

**DRAFT**

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**  
I.D.#6622  
**ENERGY DIVISION** **RESOLUTION G-3397**  
**June 7, 2007**

**R E S O L U T I O N**

Resolution G-3397. Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) submit for approval by the Commission revisions to their tariff schedules in compliance with Decision No. (D.) 06-09-039 related to Gas Rules Nos. 30 and 39 and to their Interconnection and Operational Agreements. SoCalGas' and SDG&E's requests are approved with modifications.

SoCalGas by Advice Letter 3675 filed on November 1, 2006.  
SDG&E by Advice Letter 1652-G filed on November 1, 2006.

---

**SUMMARY**

**This Resolution approves with modifications SoCalGas' and SDG&E's requests, made in Advice Letters 3675 and 1652-G, respectively, to revise their tariff schedules in compliance with D.06-09-039 related to Gas Rules Nos. 30 and 39 and to their Interconnection and Operational Agreements. The revisions for Rule No. 30, "Transportation of Customer-Owned Gas", relate to gas quality specifications and the revisions to Rule No. 39, "Access to the SoCalGas Pipeline System", relate to the terms of access to the SoCalGas and SDG&E pipeline systems and the responsibility for odorization costs for new suppliers.**

**The protests of the Indicated Producers and Exxon Mobil Corporation (Exxon Mobil) regarding language in the tariff related to the gas quality deviations for California producers are granted.**

**The Coral Energy Resources, L.P. (Coral) protest concerned with the amount of odorization cost responsibility faced by shippers is denied.**

**SoCalGas and SDG&E shall file a supplemental advice letter to modify their proposed tariffs to incorporate the tariff language adopted herein.**

## **BACKGROUND**

The Commission issued D.06-09-039 on September 21, 2006 in Phase II of its Order Instituting Rulemaking to Establish Policies and Rules to Ensure Reliable, Long-Term Supplies of Natural Gas to California (R.) 04-01-025 . Ordering Paragraph (OP) 27 of that decision required Pacific Gas and Electric Company, SoCalGas, and SDG&E to file an advice letter to implement the revised tariff specifications ordered in the decision. OP 15 required utilities to file advice letters to specify the amount they are spending on odorization costs and to modify their Interconnection Agreements accordingly. SoCalGas and SDG&E filed AL 3675 and 1652-G, respectively, on November 1, 2006 in compliance with D.06-09-039.

The following describes the changes proposed by SoCalGas AL 3675 and SDG&E AL 1652-G:

### Gas Rule No. 30

Ordering Paragraphs (OP) 17 through 22 of D.06-09-039 direct SoCalGas and SDG&E to file revised Rule 30 tariffs that contains the revisions to the utilities' gas quality specifications. SoCalGas' Rule 30, Section I, Gas Quality, and SDG&E' Rule 30, Section H, Gas Quality, are proposed to be renamed "Gas Delivery Specifications". SoCalGas sub-section I.3. and SDG&E sub-section H.3. include proposed revisions to incorporate the gas quality specifications.

In addition, new SoCalGas sub-sections I.5. through I.8. and SDG&E sub-sections H.4. through H.8. are proposed to incorporate OP 24 through 26 and OP 28 of D.06-09-039. These provisions relate to defining potential deviations for California producers and interstate pipelines from the new gas quality specifications.

SoCalGas current opening paragraph of Rule No. 30 is proposed to be deleted as the language is no longer applicable.

### Gas Rule No. 39

SoCalGas' and SDG&E's Rule No. 39 are proposed to be revised to comply with OP 15 which concerns the cost responsibility for odorization of gas from entities providing new sources of gas supply. D.06-09-039 ordered that such entities

shall pay for any odorization costs in excess of those faced by the utility in treating gas from other sources.

Submission of Revised Interconnection and Operational Balancing Agreements:

OP 14 states that the standardized Interconnection Agreement and Operational Balancing Agreement described and modified in Section V of the decision were approved. These modified agreements were filed in SoCalGas AL 3675 and SDG&E AL 1652-G.

**NOTICE**

SoCalGas stated that a copy of AL 3675 was sent to parties listed in their AL 3675 Service List including interested parties in R.04-01-025. SDG&E stated that a copy of AL 1652-G was served on the utilities and interested parties shown on their General Order No. 96A, Section III-G mailing list including interested parties in R.04-01-025.

**PROTESTS**

SoCalGas' AL 3675 and SDG&E AL 1652-G were timely protested by Indicated Producers<sup>1</sup>, Exxon Mobil, and Coral on November 21, 2006.

SoCalGas and SDG&E jointly responded to the protests on November 30, 2006.

**Indicated Producers' Protest**

**The Indicated Producers contends that certain SoCalGas tariff language would limit the amount of "historical California production" that was granted a generic deviation from the gas quality specifications adopted in D.06-09-039.**

---

<sup>1</sup> The Indicated Producers is an *ad hoc* coalition which includes, for the purposes of this protest, Aera Energy LLC, Chevron U.S.A. Inc., Midway Sunset Cogeneration Company (an affiliate of Aera Energy), Occidental Energy Marketing Inc. and Occidental of Elk Hills, Inc.

The specific language that the Indicated Producers objects to is in Rule 30 (Section I.6 for SoCalGas and Section H.6 for SDG&E):

“Historical on-shore or off-shore California-produced natural gas delivered at points of interconnection as of January 1, 2006, will be granted a gas specification deviation based on the gas quality being delivered as of January 2006 which was in compliance with then current tariffs’ gas quality specifications or if that production already had a deviation in place. The deviation will apply to the maximum historical deliveries or maximum contracted daily volume effective on that date as specified in the agreement permitting supply delivery at that point.”

The Indicated Producers state that in D.06-09-039, the Commission was clear that a California producer exemption and deviation process should be adopted as part of a broader package of gas quality changes. The Indicated Producers quote the Commission’s decision and state that the primary reason provided was:

We do not want the new gas quality tariffs to limit existing California production in any way since no party has provided convincing evidence that existing California production negatively impacts the pipeline system. Furthermore, promoting gas supply diversity is a goal of this Commission, and California production plays an important role in the state’s supply portfolio.<sup>2</sup>

Indicated Producers state with those findings, OP 25 of the decision stated that with regard to changes in gas quality specifications,

“[h]istorical California production is granted a generic deviation according to the definition proposed by the [Indicated] Producers in their Opening Brief if that production complied with the prior SDG&E and SoCalGas tariffs or if that production already has a deviation in place.”<sup>3</sup>

---

<sup>2</sup> D.06-09-039, at 164.

<sup>3</sup> D.06-09-039, at 165, Ordering Paragraph 26.

The Indicated Producers defined historical California supplies in their Phase II Opening Brief in R.04-01-025 as:

“Historical” California supplies, for the purpose of gas quality specifications, means onshore or offshore California-produced natural gas delivered at points of interconnection existing as of January 1, 2006 up to the maximum historical deliveries or Maximum Daily Volume effective on that date as specified in any agreement permitting supply delivery at those points.<sup>4</sup>

The Indicated Producers state that while the language of the proposed Rule 30 appears outwardly consistent, it requires clarification to minimize interpretation disputes and to avoid limiting California production. The Indicated Producers provided recommended revised language to SoCalGas Rule 30.I [and SDG&E Rule 30.H], Gas Delivery Specifications, as follows:

5. A generic deviation from the minimum gas quality specifications set forth in Paragraph I.3., is granted for “Historical California Production.” Quality specifications for Historical California Production will be governed by the SoCalGas Rule 30 in effect as September 21, 2006 or, to the extent that production had a deviation in place at that time, pursuant to the agreement governing that deviation. “Historical California Production” is defined as follows: Onshore or offshore California-produced natural gas delivered at points of interconnection existing as of January 1, 2006, up to the maximum historical deliveries or Maximum Daily Volume effective on that date as specified in any agreement permitting supply delivery at those points. If a producer moves its deliveries of Historical California Production from a point of interconnection existing as of January 1, 2006, to a new point on the system, the deviation granted under this provision will follow the supply to the new point of interconnection.
6. In addition to the generic deviation provided in paragraph 5, the Utility will grant other specific deviations to California production from the gas quality specifications defined in Paragraph I.3 above, if such gas

---

<sup>4</sup> IP/WSPA/CIPA Opening Brief, at 34 footnote 107.

will not have a negative impact on system operations. Any such deviation will be required to be filed through Advice Letter for approval prior to gas actually flowing in the Utility system.  
(underlining in original)

### **Exxon Mobil's Protest**

**Exxon Mobil essentially protests the part of the same Rule 30 tariff language as Indicated Producers' protest. Specifically, Exxon Mobil's limited protest addresses SoCalGas' proposed tariffs that address the revised gas quality provisions under Rule 30.I.6.**

Exxon Mobil claims that SoCalGas' proposed definition of "historical California production" is inconsistent with the definition that was adopted by the Commission in D.06-09-039. Exxon Mobil states that the proposed tariff language limits the generic deviation to gas that was either in compliance with the then current tariff's gas quality specifications or covered by an existing deviation. The proposed tariff language also limits the generic deviation to gas that was in compliance as of a single specific month (January 2006). In particular, Exxon Mobil claims that SoCalGas proposes that the "deviation" for historical California production should be based upon the quality of gas that was being "delivered as of January 2006."

Exxon Mobil states that SoCalGas' proposed tariff language in Rule 30.I.6 could be read to limit the deviation to gas that met SoCalGas' particular gas quality specifications. Exxon Mobil claims that SoCalGas' proposed tariff language also could be read to limit the deviation based upon the quality of the gas delivered in January 2006. Exxon Mobil states that the proposed tariff language does not conform to the Commission's determination respecting a generic deviation for historical California production. Exxon Mobil states that the generic deviation should apply to any historical California production (as defined) that complied with the prior tariff or was covered by an existing deviation, without reference to compliance in a particular month. Exxon Mobil thus objects to the tariff language advanced by SoCalGas.

In lieu of SoCalGas' proposed language for Rule 30.I.6, Exxon Mobil proposes the following language for Rule 30.I.6:

“Historical on-shore or off-shore California-produced natural gas delivered at points of interconnection existing as of January 1, 2006, will be granted a gas specification deviation if the gas complied with the existing tariff or was covered by an existing deviation. The deviation will apply to the maximum historical deliveries or maximum contracted daily volume effective on January 1, 2006 as specified in the agreement permitting supply delivery at that point.”

### **Coral’s Protest**

**Coral submitted a limited protest for SoCalGas’ and SDG&E’s proposed modification to Rule 39, Section A.8. and the utilities’ proposed additions to Exhibit “C” of the Interconnection Agreement. This language addresses upstream shipper responsibility for the cost of odorization.**

Coral reiterates OP No. 15 of D.06-09-039: “Those entities providing gas from new sources of supply shall pay for any odorization costs in excess of those faced by the utility in treating gas from other sources.”<sup>5</sup> Coral states that the Commission further directed the utilities to submit advice letters “in which they provide estimates of the average amount they are spending, per mMBtu, to odorize gas from existing interstate sources, and [to modify] the Interconnection Agreements accordingly.”<sup>6</sup> Coral states the Commission made it clear, in D.06-09-039, that it intends for new gas suppliers to bear the costs of odorization that exceed, on a per million British thermal unit (MMBtu) basis, the cost of odorization for existing gas supplies delivered to the SoCalGas/SDG&E system.

In addition, Coral states that it objects to the Commission’s determination, in D.06-09-039, that upstream suppliers and/or pipelines should bear responsibility for any of the utilities’ costs of odorization. Coral claims that odorization is a “distribution” function that is performed by the utility for the benefit of the utility’s end-use customer and that end-use customers, not upstream suppliers, should be responsible for the costs of odorization.

---

<sup>5</sup> D.06-09-039 at p. 187 (emphasis added).

<sup>6</sup> Id (emphasis added).

Coral states that SoCalGas and SDG&E purported to calculate the “per mmBtu” cost of odorization for existing gas supplies through its proposed language in Exhibit “C” of the Interconnection Agreement. Coral states that, according to SoCalGas’ and SDG&E’s proposed revised language in Exhibit “C”, the per unit odorization cost for existing supplies amounts to a volumetric rate of \$0.88 per million cubic feet (MMcf).

Coral states that in SoCalGas and SDG&E’s proposed modification to Rule 39, the utilities state that the historical cost of odorization is \$0.0003 per decatherm (Dth, which is roughly the natural gas energy equivalent to a volume of a million cubic feet). SoCalGas and SDG&E thus propose to charge new suppliers an amount that is equal to the difference between \$0.88 per MMcf and \$0.0003 per dth. Coral claims that this is an incorrect calculation and an incorrect reading of OP 15.

Coral states that in accordance with the Commission’s directive in D.06-09-039, new suppliers should only be required to pay the odorization costs that exceed the odorization costs incurred by the utilities in treating gas from other sources. Coral claims accordingly, if the current cost of odorization is \$0.88 per MMcf, a new supplier should only be required to bear odorization costs that exceed \$0.88 per MMcf.<sup>7</sup> Coral believes SoCalGas and SDG&E’s proposed tariff language fails to comply with D.06-09-039.

Coral argues that in view of SoCalGas and SDG&E’s failure to comply with Ordering Paragraph No. 15, Coral respectfully requests that the Commission direct SoCalGas and SDG&E to take the following actions:

1. Provide all information related to the cost of odorization for any supply source for which SoCalGas (or SDG&E) currently provides odorization, including average daily volumes delivered at each receipt point where odorization is performed; and
2. Modify the proposed tariff language of Rule 39, as well as the proposed language of Exhibit C of the Interconnection Agreement, to reflect the

---

<sup>7</sup> Coral’s protest actually refers to a figure of \$0.088 per MMcf as SoCalGas’/SDG&E’s actual odorization costs, but this figure is erroneous. The utilities’ estimate in Exhibit C is actually \$0.88 per MMcf.

Commission's directive of D.06-09-039 that a new supplier shall only be responsible for any odorization costs in excess of the per mMBtu odorization costs faced by the utility in treating gas from other sources.

### SoCalGas' and SDG&E's Joint Response to Protests

**SoCalGas/SDG&E state the three protests raise two issues: (1) the Indicated Producers and Exxon Mobil question the scope of the tariff language granting a generic deviation for "historical California production"; and (2) Coral objects to the requirement stated that an Interconnector pay all costs for odorant above the utilities' historical average cost of \$0.0003 per Dth. SoCalGas/SDG&E recommend rejection of all protests and suggest an alternative proposal to address Coral's objections.**

#### Historical California Production

SoCalGas/SDG&E agree that at OP 25, the Commission granted a generic deviation for historical California production from the revised gas quality specifications, "if that production complied with the prior SDG&E and SoCalGas tariffs or if that production already has a deviation in place." (D.06-09-039, OP 25)

SoCalGas/SDG&E argue that their generic deviation fully complies with the letter and the intent of D.06-09-039. SoCalGas/SDG&E argue that in contrast, the protests of the Indicated Producers and Exxon Mobil improperly attempt to expand the scope of the deviation beyond what the Commission approved in D.06-09-039, in two respects.

SoCalGas/SDG&E submit that first, the Indicated Producers attempt to expand the meaning of historical California production to include new California production, so long as the new production is delivered to an existing point of interconnection. SoCalGas/SDG&E believe this attempt is inconsistent with both the letter and the intent of the Commission's decision to not "limit *existing* California production in any way." SoCalGas/SDG&E state the Commission's clear intent was to grandfather historical and existing California production, not to create a volumetric right transferable to new California production - irrespective of the gas quality and chemical composition of the new production - that a producer might deliver to an existing point of interconnection, by the

simple expedient of piping. SoCalGas/SDG&E claim the intent is to grandfather historical California production, not to grandfather existing points of interconnection, so as to require the utility to accept any new sources of supplies that a California producer might deliver in the future to an existing point of interconnection.

SoCalGas/SDG&E submit secondly, the Indicated Producers and Exxon Mobil question the tariff language granting a generic deviation “based on the gas quality being delivered as of January 2006,” in an apparent attempt to reduce their processing costs for existing gas supplies. SoCalGas/SDG&E believe this is also inconsistent with the letter and the intent of D.06-09-039. SoCalGas/SDG&E state the Commission clearly stated its intent that the new gas quality specifications should not limit existing production in any way; SoCalGas/SDG&E believe the Commission did not intend, and D.06-09-039 does not provide, that the new gas quality specifications abrogate any existing contractual requirement applicable to existing production. SoCalGas/SDG&E claim that D.06-09-039 does not allow a California producer to lessen the quality of gas supplies currently being delivered, by reducing the processing costs of the supplies to the detriment of the utility and its customers.

SoCalGas/SDG&E state the Commission could not, and did not intend to, change the contractual gas quality specifications in any producer’s agreement with SoCalGas/SDG&E already in effect. SoCalGas/SDG&E argue that OP 25 expressly recognizes and leaves in place “production [that] already has a deviation in place.”<sup>8</sup>

SoCalGas/SDG&E state that a “deviation in place” is a deviation stated in an agreement with the utility. Deviations often are specific to existing sources of production and/or to existing points of interconnection where, for example, blending or other circumstances make the specific deviation acceptable to the utility. SoCalGas/SDG&E claim that in addition to being source-specific and point-specific, deviations also vary by term. SoCalGas/SDG&E state that a short-term deviation in a specific agreement may be necessitated by temporary circumstances. SoCalGas/SDG&E state a deviation in place for a specific historical California production source cannot be expanded to establish a

---

<sup>8</sup> D.06-09-039, OP 25, pp. 181-182.

volumetric right for any other source of production, receipt point, or term. SoCalGas/SDG&E claim that the generic deviation granted in D.06-09-039 is not a volumetric license granted to a named producer to travel between the utility's receipt points or between existing and new sources of production, regardless of the varying gas quality characteristics of the different production sources and any circumstances specific to the utility's receipt point.

### Odorization Costs in Excess of Historical Average Cost

First, SoCalGas/SDG&E notes that Coral objects to any odorization cost responsibility for entities providing new sources of supply. The utilities state that this objection has nothing to do with whether the advice letter is in compliance with D.06-09-039. SoCalGas/SDG&E claim that the Advice Letters are in full compliance with OP 15, including providing the estimate of the historical average cost of \$0.0003 per Dth for odorization of interstate supplies.

SoCalGas/SDG&E then address Coral's objection to the amount of the cost responsibility for such new suppliers proposed in the SoCalGas and SDG&E advice letters. The utilities submitted a spreadsheet with AL 3675 showing how they calculated the historical average cost. SoCalGas/SDG&E's calculation was based on 9 months of history of odorant purchases for transmission interconnect and storage locations from January to September 2006. The utilities estimate that the historical odorization cost is \$0.0003/Dth for interstate supplies.

SoCalGas/SDG&E indicate that Exhibit C to the Interconnection Agreement provides an estimate of \$0.88 per MMcf as the cost of odorizing a hypothetical new supply that has no odorant. SoCalGas/SDG&E estimate state that this estimate is included because gas supplies from liquefied natural gas (LNG) potentially may have no odorant in the gas stream. SoCalGas/SDG&E state this estimate was first included in Exhibit C to the Interconnection Agreement filed August 16, 2005 with SDG&E/SoCalGas' Progress Report on Negotiations to Develop a Standardized Interconnection Agreement and Operational Balancing Agreement, and neither Coral nor any other party previously had raised an issue with this estimate. SoCalGas/SDG&E believe it appears that Coral's protest is to the Commission's decision that new supplies should have to pay odorant costs at all, rather than to the calculation of costs provided by SoCalGas/SDG&E.

SoCalGas/SDG&E alternatively, offers to replace the volumetric formula in Exhibit C with a provision stating that new supplies will be charged for actual

costs of odorization in excess of the historical average cost of \$0.0003/dth. SoCalGas/SDG&E offer this proposal to be stated in Exhibit C to the Interconnection Agreement, as follows:

Odorant costs shall be included on an actual basis for the Interconnector's point of interconnection. A credit will apply based upon the actual deliveries multiplied by the average per unit odorization costs for interstate supplies entering the SoCalGas system as specified in SoCalGas' Rule 39. This may change in the future to reflect price changes, introduction of new odorants, or changes in usage rates.

SoCalGas/SDG&E state that with this proposal, they would still be charging the actual costs of odorization to the extent such costs exceed the utilities' historical average cost of \$0.0003/dth, by providing the credit to the monthly actual cost. They state that this alternative methodology is also consistent with OP 15 of D.06-09-039.

## **DISCUSSION**

The Commission has reviewed SoCalGas AL 3765 and SDG&E AL 1652-G, the protests of Exxon Mobil, the Indicated Producers, and Coral Energy, and the response by SoCalGas/SDG&E. Beyond the issues that were protested, we find the tariff language and Agreements proposed by SoCalGas and SDG&E to be reasonable, and they shall be adopted. Protested issues are addressed below.

### **Protests of Exxon Mobil Corporation and the Indicated Producers:**

**The protests of the Indicated Producers and Exxon Mobil are granted. The definition of historical California production was provided by D.06-09-039 by reference to the Indicated Producers Brief in Phase II of R.04-01-025. The Brief provided a clear definition of historical California production. In addition, our Energy Division worked with the utilities and the Indicated Producers to arrive at mutually agreeable language with regard to the applicability of the gas quality deviation for California production when deliveries are moved to another existing or new interconnection point.**

D.06-09-039 provided a deviation from the adopted gas quality specifications for historical California production. The Indicated Producers and Exxon Mobil both

assert that “California historical production” should be the maximum historical deliveries or the Maximum Daily Volume (MDV) specified in the Agreements between producers and SoCalGas or SDG&E. The Indicated Producers and Exxon Mobil also raised a concern about the date at which the gas quality of the historical California production would be determined.

The Commission’s determination on this issue is specified in D.06-09-039. OP 25 states the granted deviation and points to the Indicated Producers’ Opening Brief for the definition of historical production:

Historical California production is granted a generic deviation according to the definition proposed by the [Indicated] Producers in their Opening Brief if that production complied with the prior SDG&E and SoCalGas tariffs or if that production already has a deviation in place.

The Indicated Producers’ brief indeed specifies that “historical California production” were those deliveries made at points of interconnection existing as of January 1, 2006 up to the maximum historical deliveries or Maximum Daily Volume effective on that date as specified in any agreement between a producer and the utility permitting supply delivery at those points. We will adopt the Indicated Producers proposed revision to SoCalGas Rule 30, Section I.5., as stated in their protest, up to the last sentence of that section.

The Indicated Producers go further than Exxon Mobil in their protest, though, raising an additional point. In the last sentence of their proposed revision to SoCalGas Rule 30, Section I.5., the Indicated Producers contend that when deliveries are changed to new interconnection points, the assigned deviations should follow. The Indicated Producers’ protest addresses a valid concern.

The Indicated Producers report that SoCalGas historically has asked for producers to move their points of interconnection to accommodate system operations. Accommodation of SoCalGas’s system operations is not under contention. There is no reason, however, for producers to lose their grandfathered status through such accommodation. Put another way: under certain circumstances it is reasonable for SoCalGas to be allowed to demand

changes to the points of interconnection, but would be unreasonable for such changes to trigger unnecessary loss of producers' rights.

Moreover, there may be circumstances under which it would be economically advantageous for producers to change points of interconnection. These would generally conform to shifts in the production of the gas reservoirs in question. Basically, a large gas field might over time shift the bulk of its production from one pocket to the other. In such cases, should the contracted MDV not be exceeded, there is no reason not to allow the producers the option of going to SoCalGas and trying to negotiate new points of interconnection. Simply put: it's still the same gas from the same fields in the same quantities. It might just enter the pipeline in a different place.

After protests and the utilities' response were filed, the Energy Division worked with the Indicated Producers and the utilities to reach mutually agreeable language on this issue, which the Commission finds reasonable.

The substitute language to be incorporated as the last sentence of SoCalGas's Rule 30 I.5 and SDG&E's Rule 30 H.5 will read:

If a producer moves its deliveries of Historical California Production from a point of interconnection existing as of January 1, 2006, to another existing or a new point on the system, or if *one or more producers consolidate two or more existing points of interconnection existing as of January 1, 2006, to another existing or a new point on the system*, the deviation granted under this provision will follow the Historical California Production provided that (a) the utility has required or approved the change in receipt point location and (b) the continuing deviation shall not exceed the Maximum Daily Volume stated in the access agreement(s) governing deliveries at the producer's original point of interconnection and (c) specifically, the quality of the gas should not lessen to the point that it falls outside the grandfathered Rule 30 specifications.

Protest of Coral Energy Resources, L.P.:

**Coral's protest is denied. Coral misunderstands the Commission's order in OP 15 and the historical odorization costs SoCalGas has incurred for its out-of-state supplies. Coral's objection to the Commission's finding that entities providing new supplies pay for odorization costs in excess of SoCalGas' historical costs is inappropriate in a protest to an advice letter.**

Coral's first attempts to rebut the Commission's determination in D.06-09-039 with respect to odorant costs. Coral claims that odorization is a "distribution" function performed by utilities for the benefit of end users, and thus not the responsibility of upstream entities.

A protest to an advice letter is not the proper forum for such an attempt, however. This would properly be made in a Petition to Modify, a fact Coral concedes by stating that it "may be submitting a petition for modification of D.06-09-039 in the near future in which Coral will request reconsideration of the Commission's determination regarding upstream shipper responsibility for the cost of odorization."

After acknowledging that OP 15 of D.06-09-039 calls for new suppliers to pay for odorant costs *beyond* what is currently being paid to treat gas from other sources, Coral asserts that SoCalGas'/SDG&E's current cost of odorization is \$0.88/MMcf, a Coral cites in Exhibit C of the Interconnection Agreement. Coral then asserts that new suppliers should only be required to bear odorization costs that exceed \$0.88/MMcf.

Coral has apparently misunderstood what OP 15 required and what SoCalGas' actual odorization costs have been for its historical interstate supplies. As explained by SoCalGas in their response to protests, the actual average odorization costs SoCalGas has incurred for its interstate supplies are only \$0.0003 per Dth, which is roughly \$0.0003 per MMcf. The figure of \$.88 per MMcf is the estimated odorization cost that SoCalGas would incur for new supplies that had no odorization treatment prior to entering the SoCalGas system. SoCalGas' and SDG&E's proposed language would require new suppliers to pay the difference between \$0.88 per MMcf and \$0.0003 per Dth.

The utilities should have been clearer in Exhibit C about what its estimate represented.

In any case, in their response to protests SoCalGas and SDG&E have proposed alternative language which basically indicates that SoCalGas will only charge new suppliers its actual costs of odorization, less the historical average per unit odorization costs for interstate supplies, as specified in Rule 39. We find this additional language reasonable, and will adopt it, but the utilities shall continue to provide its estimate of the odorization costs for new supplies with no previous odorization treatment. The utilities shall clarify that its estimate is for the odorization cost for new supplies that have no odorant.

## **COMMENTS**

**The 30-day comment period will not be waived or reduced.**

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution will be mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from the mailing date.

## **FINDINGS**

1. D.06-09-039 directed SoCalGas and SDG&E to file Advice Letters to revise their tariff schedules related to Rules Nos. 30 and 39, and their Interconnection and Operational Agreements.
2. SoCalGas Advice Letter 3675 and SDG&E Advice Letter 1652-G were timely filed.

3. OP 25 of D.06-09-039 is plain and unambiguous in its reference to the Indicated Producers' definition of "historic California production" that should be granted a deviation from the gas quality specifications adopted in D.06-09-039.
4. Exxon Mobil's and the Indicated Producers' protest regarding the definition of historic California production (for the purpose of being granted a deviation from the gas quality specifications adopted in D.06-09-039) should be granted, and reflected in SoCalGas Rule 30 I.6 and SDG&E Rule 30 H.6.
5. The proposed language agreed upon by the Indicated Producers and Sempra related to the deviations granted to California production when deliveries are moved to a new interconnection point should be adopted.
6. SoCalGas and SDG&E are in conformance with Ordering Paragraph 15 of D.06-09-039.
7. Coral's argument against OP 15 of D.06-09-039 has no merit.
8. Coral has misunderstood SoCalGas' estimate of its odorization costs associated with other suppliers.
9. The protest of Coral Energy should be denied.
10. SoCalGas' proposed alternative language related to the odorization costs that will be assigned to entities that deliver new sources of supplies should be adopted.

**THEREFORE IT IS ORDERED THAT:**

1. The requests of SoCalGas and SDG&E to revise their tariff schedules in compliance with D. 06-09-039, requested in Advice Letters AL 3675 and 1652-G respectively, are approved with modifications.
2. SoCalGas and SDG&E shall replace their proposed tariff language in their Rule 30, Sections I.5 and I.6, and Rule 30, Sections H.5 and H.6, respectively with the following language:
  5. A generic deviation from the minimum gas quality specifications set forth in Paragraph I.3., is granted for "Historical California Production." Quality specifications for Historical California Production will be governed by the SoCalGas Rule 30 in effect as September 21, 2006 or, to the extent that production had a deviation in place at that time, pursuant to the agreement governing that deviation. "Historical California Production" is defined as follows: Onshore or offshore California-

produced natural gas delivered at points of interconnection existing as of January 1, 2006, up to the maximum historical deliveries or Maximum Daily Volume effective on that date as specified in any agreement permitting supply delivery at those points. If a producer moves its deliveries of Historical California Production from a point of interconnection existing as of January 1, 2006, to another existing or a new point on the system, or if one or more producers consolidate two or more existing points of interconnection existing as of January 1, 2006, to another existing or a new point on the system, the deviation granted under this provision will follow the Historical California Production provided that (a) the utility has required or approved the change in receipt point location and (b) the continuing deviation shall not exceed the Maximum Daily Volume stated in the access agreement(s) governing deliveries at the producer's original point of interconnection and (c) specifically, the quality of the gas should not lessen to the point that it falls outside the grandfathered Rule 30 specifications.

6. In addition to the generic deviation provided in paragraph 5, the Utility will grant other specific deviations to California production from the gas quality specifications defined in Paragraph I.3 above, if such gas will not have a negative impact on system operations. Any such deviation will be required to be filed through Advice Letter for approval prior to gas actually flowing in the Utility system.

3. The protest of Coral Energy Resources is denied.
4. SoCalGas and SDG&E shall replace the language in the second bullet under "Calculation of Operation and Maintenance Fees" in Exhibit C in the Interconnection Agreement with the following language:

Odorant costs shall be included on an actual basis for the interconnector's point of interconnection. A credit will apply based on the the actual deliveries multiplied by the average per unit odorization costs for interstate supplies entering the SoCalGas system as specified in SoCalGas' Rule 39. This may change in the future to reflect price changes, introduction of new odorants, or changes in usage rates. Based on the current cost of odorant and the target odorant usage rate for supplies that have no odorant, SoCalGas [SDG&E] estimates the cost of odorant for such supplies to be \$0.88 per MMcf.

5. SoCalGas and SDG&E shall file supplemental advice letters within 5 days of the effective date of this resolution to make the above modifications.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on June 7, 2007; the following Commissioners voting favorably thereon:

---

PAUL CLANON  
Executive Director

STATE OF CALIFORNIA

Arnold Schwarzenegger, Governor

**PUBLIC UTILITIES COMMISSION**

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



**I.D.# 6622**

May 7, 2007

RESOLUTION G-3397

June 7, 2007 Commission Meeting

TO: Parties to Southern California Gas Company Advice Letter  
3675 and San Diego Gas & Electric Company Advice Letter  
1652-G.

Enclosed is draft Resolution G-3397 of the Energy Division. It will be on the agenda at the Commission's June 7, 2007 meeting. The Commission may then vote on this Resolution or it may postpone a vote until later.

When the Commission votes on a draft Resolution, it may adopt all or part of it as written, amend, modify or set it aside and prepare a different Resolution. Only when the Commission acts does the Resolution become binding on the parties.

Parties may submit comments on the draft Resolution. An original and two copies of the comments, with a certificate of service, should be submitted to:

Honesto Gatchalian  
Energy Division  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102  
Fax: 415-703-2200

A copy of the comments should be submitted **in electronic format** to:

David R. Effross and Richard Myers

Energy Division  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102  
email: [dre@cpuc.ca.gov](mailto:dre@cpuc.ca.gov) and [ram@cpuc.ca.gov](mailto:ram@cpuc.ca.gov)

Any comments on the draft Resolution must be received by the Energy Division by May 25, 2007. Those submitting comments must serve copies of their comments on 1) the entire service list attached to this cover letter, 2) all Commissioners, 3) the Director of the Energy Division, 4) the Chief Administrative Law Judge, and 5) the General Counsel on the same date that the comments are submitted to the Energy Division.

Draft Resolution G-3397  
Page 2

May 7, 2007

Comments shall be limited to fifteen pages in length, and shall include a listing of the recommended changes to the draft resolution, and an appendix setting forth proposed findings of fact and conclusions of law. The listing of the recommended changes and the appendix do not count against the page limit.

Comments shall focus on factual, legal or technical errors in the draft Resolution. Comments that merely reargue positions taken in the advice letter or protests will be accorded no weight and are not to be submitted.

Late submitted comments will not be considered. Reply comments will be accepted. Reply comments must be filed by June 1, 2007 and shall be served in the same manner as comments. Reply comments will be limited to 5 pages.

**Richard A. Myers**  
**Program and Project Supervisor**  
**Energy Division**

***Enclosure: Service List***

**CERTIFICATE OF SERVICE**

**CERTIFICATE OF SERVICE**

I certify that I have by mail this day served a true copy of Draft Resolution G-3397 on all parties in these filings or their attorneys as shown on the attached list.

Dated May 7, 2007 at San Francisco, California.

---

*Honesto Gatchalian*

**NOTICE**

Parties should notify the Energy Division, Public Utilities Commission, 505 Van Ness Avenue, Room 4002 San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the Resolution number on the service list on which your name appears.

**SERVICE LIST FOR DRAFT RESOLUTION G-3397**

San Diego Gas & Electric  
Attention: Todd Cahill  
8330 Century Park Ct, Room 32C  
San Diego, CA 92123  
[tcahill@semprautilities.com](mailto:tcahill@semprautilities.com)

Southern California Gas Co.  
Attention: Sid Newsom  
555 West Fifth Street, ML GT14D6  
Los Angeles, CA 90013-4597  
[snewsom@semprautilities.com](mailto:snewsom@semprautilities.com)

Exxon Mobil Corporation  
Douglas W. Rasch  
800 Bell Street, Suite 3497-L  
Houston, TX 77002-2180  
[Douglas.W.Rasch@exxonmobil.com](mailto:Douglas.W.Rasch@exxonmobil.com)

Alcantar & Kahl  
Evelyn Kahl  
120 Montgomery, Suite 2200  
San Francisco, CA 94104  
[ek@a-klaw.com](mailto:ek@a-klaw.com)

John Leslie  
Luce, Forward, Hamilton & Scripps LLP  
Del Mar Gateway  
11988 El Camino Real, Suite 200  
San Diego, CA 92130-2592  
[jleslie@luce.com](mailto:jleslie@luce.com)

