

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION G-3437
July 30, 2009

R E S O L U T I O N

Resolution G-3437. Pacific Gas and Electric Company (PG&E) requests approval of special agreement with Chevron U.S.A. Incorporated (Chevron) and Praxair Incorporated (Praxair).

PROPOSED OUTCOME: (1) approves a special service agreement PG&E entered into with Chevron and Praxair which will provide natural gas service to Praxair; and (2) approves the request by Pacific Gas and Electric Company (PG&E) to deviate from its Gas Rules Numbers 10, 16, 17 and 17.1.

ESTIMATED COST: none.

By PG&E Advice Letter 3018-G filed on May 12, 2009.

SUMMARY

This Resolution approves PG&E's request for approval of an agreement among PG&E, Praxair and Chevron which will provide natural gas service to Praxair through existing pipeline facilities owned and operated by Chevron located at Chevron's Richmond Refinery site. This Resolution also approves deviation from PG&E's Gas Rules 10, 16, 17, and 17.1 in order to accommodate the agreement. This arrangement will eliminate the need to construct duplicative pipeline facilities and the need to do additional metering work at the Chevron site.

BACKGROUND

PG&E requests authority to provide natural gas service through existing pipeline facilities owned and operated by Chevron. PG&E also seeks authority to bill Praxair through these Chevron facilities using a utility grade meter owned by Praxair. PG&E, Chevron and Praxair agreed upon the terms and conditions of this service by a non-standard natural gas agreement. A copy of the gas service agreement is attached as Appendix A.

PG&E received a request from Chevron asking PG&E to provide a second service to a customer (Praxair) facility located on the Chevron Richmond refinery property. The Praxair facility would be a hydrogen production facility to be built, owned and operated by Praxair. The production of hydrogen requires the use of natural gas as a feedstock. Hydrogen is a key component in refining crude oil into gasoline and other refined products. Chevron's existing hydrogen production facilities will be replaced by the cleaner, more energy efficient Praxair facility.

PG&E currently serves the Chevron refinery through utility owned revenue meters located approximately 1.5 miles northeast of the refinery at San Pablo Station. The natural gas flows through PG&E owned pipeline and connects to the Chevron internal gas delivery system near the refinery perimeter. The natural gas then flows two miles on the Chevron internal gas delivery system inside the refinery.

Chevron estimates the total cost of building a natural gas pipeline through the Chevron Richmond Refinery site to be approximately \$6 million. In addition, PG&E estimates that the existing Chevron gas meters and associated facilities would need to be relocated and a second meter for Praxair would need to be installed. PG&E estimates these costs to be approximately \$1.5 million.

In providing direct service to Praxair, PG&E is requesting deviations from the following Tariff Gas Rules: Gas Rule 10 - Disputed Bills, Gas Rule 16 - Gas Service Extensions, Gas Rule 17 - Meter Tests and Adjustments for Bills for Meter Error, and Gas Rule 17.1 - Adjustments for Bills for Billing Errors.

NOTICE

Notice of Advice Letter 3018-G was made by publication in the Commission's Daily Calendar. PG&E states that a copy of the Advice Letter was sent electronically and via U.S. mail to parties shown on the attached list of the Advice Letter.

PROTESTS

Advice Letter 3018-G was not protested.

DISCUSSION

We approve the requested gas service agreement among PG&E, Praxair, and Chevron which will provide natural gas service to Praxair through existing

pipeline facilities owned and operated by Chevron located at Chevron's Richmond Refinery site. We also approve deviation from PG&E's Gas Rules 10, 16, 17, and 17.1 in order to accommodate the agreement.

The gas service agreement is consistent with Tariff Gas Rules 18 (Supply to Separate Premises and Submetering of Gas) and 9 (Rendering and Payment of Bills).

PG&E's Gas Rule 18 provides for the subtractive metering arrangement that would allow PG&E to bill Chevron and Praxair separately, using the PG&E meter at the San Pablo Station and the Praxair owned meter on Chevron's property. The gas service agreement states that Praxair will install the meter at its own expense, own, operate and maintain its meter in accordance with American Gas Association standards.

PG&E's Gas Rule 9 allows the exception of the reading of two or more meters combined where PG&E's operating convenience or necessity require the installation of two or more meters upon the customer's premises instead of one meter. In this case, PG&E seeks to avoid constructing costly duplicative and unnecessary pipeline facilities through congested refinery facilities. In addition, PG&E hopes to avoid disturbing sensitive wetlands located within the refinery property and accommodate its customers without the delays for permitting construction through these wetlands.

PG&E requests authority to deviate from Gas Rules 10, 16, 17 and 17.1.

Gas Rule 10 applies to bills issued by PG&E and presented to customers where PG&E provides gas services. The gas service agreement places greater restrictions on Chevron and Praxair regarding the resolution of disputed bills. The gas service agreement specifically states "Any disagreement between Praxair and Chevron as to gas deliveries or the allocation of billed amounts between them must be resolved between Chevron and Praxair without the involvement of PG&E. If Praxair fails to pay for its service within such time, PG&E is authorized under this Agreement to deem all deliveries through the Chevron Meter to be for Chevron's account and PG&E will bill Chevron for, and Chevron will pay for, all such deliveries and associated imbalances."

Gas Rule 16 applies to PG&E gas service extensions and states that service facilities and ownership of service facilities shall be installed, owned, operated and maintained by PG&E up to the Service Delivery Point. The gas service agreement deviates from these provisions insofar as PG&E is requesting that Praxair be

allowed to receive its natural gas supplies over Chevron-owned pipeline within the Richmond refinery and that Praxair's gas usage be metered through a Praxair owned meter.

Gas Rule 17 applies to meter tests and adjustment of bills for meter error. In addition, Gas Rule 17.1 establishes the terms for the adjustment of billing errors. The gas service agreement establishes separate terms regarding meter testing and billing errors related to Praxair's customer-owned meter and the Chevron subtractive billing design. According to the agreement, Praxair will be solely responsible for the testing and accuracy of the Praxair meter. PG&E may also require and witness testing of the Praxair meter to verify its accuracy at any time, not to exceed twelve times in any one year. If a billing error occurs based on the Praxair meter inaccuracy, the bill from PG&E will be corrected and adjusted as necessary to eliminate the error. If a billing error is discovered due to a measurement inaccuracy at the Chevron Meter, PG&E will adjust its bill and gas accounting and make any other necessary adjustments to Chevron pursuant to the provisions of Gas Rule 17.1 and refund or invoice Chevron the entire metering difference.

Approval of the gas service agreement between PG&E, Chevron and Praxair would eliminate the need to install costly duplicative pipeline facilities as well as removing considerable delays in providing necessary services to Chevron and Praxair. In addition, this approval would reduce expenses to PG&E and its ratepayers by eliminating the need to relocate Chevron's metering facilities and install a new metering facility to serve Praxair.

COMMENTS

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

FINDINGS

1. On May 12, 2009, PG&E filed Advice Letter 3018-G requesting approval of a special agreement to provide natural gas service to Praxair and deviations from Gas Rules Number 10, 16, 17 and 17.1.

2. The Praxair facility will be located on the Chevron Richmond refinery property to provide hydrogen to Chevron in the production of refining crude oil into gasoline and other refined products.
3. PG&E currently serves the Chevron refinery through utility owned revenue meters at the San Pablo Station located approximately 1.5 miles outside the Chevron refinery.
4. Chevron estimates the total cost of building a natural gas pipeline through the Chevron Richmond Refinery site to be approximately \$6 million.
5. PG&E estimates that replacement of the existing Chevron gas meters and associated facilities needed to serve Praxair would cost approximately \$1.5 million.
6. Approval of the gas service agreement between PG&E, Chevron and Praxair would eliminate the need to install costly duplicative pipeline facilities as well as removing considerable delays in providing necessary services to Chevron and Praxair.
7. The approval would reduce expenses to PG&E and its ratepayers by eliminating the need to relocate Chevron's metering facilities and install a new metering facility to serve Praxair.

THEREFORE IT IS ORDERED THAT:

1. The request of Pacific Gas and Electric Company (PG&E) to provide natural gas service to Praxair Incorporated (Praxair) through existing pipeline facilities owned and operated by Chevron U.S.A Inc. (Chevron) is approved.
2. The request of PG&E to deviate from Gas Rules Number 10, 16, 17 and 17.1 is approved subject to the terms and conditions of the non-standard natural gas service agreement between PG&E, Praxair and Chevron (attached as Appendix A).
3. All future modifications to the non-standard natural gas service agreement agreed to by PG&E, Praxair and Chevron shall be subject to Commission approval before taking effect.

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 July 30, 2009; the following Commissioners voting favorably thereon:

/s/ Paul Clanon
Paul Clanon
Executive Director

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

Attachment 1
Gas Service Agreement

Gas Services Agreement

This agreement (Agreement) is made by and among Praxair, Inc. (Praxair), Chevron U.S.A. Inc. (Chevron), and Pacific Gas and Electric Company (PG&E), each of which is a Party, and all of whom together are the Parties. In addition, Chevron and Praxair are End-Users. This Agreement sets forth the terms and conditions for the provision of natural gas service by PG&E via Chevron's Richmond Refinery (Refinery) internal gas distribution system (House Line) to a Praxair facility located within the boundary of the Refinery. Service will be provided to the Praxair facility through the Praxair owned and operated meter (Praxair Meter). This Agreement provides certain nonstandard terms and conditions of service that are agreed to by PG&E as an accommodation to Chevron and Praxair. Nothing in this Agreement shall be deemed to be a precedent for or in any way applicable to any other service at any other location.

1. Other Agreements. This Agreement is not the full agreement of the Parties with respect to natural gas services provided to the End-Users by PG&E. In addition to this Agreement, each End-User must also have a current fully-executed Natural Gas Services Agreement (NGSA) and, if applicable, a Noncore Balancing Aggregation Agreement (NBAA) with PG&E. Service to each End-User is also governed by PG&E's Tariffs. Should the terms and conditions of this Agreement conflict in anyway with PG&E's Tariffs, the NGSA, or the NBAA or their successors, the terms and conditions of this Agreement shall prevail.

2. Chevron Facilities Used to Provide Service.

2.1 House Line. The delivery of gas to the Praxair Meter from the Service Delivery Point (as defined in Section 3.2) shall utilize gas pipes, or "house lines," that are owned, operated, and maintained by Chevron (House Line).

2.2 Service Subject to Chevron Facilities. PG&E's provision of natural gas services to Praxair under this Agreement is strictly subject to and limited by Praxair's capacity lease and its continued right to use the House Line and the continued fitness of the House Line for this purpose.

2.3 Discontinuation of Service. PG&E may discontinue service to Praxair at the Praxair Meter without liability of any kind to Praxair or to Chevron if at any time PG&E determines in its sole reasonable judgment that such service poses a risk to the public health and safety or to the PG&E gas transmission system, or if Chevron for whatever reason discontinues service to Praxair using the House Line. Upon any such discontinuation of service, PG&E shall be relieved of any obligation to continue to provide service to Praxair under this Agreement; at the same time, service under Praxair's NGSA and, if applicable, NBAA shall be suspended indefinitely, pending resolution of the PG&E-identified problem or construction of another interconnection to PG&E's gas transmission system that is located outside the boundary of the Refinery and is not constructed at PG&E's expense. Re-establishment of service by PG&E would be per PG&E's Gas Rule 15 and 16. In this event, Praxair shall be billed for and liable to PG&E for full payment of any imbalance accrued and measured at the Praxair Meter and service provided up to the time service to the Praxair Meter is suspended, including any applicable penalties and interest.

3. Gas Delivery and Measurement.

3.1 Chevron Meter. All gas service to the End-Users will be delivered through revenue meters that measure gas deliveries to the Refinery, which are owned, operated, and maintained by PG&E (collectively, the Chevron Meter).

3.2 Service Delivery Point. The Service Delivery Point for service from PG&E to both Chevron and Praxair shall be either the Chevron Meter, or, if PG&E continues to own, operate and maintain gas pipelines beyond the Chevron Meter, the point at which the PG&E-owned pipe physically interconnects with the House Line. Custody of and risk of loss for all such gas deliveries shall transfer to Chevron at the Service Delivery Point and to Praxair at the Praxair Meter.

3.3 Control Point. The control point for service to the End-Users shall be the Chevron Meter. The control point is the point at which the End-Users' compliance with Operational Flow Orders, Emergency Flow Orders, local curtailments and other actions ordered or requested by PG&E is measured and enforced. PG&E shall have the unilateral right to disconnect both End-Users from PG&E-provided services at the Control Point for purposes of enforcing its right to receive payment for services from either End-User or to maintain the integrity of PG&E's gas transmission system or protect the safety of persons and property, in each case without liability of any kind to any End-User.

3.4 Nominations. Subject to the NGSA and the NBAA, Praxair and Chevron will each be responsible for separately nominating their respective volumes to the Service Delivery Point in accordance with PG&E's Tariffs.

3.5 Gas Delivery Pressure. Per PG&E Gas Rule 2, Description of Service, gas initially will be delivered at a pressure higher than standard delivery pressure where such higher pressure is available from existing facilities. PG&E, however, retains the right to decrease at any time the higher delivery pressure to a delivery pressure not less than the standard delivery pressure.

3.6 Praxair Meter. Measurement of all gas deliveries to the End-Users shall be made at the Chevron Meter. Praxair shall install at its own expense, own, operate, and maintain its meter (Praxair Meter) downstream of the Chevron Meter, to be located within the Refinery near or at the point the House Line interconnects with the Praxair facility, and it shall constitute a separate gas service. Gas that is measured at the Chevron Meter less that measured by the Praxair Meter shall be deemed for billing, payment, and balancing purposes to have been delivered to Chevron. Measurement facilities at the Praxair Meter shall include telemetry that will provide PG&E with real-time volumetric flows. All metered data from the Praxair Meter shall be communicated to PG&E by Praxair, at its own expense, in a manner required by PG&E.

3.7 Measurement and Verification. Praxair and Chevron shall develop metering specifications, which must be acceptable to PG&E and in accordance with American Gas Association (AGA) 2530 standards. Praxair shall be solely responsible for the testing and accuracy of the Praxair Meter. PG&E may require and witness testing of the Praxair Meter to verify its accuracy at any time, not to exceed twelve (12) times during each year over the term of this Agreement. All test data shall be provided to PG&E upon request. If an error of greater than one percent (1%) in either direction is discovered, the Praxair Meter shall be corrected, adjusted, or replaced as necessary to eliminate the error, and the gas accounting shall be adjusted accordingly for the shorter of the last billing cycle immediately preceding the test or the period since the last calibration.

3.8 Gas Balancing. Each End-User will be subject to balancing in accordance with the Tariffs, the NGSA and the NBAA or their successors. For Praxair, imbalances will be calculated as the difference, if any, between Praxair's confirmed receipts and the volumes measured at the Praxair Meter for the imbalance period. For Chevron, imbalances will be calculated for each imbalance period as the difference between Chevron's confirmed receipts and the total volumes measured at the Chevron Meter less Praxair Meter volumes.

4. Other Provisions.

4.1 Billing. PG&E will bill Chevron and Praxair separately, each as an end-use customer. Service to Praxair will be measured at the Praxair Meter, with a separate bill for the Praxair Meter. Service to Chevron will be deemed to be all deliveries through the Chevron Meter, less the volumes measured at the Praxair Meter. After ten (10) days have passed without objection from any End User, all PG&E bills that are based on these calculations shall be deemed correct as to volumes for purposes of each End-Users' billing and payment obligations. Any disagreement between Praxair and Chevron as to gas deliveries or the allocation of billed amounts between them must be resolved between Chevron and Praxair without the involvement of PG&E. PG&E's bills must be paid in full, without reductions, within the time set forth in the Tariffs. If Praxair fails to pay for its service within such time, PG&E is authorized under this Agreement to deem all deliveries through the Chevron Meter to be for Chevron's account, and PG&E will bill Chevron for, and Chevron shall pay for, all such deliveries and associated imbalances; provided that, PG&E shall provide at least five (5) business days' advance written notice to Chevron of PG&E's intent to bill Chevron.

If a billing error occurs based on Praxair Meter inaccuracy, the bill from PG&E shall be corrected and adjusted as necessary to eliminate the error. Any necessary adjustments shall be made accordingly for the shorter of the last billing cycle or period in which the error was discovered. Chevron's bill will also be adjusted in a similar manner, to reflect the difference between the Chevron Meter and the Praxair Meters as adjusted.

If a billing error is discovered due to a measurement inaccuracy at the Chevron Meter, PG&E shall adjust its bill, gas accounting and any other necessary adjustments to Chevron pursuant to the provisions of Gas Rule 17.1 and refund or invoice Chevron the entire metering difference.

Both End-Users shall be subject to the provisions of Gas Rule 17.1 for the application of appropriate, rates, fees, and other charges.

4.2 Assignment. This Agreement may not be assigned by a Party without the written consent of the other Parties, which written consent may not be withheld unreasonably.

4.3 Access to Facilities. Praxair hereby grants PG&E access to the Praxair facilities subject to reasonable advance notice from PG&E. Chevron hereby grants PG&E the right of ingress and egress subject to reasonable advance notice from PG&E to and from the Refinery as reasonably necessary for PG&E to implement this Agreement and to exercise its rights hereunder.

4.4 CPUC Approval. Because this Agreement deviates from PG&E's Tariffs, it must be filed with and approved by the CPUC before it will become effective. PG&E shall be solely responsible for preparing and making such a filing, and each of Praxair and Chevron hereby agree to provide a letter in support of that filing. Praxair and Chevron will have the right to review and comment upon the contents of such a filing prior to submission to CPUC, and to similarly coordinate with PG&E in terms of a response to protests, if any. To become effective, this Agreement must be approved by the CPUC without modifications or conditions that are unacceptable to any Party in its sole discretion. If such a modification of condition is ordered by the CPUC, the Parties agree to meet and confer regarding amendments to this Agreement that may be acceptable to all Parties and will address the concerns raised by the CPUC.

4.5 Governing Law. This Agreement shall at all times be subject to any changes or modifications the California Public Utilities Commission may direct, from time to time, in the exercise of its jurisdiction.

4.6 Indemnity. Praxair and Chevron (the Indemnifying Parties) hereby jointly and severally indemnify and agree to hold harmless PG&E, its directors, officers, employees, representatives, and agents (the Indemnified Parties) from and against any and all claims resulting from or in any way related to PG&E's performance in accordance with this Agreement, including without limitation PG&E's exercise of its rights under Section 3.2 or Section 4.1. If PG&E elects to defend itself from any such claim, the Indemnifying Parties shall be liable hereunder for the reasonable costs, including reasonable attorneys' fees, incurred by PG&E in such defense and for any judgment rendered against PG&E.

4.7 Term. This Agreement shall be in effect from the date of CPUC Approval (Section 4.4) through expiration of the capacity lease for use of the House Lines between Praxair and Chevron. The initial term of this Agreement will be 15 years following approval, and continue on a month to month thereafter cancellable by any party with at least 30 days advanced written notice to the other Parties.

4.8 General. This Agreement shall be considered for all purposes as prepared through the joint efforts of the Parties and shall not be construed against one Party or another as the result of preparation, drafting, or execution hereof. This Agreement shall not amend, modify or otherwise affect the obligations of Praxair or Chevron to one another under the hydrogen supply, ground lease or natural gas supply agreements executed between them on October 11, 2006, as may be amended from time to time. No amendment or modification of this Agreement shall be enforceable unless it is set forth in writing and executed by all the Parties. This Agreement shall not be deemed to impart any rights enforceable by any non-Party. Waiver by a Party of a breach or default by another Party shall not constitute a waiver of any further or other breach or default. The headings used herein are for convenience and reference, only, and are not substantive provisions of the Parties' agreement. Facsimile or PDF transmission will be the same as delivery of an original document. This Agreement shall be binding on each Party, its successors and permitted assigns.

4.9 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which shall be deemed one and the same agreement. Delivery of an executed counterpart of this Agreement by facsimile shall be deemed as effective as delivery of an originally executed counterpart.

4.10 Execution Authority. By its signature below, each Party represents and warrants that it is authorized to enter into this Agreement and to execute the same, and that, by so executing, shall bind its company to the terms and conditions set forth herein.

For Praxair:

By: _____
Michael Jordan, Vice President – West Region
Date: May __, 2009

For Chevron:

By: _____
Michael Coyle, General Manager – Richmond Refinery
Date: May __, 2009

For PG&E:

By: _____
Steve Whelan, Senior Director, Wholesale, Marketing, and Business Development
Date: May __, 2009