

Exhibit No. \_\_\_\_\_

Date: January 31, 2006

Witness: Mosher, Bears, Wright and Eson

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE  
STATE OF CALIFORNIA

In the Matter of the Application of Southern  
California Gas Company to Establish Regulatory  
Authority Over the Access for Natural Gas Provided  
by California Gas Producers

A.04-08-018

**PREPARED DIRECT TESTIMONY OF JAMES P. MOSHER, DEAN BEARS,  
ELIZABETH WRIGHT AND ROD ESON  
ON BEHALF OF  
THE INDICATED PRODUCERS,  
THE CALIFORNIA INDEPENDENT PETROLEUM ASSOCIATION AND  
THE WESTERN STATES PETROLEUM ASSOCIATION**

**CALIFORNIA PRODUCER ACCESS**

January 31, 2006

**Table of Contents**

Introduction and Summary of Recommendations ..... 1

Background ..... 4

Development of the Proposed *Pro Forma* Access Agreement ..... 7

Material Difference Between the Chevron Agreement and  
the Proposed Agreement ..... 11

Term and Termination ..... 12

Operating Balancing ..... 14

Quality Specification Compliance Protocols ..... 15

Added Facilities ..... 16

Creditworthiness ..... 18

Other Issues ..... 24

    Maximum Daily Volumes ..... 24

    Delivery Pressure ..... 25

    Split Metering ..... 27

    Metering ..... 29

    Operations and Maintenance Fees ..... 30

    Capacity Studies ..... 31

    Dispute Resolution ..... 32

Ongoing Regulatory Oversight ..... 33

Attachment A – Statement of Qualifications

Attachment B – 1996 Chevron Agreement

Attachment C – Pro Forma CP Access Agreement

Attachment D – Redline CP Access Agreement

Attachment E – Modification Table

Attachment F – Capacity Studies Milestone Based Protocol

Attachment G – SoCalGas Presentation, February, 2004

1  
2  
3  
4  
5

**PREPARED DIRECT TESTIMONY OF JAMES P. MOSHER, DEAN BEARS,  
ELIZABETH WRIGHT AND ROD ESON  
ON BEHALF OF  
THE INDICATED PRODUCERS,  
THE CALIFORNIA INDEPENDENT PETROLEUM ASSOCIATION AND  
THE WESTERN STATES PETROLEUM ASSOCIATION**

**CALIFORNIA PRODUCER ACCESS**

6  
7 **INTRODUCTION AND SUMMARY OF RECOMMENDATIONS**  
8

9 **Q PLEASE IDENTIFY THE MEMBERS OF THE PRODUCER PANEL**  
10 **SPONSORING THIS TESTIMONY.**

11  
12 **A** This testimony is sponsored by James P. Mosher, Dean Bears, Elizabeth Wright and Rod  
13 Eson. James P. Mosher is a Business Consultant at Aera Energy LLC and is responsible  
14 for monitoring and coordinating electricity and natural gas issues within the company.  
15 Mr. Bears is the Manager of California Customer Accounts for the Supply and Fuels  
16 Group of Chevron Natural Gas, responsible for the coordination of all natural gas fuel  
17 activities for Chevron's operations in California including its oil and gas production,  
18 cogeneration and refining operations. Ms. Wright is testifying on behalf of Occidental of  
19 Elk Hills, Inc. Ms. Wright has been employed by Occidental since 2001 with various  
20 regulatory, marketing and liaison responsibilities. Ms. Wright has also been employed  
21 by ARCO Oil & Gas Company, Southern California Gas Company and the City of Long  
22 Beach's municipal gas utility. Mr. Eson is President and CEO of Foothill Energy, LLC.  
23 Foothill Energy is an independent oil and gas producer with focused interests in  
24 California and the Mid-Continent. He also currently serves as the 2005-2006 Chairman  
25 of the Board for the California Independent Petroleum Association. A statement of the  
26 qualifications for each panelist is presented as Attachment A to this testimony.

27  
28 **Q ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

29 **A** This testimony is presented on behalf of the Indicated Producers, whose members include  
30 for the purpose of this proceeding Aera Energy LLC, Chevron U.S.A. Inc., and


1 Occidental of Elk Hills, Inc., the California Independent Petroleum Association and the  
2 Western States Petroleum Association. These companies and organizations will be  
3 referred to collectively throughout this testimony as “Producers” or “California  
4 Producers”.

5  
6 **Q WHAT IS THE PURPOSE OF THIS TESTIMONY?**

7 **A** The purpose of this testimony is to propose terms and conditions under which California  
8 Producers can gain access to the Southern California Gas Company (SoCalGas)  
9 transportation system under a standardized, default agreement. To be clear, this  
10 testimony does not intend to address transportation rights on the SoCalGas system, nor  
11 does it endeavor to address a long-term system of firm access rights, which is at issue in  
12 A.04-12-004. Additionally, this testimony does not make proposals regarding the  
13 contractual arrangements between Exxon Mobil Corporation and SoCalGas governing  
14 Exxon Mobil’s access to the utility’s North Coastal system.<sup>1</sup>

15 **Q WHAT CONCLUSIONS AND RECOMMENDATIONS DO YOU OFFER?**

16 **A** This testimony offers the following conclusions and recommendations.

17  The Commission should adopt a *pro forma* or default California Producer Access  
18 Agreement based in large part upon the last *pro forma* agreement between  
19 Chevron U.S.A. Inc. and SoCalGas, approved by the Commission in 1996 (the  
20 Chevron Agreement or CA). The Chevron Agreement is attached to this  
21 testimony as Attachment B. The Proposed Agreement (PA) is attached to this  
22 testimony as Attachment C. A redlined document comparing the Proposed  
23 Agreement with the Chevron Agreement is attached as Attachment D. Finally, a  
24 table summarizing the basis for any material change to the Chevron Agreement is  
25 provided as Attachment E. Material areas in which changes are advanced in the  
26 Proposed Agreement include:

- 27 1. Term and Termination (CA §2.1; PA Article II);  
28 2. Operational Balancing (CA §3.2; PA Article III);

---

<sup>1</sup> The agreements that provide for access by Exxon Mobil to the SoCalGas system were executed under unique circumstances as a part of an overall settlement among Exxon, SoCalGas and Pacific Offshore Pipeline Company. The California Producers are not proposing that these arrangements be disturbed by the Commission’s actions in this proceeding.

- 1 3. Quality Specification Compliance Protocols (CA Article VI; PA Article VI);  
2 4. Added Facilities (CA Article IV; PA Article IV).

3 This testimony also proposes guidelines to streamline credit review of producer  
4 accounts, which should be incorporated into the utility tariffs. Finally, the  
5 Proposed Agreement contemplates clarifications and refinements in the following  
6 areas: Administration of Maximum Daily Volumes (CA §3.2, Appendix C; PA  
7 §3.02), Delivery Pressure (CA §3.1; PA §3.01), Metering (CA Article VII; PA  
8 Article VII), Split Metering (PA §7.07), and O&M Fees (CA Article V, Appendix  
9 B; PA Article V, Appendix B).

- 10 ➤ The agreement adopted in this proceeding should apply to all California natural  
11 gas supplies currently delivering gas under a California Producer Access  
12 Agreement and to any new sources of California-produced gas. The Agreement  
13 should reach to SoCalGas' existing and anticipated Native Gas production,  
14 including the projects considered in A.04-01-034. Finally, certain terms and  
15 conditions of access, including the protocols for enforcement of gas quality  
16 standards, should be applied to gas entering the SoCalGas backbone  
17 transportation system from on-system storage fields.

18 Adoption of a default California Producer Access Agreement is an efficient and  
19 reasonable approach to address ongoing issues between California Producers and  
20 SoCalGas. SoCalGas' transportation system functions, in most cases, as the "only game  
21 in town" for producers to get their gas to a consuming market. Creating standardized and  
22 transparent terms and conditions of access, where reasonably possible, will ensure that  
23 Producers receive fair and nondiscriminatory treatment. In addition, the development of  
24 a default agreement will advance administrative efficiency, reducing disputes between  
25 producers and SoCalGas. Finally, consistent with Public Utilities Code §785,  
26 standardizing access terms and conditions as proposed herein will provide greater  
27 certainty to producers and generally encourage the production of in-state natural gas.

## 28 **BACKGROUND**

29 **Q HAS THE COMMISSION HISTORICALLY ENGAGED IN THE OVERSIGHT**  
30 **OF CALIFORNIA PRODUCER ACCESS AGREEMENTS?**

31 **A** Yes. The Commission historically has actively engaged in the oversight of typical  
32 producer access arrangements, including the review and approval of access fees and other

1 terms and conditions of Access Agreements. In addition, in most cases,<sup>2</sup> Access  
2 Agreements between SoCalGas and producers have acknowledged Commission  
3 jurisdiction over the agreements, in some cases stating that the agreements were to be  
4 filed subject to General Order 96-A. Examples of the Commission’s oversight include  
5 Resolution G-3181 (issued August 19, 1996), Resolution G-3194 (issued September 4,  
6 1996), Resolution G-3214 (issued July 16, 1997), Resolution G-3223 (issued October 22,  
7 1997), Resolution G-3295 (issued March 27, 2001), and Resolution G-3343 (issued  
8 April 17, 2003).

9  
10 **Q WHY IS THE COMMISSION’S OVERSIGHT IMPORTANT?**

11 A SoCalGas, in most cases, is the only means of access to consuming markets for  
12 California natural gas production in southern California. Another way of stating this is  
13 that SoCalGas holds a monopoly over California gas “access” to the market. Alternative  
14 forms of disposal are few, and the flaring of gas that cannot reliably access the Utility  
15 system is becoming increasingly more difficult to permit because of air quality  
16 considerations. Moreover, flaring would further limit the supplies available to California  
17 consumers. Consequently, producers’ reliance on SoCalGas’ pipeline system is critical.  
18 Because SoCalGas is regulated by this Commission, and in light of its “access”  
19 monopoly, the Commission’s oversight is critical in ensuring the terms and conditions of  
20 access are fair and nondiscriminatory.

21 **Q IS THE COMMISSION’S ROLE IN OVERSEEING PRODUCER ACCESS**  
22 **AGREEMENTS SIMILAR TO ITS OVERSIGHT OF INTERCONNECTION AND**  
23 **OPERATIONAL BALANCING AGREEMENTS BETWEEN SOCALGAS AND**  
24 **INTERSTATE SUPPLY SOURCES?**

25 A Its role is similar in the sense that it is overseeing the terms and conditions under which  
26 gas enters the regulated utility system. Its role is perhaps more critical, however, in the  
27 case of California produced gas. As observed earlier, in most cases, without access to the  
28 SoCalGas system, California produced gas cannot be brought to market. While the issues

---

<sup>2</sup> Certain agreements, like the Exxon Mobil agreement, were executed under unique circumstances and not made

1 surrounding interstate pipelines are also important, it can be observed that interstate  
2 supplies have other potential upstream delivery options (*e.g.*, Pacific Gas and Electric  
3 Company (PG&E) and east-of-California markets) if the terms and conditions of access  
4 to SoCalGas' system are undesirable. Moreover, it is arguable that interstate pipelines  
5 have more negotiating leverage with SoCalGas because they deliver much larger volumes  
6 and are critical to SoCalGas' operations. California producers, in contrast, typically have  
7 much smaller volumes and very few, if any, options, making the Commission's attention  
8 to this issue area doubly critical. In fact, the Legislature has highlighted the  
9 Commission's crucial role in encouraging and reducing impediments to California gas  
10 production in the California Gas Policy Act (Public Utilities Code §§785 *et seq.*).

11 **Q HOW HAS THE COMMISSION EXERCISED ITS OVERSIGHT IN THE PAST?**

12 A Until 1996, and except in unique circumstances, the Commission generally exercised its  
13 oversight of SoCalGas through the review and approval of individual Access  
14 Agreements. In Resolution G-3181, issued on April 19, 1996, the Commission approved  
15 a California Producer Access Agreement between Chevron U.S.A. Inc. and SoCalGas,  
16 which set forth the terms and conditions for California producer access on the SoCalGas  
17 system and, particularly, the charge structure for access. The Commission's Advisory  
18 and Compliance Division noted in particular, that the *pro forma* Access Agreement "*as a*  
19 *whole is balanced*" because it reimbursed SoCalGas for its costs for providing access. In  
20 G-3181, the Commission also observed that the Commission Advisory and Compliance  
21 Division found "*it reasonable for SoCalGas to tariff Producer access contracts that are*  
22 *similar in form and content in order to eliminate administrative burden.*"

23  
24 Following the approval of the Chevron Agreement, the Commission reviewed and  
25 approved a standardized charge structure for future California Access Agreements in  
26 Resolution G-3194, issued on September 4, 1996. The Resolution observed that  
27 "*SoCalGas [sic] objective is to recover all its costs in providing access to California gas*  
28 *producers to use its system to transfer their gas to locations within SoCalGas' service*

---

subject to CPUC review, approval or modification.

1 *territory.”* Notably, as the Resolution recites, SoCalGas proposed “*to file a revised*  
2 *charge structure if any significant changes in cost occur.*” As for other terms and  
3 conditions, the Resolution approved the agreement observing that the “*pro forma*  
4 *contract appendices are based on prior access contract approved by G-3181.*”  
5

6 In Resolution G-3214, the Commission reviewed an Access Agreement in which  
7 SoCalGas waived its O&M fee to a producer. Notably, the Commission stated that  
8 “*SoCalGas is reminded that contracts with its customers require Commission approval.*  
9 *SoCalGas may be subject to some penalties for violating Commission orders.*” It  
10 concluded, however, that “*Access Agreements are no longer needed to be filed and*  
11 *approved by the Commission since a proforma agreement and standard charge*  
12 *structure were approved by Resolution G-3194 of September 4, 1996.*” (Emphasis  
13 added.) In short, the Commission expected that the Chevron Agreement and the standard  
14 charge structure adopted in Resolution G-3194 would govern future agreements absent a  
15 request by SoCalGas for modification.  
16

17 **Q HOW HAS SOCALGAS IMPLEMENTED THE COMMISSION’S**  
18 **RESOLUTIONS REGARDING ACCESS AGREEMENTS?**

19 A Despite encouragement by the Commission’s staff to tariff Access Agreements, and  
20 despite the Commission’s embrace of the Chevron Agreement as the *pro forma*  
21 agreement, SoCalGas has pursued the practice of individually negotiating Access  
22 Agreements with each producer. SoCalGas has, however, employed a standardized,  
23 Commission-approved fee under its Access Agreements.

24 **Q HAS SOCALGAS SOUGHT COMMISSION APPROVAL TO MODIFY THE**  
25 **CHEVRON AGREEMENT OR THE STANDARDIZED FEE STRUCTURE?**

26 A To the best of our knowledge, SoCalGas has not sought Commission approval to modify  
27 the Chevron Agreement, but has made limited requests to modify the standardized fee  
28 structure.

1 **Q ARE THE CALIFORNIA PRODUCERS CLAIMING DISCRIMINATION BY**  
2 **SOCALGAS IN THIS PROCEEDING?**

3 A No, that is not the purpose of this testimony or the Producers' overall efforts in this  
4 proceeding. The Producers, through their Stipulation with SoCalGas in Application  
5 A.04-01-034, encouraged SoCalGas to file this Application to address standardized  
6 *future* terms and conditions that would avoid any claims of discrimination. As you may  
7 recall, SoCalGas proposed in A.04-01-034 to increase its Native Gas production, and  
8 Producers raised concerns regarding the potential for discrimination by SoCalGas  
9 between California Producers and its Native Gas production. It is this concern, along  
10 with individual producer concerns arising from increasingly frequent and contentious  
11 negotiations with the utility, which have driven the Producers' positions in this  
12 proceeding.

13 **DEVELOPMENT OF THE PROPOSED *PRO FORMA* ACCESS AGREEMENT**

14 **Q PLEASE GENERALLY DESCRIBE THE *PRO FORMA* CALIFORNIA**  
15 **PRODUCER ACCESS AGREEMENT YOU PROPOSE BE ADOPTED BY THE**  
16 **COMMISSION.**

17 A We are proposing a California Producer Access Agreement, attached as Attachment C,  
18 based primarily on the last agreement fully reviewed and approved by the Commission –  
19 the Chevron Agreement. We have modified the Chevron Agreement in certain areas to  
20 respond to concerns raised by SoCalGas and the Office of Ratepayer Advocates, to  
21 reflect producer experience with these agreements over time and, in some places, simply  
22 to provide greater clarity and specificity. A redlined agreement, comparing the Proposed  
23 Agreement with the Chevron Agreement, is attached as Attachment D. In addition, for  
24 the Commission's convenience, we have provided a table, attached as Attachment E,  
25 which describes the purpose behind the most material of the changes to the Chevron  
26 Agreement.

27 **Q WHY HAVE YOU CHOSEN NOT TO BUILD YOUR PROPOSED AGREEMENT**  
28 **BASED UPON THE INTERCONNECTION AND OPERATIONAL BALANCING**

1           **AGREEMENTS PROPOSED BY SOCALGAS IN THIS PROCEEDING AND IN**  
2           **R.04-01-025?**

3       A       There are three primary reasons why we have not crafted the Proposed Agreement based  
4           on the interconnection and operational balancing agreements (IA/OBA) proposed by  
5           SoCalGas in this proceeding and for use by interstate and new LNG connections in R.04-  
6           01-025. First, and most simply, an old adage applies here: “if it ain’t broke, don’t fix it.”  
7           Agreements in the form of the Chevron Agreement have been used by the utility and  
8           producers for more than a decade. This approach is not “broke” and does not need an  
9           IA/OBA “fix.” Second, California Producer Access Agreements historically have  
10          included provisions not included in the IA/OBA drafts (*e.g.*, rights of way). Third, while  
11          California producers are akin to interstate pipelines because they put gas into SoCalGas’  
12          system, the comparability ends there. California producer access points and conditions  
13          differ significantly from those of interstate pipelines and potentially LNG  
14          interconnections. Interstate pipelines have key operational advantages and flexibility that  
15          are not available to most in-state production operations. In-state natural gas production  
16          also provides key economic and energy supply benefits to the State of California that  
17          further differentiates in-state producers from interstate and LNG suppliers. Nearly half  
18          of California’s crude oil supply, for instance, comes from in-state production. The terms  
19          and conditions of the Access Agreement imposed by the Commission under this  
20          proceeding will have an impact on the State’s crude oil supply picture.

21       **Q       HOW DO CALIFORNIA PRODUCER ACCESS POINTS AND CONDITIONS**  
22       **DIFFER FROM THOSE OF INTERSTATE PIPELINES OR LNG**  
23       **INTERCONNECTIONS?**

24           A direct interconnection by SoCalGas with a natural gas producing field or gathering  
25           system differs from interconnection with an interstate pipeline in several important ways.

- 26  
27           1.       **Utility System Impact.** The volume of natural gas received from in-state  
28           production is materially lower than the volume received from interstate pipeline  
29           connections. Interconnection capacity for in-state production on Line 85 and the  
30           Coastal system totals 310 MMcfd under approximately 45 existing agreements.  
31           In stark contrast, interstate interconnection capacity totals more than 3 Bcf under

1 four major agreements, 10 times the capacity of in-state production connections  
2 on Line 85 and Coastal.  
3

- 4 2. **Production Fluctuations.** In-state production levels naturally fluctuate due to  
5 underground reservoir behavior, wellhead pressures, changes in ambient  
6 temperature of gathering lines, equipment cycling, and surface/sub-surface  
7 operational problems. These conditions may at times result in operational upsets.  
8 Producers cannot physically increase production above field or processing system  
9 capacity to “make up” for under-deliveries created by prior fluctuations or  
10 operational upsets. In addition, artificial curtailment of gas production to make  
11 up for past over-deliveries may not fall within operating ranges of field equipment  
12 and would also reduce associated oil and natural gas liquids production.  
13

14 An interstate pipeline point of interconnection, in contrast, is backed by thousands  
15 of interconnecting wells, gathering systems, gas plants and compressor stations.  
16 The pipeline and its shippers also have access to significant line-pack to  
17 simultaneously increase, decrease and balance their gas deliveries to California  
18 utilities. Unlike in-state production, interstate pipelines can remotely monitor and  
19 adjust flows from various sources to efficiently regulate their massive deliveries  
20 into California.  
21

- 22 3. **Market Options.** In-state producers, as a general matter, maintain only one  
23 interconnection – with the local distribution company – and are thus captive to the  
24 utility system. Consequently, in-state producers typically do not have the ability  
25 to shift deliveries from one point or pipeline to another as operating conditions  
26 change. Moreover, in-state producers do not have access to a competitive market  
27 or storage facilities upstream of the point of interconnection with the utility to  
28 prevent or mitigate imbalances. In contrast, producers and shippers on interstate  
29 pipelines may shift their supplies among receipt and delivery points, trade  
30 supplies on the pipeline during transportation and store gas upstream of the point  
31 of pipeline interconnection with the utility.  
32

- 33 4. **Oil and Gas Field Impact. It is critical to remember that most natural gas**  
34 **produced in southern California is “associated” or a byproduct of oil**  
35 **production.** Any physical action taken by the utility on an in-state producing  
36 field presents unique risks not present on interstate pipeline systems. Most of the  
37 southern California gas production is associated with crude oil production, as well  
38 as natural gas liquids (NGL) including propane, butane, and natural gasolines.  
39 Fluctuations in access to utility systems brought about by any sort of flow control  
40 could result in reducing or shutting-in gas, crude oil, and NGL production. In  
41 turn, these reductions could bring an immediate economic impact and negatively  
42 affect producers’ equipment, safety operations and/or future performance of oil  
43 and gas reservoirs. Another possible outcome is increased air emissions from the  
44 flaring of natural gas when flow into the utility system is constrained, in order to

1 sustain ongoing oil production. An artificial change in flow over an interstate  
2 pipeline is less likely to occur because of the broader balancing tools available to  
3 the pipeline.  
4

5 In light of these characteristics, using Access Agreements similar to those used today is  
6 more reasonable and administratively efficient than starting from scratch with the  
7 interstate/LNG model SoCalGas has proposed.

8 **Q ARE PRODUCING CONDITIONS IN NORTHERN AND SOUTHERN**  
9 **CALIFORNIA COMPARABLE?**

10 A Not entirely. As noted above, most natural gas production in southern California is  
11 “associated” or a byproduct of crude oil production. Consequently, natural gas  
12 production is driven largely by the need to serve oil production operations. In contrast,  
13 natural gas produced in northern California is “dry gas”, or not associated with oil  
14 production, leaving producers greater latitude in controlling natural gas production  
15 operations.

16 The property characteristics of associated gas and dry gas are substantially different.  
17 These differences are due primarily to the fact that the properties of crude oil affect the  
18 properties of the associated gas. The hydrocarbon composition of dry gas is  
19 predominantly methane with fewer or no heavier hydrocarbons present. In contrast,  
20 associated gas contains significant concentrations of the heavier hydrocarbons, in  
21 addition to concentrations of CO<sub>2</sub>, O<sub>2</sub> and benzene. Disposal/treatment of these  
22 hydrocarbons can often be difficult and/or extremely costly to remove at the production  
23 point. For example, California does not have an ethane market to which producers can  
24 effectively divert the constituents from their gas stream. Associated gas is also typically  
25 higher in Btu content, ranging as high as 1150 Btu. Dry gas is typically high in N<sub>2</sub> and  
26 low in Btu content, however. Dry gas is routinely produced throughout northern  
27 California and often falls below 970 Btu, but PG&E successfully blends this gas in its  
28 system.

1 **MATERIAL DIFFERENCES BETWEEN THE CHEVRON AGREEMENT AND THE**  
2 **PROPOSED AGREEMENT**

3 **Q HOW DOES THE PROPOSED AGREEMENT DIFFER FROM THE CHEVRON**  
4 **AGREEMENT?**

5 A The Proposed Agreement differs from the Chevron Agreement in a variety of ways.  
6 Those differences are highlighted in the redlined Proposed Agreement attached as  
7 Attachment D, and the purpose for many of the differences is summarized in the table  
8 attached as Attachment E. While certain changes are offered for purposes of  
9 clarification and efficiency, the more substantive changes warrant additional explanation.  
10

11 **Q WHAT ARE THE MOST MATERIAL AND POTENTIALLY CONTROVERSIAL**  
12 **DIFFERENCES BETWEEN THE CHEVRON AGREEMENT AND THE**  
13 **PROPOSED AGREEMENT?**

14 A The most material and substantive differences between the Chevron Agreement and the  
15 Proposed Agreement lie in the following areas: (1) term and termination; (2) operational  
16 balancing; (3) quality specification compliance protocols; and (4) construction of added  
17 facilities. We also propose to add as guidelines for producer agreements clear guidelines  
18 for establishing and reviewing producer creditworthiness – guidelines that are not in  
19 place today. Each area of material difference is discussed in greater detail below. In  
20 addition, a few less significant modifications, aimed to provide greater clarity to  
21 producers, bear brief mention and are discussed later in our testimony.

22 **TERM AND TERMINATION** (CA §2.1; PA Article II)

23 **Q HOW DOES THE PROPOSED AGREEMENT ADDRESS TERM AND**  
24 **TERMINATION OF THE AGREEMENT?**

25 A The Proposed Agreement includes a primary term of 10 years, after which either party  
26 may terminate the agreement upon six months prior written notice. It further provides  
27 that a producer may terminate the Agreement at any time by providing six months prior  
28 written notice, provided that the producer has fully compensated the utility for all added  
29 facilities and O&M fees. Finally, the Proposed Agreement provides the utility two tools

1 to handle nonperformance by a producer: the utility may suspend performance of the  
2 agreement under specified circumstances and may terminate the agreement in the event  
3 of a “*material, ongoing Default by Producer persisting longer than one (1) year*  
4 *following the cure period defined in Section 17.03.*”

5 **Q HOW DOES THIS DIFFER FROM THE CHEVRON AGREEMENT?**

6 A The Chevron Agreement provided for a primary term of two years. Thereafter, the  
7 agreement was to continue month-to-month until terminated by either party upon six  
8 months prior notice or as required by other provisions of the agreement (*e.g.*, failure of  
9 regulatory approval, regulatory change or material breach).

10 **Q WHY HAVE YOU PROPOSED TO MODIFY THE TERM AND TERMINATION**  
11 **PROVISIONS?**

12 A First, a ten-year primary term more reasonably accommodates the interest in long-term  
13 stability of operations than does a two-year term. Oil and gas production is a capital  
14 intensive business, and long-term certainty is important to the investment decisions and  
15 subsequent stability of these operations – particularly for small producers. SoCalGas  
16 itself has recognized the need for flexibility in its interstate/LNG proposed IA/OBA  
17 agreements, which provided for a negotiated initial term. If a reasonable default  
18 agreement is developed and administrative procedures put in place for any required  
19 modifications of the agreement over time, there should be no compelling need to revisit  
20 these agreements every two years.

21 Second, there is no reasonable purpose for granting the utility a unilateral right to  
22 terminate the agreement without cause. As the Commission ordered in D.04-09-022, the  
23 utilities have an obligation to interconnect with supply sources under terms and  
24 conditions approved by the Commission. Consequently, as a practical matter, if the  
25 utility terminated an agreement without cause, the producer would have the right to  
26 return to the utility and seek another contract with the identical terms and conditions.  
27 Moreover, if there is a problem with the terms of the *pro forma* agreement, it would be

1 more equitable and efficient to require the utility to address the problem to the  
2 Commission for review rather than simply terminating an agreement without cause.  
3 Unilateral termination by the utility would force the producer to seek equitable relief via  
4 an expensive and time-consuming complaint process at the CPUC to prevent termination  
5 of its agreement and shut-in of its gas.

6 In considering termination rights, it is important to keep in mind the imbalance in  
7 negotiating positions of the utility and the producer when considering the effect of a  
8 utility right to terminate without cause. As discussed earlier, the utility is typically the  
9 sole point of access for California production to reach consuming markets. Giving the  
10 utility a right to terminate without cause would place California producers in an  
11 untenable and unstable position. Producers could make long-term investments in field  
12 development and processing facilities, only to have the rug pulled out from underneath  
13 those investments by the utility without cause. Because utility access is almost always  
14 critical to the producer's investment decisions, the right to terminate unilaterally could  
15 give the already dominant utility unreasonable control over a producer's development  
16 and operations plan. On the other hand, if the producer has compensated the utility for  
17 all of the costs of interconnection and access and terminates the agreement, there is little  
18 or no impact on the utility business.

### 19 **OPERATIONAL BALANCING (CA §3.2; PA Article III)**

#### 20 **Q WHAT TERMS AND CONDITIONS DOES THE PROPOSED AGREEMENT** 21 **PROVIDE FOR OPERATIONAL BALANCING?**

22 A The Proposed Agreement places operational balancing requirements on producers that  
23 are *more restrictive* than the requirements imposed by the Chevron Agreement. These  
24 additional restrictions have been offered as a concession by California Producers in  
25 response to concerns expressed and data provided by SoCalGas regarding historical  
26 producer imbalances. The Proposed Agreement's provisions and accompanying tariffs  
27 regarding operational balancing are sponsored and discussed by R. Thomas Beach on  
28 behalf of the California Producers.

1 **Q ARE THERE OTHER BALANCING RELATED ISSUES THE COMMISSION**  
2 **SHOULD CONSIDER?**

3 A Yes, SoCalGas seeks the right to place “flow control” on producer facilities under certain  
4 conditions. Flow control is not necessary under the Producers’ proposal in light of the  
5 concession offered in Mr. Beach’s testimony, to apply Operational Flow Order (OFO)  
6 requirements and penalties on producers.

7 Moreover, placing flow controls on producers presents a risk to oil and gas production.  
8 Controlling or halting the control of natural gas would lead to a significantly increased  
9 flaring for most producers. If gas could not be flared, there could be a detrimental impact  
10 on oil production. Controlling flow would increase backpressure on oil wells, which  
11 inhibits oil inflow from the reservoir. Consequently, if flaring is not an option, a  
12 producer may be force to shut in both oil and gas production.

13 Finally, and importantly, placing flow controls on a producing field risks shut-in of the  
14 field when the flow valve malfunctions. Producing operations can be shut in for hours or  
15 days in the event of these malfunctions.

16 **Q ARE THERE ADDITIONAL BALANCING-RELATED ISSUES THE**  
17 **COMMISSION SHOULD CONSIDER?**

18 A Yes. SoCalGas has proposed that producers be subject to a uniform hourly flow  
19 requirement. As noted above, natural gas producing operations vary with oil production  
20 requirements, and flows of natural gas may not always be uniform. Thus, while uniform  
21 hourly flow may be a reasonable requirement in the case of a large interstate pipeline, the  
22 concept is not transferable to in-state production connected directly to the utility system.  
23 Consequently, the uniform hourly flow proposal should be rejected. The language in the  
24 Chevron Agreement Section 3.2 should stand: “*Producer shall to the extent feasible*  
25 *make deliveries of Gas at each of the Point(s) of Receipt at substantially uniform rates of*  
26 *flow during a particular month.*”

1 **QUALITY SPECIFICATION COMPLIANCE PROTOCOLS (CA Article VI; PA Article**  
2 **VI)**

3 **Q WHAT DO YOU MEAN WHEN YOU STATE THAT THE PROPOSED**  
4 **AGREEMENT DIFFERS FROM THE CHEVRON AGREEMENT IN THE AREA**  
5 **OF “QUALITY SPECIFICATION COMPLIANCE PROTOCOLS”?**

6 A The Chevron Agreement, like other Access Agreements, provides gas quality  
7 specifications – standards against which gas received by SoCalGas is measured (*e.g.*,  
8 maximum Btu, CO<sub>2</sub>, O<sub>2</sub>). The Producers do not propose in this proceeding to modify the  
9 gas quality standards pending before the Commission in R.04-01-025; gas quality  
10 specifications established in that proceeding, including any contract-specific exceptions,  
11 will govern California producer deliveries into the SoCalGas system. What is missing  
12 from the Chevron Agreement, however, is a protocol for determining when specifications  
13 have been exceeded, including the devices and measurement methods to use, and  
14 determining how to address those exceedances. A standardized protocol would minimize  
15 the risk of discrimination and inequitable treatment by the utility among producers.

16 **Q HOW DO YOU PROPOSE TO ADDRESS THESE COMPLIANCE**  
17 **PROTOCOLS?**

18 A The Proposed Agreement, Section 6.03, directs that SoCalGas follow a Commission-  
19 approved protocol in determining when there has been an impermissible exceedance of a  
20 particular quality specification and what action should be taken to respond to the  
21 exceedance. The proposed protocols are sponsored and explained by the Producer panel  
22 on Gas Quality Enforcement, including Messrs. Craig, Umenhofer, Eson, Mosher, Bears  
23 and Boyer.

24 **ADDED FACILITIES (CA Article IV; PA Article IV)**

25 **Q DO PRODUCERS HAVE LATITUDE TODAY IN THE DESIGN AND**  
26 **CONSTRUCTION OF FACILITIES INTERCONNECTING THEIR FACILITIES**  
27 **TO THE SOCALGAS UTILITY SYSTEM?**

1 A Terms and conditions of existing agreements regarding added facilities differ. Some  
2 agreements allow a producer to self-build, while others do not. In fact, SoCalGas has  
3 conducted pilot projects in the past with individual producers that have demonstrated that  
4 self-build can provide benefits to all involved parties. Consequently, the California  
5 Producers urge the Commission to adopt a single protocol with a self-build option for all  
6 producers.

7 **Q WHAT NEW PRODUCER FACILITY SITING AND DESIGN PROTOCOLS ARE**  
8 **YOU PROPOSING?**

9 A To streamline this process, SoCalGas should issue a formal set of guidelines that allow  
10 for producers to self-build or to use non-utility contractors in the design and construction  
11 process. Latitude could be provided in the process that allows the producer to secure the  
12 following:

- 1 • Design of Facilities
- 2 • Procurement
- 3 • Permits and External Issues
- 4 • Fabrication/Construction
- 5 • Construction Management

6 The producer or non-utility contractor would then submit a plan to SoCalGas. Implicit in  
7 this approach is SoCalGas' assistance and cooperation in providing timely review and  
8 approval of plans submitted by the producer's contractor. It would be reasonable to  
9 expect that it should take not more than 30 days.

10 **Q WHAT BENEFITS WOULD BE ACHIEVED BY THIS PROTOCOL?**

11 A Such an arrangement would streamline the process, save time and provide potential cost  
12 savings to producers and SoCalGas. SoCalGas would realize benefits from these  
13 protocols by helping alleviate any backlog of projects their crews currently face. The  
14 consumer would also benefit by allowing prompt access to in-state natural gas supplies.  
15 As stated by Mr. Bermel on behalf of SoCalGas, allowing more of this work to flow to  
16 outside contractors could prospectively allow producers to, "*...capture value from lower*  
17 *material and construction costs, and expedition of permit process.*"

18 **Q WOULD ALLOWING PRODUCERS OR PRIVATE COMPANIES TO**  
19 **PERFORM THIS WORK RESULT IN A LOSS OF CONTROL OF DESIGN**  
20 **STANDARDS?**

21 A No. Producers understand and concur that SoCalGas must insist on rigid standards for  
22 new interconnections in order to maintain the integrity of its pipeline system. The needs  
23 of every production site can differ significantly. In general, however, a significant  
24 portion of the equipment required is "standard."

25

26 **Q HAVE YOU DISCUSSED YOUR VIEWS WITH SOCIALGAS?**

1 A Yes. Actually, SoCalGas made the initial presentation. In February 2004, Michael  
2 Bermel, Manager of Measurements, Regulation & Control Gas Engineering for  
3 SoCalGas, made a presentation to the producing community that outlined a variety of  
4 areas where the siting and construction process could be streamlined for producers. In  
5 general, we support these proposals and believe that the rules should be broadened so that  
6 producers are provided significant latitude to contract with non-utility entities for design  
7 and construction services for necessary equipment. A copy of the presentation is  
8 attached as Attachment G.

9 **CREDITWORTHINESS**

10 **Q WHY ARE YOU RAISING THE ISSUE OF CREDITWORTHINESS IN THIS**  
11 **PROCEEDING?**

12 A The purpose of this section is to address the terms and conditions of establishing  
13 creditworthiness for California producers who wish to secure interconnections with  
14 SoCalGas and for producers currently interconnected with SoCalGas. These provisions  
15 differ from the *status quo*, as most California producers today are not required to post  
16 credit. This section provides a compromise that reflects SoCalGas' concerns and the  
17 realities of how producer operations are structured and operated.

18 **Q WHAT CONCLUSIONS AND RECOMMENDATIONS DO YOU OFFER**  
19 **REGARDING CREDIT TERMS AND CONDITIONS?**

20 A The section proposes:

- 21 • Terms and conditions of creditworthiness for producers delivering gas under an  
22 existing Access Agreement with SoCalGas;
- 23 • The use of unaudited financial statements to determine the creditworthiness of small  
24 producers;
- 25 • Circumstances under which SoCalGas may re-evaluate creditworthiness and modify  
26 the amount of security to be posted by producers;
- 27 • The use of several forms of security, including guaranteed deliveries and storage;

- 1           • Allowing a marketer to assume the demonstration of creditworthiness on behalf of a  
2           producer.
- 3           • Mechanisms to resolve disputes regarding creditworthiness.

4   **Q    HOW DO YOU PROPOSE THAT YOUR RECOMMENDATIONS BE**  
5   **INCORPORATED INTO SOCIALGAS' PRACTICES?**

6   A    The creditworthiness standards and guidelines could be incorporated into SoCalGas'  
7       practices by their incorporation in the utility tariff.

8   **Q    GENERALLY, WHAT ARE THE CONCERNS OF SMALL PRODUCERS AS**  
9   **THEY RELATE TO CREDITWORTHINESS?**

10  A    Many small producers do not utilize audited financial statements since many of these  
11       companies are family owned and operated businesses. Requiring the mandatory use of  
12       audited financial statements disadvantages smaller producers. Cost-effective alternative  
13       demonstrations should be available to ensure that smaller producers continue to have  
14       access to the system without undue financial hardship. Further, excessive guarantees/  
15       demonstrations of credit may force smaller producers to tie up significant portions of  
16       their capital that could otherwise be earmarked for development and new drilling  
17       purposes.

18       Most small producers use Contracted Marketers<sup>3</sup> for scheduling and balancing services.  
19       Most of the marketing companies active in California have indicated a willingness to  
20       assume the credit responsibilities for their clients if allowed.

21       Credit requirements demanded by SoCalGas are significantly higher than the threshold  
22       established by other producing states. In Texas, for example, producers are required to  
23       have a credit check run by the Texas Railroad Commission as a condition of being  
24       provided a permit to do business. Oklahoma has a similar low threshold. Most marketers

---

<sup>3</sup> "Contracted Marketers" as defined by SoCalGas in Rule No. 1, are individuals, companies or consortiums that arrange for natural gas procurement-related activities on behalf of noncore customers. Contracted Marketers must

1 accept the standard credit check as sufficient proof of a producer's creditworthiness, and  
2 excessive guaranty bonds are not required.

3 **Q FOR PRODUCERS OPERATING UNDER AN EXISTING AGREEMENT WITH**  
4 **SOCALGAS, WHAT CREDITWORTHINESS CONDITIONS ARE**  
5 **REASONABLE?**

6 A A producer operating under an existing California Producer Access Agreement or its  
7 replacement should be presumed creditworthy unless there has been a clearly established  
8 pattern of problems with the producer through which SoCalGas and its ratepayers have  
9 somehow been made financially vulnerable. Specifically, SoCalGas should be allowed to  
10 review creditworthiness (1) if a producer fails to pay two cashout amounts by the due  
11 date for payments within a 12-month period or (2) if SoCalGas demonstrates good cause  
12 to believe that the financial condition of the producer upon which the prior  
13 creditworthiness determination was made has materially changed.

14 **Q UNDER WHAT CONDITIONS WOULD IT BE REASONABLE FOR**  
15 **SOCALGAS TO RE-EVALUATE THE CURRENT CREDITWORTHINESS OF A**  
16 **PRODUCER AND MODIFY THE AMOUNT OF SECURITY REQUIRED?**

17 A Re-evaluation of a producer's credit and status should be non-discriminatory and  
18 conducted through a clearly defined process -- transitions in ownership, substantial  
19 requested increases in MDV allotments, and established patterns of underdelivery would  
20 all justify re-evaluation of a producer's credit status.

21 **Q IF RE-EVALUATION IS REQUIRED, WHAT TYPE OF CREDITWORTHINESS**  
22 **REVIEW WOULD BE APPROPRIATE FOR LARGE PRODUCERS IN YOUR**  
23 **OPINION?**

24 A As noted above, a producer operating under an existing California Producer Access  
25 Agreement or its replacement should be presumed creditworthy unless there has been a  
26 clearly established pattern of problems with the producer through which SoCalGas and  
27 its ratepayers have somehow been made financially vulnerable. If re-evaluation is

---

enter into a contract with SoCalGas and meet certain credit requirements. They must comply with Rules 30 and 35 and all other tariffs which address the transportation and management of customer-owned gas.

1 required, however, SoCalGas should determine creditworthiness based on an evaluation  
2 of the following documentation:

- 3 a. A producer's most recent annual report; AND
- 4 b. The producer's most recent SEC form 10-K OR a copy of the producer's audited or  
5 CPA-reviewed financial statements OR a copy of the producer's unaudited financial  
6 statement accompanied by an attestation from the company's Chief Financial Officer  
7 that the information is true, correct and a fair representation of the producer's current  
8 and foreseeable future condition.

9 A producer should be required to provide SoCalGas with this documentation each year to  
10 maintain its line of credit.

11 Basing a determination on the information described above would be appropriate  
12 considering the realities of how most California producers are structured and operated.  
13 We would concur with SoCalGas that a creditworthiness evaluation may also be  
14 conducted by an outside credit analysis agency, which can be selected by SoCalGas, with  
15 final credit approval granted by SoCalGas. In the event there is a dispute between  
16 SoCalGas and a producer regarding the extent of credit approval, either party should be  
17 permitted to seek resolution under the Dispute Resolution provision for credit discussed  
18 later in our testimony.

19 SoCalGas' creditworthiness evaluation should also consider credit facilities already in  
20 place with the producer and/or the producer's affiliate(s) to serve end-use customers (as  
21 specified in SoCalGas' Tariff Rules 32 and 35) to assure that credit coverage is not  
22 duplicative. Specifically, security in place between SoCalGas and a producer and/or a  
23 producer's affiliate(s) should be aggregated to offset directly any credit coverage  
24 required by SoCalGas from a producer. SoCalGas' creditworthiness evaluation should  
25 also consider the option of allowing a producer's Contracted Marketer to assume the  
26 creditworthiness on behalf of the producer.

27 **Q WHAT OTHER FORMS OF SECURITY SHOULD BE SUFFICIENT TO**  
28 **SUPPORT THE CREDITWORTHINESS OF A PRODUCER?**

1 A If SoCalGas were to deny unsecured credit to a producer, then SoCalGas should provide  
2 a producer with a detailed explanation of the method used in evaluating credit and key  
3 factors affecting final credit approval or denial. The producer should still be allowed to  
4 obtain approval if it elects to provide security to SoCalGas. Acceptable forms of  
5 security, at the producer's election, should include (a) cash deposits, (b) letters of credit,  
6 (c) a corporate guarantee or surety bond, or (d) any combination of these facilities. The  
7 amount of security the producer is required to produce, however, should be reasonable  
8 and based on the legitimate financial risk SoCalGas is able to demonstrate. Posting of  
9 these types of security would only be required after a thorough examination of the  
10 supporting documentation outlined earlier suggests that the utility would be exposed to a  
11 serious financial risk by accepting supplies from the producer.

12 At most, the amount of security should not exceed an amount equal to the producers'  
13 current MDV multiplied by 40 days,<sup>4</sup> and then multiplied by the average *Gas Daily* Daily  
14 Price Survey – SoCalGas, Midpoint index for the immediately preceding calendar month.

15 **Q WHAT OTHER FORMS OF SECURITY DEPOSIT SHOULD BE DEEMED**  
16 **ACCEPTABLE TO ESTABLISH CREDITWORTHINESS?**

17 A Two other forms of security should be deemed acceptable bases for creditworthiness: (1)  
18 a guaranteed monthly delivery contract; and (2) storage collateral. These forms of  
19 security are currently employed by SoCalGas in its dealings with Contracted Marketers  
20 on its system.

21 Under the first scenario, a producer would be permitted to guarantee a monthly delivery  
22 of gas equal to 80% (or some other portion acceptable to the producer and SoCalGas) of  
23 the total volumes scheduled. If a producer fails to meet the 80% condition by  
24 underdelivering an amount greater than 6 times its current MDV during any calendar

---

<sup>4</sup>Forty days represents sufficient time for SoCalGas to monitor a producer's monthly imbalance, detect and notify the producer of an imbalance, and for the producer to cure or present SoCalGas with a plan to remedy the imbalance. A Contracted Marketer typically covers for 120 days value. This difference arises because of the lengthy existing period required for SoCalGas to monitor customers' monthly imbalances, issue imbalance statements, allow for imbalance trading, issue bills for imbalance cashouts and then implement collections procedures for any nonpayment by customers.

1 month, then a producer will have 7 days to cure, following notice from SoCalGas by  
2 (a) delivering gas or storage gas sufficient to reduce the underdelivery volume to less  
3 than 6 times its current MDV and/or (b) increasing its credit facility with SoCalGas to a  
4 mutually agreed upon level. If a producer is unable to cure within the 7-day period, then  
5 a producer must purchase gas sufficient to reduce the underdelivery volume to less than  
6 6 times its current MDV from SoCalGas at the Standby Procurement Charge determined  
7 in SoCalGas' Tariff Schedule G-IMB. By satisfying the 6 times MDV and 7 day cure  
8 criteria, a producer and/or producer's affiliate(s) would be able to reduce its security  
9 requirements to: (MDV) x (13 days) x (the average Gas Daily Daily Price Survey –  
10 SoCalGas Midpoint index for the immediately preceding calendar month).

11 The second form of acceptable security would be to maintain storage collateral. Under  
12 this plan, a producer may elect to reduce the credit required by SoCalGas by having a  
13 producer and/or its affiliates maintain a prescribed volume of gas in storage at all times.  
14 This would be similar to Rule 35 Section B.3.b of SoCalGas' tariffs. It is important to  
15 note, however, that this option is more likely to be of interest to large producers. The  
16 California Producers urge that any storage-based system should be broad enough and  
17 flexible enough to allow for meaningful participation by smaller producers.

18 **Q SHOULD A MARKETER BE PERMITTED TO ASSUME THE**  
19 **RESPONSIBILITY FOR DEMONSTRATING CREDITWORTHINESS AND**  
20 **PROVIDING SECURITY ON BEHALF OF A PRODUCER?**

21 **A** Yes, and while this option is important to all producers, it is particularly important to  
22 small producers. Most small producers do not employ their own internal marketing staff.  
23 These producers work closely with their marketing agents and Contracted Marketers to  
24 schedule and sell their gas production. Allowing Contracted Marketers to assume a  
25 credit role for producers will simplify the credit demonstration and remove potential  
26 barriers to delivery.

1 **Q IF A DISPUTE ARISES BETWEEN A PRODUCER AND SOCIALGAS OVER**  
2 **CREDIT FACILITIES, WHAT DISPUTE RESOLUTION PROCESS SHOULD BE**  
3 **EMPLOYED?**

4 A The Commission should specify that any such dispute should be resolved through  
5 arbitration under the terms and conditions of the producer's Access Agreement.

6 **OTHER ISSUES**

7  
8 ***MAXIMUM DAILY VOLUMES (CA §3.2, Appendix C; PA §3.02)***

9 **Q EACH ACCESS AGREEMENT CARRIES A MAXIMUM DAILY VOLUME**  
10 **(MDV) VALUE. WHAT SIGNIFICANCE DOES THE MDV CARRY?**

11 A Very simply, the MDV states the maximum volume of natural gas that a producer is  
12 entitled contractually to deliver to SoCalGas on a given day. MDV does not confer  
13 transportation rights on SoCalGas' system; only end-use customers are permitted to hold  
14 transportation rights. Historically, SoCalGas has determined and allocated MDV in a  
15 manner that ensures that total contract MDVs do not exceed the total firm take-away  
16 capacity on a particular line. Consequently, historically and today, if a producer has a  
17 specified MDV, or if the producer has "MDV-like" rights based upon the terms of its  
18 access agreement and historical deliveries, it can be relatively certain that the utility will  
19 be capable of receiving the gas into its system without interruption.

20  
21 **Q WILL THE PURPOSE OF MDV CHANGE OVER TIME?**

22 A Possibly. The utility has proposed in A.04-12-004 a Firm Access Rights (FAR) program  
23 that would change this practice, and the California Producers take no position on this  
24 issue in this proceeding.

25 **Q PENDING THE COMMISSION'S CONSIDERATION OF THE FAR PROPOSAL,**  
26 **HOW DO YOU PROPOSE TO TREAT A CONTRACT MDV?**

27  
28 A First, a producer's historical MDV should be carried over from its existing agreement to  
29 any new Access Agreement executed as a result of this proceeding. Second, this MDV  
30 should represent a "firm" interconnect quantity equivalent to each producer's current  
31 MDV. We propose that a producer not be allowed to exceed its contract MDV during a

1 local system high-pressure event if the exceedance would prevent other producers from  
2 delivering their full MDV into the system or would otherwise cause a material threat to  
3 pipeline integrity or gas customer safety. We also propose that producers be permitted to  
4 trade or assign their MDVs on a monthly basis among themselves with notification given  
5 to SoCalGas (a practice we understand is already occurring). Third, as SoCalGas  
6 proposed in this proceeding and in A.04-01-034, a system of interruptible rights should  
7 be created. SoCalGas has identified the minimum firm interconnection capacity of  
8 Line 85 as 160 MMcfd and the minimum firm interconnection capacity of the North  
9 Coastal system as 150 MMcfd. Today, although the available access capacity has been  
10 allocated to existing contracts, the allocated capacity is not always fully used. Thus,  
11 SoCalGas should also establish a system of interruptible nominations on the Line 85 and  
12 Coastal systems so that producers can take advantage of capacity not being used by other  
13 producers and/or any increase in total system take-away capacity that may occur on  
14 particular days.

15 ***DELIVERY PRESSURE (CA §3.1; PA §3.01)***

16 **Q HOW DOES THE CHEVRON AGREEMENT ADDRESS DELIVERY PRESSURE**  
17 **FROM A PRODUCER POINT OF ACCESS?**

18 A The Chevron Agreement provided that the gas would “*be delivered through Utility’s*  
19 *metering Facilities at the Point(s) of Receipt and all such Producer’s Gas shall be*  
20 *delivered at sufficient pressure to enter Utility’s facilities at the Point(s) of Receipt,*  
21 *provided however, such delivery pressure shall not be in excess of the maximum pressure*  
22 *designated in Appendix C for each of the Point(s) of Receipt.” (§3.1) Delivery pressures*  
23 *are then specified in the producer’s Appendix C.*

24 **Q WHAT ARE PRODUCERS’ CONCERNS WITH THIS PROVISION?**

25 A Our concerns lie in the limited area of modifications of the contract pressures specified in  
26 the Chevron agreement’s Appendix C.

27 **Q AT WHAT DELIVERY PRESSURE SHOULD PRODUCERS BRING SUPPLIES**  
28 **INTO THE SYSTEM?**

1 A Producers should deliver gas to the SoCalGas system at the interconnection point at a  
2 delivery pressure sufficient to enter SoCalGas' system, but not more than the current  
3 Maximum Allowable Operating Pressure (MAOP) of SoCalGas facilities.

4 Q **HOW SHOULD CHANGES IN DELIVERY PRESSURE REQUIREMENTS BE**  
5 **HANDLED?**

6 A Requiring producers to respond to pressure changes (increase or decrease) on the existing  
7 system is acceptable so long as SoCalGas gives producers assurance the change is  
8 reasonably required to maintain safety and operational integrity of the system. In  
9 addition, it is important to the stability of producer operations that SoCalGas provide as  
10 much advance notice as is reasonably possible under the circumstances. Implementing  
11 an increase in pressure is much more difficult due to permitting requirements for the new  
12 equipment (*e.g.*, compression) than is implementing a decrease in delivery pressure. The  
13 notice thus should be greater for increases than for pressure decreases. For these reasons,  
14 the producers propose the minimum notice requirements specified below:

15 1) For increases in delivery pressure, SoCalGas should provide a producer with as  
16 much advance notice as is reasonably possible, but not less than twelve months  
17 notice. If a producer reasonably demonstrates an inability to obtain the necessary  
18 air quality permits or compression equipment or alternate disposition of gas  
19 displaced by the proposed pressure increase, SoCalGas will not implement the  
20 proposed MAOP change for a reasonable period not to exceed an additional six  
21 months.

22 2) For decreases in delivery pressure, SoCalGas should provide a producer with as  
23 much advance notice as is reasonably possible, but not less than six months  
24 notice.

25 These conditions would not apply in the event of Force Majeure situations on the utility  
26 system.

1 **SPLIT METERING (CA 7.7; PA §7.07)**

2 **Q WHAT IS “SPLIT METERING”?**

3 A There are certain access points to SoCalGas’ system through which gas produced by  
4 more than one producer under more than one Access Agreement may flow. In these  
5 circumstances, SoCalGas’ historical practice has allowed a producer to make an  
6 allocation of the actual deliveries to SoCalGas’ system between or among the multiple  
7 Access Agreements. Split-metering is more common in PG&E’s service territory than in  
8 SoCalGas’ service territory.

9 **Q WHAT HAS SOCALGAS PROPOSED WITH RESPECT TO SPLIT METERING?**

10 A SoCalGas proposes to change the *status quo*, eliminating split metering unless producers  
11 can agree in advance to predetermined splits of their volumes.

12 **Q IS SOCALGAS’ PROPOSAL REASONABLE OR PRACTICABLE?**

13 A No. In split meter situations, producers cannot realistically agree to a predetermined  
14 split, either by volume or percentage. The amount of natural gas delivered by each  
15 producer through the meter each day may vary depending upon normal reservoir and well  
16 fluctuations and each producer’s natural gas production operations.

17 **Q HOW DOES THE PROPOSED AGREEMENT ADDRESS SPLIT METERING?**

18 A The Chevron Agreement did not provide sufficient clarity in the timing and consequences  
19 of allocations among split meters. The Proposed Agreement provides these clarifications.  
20 First, it specifies the timeline for providing split meter allocations. Second, it specifies  
21 that once a split meter allocation has been made, a producer will not be responsible for  
22 the imbalances of the other producer(s) flowing gas through that meter if the other  
23 producer(s) is delivering under its own, separate Access Agreement.

24 **Q WHY CAN’T WE ELIMINATE THE NEED FOR SPLIT METERING BY**  
25 **SEPARATELY METERING PRODUCERS?**

1 A Split metering could be eliminated by separately metering the affected producers, but  
2 would result in economic waste. A fictitious analogy would be the implementation of a  
3 company policy that prohibited employees from carpooling to off-site business functions  
4 solely because the employees work in different departments within the company and each  
5 department separately tracks its employee overhead expenses. A more efficient and  
6 sensible policy would be to permit carpooling so long as it did not present an undue risk  
7 to the company. Likewise, split metering should be allowed so long as it does not  
8 compromise utility system safety and reliability or impose an undue hardship on the  
9 utility.

10 Split metering opportunities arise very infrequently. They usually occur in geographical  
11 locations where one or more producers have operations in close proximity and those  
12 producers desire to utilize common gas processing facilities and a single Point of  
13 Delivery to the utility. One of the producers is designated as the meter operator, making  
14 it responsible for allocating physical deliveries between the various producers. Split  
15 metering eliminates the need to install redundant GCs, H<sub>2</sub>S analyzers and composite  
16 sampler equipment because the quality of the commingled gas stream is identical for all  
17 producers. Utilizing a common meter for measuring volumes is also efficient, as it  
18 eliminates the need for calibration and maintenance of multiple meters.

19 **METERING (CA Article VII; PA Article VII)**

20 **Q DO YOU HAVE A PROPOSAL TO CLARIFY PROTOCOLS FOR METERING**  
21 **AND MEASUREMENT OF GAS RECEIVED FROM PRODUCERS?**

22 A Yes, we propose some simple clarifications:

- 23 ● Meter maintenance, testing and correction will comply with the American Gas  
24 Association Report 4A, Sample Contract Measurement Clause, “Meter  
25 Facilities.”
- 26 ● SoCalGas will preserve meter maintenance records for a period of time of at least  
27 three (3) years.
- 28 ● If, as a result of any testing, it is determined that there has been a combined  
29 (meter and transmitter) error in the measurement greater than one percent (1%),

1 then SoCalGas will adjust all prior periods back to the period that is mutually  
2 determined and agreed upon by both parties as to when the error commenced.  
3 However, if the parties cannot reach such an agreement, then SoCalGas will  
4 estimate the gas deliveries and make appropriate adjustments for the period  
5 during which the meter was in use, not to exceed three years.

- 6 • Prior period adjustments for meter error may not exceed three years prior to the  
7 date on which the discovering Party provides notice of error to the other Party.

8 **Q ARE THERE OTHER CHANGES REQUIRED TO ADDRESS PRODUCER**  
9 **CONCERNS?**

10 **A** Yes. Specifically, when recalibrating meters, the utility should be required to calibrate to  
11 accuracy consistent with the vendor specification. The impact of imprecise calibration  
12 on a producer can be significant. For illustrative purposes, assume the average California  
13 producer delivers around 7,000 MMBtu/day. If a producer meter were reading a 2%  
14 error (by undermetering), 2% of 7,000 MMBtu/day is 140 MMBtu/day. Assuming a  
15 California natural gas price of \$10/MMBtu, the producer could essentially lose 140  
16 MMBtu/day for \$1,400/day, 4,200 MMBtu/month for \$42,000/month and 50,400  
17 MMBtu/year for \$511,000/year. A producers' "loss" is the SoCalGas system "gain" since  
18 the utility system will accept full delivery of 100% of the gas production while only  
19 crediting the producer with 98% of their physical deliveries.

20 Note that a similar argument supporting the need for accurate measurement may be made  
21 on behalf of SoCalGas ratepayers. Under the same assumptions, SoCalGas would  
22 incorrectly credit the producer with 102% of their physical deliveries. SoCalGas' system  
23 essentially "loses" this 2% volume and we assume it would become part of "lost and  
24 unaccounted for" gas.

25 It is in the best interest of both the California Producers and SoCalGas to meter  
26 accurately and correct the meters to function as correctly as is possible. The importance  
27 of accuracy has been heightened by increasing natural gas prices.

28 **OPERATIONS & MAINTENANCE FEES (CA Article V, Appendix B; PA Article V,**  
29 **Appendix B)**

1 **Q HAVE O&M FEES BEEN REVIEWED AND APPROVED BY THIS**  
2 **COMMISSION?**

3 A Among issues related to Producer Access Agreements, O&M fees have perhaps received  
4 the most regulatory oversight. As we discussed earlier, the Commission reviewed and  
5 approved a standardized charge structure for future California gas Access Agreements in  
6 Resolution G-3194, issued on September 4, 1996. The Resolution observed that  
7 “SoCalGas [sic] objective is to recover all its costs in providing access to California gas  
8 producers to use its system to transfer their gas to locations within SoCalGas’ service  
9 territory.” Notably, as the Resolution recites, SoCalGas proposed “to file a revised  
10 charge structure if any significant changes in cost occur.” SoCalGas has sought changes  
11 to O&M fees and structure, and those changes were addressed by the Commission in  
12 Resolutions G-3295 (May 2001) and G-3343 (April 2003).

13 **Q WHAT ACCESS AND O&M FEES ARE CHARGED TO PRODUCERS TODAY?**

14 A Resolution G-3295 and G-3343 specify the charges in place today. They include an  
15 application fee, a fixed cost component, a variable cost component, labor costs for site  
16 visits and, in certain instances, trucking charges to allow SoCalGas to site blend natural  
17 gas to ensure compliance with California Air Resources Board natural gas vehicle fuel  
18 specifications at the nozzle.

19 **Q WHAT ELEMENT OF THE CURRENT FEE STRUCTURE DO YOU SEEK TO**  
20 **CHANGE?**

21 A California Producers have several limited requests regarding access fees. First,  
22 Producers are concerned that SoCalGas engages in a practice whereby producers are  
23 invoiced for multiple visits even though remediation may have possible in a single visit.  
24 SoCalGas should be placed on notice that it is required to address on-site remediation in  
25 the most efficient manner possible. SoCalGas should provide a detailed description  
26 documenting specific O&M activities billed on an invoice, including unplanned or  
27 unscheduled visits, to permit verification by the producer. SoCalGas would not be  
28 allowed to invoice a producer for more than one unscheduled visit for remediation of an

1 identified problem in circumstances in which remediation was reasonably feasible during  
2 a single visit. Second, in the case that the utility does visit the site and perform work,  
3 there must be an agreement in place that places responsibility for equipment repair or  
4 replacement in the event damage or malfunction results from utility O&M activities.  
5 Third, SoCalGas should verify that variable O&M fees charged to a producer do not  
6 duplicate costs embedded in the fixed O&M charge. The producer should retain the right  
7 to review and propose reasonable changes to any SoCalGas proposal or request to  
8 upgrade, replace or enhance existing equipment when the facilities are functioning  
9 reliably and are meeting industry standards.

10 ***CAPACITY STUDIES (PA §4.06)***

11 **Q DOES THE CAPACITY REVIEW PROCESS RECOMMENDED BY SOCALGAS**  
12 **WITNESS WATSON PROVIDE A REASONABLE FRAMEWORK FOR**  
13 **FACILITATING NEW INTERCONNECTIONS FOR PRODUCERS?**

14 A The proposal does not provide sufficient certainty for producers. Identifying available  
15 points of potential interconnection to the utilities' pipeline system is an integral part of  
16 the producer's project evaluation. The economics and viability of a project are strongly  
17 influenced by the producer's ability to run pipeline to a reasonable cost effective location.

18 Capacity studies performed by the utility can often exceed six months. Delays in this  
19 stage of the decision making process, as noted with many of the other issues outlined in  
20 this testimony, can affect the producer's ability to secure rig access, meet drilling  
21 timelines, *etc.* There have been instances where an interconnection has been denied by  
22 the utility and the producer was provided with very little backup information justifying  
23 the denial.

24 **Q WHAT PROTOCOL DO THE PRODUCERS PROPOSE?**

25 A The Producers propose a milestone-based protocol, which is attached as Attachment F  
26 and addressed in PA section 4.06.

27 ***DISPUTE RESOLUTION (CA §18.1; PA Article XVIII)***

1 **Q HAVE YOU PROPOSED ANY CHANGES TO THE DISPUTE RESOLUTION**  
2 **PROVISIONS OF THE CHEVRON AGREEMENT?**

3 **A** With the exception of Capacity Study disputes, we have not. There are many features of  
4 the Access Agreement that do not require Commission review and intervention. Staying  
5 the course with arbitration offers the parties an opportunity to expedite review and  
6 resolution of disputes. We propose that arbitration be used to resolve all disputes  
7 regarding contract performance/non-performance that arise between the producer and  
8 SoCalGas. As noted above, the Commission would continue in active oversight of any  
9 changes to the applicable Access Agreement and related tariffs. In addition, for Capacity  
10 Study disputes regarding substance, timeliness, cost and reimbursement, we recommend  
11 that a contact be established within the Commission's staff to review and mediate such  
12 disputes.

13 **ONGOING REGULATORY OVERSIGHT**

14 **Q HOW DO YOU PROPOSE THAT THE COMMISSION PROSPECTIVELY**  
15 **ADMINISTER THE PROPOSED AGREEMENT?**

16 **A** California Producers propose that the Proposed Agreement and associated guidelines and  
17 protocols be incorporated into SoCalGas' tariff as default service arrangements in the  
18 same way the utility tariffs its rules for dealing with end-use customers. If SoCalGas  
19 wishes to execute an agreement that deviates from this agreement, without the producer's  
20 consent, it should be required to submit the agreement to the Commission for approval.  
21 Likewise, if SoCalGas wishes to make modifications to the *pro forma* default agreement  
22 or related tariff schedules, it should be required to request the changes through an Advice  
23 Letter change. In the event of protest, the Commission should be willing to elevate the  
24 Advice Letter to application status to ensure a full public review of the issue.

25 **Q DO YOU PROPOSE THAT THE PROPOSED AGREEMENT APPLY TO ALL**  
26 **CALIFORNIA PRODUCERS?**

27 **A** We propose that all California producers who are currently operating under a California  
28 Producer Access Agreement based on the Chevron Agreement model transition to the

1 Proposed Agreement within a reasonable time following the Commission’s decision in  
2 this proceeding. This would include the companies represented by the panelists  
3 sponsoring this testimony. Where no unique circumstances exist requiring deviation or  
4 modification, the transition should occur, as SoCalGas proposes, within six to 18 months  
5 following a final Commission decision. If deviations are required, SoCalGas and the  
6 affected producer should file an Advice Letter requesting deviation as quickly as possible  
7 and propose a plan to implement a timely transition. The Proposed Agreement should be  
8 applied prospectively to any new points of access for California production, including  
9 SoCalGas’ Native Gas production. Finally, the Proposed Agreement should not be  
10 applied to any existing producer that has an existing, negotiated access agreement that  
11 contains unique terms and conditions and that is not subject to Commission review,  
12 approval or modification.

13 **Q HAVE YOU PROPOSED ANY CHANGES TO SOCIALGAS’ FORM**  
14 **COLLECTIBLE WORK AUTHORIZATION, APPENDED TO ATTACHMENT A**  
15 **TO THE PRO FORMA ACCESS AGREEMENT?**

16 **A** Yes. While the CWA generally is acceptable, the indemnification provision is unfairly  
17 imbalanced in favor of the utility. In relevant part, the CWA provides:

18 *Purchaser shall indemnify, defend and hold harmless The Gas Company from and*  
19 *against any and all liability of every kind and nature for- (i) injury to or death of*  
20 *persons, including without limitation, employees or agents of The Gas Company*  
21 *or of Purchaser; (ii) damage, destruction or loss, consequential or otherwise, to*  
22 *or of any and all property, real or personal, including without limitation,*  
23 *property of The Gas Company, Purchaser or any other person (iii) violation of*  
24 *local, state or federal laws regulations (excluding environmental laws or*  
25 *regulations); and (iv) including attorney’s fees incurred in defending against such*  
26 *liability or enforcing this provision – resulting from or in any manner arising out*  
27 *of or in connection with the performance of the Work including the indemnity*  
28 *obligations imposed on The Gas Company by the owner of the Job Address if*  
29 *other than Purchaser, by the local jurisdiction in which the Work is performed or*  
30 *which issues a permit for any part of the Work, excepting only those liabilities*  
31 *arising from the sole negligence or willful misconduct of The Gas Company or its*  
32 *agents compared to any other person.*

1 Note the insertion of the word “sole” before the phrase “negligence or willful misconduct  
2 of The Gas Company”. This provision places the Purchaser in the position of potentially  
3 bearing responsibility for negligence or willful misconduct by The Gas Company in cases  
4 in which other actions may have contributed to injury, damage or violation. It is  
5 important to note that in provisions providing for reciprocal indemnity, such as in Article  
6 X of the Chevron and Proposed Agreements, the word “sole” is not employed. In the  
7 reciprocal indemnity, in which SoCalGas also indemnifies the producer, the phrase  
8 employed without qualification is “negligent or wrongful actions or omissions.” The  
9 Commission should use its oversight authority to prevent SoCalGas from using its  
10 monopoly position to extract agreement to this and any other similarly imbalanced  
11 contract provision.

12 **Q DOES THIS CONCLUDE YOUR TESTIMONY?**

13 **A Yes.**

1 ATTACHMENT A

2 STATEMENT OF QUALIFICATIONS

3 **Dean Bears**  
4 **Manager of California Customer**  
5 **Accounts**  
6 **Chevron Natural Gas**, a Division of  
7 Chevron U.S.A. Inc.

1546 China Grade Loop  
Bakersfield, CA 93380  
Phone: 661-392-2693  
Fax: 661-392-2690  
[deanbears@chevron.com](mailto:deanbears@chevron.com)

8 Mr. Bears is currently the Manager of California Customer Accounts for the Supply and Fuels  
9 Group of Chevron Natural Gas. Responsibilities include coordination for all natural gas fuel  
10 activities for Chevron's operations in California including its oil and gas production,  
11 cogeneration and refining operations. Mr. Bears has over 30 years experience with Chevron  
12 Corp. and Texaco Inc.

13 Mr. Bears initial experience included engineering assignments of increasing responsibility in  
14 both operational and reservoir positions covering both onshore and offshore operations in  
15 Louisiana, Mississippi and Alabama. This included providing testimony before the Mississippi  
16 and Louisiana Oil and Gas Boards. Following various staff assignments at the corporate level in  
17 Houston, he served as manager for Enhanced Oil Recovery (EOR) operations in the Texas  
18 Permian Basin. He has had articles on EOR Project Management and CO<sub>2</sub> Flooding published in  
19 the "Oil and Gas Journal" and "Journal of Petroleum Technology". In 1994, Mr. Bears assumed  
20 responsibility for facility and maintenance operations in Texaco's Bakersfield Division and has  
21 also served in several senior engineer roles including advising on energy matters.

22 Mr. Bears serves as Vice Chairman on the Board of Directors of the Conservation Committee of  
23 California Oil and Gas Producers.

24 Mr. Bears received a B.S. in Chemical Engineering from the University of Notre Dame in South  
25 Bend, Indiana.

**Rod Eson**  
**President and CEO**  
**Foothill Energy LLC**

1200 Smith Street, Suite 1600  
Houston, Texas 77002  
Phone: 713-353-3981  
Fax: 713-353-8726  
[reson@foothillenergy.com](mailto:reson@foothillenergy.com)

26 Mr. Eson is Founder and Chief Executive Officer of Foothill Energy and is responsible for  
27 managing the growth of this newly formed energy company. Foothill Energy has oil and gas  
28 operations in several counties throughout Texas. Prior to forming Foothill Energy in June 2004,  
29 Mr. Eson was President and Chief Executive Officer of Venoco Inc., a California-based  
30 independent oil and gas company he co-founded in 1992. Prior to his founding Venoco,  
31

1 Mr. Eson owned and managed Enhanced Petroleum Technology, a service company specializing  
2 in the field application of various enhanced oil recovery technologies for 17 years.

3  
4 Mr. Eson is currently serving as Chairman of the Board of the California Independent Petroleum  
5 Association, a 400 member trade association providing support and advocacy for nearly all of  
6 the independent oil and gas operators in California. He has been a member of the Society of  
7 Petroleum Engineers and American Petroleum Institute for more than three decades

8  
9 Mr. Eson serves as the Chairman of the Board of Directors of Ridgeway Petroleum Corporation,  
10 a natural resource company based in Houston, Texas with holdings in Arizona, New Mexico and  
11 Alberta.

12  
13 Mr. Eson received a B.S. in Mechanical Engineering from California State Polytechnic  
14 University in Pomona, California.

15  
**James P. Mosher**  
**Business Consultant**  
**Aera Energy LLC**

10000 Ming Avenue  
Bakersfield, California 93311  
Phone: 661-665-5671  
Fax: 661-665-5327  
[jpmosher@aeraenergy.com](mailto:jpmosher@aeraenergy.com)

16  
17 Mr. Mosher is a Business Consultant at Aera Energy LLC and is responsible for monitoring and  
18 coordinating electricity and natural gas issues within the company. Aera is a California oil and  
19 gas producer with headquarters located in Bakersfield, California. Aera's oil and gas producing  
20 operations are primarily located in the San Joaquin Valley and in Ventura, California. Prior to  
21 joining Aera, Mr. Mosher was employed by CalResources LLC, the predecessor company to  
22 Aera.

23  
24 Mr. Mosher serves as Aera's member representative for the Energy Producers and Users  
25 Coalition and the Indicated Producers, both of which are *ad hoc* industry associations that  
26 participate in California natural gas and electricity regulatory matters. He also serves as Aera's  
27 representative for the Kern River and Southwest trial groups that participate in natural gas  
28 proceedings at the Federal Energy Regulatory Commission. Mr. Mosher has not testified before  
29 the Public Utilities Commission or other agencies.

30  
31 Mr. Mosher received a B.S. in Electrical Engineering from Michigan Technological University  
32 and an M.B.A. from Pepperdine University. He is also a member of the California Bar.

33  
**Elizabeth Wright**  
**Occidental Energy Marketing Inc.**

5 Greenway Plaza, Suite 110  
Houston, Texas 77046  
Phone: 562-624-3309  
[ej\\_wright@oxy.com](mailto:ej_wright@oxy.com)

34  
35 Ms. Wright is testifying in this proceeding on behalf of Occidental of Elk Hills, Inc. Occidental

1 of Elk Hills is located at 28590 Highway 119, Tupman, California 93276.

2

3 Ms. Wright has been employed by Occidental since 2001 with various regulatory, marketing and  
4 liaison responsibilities. Ms. Wright has also been employed by ARCO Oil & Gas Company for  
5 six years in the Petroleum Engineering field. She has also been employed by Southern  
6 California Gas Company for ten years in Regulatory Affairs, Gas Acquisition, Marketing and  
7 Human Resources. Ms. Wright has been employed by the City of Long Beach for two years  
8 performing work on behalf of the municipal gas utility.

9

10 Ms. Wright has a B.S. in Petroleum Engineering from the University of Southern California and  
11 an M.B.A. from the University of California Los Angeles.

12

13 Ms. Wright has previously testified before the Commission.

1

**ATTACHMENT B**

2

**CHEVRON AGREEMENT**

1

**ATTACHMENT C**

2

**PROPOSED AGREEMENT**

1

**ATTACHMENT D**

2

**REDLINE COMPARISON OF CHEVRON AND PROPOSED AGREEMENTS**

1

**ATTACHMENT E**

2

**TABLE SUMMARIZING THE BASIS FOR MATERIAL CHANGES TO THE**

3

**CHEVRON AGREEMENT**



1 **Day 90: Capacity Study letter agreement signed and funds deposited with Utility.**

2 **Day XX: Initial Capacity Study results/review with producer:**

3 a. Winnow the alternatives.

4 b. Adjust Timeline if necessary.

5 **Day YY: Final Capacity Study results/review with producer.**

6 **Day YY + 365: producer selection of preferred alternative(s).**

7 a. Utility has right to request additional funds to review/revise Capacity Study if  
8 producer selection not made by this date.

9 **Utility Deliverables (for Each Pipeline Access Alternative)**

10 Maximum and minimum delivery pressure, including any seasonal constraints.

11 Pipeline gas composition analyses for past 36-months.

12 Total available capacity, by month and/or season, to enable producer determination of the  
13 most economical means of delivering its gas into the Utility system:

14 a. May include split-stream delivery into more than one pipeline.

15 Notional cost estimates for measurement and gas quality monitoring facilities and any  
16 proposed transmission or distribution system enhancements for each access alternative.

17 Copies of detailed calculations, work papers and all supporting documentation for access  
18 alternatives, upon producer request.

19 **CPUC Review**

20 Establish focal point within CPUC staff to review/mediate disputes pertaining to Capacity Study  
21 substance, timeliness, cost and reimbursement.

1

**ATTACHMENT G**

2

**SOCALGAS POWERPOINT:**

3

*Equipment Selection, Design, Permitting and Construction of Producer Access Stations*

4