

Decision 05-11-027 November 18, 2005

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHERN CALIFORNIA GAS COMPANY for Authority to Transfer Cushion Gas in its Aliso Canyon And La Goleta Storage Fields to Alleviate the Impact of High Gas Prices on CARE Customers. (U 904 G).

Application 05-10-012
(Filed October 11, 2005)

INTERIM OPINION

1. Summary

On October 11, 2005, Southern California Gas Company (SoCalGas) filed its application requesting, among other things, authorization to reclassify 4 billion cubic feet (Bcf) of cushion gas from two of its natural gas storage fields to working gas, and that the gas in kind be transferred to its ratepayers in the California Alternate Rates for Energy (CARE) program at the book value of about \$1.5 million. The reclassification of the gas will occur as the result of reworking the wells so that less cushion gas will be needed to maintain the minimum gas reservoir pressure while continuing to provide the current level of deliverability.

Today's interim opinion authorizes SoCalGas to reclassify the 4 Bcf of cushion gas as working gas, to withdraw the gas, and to transfer the gas in kind to SoCalGas' CARE customers at book value. We also authorize SoCalGas to include all of the project costs in rate base, and to recover the associated revenue requirement from CARE customers. In a later phase of this proceeding, we will address who should benefit from the revenues generated from the sale of the

additional 4 Bcf of gas storage capacity that will be created as a result of the rework project.

2. Background

On October 6, 2005, the Commission held a full panel hearing to address the impact of rising natural gas prices on low income customers for this coming winter. As part of the response to these concerns, SoCalGas filed the above-captioned application. In order to pass the benefits of this project on to CARE customers in time to have an effect on the CARE customers' 2005-2006 winter bill, SoCalGas requested that the protest period be shortened and that the Commission act on its application at the November 18, 2005 meeting.

A ruling was issued on October 20, 2005 which granted the request to shorten the time for the protest period, and which noticed a prehearing conference for November 2, 2005. On October 27, 2005, The Utility Reform Network (TURN) filed a protest to the application, and separate responses to the application were filed by Coral Energy Resources, L.P. (Coral), the Office of Ratepayer Advocates (ORA), and the Southern California Generation Coalition (SCGC). On November 1, 2005, SoCalGas and TURN filed separate replies to the protests and responses.

The prehearing conference was held on November 2, 2005 to discuss the scope of the issues to be covered in this proceeding and the procedural schedule for resolving the issues. Following the prehearing conference, a scoping memo and ruling (scoping memo) was issued on November 7, 2005. The scoping memo identified the issues to be addressed in this proceeding, and established a schedule for resolving some of the issues. In order for CARE customers to obtain the benefit of the rework project for their winter gas bills, SoCalGas requests that the Commission act quickly on certain authorizations and ratemaking treatment.

3. The Proposed Rework Project

SoCalGas proposes to rework the existing wells at its Aliso Canyon and La Goleta gas storage fields. The rework of the wells will result in additional deliverability from the existing wells, while allowing less cushion gas to be used to pressurize the fields. This rework project will free up 3 Bcf of cushion gas from Aliso Canyon, and 1 Bcf of cushion gas from La Goleta. SoCalGas proposes that the 4 Bcf of gas be reclassified as working gas, and that the gas in kind be transferred at book value to SoCalGas' CARE customers. According to the declaration of James Mansdorfer, SoCalGas' Storage Engineering Manager, which was attached to the application, the rework project is similar to the work that SoCalGas performs every year to offset the ongoing decline in deliverability that occurs with all storage wells over time.

Since the book value of the 4 Bcf of gas is approximately \$1.5 million, and assuming a price during the winter of \$12.50 per mcf¹, the project would allow about \$50 million in gas purchase costs to be avoided. The rework project costs are estimated at \$14 to \$19 million. The net benefit to CARE customers is that the 2005-2006 winter bills will be lower by about \$48 million than they otherwise would be.

In order to maximize the benefits to CARE customers, SoCalGas proposes that the cost of the project be placed into rate base when the project is completed.² SoCalGas intends to apply a depreciable life of approximately 33

¹ Once the cushion gas is reclassified as working gas, SoCalGas will remove from rate base the \$1.5 million in cushion gas cost.

² Since SoCalGas is not proposing that its shareholders receive any of the project benefits, SoCalGas should not be assigned any of the risks associated with the project.

Footnote continued on next page

years to the rework project costs. At a project cost of \$14 million, the revenue requirement for the first year is approximately \$2.6 million. If the project cost is \$19 million, SoCalGas estimates the revenue requirement for the first year at approximately \$3.5 million.

SoCalGas recommends that the revenue requirement associated with the rate basing of the project costs be allocated to only CARE customers. SoCalGas further states that the "Commission should reserve the option to reconsider allocation of these costs in the next BCAP and/or any other proceeding considering ratemaking for the unbundled storage program...." (Application, p. 9.)

SoCalGas proposes to reflect the anticipated benefits of the gas cost avoidance benefits into CARE rates over the December 2005 to March 2006 period so that CARE customers can receive the benefit of the lower rates at a time when gas consumption and prices are likely to be at their highest. SoCalGas states that it is reasonable to use the estimated cushion gas benefits to set rates during this four month period because the "operation of the Purchased Gas Account will ensure that over time SoCalGas recovers from gas procurement customers its actual cost of gas if the estimate of benefits turns out to be high or low." (SoCalGas Reply, p. 14.) By spreading the anticipated benefits over the four months to the CARE customers, together with the savings from the gas

Thus, SoCalGas proposes that in the unlikely event the project does not result in net benefits to ratepayers, either as a result of a significant drop in natural gas prices or higher than expected project costs or a combination of the two, SoCalGas should still be allowed to recover its costs through rate base.

hedging authorized in D.05-10-043, SoCalGas hopes to keep CARE commodity rates from exceeding \$8.00 per dth during the winter months.

As a result of the rework of the wells and the reclassification and withdrawal of the 4 Bcf of cushion gas, an additional 4 Bcf of gas storage capacity will be made available for sale. SoCalGas anticipates that this additional storage capacity will be marketed in time for the 2006 injection season. SoCalGas proposes that the issue of how the revenues from the sale of the additional storage capacity should be allocated be addressed at a later date in a proceeding of the Commission's choosing.

The proposed rework project is similar to the cushion gas project that SoCalGas proposed in 2001 in A.01-04-007, and which was approved by the Commission in D.01-06-086 and D.02-11-028. SoCalGas contends that under the precedent established in D.02-11-028, SoCalGas' shareholders should receive a portion of the value of the reclassified gas. However, due to the expected high cost of natural gas this winter, SoCalGas is proposing to forego its share of the value of the reclassified gas, and to give all of the benefit of the reclassified cushion gas to CARE customers. This rework project also differs from the project in A.01-04-007 in that SoCalGas is requesting that the cost of the project be put into rate base and recovered in the revenue requirement, rather than recovering the cost from selling the gas on the open market as was authorized for A.01-04-007 in D.02-11-028.

4. The Issues

In its application, SoCalGas discussed the issues that it believes need to be addressed by the Commission. Interested parties were provided an opportunity to raise issues in their protests, and responses to the application, and at the prehearing conference.

The issues to be addressed in this proceeding were identified in the November 7, 2005 scoping memo as follows:

- a. Whether the Commission should authorize the rework of the wells to free up 4 Bcf of cushion gas?
- b. Whether authorization under Public Utilities Code Section 851 is needed to reclassify 4 Bcf of cushion gas as working gas and to transfer that gas at book value to customers of the CARE program?
- c. Whether the rework of the wells is exempt from California Environmental Quality Act (CEQA) review?
- d. How should the costs of the rework project be paid for?
- e. By doing the rework on the wells, will non-core customers benefit from the additional gas storage capacity that will be created?
- f. How should the revenues from the sale of the additional 4 Bcf of gas storage capacity be treated?

In addition to the above issues, SoCalGas' application requests a waiver of Rules 35 and 36 of the Commission's Rules of Practice and Procedure (Rules), to the extent those rules apply at all.

We address all of these issues in the Discussion section below.

5. Discussion

A. Need For Timely Action

Before addressing the other issues, SoCalGas requests that the Commission take action on its application at the Commission's November 18, 2005 meeting. SoCalGas contends that in order to provide timely relief to its CARE customers for the upcoming winter, the Commission needs to resolve all of the issues that SoCalGas has raised in its application in a single, timely decision. The need for timely action also impacts the normal 30-day time comment period for a draft decision, and whether the comment period should be shortened or waived.

SoCalGas requests timely action on its application because of the need to reduce the impact on low-income customers of the high natural gas prices that are expected this winter. By authorizing SoCalGas to reclassify the cushion gas, and to transfer the gas in kind for the benefit of CARE customers at book value, the value of the reclassified gas can be realized during the upcoming winter. According to SoCalGas, such authorization will allow winter gas costs for CARE customers to be offset, and provide relief to these customers as soon as possible.

No one voiced any opposition to the request that the Commission timely authorize SoCalGas to reclassify, and to transfer the gas in kind for the benefit of CARE customers.

We agree with SoCalGas that the Commission needs to act as soon as possible on the authorizations sought by SoCalGas because of the expected high winter natural gas costs that will impact all California gas consumers, especially low income customers in the CARE program. CARE customers can least afford higher gas bills, and if nothing is done to protect these customers from higher costs, many of them will be forced to make choices between keeping warm and buying the other necessities of life. If the Commission fails to act promptly on the authorizations that SoCalGas is seeking, the benefits of lowering the cost of gas for CARE customers for the upcoming winter heating season will be lost, which will cause CARE customers significant harm. Simply put, CARE customers are in immediate need of relief from the expected high winter gas costs.

Since SoCalGas has taken proactive steps to pursue a project that will help reduce the winter gas bills of CARE customers, we need to do our part to reduce the burden of high natural gas prices on the customers who can least afford it.

Consequently, today's decision addresses the authorizations requested by SoCalGas.

B. Applicability of CEQA

The next issue to address is whether the proposed project is subject to a CEQA review, or whether the project is exempt from CEQA.

SoCalGas contends that the physical activities involved in this rework project are less substantial than what occurred in A.01-04-007.³ Unlike the project undertaken in A.01-04-007, SoCalGas is not drilling any new wells as part of this application. Instead, SoCalGas is only planning to rework the existing wells. Since the Commission found in D.01-06-086 that the project in A.01-04-007 was exempt from CEQA, SoCalGas contends that this project should be exempt from CEQA as well.

³ In response to a request from the Commission's Energy Division, SoCalGas submitted additional information on November 10, 2005 about its proposal to rework and/or redrill wells at its Aliso Canyon and La Goleta storage fields. This additional information included maps showing the location of the wells to be redrilled or reworked. SoCalGas' response noted that the reworked/redrilled wells will be at the same approximate depth as the old wells, and that the work is expected to commence in the near future and will be completed by March 31, 2006. The work will use drilling rigs and other equipment similar to what is used for routine well maintenance. SoCalGas' response also states that the proposed work will occur under permit by, and under the oversight of the Division of Oil and Gas and Geothermal Resources of the California Department of Conservation (DOGGR). The proposed work is expected to include minor installation and alteration of piping within the storage fields on previously disturbed soil, as well as some minor leveling of previously graded well pads to accommodate the rigs. The above information was summarized in a November 14, 2005 letter from SoCalGas' attorney to Jensen Uchida of the Energy Division, and served on the service list in this proceeding.

SoCalGas also asserts that the proposed project is exempt from CEQA on several grounds. First, SoCalGas contends that no discretionary Commission approval is required before SoCalGas undertakes the improvements. The only substantive authorization being sought from the Commission relates to the ratemaking treatment of the project, which the Commission has treated as exempt from CEQA under Public Resources Code § 21080(b)(8). Second, SoCalGas contends that the project is exempt from CEQA review under the Class 1 categorical exemption in § 15301(b) of Title 14 of the California Code of Regulations (Title 14) because it involves negligible or no expansion of use beyond what was previously existing. In addition, SoCalGas contends that the project is exempt under the Class 4 categorical exemption in § 15304 of Title 14 because the DOGGR has interpreted this exemption to include drilling operations that result in only minor alterations with negligible effects to the existing condition of the land, water, air, and/or vegetation. SoCalGas also asserts that the project is exempt from CEQA review under the Class 11 categorical exemption in § 15311 of Title 14 because the proposed work is accessory to the existing commercial or industrial facility.

SoCalGas states in its application that it will apply to DOGGR for permits to rework the wells at the two storage fields. According to SoCalGas, it will submit detailed plans to DOGGR that will include specific depths, casing programs, blowout prevention plans, and other relevant information. The DOGGR permits for this type of work are discretionary permits that require a CEQA determination. SoCalGas contends that the well reworks fall under the Class 1 categorical exemption from CEQA. SoCalGas does not expect that any permits from other agencies will be required.

If the Commission does not agree that the application should be exempt on the grounds cited above, SoCalGas proposes that DOGGR be designated as the lead agency for the CEQA review, and that the Commission be designated as a responsible agency. SoCalGas asserts that the criteria for deciding which permitting agency should be the lead agency for CEQA review generally favors the agency which has the greatest responsibility for supervising or approving the project as a whole. Since well redrilling and maintenance are within DOGGR's jurisdiction and core expertise, SoCalGas contends that DOGGR will have the greatest responsibility for project supervision and should be the lead agency for CEQA review.

None of the other parties have challenged SoCalGas' CEQA contentions.

Under Rule 17.1(i) of the Commission's Rules, the Commission is the lead agency for gas storage facilities. As the lead agency, we need to address whether a CEQA review should apply to the proposed project, or whether the proposed project is exempt from CEQA review because of a statutory or categorical exemption.

SoCalGas states in its application that the proposed well work is categorically or statutorily exempt from CEQA. In accordance with Rule 17.1(e)(2) and Rule 17.2 of the Commission's Rules, we will treat that statement as a motion by SoCalGas for the Commission to determine whether the proposed activities involve a project that is subject to/or exempt from CEQA. Parties had the opportunity to comment on the CEQA issues that SoCalGas raised in its application. No one protested or responded to SoCalGas' CEQA contentions, nor were any comments made about the CEQA issue when it was discussed at the November 2, 2005 prehearing conference.

The drilling work that SoCalGas proposes to undertake in this application only involves the reworking of existing wells. DOGGR reviewed the more extensive work that SoCalGas proposed in A.01-04-007 and concluded that the rework of the existing wells would be exempt from CEQA, and that the drilling of new wells would be a minor alteration to the land and categorically exempt from CEQA. The Commission's Energy Division also reviewed SoCalGas' proposed activities in A.01-04-007 and concluded that the Class 1 categorical exemption under § 15301 of the CEQA Guidelines applied, as well as § 15061(b)(3).⁴ (See D.01-06-086, p. 27.)

Section 15301 of the CEQA Guidelines describes the Class 1 categorical exemption as follows:

"Class 1 consists of the operation, repair, maintenance, permitting, leasing, licensing, or minor alteration of existing public or private structures, facilities, mechanical equipment, or topographical features, involving negligible or no expansion of use beyond that existing at the time of the lead agency's determination. The types of 'existing facilities' itemized below are not intended to be all-inclusive of the types of projects which might fall within Class 1. The key consideration is whether the project involves negligible or no expansion of an existing use."

Section 15301 further describes an example of a Class 1 categorical exemption as follows: "Existing facilities of both investor and publicly-owned utilities used to provide electric power, natural gas, sewerage, or other public utility services."

⁴ The "CEQA Guidelines" are set forth in Chapter 3 of Division 6 of Title 14.

The proposed reworking of the existing wells is consistent with the existing and surrounding land use as a gas storage facility. All of the proposed activities that SoCalGas plans to undertake will take place on previously disturbed and isolated areas. The ongoing operations at the two gas storage facilities will remain the same, except that the gas storage capacity will be increased. The proposed project will involve only a negligible expansion of the existing use. We conclude that SoCalGas' proposed reworking of the wells meets the Class 1 categorical exemption.

The other CEQA exemption that may apply is § 15304 of the CEQA Guidelines. Section 15304 provides that a project is exempt from CEQA if it involves only a minor alteration to the land. SoCalGas states that the rework of the wells will occur on existing well pads, that no grading or vegetation removal will be required, and none of the wells to be reworked are near where it could affect a stream or another body of water. Since the proposed rework of the existing wells is consistent with the existing and surrounding land use, and the proposed rework activities will occur on previously disturbed areas, this rework project will only result in a minor alteration to the land. Accordingly, we further conclude that the proposed reworking of the wells is exempt from CEQA under § 15304 of the CEQA Guidelines.

Since we are treating the statement in SoCalGas' application that the proposed well work is categorically or statutorily exempt from CEQA as a motion for the Commission to determine whether the proposed activities involve a project that is subject to/or exempt from CEQA, we grant the motion that SoCalGas' proposed reworking of the existing wells, as described in this application, is exempt from CEQA.

C. Public Utilities Code Section 851

The next issue to address is whether Public Utilities Code Section 851 applies to this application. SoCalGas states in its application that it is not clear “to SoCalGas whether the sale of cushion gas reclassified to working gas to SoCalGas customers at tariffed rates requires Commission authorization under Section 851.” (A.05-10-012, p. 17.) However, SoCalGas will not contest whether § 851 applies to this application, but reserves the right to do so in the future. No one else discussed this issue in their protests or responses to the application, or at the prehearing conference.

Public Utilities Code Section 851 provides in pertinent part:

“No public utility ... shall sell ... or otherwise dispose of or encumber the whole or any part of its ... line, plant, system, or other property necessary or useful in the performance of its duties to the public ... without first having secured from the commission an order authorizing it so to do. Every such sale ... made other than in accordance with the order of the commission authorizing it is void.”

As we noted in A.01-04-007, SoCalGas’ prior cushion gas application, the cushion gas that is used in normal gas operations has been in rate base and SoCalGas has been allowed to earn a rate of return on the cushion gas. (See D.01-06-086, pp. 23-24.) No one disputes that this 4 Bcf of gas, which is currently used as cushion gas, is necessary and is currently being used in SoCalGas’ gas storage operations.

As a result of the rework of the existing wells, this 4 Bcf of cushion gas will be freed up, and that gas will no longer be needed to help pressurize the gas storage fields as cushion gas. SoCalGas proposes that this gas be reclassified as working gas, and that the reclassified gas be transferred in kind to CARE customers at book value. Since this gas is to be reclassified as working gas and

transferred, Public Utilities Code Section 851 applies to the reclassification, and transfer of the gas in kind, which will no longer be necessary or useful to the gas storage operations. (See D.01-06-086, p. 23.)

The next step of the analysis under Public Utilities Code Section 851 is to decide whether the transfer of the gas is in the public interest.

SoCalGas estimates that it will cost approximately \$14 to \$19 million to rework the existing wells at its two storage facilities. The 4 Bcf of cushion gas has a book value of approximately \$1.5 million. Due to the expected high winter gas prices, SoCalGas proposes to transfer the gas at book value to lower the cost of gas this winter to CARE customers. Assuming a winter gas price of \$12.50 per mcf, SoCalGas estimates that the project will result in rates to CARE customers over the winter that will be approximately \$48 million less than they otherwise would be. This project will help offset the impact of high natural gas prices on those customers who can least afford it.

Coral, TURN, SCGC, and ORA all praise the efforts of SoCalGas to lower the rates of CARE customers. Although these parties take issue with how the project costs should be recovered and who should pay the costs, none of them oppose the reclassification, withdrawal, and transfer of the gas for the benefit of SoCalGas' CARE customers.

We find that the proposed well rework activities, reclassification, and the transfer of the gas in kind to CARE customers at book value, will result in benefits to CARE customers, to other SoCalGas customers as a result of the expanded storage capacity, and to SoCalGas as a result of certain operational savings. Accordingly, we conclude that it is in the public interest for the Commission to authorize SoCalGas to reclassify the 4 Bcf of cushion gas, which will no longer be needed once the rework of the wells is completed, as working

gas, and that the reclassified gas be transferred in kind to CARE customers at book value. SoCalGas is authorized to carry out all of these activities.

SoCalGas requests in its application that to the extent Rules 35 and 36 of the Commission's Rules apply to the § 851 authorization, that those rules be waived. Rule 35 requires that in a § 851 application, the application be signed by all parties to the proposed transaction and that the purchase price be included. Rule 36 requires that a copy of the proposed bill of sale be included. SoCalGas contends that these requirements should be waived because they make no sense under the circumstances, and it is not known at this time what the terms and conditions of the sale will be.

We agree with SoCalGas that the requirements in Rules 35 and 36 should be waived for this application. Since the transfer of the reclassified gas will not take place until the rework of the wells is completed and the cushion gas is reclassified, there is no need to include this information.

D. Authorization to Rework the Wells

One of the issues raised at the prehearing conference, and included in the scoping memo is whether SoCalGas needs Commission authorization before it can rework the wells. The issue of authorization to rework the wells is separate from the issue of whether a CEQA review may be triggered, and the issue of whether the 4 Bcf of cushion gas should be reclassified as working gas. At the prehearing conference, TURN asserted that such authorization is not needed because SoCalGas already has that flexibility in the gas storage unbundling decision, D.93-02-013 (48 CPUC2d 107).

In Ordering Paragraph 3 of D.93-02-013, we adopted a "let the market decide" policy for expansion or construction of new gas storage facilities. (48 CPUC2d 118-119, 142.) We recognized that this policy is the best way to serve

the need for unbundled storage service. Under that policy, SoCalGas can undertake projects which expand gas storage capacity. Based on the authority contained in D.93-02-013, the drilling rework that SoCalGas is proposing does not require specific authorization to expand the storage capacity.

E. Recovery of the Costs of the Rework Project

SoCalGas proposes that all of the project costs of reworking the wells, estimated at \$14 to \$19 million, be placed in rate base upon the completion of the project, and that the cost be recovered through depreciation over the useful life of 33 years, while earning the authorized rate of return on the remaining undepreciated investment. SoCalGas also proposes that the annual revenue requirement associated with the project costs be allocated to the CARE customers, and that the Commission reserve the option to reconsider the allocation of these costs in the future.

SoCalGas also proposes to reflect the expected gas cost avoidance benefits in CARE rates over the December 2005 through March 2006 time period.

ORA supports SoCalGas' cost recovery proposal, but points out that the expected high gas prices and the benefit to CARE customers are the reasons why SoCalGas should be permitted to deviate from the policy and precedent that was established in D.02-11-028.

TURN proposed in its protest and at the prehearing conference three methods for recovering the project costs. Coral and SCGC expressed the view that non-core customers should not have to pay any of the costs associated with the rework project.

At the November 2, 2005 prehearing conference, different procedural approaches for resolving the conflict between TURN's method of recovery versus SoCalGas' recovery method, and the need for quick action, were discussed. The

interaction of the project costs recovery issue with the issue of whether non-core customers will benefit from the additional storage was also discussed. As noted in the November 7, 2005 scoping memo, the parties expressed a willingness at the prehearing conference to allow the rate basing of the project costs to occur, so long as the issue of who should be responsible for paying those costs is revisited in the near future, along with the issue of who should get the benefit of the revenue created by the additional storage. (See Prehearing Conference Reporter's Transcript, pp. 22-30.)

In order to expedite this project so that CARE customers can receive the project benefits in a timely manner to reduce their winter bills, we will adopt SoCalGas' proposal to put all of the project costs into rate base upon the completion of the project, and the revenue requirement associated with the project costs be recovered from SoCalGas' CARE customers. Such treatment will allow CARE customers to realize the full benefits of the project during the winter months, while providing assurance to SoCalGas that it will recover the project costs in rates.

The Commission may, in the future, decide on a different allocation of who should be responsible for paying the revenue requirement associated with the project costs for this application. Initially, these costs will be recovered from CARE customers because they will receive the direct benefit from the reclassification and sale of the 4 Bcf of gas.

The issue of who should be allocated the revenue requirement that is associated with the project costs is related to the issue of whether non-core customers benefit from the additional storage capacity that will be created. Due to the immediate need to focus this decision on the authorizations that are needed to benefit CARE customers this winter, we have not had sufficient time

to fully address these two issues. We recognize that arguments on both sides could be made as to who should be allocated the project costs. For that reason, the parties are placed on notice that the allocation of the project costs may be revisited in a future Biennial Cost Allocation Proceeding (BCAP) for SoCalGas, or it may be raised in this proceeding when we address how the revenues from the sale of the additional 4 Bcf of storage capacity should be allocated.

Upon the completion of the project as described in its application, SoCalGas is authorized to put all of the costs of the rework project into rate base, and to recover the costs through depreciation over the useful life of the assets and to earn its authorized rate of return on the remaining undepreciated investment. SoCalGas is also authorized to file an advice letter to increase its revenue requirement for these project costs which will be placed in rate base.

The revenue requirement associated with the project costs shall be allocated to SoCalGas' CARE customers. The Commission reserves the right to reconsider the allocation of the revenue requirement associated with the project costs in this proceeding or in a future BCAP. SoCalGas shall file an advice letter to establish a procedure for allocating these costs to SoCalGas' CARE customers.

Upon the reclassification of the 4 Bcf of cushion gas to working gas, SoCalGas shall remove from rate base the \$1.5 million in cushion gas cost.

We shall also authorize SoCalGas to reflect in its CARE customer rates, starting December 2005 through March 2006, the expected gas cost avoidance benefits. This will allow SoCalGas to flow through the estimated benefit to CARE customers in their winter bills before the project is completed. Without such authorization, CARE customers will not see the benefits of this project reflected in all of their winter gas bills.

As we have emphasized throughout this decision, we are authorizing SoCalGas to reclassify, and to transfer the gas in kind to CARE customers at book value because of the expected high winter gas costs and the need to immediately reduce the burden of these expected costs on CARE customers. Although D.02-11-028 established a different method of recovering the project costs and allocating the benefits of the project, we are departing from that method in this application because of the unique circumstances that confront us today. If another application proposing a similar type of project comes before us in the future, we should examine the circumstances of that particular project before deciding how the project costs should be recovered and who should be allocated the benefits of the project. D.02-11-028 and this decision should simply serve as guides for addressing similar kinds of issues, rather than set-in-stone precedents that should be strictly followed.

In closing, the authorizations that we grant today, together with the approval of the expanded winter hedging in D.05-10-043 and the streamlining of the CARE application process in D.05-10-044, will all help to reduce the burden of high natural gas prices on CARE customers for this winter.

F. Allocation of Revenue From Expanded Storage Capacity

As noticed in the November 7, 2005 scoping memo, a prehearing conference will be held on December 12, 2005 to decide how to proceed with the issue of how the revenues from the sale of the additional 4 Bcf of gas storage capacity should be treated. This issue is closely tied to the issue of whether non-core customers benefit from the additional storage that will be created, and the interaction of these two issues should be addressed in that phase of this proceeding. The non-core benefit issue could also lead to a more detailed look as to whether any other customers of SoCalGas, besides CARE customers, should

be allocated a share of the revenue requirement associated with the rate basing of the project costs.

6. Assignment of Proceeding

Susan P. Kennedy is the assigned Commissioner, and John S. Wong is the assigned ALJ for this proceeding.

7. Comments on Draft Decision

To avoid the possibility of significant harm to the public health and welfare, as mentioned above, the Commission must act immediately to protect SoCalGas' CARE customers from current and expected high natural gas prices for the 2005-2006 winter heating season. Therefore, pursuant to Public Utilities Code Section 311(f)(9), the Commission concludes that public necessity requires reduction of the otherwise applicable 30-day period for public review and comment on the draft decision. The public interest in adopting a decision before the expiration of the 30-day review and comment period clearly outweighs the public interest in having the full 30-day period for public review and comment on the draft decision.

On November 14, 2005, in accordance with the shortened comment period, SoCalGas and SCGC filed comments in support of the draft decision. Although SCGC's comments believes that the revenues from the expected sale of the 4 Bcf of additional gas storage capacity should be considered in Phase II of R.04-01-025, the scoping memo determined that this issue should be considered in a later phase of this proceeding. SoCalGas filed reply comments in opposition to SCGC's comments that the additional gas storage capacity issue should be considered in R.04-01-025..

Findings of Fact

1. On October 6, 2005, the Commission held a full panel hearing to address the impact of rising natural gas prices on low income customers, and as part of its response, SoCalGas filed this application on October 11, 2005.

2. The Commission needs to act as soon as possible on the authorizations sought by SoCalGas because of the impact of expected high winter natural gas costs on all gas consumers in California, especially low income customers in the CARE program.

3. A failure to act promptly on the authorizations sought by SoCalGas will result in significant harm to CARE customers because the benefits of lowering the cost of gas for CARE customers for the upcoming winter heating season will be lost.

4. Under Rule 17.1(i) of the Commission's Rules, the Commission is the lead agency for CEQA review of gas storage facilities.

5. The drilling work proposed in this application involves the reworking of existing wells, whereas the project in A.01-04-007 involved the drilling of new wells and the reworking of existing wells.

6. The project in A.01-04-007 was found to be exempt from CEQA review in D.01-06-086.

7. Assuming a winter gas price of \$12.50 per mcf, SoCalGas estimates that the project will result in rates to CARE customers that will be approximately \$48 million less than they otherwise would be.

8. The project contemplated in this application will help offset the impact of high natural gas prices on those customers who can least afford it.

9. The proposed well rework activities, reclassification, and the transfer of the gas in kind to CARE customers at book value will result in benefits to CARE

customers, to other SoCalGas customers as a result of the expanded storage capacity, and to SoCalGas as a result of operational savings.

10. Based on the “let the market decide” policy in D.93-02-013 for expanding or constructing new gas storage facilities, the proposed drilling rework does not require specific authorization to expand the storage capacity.

11. The Commission may, in the future, decide on a different allocation of who should pay for the revenue requirement associated with the project costs for this application.

12. The revenue requirement associated with the project costs should be recovered initially from CARE customers because they will receive the direct benefit from the reclassification and sale of the gas.

Conclusions of Law

1. SoCalGas’ proposed reworking of the wells is exempt from CEQA review under §§ 15301 and 15304 of the CEQA Guidelines.

2. SoCalGas’ statement in its application regarding CEQA, which we consider as a motion to exempt the proposed work from a CEQA review, is granted.

3. Public Utilities Code Section 851 applies to the reclassification, and transfer of the gas in kind to CARE customers.

4. It is in the public interest under Public Utilities Code Section 851 to authorize SoCalGas to reclassify the 4 Bcf of cushion gas as working gas, and to transfer that gas in kind to CARE customers at book value.

5. Rules 35 and 36 of the Commission’s Rules are waived as to this application.

6. SoCalGas' proposal to put all of the project costs into rate base upon the completion of the project, and to recover the associated revenue requirement from CARE customers, should be adopted.

7. Upon the reclassification of the 4 Bcf of cushion gas as working gas, SoCalGas should remove from rate base the approximate \$1.5 million in cushion gas cost.

8. In order to offset the winter bills of CARE customers, SoCalGas should be authorized to reflect in its CARE customer rates, starting December 2005 through March 2006, the expected gas cost avoidance benefits resulting from this project.

9. To avoid the possibility of significant harm to the public health and welfare resulting from current and expected high natural gas prices, public necessity requires that the 30-day public review and comment period on the draft decision be shortened.

INTERIM ORDER

IT IS ORDERED that:

1. The Southern California Gas Company (SoCalGas) is authorized under Public Utilities Code Section 851 to reclassify 3 Bcf of cushion gas at Aliso Canyon and 1 Bcf of cushion gas at La Goleta to working gas, and to transfer the gas in kind to SoCalGas' California Alternate Rates for Energy (CARE) customers at book value.

a. Upon the reclassification of the 4 Bcf of cushion gas as working gas, SoCalGas shall remove from rate base the approximate \$1.5 million in cushion gas cost.

2. Upon the completion of the drilling rework project, SoCalGas is authorized to put all of the costs of the rework project into rate base, and to file an advice letter to increase its revenue requirement to recover these project costs.

3. The revenue requirement associated with the project costs shall be recovered from the CARE customers, unless changed by the Commission in this proceeding or in a Biennial Cost Allocation Proceeding of SoCalGas.

a. SoCalGas shall file an advice letter within 20 days of today's date to establish the necessary procedures for allocating these costs to SoCalGas' CARE customers.

4. SoCalGas is authorized to flow through into CARE rates the estimated cushion gas benefit that will result from the rework, reclassification, and transfer at book value to CARE customers over the four month period of December 2005 through March 2006.

5. SoCalGas shall keep the Commission's Energy Division informed of the progress of the project and all pertinent details related to the authorizations contained in this decision.

6. This proceeding shall remain open to address the remaining issues.

This order is effective today.

Dated November 18, 2005, at San Francisco, California.

MICHAEL R. PEEVEY
President
GEOFFREY F. BROWN
SUSAN P. KENNEDY
DIAN M. GRUENEICH
JOHN A. BOHN
Commissioners