PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND
COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-3144
October 12, 1994

R E S O L U T I O N

RESOLUTION G-3144. REQUEST OF SOUTHERN CALIFORNIA GAS COMPANY (SOCALGAS) TO REVISE ITS TARIFF SCHEDULES AND FOR APPROVAL OF TWO CREDIT ESTABLISHMENT AGREEMENTS, DATED JUNE 10, 1994, BETWEEN SOCALGAS AND SUNRISE ENERGY COMPANY.

BY ADVICE LETTER 2332-G, FILED ON JULY 19, 1994.

SUMMARY

1. Southern California Gas Company (SoCalGas) requests authority to revise its tariff schedules because of two new separate credit agreements, executed June 10, 1994, between SoCalGas and Sunrise Energy Company (Sunrise). The two credit agreements are in connection with Sunrise's obligations under the Marketer/Aggregator (M/A) and Contracted Marketer (C/M) Contracts to SoCalGas. Both agreements are referred to as M/A and C/M Credit Establishment Agreements (Credit Agreements).

2. The proposed Credit Agreements will provide SoCalGas security for amounts due under Sunrise's M/A and C/M Contracts for certain natural gas delivery and transportation liabilities with SoCalGas. Sunrise has been unable to maintain its credit obligations under the current tariff requirements. The Credit Agreements will allow Sunrise to have approved credit limit and aggregator status with SoCalGas.

3. The M/A Credit Establishment Agreement is an addition to the existing contract under SoCalGas' Rule 32b(1) - Application for Service under Core Aggregation Transportation (CAT) program. It requires Sunrise to meet certain performance levels under the M/A Contract obligations with SoCalGas and to pay its bills within the required time limits. The other credit agreement which is also an addition to the C/M Contract requests Sunrise to meet certain performance levels and for Sunrise to provide additional collateral. Both credit agreements are designed to enable Sunrise to demonstrate its creditworthiness to SoCalGas. SoCalGas' Rule 32b(1) requires approved credit limit in order to establish the Daily Contract Quantity (DCQ) or a security deposit of cash or cash equivalents with SoCalGas.

4. The conditions imposed by SoCalGas are reasonable because they would protect SoCalGas and ratepayers from unnecessary collection costs and "double" payment for utility purchased gas and enable Sunrise to continue its participation in the SoCalGas' CAT program.

5. The filing proposes to add the Agreements to SoCalGas' List of Contracts and Deviations.

6. No protests were received against Advice Letter 2332-G.

7. This Resolution grants SoCalGas' request because the proposed additional conditions beyond Rule 32b(1) requirements and those contained in the C/M Credit Establishment Agreement will protect both Sunrise's and SoCalGas' interests. They offer SoCalGas additional credit protections and at the same time allow Sunrise to continue its participation in SoCalGas' programs. It may also encourage others to participate in the program because of SoCalGas' willingness to cooperate with Sunrise's request.

BACKGROUND

1. On February 21, 1991, the Commission issued D.91-02-040, which set forth final rules governing transportation only service for core gas customers who chose to aggregate their loads. The rules offered small and medium sized customers their first opportunity to participate in competitive gas markets by aggregating their loads and their gas supplies from seller of their choice. This represented a further step in the direction of more open and competitive gas markets. The Decision encouraged the utilities to start the experimental program effective August 1, 1991 for three years until the Commission approved a permanent program. This decision established Gas Tariff Rule 32, Core Aggregation transportation (CAT) Program.

2. Sunrise has been an active participant in SoCalGas' CAT and C/M programs since their inception. The Contracted Marketer (C/M) program is a noncore aggregation transportation program. The Credit Agreements are in addition to the M/A and C/M Contracts (Contracts) already in existence between Sunrise and SoCalGas. The Contracts require Sunrise to deliver certain quantities of gas into SoCalGas' intrastate by a specific date and to pay its transportation costs as billed by SoCalGas.

3. SoCalGas' Tariff Rule 32b(1) requires an Aggregator under contract agreement with SoCalGas to submit a credit application which may include financial information that may be used to determine the Aggregator's creditworthiness. The Aggregator's creditworthiness evaluation is used to establish the Aggregator's credit limit and its Daily Contract Quantity (DCQ). SoCalGas' Tariff Rule 1 defines DCQ as the annual average gas consumption, based on historical or forecasted consumption which is stated on a daily basis for a Marketer's or Aggregator's end-users. The quantity represents the maximum amount of interstate capacity to be reserved by the utility for allocation to Aggregators and core transportation customers. It is also the

amount of gas Aggregators may transport on behalf of their customers on a secured or unsecured line of credit with the utility.

4. The Marketer/Aggregator Contract (Form 6536) Section VIIl - Creditworthiness, Part 8.1, states in part:

In the event that (a) SoCalGas determines that a material financial change has adversely affected Marketer's and/or Aggregator's creditworthiness, or (b) Marketer and/or Aggregator does not provide the information, evidence or assurances requested. SoCalGas may terminate this Contract on the day written notice is given.

5. At the time Sunrise signed M/A and C/M Contracts with SoCalGas, Sunrise was deemed creditworthy by SoCalGas. However, Sunrise has expressed its willingness to SoCalGas to work with SoCalGas' CAT and C/M programs and for SoCalGas to find some ways to reduce its creditworthiness requirements. At the same time, SoCalGas believes that it is necessary to require additional credit protections from Sunrise based on recent experience with Sunrise. Sunrise was unable to maintain its credit obligations under the existing Contracts with SoCalGas. As a result, Sunrise and SoCalGas signed the two Credit Agreements. This will provide Sunrise the flexibility needed to control the creditworthiness (monetary) requirements by SoCalGas, and to minimize any barriers for Sunrise's participation in SoCalGas' CAT program. SoCalGas believes the Credit Agreements should provide additional protections for ratepayers from risk because of possible collection activity.

<u>The Main Conditions of the Credit Agreements</u>

6. The M/A Credit Establishment Agreement (M/A Agreement) contains the following provisions:

a. The Agreement is effective immediately and for that period between June 10, 1994, and when the Commission approves a permanent CAT program; unless terminated earlier by agreement of both parties.

b. SoCalGas will provide Sunrise with billing data and invoices on a weekly basis for transmission costs associated with Sunrise's aggregator accounts. This will enable Sunrise to make timely payment to SoCalGas and avoid any delinquency which could adversely affect Sunrise's creditworthiness standing with SoCalGas.

c. Sunrise will provide SoCalGas on or before the last day of each month its Regional Energy Management Association (REMAC) and California Utility Rate Benefits (CURB) monthly delivery targets for the upcoming calendar month which is referred to as "REMAC and CURB Monthly Delivery Targets."

d. Sunrise agrees to have delivered into SoCalGas' intrastate system on each Friday of each month that quantity of natural gas of not less than 80% of Sunrise's REMAC and CURB

Monthly Delivery Targets, which is referred to as the "80% Condition." The parties agree that the 80% condition will be determined from delivery confirmations provided by SoCalGas' Gas Control Department. This information will be sent by telefax to Sunrise daily.

7. The C/M Credit Establishment Agreement (C/M Agreement) contains the following provisions:

a. Sunrise will provide SoCalGas $350,000 Irrevocable Standby Letter of Credit as collateral, issued by a major financial institution acceptable to SoCalGas for the term of C/M Agreement.

b. Sunrise agrees to maintain in its CURB and Industrial storage accounts (Storage Accounts) with SoCalGas a minimum quantity of gas equal to 2,200,000 therms. In addition, Sunrise agrees to post as collateral all of its rights, title, interest in the Storage Accounts to offset any nonpayment under the C/M Agreement or the C/M Contract. Sunrise grants SoCalGas a first priority lien on the Storage Accounts.

c. Sunrise agrees to have delivered into SoCalGas' intrastate system on the first Friday of each month from now on that quantity of natural gas of not less than 80% of Sunrise's Contracted Marketer Customers' cumulative weekly gas usage, referred to as another "80% Condition." Sunrise and SoCalGas agree that the 80% condition will be determined from the information on SoCalGas' "Gas Select Usage for Contracted Marketers Report" issued weekly. SoCalGas will telefax this information to Sunrise every Tuesday.

8. Both the M/A and C/M Agreements contain the following similar provisions:

a. If Sunrise's gas deliveries are equal or less than 50% of the quantity specified in either one of the 80% Condition, SoCalGas may terminate the appropriate M/A or C/M Contract and the corresponding credit agreement. However, if Sunrise's gas deliveries are less than 80% but more than 50% of the quantity specified in the either of the 80% Condition, SoCalGas shall notify Sunrise of non-compliance with the 80% Condition. Sunrise will have seven (7) days to satisfy the 80% Condition, or a "Shortfall Condition" will exist that will require immediate payment of the shortfall. SoCalGas has the right to retain such payment as collateral against imbalance trading penalties that may be assessed.

b. All existing imbalance rules as specified in SoCalGas' G-IMB tariff remain in effect.

9. Sunrise's major accounts with SoCalGas's CAT consist of REMAC - schools; CURB - small commercial customers; and core Industrial customers. The 2.2 million therms collateral under the C/M Agreement will come from the CAT storage accounts when Sunrise deliveries to SoCalGas' system exceed usage by Sunrise's customers. The excess delivery amounts will be transferred and

accumulated into the CURB and Industrial storage accounts to meet Sunrise's collateral obligation.

10. On July 7, 1994 SoCalGas filed Advice Letter 2326, seeking Commission's approval to establish Rule 35.1, Contract Marketer Transportation program for noncore aggregation. SoCalGas proposed the same credit conditions in the C/M Agreement signed with Sunrise. The advice letter has not been approved because SoCalGas plans to change the rule number from 35.1 to 35.

NOTICE

1. Public notice of this filing has been made by publication in the Commission's calendar and by mailing copies to interested parties specified by General Order 96A.

PROTESTS

1. CACD has received no protests to Advice Letter 2332-G.

DISCUSSION

1. The utility's need for creditworthiness evaluation or a security deposit was addressed by the Commission Advisory and Compliance Division (CACD) in Resolution G-2957 issued July 24, 1991, Page 23, paragraph 3, as follows:

> CACD notes that the creditworthiness standard is not addressed in D.91-02-040. The utility's purpose for this requirement is to ensure the payment of gas purchased and delivered by the utility due to the aggregator's failure to deliver the contracted core aggregation group's gas load. This requirement is consistent with the utility's requirement for new customers' deposit (Rule 7) requirement to establish credit, which requires a deposit equal to two months average use. This creditworthiness requirement would also protect the core transport customers from "double" payment of gas. In the event of aggregator's failure to deliver the contracted gas, the utility has the responsibility of purchasing (and also charging) gas for core transport customers. Most likely, the core transport customers will have paid their aggregator and the core transport customer may have to pay again for the utility procured gas in the event the aggregator fails to deliver and pay for the utility purchased gas. With the security deposit requirement, the utility can apply the aggregator's deposit to the utility purchased gas. If the aggregator's deposit is not sufficient to cover the the utility purchased gas then the core transport customers would be liable for the difference.

To avoid the above scenarios, the utility must continue to monitor the performance of approved aggregators.

2. The Credit Agreements between SoCalGas and Sunrise are designed to prevent the type of situations described above. The Credit Agreements appear to be mutually beneficial to both Sunrise and SoCalGas. They will afford SoCalGas the protections it needs to avoid costly collection activity and at the same

time allow Sunrise the opportunity to continue its participation in the CAT and C/M programs. The credit accommodations granted to Sunrise by SoCalGas would encourage other aggregators to participate in the gas transportation program and this is in support of the Commission's policy.

3. CACD has reviewed the Credit Agreements and also inquired of Sunrise's prior performance record under its contracts with SoCalGas. CACD finds that the conditions of the two agreements are feasible and reasonable. Absent these agreements, Sunrise would be required to deposit with SoCalGas substantial sums of money as security deposits in cash or cash equivalents under the CAT and C/M programs to establish Sunrise's DCQ. Sunrise could not afford to deposit the money or put up the cash equivalents with SoCalGas. However, the Credit Agreements between Sunrise and SoCalGas will enable Sunrise's continued participation in the CAT and C/M programs. CACD recommends that the Credit Agreements between Sunrise and SoCalGas be approved.

FINDINGS

1. SoCalGas filed Advice Letter 2332-G on July 19, 1994, requesting authority to revise its tariff schedules because of two Credit Establishment Agreements signed with Sunrise Energy Company.

2. The proposed Credit Agreements will provide SoCalGas protections under its contracts with Sunrise and at the same time afford Sunrise continued participation in SoCalGas' CAT and C/M programs. SoCalGas and Sunrise mutually worked out the conditions of the agreements and have operated under them since last August according to SoCalGas.

3. The Agreements will not cause an increase in rates, withdraw service, or create other restrictive service conditions.

4. The conditions required by the M/A Agreement between SoCalGas and Sunrise are in addition to the existing contract under Rule 32b(1), however, they are feasible and reasonable.

THEREFORE, IT IS ORDERED that:

1. Southern California Gas Company (SoCalGas) is authorized to revise its tariff schedules because of the two new Credit Establishment Agreements signed with Sunrise Energy Company as requested by Advice Letter 2332-G.

2. Advice Letter 2332-G and the related tariff sheets shall be submitted to the Commission within 30 days of approval of this Resolution by SoCalGas and they shall be marked to show that they were approved by Commission Resolution G-3144.

3. This resolution is effective today.

Resolution G-3144
SoCalGas A.L. 2332-G/KOK

October 12, 1994

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on October 12, 1994. The following Commissioners approved it:

Executive Director

DANIEL Wm. FESSLER
President
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
P. GREGORY CONLON
JESSIE J. KNIGHT, Jr.
Commissioners