

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND  
COMPLIANCE DIVISION  
Energy Branch

RESOLUTION G-3186\*\*  
May 22, 1996

R E S O L U T I O N

RESOLUTION G-3186. REQUEST OF SOUTHERN CALIFORNIA GAS COMPANY (SOCALGAS) FOR APPROVAL OF AMENDMENT 6 TO THE CONTRACT BETWEEN SOCALGAS AND CALRESOURCES LIMITED LIABILITY COMPANY (CALRESOURCES) AND TO ADJUST THE 1992 AND 1993 BILLS BY SOCALGAS TO CALRESOURCES FOR THE SHIP OR-PAY CHARGES CONSISTENT WITH THE AMENDMENT.

BY ADVICE LETTER 2475, FILED ON JANUARY 24, 1996.

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SUMMARY

1. Southern California Gas Company (SoCalGas) seeks approval of Amendment 6 (Amendment) to the long term transmission service contract (Contract) with CalResources Limited Liability Company (CalResources), successor in interest to Shell Western Exploration and Production Incorporated, (Shell), dated April 19, 1988. SoCalGas also requests the approval of the settlement amount with CalResources for the Ship-or-Pay charges or minimum bill obligation (MBO) for the 1992 and 1993 Contract Years consistent with the changes made to the Contract Quantities by the Amendment.
2. The Amendment modifies some terms and conditions of the Contract which include Daily Transmission Capacity (DTC) or Contract Quantity, the 50% MBO, and the Minimum Transportation Quantity (MTQ). The Amendment also establishes a method for determining future Contract Quantity changes and redefines the Make-Up Period for any transportation paid for but not used. It clarifies the applicability of Wheeler Ridge interconnect access fees for gas transportation under the Contract.
3. The SoCalGas MBO request is \$6.1 million for Contract Years 1992 and 1993. This amount is a part of the Settlement Agreement (Agreement) with CalResources, dated November 22, 1995.
4. No protests to Advice Letter 2475 were received.
5. This Resolution approves SoCalGas' request to amend the Contract and finds the \$6.1 million as a reasonable resolution of the Contract dispute between SoCalGas and CalResources and defers the allocation effects of the rebilling request and its subsequent ratemaking impact to the 1996 SoCalGas' Biennial Cost Allocation Proceeding.

BACKGROUND

1. On April 19, 1988 SoCalGas and Shell entered into a long term gas transmission service Contract in accordance with Decision (D.) 86-12-009 and Rate Schedule GLT, Long Term Transportation of Customer-Owned Gas to serve Shell's enhanced oil recovery (EOR) operations, located in SoCalGas' service territory. CalResources became a successor in interest to Shell on January 1, 1995. This Contract expires June, 2008. The Contract Year runs from July 1 to June 30 of the following year.

2. The Contract terms included Contract Quantities or Daily Transmission Capacities based on CalResources' forecast of future gas transportation needs and a MBO for fifty percent (50%) of Contract Quantities. The Contract provided a scheduled step-down in Contract Quantities in recognition that CalResources' transportation needs would change over its life. It also recognized that unforeseen changes could occur. Therefore, the Contract provided that Contract Quantities could change whenever properties have been sold, bought, or exchanged or whenever "Development Changes" occurred. "Development Changes" would be those affecting CalResources' own gas production, unanticipated reservoir responses to EOR operations, unexpected changes in crude oil sales prices, and unforeseen new technological developments. Paragraph 5.8 of Article 5 of the Contract stated in part that Contract Quantities could change "provided however, that Customer will verify such transactions to SoCalGas' reasonable satisfaction."

3. Five amendments have been made to the Contract prior to this Amendment and CalResources also exercised its rights once as suggested by the provisions of the Contract. The first amendment by CalResources effective February 21, 1990 removed five redelivery points from the original list. On June 22, 1990, CalResources exercised its rights by requesting minor changes to the Contract Quantities based on future demand reductions, as a result of cancellation of several scheduled projects and technological changes affecting operations. SoCalGas did not protest the request and accordingly, the changes were granted.

4. The Contract Quantities changes requested were as follows:

Contract Year	Original DTC MdtH/day 4/19/88	Proposed DTC MDth/day 7/1/90
1990-1993	250	178
1994-1998	200	138
1999-2007	150	97

The changes became effective July 1, 1990.

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5. The second amendment removed North Midway Sunset Field as a redelivery point. Amendments 3 and 4 modified certain provisions in the Contract and Amendment 5 added the Kern River/Mojave interconnection at Wheeler Ridge as a delivery point effective April 1, 1992. The contracting parties were in favor of these amendments except for the February 19, 1992 request.

6. On February 19, 1992 CalResources made a major request to further reduce Contract Quantities effective April 1, 1992. The proposed reductions were based on the sale of certain of its properties, projected low oil prices and technological developments, resulting from lower gas usage in oil field operations. CalResources proposed the following:

Contract Year	DTC (Mdth/day) Effective 7/1/90	Proposed DTC (Mdth/day) 4/1/92
April 1992- June 30-1994	178	70
1994-1998	138	60
1999-2007	97	50

SoCalGas did not accede to the above request because of its interpretation of Paragraph 5.8 of Article 5 of the Contract dealing with future changes in Contract Quantities resulting from "Development Changes."

7. SoCalGas stated that at the time CalResources made its request it was taking 138 Mdth/day with an average of 117 Mdth/day over the previous twelve months. SoCalGas further stated that after its review of CalResources' request, it was willing in late 1993 to grant a small portion of the request based on properties sold by CalResources. SoCalGas later billed CalResources in September 1993 for Contract Year 1992, ending June 30, 1993 based on 171 Mdth/day instead of 70 Mdth/day requested by CalResources. In addition, SoCalGas said that it was willing to allow the Contract Quantities in later years to decline to 131 Mdth/day (1994-1998) and 90 Mdth/day (1999-2007). This led to a disagreement between CalResources and SoCalGas.

8. SoCalGas stated that after protracted discussions the parties soon discovered that the source of their disagreement was "the interpretation of the contractual provision that governed CalResources' right to a change in Contract Quantities based on Development Changes contained in paragraph 5.8 of the Contract. This centered on "when to implement the change in Contract Quantities and what the Contract Quantities should be once the Development Change clause was invoked."

9. SoCalGas believed that "a change in Contract Quantities should be implemented after a Development Change actually affected CalResources' fuel requirements." CalResources believed that it should be when its original forecasts changed. SoCalGas also "believed changes in Contract Quantities should reflect changes in the total daily gas requirements for all the redelivery points...", excluding any use of gas produced by

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CalResources at these points. CalResources "believed that changes in Contract Quantities should be tied to the relationship between the original forecast of requirements prepared by CalResources in 1988 and the current forecast."

10. These areas of disagreement led to negotiations between the parties. As this continued, other issues came up and the MBO became due and payable. One of the issues was whether or not the Contract amendment, effective April 1, 1992, allowing Wheeler Ridge interconnect access exempted CalResources from paying the tariffed fees for quantities of gas transported under the Contract. Others were whether CalResources improperly exchanged California gas, whether or not SoCalGas' trimming of interstate deliveries during 1988 or 1989 caused potential harm to CalResources' operations and finances, and CalResources' outstanding bills prior to 1992.

11. On November 22, 1995, SoCalGas and CalResources settled their differences. The result of the negotiations is a Settlement Agreement, which includes an amendment to the Contract and the resolution of other issues. The Settlement Agreement was submitted under confidentiality in accordance with the provisions of General Order 66-C and Public Utilities Code Section 583.

12. On January 24, 1996 SoCalGas filed Advice Letter 2475, requesting approval of the Amendment including its terms and conditions. SoCalGas also requests approval to rebill CalResources for the MBO deficiencies at \$6.1 million instead of \$12.7 million. SoCalGas seeks approval to rebill because of the treatment of EOR revenues which are used to offset authorized revenue requirements in the Biennial Cost Allocation Proceeding (BCAP). The \$6.1 million is part of the SoCalGas' Agreement with CalResources. SoCalGas believes that the Agreement is good for all parties including ratepayers. SoCalGas states that the net present value (NPV) of the Contract as amended is \$65.0 million compared to \$43.0 million if SoCalGas had granted CalResources its April 1, 1992 request.

**13. SIGNIFICANT CHANGES MADE BY AMENDMENT 6 TO THE CONTRACT**

A. Maximum Contract Quantities: The Amendment establishes the maximum Contract Quantities for Contract Years 1994 through 1997 that are close to the CalResources' actual total 1993 gas transportation requirements excluding its own "field gas." Future and agreed upon Contract Quantities are as follows:

Contract Year	DTC (Mdth/day)	MBO Percent	MTQ (Mdthday)
1994	103.4	50	51.7
1995	94.0	85	79.9
1996	94.0	85	79.9
1997	86.0	85	73.1
1998	86 or TBD	50	43.3 or TBD
1999-2002	86 or TBD	40	34.4 or TBD
2003-2007	86 or TBD	30	25.8 or TBD

The Contract Quantities for Contract Years 1998 to 2007 depend on the preceding twelve months' consumption, to be determined (TBD) based on the conditions set in the Amendment.

B. Future Contract Quantities Changes: The Amendment states that future changes in Contract Quantities will be related to actual fuel requirements at all the redelivery points in total as listed in the Contract based on the conditions set forth in the Amendment. One condition states that the new DTC will be greater than or equal to 85% of the prior twelve months' Actual Energy Consumption (AEC) for the redelivery points specified under the Contract. AEC is defined in detail and may be verified at the time of the DTC change request either at the request of SoCalGas by an independent third party or by an affidavit from CalResources' officer. SoCalGas will only pay for the third party verification if the DTC verified is lower by 5% or more than the third party deems appropriate. SoCalGas also has the right to audit the AEC component of the DTC modification request at any time of its choosing within the 24 month period following admission of the request. There will be no Contract Quantity changes allowed until Contract Year 1998 and no more than one change in any twelve month period upon a minimum of 30 days prior written notice.

C. Minimum Bill Obligation: The Amendment retains a MBO as encouraged by D.85-12-102 for all long term transportation contracts. This is to ensure that transportation customers will remain as such for the life of their contracts, providing the utility a measure of certainty. The Commission found a 50% MBO level to be reasonable. SoCalGas states that the MBO of the Amendment is structured such that it would achieve the same objective as if the MBO level were at a flat 50% over the remaining life of the contract. The MBO structure is a part of the table in Section A above under MBO Percent column.

D. Make-Up Period: The Amendment redefines the Make-Up Period for transportation paid for but not used (Shortfall) and reduces the fee for such service. Prior to the Amendment, the Make-Up Period was limited to two years after the Contract Year in which the gas was not transported but paid for. The Amendment allows CalResources to make up Shortfalls subsequent to Contract Year 1994 at any year of the Contract. A Shortfall in the last Contract Year will be made-up in the following year. The charge for Shortfall transmission service is reduced to 50% from 100% of the differential between the Tier 1 Transmission Charge in effect when such deficiency is made up and the amount previously

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paid for those deliveries. Make-Up quantities will be applied first to the last quantity paid for but not transported. CalResources may permanently waive its rights at any time for any prior Contract Year. CalResources waived its Make-Up rights for Contract Years 1992 and 1993 which SoCalGas estimated to have a total NPV between \$1.0 million and \$2.5 million, if they were used.

E. Applicability of Wheeler Ridge Interconnect Access Charges

The Amendment clarifies that CalResources is responsible for any lawfully applicable Wheeler Ridge Interconnect access charges for deliveries under the Contract through the Wheeler Ridge and/or the Kern River interconnect. CalResources previously took the position that the April 1, 1992 amendment allowing Wheeler Ridge Interconnect access exempted it from any tariff charges for the service. The Amendment states that CalResources will be charged for such access. This charge is limited to a maximum of \$0.05 per MMBtu or one decatherm. If the authorized charge exceeds this amount the excess shall be deemed included in CalResources' Transmission Rate then in effect. The current access charges are about \$0.035 per decatherm.

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 Amendment 6, the Contract and other attachments, except by request.

PROTESTS

1. Commission Advisory and Compliance Division (CACD) has received no protests to Advice Letter 2475.

DISCUSSION

1. CACD has reviewed SoCalGas' Advice Letter 2475, the Contract, its previous and recent amendments, and the additional information provided by SoCalGas.

The Contract Amendment

2. SoCalGas requests Commission's approval of the recent Amendment to the Contract including the amendment's terms and conditions. The issues that led to the Amendment have to do with the ambiguity on how to establish a new DTC after the "Development Changes" have been invoked by CalResources and accepted by SoCalGas, and when does the new DTC take effect. The Contract was not explicit on these matters, and as a result, clarity was needed. In order to recommend approval or disapproval of the Amendment, it might be helpful to consider the Commission's policy with respect to the EOR market since CalResources is a EOR customer.

3. In D.85-12-102 the Commission articulated its EOR market policy. The policy objective was to encourage the utilities to serve the EOR market in order to make greater utilization of their existing facilities and also provide a substantial contribution to recovery of fixed costs. Because of this, the Commission gave the utilities the negotiating flexibility required to meet the needs of EOR customers in order to provide competition to the interstate pipelines about to enter the California market. The Commission did not set a fixed transportation rate for the EOR customers but provided general guidelines for the utilities to follow. (D.85-12-102, 20 CPUC 2d at 20, 21)

4. In D.86-12-009 the Commission continued its policy objective and stated that "... we affirm our view that utilities should seek to serve as much of the EOR market as possible under the terms and conditions set forth in this decision." It added that "... competition in the gas market can benefit all customers and it is our statutory obligation to promote changes in the regulation of gas in this state which will achieve this goal." With respect to transmission service contracts, it stated that "... the Commission reaffirms its previous policy which permits the utilities to negotiate individual long term service contracts with EOR customers and to bring these contracts to the Commission for approval." Concerning these contracts it added that "... utilities should do whatever is in the best long run interest of their ratepayers." (D.86-12-009 22 CPUC 2d at 481, 483) The Commission's policy objective has not changed since this decision.

5. In view of the above citations, there is no doubt that the Commission wants the utilities to serve the EOR market because of the economic benefits to all ratepayers and to allow for efficient use of utilities' systems. The Commission's policy was predicated on the fact that if interstate pipelines were permitted to serve EOR loads, this would result in greater revenue losses to the utilities and consequently, increased rates to all ratepayers. Therefore, the Commission gave the utilities the flexibility to negotiate contracts with EOR customers that are not subject to certain provisions of General Order 96-A Sections IX and X. (See D.85-12-102, Findings of Fact Nos. 63-67, Conclusion of Law No. 6, and Ordering Paragraph No. 5 )

6. With the utilities having the flexibility to negotiate contracts with EOR customers, we expect them to act in the best interest of their customers. Because of this reason the Commission provided the utilities' shareholders the incentive to receive 5% of EOR revenues above short run marginal cost. This provided the incentive to the utilities to negotiate contracts that are in the best interest of all ratepayers including themselves. (D.87-05-046, 24 CPUC 2d at 243)

7. When CalResources made its request on February 19, 1992 to lower its DTC from 178 Mdth/day to 70 Mdth/day effective April 1, 1992, SoCalGas was not persuaded by the justifications provided by CalResources. It was not until August 1993 after

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continued negotiations that SoCalGas was willing to lower the DTC to 171 Mdth/day based on actual properties sold by CalResources. The 1992 Contract Year MBO bill, due July 1993 was sent in September 1993 on the basis of 171 Mdth/day. CalResources did not pay based on the level billed by SoCalGas for 1992 and 1993 Contract Years. CalResources chose to pay on the basis of its own interpretation of the Contract language. SoCalGas did not change its position or rebill. We can conclude that SoCalGas did defend the Contract based on SoCalGas' understanding of the language in the Contract.

8. SoCalGas states that negotiations continued with CalResources. Further negotiations were delayed because of reorganization at Shell that took effect on January 1, 1995 when Shell's California operation was renamed CalResources. According to SoCalGas, negotiations had to begin with a different set of people. The negotiations finally led to the Agreement with CalResources including the latest Contract Amendment.

9. This Amendment keeps the Contract alive for the duration of its remaining life and strengthens its language to avoid any future ambiguities. The Contract as amended also shows a NPV of \$65 million over its life compared to \$43 million if SoCalGas had granted CalResources' request. This would have reduced the revenues to offset SoCalGas' revenue requirements and consequently increase rates of other customers. Because the Amendment promotes the Commission's policy of utilities competing to serve the EOR market, CACD supports the Amendment and recommends it for adoption by the Commission.

#### The Rebilling

10. SoCalGas also requests Commission approval to rebill CalResources \$6.1 million instead of CalResources paying \$12.7 million owed to SoCalGas. The \$12.7 million is the difference between the MBO of 50% based on the 171 Mdth/day DTC and the MBO of 50% based on actual CalResources' transportation use for 1992 and 1993 Contract Years. The \$12.7 million had been credited to the EOR tracking account by SoCalGas when it billed CalResources for the MBO.

11. In response to a CACD data request, SoCalGas states: "The Settlement amount of \$6.1 million for SWEPI's Ship-or-Pay bill for Contract Years 1992 and 1993 reflects SoCalGas and SWEPI's desire to honor the terms of their Gas Transmission Service Contract (Contract) while recognizing that there was some disagreement as to how these terms should be implemented." SWEPI stands for Shell Western Exploration and Production Inc.

12. CACD recognizes that the \$6.1 million settlement amount is related to the preservation of the Contract. CACD also believes that the balance in the EOR account is allocated in the BCAP to adjust SoCalGas' revenue requirement up or down depending on whether the balance is an undercollection or overcollection. The current account balance includes the \$12.7 million SoCalGas is requesting to reduce and rebill at \$6.1 million. If SoCalGas rebills at \$6.1 million, the EOR current balance will be reduced



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or increased by \$6.6 million (\$12.7 million less \$6.1 million) depending on the nature (undercollection or overcollection) of its balance. The resulting balance would affect the amount to be used to adjust SoCalGas' revenue requirement.

13. It is therefore evident that the accounting for the rebilling request is difficult to separate from the subsequent ratemaking impact. Rebilling automatically triggers the adjustment of the tracking account. Therefore, it is appropriate to defer the issue of allocation for the rebilling to SoCalGas' 1996 BCAP Application (A). 96-03-031 where the balance in the account is considered for ratemaking. CACD finds that the amount of \$6.1 million is a reasonable amount of the Contract dispute because it is inseparable from the settlement package which preserves the Contract. The rebilling and the subsequent adjustment of the EOR account should be resolved in SoCalGas' 1996 BCAP. CACD finds SoCalGas' rebilling request to be reasonable.

#### FINDINGS

1. D.85-12-102 authorized the utilities to sign long term transmission service contracts with EOR customers to promote efficiency of their systems and to reduce fixed costs to other ratepayers. These contracts are to be approved by the Commission.
2. On April 19, 1988, SoCalGas signed a 20-year transmission service contract with Shell, the predecessor to CalResources.
3. On April 27, 1988, SoCalGas filed Advice Letter 1787 for the approval of the Contract. Resolution G-2793 issued June 17, 1988 approved the Contract.
4. The Contract has been amended five times prior to the recent amendment with no problems between the parties since the Contract's inception.
5. On November 22, 1995, SoCalGas and CalResources signed a Settlement Agreement which included the Amendment to resolve ambiguities in the Contract.
6. On January 24, 1996, SoCalGas filed Advice Letter 2475 requesting approval of the Amendment including its terms and conditions. SoCalGas also requests approval to rebill CalResources for \$6.1 million in underpayment of the MBO.
7. The Amendment preserves the Contract and accordingly promotes the Commission's policy of utilities to serve the EOR market.
8. The \$6.1 million is a reasonable resolution of the Contract dispute between CalResources and SoCalGas.

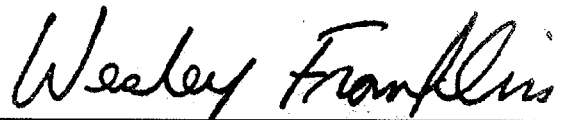
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9. It is reasonable and appropriate to defer the allocation of the rebilling effects of CalResources for the \$6.1 million to SoCalGas' 1996 BCAP (A.96-03-031). The balance in the EOR account is considered for ratemaking purposes.

**THEREFORE, IT IS ORDERED that:**

1. Southern California Gas Company's (SoCalGas') request to amend the Contract with California Resources Limited Liability Company (CalResources) is approved and the amount of \$6.1 million to rebill CalResources is found to be reasonable.
2. This resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on May 22, 1996. The following Commissioners approved it:



WESLEY M. FRANKLIN  
Executive Director

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

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