Gas Accord period pursuant to the provisions below. Any further unbundling of storage costs for all core customers will be considered only in the context of the post-Gas Accord structure.
- 2.5.4 Basic Provisions:** The following describes the structure and timing of the CTA storage choice. Final details will be included in the tariff changes needed to implement this program.
- 2.5.4.1 Core Storage Rate Treatment:** As of the effective date of the tariffs implementing this provision of the Settlement Agreement, core storage costs will be recovered from PG&E's Core Procurement Department customers through monthly core procurement rates and from CTAs through monthly fees to the extent they accept an allocation of core storage on behalf of their core transport customers, subject to balancing account

Comprehensive Gas OII Settlement Agreement

treatment up to the limits described below. Cost shifts among core customers are to be minimized and no costs are shifted to noncore customers.

- 2.5.4.2 CTA Storage Allocations: An allocation of storage inventory, injection and withdrawal capacity to CTAs will continue to be calculated in the same manner as is currently provided for in Schedule G-CT. This allocation is based upon the historical total winter throughput of CTA customers and the BCAP-adopted winter throughput of all core customers. A core storage allocation will continue to be calculated each February, based upon the CTA group contracted volumes for the subsequent winter season using the Direct Access Service Requests (DASRs) that have been processed to date.
- 2.5.4.3 CTA Option to Accept or Reject Storage Allocations: Each year between about February 15 and March 1, CTAs will be given the option to accept or reject their Annual Allocation of core storage, for the storage year of April 1 through March 31, in ten percent (10%) increments. CTAs will be able to make adjustments to their annual election for increases or decreases in loads during the Intra-Year Adjustment period described below.
- 2.5.4.4 Initial Partial Year Option: If tariffs to implement this provision are approved such that implementation can begin on or before December 1, 2000, any CTA may reject all or a portion of its current core storage allocation in ten percent (10%) increments for the April 1, 2000 through March 31, 2001 storage season, subject to the Cap specified in Section 2.5.4.5 below. A CTA rejecting storage must sell the gas from the portion of its storage account that it rejects to PG&E's Core Procurement Department at a weighted average Core Procurement price (Schedule G-CP) for the months that the Core Procurement Department has injected gas during its current or most recent injection season. A CTA must also certify Alternate Resources pursuant to Section 2.5.4.11 below. The PG&E Core Procurement Department's Benchmark under its Core Procurement Incentive Mechanism (CPIM) will be adjusted by adding the costs associated with the purchase of this CTA storage gas..
- 2.5.4.5 Cap on Rejected Storage Allocations: During the term of this Settlement Agreement, the total amount of core storage allocations that can be rejected by all of the CTAs is capped each storage season as follows for inventory, with proportionate injection and withdrawal rights.

<u>Storage Season</u> <u>(April 1 – March 31)</u>	<u>Cap On Rejected</u> <u>CTA Storage</u>	<u>Share of Total</u> <u>Core Storage</u>
2000-2001	1.64 Bcf	5%
2001-2002	3.28 Bcf	10%
2002-2003	4.92 Bcf	15%

To the extent that rejected Annual CTA Allocations amount to more than this Cap, the amounts that exceed the Cap will be reassigned to CTAs in proportion to the amounts they have rejected.

Comprehensive Gas OII Settlement Agreement

- 2.5.4.6 Accepted and Assigned CTA Storage Allocations: For amounts of capacity that a CTA may accept or have assigned, the CTA will pay PG&E monthly, over the storage year, the revenue requirement associated with accepted and assigned amounts as a proportion of total core storage. CTAs must fill and maintain accepted and assigned storage inventories on an annual cycle as specified in the current tariff under Schedule G-CT.
- 2.5.4.7 Core Procurement Core Storage Assignment: Amounts of core storage not allocated to CTAs in accordance with Section 2.5.4.2 above, plus rejected CTA Core Storage Allocations up to 1.64 Bcf, will be assigned to PG&E's Core Procurement Department.
- 2.5.4.7.1 The cost of storage assigned to the Core Procurement Department will be recovered through the procurement portion of core customer bundled rates, subject to balancing account treatment. All storage allocations to the Core Procurement Department are to be treated in the same manner as current Core Procurement Department storage allocations in the CPIM.
- 2.5.4.7.2 The Core Procurement Department will fill and maintain inventory for this assignment according to the terms currently specified by the CPIM for amounts now allocated to the Core Procurement Department.
- 2.5.4.8 Disposition of Rejected Core Storage Allocations Above 1.64 Bcf: Core storage inventory allocations rejected by CTAs above 1.64 Bcf will be allocated to PG&E's at-risk unbundled storage program.
- 2.5.4.9 Intra-Year Rules – Increase In Load: In August of each year, based upon the CTA group contracted volumes for the upcoming winter season using the Direct Access Service Requests (DASRs) that have been processed to date, PG&E will recalculate the *pro rata* CTA storage allocations and compare this new calculation with the Annual Storage Allocation calculated at the beginning of the current storage season. If a CTA's allocated share of storage inventory has increased by more than 100,000 therms, the CTA must choose whether to accept an increased allocation for any portion of the incremental change, in ten percent (10%) increments. This election must be made between August 15 and September 1.
- 2.5.4.9.1 For amounts that the CTA accepts of these incremental storage rights, gas in the Core Procurement Department's storage account will be transferred to the CTA storage account at a price that reflects a weighted average Core Procurement (Schedule G-CP) price for the months of April through October times an injection schedule for the Core Procurement Department (Schedule G-CT will be modified in this way for all gas-in-storage transactions). The CTA will also pay the total cost of this storage capacity for that year in payments over the remainder of the storage year.
- 2.5.4.9.2 For amounts that the CTA rejects of this offered storage, Alternate Resources, in like amount, will be required as described in Section

Comprehensive Gas OII Settlement Agreement

2.5.4.11 below. Rejection of offered storage is subject to the Cap for the current storage season. To the extent rejected capacity exceeds the Cap during the intra-season election, the right to reject storage will be *pro rated* among those rejecting storage capacity at this time.

- 2.5.4.10 Intra-Year Rules – Decrease In Load: If the mid-year evaluation, described in Section 2.5.4.9 above, results in a decrease of more than 100,000 therms in the amount of storage inventory that would be allocated to a CTA, and the CTA has accepted a storage allocation, the CTA must transfer to the Core Procurement Department a share of its reduced allocation in a proportion equal to the percentage of its Annual Allocation that it accepted for the year. For instance, consider a CTA whose Annual Allocation was 400,000 therms, and it accepted 300,000 therms, or three-quarters of its allocation. If this CTA's mid-year Allocation was 250,000 therms, three-quarters, or 112,500 therms of the 150,000 therm reduced allocation would be transferred to the Core Procurement Department. The gas in storage will also be transferred to Core Procurement Department, which will pay the CTA for the storage and gas on the same terms described in Section 2.5.4.9 above, to the extent that the total rejected capacity has been reduced.
- 2.5.4.11 CTA Certification of Alternate Resources: A CTA rejecting all or part of a PG&E core storage allocation, must certify to PG&E no less than ten business days before each winter month that it has sufficient Alternate Resources in amounts equal to the amounts of withdrawal capacity associated with rejected storage. The certification is that the CTA has contracts for the following resources or combination of these resources which provide peak-day gas supplies equivalent to that which would have been available from the PG&E-allocated storage that the CTA has rejected. The resources used as alternates in this certification cannot duplicate any resources offered as replacements for winter intrastate transmission capacity that the CTA may be required to hold.
- 2.5.4.11.1 Contracted firm storage services from PG&E or from an on-system CPUC-certificated independent storage provider;
- 2.5.4.11.2 Contracted firm PG&E backbone capacity matched with an equivalent quantity of contracted upstream gas supply, and any necessary firm upstream pipeline capacity (upstream gas supply can include a gas producer contract, or a contract with an off-system CPUC-certificated gas utility or independent storage provider); and/or
- 2.5.4.11.3 Third-party peaking supply arrangements, where that supply is backed up by contracts under Section 2.5.4.11.1 or 2.5.4.11.2 above.
- 2.5.4.12 Release and Indemnification of PG&E: Any CTA that elects to reject all or a portion of its core storage allocation shall enter into an agreement with PG&E releasing PG&E from any and all liability associated with that CTA's rejection of its core storage allocation. In this agreement, the CTA shall be required to indemnify PG&E for any and all losses, including direct and consequential damages, that arise (i) from any representation in that CTA's

Comprehensive Gas OII Settlement Agreement

certification which turns out to be inaccurate or (ii) from any failure of its Alternate Resources to perform as compared to the resources which would have been available from the PG&E-allocated core storage had this storage not been rejected by the CTA.

- 2.5.5 Term:** This unbundling of core storage for CTAs will be effective upon the effective date of the tariffs implementing this Settlement Agreement provision. If this date is after December 1, 2000, then no intra-year elections may be made for the April 2000-March 2001 storage season as provided in Section 2.5.4.4. This program will continue for the April 2001-March 2002 and for the April 2002-March 2003 storage seasons. The provisions of this program will be reconsidered as part of the post-Gas Accord negotiations.

2.6 Separate Costs and Rates for Core Utility [Procurement] Services. Treat Utility Core Procurement Departments as Any Other Utility Customer

- 2.6.1 Summary of D.99-07-015:** The Commission recommends, to the extent reasonable as determined in the cost-benefit phase, separating the costs and rates for core utility services including core procurement, transmission, storage, distribution, and balancing, and treating the local distribution company core procurement departments as a single customer for operational purposes, which is subject to the same terms and conditions of service as other customers. On PG&E's system, core customers are being treated like any other customer, are clearly liable for OFO penalties, and hub service revenues are not included in the CPIM. The Commission recognizes that it is important to ensure that all costs are assigned to the appropriate function. Additionally the Commission states that when they have determined whether and the extent to which various service components will be competitively provided, the utilities will be able to implement separate rates for those services, and to assure that no charges have been left in any functional category by default. (*p. 49 [#8], p. 62, p. 86, Appendix C*)
- 2.6.2 Current Brokerage Fee:** A core brokerage fee of 2.4 cents per decatherm was negotiated in the Gas Accord as a proxy for certain costs directly related to PG&E's Core Procurement Department functions and overheads. Under the Gas Accord, the brokerage fee is subject to balancing account recovery and can be re-examined if PG&E's market share drops to 80% (Gas Accord, §IV.H.1). The parties reserved the right to propose other cost-based core cost allocation and rate design changes in future BCAPs for distribution rates and rate design (Gas Accord, §III.C.6.d.).
- 2.6.3 Resolution:** The Parties agree the brokerage fee, and the method of separating PG&E's Core Procurement Department costs this fee addresses, will remain unchanged for the duration of this Settlement Agreement. PG&E agrees to discuss this issue and to consider reevaluating the method of allocating all procurement-related costs as part of PG&E's post-Gas Accord negotiations.

Comprehensive Gas OII Settlement Agreement

2.7 Provide Details of Completed Transactions

- 2.7.1 Summary of D.99-07-015:** The Commission believes that disclosure of the transaction-specific details requested by parties is basic and fundamental to an efficient market. In Conclusion of Law 17, the Commission directs the utilities either to provide timely information along the lines of the specific requests outlined in this decision, or to find different ways to convey to shippers information that they need to function effectively in the marketplace without compromising confidentiality concerns. (*pp. 73- 78, FoF 17, CoL 17, Appendix C*)
- 2.7.2 Monthly Negotiated Contract Report:** PG&E will continue to file a monthly negotiated contract capacity report with the CPUC. This reports lists the details, but not customer names, of all negotiated capacity transactions for firm transportation, as-available transportation, and storage. Negotiated arrangements with affiliates or other Company departments are identified.
- 2.7.3 Resolution:** Parties agree that the other provisions of this Settlement Agreement, including Sections 2.2.3, 2.2.4, 2.7 and 2.8 of this Settlement Agreement, as well as the OFO Settlement Agreement (filed October 22, 1999), should provide sufficient information on transactions to the market and shippers to enhance market liquidity and efficiency. Parties also agree that no further litigation of this issue is needed in I.99-07-003.

2.8 Establish a Secondary Market [Trading System] via a Utility Electronic Bulletin Board

- 2.8.1 Summary of D.99-07-015:** Participation in the secondary market transactions through a mandatory Electronic Bulletin Board is consistent with the Commission's goals of enhancing market efficiency, preventing anti-competitive behavior, and providing additional competitive tools to the marketplace. Considering that all secondary market transactions will need to be confirmed through the utility, the Commission believes the utility should be required to provide the electronic bulletin board. However, the Commission wants to understand the costs of providing such a service before determining whether to require its provision. (*p. 79, FoF 38, Appendix C*)
- 2.8.2 Current Secondary Market Trading:** Secondary market capacity trading is currently done on a voluntary basis through private transactions. There is no facilitating electronic platform currently available to the northern California market, other than a posting section on PG&E's *INSIDetracc*. If parties to a capacity transaction want to change billing and nomination responsibility, the assignment is reported to PG&E so the change can be made and a new authorized nomination number can be provided.
- 2.8.3 Electronic Trading System Provisions:** PG&E will facilitate a voluntary and anonymous secondary market trading system for firm backbone transmission

Comprehensive Gas OII Settlement Agreement

capacity as part of its sole-source contract with ALTRA, and subject to the terms of that contract. The following provisions will apply:

- 2.8.3.1 Firm transmission capacity by path will be included on the electronic trading platform.
 - 2.8.3.2 ALTRA and PG&E will establish the process for reporting assignments, and ALTRA will provide the screens and trading platform.
 - 2.8.3.3 ALTRA will notify PG&E of the capacity assignment upon completion of a trade and PG&E will adjust its records accordingly and issue a new authorized nomination number to the assignee.
 - 2.8.3.4 ALTRA will post on its electronic trading platform a summary of the completed transactions, listing the amount of capacity, the path (for transmission), transaction price and the term of the assignment. Customer names will not be provided.
- 2.8.4 Trading Fees:** A monthly subscription fee is required if the customer does not already subscribe to ALTRA. A smaller fixed subscription fee will be made available for those entities who only want to use ALTRA for capacity trading, and not commodity trading. ALTRA will charge a transaction fee to both the buyer and seller. This fee will be capped, and any discounts made available on a nondiscriminatory basis. PG&E will receive fifty percent (50%) of the transaction fees to cover its ongoing costs and services, and will record one-half of these monies as a credit to the BCA to help offset the costs for implementing this trading system. PG&E will include the specific fee provisions in its tariffs pursuant to Section 1.7 above.

2.9 Provide Real-Time, Customer-Specific Usage Data

- 2.9.1 Summary of D.99-07-015:** The Commission believes that customer access to real-time consumption data is consistent with its goals of increased market efficiency and providing competitive tools. Access to real-time data may help customers to better manage their pipeline flows. The Commission considers the most promising option going forward appears to be for the utilities to make available to any customer, at the customer's expense, the equipment, technology and training necessary for expanded customer access to timely consumption information. The Commission is interested in hearing from parties in the cost/benefit phase of this proceeding what it would cost on a per-customer basis to make such access generally available, as well as the specific impediments to providing real-time available capacity updates. (*pp. 72-73, FoF 33 & 36, CoL 15-16, Appendix C*)
- 2.9.2 Customer Options to Access Meter Data:** Currently, about 900 of the 1200 noncore customers have Automatic Meter Reading (AMR) equipment, which PG&E "polls" via conventional phone lines once per day in order to retrieve the customer's hourly usage for each of the prior 24 hours. Since it takes about four to five hours to gather this data from all the AMR-equipped meters, the cumulative 24 hour data is not available to these customers until around 7:00 a.m.

Comprehensive Gas OII Settlement Agreement

the following morning through PG&E's INSIDetracc and Pipe Ranger. In addition, PG&E currently offers all customers options to access their gas usage data through pulses (which can be converted to usage), with the cost billed to the specific customer per the provisions contained in Gas Rule 2.C, Special Facilities.

2.9.3 Dial-In Access to AMR Data: PG&E may, depending on interest from market participants, offer customers, or their agents, dial-in access to PG&E's AMR meters. PG&E will survey market representatives to determine this level of interest. Any such dial-in access program would be subject to the following provisions. This option would only be available for meters equipped with both Mercury ECAT and AMR equipment. Equipment upgrades would be provided at customer expense to allow this data access option. The number of customer calls per meter would be limited to two per day so that battery life is not severely reduced. Also, no customer calls would be allowed between the hours of midnight and 5:00 a.m., during which time PG&E is calling the meter and downloading data for its use. PG&E would establish a start-up fee and a monthly service fee, as well as fees for other requests, such as changing an access password. These fees will be estimated based on recovering the costs to implement and maintain this program.

2.9.4 Internet Information on Meter Access Options: PG&E may, depending on interest from market participants, create an Internet accessible web page specifying customer options for accessing their own meter data or pulses. Each option would generally describe the types of meters involved, the type of data provided, the frequency of the data, an estimated cost range for typical installations, any related service fees, and other information which could help customers perform a rough evaluation of these options. PG&E contact phone numbers would be provided for responding to questions and to specific requests. These options should include:

- AMR access for noncore customers,
- Meter pulse data for all customers,
- Dial-in access to the meter,
- Pilot for noncore meter ownership for new facilities (per Section 2.10.4 below), and
- Pilot for meter add-on devices (per Section 2.10.5 below).

2.9.5 Internet Access to Full AMR Data: PG&E may, depending on interest from market participants, make available on its Pipe Ranger Web site the AMR usage data for each hour of the prior day's usage in addition to the 24-hour total now provided. Data would be available about 7:00 a.m. in the morning for the prior midnight to midnight period. PG&E does not consider this billing quality data since missing data is filled in using estimation processes. This option would only be available to those customers with AMR equipment. Fees may be charged for this service based on recovering the costs to implement and maintain this program.

Comprehensive Gas OII Settlement Agreement

2.9.6 Resolution: Parties agree that all issues in this proceeding with respect to the provision of real-time consumption data are resolved for the term of this Settlement Agreement and need not be litigated.

Comprehensive Gas OII Settlement Agreement

2.10 Provide Competitive Metering Technologies

2.10.1 Summary of D.99-07-015: For safety implications, the Commission does not currently believe that it is an option to encourage the cost or rate separation of meter reading or servicing, or of what have been referred to as after-meter services. Distribution utilities should continue to provide these services as part of a bundled distribution service. The Commission views the competitive provision of meters to be a promising option, consistent with their goals of ensuring safe and reliable service, as well as their objective of removing unnecessary barriers to entry into various components of the natural gas service market. This inquiry can include consideration of whether or not the local distribution company should become the owner of any meter that it installs. Any meter would have to meet appropriate safety standards and utilize standardized information protocols. (pp. 84-85, Appendix C)

2.10.2 Resolution: Consistent with obligations under existing law, PG&E will install, read, remove, service, and maintain all gas meters during the term of this agreement. As part of the pilot program described below, a limited number of noncore customers may own their own PG&E-approved meters, or may choose meters to be owned by PG&E, for new meter installations. Further, also as a pilot program, a limited number of customers may own an "add-on device" to the PG&E-owned meter that allows the customer to access (and thus read remotely) meter data at time intervals needed for the customer's own purposes, or allows the customer to provide this meter data to another party. The selection and installation of this add-on device must also comply with established standards and procedures.

2.10.3 Principles for Ownership of Meters and Add-On Devices: The following principles provide the basis for the pilot ownership programs and to help guide implementation.

2.10.3.1. All customer-owned meters and add-on devices will have to meet appropriate standards of safety, accuracy and reliability, as determined by PG&E.

2.10.3.2 Customer ownership of any meter or add-on device will not interfere with PG&E's right to obtain current or additional data from the meter. PG&E also reserves the right to reconfigure the meter to improve PG&E's ability to obtain current or additional data. For example, if PG&E chooses to install automated meter reading (AMR) technology for a new class of customers or a given portion of its service area, PG&E shall be free to install that capability for all customers of that category, whether or not such customers had previously installed a customer-owned meter or meter add-on device incompatible with the AMR technology to be employed by PG&E.

2.10.3.3 Those customers that choose to own their own meters or add-ons are responsible for the additional incremental costs associated with such equipment.

Comprehensive Gas OII Settlement Agreement

2.10.3.4 Nothing in this Settlement Agreement prevents PG&E from continuing to offer its currently available meter and meter-related products and services, or to propose new meter-related products and services. Furthermore, nothing in this Settlement Agreement requires Parties to support any PG&E proposals to offer any such new meter or meter-related products and services during the term of this Settlement Agreement.

2.10.4 Pilot Program for Customer Meter Ownership and Meter Choice: The following provisions apply to this pilot program for limited meter ownership and choice of PG&E-owned meters.

2.10.4.1 Participation Limit: The pilot program is limited to the installation of 500 customer-owned meters per year. The pilot program applies only to new meter installations at noncore customer facilities, and does not apply to the replacement of an existing PG&E-owned meter. PG&E at its sole discretion may increase the cap on the number of meters which can be owned by customers.

2.10.4.2 Limit on Meter Choice: The meter ownership pilot program is limited to customer ownership of meters approved by PG&E. Nothing in this program requires PG&E to evaluate and/or approve additional meters that are not already approved as of the date of a Commission order approving this Settlement Agreement, nor does anything in this program prevent PG&E from removing currently-approved meters from the approved list.

2.10.4.3 Cost Responsibility: Customers choosing to own their meter are responsible for incremental costs associated with their meter that are incurred by PG&E. Incremental costs are those costs beyond the costs that would have been incurred by PG&E having installed and owned the most cost-effective meter for that site. Costs for which customers may be responsible could include, but are not limited to, installation of the meter or additional equipment, maintenance, call-out servicing, and any other incremental transaction-based costs associated with their owning the meter.

2.10.4.4 PG&E Access to Meter Data: PG&E has the right to obtain or directly access any data available from the customer-owned meter. PG&E may also add-on devices to a customer-owned meter which do not interfere with the customer's use of that meter. PG&E would pay the cost of such add-ons.

2.10.4.5 Advice Filing for Pilot: PG&E will prepare and submit an advice filing to implement this pilot meter ownership program, including tariff and fee provisions, consistent with the terms of this Settlement Agreement. This filing will be made as part of the submission discussed in Section 1.7 of this Settlement Agreement.

2.10.4.6 Term of Pilot: This pilot program is effective when the CPUC-approved tariffs implementing this program are effective, and will continue for the term of this Settlement Agreement.

Comprehensive Gas OII Settlement Agreement

2.10.4.7 Assessment of Pilot: One year prior to the completion of the program, PG&E will begin working with interested parties to prepare a report assessing the pilot meter ownership program. This assessment report, which will include recommendations concerning the future of the program, will be submitted to the CPUC six months prior to the end of the pilot. The report will address, among other things, whether the pilot program should be expanded, and the disposition of all existing customer-owned meters if the meter ownership pilot program is terminated.

2.10.5 Pilot Program for Customer Ownership of Meter Add-Ons: Subject to the following terms and conditions, PG&E will allow a limited customer ownership of add-on devices to PG&E-owned meters for the purpose of accessing meter data at time intervals needed for the customer's internal purposes, or for providing such data to another party.

2.10.5.1 Participation Limit: This pilot program is limited to the installation of 1000 customer-owned meter add-on devices per year. PG&E at its sole discretion may increase the cap on the number of customer-owned meter add-on devices.

2.10.5.2 Meter Responsibility: Add-on devices will not adversely affect the safety, reliability and accuracy of PG&E's gas meters, nor PG&E's ability to obtain any meter data. PG&E remains responsible for installation, removal, service and maintenance of the meters and the add-on devices. Customer ownership of an add-on device will not prevent or interfere with PG&E's ability to replace or reconfigure the meter.

2.10.5.3 Cost Responsibility: Customers will be responsible for the costs associated with add-on devices, including, but not limited to, installation, maintenance, removal, and any other transaction-based costs associated with that add-on device.

2.10.5.4 Advice Filing for Pilot: PG&E will prepare and submit an advice filing to implement this pilot meter add-on program, including tariff and fee provisions, consistent with the terms of this Settlement Agreement. This filing will be made as part of the submission discussed in Section 1.7 of this Settlement Agreement.

2.10.5.5 Term of Pilot: This pilot program is effective when the CPUC-approved tariffs implementing this Settlement Agreement are effective, and will continue for the term of this Settlement Agreement.

2.10.5.6 Assessment of Pilot Program: One year prior to the completion of the program, PG&E will begin working with interested parties to prepare a report assessing the pilot meter add-on program. This assessment report, which will include recommendations for the future of the program, will be submitted to the CPUC six months prior to the end of this program. The report will address, among other things, whether the pilot program should be expanded, and the disposition of all existing customer-owned add-on devices if the meter add-on pilot program is terminated.

Comprehensive Gas OII Settlement Agreement

2.11 Provide Competitive Billing Options to Customers Similar to Those Offered in the Electric Industry

2.11.1 Summary of D.99-07-015: The Commission states that competing gas and electric providers should be able to choose to provide a consolidated bill for gas and electricity so that the customers of such providers will not face duplicative charges for the billing function. The Commission feels that it may be appropriate for the natural gas utilities to provide billing options similar to those currently offered on the electric side. The Commission states that it should be just as possible for an electricity provider to bill its customers for gas service as it would be for a gas provider to bill for electric service. The Commission includes this as a promising option for further study and wants to examine cost system conversion and potential labor impacts associated with providing competitive billing and other services in the cost/benefit phase. (*pp. 85-86, FoF 43, CoL 19, Appendix C*)

2.11.2 Current Billing Options: Currently, CTAs who sell gas to residential and small commercial customers have three options open to them. The first option is for the CTA to bill for the gas commodity and have PG&E bill for gas transportation. This is called *separate billing*. The second option is for the CTA to bill for both their gas service and PG&E's transportation service. This option is called *CTA consolidated billing*. A third billing option, *PG&E consolidated billing*, where PG&E bills for both its transportation service and the CTA's commodity gas cost, is currently available only for dual-commodity customers who also participate in electric direct access. PG&E consolidated billing for gas-only customers (including those customers that receive separate gas and electric bills) will not be available until the Billing Availability Date as defined in Section 1.8 above.

2.11.3 PG&E Consolidated Gas Billing: PG&E will provide a PG&E gas consolidated billing option for gas-only customers by the Billing Availability Date. This approach avoids unnecessary costs for programming and manual processes which would still take one to one-and-a-half years to complete, and then be disposed of once the new billing system is operational. Once implemented, PG&E reserves the right to charge CTAs for PG&E consolidated gas billing services based on a methodology consistent with the methodology then in effect for PG&E consolidated electric billing.

2.11.4 Termination of Informational Bill Requirement: If a CTA performs CTA consolidated billing, PG&E is currently required to send the customer an informational bill. The Parties agree that the requirement for an informational bill should be removed upon implementation of this Settlement Agreement for those CTAs receiving PG&E billing information via Electronic Data Interchange (EDI) that agree in writing to present the requisite PG&E-provided charges, bill inserts and customer protection information in each end-user bill. CTAs also agree to provide a market-index commodity price (i.e., the Natural Gas Intelligence Weekly Gas Price Index, first of the month publication, PG&E Citygate, Bidweek) or the currently-required PG&E core procurement price in each end-user bill. The CTA shall annually elect which commodity price to provide. The requisite information to be presented in each end-user's bill will be addressed as

Comprehensive Gas OII Settlement Agreement

part of the tariff process described in Section 1.7 above. In the agreement between PG&E and the CTA, the CTA shall indemnify PG&E for all direct and consequential damages, and the CTA shall expressly agree to assume all liability associated with the CTA's modification of, or failure to provide a customer with, any PG&E-provided bill insert. Any disputes concerning the content of PG&E provided bill inserts will be resolved by the Energy Division of the CPUC. As part of its compliance filing set forth in Section 1.7, PG&E will include provisions specifying compliance monitoring, cost responsibility, and enforcement measures. Any such CTA agreements will be in effect for the term of this Settlement Agreement, except that they will expire after (i) gas consumer protection legislation becomes effective which includes a provision authorizing the CPUC to enforce consumer protection rules, and (ii) the CPUC adopts such rules, including a CTA certification program.

2.11.5 Billing Credits for CTA-Consolidated Billing: The customer of a CTA, which performs consolidated CTA billing, will get the following avoided cost credit off their transportation rate as long as PG&E no longer has to send them an informational bill per Section 2.11.4 above. These credits will apply for both gas-only customers and dual-commodity customers for the term of this Settlement Agreement. If an Energy Service Provider (ESP) is also a CTA and performs both gas and electric consolidated billing for a dual-commodity customer, then that customer will receive the CTA consolidated gas billing credit in addition to the applicable electric credit for a dual-commodity customer.

	(\$ per account per month)		
	<u>Residential</u>	<u>G-NR1</u>	<u>G-NR2</u>
Gas Billing Credit	\$0.71	\$1.00	\$1.00

2.11.6 Delivery of CTA Consolidated Gas Billing Credits: PG&E will deliver credits to those customers receiving consolidated billing services from their respective CTAs via checks sent to the respective CTAs in whatever manner PG&E deems most cost-effective, except that PG&E will deliver such checks on at least a semi-annual basis. This process will continue for the term of this Settlement Agreement, or until automation of the gas credit process in the new billing system. Upon automation of the gas credit process, credits will be included as a line item on PG&E's customer-specific billing data provided to CTAs and shown on their consolidated bill to these customers.

Comprehensive Gas OII Settlement Agreement

3. PROMISING OPTIONS ALREADY IN PLACE FOR PG&E

Parties agree that the following promising options identified in D.99-07-015 do not need to be litigated for the PG&E system in I.99-07-003, although they may be otherwise negotiated or litigated for the post-Gas Accord period. Through the Gas Accord, PG&E has already implemented these options for the Gas Accord period.

3.1 Create Firm Tradable Intrastate Transmission Rights

3.1.1 Summary of D.99-07-015: The Commission agrees that the creation of firm, tradable intrastate transmission rights offers the hope of improving efficiency through value-based pricing, as well as providing individual shippers with greater certainty as to their ability to move certain quantities of gas through the pipeline system.

(pp. 12-14, FoF 1 & 2, CoL 1, 2, 5, Appendix C)

3.1.2 Resolution: The path-based firm backbone transmission capacity rights established by the Gas Accord continue to apply for Northern California. These rights are fully tradable and assignable, subject to the creditworthiness of the assignee.

3.2 Establish a Secondary Market for Intrastate Transmission Capacity

3.2.1 Summary of D.99-07-015: Participation in the secondary market transactions through a mandatory Electronic Bulletin Board is consistent with the Commission's goals of enhancing market efficiency, preventing anti-competitive behavior, and providing additional competitive tools to the marketplace. The Commission wants to understand the costs of providing such a service before determining whether to require its provision. *(p. 79, FoF 38, Appendix C)*

3.2.2 Resolution: A secondary market exists for PG&E's firm intrastate transmission capacity rights. This Settlement Agreement establishes an electronic trading platform for secondary market transmission transactions pursuant to Section 2.8 above.

3.3 Place the Utility At Risk for Unused [Transmission] Resources

3.3.1 Summary of D.99-07-015: The Commission refers to the fact that PG&E's shareholders are at risk for "stranded" costs associated with intrastate transmission in a table. *(p. 12)*

3.3.2 Resolution: The Gas Accord places PG&E at risk for recovery of transmission facility costs, and the rates associated with these costs are fixed for the Gas Accord period. These at-risk provisions continue to apply. However, this Settlement Agreement does not predetermine how risk will be allocated following the Gas Accord.

Comprehensive Gas OII Settlement Agreement

3.4 Create Firm, Tradable Storage Rights

3.4.1 Summary of D.99-07-015: The Commission believes there would be more efficient use of the hard-to-find gas storage resources if individual shippers and customers could bid for firm storage access rights. In addition, the local distribution company will be motivated to pursue more complete utilization of its storage assets if its shareholders bear the risk for cost recovery. If accompanied by an active secondary market, the bidding and trading of storage rights should lead to pricing that reflects demand. (*pp. 23-24, FoF 9, CoL 4, Appendix C*)

3.4.2 Resolution: The Gas Accord assigned PG&E's existing firm gas storage capacity rights to core procurement, pipeline balancing and an unbundled storage program. Annual open seasons are held under the unbundled storage program, with negotiated deals at other times. The acquirers of firm storage capacity can sell that capacity on the secondary market, as can core procurement entities holding firm storage capacity, subject to the creditworthiness of the assignee.

3.5 Establish a Secondary Market For Intrastate Storage Capacity

3.5.1 Summary of D.99-07-015: The Commission anticipates that the existence of an active secondary market for storage would reduce a utility's ability to increase its storage revenues in an unfair manner. Shippers should be more willing to acquire storage rights when they know they are able to sell unused capacity on the secondary market. Participation in the secondary market transactions through a mandatory Electronic Bulletin Board is consistent with the Commission's goals of enhancing market efficiency, preventing anti-competitive behavior, and providing additional competitive tools to the marketplace. The Commission wants to understand the costs of providing such a service before determining whether to require its provision.

(*p. 24, FoF 38, Appendix C*)

3.5.2 Resolution: As with firm transmission capacity, firm storage rights are already tradable and assignable under the provisions of the Gas Accord, subject to the creditworthiness requirements. Parties agree that no further action is needed on the PG&E system for trading storage rights.

3.6 Place the Utility At-Risk for Unused [Storage] Resources

3.6.1 Summary of D.99-07-015: The Commission requests the parties to consider the costs and benefits related to creating a system of tradable storage rights in Southern California that places the utility at risk for unused resources and preserving such a market in Northern California beyond the period of the Gas Accord.

(*pp. 20-24, Appendix C*)

3.6.2 Gas Accord At-Risk Requirements: The Gas Accord places PG&E at risk for recovery of its storage facility costs. The major portion of the storage (32.8 Bcf) is assigned to core customers to ensure reliability of service. The core is obligated to pay these costs. However, this Settlement Agreement allows Core Transport

Comprehensive Gas OII Settlement Agreement

Agents (CTAs) to provide reliability through other means and avoid payment of their share of these costs.

Another portion of storage (2.2 Bcf) is assigned to pipeline balancing. These costs are included in the backbone transmission rates, which are at-risk for cost recovery. The feasibility of adding more storage assets to this service is one of the issues for the OFO Forum, as provided in the Gas OFO Settlement, filed October 22, 1999 in I.99-07-003.

The remaining portion of storage (4.7 Bcf) is assigned to a fully at-risk unbundled storage program, where firm and negotiated storage services are offered by PG&E's Golden Gate Market Center.

- 3.6.3 Resolution:** These at-risk provisions for storage continue to apply, as modified by this Settlement Agreement. However, this Settlement Agreement does not predetermine how risk will be allocated following the Gas Accord period.

3.7 Separate Utility Hub Services From Procurement Functions

- 3.7.1 Summary of D.99-07-015:** The Commission would like to separate hub services, where possible, from the procurement function to eliminate the possibility of a conflict of interest affecting the two functions. (*pp. 48-49, CoL 10, Appendix C*)

- 3.7.2 Resolution:** The current rules and protocols provide separation of PG&E's Core Procurement Department from PG&E's utility hub services for the term of the Gas Accord. This issue may be revisited during the post-Gas Accord negotiations.

3.8 Unbundle Utility Interstate Capacity Costs for Core Customers

- 3.8.1 Summary of D.99-07-015:** The Commission recommends the unbundling of interstate capacity costs for SoCalGas, which may enhance the opportunities for competition for core customers, as marketers search for ways to beat SoCalGas' costs for inter-state transportation. PG&E and SDG&E have already unbundled such costs. (*p. 49 [#4], pp. 60-61, FoF 31, Appendix C*)

- 3.8.2 Resolution:** PG&E unbundled these costs as part of the Gas Accord. This unbundling was approved in D.97-12-032, dated December 4, 1997.

3.9 Eliminate Core Subscription Service

- 3.9.1 Summary of D.99-07-015:** The Commission recommends to eliminate the core subscription by April 1, 2001, and require that any noncore customer who prefers to continue procurement from local distribution companies after that date to take and pay for core service. (*p. 49 [#7], pp. 63-64, Appendix C*)

- 3.9.2 Resolution:** The Gas Accord, as approved in D.97-08-055, phases out core subscription by March 1, 2001. Parties agree that no further action is needed on the PG&E system.

Comprehensive Gas OII Settlement Agreement

4. PROMISING OPTIONS AND OTHER ISSUES WHICH ARE NOT TO BE LITIGATED PENDING FURTHER SETTLEMENT DISCUSSIONS

4.1 Develop Clear Procedures for Allocating [Firm] Capacity

4.1.1 Summary of D.99-11-053 issued November 18, 1999: This decision resolved the investigation into PG&E's bidding behavior in the Gas Accord open season auction. The Commission finds that PG&E abided by all the rules in place at that time and "that the UEG did not behave in an anti-competitive manner warranting penalty. The auction procedures should be reformed to further limit the ability of any single entity to unduly influence the market." (Mimeo, p. 22) The Commission also notes that "[F]urther discussion of potential reforms to auction rules for intrastate transmission capacity and for sales in the secondary market may take place within Investigation 99-07-003." (Mimeo, p. 25, Ordering Paragraph 2)

4.1.2 Resolution: PG&E does not plan on conducting any firm capacity open seasons before the end of the Gas Accord period. PG&E and the Parties will re-examine the issue of open season rules in the process of negotiating a post-Gas Accord settlement. Parties agree that this issue does not need to be litigated or resolved as part of I.99-07-003 or the current Settlement Agreement.

4.2 Revise PG&E's Transmission Interconnection Policy, Terms and Conditions (Not an Appendix C Item)

4.2.1 Gas Rule 27 Committee: This issue, which includes PG&E's proposed Gas Rule 27, is under consideration by a committee of the Parties. The objective is to resolve this issue through settlement, and perhaps a separate application.

4.2.2 Resolution: Parties agree that these issues do not need to be litigated or resolved as part of I.99-07-003 or the current Settlement Agreement.

4.3 Revise PG&E's Electric Generation Rate Design (Not an Appendix C Item)

4.3.1 Resolution: The Parties agree not to litigate issues related to Public Utilities Code Section 454.4 in I.99-07-003. The Parties also agree that PG&E's Biennial Cost Allocation Proceeding (BCAP), and not I.99-07-003, is an appropriate proceeding in which to address PG&E's electric generation cost allocation and rate design issues in I.99-07-003. PG&E commits to work with the BCAP parties to attempt to settle these issues.

4.4. Review PG&E's Local Transmission Reliability, Design Standards and Curtailment Provisions (Not an Appendix C Item)

4.4.1 Resolution: Parties agree that issues related to PG&E's local transmission reliability, design standards and local curtailment provisions will be negotiated separately, and will not be litigated with respect to PG&E as part of I.99-07-003 or resolved in this Settlement Agreement.

Comprehensive Gas OII Settlement Agreement

4.5 Investigate Mechanisms to Reduce the Costs of Transmission Service for Noncore Customers Connecting To or Located Close To PG&E's Backbone Transmission Facilities (Not an Appendix C Item)

4.5.1 Resolution: Parties agree that issues related to "direct connects," and/or limited use of PG&E's local transmission system, between a customer's facility and PG&E's backbone facilities will be negotiated separately, and will not be litigated with respect to PG&E as part of I.99-07-003 or resolved in this Settlement Agreement.

5. PROMISING OPTIONS WHICH WERE SETTLED IN THE OFO SETTLEMENT AGREEMENT

5.1 Examine Strategies for Devoting More Assets to PG&E Balancing

5.1.1 Summary of D.99-07-015: The Commission states that it is clear that shippers need to be better-equipped to anticipate and respond to OFOs. It's logical to assume that if PG&E had more storage capacity set aside to support its balancing efforts, it would have greater ability to smooth out fluctuations in system balancing without calling OFOs or undertaking curtailments. The Commission considers asking PG&E to identify the incremental cost of expanding balancing services in the next phase and suggests all interested parties to address the economics of this step. (*pp. 32-33, FoF 15, CoL 6, Appendix C*)

5.1.2 OFO Forum: This issue will be considered by the OFO Forum in accordance with Section 2.1.3.7 above.

5.1.3 Balancing Study: PG&E agrees to provide the balancing study to all parties participating in the OFO Forum no later than March 7, 2000, even if the date for filing testimony is extended.

5.1.4 Resolution: Parties agree that this issue does not need to be litigated in I.99-07-003 and that the Forum is open to all storage operators on the PG&E system, as well as customers, shippers and consumer representatives.

5.2 Implement Targeted Operational Flow Orders

5.2.1 Summary of D.99-07-015: The Commission wants to explore targeted OFOs along with other similar reforms in the cost/benefit phase. They believe even though it's possible that some customers might respond to a targeted request by shifting excess gas to other customers, it may also improve the system balance. (*p. 41, p. 50 [#10], FoF 23, CoL 9, Appendix C*)

5.2.2 Resolution: The OFO Settlement provides specific procedures for implementing customer-specific or targeted OFOs. No further litigation is needed.

Comprehensive Gas OII Settlement Agreement

5.3 Provide Pipeline Operator Demand Forecasts Broken Down by Customer Class

5.3.1 Summary of D.99-07-015: The Commission is not persuaded that disaggregating demand forecast information will create a disadvantage for any customer, including the core. Furthermore, the Commission does not believe that any particular customer would have an incentive to lessen the reliability or precision of its communications with the pipeline operator if they were provided the demand forecasts. (*pp. 79-84, FoF 41, Appendix C*)

5.3.2 Resolution: The OFO Settlement Agreement specifies that PG&E will provide customer class demand data with a three-day lag, as agreed to by those Parties. No further litigation is needed.

6. NO ISSUES REMAIN TO BE LITIGATED IN I.99-07-003

Parties agree that there are no issues of material fact or promising options which need litigating in I.99-07-003, provided the Commission approves this Settlement Agreement pursuant to its conditions. If Commission approval is conditional or modifies the Settlement Agreement, Parties reserve the right to seek hearings on any or all issues otherwise covered by this Settlement Agreement.

END OF ATTACHMENT A

ATTACHMENT B

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Application of PACIFIC GAS AND ELECTRIC)
COMPANY For Authority To Revise Its Gas)
Rates And Tariffs To Be Effective) Application No.
January 1, 2001.)
)
)
(U 39 G))

**A P P L I C A T I O N
BIENNIAL COST ALLOCATION PROCEEDING**

**CHRISTOPHER J. WARNER
ANDREW L. NIVEN
J. MICHAEL REIDENBACH**

**Attorneys for
PACIFIC GAS AND ELECTRIC COMPANY
Post Office Box 7442
San Francisco, CA 94120
(415) 973-2491
Fax: (415) 973-0516
E-Mail: JMRb@pge.com**

**Law Department
PACIFIC GAS AND ELECTRIC COMPANY**

April 3, 2000

1 **BEFORE THE PUBLIC UTILITIES COMMISSION**
2 **OF THE STATE OF CALIFORNIA**

3
4 **Application of PACIFIC GAS AND ELECTRIC)**
5 **COMPANY For Authority To Revise Its Gas)**
6 **Rates And Tariffs To Be Effective) Application No.**
7 **January 1, 2001.)**

8 **(U 39 G)**

9 **A P P L I C A T I O N**
10 **BIENNIAL COST ALLOCATION PROCEEDING**

11
12 **I**

13 **INTRODUCTION**

14 Pacific Gas and Electric Company (PG&E) hereby submits its Biennial Cost Allocation
15 Proceeding (BCAP) application. In this application PG&E seeks to adopt new forecast period costs
16 and balancing account balances, to adopt a new gas demand forecast, to allocate its gas revenue
17 requirement among customer classes, and to set rates to recover the revenue requirement for the two
18 year BCAP period. Also in the application PG&E proposes an effective date of January 1, 2001.

19 PG&E proposes an effective date of January 1, 2001, for this BCAP because of the delay in
20 this filing from its original scheduled date. PG&E was ordered in the last BCAP decision (D. 98-06-
21 073) to file its next BCAP application on October 29, 1999. On September 27, 1999, the Commission
22 granted PG&E's request to have the filing delayed 45 days after the decision in PG&E's General Rate
23 Case (A. 97-12-020). The Commission issued GRC Decision 00-02-046 on February 17, 2000.

24 PG&E's Gas Accord (D. 97-08-055) set transmission, transmission-level customer access and
25 storage rates through 2002, and the GRC sets the distribution-level base revenue requirement.
26 Therefore, this BCAP allocates the distribution-level base revenue requirement and sets distribution
27 and customer class charges.
28

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

II

AUTHORITY REQUESTED

PG&E hereby requests authority from the Commission to decrease its annual gas transportation revenue requirement by \$132 million. PG&E proposes to reduce the transportation revenue requirement from core customers by approximately \$107 million annually, and transportation revenue requirement from noncore customers by approximately \$25 million annually. This BCAP also presents a procurement revenue requirement of \$941 million. The procurement revenue requirement is presented for illustrative purposes only, to allow bundled core rate comparisons with present rates.

Compared to the gas rates in effect March 1, 2000, PG&E's proposed gas transportation rates will decrease for all customer classes. The average decrease for bundled core customers is 4.9 percent, due primarily to a forecasted increase in core throughput from currently adopted levels. The average decrease in noncore transportation rates is 11.4 percent, due primarily to reductions in noncore balancing account balances.

Other significant changes that PG&E is requesting in this proceeding are set forth in the balance of this application and are supported in the attached testimony.

III

FORECAST OF GAS THROUGHPUT

PG&E's 2000 BCAP forecasts a 13 percent increase in throughput for core customers, a 1 percent decrease in throughput for noncore customers, and a 26 percent decrease for total system shrinkage. PG&E proposes using a new shrinkage forecast methodology which more accurately reflects current conditions on its system.

1
2 IV

3 GAS SUPPLY

4 PG&E proposes a reduction of its current core portfolio allocation of 48 MDth per day of
5 annual Silverado capacity to 5 MDth per day to reflect the termination of PG&E's California gas
6 contracts. PG&E further proposes an increase of 50 MDth per day of seasonal winter Baja capacity
7 for the core portfolio to help mitigate the risks associated with peak demand events. PG&E also
8 proposes that its Core Procurement Incentive Mechanism (CPIM) be modified to accommodate this
9 capacity change.

10 V

11 MARGINAL CAPACITY AND CUSTOMER COSTS

12 PG&E presents long run marginal costs of providing gas distribution service, including
13 customer costs, based on the gas resource plan adopted in the GRC decision. The marginal costs are
14 used to allocate the distribution revenue requirement to customer classes. No changes to the marginal
15 cost methodology are proposed in this BCAP proceeding. The Joint Assigned Commissioner's and
16 Assigned ALJ's Ruling of October 6, 1997, in PG&E's 1998 BCAP Application 97-03-002, ordered
17 that the marginal cost methodology will not change for the term of the Gas Accord.
18

19 VI

20 REVENUE REQUIREMENT

21 The primary revenue requirement changes presented in the BCAP are changes in balancing
22 account balances. In this BCAP, PG&E proposes to change the balances for the transportation
23 balancing accounts. These balances will be updated for the BCAP decision. PG&E proposes to use
24 the revision date forecast of balances for setting the rate components to amortize all transportation
25 balancing accounts.
26
27
28

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

VII

RATEMAKING

The Gas Accord established the Balancing Charge Account (BCA) for tracking the revenues and costs associated with providing balancing service. PG&E proposes to allocate the balance in the BCA on an equal cents per therm basis to all end-use customers.

PG&E also proposes a ratemaking change for the Core Fixed Cost Account (CFCA). Currently, 1/12 of base revenues are booked monthly to the CFCA. PG&E proposes in this BCAP to use monthly factors to record the same base revenue requirement into the CFCA. The result will be a closer match of revenue requirement to revenues from customers.

VIII

REVENUE ALLOCATION AND RATE DESIGN

PG&E proposes to reduce the bundled residential baseline tier differential by applying the 35% differential to the transportation components of residential rates. This will help reduce the effect that the tier differential has on transportation revenue recovery.

PG&E proposes to reduce the core-averaging subsidy between the residential and small commercial classes by an additional 50 percent over the BCAP period. The deaveraging will be phased in over two years with an initial 25 percent core deaveraging upon implementation of the BCAP decision and an additional 25 percent core deaveraging in the second year of the BCAP.

PG&E provides compressed natural gas service for use in natural gas vehicles under the provisions of experimental rate Schedule G-NGV2. PG&E proposes an all-volumetric rate design for this service.

PG&E proposes a declining block rate structure for commercial and industrial customers served from the noncore industrial distribution rate schedule. This change will make rates more cost based and send better price signals to customers.

IX

TESTIMONY

PG&E's prepared written testimony is attached. PG&E plans to update this filing, as necessary, to incorporate the most current information on recorded revenues and expenses, balancing accounts and changes in cost and revenues determined in decisions by the FERC and the CPUC.

X

EFFECTIVE PERIOD

The effective period for the rates proposed in this Application is for a 24 month period commencing January 1, 2001.

XI

RESULTS OF OPERATION

Exhibit A, attached, shows PG&E's Gas Department Results of Operation, as adjusted, to show revenues for the forecast period. Results of Operation are shown at present and proposed rates.

XII

COMPLIANCE WITH THE COMMISSION'S RULES

OF PRACTICE AND PROCEDURE

A. Article 2. Filing of Documents

This Application and the accompanying Prepared Testimony comply with the requirements of form and process contained in Rules 2, 2.1, 2.2, 2.4, and 2.5. In addition, this filing is being served on all parties on the official service list in the 1999 GRC, in accordance with Rule 2.3.

B. Article 2.5. SB 960 Rules and Procedures (Rule 6(a)(1))

1. Proposed Category

PG&E proposes to categorize this Application as a ratesetting proceeding.

2. Need for Hearing

PG&E anticipates that formal hearings will be needed.

1 3. *Issues To Be Considered*

2 PG&E requests that the Commission take the following action:

- 3 1. Adopt PG&E's proposed BCAP rates for a 24 month period. The proposed
- 4 rates allocate the distribution-level base revenue and customer class charges to
- 5 core and noncore gas customers.
- 6 2. Adopt PG&E's proposed throughput forecasts.
- 7 ✓3. Adopt PG&E's proposed changes in core intrastate capacity reservations and
- 8 authorize a modification in the fixed and variable transportation cost
- 9 components of the CPIM benchmark.
- 10 4. Adopt PG&E's proposed marginal distribution and customer costs based on the
- 11 methodologies adopted in PG&E's 1995 BCAP Decision 95-12-053.
- 12 ✓5. Adopt PG&E's proposal to allocate the balance in the BCA on an equal cents
- 13 per therm basis to all end-use customers.
- 14 6. Adopt PG&E's proposal to record the base revenue requirement in the CFCA
- 15 using monthly factors based on the monthly forecast of core customer
- 16 throughput.
- 17 7. Adopt PG&E's proposal to amortize the revision date balances over 24 months
- 18 for all transportation balancing accounts, except the balance in the Noncore
- 19 Interim Relief Subaccount of the CFCA, which is amortized over 12 months.
- 20 8. Adopt PG&E's proposal to end tracking the core to noncore migration revenue
- 21 shortfall for allocation in future BCAPs.
- 22 9. Adopt PG&E's proposal to segment the Noncore Customer Class Charge
- 23 Account into three subaccounts.
- 24 10. Adopt PG&E's proposal to record the residual balance in Refund Plans 15 and
- 25 16, plus interest, in transportation balancing accounts on an equal cents per
- 26 therm basis.
- 27 11. Adopt PG&E's proposed shrinkage allowances.
- 28 12. Adopt PG&E's proposed rate to recover the estimate of carrying costs on

1 cycled gas in storage from monthly core procurement rates, subject to
2 balancing account treatment.

3 13. Adopt the brokerage fee revenue requirement.

4 14. Adopt PG&E's proposal to reduce the core-averaging subsidy between
5 residential and small commercial classes by an additional 50 percent during the
6 BCAP period.

7 15. Adopt PG&E's proposal to reduce the bundled residential baseline tier
8 differential by applying the 35% differential to the transportation component of
9 residential rates.

10 16. Adopt PG&E's proposal to simplify rates for experimental natural gas vehicle
11 G-NGV2 customers, by utilizing an all-volumetric rate design.

12 17. Adopt PG&E's proposal for a three-tier declining block rate structure for
13 commercial and industrial customers served from the noncore industrial
14 distribution rate schedule.

15 4. *Proposed Schedule*

16 PG&E offers the following procedural schedule for this proceeding:^{1/}

17 April 3, 2000	PG&E files Application
18 April 17, 2000	First prehearing conference
19 May 31, 2000	Office of Ratepayer Advocates' testimony
20 June 13, 2000	Intervenors' testimony
21 June 27, 2000	Rebuttal testimony
22 July 18, 2000	Evidentiary hearings begin
23 July 20, 2000	Evidentiary hearings end
24 August 3, 2000	Concurrent opening briefs
25 August 15, 2000	Concurrent reply briefs

26
27 ^{1/} This schedule was designed to accommodate a January 1, 2001 effective date for rates. If the
28 Commission concludes that the proposed schedule is too aggressive, PG&E can make an
 adjustment in the effective date.

1 October 16, 2000 Proposed Decision
2 November 21, 2000 Commission Decision
3 January 1, 2001 Rates In Effect

4 **C. Article 4. Applications Generally**

5 1. Statutory and Regulatory Authority (Rule 15)

6 This Application is made pursuant to Sections 451, 454, 491, 701, 728, and 729 of the Public
7 Utilities Code of the State of California, Articles 2, 2.5, 4, and 6 of the Commission's Rules of
8 Practice and Procedure, and Decision 97-04-067 of this Commission.

9 2. Legal Name And Principal Place Of Business (Rule 15(a))

10 The legal name of the applicant is Pacific Gas and Electric Company. The location of
11 applicant's principal place of business is San Francisco, California. Its mailing address is Post Office
12 Box 7442, San Francisco, California 94120. Applicant was organized under the laws of the State of
13 California.

14 3. Correspondence And Communication Regarding This
15 Application (Rule 15(b))

16 PG&E's attorney in this matter is J. Michael Reidenbach. All correspondence and
17 communication regarding this Application should be addressed to:

18 J. Michael Reidenbach
19 Mail Code B30A
20 P. O. Box 7442
21 Pacific Gas and Electric Company
22 San Francisco, CA 94120-7442
23 Telephone: (415) 973-2491
24 Facsimile: (415) 973-0516
25 Internet: jmrg@pge.com

26 4. Articles Of Incorporation (Rule 16(a))

27 PG&E is, and ever since October 10, 1906, has been, an operating public utility corporation,
28 organized under California law. It is engaged principally in the business of furnishing electric and gas
services in California. A certified copy of PG&E's Restated Articles of Incorporation, effective
May 6, 1998, was filed with the Commission with PG&E's Application No. 98-06-001 on June 1,
1998, and is incorporated herein by reference.

D. Article 6. Applications for Authority to Increase Rates

1. Balance Sheet and Income Statement (Rule 23(a))

PG&E's balance sheet and income statement covering the three-month period ending September 30, 1999, are contained in Exhibit B attached to this Application.

2. Presently Effective Rates (Rule 23(b))

Presently effective rates are contained in Exhibit C attached to this Application.

3. Proposed Rate Changes (Rule 23(c))

The present and proposed BCAP rates are summarized as follows:

CLASS AVERAGE RATES (\$/THERM)

<u>Customer Class</u>	<u>Present</u>	<u>Proposed</u>	<u>% Change</u>
BUNDLED CORE			
Residential	\$.684	\$.660	-3.5%
Small Commercial	\$.659	\$.594	-9.7%
Large Commercial	\$.472	\$.465	-1.3%
NONCORE TRANSPORT -FIRM BAJA PATH (1)			
Industrial Distribution	\$.128	\$.104	-18.5%
Industrial Transmission	\$.042	\$.038	-8.7%
Cogeneration	\$.036	\$.033	-9.7%
Electric Generation	\$.036	\$.033	-9.7%
Wholesale - Coalinga	\$.038	\$.035	-8.4%
Wholesale - Palo Alto	\$.035	\$.032	-9.1%
Wholesale - West Coast Gas	\$.041	\$.038	-7.8%
Wholesale - Island Energy	\$.061	\$.058	-5.2%
Wholesale - Alpine Natural Gas	\$.038	\$.035	-8.3%

- 1 (1) Noncore Rates include \$0.017 of annual firm backbone tran.
2 path.

3 Present rates are based on revenues approved in PG&E's 1999 General Rate Case (GRC)
4 Decision 00-02-046 and Annual True-Up of Balancing Accounts filed in Advice 2217-G, effective
5 March 1, 2000. Present rates also include adopted 2000 Gas Accord rates for backbone, local
6 transmission, transmission-level customer access, and storage. To isolate the effects of transportation
7 cost allocation and rate design proposals addressed in this proceeding, the illustrative procurement
8 component in both present and proposed bundled core rates has been set using the same procurement
9 rate components, including the illustrative WACOG forecast. Noncore present and proposed rates
10 include a backbone rate of \$0.01691 per therm, which assumes 100 percent load factor annual firm
11 backbone transportation service on the Baja path. Actual transportation rates will vary, depending on
12 the customer or supplier's choice of backbone transmission services and paths, and the customer's or
13 supplier's load factor on the backbone transmission service.

14 **4. Property and Equipment (Rule 23(d))**

15 A description of PG&E's property and equipment, with their original costs and applicable
16 depreciation reserve, is contained in Exhibit D attached to this Application.

17 **5. Summary of Earnings (Rule 23(e) and (f))**

18 A summary of earnings is presented in Exhibit E of this Application.

19 **6. Applicant's Exhibits (Rule 23(g))**

20 PG&E's exhibits in compliance with the Commission's Rules of Practice and Procedure are
21 contained in or attached to this Application. PG&E's Prepared Testimony in support of this
22 Application is contained in a separate bound volume accompanying this Application. PG&E is ready
23 to proceed with its showing as of the date of this filing.

24 **7. Depreciation Method (Rule 23(h))**

25 PG&E's statement of the method of computing the depreciation deduction for federal income
26 tax purposes is contained in Exhibit F attached to this Application.

1 **8. Proxy Statement (Rule 23(i))**

2 The capital stock of PG&E's parent company, PG&E Corporation, is listed on a "national
3 securities exchange" as defined in the Securities Exchange Act of 1934. The capital stock of PG&E's
4 parent company, PG&E Corporation, is listed on a "national securities exchange" as defined in the
5 Securities Exchange Act of 1934. Attached as Exhibit G, is a copy of the most recent Joint Proxy
6 Statement of PG&E Corporation and PG&E mailed to shareholders beginning March 13, 2000.

7 **9. Type of Rate Increase Requested (Rule 23(l))**

8 In this application, PG&E is seeking an average decrease in bundled core gas rates of 4.9
9 percent and an average decrease in noncore transportation rate of 11.4 percent.

10 **10. Service and Notice of Application (Rule 24)**

11 PG&E is serving this Application on all parties on the official service list in PG&E's last
12 BCAP proceeding. Within ten days after filing this Application, PG&E will mail a notice stating in
13 general terms the proposed change in rates to the entities listed in Exhibit H attached to this
14 Application, and PG&E will publish a notice of the proposed change in rates in a newspaper of
15 general circulation in each county in its service territory. Within 45 days after filing this Application,
16 PG&E will furnish a notice of the proposed change in rates with the regular bills mailed to PG&E's
17 customers.

18 **XIII**

19 **CONCLUSION**

20 Supporting testimony is submitted with this application. Each chapter of the testimony is
21 sponsored by a witness or witnesses who are familiar with the content of their portions of the
22 testimony and who will describe those aspects of the testimony within their expertise. The witnesses
23 will present principles and policies for forecasting natural gas throughput and revenue requirements as
24 well as for cost allocation and rate design.

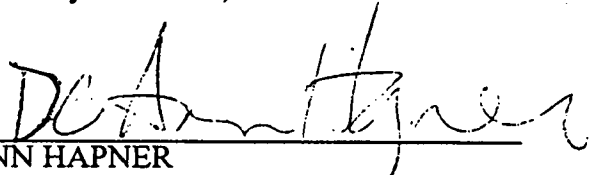
25 PG&E is now ready to proceed with its showing in support of this application.
26
27
28

1 WHEREFORE, PACIFIC GAS AND ELECTRIC COMPANY requests the
2 Commission to issue appropriate orders:
3

- 4 1. Finding that PG&E's proposed rates and changes in cost allocation and rate design set
5 forth in this application are, for the future, fair and reasonable;
6 2. Establishing a schedule for the holding of hearings and the presentation of witnesses so
7 that hearings can be concluded and a decision rendered in this case to enable the
8 authorized rates to become effective January 1, 2001; and
9 3. Granting such further and different relief as the Commission may find to be proper.
10

11 Dated at San Francisco, California, this 3rd day of April, 2000.
12

13 Respectfully submitted,
14

15 
16 DEANN HAPNER
17 Vice President - Regulatory Relations
18 PACIFIC GAS AND ELECTRIC COMPANY

19 CHRISTOPHER J. WARNER
20 ANDREW L. NIVEN
21 J. MICHAEL REIDENBACH

22 
By: J. MICHAEL REIDENBACH

23 Attorneys for
24 PACIFIC GAS AND ELECTRIC COMPANY
25 Post Office Box 7442
26 San Francisco, CA 94120
27 (415) 973-2491
28 Fax: (415) 973-0516

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

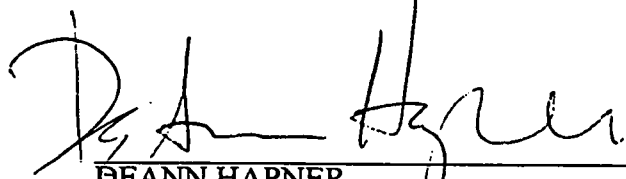
VERIFICATION

I, the undersigned, say:

I am an officer of PACIFIC GAS AND ELECTRIC COMPANY, a corporation, and am authorized to make this verification for that reason; I have read the foregoing "Application Of Pacific Gas And Electric Company for Authority to Revise Its Gas Rates and Tariffs to be Effective January 1, 2001" and I am informed and believe the matters therein are true and on that ground I allege that the matters stated therein are true.

I declare under penalty of perjury that the foregoing is true and correct.

Executed at San Francisco, California this 3rd day of April, 2000.


DEANN HAPNER
Vice President - Regulatory Relations
PACIFIC GAS AND ELECTRIC COMPANY

END OF ATTACHMENT B

ATTACHMENT C

Application No.: _____
(U 39 M)
Exhibit No.: _____
Date: April 3, 2000

PACIFIC GAS AND ELECTRIC COMPANY
BIENNIAL COST ALLOCATION PROCEEDING
(GAS)
PREPARED TESTIMONY



PACIFIC GAS AND ELECTRIC COMPANY
CHAPTER 4
GAS SUPPLY

A. Introduction

This chapter proposes a reduction of the original Gas Accord allocation of intrastate transmission for the core portfolio. PG&E believes the 48 MDth per day of Silverado capacity, used to transport California gas supplies, should be reduced to 5 MDth per day as most of PG&E's California gas contracts have been mutually terminated. PG&E also recommends replacing the firm annual Silverado capacity allocation with a near equivalent quantity of seasonal firm Baja capacity to transport gas from the U.S. Southwest. PG&E proposes that its Core Procurement Incentive Mechanism (CPIM) be modified to accommodate this capacity change.^[1]

Chapter 4 also provides an illustrative annual core portfolio weighted average cost of gas (WACOG) for the forecast period. PG&E's WACOG forecast presented in this chapter is illustrative only, and is not used in establishing rates. PG&E's actual commodity prices are set and posted monthly, as further described in Section C.

B. Proposed Change in Core Capacity Holdings

PG&E recommends a reduction of its current allocation of 48 MDth per day of annual Silverado capacity to 5 MDth per day to reflect the mutual termination of PG&E's California gas contracts, and an increase of 50 MDth per day of seasonal winter Baja capacity to help mitigate the risks associated with peak demand events.

1. Reasons for Capacity Change

PG&E and the California natural gas producers have mutually terminated approximately 90 percent of the California long-term gas sales and purchase contracts. Therefore, the total intrastate capacity reservation intended to accommodate California supplies (firm annual Silverado path capacity) is no longer needed to serve core customers. However, PG&E will retain 5 MDth per

^[1] Specifically, the fixed and variable transportation cost components of the benchmark will reflect the reduction of annual Silverado and the addition of seasonal Baja capacity during the remainder of the Gas Accord period.

day of California capacity to transport the remaining California supplies in the core portfolio.

Table 4-A, below, shows the current and proposed core portfolio intrastate capacity holdings. As illustrated by the table, this proposed modification will also result in a total net annual savings of approximately \$100,000 in pipeline reservation and As-available capacity costs.

**PACIFIC GAS AND ELECTRIC COMPANY
TABLE 4-A
CORE INTRASTATE PIPELINE CAPACITIES
AND RESERVATION COSTS
TEST YEAR 1**

Line No.		PIPELINE CAPACITIES (MDth/d)	
1		Current Holdings	Proposed Holdings
2	Redwood	609	609
3	Baja		
4	Annual	155	155
5	Seasonal Nov, Mar	155	155
6	Dec-Feb	464	514
7	Silverado	48	5

		RESERVATION COSTS (\$ Million)	
8		Current Holdings	Proposed Holdings
9	Redwood	17.2	17.2
10	Baja		
11	Annual	7.1	7.1
12	Seasonal Nov, Mar	1.4	1.4
13	Dec-Feb	6.4	7.1
14	Silverado	1.3	0.1
15	Total Reservation Costs	33.5	33.0
16	Silverado Brokering Credits	-0.9	0.0
17	As-Available Capacity Costs	1.8	1.3
18	Net Reservation Costs	34.3	34.2

PG&E recommends replacing the firm annual Silverado capacity allocation with a near equivalent quantity of seasonal firm Baja capacity for the three-month winter period December through February. PG&E currently has a maximum of 2.4 Bcf per day of transmission and storage capacity to serve core

demands. This is insufficient to serve core demands during a peak event,[2] and is also insufficient to serve loads under cold weather conditions that have a high probability of occurrence.

For instance, as recently as December 1998, PG&E experienced a maximum daily core load of approximately 2.7 Bcf. Had this event been more extreme, PG&E may not have been able to meet the associated demands without diversion of noncore customer supplies. In the event of involuntary diversion, core customers could be assessed diversion usage charges and compensation charges totaling \$100 per Dth.

Without additional firm Baja capacity, core customers would have to compete with other segments of the market such as electric generators and noncore customers for scarce and potentially high-priced citygate supplies. In addition, core customers may need to rely on As-available Baja transportation, which is not likely to be available during extreme cold weather events.

2. Impact on CPIM Benchmark

Instead of reasonableness review, PG&E's actual gas costs are compared to a calculated CPIM benchmark and variances from the benchmark are translated into rewards or penalties that are divided between PG&E ratepayers and shareholders. The CPIM standard benchmark applies to purchasing activities during most operating and temperature conditions.[3]

The standard benchmark has three components: (1) a fixed transportation component containing the fixed costs of Canadian, U.S. interstate and intrastate transportation capacity; (2) a variable cost component, which includes gas commodity costs and interstate and intrastate volumetric transportation costs; and (3) a storage cost component, which includes reservation and variable costs.

The CPIM variable cost benchmark is constructed from a forecast level of daily demand, adjusted for a planned level of storage injection or withdrawal.

[2] According to the 1998 California Gas Report, page 37, PG&E's peak core demands may exceed 3.0 Bcf per day.

[3] An alternate benchmark applies under extraordinary circumstances of extreme loads or supply shortfalls. PG&E does not foresee circumstances requiring the alternate benchmark during the test period.