PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-2802
AUGUST 24, 1988.

# R E S O L U T I O N

RESOLUTION G-2802, SOUTHERN CALIFORNIA GAS COMPANY REQUESTING APPROVAL OF A GAS TRANSMISSION SERVICE CONTRACT WITH MIDSUN PARTNERS, L.P. FOR ENHANCED OIL RECOVERY USE; BY ADVICE LETTER 1793, FILED JUNE 15, 1988.

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## SUMMARY

1. By Advice Letter No. 1793, Southern California Gas Company (SoCal) submitted for approval a fifteen year Gas Transmission Service Contract with MidSun Partners, L.P. (MidSun) in accordance with Decision (D.) 86-12-009 and Rate Schedule GLT, Long Term Transportation of Customer-Owned Gas. This resolution approves the contract.

## BACKGROUND

1. SoCal Rate Schedule GLT is applicable to long-term 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.

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 run marginal cost) nor above the ceiling, default rate (long run 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 the 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. 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.

6. MidSun is a California Limited Partnership whose General Partner is MidSun Corp. The company is currently constructing a cogeneration plant for its EOR operations in the Kern County area. The volumes to be transported under this contract for EOR and related uses will be a maximum of 57,750 therms per day for combined EOR and cogeneration steamflood use.

SUMMARY OF CONTRACT TERMS

1. This contract is submitted by SoCal for approval under the terms of the GLT schedule as provided by D. 86-12-009.

2. The contract contains rates and charges which are summarized below:

a. Customer Charge: The customer shall pay a Monthly Customer Charge of five hundred dollars ($500.00) per premise.

b. Transmission Charges: The customer shall pay a Transmission Charge of 3.785¢ for each therm of gas accepted at SoCal's points of delivery.

c. Escalation: The Transmission Charge under the Contract will be escalated on January 1, 1989 and on each January 1 thereafter by an escalation factor equal to changes in SoCal's total authorized margin from the prior year.

In any event, the charge shall not be increased by less than 3% or more than 5% of the then current rate.

3. Service Term: The term of the contract is fifteen (15) years as requested by MidSun, and may be extended by mutual agreement of the parties for an additional five (5) years.

4. Minimum Transmission Obligation: There is no fixed demand charge, however, MidSun is required to transport, and/or to purchase from SoCal, a quantity not less than 66.67% of its annualized contract quantity. If this quantity is not transported or purchased by MidSun, MidSun will pay the transmission costs for this minimum quantity. Make-up is allowed in the two-year period following the underdelivery, however, the right to make-up only extends for one year after contract termination.

DISCUSSION

1. The Commission segregated EOR customers from other ratepayers in Decision 85-12-102, allowing the utilities the negotiating flexibility they required to meet the needs of their EOR customers and to meet the competition of the interstate pipeline proposals. The Commission limited the escalation rate to a range of three to five percent, but added further that the "utilities will be free to negotiate any type of appropriate escalation factors (such as an escalation index based on changes in field crude oil prices) or other rate provisions as appropriate for EOR customers."

2. D.85-12-102 set contract term minimums at 5 years, envisioning contract terms up to 20 years. No conditions were placed on the utilities to establish contract reopeners, but instead, the utilities were urged to negotiate the best terms possible with this new, emerging market.

3. D.85-12-102 also stated that "should a negotiated rate ever become less than the floor described above (3¢ per therm at the time), shareholders will be at risk for making up the deficiency." And, Finding 54 (at p.46) states: "A 50% take-or-pay provision is a reasonable condition to all long-term transportation agreements in order to encourage transportation customers to transport their own gas for the entire life of their contract."

4. In an continuing effort to support the utilities in negotiating EOR contracts at substantially competitive rates so that the EOR customers would be retained on the utility systems and the utilities would avoid the threat of bypass,

the Commission determined that all EOR revenues were to be treated as incremental. D. 86-12-009 established that the floor for this market was to be the variable cost of transmission, then estimated at 1¢ per therm. D.87-05-046 changed the incentive mechanism established in D.85-12-102[1] to reflect this lower floor rate of 1¢ per therm, and to allocate revenues above the floor rate 5% to shareholders and 95% to ratepayers.

5. The contract with MidSun was negotiated in compliance with these Commission imposed requirements. Making greater use of utility facilities will contribute to recovery of the utility's fixed costs for the benefit of all ratepayers.

6. In order to closely supervise the utilities' actions, the Commission requires that each long-term contract be submitted individually to the Commission for review. This procedure was instituted to protect ratepayers from some of the risks inherent in long-term contracts that offer pricing certainty. It also assures that the Commission is regulating these contracts directly so that they are consistent with all effective regulations and guidelines.

7. The contract with MidSun includes the factors and provisions which the Commission has cited as important to EOR customers including service reliability, volume flexibility, points of delivery options, and the obligation to transport minimum quantities of gas.

8. The staff of the Commission Advisory and Compliance Division (CACD) has reviewed the terms of the contract and has determined that it is in compliance with Commission Decisions 85-12-102, 86-12-009, 87-05-046 and 87-12-039, the gas implementation decision.

9. Public notification of these filings has been made by mailing copies of the advice letter to other utilities, governmental agencies, and to all interested parties who requested them.

10. No protests to this Advice Letter filing have been received by CACD.

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[1] Previously, based on the 3¢ floor set in d.85-12-102, the incentive mechanism was applied to amounts collected above 3¢ per therm, allocating 25% of any overage to shareholders and 75% to ratepayers.

11. The Division of Ratepayer Advocates (DRA) filed timely comments on June 29, 1988, requesting that Southern California Gas Company endeavor to negotiate better conditions in future contracts with EOR customers. Specifically, DRA questioned the use of the old, long term EOR Schedule GLT for the MidSun EOR contract, when the new gas implementation Schedule GT-40 is available for EOR transportation. At present, Schedule GT-40 requires alternate fuel capability, while Schedule GLT does not. SoCal's oral response to DRA's question was that the negotiations for this contract were conducted using the then current Schedule GLT.

FINDINGS

1. The enhanced oil recovery market currently represents the largest new market for natural gas in California. It is a benefit to all California ratepayers for this market to be served through utility service, and therefore, the Commission has ordered Southern California Gas Company to serve as much of the market as possible and, where appropriate, to sign contracts having terms of up to twenty (20) years. This is necessary to allow SoCal to compete successfully with interstate pipelines and/or other non-utility alternatives for the benefit of all California ratepayers. We find this contract to be the product and result of these Commission orders.

2. It is reasonable for SoCal Gas to provide service to MidSun under the terms and conditions of this contract to maintain utility transportation of gas to the EOR market and to benefit all ratepayers, in accordance with Decisions 85-12-102, 86-12-009, 86-12-010, and 87-12-039.

3. We find that the contract complies with our guidelines for long-term gas transportation service and rates, and we will actively regulate service under this contract through the reporting requirements set forth below, therefore,

IT IS ORDERED, that:

1. Southern California Gas Company is authorized, under the provisions of Public Utilities Code Section 532, to enter into the contract with MidSun Partners, L. P. for the transportation of natural gas as submitted by Advice Letter 1793.

2. Southern California Gas shall be required to furnish data to establish the volumes, price, and priority used for this contract, and the contribution

to margin from this contract annually, and at the time of each revision in the transportation rate, beginning sixty (60) days after the first such revision. This information shall be sent to the Chief of the Energy Branch, Commission Advisory and Compliance Division.

3. Advice Letter 1793 and the accompaning agreement shall be marked to show that they were approved by Commission Resolution G-2802.

4. This Resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting of August 24, 1988. The following Commissioners approved it:

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

Executive Director