

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION G-3214
JULY 16, 1997

R E S O L U T I O N

RESOLUTION G-3214. REQUEST OF SOUTHERN CALIFORNIA GAS COMPANY (SOCALGAS) FOR APPROVAL OF A CALIFORNIA GAS PRODUCER ACCESS AGREEMENT (AGREEMENT), DATED OCTOBER 1, 1994, BETWEEN SOCALGAS AND UNOCAL CORPORATION, (UNOCAL) TO ENABLE GAS PRODUCED BY UNOCAL TO BE TRANSPORTED THROUGH SOCALGAS' SYSTEM TO THIRD PARTIES. APPROVED

BY ADVICE LETTER 2403, FILED ON MARCH 28, 1995.

SUMMARY

1. Southern California Gas Company (SoCalGas) seeks approval of a California Gas Producer Access Agreement (Agreement), dated October 1, 1994, with Unocal Corporation (UnoCal). SoCalGas requests approval of: (1) the Agreement; (2) the potential operation and maintenance (O&M) fee generated by the Agreement credited to a O&M transmission account, and (3) a deviation from gas quality provisions of Rule 30 - Transportation of Customer Owned Gas. SoCalGas proposes to waive the O&M fee in view of the pre-existing contracts between UnoCal and the City of Long Beach (Long Beach), UnoCal and SoCalGas. The proposed Agreement is to allow UnoCal's gas access to SoCalGas' system for transportation service to Long Beach.

2. The Division of Ratepayer Advocates (DRA) now Office of Ratepayer Advocates (ORA) protested the advice letter on the ground that the Agreement should not have exempted UnoCal from paying the O&M fee because the Commission has never granted such exemption.

3. This Resolution approves SoCalGas' request because the Agreement would facilitate transportation of gas within California in compliance with existing Public Utilities (PU) Code provisions. ORA's protest is denied since SoCalGas' proposal to waive the O&M fee does not harm ratepayers.

BACKGROUND

1. SoCalGas filed Advice Letter 2403 as required by Section X.A of General Order (GO) 96-A and PU Code Section 785.7(b). GO 96-A, Section X.A, directs utilities to obtain Commission

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authorization for any contract arrangement or deviation for utility service at rates or under conditions other than those filed with the Commission. PU Code Section 785.7(b) authorizes a gas corporation to charge gas producers for services provided and for the Commission to ensure the charge established is based on actual costs for construction, operation, maintenance, labor, material and overhead involved for the service.

2. The Agreement between UnoCal and SoCalGas was signed on January 4, 1995, subject to Commission approval and filed with Advice Letter 2403. SoCalGas understands that access agreements are subject to Commission approval, however, in practice, for business reasons, the Agreement was implemented on October 1, 1994, but gas did not flow until November 3, 1994. In order to avoid this problem and also remove the administrative burden associated with filing individual advice letters for access agreements, Resolution G-3194 of September 4, 1996 approved a standard charge structure for future access agreements. The filing of this Agreement obviously preceded the Resolution, therefore, Commission's approval is needed to continue SoCalGas' implementation of the Agreement with UnoCal.

3. The Agreement covers UnoCal's gas from the Huntington Beach field, which is dedicated to Long Beach under pre-existing sales contract. The Agreement allows UnoCal and Long Beach to perform under their pre-existing contract and for SoCalGas to honor its lease agreement with Long Beach of Line 1228 for 25 years from that the Commission approved by D.93-12-043. The Agreement is for four years, expiring on January 1, 1999. It may, however, continue from year to year thereafter until terminated by either party upon six months written notice, except as otherwise provided for in the Agreement. If the Agreement is terminated, only the obligations of SoCalGas to accept and UnoCal to deliver gas are terminated, other terms and conditions relating to obligations incurred prior to the termination would survive.

4. The Agreement allows gas produced by UnoCal and collected in an accounting pool to be transported to third parties through SoCalGas' system under its transportation tariffs approved by the Commission. UnoCal must balance its deliveries into the pool with nominations by its customers against the pool within certain tolerances. SoCalGas states that the Huntington Beach Receipt Point has the facilities needed to receive gas produced by UnoCal for redelivery. They were built by UnoCal and Long Beach but owned by Long Beach. Additional significant provisions of the Agreement include the following:

5. SIGNIFICANT TERMS AND CONDITIONS OF THE AGREEMENT

A. The Agreement provides that if SoCalGas deems it necessary to upgrade the facilities or UnoCal makes such a request in order to continue receiving UnoCal's gas, SoCalGas shall oblige. UnoCal, however, shall reimburse SoCalGas for the entire capital investment required including administrative and overhead costs and any federal and state taxes if the funds are deemed Contributions in Aid of Construction (CIAC).

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B. SoCalGas proposes that any potential revenues collected under the Agreement be credited to an existing transmission operating and maintenance expense account. SoCalGas, however, is proposing not to charge an O&M fee for operating and maintaining the facilities at the Huntington Beach Receipt Point through the termination date of the pre-existing sales contract dated September 1, 1992 between UnoCal and Long Beach or August 1, 2002, whichever comes first. This sales contract has an initial term of five years with an optional renewal of another five years. SoCalGas indicates that the sales agreement contains a provision that no O&M fee would be incurred by UnoCal.

C. UnoCal agrees to deliver a maximum of one million cubic feet (1,000 Mcf/d) gas daily, of specified quality, pressure, and temperature. The quality specifications for gas produced by UnoCal are different from the gas quality required by SoCalGas under gas Rule 30 - Transportation of Customer Owned Gas. The exceptions are set forth in Appendix C of the Agreement. They affect maximum water content, heating value, and hydrocarbons. SoCalGas therefore requests deviation from Rule 30 quality requirements. SoCalGas states that UnoCal's gas is consumed by electric generation plants designed to use this type of gas.

D. The Agreement provides SoCalGas the ability to terminate a Receipt Point and or the Agreement in the case of one receipt point if UnoCal is unable to deliver at least 2,080 decatherms per month for any three consecutive months. Another provision is that imbalances outside tolerance levels permitted under Schedule No. G-IMB - Transportation Imbalance Trading or 10% of the confirmed nominations for that month shall be corrected within five days.

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. On April 17, 1995 DRA now ORA filed a timely protest to Advice Letter 2403. On April 24, 1995 SoCalGas filed a timely response to the protest.

2. ORA protested the advice letter because the Agreement waives the O&M fee payable by UnoCal. ORA believes the waiving of the fee is unusual since it is "... not aware of any access agreement approved without O&M charges." Should the Commission approve the Agreement, ORA wants SoCalGas' shareholders to refund the fee being waived for UnoCal.

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3. SoCalGas responded that "it supports the concept that O&M fees generally should be collected under any new producer access agreements and that the Commission should generally approve the collection of such fees consistent with the requirements of California Public Utilities Code Section 785.7." SoCalGas, however, believes that this Agreement poses unusual circumstances that warrant a deviation from the normal practice of charging an O&M fee and that the Commission has such authority. SoCalGas indicates that the unusual circumstances leave the ratepayers indifferent whether SoCalGas charges UnoCal an O&M fee or whether that fee is waived.

4. SoCalGas claims that under the pre-existing transmission, purchase and sale agreement dated September 1, 1992 between UnoCal and the owner of Line 1228, Long Beach, UnoCal is not required to pay an O&M fee. Subsequently, SoCalGas leased Line 1228 from Long Beach under a separate agreement and assumed all existing obligations of Long Beach. SoCalGas believes that if the O&M fee is not waived as requested but charged to UnoCal, Long Beach in return would charge SoCalGas for what is collected from UnoCal. SoCalGas states that "Rather than have these charges follow this circular path, the Access Agreement includes a waiver of these fees."

5. SoCalGas also states that a portion of UnoCal's Huntington gas is covered by a long term contract signed January 1, 1965 between SoCalGas and UnoCal which does not require collection of O&M fee. This contract expires 2002. Because of these reasons SoCalGas urges the Commission to approve the advice letter as filed.

DISCUSSION

1. ED has reviewed SoCalGas' Advice Letter 2403, the Agreement, ORA's protest, and the response by SoCalGas. In addition, PU Code Section 785.7, and gas Rule 30 were also reviewed.

2. ED believes that the Agreement as a whole is balanced because it contains provisions to safeguard ratepayers' interests. UnoCal agrees to reimburse SoCalGas for any capital investment and federal and state taxes if the investment is deemed by IRS as taxable. There are also provisions to correct imbalances that are beyond tolerable allowances within a specific time period. In no event shall imbalance for any month or on a cumulative basis exceed the lower of the imbalance permitted without charge under SoCalGas' tariff or ten percent of the total gas quantities nominated by UnoCal and confirmed by SoCalGas. Other provisions of the Agreement call for dispute resolution through arbitration, including inspection or audit of parties' records.

3. ORA protested the advice letter because SoCalGas proposed to waive the O&M fee chargeable to UnoCal since this has never been done before by the Commission. SoCalGas' proposal is based on the administrative burdens it would eliminate and to comply with existing contract terms. We agree with SoCalGas that it

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should honor pre-existing contracts before it leased Line 1228, which were approved by the Commission.

4. ORA has requested that if the advice letter is approved, SoCalGas' shareholders should pay for the O&M fee. We deny this request because there is no consequence to ratepayers by waiving the O&M fee for UnoCal.

5. SoCalGas' requests as contained in Advice Letter 2403 are reasonable and should be approved.

6. ORA's protest to Advice Letter 2403 is denied.

7. SoCalGas is reminded that contracts with its customers require Commission approval. SoCalGas may be subject to some penalties for violating Commission orders.

FINDINGS

1. Access agreements filed prior to September 4, 1996 were generally implemented before they were filed with the Commission for approval to facilitate business transactions. The continuation of these agreements however, are subject to Commission's approval by letter or resolution.

2. Access Agreements are no longer needed to be filed and approved by Commission since a proforma agreement and standard charge structure were approved by Resolution G-3194 of September 4, 1996.

3. The Agreement with UnoCal was implemented on October 1, 1994 but gas did not flow until November 4, 1994.

4. On January 4, 1995, SoCalGas signed a four year Agreement with UnoCal to allow gas produced by UnoCal access to SoCalGas' system for transportation to third parties under existing tariffs approved by the Commission.

5. On March 28, 1995, SoCalGas filed Advice Letter 2403 as required by GO 96-A Section X.A and PU Code 785 (b).

6. Advice Letter 2403 requests approval of: the proposed Agreement with UnoCal, the potential credit of the O&M fee generated by the Agreement to a transmission account, and a deviation from quality requirements of Rule 30. SoCalGas requests that the O&M fee be waived for UnoCal because of special circumstances.

7. ORA protested the waiving of O&M fee chargeable to UnoCal.

8. The waiving of the O&M fee causes no harm to ratepayers. ORA's protest is denied.

9. The provisions of the Agreement between UnoCal and SoCalGas are reasonable

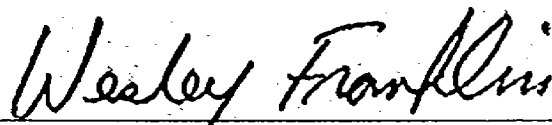
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10. SoCalGas' requests will not cause an increase in rates or charges or withdrawal of service.

THEREFORE, IT IS ORDERED that:

1. Advice Letter 2403 is hereby approved.
2. ORA's protest is denied
5. This resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on July 16, 1997. The following Commissioners approved it:



WESLEY FRANKLIN
Executive Director

P. Gregory Conlon, President
Jessie J. Knight, Jr.
Henry M. Duque
Josiah L. Neeper
Richard A. Bilas
Commissioners