

Decision 09-10-036 October 29, 2009

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

In the Matter of the Application of Southern California Gas Company (U904G), Pacific Gas and Electric Company (U39E), and Southwest Gas Corporation (U905G) for Approval of Wholesale Transportation and Exchange Agreements and Related Relief.

Application 08-12-006  
(Filed December 15, 2008)

**DECISION ADOPTING JUNE 25, 2009 SETTLEMENT AND APPROVING OF THE CONTRACTUAL ARRANGEMENT BETWEEN APPLICANTS**

**1. Summary**

This decision adopts the terms of the settlement agreement dated June 25, 2009 and offered by all parties to this proceeding. As a result, this decision approves: (1) a wholesale transportation agreement between Southern California Gas Company (SoCalGas) and Southwest Gas Corporation, (2) an exchange gas delivery agreement between SoCalGas and Pacific Gas and Electric Company, (3) certain capital improvements, estimated to cost \$1.3 million, to SoCalGas' Pisgah Meter Station, and (4) the related capital charges, operation and maintenance charges, and rate base treatment of these capital improvements. This proceeding is closed.

**2. Background**

On December 15, 2008, SoCalGas, Pacific Gas and Electric Company (PG&E), and Southwest Gas Corporation (Southwest) (collectively "Applicants") filed an application seeking approval of: (1) a wholesale gas transportation

agreement between SoCalGas and Southwest, (2) an exchange gas delivery agreement between SoCalGas and PG&E, (3) certain capital improvements to SoCalGas' Pisgah Meter Station, and (4) related changes to SoCalGas' GW-SWG tariff schedule, which sets forth the rates charged to Southwest, to reflect recovery of the Pisgah capital improvements.

These two agreements seek to extend, with certain modifications, an existing contractual arrangement between these three utilities. Applicants submitted prepared direct testimony in support of their requests on December 15, 2008. The Division of Ratepayer Advocates (DRA) protested the application on January 16, 2009. A prehearing conference was held on March 12, 2009. The assigned Commissioner issued a scoping memo and ruling on April 2, 2009. DRA submitted prepared testimony on May 12, 2009.

In prepared testimony, DRA opposed the Applicants' (1) proposed increase in the exchange fee under the exchange gas delivery agreement between SoCalGas and PG&E, and (2) the \$1.3 million capital improvements to the Pisgah Meter Station. On May 22, 2009, the parties met and conferred as required by the schedule adopted in the scoping memo. On May 27, 2009, Applicants submitted prepared rebuttal testimony. Hearings were held on June 8, 2009. Parties filed a joint motion for approval and adoption of the all-party settlement agreement on June 25, 2009 (June 25, 2009 Settlement). This motion was not contested. The June 25, 2009 Settlement is attached hereto at Attachment A.

The details of the June 25, 2009 Settlement, which we adopt today, are discussed below. We also describe the existing contractual arrangement between the parties and the changes to this arrangement proposed in this proceeding.

### **3. The 1993 Contractual Arrangement Between Applicants**

The Commission approved the existing contractual arrangement approximately 15 years ago in Decision (D.) 93-07-052. D.93-07-052 authorized SoCalGas to enter into two contracts, a gas exchange delivery arrangement with PG&E and a wholesale gas service agreement with Southwest. Southwest, in turn, has relied upon these gas deliveries to provide service to its Southern California customers. The Commission authorized this wholesale arrangement because no interstate gas transmission pipelines directly serve Southwest's Southern California service territory, which includes the High Desert area of San Bernardino County and surrounding communities.<sup>1</sup>

Under this wholesale arrangement, SoCalGas directly provided approximately 71% of Southwest's customer gas requirements and indirectly provided the remaining 29% through the separate gas exchange delivery agreement with PG&E. The 2008 agreement with PG&E is discussed in detail below, in a separate section of this decision.

The term set forth in both of these 1993 agreements was 15 years and thereafter on a year-to-year basis unless terminated or amended. Currently, these two 1993 agreements continue in effect pending the Commission's approval of the new 2008 agreements presented in this proceeding.

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<sup>1</sup> Ex. 3, p. 2, Testimony of Southwest.

#### **4. The 2008 Agreement Between SoCalGas and Southwest (Wholesale Gas Transportation Agreement)**

The 1993 agreement between SoCalGas and Southwest is similar to the 2008 agreement. However, important differences in the two agreements exist. The 2008 agreement is attached hereto at Attachment B.<sup>2</sup> Both agreements provide for a single utility, SoCalGas, to provide long-term wholesale intrastate gas transportation services to Southwest. In addition to transportation, the 1993 agreement also included storage. In April 2008, the storage portion of the 1993 agreement was terminated and SoCalGas and Southwest entered into a separate storage contract.<sup>3</sup> The 1993 agreement and 2008 agreement both include an initial term of 15 years and evergreen clauses to provide for the continuation of the agreements after the 15-year term expires. However, the date when the obligation to serve commences and terminates is calculated differently. Most notably, the 2008 agreement includes language to prevent the 15-year term from ending during the peak usage season, winter (November 1 through March 31). The 1993 agreement and the 2008 agreement also differ in the rate structure and the structure of the agreement itself. These differences are discussed in more detail below.

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<sup>2</sup> The 2008 agreement attached hereto at Attachment B was subsequently modified per the June 25, 2009 Settlement, which is included at Attachment A.

<sup>3</sup> Ex. 6, p. 2, Testimony of SoCalGas, which explains that the SoCalGas/Southwest 1993 agreement was amended three times during the 15-year contract term. The agreement was amended to give AFG Industries, Inc. a discounted rate, to change Southwest's transportation rate from a negotiated rate to a tariff rate, and to terminate the storage portion of the agreement.

#### **4.1. Rate Structure**

The 2008 agreement provides for an increase in the transportation rate for services provided by SoCalGas to Southwest. The 1993 rate was a single negotiated rate for all delivery points which escalated every year under a special escalation factor derived from a comparison of the Consumer Price Index-All Urban Consumers with SoCalGas' Wholesale Rate Factor.<sup>4</sup> The 1993 rate was an all-in rate for service from any delivery point, whether deliveries were from SoCalGas or PG&E.<sup>5</sup> The rate in the 2008 agreement is structured differently. It is designed so that SoCalGas "recovers from Southwest all the costs to provide the service so there is no subsidization by other SoCalGas customers...."<sup>6</sup> SoCalGas will charge Southwest different rates depending on whether the gas is delivered through its system or PG&E's system.

For deliveries to Southwest through SoCalGas' delivery points, SoCalGas will charge the rate adopted and currently in effect in SoCalGas' tariff schedule GW-SWG.<sup>7</sup> SoCalGas intends to seek Commission authority to modify this tariff schedule as needed.

For deliveries to Southwest through PG&E's delivery points, SoCalGas will charge the exchange fee set forth in SoCalGas' 2008 agreement with PG&E plus a volumetric charge referred to as the storage balancing cost adder (SBCA). The SBCA is designed to recover the costs of balancing services for the gas which SoCalGas uses to pay back PG&E for gas deliveries through its delivery points to

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<sup>4</sup> Ex. 6, p. 2, Testimony of SoCalGas.

<sup>5</sup> Ex. 6, p. 2, Testimony of SoCalGas.

<sup>6</sup> Ex. 5, p. 2, Testimony of SoCalGas.

<sup>7</sup> Attachment B, hereto, Section 4(a).

Southwest.<sup>8</sup> The initial SBCA is \$0.00136 per therm or \$40,800.00 per year.<sup>9</sup> This initial SBCA charge is based on the load balancing costs proposed in SoCalGas' Biennial Cost Allocation Proceeding (BCAP) filed on February 4, 2008 (Application 08-02-001). SoCalGas stated that it may also seek authority to adjust this rate in the future.<sup>10</sup>

Southwest will also pay a charge to reimburse SoCalGas for the total actual costs, including taxes, of the upgrade to the Pisgah Meter Station and for operation and maintenance.<sup>11</sup> Southwest intends to pay these total costs through amortizing this cost over the initial 15-year term of the 2008 agreement. Southwest will also pay a monthly operations and maintenance charge.

DRA initially contested this component of this 2008 rate because it included the capital upgrades to the Pisgah Meter Station at an estimated cost of \$1.3 million. DRA filed a protest to the application on January 16, 2009. DRA's protest requested that the Commission reject certain portions of the application on the basis that Applicants submitted insufficient evidence to support the need for the capital upgrades.

As a result, Applicants offered additional evidence to clarify the scope, content and need for the capital improvement to the Pisgah Meter Station. Applicants explained that the upgrades would render Pisgah capable of serving as an alternate redelivery point in addition to the Kern River Station normally

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<sup>8</sup> Ex. 6, p. 5, Testimony of SoCalGas; Attachment B, hereto, Section 4(b).

<sup>9</sup> Ex. 7, p. 2, Testimony of SoCalGas.

<sup>10</sup> Ex. 7, p. 3, Testimony of SoCalGas.

<sup>11</sup> Attachment B, hereto, Sections 3 and 4(c).

used for deliveries between SoCalGas and PG&E.<sup>12</sup> Applicants further clarified that the Pisgah capital improvements would be placed into SoCalGas' rate base as part of SoCalGas' 2012 general rate case and SoCalGas would recover these costs through payments by Southwest governed by the 2008 agreement. Based on this additional information, DRA concluded that an alternate delivery point to Kern River was needed due to volatilities of demand and price for natural gas and, as a result, that the Pisgah Meter Station upgrades were reasonable.<sup>13</sup> DRA did not contest any of the other new rate components in the 2008 agreement between Southwest and SoCalGas. We agree with DRA's recommendation regarding the Pisgah Meter Station and find it reasonable.

#### **4.2. Contract Structure**

The 2008 agreement between SoCalGas and Southwest consists of the standard tariff form contract used for all customers, the Master Services Contract, with additional "special conditions" delineated in Schedule A to this Master Services Contract. The 1993 agreement was a stand-alone agreement with many tariff provisions incorporated into the agreement itself. The advantage of the contract structure being relied upon in the 2008 agreement is that basic services, such as billing and imbalances, are governed by SoCalGas' standard tariffs applicable to all customers.<sup>14</sup> As a result, changes to tariffs are easily incorporated into the Master Services Contract on a timely basis without having to seek additional regulatory authority.

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<sup>12</sup> Attachment A, hereto, pp. 4-5, June 25, 2009 Settlement.

<sup>13</sup> Attachment A, hereto, p. 5, June 25, 2009 Settlement.

<sup>14</sup> Ex. 6, p. 4, Testimony of SoCalGas.

DRA did not contest this aspect of the 2008 agreement. However, under General Order (GO) 96-B, Rule 7, any deviations from tariffed rates are subject to prior Commission approval. In this case, Applicants seek authority to modify critical terms of the contract, such as the contract rate, through amendments to SoCalGas' tariff. In essence, Applicants seek an expedited means of obtaining Commission approval for contract changes. We find this arrangement reasonable only because the contracting parties, both utilities, are equally sophisticated participants before the Commission. If we find any abuse of the Applicants' permission to rely on this process, we will revoke it.

#### **5. The 2008 Agreement Between PG&E and SoCalGas (Exchange Gas Delivery Agreement)**

For approximately 15 years, PG&E provided service to SoCalGas for gas deliveries to Southwest. PG&E has provided these services under a long-term gas transportation agreement entered into in 1993. The term of the 1993 agreement ends conterminously with the 1993 wholesale gas transportation agreement between SoCalGas and Southwest. Accordingly, the 1993 agreement between SoCalGas and PG&E remains in effect. This application seeks Commission authority to extend this existing contractual arrangement, under different terms and conditions, between SoCalGas and PG&E.

Prior to seeking to extend this arrangement, Southwest asked for and received a proposal from PG&E to directly receive service from PG&E rather than through SoCalGas. Southwest declined PG&E's offer based on the projected operational efficiency and cost-effectiveness achieved through continuation of Southwest's arrangement with SoCalGas.<sup>15</sup> Accordingly,

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<sup>15</sup> Ex. 3, p. 4, Testimony of Southwest.

Applicants have submitted for Commission approval a 2008 agreement between PG&E and SoCalGas for gas deliveries to Southwest. This 2008 agreement is attached hereto at Attachment C.<sup>16</sup>

One of the major benefits of this continuing and future arrangement is avoiding the construction of duplicative facilities.<sup>17</sup> The Commission recognized this benefit in D.93-07-052 and we continue to recognize it today. Applicants found the need to enter into this new 2008 agreement because, since the inception of the 1993 agreement between SoCalGas and PG&E, substantial changes have occurred in the gas industry in general and to PG&E's transportation rules and fee structures in particular. Specifically, the implementation of the Gas Accord in 1998 changed the basic structure of how gas moves across the PG&E system and altered the fees that may be charged for those services.<sup>18</sup> As a result, the 1993 agreement and the 2008 agreement differ in several significant ways.

### **5.1. Exchange Fee**

One of the notable differences between the 1993 agreement and the 2008 agreement is the increased exchange fee, the amount SoCalGas must pay to PG&E per decatherm (Dth) for gas deliveries by PG&E to Southwest. The 1993 agreement provided for an exchange fee of \$0.25/Dth. During the entire term of the 1993 agreement, this fee remained unchanged. The 2008 agreement adopts estimated exchange fees for years 2008-2010. These estimates are \$0.4172 for

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<sup>16</sup> The 2008 agreement attached hereto at Attachment C was subsequently modified per the June 25, 2009 Settlement, which is included at Attachment A.

<sup>17</sup> Ex. 5, p. 6, Testimony of SoCalGas.

<sup>18</sup> Ex. 1, p. 2, Testimony of PG&E.

2008; \$0.4233 for 2009; \$0.4201 for 2010.<sup>19</sup> For purposes of determining the final rates for 2008-2010 along with all the remaining years of the contract, starting with 2011, the 2008 agreement incorporates a formula that relies upon PG&E's tariffed transportation rates.

Specifically, the formula includes, PG&E's local transmission tariff rates charged for gas deliveries to 30 locations via Lines 300, 313, and 314. The formula is summarized as follows:

1. PG&E's CPUC-approved Baja Path backbone rate was converted to a volumetric rate. This conversion formula appears in Attachment B [to the 2008 agreement] at the bottom of the "Tariff Fees" table.
2. Next, PG&E's local transmission fee of 0.1398 dollars per decatherm (\$ per Dth) was reduced by 33 percent (rounded) to reflect the historical percentage of local transmission quantities (~66%) relative to the total gas quantities delivered to SWG.
3. Next, the two calculated fees were added together to create a calculated single fee reflecting that the backbone transmission system is used for all deliveries to SWG, and that 66 percent of total deliveries require the use of the local transmission system.<sup>20</sup>

PG&E explains that the increased exchange fee included in the 2008 agreement is less than what PG&E estimated it would charge for comparable services under its standard wholesale rate.<sup>21</sup>

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<sup>19</sup> Ex. 1, Testimony of PG&E (Attachment).

<sup>20</sup> Ex. 1, p. 4, Testimony of PG&E.

<sup>21</sup> Ex. 1, p. 3, Testimony of PG&E.

Applicants also point out that a single exchange fee, as opposed to separate fees for individual delivery points, simplifies the administration and billing of the 2008 agreement. In an effort to capture the costs of service related to the many different delivery points on the backbone (Line 300) and local transmission lines (Lines 313 & 314), Applicants agreed upon a single fee that combines various tariffed rates. Exhibit 2 to the 2008 agreement, attached hereto as Attachment C, sets forth the formula used by PG&E to calculate this fee. This formula is based on historical deliveries to each of the delivery points identified in 2008 agreement and is referred to as a “blended exchange rate.”

DRA initially contested the increase in the exchange fee. DRA found the increased exchange fee set forth in the 2008 agreement unreasonable. Instead, DRA proposed increasing the fee to \$0.282 per Dth based on DRA’s finding that a 12.8% fee increase over the 1993 exchange rate is reasonable and, in addition, that the 2008 agreement should incorporate a mileage-based rate that more accurately reflected the use of only a portion of Line 300.<sup>22</sup> DRA also recommended that Southwest obtain a lower rate by contracting directly with PG&E.

In response to DRA’s concerns, Applicants provided additional information. PG&E explained that, because a fixed reservation fee, a volumetric fee, and a customer access charge apply if Southwest contracts directly with PG&E, it was more economical to contract through SoCalGas.<sup>23</sup> PG&E is able to

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<sup>22</sup> Ex. 9, p. 5, DRA Report.

<sup>23</sup> Ex. 2, p. 2, Rebuttal Testimony of SoCalGas; Ex. 4, pp. 2-3, Rebuttal Testimony of Southwest.

offer service through SoCalGas on an all-volumetric rate structure.<sup>24</sup> PG&E estimated that under a direct contract with Southwest, service would cost approximately \$.83 million more per year and the local transportation charges alone would be \$0.47 per Dth.<sup>25</sup> Moreover, PG&E explained that DRA's reliance on the 1993 exchange fee of \$.25 per Dth as a means of evaluating the reasonableness of the 2008 exchange fee fails to take into account the passage of time and the changing circumstances since this rate was agreed upon.

The June 25, 2009 Settlement offered by DRA and Applicants proposes to exclude from the exchange fee the usage charge<sup>26</sup> component of the Line 300 rate, which is currently \$0.0125 per Dth, as set forth in PG&E's Rate Schedule G-AFT for the Baja Path.<sup>27</sup> The result is a decrease to the exchange fee. This decrease adequately addresses DRA's concern that the rate charged to Southwest should reflect the fact that service to Southwest will not rely upon the entire Line 300. We agree that, by removing the usage charge, the rate more accurately reflects the cost of service for Southwest. As a result, we find the resulting exchange fee reasonable.

## **5.2. Contract Structure**

In the 1993 agreement, the exchange fee could only be modified with Commission approval. Under the procedure set forth in the 2008 agreement, the exchange fee automatically changes if the Commission approves modification to

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<sup>24</sup> Ex. 2, p. 2, Rebuttal Testimony of SoCalGas.

<sup>25</sup> Ex. 2, p. 2 Rebuttal Testimony of SoCalGas.

<sup>26</sup> PG&E Tariff Schedule, G-AFT, Sheet 2 (Section 2 Usage Charge, Baja to On-System-SFV Rates).

<sup>27</sup> Attachment A, hereto, June 25, 2009 Settlement, p. 6 and Attachment 1.

any of the tariffed components of the formula used to determine the exchange fee.<sup>28</sup> DRA did not contest this aspect of the 2008 agreement.

Under GO 96-B, Rule 7, any deviations from tariffed rates are effective only upon Commission approval. As mentioned above, the 2008 agreement between SoCalGas and Southwest follows this same structure. With regard to the 2008 agreement between SoCalGas and PG&E, Applicants seek authority to modify critical terms of the contract, including the exchange fee, through amendments to PG&E's tariff. In essence, Applicants seek an expedited means of obtaining Commission approval for contract modifications.

As we concluded in reference to the 2008 agreement between SoCalGas and Southwest, we find this arrangement reasonable in this proceeding only because the contracting parties, SoCalGas and PG&E, are both utilities and equally sophisticated participants before the Commission. If we find any abuse of the Applicants' permission to rely on this process, we will revoke it.

## **6. Affiliates Affected per Decision 06-12-034**

Pursuant to a settlement dated September 21, 2006 between SoCalGas and San Diego Gas & Electric Company, Sempra Energy and the State Attorney General and adopted by the Commission in D.06-12-034, Applicants state that, while Sempra Commodities participates in the marketplace for natural gas, it will not be affected by SoCalGas continuing to provide wholesale service to Southwest.<sup>29</sup>

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<sup>28</sup> Ex. 1, p. 4, Testimony of PG&E.

<sup>29</sup> Application, p. 11; RT 23:14-18.

## 7. Standard of Review for Settlements

In this application, Applicants bear the burden of proof to show that their requests are just and reasonable and the related ratemaking mechanisms are fair. In order for the Commission to approve any proposed settlement of the application, the Commission must be convinced that the parties had a sound and thorough understanding of the application and of the underlying assumptions and data included in the record. This level of understanding of the application and development of an adequate record is necessary to meet our requirements for considering any settlement. These requirements are set forth in Rule 12.1,<sup>30</sup> which provides in pertinent part:

- (a) Parties may...propose settlements on the resolution of any material issue of law or fact or on a mutually agreeable outcome to the proceeding. Settlements need not be joined by all parties; however, settlements in applications must be signed by the applicant.

The motion shall contain a statement of the factual and legal considerations adequate to advise the Commission of the scope of the settlement and of the grounds on which adoption is urged. Resolution shall be limited to the issues in that proceeding and shall not extend to substantive issues which may come before the Commission in other or future proceedings.

- (b) Prior to signing any settlement, the settling parties shall convene at least one conference with notice and opportunity to participate provided to all parties for the purpose of discussing settlements in the proceeding.
- (c) Settlements should ordinarily not include deadlines for Commission approval.

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<sup>30</sup> All referenced Rules are the Commission's Rules of Practice and Procedure ([http://docs.cpuc.ca.gov/published/RULES\\_PRAC\\_PROC/70731.htm](http://docs.cpuc.ca.gov/published/RULES_PRAC_PROC/70731.htm)).

- (d) The Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest.

In short, we must determine whether the settlement comports with Rule 12.1(d), which requires a settlement to be “reasonable in light of the whole record, consistent with law, and in the public interest.” We address below whether the June 25, 2009 Settlement meets this requirement.

The record consists of all filed documents, prepared testimony entered into the record and offered during hearings, the proposed settlement, and the motion for its adoption. The settlement resolves the disputed issues in a balanced way which reflects a compromise of the contested issues. We note that the settling parties, including Applicants and DRA, represent the range of affected interests. Therefore, we find the settlement to be reasonable in light of the whole record. We also find the settlement to be consistent with the law as it contains no terms that bind the Commission in the future or violate existing laws. We therefore conclude that the settlement is in the public interest.

## **8. Comments on Proposed Decision**

The proposed decision in this matter was mailed to the parties in accordance with Pub. Util. Code § 311 and comments were allowed under Rule 14.3. No comments were filed.

## **9. Assignment of Proceeding**

John A. Bohn is the assigned Commissioner and Regina M. DeAngelis is the assigned Administrative Law Judge in this proceeding.

### **Findings of Fact**

1. The upgrades to Pisgah Meter Station will render Pisgah capable of serving as an alternate redelivery point, in addition to the Kern River Station normally used for deliveries between SoCalGas and PG&E.
2. An alternate delivery point to Kern River is needed due to volatilities of demand and price for natural gas and, as a result, the Pisgah Meter Station upgrades are reasonable.
3. The Pisgah Meter Station capital improvements will be placed into SoCalGas' rate base as part of SoCalGas' 2012 general rate case and SoCalGas will recover these costs through payments by Southwest governed by the 2008 agreement.
4. The cost recovery proposal by Applicants for the Pisgah Meter Station is reasonable.
5. DRA did not contest any of the other new rate components in the 2008 agreement between Southwest and SoCalGas.
6. The 2008 agreement between SoCalGas and Southwest consists of the standard tariff form contract used for all customers, the Master Services Contract, with additional "special conditions" delineated in Schedule A to this Master Services Contract.
7. Under the 2008 agreement between SoCalGas and Southwest, basic services, such as billing and imbalances, are governed by SoCalGas' standard tariffs applicable to all customers. As a result, changes to tariffs are easily incorporated into the Master Services Contract on a timely basis without having to seek additional regulatory authority.

8. Under GO 96-B, Rule 7, any deviations from tariffed rates are subject to prior Commission approval. This rule applies to the 2008 agreement between SoCalGas and Southwest.

9. Applicants seek authority to modify critical terms of the contract, such as the contract rate, through amendments to SoCalGas' tariff. In essence, Applicants seek an expedited means of obtaining Commission approval for contract changes.

10. The contracting parties, SoCalGas and Southwest, are both utilities, and equally sophisticated participants before the Commission.

11. Prior to seeking to extend this existing contractual arrangement between the Applicants, Southwest asked for and received a proposal from PG&E to directly receive service from PG&E rather than through SoCalGas.

12. Southwest declined PG&E's offer based on the projected operational efficiency and cost-effectiveness achieved through continuation of Southwest's arrangement with SoCalGas.

13. One of the major benefits of this continuing and future arrangement is avoiding the construction of duplicative facilities. The Commission recognized this benefit in D.93-07-052 and we continue to recognize it today.

14. Applicants found the need to enter into this new 2008 agreement because, since the inception of the 1993 agreement between SoCalGas and PG&E, substantial changes have occurred in the gas industry in general and to PG&E's transportation rules and fee structures in particular.

15. The June 25, 2009 Settlement offered by DRA and Applicants proposes to exclude from the exchange fee the usage charge component of the Line 300 rate, which is currently \$0.0125 per Dth, as set forth in PG&E's Rate Schedule G-AFT for the Baja Path. The result is a decrease to the exchange fee.

16. This decrease in the exchange fee adequately addresses DRA's initial concern that the rate charged to Southwest should reflect the fact that service to Southwest will not rely upon the entire Line 300.

17. By removing the usage charge from the formula used to determine the exchange fee between SoCalGas and PG&E, the rate more accurately reflects the cost of service for Southwest.

18. Under the procedure set forth in the 2008 agreement between SoCalGas and PG&E, the exchange fee automatically changes if the Commission approves modification to any of the tariffed components of the formula used to determine the exchange fee.

19. Under GO 96-B, Rule 7, any deviations from tariffed rates are effective only upon Commission approval. This rule applies to the 2008 agreement between SoCalGas and PG&E.

20. With regard to the 2008 agreement between SoCalGas and PG&E, Applicants seek authority to modify critical terms of the contract, including the exchange rate, through amendments to PG&E's tariff.

21. The contracting parties, SoCalGas and PG&E, are both utilities and equally sophisticated participants before the Commission.

22. Sempra Commodities participates in the marketplace for natural gas and it will not be affected by SoCalGas continuing to provide wholesale service to Southwest.

23. The record consists of all filed documents, testimony entered into the record and offered during hearings, the proposed settlement, and the motion for its adoption.

24. The June 25, 2009 Settlement resolves the disputed issues in a balanced way which reflects a compromise of the contested issues.

25. The settling parties represent the range of affected interests.

26. The June 25, 2009 Settlement contains no terms that bind the Commission in the future or violate existing laws.

### **Conclusions of Law**

1. It is reasonable to adopt the rate recovery proposal in the 2008 agreement between SoCalGas and PG&E for the Pisgah Meter Station, as modified by the June 25, 2009 Settlement.

2. It is reasonable to adopt the exchange fee between SoCalGas and PG&E, as modified by the June 25, 2009 Settlement.

3. It is reasonable to find the June 25, 2009 Settlement to be reasonable in light of the whole record.

4. It is reasonable to find the June 25, 2009 Settlement consistent with the law as it contains no terms that bind the Commission in the future or violate existing laws.

5. It is reasonable to find the June 25, 2009 Settlement in the public interest.

## **O R D E R**

### **IT IS ORDERED** that:

1. The June 25, 2009 Settlement, attached hereto at Attachment A and offered by all parties to this proceeding, is adopted.

2. The wholesale gas transportation agreement between Southern California Gas Company and Southwest Gas Corporation, attached hereto at Attachment B and modified by Attachment A, is approved.

3. The exchange gas delivery agreement between Southern California Gas Company and Pacific Gas and Electric Company, attached hereto at Attachment C and modified by Attachment A, is approved.

4. The capital improvements, estimated to costs \$1.3 million, to Southern California Gas Company's Pisgah Meter Station and the related capital charges, operation and maintenance charges, and rate base treatment of these capital improvements, as described in Attachment B hereto and modified by Attachment A, are approved.

5. Application 08-12-006 is closed.

This order is effective today.

Dated October 29, 2009, at San Francisco, California.

MICHAEL R. PEEVEY  
President  
DIAN M. GRUENEICH  
JOHN A. BOHN  
RACHELLE B. CHONG  
TIMOTHY ALAN SIMON  
Commissioners