

Decision 07-06-025 June 21, 2007

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of San Diego Gas & Electric Company (U 902 G) and Southern California Gas Company (U 904 G) for Authority to Integrate Their Gas Transmission Rates, Establish Firm Access Rights, and Provide Off-System Gas Transportation Services.

Application 04-12-004
(Filed December 2, 2004)

**OPINION REGARDING THE UTILITIES' PETITION FOR MODIFICATION OF
DECISION 06-12-031 CONCERNING OFF-SYSTEM DELIVERIES**

Summary

Today's decision addresses the January 19, 2007 petition for modification of Decision (D.) 06-12-031 that was filed by Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas).

D.06-12-031 adopted a system of firm access rights for the gas transmission systems of SDG&E and SoCalGas. That decision also authorized off-system delivery of natural gas from SDG&E and SoCalGas to PG&E, and allowed SDG&E and SoCalGas to file an application no earlier than May 1, 2008, to offer off-system delivery service to pipeline interconnections other than PG&E.

The three utilities request that the off-system delivery discussion and process in D.06-12-031 be modified. Under the utilities' proposal, the date to file

an application for off-system delivery to pipeline interconnections would be accelerated.

For the reasons stated in this decision, the utilities' petition for modification of D.06-12-031 is denied.

Procedural Background

A joint response to the petition was filed by El Paso Natural Gas Company (El Paso) and Mojave Pipeline Company (Mojave). A response to the petition was also filed by BHP Billiton LNG International, Inc. (BHP Billiton). Both responses support the utilities' petition to modify D.06-12-031.

Relief Requested

The three utilities request that certain portions of D.06-12-031 be modified, and that the Commission direct these three utilities to file a joint application within six months of the effective date of an order modifying D.06-12-031 to address specific transmission projects to optimize the facilities necessary to provide off-system deliveries over the gas transmission systems of the three utilities and to other pipeline interconnections. The specific modifications that the utilities seek to make to D.06-12-031 are set forth in Appendix A of the petition for modification.

Discussion

The essence of the proposed modifications are to have the three utilities develop specific transmission options to optimize their facilities in order to provide off-system deliveries to PG&E and to interconnect with other gas transmission systems, and to accelerate the process for considering such changes.

The utilities contend that the adoption of the proposed modifications will optimize what facilities should be built and minimize unneeded facilities. The utilities also contend that accelerating the process will send a strong market

signal to potential liquefied natural gas (LNG) developers that they will have access to the entire western gas market, and that the terms and conditions of such access will be adopted by the Commission at the earliest possible date. The utilities caution that if the proposed modifications are not adopted in a timely manner, the LNG developers are more likely to bypass the utilities' systems in order to serve the western gas markets.

BHP Billiton supports the utilities' petition to modify D.06-12-031 so that firm off-system deliveries can be implemented more quickly. BHP Billiton contends that ordering the utilities to speedily consider the options of allowing off-system deliveries to PG&E and to others will send a strong message to project developers that the LNG gas supplies will have access to potential multiple outlets, and provide an incentive for them to proceed with their plans.

El Paso and Mojave support the utilities' petition, and assert that there is no good reason for delaying the consideration of the off-system deliveries to interstate pipeline interconnections until after May 1, 2008, as presently required by D.06-12-031.

In deciding whether we should grant the utilities' request to modify the process for considering when off-system deliveries should occur, there are several factors to keep in mind. Although we limited the issue of off-system delivery to PG&E in this proceeding, we recognized in D.06-12-031 that some parties continued to advocate that there be interconnections with transmission systems other than PG&E. For that reason, D.06-12-031 addressed the issue of whether off-system delivery should be expanded to other interconnections in the future. We expressed concern that "the use of SoCalGas' transmission facilities to transport gas to points outside of California raises FERC [Federal Energy Regulatory Commission] jurisdictional issues pertaining to the Hinshaw

exemption of SoCalGas' transmission system, and has operational ramifications for intrastate transmission." (D.06-12-031, pp. 119-120.) We also recognized that in order to consider off-system deliveries to pipeline interconnections other than PG&E, that this would "depend on whether the LNG project developers are successful in their efforts to bring LNG to California." (D.06-12-031, p. 120.)

Since the filing of the petition for modification and the responses to the petition, other state and local agencies with permitting authority over Sound Energy Solutions' (SES) LNG project at the Long Beach Harbor and BHP Billiton's Cabrillo Port LNG project have taken actions which have effectively stalled these two projects. On January 22, 2007, the Long Beach Board of Harbor Commissioners voted to end the environmental review of the SES project and not to pursue further negotiations. On April 9, 2007, the California State Lands Commission voted not to certify the final environmental impact report for BHP Billiton's project and to deny a lease for the proposed pipeline. On April 12, 2007, the California Coastal Commission denied BHP Billiton's Coastal Consistency Certification seeking a determination that the project is consistent with the California Coastal Management Program. At this time, it remains unclear whether these project developers will continue to pursue these two projects.

Based on the recent permitting actions regarding these two LNG projects, we do not believe there is a need to accelerate the review of an application proposing interconnections with PG&E and other pipelines. The utilities proposed modifications to D.06-12-031 would have us review an application for interconnections as early as December 2007, as opposed to the currently authorized filing of no earlier than May 1, 2008. We are not persuaded that

anything will be gained by accelerating the schedule as the utilities have requested.

We also remain concerned about the Hinshaw exemption issue and the possible impact that off-system deliveries could have on intrastate gas deliveries. Although the utilities argue in their petition that the Hinshaw exemption will not be a problem, that is an important jurisdictional issue that should be addressed in a future application. The utilities' proposed modifications, as set forth in Appendix A of their petition, would eliminate the need to discuss in the accelerated application the issues regarding the Hinshaw exemption and the impact off-system deliveries could have on intrastate transmission.

The utilities contend that the adoption of the proposed modifications to D.06-012-031 will send a market signal to the LNG developers that their projects will be able to access east of California markets by using the transmission systems of SDG&E, SoCalGas, and PG&E. However, we have already sent that market signal to the LNG developers by addressing the interconnection issue in D.06-12-031. D.06-12-031 permits SDG&E and SoCalGas to file an application beginning May 1, 2008 to offer interconnections to pipelines other than PG&E.

As for the utilities' desire to optimize the transmission facilities the LNG developers will use in order to transport their gas to east of California markets, we do not believe that accelerating the filing of the application will achieve much in that regard. As mentioned earlier, recent permitting actions will delay the number of LNG projects that will be able to access the gas transmission systems of SDG&E and SoCalGas by May 2008.

For all of the above reasons, we do not see the need to modify D.06-12-031 and to accelerate the filing of the off-system interconnection application.

Accordingly, the utilities' petition for modification of D.06-12-031 should be denied.

Comments on Proposed Decision

The proposed decision of the Administrative Law Judge (ALJ) in this matter was served on the parties in accordance with Public Utilities Code Section 311 and Rule 14.2(a) of the Rules of Practice and Procedure (Rules). On May 30, 2007, the Southern California Generation Coalition filed comments in support of the proposed decision. PG&E, SDG&E and SoCalGas filed joint comments on May 30, 2007. The utilities' comments accept the conclusion of this decision, but do not agree with certain statements contained in the decision. We have considered the utilities' comments but no other changes to the decision are necessary.

Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner, and John S. Wong is the assigned ALJ in this proceeding.

Findings of Fact

1. D.06-12-031 authorized the off-system delivery of natural gas from SDG&E and SoCalGas to PG&E, and allowed SDG&E and SoCalGas to file an application no earlier than May 1, 2008, to offer off-system delivery service to pipeline interconnections other than PG&E.

2. The essence of the utilities' proposed modifications, as set forth in Appendix A of the petition for modification, are to have the three utilities develop specific transmission options to optimize their facilities in order to provide off-system deliveries to PG&E and to interconnect with other gas transmission systems, and to accelerate the process for considering such changes.

3. Since the filing of the petition for modifications, other state and local agencies have taken actions which have effectively stalled the SES and BHP Billiton LNG projects.

4. The utilities' proposed modifications would eliminate the need to discuss in the accelerated application the issues regarding the Hinshaw exemption and the impact off-system deliveries could have on intrastate transmission.

5. We are not persuaded that anything will be gained by accelerating the schedule for the filing of an off-system interconnection application.

Conclusion of Law

The utilities' petition for modification of D.06-12-031 should be denied.

O R D E R

IT IS ORDERED that:

1. The January 19, 2007 petition for modification of Decision (D.) 06-12-031 filed by Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Gas Company is denied.

2. This proceeding remains open to consider the application for rehearing of D.06-12-031.

This order is effective today.

Dated June 21, 2007, at San Francisco, California.

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners

