PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-2940
March 22, 1991

R E S O L U T I O N

RESOLUTION G-2940. SOUTHERN CALIFORNIA GAS COMPANY REQUESTS COMMISSION'S APPROVAL TO BOOK OPERATION AND MAINTENANCE REVENUES FOR CERTAIN FACILITIES OPERATION, AS DESCRIBED IN A CALIFORNIA GAS PRODUCER DELIVERY AGREEMENT WITH MCFARLAND ENERGY.

BY ADVICE LETTER 1998, FILED ON NOVEMBER 30, 1990

SUMMARY

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

2. This resolution authorizes the request.

BACKGROUND

1. SoCal submitted the Agreement executed between SoCal and McFarland dated September 1, 1990 with Advice Letter 1998. The Agreement provides that SoCal shall install measurement and quality control facilities necessary to accept McFarland's gas, and that McFarland 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 $38,700, and shall be installed at the closest practical location to SoCal's existing distribution pipeline. The facilities shall consist of an orifice meter, a pressure regulator, an odorant injection system, and a filter separation system.

3. It is SoCal's policy that the producer is responsible for delivery of its gas to the receipt point where SoCal takes custody. McFarland is therefore required to install its own processing and gathering facilities as well as a line to deliver its gas to SoCal's system.

4. The Agreement provides that McFarland shall pay SoCal to operate and maintain the facilities. For the first year, starting in the month of first deliveries, this payment is estimated to be $1,300 per month. Thereafter, from time to time during a contract year, this fee may be adjusted by SoCal to more accurately reflect actual cost incurred.

5. SoCal proposes that revenue collected from McFarland 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 that any revenues collected for operation and maintenance (O&M) of the measurement and quality control facilities be booked as miscellaneous operating revenue.

6. The Agreement shall become effective September 1, 1990 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. No protests to this advice letter have been received by the Commission Advisory and Compliance Division (CACD).

DISCUSSION

1. CACD has reviewed SoCal's Advice Letter 1998 for cost estimates, the contract with McFarland, and compliance with existing legislation.

2. The $38,700 estimated cost for the installation of facilities reflects SoCal's general past experience of the cost of the similar work under favorable conditions. This estimate includes, but is not limited to, the cost of facilities to be installed (orifice meter, pressure regulator, odorant injection system, and filter separation system), indirect expenses, taxes, permits, rights-of-way, licenses, easements, administrative and general office allocated costs.

Appendix A of the Agreement outlines that McFarland agrees to reimburse SoCal for a greater amount (without interest), if upon analysis it is determined that the actual investment is higher than estimated, and that SoCal will refund any overpayment (without interest) if the actual amount of the investment is less than estimated.

3. The $1,300 per month estimated fee for operation and maintenance of the facilities is supported by documentation submitted by SoCal upon CACD's request. 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 costs include direct and indirect costs from each affected department for transmission, measurement (chart processing and gas analysis), and gas acquisition management. The cost estimates are based on SoCal's ongoing expenses to operate, maintain and modify its facilities in order to accept McFarland's gas in accordance with good industry practice, governmental regulations and SoCal's normal procedures.

Appendix B of the agreement provides that McFarland will pay the estimated $1,300 fee in the first contract year commencing in the month of first deliveries and that thereafter, from time to time, this fee will be recalculated to reflect increases or decreases in O&M associated with the utility's receipt point. The agreement requires that a written notice of such decrease or increase be provided to McFarland. 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 operation and maintenance costs associated with the utility's receipt point. However since SoCal and McFarland have agreed to these costs and have contracted to adjust these costs at a later time based on actual expenditures, CACD believes that the costs actually paid will be reasonable.

5. Section 785.7 addresses gas processing and gathering and was added to the Public Utilities Code (Code) in 1988. Part (a) of 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.

SoCal, in response to CACD's request, states that McFarland Energy is responsible for the installation of its own processing and gathering system as well as the delivery of its gas to the receipt point where SoCal takes custody. CACD believes that the equipment that SoCal will install for receipt of McFarland gas into its system is not deemed part of a gas processing and gathering system, as described in Section 785.7(a) of the Code.

6. Section 785.7(b) of the Code 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." (emphasis added.)

CACD believes that SoCal's contract with McFarland Energy is in compliance with Section 785.7(b), because the customer is being served by its own request and because the resulting O&M 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 McFarland's gas into its system.

2. McFarland should reimburse SoCal for the installation of the measurement and quality control facilities. This cost is estimated to be $38,700.

3. McFarland should pay SoCal to operate and maintain these facilities. This fee is estimated to be $1,300 per month during the first contract year, commencing in the month of first deliveries.

4. SoCal's charges for installation, operation, and maintenance of these facilities should be adjusted, after the first contract year and from time to time, as needed, to reflect actual costs as closely as is feasible.

5. SoCal should book 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(a) and (b).

THEREFORE, IT IS ORDERED that:

1. The gas producer delivery agreement dated September, 1, 1990 between Southern California Gas Company and McFarland Energy is approved as discussed above.

2. SoCal Advice Letter 1998 and the Agreement shall be marked to show that they were approved by Commission Resolution G-2940. SoCal shall update its list of Contracts and Deviations to reflect this contract.

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 March 22, 1991. The following Commissioners approved it:

Neal J. Shulman
Executive Director

PATRICIA M. ECKERT
President
G. MITCHELL WILK
JOHN B. OHANIAN
DANIEL Wm. FESSLER
NORMAN D. SHUMWAY
Commissioners