Decision ______________________

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Establish Policies and Rules to Ensure Reliable, Long-Term Supplies of Natural Gas to California.	Rulemaking 04-01-025 (Filed January 22, 2004)
In the Matter of the Application of Southern California Gas Company Regarding Year Six (1999-2000) Under Its Experimental Gas Cost Incentive Mechanism and Related Gas Supply Matters. (U 904 G)	Application 00-06-023 (Filed June 15, 2000)
In the Matter of the Application of San Diego Gas and Electric Company (U 902 G) to Modify and Extend Permanent Gas Procurement Performance-Based Ratemaking Mechanism.	Application 02-10-040 (Filed October 31, 2002)

OPINION MODIFYING DECISIONS 02-06-023 AND 03-07-037 IN RESPONSE TO THE EMERGENCY PETITION OF SOUTHERN CALIFORNIA GAS COMPANY AND SAN DIEGO GAS & ELECTRIC COMPANY

Summary

This decision addresses the emergency petition of Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) to modify Decision (D.) 02-06-023 and D.03-07-037. SoCalGas and SDG&E seek to modify their respective existing Gas Cost Incentive Mechanism (GCIM) and Gas Procurement Performance Based Ratemaking (PBR) Mechanism so that they can undertake an expanded level of hedging of their natural gas purchases on behalf

of their respective core gas customers for this coming winter. The emergency petition also requests that all of the costs and benefits of the expanded hedging plans, and the gas hedging that has already taken place for the 2005-2006 winter, be allocated directly to their core gas customers.

The relief that SoCalGas and SDG&E are requesting is very similar to the relief that the Commission recently provided to Pacific Gas and Electric Company (PG&E) in D.05-10-015 regarding PG&E's emergency petition for modification of D.04-01-047. The relief is being sought because of the prices in the natural gas market that resulted from Hurricane Katrina, and to a lesser degree from Hurricane Rita.

In this decision, we approve the confidential hedging plans of SoCalGas and SDG&E, and grant the request to modify D.02-06-023 and D.03-07-037 in the manner requested. The additional hedging will help safeguard the core customers of both utilities from high natural gas prices for this coming winter at a moderate cost to ratepayers. As a result of today's authorization, the average residential customer's monthly bill will increase by approximately the same amount that PG&E's customers will face, i.e., about $2.00.

Background

In response to the events affecting the natural gas infrastructure resulting from Hurricane Katrina and because of rising natural gas prices, on September 13, 2005, PG&E filed an emergency petition for modification of its current Core Procurement Incentive Mechanism in D.04-01-047. After taking comments on PG&E's emergency petition, we adopted D.05-10-015 on October 6, 2005.

In D.05-10-015 we authorized PG&E to purchase hedges as set forth in its confidential hedging plan for a total of three years. We also approved, among other things, PG&E's request that the costs associated with the approved hedges be paid for by PG&E's core customers and that all payouts associated with the hedges flow directly to PG&E's core gas customers.

On October 11, 2005, SoCalGas and SDG&E filed their emergency petition to modify D.02-06-023 and D.03-07-037. Due to the exigent circumstances discussed in D.05-10-015, the emergency petition requests that the Commission take action at its October 27, 2005 meeting, and that the time for filing responses to the emergency petition and replies to the responses be shortened.

The emergency petition was accompanied by an emergency motion to file Addendum A and Addendum B of the emergency petition under seal. Addendum A is the confidential emergency hedging plan of SoCalGas, and Addendum B is the confidential emergency hedging plan of SDG&E.

In addition, SoCalGas and SDG&E filed a motion to modify the September 17, 2005 protective order, which was issued in connection with PG&E's emergency hedging plan, to cover the emergency hedging plans of SoCalGas and SDG&E.

The assigned administrative law judge (ALJ) ruled on the scheduling requests and motions in an electronic message that was sent to the service lists in these proceedings on October 14, 2005. The request to shorten time to respond to the emergency petition, and to act on the emergency petition was granted. In addition, the addendums were filed under seal, and a protective order was to issue. The rulings made in the electronic message were confirmed in the ALJ's October 18, 2005 ruling regarding the emergency petition along with a protective order.

Responses to the emergency petition were filed by the Office of Ratepayer Advocates (ORA), Southern California Edison Company (SCE), and The Utility

Reform Network (TURN). Replies to the responses were filed by the Southern California Generation Coalition (SCGC), and SoCalGas and SDG&E.

The Current Incentive Mechanisms

The SoCalGas GCIM, and SDG&E's Gas Procurement PBR Mechanism are Commission-authorized incentive mechanisms designed to encourage the utilities to lower their gas procurement costs. The two mechanisms provide incentives by rewarding or penalizing the utilities' shareholders based on a comparison of the utility's total gas costs to a monthly gas price benchmark. A tolerance band around the benchmark delineates the range of costs to be borne by ratepayers and shareholders. If actual gas costs, as measured against the incentive mechanism's benchmark, are 1% to 5% below the benchmark, the savings are shared 75%/25% between ratepayers and shareholders, and savings beyond 5% are shared 90%/10% between ratepayers and shareholders for SoCalGas and 75%/25% for SDG&E. Except for operational emergencies, if actual gas costs are up to 2% above the benchmark, ratepayers bear the loss. If actual gas costs are more than 2% above the benchmark, the losses are shared 50%/50% between ratepayers and shareholders.

These incentive mechanisms replaced the reasonableness reviews of the utilities' gas procurement activities that the Commission used to undertake. The current incentive mechanisms which SoCalGas and SDG&E are operating under were approved in D.02-06-023 for SoCalGas, and in D.03-07-037 for SDG&E.

SoCalGas and SDG&E contend that because the GCIM and the Gas Procurement PBR mechanism are structured to give the utilities the incentive to purchase natural gas at or below the monthly gas price benchmarks, there is limited flexibility under the two mechanisms to fix the prices of natural gas for an extended period of time, or to expend dollars to hedge a significant portion of the company's natural gas purchases on behalf of core gas customers. The utilities have hedged their core gas purchases to some extent for this year and in previous years. However, they contend that if their spending on hedges, such as option premiums, exceeds the upper level of the deadband in their procurement mechanisms, then their shareholders face the risk of large financial penalties. SoCalGas and SDG&E also point out that since the size of the deadband can fluctuate, any hedging costs that are added to the cost of gas increases the probability of a penalty for their shareholders.

The Proposal

In order to better protect their core customers from potential gas price spikes this winter, SoCalGas and SDG&E request the same basic relief that was recently provided to PG&E in D.05-10-015. Although the circumstances of the storage resources and existing hedges of SoCalGas and SDG&E are somewhat different from PG&E, the GCIM and the Gas Procurement PBR Mechanism contain the same hedging disincentives as PG&E's incentive mechanism. SoCalGas and SDG&E contend that additional hedging for the upcoming 2005-2006 winter could provide their core customers with the same substantial benefits that the Commission determined that hedging will provide to PG&E's customers.

SoCalGas and SDG&E request, on an emergency basis, that D.02-06-023 and D.03-07-037 be modified, and that they be authorized to purchase additional hedges for the 2005-2006 winter season, as described in their emergency hedging plans that are contained in the addendums which were filed under seal on October 11, 2005. SoCalGas and SDG&E contend that this "emergency action is urgently needed to protect SoCalGas' and SDG&E's core gas customers from natural gas price spikes in the coming winter." (Emergency Petition, p. 1.)

SoCalGas and SDG&E state that their incentive mechanisms have served as effective cost recovery mechanisms, and have eliminated the need for reasonableness reviews. They also acknowledge that the incentive mechanisms align the interests of core gas customers and Company shareholders. They recommend that the GCIM and the Gas Procurement PBR Mechanism be retained, and look forward to working with the Commission and the other parties regarding longer term hedging issues.

SoCalGas and SDG&E are not proposing to enter into any multi-year hedges this fall or winter. Thus, the approval that PG&E received in Ordering Paragraph 1 of D.05-10-015 regarding the 2006-2007 and 2007-2008 hedges would not apply to SoCalGas and SDG&E.

SoCalGas and SDG&E request that the following new ordering paragraphs be added to D.02-06-023 and D.03-07-037:

1. To provide much-needed supplemental protection from possible dramatic natural gas price increases in the wake of Hurricane Katrina and Rita, SoCalGas and SDG&E are hereby authorized to purchase additional hedges in 2005 and 2006 for the 2005-2006 winter. The level of the hedges and the expiration dates thereof are specified in the Gas Hedging Plans attached as confidential Addendums to SoCalGas' and SDG&E's Petition for Modification dated October 11, 2005. SoCalGas' and SDG&E's hedging plans are limited to the winter of 2005-2006.
2. All costs and benefits associated with approved Gas Hedging Plans shall flow directly to SoCalGas' and SDG&E's core gas customers.
3. All costs and benefits associated with the Gas Hedging Plans for the 2005-2006 winter already entered into by

SoCalGas and SDG&E at the time of this order shall also flow directly to core customers.[1]

4. Neither the costs nor benefits associated with these hedges will be shared by SoCalGas' or SDG&E's shareholders.
5. All transactions associated with the approved Gas Hedging Plans shall be separately recorded and identified in monthly and annual reports filed by the utilities to the Commission. In addition, supplemental reporting on a more current basis will be provided to the Commission staff.

Unlike PG&E's request, SoCalGas and SDG&E are not proposing to forego any shareholder rewards for past GCIM or Gas Procurement PBR Mechanism years. Thus, SoCalGas and SDG&E are not requesting that Ordering Paragraph 5 of D.05-10-015 apply to their emergency petition[2]

Responses To The Proposal

TURN generally supports the proposal of SoCalGas and SDG&E for an expanded hedging program, and recommends that the Commission grant timely approval of the modifications to the incentive mechanisms and for approval of an expanded hedging program.

TURN is concerned with the "cryptic statements in both companies' recommended hedging plans regarding what appears to be a proposal to differentially target some portion of the hedges to customers participating in the CARE [California Alternate Rates for Energy] program." (TURN Response, p. 1.)

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[1] SoCalGas and SDG&E have already entered into certain hedges for the 2005-2006 winter season. Under the incentive mechanisms, these existing hedges could create shareholder benefits if gas prices remain high this winter. SoCalGas and SDG&E propose to treat these hedges in the same manner as the proposed hedging plans. Accordingly, SoCalGas and SDG&E seek to move the costs and any future payouts from these existing hedges out of the incentive mechanisms.

[2] Ordering Paragraph 5 of D.05-10-015 provides that PG&E's shareholders will forego any reward for PG&E's incentive mechanism year for 2004-2005.

TURN contends that the Commission's efforts to address the hardship issues that high gas prices will have on customers in general, and on CARE customers in particular, should be addressed in R.04-01-006 rather than in this proceeding which is addressing the emergency petition.

TURN also recommends that the Commission consider opening a new docket to address "on a generic basis, core gas procurement policy and potential future changes to existing procurement incentive structures to better address current market conditions." TURN notes that the Commission should review "whether or not a 'portfolio' approach to gas purchasing might be more beneficial for customers than the current policy." (TURN Response, p. 2.)

SCE's opposition to the emergency petition states that the request of SoCalGas and SDG&E to increase their hedging activities is "superfluous" because those utilities already have the right to hedge their core portfolios. SCE contends that the point of the emergency petition is to remove the risk associated with the financial hedges from its shareholders. SCE also states that it "generally supports SoCalGas' and SDG&E's request," and that it "supports not only removing the hedging risk for the current year, but for all years to come." (SCE Protest, p. 2.)

As set forth in the Discussion section below, ORA opposes the emergency petition to allow SoCalGas and SDG&E to undertake an expanded level of hedging as set forth in their respective emergency hedging plans. In the event the Commission is inclined to grant their request to remove the costs and potential benefits of their hedging plans from the calculation of the incentive mechanisms, ORA recommends that the incentive mechanisms be suspended for the current 2005-2006 period.

Discussion

We first address the emergency nature of the emergency petition that SoCalGas and SDG&E filed. In order to protect their core gas customers from natural gas price spikes for this coming winter, the increase in natural gas prices due to Hurricane Katrina and Rita, and the exigent circumstances discussed in D.05-10-015, SoCalGas and SDG&E request that the Commission grant their emergency petition on an expedited basis.

In D.05-10-015, we stated that since Hurricane Katrina hit the United States on August 29, 2005, it "has had a major adverse impact on natural gas markets, contributing to significant increases in the price of natural gas throughout the United States." (D.05-10-015, p. 6.) As a result of Hurricane Katrina, about sixteen percent of the natural gas production for the United States was disrupted, and as of October 6, 2005, about seven percent of this gas production remained shut in. As a result, gas prices for the coming winter rose dramatically. We also stated that the prices for natural gas have risen upwards since early 2002, and that the "pace of growth in demand has exceeded supply during that time, and is forecast to continue to do so for the next several years." (D.05-10-015, p. 7.) We also noted that the supply outages caused by Hurricane Katrina could reduce pre-winter gas storage inventories, which could make it difficult for the gas markets to meet expected demand should a colder than normal winter materialize. In addition, an increase in the price of other energy commodities, such as heating oil, could also drive natural gas prices higher.

With the coming onset of winter, and the current natural gas market, time is of the essence to protect consumers from further gas price increases. The Commission should act as soon as possible on the emergency hedging proposals of SoCalGas and SDG&E to avoid possible significant harm to natural gas consumers in southern California.

We next address ORA's arguments that the current incentive mechanisms provide SoCalGas and SDG&E with more than sufficient flexibility to hedge their natural gas purchases for this winter, and that the hedging costs should not be excluded from the incentive mechanisms. SCE also contends that SoCalGas and SDG&E already have the right to hedge their core portfolios and that their request is superfluous.

ORA contends that the tolerance band of 2% above the benchmarks provide both SoCalGas and SDG&E with a tolerance band cushion to mitigate any shareholder risk associated with potential hedging transactions and losses. ORA estimates that SoCalGas has approximately $30 million in risk protection through the first four months of its current GCIM period, and expects the actual upper tolerance band to surpass $60 million. ORA asserts that SoCalGas and SDG&E have not provided any evidence to support their argument that their shareholders will face the risk of large financial penalties if their spending on hedges exceeds the upper level of the deadband. ORA contends that this tolerance for the 2005-2006 incentive mechanism periods will be more than adequate to cover the hedge plans with no shareholder risk, and therefore the request to exclude the hedging costs from the incentive mechanisms should not be granted.

SoCalGas and SDG&E respond that the temporary relief they are seeking "better aligns the interests of customers and shareholders with respect to these additional hedges." If they enter into substantial hedges, and natural gas prices stay the same or decline, the hedges will expire worthless and eliminate all the other incentive mechanism earnings. SoCalGas and SDG&E also contend that the relief they are requesting is entirely consistent with the emergency hedging authorization that was granted to PG&E in D.05-10-015.

ORA's argument that the existing tolerance bands will cover the expanded hedging activities of SoCalGas and SDG&E overlooks the impact and the recent increase in natural gas prices that were triggered by Hurricane Katrina. Since SoCalGas and SDG&E plan to expand their hedging of the risk associated with gas prices this winter, we should not put SoCalGas and SDG&E in a position in which their purchasing of additional hedging instruments to protect core customers could result in total gas costs exceeding their tolerance bands, which could result in large financial penalties for their shareholders. Since the cost of the expanded hedging is small as compared to the total cost of gas that SoCalGas and SDG&E will spend this winter, it is in the best interest of ratepayers to take proactive steps to mitigate natural gas prices.

In D.05-10-015, we encouraged "all of the utilities to hedge as it appears most appropriate to protect core customers." (D.05-10-015, p. 23.) We noted that "Properly applied hedges act as insurance against the highest prices and protect consumers from the impact these higher prices have on bills." (D.05-10-015, p. 15.) The expanded hedging authority that SoCalGas and SDG&E are requesting should not be limited by the tolerance bands of the utilities' incentive mechanisms, as suggested by ORA and SCE. As we stated in D.05-10-015, the expanded hedging "is an example of the Commission's desire to take whatever reasonable steps are needed to provide the utilities with the necessary tools they need to protect ratepayers from the potential for even higher bills," and "It is critically important that the utilities have the flexibility, in the coming months, to make those hedging decisions quickly and that they not be constrained by disincentives to do so." (D.05-10-015, p. 3.) SoCalGas and SDG&E should be given the same tools and flexibility that we provided to PG&E so that they can respond quickly to the changes in the natural gas market for the 2005-2006 winter season.

ORA also argues that the proposal to exclude the current and expanded hedging costs from the incentive mechanisms should not be adopted because the utilities should have a direct financial stake in their own hedging plans, and the proposal shifts the accountability for the hedging plans entirely onto ratepayers. SoCalGas and SDG&E respond that excluding the hedging costs better aligns the interests of customers and shareholders.

As noted above, if the hedging costs exceed the tolerance band and these costs are not removed from the incentive mechanisms, the shareholders of SoCalGas and SDG&E could be faced with large financial penalties as a result of the incentive mechanisms. By excluding the hedging costs that SoCalGas and SDG&E have already entered into, and the expanded hedging costs, from the incentive mechanisms, this will allow SoCalGas and SDG&E to actively pursue hedging activities to protect their customers without them having to bear the risks associated with the hedging activities.[3] In responding to ORA's argument about PG&E's shifting of the risk to ratepayers, we stated:

> "It is this Commission's responsibility to ensure that the costs passed on to consumers in the form of rates are just and reasonable. We applaud PG&E for taking the proactive step in trying to moderate what may turn out to be a winter with

[3] The request to exclude the hedging costs from the GCIM and the Gas Procurement PBR Mechanism is for this winter only. ORA's contention that the exclusion of these costs undermines the risk and reward framework of the incentive mechanisms ignores the recent effects of Hurricane Katrina on the price of natural gas. In addition, the removal of the hedging risks from the incentive mechanisms for the 2005-2006 winter period is supported by SCE and SCGC because of the "perverse incentives" that they believe the incentive mechanisms create.

> extremely high gas prices that will ultimately be passed on to consumers. In this case, the Commission would then be in the unenviable position of allowing these higher costs to be passed on to consumers because we did not act swiftly to approve what a utility believed were appropriate safeguards that protect consumers." (D.05-10-015, p. 17.)

Since the cost of the hedging that the utilities have already undertaken, and plan to undertake, is small as compared to the total cost of gas that they will spend this winter, SoCalGas and SDG&E should have the necessary tools and flexibility to protect consumers against high winter gas prices. To do otherwise runs the risk of even higher winter natural gas rates.

ORA argues that if the Commission is going to grant the request of SoCalGas and SDG&E to remove the costs and potential benefits of the hedging activities from the incentive mechanisms, that it is only equitable that the incentive mechanisms be suspended entirely for the 2005-2006 period. SoCalGas and SDG&E oppose ORA's suggestion. They point out that PG&E did not propose, and was not required, to give up PG&E's non-hedging rewards for the incentive year beginning on November 1, 2005. SoCalGas and SDG&E also contend that their request will temporarily correct a flaw in the incentive mechanisms due to the "additional hedging in the extraordinary procurement environment we face this upcoming winter." (SoCalGas and SDG&E Reply, p. 6.)

We agree with SoCalGas and SDG&E that ORA's proposal to suspend the entire incentive mechanisms for this incentive year should not be adopted. The hedging that has already been undertaken, and the request for additional hedging, has the potential to benefit core ratepayers substantially if natural gas prices remain high. The risk to ratepayers from pursuing such a strategy is that they will be responsible for paying the costs of the hedging that have already been entered into, and the additional hedging requested in the addendums. Such a strategy, and the attendant costs will provide the core customers of SoCalGas and SDG&E "with the proper amount of protection for potential winter price runups while maintaining just and reasonable rates." (D.05-10-015, p. 22.)

We next turn to the confidential emergency hedging plans of SoCalGas and SDG&E.

SoCalGas and SDG&E contend that their emergency hedging plans will enable them to secure additional price protection for price spikes in natural gas for this winter. They are not proposing that the Commission approve a long-term hedging plan.

ORA contends that the emergency hedging plans of the two utilities do not contain adequate detail about the specific hedging plans that they propose to implement at ratepayers' expense. SoCalGas and SDG&E respond that the additional hedging is needed to protect their "customers from price spikes this winter in the face of high natural gas prices and price volatility." (SoCalGas and SDG&E Reply, p. 2.)

We have reviewed the confidential emergency hedging plans of SoCalGas and SDG&E. We believe that the hedging plans are an appropriate response to the current natural gas market that we find ourselves in. Natural gas prices have steadily risen in recent years, and the price volatility has been exacerbated by the destruction wrought by Hurricane Katrina, and to a lesser degree by Hurricane Rita. Given these extraordinary market conditions, and the imminent approach of the 2005-2006 winter season, SoCalGas and SDG&E should take proactive steps, as they propose to do, to hedge against high natural gas prices. The emergency hedging plans of SoCalGas and SDG&E respond to our call in

D.05-10-015 at page 23 that the utilities should "hedge as it appears most appropriate to protect core customers."

TURN and ORA expressed concern over the emergency hedging plans to specifically allocate certain hedges to CARE customers, if needed, to keep the monthly commodity gas costs for CARE customers at $8 MMbtu or below. Both TURN and ORA believe that any CARE-related proposals should be addressed in a proceeding that is examining the hardships that high gas prices will have on CARE customers.

In response, SoCalGas and SDG&E contend that the need to review the CARE issues in a different forum would make sense if more time was available. However, due to the need to protect CARE customers "from natural gas price spikes and spiraling commodity costs this winter," the CARE-specific hedges should be resolved as part of the emergency hedging plans rather than waiting to resolve the CARE issues months from now.

We agree with SoCalGas and SDG&E that the CARE-specific hedging activity should be part of the overall hedging plans of the two utilities. The time to protect the most vulnerable customers from high gas prices for this coming winter is now, not several months down the road when the winter has passed. Accordingly, the hedging that may be done for the benefit of CARE customers should take place as part of the utilities' overall emergency hedging plans. We also note that the hedging on behalf of CARE customers is just one strategy to help keep gas costs low for CARE customers, a group that will be impacted the most by high gas prices.

Based on the above discussion, we approve the emergency hedging plans of SoCalGas and SDG&E, and grant the request of these utilities to modify D.02-06-023 and D.03-07-037 in the manner requested. Since the emergency petition is only seeking authority for expanded hedging activities for the 2005-2006 winter, and is not seeking a permanent change to SoCalGas' GCIM or to SDG&E's Gas Procurement PBR Mechanism, today's expanded hedging authority and modification of D.02-06-023 and D.03-07-037 is limited to the 2005-2006 winter season.

As suggested by several of the parties, any permanent change to these incentive mechanisms should be sought in an application or in a rulemaking designed to look at these mechanisms. The parties have also suggested that longer-term hedging issues, the need for long-term contracts, and the possibility of a new supply of gas from liquefied natural gas projects, should also be examined in the context of a review of the incentive mechanisms. We are considering opening such a rulemaking in the near future to ensure that California's gas needs can be met, while giving the utilities the incentive to procure gas at the lowest possible cost.

To monitor the effects of today's actions, SoCalGas, SDG&E, and ORA should address the additional hedging and rate treatment of the hedging costs in the utilities' incentive mechanism review filings covered by these 2005-2006 winter hedging activities. This will provide the Commission with the opportunity to assess and evaluate the hedging activities undertaken during this winter, and the effect these activities will have on the price of gas to core customers.[4]

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[4] PG&E and ORA should also perform a similar review in PG&E's next incentive mechanism filing.

Assignment of Proceeding

Michael R. Peevey and Susan P. Kennedy are the assigned Commissioners, and John S. Wong is the assigned ALJ, in R.04-01-025, A.00-06-023, and A.02-10-040 for the purpose of resolving the emergency petition.

Waiver of Comments on Draft Decision

To avoid the possibility of significant harm to the public health and welfare, the Commission must act immediately to protect SoCalGas and SDG&E core gas customers from current high gas prices and the potential price volatility spurred by Hurricane Katrina by allowing SoCalGas and SDG&E to acquire additional price hedges for the approaching winter months. Therefore, pursuant to Public Utilities Code § 311(g)(3) and Rule 77.7(f)(9), the Commission concludes that public necessity requires waiver of the otherwise applicable 30-day period for public review and comment on the draft decision, because the public interest in adopting a decision before expiration of the 30-day review and comment period would cause significant harm to public health or welfare.

Findings of Fact

1. PG&E's September 13, 2005 emergency petition to modify its incentive mechanism and to implement its confidential hedging plan was granted in D.05-10-015.

2. SoCalGas and SDG&E filed a similar emergency petition on October 11, 2005.

3. In response to the ALJ's ruling granting the request to shorten time to respond to the emergency petition, responses and replies were filed by several parties.

4. With the coming onset of winter, and the current natural gas market conditions that have resulted from Hurricane Katrina and Hurricane Rita, time is

of the essence to act on the emergency hedging proposals of SoCalGas and SDG&E to avoid possible significant harm to natural gas consumers in southern California.

5. SoCalGas and SDG&E should not be placed in a position where the purchasing of additional hedging instruments to protect core customers could result in large financial penalties for their shareholders.

6. It is in the best interest of ratepayers for SoCalGas and SDG&E to take proactive steps to mitigate natural gas prices, and to do otherwise runs the risk of even higher winter natural gas rates.

7. SoCalGas and SDG&E should be given the same tools and flexibility that we provided to PG&E so that they can respond quickly to the changes in the natural gas market for the 2005-2006 winter season.

8. The emergency hedging plans of SoCalGas and SDG&E are an appropriate response to the current natural gas market.

9. The hedging on behalf of CARE customers should take place as part of the utilities' overall emergency hedging plans.

Conclusions of Law

1. The emergency hedging plans of SoCalGas and SDG&E should be approved, and the request to modify D.02-06-023 and D.03-07-037 in the manner requested by the utilities should be granted.

2. Since the emergency petition only seeks authority for expanded hedging activities for the 2005-2006 winter, and is not seeking a permanent change to the incentive mechanisms, today's expanded hedging authority and modification of D.02-06-023 and D.03-07-037 should be limited to the 2005-2006 winter season.

3. To allow the Commission to assess and evaluate today's actions, SoCalGas, SDG&E, and ORA should address the additional hedging and rate treatment of

the hedging costs in the utilities' incentive mechanism review filings that cover the 2005-2006 winter hedging activities.

4. To avoid the possibility of significant harm to the public health and welfare resulting from the current high gas prices and price volatility, public necessity requires a waiver of the public review and comment on the draft decision.

5. Application 00-06-023 and Application 02-10-040 should be closed.

O R D E R

IT IS ORDERED that:

1. The October 11, 2005 emergency petition of Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) to modify Decision (D.) 02-06-023 and D.03-07-037 is granted as set forth in the following ordering paragraphs.

2. The emergency hedging plans of SoCalGas and SDG&E, which are part of the October 11, 2005 emergency petition and which were filed under seal, are approved.

3. D.02-06-023 is modified to include the following ordering paragraphs:

   (a) To provide much-needed supplemental protection from possible dramatic natural gas price increases in the wake of Hurricane Katrina and Rita, SoCalGas is hereby authorized to purchase additional hedges in 2005 and 2006 for the 2005-2006 winter. The level of the hedges and the expiration dates thereof are specified in the Gas Hedging Plan attached as confidential Addendum A to SoCalGas and SDG&E's emergency petition to modify D.02-06-023 and D.03-07-037 dated October 11, 2005. SoCalGas' hedging plan is limited to the winter of 2005-2006.

   (b) All costs and benefits associated with the approved Gas Hedging Plan shall flow directly to SoCalGas' core gas customers.

   (c) All costs and benefits associated with the Gas Hedging Plan for the 2005-2006 winter already entered into by SoCalGas at the time of this order shall also flow directly to core customers.

   (d) Neither the costs nor benefits associated with these hedges will be shared by SoCalGas' shareholders.

   (e) All transactions associated with the approved Gas Hedging Plan shall be separately recorded and identified in monthly and annual reports filed by the utilities to the Commission. In addition, supplemental reporting on a more current basis will be provided to the Commission staff.

4. D.03-07-037 is modified to include the following ordering paragraphs:

   (a) To provide much-needed supplemental protection from possible dramatic natural gas price increases in the wake of Hurricane Katrina and Rita, SDG&E is hereby authorized to purchase additional hedges in 2005 and 2006 for the 2005-2006 winter. The level of the hedges and the expiration dates thereof are specified in the Gas Hedging Plan attached as confidential Addendum B to SoCalGas and SDG&E's emergency petition to modify D.02-06-023and D.03-07-037 dated October 11, 2006. SDG&E's hedging plan is limited to the winter of 2005-2006.

   (b) All costs and benefits associated with the approved Gas Hedging Plan shall flow directly to SDG&E's core gas customers.

   (c) All costs and benefits associated with the Gas Hedging Plan for the 2005-2006 winter already entered into by SDG&E at the time of this order shall also flow directly to core customers.

   (d) Neither the costs nor benefits associated with these hedges will be shared by SDG&E's shareholders.

   (e) All transactions associated with the approved Gas Hedging Plan shall be separately recorded and identified in monthly and annual reports filed by the utilities to the Commission. In addition, supplemental reporting on a more current basis will be provided to the Commission staff.

5. At the next review of the incentive mechanism filings covering the 2005-2006 winter, SoCalGas, SDG&E, and ORA shall address the effects of the hedging and rate treatment of the hedging costs authorized in today's decision so that the Commission can assess and evaluate how these hedging activities have performed.
6. Application 00-06-023 and Application 02-10-040 are closed.

This order is effective today.

Dated ____________________, at San Francisco, California.