

Decision 07-11-032 November 16, 2007

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHERN CALIFORNIA GAS COMPANY For Authorization to Establish a Revenue Sharing Mechanism for the Production of Native Gas. (U904G)

Application 04-01-034
(Filed January 26, 2004)

OPINION REGARDING THE JOINT PETITION FOR MODIFICATION OF DECISION 06-06-065

1. Summary

Today's decision addresses the joint petition for modification of Decision (D.) 06-06-065 (petition) that was filed by the Southern California Gas Company (SoCalGas), the Division of Ratepayer Advocates, The Utility Reform Network, and the Southern California Generation Coalition.¹

We grant the petition. The Settlement Agreement adopted in D.06-06-065 shall be modified by the language in the "Amendment to Settlement Agreement" (Amendment), which is attached to this decision as Appendix 1.

2. Background

In D.06-06-065, we established a cost and revenue sharing mechanism to allow SoCalGas to explore for and to produce native natural gas that may be located adjacent to its existing natural gas storage fields. This sharing

¹ These four entities are collectively referred to as the "joint parties."

mechanism allows SoCalGas' ratepayers and shareholders to share equally in the costs and benefits of such a program, while limiting the ratepayers' exposure to \$3 million. As part of the sharing mechanism that was adopted, the terms, conditions, and rules set forth in the Settlement Agreement in Appendix B of D.06-06-065 were adopted, as well as the terms, conditions, and rules set forth in Appendix C and Appendix D of D.06-06-065.²

The petition was filed on September 4, 2007. The joint parties seek to make certain changes to the language in the Settlement Agreement so that SoCalGas can proceed with other native gas projects before the "A&E [Acquisition and Exploration] Internal Order" is funded from the sale of native gas from SoCalGas' La Goleta storage field.

No one filed a response to the petition.

3. Discussion

The A&E Internal Order is defined in the Settlement Agreement as an interest bearing account "used to track the ratepayer share of Acquisition and Exploration costs up to \$3 million and the ratepayer share of revenues from the sale of gas, gas condensates, and/or oil." (D.06-06-065, App. B, p. 6.) The Settlement Agreement contemplates that the monies in the A&E Internal Order are to be used to fund one-half of the A&E costs up to a ceiling of \$3 million. In accordance with paragraph 6 of the Settlement Agreement, the A&E Internal Order is to be funded from one-half of the revenues, net of development and production costs, up to a maximum of \$3 million from the sale of the storage

² Our use of the term "Settlement Agreement" refers to Appendix B of D.06-06-065.

inventory, gas in place, and withdrawal rights from the native gas reservoir project located at SoCalGas' storage field at La Goleta.

According to the petition, SoCalGas is continuing its efforts to obtain the permits needed to develop the native gas reservoir at La Goleta. SoCalGas anticipates that it will be the winter of 2008-2009, at the earliest, before revenues from this project can be generated and used to fund the A&E Internal Order.

In the interim, SoCalGas has identified at least two other potential native gas projects that could produce native gas ahead of the La Goleta project without having to incur significant A&E costs.

Paragraph 5 of the Settlement Agreement addresses the treatment of revenues from the sale of native gas at a known prospect known as "Aliso SS-1-0," which is located at SoCalGas' Aliso Canyon storage field. Under the Settlement Agreement, the revenues from this prospect are to be credited to ratepayers unless SoCalGas is unable to obtain the permits for the La Goleta project, in which case the revenues would be used to offset one-half of the unsuccessful La Goleta permitting costs. The last sentence of paragraph 5 states that:

"If SoCalGas is unsuccessful in obtaining necessary permits in connection with the known native gas reservoir at La Goleta, SoCalGas shall not proceed with further native gas exploration activities unless the Joint Parties agree to modify this Settlement Agreement."

SoCalGas has discovered that the gas from the Aliso SS-1-0 well will require dehydration in order to meet SoCalGas' gas quality specifications.

The joint parties request that paragraph 5 of the Settlement Agreement be modified because it could be read as: (1) preventing SoCalGas from incurring costs for native gas projects before the A&E Internal Order is funded from the

La Goleta native gas project; (2) preventing SoCalGas from pursuing further native gas activities if it is unable to obtain the permits for the La Goleta project; or (3) preventing SoCalGas from engaging in any native gas exploration activities until the permits are obtained for the La Goleta project.

Due to the potential ambiguities, and to acknowledge that the gas from the Aliso SS-1-0 well will require that costs be incurred for dehydration costs, the joint parties request that the Settlement Agreement be modified by the Amendment, which is attached to the petition and to this decision as Appendix 1, “to ensure that there is no misunderstanding in this regard and to reflect facts that have become known only after the issuance of...” (D.06-06-065.) As shown in Appendix 1, the Amendment would modify paragraph 5 of the Settlement Agreement, and would add paragraph 8A.

All four of the joint parties agree that SoCalGas should be permitted to proceed with other native gas projects prior to the funding of the A&E Internal Order from the revenue from the sale of the native gas at La Goleta. The Amendment clarifies the language in the Settlement Agreement, and makes clear that SoCalGas may proceed with other native gas projects before obtaining the permits necessary to develop the known reservoir at La Goleta, while preserving the equal sharing of costs and revenues as envisioned by the Settlement Agreement and D.06-06-065.

It is in the best interests of SoCalGas’ ratepayers and shareholders to grant the petition. By doing so, any perceived ambiguities in D.06-06-065 will be clarified so that SoCalGas can pursue other native gas projects ahead of the native gas project at La Goleta. According to the petition, other potential projects could be realized before the La Goleta project receives the necessary permits. The proposed modifications will also preserve the Settlement Agreement’s

structure of ratepayers and shareholders sharing equally in the costs and revenues of such projects. Accordingly, the petition should be granted by modifying the Settlement Agreement in D.06-06-065 with the language contained in the Amendment.

Rule 16.4(d) of the Rules of Practice and Procedure requires that if a petition is not filed within one year of the effective date of the decision, that an explanation be provided as to why the petition was not filed within the one year period. The joint parties have adequately explained that the petition was not filed within the one year period because of the timing of the La Goleta permitting process, and because of the recent identification of other potential native gas projects.

4. Waiver of Comment Period

This decision grants the relief requested in the uncontested petition. Accordingly, as provided for in Rule 14.6(c)(2) of our Rules of Practice and Procedure, we waive the otherwise applicable 30 day comment period for this decision.

5. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and John S. Wong is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. D.06-06-065 established a sharing mechanism that allows SoCalGas' ratepayers and shareholders to share equally in the cost and benefits of exploring for and producing native natural gas that may be located adjacent to its existing natural gas storage fields.
2. As part of the sharing mechanism, the terms, conditions and rules set forth in the Settlement Agreement were adopted.

3. The joint parties agree that SoCalGas should be permitted to proceed with other native gas projects prior to the funding of the A&E Internal Order from the revenue from the sale of the native gas at La Goleta.

4. The Amendment clarifies the language in the Settlement Agreement, and makes clear that SoCalGas may proceed with other native gas projects.

5. The proposed modifications preserve the Settlement Agreement's structure of ratepayers and shareholders sharing equally in the costs and revenues of such projects.

Conclusions of Law

1. Paragraph 5 of the Settlement Agreement contains possible ambiguities concerning SoCalGas' pursuit of other native gas projects.

2. It is in the best interests of SoCalGas' ratepayers and shareholders to grant the petition so that SoCalGas can pursue other native gas projects ahead of the native gas project at La Goleta.

3. The petition should be granted by modifying the Settlement Agreement in D.06-06-065 with the language contained in the Amendment.

4. Pursuant to Rule 14.6(c)(2), the comment period for this decision may be waived.

O R D E R

IT IS ORDERED that:

1. The joint petition for modification of Decision (D.) 06-06-065, filed on September 4, 2007 by Southern California Gas Company, the Division of Ratepayer Advocates, The Utility Reform Network, and the Southern California Generation Coalition, is granted as follows:

- a. Paragraphs 5 and 8A contained in the Amendment to Settlement Agreement, which is attached to this decision as Appendix 1, shall modify Paragraph 5 of, and shall add Paragraph 8A to the Settlement Agreement in D.06-06-065.
2. The comment period for today's decision is waived.
3. Application 04-01-034 is closed.

This order is effective today.

Dated November 16, 2007, at San Francisco, California.

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

APPENDIX 1

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

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In the Matter of the Application of SOUTHERN)
CALIFORNIA GAS COMPANY For)
Authorization to Establish a Revenue Sharing) A.04-01-034
Mechanism for the Production of Native Gas)
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(U 904 G))

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**AMENDMENT TO
SETTLEMENT AGREEMENT**

The Division of Ratepayer Advocates (“DRA”), Southern California Gas Company, (“SoCalGas”), The Utility Reform Network (“TURN”), and the Southern California Generation Coalition (“SCGC”) (collectively referred to hereafter as “Joint Parties”) respectfully submit to the Commission this Amendment to Settlement Agreement.¹ This Amendment to Settlement Agreement modifies the Settlement Agreement of the Joint Parties submitted to the Commission on July 5, 2005 (“SA”) that was approved by the Commission in D.06-06-065 (“Decision”).

SPECIFIC AMENDMENT TO SA

Paragraph 5 of the SA should be modified as follows:

5. All revenues from the sale of gas and gas condensates from Aliso SS-1-0 **net of Development and Production costs such as dehydration costs** shall be allocated to ratepayers and will be tracked through the Aliso SS-1-0 Internal Order. The cost associated with operating the Aliso SS-1-0 well will be treated as a normal utility cost of operation and such costs will not be separately tracked or identified for purposes of the Native Gas Program. **Net revenues**~~Revenues~~ recorded in the Aliso

¹ Counsel for SoCalGas has been authorized by DRA, TURN, and SCGC to execute and file this Amendment to Settlement Agreement on their behalf.

SS-1-0 Internal Order will be reduced by one-half of any unsuccessful permitting costs associated with the known native gas reservoir at the SoCalGas La Goleta storage field. If SoCalGas is unsuccessful in obtaining the permits necessary to develop the known native gas reservoir at La Goleta economically, and if any net revenues exist in the Aliso SS-1-0 Internal Order after funding one-half of such unsuccessful permitting costs, the remaining net revenues will be recorded in the Native Gas Program Tracking Account. If the net revenues recorded in the Aliso SS-1-0 Internal Order are insufficient to cover one-half of unsuccessful permitting costs associated with the known native gas reservoir at La Goleta, the ratepayer contribution to such costs will be limited to the total amount recorded in the Aliso SS-1-0 Internal Order, with SoCalGas' shareholders bearing all additional unsuccessful permitting costs. If SoCalGas is successful in obtaining permits at La Goleta that allow it to develop the known La Goleta native gas reservoir economically, the net revenues recorded in the Aliso SS-1-0 Internal Order shall be recorded in the Native Gas Program Tracking Account. ~~If SoCalGas is unsuccessful in obtaining necessary permits in connection with the known native gas reservoir at La Goleta, SoCalGas shall not proceed with further native gas exploration activities, unless the Joint Parties agree to modify this Settlement Agreement.~~

In addition, a new paragraph should be added between existing Paragraphs 7 and 8 that should read as follows:

8A. SoCalGas may initiate native gas projects prior to obtaining revenues from the sale of inventory, gas-in-place, and associated withdrawal rights in connection with the known native gas reservoir at La Goleta and account for the costs thereof as follows:

- (1) If the costs of such a project are properly classified as "Development" and "Production" costs because there are no "Acquisition" or "Exploration" costs necessary to produce the native gas, oil, or condensates in economical quantities, the ratepayer share (one half) of the revenues net of costs shall be recorded to the A&E Internal Order, subject to the overall \$3 million limit for this account. The other half of net revenues will be retained by SoCalGas' shareholders. The ratepayer share of net revenues from such projects in excess of the \$3 million limit will be recorded to the Native Gas Program Tracking Account so that they will be flowed through to ratepayers.

- (2) If the costs for such a project are properly classified as “Acquisition” or “Exploration” costs, SoCalGas will record them to the A&E Internal Order. If the project successfully produces gas, oil, or condensates in economic quantities, these costs will be reclassified as “Development Costs” and the net revenues will be treated in accordance with Paragraph 8A(1) above. If the project is unsuccessful in producing gas, oil, or condensates in economic quantities, the costs will remain in the A&E Internal Order for potential offset against revenues to be recorded to the A&E Internal Order.
- (3) SoCalGas expressly assumes the risk that there will be insufficient revenues recorded in the A&E Internal Order to offset the costs recorded to this account, meaning that its shareholders will bear any costs recorded to this account in excess of revenues recorded to this account. For example, if SoCalGas incurs \$2 million in Acquisition and Exploration costs that are recorded to the A&E Internal Order and only \$1 million in revenues are recorded to this account, SoCalGas’ shareholders will bear the \$1 million difference.

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Dated this 4th day of September, 2007.

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(END OF APPENDIX 1)