PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION & COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-2722
April 22, 1987.

RESOLUTION

SOUTHERN CALIFORNIA GAS COMPANY (SoCal Gas) REQUEST FOR AUTHORIZATION OF A GAS TRANSMISSION SERVICE CONTRACT WITH BERRY PETROLEUM COMPANY FOR ENHANCED OIL RECOVERY (EOR) USE.

By Advice Letter No. 1691, Filed March 5, 1987, Southern California Gas Company (SoCal Gas) submitted for approval a Gas Transmission Service Contract between Berry Petroleum Company (Berry) and SoCal Gas, in accordance with the general findings and conditions of Decision No. 86-12-009, dated December 3, 1986 and Rate Schedule GLT.

BACKGROUND

1. SoCal Gas rate schedule GLT is applicable to transportation of customer-owned natural gas for use in enhanced oil recovery (EOR) facilities as provided by Decision 86-12-009, including gas used for combined EOR/cogeneration facilities, and under the terms of a negotiated Gas Transmission Service Contract. Transportation service under this schedule is limited to volumes equal to or, in excess of 250,000 therms per year to each customer's premises as defined in SoCal Gas' Rule No. 1, Definitions.

2. The rate schedule provides that the Utility and customer shall negotiate a transmission rate, a Customer Charge and an appropriate escalation factor to be stated in the Gas Transmission Service Contract. A separate priority charge may be negotiated, a Demand Charge component also may be included. The negotiated transmission rate shall be set neither below the floor rate (short-term marginal cost) nor above the ceiling rate (long-term marginal cost).

3. The rate also will include any applicable taxes, fees, regulatory surcharges, intra-or-interstate pipeline charges imposed as a result of transporting gas under the schedule. In the event customer delivers more or less gas into the Utility system than it accepts on redelivery, such imbalances shall be specifically provided for in the contract.

4. To renew the terms of service under the Service Contract, notice from the customer is required at least fifteen days prior to the expiration of the existing contract, and renewal is subject to available capacity on the Utility system as determined by the Utility. At the end of the initial term, the original rate will be revised to an appropriate negotiated rate at the time of renewal.

5. Customers may receive service under the GLT schedule (a) separately or (b) in combination with an applicable sales rate schedule. Where service is rendered under (b), a separate monthly customer charge shall be applicable for service under each schedule. If service is rendered under (a), the customer must still meet the terms and conditions of the customer's otherwise applicable sales rate schedule.

SUMMARY OF CONTRACT TERMS

1. This contract with Berry provides for a transmission charge and a monthly customer charge. In addition to the transmission charge there is a provision for rate escalation and an option to negotiate a priority charge. The term of the agreement is ten years.

2. This is the first such contract submitted by SoCal Gas for approval under the terms of the GLT schedule as provided by Decision 86-12-009.

3. The contract contains the following rates and charges:

(1) Customer Charge: The customer shall pay a monthly customer charge of five hundred dollars ($500.00) per each premise.

(2) Transmission Charge: In addition, the customer shall pay a transmission charge of three and six-tenths cents (3.6¢) for each therm of gas accepted at the points of delivery. If the customer's gas usage is both EOR and non-EOR usage, the customer will specify the percentage of each in Exhibit A herein. Only gas used for EOR operations will be billed at this charge.

(3) Escalation: The transmission charge under this agreement shall be escalated on January 1, 1988 and on each January 1 thereafter by an escalation factor equal to changes in SoCal Gas' total authorized margin as it is determined in the most recent General Rate Case or Attrition Allowance according to the following formula:

$$\text{New Rate} = \text{Current Rate} \times \frac{\text{New Authorized Margin}}{\text{Base Authorized Margin}}$$

The Base Authorized Margin is the authorized margin as of the scheduled date of first deliveries. The transmission charge shall escalate every January 1 at a rate of no less than three percent (3%) and no greater than five percent (5%) of the current rate.

(4) Priority Charge: The customer shall not pay an additional charge to establish its priority of service under SoCal Gas Tariff Rule 23 at this time. In the event priority charges are negotiated with other EOR customers, either party may initiate negotiations for a priority charge to be added hereunder.

(5) Fuel Use and Line Loss Charge: The customer shall pay in-kind a quantity of gas equal to zero percent (0%) of the quantity of Gas SoCal Gas accepts at the points of delivery for fuel use and line loss.

(6) Surcharge: Currently there is a surcharge of zero cents (0¢) per therm on all gas accepted for transportation at the point(s) of delivery.

4. The contract is proposed to become effective within 48 hours of receiving Commission approval, and shall continue in full force and effect for ten (10) Years. Subject to available capacity as determined by SoCal Gas, this agreement may be renewed for an additional period of five (5) years on mutual agreement and upon customer's written request to SoCal Gas ninety (90) days prior to the expiration of the initial 10 year term.

PROTEST BY TURN

1. Toward Utility Rate Normalization (TURN) has filed a protest to SoCal Gas' Advice Letter No. 1691, stating that the "Commission is once again being asked to judge (as it was in the spring of 1986) whether a discounted price contract with a large, highly-elastic non-core customer is or is not a 'good deal' for core customers. It should be the utility -- not this Commission -- that decides what is a 'good deal', and that decision must be made with the utility's own profits at stake."

2. "As stated in D.86-12-009 (p.41), long-term contracts such as the one proposed here 'will be taken into account during subsequent cost reallocations.' This provision effectively shifts the risk of these agreements back to the general body of ratepayers. Moreover, D.87-03-044 has taken away all of the utilities' upward pricing flexibility in the non-core market. That action effectively insulated non-core customers from the risks of discounted price contracts."

3. TURN states that "taken together, these decisions leave core ratepayers as the primary targets for picking up any revenue shortfall resulting from contracts such as the SoCal/Berry

agreement. Indeed, the utilities have already proposed in their original OII/OIR implementation filings to reallocate EOR-related revenue shortfalls to other customers, primarily those in the core class."

4. TURN recommends that "the Commission should authorize SoCal to carry out the terms of the contract on a short-term, interim basis only."

5. In addition, TURN suggests that "a workshop or meeting of the interested parties should be convened as soon as possible thereafter to discuss potential modifications to the existing regulatory framework as it relates to EOR service." TURN offers for discussion purposes two potential alternative approaches, both of which involve removal of incremental EOR volumes from the general cost allocation process.

> Option 1 - Allocate no costs to EOR, but credit all or the great majority of EOR transmission revenues back to the core balancing account.
>
> Option 2 - Allocate a reasonably recoverable amount, such as 3.5 cents per therm plus fuel, for EOR volumes and leave the utility fully at risk for revenues actually received above or below that benchmark figure.

6. Without such a meeting, TURN states that "the alternative would be for the Commission to make a 'yes or no' call on the SoCal/Berry contract (and the others that will surely follow) on the basis of woefully inadequate data and with highly uncertain future consequences."

PROTEST BY PSD

1. The Commission's Public Staff Division (PSD) protests SoCal Gas' Advice Letter No. 1691 stating that it poses a significant risk to ratepayers.

2. "To the extent the 3.6 cent/therm capacity rate is below embedded cost there will be a revenue deficiency under the Commission's latest regulatory program (which uses allocated embedded cost as the ceiling or default rate). SoCal will surely ask that other ratepayers 'pick up the tab' for any subsidy which it extends to Berry under the auspices of the Commission. And, the tab could potentially become quite large because this is a proposed ten year contract."

3. Further, with regards to the rate, PSD states that "in view of the Commission's latest regulatory groundrules (D87-03-044 in I.86-05-005 et al) the contract must be examined carefully so that the relationship between the 3.6 cent floor price and the EOR class' embedded cost is known with some certainty, and a studied policy resolution is reached on how to allocate any

revenue recovery shortfall. It appears that the Commission originally contemplated a ceiling rate for the broad non-core class which would be high enough to 'cover' any revenue shortfalls from some customers (e.g.EOR). But now a ceiling rate above embedded cost for the non-core class will not exist."

4. Regarding the contract terms, PSD asks the Commission to reconsider who should bear the risk for long-term contracts, in view of the current policy where the noncore class rates are set at fully allocated embedded cost.

5. "Under the tentative contract the 3.6 cent rate can escalate each year, but never by more than 5% per year. This cap greatly minimizes Berry's long term risk but ...affords no long-term benefits to SoCal or its ratepayers." If inflation out paces the 5% cap, SoCal and its ratepayers would be subjected to an "eventual under recovery".

6. Additionally, the fuel and line loss contract provisions concern PSD. "According to the contract (Section 1.5 of Article 1), 'The customer shall pay in-kind a quantity of gas equal to zero percent (0%) of the quantity of gas SoCal accepts at the points of delivery for fuel and line loss.' This means that there is no stated separate payment to SoCal for the fuel it uses in compressors to move Berry's volumes or for the amount lost in lines during SoCal's movement of Berry's Gas."

7. "Not having a stated incremental allowance for compressor fuel and line loss means that SoCal would always transport Berry's volumes using SoCal's gas rather than the usual arrangement where a portion or percentage of the customer's gas is used. But if gas prices rise, Berry could have a windfall."

8. Regarding the contract duration, PSD states that ten years is a long time for a requirements contract. "Public Staff believes that a sound long-term contract would provide SoCal with the opportunity at some point over its term to renegotiate the transmission charge if conditions change to the point that SoCal is not recovering its incremental margin requirement from the customer."

9. In summary, PSD states that the "key terms of this first long-term contract under the new regulatory framework pose great risk to ratepayers. The Commission is being carefully watched by oil companies. How it deals with this tentative contract will undoubtedly be seen as setting the tempo for how it will react to other contracts. It is most important that the Commission deal with this contract carefully and correctly."

10. Public Staff recommends three prioritized options:

A. Reject Advice Letter No. 1691 and "either:

1) have SoCal renegotiate with Berry to resolve the PSD concerns, or

2) invite SoCal to file an application with supportive testimony so that the matter can be investigated more completely and set for a quick hearing.

B. Reject Advice Letter No. 1691, but specifically address the issues and concerns early this summer in the Commission decision at the conclusion of the 'implementation proceeding' hearings.

C. Approve Advice Letter No. 1691, but only with the condition that if SoCal goes ahead with the contract its shareholders will bear the consequences of any revenue deficiency over the full ten year contract term."

RESPONSE TO PROTESTS BY SOCAL GAS

1. In its response to the protests, SoCal Gas refers to Commission Decision No. 86-12-009 wherein "the Commission reaffirmed its previous policy to permit the utilities to negotiate individual long-term service contracts and bring them to the Commission for approval. The Commission provided for this treatment of EOR contracts even thought it suspended the long-term transportation tariffs applicable to non-EOR customers pending OII implementation.

2. In the case of Berry, SoCal Gas states that it has done exactly as the Commission had envisioned, by securing a long-term contract with an EOR customer at a rate well above the short term marginal cost floor adopted for such contracts in D.86-12-009. SoCal Gas has brought that contract to the Commission for approval. As will be discussed below, the contract exceeds all of the guidelines the Commission has set forth for long-term EOR transmission contracts.

3. SoCal Gas is concerned that PSD would like to exercise regulatory control over every detail of noncore transmission service. Market forces and new interstate pipeline proposals have made the provision of this service a competitive business. SoCal Gas states that "PSD must come to the realization -- as the Commission did in its December 3, 1986 decisions -- that we have entered a new era in the natural gas transmission business."

4. SoCal Gas then outlines its response as follows:

A. EOR rates can be below embedded cost

The central point of PSD's protest seems to be that the Berry contract will not recover the fully allocated embedded cost of providing service to Berry. PSD is correct. Althought SoCal Gas believes that the 3.6¢ per therm rate in the contract is very reasonable under the circumstances, it is less than fully allocated embedded cost. This can be expected to be true of all contracts that have been or can be negotiated with EOR customers. However, this fact is no reason at all to reject the Berry contract, or future EOR contracts.

The OII decision clearly contemplates that all ratepayers benefit from adding incremental EOR load to a system like SoCal Gas' that has available capacity, so long as the revenues generated by the incremental load exceed the variable cost of serving the load. The Commission stated that the pricing flexibility it was adopting would allow the utilities to negotiate down to a floor of short-run marginal cost, which might even approach 1¢ per therm (D. 86-12-009 at mimeo pp. 65-66). It is clear that the Commission realized that adding EOR load would provide other ratepayers with positive margin contribution as long as the EOR customers paid more than the utilities' variable cost of service (see fn. 3 at mimeo p. 66 of D.86-12-009). In the case of Berry, the 3.6¢ per therm rate is clearly well in excess of variable costs of around 1¢ per therm, and will yield substantial margin contribution.

B. Cost allocation problem from March 17 Decision (D. 87-03-044)

PSD and TURN are both correct, however, in noting a potential problem created by the Commission's cost allocation methodology as affected by the March 17 decision prohibiting utilities from recovering above fully allocated embedded cost from any individual noncore customer. Without some appropriate cost allocation adjustment, SoCal Gas could find its shareholders having to make up the difference between long-term EOR contract rates and the fully allocated embedded cost of serving EOR customers.

SoCal Gas does not believe that the Commission ever intended, or intends now, to create a system that would produce tremendous disincentives for SoCal Gas to sign new EOR customers to long-term transmission contracts. The Commission needs to address this problem. SoCal Gas will file a Petition for Modification of the March 17 decision that will describe the preferred mechanism for Commission adoption to prevent this disincentive from being created.

TURN's "Option 1" in its protest is intended to resolve this EOR cost allocation problem by allocating no costs to EOR

customers, but would credit all or nearly all EOR revenues to the core balancing account. In effect, this would give all the benefit of SoCal Gas' signing up EOR customers to core customers only. This is unfair to other non-core customers who should share with core customers the efficiencies of fuller use of existing utility facilities.

C. Risk to utilities of approved contracts

TURN, and perhaps PSD, also protest on the grounds that the present system does not put utility shareholders at risk for whether or not the long-term EOR contracts are "good deals". In fact, the Commission has stated that the utilities are at risk within certain parameters, in that Commission approval will not insulate the shareholders from bearing some of the risks of long-term contracts where it can later be shown that the utility failed to take into account material information of which it was or should have been aware at the time it entered into contract.

While SoCal Gas is less than enthusiastic about the risk to which D.86-12-009 already exposes it for long-term contracts, certainly no greater risk should be imposed.

SoCal Gas understands the Commission's intention to be that utilities should bring long-term EOR contracts before the Commission for initial review and approval. The Commission will review the contracts to see that they meet the general guidelines set forth in Decision No. 86-12-009. "After initial review and approval of such contracts, the Commission intends to allow the parties the benefit of their mutual bargain without further regulatory interference" (D. 86-12-009 at mimeo p. 64). SoCal Gas believes it is clear that the Commission did not intend to second-guess or penalize SoCal Gas after the Commission has approved an EOR contract for later developments that were not reasonably foreseeable. If at a later time the Commission were to second-guess SoCal Gas, it would create tremendous pressure for SoCal Gas to seek to terminate or amend the long-term contract. This would work directly contrary to the regulatory stability that the Commission has told EOR customers and the FERC that they can expect from the Commission.

TURN's "Option 2" is an inappropriate attempt to put SoCal Gas shareholders at risk for revenues obtained from EOR customers. Under TURN's "Option 2", the utility shareholders would be penalized if the utility failed to recover at least a "target" rate, such as 3.5¢. The problem is that the Commission has acknowledged that it may be beneficial to ratepayers to charge as little as 1¢ per therm to attract additional EOR load. Given a 3.5¢ "target", it will be uneconomical for a utility to sign those EOR contracts yielding above 1¢ but below 3.5¢, even though those contracts would be beneficial to ratepayers. TURN's "Option 2" should be rejected.

D. Length of contract

PSD is concerned because the contract length is for ten years and does not provide for reopening of the price term, although there is an escalation clause. SoCal Gas believes the ten year length is a positive feature of the contract. The Commission clearly contemplated that EOR contracts could be 5, 10, 15 or even 20 years in duration (see D.86-12-009 at mimeo p. 68). Furthermore, the Commission recognized the reliance interest of EOR customers in firm price guarantees, and promised not to disturb the provisions of the contracts before expiration (see D.86-12-009 at mimeo p. 69; D.85-12-102 at mimeo pp. 47, 49).

E. Price escalator clause

PSD has also expressed concern that perhaps the 5% escalator clause does not afford enough upward flexibility. In fact, it is a very reasonable escalation provision. First, the Commission appreciates the need of the EOR customers for rate certainty as noted above. Second, the escalator clause is drafted so that after SoCal Gas' margin has increased by 5%, the rate will increase by a full 5% every year thereafter so long as SoCal Gas' margin does not decrease to less than 5% above its margin at the start of the contract. Third, the long-term EOR transportation tariff previously approved and in effect before D.86-12-009 had an escalator clause with a range of 3% to 5%. The Berry contract is at the high end of what the Commission thought was reasonable. Finally, the transmission rate is recovering costs that are in large measure "sunk" or fixed and will not likely change greatly over ten years.

F. Fuel and line loss

Finally, PSD expresses concern over the fact that fuel and line loss are not provided in kind by Berry but are provided by SoCal Gas. The fact is that it is common for a transporter to offer to either provide fuel and line loss itself or to have the shipper provide it in kind. This aspect of the Berry contract was negotiated between the parties, and the cost of SoCal Gas providing fuel and line loss is covered in the 3.6¢ contract rate. None of SoCal Gas' transportation tariff schedules previously approved by the Commission provided for a separate charge for fuel and line loss, or for the customer to provide this gas in kind (except negotiation of such items is optional under GLT-3 for EOR customers).

5. SoCal Gas concludes its response by stating: "The Commission's long-term EOR contract program will not work if the Commission lets PSD try to re-trade each agreement a utility has negotiated and brought to the Commission for approval. In any agreement there are particular details that may not be ideal, but were arrived at as part of the give-and-take of negotiation to arrive at an overall contract that benefits both parties.

Contrary to PSD's assertions, the Berry contract does not set a bargaining standard for EOR customers. SoCal Gas will negotiate each EOR contract on its own merits, and will attempt to obtain as much revenue as possible - up to fully allocated embedded cost - from each potential customer, without losing the contract.

The Berry contract clearly falls within the long-term EOR contract guidelines established in D.86-12-009. Whether the Commission approves the Berry contract is something of a test of whether the Commission is serious about having EOR customers signed to long-term utility service contracts. PSD has suggested a number of steps that would delay Commission action. Delay would give exactly the wrong signal to the EOR market."

SoCal Gas concludes that: "the PSD and TURN protests should be rejected; the Berry contract should be approved promptly, and without conditions."

DISCUSSION

1. The staff of the Evaluation and Compliance Division (E&C) has reviewed this filing, including the protests and SoCal Gas' response. Based on E&C review of the filing, including the protests and SoCal Gas' response, the Commission concurs with SoCal Gas' advice letter and with the response to the protests.

2. The major concern raised by both PSD and TURN is that the general body of ratepayers not subsidize service to EOR customers. This concern apparently precipitated from D.87-03-044, which lowered noncore ceiling rates from unscaled replacement cost down to embedded cost. By lowering ceiling rates, the Commission did not intend to suggest that SoCal or PG&E would be expected to recover revenues from EOR customers based on full embedded cost.[1] Such a requirement would be contrary to the Commission's committment to provide reliable and competitive service to the EOR market.

3. As SoCal has correctly pointed out in its reply, "the Commission has stated in several of its recent decisions that the most efficient and economical means of serving the Kern County EOR market is to serve that market through the systems of California's two major state-regulated local distributing companies. No interstate pipeline is needed to meet the

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1 PG&E and SoCal have filed petitions for modification of D.87-03-044 seeking clarification on this point. The Commission is to address this issue further in its formal response to these petitions.

reasonable service needs of California gas consumers, including Kern County operators, at just and reasonable rates."

4. SoCal Gas has also stated correctly that "the CPUC has put in place a regulatory framework that enables the utilities to serve EOR producers at a price that cannot be matched by the interstate pipeline applicants; that the CPUC has ordered the utilities to serve the EOR market competitively and to negotiate transmission rates down to a floor of 1¢ per therm; that the utilities are authorized to negotiate long-term contracts of up to 20 years; and that the CPUC intends to respect the sanctity of contracts negotiated between the utilities and EOR producers."

5. The EOR market is attractive because it represents incremental load at a time when SoCal and PG&E have excess capacity to serve this load. As long as the rates negotiated with EOR customers exceed the marginal cost of service, all ratepayers will benefit from the additional contribution to cover the utilities' fixed cost. The adage that "some margin is better than none" explains why the floor was set at a rate equal to short-run marginal cost in D.86-12-009. It also explains the Commission's opposition before FERC regarding the certification of a new interstate pipeline to serve the EOR market. Serving the incremental EOR market with the utilities' existing facilities can be positive for ratepayers because there is no subsidy flowing to the EOR market, as long as rates exceed the marginal cost of service.

6. In D.86-12-009, the Commission required the utilities to file all long-term contracts (contracts with terms of five years or more) with the Commission for approval by advice letter. This procedure was instituted to protect ratepayers from some of the risks inherent in long-term contracts that offer pricing certainty. It also affords the Commission with the opportunity to assure that all long-term contracts are consistent with the guidelines established in D.86-12-009 and D.86-12-010. The Commission has reviewed the SoCal/Berry contract to see that it meets the general guidelines established in D.86-12-009. But, this review should not insulate utilities from their responsibility to negotiate reasonable long-term contracts in the interest of all utility ratepayers. As SoCal points out in its response to PSD and TURN, the Commission has stated in D.86-12-009 that the utilities bear some of the risks of long-term contracts and are responsible for negotiating contracts that are consistent with market realities (D.86-112-009 at mimeo pp. 41-42).

7. PSD states its concern over the 5% escalator cap, the 10 year contract term, and the treatment of fuel and line losses. The Commission finds particular merit is PSD's comments regarding fuel and line losses, and reopener provisions due to substantially changed circumstances. However, while PSD's points are well taken, the Commission believes that on balance, the

SoCal Berry contract is reasonable in light of current market conditions and the importance of serving the EOR market.

8. As discussed above, the fact that the negotiated 3.6 cent/therm rate is below embedded cost does not indicate that it is unreasonable. The Commission believes that the negotiated rate bears a reasonable relationship to current market conditions and will provide ratepayers with significant margin contribution over the life of the contract. The negotiated rate is clearly above the 1 cent/therm floor established in D.86-12-009. It is almost identical to the 3.5 cent rate in the SoCal/Texaco EOR gas transportation contract which was approved in D.85-12-102. (See Attachment)

9. The Evaluation and Compliance Division recommends approval of this contract with Berry Petroleum Company. We accept this recommendation.

10. SoCal Gas has requested that this filing be made effective for service on April 25, 1987, which is more than regular 40 day notice.

11. Public notification of this filing has been made by mailing copies of the advice letter to other utilities, governmental agencies, and to all interested parties who requested them,including the parties of record in OII 86-05-005 and OIR 86-06-006.

FINDINGS

1. The enhanced oil recovery market currently represents the largest new market for natural gas in California.

2. It is reasonable for SoCal Gas to provide service to Berry under the terms and conditions of this contract to maintain sales at competitive natural gas prices, in accordance with Decision 86-12-009.

THEREFORE:

1. Under the provisions of Public Utilities Code Sections 454 and 532, Southern California Gas Company is authorized to enter into a contract with Berry Petroleum Company for the sale or transport of natural gas subject to the terms set forth in the advice letter and the contract submitted with the advice letter.

2. The Commission will independently review all future EOR contracts with terms of 5 years or more.

3. Southern California Gas Company will be required to furnish data to establish the volumes and prices used for this contract. and the contribution to margin from this contract annually or at

the time of each revision in the transportation rate, beginning 60-days after the first such revision in rates, to the Chief of the Energy Branch of this Commission.

4. The above advice letter and contract form shall be marked to show that they were authorized for filing by Commission Resolution G-2722, to be effective on or after April 25, 1987.

5. This Resolution shall be served on all parties to the Commission's ongoing Rate Design proceedings in OII 86-06-005 and OIR 86-06-006.

6. This Resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission on April 22, 1987. The following Commissioners approved it:

Executive Director

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
JOHN B. OHANIAN
Commissioners

I abstain.

G. Mitchell Wilk, Commissioner

ATTACHMENT
G-2722

Comparison of the Texaco and Berry EOR Gas Transportation Contracts

		Texaco	Berry
1.	Quantity	170 MMcfd	16.2 MMcfd
2.	Transportation Fee	3.5 ¢/th	3.6 ¢/th
3.	Escalation	With SoCal's Margin: Floor of 3%, Ceiling of 5%	With SoCal's Margin: Floor of 3%, Ceiling of 5%
4.	Take-or-Pay	50%, with makeup rights	50%, with makeup rights
5.	Term	10 years, with some rights to reduce or cease shipments after 5 years	10 years
6.	Priority	Subordinate to sales and exchange customers, and presumably ahead of transportation customers. However, Texaco does agree to "abide by any CPUC...rules for curtailment of Gas which become applicable to this Agreement." (Section 2.10) Thus, the CPUC conceivably could apply the Priority Charge curtailment Scheme to this contract without giving Texaco grounds to back out.	By Priority Charge as established in D.86-12-009 and 010.
7.	Fuel Use and Line Losses	0%	0%
8.	Customer Charge	None	$500 per month per premise (.05 ¢/th assuming four premises and a 75% load factor)
9.	Status	Approved in D.85-12-102	Pending AL 1691