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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

I.D.# 8044

RESOLUTION G-3426

November 21, 2008

R E S O L U T I O N

Resolution G-3426. Southern California Gas Company (SoCalGas) requests authority to implement a new wholesale gas transmission service rate schedule, Schedule Number (No.) GW-ECO, to offer firm and interruptible gas transmission service for ECOGAS Mexico, S. de R.L de C.V (ECOGAS).

By SoCalGas Advice Letter 3884 filed on July 22, 2008.

SUMMARY

This Resolution approves SoCalGas' request to implement a new wholesale gas transmission service rate schedule, Schedule No. GW-ECO, to offer firm and interruptible gas transmission service for ECOGAS.

BACKGROUND

The Service Agreement between SoCalGas and Distribuidora de Gas Natural de Mexicali (DGN, the predecessor to ECOGAS) approved by Decision (D.) 97-07-062 and D.98-12-024, states that if necessary to provide continued service after the end of the initial term, SoCalGas is required to file with the Commission, by the end of the eleventh year of the service agreement, a tariff for default service to be applicable after the twelfth year of the contract.

On January 29, 1997, SoCalGas and DGN entered into an agreement for natural gas transportation service across the SoCalGas system to a border crossing point at the California-Mexico border at Mexicali. Gas supplies and transportation upstream of the SoCalGas system would be the responsibility of DGN. SoCalGas originally received interim approval for a 12-year firm service agreement on their Imperial Valley System with DGN from the Commission in Decision (D.) 97-07-062, and received final approval in D.98-12-024.

The Commission in D.97-07-062 and D.98-12-024 stated that:

SoCalGas is required to file with the Commission by the end of the eleventh year of the service agreement a tariff for default service to be applicable after the twelfth year of the contract.

In D.98-12-024, the Commission also concluded that the affiliate relationship between SoCalGas and DGN had not been a deterrent to reasonably negotiated rates and terms. D.98-12-024 required the DGN contract be subject to the affiliate transaction rules as modified by D.98-08-035.

On September 1, 2005, DGN underwent a legal entity change to ECOGAS.

In Rulemaking (R.) 04-01-025, SoCalGas testified that in the March 2005 open season for local gas pipeline transmission capacity, the capacity of the Imperial Valley System was fully subscribed during the summer operating season, though excess capacity was available during the winter operating season. More recently, SoCalGas filed Advice Letter 3747 on June 1, 2007 publicizing the results of the 2007 open season for firm transmission service in the Imperial Valley. As a result of the 2007 open season, SoCalGas will be expanding the capacity of the Imperial Valley System, and expects to have the expansion construction completed and in service by 2009.

On July 26, 2007, by Resolution G-3406, SoCalGas received authority to reduce the Maximum Daily Quantity (MDQ) delivered under the agreement from 252,000 therms originally authorized in D.97-07-062 to 199,990 therms for the remaining term of the contract to help alleviate the SoCalGas Imperial Valley system transmission constraint, pending completion of the capacity expansion.

With AL 3884, SoCalGas submits for approval by the Commission a new tariff Schedule No. GW-ECO, Wholesale Natural Gas Service, to provide continued gas transmission service to ECOGAS. The former agreement which expires July 31, 2009 will be terminated once wholesale service under GW-ECO begins August 1, 2009. A new Master Services Contract between ECOGAS and SoCalGas will be executed prior to providing services to ECOGAS under the new tariff schedule. SoCalGas shall provide Energy Division with a copy of the Master Services Contract prior to the new service under the GW-ECO.

NOTICE

Notice of Advice Letter 3884 was made by publication in the Commission's Daily Calendar. SoCalGas states that a copy of the Advice Letter was sent to parties shown on Attachment A of the Advice Letter.

PROTESTS

SoCalGas' Advice Letter 3884 was protested by Indicated Producers¹ (IP) on August 11, 2008. SoCalGas filed a reply to the protest on August 18, 2008.

Indicated Producers protested the Advice Letter for the following reasons:

1. The Advice Letter does not mention ECOGAS' impact on the system of firm access rights (FAR) adopted by Commission Decision 06-12-031 and the availability of FAR for other customers in both the Open Season and secondary markets.
2. SoCalGas' transportation arrangement with ECOGAS could affect the Southern System reliability and increase rates for other customers.
3. The Advice Letter fails to explain the impact on ratepayers, specifically in regards to the public purpose program (PPP) charges.
4. The Advice Letter is unclear as to whether ECOGAS will be affected by the proposed peaking rate issue currently at issue in the pending Biennial Cost Allocation Proceeding (BCAP), Application (A.) 08-02-001.
5. SoCalGas should be required to disclose the basic terms of service.

SoCalGas in its reply to IP's protests states that:

1. ECOGAS will receive no special rights or responsibilities with respect to FAR.
2. ECOGAS will bear its fair share of the Southern System reliability as any other customer subject to Commission authorization.
3. Consistent with the treatment of SoCalGas' other wholesale core customers, ECOGAS would not be subject to PPP charges on the SoCalGas system.
4. ECOGAS will be subject to the peaking rate tariff in the same respect as other wholesale customers.

¹ The Indicated Producers is an ad hoc coalition which includes, for the purposes of this proceeding, Aera Energy LLC, BP Energy company, BP America Inc. (including Atlantic Richfield Company), ConocoPhillips Company, Chevron U.S.A. Inc., Midway Sunset Cogeneration Company (an affiliate of Aera Energy) and Occidental Energy Marketing Inc.

5. The basic proposed terms of service to ECOGAS are described in the tariff submitted with the Advice Letter.

DISCUSSION

Energy Division has reviewed SoCalGas Advice Letter 3884. We approve the requested new Schedule No. GW-ECO which offers firm and interruptible service for ECOGAS, formerly known as DGN.

In D.97-07-062, the Commission determined that the arrangement to provide natural gas transportation service to DGN, now known as ECOGAS, to be in the public interest by spurring competition and bringing service to a previously unserved area of Mexico. ECOGAS provides natural gas service to Mexican national core customers. The Commission reaffirmed the reasonableness of the service agreement in D.98-12-024.

SoCalGas has provided service to ECOGAS on its Imperial Valley System since 1997 under a service agreement approved by this Commission. The Imperial Valley System is a summer peaking system with sufficient capacity to meet SoCalGas' 1-in-10 year cold day demand condition. The expansion scheduled to be completed and in service in 2009 will alleviate the summer peaking constraints. The allocation of the costs of the expansion will be determined in the current BCAP proceeding A.08-02-001.

There is no indication that ECOGAS has or will receive treatment inconsistent with that of SoCalGas' other wholesale core customers. ECOGAS has secured FAR through the same process as other wholesale customers. The current applicable tariff rate filed in the Advice Letter was established in D.00-04-060 (a BCAP decision issued in 2000), updated in D.08-07-046 (the most recent General Rate Case decision for SoCalGas). ECOGAS will be treated the same as any wholesale customers with respect to the peaking service and the Public Purpose Program surcharge. The proposed terms of service to ECOGAS are described in Schedule No. GW-ECO submitted with AL 3884 and included here as Appendix A.

In its protest, IP argues that, given new regulatory issues, the Advice Letter fails to provide adequate information regarding the service agreement. We disagree. SoCalGas has provided adequate information regarding the service agreement in the Advice Letter, and adequately answered IP's concerns in its reply to IP's protest.

We find that the proposed tariff schedule is reasonable. We also find that certain rules set forth in D.98-12-024 are still applicable here. In particular, D.98-12-024 stated in Ordering Paragraph 7 that all future modifications to the Service Agreement agreed to by DGN and SoCalGas shall be subject to Commission approval before taking effect. We do note however that since the original authorization of the service contract with DGN the affiliate transaction rules have been modified by the Commission in D.06-12-029. In light of this regulatory change, the ECOGAS contract shall be subject to the most recent affiliate transaction rules as modified by D.06-12-029.

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 comment, and will be placed on the Commission's agenda no earlier than 30 days from today.

FINDINGS

1. On July 22, 2008, SoCalGas filed Advice Letter 3884 to propose a new rate schedule to provide wholesale gas transmission service to ECOGAS.
2. The 12 year firm service agreement between DGN and SoCalGas was approved by the Commission in D.97-07-062 and reaffirmed in D.98-12-024.
3. The service agreement approved by D.97-07-062 and D.98-12-024 states that if necessary to provide continued service to DGN, SoCalGas is required to file a tariff with the Commission by the end of the eleventh year of the service agreement, to be applicable after the twelfth year of the contract.
4. ECOGAS provides natural gas service to Mexican national core customers.
5. DGN underwent a legal entity change to ECOGAS on September 1, 2005.
6. By Resolution G-3406, the Commission approved a reduction in MDQ from 252,000 therms to 199,990 therms for the remaining contract term.
7. SoCalGas has found that its Imperial Valley System is constrained and a capacity expansion is necessary.

8. The Imperial Valley capacity expansion is expected to be completed and in service by 2009.
9. Advice Letter 3884 was protested by Indicated Producers on August 11, 2008.
10. SoCalGas filed a reply to the protest on August 18, 2008.
11. ECOGAS will receive treatment consistent with that of SoCalGas' other wholesale core customers.
12. SoCalGas has provided the necessary information regarding the service agreement in the Advice Letter, and adequately addressed the concerns raised in IP's protest.
13. A new Master Services Contract between ECOGAS and SoCalGas will be executed prior to providing services to ECOGS under the new tariff schedule.
14. Any future modifications to the wholesale transmission service rate schedule, Schedule No. GW-ECO, or to any transmission service contracts between SoCalGas and ECOGAS should be approved by Commission.
15. The ECOGAS contract should be subject to the most recent affiliate transaction rules as modified by D.06-12-029.

THEREFORE IT IS ORDERED THAT:

1. The request of Southern California Gas Company (SoCalGas) to implement a new wholesale transmission service rate schedule, Schedule Number GW-ECO to offer firm and interruptible transmission service for ECOGAS Mexico, S. de R.L. de C.V (ECOGAS) is approved.
2. The Master Services Contract between SoCalGas and ECOGAS shall be provided to Energy Division prior to providing service to ECOGAS under the new tariff schedule GW-ECO.
3. All future modifications to the transmission service rate schedule or any transmission service contracts agreed to by ECOGAS and SoCalGas shall be subject to Commission approval before taking effect.
4. The service agreement and any relationships and activities between ECOGAS and SoCalGas shall be subject to the affiliate transaction rules as modified by D.06-12-029.

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 November 21, 2008; the following Commissioners voting favorably thereon:

Paul Clanon
Executive Director

STATE OF CALIFORNIA

ARNOLD SCHWARZENEGGER, *Governor*

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



I.D. # 8044

RESOLUTION G-3426

Commission Meeting November 21, 2008

OCTOBER 22, 2008

TO: PARTIES TO ADVICE LETTER 3884

Enclosed is draft Resolution Number G-3426 Energy Division. It will be on the agenda at the November 21, 2008 Commission meeting. The Commission may then vote on this Resolution or it may postpone a vote until later.

When the Commission votes on a draft Resolution, it may adopt all or part of it as written, amend, modify or set it aside and prepare a different Resolution. Only when the Commission acts does the Resolution become binding on the parties.

Parties may submit comments on the draft Resolution.

An original and two copies of the comments, with a certificate of service, should be submitted to:

Honesto Gatchalian
Energy Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Fax: 415-703-2200

A copy of the comments should be submitted in electronic format to:

Richard Myers and Belinda Gatti
Energy Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Email: ram@cpuc.ca.gov and beg@cpuc.ca.gov

Any comments on the draft Resolution must be received by the Energy Division by November 11, 2008. Those submitting comments must serve a copy of their comments on 1) the entire service list attached to the draft Resolution, 2) all Commissioners, and 3) the Chief Administrative Law Judge, and 4) the General Counsel on the same date that the comments are submitted to the Energy Division.

Comments shall be limited to fifteen pages in length and should list the recommended changes to the draft Resolution.

Comments shall focus on factual, legal or technical errors in the proposed draft Resolution. Comments that merely reargue positions taken in the advice letter or protests will be accorded no weight and are not to be submitted.

Replies to comments on the draft resolution may be filed (i.e., received by the Energy Division) on November 18, 2008, five days after comments are filed, and shall be limited to identifying misrepresentations of law or fact contained in the comments of other parties. Replies shall not exceed five pages in length, and shall be filed and served as set forth above for comments.

Late submitted comments or replies will not be considered.

Richard Myers, Program and Project Supervisor
Energy Division

Enclosure: Service List
Certificate of Service

CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of Draft Resolution G-3426 on all parties in these filings or their attorneys as shown on the attached list.

Dated October 22, 2008 at San Francisco, California.

Belinda Gatti

NOTICE

Parties should notify the Energy Division, Public Utilities Commission, 505 Van Ness Avenue, Room 4002 San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the Resolution number on the service list on which your name appears.

Service List for Resolution G-3426

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