PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION **Item 31 ID#4866**
RESOLUTION G-3381 **September 8, 2005**

R E S O L U T I O N

Resolution G-3381. Southern California Gas Company (SoCalGas) in Advice Letter 3491 requests approval to eliminate SoCalGas' Schedule GT-SD. San Diego Gas and Electric Company (SDG&E) in Advice Letter 1521-G requests approval to eliminate Schedules GTC-SD, GTNC-SD and EG-SD. This resolution denies SoCalGas' Advice Letter 3491 and SDG&E's Advice Letter 1521-G.

By SoCalGas' Advice Letter 3491 filed on April 19, 2005 and SDG&E's Advice Letter 1521-G filed on April 19, 2005. .

SUMMARY

This Resolution consolidates two Advice Letters (ALs) filed by SoCalGas and SDG&E on April 19, 2005 requesting authorization to eliminate SoCalGas' tariff Schedule GT-SD and SDG&E natural gas tariff Schedules GTC-SD, GTNC-SD. and EG-SD. Key elements of this Resolution are summarized below:

1. SDG&E's AL 1521-G and SoCalGas' AL 3491 are denied.
2. The proposed elimination of tariff schedules would eliminate the option of SDG&E natural gas customers to take service separately from SoCalGas and SDG&E and would require them to take bundled transportation service.
3. BHP Billiton (BHPB) protested SoCalGas AL 3491 and SDG&E AL 1521-G. To the extent the protest recommended deferral or denial of the issue until the Commission acts on Phase 1 of A.04-12-004[1] the protest is granted.

1. A.04-12-004. In the Matter of the Application of San Diego Gas & Electric Company (U902) and Southern California Gas Company (U904-G) for Authority to integrate their Gas Transmission Rates, Establish Firm Access Rights, and Provide Off-System Gas Transportation Services.

4. Elimination of these rate schedules would remove a transportation alternative that is less costly for certain customers than bundled service.
5. Elimination of these tariff schedules is premature prior to a decision in Phase 1 of A.04-12-004, the Application of SoCalGas and SDG&E for System Integration, Firm Access Rights, and Off-System Deliveries.

BACKGROUND

Currently, because all natural gas deliveries into the SDG&E system must be received from the SoCalGas system, SDG&E natural gas customers must pay for transportation across both utility pipeline systems. SDG&E core and noncore transport customers may pay for transportation across the SDG&E and SoCalGas systems through separate rate schedules for each utility, or they may pay a bundled transportation rate, which covers the cost of transportation across both systems through a single SDG&E rate schedule.

Schedules GTC-SD, GTNC-SD and EG-SD (the "-SD" rate schedules) each provide for natural gas transportation service across SDG&E's pipeline system and are applicable to SDG&E customers who take gas transportation service separately from SoCalGas under Schedule GT-SD for service across SoCalGas' pipeline into SDG&E's system. SDG&E customers who do not take service separately from SDG&E and SoCalGas receive service under a bundled transportation rate, under SDG&E Schedules GTC, GTNC, and EG, which includes the costs associated with service across both the SoCalGas and SDG&E pipeline systems. SDG&E pays SoCalGas the portion of revenues it receives for SoCalGas transportation under these bundled schedules. SoCalGas makes these deliveries to the SDG&E system under SoCalGas wholesale rate Schedule GW-SD.

SDG&E and SoCasGas state that elimination of the "-SD" tariffs is necessary in order to prevent the potential for inaccurate billing caused by a difference in determinants used to bill customers for service under these schedules. They state that a difference in billing determinants could result in a customer being over or undercharged for transportation service during a given billing period. Charges are calculated under SoCalGas' Schedule GT-SD

based on the number of therms nominated for transportation across the SoCalGas' system for redelivery into SDG&E's system. Service is then provided by SDG&E to customers at the " –SD" transportation rates based on the actual number of therms measured through the customer's billing meter. The utilities state that to the extent operational imbalances occur which are unresolved, this disparity could result in an over or undercollection of transportation charges.

To avoid this potential situation and to ensure customers pay the correct amount of transportation charges based on the amount of gas transported through the SoCalGas and SDG&E pipeline systems for the customer's end use, SDG&E proposes to bill all customers under its bundled transportation rate schedules. SoCalGas will charge SDG&E for any applicable transportation charges under SDG&E's Schedule GW-SD. The utilities state that the bundled transportation rates are equivalent to the rates customers would pay if they took service under SDG&E's "-SD" tariffs and SoCalGas' Schedule GT-SD. They also propose that any contracts existing at the time these advice letters are approved and become effective shall be subject to the rates set forth in SDG&E's bundled transportation tariffs.

SoCalGas and SDG&E contend that a merger-related provision (FERC Remedial Measure 18) in SoCalGas Schedule GT-SD and SDG&E Schedule EG-SD required by the Federal Energy Regulatory Commission (FERC) can be maintained by including a similar provision in SoCalGas Schedule GW-SD and SDG&E Schedule EG. SoCalGas established Schedule GT-SD in Advice Letter No. 2675 dated February 13, 1998 in order to meet a condition imposed by the FERC in its approval of the Pacific Enterprises-Enova merger application and adopted by the CPUC in Decision (D.) 98-03-073.

FERC Remedial Measure 18 states:

> Any affiliate of SoCalGas (including SDG&E) shipping gas on the system of SoCalGas, SDG&E, or both for use in electric generation shall use GasSelect to nominate and schedule such volumes separately from any other volumes that it ships on either system. Such gas will be transported under rates and terms (including rate design) no more favorable than the rates and terms available to similarly-situated non-affiliated shippers for the transportation of gas used in electric generation.

SoCalGas Schedule GT-SD includes the above provision as a special condition.

SDG&E included a provision in Schedule EG that prohibited Sempra Energy affiliates from taking service under the schedule in order to comply with FERC Remedial Measure 18. SDG&E established Schedule EG and EG-SD in May, 2000 by Advice Letter 1198-G to implement a Sempra-wide electric generation rate as authorized by D.00-04-060 in SDG&E's 1998 Biennual Cost Allocation Proceeding (BCAP). Sempra affiliates are allowed to take service under SDG&E Schedule EG-SD, but that schedule indicates that service must be taken in conjunction with service under SoCalGas Schedule GT-SD.

The utilities argue that while separate GT-SD and EG-SD tariffs helped to demonstrate their compliance with FERC Remedial Measure 18, the tariffs are not essential. They state that they can maintain full compliance with the Remedial Measure through SoCalGas Schedule GW-SD and SDG&E Schedule EG by setting forth the following language in their respective Schedules:

> Any affiliate of the Utility shipping gas on the Utility's system for use in electric generation shall use the Electronic Bulletin Board (EBB)[2] as defined in [SoCalGasTariff – Rule 1 and SDG&E Tariff – Rule 30], to nominate and schedule such volumes separately from any other volumes that it ships on the utility's system. Such gas shall be transported under rates and terms (including rate design) no more favorable than the rates and terms available to similarly situated non-affiliated shippers for the transportation of gas used in electric generation.

The utilities state that the elimination of these schedules will not result in an increase in any present rate or charge, nor will it deviate from or conflict with any current rate schedule or rule. Moreover, these advice letters will not cause the withdrawal of any service currently provided or impose more restrictive conditions on the customers of either utility.

2. Previously known as "GasSelect."

NOTICE

Notice of SDG&E AL 1521-G and SoCalGas AL 3491 was made by publication in the Commission's Daily Calendar. The utilities state that copies of the Advice Letters were mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

SDG&E Advice Letter 1521-G and SoCalGas Advice Letter 3491 were timely protested by BHPB.

BHPB states that it is inappropriate that the Sempra Utilities would make the proposal to eliminate these schedules at this time, given the pending status of their joint Firm Access Rights Application (FAR), A.04-12-004.[3] In a letter dated May 9, 2005, BHPB protested both SDG&E Advice Letter 1521-G and SoCalGas Advice Letter 3491. BHPB argues that the advice filings seem only to be an effort to predispose the Commission towards adoption of the utilities' system integration proposal and thus are also improper from a procedural perspective.

BHPB questions whether the schedules can be implemented absent approval of the integration assumed within the FAR Application. It states that the proposals to eliminate the existing tariffs and the FAR Application are clearly combined and it would be premature to act on the tariff elimination without due consideration of the interrelationship with the FAR Application. BHPB states that should the FAR proposal be adopted by the Commission, then the elimination of the current tariffs may be appropriate. In conclusion BHPB respectfully requests that the Commission reject the advice letters, or alternatively, defer action on them until such time as the Commission has acted on the FAR Application.

3. A.04-12-004. Although BHPB refers to this application as FAR, it is more commonly referred to as SI-FAR-OFF (System Integration – Firm Access Rights – Off System Deliveries).

RESPONSE TO PROTESTS

SoCalGas and SDG&E filed a joint response to the Protest of BHPB on May 16, 2005 in which they state that the purpose of the advice letters is to simply address a technical flaw in their tariffs which could result in the potential for over or undercollecting transportation charges. They indicate that after these rate schedules are eliminated, the same service and charges will still be offered under different rate schedules.

The utilities dispute BHPB's claim that the AL's are an effort to predispose the Commission towards adoption of the utilities' system integration proposal. They state that billing customers for transportation service across SoCalGas and SDG&E transmission systems under SDG&E's bundled transportation rates does not constitute "system integration." They argue that although customers now have the option of being billed under SDG&E's bundled transportation rates or separately by each utility, customers prefer receiving service under the bundled rates because it is simpler. They state that no customers have elected service on the "-SD" schedules since March 2003.

DISCUSSION

The Commission has reviewed SoCalGas' AL 3491 and SDG&E's AL 1521-G. This resolution denies both SoCalGas' AL 3491 and SDG&E's AL 1521-G.

The utilities state that their principal reason for eliminating the rate schedules is to prevent the potential for inaccurate billing caused by a difference in determinants used to bill customers for service under these schedules. They state that a difference in billing determinants could result in a customer being over or undercharged for transportation service during a given billing period. Charges are calculated under SoCalGas' Schedule GT-SD based on the number of therms nominated for transportation across the SoCalGas system for redelivery into SDG&E's system. Service is then provided by SDG&E to customers at the " –SD" transportation rates based on the actual number of therms measured through the customer's billing meter. The utilities state that to the extent operational imbalances occur,

which are unresolved, this disparity could result in an over or undercollection of transportation charges.

Neither utility has indicated any concern over the possibility of the billing determinant difference causing inaccurate billings during the past 5 to 7 years the rates have been in effect. These rate schedules were put into effect by SoCalGas in 1998 and SDG&E in 2000. The difference in billing determinants has existed since the utilities put these rate schedules into effect. Accurate billing is the responsibility of SoCalGas and SDG&E and if they now believe that these tariff schedules may cause billing inaccuracies, we expect them to pay particular attention to their billing procedures. To the extent that there must be a billing reconciliation between amount nominated and amount actually delivered, the utilities must provide one. However, since they state in their response to BHPB's protest that no customers have elected to take service on the "-SD" rate schedules since March 2003, at least for the present, their concern regarding billing errors appears unfounded**.**

The Energy Division submitted a data request to SoCalGas and SDG&E asking for detailed information on the requested tariff elimination. The utilities indicated in their data response that in November 2002 SDG&E adjusted its billings to six customers served under Rate Schedule EG-SD in order to reconcile to actual gas usage. One customer was over-nominated and five customers were under-nominated under Rate Schedule GT-SD compared to actual usage. The utilities either credited or charged the customers in a reconciliation of the discrepancies.

The Commission should not eliminate alternative rate schedules that could benefit some SDG&E customers. After review of the utilities' data response, the Energy Division concludes that some SDG&E customers could pay lower costs by taking separate transportation service rather than bundled transportation service. While each proposed bundled rate schedule should result in the same amount of revenue for SDG&E as the unbundled rate schedules, rate levels within each proposed schedule vary, and may result in customers being billed higher or lower rates than the unbundled tariffs. The Commission is

reluctant to eliminate alternative rate schedules which may benefit some customers when it appears there is only the potential for minor billing problems.

In addition, given the pending status of the SoCalGas and SDG&E system integration proposal in A.04-12-004, we find elimination of the tariffs premature at this point in the proceeding. Elimination of the tariffs would be appropriate should the Commission approve system integration. However, elimination of the proposed tariff schedules would remove the option of SDG&E customers to take service separately from SoCalGas and SDG&E and would require them to take bundled service, a step closer to system integration.

The utilities should wait for the Commission's decision in A.04-12-004. If system integration is approved, the utilities' current tariffs will need to be revised. In the event that the Commission does not approve system integration, SoCalGas and SDG&E may bring this tariff elimination matter up in the next Biennual Cost Allocation Proceedings (BCAP's), where rate design is normally addressed.

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.

All parties in the proceeding have stipulated to reduce the 30-day waiting period required by PU Code section 31l(g)(1). This draft resolution was mailed to parties for comments on August 10, 2005.

Comments to draft Resolution G-3381 were filed on August 23, 2005 by BHPB and jointly by SoCalGas and SDG&E.

BHPB supports the draft resolution denying the advice letters. It urges the Commission to reject the advice letters or defer action on them until such time as it has acted on the Applications of SDG&E and SoCalGas in A.04-12-004.

SoCalGas and SDG&E comment that although the draft resolution is correct that customers will no longer have the option to take transportation service separately from SoCalGas and SDG&E if the "-SD" tariffs are eliminated, there is no indication that customers want this option. They further argue that there is no need to wait to eliminate the tariffs until other tariff modifications are made should system integration be approved. The utilities contend that the draft resolution disregards common rate design principles because rates are designed on a customer class basis, not on an individual customer basis. In response to the draft resolution's observation that the "-SD" rate schedules could result in lower costs for some customers, the utilities respond that should a large number of customers choose to take unbundled service, the shortfall in revenues for the class would have to be made up by charging the customers taking bundled transportation service higher rates.

To the extent deemed applicable, we have incorporated these comments into the resolution.

FINDINGS

1. SoCalGas and SDG&E filed AL's 3491 and 1521-G respectively on April 19, 2005.
2. BHPB protested these advice letters on May 9, 2005.
3. SoCalGas and SDG&E jointly responded to BHPB's protest on May 16, 2005.
4. The draft resolution was mailed August 10, 2005.
5. Comments to the draft resolution were filed on August 23, 2005 by BHPB and jointly by SoCalGas and SDG&E. No reply comments were filed.
6. SoCalGas' Schedule GT-SD has been in effect since 1998 and SDG&E's Schedules GTC-SD, GTNC-SD and EG-SD since 2000.
7. SoCalGas and SDG&E state that these rate schedules should be eliminated because they may cause billing errors which could result in an over or undercollection of transportation charges.

8. SoCalGas and SDG&E have filed A.04-12-004 requesting, among other things, System Integration of the transmission rates of the two utilities.
9. Elimination of the unbundled tariffs, SoCalGas Schedule GT-SD and SDG&E Schedules GTC-SD, GTNC-SD and EG-SD at this point in A.04-12-004 is premature.
10. Elimination of these tariff schedules would remove the option of SDG&E customers to take service separately from SoCalGas and SDG&E and would require them to take bundled service.
11. In the absence of any significant billing problems, we should not eliminate alternative rate schedules provided under the unbundled rate schedules when these alternatives could result in lower costs for some customers.
12. The utilities state that no customers have been billed under these tariff schedules since 2003.
13. The elimination of these tariff schedules is more appropriately done should the Commission give approval of system integration in Phase 1 of A.04-12-004.
14. Should the Commission deny system integration in Phase 1 of A.04-12-004, SoCalGas and SDG&E may address elimination of these tariffs in their next BCAP's where rate design issues are normally addressed.

THEREFORE IT IS ORDERED THAT:

1. The requests of SoCalGas for approval of AL 3491 to eliminate rate schedule GT-SD and of SDG&E for approval of AL 1521-G to eliminate rate schedules GTC-SD, GTNC-SD and EG-SD are denied.

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 8, 2005, the following Commissioners voting favorably thereon:

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STEVE LARSON

Executive Director