Application No.: A.08-06-006
Exhibit No.:
Witness: Rodger Schwecke

Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 G) to Expand Existing Off-System Delivery Authority.	Application 08-06-006 (Filed June 6, 2008)

PREPARED DIRECT TESTIMONY
OF RODGER SCHWECKE
ON BEHALF OF
SAN DIEGO GAS & ELECTRIC COMPANY
AND
SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

August 28, 2009

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PREPARED DIRECT TESTIMONY
OF RODGER SCHWECKE

I. QUALIFICATIONS

My name is Rodger Schwecke. I am employed by Southern California Gas Company (SoCalGas) as the Director of Energy Markets and Capacity Products in the Customer Services Department. My business address is 555 West Fifth Street, Los Angeles, California, 90013-1011. My responsibilities are to manage service to the largest gas customers of San Diego Gas & Electric (SDG&E) and SoCalGas, specifically large electric generators, refineries and wholesale customers. I also manage for SDG&E and SoCalGas the unbundled storage program, the Operational HUB (G-PAL) services and minimum flowing supply purchases, policies and procedures for scheduling and nominations on the SDG&E and SoCalGas systems, daily operation and enhancements to SoCalGas' Electronic Bulletin Board (EBB), and all aspects of SDG&E/SoCalGas' interconnect and operational balancing agreements with all suppliers delivering natural gas into the utility system.

I have been employed by SoCalGas and its affiliates since June 1983 in numerous positions, including General Manager/Vice President – Bangor Gas Company; Vice President Marketing - Frontier Energy; and Business Development Manager, Senior Pipeline Products Manager, Project Manager, Account Executive Supervisor, Market Planner Analyst, and Energy Systems Engineer for SoCalGas. I assumed my current position in December 2007. During my employment I have been responsible for various aspects of utility development and operations, sales and marketing, regulatory matters, and customer relations. I graduated in 1983 from California State University, Long Beach, with a Bachelor of Science in Chemical Engineering.

I have previously testified before the California Public Utilities Commission, State of Maine Utilities Commission, and the North Carolina Utilities Commission.

II. PURPOSE OF TESTIMONY

The purpose of my testimony is to request the authority to provide interruptible and firm off-system services, which are currently limited to Pacific Gas and Electric Company (PG&E), at all SoCalGas interstate and international receipt points.

III. THE PROPOSAL

Currently, SoCalGas is authorized to provide only interruptible and firm off-system services to PG&E. In this application, SoCalGas requests the authority to provide interruptible and firm off-system services at all SoCalGas interstate and international receipt points. This change would put SoCalGas' transportation service options on an equal footing with those of PG&E, which provides off-system services at all of its backbone transportation paths regardless of whether the interconnect is with an interstate pipeline. Off-system deliveries to other SoCalGas receipt points would increase transportation revenues, which will benefit end-use customers. Since the proposed services will encourage suppliers to bring additional supplies to the SoCalGas citygate, it will tend to increase gas-to-gas competition and liquidity at the SoCalGas citygate. This will benefit all California customers resulting from lower gas and power prices. The proposed change will also be in the public interest as it will treat all similarly-situated receipt points and their connecting pipelines in a non-discriminatory manner.

The maximum rates for all interruptible off-system service would be set equal to the Firm Access Right (FAR) charge, which is currently 5 cents/dth.[1] This rate design would equate the off-system rate to the on-system rate for transportation service to and from the citygate. Again, this is the approach used on the PG&E system, where the off-system rates are set equal to the on-system rates for each of its backbone transmission paths. The only difference would be that SoCalGas uses a postage stamp rate, not path-specific rates, for the use of its transmission network.

Firm off-system service would be provided to any point (including but not limited to PG&E) for which there is market interest in such firm service. This service would be firm, rather than interruptible, because it would not rely on displacement of forward-haul gas, and facilities would need to be constructed so gas supplies could be physically delivered into the interconnecting pipeline system at the relevant point. PG&E currently has two delivery points defined for firm off-system service in its G-AFTOFF tariff—Kern River Station to SoCalGas and Kern River's High Desert Lateral at Fremont Peak. Any similar firm off-system service on

[1] This rate is likely to be revised upward in future FAR open seasons to more accurately reflect the true average cost of the backbone transmission system. The interruptible off-system service charge can be discounted to maximize off-system revenues for the benefit of ratepayers.

the SoCalGas system would require capital investments and facility enhancements. Shippers contracting for firm off-system service would be assessed a fixed contractual charge that would fully recover costs of any new facility installed to provide the service in addition to the standard interruptible off-system delivery rate.[2] This approach would ensure that existing end-use customers would not bear the costs of providing the firm off-system service and would in fact see rate reductions from the firm off-system shippers' payment of the interruptible off-system rate. This would result in increased system throughput and utilization. The facilities to be installed and resulting firm rate associated with that service would need to be approved through a separate application. SoCalGas is requesting in the current application that the Commission establish the general terms and conditions of firm off-system service, as well as the method for determining the firm off-system transportation rate, so that SoCalGas can meaningfully gauge market interest in the service.

SoCalGas might seek to roll-in the firm off-system facility costs into those of the overall transmission system if SoCalGas can demonstrate that the incremental off-system facility costs are below the incremental revenues associated with charging the incremental firm off-system load the system average transmission rate.[3] Under such circumstances the rolled-in pricing of the firm off-system facilities could decrease average transmission rates for all customers.[4]

IV. BENEFITS OF THE PROPOSAL

Off-system deliveries to other SoCalGas receipt points (in addition to PG&E) would increase the utilization of SoCalGas' backbone transmission facilities and transportation revenues. Shippers would use the SoCalGas transmission system not only to meet on-system demand, but also to meet off-system demands whenever off-system gas commodity and transportation prices allowed off-system shippers to be price-competitive including the off-system charge that would be assessed. Assuming that SoCalGas would not be at-risk for its

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[2] The G-OSD tariff would be changed to reflect this rate treatment for all off-system service, including that to PG&E.

[3] Rolled-in treatment might be appropriate in applications for new facilities that are relatively inexpensive or for older facilities that have been significantly depreciated and therefore have relatively low remaining net book value.

[4] PG&E's firm off-system delivery rates to SoCalGas or Kern River equals the on-system rate for each path, which indicates a rolled-in pricing approach.

backbone transmission facilities, which is the case today, SoCalGas would use these additional revenues to reduce transportation rates for its on-system, end-use customers.[5] D.06-12-031 rejected the shipper proposal that backbone shippers receive a credit back of the FAR reservation charge when a shipper makes an off-system delivery to a PG&E customer. Instead, that decision endorsed SoCalGas' proposal that such revenues should be credited to end-use customers on the system.[6] For off-system deliveries to other points, SoCalGas proposes the same revenue treatment as that in place for revenues generated from off-system deliveries to PG&E.

Shippers using SoCalGas' system would benefit from the opportunity to ship supplies to off-system markets, in addition to the supplies they would normally ship to SoCalGas end-users. Shippers would then have a broader array of service options on and market outlets from, the SoCalGas system as they do today on the PG&E system. Providing these additional market outlets to suppliers should encourage them to bring more supplies to the SoCalGas citygate. This will increase gas-to-gas competition and liquidity at the citygate, which will benefit all California customers.

In addition, additional outlets beyond southern California for new potential supplies, such as LNG and California production, will encourage the development of these new supplies. The proposed off-system services should be able to assist power plants located in the neighboring states of Arizona and Nevada to meet their loads, increase their supply options and ultimately lower their gas costs. Many of these power plants supply power to California customers, and therefore the California electricity consumer will also benefit from lower power prices.

Firm and interruptible off-system services could increase the demand for SoCalGas' unbundled storage service depending on who is purchasing the supplies. If the off-system service assists off-system customers in balancing their gas loads on another interconnecting

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[5] The 2009 BCAP Phase 2 Settlement Agreement (filed with the Commission on June 2, 2009 in A.08-02-001) stipulates that SoCalGas will not have throughput risk during the settlement period. If, however, SoCalGas were to be put at-risk for the recovery of its backbone transmission costs at some point in the future, then it would be reasonable for off-system revenues to be included in that at-risk structure.

[6] D.06-12-031, p. 114

pipeline, it could provide a new market opportunity for SoCalGas' unbundled storage service. For example, if power plants in neighboring states are required to balance their burns with their scheduled quantities, they could purchase SoCalGas unbundled storage and nominate deliveries off-system to balance their loads. This is very similar to what on-system customers are able to do today. Also, there could be additional demand for price arbitrage. For example, off-system gas Local Distribution Companies could buy storage to inject gas during the summer months (lower commodity prices) and nominate the gas for delivery during the winter months (higher gas prices) to meet a portion of their demand. The same could be true for summer peaking customers where they could buy storage and inject gas during the shoulder months (lower prices) for delivery off-system during the hot summer months (higher prices). While these activities might increase the short-term demand for SoCalGas' unbundled storage, they could also provide an additional incentive for SoCalGas to expand its unbundled storage capacities.

Overall, since the revenues net of the costs allocated to unbundled storage are shared between ratepayers and shareholders, ratepayers will also benefit from adopting SoCalGas' proposal (see details in Section VIII below). Any increased demand for storage could also provide an incentive for third parties to build storage in southern California. Tricor Ten Section Hub, L.L.C. (Tricor) has already filed an application with the FERC to build and operate an underground storage facility near Bakersfield, California. Initially, Tricor is planning to interconnect with Kern/Mojave pipeline to access potential customers in California, Arizona, and Nevada. Tricor may later interconnect with SoCalGas and PG&E pipeline systems and compete for some of the same customers that could use SoCalGas storage in conjunction with an off-system delivery service. Without having the ability to offer off-system services, SoCalGas cannot compete for those customers and, in the long run, SoCalGas customers could see less of a reduction in transportation rates from unbundled storage sales.

Firm off-system service would be priced not only to recover the costs of new facilities but also to provide rate reductions to existing end-use customers by also charging the interruptible off-system rate to these shippers. If the Commission approves SoCalGas' request for approval of the general terms and conditions and rate structure for firm off-system transportation service, SoCalGas proposes to hold an open season for firm off-system service to test the interest in such service and refine the facility requirements for providing the service. Besides the cost uncertainty that comes with facility additions, parties are unlikely to make commitments in such open seasons if SoCalGas' regulatory authority to provide such a service is not established. It is therefore necessary for the Commission to approve the general terms and conditions, and rate methodology, for providing firm off-system services in this application. SoCalGas would seek specific contract approvals for a specific firm off-system delivery point in a subsequent application that would have the additional information garnered through an open season process. The separate application would seek approval of the proposed facility additions necessary for providing the firm service and would seek approval of the resulting firm rate. This process is very similar to expansion of SoCalGas receipt points under Rule No. 39 and how expansions of interstate pipelines are handled. The shipper community is familiar with this process, but in both those cases the general terms and conditions and rate methodology for providing the service have already been approved.

Sometimes a service provider must stimulate a new market for products or services. SoCalGas would like to be proactive in stimulating a new market for firm off-system services in southern California. In order to achieve that, SoCalGas needs to obtain the regulatory authority to offer the service. The market for firm off-system deliveries cannot be stimulated without knowledge of the terms, conditions, and rate structure for the service. The Commission should therefore approve these matters in this application.

V. ALL INTERCONNECTION POINTS

Off-system service should be allowed at all off-system delivery points so that the benefits mentioned above can be realized. Off-system revenues will increase as off-system deliveries increase. The off-system delivery potential will vary by delivery points as different gas markets are served, but the potential deliveries from all delivery points will necessarily be higher than the potential from just one or two delivery points. The same can be said of shipper benefits.

VI. COST OF OFF-SYSTEM SERVICE

The proposed interruptible off-system service uses displacement of flowing supplies at a specific receipt point and SoCalGas incurs negligible operational costs to provide the "displacement" service. There will be a small system modification cost of about $25,000 to update the SoCalGas' nomination and scheduling system (Envoy) to accommodate off-system nominations at receipt points other than PG&E's Kern River Station.

It is premature to determine the costs of providing firm off-system deliveries—a service that requires SoCalGas to physically deliver gas in the direction that is opposite of the on-system delivery through that interconnection. Whatever the costs of facilities might be in such a service, SoCalGas would impose the total rate, which will be equal to the charge to fully recover the off-system facility costs plus the interruptible off-system delivery charge (the latter to ensure net benefits to SoCalGas ratepayers), of that service on the shippers through long-term contractual commitments. The actual facility costs would be addressed in detail in a specific application to provide firm off-system service to the specific interconnection point based on the market results of an open season process and the resulting customer contracts.

This approach is similar to the Commission-adopted approach for expansion of receipt points. The Commission has granted SDG&E/SoCalGas the authority to expand receipt point capacity based on the results of an open season. The actual facility costs and approval to build the facilities, along with the resulting contracts and rates, would be filed through a separate application for approval. But the key provision is that the Commission has given SoCalGas the authority to expand facilities and provide receipt access rights to customers paying for the facilities. This is the same approach that SoCalGas requests for firm off-system service, i.e., with this application the Commission should grant SoCalGas the authority to offer the firm off-system service and, if market demand is sufficient, a separate application with the facility costs and customer contracts would be filed later for Commission approval.

VII. OPERATIONAL IMPACTS OF OFF-SYSTEM SERVICE

The System Operator will establish interruptible volumes at levels that will ensure no adverse system impact from the service. For example, off-system deliveries at Blythe would be set at zero if there were any danger that such deliveries would create a minimum flowing supply requirement issue at that point. Off-system deliveries would not be allowed if they would result in any additional costs for ratepayers by forcing the exercise of supply contracts or other tools approved by the Commission to address the Blythe (or any other receipt point) minimum flowing supply requirement.

Off-system deliveries can have operational benefits as discussed by Mr. Williams in his direct testimony.

VIII. IMPACT ON STORAGE

Providing off-system delivery services will have no impact on the cost or availability of storage for SDG&E/SoCalGas' core customers, or the core customers of wholesale customers. The storage capacities allocated to these customer groups have been established in D.08-12-020 adopting the BCAP settlement, which is effective through 2014. In addition, the cost of the allocated storage capacities is based on the embedded cost of storage, not market prices.[7] These same facts apply to the storage capacities allocated to the transportation balancing function.

The price of storage capacities sold through the unbundled storage program might be affected by allowing off-system deliveries because off-system customers might be interested in utilizing storage for off-system use. The Commission responded to this issue before in D.06-12-031.

> "SCGC seeks to prohibit the use of SoCalGas' storage services to support the off-system delivery of gas to PG&E's system. SCGC is concerned that potential gas suppliers seeking to deliver into PG&E's system will increase the demand for storage, which will result in higher storage prices and less storage space. We are not persuaded that potential suppliers of gas should be prevented from using the gas storage facilities of SoCalGas. As SDG&E and SoCalGas point out, if demand for storage exceeds the supply, this will drive the need for expansion of storage facilities. In addition, if storage revenues from SoCalGas' unbundled storage program exceed $21 million, ratepayers are entitled to a 50% share of the revenues. Ratepayers benefit if storage revenues are maximized….SCGC's proposal is not adopted." (p. 117)

The Commission's logic in D.06-12-031 with respect to off-system deliveries to PG&E is just as valid for deliveries to other delivery points. In fact, ratepayer benefits from the unbundled storage program will be even higher in the next several years than when the Commission issued D.06-12-031 because of the new unbundled storage revenue sharing mechanism approved in the BCAP.[8] Under this mechanism, ratepayers receive 90% of the first $15 million of revenues net of costs, 75% of the next $15 million of revenues net of costs, 50% of the next $30 million of revenues net of costs, and 100% of net revenues exceeding $60 million.[9]

As noted in D.06-12-031, off-system sales could drive storage expansions, but those expansions were unlikely when D.06-12-031 was written because of the regulatory uncertainty

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[7] In BCAP proceedings, the storage capacities needed for the core and balancing are always determined first. Unbundled storage capacity is simply what is "left over" after those allocations.

[8] D.08-12-020, Ordering Paragraph 1 at p. 34.

[9] The $20 million cap for shareholders is reached at $60 million of net revenues (i.e., 10% of the first $15 million of net revenues, plus 25% of the next $15 million in net revenues, plus 50% of the next $30 million in net revenues provides $20 million to shareholders). Therefore, any net revenues over $60 million accrue entirely to ratepayers.

that existed concerning ratepayer/shareholder responsibility for storage expansion costs/revenues. Today, however, the incentive mechanism for SoCalGas' storage expansions has been clarified under the new BCAP framework, which would add any Commission-approved unbundled storage expansion costs and revenues to the same sharing mechanism already negotiated for existing unbundled storage assets.

Finally, according to the terms of PG&E's Mission Off-system service, all of the storage fields in northern California can be used for off-system deliveries. This additional market opportunity may have increased the prices commanded for storage in northern California, as might be the case for storage on the SoCalGas system if this application is approved. On the other hand, this off-system opportunity may help explain why third-party storage has been developed to a greater extent in PG&E's territory.[10]

IX. SCOPE OF RATEPAYER BENEFITS

Ratepayer benefits are a direct function of the volumes of off-system deliveries and the magnitude of the off-system charge. The table below shows some examples of potential ratepayer benefits under various combinations of interruptible off-system deliveries and off-system delivery charges. SoCalGas believes that possibly there may be several million dollars per year of ratepayer benefits from interruptible off-system deliveries. It is impossible at this time to quantify the ratepayer benefits from firm off-system deliveries since the cost of necessary facilities is unknown. However, if the Commission approves SoCalGas' proposal herein to charge firm off-system shippers the full cost of necessary expansion facilities plus the same charge that applies to interruptible off-system service, the benefits shown below would apply to firm service as well.

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[10] Unfortunately, PG&E websites do not provide data on the utilization of this service.

$ Million/year Ratepayer Benefits as Function of Average Off-System Deliveries and Off-System Delivery Charges.[11]

Off-System Delivery Charge -->	5 cents/Dth	10 cents/Dth	15 cents/Dth
50 MDth/d	$ 0.9	$ 1.8	$ 2.7
100 MDth/d	$ 1.8	$ 3.7	$ 5.5
150 MDth/d	$ 2.7	$ 5.5	$ 8.2
200 MDth/d	$ 3.7	$ 7.3	$ 11.0

X. OFF-SYSTEM DELIVERIES AND SUPPLIES WITHIN CALIFORNIA

The amount of supply delivered to and remaining on the SoCalGas system will be a function of end-use demand within southern California. SoCalGas' balancing rules ensure that supply must balance demand on a monthly basis. Allowing off-system deliveries will not reduce the supplies delivered to southern California because it will not reduce southern California demand. Instead, this new service will add to overall transportation services by allowing suppliers using the SoCalGas system to meet on-system demand plus some off-system demand whenever prices in those off-system markets make it economic to do so including the off-system transportation cost.

Any off-system delivery will have to be matched to an on-system supply source; therefore, off-system deliveries should have no net negative impact on supplies that remain on the SoCalGas system. Essentially, the shipper using the service has to bring supply into the system that would not otherwise have entered the system so that he can simultaneously make an off-system nomination at another receipt point using that flowing supply. Or, if the off-system shipper uses SoCalGas storage as his supply source, he must first inject gas into storage that would not otherwise have been brought onto the system so that he can later use storage withdrawals to match his off-system nomination.

Certainly, PG&E's firm off-system deliveries to SoCalGas at Kern River Station have not jeopardized PG&E's ability to serve its end-use customers. Instead, total deliveries on PG&E have increased since off-system service to southern California through Kern River Station has allowed the PG&E system to be used to serve not only northern California demand, but some

[11] PG&E's firm off-system deliveries from 2006-2008 averaged 178 MMcfd. The FAR charge is currently 5 cents/dth, but it will likely double, or even triple, once that charge is based on the cost of the SCG backbone system.

southern California demand as well. PG&E off-system deliveries have provided a win-win situation for both northern and southern California customers.

The ultimate result of inadequate on-system supplies on the SoCalGas system would be a system-wide curtailment, which has not occurred for two decades. An unlikely scenario in which this might be necessary would be a catastrophic failure at a major storage field or a major interstate or international pipeline supplier.[12] In accordance with SoCalGas Rule No. 23, before any physical curtailment of end-use customers is called, all standby procurement services providing customers with utility procured supplies would be eliminated. This would encourage customers to bring in additional supplies if they are not already in balance. At that point, if total gas supplies are still unable to meet on-system end use demand plus off-system demand, then off-system deliveries would be curtailed before any end-use customer services, including interruptible, are curtailed.

In other words, with implementation of off-system delivery service to all delivery points, the curtailment sequence outlined in Rule No. 23 would be changed to reflect off-system deliveries in the following fashion:

1. All Standby Procurement Service.
2. All Interruptible Off-system Delivery Service. Customers will be curtailed on a pro rata basis.
3. All Firm Off-system Delivery Service. Customers will be curtailed on a pro rata basis.
4. All interruptible storage withdrawal service or portions thereof according to the interruptible withdrawal reservation price paid with customers paying the lowest price curtailed first and customers paying the highest price curtailed last. Customers paying the same price will be curtailed on a pro rata basis with the exception that all UEG service shall be curtailed before cogeneration service. In Intraday 3 cycle, customers taking this service will not be curtailed before the customers taking the firm storage withdrawal service.

[12] Off-system deliveries would not be curtailed in the case of a local transmission curtailment, which is caused not by a lack of overall system supply, but by local demand exceeding the local transmission pipe's redelivery capability.

5. All interruptible intrastate service according to the percentage of default rate paid, as defined in Rule No. 1, with customers paying the lowest percentage of default curtailed first. Customers paying the same percentage of default shall be curtailed on a pro rata basis (by equal percentage) with the exception that all UEG service shall be curtailed before cogeneration service where such service is at the same percentage of default.

Exhibit 1 shows the details of proposed modifications to "Priority of Service" and "Curtailment of Service" sections of Rule No. 23. SoCalGas is proposing to simplify the first two steps of the curtailment sequence; the curtailment of stand-by procurement service can only occur for all customers at the same time and should not be distinguished between firm and interruptible standby procurement service. In addition, the current Rule No. 23 includes references to SoCalGas' Schedule No. GIT (Interruptible Interutility Transportation), which is no longer applicable with the adoption of off-system delivery service to PG&E, and therefore, should be eliminated from Rule No. 23, along with rate Schedule No. GIT itself.

This placement of off-system deliveries above on-system deliveries in the curtailment queue would ensure physical on-system end-use demand is continued to be met, in the unlikely case of a severe catastrophic supply failure, ahead of any off-system deliveries. It should be recognized that when off-system delivery services are curtailed the on-system supplies that were linked to that off-system request may be lost. For example, if supplies are being nominated into the SoCalGas system for the purposes of matching with an off-system nomination, and SoCalGas curtails off-system services by rejecting the off-system nomination, those supplies entering the SoCalGas system will immediately be reduced unless the shipper had identified them to a different account within the system (i.e. an on-system burn account or storage account). Curtailing off-system services will help meet on-system demand only if the supplies remain nominated to the SoCalGas system.

XI. POSTAGE-STAMP OFF-SYSTEM RATES

The maximum tariff rate for interruptible off-system deliveries to all (including that with PG&E) interconnections would be set equal to the FAR charge.[13] The commission approved a single postage-stamp FAR transportation charge for all receipt points on its backbone

[13] The interruptible off-system service charge can be discounted to maximize off-system revenues for the benefit of ratepayers.

transmission system. SoCalGas proposes that such postage-stamp transportation charge for use of the backbone transmission system should be the same whether it is to provide transportation service onto the system or off of the system. Therefore, the tariff for interruptible off-system deliveries to all of its receipt points (including the one with PG&E) would be the same as the FAR charge, currently 5 cents/dth. If the Commission increases the FAR charge from the current 5 cents/dth to 10 cents/dth, then the interruptible off-system delivery charge would also increase to 10 cents/dth. Since the incremental cost of the interruptible off-system service is negligible, the net savings (i.e., interruptible off-system revenues less interruptible off-system costs) will be allocated to SoCalGas ratepayers as described below.

The tariff rate for firm off-system deliveries will likely differ from one receipt point to another, depending on the rates that are necessary to recover the costs of necessary facilities, in addition to charging the applicable interruptible off-system charge which ensures benefits to SoCalGas' existing ratepayers.

XII. REVENUE ALLOCATION

SoCalGas' existing Integrated Transmission Balancing Account (ITBA) balancing account as defined in SoCalGas' approved Preliminary Statement provides the regulatory treatment of revenues generated from off-system delivery services to PG&E. It states:

> The ITBA is an interest-bearing balancing account that is recorded on the Utility's financial statements pursuant to D.06-04-033, D.06-12-031 and Resolution G-3407. The ITBA consists of two subaccounts: System Integration (SI) Subaccount and the Firm Access Rights (FAR) Subaccount. The purpose of the SI Subaccount is to record the difference between the authorized transmission system revenue requirements and the corresponding transmission revenues. The ITBA - SI Subaccount is allocated based on Cold Year throughput across the two utilities (SDG&E and SoCalGas).
>
> The Utility shall record entries at the end of the month as follows:
>
> SI Subaccount
>
> a. A debit entry equal to one-twelfth of the authorized transmission revenue requirement;
> b. A credit entry equal to the actual transmission revenues;
> c. An entry to amortize the balance in the SI Subaccount;
> d. **A credit equal to 100% of the revenues from interruptible off-system delivery service to the PG&E system;** and

e. An entry equal to interest on the average of the balance in the SI Subaccount during the month, calculated in the manner described in Preliminary Statement, Part I, J.

SoCalGas is proposing to continue the revenue treatment currently approved by the Commission for off-system deliver services to PG&E for revenue generated from providing off-system delivery services to other receipt points. A separate account will need to be set up to track the costs and revenues for SoCalGas providing firm off-system service. Approval for that account will be requested at the time an application for approval of the facility additions, customer rates, and contracts is filed in association with the firm off-system service.

XIII. OFF-SYSTEM SHIPPER IMBALANCE

In order to account for the rare possibility that shippers' deliveries off-system generate an imbalance on their off-system contract ("Shipper Imbalances"), SoCalGas proposes to create an administrative shipper imbalance account for those customers nominating gas off the system. This is not an issue arising from the proposal in this application to extend off-system services to other receipt points, but is simply something that was not envisioned when SoCalGas first implemented the current interruptible off-system service to PG&E. Shipper Imbalances can arise today for off-system deliveries into the PG&E system, and a solution needs to be created regardless of whether off-system services are expanded to the other receipt points.

Although off-system customers submit nominations into and out of their off-system contracts that balance cycle-by-cycle, minor inadvertent imbalances can be created as a result of the simultaneous confirmation and scheduling processes that occur between SoCalGas and the interconnecting pipelines, in accordance with NAESB rules. These imbalances may occur after SoCalGas has provided to the interconnecting pipeline a confirmation volume to be delivered to them on behalf of the off-system customers, and then during the overall scheduling process, a different (lower) volume is scheduled by the upstream interconnecting pipeline into the off-system contract creating a negative Shipper Imbalance. An opposite situation could also occur with off-system services. SoCalGas may receive scheduled gas into an off-system account and the interconnecting pipeline that the off-system customer is delivering to confirms back a lesser quantity, thereby creating a positive Shipper Imbalance.

These examples would typically occur in the last nomination cycle of the day when no additional nomination opportunity exists to correct the difference. When the difference occurs in the earlier nomination cycles (Cycles 1 through 3), SoCalGas is able to identify the imbalance and revise the confirmed quantity to the interconnecting pipeline in the next cycle to avoid creation of a Shipper Imbalance. However, if the imbalance occurs in Cycle 4, there are no more cycles left to correct this imbalance between the pipelines.

The Shipper Imbalance will be defined as the difference between the final scheduled volumes on the day of flow out of the off-system contract and the quantity of gas that was actually scheduled into the off-system contract. SoCalGas will monitor the Shipper Imbalance on a daily basis, and once an off-system Shipper Imbalance is incurred, an alert will be sent to that particular customer. The imbalance will be tracked in an administrative account and the customer will be instructed to nominate into or out of the account in order to clear the Shipper Imbalance. A customer will be instructed to clear the imbalance quantity as soon as practicable, but no later than ten (10) calendar days. If at the end of the ten (10) calendar days the Shipper Imbalance has not been cleared, such imbalance will be resolved in accordance with the terms of Schedule No. G-IMB.

XIV. SUMMARY OF SOCALGAS' REQUESTS

SoCalGas requests the Commission to authorize SoCalGas:

1) To provide interruptible and firm off-system services at all SoCalGas interstate and international receipt points.
2) To charge a discountable interruptible off-system delivery rate not exceeding the FAR rate.
3) To charge a firm off-system delivery rate equal to the rate that is necessary to fully recover the costs of new facilities <u>plus</u> a discountable interruptible off-system delivery rate not exceeding the FAR rate.
4) To roll-in the firm off-system facility costs into those of the overall transmission system if SoCalGas can demonstrate in an Application that the incremental off-system facility costs are below the incremental revenues associated with charging the incremental firm off-system load the system average transmission rate.
5) To resolve the Shipper Imbalance, which is not cleared within ten (10) calendar days after noticing the customer, in accordance with the terms of Schedule No. G-IMB.
6) To eliminate Schedule No. GIT, Interruptible Interutility Transportation.

This concludes my testimony.

EXHIBIT 1

Rule No. 23 Sheet 1

CONTINUITY OF SERVICE AND INTERRUPTION OF DELIVERY

D

A. General

The Utility will exercise reasonable diligence and care to furnish and deliver service to its customers, and to avoid any interruption of same. The Utility shall not be liable for damages or otherwise for any failure to deliver gas or provide service to its customers, which failure in any way or manner results from breakage of its facilities, however caused, war, riots, acts of God, strikes, failure of or interruption in service, operating limitations or other conditions beyond its reasonable control.

B. Priority of Service

In the event of a curtailment, as defined in Rule No. 1, the Utility shall curtail gas service to customers as described in Section C, Curtailment of Service, herein. Customer usage will be assigned to appropriate end-use priority or service classifications as set forth below.

Core Service

Priority 1 All residential usage regardless of size. All commercial and non-refinery industrial usage less than 20,800 therms per active month*, excluding usage reclassified to noncore service pursuant to customer request. All electric generation, refinery and enhanced oil recovery (EOR) usage less than 20,800 therms per active month* electing core service. D N,D

Priority 2A All commercial and non-refinery industrial usage of 20,800 therms or greater per active month* who elect to remain core customers.

Noncore Service L

Noncore Service includes: (1) commercial and industrial usage electing noncore service, (2) electric generation, enhanced oil recovery (EOR), and refinery usage less than 20,800 therms per active month* who have not elected core service, and (3) all electric generation, refinery and enhanced oil recovery (EOR) usage greater than 20,800 therms per active month*. T,L | | T,L

Firm Service All usage served through firm intrastate transmission service. L

Interruptible All usage served through interruptible intrastate transmission service. Interutility deliveries shall be considered interruptible intrastate service. | | L

Off-System Service D,T

Firm Service All usage served through firm intrastate transmission and firm off-system service. T

Interruptible All usage served through interruptible intrastate transmission and interruptible off-system service. | T

(Continued)

Rule No. 23 Sheet 1
CONTINUITY OF SERVICE AND INTERRUPTION OF DELIVERY

* A customer shall be considered to meet the size criteria of 20,800 therms per active month when on an annualized basis, for any period of 12 contiguous months within the most recent 24 month period, the customer's active month consumption averages 20,800 therms. An active month is one in which consumption exceeds 1,000 therms.

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Rule No. 23

CONTINUITY OF SERVICE AND INTERRUPTION OF DELIVERY

(Continued)

C. Curtailment of Service

1. Effectuation of Curtailment

When in the judgment of the Utility, operating conditions require curtailment of service and/or the diversion of customer-owned gas, such curtailment shall be effectuated in the order and manner described below, unless otherwise specified in this rule.

(1) All Standby Procurement service.

(2) All Interruptible Off-system Delivery service. Customers will be curtailed on a pro rata basis.

(3) All Firm Off-system Delivery service. Customers will be curtailed on a pro rata basis.

(4) All interruptible storage withdrawal service or portions thereof according to the interruptible withdrawal reservation price paid with customers paying the lowest price curtailed first and customers paying the highest price curtailed last. Customers paying the same price will be curtailed on a pro rata basis (by equal percentage) with the exception that all UEG service shall be curtailed before cogeneration service. In Intraday 3 cycle, customers taking this service will not be curtailed before the customers taking the firm storage withdrawal service. T

(5) All interruptible intrastate service according to the percentage of default rate paid, as defined in Rule No. 1, with customers paying the lowest percentage of default curtailed first. Customers paying the same percentage of default shall be curtailed on a pro rata basis with the exception that all UEG service shall be curtailed before cogeneration service where such service is at the same percentage of default.

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C. Curtailment of Service (Continued)

1. Effectuation of Curtailment (Continued) L

(6) All firm intrastate service on a rotating basis as described in Section C.2 herein. During any period of firm intrastate service curtailment, standby procurement service shall be made available to core transportation customers. During such a curtailment period, however, core transportation customers using standby procurement in excess of the 10% tolerance band described in Schedule No. G-IMB shall pay the curtailment violation penalty described herein.

(7) All firm unbundled storage withdrawal, equally with the Utility's core price function storage, on a pro rata basis with the exception that all UEG service shall be curtailed before cogeneration service.

(8) All Priority 2A service on a pro rata basis.

(9) All Priority 1 non-residential service on a pro rata basis.

(10) All Priority 1 residential service on a pro rata basis. L

2. Curtailment of Firm Intrastate Service

Firm intrastate service curtailment shall be effectuated by customer rotation. For determining the order of such curtailment, customers shall be separated into two firm service curtailment lists. The first list shall be for UEG and cogeneration customers and the second list shall be for all other firm service customers. Each curtailment list shall be ordered by individual customer as described in Section C.1. The order of customers for the two lists shall be established by lottery or other non-discriminatory means prior to the implementation date of the CPUC's Capacity Brokering Rules. The customer distribution for the two lists shall be maintained for the ten-year period beginning on the date of such implementation. During the ten-year period, new customers to firm service shall be randomly assigned a position on the appropriate list.

Once the order of the customers is established for each firm service curtailment list, the Utility shall aggregate customers with peak-day usage under 20 MMcfd into "blocks" of approximately 20 MMcfd, to the extent possible. Such aggregation shall be accomplished in the order of the listed customers for each list. Customers with peak-day usage of 20 MMcfd or more shall remain separately listed and shall be considered as one curtailment block. In the event firm service customers are added or deleted from the curtailment lists over the ten-year period, the Utility shall adjust the aggregation of the customer blocks as necessary.

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C. Curtailment of Service (Continued)

2. Curtailment of Firm Intrastate Service (Continued)

In the event of a firm service curtailment, the Utility shall curtail, in unison, that number of customer blocks necessary to provide for a sufficient level of curtailment. The customer blocks curtailed shall be established by (1) selecting the first customer block from one firm service list, (2) then selecting the first customer block from the other firm service list, and (3) continuing such alternating selections down the two lists until that level of curtailment is reached that is operationally necessary. At the conclusion of the curtailment of the initially curtailed customer blocks, additional customer blocks shall be curtailed, if necessary, using the same alternating method beginning with the customer block immediately following the last block selected. Once all customers on a particular firm service list have been selected for curtailment, the alternating rotation process for such list shall continue at the beginning of the list. L

In the event the curtailment of the last customer block selected would result in exceeding the level of curtailment operationally necessary, then the customers within that block shall be selected for curtailment based on the customer order within the block. Those customers not selected shall be treated as a separate block in succeeding curtailment rotations. If the curtailment of an individual customer would result in exceeding the level of curtailment necessary, then such customer shall be curtailed only to the level of curtailment which is necessary. Such partial curtailment shall still constitute an interruption for the purposes of the Service Interruption Credit.

For the UEG and cogeneration customer firm service list, UEG customers shall be listed before cogeneration customers. For each curtailment episode, UEG customers must be curtailed at least once using the alternating rotation process described above before beginning the curtailment order of cogeneration customers.

3. Transfers of Intrastate Curtailment

Firm and interruptible intrastate customers may make arrangements among themselves to transfer curtailment requirements in the event the Utility curtails service. Through such arrangements, responsibility for the curtailment imposed by the Utility shall be transferred from the original customer to be curtailed ("original curtailment assignee") to another customer or group of customers ("curtailment transferee") who would not otherwise be curtailed. All of the customers involved in the curtailment transfer must execute and provide to the Utility a Notice of Intrastate Curtailment Transfer (Form No. 6600).

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Rule No. 23 Sheet 5

CONTINUITY OF SERVICE AND INTERRUPTION OF DELIVERY

(Continued)

C. Curtailment of Service (Continued)

3. Transfers of Intrastate Curtailment (Continued)

In the event the Utility provides curtailment notification to the original curtailment assignee less than 48 hours prior to initiation of the curtailment of such customer, the Utility must receive the Notice of Intrastate Curtailment Transfer, executed by all customers involved in the transfer arrangement, within 24 hours of the Utility's notification to the original curtailment assignee. In the event the Utility provides more than 72 hours notice to the original curtailment assignee, the Utility must receive the Transfer Notice, signed by all involved customers, no later than 48 hours prior to the scheduled initiation of curtailment of the original curtailment assignee. In the event of a curtailment, parties involved in a transfer of intrastate curtailment shall have their authorized curtailment quantity (ACQ) adjusted to reflect the transfer. The original curtailment assignee shall have its authorized curtailment quantity increased and the curtailment transferee shall have their authorized curtailment quantity decreased. Any penalties and charges assessed to either the original curtailment assignee or the curtailment transferee, due to either parties' failure to curtail, will be based upon transfer-adjusted ACQ's for each party.

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The Service Interruption Credit (SIC) shall not apply to curtailed or diverted quantities transferred among customers and the original curtailment assignee shall be considered as having been curtailed for the purposes of the firm intrastate curtailment rotation list described in Section C.2 herein.

For the purpose of facilitating transfers of intrastate curtailment, as described in Section C.3, the Utility shall maintain a curtailment list by customer facility, as defined in Rule No. 1, for interruptible and firm intrastate service with the exception that for UEG customers, the curtailment order shall be listed by all service for an individual UEG customer for a particular level of service (firm or interruptible) and by percentage of default for interruptible service. The Utility shall make the curtailment list available to firm and interruptible end-use customers upon request.

4. Operating Emergency Declared By A Customer

In the event of an operating emergency as declared by a customer at the customer's facility, service may be made available out of the normal curtailment pattern order, if in the judgment of the Utility it is possible to do so. Out-of-pattern deliveries will be provided to critical customers, as defined in Rule No. 1, whenever they declare an operating emergency. In such an event, subsequent out-of-pattern curtailment may be imposed on the customer in order to balance the amount of curtailment with other customers at the same level on the curtailment order.

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Rule No. 23 Sheet 6

CONTINUITY OF SERVICE AND INTERRUPTION OF DELIVERY

(Continued)

C. Curtailment of Service (Continued) L

5. Intrastate California-Produced Supply

Noncore transportation service for customer-owned, California-produced gas, excluding exchange service and service at less than full tariff rates, shall be treated hereunder as firm intrastate transmission service. Noncore transportation service for customer-owned, California-produced gas under exchange agreements or at less than full tariff rates shall be treated hereunder as interruptible intrastate service.

6. Restoration of Service

When curtailment of service is to be decreased, restoration of service shall be made (a) in the same manner as described in Section C.1, but inversely to the order given, and (b) to the level of service which in the judgment of the Utility can be provided. However, the Utility reserves the right to restore firm intrastate service in such order as it deems necessary irrespective of the curtailment rotation list described in Section C.2 herein. L

D. Diversions of Customer-Owned Gas

In the event insufficient gas supply or capacity is available for the Utility to meet the requirements of its customers, the Utility may effectuate involuntary and/or voluntary diversions of customer-owned gas originally intended for the Utility's noncore customers. Such diversions shall be of the following type:

(1) Voluntary Diversion Agreements

(2) Voluntary Core Protection Purchase Agreements

(3) Involuntary Diversions

1. Voluntary Diversion Agreements

In order to avoid or mitigate curtailment, the Utility may mutually agree with firm and/or interruptible intrastate transmission customers to purchase their flowing gas deliveries. The price paid by Utility for such diverted gas shall not exceed the price paid for gas that is involuntarily diverted as set forth in Section D.3 herein.

In the event of such a voluntary diversion, the customer may make arrangements with another customer or customers in order to transfer the responsibility for the diversion. Such arrangements shall be subject to the same requirements as transfers of intrastate curtailment as set forth in Section C.3 herein.

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Rule No. 23 Sheet 7

CONTINUITY OF SERVICE AND INTERRUPTION OF DELIVERY

(Continued)

D. Diversions of Customer-Owned Gas (Continued)

2. Voluntary Core Purchase Protection Agreements

The Utility may also enter into Voluntary Core Protection Purchase Agreements (VCPPAs) with firm and interruptible intrastate transmission customers as a source of supply for the Utility's core requirements.

The price paid by the Utility for such VCPPA deliveries shall be determined through negotiation with such customers and shall be subject to a ceiling price of 150% of the Adjusted Core Procurement Rate, G-CPA, set forth in Schedule No. G-CP, in effect during the period of diversion. T T

The Utility shall divert customer-owned gas through VCPPAs on a least-cost basis, with least expensive supplies being purchased first, to the extent operationally feasible.

As part of a VCPPA, the Utility and the customer may agree to allow the customer to arrange a transfer of the responsibility for the diversion. In such event, the VCPPA shall specify the conditions under which such a transfer would be allowed by the Utility.

3. Involuntary Diversions

To the extent that VCPPA, discussed above, are inadequate for the protection of core service, the Utility shall be authorized to involuntarily divert gas supplies from firm noncore transmission customers.

The Utility shall notify the CPUC within one business day in the event of any involuntary diversion of customer gas.

An involuntary diversion of customer-owned gas shall occur as a result of the Utility's curtailment of the customer's service as described in Section C.

In the event customer-owned gas is involuntarily diverted as a consequence of curtailment, the Utility will reimburse the customer at the higher of:

(1) the customer's cost of alternative fuel or replacement energy used during the diversion plus associated transportation costs actually incurred by the customer;

(2) the customer's actual cost of gas (price as delivered to SoCalGas' intrastate system) diverted by Utility; or

(3) 150% of the Utility's Adjusted Core Procurement Charge, G-CPA, set forth in Schedule No. G-CP during the month in which the gas was diverted. T T

(Continued)

D. Diversions of Customer-Owned Gas (Continued) L

3. Involuntary Diversions (Continued)

The Utility shall have the right to audit the customer's alternate fuel or replacement energy cost, or the customer's actual cost of gas. In the event of disagreement, these costs shall be determined by binding third party arbitration. L

E. Curtailment Due to Emergency Conditions

At a time when there is a threatened or actual shortage creating an emergency condition for a short duration in the Utility's ability to meet the demands of Priority 1 and 2A customers, the Utility may, during such emergency period, curtail and/or divert service of all customers, or a portion of such customers, in the most reasonable and practicable manner possible. Further, in such event, the Utility shall have the right to shut off, discontinue, re-establish, or continue service for all customers or a portion of such customers, irrespective of the priority or preference provisions set forth herein or in the tariff schedules, contracts, or rules and regulations applicable to such service. In such emergency situations, curtailments shall generally be made based on the customer's level of demand and transfers of curtailment responsibility, as provided for in Section C.3 herein, shall not be allowed.

The Utility may also, during any national crisis, give preference, as between all customers, to facilities directly engaged in the production of food supplies and the production of national government requirements, when the discontinuance of service to such customers would stop, or materially diminish, the output of said plants.

F. Localized Curtailment

Curtailments may be effected in certain localized areas due to intrastate system capacity restrictions or emergencies. In such cases, curtailments will generally be made based on the order established herein to the extent it is operationally feasible to do so. In the event of a localized curtailment, customers in unconstrained areas may receive service while other customers of equal or higher priority are curtailed.

G. System Maintenance and Repair

The Utility, whenever it finds necessary for the purpose of making repairs or improvements to its system, will have the right to suspend temporarily the delivery of gas, but, in all such cases, as reasonable notice thereof as circumstances will permit will be given to customers, and the making of such repairs or improvements will be prosecuted as rapidly as may be practicable, and, if practicable, at such times as will cause the least inconvenience to the customers.

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G. System Maintenance and Repair (Continued) L

In the event such interruption of service affects more than one customer, interruption of service shall be made in the order established herein only to the extent it is operationally feasible to do so. Special conditions which apply to scheduled maintenance for firm intrastate service are set forth in Section L herein. L

H. Utility Electric Generation Service

The Utility shall accommodate, subject to the capability of its existing physical facilities and the requirements of higher priority customers, requests by its retail and wholesale customers for reallocation of deliveries for use in electric generating plants deviating from the normal pattern of deliveries by the Utility (a) of an emergency nature to avoid actual electric load curtailment, and/or (b) based on requirements to minimize particularly adverse air pollution impacts expected to be of short duration. Such deviations in deliveries must be approved by the Utility and shall be in accordance with the agreements between the Utility's retail and wholesale customers relating to such reallocations and providing for compensation between such customers. In no event, however, will the Utility's total deliveries for electric generation requirements imposed on the Utility exceed in the aggregate the deliveries which would have been scheduled absent the reallocation agreements between Utility's customers. Customers requesting the Utility to redirect deliveries hereunder shall notify the CPUC promptly after each occurrence of the problem occasioning such request.

I. Wholesale Service Excluding SDG&E

Wholesale customers, excluding SDG&E, will receive Priority 1 and 2A service from the Utility in proportion to such customers' Priority 1 and 2A loads. Service to wholesale customers' loads shall be curtailed in the same manner as that for the Utility's retail customers. Wholesale customers may, however, negotiate with the Utility regarding the timing and extent of curtailments for their noncore loads with the condition that such loads shall be subject to curtailments which are proportionate to the curtailment of the Utility's noncore customers.

J. Wholesale Service to SDG&E

The Utility and SDG&E shall operate as independent gas systems to the extent operationally feasible. The Utility shall curtail its noncore customers only to the extent necessary to maintain service to its own core customers. Likewise, SDG&E shall curtail service to its noncore customers only to the extent necessary to maintain service to its own core customers. Neither the Utility nor SDG&E shall curtail its noncore customers to serve the core requirements of the other except as expressly provided by a mutual assistance agreement between the two utilities.

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K. Curtailment Violations

The Utility shall read the meter of the curtailed customer at the beginning and end of each curtailment period for the applicable service curtailed. For other than a customer operating emergency as set forth in Section C.6, customers failing to curtail on request will be assessed a penalty of $1.00 per therm for the initial 5 hours of the Customer's operating day, $3.00 per therm for hours 6 through 8, and $10.00 per therm for hours 9 through the end of the curtailment episode. The penalty applies to all gas quantities determined by the Utility to be in violation of curtailment. All other charges associated with such usage will apply. Curtailment violations will be determined as follows: D

1. System Curtailment

   For curtailment of interruptible or firm intrastate service, customers whose consumption under their applicable service schedule exceeds their authorized curtailment quantity during the curtailment of such service will be in violation of curtailment.

   For curtailment of standby procurement service under Schedule No. G-IMB, customers whose consumption under such schedule exceeds their actual transportation deliveries plus the ten percent (10%) tolerance band will be in violation of curtailment. The Utility shall assess negative imbalances incurred during the standby curtailment period separately from monthly imbalances incurred outside such period. Negative imbalances determined to be in violation of curtailment shall not be eligible for imbalance trading. Such negative imbalances will be charged at the applicable standby procurement rate in addition to the curtailment violation penalty.

2. Localized Curtailment

   For curtailment of interruptible or firm intrastate service, customers whose consumption under their applicable service schedule exceeds their authorized curtailment quantity during the curtailment period for such service will be in violation of curtailment. Standby procurement service shall not be curtailed during a localized curtailment.

3. Authorized Curtailment Quantity

   The authorized curtailment quantity used to determine a customer's compliance with curtailment shall be established on the basis of the monthly contract billing quantities set forth in the customer's Master Services Contract, Schedule A, Intrastate Transmission Service (Form Nos. 6597 and 6597-1).

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K. Curtailment Violations (Continued)

3. Authorized Curtailment Quantity (Continued)

The customer's total authorized curtailment quantity for the applicable period of curtailment shall be equal to the sum of the authorized curtailment quantities for each of the customer's services which are not subject to curtailment during such period. For each such service, the authorized curtailment quantity shall be equal to the monthly contract quantity divided by the customer's actual number of operating days for such service during the month in which the curtailment occurs, multiplied by the customer's actual number of operating days during the curtailment period.

The customer's actual operating days for the month shall be determined based on the operating-day information set forth in the customer's contract. For service designated as operating seven days per week, the operating days shall be all calendar days in the month. For service designated as less than seven operating days per week, the operating days shall be all designated days in the month excluding national holidays. Customers with non-uniform operating schedules for any particular month shall be required to designate in the contract the actual operating-day schedule for such months. The customer may request a change to the operating schedule on a month-to-month basis. All operating schedules shall be subject to the Utility's acceptance and the Utility may adjust such schedules as it deems necessary based on the customer's operations.

L. Service Interruption Credit

A qualifying service interruption of firm intrastate transmission service is defined as any curtailment which is not (1) the result of either force majeure or scheduled maintenance, as described below, or (2) a curtailment of Standby Procurement service. If a firm intrastate transmission customer experiences D
more than one qualifying interruption during the ten-year period beginning on the implementation date of the CPUC's Capacity Brokering Rules, the Utility shall provide such customer with a Service Interruption Credit (SIC) of $0.25 per therm of gas curtailed or diverted.

For the customer's first qualifying interruption during the ten-year period, the SIC shall only apply to the volume of curtailed or diverted gas over and above 72 consecutive hours of full curtailment or the volumetric equivalent thereof during a five day period. For subsequent qualifying interruptions during this period, the SIC shall apply to all of the customer's curtailed or diverted volumes resulting from the subsequent interruptions regardless of the duration or extent of the customer's initial interruption.

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CONTINUITY OF SERVICE AND INTERRUPTION OF DELIVERY

(Continued)

L. Service Interruption Credit (Continued)

The maximum aggregate SIC obligation of the Utility in any calendar year shall be $5 million. To the extent such maximum aggregate obligation would be exceeded, the Utility shall provide the SIC on a pro rata basis to all applicable customers for the calendar year. Utility shall make payment of the SIC at the end of the applicable calendar year.

1. Force Majeure

For the purpose of SIC applicability, force majeure shall be defined as the occurrence of unforeseen events or conditions, not resulting from a negligent act or omission on the part of the Utility, that are beyond its reasonable control and that could not have been prevented by the exercise of due diligence on its part. The Utility shall use all reasonable efforts to remedy such events or conditions and to remove the cause of same in an adequate manner and with reasonable dispatch. The occurrence of high demand for gas service due to weather conditions shall not constitute a force majeure event.

2. Scheduled Maintenance

For the purpose of SIC applicability, scheduled maintenance shall be considered the interruption of transmission service to the customer resulting from maintenance of the Utility's facilities which are directly relevant to providing such service to the customer's facilities when the customer has been given at least thirty (30) calendar days prior written notice of the scheduled date of the maintenance and service interruption.

The Utility shall take all reasonable steps to minimize the duration of such scheduled maintenance interruptions and to reroute the flow of natural gas to eliminate any service interruptions that would otherwise occur due to such maintenance.

The Utility shall consult with the customer in scheduling any such maintenance interruptions and shall use reasonable efforts to schedule such maintenance to accommodate the customer's operating needs and to continue same only for such time as is necessary, including any agreed upon adjustments to the scheduled date for maintenance as reasonably necessary in light of unforeseen occurrences affecting the customer and/or the Utility.

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