CPUC Promising Gas Options
OII 99-07-003

Operational Flow Order (OFO) Settlement Agreement

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A. Introduction

The purpose of this OFO Settlement Agreement (Agreement, Settlement, or Settlement Agreement) is to revise Pacific Gas and Electric Company's (PG&E's) operating guidelines and gas tariffs to achieve the following goals:

- Improve market access to operational information necessary for the management of gas imbalances on PG&E's system.
- Significantly reduce the number of system-wide OFOs on the PG&E system.
- Reduce the impact of OFOs on the market.
- Revise certain procedures implemented under the Gas Accord, in order to improve system operating efficiency, to clarify criteria used by PG&E in making operational decisions, and to enhance customer interfaces with PG&E's gas operations.
- Improve the transparency of operations to improve upon operational signals to the market.
- Improve the ability of the market to foresee OFO events.
- Maintain the OFO process as both a signal and an incentive to the market to balance supply and demand.

This Agreement is entered into by the Settlement Parties, as identified by their attached signatures. This Agreement shall become effective on the first day of the month following the thirtieth day after the date of a California Public Utilities Commission ("CPUC" or "Commission") order approving the OFO Settlement Agreement and shall continue in effect through December 31, 2002.

On March 1, 1998, the Northern California natural gas market experienced a dramatic change with the restructuring of services on the PG&E system under a broadly-based settlement known as the "Gas Accord". Many previously-bundled PG&E services were unbundled, providing more choice to marketers, shippers, and end-use customers. PG&E and the Gas Accord settling parties worked to develop the rules and guidelines to operate PG&E's system under the Gas Accord provisions, including the unbundling of pipeline transmission and storage services within Northern California. The Gas Accord is effective through December 31, 2002.

Experience under the Gas Accord has indicated that certain adjustments are appropriate, particularly with regard to customer balancing requirements and charges; to issuance of

OFOs; to whether OFOs are issued on a system-wide or customer-specific basis; and to the operational information provided to the market and to individual shippers.

This Agreement represents a settlement on these issues set forth herein in the context of the natural gas strategy (D.99-07-015and I.99-07-003) of the CPUC. Not all of the provisions agreed to herein require tariff changes, and some provisions have already been implemented. Nevertheless, it is important and appropriate to document here all issues where parties have agreed to changes in operating guidelines and procedures.

This Agreement does not change the basic principles and structure of the Gas Accord as agreed to by the settling parties to the Gas Accord and as approved by the Commission in Decision 97-08-055. The operating guideline and gas tariff changes included within this Agreement, and made a part hereof, are intended to modify certain limited implementation parameters of the Gas Accord, and the Settlement Parties agree that such revisions are within the original bounds of the Gas Accord structure.

This Agreement is a negotiated compromise of operational issues and is broadly supported by parties who are marketers, shippers, wholesale and retail end-use customers, and regulatory representatives. Nothing contained herein shall be deemed to constitute an admission or an acceptance by any party of any fact, principle, or position contained herein, except to the extent that Settlement Parties, by signing this Agreement, acknowledge that they pledge support for Commission approval and subsequent implementation of these provisions.

This Agreement is to be treated as a complete package and not as a collection of separate agreements on discrete issues or proceedings. To accommodate the interests of different parties on diverse issues, the Settlement Parties acknowledge that changes, concessions, or compromises by a party or parties in one section of this Agreement necessitated changes, concessions, or compromises by other parties in other sections.

This Agreement is intended to quickly resolve specific operating issues. Decision 99-07-015 in R.98-01-011 contains additional proposals or issues related to utility balancing services, imbalance trading, real-time customer usage data, electronic bulletin boards, and other areas. PG&E and the parties are pursuing or intend to pursue settlement discussions of these additional issues. New settlement(s) may result in modifications to some of the provisions contained in this Agreement.

As this OFO Settlement simply modifies the implementation of existing operating parameters, PG&E will not seek to recover any costs associated with implementing the provisions of this Settlement Agreement, except under the provisions of Section B, below. This agreement on cost recovery is not a precedent with respect to other settlements, litigation or regulatory cases.

B. Forum for Resolving Future Balancing Issues

1. The Settlement Parties intend that the provisions contained in this settlement will significantly reduce the number of system-wide OFOs on PG&E's system. The Settlement Parties, through the Gas OFO Forum, intend to monitor the effectiveness of the Settlement measures in reducing the number of OFOs and to address on an ongoing basis, improvements and/or modifications to PG&E's balancing and OFO procedures. Any interested shipper or customer on the PG&E transmission system who may be subject to OFOs may choose to participate in this Forum.

2. If, six months after the effective date of this Settlement, there has not been at least a twenty-five (25) percent reduction in the number of system-wide OFOs during this first six-month period compared to the same period in the prior year(s), PG&E in its next quarterly OFO report (see Section C.1.f), will provide an analysis of why the number of OFOs has not been reduced and propose additional measures to reduce the number of system-wide OFOs in addition to those measures outlined in this OFO Settlement Agreement. PG&E and the other members of the Forum will consider in good faith whether, and how, PG&E's proposed additional measures, as well as any other proposals suggested by other Forum members, should be adopted.

3. The Gas OFO Forum will further explore the following issues:
    a. The effectiveness of customer-specific OFOs and possible improvements to the procedure outlined in this Settlement, including the need and methodology for changes to the Performance Factor set forth in Section C.3.b.(7).
    b. Whether and how parties who significantly contribute to system-wide OFOs on a repeated basis, e.g. to three (3) or more per month, should be specifically identified. A "significant contributor" is defined as any balancing entity with total imbalances greater than 5,000 Dth and 10 percent of its usage in the three days leading up to each system-wide or customer-specific OFO. For Core Procurement Groups, supply will be compared to their Determined Usage, which is the Cumulative Imbalance (except for OFO days when the 24-hour forecast will be used).
    c. Whether the exemption for OFO noncompliance charges set forth in Section D.3.b should be increased.
    d. The need for the allocation of additional storage to balancing (see Section C.6).
    e. Changing the Cash-out procedures.
    f. Other issues which relate to PG&E pipeline balancing and OFOs.

4. PG&E may seek recovery of implementation costs to provide additional information or implement additional procedures which are recommended by the Forum. Estimates of these costs will be provided to the Forum for discussion prior to PG&E filing for recovery. PG&E may seek such recovery and/or establishment of a balancing or memorandum account for these projected costs prior to implementing the recommendation. Other parties to this Settlement do not necessarily support PG&E's right to recover these implementation costs.

C. Provisions Designed to Reduce the Number and to Increase the Predictability of OFOs

1. Operational Information

a. PG&E will provide the following daily operational information on its Pipe Ranger Web site.

(1) Composite system temperature
(2) System demand
(3) Off-system deliveries by delivery point
(4) Fuel and lost and unaccounted for (LUAF) gas
(5) Storage injection by storage operator
(6) Total system demand (sum of items 2, 3, 4, & 5 above)
(7) Interconnect supply by receipt point
(8) Storage withdrawal by storage operator
(9) Total system supply (sum of items 7 & 8 above)
(10) Pipeline inventory change (supply minus demand, item 9 – item 6)
(11) Beginning and ending pipeline inventory
(12) Pipeline inventory lower and upper operating limits (as established in this agreement)
(13) Difference between ending pipeline inventory and operating limits
(14) Operational flow order (OFO), emergency flow order (EFO) and involuntary diversion status
(15) Storage activity by injection and withdrawal, not just net activity
(16) Storage injection and withdrawal used for pipeline balancing
(17) On-system supply

b. Forecast information specified in C.1.a, above, will be provided for the current day and the next three days. This forecast is updated approximately five times per day. PG&E will establish specific not-later-than times of the day when the updates will occur. If for some reason the data is not available by this time, PG&E will place a notice on its Pipe Ranger Web site indicating when the forecast data will be available.

c. Historical data will be provided for the prior two weeks.

d. Additionally, PG&E will provide on its Pipe Ranger Web site:

(1) Maximum pipeline capacity by path.
(2) Maximum daily pipeline capacity at interconnection points for current day and next day.
(3) Monthly demand forecast by customer class.
(4) Daily storage inventory level for pipeline balancing as part of the three-day historical data (updated monthly to reflect cashouts and other adjustments).
(5) Current month imbalance gas in storage.

(6) Receipt point allocation and end-user curtailment quantities for the system when pipeline operational conditions requires allocations (trimming for balancing purposes) or end-user curtailment. Customer-specific data will only be provided to that customer or their designated agent.

(7) Daily demand by customer class using the "24-hour forecast" with a three-day posting lag.

(8) Daily demand by customer class using the day-after forecast with a three-day posting lag.

(9) Balance of cash-in/out gas in storage and prior month imbalances not cleared on a monthly basis.

(10) Cumulative sum of the changes in pipeline inventory (line pack).

e. PG&E will maintain records of daily injection and withdrawal and daily storage inventory levels for all storage accounts.

f. PG&E will post a quarterly OFO report on its Pipe Ranger Web site pertaining to the number and causes of each customer-specific and system-wide OFO, EFO, and "trimming" occasion ("Event") within the prior three (3) months. PG&E will post this report within 30 days after the close of the calendar quarter. The first OFO report may cover less than three months of operation under this Agreement.

These quarterly OFO reports will show the sources of system imbalance for each of the three (3) days prior to an Event, as follows:

1) Imbalance and gas scheduled for each entity responsible for managing imbalances as specified in C.3.b.(3). For Core Procurement Groups, the supply will be compared to their Determined Usage, which is their Cumulative Imbalance (except for OFO days when the 24-hour forecast will be used). Each such entity will be identified by a new and unique numerical identifier, and not by name.
2) Pipeline imbalances.
3) Net market center imbalances for the aggregate of parking, lending and storage services.
4) Pipeline balancing provided by allocated storage.
5) Beginning, ending and change in pipeline inventory.
6) Any proposed changes to any OFO and balancing procedures and/or methodology addressed in this Settlement.

g. The Settlement Parties agree that for a period continuing until twelve (12) months after the date this Settlement is filed with the CPUC, the operational information provided herein is the information needed for the market to analyze the status of PG&E's pipeline balancing service and to anticipate OFOs. During this period, PG&E need not provide additional data relevant to OFOs, except as referenced in Section B.3.b or as agreed to by PG&E and the other Settlement Parties. After this 12 month period, the other Settlement Parties reserve their rights to bring to PG&E requests for further information, and PG&E agrees to engage in good faith efforts to resolve such requests. The limitation on information contained in this section does not limit, in any manner, information requests pertaining to other matters, e.g. electronic bulletin boards, imbalance trading, curtailments (local or system-wide), secondary markets, capacity rights**,** and/or any other issue contained in I.99-07-003 or a separate CPUC proceeding.

h. No tariff changes are needed to revise the operational information provided.

2. Pipeline Inventory Limits

a. PG&E will adjust its current procedures for determining when an OFO is needed and for issuing an OFO. PG&E will issue an OFO for a Gas Day if, on the day prior to this Gas Day, PG&E's forecast of pipeline inventory for the Gas Day is either below the Lower Pipeline Inventory Limit or above the Upper Pipeline Inventory Limit, as provided in Sections C.2.c through f below. PG&E will continue its current practice of determining the need for and issuing of an OFO by 7:30 a.m. on the day before the Gas Day, or as soon as possible thereafter. This practice is intended to allow parties whose imbalances exceed the OFO tolerance band to use all four nomination cycles, as specified in Gas Rule 21, Section B.3.d, to make supply adjustments and avoid or reduce noncompliance charges. Situations may still occur when an OFO needs to be issued later in the day prior to Gas Day as is allowed by Gas Rule 14, Section E.

b. The Lower and Upper Pipeline Inventory Limits are the levels below and above which the safety and reliability of pipeline operations are in jeopardy. These Limits replace the desired target inventory levels and the range of 200 MMcf/d above and the 150 MMcf/d below as currently specified in Gas Rule 14. This change allows the pipeline to operate to the operational limits each day, without anticipating trends in what suppliers schedule relative to market demand.

c. The Lower and Upper Pipeline Inventory Limits will change, as specified in Section C.2.d, below, depending on whether the forecast of total system demand (the sum of on-system demand and off-system deliveries) is "Low" or "High". The reason for the change in the Pipeline Inventory Lower Limit is that under low system demand, the required minimum pressures on the system can be maintained at a lower pipeline inventory level. Higher demand levels require higher pipeline inventories to maintain system minimum pressures. The Upper Pipeline Inventory Limit is set to allow for variations in supply or usage forecasts. Under low system demand conditions, the potential is greater that forecast variations must be absorbed by the pipeline inventory; therefore, the Upper Pipeline Inventory Limit is set lower to allow for this greater variability without jeopardizing operations. Under higher system demand conditions, forecast variations are often managed by supply or storage withdrawal adjustments, so the Upper Pipeline Inventory Limit can be set higher.

d. The Pipeline Inventory Limits used to determine OFOs are:

Total Demand Forecast, MMcf		Pipeline Inventory Limits, MMcf	
		Lower	Upper
Low Demand:	1,500 to 2,800	3,900	4,500
High Demand:	2,800 to 3,900	4,000	4,600

e. PG&E may elect not to issue an OFO for a Gas Day if the forecast of pipeline inventory for the day following that Gas Day indicates the pipeline inventory will return to within the Pipeline Inventory Limits without the assistance of an OFO.

f. The Lower and Upper Pipeline Inventory Limits in effect each day will be shown in the pipeline inventory report on the Pipe Ranger Web site.

g. PG&E may revise these Pipeline Inventory Limits beyond those specified in the table in Section C.2.d above. Any such revisions will be established to ensure pipeline safety and reliability.

(1) Changes in the Pipeline Inventory Limits which are needed to reflect operating conditions or limitations, including force majeure events, can be implemented immediately as those conditions warrant. PG&E will post these changes on its Pipe Ranger Web site along with an explanation of the operational limitation.

(2) Pipeline Inventory Limits may also change due to more predictable factors. These include changes in end-user demands, compressor operating conditions, pipeline and compressor maintenance activities, and other operational inputs which are used to determine the physical operating limits of the pipeline. PG&E will post these changes on its Pipe Ranger Web site at least two weeks before implementation, along with a supporting explanation.

(3) If PG&E proposes to change the methodology used to decide when to issue OFOs, PG&E will seek approval of such modifications from the Gas OFO Forum before making this change.

3. Customer-Specific OFOs

a. PG&E's Gas Rule 14, Section E, currently provides for customer-specific OFOs to be issued. Since April 1, 1998, PG&E has issued several customer-specific OFOs when it was clear that a limited number of large customer imbalances were the main contributors to the system imbalance. To be more effective, a better definition of the guidelines for issuing customer-specific, or targeted, OFOs is needed.

b. PG&E will use the following process and criteria to determine when to issue customer-specific OFOs, rather than a system-wide OFO, and to determine which balancing entities are subject to the customer-specific OFO.

(1) PG&E determines whether an OFO is needed for a Gas Day, as described in Section C.2, Pipeline Inventory Limits.

(2) If an OFO needs to be issued, the on-system imbalance is estimated for that OFO Day as the difference between the forecast on-system supply and on-system demand. A portion of this imbalance can be accommodated by (i) the amount of pipeline inventory available within the Pipeline Inventory Limits, plus

(ii) the storage injection or withdrawal capacity available for system load balancing. This portion of the imbalance that can be accommodated is divided by the forecast on-system demand to determine the OFO Tolerance Band (set as a percentage of usage). The remaining imbalance is the volume of needed supply and/or demand relief for the pipeline to stay within its Inventory Limits.

(3) Next, PG&E prepares an internal imbalance report forecasting the OFO Day imbalance for each entity responsible for managing imbalances. These "balancing entities" are:
   (a) Noncore Balancing Aggregation Agreement (NBAA) agents;
   (b) Core Procurement Groups (CPGs); and
   (c) Individual end-users who do not have an NBAA agent.

(4) These balancing entity forecasts are composed of the same individual end-use customer demand forecasts that are used to forecast OFO compliance on INSIDE*tracc*. No change is proposed in these methods.

(5) PG&E then reviews the internal imbalance report and identifies those balancing entities with forecast imbalances exceeding <u>both</u> the calculated OFO Tolerance Band percentage and an imbalance volume of 5,000 Dth.

(6) Customer-specific OFOs will be issued, if (i) there are no more than 10 balancing entities, and (ii) the total forecast imbalance relief they would provide in aggregate, multiplied by a Performance Factor, exceeds the volume relief needed for the pipeline, as calculated in Section C.3.b.(2), above.

(7) The customer-specific OFO Performance Factor is a measure of the historic effectiveness of these OFOs. Experience shows that balancing entities issued an OFO may trade gas to get within the tolerance band. However, such traded gas is still on the system and does not help offset pipeline inventory levels, since there is usually not an accompanying change in demand under these circumstances. Therefore, the resulting pipeline inventory relief provided may be less than forecast. The Performance Factor is the system relief actually achieved by customer-specific OFOs divided by the forecast relief calculated per Section C.3.b.(6) above. Adjustments may be made to the calculation to reflect experience over several customer-specific OFOs and to normalize for such factors as temperature differences between the forecast and actual data. The Performance Factor may differ depending on whether it is a high or low inventory OFO situation. The Performance Factor is set initially at 100% for both high and low inventory conditions. PG&E may adjust the Performance Factor. The Performance Factor will not be adjusted to a percentage which is less than the average of the actual performance for all customer-specific OFOs since the effective date of this Settlement. However, unless required by operational conditions, PG&E will not reduce the Performance Factor below 50% without the prior consent of the Forum. PG&E will post the changes to the Performance Factor, along with supporting data and explanation within 14 days of each customer-specific OFO. If a customer-specific OFO is issued within this 14-day period, the Performance Factor currently in effect will be

used. This information will be evaluated by the Gas OFO Forum on an ongoing basis.

(8) In the event the conditions of Section C.3.b.(6) are not met, a system-wide OFO will be issued.

(9) On occasion, even if the conditions of Section C.3.b.(6) are met, operating experience or market conditions may indicate to PG&E that customer-specific OFOs will not be effective in achieving needed pipeline inventory relief. In these instances, a system-wide OFO will be issued. If the conditions of Section C.3.b.(6) are met, yet PG&E calls a system-wide OFO, PG&E will post an explanation of the factors causing PG&E to determine not to call a customer-specific OFO on its Pipe Ranger Web site, and will include such information in its quarterly OFO reports.

c. PG&E will post a general market notification of customer-specific OFOs on its Pipe Ranger Web site by 7:30 a.m. PT on the day before Gas Day, or as soon as possible thereafter, and will notify the affected balancing entities by 8:00 a.m. PT, or as soon as possible thereafter.

d. No tariff revisions are needed to reflect the operating guidelines set forth above for issuing customer-specific OFOs.

4. Cashout Prices

a. The Gas Accord Settlement provides that: "The intent of imbalance cashouts is to create an economic disincentive for incurring cashout imbalances. PG&E will file to revise the imbalance charges and cashout options if the Gas Accord provisions do not accomplish this." (D.97-08-055, Appendix 1, E.13.d.vii, page 26) At least three times since the beginning of the Gas Accord, the underdelivery cashout price was lower than the spot price, providing the market with an incentive to cash-out rather than avoiding or trading imbalances. This has occurred only for Tier I commodity cashouts where the cashout price is either 95% or 105% of the weighted market price. In these cases, certain marketers arbitraged this cashout price by buying the gas from PG&E as provided in Schedule G-BAL.

b. The commodity cashout price will be changed for Tier I Cashouts in Schedule G-BAL to 75% (from 95%) of the Weighted Overdelivery Index and to 125% (from 105%) of the Weighted Underdelivery Index.

c. Commodity cashout transactions will continue to be recorded in the Balancing Charge Account (BCA).

5. Core Procurement Group Imbalances

a. Core Procurement Groups (CPGs), which include PG&E's Core Procurement Department, serve residential and small commercial customers whose meters do not generally provide daily usage data. Their cumulative usage over a "cycle" period is read at the meter and recorded in a PG&E data base. They are also billed on this cycle basis, not on a calendar month. Since cycles overlap months, two cycles of meter data are needed to calculate a given calendar month's meter use for these customers.

b. Recognizing these data limitations, certain provisions were implemented as part of the Gas Accord so that CPGs could manage their daily and monthly imbalances like the other marketers, shippers and noncore customers. One of these provisions was the Core Load Forecasting and Determination Service, which forecasts the upcoming Gas Day usage for each CPG 24 hours and 48 hours prior to the Gas Day, as well as provides a usage estimate on the morning of the Gas Day. The CPG usage estimate provided on the Gas Day itself is called the Determined Usage. The Determined Usage is used by PG&E to determine two monthly imbalances for each CPG: the Cumulative Imbalance and the Operating Imbalance.

(1) Cumulative Imbalances are the monthly accumulation of each day's scheduled supply less Determined Usage. Cumulative Imbalances are calculated at the end of each month and may be traded, cashed-out or carried over to the subsequent month.

(2) Operating Imbalances are the difference between calendar month Determined Usage and metered usage. Metered usage for a calendar month is calculated by the appropriate weighting of the measured cycle usage. An Operating Imbalance Statement for a particular month is normally provided to customers two months following the processing of the Cumulative Imbalance Statement for the same month. This added time is necessary to collect and process the billing cycle usage data needed to calculate the indicated calendar month usage. These Operating Imbalances may be traded into or out of storage, traded with other customer Operating Imbalances for the same calendar month, or under current provisions, carried over to the month following the date on which the Operating Imbalance Statement is issued.

c. To allow more flexibility in managing their total imbalances, CPGs will now be able to trade Operating Imbalances with any Cumulative Imbalances issued in the same month. The trading between Cumulative and Operating Imbalances is subject to the following rules:

(1) Trades must occur in the regular monthly Cumulative Imbalance trading period.

(2) Trades must move the total Operating Imbalance towards, but not past, zero.

d. Accounting adjustments for CPGs as provided in Schedule G-BAL will be included in their Operating Imbalance Carryover.

e. Currently, any Operating Imbalance remaining after the Trading Period normally becomes the first gas through the meter in the month following the trading period. Since an imbalance repayment has no offsetting demand and can be relatively large, it is important to spread these deliveries out over a longer period of time so the impact on pipeline balancing and the possible need to issue OFOs is minimized. This also allows positive and negative Operating Imbalances to offset each other over time. Therefore, the following process is adopted for CPGs to repay untraded Operating Imbalances over approximately a one-year period:

(1) An Operating Imbalance Carryover account is established to accumulate (credit) and repay (debit) the untraded monthly Operating Imbalances.

(2) Each month, following the trading period, the untraded Operating Imbalance is credited to the Operating Imbalance Carryover.

(3) Each month, one-twelfth (1/12) of the Operating Imbalance Carryover at the end of the prior month will be considered the first transaction for that CPG and will be debited to its Operating Imbalance Carryover.

(4) A CPG may also make a monthly election to clear its entire Operating Imbalance Carryover if it is less than 5,000 Dth. This will be considered the first transaction during the calendar month following PG&E's receipt of written notification, and will set the Operating Imbalance Carryover to zero.

f. PG&E will continue to provide customers with information on the basic assumptions and methods used to develop demand forecasts for Core Procurement Groups. PG&E will also continue to assess and implement appropriate and cost-effective modifications to its forecasting processes, with the objective of reducing Operating Imbalances.

6. Storage Allocation to Balancing

a. Settlement Parties agree that no additional storage assets will be allocated to balancing at this time. Parties may agree in a future settlement to either add or reduce the amount of PG&E storage assets allocated to system balancing.

b. PG&E will provide the Settlement Parties, no later than the date initial testimony is due in I.99-07-003, with a report which describes the cost of adding and/or allocating additional storage assets to system balancing. This storage report will include the cost of each component (inventory and compressors), the anticipated effect on operations and OFOs, and the effect on rates.

D. Provisions Designed to Reduce the Impact of OFOs

1. OFO Notification

a. PG&E will continue to notify the market of system-wide and customer-specific OFOs as soon as practically possible. Primary notice will continue to be posted on INSIDEtracc. Notice will also continue to be provided on PG&E's Pipe Ranger Web site. In addition to electronic mail and/or a FAX for OFO notification, customers may now also sign up to receive an alpha page, which replaces the less effective "blast-paging."

b. PG&E currently provides the following information to the market for system-wide OFOs:

(1) Date of the OFO.

(2) Tolerance Band in percent.

(3) Stage (i.e., 1, 2, 3, or 4) as established in this Agreement.

(4) Noncompliance Charge in $ per therm.

(5) Reason (i.e., High or Low pipeline inventory).

c. No tariff changes are needed to reflect these adjustments to PG&E's OFO notification options or procedures.

2. Noncompliance Charges During an OFO

a. Experience with OFOs has indicated that some customers tend to over-adjust their supply (and sometimes demand) in order to minimize the risk of being outside the tolerance band and subject to an OFO noncompliance charge. The objective in issuing an OFO is to match the market reaction to the system need for imbalance relief, and thereby permit the system to stay within operating limits. A lower noncompliance charge which is closer to the movement of commodity prices in the market should encourage parties to more accurately adjust their supplies to their expected demand under most OFO conditions.

b. PG&E still retains the option under the tariffs of commencing an OFO at a higher stage and noncompliance charge, or even increasing the stage later in the day.

c. The noncompliance charge for a Stage 1 OFO will be reduced from $0.10 to $0.025 per therm. Another stage will be added after Stage 1 with a noncompliance charge of $0.10 per therm and a tolerance range up to ±20%. The table currently included in the Gas Rule 14, Section E, will be revised to the following:

	Tolerance Band As a % of Usage	Noncompliance Charge Dollars Per Therm
Stage 1:	up to ±25%	$0.025
Stage 2:	up to ±20%	$0.10
Stage 3:	up to ±15%	$0.50
Stage 4:	up to ±5%	$2.50

3. OFO Noncompliance Charge Exemption

a. Currently, some customers have difficulty in complying with OFOs because the gas market generally requires gas commodity purchases in packages of at least 5,000 Dth per transaction, or charges a premium for "small or odd lot" deals.

b. All balancing entities will be exempt from OFO noncompliance charges if their total monthly OFO noncompliance charges are equal to or less than $1,000. This noncompliance charge exemption will allow those customers with small imbalances to avoid making supply or demand adjustments during an OFO, even if their imbalance as a percent of their demand is outside the allowable OFO tolerance band.

c. PG&E may prospectively withdraw this exemption or reduce the exemption level if in PG&E's sole judgment this provision contributes to an increase in OFOs. PG&E will provide notice to, and will consult with, the Gas OFO Forum prior to making such a change.

d. There shall be no exemptions from noncompliance charges during EFOs or Involuntary Diversions.