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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

I. D. #5404

ENERGY DIVISION RESOLUTION G-3386

April 13, 2006

R E S O L U T I O N

Resolution G-3386. Southern California Gas Company (SoCalGas) requests Commission agreement that its revenue requirement approved in Decision 04-12-015 will not increase as a result of SoCalGas' purchase of the Cuyama/Casitas pipeline. SoCalGas' request is approved.

By Advice Letter 3537 filed on October 11, 2005.

SUMMARY

SoCalGas filed Advice Letter (AL) 3537 to establish that the SoCalGas revenue requirement will not increase as a result of the Company's purchase of the Cuyama/Casitas pipeline. SoCalGas requests the Commission to acknowledge and agree that the purchase of this pipeline is not resulting in an increase in its revenue requirement. The reasonableness of the purchase and its impact on revenue requirements may be revisited in SoCalGas' next general rate case. We approve SoCalGas' request.

The Southern California Generation Coalition (SCGC) protested the Advice Letter, arguing that no justification has been made for the purchase, and that the advice letter should therefore be rejected. SCGC's protest is denied.

BACKGROUND

Decision 04-12-015 required SoCalGas to file an advice letter if the Company purchased the Cuyama-Casitas pipeline, demonstrating that the purchase would not increase the revenue requirement approved in that decision.

In Application (A.) 93-03-069, SoCalGas sought Commission approval of a 15-year lease of the Cuyama/Casitas pipeline. The Cuyama/Casitas pipeline is a system of gas pipeline facilities extending from the San Joaquin Valley to the coastal areas of Ventura County and connecting with Southern California Edison's (Edison's) Mandalay electric generation station. The pipeline owner at the time was Atlantic Richfield Company (ARCO), which later was acquired by British Petroleum. In Decision (D.) 94-07-061, the Commission approved the lease, and approved a revenue requirement structure which allowed for a portion of the annual lease costs to be collected in rates. The Commission allowed $750,000, adjusted annually for inflation, to be collected in rates, with any remaining lease costs to be paid for by shareholders.

In D.04-12-015 the Commission approved a Settlement Agreement, with modifications, in the revenue requirement phase of SoCalGas's Cost of Service application for Test Year 2004. Footnote 2 at page 15 of the Settlement Agreement states:

> The revenue requirement adopted by this Settlement includes a portion, consistent with prior Commission decision, of the cost to SoCalGas of leasing the ARCO Cuyama/Casitas pipeline. SoCalGas has discussed with ORA the potential that SoCalGas may purchase that pipeline. This Settlement provides that if SoCalGas purchases this pipeline, it shall file an advice letter with the Commission detailing the terms of the purchase and reflecting the effect on rates of removing the cost of the lease in rates and including the cost of the purchase in rate base, provided that reflecting this change in ownership shall not increase the revenue requirement adopted herein.

SoCalGas executed purchase of the Cuyama/Casitas pipeline on September 29, 2005, and pursuant to the Settlement Agreement, on October 11, 2006 SoCalGas filed AL 3537.

The advice letter explained that the ownership revenue requirement (i.e. return, taxes, interest, and depreciation) is in excess of $1.6 million per year.[1] This is greater than the 2005 amount in rates for Cuyama/Casitas leasing costs -- $961,234 ($750,000 plus inflation).[2] Because the new ownership costs are greater

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[1] Not explicit in the advice letter, but later clarified in SoCalGas's response to the SCGC protest, SoCalGas had already, at the time of the advice letter filing, executed purchase of the pipeline.

[2] Confidential appendices to the advice letter provided further details.

than the cap on the lease costs already allowed in rates, SoCalGas argues that there should be no change in revenue requirement, pursuant to the Settlement Agreement cited above.

NOTICE

Notice of AL 3537 was made by publication in the Commission's Daily Calendar. SoCalGas states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

SCGC protests that, since no justification has been made for the purchase, the AL should be rejected.

Advice Letter AL 3537 was timely protested on October 31, 2005 by Southern California Generation Coalition (SCGC). SCGC notes that no justification has been made for the purchase, and thus argues that the AL should be rejected.

No other party protested.

SoCalGas responds that the purpose of the AL is to simply acknowledge that the revenue requirement approved in D.04-12-015 will not increase as a result of the purchase, and that the AL is in compliance with the Settlement Agreement approved in that decision.

SoCalGas responded to the protest on November 7, 2005. SoCal counters that the sole purpose of the advice letter is to establish that no change in revenue requirement will result from the purchase. SoCal is not seeking approval for the purchase, which occurred on September 29, 2005. SoCal explains that in its next rate case it will make a showing that the purchase was justified and reasonable, and argues that approval of this advice letter does not prejudge that determination.

DISCUSSION

SoCalGas' AL 3537 should be approved, as it is in compliance with the Settlement Agreement approved in D.04-12-015.

The Commission has reviewed the arguments presented in this case, and SoCalGas' information on the ownership costs of the Cuyama/Casitas pipeline, and finds that SoCalGas's advice letter filing is in compliance with the Settlement Agreement approved in D.04-12-015. The SCGC protest misses the point of the SoCalGas filing, which is not to seek approval for the purchase of the pipeline. SoCalGas' request for approval of the purchase and for approval of the ownership costs will happen in SoCalGas' next general rate case. Rather, the point of the advice letter filing is to seek Commission agreement that the revenue requirement associated with Cuyama/Casitas will not be increased as a result of the purchase, as required by the Settlement Agreement. Since the new ownership costs exceed the previously established leasing costs allowed into rates, we agree with SoCalGas that there should be no revenue requirement change associated with the purchase of the pipeline.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from today.

FINDINGS

1. In Application (A.) 93-03-069, SoCalGas sought Commission approval of a 15-year lease of the Cuyama/Casitas pipeline.
2. The Cuyama/Casitas pipeline is a system of gas pipeline facilities extending from the San Joaquin Valley to the coastal areas of Ventura County and connecting with Southern California Edison's (Edison's) Mandalay electric generation station.
3. In Decision (D.) 94-07-061, the Commission approved the lease, and approved a revenue requirement structure which allowed for a portion of the annual lease costs to be collected in rates.

4. The amount of $750,000, adjusted annually for inflation, was allowed to be collected in rates, with the remaining lease costs to be paid for by shareholders.
5. In D.04-12-015 the Commission approved the Settlement Agreement, with modifications, in the revenue requirement phase of SoCalGas's Cost of Service application for Test Year 2004.
6. Footnote 2 at page 15 of the Settlement Agreement states "The revenue requirement adopted by this Settlement includes a portion, consistent with prior Commission decision, of the cost to SoCalGas of leasing the ARCO Cuyama/Casitas pipeline. SoCalGas has discussed with ORA the potential that SoCalGas may purchase that pipeline. This Settlement provides that if SoCalGas purchases this pipeline, it shall file an advice letter with the Commission detailing the terms of the purchase and reflecting the effect on rates of removing the cost of the lease in rates and including the cost of the purchase in rate base, provided that reflecting this change in ownership shall not increase the revenue requirement adopted herein."
7. SoCalGas executed purchase of the Cuyama/Casitas pipeline on September 29, 2005.
8. On October 11, 2006 SoCalGas filed AL 3537.
9. The ownership revenue requirement (i.e. return, taxes, interest, and depreciation) is in excess of $1.6 million per year. This is greater than the 2005 amount ($961,234, or $750,000 plus inflation) allowed in rates for Cuyama/Casitas leasing costs. Because the new ownership costs are greater than the lease costs already in rates, there should be no change in revenue requirement, pursuant to the Settlement Agreement cited above.
10. Advice Letter AL 3537 was timely protested on October 31, 2005 by Southern California Generation Coalition (SCGC). SCGC notes that no justification has been made for the purchase, and thus argues that the AL should be rejected.
11. SoCalGas responded to the protest on November 7, 2005. SoCal counters that the sole purpose of the advice letter is to establish that no change in revenue requirement will result from the purchase. SoCal is not seeking approval for the purchase, which occurred on September 29, 2005. SoCal explains that in its next rate case it will make a showing that the purchase was justified and reasonable, and argues that approval of this advice letter does not prejudge that determination.
12. SoCalGas's advice letter filing is in compliance with the Settlement Agreement.

13. The SCGC protest misses the point of the SoCalGas filing, which is not to seek approval for the purchase of the pipeline. This will happen in the next general rate case.
14. The point of the filing is to seek Commission agreement that the revenue requirement associated with Cuyama/Casitas is unchanged as a result of the purchase.
15. Since the new ownership costs exceed the previously established leasing costs allowed into rates, we agree with SoCalGas that there should be no revenue requirement change associated with the purchase of the pipeline.

THEREFORE IT IS ORDERED THAT:

1. The Commission approves the Southern California Gas Company request that its revenue requirement approved in Decision 04-12-015 will not increase as a result of SoCalGas' purchase of the Cuyama/Casitas pipeline.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on April 13, 2006; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director