PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-2760
January 28, 1988.

RESOLUTION

RESOLUTION G-2760, AUTHORIZING PACIFIC GAS AND ELECTRIC COMPANY SCHEDULE G-INT, INTERUTILITY TRANSPORTATION SERVICE AND CUSTOMER SERVICE AGREEMENT; BY ADVICE LETTER 1429-G FILED SEPTEMBER 25, 1987.

SUMMARY

Pacific Gas and Electric Company (PG&E) filed Advice Letter 1429-G on September 25, 1987 requesting approval of Schedule G-INT, Interutility Transportation Service and a customer service agreement as directed by D.87-05-069, dated May 29, 1987, as amended by Ordering Paragraph 7 of Decision 87-09-027, dated September 10, 1987.

BACKGROUND

1. Decisions 87-05-069 and 87-09-027 address the subject of interutility transportation within the State of California, and direct Southern California Gas Company (SoCal) and Pacific Gas and Electric Company to file tariffs and model contracts with the Commission.

2. Decision 87-05-069 established a system of interutility gas transportation to allow the owners of natural gas supplies to move those supplies completely across the systems of California's regulated gas utilities. The decision found interutility transportation to be in the public interest, principally because it "promises to provide gas utilities and end-users access to new sources of supply, thus enhancing gas-to-gas competition. Interutility transportation may also allow the gas utilities to utilize their systems more intensively."

3. A Principles of Agreement (PA) was attached to D. 87-05-069, outlining a compromise between SoCal and PG&E for

interutility gas transportation. D. 87-05-069 adopted various interutility gas transportation ceiling rates at a level slightly less than those found in the PA. SoCal and PG&E subsequently submitted an amendment to the PA, adopting the ceiling rates as outlined by D. 87-05-069.

4. Decision 87-09-027 slightly modified D. 87-05-069. It also ordered both SoCal and PG&E to file tariffs and model contracts in accordance within the range of rates found reasonable in D. 87-05-069 and under such other terms and conditions as described in the decision.

PROTESTS AND RESPONSES BY PG&E

1. Five protests were received in response to PG&E's filed Advice Letter 1429-G for interutility gas transportation. While no direct protests were filed in response to SoCal's filed Advice Letter 1732, many of the same issues apply. The protestors are Shell Canada Limited (Shell Canada) and Mock Resources, Inc. (Mock); San Diego Gas and Electric Company (SDG&E); RECON Research Corporation (RECON); representing AEC Oil & Gas Co., a division of Alberta Energy Co. Ltd.; Amoco Energy Trading Corporation (AETC); and Canadian Producer Group (CPG).

2. The protest issues include complaints about proposed service and capacity, contract term, negotiating rates, additional fees, operations and procedures, and billing.

3. SERVICE - Each of the protestors have complaints regarding the service as outlined by the PG&E tariffs and contracts.

A. Curtailment of Service - Shell Canada/Mock and RECON protest that the tariffs should provide for curtailment among interutility shippers paying the same interutility rate on the basis of end-use priority, rather than on a pro rata basis. They argue for compatibility with established rules for intrautility shippers, citing D. 86-12-010 (December 3, 1986, p.25), which orders noncore customers who pay the same priority charge to be curtailed based upon the existing end-use priority system.

PG&E asserts that the tariff specifically incorporates the curtailment rules adopted for interutility service in D. 87-05-069. They declare that the protestors are arguing that the Commission's interutility decision be changed to correspond to the curtailment rules adopted in D.86-12-010 for retail transportation.

B. Discretionary Authority to Refuse Service - RECON, Shell Canada/Mock, SDG&E and CPG object to PG&E's filed tariff and contract language. Generally, each states that if the advice letter is allowed without modification, it will be too easy for PG&E to abuse and refuse to provide service.

The most expanded argument is presented by CPG. They state that: "PG&E's filed tariff sets out such broad discretion to curtail service...that it effectively reinstates the 'essentially voluntary' scheme of interutility transportation the Commission decided against. Moreover, there is no condition of the tariff or the 'service agreement' which would require PG&E to explain or justify its failure to provide service." They cite Schedule G-INT and the service agreement:

> "Service under this schedule may be curtailed because of capacity or supply constraints. PG&E shall be the sole judge of whether it has sufficient capacity to transport gas... PG&E, solely at its discretion, may curtail its receipt of the shipper's gas if accepting the shipper's gas for transport would obligate PG&E to purchase gas it would not purchase otherwise, or operate its system any differently."(Emphasis added).

CPG argues that "Any interutility transportation requires PG&E to 'operate its system differently' than if such interutility transportation were not occurring. This clause alone would permit PG&E to refuse any or all interutility shipments."

Further, under the Service Agreement, CPG objects to:

> "In the sole judgement of PGandE, PGandE has the operational and contractual ability to provide such service and when capacity in excess to its other business needs is available for transportation which does not negatively impact either service to or the economics of serving any of PGandE's On-System Customers... It is understood by the parties that Transportation Service under this agreement may be subject to interruption at any time and without prior notice at the sole discretion of PGandE when it is determined by PGandE that Transportation Service provided hereunder will negatively impact either service to or the economics of serving any of PGandE's On-System Customers and that PGandE shall not be liable for any damages as a result of PGandE's discretionary curtailment of Shipper's gas."
> (Emphasis added)

CPG argues that neither the Commission's interutility decisions nor the hearings provided any basis for several of the criteria for curtailment proposed by PG&E. They state that the record provides no support for rationales other than capacity to be used by PG&E in denying or curtailing interutility service.

CPG suggests that one potential abuse of its discretion is that "PG&E through its tariff puts itself in a position to dictate interstate capacity access by dictating interutility capacity access. By denying -- without appeal -- that there is capacity for an interutility shipment on the grounds of intrautility transportation needs or an alleged 'negative impact on service' to intrautility customers, PG&E can effectively foreclose use of interstate capacity by a shipper who may have a higher priority or a higher place in an interstate shipping queue than the intrautility shipper PG&E wishes instead to serve."

SDG&E suggests that PG&E substitute "reasonable discretion" for "sole discretion" where it appears in both the tariff and contract. It states that the term "reasonable discretion" is a standard that has been adopted by the Federal Energy Regulatory Commission (FERC).

PG&E responds: "the basic premise of interutility transportation is that capacity left in the gas transmission system after on-system customers are served may be utilized for interutility transportation as long as it does not interfere with service to on-system customers. That means that the utilities should not have to incur extra expense or alter reliability of service for on-system customers to make interutility capacity available that otherwise would not be available under normal operations for on-system customers. This concept is what is embodied in the language allowing PG&E to curtail interutility service if that service would require it to operate its system differently."

"This language goes to the concept that interutility transportation allows use of excess capacity left after on-system customers are served. That means the utility should not have to go to any extra expense to try to make capacity available that otherwise would not be available under normal operations for on-system customers only. If making capacity available for interutility service would increase costs to provide service to those other customers, the interutility transportation would have a negative impact on the economics of serving on-system customers. In those circumstances, PG&E would not incur the higher costs to make interutility service available." PG&E maintains that the concept in this language is basic to the underlying premise for provision of interutility service and should not be changed."

In conclusion, PG&E states: "If making interutility service available would cause increased costs to other ratepayers (i.e. such as requiring the utility to increase gas purchases from a more costly source) the utility should be free to decline provision of the service. The interutility rate was never meant to cover such an increase in expense. At $.11 to $.19 per MMBtu compared to a cost based on-system transportation rate of over $1.00 per MMBtu being developed in the gas OII case, interutility service is not supposed to impose added costs on the transporting system's operations. The interutility rate is much, much lower because it reflects interutility's low priority of service. Hence it is appropriate to curtail the service rather than incur added expense to be able to provide it. Under AETC's proposal, however, an interutility user would essentially get a firmer service than is justified by the extraordinarily low interutility rate."

"Moreover, even if physical capacity exists, provision of interutility service may be operationally impossible such as when the utility's gas flows in the redelivery area are insufficient to meet on-system demands and to permit other deliveries of gas into another utility's system for interutility purposes."

In response to SDG&E, "PG&E maintains that sole discretion is the appropriate term to use in this connection. PG&E alone is required to make operating decisions and judgements pertinent to maintaining system operations and minimizing the costs of its gas system activities. This decision making process is PG&E's sole responsibility and cannot be shared with others. Therefore, sole discretion is the appropriate reference in this context and should not be changed."

AETC argues that the PG&E tariff should "provide that the shipper will receive a full written explanation of any interruption, denial, or adjustment of interutility service ... accompanied by data on volumes and other information sufficient to allow the shipper to confirm the explanation."

PG&E objects to this idea, calling it extremely burdensome. "As the lowest priority, interutility shippers must accept the fact that they may be interrupted more than anyone else." PG&E believes that the practice of handling these situations by verbal dispatcher exchange to be a good approach. This procedure already has been adopted by PG&E's dispatchers, so interutility shippers on PG&E's system are provided with the explanation for their service interruptions or denials at their request."

C. Limitations on Interutility Service - CPG objects to the restriction of eligible interutility shipments to those which go "to or on behalf of another LDC." (Local Distribution Company) They state that this excludes end-users or other shippers not having the benefit of an LDC. They cite D.87-09-027 (9/10/87) in which the Commission stated that:

> "The tariffs should be available to any end-user or other shipper who seeks to move gas across a utility system."

CPG would like PG&E to restate its tariff condition to make it clear that any person who seeks to move gas across PG&E's system for his own or any other person's account may avail himself of the tariffed interutility service.

PG&E responds: "Interutility gas is gas that will move through PG&E's system to get to a user in another California utility's service area. In order for PG&E to accomplish interutility transportation of the gas, it must be delivered to and accepted by the other local distribution company. Consequently, the language in question refers to a physical requirement for interutility transportation to occur. Of course, the interutility transportation can be rendered for any end-user or shipper willing to comply with the approved terms and conditions for the service. Nonetheless, for PG&E to be able to move gas in interutility transportation, the gas must be redelivered to another local gas distribution company for further transport to the burner tip location."

D. Limitation to California Service Only - CPG argues that PG&E's filing goes beyond the Commission's orders by limiting gas service to use within the State of California. They submit that despite the regulatory issues, PG&E should not be permitted to raise and dispose of this issue within its interutility tariff filing by limiting service to California only.

PG&E responds that what is suggested raises possible problems for PG&E's Hinshaw exemption under the Natural Gas Act. "Since all the gas PG&E transports and sells is used within California, PG&E's gas system has been exempt from federal regulatory control and instead has been subject to state regulation under the Hinshaw exemption. If PG&E were to become involved in transporting gas for consumption outside the State, however, that exemption could be jeopardized. If it were to be lost, the transmission facilities involved would come under Federal Energy Regulatory Commission authority and the CPUC would lose its authority over those facilities." For these reasons, the CPG proposal "contains the potential for a fundamental,

major change that cannot be left as a casual possibility under the interutility tariff."

E. Presumptions Underlying Interutility Service - AETC asserts that: "interutility shippers should be able to rely on certain operating assumptions concerning interutility service given its displacement nature:

-- the presumption that there is adequate interutility capacity to transport gas for any shipper up to the amount of his rights or access to capacity on the Pacific Gas Transmission Company (PGT) pipeline.

-- the presumption that any interutility destination is equally available from a given point of origin.

-- the presumption that any positive imbalance on PG&E's system is PG&E's responsibility, because PG&E alone can directly control the receipt and redelivery of interutility volumes.

PG&E responds: "PG&E has severe problems with all three assumptions because they make assertions about system operations that are wrong. In other words, there are operating situations where each proposed assumption is physically impossible to accomplish."

"AETC wants to assume that there is adequate interutility capacity to transport gas for a shipper up to the amount of his rights or access to capacity on the Pacific Gas Transmission Compnany (PGT) pipeline. That, however, is not necessarily the case. AETC may have the ability to deliver its gas at Malin, but local constraints on PG&E's system may prevent PG&E from redelivering the gas into the southern California market. For instance, if there are local capacity problems in the redelivery point area, PG&E may not be able to accept the gas into its system. Similarly if PG&E's gas flows are not greater than its system need in the redelivery area, PG&E would not be able to perform the interutility service. Also, if SoCal's line at the redelivery point is already full, PG&E will not be able to accomplish interutility transportation at that redelivery point."

ACTC also wants to assume that any interutility destination is equally available from a given point of origin. This proposed assumption ignores the complexities of PG&E's system and SoCal's system and is blatantly wrong. For instance, if on-system gas flows coming into Topock are low, PG&E may not be able to move interutility gas from Malin to the Kern County or Topock interutility redelivery points.

However, if interutility gas were tendered at Topock for redelivery to the Kern County redelivery points, PG&E would be able to provide the service because the interutility volumes added at Topock would increase the Line 300 gas flows. In addition, a given delivery point may be unavailable because another interutility shipper paying a higher price has used the available capacity at the desired point. Then too, other business considerations, such as disputes with another pipeline involved in accomplishing the redelivery, may create problems at a given delivery point."

"The third presumption AETC wants is an assumption that any positive imbalánce on PG&E's system is PG&E's responsibility on the grounds that PG&E alone can directly control the receipt and redelivery of interutility volumes. As with the previous two proposed presumptions, this one is also wrong. Both receipts and deliveries involve other parties besides PG&E. For instance, if too much interutility gas is coming into PG&E's system for the shipper's account, it is because the delivering interstate pipeline or the California gas producer is placing too much gas into PG&E's system. Similarly, difficulties in making redeliveries to the serving utility can be due to problems on the regular serving utility's system. Moreover, the actual data necessary to determine the extent of actual imbalances may not be available to PG&E until well after the interutility service has been rendered."

4. PROCEDURES

A. Gas Routing - CPG charges that PG&E "puts itself in position through this tariff filing to maximize its rates by requiring without any accountability that all shippers utilize a longer interutility route rather than a shorter but more convenient and direct one."

PG&E responds to CPG's allegation that PG&E has refused to make interutility shipments to Topock and instead has required redelivery to be at other points. CPG "failed to recognize that deliveries could not be made at valve 24B (Topock) because of SoCal's existing use of the full capacity on its system at that point. Moreover, CPG omits to mention that until very recently, PG&E had no agreement with El Paso for deliveries to the SoCal/El Paso interconnect at Topock. As an example, the previous lack of such an agreement and the controversy between PG&E and El Paso demonstrates that business disputes between PG&E and owners of other pipeline facilities can prevent PG&E from providing interutility service at a specific point. If PG&E does not agree with another pipeline's position on use of its system, PG&E must conduct its own operations with that

controversy in mind. Consequently, such a controversy could cause PG&E to decline to provide interutility service at given locations if provision of the requested service could compromise PG&E's position in the dispute or weaken PG&E's chances of prevailing."

B. Scheduling and Information - AETC observes that the PG&E tariff and contract "do not establish the necessary conditions or provide the necessary information for interutility shippers to utilize this service as intended by the Commission." They state that PG&E's service agreement omits any procedure by which shippers can obtain advance information and notice to begin to deliver gas, increase, decrease or stop the flow in accordance with any conditions of capacity or other conditions which mandate such changes in sufficient time to be able to react.

AETC requests that the PG&E tariff provide for a nominating procedure under which "(a) any shipper can learn up to three days in advance what capacity is scheduled to be available; (b) any shipper can at the same time nominate volumes to be shipped utilizing such capacity; (c) written confirmation of the availability of capacity and scheduling of his shipments will automatically and immediately be sent; and (d) three days notice will be given of any requirement on the shipper to adjust his interutility volumes, with the shipper held free of any penalty or negative economic consequence if such notice is not given."

PG&E responds: "Under PG&E's procedures, interutility nominations for interutility transportation would be submitted two days prior to the day of requested transport. On the eve of the operating day PG&E would make tentative plans for its actual gas supplies and system operations during the following operating day, including anticipated interutility transportation. Then on the operating day, PG&E would finalize its plans and would perform the interutility transportation, as long as on-system customer needs and/or other system conditions (such as equipment failures or gas supply disruptions) did not require sudden changes in system operations."

"AETC apparently wants more certainty in securing interutility transportation. They argue for the ability to establish and lock-in access to interutility transportation capacity three days in advance. Then AETC wants three days notice to be given of any requirement to adjust its interutility volumes."

"This AETC proposal is antithetical to the realities and operating needs of PG&E's gas distribution system. Unlike the El Paso pipeline, PG&E's gas system must fulfill the

critical functions of a primary distribution system. As such it must follow and satisfy on-system customers' demands as they fluctuate from day-to-day and hour-to-hour. Those demands can and do change rapidly and unexpectedly within very short periods (i.e. within a day, or even within hours) is response to unanticipated changes. For instance, a sudden cold front or hot day can drastically increase the demand for gas in PG&E's service area, as can unanticipated loss of non-gas fired electric generation facilities."

"If interutility shippers were to be able to lock-in 'capacity' in advance, PG&E's ability to respond to these swings in on-system customer needs would be compromised. As a result, if capacity used for interutility transport suddenly were needed to meet on-system customer needs, service to on-system customers would suffer because interutility users had 'locked-in' capacity in advance. This result would be contrary to the basic premise that interutility service should not interfere with service to on-system customers. Thus AETC's proposal is totally unreasonable for PG&E's system."

"The need to remain flexible is also influenced by the complex nature of PG&E's facilities and gas sources. PG&E's system involves many different facilities and several major gas supply sources. In the event of system upsets, such as loss of supply or a facility outage, PG&E must be able to adjust system operations at any time to protect service to on-system customers."

"Interutility rates are also much lower than the transportation rates charged regular on-system shippers. Under AETC's proposal, however, interutility shippers would be able to lock in capacity ahead of time, in essence receiving a firm service, for a fraction of the price paid by an on-system shipper. Yet, that same on-system shipper could see its usage interrupted before the interutility shipper under AETC's proposal."

"Since interutility transportation service has the lowest priority on PG&E's system, it must be administered in a manner consistent with the need to operate the system to meet PG&E's responsibilities to higher priority on-system customers, For that reason, interutility shippers cannot be allowed to lock-in capacity for their interutility transactions as proposed by AETC."

"The reporting procedures proposed by AETC ... also are objectionable as burdensome. As the lowest priority service, interutility users should expect to be the first curtailed. Although PG&E will identify the reason for curtailing a shipper's gas to that shipper telephonically,

requiring a written report on all interutility volumes, average rates, curtailments and denials of service would be an unnecessary, burdensome requirement.

5. TERM - Both RECON and Shell Canada/Mock object to the imposition of a one year term contract under the PG&E tariff and contract. The SoCal term for interutility gas transportation is on a month-to-month basis. The protestants assert that PG&E's one year minimum term is inconsistent with D. 86-12-009 and 86-12-010.

PG&E's response is: "Allowing interutility contracts for periods as short as 30 days will impose a significant administrative burden on PG&E. Especially with the potential for negotiated, discounted rates, it would be unrealistic to think that 30-day contracts could be negotiated and administered effectively. That one-year contract term represents a reasonable period for contract relationships to cover and be effectively administered. Of course, if in some months the shipper does not wish to nominate any deliveries, it need not request service under the contract that month. The ability to control its nominations will allow the shipper to accommodate month-to-month changes in the end-use demand for its gas. At the same time, putting the contract in effect for a year will allow both PG&E and the shipper to know and effectively administer their contract."

6. RATES & FEES

A. Negotiable Rates - RECON, Shell Canada/Mock, and CPC object to PG&E's tariff sheet which does not state that the listed rates are subject to negotiation. AETC argues that they would prefer to see the tariffs in form which:

> "(1) presents both the maximum and minimum rates in the range determined by the Commission for each of the possible interutility routes;
>
> (2) emphasizes that the interutility shippers have the ability to negotiate their own rates with PG&E;
>
> (3) presents shippers with an opportunity for negotiations and for renegotiations when market conditions dictate, including the opportunity at least three days prior to being 'bumped' by any other shipper to match the higher rate; and
>
> (4) presents a shipper at the time he negotiates his rates and at at any later time information on relative curtailment priorities among interutility shippers, in particular the amount of interutility

capacity which is committed to shippers paying rates at various levels higher than the level the shipper proposes."

PG&E responds that they do not oppose the general principle of modifying the tariff to recognize that the rate is negotiable between a minimum rate set to include all variable cost and the maximum rate. However, they do have concerns about the "bumping" procedure. They state that "this proposal raises questions about the negotiation process itself and, if adopted, would encourage shippers to refuse to negotiate for interutility rates outside the low end of the range. Shippers would be motivated to act this way because they would be secure in the knowledge that they could always preempt any one seeking a higher priority by matching the latter's rate. Moreover, the second shipper would have a reduced incentive to negotiate a higher rate because he would know that other shippers could take away his priority by matching his bid. Therefore, AETC's proposal would destroy the negotiation process."

"More importantly, AETC's proposal would be impossible to administer for dispatch purposes. If interutility shippers could change their relative priority position by changing rates as often as they are faced with being bumped under forecast conditions, PG&E's dispatchers would face an ever shifting array of uifferent priorities for the various shippers. As a result, PG&E's dispatchers would be trying to match available capacity with priority listings that could change daily or even hourly. From a practical viewpoint, PG&E could not accomplish that task."

Also, in response to the AETC proposal that PG&E provide prices and volumes of all existing interutility customers to potential interutility customers at the time of contract negotiation, presumably to permit the potential customer to propose a rate just high enough to assure itself a place in line when it desires to be, PG&E responds: "The Commission dealt with this issue by requiring the utilities to publish each month a list of discounted rates below the ceiling rates. This should be sufficient for AETC's purpose."

PG&E responds to RECON: "PG&E does not oppose the general principle of modifying the tariff to recognize that the rate is negotiable between variable cost and the maximum rate which would also include the variable cost. However, PG&E objects to tightly defining what is to be included in variable cost. Other variable expenses not yet identified or not yet clearly applicable could be incurred as a result of providing interutility service. Examples might be certain types of local government fees or taxes, or new charges imposed by others such as interstate pipelines.

Therefore, this modification should provide that the rate cannot fall below the short-run variable cost of providing the interutility gas transportation service, including but not limited to fuel use and lost and unaccounted for gas."

PG&E responds to Shell Canada/Mock: "PG&E does not oppose this modification (changing the tariff to state that the rate shall be the lesser of the maximum rate set forth therein or some other rate negotiated by the parites) as long as it also provides that the rate cannot fall below the short-run variable cost of providing the interutility gas transportation service, including but not limited to fuel use and lost and unaccounted for gas."

B. Guidelines for Negotiating Rates - Shell Canada/Mock suggest that the tariffs should contain guidelines for the utilities and shippers to follow in discounting the inter-utility transportation rate. Also, they would like to see language in the tariff stating that the utilities and the shipper must bargain in good faith and the utility may not refuse a reasonable good faith offer from a shipper.

PG&E considers this proposal as unnecessary and "an unwarranted interference with the concept and process of negotiating rates within the approved range." They cite page 68 of D.87-05-069 where the Commission states that "we expect that any discounts in interutility rates to reflect the lower priority of service would be small." PG&E argues: "Moreover, requiring the utility to accept any 'reasonable, good-faith' offer will basically negate the negotiating process. Under that standard, a shipper would merely offer a rate close to the floor, i.e. short-term variable costs, with little margin contribution as a 'reasonable, good-faith' offer. The Shell Canada/Mock proposal would eliminate any reason for customers to try and negotiate anything but minimal rates. In contrast, with the utility and shipper left to reach a truly negotiated rate under the current mechanism, both have a real incentive to develop a mutually acceptable rate. Otherwise, the utiliity will not earn the potential revenue from the shipper's business and the shipper would not be able to move its gas. In fact, the Shell Canada/Mock proposal is counterproductive and would scuttle the negotiation process."

C. Standby Charge - Shell Canada/Mock and RECON protest that the language allowing PG&E to pass-through the El Paso "standby charge" of 0.297¢/therm will permit the charge to be collected twice, once by the interutility transporter and once by the serving utility, intrastate.

PG&E responds: "The El Paso standby charge is in El Paso's tariff, Rate Schedule G (General Service-California). Under PG&E's interutility tariff, the standby charge would only be collected from the shipper if El Paso charged PG&E the standby fee. If El Paso charges the standby fee to SoCal instead of PG&E for the transaction, or does not charge a standby fee, PG&E will not collect the standby fee from the interutility shipper. Hence there will not be any 'double' payment of an applicable El Paso standby fee."

D. Add On Charges - AETC objects to the PG&E tariff language which states : "added to your transportation charge will be any applicable costs, taxes and/or fees. Such charges may include, but are not limited to, interstate pipeline surcharges." AETC asserts that "PG&E has no regulatory authority to add any costs, fees, or other charges to that rate, what ever their nature." They argue that the interutility rates "were specifically designed by the Commission to make a full contribution to covering the costs of PG&E's system (D.87-05-069, p.68)." They add: "...the maximum interutility rates amount to substantially more than is necessary to cover any costs that can be directly attributed to interutility service, which is in fact a displacement transaction generally reducing PG&E's actual costs. Thus PG&E cannot be permitted to assert in its tariff a right to add on top of those rates amounts they identify at their sole discretion and classify vaguely as 'costs, taxes and/or fees.'"

PG&E responds: "The type of add-on charge described is not unique. For instance, on PG&E's regular billings for gas sales, the charges include not only the stated tariff rate, but also local taxes which are levied on the service or revenues involved. Moreover, taxes such as franchise taxes that may be levied on the additional interutility revenues are incremental short-run variable costs arising from the service. As such they are justifiably included as part of the minimum charge. Similarly pipeline surcharges that may be levied for service utilized to accomplish interutility transportation are part of the costs incurred to provide the service and should be paid by the intertuility shipper. On other tariffs, such surcharges have been added to PG&E's charges for service when the surcharge has been levied on activities involving a customer's gas (PG&E Gas Tariff Schedules GC-2 and GC-4)."

7. IMBALANCES - The protestors each present preferred methods for handling imbalances over PG&E's proposal.

A. Price Confidentiality - Shell Canada/Mock and the others protest the PG&E contract provisions which provide that the utility has the right to correct gas imbalances by

purchasing the excess gas at the lowest cost of gas available to the utility at that time, or the shipper's actual cost of gas, whichever is lower. They state: "If [the utilities] were permitted to employ this accounting approach, the confidentiality of the contract price between a shipper and an end-user would be undermined. Balancing the deliveries of inter-utility volumes is an issue that should be addressed in an informal workshop. At a minimum, however, no provision should allow [the utilities] to obtain confidential sales prices between producers and end-users."

PG&E responds: "Ideally, shippers should only deliver the amount of interutility gas neeeded to cover the redeliveries, plus fuel use and unaccounted for volumes, Realistically, however, the figures will never coincide, so some mechanism must be used to correct the imbalances. The mechanism needs to protect the utility from increased costs. Therefore, any provisions for utility purchase of the imbalance must keep the price as low as the utility's least cost supply of gas. At the same time, the mechanism must avoid giving the shipper any incentive to either over- or under-deliver the volumes needed. This need for balancing provisions applies to intrautility transportation as well as interutility transportation. For that reason, balancing provisions are also included in PG&E's intrautility agreements."

PG&E responds to Shell Canada/Mock similarly, but adding: "the mechanism should not give the shipper a windfall opportunity to sell excess gas at a profit to the utility. Therefore, the provision also needs to make sure the price does not exceed the shipper's cost of gas. To meet both objectives, the price must be the lower of the shipper's cost of gas or the utility's cheapest source of gas."

"Consequently, under this pricing provision, both the shipper and utility are faced with providing each other with their gas costs. The concern about confidentiality of such information, however, is not confined to the shipper. PG&E also regards its costs of gas from certain sources as confidential, expecially if they are part of the noncore portfolio. Thus to the extent that this contract provision presents a problem, the problem is shared by the shipper and the utility. Therefore, PG&E would be willing to work with potential interutility shippers to determine if an alternate method for handling gas imbalances can be developed."

B. Reciprocity - SDG&E requests reciprocity with respect to imbalances. They state: "PG&E reserves unto itself the right to reduce the imbalances by requiring Shipper to adjust downward the quantities being delivered or by purchasing the excess from Shipper at the points of

receipt at the lower of two alternative costs pursuant to Article 5 Quantities, Subsection B. This provision should be reciprocal in nature so that imbalances at the points of delivery may likewise be removed by adjusting the quantities or purchasing the excess at the lower of two alternative costs.

PG&E responds: "SDG&E suggests that imbalances 'at the points of delivery' be removed by certain adjustments or purchases. PG&E does not understand SDG&E's suggestion because it assumes that imbalances can exist at a delivery point. That is not the case. Imbalances are a system-based problem. When they exist, imbalances are on the system. To remedy them, they need to be corrected before gas gets into the system. Therefore, discussing imbalances in terms of PG&E's redelivery point does not make sense."

C. Corrections - CPG suggests that notice of imbalances and rights to correct any imbalances be in accord with FERC standards for interstate shippers on regulated pipelines. CPG states: "If PG&E ships gas over El Paso, according to FERC decisions PG&E has 47 days, after notification of an imbalance, to correct it. Penalties for imbalances can only be assessed prospectively, and only then two days after notice has been made. On Consolidated Gas, Transcontinental, and William Gas pipelines, the shipper is permitted 60 days to correct imbalances, again with penalties only after two days opportunity to correct imbalances."

PG&E responds: "PG&E believes that the provisions for correcting interutility imbalances might benefit from discussing alternative methods with potential interutility shippers. PG&E would observe, however, that the mechanism must be able to acconodate corrections for deliveries that occur over varying time spans. Consequently the CPG suggestion that the shipper be given over a month to correct any imbalance may not work for some deliveries. In any event, however, PG&E must continue to keep the ability to balance receipts and deliveries as needed. Therefore, PG&E asserts that CPG's proposed balancing mechanism not be adopted, but that interested parties instead confer to develop another mechanism, if appropriate."

8. SHRINKAGE

A. Shrinkage - Shell Canada/Mock submit that a shipper should have the option to pay for fuel use and Lost and Unaccounted For gas (LUAF) either in-kind or through an explicit component in the interutility charge.

PG&E replies that the interutility decision endorsed the use of in-kind payment for fuel use and LUAF. (D87-05-069) Finding of fact 6 accepted the method outlined in the SOCal/PG&E agreement as a reasonable way to calculate the utilities' variable costs of providing interutility service, with specific reference to fuel use, provided credits as well and charges were allowed. In the PG&E/SoCal agreement, the utilities specifically provided that fuel use and LUAF quantities would be provided in kind (D.87-05-069, Appendix, p.3-4). Consequently, the interutility tariff and the service agreement simply reflect the fuel use and LUAF methodology approved by the Commission. Moreover, payment of shrinkage on an in-kind basis is the norm throughout the gas industry. In-kind payment is also the surest, easiest way to ensure that the shipper is bearing the cost of shrinkage for its gas."

B. Fuel Use Formulas - At the time of protest, CPG requested that it would like to reserve the right to check the formulas indicated would be used to calculate fuel use charges.

PG&E responds: "The fuel use formulas in question were incorporated in the testimony presented by PG&E witness Charles Peterson during hearings (D/87-05-069, Finding of Fact 6; Appendix p.3). They were available for any party to analyze and were subject to attack at that time. The mechanism has been established and approved."

C. Fuel Use Credits - AETC argues that "In its interutility decision the Commission determined to modify the agreement of the utilities in calculating short-run variable costs to allow for a fuel use credit if an interutility transaction actually decreases fuel use on a system-wide basis (D.87-05-069, p.64). Neither the tariff nor the 'service agreement' contemplates any such credit, nor does either document provide any mechanism for determining and awarding such a credit."

PG&E responds: "..to recognize the possibility of a net fuel use credit if the interutility service were to actually decrease total fuel use on the system...reveals that AETC does not understand the fuel use formulas. The operation of the fuel use formulas themselves will produce a net fuel use credit where appropriate. Thus, the tariff need only refer to the operation of the formulas under the service agreement."

9. WARRANTIES - SDG&E states: "PG&E requires Shipper to make certain warranties with respect to the gas delivered into PG&E's system pursuant to Article 3 Transportation Service,

Subsection I. This provision should be reciprocal in nature when PG&E redelivers the gas at points of delivery.

PG&E did not respond to SDG&E's request for a reciprical warranty regarding the rights to the gas being transported and that the gas be free from all liens or claims.

10. BILLING

A. Payment Disputes - SDG&E asserts that the resolution of payment disputes "will be enhanced if in the event of conflicts the interstate pipeline meter reads shall prevail in Article 13 Payment Subsection B."

PG&E responds: "This suggestion does not make sense because interstate meters may not even be pertinent to the dispute. Furthermore, they may not provide any relevant data. Therefore, the data and basis for resolving such disputes should not be limited so that the parties can rely on whatever information is most pertinent given the specific dispute involved."

B. Estimated Quantities - SDG&E requests PG&E to clarify the basis of estimating quantites comsumed on invoices. They state: "PG&E reserves the right to use 'estimated quantities' of gas transported in rendering invoices pursuant to Article 13, Payment, Subsection A. It is not clear how PG&E arrives at the 'estimated quantities' to be used for invoicing the shipper. PG&E should clarify whether 'estimated quantities' are to be based on (i) shippers nominations, (ii) suppliers statement of allocation or (iii) some alternative data source."

PG&E responds that they "intend to use the best ... information available to develop that estimate. Generally, PG&E's estimate would be based on the best available nomination/allocation information."

DISCUSSION

1. The Commission Advisory and Compliance Division (CACD) has reviewed all protests, responses, and the formal comments made by the Division of Ratepayer Advocates (DRA). CACD believes that the advice letter filings can be approved, with modifications by resolution, despite the number of issues involved.

2. SERVICE

A. Curtailment of Service - Shell Canada/Mock and RECON protest the employment of pro rata curtailment in the tariff and contract, stating that this is counter to the implementation decision, D.86-12-010. The adopted approach of D. 86-12-010 (p.25), reads:

> "Curtailment within the noncore customer class will be based on each customer's negotiated priority charge, with those customers paying the highest priority charge being curtailed last. In the event of curtailment among noncore customers paying the same priority charge (e.g. all customers paying no priority charge), curtailment will be conducted based on the end-use priority system."

Further, the decision, at mimeo p. 120, states:

> "Public Utilities Code Section 2771 et seq. ...requires the Commission to establish customer priorities based on a consideration of '[a] determination of the customers and uses of electricity and gas, in descending order of priority, which provide the most important public benefits and serve the greatest public need.' We believe that this requirement in the statute can reasonably be construed to allow willingness to pay to serve as a proxy for public benefit and need, at least within the noncore class."

The following statements are made under the Findings of Fact of D. 87-05-069 (p.81):

> "25. Priority among interutility transporters will be determined by the total rate paid, with the highest rate having the highest priority, etc. This is consistent with our approach in D. 86-12-009 and D. 86-12-010."

> "26. Pro rata curtailment is reasonable for interutility shippers paying the same rate."

Decision 87-05-069 (p.74) "establishes an interutility transportation service whose priority is inferior to that of retail transportation for noncore customers." Interutility transport customers constitute an end-use class. The existing end-use priority system utilizes a pro rata system within each priority class.

If curtailment does occur, interutility transport shall be the first class of the noncore groups to be curtailed. Curtailment shall be based on negotiated rates as the basis of priority. Those customers with the lowest negotiated rate are curtailed first, and ties within this subset of customers shall be handled on a pro rata basis.

B. Discretionary Authority to Refuse Service - PG&E's primary obligation is to serve its on-system customers. Decision 87-05-069 places interutility transportation customers into a priority lower than retail transportation customers. This priority is reflected by its low rates and by the absence of a priority charge.

CPG argues that the Commission's interutility decisions provide no basis for PG&E to deny interutility service other than for reasons of capacity. Indeed, the decisions do not address curtailment or interruption for reasons which would negatively impact the economics of serving on-system customers. However, to allow interutility customers the right to transport at the expense of on-system customers is contrary to Commission policy, no matter if the reasons are for service or for increased costs.

We are mindful, however, of the requirement that the utility's discretion to curtail interutility transportation not be used by them to hinder the reasonable use of the service. We therefore adopt SDG&E's suggestion that the term "reasonable discretion" be substituted for "sole discretion" both in the tariff and the contracts. We place the utilities on notice that we do not wish interutility transportation service to be curtailed unnecessarily. It is prudent to recommend that the utilities briefly record the circumstances involving any event of curtailment, denial of service, or bottlenecks at points of receipt or redelivery. Should interutility customers file complaints of service denials with the Commission, these records could be used to show why and how service was curtailed or became unavailable.

C. Limitations on Interutility Service - CPG objects to PG&E's language restricting service to those shipments which go "to or on behalf of" another LDC, stating that this excludes end-users or other shippers not having the benefit of an LDC. They cite the interutility decision which calls

for the service to be available to <u>any</u> end-user or shipper seeking to move gas across a utility system.

PG&E states that interutility transportation can be rendered for any end-user or shipper willing to comply with the approved terms and conditions for service and that the gas must be redelivered to another LDC for further transport to the burner-tip location.

The interutility decision sought to allow gas to be marketed statewide to increase gas-to-gas competition and to benefit the public through lower gas costs. It viewed interutility transportation as a way for the utilities to utilize their existing systems more fully and provide more options for end users.

CACD suggests that a simple wording change will resolve this issue:

"Transportation under Schedule G-INT is available to any shipper who wishes to transport gas through PG&E's system from an interstate pipeline, other local distribution company, or California gas well to another another local distribution company outside PG&E's gas service territory <u>on behalf of any customer</u> solely for use within the State of California."

D. Limitation to California Service - CPG argues that despite the regulatory issues, PG&E should not be permitted to limit its interutility service to California only. PG&E argues that if it was to become involved in transporting gas for consumption outside the State, that its Hinshaw exemption from FERC regulatory control could be jeopardized, its transmission facilities would fall under FERC jurisdiction, and that the CPUC would lose its control over those facilities.

The Commission's interutility decision, not PG&E, limited interutility transportation to California service by entitling the decision with "gas from the California border to industrial facilities within California".

E. Presumptions Underlying Interutility Service - AETC requests that interutility shippers should be able to rely on three operating assumptions:

-- the presumption that there is adequate interutility capacity to transport gas for any shipper up to the amount of his rights or access to capacity on the Pacific Gas Transmission Company (PGT) pipeline.

-- the presumption that any interutility destination is equally available from a given point of origin.

-- the presumption that any positive imbalance on PG&E's system is PG&E's responsibility, because PG&E alone can directly control the receipt and redelivery of interutility volumes.

PG&E argues against each of these presumptions, stating that operating situations exist where each proposed assumption is physically impossible to accomplish. Local constraints may prohibit redelivery although initial receipt is possible; a given delivery point may be unavailable due to another interutility shipper use of available capacity paying a higher transportation rate; or the receiving utility or the shipper can cause imbalances on PG&E's system.

CACD and DRA agree with PG&E's arguments countering each of these presumptions, but suggest that PG&E be prepared to defend interutility customer complaints, as discussed earlier in section 2B of the Discussion.

3. PROCEDURES

A. Gas Routing - CPG alleges that PG&E puts itself in the position of maximizing its rates by causing gas to be shipped over a less direct route in some instances. AETC cites similar occurances and seeks written documentation substantiating any rerouting. PG&E states that a number of circumstances could cause gas to be shipped utilizing a longer route rather than a more direct one, such as another utility's full use of capacity at a certain location and business disputes over pipeline facilities. PG&E states that if interutility transported gas is to be curtailed, denied or rerouted, that their dispatcher notifies the shipper verbally of such circumstances.

If rerouting, curtailment, or denial of gas transport occurs, PG&E should briefly document the incident, outlining the time, shipment and cause. Verbal notification by the dispatcher is mandatory. The shipper, designated agent, or customer should have access to all pertinent documentation by request, but PG&E should not be burdened with providing written documentation to the shipper following each incident.

B. Scheduling and Information - The overall nature of the protests and the controversy generated by interutility transportation, as well as intrautility transportation, points to the lack of clearly stated general operating practices and procedures under which gas dispatch

and accounting business occurs. In response to this, the Commission Advisory and Compliance Division and the Division of Ratepayers Advocates jointly recommend that both PG&E and SoCal file general operating practices and procedures, as outlined below:

1. Nomination procedures, including:

   a. Utility contact, telephone, hours
   b. Contract negotiations and consummation
   c. Specification of quantity, timeframe, and pipeline audit procedures.
   d. Shipment verification and acknowledgement mechanism.
   e. Set nomination procedure, including scheduling with sufficient notification of changes that are within the control of the utility (at a minimum once a week).
   f. Notice of nomination procedure changes and curtailment allocations
   g. Receipt and redelivery point availability, and notice of changes
   h. Procedure for handling imbalances; notification, penalties

2. Billing resolution, including:

   a. Billing adjustments (for quantities and frequency
   b. Access to relevant records by the affected customer and/or his designated agent.
   c. Billing reconciliation procedures, rights and obligations
   d. Invoicing
   e. Pricing for over/under deliveries.

The procedures outlined above are an initial list. By no means are they an exclusive list. The utilities should publish flexible, non-tariffed guidelines setting forth the procedures which utilities and customers should follow for requesting transportation service, conducting daily nomination, and resolving billing disputes. After some time, when both customers and the utilities have gained experience with such procedures, modifications and finalization can occur. Eventually, these procedures should be placed under each utility's tariffed rules.

If there are operational differences between interutility and intrautility transportation, the utilities should clearly state and explain the reasons for the differences. Also, if changes in the guidelines are warranted, the utility should provide written notification to all customers of such changes at least two weeks in advance.

4. Term - Shell Canada/Mock and RECON argue against PG&E's minimum term contract of one year, calling it inconsistent with current available service for intrautility transportation contracts. PG&E maintains that the one year contract term represents a reasonable period for contractual relationships and for effective administration.

No contract lengths were established for interutility transportation in D.87-05-069, nor was any contract term prescribed in the implementation decisions. SoCal has established one month interutility contract terms.

A one month term is currently provided for PG&E's intrautility customers. PG&E has not complained to the Commission of any administrative burdens under this contract term, as they project they would have with interutility customers under a similar term. CACD recommends that PG&E reduce its minimum contract term to one month periods to be consistent with existing transportation schedules.

5. Rates and Fees

A. Negotiable Rates - Most all of the protestors objected to PG&E's tariff wording. The submitted tariffs did not clearly state that the outlined rates were ceiling rates under which negotiations would occur. PG&E concurs with this problem and will submit revised tariffs, also correcting some typographical errors.

AETC's additional proposal to present shippers with an opportunity to renegotiate their contract rate prior to being "bumped" by another interutility shipper presents a negotiating problem for PG&E. PG&E foresees that such a procedure not only would be very difficult to administer, but would negate the negotiation process. The Commission agrees with PG&E's position.

B. Guidelines for Negotiating Rates - Shell Canada/ Mock propose that the tariffs contain guidelines for rate negotiations and include language that rate negotiations shall be conducted in good faith. PG&E opposes adding guidelines for rate negotiations, stating that such guidelines would be counterproductive and would scuttle the negotiation process.

Creating guidelines for the purpose of negotiating rates appears unnecessary at this time. The Commission expects that the customers and the utilities will bargain in good faith. We will entertain complaints from customers if the utilities fail to do so.

C. Standby Charge - An El Paso Standby Charge is billed to PG&E or SoCal for firm, non-incremental gas delivered to the California border. The standby charge billing is associated with each shipment to those customers having a Transportation and Exchange (T&E) number. Should any dispute arise stemming from a double billing, the customer holding an El Paso bill with a T&E number would have proof of such an error to settle the argument.

If, however, the double billing is with PG&E, SoCal and a third party, the third party could have a problem resolving the charges. The following billing process should occur in order to prevent such a double billing:

--Interstate Pipeline bills the utility (Utility #1) receiving gas at the California border.

--Receiving Utility #1 bills Utility #2, having transport customer.

--Utility #2 recovers surcharge from customer and pays Utility #1.

--Utility #1 pays Interstate Pipeline charge.

The customer should receive an itemized bill, detailing the dates, volumes delivered, unbundled transportation charges, negotiated rate, LUAF, surcharges, etc., and net excess/undertake gas for the billing month.

D. Add On Charges - AETC objects to PG&E's tariff language which allows for the addition of any applicable costs, taxes and/or fees. PG&E explains that these types of charges are common, covering local taxes, franchise taxes which could be levied on the additional interutility revenues, and possible pipeline surcharges.

CACD has no objections with the inclusion of this phrase in the body of the tariffs. It is common to all transportation tariffs and provides for costs not captured in the short run marginal cost calculations.

6. Imbalances

A. Price Confidentiality - Shell Canada/Mock and the others protest the tariff and contract language that allows the interutility transporter to purchase excess gas at the lower of the lowest cost gas available to the transporter or the shipper's actual cost of gas. The protestors argue against the requirement that they reveal their confidential price of gas to the utility.

The contract language leaves the customer no option but to reveal his gas purchase price in order to provide the company with a gas cost to compare to. The customer is disadvantaged further in that he has no way to verify the utility's lowest gas prices. The utility could use any price, just as the customer could quote any price.

The only remedy for this impasse is to establish a mutually agreeable price negotiated between the utility and the customer. If such a price cannot be agreed to, a default price for the month in which the excess is incurred can be the price paid. DRA suggests that unless otherwise specifically negotiated and stated in the contract, the imbalances should be priced at the published, weighted average cost of noncore portfolio gas for the month during which the excess occurred. In this way, confidentiality is maintained and no particular party benefits over the other.

B. Reciprocity - SDG&E suggests that imbalances apply to the point of redelivery in addition to the point of delivery and that the recipient be allowed the option to purchase any excess at the lower of the two prices. PG&E responds that any imbalances will only occur at the point of delivery into the PG&E system.

System imbalances, as discussed here, refer to gas received into the PG&E system in excess of the gas nominated, not at a redelivery point. SDG&E's request for reciprocity, allowing the recipient to purchase the excess gas at a cheap price, presupposes that the gas is available at the point of redelivery. However, SoCal's system redelivery point also must be available for SDG&E to be able to purchase an amount of excess on PG&E's system. CACD recommends that this issue be deferred given the utilities' lack of cross-system balancing experience at this time.

C. Corrections - CPG suggests that corrections for imbalances follow the general standards used under the FERC, where, after notification of an imbalance is given, the shipper has between 45 to 60 days to correct it, depending on the pipeline. Any penalties for failure to correct the

imbalance are made prospectively, and then, only after the shipper has had an opportunity to comply.

PG&E offers to discuss this issue with all interested parties, recognizing that a mechanism is needed, but that input from the other parties is necessary to determine the most appropriate mechanism. In lieu of this discussion, CACD recommends that PG&E incorporate a temporary standard in its Operating Guidelines, as suggested above, following existing FERC rules.

7. Shrinkage

A. Shrinkage - Shell Canada/Mock requests that fuel use and LUAF be collected either in-kind or through a explicit rate component at the shipper's option. PG&E responds to this protest stating that not only does D. 87-05-069 require that fuel use and LUAF gas be provided in-kind, but that in-kind payments are the industry standard.

DRA recommends that as long as fuel use and LUAF is made a "separate, identifiable rate component" that they are not opposed to its inclusion, so long as it is a negotiated item clearly stated in the contract.

B. Fuel Use Formulas - CPG requested time to review the fuel use formulas submitted by PG&E in the proposed contract. PG&E responds that these formulas have been established and approved through D. 87-05-069 and that CPG or any other party could have brought issue with them at that time. CACD agrees with PG&E at this time. However, CPG is free to petition for the modification of Decision 87-05-069, if its review causes it to question the reasonableness of those formulae.

C. Fuel Use Credits - AETC complains that the tariffs and contracts lack a "fuel-use credit" as prescribed by the interutility decision. PG&E states that the operation of the fuel use formulas will produce a net fuel use credit where appropriate. CACD recommends that if a credit should occur, that it be itemized on the customer's bill as a separate component.

8. Warranties - SDG&E requested that PG&E insert a reciprocal warranty in the contract regarding the rights to the gas being transported and assurances that the gas is free from all liens or claims. PG&E did not respond to this issue. CACD recommends that PG&E provide reciprocal contract language to respond to this oversight.

9. Billing - SDG&E is concerned with billing disputes and PG&E's practice of using estimated quantities for the basis

of billing. SDG&E suggests that the interstate pipeline meter reads be used to resolve billing disputes. PG&E responds that a dispute may arise from other issues and that they would prefer not to be so constricted. Also, PG&E prefers to use the best information available to develop the estimated bill.

CACD recommends that, for the time being, PG&E develop within its billing guidelines some general standard which customers and the utility can rely upon as the basis for the estimated bill.

Findings of Fact

1. Interutility transporters constitute a customer class. Curtailment within this class is based upon the interutility transportation rate paid, where the transporter with the lowest rate is curtailed first. Pro rata curtailment is used in cases where interutility shippers pay the same rate.

2. Interutility transportation is to be made through a local distribution company to another local distribution company on behalf of any end user or shipper for use within the State of California.

3. Interutility transportation for California service is limited to gas delivered at the California border or produced within California for use by facilities within California.

4. The default payment for gas compressor fuel use is made with gas paid in-kind. If instead a particular customer prefers to pay cash, a factor should be negotiated and identified in the contract.

5. Fuel use formulas and a reporting mechanism for system credits were adopted by Decision 87-05-069.

Conclusions of Law

1. Brief documentation by the utility of each curtailment, denial of service, bottlenecks at points of transfer, and rerouting is reasonable. Such documentation should be provided to the affected customer/agent upon request.

2. The general operating procedures and practice guidelines, as outlined in section 3B of the Discussion, are reasonable and should be developed jointly by Pacific Gas and Electric Company and Southern California Gas Company.

3. In lieu of adopted rules for nominations and billings, corrections of gas imbalances should follow the FERC standard where, after notification of an imbalance is given, the shipper has 45 days to correct the imbalance. Penalties should be prospective, and should provide the shipper with an opportunity to comply.

4. Contract service terms of one month are reasonable.

5. Contract negotiations shall be conducted in good faith by both parties.

6. To provide for the possibility of a double billing of the El Paso Standby surcharge, PG&E and SoCal should adopt the recommended procedure as outlined under section 5D of the Discussion.

7. PG&E may use estimated bills on a monthly basis, but should attempt reconciliation on a quarterly basis.

8. The standard language used by PG&E concerning the inclusion of add-on charges is reasonable.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company shall file revised tariff sheets and a model contract in accord with the provisions of General Order 96A consistent with each of the findings and conclusions listed above.

2. PG&E and SoCal shall provide interutility transportation service for customers and shippers when it is operationally possible to do so.

3. The purchase price for excess gas paid by PG&E to the shipper shall be based on the weighted average cost of gas of the noncore portfolio for the month in which the imbalance occurred, or may be negotiated by PG&E and the customer separately and incorporated in the contract.

4. Reciprocal warranties concerning the customer's rights to the gas and that the gas is free from all liens or claims shall be included in the model contract by PG&E.

5. Pacific Gas and Electric Company shall meet with Southern California Gas Company to agree on interutility nomination and billing guidelines as outlined in the Discussion. The guidelines shall be submitted to the Chief of the Energy Branch of the Commission Advisory and Compliance Division within thirty days of the effective date of this Resolution. In addition, each interutility gas transportation customer and shipper shall be provided with these guidelines no later than March 11, 1988. Changes to these guidelines shall be submitted to the Commission and to the customers and shippers when such changes occur.

6. Pacific Gas and Electric Company and Southern California Gas Company shall meet every other month with each other and periodically with interutility customers during 1988 to modify and improve these guidelines. Both companies shall submit finalized, understandable and

compatible guidelines by advice letter, following the standard General Order 96A tariff format for Rules, no later than one year beyond the effective date of this Resolution. If operational differences cause a rule's wording to be different between PG&E and SoCal, such difference shall be identified and explained by footnote at the end of the rule.

7. Advice Letter No. 1429-G and the compliant substitute tariff sheets shall be marked to show that they were approved by Resolution No. G-2760, effective January 28, 1988.

8. This order is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on January 28, 1988. The following Commissioners approved it:

Executive Director

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