

Decision 08-10-024 October 16, 2008

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Gas Company (U904G) for Approval of a Long Term Transportation Agreement with United States Gypsum Company.

Application 06-12-023
(Filed December 20, 2006)

**DECISION GRANTING APPROVAL OF A LONG-TERM GAS
TRANSPORTATION AGREEMENT WITH UNITED STATES GYPSUM
COMPANY**

1. Summary

Southern California Gas Company seeks approval of a long-term gas transportation agreement with United States Gypsum Company on a firm basis. The decision finds that the long-term gas transportation agreement, as modified by the parties, is in the public interest and is reasonable. The long-term gas transportation agreement is approved and the proceeding is closed.

2. Procedural and Factual Background

On December 20, 2006, Southern California Gas Company (SoCalGas) filed an application seeking approval of a long-term gas transportation agreement with United States Gypsum Company (US Gypsum). Southern California Generation Council (SCGC), Coral Energy Resources, L.P. (Coral), and Exxon Mobile Corporation timely filed protests or responses on January 25, 2007. SoCalGas and US Gypsum filed replies on February 5, 2007. On January 29, 2007, the Division of Ratepayer Advocates (DRA) filed a motion to accept a late-filed protest. The Administrative Law Judge (ALJ) granted DRA's motion

and the protest was accepted for filing on February 7, 2007. Collectively SCGC, Coral, DRA, and Exxon Mobile Corporation will be referred to as protestants.

At a prehearing conference (PHC) held on February 27, 2007, the ALJ determined that additional briefing was needed on whether Decision (D.) 06-12-031, which adopted SoCalGas' firm access rights proposal, contemplated additional long-term agreements beyond those identified in the proceeding and what set-aside rights those agreements would have. On March 27, 2007 and April 10, 2007, SoCalGas, US Gypsum, Coral, SCGC, and DRA each filed opening and reply briefs.

On September 6, 2007, the Commission adopted Resolution G-3407 which approved, with modification, tariffs submitted by SoCalGas and San Diego Gas & Electric Company to implement system integration, firm access rights, and off-system deliveries on the transmission systems of the two utilities.

On November 20, 2007, the assigned Commissioner issued a Scoping Memo and Ruling that identified the scope of the proceeding and permitted parties to file opening and reply briefs. On December 5, 2007, opening briefs were filed by DRA, SCGC, and jointly by SoCalGas and US Gypsum. Reply briefs were filed by SoCalGas and SCGC on December 14, 2007. In their December 5, 2007 joint brief, SoCalGas and US Gypsum included a modified agreement.

In a February 26, 2008 Revised Scoping Memo and Ruling, the assigned Commissioner determined that it would be useful for the development of the record if the parties were to focus on the merits of modifications to the long-term gas agreement between SoCalGas and US Gypsum, not on whether SoCalGas complied the Commission's Rules of Practice and Procedure. The assigned Commissioner provided parties with an opportunity to address the issues in the

Scoping Memo with respect to the modified long-term gas transportation agreement. To allow sufficient time for parties to file supplemental comments, the assigned Commissioner permitted any party other than SoCalGas and US Gypsum to file Opening Supplemental Comments on or before March 10, 2008. Only SCGC filed Supplemental Comments.

3. Modified Agreement

The modified agreement has a 15-year term which sets the gas transportation rate at the applicable tariff rate and provides that the SoCalGas shall accept gas delivered by, or on behalf of, US Gypsum, and shall deliver to US Gypsum's point of delivery as defined in the Master Service Contract up to an aggregated maximum daily quantity of 9,000 decatherms on a firm basis.¹ Any quantities in excess of the maximum daily quantity shall be delivered in accordance with SoCalGas' tariff rate schedules and rules. In addition to charging the applicable tariff rates, the modified agreement imposes a use-or-pay charge and an early termination charge. The modified agreement will eliminate US Gypsum's needs to participate in any future biannual open season bidding process during its term.

¹ In the original agreement submitted with its application, SoCalGas included additional terms to the agreement granting US Gypsum set-asides of receipt point capacity, the ability to change receipt points, and to make future modifications to the agreement without Commission approval. These elements have been removed from the modified agreement.

4. Scope of Issues to Be Resolved

The Scoping Memo established the following issues within the scope of the proceeding:

1. Whether the proposed long-term contract can and should allow firm access receipt point capacity at Wheeler Ridge.
2. Whether the proposed long-term contract should contain a provision that allows future modifications by mutual agreement, but without additional Commission approval.
3. Whether the proposed long-term contract should contain a provision that allows, by mutual agreement, US Gypsum to change firm access receipt points.
4. Whether the proposed long-term contract is reasonable and if the Commission should adopt it.

Because US Gypsum and SoCalGas modified the proposed long-term agreement to remove set-asides at firm access receipt points and to remove the parties' ability to make future modifications to contract without Commission approval, Issues 1, 2, and 3 are no longer relevant to our consideration of the approval of the long-term agreement. Therefore, the only issue we need to consider is if the modified agreement is reasonable and should it be approved.

5. Is the Modified Agreement Reasonable and Should it be Approved?

In its application, SoCalGas provides evidence that US Gypsum requested a long-term transportation service agreement from SoCalGas to ensure firm service for its Plaster City facility. US Gypsum requested an agreement term of 15 years because it needed certainty of firm gas transportation service in order to continue making additional investment and expansion of the Plaster City facility. The Plaster City facility employs over 400 employees and produces one billion

square feet of wallboard a year. US Gypsum intends to spend an additional \$30 million to expand the production capacity of its Plaster City facility. The modified long-term agreement provides service to US Gypsum at rates and terms in accordance with SoCalGas' Tariffs and rules, imposes a 75% use-or-pay clause on US Gypsum, and contains an early termination charge. Approving the long-term agreement will provide US Gypsum the natural gas transportation supply certainty it claims is necessary to expand its facility and imposes significant economic consequences if US Gypsum substantially reduces its production in California. The public and ratepayers will benefit from the modified proposed agreement in the following manner:

- a. Approval will permit a large California employer to expand its operations and potentially add new manufacturing jobs.
- b. Approval will permit US Gypsum to expand its production adding growth that benefits the State's economy and tax base.
- c. Approval will ensure that US Gypsum will remain a customer of SoCalGas for the next 15 years.

For these reasons, we conclude that approving the US Gypsum long-term agreement is in the public interest because the long-term agreement will produce positive public benefits.

We approve today, the modified long-term gas transportation agreement between SoCalGas and US Gypsum, as modified in their December 5, 2007 joint brief, because the long-term agreement is reasonable and is in the public interest.

6. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and Rule 14.3 of the Commission's Rules of Practice and Procedure. No comments were received.

7. Categorization and Need for Hearings

The Scoping Memo affirmed the categorization of this proceeding as ratesetting and that no hearings were necessary.

8. Assignment of Proceeding

John A. Bohn is the assigned Commissioner, and Jonathan Lakritz is the assigned ALJ in this proceeding.

Findings of Fact

1. US Gypsum operates a wallboard production facility in Plaster City, California and desires to expand it.
2. The proposed gas transportation agreement (as modified by SoCalGas' and US Gypsum's December 5, 2007 joint brief) has a 15-year term which sets the transportation rate at current tariff rates, and includes a 75% use-or-pay clause and an early termination clause.
3. The public and ratepayers will benefit from the modified proposed agreement in the following manner:
 - a. Approval will permit a large California employer to expand its operations and potentially add new manufacturing jobs.
 - b. Approval will permit US Gypsum to expand its production adding growth that benefits the State's economy and tax base.
 - c. The proposed agreement's use-or-pay and early termination clauses ensure that US Gypsum will remain a customer of SoCalGas.

Conclusion of Law

The modified proposed long-term gas transportation agreement between SoCalGas and US Gypsum is reasonable and should be approved.

O R D E R

IT IS ORDERED that:

1. The long-term gas transportation agreement between Southern California Gas Company and United States Gypsum Company as modified by their December 5, 2007 joint brief is reasonable and is approved.

2. Application 06-12-023 is closed.

This order is effective today.

Dated October 16, 2008, at San Francisco, California.

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