

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND
COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-3194
September 4, 1996

R E S O L U T I O N

RESOLUTION G-3194. REQUEST OF SOUTHERN CALIFORNIA GAS COMPANY (SOCALGAS) FOR APPROVAL OF A STANDARDIZED CHARGE STRUCTURE FOR FUTURE CALIFORNIA GAS PRODUCER ACCESS AGREEMENTS FACILITATING RECEIPT AND TRANSPORTATION OF GAS PRODUCED IN CALIFORNIA (CALIFORNIA GAS) THROUGH SOCALGAS' PIPELINE SYSTEM. THIS ADVICE LETTER IS APPROVED WITH CONDITIONS.

BY ADVICE LETTER 2491, FILED ON APRIL 4, 1996.
SUPPLEMENTED BY ADVICE LETTER 2491-A FILED ON JULY 10, 1996.

SUMMARY

1. Southern California Gas Company (SoCalGas) seeks approval of a uniform charge structure for recovery of expenses incurred in accepting gas produced in California for transport through SoCalGas' pipeline system. At present, SoCalGas submits for approval an advice letter for each producer access agreement as required by California Public Utilities Code Section 785.7(b). SoCalGas now seeks to establish a standard charge format for future producer access agreements.
2. SoCalGas proposes to charge producers start-up costs and on-going operation and maintenance ("O&M") expenses. Start-up costs will consist of actual costs incurred for construction of facilities necessary to accept producer gas such as materials, meter set assembly, labor, and related costs. These costs will be capitalized and proceeds will be used to offset SoCalGas' plant accounts. SoCalGas will charge a fixed monthly rate of \$1,177 for on-going O&M expenses to recover costs for testing, calibration, inspections, and odorization. This amount is derived based on system-wide averages. An additional charge of \$277 per month will be charged for those sites where a Hydrogen Sulfide monitor is required. There are also variable O&M charges to recover costs which do not lend themselves to system-wide averaging. Revenue from O&M fees will be credited to the transmission account to offset SoCalGas' expenses. SoCalGas objective is to recover all its costs in providing access to California gas producers to use its system to transfer their gas to locations within SoCalGas' service territory.
3. This resolution approves SoCalGas' request because the proposed charge structure complies with Section 785.7(b) of the California Public Utilities Code, and would facilitate transportation of gas while reducing the administrative burden involved in seeking separate approval for each access agreement.

BACKGROUND

1. SoCalGas provides access to its pipeline system for the receipt and transportation of gas produced in California (California gas). SoCalGas has, since 1989, executed a number of such access agreements with various California producers. SoCalGas previously filed each individual advice letter with the Commission in order to obtain its approval of the access charges to be applied to the producer.

2. PUC Code Section 785.7(b) allows a gas corporation to charge producers for actual costs incurred for construction, operation and maintenance of facilities necessary to receive California Gas produced by other entities. Pursuant to the said Code Section, a gas corporation may also charge producers for services necessary to make any gas received compatible with the utility's gas requirement. The Commission is required to ascertain such charges, to ensure that they are based on actual costs for providing the specific service.

3. Anticipating future access agreements, SoCalGas filed a charge structure based on a pattern of uniform charges in prior access agreements. SoCalGas proposes to file a revised charge structure if any significant changes in costs occur. Similarly, SoCalGas will submit for approval any unusual access agreements that deviate from the schedule of charges submitted.

4. The charge structure consists of (1) start-up costs and (2) on-going expenses, comprised of fixed O&M fees and variable charges. These are explained below.

A. Start-up costs include actual costs of design, construction, testing, calibration and related costs of the facilities necessary to receive and accept gas. Charges include actual costs for materials, parts, permits, legal fees, rights of way, and applicable overhead as gathered from personnel involved with the work. Costs for labor is based on SoCalGas' labor rate for personnel assigned to the project or the assigned contractors' invoices. Start-up costs will be tracked and later capitalized when the facility is operational. SoCalGas will charge an application fee of \$1,000 when a producer requests an access agreement. This fee will cover costs of legal review, rights of way analysis, preliminary design, gas analysis and site visits. Upon completion of necessary improvements and modifications, the application fee revenue will be credited against the capitalized costs of the facilities constructed. The application fee revenue for any cancelled project will be credited to the SoCalGas department having incurred expenses in partial facilitation of the project.

B. Ongoing expenses for producer access consist of those costs necessary for continuing operation of the facilities used to accept and process gas for the producer. This O&M fee, composed of actual SoCalGas

September 4, 1996

labor rates plus actual costs of materials, parts, equipment, vehicle mileage and applicable overhead, separated into fixed and variable costs.

1. The fixed cost component of the ongoing expenses is based on figures derived from a system-wide analysis of actual costs incurred in accepting of California gas. SoCalGas will charge \$1,177 per month plus an additional \$277 monthly charge for sites requiring a hydrogen sulfide (H₂S) monitor.
2. Variable charges proposed by SoCalGas are specific to customer or location to reflect SoCalGas' actual costs for work to be performed. SoCalGas will charge for odorant costs on a volumetric basis at \$2.44 per MMcf, actual cost multiplied by a 0.75 target odorant usage rate. Where a site produces less than 500 Mcf per day, SoCalGas will charge a fixed cost of \$50.00 per month. Costs for permits and monitoring, as for air quality, will be charged to specific site meters. Other ongoing costs that may be charged to specific meters will include additional calibration, testing or inspection of special equipment or non-standard work necessitated by permit conditions.
5. For revenue purposes, SoCalGas will track and capitalize start-up costs; it will bill the remaining costs to the producer after crediting the application fee. Proceeds from the access agreement will be used to offset capitalized plant costs. Monthly O&M fees will be credited to the transmission expense accounts to offset SoCalGas' expenses.
6. On July 10, 1996, SoCalGas filed Advice Letter 2491-A to supplement the original filing. This filing includes the general provisions of future producer access agreements in harmony with the Advice Letter 2491 proposal.

NOTICE

1. Public notice of this filing has been made by publication in the Commission's calendar and by mailing copies of the advice letter to interested parties specified by General Order 96-A without the Agreement, except by request.

PROTESTS

1. Commission Advisory and Compliance Division (CACD) has received no protests to Advice Letter 2491.

DISCUSSION

1. CACD has reviewed SoCalGas' Advice Letter 2491, supplemental Advice Letter 2491-A, PU Code Section 785.7 and the attachments included with the filings.

2. CACD believes that SoCalGas' proposed charge structure is reasonable, since its derivation is based on actual costs incurred by SoCalGas. CACD reviewed the derivation of similar O&M charges, totalling \$1,500 per month, in Advice Letter 2437 filed August 18, 1995. Resolution G-3181 approved the filing because the derivation of the fee was in compliance with the provision of PU Code 785.7(b) stated in part below:

"The amount of the charge for the processing service or the facilities authorized by the subdivision shall be established by the commission and shall be based on the actual expenses for the construction, operation, maintenance, labor, materials, and overhead expenses involved in the specific service or facilities."

3. In Advice Letter 2437, SoCalGas used system-wide averages to determine O&M charges. G-3181 states that this method is cost-effective. SoCalGas' proposed fixed O&M charges are similar to those set forth in Advice Letter 2437 and are based on system-wide averages. In Advice Letter 2437, SoCalGas charged a fixed monthly rate of \$1,500 for O&M fees for nine points of receipt requiring a hydrogen sulfide monitor and \$1,100 for points of receipt that did not require such a monitor. SoCalGas' proposed charge structure differs by \$77 where no hydrogen sulfide monitor is required, and by \$46 where the monitor is required. The proposed charge structure is therefore comparable to charges approved by Advice Letter 2437.

4. The future access agreement provisions contained in supplemental Advice Letter 2491-A is in harmony with the proposed charge structure and procedures submitted for approval by Advice Letter 2491. CACD finds that the proforma contract appendices are based on prior access contract approved by G-3181.

5. CACD believes that revenue proceeds from producer access agreements should be accounted for separately from revenue received from other utility business to ensure that costs and proceeds from such contracts do not affect utility rates. SoCalGas proposes to treat access proceeds by offsetting them with the plant and transmission O&M accounts for costs incurred. As an additional safeguard, SoCalGas should establish separate subaccounts to track proceeds received from producers.

6. CACD requested additional information on the tax implications of proceeds resulting from producer access agreements as well as transfers of equipment and facility improvements from the producers to the utility. SoCalGas submitted IRS Cumulative Bulletin Notice 88-129, 1988-2 CB 541, (Jan. 01, 1988) in support of its position that proceeds and equipment transfers do not constitute taxable income because the gas transported is not resold. The IRS ruling, amending Code Section 118, states that utility "interties" (equipment required for interconnection) constitute nontaxable value when transferred to the utility so long as the utility does not

September 4, 1996

utilize such equipment for its own sales to the producer.
Notice 88-129 provides in part:

"The possibility that an intertie may be used to transmit power to a utility that will in turn transmit the power across its transmission network for sale by the Qualifying Facility to another utility (i.e., 'wheeling') shall not cause the contribution to be treated as a CIAC (Contribution In Aid to Construction). A utility takes no basis in property transferred in a QF transfer...."

CACD concludes that no tax consequences result from the transaction by which a producer transfers legal title of facilities constructed for the access agreement, since such facilities are not utilized to transmit gas for sale from utility to the producer. Therefore, revenue proceeds incidental to such an agreement and based upon actual costs should be subject to the same treatment for tax purposes.

7. CACD finds SoCalGas' request reasonable because its approval will reduce any administrative burden associated with request to approval access agreements structured around largely unvarying costs and charges.

FINDINGS

1. SoCalGas has, since 1989, executed a number of access agreements with California gas producers to access its pipeline system for the receipt and transportation of gas.
2. SoCalGas practice has been to file separate advice letters for each producer pipeline access agreement entered. SoCalGas seeks approval for the charge structure so that future agreements will not require individual approval.
3. On April 4, 1996, SoCalGas filed Advice Letter 2491 requesting approval of a charge structure to recover costs incurred to provide access to its pipeline system.
4. SoCalGas proposes to recover actual start-up costs, ongoing operation and maintenance (O&M) expenses and customer specific request or location related costs.
5. The charges detailed in SoCalGas' proposed access agreement charge structure are in accord with PUC Code Section 785.7(b), and they are just and reasonable.
6. The proceeds from access charges are to be credited to plant and transmission accounts to offset SoCalGas' capitalized costs and transmission O&M expenses.
7. Establishment of sub-accounts for the purpose of tracking revenue associated with such access agreements will greatly facilitate the utility's accounting procedures.
8. Revenue derived from producer access agreements is not taxable because it is not as a result of sale of gas from

September 4, 1996

SoCalGas to the producer, pursuant to IRS Cumulative Bulletin Notice 88-129, 1988-2 CB 541 (Jan. 01, 1988).

9. A Sample of contract provisions in supplemental Advice Letter 2491-A reflect pricing and procedures proposed in SoCalGas' initial Advice Letter 2491 and they are just and reasonable.

10. Establishment of a standardized charge structure for producer access agreements will reduce any administrative burden resulting from the filing of individual advice letters.

11. SoCalGas' requests will not cause an increase in rates or charges or withdrawal of service.

THEREFORE, IT IS ORDERED that:

1. The charge structure proposed by The Southern California Gas Company for future producer pipeline access agreements for transportation of a producer's gas to that producer, its affiliates or third parties is approved, subject to the following conditions:

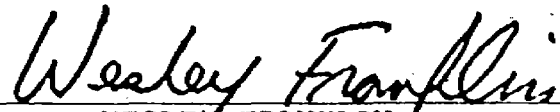
A. All charges to and collections from producers shall be traceable to the producers' records.

B. SoCalGas shall create separate offsetting subaccounts to accumulate start-up capitalized costs and all operation and maintenance (O&M) proceeds so that all receipts are traceable to the records of producers.

2. SoCalGas shall submit a supplemental advice letter filing including the above conditions in Ordering Paragraph No. 1. within 10 days of approval of this Resolution.

3 This resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on September 4, 1996. The following Commissioners approved it:



WESLEY FRANKLIN
Executive Director

DANIEL Wm. FESSLER
JESSIE J. KNIGHT Jr.
HENRY M. DUQUE
JOSIAH L. NEPPER
Commissioners

President P. Greogory Conlon, being necessarily absent, did not participate.