PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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RESOLUTION: G-2617

EVALUATION & COMPLIANCE DIVISION
BRANCH: Energy
DATE: March 20, 1985

RESOLUTION

PACIFIC LIGHTING GAS SUPPLY COMPANY (PLGS). ORDER AUTHORIZING ACCEPTANCE OF THE EXCHANGE PROVISIONS OF THE TWO SEPARATE GAS SALE AND PURCHASE AGREEMENTS WITH CHEVRON U.S.A., INC. (Chevron) AND PHILLIPS PETROLEUM COMPANY (Phillips)

By Advice Letters Nos. 66 & 67, filed November 28, 1984 and December 24, 1984, respectively, PLGS submits for Commission approval the terms of exchange service and exchange fee attendants to two separate Gas Sale and Purchase Agreements, dated September 10, 1984 between PLGS and Chevron and dated November 27, 1984 between PLGS and Phillips. The facts are as follows:

1. The exchange provisions of these agreements (see Attachment A) require Commission approval in order to preserve PLGS's Hinshaw exceptions under the Federal Natural Gas Act (15 U.S.C. §717(c)).

2. Section 1.(c) of that Act states that its provisions do not apply to any person or persons who receive natural gas in interstate commerce within or at the boundary of a State if all of the gas is consumed within the State, provided that the applicable rate and service are subject to regulation by a State commission (the Hinshaw exemption).

3. The natural gas which is subject to these agreements will be provided off-shore in Federal waters and from there will be moved into California where it will be received by PLGS.

4. PLGS will deliver the gas to Southern California Gas Company (SoCal), its sole customer, for distribution or exchange within SoCal's service territory. Therefore, the gas will be received in interstate commerce and will be consumed wholly within the boundaries of California.

5. In order to assure that the Hinshaw exemption applies to this transaction, it is necessary that the exchange service and fee be subject to regulation by the Commission.

6. With regards to the agreement with Chevron, PLGS agrees that it will accept up to 75% of Chevron's share of gas made available at Chevron's gas treating facility near Gaviota and will redeliver concurrently a like quantity of natural gas to Chevron's San Joaquin

steam-flood and cogeneration operations at the exchange delivery points and at the exchange fee agreed upon.

7. With regards to the agreement with Phillips, PLGS agrees that it will accept up to 50% of Phillip's share of gas made available at the Point Arguello Natural Gas Line Company gas producing facility near Gaviota and will redeliver concurrently a like quantity of natural gas to Phillip's steam-flood and cogeneration operations of the exchange delivery points and at the exchange fee agreed upon.

8. The exchange fees to be charged by PLGS for exchange services in both cases shall, in any month, be the base exchange fee of $0.65 per decatherm with an escalation factor of 5% for each contract year commencing with the beginning of the second contract year. Such exchange fees to be computed to the nearest one-hundredth of a cent ($0.0001).

9. PLGS shall have the right to curtail, in whole or in part, delivery of the exchange gas at any time to either customer whenever it becomes necessary in order to meet the service requirements of SoCal's higher priority customers, and may purchase 100% of the available gas.

10. In the event that any new facilities are needed to effectuate the exchange delivery in either case, the customer will reimburse PLGS 100% of the total cost of labor, materials, and overhead required for the installation of such facilities.

11. Public notification of these filings have been made by supplying copies of such filings to other utilities, governmental agencies and to all interested parties who requested such notification. The Commission has received two protests to each of these filings.

12. One protest against each filing was filed by Texaco USA (Texaco) (see Attachment B) protesting the exchange fee of $0.65 per decatherm on the grounds that such exchange fee had not been demonstrated to be just and reasonable. Texaco alleges that acceptance of such an exchange fee by the Commission, without proper justification, could establish precedential rates and allow for the discrimination in application of those rates to other potential shippers of natural gas, such as Texaco.

13. Texaco states that it is a working interest owner in a natural gas production development located in the Federal Domain, Offshore California, close to the natural gas developments of both Chevron and Phillips.

14. In response to this protest (see Attachment C) PLGS points out that this fee, as well as all other terms and conditions of the agreements, were freely negotiated between the respective business entities and were obviously thought to be beneficial to each party to an acceptable degree.

15. In the event that Texaco and PLGS should seek an exchange agreement, hopefully they will be able to negotiate a mutually acceptable agreement, which will include an exchange fee clause that will be agreed upon by both parties, just as has been done in the case of both Chevron and Phillips. Until that time comes, Texaco has not been harmed in any way.

16. The position of PLGS and SoCal relative to its exchange program was set forth on pages 42-46 of SoCal's opening brief dated October 1, 1984 in the Commission's gas transportation proceeding, O.I.I. 84-04-79. A copy of these pages is shown as Attachment D to this resolution.

17. One protest was filed by the California Gas Producers Association (CGPA) (see Attachment E), requesting that the Commission require PLGS and SoCal, as well as Pacific Gas and Electric Company (PG&E), to formally file all of their natural gas "exchange" or transportation agreements with the Commission so that the terms and conditions of these agreements may be disclosed as a matter of public record.

18. In response to (CGPA) (see Attachment F), SoCal and PLGS reject the concept that such proprietary information between competitors should be made public. PG&E's response, (see Attachment G) points out that PG&E is not a participant in these filings and that in any respect, such information is confidential and proprietary to the utility and such information should not be divulged during periods of price negotiations with California gas producers when the utilities are seeking least-cost gas for its ratepayers. The Commission Staff concurs with the above assessments.

19. Despite the confidentiality and proprietary rights of the utility, Advice Letters 66 and 67 were submitted for Commission approval in order to preserve the Hinshaw exception under the Federal Natural Gas Act. A brief explanation is included in a letter from SoCal to the Commission dated February 14, 1985 (see Attachment H).

20. These filings have been reviewed by the Commission Staff and approval as submitted is recommended.

21. We find that these filings are just and reasonable and within the Commission's purview to regulate. We further find that the protests filed by Texaco and by CGPA should be denied.

THEREFORE:

1. Pacific Lighting Gas Supply Company is authorized by Section X.A. of General Order No. 96-A and by Section 532 of the Public Utilities Code to place the exchange provisions of the two gas sale and purchase agreements as filed by Advice Letters Nos. 66 and 67 into effect today, on the ground that the underlying contracts are reasonable and in the best interests of ratepayers. This approval is limited to the gas purchase and exchange agreements between PLGS and Chevron and Phillips, and the exchange agreements between SoCal and PLGS as filed

by SoCal Advice Letter 1483 required to implement the above-described exchanges.

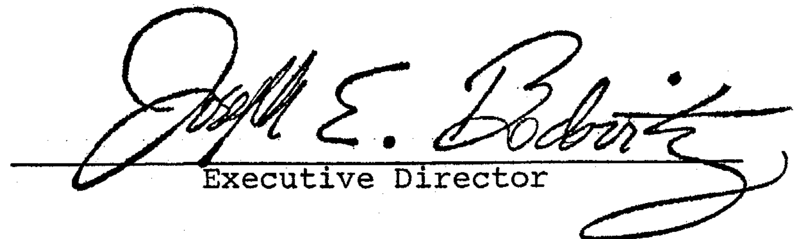
2. The protests to these advice letters as filed by Texaco, USA and by the California Gas Producers Association are hereby denied without prejudice.

3. The Public Utilities Commission of the State of California hereby certifies that it has exclusive regulatory jurisdiction over the rates and services provided by SoCal and PLGS pursuant to the aforementioned gas purchase and exchange agreements, and by virtue of this resolution approving same is exercising such jurisdiction pursuant to the provisions of 15 U.S.C. §717(c).

4. Any further gas exchange agreements between SoCal and PLGS and OCS producers, or between SoCal and PLGS for the purpose of exchanging OCS gas shall be brought to the Commission for prior approval through the advice letter procedure.

5. The above advice letters and agreements shall be marked up to show that they were approved for filing by Commission Resolution G-2617. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on March 20, 1985. The following Commissioners approved it:



Executive Director

DONALD VIAL
President
VICTOR CALVO
PRISCILLA C. GREW
WILLIAM T BAGLEY
FREDERICK R. DUDA
Commissioners

Attached to and made a part of that Gas Sales and Purchase Agreement dated the 10th day of September, 1984 by and between CHEVRON U.S.A. INC., a California corporation, Seller, and PACIFIC LIGHTING GAS SUPPLY COMPANY, a California Corporation, Buyer.

EXCHANGE DELIVERY POINTS AND EXCHANGE FEES

The exchange fees to be charged by Buyer for exchange services provided Seller pursuant to Article V of this Agreement in any Month shall be the base exchange fees hereinafter set forth. Said base exchange fees shall escalate at the beginning of the second Contract Year and each Contract Year thereafter by five percent (5%). Such exchange fees will be computed to the nearest one-hundredth of a cent (.01¢).

Exchange Delivery Points	Base Fee
B-1 (San Joaquin steam-flood and cogeneration locations to be agreed upon)	$.65/Decatherm

Attached to and made a part of that Gas Sale and Purchase Agreement dated the 27th day of November, 1984, by and between PHILLIPS PETROLEUM COMPANY, a Delaware corporation, Seller, and PACIFIC LIGHTING GAS SUPPLY COMPANY, a California corporation, Buyer.

EXCHANGE DELIVERY POINTS AND EXCHANGE FEES

The exchange fees to be charged by Buyer for exchange services provided Seller pursuant to Article V of this Agreement in any Month shall be the base exchange fees hereinafter set forth. Said base exchange fees shall escalate at the beginning of the second contract year and each contract year thereafter by five percent (5%). Such exchange fees will be computed to the nearest one-hundredth of a cent (.01¢).

Exchange Delivery Points	Base Fee
B-1 (San Joaquin steam-flood and cogeneration locations to to be agreed upon)	$.65/Decatherm

Texaco USA

3350 Wilshire Boulevard
Los Angeles CA 90010
213 739 7100

December 14, 1984

Mr. James R. McCraney
Deputy Director
Evaluation and Compliance Division
Public Utilities Commission
350 McAllister Street
Room 2024
San Francisco, California 94102

Re: ADVICE NO. 66
PACIFIC LIGHTING GAS SUPPLY COMPANY

Dear Mr. McCraney:

In reference to Advice No. 66, filed November 28, 1984, Texaco Inc. hereby protests the request by Pacific Lighting Gas Supply Company (PLGS) for approval of the exchange provisions attendant to a Gas Sales and Purchase Agreement dated September 10, 1984, between PLGS and Chevron U.S.A., Inc. (Chevron).

Texaco Inc. is a producer of natural gas in the State of California. Texaco Inc. is also a working interest owner in a natural gas production development located in the Federal Domain, Offshore California, close to Chevron's natural gas development which is the source of the natural gas which is the subject of the Gas Sales and Purchase Agreement between PLGS and Chevron referenced in Advice No. 66.

Specifically, Texaco protests the exchange fee of $0.65 per decatherm, as escalated, under the agreement on the grounds that such exchange fee has not been demonstrated to be just and reasonable and does not appear to be reflective of the actual costs of such exchange arrangement to PLGS. Acceptance of such an exchange fee by the Public Utilities Commission, without justification, could establish precedential rates and allow for the discrimination in application of those rates to other potential shippers of natural gas, such as Texaco.

Texaco further requests that an evidentiary hearing be held on the justification of such exchange fee. Alternatively, the Commission may want to consider the consolidation of this request by PLGS with the "Investigation on the Commission's Own Motion Into

the Operations of all Gas Corporations Regarding Transportation of Customer-Owned Gas from the California Border to Industrial Facilities Within California, And Related Matters," Docket Nos. OII84-04-079 and I&S Case No. 84-04-080 and Case No. 84-02-06, which is currently pending before the Public Utilities Commission, and which would appear to relate in a generic sense to the very issues raised by PLGS's filing herein.

Advice No. 66 was not submitted by PLGS to Texaco and, consequently, Texaco did not become aware of the submission of Advice No. 66 by PLGS until December 7, 1984. Texaco, therefore, requests leave of the Commission to file this protest in the event such protest is considered out of time.

Very truly yours,

W. H. WIETSTRUCK
Gas Sales Manager

WHS/KAB
bh:3/u

cc: Mr. R.M. Loch
Pacific Lighting Gas
Supply Company
P. O. Box 54790
Terminal Annex
Los Angeles, California 90054

cc: Chevron

REC4/DW.801

810 SOUTH FLOWER STREET • LOS ANGELES, CALIFORNIA

FREDERICK E. JOHN
Vice President

MAILING ADDRESS: BOX 3249 TERMINAL ANNEX, LOS ANGELES, CALIFORNIA 90051

January 15, 1985

Mr. James R. McCraney
Deputy Director
Evaluation and Compliance Division
Public Utilities Commission
350 McAllister Street, Room 2024
San Francisco, CA 94102

Re: Pacific Lighting Gas Supply Company Advice No. 67

Dear Mr. McCraney:

This letter is in response to the protest of Texaco, dated January 9, 1985, to our Advice No. 67 requesting Commission approval of the rates and terms of the November 27, 1984 exchange agreement between Phillips Petroleum Company (Phillips) and Pacific Lighting Gas Supply Company (PLGS). The letter also responds to the protest of Texaco, dated December 14, 1984, to our Advice No. 66 requesting Commission approval of the rates and terms of the outer continental shelf gas exchange agreement between Chevron and PLGS.

Texaco protests the exchange fee of $0.65 per decatherm as not having been demonstrated to be just and reasonable. This exchange fee is an integral part of the overall agreement for the sale and purchase of gas between Phillips and PLGS and between Chevron and PLGS. The fee, as well as all other terms and conditions of the agreements, were freely negotiated between these business entities dealing with each other at arms length. Obviously the parties believed they were benefiting to an acceptable degree or they would not have entered into the agreements. There is no reason for the CPUC to question the reasonableness of the negotiated exchange fees in the name of protecting Phillips, Chevron or any other producer. They are perfectly capable of protecting themselves.

Texaco apparently fears that it may become subject to an exchange fee of $0.65 per decatherm when it is ready to request exchange services. When that time comes, Texaco and PLGS will hopefully be able to negotiate a mutually acceptable agreement, just as PLGS has done with Phillips and Chevron. Until that time comes, Texaco has not been harmed in any way and has no basis for complaint.

SOUTHERN CALIFORNIA GAS COMPANY

The position of PLGS and Southern California Gas Company (SoCalGas) relative to its exchange program was set out at pages 42-46 of SoCalGas' opening brief dated October 1, 1984 in the Commission's gas transportation proceeding, OII 84-04-079. I have attached a copy of those pages for your convenience. Our position on exchange remains basically as set forth therein. The only reason we have requested Commission approval of the Chevron and Phillips exchange agreements is that the gas is being received by PLGS in interstate commerce and Commission approval is therefore necessary to protect our Hinshaw exemptions.

PLGS urges the Commission to approve the rates and terms of the above-described exchange agreements at the earliest practical time.

PACIFIC LIGHTING GAS SUPPLY COMPANY

By
Frederick E. John, Vice President
Southern California Gas Company
Authorized Agent

cc: W. H. Wietstruck, Texaco
Leon Bray, Phillips
Allen Quiat, Chevron
Michael Day, Staff Counsel

Attachments

K. Exchange Agreements

Special Condition 10 of Schedule T-1 specifies that the proposed transportation program will not affect existing or future exchange agreements. (See Exh. 18, Schedule T-1, sheet 5.) Transportation under Schedule T-1 and producer exchange agreements are two entirely separate programs. Most exchange agreements are intended to facilitate supply acquisition. As Mr. Pocino explained:

> "The purpose of gas purchase contracts with California gas producers has been to acquire gas for our system. In negotiating some of these contracts, exchange arrangements were included on a contract-by-contract basis in order to provide individual producers with incentives to sell gas to us. These exchange arrangements provide that a portion of the gas delivered by a

> producer into the Pacific Lighting utility system may be exchanged by delivering a like amount of gas to the producer at another location, usually a refinery, for a mutually agreeable fee. These exchange arrangements have given us access to certain California gas supplies, something not intended to be part of the Schedule T-1. Exchange arrangements have been used for over sixty years as part of our long-term intrastate gas acquisition strategy." (Exh. 24, p. 15.)

Exchange arrangements with California producers are negotiated on a case-by-case basis. The exchange provisions are an integral part of overall gas supply agreements, and the exchange rates and provisions can only be properly evaluated in the context of the overall agreements. Exchange arrangements should not be considered part of the Schedule T-1 program, because customers under the T-1 program are not negotiating with SoCalGas for the sale and purchase of utility system gas supplies.

End-users seeking transportation under Schedule T-1 have no gas acquisition opportunities to offer the utility, and hence have nothing to bargain with. Transportation will be offered to them under Schedule T-1 as a public utility service, not as a freely negotiated business deal. California gas producers, on the other hand, have gas supplies to sell, and the utility bargains with them for the best contract it can get. There are times when that deal may include

an agreement to exchange some of the producer's gas with equivalent volumes of gas at a producer's end-use facility, such as a refinery. The bargain is struck between two business entities dealing at arms length, each of which has an economic advantage to offer the other. This is a fundamentally different situation than the utility's offer under Schedule T-1 to transport gas for non-producers as a public utility service. The differences between these two programs were explained in detail by Mr. Loch and Mr. Pocino. (See Tr. 3/284-294; 5/659-662.)

In addition to the exchange agreements with California producers, SoCalGas has exchange arrangements with PGandE. Their purpose is to provide operational flexibility to both utilities, and to save California ratepayers the expense of redundant facilities. The utilities also provide each other with temporary system support to avoid interruptions of deliveries of gas during times of local operating failures or other unplanned difficulties. (Exh. 24, pp. 15-16.)

One intervenor argued that exchange arrangements with California producers should be "filed" with the Commission. Others noted that the facilities used to carry out exchange arrangements are owned by the utility and are included in the utility's rate base. The fact that the

facilities used for exchange are in rate base has no jurisdictional significance whatsoever. The identical facilities used for exchange are also used by the utility to purchase and transport system supply from California producers to utility sales customers throughout the service territory. They are a necessary part of the Pacific Lighting utilities' system and are properly in rate base.

In addition, the gas which is sold by California gas producers to the utility obviously passes through rate-based facilities, yet no one has suggested that the Commission assert jurisdiction over producer sales. The representative of the California Gas Producers Association specifically recommended against Commission jurisdiction over California gas purchase contracts (Tr. 2/139), yet the exchange arrangements are typically included within the body of those purchase contracts.

As the SoCalGas witnesses have made abundantly clear, the exchange arrangements are an integral part of overall agreements to purchase gas. All the arguments which would support Commission jurisdiction over the exchange of California gas would also apply to Commission jurisdiction over purchases of California gas. That is a result which the utilities and, we believe, the gas producers would most strongly oppose. Neither the purchase nor the exchange of

California gas should be subject to Commission jurisdiction. In this era of diminishing government regulation and recognition of the public interest in the full play of free market forces, any Commission assertion of jurisdiction over the purchase and exchange agreements with California gas producers would not be constructive. (See Tr. 3/299.)

California Gas Producers Association

626 WILSHIRE BOULEVARD • LOS ANGELES, CALIFORNIA 90017
(213) 626-4321

HENRY F. LIPPITT, 2ND
EXECUTIVE SECRETARY

January 25, 1985

Mr. James R. McCraney, Deputy Director,
Evaluation and Compliance Division ,
California Public Utilities Commission,
350 McAllister Street, Room 2024,
San Francisco, California 94102

Dear Mr. McCraney,

This letter is written on behalf of the California gas producers to ask the California PUC to require SoCal Gas-PLGS, and PG&E, to formally file <u>all</u>, not just a selected few, of their natural gas "exchange", or transportation, agreements with the Commission, so that terms and conditions of these agreements may be disclosed as a matter of public record.

<u>Present Advice Filing</u>

This letter is prompted by SoCal Gas recent filing, on January 21, 1985, of Advice No. 1483, seeking Commission authorization of SoCal Gas participation in the "exchange" service arrangements with PLGS for the delivery, by "exchange", of Outer Continental Shelf (OCS) gas for various natural gas producers under certain "blanket" terms and conditic

In its Advice SoCal Gas refers to two Advices filed by its PLGS subsidiary requesting approval of the "exchange" service and "exchange" fee to be provided by PLGS, and SoCal Gas, as follows:

Advice No. 66, filed November 27, 1984, with Chevron, U.S.A., Inc., providing for a 63¢/Dth "exchange" fee.

Advice No. 67, filed December 24, 1984, with Phillips Petroleum Company, providing for a 65¢/Dth "exchange" fee.

No reason is provided for the difference in "exchange" fees provided in these contemporaneous agreements for essentially the same natural gas "exchange" service.

<u>Other "Exchange" Services</u>

This, however, is only the tip of the iceberg. In this instance, because for the asserted "need" for regulatory authorization, for transportation, or "exchange" of this, SoCal Gas (and PLGS) have filed these Advices with the CPUC for regulatory inspection and approval. However, in all other cases, involving the transportation, or "exchange' of intrastate California natural gas supplies, none of the other SoCal Gas-PLGS transportation, or "exchange" agreements have either been filed formally with the Commission - nor has Commission approval been sought for the widely varying terms and conditions of the SoCal Gas-PLGS (or PG&E) transportation, or "exchange" agreements.

a) SoCal Gas "Exchange" Services

As it was pointed out during the course of the recent Commissic Natural Gas Transportation Investigation proceedings (OII 84-04-079, et. al), at the present time SoCal Gas carries out transportation, or "exchange" natural gas service for some 16-17 customers, principally natural gas producing companies. The gas is, generally, transported, or "exchanged" between the point of production (within California) for the customer, and the customer's oil refinery. In 1983 Pacific Lighting (SoCal Gas) exchanged 25.862 Bcf, or about 70,000 Mcf per day of gas across the PLGS-SoCal Gas system for a total revenue of $10.967 million, or an average "exchange" revenue of 42.4¢/Mcf (Pocin Ex. No. 29, Tr. 666, attached).

According to data filed in support of SoCal Gas' past Spring 1984 Consolidated Adjustment Mechanism (CAM) natural gas rate proceedings (Application No. 84-03-30) SoCal Gas presently plans to transport or "exchange" about 37 Bcf annually, or about 101,000 Mcf per day, of natural gas during the 12-month period May 1984-April 198 across its system for a total revenue of $13.159 million, or at an average unit transportation or "exchange" cost of about 35.5¢/Mcf. The unit cost, volume, and revenue from SoCal Gas (and its subsidiary Pacific Lighting Gas Supply) from its existing transportation, or "exchange" service is:

Pacific Lighting Gas Supply Company
Exchange Volumes And Revenues
CAM Filing - May 1984 - April 1985

Type Of Exchange	Priority	Volume (MMcf)	Unit Revenue (¢/Mcf)	Exchange Revenue ($M)
Oil Company*	1	8.291	[illegible]	$ [illegible]
Oil Company	1	0.832	[illegible]	[illegible]
Oil Company	2A	7.305	[illegible]	[illegible]
Oil Company	2B	2.714	[illegible]	1.145
Elk Hills	3B	6.330	[illegible]	[illegible]
Oil Company	[illegible]	7.217	[illegible]	[illegible]
Oil Company	1	4.372	[illegible]	[illegible]
Total	-	37.061	[illegible]	[illegible].159

*SoCal Gas 1 - figures aggregated.

Source: Ex. No. 12, Lippitt, Tr. 137.

The discriminatory variances in the transportation, or "exchan fees charged individual California gas producers are exemplified by 44 different current effective exchange rates charged by SoCal Gas-P for exchanging natural gas supplies across the combined PLGS-SoCal G natural gas transmission, pipeline and distribution system. These "exchange" rates vary from 2¢-93¢/Mcf, showing a wide disparity in t

treatment of any individual producer's request (Exhibit No. 29, Poci Tr. 669, attached). A number of producers have lodged complaints against these discriminatory practices -- without avail. (Cf. Gulf Exploration and Production Company letter dated May 24, 1984, Exhibi No. 12, attached.)

> In this connection it may be noted that the granting, or denying, of "exchange" privileges for California gas has nothing to do with the price paid for California gas. In southern California, California gas is purchased based on annual or monthly border price contracts, or on uniform fixed price contracts. In northern California all natural gas is purchased on uniform fixed price contracts.

There is no doubt as to the subjective nature of the expresse criteria for the granting, or denying, of a right to "exchange" vol of California-produced gas between field producers and customers. [illegible] objective policy, or criteria, is established.

PG&E "Exchange" Services

In contrast to SoCal Gas, PG&E only has about [illegible] "exchange' service agreements. The prices for this California gas "exchange" service vary between 13.[illegible]¢ and 36.01¢/Mcf (Exhibit No. [illegible] (Lippitt) 42 (Gibson), attached). PG&E witness Gibson's remarks point out th extent of his "qualitative" judgment with respect to his "judgment a experience" in regard to the need and extent to which PG&E opposes, mandatory contract carriage, but grants, or denies, "exchange" gas privileges in California. (Cf., the response to CPUC Staff Counsel Mc Kenzie's questions at Tr. [illegible]-841, 848-857, and the response to questions by ALJ Power, Tr. 858-861.)

Summary And Conclusion

Overall, it is clear that under the presently unregulated "ex change" situation, there are wide discriminatory differences in the way individual California gas producers are treated. If this condi tion is to be corrected, some method must be found to ameliorate th situation. The first step in this direction -- short of imposing a ditional regulatory restrictions -- is to provide a "full and fair closure" of the "exchange" arrangements presently entered into. Thereafter, new "exchange" arrangements, as with other facets of th utility service provided by both SoCal Gas and PG&E, can then be fi and approved by an Advice Letter procedure.

Accordingly, as a condition for the approval of the SoCal Gas and PLGS, Advices already filed with the Commission, the California gas producers ask the Commission to order SoCal Gas-PLGS (and PG&E) to file all existing contracts for the transportation, wheeling, "exchange", or "contract carriage" of natural gas within the State with the Commission. Only when this is done, and an analysis is made of the individual terms and conditions of these varying agreem will the Commission be in a position to approve the individual Advi filings made covering this form of natural gas service.

* * * * * * * * * * * * * * *

In accordance with the statements made in the Advice, copies of this letter have been sent to SoCal Gas, as well as a number of parties interested in the Commission's Transportation Investigation proceeding.

Very truly yours,

CALIFORNIA GAS PRODUCERS ASSOCIA

Henry F. Lippitt, 2nd.,
Executive Secretary

SOUTHERN CALIFORNIA gas COMPANY

810 SOUTH FLOWER STREET • LOS ANGELES, CALIFORNIA

FREDERICK E. JOHN
Vice President

MAILING ADDRESS: BOX 3249 TERMINAL ANNEX, LOS ANGELES, CALIFORNIA 90051

February 7, 1985

Mr. James R. McCraney
Deputy Director
Evaluation and Compliance Division
Public Utilities Commission
350 McAllister Street
San Francisco, California 94102

Dear Mr. McCraney:

This letter is in further response to the January 25, 1985, letter of the California Gas Producers Association (CGPA) regarding Southern California Gas Company's (SoCalGas) Advice No. 1483. CGPA requests that SoCalGas and Pacific Lighting Gas Supply Company (PLGS) be required to file all exchange arrangements with the Commission.

On February 1, 1985, I sent you a letter responding to the CGPA's letter and pointing out that the CGPA's request would amount to the establishment of a state-sponsored clearing house for the exchange of proprietary information between competitors. I also wish to inform you that certain statements in the CGPA's letter are inaccurate and misleading.

The CGPA's letter states that the exchange fee paid to PLGS by Chevron, U.S.A. for the exchange of its Point Arguello gas will be 63¢/Dth, whereas the exchange fee paid by Phillips to PLGS will be 65¢/Dth. The correct figure is 65¢/Dth for both Chevron and Phillips.

On page 2 of the CGPA's letter, it was suggested that the average exchange fee of the Pacific Lighting utility system has dropped from 42.4¢/Mcf in 1983 to approximately 35.5¢/Mcf during the projected 12 month period from May 1984 to April 1985. The CGPA then presented a chart which purported to explain how this average exchange fee was derived. The chart, however, is misleading. The first entry refers to an "Oil Company" exchange of 8.291 MMcf at

an exchange fee of 4.42¢/Mcf. In reality, the exchange referenced by these numbers is not for an "Oil Company", but rather refers to the exchange services anticipated to be provided by PLGS to Pacific Gas and Electric Company. This is clearly not an exchange arrangement with a producer of natural gas which sells gas to the Pacific Lighting utility system. Therefore, it should not be included in the calculation of our average exchange revenues. With the deletion of this entry, the projected average exchange revenues of PLGS would be 44.46¢/Mcf.

We have conveyed this information to Mr. Henry F. Lippitt of the CPGA and renew our previous request that the Commission reject the proposal of CPGA to make the terms of all our exchange arrangements public.

Very truly yours,

/psd
cc: Mr. H. F. Lippitt, 2nd, Esq.
California Gas Producers Association

Resolution G-2617

Attachment G
Sheet 1 of 2

PACIFIC GAS AND ELECTRIC COMPANY

PG&E

77 BEALE STREET, SAN FRANCISCO, CALIFORNIA 94106 TELEPHONE (415) 781-4211
P.O. BOX 7442, SAN FRANCISCO, CALIFORNIA 94120 TELECOPIER (415) 543-7813

PETER W. HANSCHEN
ATTORNEY

February 20, 1985

Mr. James R. McCraney
Deputy Director
Evaluation and Compliance Division
California Public Utilities Commission
350 McAllister Street
Room 2024
San Francisco, CA 94102

Dear Mr. McCraney:

This letter is written to protest and oppose the request made in this proceeding on January 25, 1985, by the California Gas Producers Association that the Commission require Pacific Gas and Electric Company (PGandE) to file all intrastate natural gas exchange or transportation agreements.

PGandE has not been a party in this proceeding and does not intend by this communication to become a party. It submits this communication for the limited purpose of responding to the unauthorized and inappropriate request by the Gas Producers.

In its January 25 communication, the Gas Producers request that the Commission impose "as a condition for the approval of the [Southern California Gas Company] SoCal Gas and [Pacific Lighting Gas Supply] PLGS Advices," that the Commission order SoCal Gas, PLGS, and PGandE to file with the Commission all intrastate contracts for transportation, wheeling, "exchange," or "contract carriage" of natural gas. For the several reasons set forth herein, PGandE opposes this request.

Foremost, PGandE is not a party to this proceeding. Accordingly, there is no procedural basis on

which the Gas Producers or any other party can request PGandE to provide information in this proceeding.

Second, the issue of the scope of the Commission's regulation of intrastate exchange and transportation agreements is already pending in OII 84-04-079. Accordingly, the Gas Producers may not circumvent the Commission's deliberations in that proceeding by seeking to obtain the same information in this proceeding.

Lastly, the information requested is confidential and proprietary to PGandE. Obviously, the Company is quite concerned about divulging any such information to the Gas Producers, particularly during this period in which PGandE is engaged in price negotiations with California gas producers and is seeking to obtain the least-cost gas for its ratepayers. The Company's hesitancy to provide such confidential information to the Gas Producers is further heightened by the expectation that any such information would most likely be broadly disseminated to members of the Association and also most probably made public in the Bulletin regularly issued by the Executive Secretary of that organization.

Accordingly, PGandE requests that to the extent that the Commission even entertains the above January 25 request of the California Gas Producers Association, that it summarily reject the request.

Very truly yours,

PETER W. HANSCHEN

SFG:ng

cc: Chief Administrative Law Judge Mary C. Carlos
Administrative Law Judge Patrick Power
Henry F. Lippitt, II
Robert E. Keeler, Esq.
Michael B. Day, Esq.
Catherine Waddell Yap

SOUTHERN CALIFORNIA gas COMPANY

810 SOUTH FLOWER STREET • LOS ANGELES, CALIFORNIA 90017

GEORGE G. HANNAH
Tariff Administration Manager

MAILING ADDRESS: BOX 3249 TERMINAL ANNEX, LOS ANGELES, CALIFORNIA 90051

February 14, 1985

Mr. Bruno Davis, Chief
Evaluation and Compliance Division
Public Utilities Commission
State of California
350 McAllister Street
San Francisco, CA 94102

Dear Mr. Davis:

You have asked for a short explanation of the history and purpose of the Hinshaw Amendment and its relation to Advice Letters 66 and 67. This amendment was added to the Natural Gas Act in 1954 as section 1(c) of the Act (15 U.S.C. §717(c), and was intended to nullify the result of the U.S. Supreme Court decision in Federal Power Com. v. East Ohio Gas Co. (1950) 338 U.S. 464. In that case, the Supreme Court held that the East Ohio Gas Company became subject to the provisions of the Natural Gas Act because it received and transported gas in interstate commerce in its large-diameter, high pressure transmission lines, even though such lines were all located within Ohio. Interstate commerce did not cease, according to the court, until the gas entered a lower pressure local distribution system. The effect of passage of the Hinshaw Amendment was to nullify that result and remove the prospect of dual federal and state regulation of local distribution companies which also operate large diameter transmission lines located entirely within the local state. Therefore, SoCalGas and PLGS remain solely state-regulated distribution companies as long as they retain their Hinshaw exemptions, even though they purchase gas in interstate commerce from federally regulated pipelines at the California border and transport it within the state in their large transmission lines to the local distribution system.

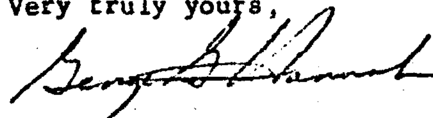
The Hinshaw Amendment states that the federal Natural Gas Act does not apply to a company or its facilities engaged in the interstate transportation or sale for resale of natural gas, if the gas is received at or within the boundary of a state and ultimately consumed within the same state, provided that the rates and service of the company and its facilities are subject to regulation by a state commission. SoCalGas and PLGS receive gas at or within the boundary of California and their gas is consumed wholly within California. They also hold certificates from the CPUC that their rates and service are subject to CPUC regulation. Therefore, they have been granted Hinshaw exemptions.

SOUTHERN CALIFORNIA GAS COMPANY

The reason we have requested CPUC regulation of the Phillips and Chevron exchange arrangements is that the gas from those projects originates outside California and therefore is flowing in interstate commerce when we receive it within California. If the rates and service relative to those arrangements were not subject to CPUC regulation, the Hinshaw exemption would not apply, and FERC jurisdiction would follow.

The problem is that FERC jurisdiction would not be confined solely to the Phillips and Chevron arrangements, but would extend to all our public utility rates and services. In other words, the CPUC would be completely ousted from regulatory control. Like it or not, that is the actual result of a FERC decision rendered just last August. In that decision the FERC held that Commonwealth Gas Pipeline Corporation of Virginia lost its Hinshaw exemption for its entire operation, merely because the Virginia State Corporation Commission had determined that it had no jurisdiction to regulate sales of gas sold by Commonwealth for resale to the City of Richmond. Even though such sales constituted only a minor portion of Commonwealth's total sales in Virginia, the FERC revoked its Hinshaw exemption entirely. (See Commonwealth Gas Pipeline Corp., FERC Docket No. G-2500-000, order issued August 20, 1984.) In light of this decision, I'm sure you can appreciate why the Phillips and Chevron arrangements must be subject to regulation by the CPUC.

Very truly yours,



cc: G. A. Amaroli
J. H. Barnes
J. M. McCraney
C. W. Yap