

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION G-3407
DATE: September 6, 2007

R E S O L U T I O N

Resolution G-3407: In compliance with Decision 06-04-033 and Decision 06-12-031, Southern California Gas Company and San Diego Gas & Electric Company submit their proposed tariffs to implement system integration, firm access rights, and off-system deliveries on the transmission systems of the two utilities. The advice letters are approved with modifications.

By Southern California Gas Company Advice Letter 3706 and San Diego Gas & Electric Company Advice Letter 1668-G filed on January 29, 2007.

SUMMARY

As required by Decision (D.) 06-04-033 and 06-12-031, Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) (the utilities) filed Advice Letters 3706 and 1668-G respectively to make revisions to their tariffs and forms to implement system integration, the firm access rights (FAR) system, and off system deliveries on their transmission systems. This resolution approves Advice Letters (ALs) 3706 and 1668-G with modification. This resolution requires the utilities to file supplemental advice letters which incorporate the modifications to their tariffs required herein.

Thirteen parties filed protests in response to AL 3706 and AL 1668-G. The protests are granted in part and denied in part.

BACKGROUND

The scope of Application (A.) 04-12-004 included integration of SoCalGas and SDG&E gas transmission rates, establishment of firm access rights, and provision for off-system gas transportation services. In Phase 1 of the proceeding a form of system integration was adopted in D.06-04-033. In Phase 2 of the proceeding a form of firm access rights, gas pooling service and off-system deliveries to Pacific Gas and Electric Company (PG&E) were adopted in D.06-12-031.

SoCalGas AL 3706 and SDG&E AL 1668-G were submitted in compliance with D.06-04-033 and D.06-12-031 to implement system integration, firm access rights, and off-system deliveries to PG&E on the utilities' gas transmission systems.

On January 29, 2007, SoCalGas filed compliance AL 3706 and SDG&E filed AL 1668-G. These filings were submitted in response to Ordering Paragraph (OP) 1.b. of D.06-04-033 and OP 3 of D.06-12-031 which state:

1. The system integration proposal of San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas) is adopted.
 - b. SDG&E and SoCalGas shall establish the Integrated Transmission Balancing Account. (D.06-04-033).
3. SDG&E and SoCalGas shall file appropriate advice letters (AL) to implement the FAR system, the gas pooling service, and off-system delivery service to PG&E.
 - a. The AL's shall contain the tariff and service offerings, and shall be consistent with, and in compliance with today's decision.
 - b. The AL's shall be filed within 45 days of the effective date of this decision. The AL's are subject to protest, and such protests shall be filed within 20 days after the AL's have been filed.
 - c. SDG&E and SoCalGas shall serve the ALs by e-mail on the service list to this proceeding, as well as on interested parties who have requested notification of AL filings for SDG&E and SoCalGas. (D.06-12-031).

Summary of D.06-04-033

- Approves the system integration proposal of Southern California Gas (SoCalGas) and San Diego Gas and Electric Company (SDG&E) which combines the transmission costs of the two utilities.
- The gas transmission systems of the two utilities are currently integrated on an operational basis, but the transmission and distribution costs of the two utilities remain separate.
- SDG&E is currently a wholesale customer of SoCalGas and receives all its natural gas at the Rainbow and San Onofre metering stations.
- Sempra LNG is the project developer of the Energia Costa Azul (ECA) in Baja California which is expected to begin commercial operation in 2008 with the capability of delivering regasified LNG at the rate of one billion cubic feet per day.

Gas will then flow northward from Mexico into San Diego and potentially into SoCalGas' territory.

- System integration provides the framework which allows customers of both utilities to access gas supplies at existing or new receipt points at a single integrated transmission rate. The distribution rates will remain separate.
- The integrated rates will be allocated to customer classes consistent with D.00-04-060.
- The rates shall go into effect on the first day of the month in which regasified liquefied natural gas (LNG) is expected to flow through the Otay Mesa receipt point.

Summary of D.06-12-031

- Approves a system of firm access rights (FAR) for both utilities, off-system delivery service to Pacific Gas and Electric Company, and a citygate pooling service.
- Firm access rights will be allocated at a particular receipt point on the integrated transmission system to various market participants using a three-step open season process.
- Set-asides will be provided to the core and to holders of long-term contracts.
- Backbone transmission costs set at 5 cents/decatherm (dth) will be unbundled from transmission rates. The 5 cent reservation charge is set low to stimulate participation in FAR.
- The citygate pooling service allows for the aggregation and disaggregation of natural gas at the citygate and creates a pricing point for customers to buy and sell gas.
- Off-system service provides gas suppliers with another market to sell their gas within California.

Summary of D.07-06-003

- Addresses the Petition for Modification of D.06-12-031 filed by the Southern California Generation Coalition (SCGC) on March 9, 2007.
- It granted SCGC's request to eliminate the five-year monthly average usage as the maximum end-user bid in Step 2 of the open season process.

- It denied SCGC's request to limit the contract term in Step 3 of the open season process for existing capacity to three years, instead of the range from three to 20 years allowed in D.06-12-031.

Summary of D.07-06-025

- Addresses the Petition for Modification of D.06-12-031 filed by Pacific Gas and Electric Company, San Diego Gas and Electric Company and Southern California Gas Company.
- It denied the Petitioners' request to accelerate the May 1, 2008 date to file an application for off-system delivery to pipeline interconnections specified in D.06-12-031.

Petition for Modification of D.06-12-004 of the Department of General Services (DGS) and Southern California Generation Coalition (SCGC)

On April 25, 2007, DGS and SCGC filed a Petition for Modification of D.06-12-004. The petition asks the Commission to modify the provisions of D.06-12-031 to make clear that the set-aside for gas producers described in the Decision at page 100 are limited to the receipt points where the gas producer delivers natural gas into the system. Comments to the Petition were received on June 22, 2007. The Commission has not yet ruled upon the Petition.

In AL 3706, SoCalGas proposes to establish new tariffs or modify existing tariffs or rules as follows:

- Schedule No. G-RPA – Receipt Point Access – Service provided to customers for firm and interruptible receipt point access rights into Utility's transmission system.
- Schedule No. G-Pool, Pooling Service – Gas pooling service provided to customers to facilitate the transfer and delivery of gas within the transmission system after the gas has been scheduled through the receipt points.
- Schedule No. G-OSD, Off-System Delivery – Service provided to customers for the transportation of natural gas on Utility's Transmission System off-system to the PG&E system.
- Schedule No. G-CP, Core Procurement Service – Modified monthly procurement charge to include an access charge.

- Schedules: (1) GT-F, Firm Intrastate Transmission Service, (2) Schedule No. GT-1, Interruptible Intrastate Transmission Service, and (3) Schedule No. GLT, (Enhanced Oil Recovery) Long-Term Transportation of Customer-Owned Natural Gas, – Modified to indicate that discounted contracts as of the date of D.06-12-031 shall have their contract rate reduced by the applicable unbundled interruptible receipt point access rate, and that long-term discounted contracts executed after the date of D.06-12-031 shall be deemed to be unbundled and shall not receive a reduction to the rate negotiated to account for receipt point access service.
- Rule No. 01, Definitions – Rule modified to define expansion and displacement receipt point capacity.
- Rule No. 30, Transportation of Customer-Owned Gas – Rule modified to address nominations using receipt point access rights.
- Rule No. 32, Core Aggregation Transportation – Rule modified to allow Energy Service Providers (ESP's) to receive receipt point access service by utilizing Schedule No. G-RPA and, under the schedule, have the set-aside option to acquire firm receipt point access rights during the open season process.
- Rule No. 33, Electronic Bulletin Board – Rule modified to include receipt point access rights information to facilitate the trade of these rights in a secondary market.
- Rule No. 39, Access to the SoCalGas Pipeline System - Rule modified to describe the Utility's responsibility for a customer's request to establish or increase the takeaway capacity at a receipt point.

SoCalGas has also proposed elimination of Schedule No. G-ITC, Interconnect Access Service.

Both SoCalGas in AL 3607 and SDG&E in AL 1668-G propose to establish an Integrated Transmission Balancing Account (ITBA), consisting of two sub accounts: System Integration (SI) Sub account and the Firm Access Rights (FAR) Sub account. These sub accounts will not record activity until system integration rates are in effect on the date regasified LNG begins to flow at Otay Mesa. Both utilities propose to modify their Purchased Gas Account (PGA) and the Core Fixed Cost Account (CFCA) and the Noncore Fixed Cost Account (NFCA). In D.06-12-031, the Commission authorized SDG&E and SoCalGas to establish a balancing account to track and recover the difference for any under- or

over-recovery of the unbundled FAR reservation charge revenues. Commission Decision 06-04-033, Ordering Paragraph 1.b. directed the utilities to establish the Integrated Transmission Balancing Account (ITBA).

In addition, SDG&E is proposing to establish the following new tariffs or modifying existing tariffs or rules in preparation to implement system integration and the FAR system.

- Schedule GN-3 Natural Gas Service for Core Commercial Customers - Modify to include language on the implementation of FAR.
- Schedule GTC-SD, Natural Gas Transportation Service for Core Customers, San Diego County - Modify to include language on the implementation of FAR and to remove Special Condition (11) Wheeler Ridge Access Fee because it no longer applies since the Wheeler Ridge contracts are terminating once FAR is implemented.
- Schedule GT-NGV, Transportation of Customer-Owned Gas for Motor Vehicle Service - Modify to reflect that service under this schedule must be taken in conjunction with Schedule GP-SUR.
- Schedule GPC, Gas Procurement for Core Customers - Modify to include language for the Receipt Point Access Charge.
- Eliminate Schedule G-CORE and GPNC-S 90 days after SoCalGas' first open season for firm receipt point access.
- Schedule GTNC, Natural Gas Intrastate Transportation for Noncore Customers and GTNC-SD, Natural Gas Intrastate Transportation for Noncore Customers San Diego - Modify to reflect that service under these schedules must be taken in conjunction with Schedule GP-SUR, and delete reference to SC 10 Procurement Option and SC 11 Wheeler Ridge Access Fee since they no longer apply.
- Schedule EG, Natural Gas Intrastate Transportation Service for Electric Generation Customers and Schedule EG-SD, Natural Gas Intrastate Transportation Service for Electric Generation Customers – San Diego County - Modify to reflect that service under these schedules must be taken in conjunction with Schedule GP-SUR, Customer-Procured Gas Franchise Fee Surcharge. Modify Special Condition 10, Procurement Option to reflect that electric generation customers must make arrangements for gas purchases from a supplier other than the Utility. In addition, modify Schedule EG-SD, Special Condition 4, Gas Service Options to reflect that transportation of gas

supplies across the SoCalGas pipeline system excludes receipt point access service.

- Rule 14, Shortage of Gas Supply, Interruption of Delivery, and Priority of Service - Modify Special Condition 1 to delete references to core subscription service and optional utility gas purchases since SDG&E will not be providing an option of purchasing gas for its noncore customers upon implementation of FAR.
- Rule 25, Gas Transportation Rules for Noncore Customers, Special Condition D, F, and H - Modify to remove language regarding core subscription service and optional gas purchases from the utility that no longer applies. Former Special Condition R, Gas Procurement Options and Obligations and Special Condition S Take or Pay Obligations or Charges are deleted since they no longer apply.
- Rule 30, Transportation of Customer-Procured Gas - Modify to make minor changes by moving the location of existing language and modifying some terms.
- Rule 39, Access to the SDG&E Pipeline System – Modify Special Condition B to describe the Utility's responsibility for a customer's request to establish or increase the takeaway capacity at a receipt point.

WORKSHOP

The Energy Division facilitated a workshop on February 22, 2007 held in the Commission's Training Room in San Francisco. The purpose of the workshop was to give intervenors to the System Integration Proceeding in A.04-12-004 an opportunity to ask questions of SoCalGas/SDG&E regarding the tariff filings attached to AL 3706 and 1668-G prior to filing their protests. The utilities gave a detailed presentation of the tariff revisions contained in the AL's.

NOTICE

Notice of AL 3706 and AL 1668-G was made by publication in the Commission's Daily Calendar. SoCalGas and SDG&E state that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

A ten-day extension of the normal protest period of 20 days for AL 3706 and 1668-G was granted by former Commission Executive Director Stephen Larson. Protests were due no later than March 2, 2007. SoCalGas AL 3706 and SDG&E AL1668-G were timely protested by the following parties: Division of Ratepayer Advocates (DRA); Clearwater Port LLC (Clearwater); Southern California Edison Company (SCE); BHP Billiton LNG International, Inc.(BHP Billiton); Aera Energy LLC (Aera) and Midway Sunset Cogeneration Company (MSCC); Indicated Producers (IP); SES Terminal, LLC (SES); California Cogeneration Council (CC), the California Manufacturers and Technology Association (CMTA), and Watson Cogeneration Company (Watson); Sempra Energy LNG (SE LNG); Coral Energy Resources, L.P. (Coral); Woodside Natural Gas, Inc. (Woodside); the Department of General Services (DGS); and Southern California Generation Coalition (SCGC).

The following is a summary of each protest:

DRA

1. DRA argues that Special Condition 22 under Schedule No. G-RPA should be revised to limit “set-asides” in Step 1 of the open season to contracts in effect as of the date the Commission adopted D.06-12-031. The proposed Special Condition 22 states that set aside options shall be granted to end-use customers under Commission-approved long-term firm transportation contracts in effect at the time of implementation of the FAR system. DRA argues that this provision could “open the door to an unknown number of long-term firm transportation contracts with set-aside options in Step 1”, thus reducing available capacity in Steps 2 and 3 of the open season. DRA justifies its position by stating that in D.06-12-031, the Commission rejected some proposals for set asides because of its concern that too many set asides in Step 1 would reduce the amount of capacity available to end-users and other market participants in Steps 2 and 3 of the proposed open season.
2. Proposed Rule 39 B.2 addresses a situation where a party has requested a gas transmission capacity upgrade through executing a Collectible System Upgrade Agreement (CSUA), but is not making sufficient progress on its own LNG or pipeline project. It allows the utility to provide written notice, fifteen days prior to effectiveness, that the party has lost its first come, first-served (FCFS) priority. Proposed Rule 39.B. states that the party may raise any dispute with the Energy Division. DRA argues that Rule 39 B.2 should be modified to require an Advice Letter filing in the event the utilities wish to revoke FCFS party status to any party that is deemed to have lost it because of unsatisfactory progress in constructing the supply project or funding necessary and to post information related to project milestones on the utilities’ websites.

Clearwater

1. Clearwater protests revisions to Rule 39.B.2. proposed and distributed by SoCalGas at the February 22, 2007 workshop. (A) Clearwater proposes that to ensure clarity, the term "predecessor agreement" be changed to "Collectible Work Authorization" (CWA) since the only agreement identified as a predecessor to the CSUA is the CWA. (B) Furthermore, Clearwater proposes that it be made explicit that the 15-day notice of cancellation and the 30-day notice to cure run sequentially, not concurrently. It also recommends that the party be given the notice and opportunity to cure the lack of satisfactory progress before the utility determines that the party has lost its status in the FCFS queue. (C) Clearwater opposes the proposed language which allows the party deemed to be not making satisfactory progress to raise any dispute with the Energy Division as the Energy Division does not have any policies, procedures or personnel in place for the adjudication of disputes that may arise under a Utility's tariff. Clearwater proposes that the Commission's existing adjudicatory procedure, namely the Complaint Procedure, be used for the adjudication of a dispute.
2. Clearwater opposes current tariff provisions which provide that the terms of the CSUA and related interconnection agreements are kept confidential. Clearwater supports greater transparency regarding the "LNG queue" that will be created at each receipt point. It believes that transparency will allow LNG suppliers and customers better access to information to make their resource procurement and investment decisions and increase the Commission's ability to ensure that there is no undue discrimination in the assignment or management of such rights. Clearwater proposes a tariff provision that would require the utility to post specific information regarding the "LNG queue" at each receipt point on its Electronic Bulletin Board. The Utility should be required to post: (a) the identity of the party that executed the CSUA or CWA; (b) the date of execution that establishes that party's position in the queue; (c) the amount of firm capacity that is reserved to that position in the queue and whether it is displacement or expansion capacity; (d) the date that the interconnection is scheduled to be completed; and (e) any notices of termination issued pursuant to Rule 39, Section B.2.

SCE

1. SCE protests proposed Schedule G-RPA, Special Condition 12 which provides that customers who hold firm receipt point rights may release their rights in the secondary market at a rate up to 125% of the G-RPA-1 rate, or if applicable, 125% of the G-RPA 1 rate (FAR reservation rate) plus the customer's G-RPA 2 rate (charge for expansion capacity). SCE argues that D.06-12-031 treats the reservation charge as a separate charge from the expansion charge, but that SoCalGas has erroneously combined the two charges as the basis for the

secondary market rate cap. SCE argues that the Decision's reference to 6.25 cents per MMcfd is consistent with 125% of the G-RPA1 rate of 5 cents per Mmcfd.¹

2. SCE protests proposed Special Condition 27 of G-RPA which states that if the total amount of set-asides exceed the available capacity at a particular receipt point or the available capacity of the Transmission Zone, set asides for core customers including the set asides for core loads of wholesale customers will be provided first. All other set-asides are subject to being pro-rated. SCE argues that all customers should be prorated equally, because in D.06-12-031 the Commission never indicated that noncore customers would be prorated before core during the Step 1 pre-open season.

BHP Billiton

1. BHP Billiton states the pro forma contracts submitted with the advice filing (Master Services Contract, Schedule K, Pooling Service Agreement; Schedule L, Receipt Point Access Contract; Schedule M; Receipt Point Master Agreement; Schedule N , Off-System Service Contract; Request for Pooling Service Contract; Electronic Bulletin Board (EBB) Agreement Form; were not discussed in any detail at the workshop, nor were they addressed within the proceedings at the Commission leading up to the approval of a FAR/off-system framework. BHP Billiton strongly recommends that the text and details of the proposed pro forma contracts be set for a workshop process similar to that used for the interconnection and operator balancing agreements, with a time limit established no longer than 90 days before a report would be due to the Commission by the utilities detailing both the level of agreement and specifying any disagreement within the proposed drafts. In the event this process is not adopted, BHP Billiton protests the draft contracts and requests that they be listed as matters to be set for hearing by the Commission.
2. BHP Billiton proposes with regard to Rule 39, First-Come-First-Served (FCFS) Access to Expansion Capacity, that at a minimum the FCFS queue for capacity should be made available on the SoCalGas EBB. Secondly, it states that the queue must also recognize that an early signing entity may be either less likely to be constructed than a competitor for various reasons or far behind in the permitting process. BHP Billiton purports that the 15-day notice and 30-day cure period are woefully insufficient for a project of the magnitude anticipated and significantly less than standard terms in construction agreements. BHP Billiton proposes revised tariff language which requires that the utility provide both a 180 day notice of cancellation and a 90 day period to cure.

¹ Although both D.06-12-031 and the Edison protest of March 2, 2007 used MMcfd as the unit of measure, the correct unit of measure is cents per Dth/day.

3. BHP Billiton suggests that a limited number of additional matters need to be clarified or revised within the tariff filing. These include:
- A. Schedule No. G-OSD – the off-system delivery service rate schedule currently provides that gas cannot be nominated from a receipt point on the system for delivery to an off-system point. BHP Billiton sees no operational or administrative reason why gas cannot be delivered directly to an off-system point, rather than going to a pooling or other intermediate point prior to being delivered off system. Because SoCalGas reserves the right to review and assess charges for pooling in the future, BHP asserts that there is a great likelihood that SoCalGas could unnecessarily pancake rates for off-system deliveries.
 - B. Schedule No. G-RPA, receipt point access does not list off-system points as a delivery point for service under this schedule and should do so.
 - C. Schedule No. G-RPA, secondary market assignments, sheet no. 41520-G, should clarify that the cap for secondary market transactions for new receipt points with a charge by SoCalGas for facilities constructed for such new points should be 125 percent of the full rate including the facilities surcharge.
 - D. Schedule No. G-RPA, special condition 12 continues the responsibility of the releasing shipper for payment of FAR charges to the utility in the event of default by the acquiring shipper. While it may be appropriate for capacity releases of terms and conditions less than the commitment of the releasing shipper to continue the responsibility, where release is for the full term, full volume, and full price to a creditworthy acquiring shipper, the releasing shipper's liability should be terminated.
 - E. Schedule No. G-RPA, special conditions No. 24, sheet no. 41523-G, effectively requires that any capacity expansion at any receipt point must be either displacement or expansion capacity, but cannot be a combination thereof. BHP Billiton believes that prorationing between expansion and displacement capacity should be allowed.
 - F. Schedule No. G-POOL, sheet no. 41533-G appears to state that gas must be nominated using pooling services first before an off-system delivery point agreement. This should not be the only option under off-system service for delivery from a receipt point.
 - G. Definitions – Sheet no. 41541-G defines “off-system customer” as a marketer, broker, supplier or other entity bidding for storage service on their own behalf for ultimate consumption outside the utility's service territory. That definition must be

revised to include the scope associated with Schedule No. G-OSD Off-System Deliveries Services.

- H. Rule No.30, transportation of customer-owned gas, at sheet no. 41553-G states that natural gas may be nominated from a receipt point to specific points that do not include an off-system delivery agreement. BHP Billiton believes that customers should be allowed to nominate from a Receipt Point Access Contract directly to an Off-System Delivery Agreement.
- I. Rule No. 30, sheets 415551-G to 51552-G set out the order in which nominations are to be scheduled from “Firm Primary” to interruptible rights. For a new project, the rule appears to mix and match concepts. A new point is a zone to itself for access, but restricted based on total system capacity restrictions, while any other point is restricted by zone. SoCalGas, furthermore, does not specify that “expansion capacity” is subject to prorationing only for force majeure or specific maintenance and repair periods.
- J. Rule No. 39, sheet no. 41569-G access to the SoCalGas pipeline system - explains the interconnection capacity studies and establishes its preferred method for first-come, first-served priority for determination of facility costs to be funded by a party. BHP Billiton’s concerns with regard to the FCFS protocol are addressed in Section 2 above.
- K. Schedule No. G-OSI – off-system interruptible service proposes to limit its interruptible off-system deliveries into PG&E at Kern River Station. Although Kern River Station is the current interconnection point at which there are deliveries by PG&E into the SoCalGas system creating the backhaul capacity option for interruptible off-system deliveries, PG&E may not be limited to this point in the future. BHP Billiton requests the language be modified to include all interconnection points between SoCalGas and PG&E as potentially available interruptible off-system delivery points.
- L. Rule No. 30, transportation of customer-owned gas, should specifically provide that nominations of gas delivery at “expansion capacity” receipt points can be prorated for only two purposes, force majeure or scheduled and non-scheduled maintenance. This would differentiate any nominations using expansion capacity from displacement capacity which is subject to prorationing.
- M. Rule No. 33, electronic bulletin board (EBB) should be revised to include a posting of FCFS queues for future expansion capacity on the SoCalGas system. Since SoCalGas is proposing a basic queue system for first-come, first-served rights for new capacity on its system, a posting within their bulletin board of such capacity is an appropriate step.

Sempra LNG

1. Sempra LNG submits a limited protest addressing only one issue. Schedule G-RPA, Section 24 pro forma tariff sheets are potentially ambiguous as to whether the Step 1 set-asides granted to parties funding new receipt capacity are intended to extend beyond the initial open season because they refer to the “set-aside option prior to the first open season following completion of the facilities”. Sempra LNG proposes that the tariff language be clarified to ensure that the set-aside option extends to the first open season following completion of the facilities and each open season thereafter.

Aera Energy LLC (Aera) and Midway Sunset Cogeneration Company (MSCC)

Aera and MSCC limit their protest to clarification of the treatment of long-term EOR contract holders in the open season process and the crediting of reservation charges against the bundled contract rate.

1. Special Condition 15 of Schedule No. GLT, Special Condition 29 of Schedule No. GT-F and Special Condition 13 of Schedule No. GT-1 requires language modification to treat Aera and MSCC contract rates in the same manner as tariffed rates of other customers. They protest that while D.06-12-031 directed SoCalGas to unbundle the five cents reservation charge from their contract rates in the same manner as these charges are unbundled from the rates of other customers, the proposed tariff language does not unbundle the reservation charge for contract customers in the same manner as for tariffed customers. Changes are required to comply with the Commission’s decision. D.06-12-031 provides that until transmission assets can be identified to obtain a fully unbundled rate, the amount of transmission costs to be collected by the FAR reservation charge will be the forecasted throughput multiplied by the FAR reservation charge of 5 cents per Dth. These FAR related revenues will be unbundled from transportation revenues. This methodology will result in an over- or under-collection of FAR revenues against costs. The tariff language submitted with AL 3706 states that any over- or under-collection of FAR revenues will be credited back not to the rates of FAR shippers, but to end-user transportation rates. This could result in an annual true-up credit of more than 5¢ per Dth. Aera and MSCC propose modified tariff language to ensure that their rate includes any amortization of balancing accounts associated with FAR revenues.
2. G-RPA Special Condition 33(1) could be misinterpreted to unfairly deny Aera full bidding rights. Currently proposed Special Condition 33(1) provides for a reduction of Step 2 rights based on the assumption that the Step 1 and Step 2 rights serve the same purpose. It assumes that any gas produced by Aera will always be used to serve the needs of its end-use facilities. However, on occasion Aera does not use the natural gas it produces to serve its end-use

facilities. Under those circumstances, it would be inappropriate to reduce Aera's Step 2 bidding rights by the amount of its Step 1 set-asides because the full amount of bidding rights would be needed to satisfy end-use needs. Aera proposes modified language to clarify that the bidding rights afforded to Aera and MSCC under its existing long-term bundled contract must be kept distinct from the set-asides that Aera will receive as a California producer.

Indicated Producers (IP)

1. IP protest that while D.06-12-031 directed SoCalGas to unbundle the FAR revenue requirement and rejected the proposed credit-back ratemaking mechanism, SoCalGas' proposal of a balancing account mechanism operates in essentially the same way as the rejected credit-back mechanism. Under SoCalGas' proposed credit-back proposal, any over-or-under collection of FAR revenues would be credited back, not to the rates of FAR shippers, but to end-user transportation rates. IP states that to carry out the intention of D.06-12-031 to implement a 5¢/Dth unbundled rate, any over-or under-recovery in FAR revenues must be balanced separately and amortized to the following year's FAR rates, rather than against end-use customer rates.
2. According to IP, in D.06-12-031 the Commission approved set-asides in the Wheeler Ridge transmission zone for four specific existing holders of long-term firm, Commission-approved contracts. IP states that SoCalGas, by exploiting a loophole in the Decision, proposes to provide set-asides to all contract holders who can obtain such a contract by the time of FAR implementation. In proposed Schedule No. G-RPA, Special Condition 27, SoCalGas indicates that all Step 1 set-asides can be pro-rated where the total amount of set-asides selected exceed the available capacity of the transmission zone or a particular receipt point. IP suggests that the tariff language be modified to limit set-asides to the contracts referenced in D.06-12-031.
3. IP protests that the D.06-12-031, in discussing the calculation of the California Producer Step 1 set-asides, is at times, unclear. IP states that the intent of the decision was to adopt the proposal from Watson/IP/CCC/CMTA to base the set-asides on a producer's peak month production over the most recent three-year period leading into the open season. However, proposed Schedule No. G-RPA provides set-asides to California Producers for a quantity up to the peak month's daily average production over the most recent 3-year period. IP suggest alternative tariff language which would most accurately describe SoCalGas' confirmation at the February 22, 2007 tariff workshop that the peak month will be selected by identifying the month over the 3-year period with the highest daily average.
4. IP protests that SoCalGas proposed revisions to Rule 30 Gas Quality should be stricken. Gas quality was not an issue in the FAR proceeding, was not an issue

in SoCalGas' A.04-12-004, and not mentioned in the FAR hearing process. The issue was debated in R.04-01-025 and A.04-08-018.

California Cogeneration Council (CCC), the California Manufacturers and Technology Association (CMTA), and Watson Cogeneration Company (Watson)

CCC, CMTA, and Watson protest the draft tariffs in AL 3706 and 1668-G in which the utilities improperly resurrected their credit-back mechanism through the FAR sub-account of the Integrated Transmission Balancing Account (ITBA). They state that D.06-12-031 explicitly rejected the SoCalGas/SDG&E proposal not to unbundle FAR costs, and to credit-back FAR revenues just to end use customers. CCC, CMTA and Watson state that the decision provides for unbundling, and all shippers, whether end users or not, would pay the same FAR rate including any periodic adjustments for over or under-collections of FAR costs that are required. In the proposed Preliminary Statement, any over-or under-collections in the ITBA are assigned only to end-use customers in the utilities' year-end true-up of balancing accounts. Therefore, end use customers will pay a different effective FAR rate than shippers who are not end users (who would pay just the \$0.05 per Dth FAR charge, with no adjustment for over-or under-collections). CCC, CMTA, and Watson propose that the Preliminary Statement be revised so that the utilities amortize any under- or over-collections from the FAR sub-account in the next year's FAR rate.

This would result in a true unbundling of the FAR rate, because all FAR costs would be recovered only through the FAR rate. Unbundling results in all shippers who buy FARS, (including those who are not end users) paying the same rate for FAR.

Woodside Natural Gas

Woodside believes that SoCalGas' proposed language for Rule 39, Section B fails to implement the Commission's "first in time" cost allocation rule for new or expanded receipt point access adopted in D.06-09-039 and reiterated in D.06-12-031.² It protests that the new language proposed for Section B.(2) is so general and lacking in specific activity, payment and time reference points that SoCalGas will be unable to administer properly the "first in time" queue. Woodside contends that SoCalGas' language is vague. In order to establish "first in time" status a project merely needs to execute a Collectible System Upgrade Agreement (CSUA), and in order to preserve that "first in time" status, the project merely must make "satisfactory progress" toward completion as determined by SoCalGas. Woodside argues that it is not clear that even SoCalGas' execution of the CSUA is required. There is nothing

² D.06-09-039, pp. 76-80, 168-169, 174, FOF 38-39, 41. D.06-12-031, pp. 70-72.

to prevent a project that is ill-defined, that has no gas supply supporting it, that has not received its permits or has not even begun the permitting process, or that contemplates completion 10 years from now from establishing a “first in time” position. Furthermore, SoCalGas has given no standards by which to assess “satisfactory progress”. Woodside states SoCalGas needs to have in place clear, understandable and workable criteria for determining which project is “first in time” and when such a project may no longer be “first in time”. Woodside proposes language for Section B (2) which it believes would be more specific. The proposed language provides for a written 30-day notice to any party deemed to have lost its first-come, first-served priority because of unsatisfactory progress. It further allows any party receiving such notice to raise any disagreement with the utility’s assessment with the Commission’s Energy Division for consideration and potential resolution.

Department of General Services (DGS)

1. Set-Asides - DGS protests that it is not appropriate for SoCalGas to allow California gas producers to move their set-aside rights to another receipt point location. DGS argues that a set-aside is a special right to California gas producers who deliver gas from their fields and should not be transferable to any other zone or receipt point to allow them to bring gas in from other locations. DGS states that the tariffs delineating the receipt point rights to the gas producers should confirm that the rights are not transferable elsewhere. DGS also argues that end user set-asides should be limited to the places indicated and should not be transferable to another receipt point within a zone. Set aside rights sold in the secondary market should be similarly limited. DGS states that it agrees with SoCalGas’ conclusion that those with set asides have a one-time take it or leave it option.
2. Balancing Account over- and under-collections - DGS contends that the SoCalGas position that transmission costs will be paid to or collected from distribution level customers does not make any sense. DGS states that consistency would require that the costs/benefits for backbone services should be the responsibility of users of the transmission system. DGS submits that backbone users must be responsible for reservation charges in order to make a “citygate” market work.
3. Receipt Point Capacity - DGS submits that the Decision requirement to limit end-user bidding rights at a receipt point to the end-users’ 5 year average usage at that receipt point beginning January 1, 2001 and ending December 31, 2005 is inappropriate and will lead to skewed results. DGS contends that end-use customers should be entitled to contract for the full capacity at those receipt points for which they have paid. DGS states that if capacity is going to be limited to historical flows by receipt point, then it should be handled like bidding rights,

with the end-use customers entitled to base the bidding rights on the last three years ending 4 months prior to start of bidding. DGS states that its proposed methodology would prevent skewed results, as some receipt points did not exist in 2001 and usage has changed over time. DGS contends that it makes little sense to use data back to 2001 (the start of the energy crisis) to 2005 for a system to be placed in operation 2008 and to run to 2011. DGS disputes that these dates are hardwired into the decision and asks the Commission to change that date and data to be consistent with the data used to set the bidding rights.

4. G-Pool – DGS protests SoCalGas' requirement of scheduling period balancing. DGS submits that to create a viable citygate market, greater tolerances should be permitted and recommends a 10% daily balance tolerance.
5. Long Term Contracts and Set-Asides - DGS submits that the Commission should state that new long term full rate contracts should not get a set aside at a preferred receipt point. However, if the Commission is going to allow such set asides, it should be opened up to all customers as a part of the bidding process.

SES Terminal LLC (SES)

1. Unbundling of the 5 Cent Firm Access Charge – SES protests that SoCalGas has not accurately implemented the Commission's decision. D.06-12-031 did not adopt SoCalGas' proposed credit-back mechanism. The Commission determined that end-use customer rates were to be reduced by 5 cents only. SoCalGas has effectively resurrected the credit-back mechanism through the use of the ITCBA. In the likely event of an overcollection, the amortization of the positive differential contained in the ITCBA in the rates of end-use customers creates a "back door" credit to these customers of revenue garnered from SoCalGas' collection of firm access charges. The result will be that end-use customers will see a reduction in their transmission rates of greater than five cents. FAR holders who are not end-use customers will not receive this credit. SES does not protest the establishment of an accounting mechanism through the Integrated Transmission Balancing Account (ITCBA) to track the differential between SoCalGas' estimated firm access revenues and the amount they actually collect from firm and interruptible access charges. However, to the extent that there is an overcollection of these charges, then that amount should be credited back solely to the parties who are holders of firm access rights.
2. Allocation of Receipt Point Capacity - Rule 30, Section D.3 (Transportation of Customer Owned Gas) sets forth the protocol for allocation of Receipt Point Capacity. The utilities' proposed tariff language for pro rationing in the event a force majeure or operational constraint does not specify that the pro rata reduction would be within the same zone. SES proposes amended language specifying that scheduling of firm receipt point capacity nominations will be pro rata within each scheduling cycle within the same zone.

Coral Energy Resources, L.P. (Coral)

1. Schedule G-RPA – Otay Mesa Receipt Point: Sheets 1, 2, 3 (Receipt Points):
The proposed tariff only identifies EPN Ehrenberg as a receipt point within the Southern Transmission Zone. Coral submits that the proposed tariff should be revised to include Otay Mesa (TGN) and North Baja Pipeline (Blythe) as receipt points in the Southern Zone. Coral states the D.06-12-031 anticipates that Otay Mesa capacity of 400 MMcf/day and North Baja Pipeline (capacity of 600 MMcf/day) will be Southern Zone receipt points by the time the FAR structure is implemented. SoCalGas indicated at the February 22, 2007 workshop addressing the proposed tariffs that these two points should be added in the Southern Transmission Zone. GRPA, Sheet 2, should be amended to provide that in the Southern Zone, the total firm receipt point rights sold shall not exceed 1210 MMcf/day.
2. Term of a Receipt Point Access Contract: Sheet 3 (Receipt Point Access Rights)
The proposed tariff language provides that the term of a receipt point access contract shall be three years, except that terms are available for up to twenty years during Steps 3A and 3B open seasons. Coral submits that the “available contract term” also should be between three and twenty years for shippers that build new capacity or expand existing capacity on a displacement basis or an expansion basis and that elect the set-aside” option for FAR in “Step One”. This would be consistent with the available contract term permitted under Step Three.

Coral further submits that the applicable rate under the G-RPA-1 tariff at the time the receipt point access contract is executed should remain the same throughout the term of the shipper’s contract. A shipper that executes a long-term receipt point access contract should enjoy rate certainty and should not be subject to periodic changes to its firm access rate.

In Tariff Schedule G-RPA, Special Condition No. 60, the Commission should direct SoCalGas to make clear the Right of First Refusal (ROFR) rights of a customer that has been awarded a Step One set-aside. Specifically, such a customer should be allowed to exercise a ROFR through the Step One set-aside process during each pre-open season process, whether or not it exercised the set-aside option in a previous pre-open season Step One process.

3. Secondary Market Assignments. Sheets 5 and 6, Special Conditions 12 and 15 (Secondary Market Assignments): The proposed tariff language provides that in the event a customer releases its FARs in the secondary market to a creditworthy entity, the Releasing Shipper will only be conditionally relieved of its reservation charge obligation. The Releasing Shipper shall continue to be responsible for the payment of all reservation charges in the event of

nonperformance by the Acquiring Shipper, whether it releases all or a portion of its rights to any creditworthy party in the secondary market.

Coral submits that a Releasing Shipper should be unconditionally relieved of any liability or obligation in the event that it makes a permanent and complete release of its FARS to a creditworthy Acquiring shipper. Coral argues that there is no legitimate reason for SoCalGas and SDG&E to continue to hold a Releasing Shipper responsible for the cost of the FAR capacity if it has made a complete release of its contractual rights and if the utilities have approved the creditworthiness of the Acquiring Shipper. Although the utilities indicated that they relied upon El Paso's capacity release tariff for this particular continuing liability provision, Coral states that El Paso's capacity release tariff is actually consistent with its proposed approach.

4. Set-Aside Option for Long-Term Transportation Contract Customers: Sheet 7, Special Condition 22 (Set-Asides): The proposed tariff provides that a Step One set-aside option will be granted to an end-use customer that has a "Commission-approved long-term firm transportation contract in effect at the time of implementation which specifies firm deliveries at a particular Utility receipt point." Coral argues that the Commission did not intend to grant additional Step One set-aside rights to long-term firm transportation contract customers whose contracts had not been approved by the Commission at the time of the Commission's decision. Coral refers to specific references in D.06-12-031 that refer to set-asides for existing long-term contracts. Coral argues that an increase in the amount of the set-aside rights granted to new long-term transportation contracts could diminish the available firm receipt point capacity in Steps Two and Three of the capacity allocation process. Coral asks that the language of Special Condition No. 22 be modified and the words "in effect at the time of implementation" should be replaced with the words "at the time of the issuance of D.06-12-031".
5. "All-or-Nothing" Option for Set-Aside Holders: Sheets 7 and 8, Special Condition Nos. 18-26 (Set-Aside Options): The utilities have proposed that some holders of Step One set-aside rights (i.e. California gas producers, SoCalGas' "native gas" production, and Occidental of Elk Hills) should have the right to elect all or a portion of their set-aside quantity (Special Condition No. 21). For all other holders of a Step One set-aside option, however, (i.e. the utilities' core procurement departments (Special Conditions 19 and 20), long-term transportation contract customers (Special Condition No. 22), PG&E firm off-system (G-XF) customers (Special Condition No. 23), funding parties for expansion or displacement capacity (Special Condition No. 24), and CTAs and wholesale customers (Special Condition Nos. 25 and 26)), the utilities propose that the election must be "for all eligible quantities, not just a portion." Coral states that the "all-or-nothing" approach is unduly discriminatory and thus violates the intent of D.06-12-031 as well as P.U. Code Section 453(a). Coral

protests that there is no justification by the utilities to provide flexibility in the quantity of FARs to some set-aside holders, but not to others. Coral believes that where a set-aside option has been granted, the holder of the set-aside option should be able to elect none, all, or any portion of the set-aside quantity. Coral's interpretation of D.06-12-031 is that the Commission only mentioned an all-or-nothing set aside approach when referring to the utilities proposal for a set-aside option for the utilities' core procurement departments and wholesale customers' core quantities. The utilities now propose that one additional set-aside option (Occidental of Elk Hills) should be allowed to elect all or a portion of its set-aside quantity. Coral submits that an all or nothing approach is not consistent with the Commission's decision and could lead to a shipper electing more FARs at a receipt point than it requires, thereby reducing the amount of available firm access rights in Step Two and Three. Alternatively, an all-or-nothing approach could discourage a shipper from taking any of the firm receipt point capacity for which it holds the set-aside option.

6. Core Preference Among Set-Aside Holders: Sheet 8, Special Condition 27 (Step One Set-Aside): The proposed tariff provision states that if the total amount of set-asides granted at a particular receipt point or in a particular transmission zone exceeds the available capacity at that receipt point or in that zone, set-asides for core loads will be honored in full, and will be honored ahead of all other set-asides, which will be pro-rated. The utilities acknowledged at the February 22 tariff workshop that this proposed allocation scheme is not based upon any language in the D.06-12-031.

Coral objects to the proposed tariff language. It argues that the utilities should not allow the set-asides that are granted at any receipt point or in any zone to exceed the firm capacity at the receipt point or in the zone. However, should that occur, Coral submits that the set-aside preference for core loads should be rejected. Coral states that one of the reasons the Commission adopted a system of FARs was to eliminate the scheduling preference that currently applies to core gas deliveries in the Northern Transmission Zone (D.06-12-031 at p. 24). Coral says the utilities admitted at the February 22 workshop that this is not a matter of core service reliability. If the core procurement group's set-aside at a particular receipt point were to be pro-rated, the core procurement department could participate in Step 2 to obtain FARs at a different receipt point. Coral states the core procurement department should be treated no differently than any other set-aside holder.

7. Schedule G-POOL - The utilities' proposed pooling service tariff includes a transfer charge of "zero" for pool-to-pool transfers. In a proposed footnote, however the utilities state that "SoCalGas reserves the right to review the status of Transfer Charges no earlier than six months following the effective date of this tariff." Coral states that the Commission did not approve a "Transfer Charge" for pool-to-pool transfers, and the proposed footnote improperly

suggests that the Commission has prejudged the appropriateness of imposing such a Transfer Charge. Coral suggests that if, at some point in the future, SoCalGas seeks to impose a charge for pool-to-pool transfers, SoCalGas must make a filing through an application or advice letter with the Commission.

8. Schedule G-OSD The proposed tariff provides that the receipt points that are available for off-system delivery service are either a “Citygate pooling agreement” or a “SoCalGas storage account”. Schedule G-OSD does not permit off-system deliveries to be made from a receipt point directly to an off-system delivery point. Similarly, Coral protests, the utilities’ proposed tariff Schedule G-RPA, Sheet No. 2 (Delivery Points) does not list an off-system delivery point (i.e. Kern River Station as a potential delivery point for gas delivered at a utility receipt point. Proposed Rule 30.D.5 (Sheet 5) (Nominations) does not provide for nominations to be made from a receipt point access contract to an off-system delivery agreement. Coral submits that the utilities should be required to allow off-system deliveries to be made directly from the utilities receipt points to Kern River Station (and to any other off system delivery point that may be approved in the future). Coral proposes that such a wheeling transaction should be permitted, subject to the requirement that the shipper must pay both the receipt point access charge and the off-system delivery charge. Shippers should not be required to maintain a citygate pooling agreement or a storage account in order to engage in off-system deliveries. Coral states that adding the wheeling option will increase system flexibility without permitting a “bypass” of applicable charges.
9. Rule 30, Sheet 3 and 4 (Receipt Point Capacity) This proposed tariff language addresses limitations that may be imposed on nominations at specific receipt points in the event that available firm receipt point capacity is less than the nominations. In general, the scheduling of firm receipt point capacity nominations will be pro rata within each scheduling cycle. However, the tariff states that any nominations of firm receipt point rights acquired through the addition of Displacement Receipt Point Capacity facilities will be reduced pro rata to zero prior to other firm receipt point rights nominations being reduced. Coral states that the tariff language does not properly apply D.06-12-031 at least with respect to firm displacement capacity holders at the Otay Mesa receipt point. Coral objects to the proposed tariff language as it would apply to the holders of firm receipt point access rights at Otay Mesa. Coral argues that the Commission stated in D.06-12-031 that funding parties that pay for displacement capacity at Otay Mesa (up to 700 MMcf/day) “shall be eligible to receive a Step 1 set-aside for firm rights in the Southern Zone at Otay Mesa for the amount of capacity that the funding party paid for.”³

³ D.06-12-031, P. 74.

Southern California Generation Coalition (SCGC)

1. Schedule No. G-RPA, Special Condition 22 - SCGC protests the language in Special Condition 22 which would permit any end-use customer to obtain an option to a Step 1 set-aside in return for entering into a Commission-approved long-term firm receipt point specific transportation contract, so long as the contract becomes effective by the time of implementation of the FAR program in 2008. SCGC states that the language should be revised to provide set-asides only to holders of long-term receipt point specific contracts that were in effect when D.06-12-031 became effective on December 14, 2006. SCGC contends that the Commission clearly assumed, as did the active parties, that the proposed set-asides to become effective in 2008 for holders of long-term receipt point specific contracts would be limited to customers that already have such contracts in effect when D.06-12-031 was signed.
2. Schedule G-RPA Special Condition 23 - SCGC protests the proposed tariff language which permits additional set-asides that were not contemplated in D.06-12-031 for PG&E customers that enter into new G-XF contracts to obtain an option to a Step 1 set-aside so long as the contracts become effective by the time of FAR implementation. SCGC contends that the tariff language should be revised to provide set-asides only to holders of PG&E G-XF contracts that were in effect when D.06-12-031 became effective.
3. Schedule G-RPA, Special Conditions 22-26 – SCGC protests that the proposed tariff language for Special Conditions 22 through 26 provide for a variety of customers to have an option to take a Step 1 set-aside. Each of the Special Conditions contains a provision requiring that if a customer decides to exercise its option to a set-aside, the customer must exercise the option for all eligible contract quantities, not just a portion of the total quantity. SCGC states that there is no provision in D.06-12-031 that approves this restriction on a customer's exercise of a set-aside option. SCGC states that the language should be revised to permit a customer to elect all or a portion of the set-aside quantity.
4. Schedule G-RPA, Special Condition 27 – provides for preferential treatment of core set-asides and prorating of set-asides for others. SCGC protests that neither the proposed preference nor prorating were considered or approved in D.06-12-031 and that both are unnecessary. SCGC requests that Special Condition 27 be deleted.
5. Schedule G-RPA, Special Condition 46 – permits open season Step 3A bids for longer terms to be given priority over bids for shorter terms. D.06-12-031 does not sanction this preference for longer term bids in Step 3A. SCGC states that it

would reduce the amount of capacity that would be available in future open seasons. SCGC requests that Special Condition 46 be deleted.

6. Schedule G-RPA, Special Condition 48 - would permit SoCalGas to auction existing capacity in conjunction with expansion capacity in Step 3B of the open season. SCGC contends that the bundling of existing capacity with expansion capacity violates the provision in D.06-12-031 that bifurcated Step 3 of the open season so that Step 3A would apply to existing capacity and Step 3B would apply to expansion capacity. According to SCGC, Special Condition 48 would violate the provision in D.06-09-021 that provides that the proponent of an expansion should pay the actual system infrastructure costs associated with the project on an incremental basis.⁴ SCGC asks that Special Condition 48 be revised to delete the offering of existing capacity in conjunction with the expansion capacity in Step 3B of the open season.
7. Schedule G-RPA, Special Condition 12 – permits customers who hold firm rights to release all or a portion of those rights at a rate up to 125 per cent of the applicable rates under Schedule G-RPA. It provides for the revenues that SoCalGas collects from an Acquiring Shipper to be credited to a Releasing Shipper. SCGC states that Special Condition 12 should be expanded to provide that if SoCalGas realizes revenues from an Acquiring Shipper that exceed the amount due from a Releasing Shipper for any month, SoCalGas shall pay the excess revenues directly to the Releasing Shipper.
8. Schedule G-RPA, Special Condition 15 – requires a Releasing Shipper to be contingently liable for reservation charges associated with released firm rights. Special Condition 15 should be revised to relieve a Releasing Shipper from secondary liability in the event of a complete release of all rights at full rate for a full term to a creditworthy Acquiring Shipper.
9. Schedule G-RPA, List of Receipt Points – fails to identify Otay Mesa as a receipt point at which firm access rights will be made available. SCGC states that Otay Mesa should be added to the Schedule G-RPA list.
10. Preliminary Statement, ITBA – the proposed description of debit and credit entries to the FAR subaccount of the ITBA should be revised to make it clear that monthly debit entries shall be figures derived from SoCalGas authorized revenue requirement. SCGC states that the description of the FAR subaccount is deficient because it indicates that SoCalGas will record the difference between authorized

⁴ Although SCGC cites D.06-09-021, the decision where this provision is outlined is D.04-09-022.

and recorded firm and interruptible access charges, while balancing accounts permit recordation of the difference between authorized revenue requirement figures and actual revenues. SCGC proposes revised tariff language which references the difference between the authorized revenue requirement associated with the 5 cent firm and interruptible access charges that were unbundled and the recorded revenues derived from charging the approved firm and interruptible access charges.

SCGC also requests that the description of credit entries should be revised so that only revenues derived from providing firm and interruptible access service are credited to the FAR subaccount, not revenues from providing interruptible off-system delivery service to PG&E or from providing pooling service.

11. Rule No. 30, D.3. Transportation of Customer-Owned Gas (a) provides for nominations for access through facilities installed on a “displacement” basis to be reduced prior to other firm receipt point rights nominations being reduced. SCGC requests that it should be revised to recognize the exception adopted in D.06-12-031 for “displacement” capacity installed at Otay Mesa. (b) In its proposed exemplary tariffs sponsored in A.04-12-004, SoCalGas included a provision in Rule 30 guaranteeing that SoCalGas will accept scheduled volumes from each receipt point up to the maximum operating capacity of that point. This provision was omitted from the Rule No. 30 being proposed in Advice 3706. SCGC states that this provision should be restored to Rule No. 30. (c) SCGC states that Rule No. 30, D.5, fails to permit nominations to be made directly from a receipt point access contract to an off-system delivery point and that such nominations should be permitted.

RESPONSES to PROTESTS

The utilities responded to the protests of DRA; Coral; BHP Billiton; SES; Aera and MSCC; IP; SE LNG; SCE; DGS; Woodside; CCC, CMTA, and Watson; SCGC; and Clearwater on March 9, 2007. The utilities addressed the protests by issue as follows:

1. Balancing of Reservation Charge Revenues

Several parties (Coral, IP, SES, CCC/CMTA/Watson, DGS) protested the allocation of over- or under-collections in the ITBA to end-use customer transportation rates, claiming that any such over-or under-collection should instead be allocated to the FAR reservation charge. The utilities argue that this approach is inconsistent with D.06-12-031. They refer to Conclusion of Law No. 9 which states that “SDG&E and SoCalGas should be authorized to establish a balancing account so that they are not

at risk for any under-recovery of the unbundled FAR reservation charge revenues, and any over-recovery is refunded to ratepayers.⁵ The utilities argue that throughout D.06-12-031, the term “ratepayers” is used to mean end-use customers, not FAR holders. The utilities cite as an example of a similar unbundling approach, the Noncore Storage Balancing Account sharing mechanism, where 50 per cent of revenues in excess of the authorized at-risk costs for unbundled storage service are credited to end-users, not noncore storage customers.

The utilities state that should the Commission decide to adopt the position of the protesting parties on this issue, it would be necessary to change the methodology used for purposes of determining the dollar amount to be unbundled from end-use customer rates. They state that if the over- or under-collection is to be allocated only to the FAR reservation charge, the adopted customer throughput would understate FAR revenues and therefore, the reservation charge would likely be subsidized by end-use customers in future years. Under this alternative approach, the utilities state the end-use customer transportation rates should be reduced by the revenues that will be generated from the sale of 3875 MMcf/d of receipt point access capacity multiplied by the FAR reservation charge of 5 cents per decatherm. Thus, the total revenue requirement removed from end-users’ transportation rates would be almost \$72 million, as opposed to the \$47.5 million reflected in the AL. The Utilities state a separate Regulatory Account would also need to be created to balance actual access revenues from firm and interruptible sales against the adopted FAR revenue requirement. The amortization of any under- or over-collection of this account would be reflected in the FAR access charge in the following year.

2. Set-Asides for Customers Holding Commission-Approved Long-Term Contracts

Coral, SCGC, IP, DRA, and DGS protested that the proposed tariff language should be modified so that Commission-approved long-term contracts that would qualify for Step 1 set-asides should be limited to those contracts in effect as of the date of the Decision. The utilities refer to D.06-12-031 where it is stated that “for a customer who has a Commission-approved long-term firm transportation contract for firm deliveries at a particular receipt point, which contract is in effect at the time the FAR system is implemented, that customer will have the option to receive a FAR set-aside at the specified receipt point.”⁶ They point to the Decision’s use of the word “currently” when it says that “there are currently four contracts that meet these criteria.” They interpret it to mean that there can be no doubt that the Decision intended to allow for the possibility that, prior to FAR implementation, the

⁵ D.06-12-031, Conclusion of Law No. 9, p. 139.

⁶ D.06-12-031, page 15.

Commission might approve additional long-term contracts that would qualify for set-asides.

While several parties attempt to explain away the actual language of the Decision by pointing to other areas that they claim are inconsistent with the quoted sentence, the utilities state these arguments miss the point. According to the utilities, no language addresses whether there might or might not be additional long-term contracts approved by the Commission prior to FAR implementation.

The utilities dismiss SCGC's claim that since the Commission did not award set-asides to customers holding contracts on the upstream interstate pipeline system, it did not intend to allow for set-asides for long-term contracts approved by the Commission after the Decision, but prior to FAR implementation, with the statement that SCGC is comparing apples to oranges. They claim the one has nothing to do with the other.

The utilities argue that the parties opposing this provision are missing the fundamental point that the Commission must actually approve a long-term transportation contract before it would qualify for a set-aside.

3. Treatment of Core Set-Asides, Schedule No. G-RPA, Schedule No. 27

The utilities assert that their proposed language ensures that core set-asides are not pro-rated if total set-asides exceed the capacity at a given receipt point. The utilities' response to the protests of Coral, SCGC, and SCE on this issue is that while the Commission did not specifically address this issue in the Decision, the Commission has long recognized that core customer contracts on upstream pipelines must be given full force and effect, thus distinguishing the core set-asides from other set-asides. SoCalGas points to D.04-09-022 which specifically recognized a need to ensure upstream core commitments on El Paso Natural Gas Company and Transwestern Pipeline Company and retained a preference for deliveries from them.⁷ SoCalGas refers also to D.04-09-022 wherein the Commission established a policy requiring the gas utilities to hold certain amounts of upstream pipeline capacity on behalf of core customers.⁸ The utilities argue that by such specific approval, the Commission is strongly expressing its support for these contracts. They state that core set-asides are clearly different than other set-asides from the Commission's perspective and should not be reduced to the extent that the total set-asides exceed the capacity at a particular receipt point. The utilities state that

⁷ D.04-09-022, P. 71.

⁸ D.04-09-022, p.23-31.

SCGC's argument that there is no need for this provision ignores the possibility that additional long-term contracts and set-asides may be approved by the Commission prior to implementation of FAR, and the possibility that in future open seasons, set-asides may be in excess of the capacity at a particular receipt point. Moreover, they state that core set-asides will be established based upon the core's upstream pipeline commitments immediately prior to the open season and there is the possibility that new contracts on upstream pipelines will be executed prior to FAR implementation that could increase the core set-asides at particular receipt points from what the set-aside would be under existing contracts.

4. Rule 39 Issues

The utilities state that much of the discussion in the protests of BHP, Woodside, DRA and Clearwater on the proposed changes to Rule 39 was constructive in identifying the consequences of establishing FCFS priority for determining utility facility costs necessary to receive gas from multiple new suppliers. The utilities agree with protestants that posting the queue for FCFS priority on the utility electronic bulletin board (EBB) will provide transparency. They propose to post "Collectible System Upgrade Agreements" (CSUA's) on the EBB so that all parties can see the queue and the project milestones that must be met to keep priority. The utilities have proposed a revised Rule 39 with their Reply to Protests.

In response to BHP and Woodside suggestions that the CSUA contain specific progress events and dates and financial commitments associated with these events, the utilities state that several executed CSUA's do not yet have this level of detail in Appendix "B". With the exception of Otay Mesa, none of the CSUA's have specific milestones and payment dates. The utilities believe that the approach suggested by BHP Billiton and Woodside would create significant legal exposure for them, and is flatly inconsistent with both the JP and the Decision.

They suggest instead that there should be a process to determine whether sufficient progress is being made with respect to a particular project to retain priority. Any party that has executed a CSUA that does not contain specific milestones or stages with associated dates and financial commitments in Appendix "B" should be required to do so within a reasonable period (utilities suggest 60 days) of approval of the FAR tariffs. If a party does not execute such an appendix within the reasonable period, it would lose its place in the queue if a party with a lower-priority CSUA executes Appendix "B" containing such milestones and financial commitments within the period set by the Commission.

The utilities support DRA's suggestion that the utility file an advice letter any time it concludes that priority should be lost because insufficient progress has been made. The AL will allow the Commission to either ratify or disapprove any decision made by the utility that a developer has made insufficient progress to keep its place in the queue. The utilities state it would resolve Clearwater's concern that there be greater

specificity regarding dispute resolution since the AL would provide the forum for resolving any dispute. The utilities have included this provision in the revised Rule 39. In response to Clearwater's proposal that the reference to the "Consulting Services Agreement" (CSA) in Rule No. 39 be deleted, the utilities state this would be improper since the CSA has been useful for those parties seeking consulting services only, who do not yet plan to seek additional services or construct facilities.

5. Direct Deliveries Off-System

The utilities have no objection to the recommendation of Coral, SCGC and BHP Billiton that shippers be able to nominate directly from a receipt point access contract to an off-system delivery contract, without the need to first nominate to a citygate pooling contract as long as the shipper would still be required to pay both the FAR reservation charge and the off-system charge.

6. Contingent Liability of Releasing Shippers

In response to the protests of Coral and SCGC regarding the requirement that a Releasing Shipper remain contingently liable in the event of default by a Replacement Shipper, the utilities state they do not object to relieving the Releasing Shipper from liability if the Acquiring Shipper acquires the capacity for the entire remaining term of the agreement, pays the maximum tariff rate for the capacity, and pays all applicable surcharges.

7. All-or-Nothing Set-Asides

In response to the protests of Coral, SCGC, and BHP Billiton to the requirement that new set-asides authorized by the Decision (PG&E long-term contracts and capacity created by "Funding Parties") must elect all of their set-aside amounts if they select any set-aside, the utilities state that although the decision did not specifically address this matter, these set-asides are analogous to other set-asides that have a similar "all-or-nothing" feature. Both core set-asides, which will be based upon upstream matching contracts, and long-term contract set-asides must be elected on an all-or-nothing basis. California producers are the only parties who can receive reduced set-asides because they are based on peak monthly production, not matching upstream commitments that are usually closer to annual average levels. According to the utilities, this same rationale does not apply to other set-asides. They state that if the Commission should decide that parties obtaining set-asides because of long-term contracts or because they funded new capacity should be allowed to elect a portion of their eligible set-aside quantity rather than the entire amount, it must apply this principle consistently to all set-asides, including the gas acquisition groups at SDG&E and SoCalGas on behalf of core customers.

8. Reduction of FAR Associated with Displacement Capacity

- (a) In response to the protests of Coral, SCGC, SES and BHP Billiton regarding the treatment of FAR associated with “Displacement Capacity”, the utilities agree that a statement is needed to clarify that a reduction occurs only within the same transmission zone in which the FAR holder is located and not system-wide.
- (b) In response to BHP Billiton’s concern that Special Condition No. 24 of Schedule No. G-RPA can be interpreted to mean that a new supply developer must choose entirely between “displacement” and “expansion” capacity, the utilities state that they do not believe that the language was so intended and propose to clarify it.
- (c) In response to BHP Billiton’s claim that it is not clear under the tariffs that a reduction in “expansion” capacity could occur only for circumstances of force majeure or system maintenance, the utilities state that it would be inappropriate to limit the situations in which reductions may occur because it is also possible that reductions could occur at times of extremely low demand on the system, depending upon the volume of new supplies entering the system and other factors such as storage injection capacity and off-system delivery capacity and nominations.
- (d) In response to the protests of SCGC and Coral that argue it would be inappropriate to reduce nominations first to funders of “Displacement Capacity” at Otay Mesa when zonal capacity is less than the stated capacity as would be done at other receipt points, the utilities state that there is absolutely no language in D.06-12-031 that even attempts to explain why the Otay Mesa receipt point would receive such preferential treatment over other receipt points on the system.

9. Terms of Contract Forms

In response to the request of BHP Billiton that the Commission convene a workshop with respect to the terms of the contract forms submitted with the AL’s, the utilities state that BHP’s protests are general and it has not provided any indication of specific concern. They believe the forms are “straightforward” and there is no need for the time and effort associated with an additional workshop in this regard.

10. Secondary Market Cap

SCE proposes that the cap in the secondary market be 125% of just the G-RPA1 rate, while BHP Billiton contends that it should be set at 125% of the combined G-RPA1 and G-RPA2 reservation charges. The utilities support SCE on this point, because they state that the Decision specifically refers to 6.25¢/dth as the price cap.

11. PG&E Interconnection Point

In response to BHP Billiton's suggestion that the tariff language be changed to exclude specific reference to deliveries to PG&E at Kern River Station in the event that an additional interconnection is established, the utilities believe that a better approach is simply to add interconnection points with PG&E as they might be established in the future.

12. Gas Quality and Rule 30

IP protests the inclusion of certain language in Rule No. 30 relating to natural gas quality on the basis that the issue is being addressed in connection with implementation of D.06-09-039 in R.04-01-025 (AL 3675). The utilities have no objection to removing this language from the tariffs in connection with the instant proceeding and maintaining the existing Rule 30 language, recognizing that the issue will be addressed in connection with AL 3675.

The utilities did not address the request of SCGC to either adequately explain why the provision guaranteeing acceptance of scheduled volumes up to the maximum operating capacity of a receipt point was deleted from Rule 30.D.3. or to restore it.

13. Long-Term Contract Rates

The utilities agree with protest of Aera/MSCC that the volumetric transportation rate under long-term contracts should be reduced in the same manner as end-use customer rates. However, they state that if the Commission decides that the balance in the ITBA should be allocated only to FAR holders rather than end-use transportation customers, neither the volumetric rate under long-term contracts nor the volumetric rate for end-use customer transportation should vary.

14. Bids in Step 3A and 3B

In response to SCGC's protest that longer-term bids should not be given priority over shorter-term bids in Step 3A of the open season, the utilities state that although the Commission did not specifically address this in the Decision, their proposal in the proceeding was to provide priority to longer-term bids in Step 3. This rewards customers willing to make longer-term commitments to the utility system. In response to SCGC's argument that Step 3B should only include new capacity and not remaining existing capacity, the utilities say theirs is the proper interpretation of the Decision. They argue that this will permit new suppliers to utilize existing "displacement" capacity without requiring them to construct only on an "expansion" basis. To adopt SCGC's approach would discourage new supplies to California because the cost of "expansion" capacity could be significantly higher.

15. Credits Exceeding Customer Bills

In response to SCGC's protest that the utility should make a direct payment to the Releasing Shipper should the revenues received from the Acquiring Shipper exceed the amount due from a Releasing Shipper for any month, the utilities state that many customers prefer a bill credit, rather than a direct payment. They propose new tariff language for Special Condition No. 12, Schedule No. G-RPA, which gives the Releasing Shipper the option to request either a credit or return of excess revenues.

16. ITBA

SCGC argues that the ITBA should reflect the difference between actual revenues received and the utility revenue requirement. SDG&E and SoCalGas believe that the existing language accomplishes this objective; however, they do not object to the specific revision proposed by SCGC. SCGC further argues that off-system revenues should be credited to the System Integration sub-account of the ITBA. The utilities state that this is unnecessary if the Commission finds that D. 06-12-031 intended any under- or over-collection of FAR reservation charges to be allocated to end-use customer transportation rates. However, if the Commission finds that any under- or over-collection in FAR reservation charges should be amortized only over future FAR reservation charges, SCGC's point is valid and should be reflected in the tariffs.

17. Fixing the G-RPA1 Rates Indefinitely

In its protest, Coral argues that a party that signs a contract for more than three years should be able to fix the G-RPA1 rate, thereby preventing the rate from increasing even if the Commission should increase the rate for future open seasons. The utilities oppose this suggestion as inconsistent with Coral's belief that over- or under-collections in the ITBA should be allocated to the FAR reservation charge, thereby causing the charge to increase or decrease as the ITBA balance is amortized. The utilities state that it was clear in the exemplary tariffs and contracts that the G-RPA1 rate would be the rate the Commission established from time to time and was not a "set" rate that could never vary. They suggest that if a new supplier receiving a set-aside believes that the G-RPA1 reservation charge has increased too much, it can forego its set-aside rights in a future open season while retaining the option to reinstate the set-aside if it finds the G-RPA1 rate more palatable at that time.

18. Establishment of Future Pool-to-Pool Transfer Charges

In response to the protests of Coral and DRA opposing the tariff language that would reserve the right to seek Commission approval of a pool-to-pool transfer fee, the utilities state that the language was part of the exemplary tariffs submitted in the proceeding and therefore part of their "proposal" approved by the Commission.

19. Definition of "Off System Customer"

The utilities agree with BHP Billiton's suggestion that the definition of "off-system customer" be updated to include deliveries from points other than storage. Accordingly, they propose to revise the definition as follows: "Off-System Customer": Marketer, broker, supplier or other entity contracting for off-system delivery services or bidding for storage service on their own behalf for ultimate consumption outside the utility's service territory."

20. Producer Set-Asides

In response to IP's proposal regarding producer set-asides, the utilities have no objection to IP's approach and suggest the following revised language to clarify the calculation of peak month daily average production:

"California Producers, including Exxon Mobil's production at Santa Ynez, whose facilities are connected directly to the (i) Utility's Line 85, (ii) North Coastal system or (iii) another system without a single identified receipt point of transmission zone will receive a set-aside option for a quantity equal to the producer's peak month's daily average production over the most recent three year period. Peak month is defined as the month with the highest average daily volume. The set-aside quantity shall be increased if the specific production is likely to increase and such forecasted increase can be justified by the producer. California Producers may elect all or a portion of the set-aside quantity. This set-aside applies to any SoCalGas "native gas" production. Occidental of Elk Hills, Inc. will be provided a similar set-aside for 90MMcfd at the OEHI Gosford receipt point. The set-aside rights will be taken under the Rate Schedule G-RPA1 rate."

21. Limit on Capacity Available in Steps 1 and 2

In response to DGS' argument that the Commission should not use the five-year time period adopted in the Decision to establish the limit of capacity in Steps 1 and 2, the utilities state that the argument is inappropriate for a protest in connection with the compliance AL filings and should be rejected.

22. G-Pool Tolerance

In response to DGS' protest that the Commission should establish a 10% tolerance on pooling transactions, the utilities state that pooling transactions must balance on a daily basis, just as they do on the interstate pipelines and this was reflected in the exemplary tariffs. However, end-use customers like DGS will continue to receive their 10% monthly balancing tolerance. Therefore, there is no need to include a tolerance with respect to pooling transactions in order to address DGS' concern.

23. Subsequent Set-asides for Long-Term Contracts

The utilities agree with SE LNG and Coral that the proposed tariffs do not make clear that a party funding “displacement” or “expansion” capacity under a long-term agreement would be able to obtain a set-aside in open seasons after the initial open season. The utilities believe SE LNG’s proposed tariff language resolves this problem and addresses Coral’s concern in this regard.

24. Adding New Receipt Points

The utilities agree with Coral and SCGC that the tariffs should specifically include both the Otay Mesa and North Baja receipt points which are expected to be in service prior to the FAR open season.

On March 8, 2007, Clearwater submitted a Reply to two points in the Protests of BHP Billiton, Woodside, and Coral to AL 3706.

1. Rule 39 - Clearwater objects to the protests of Woodside and BHP Billiton which propose that SoCalGas delete from its tariff the language in Rule 39, Section B.2 that gives priority to previously executed CSUA’s. Both Woodside and BHP Billiton were signatories to the Joint Proposal. Decision 06-12-031 adopted the Joint Proposal Funding Options, one of which is the execution of a Collectible System Upgrade Agreement, as well as the first-in-time principles. Clearwater states that both Woodside and BHP Billiton now urge the Commission to adopt entirely new criteria for determining who is first-in-time.
2. Rule 30 Clearwater states that Coral, through an incorrect reading of the Decision, attempts to convert inexpensive “displacement” capacity at Otay Mesa into “expansion” capacity. In the event of insufficient receipt point capacity due to force majeure or maintenance, Coral argues that its displacement capacity at Otay Mesa should not be reduced before other firm receipt point nominations are reduced. Coral argues that all nominations in the Southern Zone, including displacement capacity at Otay Mesa should be reduced only on a pro rata basis. Clearwater argues that the Decision clearly states that new displacement capacity will be reduced first, should capacity shortfalls occur and requests that the Commission reject Coral’s objection.

On March 9, 2007 Coral submitted a reply to a portion of SCE’s March 2, 2007 protest to AL 3706.

SCE’s protest addresses the secondary market cap that should apply to releases of firm receipt point capacity at expansion receipt points. Coral states that if a customer holding firm access rights at an expansion receipt point pays both the G-RPA1 firm reservation charge and the G-RPA 2 incremental reservation rate, the customer should be allowed to recover the full amount of both reservation charges upon its release of the firm

receipt point capacity. Coral states that SoCalGas' proposed tariff Schedule G-RPA, Schedule 12 should be adopted and SCE's protest on this issue should be denied.

On March 15, 2007, SES submitted a Reply to SoCalGas and SDG&E Response to Protests on AL 3706.

1. SES states that in their response, the utilities have presented a new proposal and tariff language for establishing and maintaining priority for determining utility facility costs necessary to receive gas from multiple new suppliers. SoCalGas has proposed tariff language that says that priority for purposes of determining facility costs will be established on the basis of the date a party executes a CSUA. SES requests that the language be modified to state that priority is based on the date a party executes a CSUA or its predecessor agreement. SES states that this is consistent with the intent of the Joint Proposal.
2. SES objects to the utilities' proposal to post all CSUA's with a completed Appendix B on its EBB by date of original execution, as well as the companion provision that "parties to a CSUA will be deemed to have waived any objection to such posting." SES states that as contemplated by SoCalGas, the Appendix B will contain specific milestones and associated dates and financial commitments. SES states that although DRA, BHP Billiton, and Clearwater requested more transparency regarding the project queue to be established based on the first-come, first-serve policy, they did not propose that each project's CSUA and Appendix B be posted on the EBB. SES supports BHP Billiton's proposal which would require a posting of only the queue for future expansions at each receipt point.

On March 16, 2007, IP, Watson, CMTA, BHP Billiton, CCC, and SES (Intervenors) jointly filed a reply to the response of the utilities to AL 3706.

The utilities response asserts that amortizing any over- or under-collection of FAR revenues in end-use customers' transportation rates, rather than in FAR rates, would be consistent with D.06-12-031. Should the Commission require actual unbundling and balancing of the FAR revenues against future FAR reservation rates, the utilities made a new proposal concerning the ratemaking methodology for FAR. According to the Intervenors, the proposal would unbundle more costs than contemplated by any party in the hearing process and would guarantee a significant undercollection in FAR revenues in the first year. The result, in following years, would be to increase the FAR rate more than 50% over the Commission's adopted 5 cent rate.

The Intervenors state that the utilities argue in their Response that the use of an adopted throughput to determine the dollar amount to be unbundled from end-use customer rates would understate FAR revenues. As a result, the utilities allege that end-use customers would subsidize FAR holders. Instead of using adopted throughput, the utilities want the calculation of the FAR revenue requirement to be based on the assumption that they will be able to sell 100% of their receipt point capacity 100% of the

time. The Intervenor state that this assumption is wildly unreasonable because analysis of SoCalGas' daily average throughput, based on the last BCAP and on 2005 recorded gas deliveries, shows system use significantly less (64 to 69%) than full capacity. The Intervenor state that even looking at future demand growth in the 2006 California Gas Report – for year 2025 – the throughput will still be far less than the 3,875 MMcf/d that the utilities propose to use for unbundling.

Furthermore, the Intervenor assert, the proposal to base unbundled FAR revenues on full system capacity deviates from the position the utilities took during the proceeding. Based on the utilities own data, reasonable values for throughput are in the range of 55 to 75% of its system capacity, not 100%. The result would be that the remaining 25% revenue shortfall will be rolled into the same high revenue requirement for year 2 of the FAR program, which could cause the FAR rate to increase to about 9.4 cents for year 2 of the program. The Intervenor state that this would be inconsistent with the decision's intent to set a lower reservation charge in order to encourage participation in the holding of FAR. They reason that by unbundling an unrealistically large portion of transmission revenues to be balanced by FAR holders, FAR holders will subsidize end-user rates. Because the Decision rejected the utilities proposed credit-back mechanism which had the same effect, the Intervenor state that this new proposal is inconsistent with the Decision. The Intervenor refer to the fact that PG&E does not assume that it will sell all available firm access rights.

The Intervenor state that the proposal of the utilities during the proceeding to approximate FAR revenues based on 2005 recorded gas deliveries or the 1999 BCAP adopted throughput may, in fact, underestimate FAR revenues. They propose as an alternative, that to implement a 5 cent unbundled rate, the portion to be unbundled should be based on the results from the open season.

On March 21, 2007, Woodside submitted a Reply to the Responses to Protests filed by the utilities and Clearwater to AL 3706.

Tariff Rule 39. Woodside finds the comments in the utilities' response to protests on the subject of the "first in time" provision of Rule 39 to be useful, although not sufficiently detailed or clear to permit it to properly execute its responsibilities under the Rule. The utilities would require parties that have executed a CSUA to develop the Appendix B milestones within a specific time period in order to preserve their priority. The utilities assert that this would retain the existing queue; however, Woodside says this would throw out the queue and initially and properly establish the queue based upon a fully executed CSUA including Appendix B. Woodside finds the comments of Clearwater to be entirely unfounded and unreasonable. Woodside states that Clearwater "would have the Commission approve tariff language that would permit anyone to wander in off the street, sign a CSUA without any specification of the project timelines, facilities and/or costs, without making any payment or even arranging for a schedule of payment, hand it to SoCalGas, and without even obtaining SoCalGas' countersignature, obtain priority for purposes of

determining the facilities and costs of facilities required for new receipt points on the SoCalGas system.” Woodside states that the Commission decision tells parties to use a “first in time” approach, but provides no specification as to how that is to be accomplished. Woodside urges the Energy Division to convene a meeting or workshop of the parties in an effort to develop wording for Rule 39 that has consensus support.

DISCUSSION

The Commission has reviewed the Advice Letters, the Protests, the Responses to the Protests, and the Replies to the Responses to the Protests and reached the following conclusions.

1. Balancing of FAR Reservation Revenues

We agree with Intervenors Coral, IP, SES, CCC/CMTA/Watson, and DGS that any under- or over-collection of FAR revenues in the ITBA should be allocated to the FAR reservation charge, and not to all end-use customers’ rates. The Commission rejected SoCalGas’ proposed credit-back ratemaking mechanism and ordered the unbundling of the 5 cents per Dth reservation charge. SoCalGas’ proposal for a balancing account mechanism in AL 3706 operates in essentially the same way as the rejected credit back mechanism. Any over- or under-recovery of FAR revenues must be balanced separately and amortized in the following year’s FAR rates.

The utilities state that if the Commission decides to allocate under- or over-recoveries only to FAR rates, the adopted customer throughput would understate FAR revenues. Consequently, there would be an underrecovery of revenues and therefore the reservation charge would likely be subsidized by end-use customers in future years. This statement conflicts with their testimony in the proceeding which put the reasonable values for throughput in the range of 55 to 75 per cent of system capacity. We adopt, with a modification, the proposed methodology of SoCalGas’ witness Smith in this proceeding to base the unbundled FAR revenue requirement on the throughput results from the open season, thus avoiding use of the outdated last adopted BCAP forecast from D.00-04-060.⁹ The FAR open season will only provide an indication of firm capacity rights, but won’t capture revenues from interruptible rights. On the other hand, SoCalGas’ recommendation for the use of 3875 MMcf/d as the base throughput is much too high. We will modify Smith’s recommendation as follows: Should the throughput results from the open season be

⁹ Evidentiary Hearing Transcript in A.04-12-004, pages 1207-1208, Cross Examination of Allison Smith.

less than the SoCalGas forecast of 2008 cold-year throughput, we direct SoCalGas to use the forecasted 2008 cold-year throughput to estimate FAR revenues, in order to minimize under- or over-recovery of the revenue requirement. SoCalGas' forecast of 2008 cold-year throughput as contained in the 2006 California Gas Report is 2821 MMcf/d, or 72.8% of firm receipt point capacity.

SoCalGas is authorized to establish a regulatory account that would provide that any under- or over-collection of FAR revenue requirement would be amortized in future FAR rates.

2. Set-Asides for Customers Holding Commission-Approved Long-Term Contracts

For several reasons, we find merit in the protests of Coral, SCGC, IP, DRA, and DGS stating that it was the intent of the Decision to limit set-asides to long term contracts in place as of the date of the Decision: (a) In the section of the Decision disallowing set-asides for noncore customers who have long-term contract commitments on the upstream pipelines, the Commission states that "(s)uch a set-aside is likely to reduce the amount of capacity available to end-users at the most popular receipts points, and little, if any, capacity would be available to end-users and other market participants in Steps 2 and 3."¹⁰ (b) Prior to the end of hearings in Phase 2 of the FAR proceeding A.04-12-004, SoCalGas was asked by the presiding ALJ to furnish a list of long-term contracts with set-asides. The presumption of parties was that the list included all existing contracts which would be allowed set-asides. SoCalGas furnished a list which did not include its contract with U.S. Gypsum. Although the contract with U.S. Gypsum was entered into on November 3, 2006, six weeks prior to the Commission's approval of the FAR decision on December 14, 2006, SoCalGas did not disclose the contract's existence to the Commission until December 20, 2006, when it filed A.06-12-023. (c) Lastly, D.06-12-031 specifically names each long-term contract which is allowed a set-aside and is silent on set-asides for contracts not specifically named. Again, the presumption of many parties is that set-asides were to be limited to those named in the Decision.

We reject SoCalGas' position that D.06-12-031 authorized it to enter into new contracts with set-asides after the Decision was issued but before the FAR system is implemented. SoCalGas cannot refer to anything explicit in D.06-12-031 on this point, but instead draws an inference from the fact that D.06-12-031 refers to long-term contracts in effect at the time the FAR system is implemented. Thus, SoCalGas submits that this implied there could be additional contracts besides the identified long-term contracts in the proceeding. However, this could also imply that

¹⁰ D.06-12-031, p. 95.

the identified contracts had to still be in effect at the time FAR is implemented in order to be entitled to the set-asides. SoCalGas' interpretation is unreasonable, because SoCalGas could substantially reduce the capacity available at receipt points when the FAR program is implemented, if it were to enter into additional long-term contracts with set-asides.¹¹ Under SoCalGas' interpretation, in theory, SoCalGas could enter into long-term contracts with set-asides for all of the remaining capacity before the FAR system is even implemented. Consistent with the reasons given herein, we will limit set-asides to those long-term contracts in effect on the date the Commission approved D.06-12-031.

3. Treatment of Core Set-Asides, Schedule No. G-RPA, Special Condition 27

We agree with the proposal of SoCalGas that core set-asides will not be subject to proration if total set-asides exceed the capacity at a given receipt point. In D.04-09-022, the Commission established a policy requiring the gas utilities to hold a certain amount of upstream pipeline capacity on behalf of core customers. It stands to reason that the core's firm access receipt points rights should be available to receive gas available from its upstream contracts.

4. Rule 39 Issues

It is necessary to determine priority for access to the SoCalGas pipeline when facility modifications are required to increase takeaway capacity at a receipt point. Parties that have executed a CSUA that does not contain specific milestones or stages with associated dates and financial commitments in Appendix "B" are required to do so within 90 days of Commission's approval of the FAR tariffs in order to be included in the queue. At the completion of the 90-day negotiation period, the queue for FCFS priority shall be posted on the utility EBB to provide transparency. Project milestones and completion dates shall be posted for each party. Financial commitments associated with these events shall be deemed to be confidential and shall not be posted.

Should the date for performance for any party on the FCFS queue expire without its performance commitment being met, the utility must provide a 30-day notice of cancellation and a subsequent 60-day period to cure. If the first in time CSUA has not cured its deficiency at the end of the 60-day period, prior to the utility reordering

¹¹ After the Commission approved FAR in D.06-12-031, at the Workshop, SoCalGas indicated its intention to actively market long-term contracts with set-asides up to the date of implementation of the FAR.

the priority on the queue, it must seek prior Commission approval by filing an Advice Letter subject to the normal protest period.

5. Direct Deliveries Off-System

Shippers shall be able to nominate directly from a receipt point access contract to an off-system delivery contract without the need to first nominate to a citygate pooling contract. The shipper would still be required to pay both the FAR reservation charge and the off-system charge. The utilities have indicated that they are agreeable to this change in the nomination procedure requested by Coral, SCGC, and BHP.

6. Contingent Liability of Releasing Shippers

The utilities have agreed to modify the proposed tariff language which requires a Releasing Shipper to remain contingently liable in the event of default by a Replacement Shipper in the situation where the Releasing Shipper releases capacity at the full rate and for the remaining duration of the contract. Upon the objections of Coral and SCGC on this issue, the utilities will relieve the Releasing Shipper from liability if the Acquiring Shipper (AS) meets the utilities' creditworthiness requirements, the AS acquires the capacity for the entire remaining term of the agreement, the AS pays the maximum tariff rate for the capacity, and the AS pays all applicable surcharges.

7. All-Or-Nothing Set-Asides – GRPA, Special Condition 21

We see no reason to obligate parties with set-asides under long-term contracts to take the entire amount, if they do not want the full amount. Parties obtaining set-aside rights because of long-term contracts or because they funded new capacity shall be allowed to elect a portion of their eligible set-aside quantity, rather than the entire amount if they so desire. This reduced elected amount will be set for the entire period of their bid in the open season. Parties will be eligible to revise their set-aside amount in the next open season. The only exception to election of partial set-asides will apply to the gas acquisition groups of SoCalGas and SDG&E who will be required to obtain the full amount of the set-asides on behalf of core customers.

8. Reduction of FAR Associated with Displacement Capacity

To accommodate the concerns of SES and BHP, the utilities have agreed to clarify the tariff language to indicate that a reduction of displacement capacity only occurs within the same transmission zone in which the FAR holder is located. The utilities also agree to add a statement to Special Condition No. 24 of Schedule No. G-RPA to clarify that a new supply developer may specify a combination of displacement and expansion receipt point capacity and is not limited to one or the other.

We agree with the utilities that it would be inappropriate to limit the situations allowing a reduction in expansion capacity to the circumstances of force majeure or system maintenance. Reductions may occur at times of extremely low demand on the system, depending upon the volume of new supplies entering the system and other factors such as storage injection capacity and off-system delivery capacity and nominations. The utilities must have the means to protect the integrity of the pipeline network in the event that their imbalance penalties prove to be insufficient to deter overdeliveries to the system.

We find nothing in D.06-12-031 which exempts Otay Mesa from reduction of nominations to funders of Displacement Capacity when zonal capacity is less than the stated capacity as argued by SCGC and Coral. There is nothing in D.06-12-031 that relieves supplies delivered to Otay Mesa from the requirements adopted for other receipt points, and there is no good reason to do so.

9. Terms of Contract Forms

The Energy Division will not hold a workshop on the terms of the contract forms submitted by the utilities. The only party requesting such a workshop is BHP Billiton. We direct the utilities to work with BHP Billiton to clarify contract forms.

10. Secondary Market Cap

We agree with SCE that the cap in the secondary market is 125% of the G-RPA1 rate and not 125% of the combined G-RPA1 and G-RPA2 rates. As Edison notes, although D.06-12-031 did not specify an amount of the secondary market cap, the Commission did adopt a cap of 125% of the FAR reservation charge in the context of discussing Edison's proposal, and Edison had referred to a maximum secondary market price of 6.25 cents/Dth.

11. PG&E Interconnection Point

We direct the utilities to add reference to additional interconnection points with PG&E to tariffs as they are placed in service. SoCalGas and SDG&E state in their Reply to Protests that they are willing to add new interconnection points as they come into service, and this seems reasonable.

12. Gas Quality and Rule 30

The utilities have agreed to remove the language in Rule No. 30 relating to natural gas quality as protested by IP. The gas quality issue was addressed in SoCalGas AL 3675 and SDG&E AL 1652-G, which the Commission adopted with modifications in Resolution G-3397 on June 7, 2007.

In the absence of an explanation as to why the utilities deleted the provision from Rule No. 30.D.3 that required them to accept scheduled volumes up to the maximum operating capacity of a receipt point, we direct them to restore the deleted language to the tariff.

13. Long-Term Contract Rates

We have previously concluded that the balance in the ITBA should be allocated only to FAR holders, rather than end-use transportation customers. We agree with Aera and MSCC that D.06-12-031 specifically provides for their contracted rates to be reduced by the 5 cent unbundled reservation charge in the same manner as these charges are unbundled from the rates of other customers.¹²

14. Bidding Rights Under Step 1 and Step 2

We agree with Aera and MSCC that the rights provided in Step 1 and Step 2 are distinct and serve different purposes. We direct the utilities to make the modifications proposed by Aera and MSCC in their March 2, 2007 Protest to AL 3706 which clarify that the bidding rights afforded to Aera and MSCC under its existing long-term bundled contract must be kept distinct from the set-asides that Aera will receive as a California producer.

15. Bids in Steps 3A and 3B

SCGC argues against proposed Special Condition 46 of Schedule G-RPA, which gives preference to longer term contracts over shorter term contracts in Step 3A. Although D.06-12-031 allows contracts from 3 to 20 years, it contains no language requiring the utilities to give preference to longer-term contracts over shorter-term contracts.¹³ Accordingly, we order the utilities to remove the proposed language in their tariffs which gives preference to longer-term contracts in Step 3A. This will allow parties who choose to get some experience with how the FAR process works before they make a longer commitment, to be on an equal footing with those choosing longer-term contracts.

In its protest, SCGC argues that the utilities have misinterpreted the Decision by allowing for bidding on existing remaining capacity in both Steps 3A and 3B. SCGC states Step 3B should allow bidding on expansion capacity and new receipt point capacity only and not on any existing remaining capacity from Step 3A. D.06-12-031

¹² D.06-12-031, p.101-102.

¹³ D.06-12-031, p. 105.

clearly allows for “Step 3 to take place in two bidding stages, one for existing capacity remaining after Step 2 and one for expansion and new capacity.”¹⁴ It does not state what should be done with any remaining existing capacity not awarded in Step 3A.

However, D. 07-06-003 which responded to SCGC’s Petition for Modification of March 9, 2007, states, “Since we have adopted a Step 1 set-aside for those who fund displacement or expansion capacity at a receipt point, the need to preserve capacity in Step 3 for those who fund the displacement or expansion capacity is no longer needed.”¹⁵ We will adopt the utilities proposal to include existing capacity in Step 3B if it is available. This will permit new or existing suppliers to utilize existing displacement capacity without requiring them to construct only on an expansion basis.

16. Credits Exceeding Customer Bills

We believe that the utilities’ proposed new language in their Reply to Protests which allows the Releasing Shipper to designate either to have any excess amount credited to its account or to have it returned will be acceptable to SCGC and any other concerned parties.

17. ITBA

The utilities state that it was always their intent that the ITBA reflect the difference between actual revenues received and the utility revenue requirement. They have agreed to SCGC’s revision to the proposed tariff language to clarify this issue.

We indicated in Discussion Issue Number 1 above that any under- or over-collection in FAR revenues should be amortized in future FAR reservation charges. Therefore, we direct the utilities to modify their tariff language and accounting mechanisms to reflect the revised tariff language suggested by SCGC.

18. Fixed G-RPA1 Rate

Although Coral argues that the G-RPA1 rate should be fixed for the duration of the contract, even if that contract is for 10 or 20 years, we do not believe this is practical or economical, and is certainly not conducive to approaching a cost-based rate. Fixing the rate would give customers entering into longer term contracts an

¹⁴ Ibid.

¹⁵ D.07-06-003, p.5.

economic advantage over those signing shorter-term contracts. Certainly costs will change over time and the utilities will have the opportunity to request that the Commission evaluate proposals to adjust the rate to a more appropriate level. Parties will have the opportunity to evaluate the proposals and comment at that time. There was much discussion during the proceeding with regard to adoption of a cost-based methodology to determine the FAR rate. While the Commission did not adopt a cost-based methodology for determining the FAR rate, there was a lack of testimony on what the actual cost should be. A cost-based FAR rate may be a methodology to work toward. Fixing the FAR rate for some holders of FAR for the duration of long-term contracts would work in opposition to this approach.

In addition, it is typically the case that interstate pipeline reservation charges are not fixed for the duration of a contract for capacity rights.

19. Pool-to-Pool Transfer Charge

Although D.06-12-031 approved the utilities' request for a pooling service, the Decision did not approve the exemplary tariffs filed with the Application. Tariffs are submitted with AL's and evaluated for concurrence with the appropriate Decision after its approval by the Commission. D.06-12-031 allowed the utilities to track and recover the reasonable costs of implementing the pooling service, limited to a maximum of \$500,000 recoverable from all ratepayers.¹⁶ However, we agree with Coral that the tariff language is premature, even if the rate is set at zero. We order the utilities to remove the language from their proposed tariff. If at some time in the future the utilities believe that it is necessary to implement a Pool-to-Pool Transfer Charge, they may file an application or an advice letter requesting approval to do so.

20. Definition of "Off-System Customer"

We will further adapt the utilities' revised language which updates the definition of "Off-System Customer" to specify that Off-System is limited to California. Off-System Customer is defined as "a marketer, broker, supplier, or other entity contracting for off-system delivery services within California, or bidding for storage service on their own behalf for ultimate consumption outside the utilities' service territory within California."

¹⁶ D.06-12-031, OP 5.a.

21. Producer Set-Asides

In response to IP's protest, the utilities have indicated they will adjust the tariff language relating to California Producer Set-Asides to clarify the calculation of peak month daily average production as follows:

"California Producers, including Exxon Mobil's production at Santa Ynez, whose facilities are connected directly to the (i) Utility's Line 85, (ii), North Coastal system or (iii) another system without a single identified receipt point of transmission zone will receive a set-aside option for a quantity equal to the producer's peak month's daily average production over the most recent three year period. Peak month is defined as the month with the highest average daily volume. The set-aside quantity shall be increased if the specific production is likely to increase and such forecasted increase can be justified by the producer. California Producers may elect all or a portion of the set-aside quantity. This set-aside applies to any SoCalGas "native gas" production. Occidental of Elk Hills, Inc. will be provided a similar set-aside for 90MMcfd at the OEHI Gosford receipt point. The set-aside rights will be taken under the Rate Schedule G-RPA1 rate."

In response to the protest of DGS who argues that producers should not be permitted to use their FAR set-aside at any other receipt point on the system, the utilities point to the Commission's rejection of a similar argument by SCE which had proposed that certain set-asides not be transferable to any other receipt point. On this issue, we note that the Decision explicitly states that "under the FAR proposal, all FAR holders will have the option to use alternate receipt point rights within the same transmission zone, as well as outside the zone."¹⁷ The Commission, in D.06-12-031, expressed its concern that the holder of a FAR set-aside be allowed as much trading flexibility as possible. D.06-12-031 indicates that imposition of a price cap on the FAR in the secondary market would limit the financial reward that a FAR set-aside holder may receive if it decides to trade or sell the FAR in the secondary market. However, the Commission did express its concern that should holders of the FAR set-asides consistently trade or sell their set-asides, other than to serve core load, it may mean that the set-aside may not be appropriate or that it should be adjusted. D.06-12-031 instructed the utilities to include their observations about the selling or trading of set-aside capacity when the FAR system comes up for review.¹⁸ As noted in the background section of this Resolution, there is a Petition for Modification filed by DGS and SCGC pending on this subject.

¹⁷ D.06-12-031, p.81.

¹⁸ D.06-12-031, Footnote 58, Page 99.

22. Limit on Capacity Available in Steps 1 and 2

SCGC filed a petition for modification of D.06-12-031 requesting the elimination of the five-year monthly average in Step 2 of the open season process as a limit to end-user bids. On June 7, 2007, the Commission issued D.07-06-003 which eliminated the five-year monthly average called for in D.06-12-031 to be used to determine how much pipeline capacity will be made available in Step 2 of the open season process.

23. G-Pool Tolerance

In its protest, DGS requested a 10% daily balance tolerance on pooling transactions. We accept the utilities reiteration of their position throughout the proceeding, that pooling transactions must balance on a daily basis, just as they do on the interstate pipelines. DGS will continue to receive their 10% monthly balancing tolerance; therefore, there is no need to include a tolerance with respect to pooling transactions.

24. Subsequent Set-Asides for Long-Term Contracts

The utilities have agreed to adopt the proposed language of SE LNG to clarify that a party funding “displacement” or “expansion” capacity under a long-term agreement would be able to obtain a set-aside in open seasons after the initial open season. This new language should also address the concerns of Coral on the same issue. We believe adoption of the proposed language will clarify the ambiguity with regard to set-asides in successive open seasons.

25. Adding New Receipt Points and Defining Receipt Point Rights

In response to the protests of Coral and SCGC stating that the tariffs should specifically include both the Otay Mesa and North Baja receipt points which while not yet operational, are currently under construction, the utilities have agreed to include these references. We believe this is reasonable, and shall require the inclusion of Otay Mesa and North Baja as potential receipt points.

SoCalGas is directed to amend the tariff GRPA, Sheet 2 to provide that in the Southern zone, the total firm receipt point rights sold should not exceed 1210 mmcf/day.

COMMENTS

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 was mailed to parties for comments on August 3, 2007.

Comments on draft Resolution G-3407 were received on August 23, 2007 from SoCalGas/SDG&E, Coral, TURN, Clearwater, SCE, IP, SCGC, and CMTA/U.S. Gypsum.

Reply comments were received on August 28, 2007 from SoCalGas/SDG&E, Coral, and IP.

The comments and reply comments to the draft resolution have been considered, and minor changes have been made to this resolution. The changes appear in Footnote number 1, and in the Discussion Section in number 7 and number 15.

FINDINGS

1. Commission Decision 06-12-031, Ordering Paragraph 3 directed the utilities to file appropriate advice letters to implement the FAR system, the gas pooling service, and off-system delivery service to PG&E within 45 days of its effective date.
2. Commission Decision 06-04-033, Ordering Paragraph 1.b. directed the utilities to establish the Integrated Transmission Balancing Account (ITBA). Ordering Paragraph 6 of D.06-12-031 authorized SDG&E and SoCalGas to establish a balancing account to track and recover the difference for any under- or over-recovery on unbundled FAR reservation charges.
3. SoCalGas timely filed Advice Letter 3706 and SDG&E timely filed Advice Letter 1668-G on January 29, 2007, in compliance with D.06-04-033 and D.06-12-031.
4. A ten-day extension of the normal protest period of 20 days was granted for AL 3706 and AL 1668-G by former CPUC Executive Director Stephen Larson.
5. Protests were due no later than March 2, 2007.
6. The Energy Division facilitated a tariff workshop on February 22, 2007 on the tariff filings submitted with these AL's.

7. SoCalGas AL 3706 and SDG&E AL 1668-G were timely protested by: DRA; Clearwater; SCE; BHP Billiton; Aera and MSCC; IP; SES; CCC, CMTA, and Watson; SE LNG; Coral; Woodside; DGS; and SCGC.
8. The utilities timely submitted a Response to the protests on March 9, 2007.
9. On March 8, 2007, Clearwater submitted a reply to the Protests of BHP Billiton, Woodside, and Coral.
10. On March 9, 2007, Coral submitted a reply to SCE's Protest.
11. On March 15, 2007, SES submitted a Reply to the utilities' Response.
12. On March 16, 2007, IP, Watson, CMTA, BHP Billiton, CCC, and SES jointly submitted a Reply to the utilities' Response.
13. On March 21, 2007, Woodside submitted a Reply to the utilities' Response and to Clearwater's Reply to the Protests of BHP Billiton, Woodside, and Coral.
14. The Commission rejected SoCalGas' proposed credit-back ratemaking mechanism and ordered the unbundling of the 5 cents per Dth reservation charge in D.06-12-031. Any over-or under-recovery in FAR revenues must be amortized in the following year's FAR rates. The utilities will base the amount of revenue requirements to be unbundled from end-user rates on the throughput results from the open season. Should the throughput results from the open season be less than SoCalGas' latest forecast of cold-year throughput, SoCalGas shall use the forecast of cold-year throughput of 2821 MMcf in order to calculate estimated FAR revenues.
15. Set-asides are limited to those long-term contracts in effect on the date the Commission approved D.06-12-031 and which are still in effect at the time the FAR system is implemented.
16. Core set-asides will not be subject to proration if total set-asides exceed the capacity at a given receipt point.
17. Parties that have executed a CSUA that does not contain specific milestones or stages with associated dates and financial commitments in its Appendix "B" are required to do so within 90 days of the Commission's approval of the FAR tariffs in order to be included in the queue.
18. At the completion of the 90-day negotiation period, the queue for FCFS priority shall be posted on the utility EBB to provide transparency.

19. Project milestones and completion dates shall be posted for each party. Financial commitments associated with these events shall be deemed to be confidential and shall not be posted.
20. Should the date for performance for any party on the FCFS queue expire without its performance commitment being met, the utility must provide a 30-day notice of cancellation and a subsequent 60-day period to cure.
21. Prior to the utility reordering priority of the FCFS queue, it must seek prior Commission approval by filing an Advice Letter subject to the normal protest period.
22. Shippers shall be able to nominate directly from a receipt point access contract to an off-system delivery contract without the need to first nominate to a citygate pooling contract.
23. A Releasing Shipper will be relieved from liability for payment of FAR firm reservation charges to the utility if the Acquiring Shipper (AS) meets the utilities' creditworthiness requirements, the AS acquires the capacity for the entire remaining term of the agreement, the AS pays the maximum tariff rate for the capacity, and the AS pays all applicable surcharges to the utility.
24. Parties with set-asides under long-term contracts are not obligated to take the entire amount of capacity under their contract if they do not want to bid for the full amount.
25. The exception to election of partial set-asides will apply to the gas acquisition groups of SoCalGas and SDG&E. The SoCalGas and SDG&E core gas acquisition groups are required to obtain the full amount of the set-asides based on their upstream interstate pipeline capacity commitments on behalf of core customers in Step One.
26. A pro rata reduction of displacement capacity nominations occurs within the same transmission zone in which the FAR holder of displacement receipt point capacity is located.
27. Special Condition No. 24 of Schedule No. G-RPA shall indicate that a new supply developer may specify that receipt point expansion capacity is a combination of displacement and expansion capacity, and is not limited to one or the other.
28. The Otay Mesa receipt point is not exempt from the requirement that reductions of nominations at a receipt point are applied first to funders of Displacement Capacity when nominated zonal capacity is less than the stated firm capacity.
29. The utilities shall work with BHP Billiton and other parties to clarify contract forms. The Energy Division is not required to hold a workshop on this issue.

30. The cap of the reservation charge in the secondary market is 125% of the G-RPA1 rate and not 125% of the combined G-RPA1 and G-RPA2 rates.
31. The utilities shall add reference to additional interconnections points with PG&E in Schedule G-OSI to tariffs as they are placed in service.
32. Proposed language in Rule No. 30 relating to natural gas quality shall be removed from the tariff. The gas quality issue was addressed in Resolution G-3397.
33. Tariff language in Rule 30.D.3 shall restore the provision guaranteeing that SoCalGas will accept scheduled volumes from each receipt point up to the maximum operating capacity of that point.
34. As provided in D.06-12-031, Aera and MSCC contracted rates shall be reduced by the 5 cent unbundled reservation charge in the same manner as these charges are unbundled from the rates of other customers.
35. The bidding rights afforded to Aera and MSCC under its existing long-term bundled contract must be kept distinct from the set-asides that Aera will receive as a California producer.
36. No preference shall be given to longer-term contracts over shorter-term contracts in Step 3A. This will allow parties who choose to get some experience with how the FAR process works before they make a longer commitment to be on an equal footing with those choosing longer-term contracts.
37. Existing capacity may be included for bidding in Step 3B of the open season, if it is still available.
38. A Releasing Shipper may designate whether to have any excess revenues, obtained by the utility from an Acquiring Shipper (beyond the amount due from the Releasing Shipper) for any month, credited to the account of the Releasing Shipper or to have the amount returned directly.
39. The ITBA will reflect the difference between actual FAR revenues received and the utility FAR revenue requirement.
40. The G-RPA1 rate shall not be fixed for the duration of a FAR contract.
41. D.06-12-031 allowed the utilities to track and recover the reasonable costs of implementing the pooling services, limited to a maximum of \$500,000 recoverable from all ratepayers. However, the reference to a Pool-to Pool Transfer Charge shall be removed from the tariffs, even if it is set at zero.

42. The definition of "Off-System Customer" shall be revised to: "a marketer, broker, supplier, or other entity contracting for off-system delivery services within California or bidding for storage service on their own behalf for ultimate consumption outside the utilities' service territory within California."
43. The tariff language relating to California Producer Set-Asides which clarifies the calculation of peak month daily average production shall be revised as stated in the Discussion, Section #21 of this Resolution.
44. The utilities shall include their observations about the selling or trading of set-aside capacity when the FAR system comes up for review.
45. In D.07-06-003, the Commission eliminated the five-year monthly average called for in D.06-12-031 to be used to determine how much pipeline capacity will be made available for end-user bids in Step 2 of the open season process.
46. Pooling transactions must balance on a daily basis. End-use customers are already allowed a 10% monthly balancing tolerance.
47. Tariff language shall be clarified to indicate that a party funding "displacement" or "expansion" capacity under a long-term agreement will be able to obtain a set-aside in open seasons after the initial open season.
48. The receipt points of Otay Mesa and North Baja shall be included in the tariffs.

THEREFORE IT IS ORDERED THAT:

1. The request of SoCalGas and SDG&E for approval of tariffs as presented in AL 3706 and AL1668-G, respectively, is approved with modifications.
2. SoCalGas and SDG&E shall file supplemental advice letters within 10 days to make the required modifications to tariff language as ordered in this Resolution.
3. The supplemental advice letters shall be served on all parties to this proceeding.
4. The supplemental advice letters shall be subject to the full protest period and review of the Energy Division.

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 September 6, 2007 the following Commissioners voting favorably thereon:

Paul Clanon
Executive Director

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