

Commissioner Rachelle B. Chong, concurring:

As to the threshold question, I believe that Southern California needs a system of firm access rights. The current system, which relies on capacity rationing when the system is constrained, does not always bring the lowest cost gas into the state. By establishing a system for the buying and selling of firm access to the SoCalGas and SDG&E pipeline systems we can lower costs for California consumers and attract new supplies. A market as dynamic as the natural gas market should have a market-based firm access rights structure. Furthermore, customers, suppliers and marketers that want firm access to the SoCalGas and SDG&E systems should be able to acquire it. That is not the case currently. Finally, I think that a regulatory scheme that is consistent throughout the state makes common sense.

In several ways, this decision we approve today represents a compromise. For example, I would have preferred a cost-based reservation charge. This decision, on the other hand, adopts a reservation charge that is not cost-based. However, I can support this decision because it also states this Commission's intention to transition to a cost-based firm access charge in the near future. SoCalGas and SDG&E are directed to perform the studies necessary to establish a cost-based charge in their upcoming Biennial Cost Allocation Proceeding (BCAP). The decision makes clear that we expect a cost-based rate to be in place prior to the second three-year open season.

We also need to reexamine with more specificity, the regulatory gap that has given rise to the existing peaking rate. A regulatory gap exists between the tariff structures of the interstate pipelines and SoCalGas and SDG&E pipelines due to different rate structures, balancing rules, and other factors. Based on the rather sparse record, my preference was to eliminate the peaking rate immediately. However, as an alternative, I support fully reviewing the causes of the regulatory

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gap in the next BCAP, with the goal of eliminating the existing peaking rate at the conclusion of that proceeding.

I also believe we will need to take a hard look at the allocation system in the future. I believe that a fair and competitive open season is the best way to bring the lowest cost gas supplies into Southern California. The playing field should be as even as possible for all market participants. Discriminating between different types of customers, suppliers, and marketers is not the best outcome as it skews the marketplace.

I see this decision as the first but important step to reform the Southern California gas system. As the market gains experience, the firm access rights system will be improved over time.

/s/ RACHELLE B. CHONG
RACHELLE B. CHONG
Commissioner

San Francisco, California
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