

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY  
AND COMPLIANCE DIVISION  
Energy Branch

RESOLUTION G-2861  
APRIL 12, 1989

**R E S O L U T I O N**

RESOLUTION G-2861. SOUTHERN CALIFORNIA GAS COMPANY AUTHORIZED TO BOOK EXPENSES AND REVENUES FOR CERTAIN FACILITIES AND OPERATION, AS DESCRIBED IN A CALIFORNIA GAS PRODUCER DELIVERY AGREEMENT WITH HORIZON OPERATING COMPANY. BY ADVICE LETTER 1847, FILED JANUARY 26, 1989.

**SUMMARY**

1. Southern California Gas Company (SoCal) requests approval of a California Gas Producer Delivery Agreement with Horizon Operating Company (Horizon). The agreement contains certain charges associated with measurement and control facilities which Horizon asked SoCal to install, operate and maintain for the receipt of Horizon's gas into the SoCal system.
2. This resolution authorizes the request.

**BACKGROUND**

1. SoCal submitted the agreement executed between SoCal and Horizon dated January 1, 1989 with Advice Letter 1847. The agreement provides that SoCal shall install measurement and quality control facilities necessary to accept Horizon's gas, and that Horizon shall reimburse SoCal for its investment in such facilities, as well as the applicable Federal taxes on such facilities.
2. The facilities are estimated to cost \$155,600 and shall be installed at the closest practical location to SoCal's existing transmission pipeline. The facilities consist of approximately 500 feet of 4 inch steel pipe, an orifice meter, a pressure regulator, a filter separation system, and an odorant injection system.
3. Horizon is required to install its own processing and gathering facilities, as well as a line to deliver its gas to SoCal's meter set. SoCal states that the charges it seeks are not subject to Public Utilities Code (PUC) Section 785.7 for processing or gathering gas, because Horizon is responsible for the construction of the processing and gathering facilities.

4. The agreement also provides that Horizon shall pay SoCal to operate and maintain the facilities. For the first year, this payment is estimated to be \$1500 per month.

5. SoCal proposes that revenue collected for the installation of measurement and quality control facilities be offset against installation costs by being booked as a Contribution in Aid of Construction (CIAC). SoCal also proposes to book revenue collected for the operation and maintenance (O&M) of the facilities under miscellaneous operating revenue.

6. The agreement shall become effective January 1, 1989 upon Commission approval of the installation, operation and maintenance charges.

7. SoCal states that the agreement contains proprietary and confidential information and, consequently, provision of the agreement to the Commission is subject to Public Utilities Code Section 583 and General Order 66-C. Therefore, the advice letter was mailed to other utilities, interested parties and governmental agencies without the agreement attached.

8. SoCal requests expedited approval of this advice letter under Section 491 of the Public Utilities Code.

9. A protest was submitted by the Division of Ratepayer Advocated (DRA), but was withdrawn on March 7, 1989. No other protests were received.

#### DISCUSSION

1. The Commission Advisory and Compliance Division (CACD) has reviewed SoCal's Advice Letter 1847 for cost estimates, the contract with Horizon, compliance with existing legislation, and the pending investigation relating to gas gathering and processing, OII 88-11-012.

2. SoCal states that the \$155,600 cost estimate for the installation of facilities for Horizon reflects SoCal's general past experience of the cost of similar work under favorable conditions. This estimate includes, but is not limited to, the cost of the facilities to be installed (the pipe, orifice meter, pressure regulator, filter separation system and odorant injection system), indirect expenses, taxes, permits, rights-of-way, licenses, easements, and administrative and general office allocated costs.

Appendix A of the agreement outlines that Horizon agrees to reimburse SoCal for a greater amount, if it is determined that the actual investment is higher than estimated, and that SoCal will refund any overpayment if the actual amount of the investment is less than estimated.

3. The estimated \$1500 per month O&M costs are supported by documentation submitted with SoCal's response to DRA's protest. The workpapers contain a summary and breakdown of the estimated average costs incurred for maintaining a producer delivery point with and without an hydrogen sulfide monitor. The cost estimates are based on average costs over four regional areas and 123 delivery points. The costs include direct and indirect costs from each affected department for transmission, measurement (chart processing and gas analysis), and gas acquisition management.

The agreement provides that Horizon will pay these costs monthly and that in the second contract year, the fee will be recalculated to reflect increases or decreases in O&M associated with the utility's receipt point. CACD recommends that the recalculation be made to reflect actual costs as closely as is feasible.

4. CACD was unable to independently verify the estimated "facilities" installation costs and the monthly O&M costs associated with the utility's receipt point. However, since Horizon and SoCal have agreed to these costs and have contracted to adjust the costs at a later time based on actual expenditures, CACD believes that the costs actually paid will be reasonable.

5. SoCal states in its advice letter that PUC Section 785.7 does not apply to the charges it requests for its agreement with Horizon. Indirectly, SoCal would have the Commission define "facilities" as used in Section 785.7, so that the equipment and the line they install for receipt of Horizon's gas is not deemed part of a gas processing and gathering system.

6. Section 785.7 addresses gas processing and gathering and was added to the Public Utilities Code in 1988. This section primarily prohibits a utility from charging more for the transportation of gas produced in California than for the transportation from any other source. It also prohibits the utility from requiring a producer to use the utility's services or facilities in order to deliver or process the gas. However, part (b) states:

"...If the gas corporation constructs new facilities at the request of the producer or customer exclusively to receive gas by the gas corporation's gas plant, the gas corporation may impose a charge for the construction, operation, and maintenance of these facilities. The amount of the charge for the processing service or facilities authorized by this subdivision shall be established by the commission and shall be based on the actual expenses for the construction, operation, maintenance, labor, materials, and overhead involved in providing the specific service or facilities."

CACD believes that SoCal's contract is in compliance with Section 785.7, because the facilities are to be constructed at the request of the customer, to serve the customer exclusively. Also, the resulting charges are to be based on actual costs as closely as is feasible. CACD, therefore, recommends approval of the proposed contract.

FINDINGS

1. SoCal should be authorized to install measurement and quality control facilities necessary to accept the receipt of gas from Horizon Operating Company, a gas producer.
2. Horizon should reimburse SoCal for the installation of the measurement and quality control facilities. The cost is estimated to be \$155,600.
3. Horizon should pay SoCal to operate and maintain the facilities, estimated to be \$1500 per month during the first year.
4. SoCal's charges for installation, operation and maintenance of these facilities should be adjusted as needed to reflect actual costs as closely as is feasible.
5. SoCal should book the revenue collected for the installation of measurement and quality control facilities as CIAC and should book revenue collected for the operation and maintenance of the facilities under miscellaneous operating revenue.
6. SoCal's proposed contract is in compliance with Public Utilities Code Section 785.7.

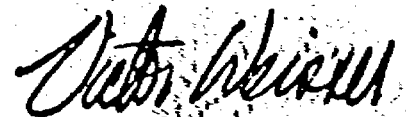
APRIL 12, 1989.

THEREFORE, IT IS ORDERED that:

1. The gas producer delivery agreement dated January 1, 1989 between Southern California Gas Company and Horizon Operating Company is approved as discussed above.
2. SoCal Advice Letter 1847 and the agreement shall be marked to show that they were approved by Commission Resolution G-2861.
3. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the California Public Utilities Commission at its regular meeting on April 12, 1989. The following Commissioners approved it:

G. MITCHELL WILK  
President  
STANLEY W. HULETT  
JOHN B. OHANIAN  
Commissioners



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Executive Director

Commissioner Frederick R. Duda  
being necessarily absent, did  
not participate.

Commissioner Patricia M. Eckert  
present but not participating.