Decision 07-12-019 December 6, 2007

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Gas Company (U 904 G), San Diego Gas & Electric Company (U 902 M) and Southern California Edison Company (U 338 E) for Approval of Changes to Natural Gas Operations and Service Offerings.	Application 06-08-026 (Filed August 28, 2006)

OPINION REGARDING PROPOSED CHANGES TO NATURAL GAS OPERATIONS AND SERVICE OFFERINGS

TABLE OF CONTENTS

Title **Page**

Title **Page**

OPINION REGARDING PROPOSED CHANGES TO NATURAL GAS OPERATIONS AND SERVICE OFFERINGS

1. Introduction

By this decision, we grant, in part, and deny, in part, the joint application of Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E), and Southern California Edison Company (Edison) (Joint Applicants), filed on August 28, 2006. The application seeks Commission approval to implement a range of revisions to the natural gas operations and service offerings of SoCalGas and SDG&E, relating to core operations, unbundled storage, and provisions for expansion of storage capacities, among other things.

Applicants characterize the range of proposals as an "integrated package" intended to implement provisions of two settlement agreements. The first of the settlements, entered into by Sempra Energy (Sempra), SoCalGas, SDG&E, and other Sempra affiliates[1] on January 4, 2006, involves certain class action antitrust and unfair competition claims arising out of the 2000-2001 energy crisis (the Continental Forge Settlement). The Continental Forge plaintiffs had alleged that Sempra Energy, SoCalGas and SDG&E conspired to restrict natural gas supplies to California. Sempra Energy and its affiliates denied any wrongdoing alleged in the litigation, but concluded that settlement was desirable to avoid exposure to significant financial risk and to put the litigation behind them. The

[1] SoCalGas and SDG&E are affiliated companies, both being subsidiaries of Sempra. Their respective parent companies, Pacific Enterprises and Enova, were authorized to merge in Decision (D.) 98-03-073, subject to various conditions imposed to mitigate market power concerns.

Continental Forge settlement agreement contains a package of proposed changes to SoCalGas and SDG&E gas operations.[2] The parties to the Continental Forge Settlement agreed that through 2016, they would not propose or support proposals that undermine the purposes of the settlement.

Sempra, SoCalGas, SDG&E, other Sempra affiliates, Edison, and Edison International entered into a separate settlement (the Edison Settlement)[3] on May 30, 2006, which sets forth additional proposed changes to the operations and services of SoCalGas and SDG&E.[4] The Edison Settlement provides that Edison will support the changes to gas operations in the Continental Forge Settlement. The Edison Settlement is intended to resolve all issues between Edison and the Sempra companies in Investigation (I). 02-11-040[5] and I.03-02-033,[6] and provides that Edison withdraw all claims in those proceedings.

---

[2] The Continental Forge Settlement Agreement was submitted with the application. The Settlement Agreement was approved on July 20, 2006 by the Superior Court of the State of California, County of San Diego, J.C.C.P. Nos. 4221, 4224, 4226, and 4228. Appeals of the judgment approving the settlement are pending in the State Court of Appeals, Fourth Appellate District.

[3] The Edison Settlement Agreement was also submitted by SDG&E and SoCalGas with the application.

[4] The Edison Settlement Exhibit A (Proposed Tariff Revisions) and Exhibit B (Structural Provisions) set forth the proposed changes to the operations and services provided by SDG&E and SoCalGas.

[5] The Commission initiated I.02-11-040 through an Order Instituting Investigation (OII) on November 21, 2002, (*i.e.*, the "Border OII") to examine why natural gas price spikes occurred in California from March 2000 through May 2001.

Applicants seek approval to implement 16 structural changes arising from the Continental Forge Settlement[7] and 18 operational and service changes[8] arising from the Edison Settlement Agreement.[9] Applicants claim that these changes will produce benefits through a reduction in costs of utility service, increased transparency of utility operations, and introduction of new service offerings. As discussed below, we approve several, but not all, of Applicants' proposed changes. We decline to approve those changes that we find are not in customers' best interests or that warrant further inquiry. In some cases, we approve Applicants' proposed changes in modified form, or defer final determinations pending further inquiry in the upcoming SoCalGas Biennial Cost Allocation proceeding (BCAP).

A number of applicants' proposals will involve amendments to existing utility tariffs. Applicants have included as appendices various proposed language revisions to the relevant tariffs which would implement the related underlying proposals. While we believe that the proposed tariff language is exemplary and provides useful context for

---

6 On February 27, 2003, the Commission initiated I.03-02-033 (*i.e.,* the "Sempra Energy Affiliates OII") to evaluate business activities of SDG&E, SoCalGas, and their parent company, Sempra Energy (Sempra), and consolidated that investigation with I.02-11-040.

7 *See* pages 3 and 4 of the Application.

8 *See* pages 5 - 7 of the Application.

9 The Edison Settlement, entered into on May 30, 2006 by SoCalGas, Sempra Energy, and certain other Sempra Energy affiliates with Edison and Edison International, supplements provisions of the Continental Forge Settlement, and

Footnote continued on next page

understanding the details of how Applicants envision the implementation of the proposals, we do not adopt the exemplary tariffs in this decision. The respective tariffs will be adopted through the normal process of review and approval of tariff revisions under applicable Commission rules for advice letters or application filings, as relevant.

2. Procedural Background

The instant Application was filed on August 28, 2006. An informational workshop on October 18, 2006, allowed parties to seek clarification of applicants' proposals. Protests to the application were filed by the Division of Ratepayer Advocates (DRA), BHP Billiton LNG International Inc. (BHP Billiton), Coral Energy Resources, L.P. (Coral), Indicated Producers, and Southern California Generation Coalition (SCGC). SoCalGas, SDG&E, and Edison filed a joint reply to the protests.

A prehearing conference (PHC) was held on November 28, 2006. A Scoping Memo was issued on December 21, 2006, as the Assigned Commissioner's Ruling (ACR). The ACR directed Applicants to submit supplemental testimony on specific issues, and ordered evidentiary hearings. The evidentiary hearings lasted eight days, May 8-11 and 15-18, 2007 in San Francisco. Administrative Law Judge (ALJ) Thomas Pulsifer was designated as presiding officer.

In addition to applicants, testimony was served by Coral, SCGC, Long Beach, DRA, and The Utility Reform Network (TURN). Opening briefs were filed on June 25, 2007, and reply briefs were filed on July 20,

---

provides that Edison will support the package of changes to gas operations agreed to by parties to the Continental Forge Settlement.

2007. Southwest Gas Corporation (Southwest) filed briefs, but did not offer testimony. Oral arguments were held on October 2, 2007, before a quorum of Commissioners, pursuant to Rule 13.13(b) of the Commission's Rules of Practice and Procedure (Rules).

3. Framework for Review of Applicants' Proposals

It is useful to explain the analytical framework within which Applicants' proposals are considered. Applicants characterize their proposals as a comprehensive settlement package that, in its entirety, benefits gas and electric utility customers through reduced costs, enhanced market competition, more transparent utility operations, and the introduction of new services. Applicants characterize the settlement as balancing of a multitude of interests, and such that individual provisions should not be considered in isolation without taking into account the overall package of recommendations.[10]

The Commission has rules for consideration of settlements, as set forth in Article 12 of the Commission Rules. The settlements which form the basis for applicants' recommendations, however, were entered into outside of any formal Commission proceeding. The settlements which form the basis for proposals submitted in this proceeding, therefore, do not constitute the type of settlement governed by Article 12.[11]

---

[10] Edison Reply Brief at 4-5.

[11] Article 12 applies only to settlements submitted after a PHC in a proceeding (Rule 12.1(a)). Rule 12.1(b) requires at least one noticed settlement conference prior to parties entering a settlement. No noticed settlement conference was convened in A.06-08-026 or any other Commission proceeding.

Moreover, applicants did not invoke the Commission's settlement rules in filing their proposals here, and are not asking the Commission to approve either of the settlements that form the basis for their proposals. Nonetheless, applicants ask the Commission to consider their proposals as an entire integrated package.[12] Edison, for example, asks the Commission to "respect and honor the extraordinary efforts of each of the applicants to fashion a set of market reforms…that evaluates the impacts on core and noncore customers alike and adopt these proposed changes as a package." Edison characterizes the "delicate balancing of the multiple interests" underlying the settlements as a reason why the proposals should be approved as an integrated package rather than based on individual evaluation. At the same time, however, Edison argues that "approval of this application should not rest on questions concerning the strengths and weaknesses of the settlement process."

Although Edison appeals to the Commission to assess the merits of the proposals "as a package," and to preserve the "delicate balancing of multiple interests," we cannot simply assume customer interests were adequately represented through either of the settlements. Various parties

---

[12] Moreover, some provisions in the settlements have been addressed in other Commission proceedings and are not before us here. For example, although the Settlement includes provisions for firm access rights (FAR), Applicants do not seek approval of such provisions here. The Commission adopted FAR provisions in D.06-12-031 (A.04-12-004), to enable market participants to hold FAR on receipt points for gas supplies on the SDG&E/SoCalGas transmission system. Also, while the Continental Forge Settlement provides for integration of the SoCalGas and SDG&E transmission systems, Applicants propose no system integration here. D.06-04-033 integrated transmission rates of SDG&E and SoCalGas and authorized a timetable for such integrated rates to take effect.

disagree that the package of proposals represents a fair result to customers, and oppose a number of its provisions. DRA, for example, argues that the Commission should scrutinize the package of proposals carefully because no consumer advocate group participated in crafting the Edison Settlement. Edison responds that DRA and TURN are not the sole advocates with a demonstrated concern for core customers' welfare, but that in crafting the settlement, Applicants sought solutions that would be beneficial to utility customers.

We do not question that the Applicants take seriously their obligation to serve customers, but recognize that Applicants' fiduciary duty is to their shareholders. In negotiating settlements, a potential exists for conflicts between the interests of shareholders versus ratepayers. In D.97-08-055, we stated: "Direct regulation of utility monopolies is in large part meant to control or neutralize conflicts of interest between shareholders and ratepayers." We further stated in that decision: "We do not presume that Pacific Gas and Electric Company (PG&E) will represent ratepayers if that representation will be directly adverse to shareholder interests."

Similarly, we do not presume that in developing the settlement as the basis for recommendations in this proceeding, the utilities represented the interests of customers with the same vigor or in the same manner as would an advocacy group such as DRA or TURN. As set forth in Cal. Pub. Util. Code § 309.5,[13] the goal of DRA is "to obtain the lowest possible rate

[13] Unless otherwise indicated, all statutory references are to the Cal. Pub. Util. Code.

for service consistent with reliable and safe service levels." DRA's perspective in seeking to obtain "the lowest possible rate" for customers can be contrasted with that of a utility whose fiduciary duty is to promote the net worth of its shareholders.

Thus, in evaluating this application, we carefully consider the objections raised by opposing parties. Since neither DRA nor TURN was included in the process that led to the settlement, we will not disregard their objections based on Edison's assurances that the utilities represented and protected consumers' interests in the settlements.

We will evaluate each recommendation in Applicants' proposals, and are not obliged to limit our review to applicants' proposals as a whole. We shall not approve a recommendation merely because it is in the settlement if the recommendation is contrary to the best interests of customers. While we evaluate each individual recommendation on its merits, we shall consider in our evaluation where appropriate, any interrelationships or offsetting effects between or among provisions of the settlements.

Consideration of applicants' proposals on their individual merits is consistent with D.06-12-034, which closed I.02-11-040 and I.03-02-033 with prejudice.[14] Closure of I.02-11-040 and I.03-02-033 avoids costs and delays associated with further litigation regarding natural gas market events

---

[14] The Edison Settlement called for closure of I.02-11-040 and I.03-02-033 and for termination of conditions that certain SoCalGas Cost Incentive Mechanism (GCIM) and SDG&E performance-based ratemaking (PBR) awards be subject to refund or adjustment consistent with I.02-11-040. D.06-12-034 granted this request.

during the 2000-2001 energy crises. Thus, as indicated in D.06-12-034, we will not investigate further or make findings on the merits of the issues set for hearing in I.02-11-040 or I.03-02-033. Closure of I.02-11-040 and I.03-02-033 with prejudice, however, in no way limits the Commission's regulatory authority or jurisdiction in other respects, including our ability to scrutinize changes proposed in this proceeding.

4. Changes to Core Operations

4.1. Establishment of Inventory Storage Targets

4.1.1. Parties' Positions

Applicants propose to change how target levels of natural gas storage inventory are determined. Adequate natural gas inventory levels are necessary in order to maintain reliable deliveries to customers during peak demand periods and as a hedge against market price fluctuations. In D.02-06-023, the Commission established a physical core storage inventory target for the beginning of the withdrawal season on November 1 of 70 Billion Cubic Feet (Bcf) plus or minus 5 Bcf. This is the target in effect today. In February 2006, DRA, TURN, and SoCalGas submitted a joint recommendation in SoCalGas' GCIM year 11 application under which the November 1 storage target would change from 70 +5/-5 Bcf to 70 +5/-2 Bcf.[15] The joint recommendation also established a minimum inventory target of 49 Bcf for July 31, 2006. No mid-season targets are established for

[15] In D.06-12-010, the Commission increased the core storage capacity allocation by 4 Bcf to 74 Bcf on a temporary basis. The November 1 storage target equals the allocated core capacity with a tolerance of -2/+5 Bcf.

subsequent years. SoCalGas expects these revised targets will be adopted and is adhering to the targets in its current operations.

Applicants propose in this proceeding that minimum month-end core physical storage targets be adopted for each month of the injection season from April to November.[16] The proposed targets reflect a combined SoCalGas/SDG&E core portfolio, consistent with Applicants' proposal for consolidation of the portfolios. The minimum targets would be determined as follows:

- Assume core storage equals zero on March 31.
- Assume uniform monthly purchases from April through October equal to the average April through October cold-year forecasted core throughput plus company use and "Lost-and-unaccounted for" (LUAF) gas plus storage injections necessary to achieve the minimum November 1 storage target.
- Assume minimum month-end storage targets equal the cumulative differences between uniform monthly purchases and the forecasted cold-year throughput levels.

Applicant witness Van Lierop presented a table of monthly minimum storage target forecasts from the 2006 California Gas Report, as follows:[17]

Month	Minimum Storage Target (Bcf)
April	0.0

[16] Section C.7 of Applicants' proposed GCIM tariff includes a rule to calculate annually minimum storage inventory targets for each injection season month.

[17] Exhibit (Ex.) 2 (Van Lierop) at 4.

May	4.5
June	15.6
July	29.9
August	44.2
September	57.2
October	67.5

Van Lierop proposes that the monthly storage targets be updated annually and included in Annual Gas Plan filings, using forecasts from the California Gas Report or BCAP decision, whichever is more recent. The proposed minimum monthly storage injection targets are intended as a compromise between opposing views. One such opposing view is that too much flexibility with storage injections may give the Core Procurement Department the ability to unduly impact gas prices at the California border. On the other hand, storage targets need to be flexible enough to minimize core gas costs under a range of market and weather conditions.

Any such targets reduce the flexibility to optimize gas purchases and therefore have the potential to force Utility Gas Procurement Department into transactions that increase gas costs. Applicants claim, however, that the specific targets proposed are unlikely to have negative gas cost impacts under most market conditions. If the Commission were to adopt targets that are more restrictive than the ones proposed, Applicants believe there could be a significant negative impact on gas costs.

Coral, DRA, and the Indicated Producers oppose Applicants' proposed monthly storage targets. Coral argues that Applicants' proposed minimum storage injection targets would not impose meaningful limits.

Coral states that Applicants' minimum storage injection proposal could force the core procurement department to use "as-available" injection capacity to move gas into storage during the peak months for electric generation load.[18] As a result, Coral argues, other market participants' access to receipt point capacity and storage injection capacity could be limited during the summer peak period.

Coral proposes monthly storage targets based on actual storage in inventory as of March 31 of each year. Coral proposes that minimum monthly storage inventory targets be established annually by subtracting actual core storage inventory as of March 31 from the storage inventory target as of October 31. The difference would be divided by seven (reflecting the seven-month injection season), and the result would be the monthly minimum storage target.[19] Coral argues that such minimum inventory targets would ensure that SoCalGas will not have to rely upon as-available storage injection rights to fill storage for core needs.

Coral also proposes maximum targets be imposed for the months from July through September when electric generation load is at its highest. Coral proposes that, except as required to meet minimum storage inventory targets, SoCalGas not be allowed to use as-available storage injection rights to fill storage during that period. SoCalGas would still be able to use other means (*e.g.*, gas purchases in the ground from

---

[18] Transcript (Tr.) 5/694-95 (Goldstein).

[19] Under Coral's proposal, if March 31 core storage inventory were zero, a target of 10 Bcf would apply. (*See* Ex. 44.) Any positive inventory balance at March 31 would reduce the core's minimum monthly storage injection target and provide the core procurement department with additional storage flexibility.

someone else's storage or parks and loans) to fill storage during these months.[20]

DRA also opposes Applicants' plan to establish separate monthly storage targets, arguing that such targets could require purchases at times when prices are not favorable to customers, and could require injection levels in excess of core injection rights. DRA proposes that the mid-season inventory targets already established as a result of the joint recommendation of DRA, TURN, and SoCalGas, as adopted in D.06-10-029 be retained.[21]

Indicated Producers argue that storage targets could cause the Gas Procurement Department to put excess gas onto the system, thereby increasing the number of Operational Flow Orders (OFOs) that could be called. Indicated Producers thus call for the establishment of an "OFO Review Committee" subject to protocols like those adopted in the PG&E system.

4.1.2. Discussion

We decline to approve Applicants' monthly storage targets. We shall adopt the proposal of DRA that mid-season inventory targets continue to be utilized rather than separate month-end target. The use of mid-season inventory targets is consistent with the practice already established as a result of the joint recommendation of DRA, TURN, and SoCalGas in D.06-10-029. In that decision, we approved a minimum core storage target of 49 Bcf on July 31, 2006. The joint recommendation

---

20 *See* Tr. 5/694-96 (Goldstein).

21 DRA Opening Brief at 27.

adopted in that decision was the result of compromises reached by DRA, TURN, and SoCalGas, and was designed to address DRA's concern that core customers were not deriving the full benefit of dedicated storage capacity. (D.06-10-029 at 8.) The storage capacity concerns expressed by DRA as the basis for entering into the joint recommendation adopted in D.06-10-029 continue to apply for purposes of evaluating Applicants' proposal here.

Moreover, Applicants concede that under certain circumstances, core procurement could not meet the monthly storage targets unless it acquired as-available storage injection rights or some alternative in addition to firm storage injection.[22] Thus, this sort of risk could simply be avoided by maintaining the current mid-season injection target in conjunction with the appropriate storage inventory and injection reservation for the combined portfolio.

We therefore decline to adopt Applicants' proposal for separate monthly targets, and shall retain the use of mid-season inventory targets based on the approach adopted in D.06-10-029. Based upon the combined portfolio of SoCalGas and SDG&E, the resulting inventory target level, as calculated by DRA, is 58 Bcf.

Applicants note, however, that parties agreed to the 49 Bcf figure only for 2006, subject to annual review in subsequent years.[23]

---

[22] 5 Tr. 734:22-734:2, SoCalGas/SDG&E/Goldstein: *see* Ex. 44.

[23] *See* D.06-10-029 *mimeo.* at 8, stating: "For the years beyond 2006, SoCalGas will obtain agreement from DRA and TURN for mid-season core-purchased inventory targets which must be met unless otherwise agreed to by DRA and TURN."

SoCalGas /SDG&E believe that while 49 Bcf was a reasonable target for 2006 when storage was relatively high at the start of the injection season, that figure would not be reasonable when the injection season begins with relatively low storage levels, with prices in the early injection season exceeding forward prices in the latter part of the injection season. SoCalGas/SDG&E propose that mid-season targets be set in annual gas plan filings based on conditions prevailing at the time, in consultation with DRA and TURN as members of the Procurement Review Group.

We agree that D.06-10-029 stated that for the years beyond 2006, SoCalGas was directed to obtain agreement from DRA and TURN for mid-season core-purchased inventory targets which must be met unless otherwise agreed to by DRA and TURN. Each of these changes were to be reflected in SoCalGas' GCIM tariff. Since DRA is advocating 58 Bcf as the combined mid-season. Because the 2007 storage injection season is already occurred, the adoption of new 2007 mid-season target is moot. Also, the determination of a storage inventory target on a combined company basis will become applicable only after the combination of the core procurement functions has been implemented. For storage seasons subsequent to 2007 pursuant to D.06-10-029, SoCalGas should still seek agreement with DRA and TURN regarding the appropriate mid-season core-purchased inventory targets.

4.2. Combining of Core Portfolios

4.2.1. Introduction

SoCalGas and SDG&E currently each maintain separate gas portfolios to serve their respective core customers. Applicants propose to consolidate the separate gas commodity procurement and management functions of SoCalGas and SDG&E into one gas portfolio to be managed by SoCalGas. Applicants further propose that the combined procurement function be subject to SoCalGas' GCIM, as modified below.

Applicants also propose, concurrent with the combination, that the currently authorized levels of storage inventory capacity, injection and withdrawal rights, respectively to serve the combined core customer loads be reduced. Applicants proposal to combine the core portfolios and to reduce storage levels of the combined portfolio are closely related. We shall first address the request to combine the core storage portfolios, and then address separately in the next section the merits of reducing the level of capacity reserved for the combined core.

4.2.2. Parties' Positions

Applicants propose to consolidate the core storage of SoCalGas and SDG&E. Applicants argue that the gas portfolio consolidation will reduce costs of regulation, increase supply diversity for both utilities, and reduce overall procurement costs. Applicants estimate an annual savings of approximately $2 million stemming from a reduction in employees needed in the core procurement function upon consolidation of the two procurement groups. Applicants expect a reduction of 15 full time employees as a result of combining the portfolios. Upon approval of the portfolio consolidation, SoCalGas and SDG&E propose to reduce their requested Test Year 2008 revenue requirement, (estimated to be approximately $2 million on an annualized basis) in order for the estimated cost savings to be passed on to core customers when rates are implemented upon approval of SoCalGas and SDG&E's 2008 General Rate Case (GRC).[24] While the combination will not change the structure of GCIM, there may be certain changes in how GCIM is applied. For example, GCIM applied to the combined portfolio would likely include the AECO trading point in Canada.

Coral and SCGC oppose Applicants' proposed consolidation of the core portfolios, on the basis that it would increase the Sempra utilities' market power, as well as the potential for the exercise of that market power in southern California.[25] In D.02-08-065, the Commission declined to adopt such a consolidation, concluding that the benefits of consolidation as put forward at that time were primarily theoretical and did not offset potential downsides of consolidating two of the largest supply and capacity portfolios in the state. The proposal at that time also raised questions about the future needs of each utility's customers that the record in that proceeding did not allow us to address. We indicated that the investigation into the California border price spike during 2000-2001 that we had contemplated in D.02-06-023 could help to clarify these issues for possible further consideration.

Through its role as the core portfolio supplier, SoCalGas controls a large share of the assets (storage, intrastate pipeline capacity, and in the future firm receipt point access) that are necessary for the management and delivery of gas supplies to southern California core customers. Combining the core procurement departments would result in

---

[24] Ex. 35 (Goldstein Prepared Direct) Testimony, p. 7.

a single department that would procure approximately 1.135 Bcf/d, and would serve a combined core demand of 3.1 Bcf on a peak day.

Coral opposes consolidation of the two core portfolios, and argues that mitigation of SoCalGas' market power will be possible only if core procurement responsibility is partitioned and assigned to multiple wholesale suppliers. Coral proposes that consolidation of the core portfolios should not be approved unless the core gas purchase function is partitioned, and core procurement responsibility is allocated among five creditworthy wholesale suppliers under Coral's proposed "Core Portfolio Diversity Program," as described below. Coral argues that its proposal should be adopted to mitigate the potential for harm to the broader southern California market as a result of SoCalGas' market power.

DRA supports Applicants' proposal to combine the portfolios only on the condition that the currently-effective levels of storage capacity, injections and withdrawals equal to the sum of existing levels for each separate utility portfolio remain in effect.

4.2.3. Discussion

We conclude that the request to combine the portfolios is reasonable, and approve the consolidation on the condition that the existing levels of combined core storage remain in effect, as discussed in the following section. Applicants are authorized to implement the combination subject to that restriction. We are not persuaded by Coral's argument that combining the portfolios would be detrimental to customers due to the resulting increased market power that SoCalGas would possess.

---

[25] Ex. 59 (Dyer, Coral) at 5; *see* also Tr. 6/861-62 (Picket, Edison).

SoCalGas and SDG&E operate in an integrated gas procurement market that covers most of the western U.S. and Canada, within which producers and marketers compete in supplying southern California and other regions in this geographic area.[26] The combined SoCalGas/SDG&E portfolio constitutes less than 5% of this market.[27] Thus, even if the combined procurement group were to increase flowing supply purchases by as much as 500 million cubic feet per day (MMcf/d) over a weekly period, the increased purchases would constitute less than 2% of the average daily production in the market area. A change in the supply/demand balance of 1% to 2% is below the thresholds generally considered necessary for the exercise of market power.[28] Based on these considerations, we conclude that the consolidation of the gas portfolios will not enable SoCalGas/SDG&E to exert increased market power to any material extent. Moreover, we conclude that the consolidation would promote more efficient operations by reducing duplicative labor costs, as identified in the testimony of witness Goldstein. We approve the proposed consolidation of core portfolios as reasonable, subject to the restrictions on core storage levels, as discussed below. Likewise, we direct Applicants to reduce their requested 2008 revenue requirement by the resulting cost savings in their GRC (A.06-12-009 et al.) as a condition of approval of the portfolio consolidation. In their comments to the Proposed Decision, Applicants noted that supplemental testimony had been

---

[26] Ex. 4 (Van Lierop) at 12.

[27] *Id.* at 12.

[28] *Id.* at 12.

submitted in the GRC, calculating a total fully loaded revenue requirement decrease of $1.98 million for the two utilities, representing a 12-month calendar period. Since the consolidation will occur after January 1, 2008, Applicants state that these figures will need to be revised to reflect the fact that the decrease will only apply for a portion of 2008. We defer to the GRC the specific quantification of the applicable revenue requirement reductions to reflect the consolidation of core procurement functions. We separately address the merits of Coral's proposal for a "Core Portfolio Diversity Program" in Sec. 4.4 below.

4.3. Required Levels of Combined Core Storage Capacity

4.3.1. Parties' Positions

Inventory storage measures the physical capacity volume of gas that can be placed in storage, while injection and withdrawal capacity measure the rate at which gas can be moved into or out of storage inventory on a daily basis. SoCalGas currently holds 70 Bcf of inventory capacity to serve core needs, plus an additional 4 Bcf which was created to reduce costs to low-income customers (CARE). The 70 Bcf is a Commission-established reservation which is charged to core customers on a cost basis to provide reliability and arbitrage services. SDG&E holds 9 Bcf of capacity for its core customers which was secured through the Open Season process. The total core inventory of the combined utilities is therefore 83 Bcf. Applicants argue that the Commission-authorized levels of storage capacity, injections and withdrawals for the combined core portfolio can be reduced while still meeting utility obligations to provide reliable core service.

Applicants proposed reductions for the combined core portfolio are as follows:

Core Storage Inventory Capacity

Currently Authorized			Proposed	
SoCalGas	SDG&E	Combined	Combined	Reduction
70 Bcf	9 Bcf	83 Bcf	70 Bcf	13 Bcf
4 Bcf for CARE				

Core Storage Injection Per Day (MMcf/d)

Currently Authorized			Proposed	
SoCalGas	SDG&E	Combined	Combined	Reduction
327 MMcf/d	42 MMcf/d	369 MMcf/d	327 MMcf/d	42 MMcf/

Core Storage Withdrawal Per (MMcf/d)

Currently Authorized			Proposed	
SoCalGas	SDG&E	Combined	Combined	Reduction
1,935 MMcf/d	297 MMcf/d	2,232 MMcf/d	2,225 MMcf/d	7 MMcf/d

Applicants thus propose storage reservations for the combined portfolio limited to only 70 Bcf, (the level currently used to serve the SoCalGas core alone) and a corresponding daily injection capacity reservation limited to 327 MMcfd. If the core wishes to procure storage capacity in excess of its storage reservation amounts, Applicants propose that the core be subject to the same constraints as the noncore, with the option of obtaining additional capacity through Schedule G-TBS or any secondary storage market. Under Applicants' proposal, unused core storage, injection, and withdrawal capacity would be made available on an interruptible basis.

Applicants characterize the proposed reduction in inventory and injection reservations as an "important element" of the Edison Settlement. Edison supports the proposed reduction in core inventory, recognizing that the freed-up storage can be made available to noncore customers. Edison believes that the increased availability of unbundled storage would lower noncore customers' gas storage costs. Edison incurs gas storage costs for electric generation, and passes on such costs to its electric retail customers. Thus, Edison argues that Applicants' proposal to reduce core storage will thus benefit Edison's electric retail customers.

Applicants likewise argue that the basis for evaluating the inventory reduction proposal should *not* be "simply to consider whether the core storage reservations [they] have proposed are the most cost-effective numbers under all circumstances."[29] Instead, Applicants point to the benefits of ending the "long-standing feud over the 2000-2001 energy crisis" through adoption of this proposal. Nonetheless, Applicants contend that their proposed reductions in storage, injections, and withdrawals for the combined portfolio will satisfactorily meet the needs of core customers.

DRA supports a combined core storage capacity of 83 Bcf (equal to 74 Bcf currently held for SoCalGas core plus 9 Bcf held for SDG&E core customers). DRA argues that Applicants have not justified cutting the storage inventory capacity by 15% below the current combined SoCalGas/SDG&E inventory totals. DRA argues that the 83 Bcf level is

---

[29] Applicants' Reply Brief at 13-14.

necessary for adequate storage inventory for the combined portfolio, consistent with prior Commission orders and based upon the June 2005 Testimony of Herbert Emmrich of SoCalGas in the Long Term Gas Rulemaking proceeding, Rulemaking (R.) 04-01-025).[30] Emmrich concluded that 70 Bcf was the appropriate capacity level to serve SoCalGas customers alone. Edison witness Alexander disputes Emmrich's findings, however, arguing that the Emmrich study was "unnecessarily conservative" in its assumptions concerning the available sources of gas supply.

DRA likewise opposes Applicants' reduction of 42 MMcf/d in firm injection rights for the combined portfolio, and contends that the combined injection rights should be 369 MMcf/d, equal to the sum of the injection rights currently for each separate utility. DRA agrees with Applicant's proposed level of withdrawal capacity since it is not reduced, but reflects the sum of the separate capacities for each utility.

SCE characterizes DRA's opposition to the reduction in inventory levels as one-sided, and as benefiting the core at the expense of noncore customers. By limiting core storage capacity to 70 Bcf, the additional storage capacity of approximately 13 Bcf could be accessible to the noncore through the unbundled storage program.

4.3.2. Discussion

We decline to approve Applicants' proposed reduction in the levels of core storage inventory and injection capacity for a combined portfolio. Applicants have not shown that the proposed reduction in the

---

[30] Ex. 71 (Sabino, DRA).

level of combined core storage capacity would be in the best interests of core customers. Although Applicants claim the reduction in storage would not harm core customers, their witness had done no analysis of the inventory level which, in his view, *would* affect reliability.[31]

We conclude that the proposal for core consolidation should be approved only on the condition that the combined level of core storage for SoCalGas and SDG&E be retained at the level of 79 Bcf. This combined core storage level is equal to the sum of the SoCalGas core storage of 70 Bcf and SDG&E core storage of 9 Bcf, as reflected in the study presented by Emmrich, as presented in R.04-01-025. We conclude that this level of core storage is necessary and sufficient to meet the needs of core customers of both SoCalGas and SDG&E, at least for the limited period until the reexamination of core storage levels in the next BCAP. In adopting the 79 Bcf figure, we exclude the additional 4 Bcf of cushion gas that DRA proposed to include to arrive at a total of 83 Bcf of core storage for the combined portfolio.[32]

The incremental 4 Bcf of capacity was created by the cushion gas project authorized in D.05-11-027. In D.06-12-010, we increased SoCalGas' existing 70 Bcf of core storage capacity by the 4 Bcf. By allocating the 4 Bcf of incremental storage capacity to core customers, we provided SoCalGas additional tools to protect CARE and core customers

---

[31] Tr. at 787-88 (SoCalGas/Goldstein).

[32] As noted by DRA, its recommendation for core storage in this proceeding applies only through the year 2008. From 2009 and beyond, the appropriate level of core storage inventory will be subject to determination in the next BCAP.

against high natural gas prices. This allocation of incremental storage capacity was only interim. We indicated in D.06-12-010 that the allocation may change based on reexamination of core and non-core storage needs in the next Biennial Cost Allocation Proceeding (BCAP) or another appropriate proceeding.

For purposes of establishing a combined core portfolio for the limited period of time between the effective date of this decision and reexamination in the next BCAP, we consider storage to be adequate at the 79 Bcf level since this is the level supported in the Emmrich study. Accordingly, we will not include the additional 4 Bcf as a requirement for the combined core portfolio, at least for the limited period until reexamination in the upcoming BCAP. We shall also require that core storage injection and withdrawal capacity for the combined portfolio be set at 369 MMcf/d and 2,225 MMcf/d, respectively.

We acknowledge the concerns raised by Edison that reducing core storage would increase the availability of such storage to noncore customers, thereby reducing noncore costs. The potential advantages accruing to noncore customers from making available the additional 13 Bcf of storage, however, would come at the expense of eviscerating protections for core customers. Such a trade-off is not in the public interest. In addition, noncore customers have the option about whether to obtain firm storage capacity or not. There is no assurance that a reduction in storage capacity for core customers would directly benefit noncore customers. The benefits may mainly or entirely flow to gas marketers.

The current levels of core storage associated with the combined portfolio are consistent with the study that was conducted by

Dr. Emrich which concluded that 69 Bcf was the appropriate storage level for SoCalGas customers alone through 2010, and then 70 Bcf through 2015. Edison's witness, Dr. Alexander, claims that the Emrich study was "unnecessarily conservative" by excluding certain additional possible sources of gas available to the core. Emrich assumed that only two sources of gas were available to core customers, namely (1) core storage withdrawals and (2) gas transported using the core's firm interstate transportation rights.

Alexander testified that on an individual peak day, the extent of daily storage withdrawal capacity is the relevant factor that determines reliability of deliveries to the core, rather than the total amount of gas in storage. Yet, in terms of daily storage withdrawal capacity, Applicants do not propose any reductions. Therefore, on specific days when interruptible flowing supplies were not available, Alexander argues that Applicants' proposed storage withdrawal capacity would meet the combined core demand.

We are not persuaded that core customers are adequately protected over the course of time, however, merely by maintaining the existing daily withdrawal capacity for the combined portfolio. Reliability is a function of not only injection and withdrawal capacity, but also total storage. Core customers would face additional risk from loss of total inventory storage that would instead be made available to the noncore when needed to meet demand or to provide price arbitrage protection.

Witness Alexander testified, however, that the core can and does obtain gas supplies in a number of other ways, as well, such as by using interruptible transportation. Alexander claims that the Emrich study is deficient in not considering such additional sources. The additional sources of gas suggested by Alexander, however, do not provide the same price stability or delivery reliability as does the firm sources identified in the Emrich study. Therefore, additional sources, as identified by Alexander do not ensure adequate protection to meet core needs without increased delivery uncertainty or price volatility. Moreover, even though Applicants advocate reducing core inventory going forward, their witness did not contend SoCalGas existing storage levels have been excessive over the past decade as required to serve core customers.[33]

Alexander also testified that, in his opinion, the core storage needed solely for reliability purposes (excluding arbitrage) is only about 40 Bcf, based on the "Comprehensive Settlement Agreement" in which various parties agreed to a figure of 35 Bcf to meet core reliability and balancing needs for SoCalGas.[34] Alexander adds an additional 4.5 Bcf for SDG&E (assumed to be about half of the 9 Bcf reserved for SDG&E), to arrive at a total 40 Bcf to meet reliability and balancing for the combined portfolio.

Yet, we previously rejected the provision in the Comprehensive Settlement Agreement that would have lowered the SoCalGas storage level below 70 Bcf, stating:

> "We are not willing to risk the price fluctuations that could accompany a fixed reduction in the core storage reservation. Additionally, we do not wish to take the chance that core reliability might

33 Tr. at 787-88 (SoCalGas/Goldstein).

34 *See* D.01-12-018, Sec. III. D(2), *mimeo.* at 58.

> be jeopardized at all. Thus, we direct SoCalGas . . . to retain the current core capacity reservations of inventory, injection, and withdrawal rights."[35]

The concerns expressed in D.01-02-018 still apply today. Accordingly, the "Comprehensive Settlement Agreement" does not provide a basis for a finding that a 40 Bcf level is sufficient to meet the reliability needs of the combined core (with the remaining 30 Bcf available for arbitrage).

Applicants seek to establish total core storage reservations at existing levels for the SoCalGas core (using the same cost basis), and permit SoCalGas/SDG&E to acquire additional storage capacity for the combined portfolio through competitive means. Alexander claims that SDG&E already currently acquires core storage capacity in this manner through the G-TBS program, and that the Applicants' proposal keeps the level and cost of reserved storage for the core as it is today, while allowing the core to compete for additional storage capacity.

It is true that SDG&E has acquired its core storage under the G-TBS program, at a cost significantly more than SoCalGas core customers pay for storage capacity due to the volume of bids for capacity during the last open season. Nonetheless, the Commission, in Resolution G-3387, dated April 13, 2006, found that "SDG&E should be able to obtain firm SoCalGas storage service at the same rate as SoCalGas provides to its core customers." (Finding of Fact 8.) SoCalGas was to record storage charges paid by SDG&E in a memorandum account to the extent that the charges exceeded the rates paid by SoCalGas own core customers. (Finding of Fact

---

35 D.01-02-018 at 61.

9.) Disposition of the charges in the memorandum account were to be determined in the next BCAP proceeding.

Therefore, even though SDG&E has acquired core storage through the G-TBS program, SDG&E core customers are entitled to the same protections as SoCalGas core customers. Yet, Applicants' proposal to reduce storage levels would not provide sufficient storage capacity to preserve existing price and reliability protections for both utilities' core customers. Applicants seek to reduce 13 Bcf of core storage and related injection capacity to make such storage available to the noncore. This reduction would require additional flowing supplies during winter of approximately 86 MMcf/d.[36] We are not persuaded that SoCalGas can serve a 13% increase in load with 5% less storage inventory without compromising core reliability or price stability, particularly since the load shapes are very similar for SoCalGas and SDG&E core demand.

Existing levels of core storage provide not only reliability of deliveries to the core during peak periods, but also protection to the core against increases in gas prices during high demand. If the storage capacity were reduced, core customers would face the risk of higher prices for gas during the winter season (or incurring additional costs for winter hedges). Such a change would impair existing protections to the core that storage provides, and relegate core customers to accepting whatever terms competitive forces might permit.

---

[36] Ex. 39 (Third Data Request from DRA).

Even to the extent that the reduced level of core inventory were deemed sufficient to meet core demand, when supplemented with the additional sources identified by witness Alexander, the core would still face additional volatility for the price of such additional supplies. The reduction in storage supplies would limit supplies available to core customers for price arbitrage. In fact, we established firm interstate pipeline capacity levels for the major gas utilities in D.04-09-022 based on average annual core requirements under the assumption that core customers would have adequate amounts of firm storage capacity to meet their requirements on a firm basis, and were specifically based on "the use of current core storage levels" (p. 29 of D.04-09-022). We do not view a plan that substantially relies on nonfirm capacity or supplies to meet core requirements as being adequate.

Given these detrimental effects on core customers, we decline to approve Applicants' request to reduce core storage levels. As discussed above, we conclude that the consolidation of the core portfolios is reasonable, but only on the condition that the combined core storage capacity of 79 Bcf is preserved.

4.4. Coral's Portfolio Diversity Program Proposal

4.4.1. Parties' Positions

Although this focus of this decision is on the merits of Applicants' proposals, certain parties have sponsored their own proposals which they claim are appropriate as a means of mitigating alleged harm that would result from adoption of Applicants' proposals. In this regard, we next consider such a proposal sponsored by Coral.

Based on its belief that combination of the core portfolios would increase SoCalGas' market power, Coral proposes mitigation measures to offset the negative effects of such market power in the form of a "Core Portfolio Diversity Program." Because Coral's proposal is in response to Applicants' proposed core consolidation proposal, we consider its merits here.

Under the proposed "Core Portfolio Diversity Program," the Sempra utilities' combined core procurement demand would be segmented into five equally-sized gas supply portfolios.[37] Although the utilities' core procurement department would retain responsibility for retail sales of core portfolio gas supplies to core customers, responsibility for purchasing of gas supplies for the core portfolio would be allocated among five creditworthy "wholesale core procurement agents" (WCPAs) through a competitive bidding process. Prospective WCPAs would bid against a "price reference point," weighted equally between a "first of the month" and a daily midpoint price in the supply basins connected to the SoCalGas system. Suppliers with the lowest bids would be awarded one of five blocks of core procurement demand.

Each successful bidder would execute a contract with the SoCalGas core procurement department setting forth the WCPA rights and obligations, based on a form to be approved by the Commission. Physical assets and contractual assets held by the core procurement department

37 Ex. 59 (Dyer) at 7.

would be allocated equally among the WCPAs.[38] The core procurement department would remain responsible for decisions regarding firm interstate capacity, storage, and firm receipt point rights for all core customers. Each WCPA would be allocated a proportionate share of whatever assets had been obtained by the core procurement department, and would be responsible for meeting its proportionate share of the monthly storage targets established by the Commission for core procurement. The Core Procurement Department would flow through its purchased gas costs to customers on a dollar-for-dollar basis.

Coral argues that its proposal would mitigate market power concerns by ensuring that no single entity holds sufficient upstream firm interstate capacity rights, intrastate capacity, firm receipt point access rights, or firm storage rights sufficient to exercise market power in southern California[39] Coral further argues that by encouraging competition among wholesale suppliers, its proposal will reduce gas prices while providing reliability and price stability.[40]

Coral also proposes adoption of a purchase incentive mechanism that is intended to apply whether the gas purchase function is allocated among WCPAs (as contemplated under its proposal) or remains with the utility. Coral argues that the current incentive mechanisms discourage the attainment of low gas prices and low price volatility, and fail to align core customer interests with utility shareholders' interests.

---

[38] Ex. 59 (Dyer) at 10-11.

[39] *Id.,* at 7.

[40] *Id.,* at 7-8.

Coral believes that revised procurement incentives are needed to reflect fundamental changes in the gas market that have developed since current incentive mechanisms were initially adopted. The gas market was characterized by substantial over-supply, gas-on-gas competition, low prices and low price volatility when current procurement mechanisms were adopted. The gas market is now characterized by high gas prices, a very tight supply/demand balance, and high gas price volatility.[41]

Under Coral's proposed incentive mechanism, each WCPA would be paid a "benchmark" price (*i.e.*, the price offered by the WCPA in the initial auction). All gas cost savings or excess costs resulting from index-priced purchases would be assigned to the WCPA. Any cost savings associated with a "hedged" transaction would be allocated to the WCPA. Yet, if a "hedged" transaction results in a gas price that is higher than the benchmark, the excess cost would not be deducted from any cost savings that is allocated to the WCPA.[42]

As an incentive to encourage competition among the WCPAs, Coral proposes that the WCPA that achieves the greatest annual cost savings (relative to the benchmark) be allocated 50% of the cost savings up to a $15 million cap. The WCPA with the second-highest savings would be allocated 35% of the cost savings up to a $7.5 million cap. All other WCPAs would be eligible for an allocation up to 20% of the annual cost savings, subject to a $5 million cap per supplier.[43] Coral argues that its

41 Tr. 8/1290-91 (Sabino); Ex. 59 (Dyer) at 16; Tr. 7/1026, 29 (Dyer).

42 Ex. 59 at 14; Tr. 7/1026, 1045 (Dyer).

43 Tr. 7/1011 (Dyer).

proposed incentive mechanism would encourage each WCPA to develop a portfolio of supplies that includes hedged products and index-priced products, and that is characterized by high reliability, low prices, and low price volatility.

Applicants, as well as DRA and TURN, oppose Coral's "Core Portfolio Diversity" proposal, arguing that it would not be in the best interests of core customers. TURN argues that Coral's proposal is actually more detrimental to core ratepayers than the existing mechanism, and will not increase supply diversity.

4.4.2. Discussion

We conclude that Coral's "Core Portfolio Diversity" proposal would not be in the best interests of customers and accordingly reject it. The proposal is intended to provide a new market mechanism to mitigate what Coral claims is excessive market power on the part of SoCalGas. As discussed above, however, we have concluded that the core portfolio consolidation will not have a meaningful effect on SoCalGas' ability to exercise market power. Therefore, there is no need to adopt an alternative marketing mechanism, such as Coral proposes, to mitigate market power. Even assuming that market power were of concern with the portfolio consolidation, we are not convinced that Coral's proposal would reduce the concentration of market power. Although Coral claims that its proposal would promote diversity in procurement options by replacing SoCalGas with five wholesale purchasing agents, the proposal could actually reduce diversity. Whereas SoCalGas currently purchases gas from a wide variety of supply basins and suppliers, Coral's proposal would limit core customer portfolio to purchases from only the five suppliers selected as WCPAs.

Coral's proposal would also result in more of the cost savings relative to established benchmarks accruing to the five WCPAs rather than to core customers. Under Coral's proposal, the WCPA would retain 100% of any cost savings resulting from gas procured at less than the benchmark price. By comparison, under the current GCIM, ratepayers receive 100% of cost savings for costs up to 1% below the benchmark with at least 75% of the savings if costs are more than 1% below the benchmark but less than 5% below the benchmark. Ratepayers receive 90% of the savings associated with actual costs that are more than 5% below the benchmark. Ratepayers are responsible for 50% of any costs associated with prices that are more than 2% above the benchmark. Accordingly, we decline to adopt Coral's proposal for a "Core Portfolio Diversity" mechanism.

4.5. Coral's Proposed Changes to the GCIM

4.5.1. Parties' Positions

Coral proposes that if the Sempra utilities are allowed to continue purchasing gas for all core procurement customers, changes should be adopted in the GCIM in order to mitigate the potential for the exercise of market power by the core procurement department.[44] Coral proposes that the benchmarks for each supply basin, and the California border, should reflect an equal weighting of first of month (FOM)

[44] *See* Coral Opening Brief at 29-33.

(bidweek) prices and daily midpoint prices.[45] Applicants oppose the equal weighting of bidweek and daily midpoint prices in the GCIM benchmarks, arguing that such a practice would encourage the inclusion of more daily (and less monthly) purchases in the portfolio. Applicants believe that such a weighting would result in less reliable supply and increased volatility in procurement rates.

Applicants, as well as DRA, oppose Coral's proposal to incorporate incentives that favor more fixed price transactions. Coral argues that including fixed price and options products in the portfolio will reduce gas price volatility and provide for core customer savings. SoCalGas currently buys a significant portion of its total gas supply under long-term contracts with index-based pricing provisions. These contracts, as for all other gas supply transactions, are benchmarked against monthly bid-week indices. Because these are index-based contracts, Applicants argue that there is no reason to treat them separately under the GCIM. Since GCIM benchmarks all transactions against monthly indices, and because monthly indices can be highly volatile over time, long-term contracts with fixed-price provisions cause large earnings risk under GCIM and the presence of a large volume of such contracts in the gas portfolio would require separate treatment.

---

[45] *See* Ex. 59 (Dyer) at 9; Tr. 7/1048-49 (Dyer). Coral also proposed certain GCIM revisions in its post-hearing brief (*e.g.,* that the GCIM be modified to reflect "exogenous" benchmarks and to reduce the tolerance bands for gas purchase costs above and below the benchmark). Since these proposals were presented outside of the evidentiary record, we will not address them further.

4.5.2. Discussion

We decline to adopt Coral's alternative proposed changes to the GCIM. We agree with Applicants that basing the GCIM benchmarks on an average of monthly and daily indices would encourage the utilities to include more daily purchases in its portfolio which would tend to increase volatility and reduce supply reliability. Such a revision would not be in customers' best interests. We also agree with Applicants that there is no basis to modify the GCIM to encourage more fixed price products in the portfolio.

4.6. Separation of SDG&E Utility Electric Generation (UEG) Procurement

4.6.1. Parties' Positions

Applicants propose that SDG&E's procurement of natural gas for UEG be subject to separate Commission review and approval processes. Since 2005 when SDG&E reinitiated procuring gas for its own electric generation, SDG&E has separated the functions of gas procurement traders and schedulers associated with supplying the core portfolio versus supplying gas for UEG. In recognition of the separation of these functions, Applicants propose that the Commission review and approval process for core procurement be performed separately from the review and approval of the procurement for UEG purposes.

4.6.2. Discussion

No party opposed this proposal, and we find it to be reasonable because it reflects the internal separation SDG&E has already imposed on these functions. Accordingly, the proposal is hereby adopted that SDG&E's procurement of natural gas for UEG will be subject to separate Commission review and approval processes from procurement to supply the needs of the core portfolio.

4.7. Process for Preapproval of Gas Plans

4.7.1. Parties Positions

Applicants propose adoption of a process whereby the SoCalGas and SDG&E would submit, by advice letter annually, a natural gas procurement plan to the Commission for review and pre-approval.[46] The plan would set forth specific criteria and standards with which SoCalGas and SDG&E would comply for all natural gas procurement for core customers for that year. The plan would specifically address: (1) commodity gas purchases; (2) monthly storage injection targets; (3) interstate capacity plans; and (4) winter hedging. A PRG, composed of representatives of non-market participants, would have access to all materials relevant to review of the plan, including confidential data, subject to nondisclosure agreements. Market participants would only have access to redacted versions of materials. Any interested party, including market participants, would have the opportunity to submit independent comments to the Commission.

Applicants propose that SoCalGas and SDG&E consult at least quarterly with the PRGs regarding activities conducted pursuant to their current Gas Plans, as well as development of future plans.

The Gas Plans set forth in the Advice Letters would become effective on April 1 of each year, subject to any Commission-ordered

---

[46] *See* Section C.8 of Applicants' proposed revisions to the GCIM tariff.

changes. Transactions that conformed to the approved Gas Plan would be deemed reasonable per se. Transactions identified as not being compliant with the Gas Plan would be promptly reviewed subject to the "reasonable manager" standard. The Commission would conduct any necessary proceedings and issue a decision regarding the utilities' compliance with the Gas Plan no later than nine months following their submission.

Coral opposes Applicants' process for approval of annual Gas Plans. Coral agues that a PRG, comprised of non-market participants, lacks the expertise to provide meaningful input. Coral proposes instead that the GCIM be modified to incorporate incentives to encourage the purchase of long-term fixed price (or hedged) products, as well as index-priced products, as discussed above. Within the parameters of a modified incentive mechanism, a core supplier would have sufficient latitude to effectively plan and procure gas for core customers.

SCGC opposes Applicants' proposal to the extent that SoCalGas would be allowed to utilize an expedited advice letter, rather than through an application process, for approval of System Operator contractual commitments that require fixed payments regardless of usage. SCGC argues that in order to assure adequate time for review of such requests, such arrangements should be submitted under a formal application procedure. If the Commission were to grant the request for advice letter processing, however, SCGC asks that the review not be truncated, but provide for the normal review period as authorized under General Order (GO) 96-A. As proposed by Applicants, the advice letter processing schedule would allow 10 days for protests and comments, with a three-day reply period, to provide for Commission approval within 21 days. The proposed schedule is more truncated than would normally apply under the GO 96-A timeline under which advice letters are subject to protest within 20 days, followed by the issuance of draft resolution.

DRA opposes adoption of Applicants' proposed process for preapproval of an Annual Gas Plan, arguing that the process would be unduly duplicative of existing practices. Pursuant to D.04-09-022,[47] DRA, TURN, and Energy Division already meet regularly to discuss matters pertaining to SoCalGas procurement. DRA argues that the Annual Procurement Plan would serve no useful purpose and the proposal should be rejected.

4.7.2. Discussion

We decline to adopt Applicants' proposal to augment the Commission's existing processes for review and approval of SoCalGas/SDG&E gas procurement costs. Applicants propose to submit annually, a natural gas procurement plan to the Commission for pre-approval. Applicants fail to show how this proposal would benefit customers or improve the overall regulatory process. While Applicants claim that the proposal would give "interested stakeholders a greater voice" in how the utility approaches procurement, neither DRA nor TURN, who regularly represent consumer interests, express support for this proposal.

We conclude that the additional administrative processes that Applicants propose in this proceeding for review and pre-approval of gas

[47] D.04-09-022 was issued in R.04-01-025 regarding policies and procedures to ensure reliable long-term gas supplies for California.

plans provide no significant improvements over existing procedures. SoCalGas already regularly meets with the Energy Division, DRA, and TURN to discuss gas procurement issues pursuant to D.04-09-022. The proposed PRG would largely duplicate informal review and existing practices. Moreover, the truncated advice letter processing period proposed by Applicants would fail to provide an adequate opportunity for review by parties and the Commission.

The GCIM already incorporates incentives for management to make prudent decisions for the overall benefit of both shareholders and customers. As described in D.06-10-029, at 2.

> The GCIM is a Commission-authorized ratemaking mechanism that is used to review SoCalGas' natural gas purchases on behalf of its core customers in lieu of reasonableness reviews of SoCalGas' procurement activities. The GCIM establishes a benchmark against which to measure the price that SoCalGas pays for gas, providing an incentive for SoCalGas to purchase gas at or below the benchmark. The GCIM also establishes a benchmark and a tolerance band. Savings between the benchmark and the tolerance band are returned to ratepayers. Savings below the tolerance band are shared between ratepayers and SoCalGas' shareholders according to the sharing formula adopted in D.02-06-023.

Given the adequacy of existing administrative procedures in place and the incentives provided through the GCIM, as attested to by DRA, we decline to adopt the additional review and pre-approval procedures proposed by Applicants'.

4.8. Hub Transfer and Disposition of Hub Revenues

4.8.1. Parties' Positions

Applicants propose that SoCalGas' California Energy Hub operations be transferred from Gas Acquisition to the System Operator. This proposal is based upon a provision of the Edison Settlement to separate utility hub services from the function of acquiring gas for core customers and any related secondary market transactions. The "Operations Hub" would provide park and loan hub services using any unused storage capacity or uncontracted-for gas, provided under Rate Schedule G-PAL (*see* Attachment H of Schweke Testimony). With the approval of the new G-PAL rate schedule, SoCalGas would terminate existing Rate Schedules G-WHL, G-PARK, and G-LOAN, as well as Rule 37. Hub services would be offered on a low priority, interruptible basis, and would not limit customers from accessing their firm capacity rights. Applicants also propose that net revenues from Hub Services be allocated on a 50/50 sharing basis between all customers and shareholders, with customers' share being recorded in the G-PAL Balancing Account.[48] Applicants propose no cap on the maximum hub revenues that may be retained by shareholders.

Applicants further propose that the ratepayers' share of hub revenues distributed to all customers on an equal cent per therm (ECPT) basis annually. Applicants propose that the shareholders' 50% revenue allocation be excluded in determining the shareable earnings under

[48] Ex. 63 (Applicants/Austria) at 5.

SoCalGas' PBR mechanism. Shareholders will get all of the 50% of hub revenues allocated to them without any dilution that would occur if the 50% were treated as PBR shareable earnings. Currently, hub revenues are passed through the SoCalGas GCIM. Gas Acquisition would thereby be free to engage in the full range of secondary market transactions as long as it remains within the storage and transmission rights held by core customers.

Applicants argue that without the potential for an additional shareholder reward, SoCalGas would have no incentive to treat hub services as anything other than a traditional single-tariff utility service. Hub services use uncontracted or unutilized assets. By providing an incentive to maximize hub revenues, Applicants argue, end-use customers will benefit through reduced rates.[49]

Opposing parties claim that Applicants' proposed 50% allocation of hub revenues to shareholders is excessive. Coral proposes instead that 100% of hub revenues be allocated to ratepayers, and that the core procurement function be limited to providing Hub services through assets allocated to the core procurement department.

SCGC proposes that hub revenues be allocated 90% to customers and 10% to shareholders, subject to a $5 million annual shareholder cap. SCGC questions why transferring responsibility for the provision of hub services from the Procurement Department to the System Operator should result in 50% of the associated revenues going to

[49] Ex. 31 (Schwecke) at 4.

shareholders. SCGC argues that the opportunity to share in 10% of hub revenues would provide more than enough incentive for SoCalGas to be diligent in providing hub services. SCGC observes that Applicants' proposed 50/50 sharing awards significantly more to shareholders than is available under the GCIM.

DRA opposes adoption of any specific sharing allocation of hub revenues in this proceeding, and proposes that a memorandum account be implemented that track hub revenues, which would be subject to an appropriate allocation determined based upon further review in the next BCAP.

4.8.2. Discussion

We approve Applicants' request that SoCalGas' California Energy Hub operations be transferred from Gas Acquisition to the System Operator. This transfer is consistent with the proposed role of the System Operator. While approving the proposed transfer of hub operations to the System Operator, we do not foreclose the opportunity for the core still to retain the flexibility to offer its own hub services. Particularly because the core will have use of a combined core storage portfolio of 83 Bcf, this level of storage capacity should be sufficient to enable the core to offer its own hub services.

We reject, however, Applicants' proposal to allocate net revenues from Hub Services on a 50/50 sharing basis between all customers and shareholders with no cap on shareholder earnings. While we recognize that some sharing of hub revenues between customers and shareholders may be appropriate to provide an incentive for maximizing hub revenues, we are not persuaded that an allocation as high as 50%

required is the appropriate incentive. A reduced allocation percentage may provide an adequate incentive, but further analysis is needed to determine an appropriate sharing allocation and cap. SCGC likewise has not provided an adequate analysis to support its 10% allocation proposal.

We conclude that a further record should be developed in the next BCAP to provide a more focused analysis regarding the appropriate revenue allocation for hub revenues on a longer term basis. Accordingly, we defer the determination of an appropriate sharing allocation or revenue cap applicable to hub service revenues to the BCAP. We order that a memorandum account be implemented to track all hub revenues from the effective date of this decision until further disposition is made in the next BCAP decision. Based upon our determinations in the BCAP as to the appropriate shareholder percentage allocation and cap for hub revenues, the revenues recorded in the hub revenue memorandum account shall allocated between shareholders and ratepayers.

With this approach, the Commission will preserve the option to apply any adopted findings in the upcoming BCAP to the hub revenues booked into the memorandum account from the effective date of this decision going forward. Thus, any potential for ratepayer inequities resulting from an adoption of an excessive shareholder allocation or revenue cap will be avoided. Likewise, the opportunity will be preserved to determine the appropriate shareholder allocation and cap to provide an adequate incentive to maximize the use of hub services consistent with the realities of current market conditions.

4.9. Assignment of Risk for Winter Hedges

4.9.1. Parties' Positions

SoCalGas currently has authority to use certain financial instruments to hedge gas purchases for the 2006-2007 winter and to exclude the costs and benefits of these winter hedges from the GCIM.[50] SoCalGas does not have such authority for subsequent winters.[51] Winter hedges are defined as all financial transactions used to hedge natural gas prices for any portion of the November through March period. Applicants propose that the Commission authorize in this proceeding, that all financial transactions used prospectively by SoCalGas to hedge natural gas prices for any portion of any portion of the period from November through March annually be excluded from the calculation of revenues allocated under the GCIM. Applicants argue that higher gas costs and increased price volatility have increased the costs of hedging to the point that continued inclusion of winter hedges in the GCIM would create a strong disincentive to hedging winter costs at an appropriate level.[52] Given these circumstances, Applicants argue that moving winter hedges outside of the GCIM makes sense. As a result, Applicants propose that

---

[50] D.06-08-027.

[51] SDG&E currently has authority to use certain financial instruments to hedge gas purchases for the 2007-2008 winter and to exclude the costs and benefits of these winter hedge from its Gas Procurement Performance-Based Ratemaking (PBR) mechanism. SDG&E does not have such authority for subsequent winters. (*See* D.07-07-011.)

[52] Ex. 2 (Van Lierop) at 6 (citing D.05-10-043, *mimeo.* at 11).

customers be allocated 100% of gains and losses from such hedge transactions as a permanent feature of the GCIM.[53]

Coral and DRA oppose any hedging outside of the GCIM. Coral argues that such an approach would remove accountability for utilities for the consequences of their hedging actions. Applicants respond that the Commission will review and pre-approve proposed winter hedging plans. If SoCalGas/SDG&E do not hedge in accordance with Commission-approved plans, they will be required to answer for their actions.

DRA argues that removal of winter hedges from the GCIM would inappropriately shift the risk/reward balance between utility shareholders and customers. DRA proposes that if winter hedging is move outside of the GCIM, then the GCIM sharing ratios should be changed from 25% shareholders/75% ratepayers to 20% shareholders/80% ratepayers.

4.9.2. Discussion

We shall grant Applicants' request for authority to jointly engage in winter hedging outside of the GCIM, but only for an initial three-year period, subject to reevaluation after the third year, which is the 2009-2010 winter hedge period. In this manner, we address Applicants' concerns that given current market conditions, continued inclusion of winter hedges in the GCIM would create a strong disincentive to hedging winter costs at an appropriate level. As we noted in D.05-01-043, *mimeo.* at

---

[53] This exclusion is described in section C.6.j of the proposed GCIM tariff.

10-11, in which we approved a one-time modification of the GCIM to permit hedging outside of the incentive mechanism:

> Since SoCalGas and SDG&E plan to expand their hedging of the risk associated with gas prices this winter, we should not put SoCalGas and SDG&E in a position in which their purchasing of additional hedging instruments to protect core customers could result in total gas costs exceeding their tolerance bands, which could result in large financial penalties for their shareholders. Since the cost of the expanded hedging is small as compared to the total cost of gas that SoCalGas and SDG&E will spend this winter, it is in the best interest of ratepayers to take proactive steps to mitigate natural gas prices.
> . . .
> As noted above, if the hedging costs exceed the tolerance band and these costs are not removed from the incentive mechanisms, the shareholders of SoCalGas and SDG&E could be faced with large financial penalties as a result of the incentive mechanisms. By excluding the hedging costs that SoCalGas and SDG&E have already entered into, and the expanded hedging costs, from the incentive mechanisms, this will allow SoCalGas and SDG&E to actively pursue hedging activities to protect their customers without them having to bear the risks associated with the hedging activities At the same time, by limiting our authorization to an initial three-year period, we address DRA's concern that the duration of the authorization for hedging outside of the GCIM not be open-ended. We shall also preserve the requisite accountability on the part of utility management for winter hedging by requiring that such hedge plans be filed for approval annually through an application rather than as a

compliance advice letter. In this manner, an adequate opportunity to review the proposed hedge transactions will be provided.[54]

We are not persuaded, however, that there is a basis to change the authorized 75%/25% sharing percentages under the GCIM to 80%/20%, as proposed by DRA, as a result of allowing winter hedging outside of the GCIM for a three-year period. We previously declined to adopt DRA's proposal to entirely suspend the shareholder incentive mechanism for the 2005-2006 season as a result of assigning the costs of winter hedges to ratepayers, as authorized in D.05-10-043. We concluded that the adopted provisions for hedging, while maintaining the GCIM, "will provide core customers of SoCalGas and SDG&E with the proper amount of protection for potential winter run-up's while maintaining just and reasonable rates."[55] The following year, DRA proposed a different approach for the 2006-2007 winter season, arguing for inclusion of 25% of winter hedges within the incentive mechanisms and 75% outside of the mechanisms. We also declined to adopt this proposal in D.06-08-027, stating:

> "The record here provides little analysis of the potential impacts of increasing the tolerance bands under different scenarios and in light of our past decisions rejecting the increase in

---

[54] The authorization for hedging outside the GCIM, as adopted herein, is subject to revision pending the disposition of the Commission's generic rulemaking to address the treatment of gas utilities' hedging under incentive mechanisms, as ordered in D.07-06-013, Ordering Paragraph 3.

[55] D.05-10-043 at 14 (citation to D.05-10-015 omitted).

> tolerance bands in the utility incentive mechanisms, we see no reason to do so now."[56]

In similar fashion to such prior proceedings where we have declined to suspend or modify the GCIM in conjunction with authorizing winter hedging costs to be funded by ratepayers, the record here does not provide adequate analysis or support for reducing the GCIM sharing percentage from 25% to 20%. The utility's incentive to manage gas costs efficiently will not necessarily be lessened merely as a result of authorizing hedging outside of the GCIM. Likewise, reducing the shareholders' allocation under the GCIM will not necessarily provide any greater incentive to manage gas costs efficiently. As noted by Applicants, the proposal to hedge outside of the GCIM is intended merely to remove a disincentive to hedge that the utility would otherwise have, thereby resulting in a more appropriate level of hedging. Ratepayers are thereby less exposed to natural gas price spikes. Therefore, we will not change the GCIM percentage sharing formula as a result of the limited winter hedging authorizations granted herein. We also note that pursuant to D.07-06-013, the Commission will be examining the treatment of gas utility hedging under incentive mechanisms in a generic rulemaking. Nothing in our adopted treatment here is intended to prejudge the results of that generic rulemaking.

---

[56] D.06-08-027, *mimeo*. at 14.

5. Balancing and Minimum Flow Obligations

Applicants' core balancing and minimum flow proposals are intended to be implemented simultaneously to work together (1) to treat core customers more like noncore customers, (2) to address concerns that noncore customers may currently view the core as having a "privileged" position with respect to system balancing, and (3) to address the fact that the core currently shoulders all system minimum flow responsibilities. Applicants argue that these interrelated proposals result in a more equitable allocation of costs and responsibilities among utility customers.

5.1. Core Imbalance Requirements

5.1.1. Parties' Positions

SoCalGas typically has monthly balancing tolerances for noncore customers, except during the winter balancing period and on daily overnomination events. SDG&E, as a wholesale customer of SoCalGas, is balanced on the SoCalGas system in the aggregate. Applicants propose that all SoCalGas/SDG&E gas customers, including the core, be subject to imbalance requirements and operating flow orders, with the core having the same balancing tolerance (currently 10%) as do noncore customers. This change is intended to take effect concurrently with the combination of the SoCalGas/SDG&E core portfolios.

As a result, the core will receive balancing service equal to 10% of core burn which will provide an additional 300 MMcf/day of peak

capacity.[57] Since core throughput measurements are not available on a daily basis,
Applicants propose that the core be required to balance to a forecasted daily load received by 6:00 a.m. of the flow day rather than its current practice of balancing to a day prior forecast.[58] This provision will likely increase costs to the core, but
the actual magnitude of this increase would be dependent upon forecast assumptions in daily weather changes and gas prices. If the core exceeds the balancing tolerance as a result of its obligation to maintain system reliability, imbalance charges would not apply.

The proposed balancing rules have the potential to increase core gas costs because the core may incur imbalance charges, and also because the Utility Gas Procurement Department may operate more conservatively to avoid the risk of incurring imbalance charges. The transfer of the minimum flow requirement to the system operator will have the impact of reducing core gas costs. The system operator will incur costs to maintain minimum flows at Blythe which will be born in part by the core and in part by the noncore. SoCalGas believes that this combined proposal is a reasonable compromise, but was not able to quantify the net rate impact of these proposals.

DRA does not object to the proposal per se, but argues, however, that the core should not be subject to imbalance costs because the core will continue to be obligated to maintain system reliability. Under

---

[57] Tr. 5/699 (Goldstein) Ex. 39.

DRA's proposal, moreover, the core would utilize its own "status quo" storage assets of 83 Bcf for balancing. Applicants dispute DRA's premise, however, that minimum flows will still be the sole responsibility of core customers.

Coral supports the proposal to apply noncore balancing rules to the core, but argues that the core procurement department should not gain a further competitive advantage by controlling additional storage assets. Coral also proposes that the balancing function for both core and noncore customers be performed by the same entity.

Indicated Producers claim that SoCalGas' proposal for applying noncore balancing rules to the core fails to consider the effects on assets that are allocated to the balancing function. Because Applicants propose no revision of the allocation of costs of system balancing assets, Indicated Producers argue that the core balancing proposal has not been justified, and should be denied or deferred to the next BCAP proceeding. Indicated Producers claim that proposed balancing treatment could affect noncore customer flexibility adversely. According to Indicated Producers, core balancing will provide the largest single user of the SoCalGas system the most flexibility in balancing, but Applicants have not shown that currently allocated levels of storage, injection and withdrawal rights are sufficient to serve both the core and noncore classes' balancing needs.

SCGC likewise argues that SoCalGas has neither proposed to revise the storage capacity that is currently allocated to the balancing

[58] Described in Ex. 2 (SoCalGas/Van Lierop).

function, nor has it proposed to reallocate the costs of system balancing assets so that the core would be required to bear an appropriate share of the costs. SCGC thus believes that the record is inadequate to determine how much the storage capacity currently assigned to the balancing function should be increased to accommodate the application of "noncore" imbalance rules to the core as well as the noncore. Likewise, Applicants do not include a mechanism for the core to pay for its use of the balancing assets. SCGC and Indicated Producers thus propose that this issue should be deferred to the next BCAP where a further record can be developed.

Applicants deny that their core balancing proposal will decrease noncore flexibility, arguing there would be no change to the current balancing rules as applied to noncore customers. Applicants deny that their core balancing proposal will lead to more OFOs. SoCalGas calls OFOs when deliveries into the system exceed system demand plus the injection capacity. Nothing in the proposal changes either the system demand for injection or system injection capacity.

5.1.2. Discussion

We conclude that Applicants' proposal for core balancing is reasonable and hereby adopt it.[59] As noted by Applicants in response to DRA, minimum flows will no longer be the responsibility of core

---

[59] Applicants also propose certain revisions in the accounting procedures and tariff rules for SoCalGas and SDG&E to implement the balancing proposals along with implementation of the combined core portfolio. These proposed revisions as referenced in Ex. 29 (Direct Testimony of Schwecke) at 9-13, are hereby adopted.

customers, but will be managed by the System Operator and paid for by all customers.

We have considered opposing parties' objections, but do not find them persuasive as a basis to deny Applicants' core balancing proposal. Opposing parties argue that SoCalGas has not proposed to revise the storage capacity allocated to the balancing function, nor to reallocate the costs of system balancing assets to assign a portion of these costs to the core. We agree with
Applicants, however, that there is no need to reallocate balancing assets at this time. The core can cure imbalances by transferring gas from its imbalance account into storage inventory until it reaches capacity.[60] Thus, the only time that core could potentially use system balancing assets is when its storage inventory becomes close to full each October. Given total system inventory capacity of about 131 Bcf, an imbalance at an expected level of about 2 Bcf could be managed.[61] Under Applicants' proposal, core will only be the supplier of last resort to the extent that other tools utilized by the System Operator fail to ensure system reliability.[62]

Coral opposes Applicants' proposal to have the core procurement department provide balancing service to noncore customers while the System Operator provides such services to core customers.[63] Yet, as Applicants point out, it would be inefficient to require SoCalGas to

---

[60] Tr. At 63 (SoCalGas/Van Lierop).

[61] Tr. At 64 (SoCalGas/Van Lierop).

[62] Ex. 29 (Schwecke) at 4.

[63] Tr. 7/1113-14 (Austria).

duplicate within the System Operator function, the modeling and forecasting expertise that exists within its existing Demand Forecasting Group (within its Regulatory Affairs department).

Although Indicated Producers object to Applicants' core balancing proposal because core will balance to forecasted rather than actual usage, it is not physically possible to obtain real-time usage information from each core customer. As a result, core must balance to a forecast.

Accordingly, we find none of the objections provide a basis to deny Applicants' core balancing proposal.

5.2. Management of Minimum Flow Obligations

5.2.1. Description of Applicants' Proposal

5.2.1.1. Transfer of Authority to the System Operator

Minimum flow obligations have been used by interstate pipelines to ensure reliability of system operations and are similar to operational flow orders currently in place on the SDG&E/SoCalGas and PG&E systems.

Applicants propose that responsibility for managing any minimum flow requirements for system reliability be transferred from the Gas Acquisition Department to the System Operator and paid for by all customers.[64]

---

[64] SoCalGas' Gas Acquisition Department is responsible for maintaining minimum flows at Blythe. Some of the costs associated with this function are accounted for in the Blythe Operations Flow Requirement Memorandum Account (BOFRMA) which tracks the costs associated with the SoCalGas Gas Procurement Department delivering gas in excess of 355 MMcfd when called

Footnote continued on next page

Applicants propose to add a new tariff definition for "System Operator,"[65] broadly defined to constitute the SoCalGas departments responsible for the operation of its transmission system, including storage, hub services, pooling services receipt point access, offsystem deliveries, and system reliability.[66] The System Operator functions explicitly exclude the Gas Procurement Department which will not be involved in any of the system-related operational activities.[67]

Applicants propose that the following three basic System Operator tools be approved in this proceeding to help fulfill the System Operator's new role in providing flowing supplies to maintain system reliability:

- The ability of the System Operator to buy and sell gas on a spot basis to maintain system reliability.
- Authority to conduct requests for offers (RFO) for open season process consistent with the System Operator needs.
- An expedited Advice Letter approval process for contracts that result from a RFO or open season process.

Each of these proposed tools is described below.

---

upon by the System Operator. Applicants propose that disposition of the BOFRMA be addressed on SoCalGas' next BCAP. We agree that disposition in the next BCAP is appropriate.

[65] Ex 29 Schwecke at 6.

[66] Morrow Tr. 3/364.

[67] Ex. 31 Schwecke at 1-2.

5.2.1.2. Spot Gas Purchase Authority

Applicants seek spot gas purchase and sale authority as the first step to provide the System Operator with the capability to meet flowing gas requirements in a timely manner. The System Operator would be responsible for buying and selling gas to meet minimum flow requirements, and to deliver flowing supplies into specific receipt locations, as needed, to maintain system reliability. If a certain flowing supply volume at a particular receipt point is needed to maintain system reliability, the System Operator would acquire the supplies itself and not rely on the Gas Procurement Department.

The System Operator will first use spot gas purchases to meet operational flowing gas requirements or other operational supply needs until other Commission approved reliable and economical tools are available. Additionally, spot purchases will be used as the benchmark when evaluating any RFO results or other offers to provide flowing supplies.

Applicants argue that gaining regulatory approval now for purchases of spot supplies to meet the minimum flowing supply requirements would be more cost effective than for a large up-front facility enhancement as a solution to a problem that may diminish over time. There may be other, less-expensive options for the System Operator to deal with for its Blythe minimum responsibility or other flowing supply requirements and these would be evaluated through the RFO process. Applicants argue that at a minimum, the spot gas purchase and sale capability should be approved as a reasonable approach.

When the System Operator determines a need for additional flowing supplies at a particular receipt point, the System Operator may purchase the necessary amount of gas on the spot market. The purchased gas will be tracked in an account managed by the System Operator Hub and sold immediately or at some point in the future to recover as much of the purchase price as possible. The net differences between the purchase costs and sales revenues will be recorded in the SRMA for allocation to all ratepayers.

5.2.1.3. Issuance of "Requests for Offers" (RFO)

Applicants propose that, to the extent that spot gas purchases may not fully be sufficient to maintain system reliability, the System Operator issue a RFO in the time between a Commission order in this proceeding and the actual transfer of system reliability responsibility to the System Operator. The RFO will be sent to current gas suppliers to California, including the SDG&E/SoCalGas Procurement Department, pipelines serving California, and any other interested parties.

The RFO will query the marketplace for offers to provide services or "tools" that will assist the System Operator in meeting its additional obligation to obtain the flowing supplies to maintain system reliability. The respondent would offer to deliver a certain amount of gas for a set duration at a particular receipt point, or to stand ready to provide flowing gas at a particular receipt point when called upon by the System Operator. During the RFO process, SDG&E/SoCalGas would be under no obligation to accept any offers until after the Commission approves the agreements as described.

The RFO will allow any respondent to present other services that could meet the needs defined in the RFO by the System Operator, such as use of interstate pipeline capacity. Within the RFO, the System Operator will define the quantity and duration of gas needed at a specific receipt point(s) but allow respondents to submit offers for all or only a portion of the quantity and other terms. The System Operator can thus select from a variety of suppliers, if necessary, to meet the flowing gas supply needs.

After the responses are received from the marketplace, the System Operator will evaluate all information provided and select the best approach to meet its needs. The evaluation will consider costs of the options and potential performance of the offers in determining what makes the most sense. During the evaluation, discussions may have to take place with the submitting parties to ensure the use of multiple suppliers will best meet the System Operator's goal of maintaining system reliability. SDG&E/SoCalGas ask for the authority to negotiate with individual suppliers to achieve the desired results and ensure system reliability. SDG&E/SoCalGas will evaluate the option of imposing some form of minimum flow obligation on customers in comparison to use of spot purchases or other tools developed as a result of the RFO process. After evaluation, SDG&E/SoCalGas proposes to consult with the Energy Division.[68]

[68] Direct Testimony of Rodger R. Schwecke, p. 5.

5.2.1.4. Expedited Advice Letter Approval of RFO Contracts

Prior to executing final contracts for any other tool as a result of the RFO that requires payment regardless of usage, SDG&E/SoCalGas propose to file for approval of the contract(s) through the expedited Advice Letter process. The Advice Letter would describe the specific tool being contracted for, the cost of the contract(s), impact on customers and the benefit of the contract(s) as compared to other alternatives.

SDG&E/SoCalGas propose that only those contracts with required payments be subject to the Advice Letter approval process. Contracts that do not require payment unless called upon are similar in nature to spot purchases of gas. Such contracts provide cost-free alternatives to the use of spot gas purchases. Prior arrangements to purchase gas without other financial commitments would fall within the authority to purchase and sell gas. The cost to provide that service would only be paid to the extent the System Operator calls on the supplies and on a volumetric basis for gas delivered. Such prior contracts would allow the System Operator to call certain suppliers that have already committed to deliver the gas rather than having to go into the open market once the need is determined.

5.2.1.5. Additional System Operator Tools

Applicants intend to use the specific tools described above, along with the expedited approval process for additional tools, to lower the System Operator's costs of providing the required minimum flowing supplies. Applicants propose that additional tools be approved as they may be presented by SDG&E/SoCalGas. The System Operator will gain experience with its requirements and the frequency of need of each tool to better plan for future minimum flow requirements. Applicants argue that the specific tools that best meet the needs of the System Operator may change over time and that an expedited approval process sets the mechanism for the Commission to evaluate and approve System Operator's actions on a going forward basis. Immediately upon transfer of the obligation of procuring flowing supplies to meet the system's reliability requirements, the System Operator must have the authority to procure and sell gas supplies.

Each of the methods presented for the System Operator to maintain reliable gas service will be compared with the cost to install physical facilities to alleviate the need for minimum flowing supplies. In an analysis of RFO results and potential contracts to be executed, SDG&E/SoCalGas would show whether installing new facilities is more or less economical. If the new facilities prove to be more economical for retail customers, such new facilities may be an appropriate solution to a need for minimum flowing supplies and SDG&E/SoCalGas will proceed in the appropriate manner to construct the needed facilities including obtaining any required Commission approvals. However, because the timing of such construction may require 24 – 36 months, Applicants argue that the tools being evaluated may need to be put in place until the facility enhancements can be completed.

Additionally, the System Operator would seek through separate application or a petition for modification of D.06-12-031 to impose some form of minimum delivery requirement for customers. A form of minimum flow obligation could be attached to holders of the recently approved firm receipt point access rights. If that type of minimum flow obligation was deemed to be a necessary and appropriate tool of the System Operator to manage its system reliability, Applicants would file a petition for modification of D.06-12-031 or a new application, explaining the rationale for such minimum flow obligation and how it would be implemented. If a new obligation were to be attached to firm access rights, Applicants do not propose to impose this new obligation during the three-year contract term for firm access rights. Instead, any such new obligation would be implemented in the next open season, at which time customers could elect whether or not to hold southern transmission system firm rights with full knowledge of the attached obligation. Customers who have obtained firm rights for contract terms that extend beyond the three year open season awards would be given the opportunity to terminate their firm rights contracts if a minimum flow obligation is attached to the firm rights.

Currently, there are no ongoing minimum flowing gas requirements at any receipt point on the SoCalGas/SDG&E transmission system other than Blythe. Supplies delivered at Blythe support any customer demand on the Southern Transmission System east of Moreno Station and any customer demand not met by Chino and Prado Stations during peak periods. Supply delivered in the future to the Otay Mesa receipt point may assist in fulfilling the minimum flowing gas supply requirement at Blythe.

Currently, no other locations on the SoCalGas/SDG&E transmission system depend upon supply delivered at a specific receipt point. This is due to the high level of interconnectivity and redundancy on the SoCalGas/SDG&E transmission system. Accordingly, Applicants do not anticipate a need for ongoing minimum flowing gas supply requirements at any receipt points other than Blythe, except for Otay Mesa. However, as new supply receipt points are created, SoCalGas/SDG&E may need to establish minimum flowing gas supply requirements at other receipt points in order to maintain system integrity and reliability, depending upon the level of system improvements and pipeline installed to receive those new supplies.

5.2.2. Other Parties' Positions

Coral supports Applicants' proposal to separate and transfer the system reliability function from the Gas Procurement Department to the System Operator, but argues that certain restrictions should be placed on the System Operator's activities to avoid an adverse impact on competition. Coral argues that the System Operator's activities must be transparent to the market and subject to the same rules and charges as other market participants when it engages in the purchase or sale of gas. Coral proposes that the System Operator be physically separate from the Core Procurement Department, and be prohibited from sharing information with or granting preferential treatment to the Core Procurement Department, Sempra affiliates, or any other market participant. Coral proposes that the System Operator be required to obtain Commission approval for all tools that may be used for system reliability. Indicated Producers expresses similar views. Applicants oppose Coral's proposal that the System Operator be precluded from operating as a "profit center" for the utility. Applicants characterize this proposal as tantamount to suggesting that the utility should operate like "a government-owned company in a socialistic country."

DRA does not oppose the concept of the System Operator, but express concerns with the proposed procedure for oversight of the tools that the System Operator will use, and the potential for the tools to compromise the competitive position of other market participants. DRA does not believe that the proposed expedited advice letter process would provide a sufficient opportunity to review and comment on proposed tools. DRA proposes that the Commission conduct a comprehensive review of the System Operator functions in the upcoming BCAP.

Indicated Producers oppose Applicants' proposal regarding System Operator authority as being overly broad, arguing that the need for and benefits of a System Operator have not been demonstrated. Indicated Producers contends that the System Operator will have cost and informational advantages that will be unavailable to other market participants.[69] Indicated Producers states that the System Operator will not have to purchase FARs, thereby gaining a cost advantage relative to other marketers. On-system users must pay 5 cents/dth for FARs. SCGC argues that any advice letters proposing additional system reliability tools beyond buying and selling gas should be subject to the normal GO 96-A process, and that proposals for longer term arrangements that involve payment of reservation or demand charges should be submitted by application with full disclosure of pertinent details. Coral argues that the

[69] IP Opening Brief at 13-16.

broader role and responsibilities of the System Operator need to be determined before the Commission acts upon the request to move the minimum flow responsibility from core to noncore customers, and that the System Operator will have inherent advantages in the marketplace due to its unique access to operating conditions and shipper information.

5.2.3. Discussion

We approve Applicants' proposals for core imbalance requirements and minimum flow obligations. We conclude that these two proposals result in an equitable allocation of costs and responsibilities among utility customers. We approve with modification, Applicants' proposal for the three specific System Operator tools that have been identified. These tools will enable the System Operator to be more effective in seeking to lower the costs of providing required minimum flowing supplies. We decline, however, to grant Applicants' request for expedited advice letter processing of any requests for approval of additional system reliability tools. We are concerned that such a shortened review period would be inadequate to give due attention to the merits of each proposed new tool. We agree with DRA that further consideration of the proposed process for approval of additional System Operator tools be addressed in the upcoming BCAP. We defer such further consideration to the BCAP. Between the effective date of this decision and further disposition in the next BCAP, if SoCalGas seeks to develop and use on an interim basis additional system reliability tools, it must first file a regular advice letter for Commission approval.

In order to minimize claimed potential adverse impacts, Indicated Producers proposed that the System Operator be:

a) precluded from access to customer-specific information to avoid unfair advantage in the hub services market;

b) required to purchase Firm Access Rights;

c) prohibited from making sales to the noncore retail market;

d) required to post on the electronic bulletin board (EBB) the provision of all hub services on a daily basis, as well as all wholesale sales of gas to marketers;

e) required to seek approval of all tools used, regardless of whether they require payment of a demand or reservation charge; and

f) required to submit to a reasonableness review of System Reliability Memorandum Account (SRMA) costs before passing the costs through to customers.

Indicated Producers also proposes that an OFO Review Committee be instituted to monitor impacts, and if necessary, develop measures to reduce the number of OFOs on the system.

Indicated Producers did not submit any testimony in the proceeding, but offered its proposals through the filing of post-hearing briefs. Perhaps because of the timing of Indicated Producers' proposals and the means by which they submitted them, the Applicants and other parties did not provide enough in the way of a response to develop a record on which the Commission could make a decision. Accordingly, we dismiss Indicated Producers proposals but do so without prejudice. The Commission will revisit these proposals in the upcoming BCAP proceeding where it will have a better opportunity to develop an adequate record.

We are not persuaded that these additional restrictions on the System Operator are needed at this time. In D.98-03-073 (Attachment B), we previously adopted "Remedial Measures" governing activities such as communications, physical separation, information postings between gas operations and procurement. Since Gas Acquisition will not longer be performing system reliability and balancing services, under Remedial Measure 16, unrestricted communications between Gas Operations and Gas Acquisition are no longer permitted. The Commission's complaint process also provides parties a vehicle to seek relief if they feel disadvantaged due to activities of the utility.

We shall adopt Applicants' proposal that the net cost of acquiring the needed supplies by the System Operator associated with maintaining minimum flow obligations be tracked in a memorandum account (SRMA). Applicants propose that all customers share in any costs associated with minimum flow requirements for system reliability. Allocation of these costs will be determined in the forthcoming BCAP.

Indicated Producers is concerned about the potential for the System Operator to use its authority to purchase and sell gas in a manner that could adversely impact core customers and competition.[70] In order to address this concern, we shall require that the costs recorded in the SRMA shall be subject to a review before being passed through to customers.

[70] IP Opening Brief at 17-19.

6. Additional Postings on the Electronic Bulletin Board (EBB)

6.1. Parties' Position

SoCalGas/SDG&E's EBB is the primary system that manages gas flow on the pipeline system at a customer level, facilitating gas system operations, planning, and regulatory compliance. Applicants propose that postings of information on the SoCalGas/SDG&E EBB be augmented to disclose the following on a weekly basis: net hub position, net volumes loaned and parked, withdrawal schedules for all hub volumes parked, repayment schedules for all hub volumes loaned, and physical core storage inventory positions. Applicants argue that these additional posting provisions will benefit customers and other market participants by increasing the transparency of hub operations and disclosing weekly information about the core's storage inventory positions that would otherwise be kept confidential.

Coral and Indicated producers argue that the additional EBB postings, as proposed by Applicants, do not go far enough, and that all core procurement department information should be posted on the EBB on a daily basis. Coral and Indicated Producers propose that information regarding core storage, core hub, and core operations be posted on the EBB on a daily basis. They argue that the daily posting of this information is needed to assess whether the core procurement department was improperly using core assets to limit noncore deliveries or to influence prices. Coral claims that because of the potential for the market power possessed by SoCalGas and its potential for abuse, it is appropriate to subject it to higher levels of scrutiny than other market participants.

Applicants argue that the additional postings of core customer transactions proposed by Coral would place core customers at a significant disadvantage relative to all other market participants, including Coral. Applicants argue the provisions for postings resulting from the Continental Forge and Edison settlements are the result of extensive litigation and negotiation and far in excess of any requirements imposed on other gas utilities. Moreover, Applicants already provide the core's transaction activity in detail to DRA on a monthly basis, and SoCalGas' core procurement group has bi-weekly conference calls with DRA, TURN, and the Commission's Energy Division. These practices will continue after the portfolios are combined.

Applicants argue that because SoCalGas' core procurement department is a competitor in the southern California gas market, it could be disadvantaged if its operational information was required to be posted on a daily basis. Competitors could thereby be able to analyze SoCalGas' activities over time to establish patterns of conduct in gas purchase and sales, even though other market participants are not required to disclose similar information.[71]

6.2. Discussion

We conclude that the additional EBB postings proposed by Applicants, as identified above, are appropriate as a basis to increase the increasing the transparency of hub operations. The SoCalGas/SDG&E EBB already discloses various operating data without sharing any

[71] *See* Goldstein Ex. 37 at 4; and Tr. 5/751-52.

proprietary information.[72] Remedial Measures 12, 14, and 16 require physical separation and the posting of communications on SoCalGas' EBB. The Remedial Measures also address how the Commission will enforce these measures and provides for audit authority after the fact. The Commission already has authority to impose penalties on the utility for violation of these measures. Thus, we agree that there is no need for additional requirements for penalties. We agree with Applicants that public disclosure of SoCalGas/SDG&E core operational information on a daily basis could result in harm to utility customers by impairing the utilities' bargaining position relative to all other market participants. Daily core postings could enable certain market participants to "front run" core procurement whenever core had a storage target that it needed to reach. We reject Coral's claims that the additional postings are required to counteract SoCalGas market power. We approve Applicants' proposal regarding additional EBB postings.

7. Unbundled Storage Proposals

7.1. Making Inventory Available to Unbundled Market

7.1.1. Parties' Position

Applicants propose that if the core portfolios are combined, then SoCalGas will make available to the unbundled storage market at least 51 Bcf of inventory capacity as long as the system balancing allocation remains at 5.3 Bcf and the core's combined storage reservation remains at 70 Bcf. Applicants argue that this provision will give more certainty to

72 SoCalGas' Rule 33.

unbundled storage customers as to the amount of inventory capacity available to purchase. This proposal is predicated on adoption of Applicants' proposal to reduce core inventory capacity reservation levels, as discussed above. DRA expresses opposition to this proposal insofar as DRA opposes a reduction in core inventory capacity.

7.1.2. Discussion

Since we decline to approve Applicants' proposed reduction in core storage inventory, the conditions underlying Applicants proposal here for making additional storage available to the noncore cannot be met. Therefore, this proposal is not adopted.

7.2. New Unbundled Storage Services Earnings Cap

7.2.1. Parties' Position

Applicants propose a cap of $20 million in annual shareholder earnings from unbundled storage services, with continuation of the currently authorized 50/50 sharing of noncore storage earnings below the cap. The current risk sharing allocation was adopted in the SoCalGas 1999 BCAP in A.98-10-012. The $20 million per year earnings cap is about equal to the peak annual amount reported in the Noncore Storage Balancing Account for 2005. Applicants propose that market-based pricing continue in effect based on any new asset and cost allocations that may be established in upcoming BCAPs. Applicants argue that these provisions represent a balanced outcome for customers and shareholders. Applicants further propose that any unbundled storage earnings above the $20 million cap be refunded to customers.

Coral opposes this proposal, arguing instead for the termination of the 50/50 sharing mechanism, and for the pricing of unbundled storage on a cost-of-service basis. SCGC proposes that both unbundled storage revenues and the unbundled storage revenue requirement be split 50/50 between ratepayers and shareholders. SCGC argues that the current 70/30 allocation of revenues requirement creates an asymmetry which provides for a grossly disproportionate benefit to SoCalGas shareholders. SCGC also argues that storage rates be capped at fully-scaled long-run marginal cost.

SCGC argues that $20 million cap on shareholder earnings is excessive, and that the cap should be limited to $5 million per year. In 2005, the unbundled storage program yielded $27.2 million in net revenues, with $7.2 million going to ratepayers and $20 million going to shareholders. Shareholders only put $10.3 million at risk each year. In 2006, ratepayers were responsible for $24.6 million (or 70% of the total revenue requirement). From its inception, ratepayers have received only 6% of the more than $95 million of cumulative net revenues from unbundled storage, while shareholders received 94%. SCGC argues that limiting the cap to $5 million per year would result in the shareholder earnings being capped at a level that was reasonably foreseeable when parties entered into the Joint Recommendation in the SoCalGas 1999 BCAP.

Applicants challenge the validity of SCGC's proposed 50/50 allocation, arguing that it is predicated on a notion that was specifically rejected in the last BCAP, namely, that the long run marginal cost (LRMC) scalar should be fully allocated to the at-risk unbundled storage program. To the contrary, Applicants assert that SoCalGas was *not* put at risk for the fully scaled marginal cost of storage in the 1999 BCAP proceeding.

Because the fully scaled LRMC incorporated non-storage costs such as distribution, transmission, and customer costs, the Commission declined to adopt it for purposes of allocating risk to shareholders for unbundled storage. Instead, the Commission utilized unscaled marginal costs, reflecting the $21 million figure for allocating risk, stating:

> "Since SoCalGas is accepting a significantly greater level of risk for the unbundled program it is reasonable for the level of risk to be set close to the unscaled marginal costs."[73]

Applicants agree that the $21 million cost figure for at-risk unbundled storage, which has been in effect since the 1999 BCAP proceeding, should be updated in the upcoming BCAP proceeding to reflect the significant changes in embedded cost of unbundled storage that have occurred since then.

Applicants argue that intervenors' proposals to apply cost-based rates for unbundled storage would be detrimental to most ratepayers that do not require use of unbundled storage services as well as to other G-TBS storage customers who are satisfied with the program.

As noted by DRA, the current 50/50 risk sharing mechanism was instituted at a time when there was concern over the potential for stranded storage capacity. The 50/50 sharing was perceived as an incentive that was needed for SoCalGas to market that storage. Due to the subsequent increase in demand for SoCalGas storage services, however, the resulting prices and revenues have risen to unforeseen levels. Since 2000, ratepayers have received only $6 million in storage revenues while shareholders received $89 million, more than 14 times more. To allow for adequate analysis of the appropriate allocation of revenue sharing, DRA proposes that all revenues and costs be booked into a new noncore storage memorandum account for disposition in the next BCAP proceeding where sharing allocations and earnings caps can be determined.

Applicants respond that the prospects of shareholder earnings capped at $5 million is not a sufficient incentive for SoCalGas to expand storage capacity. Applicants believe that a $5 million cap would, in effect, approximate zero earnings over the long term as a result of periodic adjustments in each BCAP which would adjust both the fully-scaled LRMC rates as well as the units of unbundled storage to which those rates applied.

Applicants argue that a $20 million cap is large enough to provide an incentive to market unbundled storage in an aggressive and innovative manner, while putting a limit on "windfall" revenues. Applicants believe that a $20 million cap is consistent with other forms of incentive mechanisms such as the GCIM and demand side management in which annual awards substantially exceeded $5 million.

7.2.2. Discussion

We agree with Applicants that rates for unbundled storage services should continue to be market-based rather than cost-based. As noted by Applicants, the use of cost-based rates would be detrimental to most ratepayers by denying them any share of the market-based value of unbundled storage that exceeds cost. Also, cost-based pricing would

---

[73] D.00-04-060, *mimeo.* at 146 (FOF 54).

undermine the flexibility to offer customer-tailored storage services because certain storage products could be above market while others could be below market. In such a situation, the utility would likely have to offer a single product with the same injection and withdrawal ratios so as not to strand any particular product. Moreover, cost based pricing would undermine the incentive for the construction of new third-party storage fields since competitors would not be likely to realize a profitable return on invested capital if forced to compete against the utility's low prices.

Therefore, in consideration of these factors, we reject cost-based pricing and approve the continued use of market-based rates for unbundled storage, as proposed by Applicants. The question remains, however, as to what is the appropriate ratepayer/shareholder allocation of revenues in excess of costs, and what maximum shareholder earnings cap provides the appropriate balance between incentives to utility management while keeping ratepayer costs at a reasonable level.

We decline to adopt Applicants' proposal for 50/50 sharing with a $20 million cap on shareholder earnings. We conclude that a cap as high as $20 million has not been justified as being necessary to provide utility incentives to market unbundled storage. Also, as noted by DRA, market conditions have changed significantly since the time when the 50/50 sharing allocation for unbundled storage revenues was adopted in 1999. The concern at that time was storage capacity exceeded demand such that a monetary incentive was deemed appropriate to induce the utility to aggressively market the storage capacity. Yet in the eight years since then, demand for storage capacity has increased dramatically. For example, in the storage auction conducted by SoCalGas under the G-TBS tariff, the bidding went for 10 rounds. Even at the price established in the tenth round, customers who wanted storage opted to accept prorationing rather than to continue into an 11th round.[74]

While SCGC has offered an alternative allocation and cap proposal, Applicant has identified certain problems with the SCGC proposal, as noted above. Therefore, in view of the problems noted by Applicants, we also decline to adopt the SCGC allocation and earnings cap proposal at this time.

DRA has argued that the appropriate allocation of unbundled storage revenues should be decided in the next BCAP. We agree that a more informed judgment can be made regarding the appropriate allocation through the more complete analysis through the upcoming BCAP proceeding.

Accordingly, we defer adoption of any explicit revenue cap or percentage allocation applicable unbundled storage revenue to the BCAP. On an interim basis between the effective date of this decision and a decision in the BCAP proceeding, we hereby direct that all noncore storage costs and revenues be recorded in a memorandum account. Based upon further analysis in the upcoming BCAP as to the appropriate shareholder percentage allocation and cap for unbundled storage revenues, the revenues recorded in the BCAP memorandum account shall be allocated between shareholders and ratepayers.

---

[74] Ex. 16, SDG&E Advice Letter 1559-G, pp.2-3; 2 Tr. 272:19- 273:6, SoCalGas/SDG&E Watson.

With this approach, the Commission will preserve the option to apply any adopted findings in the upcoming BCAP to revenues booked into the memorandum account from the effective date of this decision going forward. Thus, any potential for ratepayer inequities resulting from an excessive
shareholder allocation or revenue cap will be avoided. Likewise, the opportunity will be preserved to determine the appropriate shareholder allocation and cap to provide an adequate incentive to market unbundled storage and increase unbundled storage capacity consistent with the realities of the current market conditions. With this disposition, any potential for inequities resulting from an improper allocation of noncore storage revenues will be avoided, while additional time will be provided to develop a more complete record as a basis to determine the appropriate revenue sharing allocation formula and shareholder earnings cap to be applied on a longer-term basis in the upcoming BCAP.

7.3. Revised Storage Rate Caps

7.3.1. Parties' Position

Applicants propose that all unsubscribed storage capacity be made available for customer subscription under the new storage tariffs, with the provision for SoCalGas to impose limits on the amount of unbundled storage services that a customer may acquire. SoCalGas agrees to post all storage transactions on its EBB within one business day of execution, including counterparty name, quantity of storage services contracted on an unbundled basis, contract prices, and contract term. Applicants also propose a meet-and-confer process for market participants concerned about not being offered the same prices and terms as other posted transactions.[75]

Applicants propose that new rate caps be established for unbundled storage service at levels below the current maximum G-TBS tariff rate of $14.27/decatherm (dth), with SoCalGas' reservation charges for firm storage service not to exceed the following amounts: (1) $1.63/dth for inventory capacity; (2) $60/dth/day for injection capacity; and (3) $30/dth/day for withdrawal capacity. Applicants further propose that interruptible injection and withdrawal service be established that are prioritized on the basis of price and capped at $2/dth each.

Applicants' proposed G-TBS tariff rate caps are above SoCalGas' estimates of the 15-year levelized cost of expanding each storage product, and are above the market prices obtained in its 2006 Storage Open Season, as summarized below:

Storage Product	Proposed Cap	15-year Expansion Cost	2006 Open Season
Inventory	$1.63/dth	$0.60/dth	$1.35/dth
Injection Capacity	$60/dth/d	$39.90/dth/d	$39.90/dth/d
Withdrawal Capacity	$30/dth/d	$20/dth/d	$11.60/dth/d

Applicants argue that the proposed price caps can provide the proper signals for storage expansions and set a reasonable limit on the

---

[75] The proposed provisions are set forth in Applicants' proposed Schedule G-TBS (Appendix Y to Watson Testimony, Ex. 8).

price for available storage capacity during periods of high demand and high market value.

Coral argues that rate caps should be based upon SoCalGas' actual cost of service, based on embedded cost or scaled long-run marginal cost. Coral also argues that 100% of revenues in excess of cost should be returned to ratepayers.

SCGC argues that although Applicants' proposed rate caps are an improvement upon the existing ceiling rates in SoCalGas Schedule G-TBS, the proposed rate caps are still too high to provide meaningful relief. The proposed inventory rate is 441% of the current scaled inventory LRMC rates. The proposed injection ceiling rate is 174% of the current scaled LRMC rate, and the proposed withdrawal ceiling is 152% of the scaled LRMC rate. The proposed ceiling rates are also above the 2006 open season rates for inventory injection, and withdrawal capacity, and are also above what SoCalGas projects as its 15-year cost of storage expansion.

SCGC argues that unbundled storage services should be offered through an annual open season process, similar to the process established for firm access rights in D.06-12-031. Under the SCGC proposal, all unbundled capacity that is not committed through long-term contracts would be made available on an annual basis through a two-step process. In the first step, unbundled capacity would be awarded to on-system end-use customers that submit bids in the open season. On-system end-use customers would have the opportunity to bid for unbundled storage ahead of others, just as they are allowed to do in bidding for firm access rights.

SCGC proposed ceiling rates based on fully-scaled LRMC for unbundled storage capacity that is awarded in Step 1 of the open season to on-system end-use customers.[76] SCGC proposes a cap on the applicable unbundled storage capacity rate offered through Step 1 of the open season because SoCalGas has a monopoly on the provision of storage service for reliability purposes to on-system end-use customers within its service territory. SCGC's proposed cap would be substantially below Applicants' proposed rate as well as 2006 open season rates. The following table shows a comparison of the SCGC's proposed caps versus Applicants' proposal, along with 2006 Open Season prices:

Comparison of SCGC Proposed Price Caps with Market Prices and Costs

	SCGC Caps at Fully-Scaled LRMC	**Applicants' Caps**	**2006 Open Season**	**15-Year Expansion Cost**
Inventory	$0.38/Mcf[77]	$1.63/dth	$1.35/dth	$0.60/Mcf
Injection Capacity	$35.40/Mcf/d	$60/dth/day	$39/dth/day	$39.90/Mcf/d
Withdrawal Capacity	$20.33/Mcf/d	$30/dth/day	$11.60/dth/day	$20/Mcf/d

SCGC proposes that the cap on capacity awarded through Step 1 of its two-step process should be set at fully scaled long run marginal cost, and that the fully scaled LRMC ceiling rate be subject to upward adjustment in the SoCalGas BCAP, currently scheduled for the forth quarter of 2007. Given the amount of unbundled storage service quantities that are currently available, SCGC believes that SoCalGas could

---

[76] SCGC Opening Brief at 25-29; Ex. 25 at 16-17 (SCGC/Yap).

[77] Mcf is 1,000 cubic feet.

recover approximately $44 million in revenues by charging scaled LRMC-based rates for unbundled storage capacity.[78] Assuming a 50/50 sharing of costs and revenues, shareholders and ratepayers would each be allocated a net amount of approximately $4.5 million.

Under SCGC's proposed process, on-system end-use customers would be offered unbundled storage before marketers, brokers and off-system customers. Applicants claim that SCGC's two-step process would have no meaningful second step because almost all unbundled storage inventory and injection would be allocated at the fully-scaled LRMC rates to end-users in Step 1 of the open season. Applicants further argue that because marketers and brokers serve many of SoCalGas' smaller noncore customers, such customers would be unfairly denied access to unbundled storage under SCGC's open season process which excludes marketers and brokers from Step 1.

In order to prevent the Step 1 process from being used as a front for marketers, SCGC proposes a limitation that end-use customers may resell such capacity only to other on-system end-use customers. As an additional measure to guard against gaming, SCGC proposes that on-system end-use customers be permitted to sell the capacity only at the as-billed rate (*i.e.*, the rate that would be charged to the end-use customer by SoCalGas under the customers' storage contract with SoCalGas).

All capacity that is not committed through long-term contracts or awarded on an annual basis in Step 1 of the open season would then be

---

[78] Ex. 25 at 16 (SCGC/ Yap).

made available in Step 2 for bidding by all creditworthy market participants, including marketers, brokers, and off-system customers to the extent that off-system customers may have access to the SoCalGas system.

7.3.2. Discussion

We shall adopt Applicant's revised caps as an interim measure subject to further review and possible adjustment in the next BCAP. We decline to adopt the proposal of SCGC to set rate caps equal to the fully-scaled LRMC. As previously noted, we conclude that capping unbundled storage rates at the levels proposed by SCGC would be detrimental to ratepayers by denying them the benefits of the additional revenue flow-through resulting from rate levels that are more market-based. Market-based pricing of storage assets also promotes more economically efficient allocation of these assets.

Although SCGC argues that its cost-based caps are warranted because SoCalGas has a monopoly on the provision of storage services, the evidence indicates that there is a competitive market for storage from various sources including flowing supply, secondary markets, other storage fields and core storage. Applicants' witness Watson presented an analysis of market share concentration, taking into account such supply sources that are competing with unbundled storage. His analysis indicated a Herfendahl-Hirshman Index (HHI) of about 1,400. Under Federal Energy Regulatory Commission (FERC) guidelines, if the HHI is below 1800, FERC assumes that there is limited market concentration with less potential for any participant to exercise significant market power.[79] In addition, while monopoly prices would be expected to be below the capped maximum rate, the actual G-TBS rates charged for unbundled storage were actually below the fully-scaled LRMC until 2006.[80] Therefore, we are not persuaded to adopt SCGC's capped rates based on claims of monopoly pricing of unbundled storage.

We also decline to adopt SCGC's two-step open season process. As noted by Applicants, SCGC's proposal leaves too many potential opportunities for gaming. SCGC's proposed remedy would increase discrimination against marketers and brokers even from secondary sales. Several large end-users also have large marketing affiliates. Moreover, an end-user without a marketing affiliate can purchase excess storage capacity in the end-user open season and then allow a marketer to be its agent for the excess capacity. SCGC's second proposed remedy is unworkable because sellers will figure out ways to extract additional compensation indirectly (*e.g.*, including extra charges or other offsets in another transaction).

7.4. Provisions for Changes to Caps

7.4.1. Parties' Positions

Applicants propose that the new unbundled storage reservation rates and shareholder earnings caps be allowed to change proportionately with changes in the revenue requirement for the unbundled storage program from an overall increase in revenue

---

79 Ex. 9 (Watson Rebuttal) at 10-11.

80 *Id.* at 13.

requirement from sources such as a GRC, annual inflation adjustment, or storage facility investment. Applicants also propose that the shareholder earnings cap be allowed to change proportionately due to cost allocation changes to the unbundled storage revenue requirement.[81]

DRA recommends that the issue of cap adjustments be deferred until the next BCAP. Applicants disagree with such deferral, arguing that the proposed cap change provisions are crucial elements of the overall package of changes presented in this application.

Indicated Producers argue that the caps should not change without specific Commission approval. Applicants disagree, arguing that it would be extremely inefficient and serve no reasonable purpose to require such regulatory approval.

7.4.2. Discussion

We decline to approve Applicants' proposal to allow changes in the storage reservation rates and shareholder earnings caps resulting from system-wide increases in revenue requirements. Applicants have not provided a sufficient justification for this proposal. Merely because certain variables may result in changes in the utility revenue requirement over time, the implementation of such changes do not necessarily warrant a corresponding change in level of storage reservation rates or earnings caps without any opportunity for Commission review. A direct one-for-one relationship does not automatically apply between such changes and potential related effects on the appropriate level of storage reservation rates or earnings caps. Applicants' proposal would eliminate safeguards

---

[81] Ex. 8 (Watson) describes how these changes are intended to work.

that are currently in place for Commission review and approval of requests to change storage rates or earnings caps. Accordingly, this proposal is not in customers' best interests, and we shall not approve it.

7.5. Interruptible Transmission Revenues

7.5.1. Parties' Position

Applicants propose that the System Operator make available for release on an interruptible basis, all unutilized receipt point access capacity and storage capacity at up to 100% of firm capacity reservation charges. If SoCalGas' transmission revenue balancing account is undercollected, any interruptible receipt point access revenues will be credited on an annual basis to the balancing account until the undercollection is eliminated. If the balancing account is not undercollected, Applicants propose that 90% of the interruptible receipt point access revenues will be credited to the balancing account, with SoCalGas shareholders retaining the remaining 10%, subject to an annual cap of $5 million as a financial incentive.

Coral, DRA, the Indicated Producers, and SCGC all oppose the 90/10 sharing of interruptible access charge revenues between ratepayers and shareholders, arguing that 100% of the revenues should be credited to ratepayers. They argue that the proposal for a 10% shareholder allocation is inconsistent with D.06-12-031 in which a similar proposal was rejected. In D.06-12-031, the Commission found no need to provide SoCalGas with an allocation of interruptible access charge revenue as an incentive to sell unused receipt point capacity insofar as SoCalGas is already required by its tariff to make all unused capacity available. These parties cite D.06-12-031, where we stated:

> "Under the proposed G-RPA tariff, SoCalGas is obligated to "make available all unutilized firm receipt point access capacity on an interruptible basis…" (Ex. 15, Schedule No. G-RPA, Special Condition 67). There is no need to provide SoCalGas with an incentive to sell unused receipt point access capacity when it is required under the tariff to do so." (D.06-12-031 at 92.)

They also cite the following passage:

> "SoCalGas is also obligated under the proposed G-OSD tariff to "make available physical displacement capability at the receipt points on an interruptible basis … ." (Ex. 15, Schedule No. G-OSD, Special Condition 9.) If gas marketers have excess supplies that they want to sell in northern California, they will seek out the availability of this interruptible service. Accordingly, the proposals for a sharing incentive mechanism for interruptible off-system service revenues are not adopted." (D.06-12-031 at 114.)

7.5.2. Discussion

Although a similar proposal was rejected in D.06-12-031, Applicants' were permitted to seek approval of the proposal in this proceeding by Administrative Law Judge's (ALJ) ruling. As a basis for seeking approval in this proceeding, applicants argue that without a financial incentive, as provided under its proposal, SoCalGas and its employees would not apply "the same level of vigor and innovation" in the marketing, discounting, and promoting the use of interruptible access rights. Given SoCalGas' limited resources and the conflicting demands on its employees' time, Applicants argue that little marketing, discounting, or promoting of such capacity is likely without a financial incentive to do so. Applicants argue that, as a result, only a few interruptible access transactions would be executed in response to requests from a few sophisticated marketers and end-use customers. Consequently, Applicants contend, ratepayers would be receive greater benefit from 90% of the revenues resulting from active marketing of the interruptible access product as opposed to 100% of the revenues from only limited marketing.

Applicants are essentially repeating similar arguments in support of this proposal that were previously considered and rejected in D.06-12-031. As we concluded in that proceeding, if gas marketers have excess supplies that they want to sell in northern California, they will seek out the availability of this interruptible service on their own. Accordingly, consistent with our reasoning on this issue previously, we again reject Applicants proposal for a 90%/10% sharing of interruptible revenue.

7.6. Closure of Storage Tariffs other than G-TBS

7.6.1. Applicants' Position

Applicants propose that three existing SoCalGas storage tariffs, G-AUC, G-LTS, and G-BSS, be closed to new subscriptions for five years, and that all storage be sold through the new G-TBS schedule which is designed as the vehicle for all new unbundled storage transactions.[82]

7.6.2. Discussion

Although DRA proposed addressing this issue in the next BCAP, it offered no testimony on this issue. Both Long Beach and Southwest expressed concerns about the need for certainty for planning purposes and Long Beach testified as to the danger that SoCalGas can

---

[82] *See* Ex. 8 (Watson) at 5.

unilaterally refuse requests for three-year G-TBS contracts. As noted by Applicants, Schedule G-AUC has not been used at all, and less than 0.2 Bcf has been sold under G-BSS. No similar rationale or explanation was offered by Applicants as to why Schedule G-LTS should be closed, merely the conclusory statement that revisions to G-TBS make G-LTS unnecessary. The Applicants have not shown they would be harmed by retaining Schedule G-LTS as a storage service option. Because of the lack of support and the need to provide opportunity for greater certainty for planning purposes, we are not convinced there is an adequate record to conclude the revisions to the G-TBS tariff make the G-LTS tariff unnecessary. Given these facts, we approve Applicants' proposal to close Schedule G-AUC and G-BSS tariffs to new subscription for five years.

However, the moratorium for G-LTS is not approved and SoCalGas will continue to offer the G-LTS tariff for new subscriptions. Parties are free to address this matter in the next BCAP. The revisions to Schedule G-TBS still do not require SoCalGas to honor requests for longer-term G-TBS contracts, however, the modifications we adopt for G-TBS for wholesale core customers later in this decision should alleviate some of these wholesale customer concerns. Consistent with core parity principles and the need for planning certainty, Schedule G-TBS should be further modified to permit contracts up to five (5) years in duration for wholesale core customer requirements without requiring further Commission approval. The Applicants' proposal to allow G-TBS contracts for up to three years without requiring Commission approval for other noncore customers is approved.

7.7. Storage Development Plan

7.7.1. Parties' Position

As a provision of the Edison Settlement, Applicants propose that SoCalGas provide a storage development plan to increase the storage capacity and operational capability of its existing storage services, to be made available to SoCalGas customers on an open access basis. Applicants propose that SoCalGas storage rate shareholder earning caps would increase as described in sponsoring testimony. Expansions of unbundled storage capacity would be rate based and allocated to unbundled storage costs subject to the 50/50 risk-sharing mechanism.[83]

DRA supports this proposal as long as no predetermined risk sharing mechanism is authorized in this proceeding. SCGC proposes an alternative rate cap. Coral believes that all new and existing storage should be priced on a cost-of-service basis.

7.7.2. Discussion

We approve Applicants' proposal to provide a storage development plan to increase the storage capacity and operational capability of its existing storage services, to be made available to SoCalGas customers on an open access basis. We defer a determination as to the appropriate rate design and risk-sharing mechanism for any storage expansion pending consideration in the next BCAP.

[83] Ex. 8 (Watson) at 5-6.

7.8. Secondary Market for Storage Rights

7.8.1. Parties' Positions

Applicants propose to establish and administer a secondary market for storage capacity rights to enable holders of firm rights to trade those rights separately, in whole or partially, on a permanent or short-term basis. SoCalGas would administer an electronic bulletin board through which the secondary market for storage capacity and imbalance trading would function. The EBB, at a minimum, would provide an index of contractual storage rights, specifying the storage inventory capacity, daily withdrawal and injection capacity rights, and terms for each customer. SoCalGas and SDG&E would recover in retail rates all reasonable costs of establishing and maintaining storage rights, a secondary market for such rights, an imbalance trading program, and related EBB.

Coral, Indicated Producers, and DRA support the establishment of a secondary market for storage rights. SoCalGas agreed to include the provision in its proposed G-SMT tariff that a customer who releases the full amount of its contracted storage capacity for the full remaining term of its storage contract for the full price to a party that meets SoCalGas' creditworthiness requirements should be relieved of any ongoing obligation to SoCalGas under that storage contract.[84]

7.9. Discussion

We approve Applicants' proposal to establish and administer a secondary market for storage capacity rights to enable holders of firm

---

[84] Tr. at 211-12 (SoCalGas/Watson). The proposed G-SMT tariff is Appendix X to Ex. 8 (Watson Testimony). The relevant provision is Special Condition 12 at Sheet 3.

rights to trade those rights separately, in whole or partially, on a permanent or short-term basis, as described above. We agree with Applicants that a secondary market for trading storage rights will enhance the long term value of storage and enable any holder of storage rights to compete with additional direct sales of storage by SoCalGas through the unbundled storage program.

8. Additional Customer Services

8.1. Fifth Nomination Cycle

8.1.1. Parties' Positions

Applicants propose establishment of a service that facilitates customers' ability to manage transportation imbalances by permitting arrangements with SoCalGas' storage and third-party storage providers directly connected to the SoCalGas system (*e.g.,* a fifth nomination cycle before the end of the flow day). This fifth nomination cycle will be deemed the intraday three-cycle. SoCalGas would be entitled to recover in retail rates all reasonable costs of establishing and providing this new service.[85] No party opposed the proposal to establish this new service.

8.1.2. Discussion

We agree that this new service will assist customer in managing their gas supplies and potential imbalances on the SoCalGas/SDG&E system. We hereby approve this proposal as described in the testimony of Schwecke (Ex. 29).

---

[85] Ex. 29 (Schwecke) at 14-15 and Sheet 6 of Appendix L to Schweke's testimony sets forth the details of this new service.

8.2. Optional Enhanced Balancing Services

8.2.1. Parties' Positions

Applicants propose that, within three months after Commission approval of their proposal, SoCalGas will meet and confer with any customers interested in optional enhanced tariff balancing services relative to existing imbalance tolerances to determine if market interest warrants a new tariff service or if individual customer needs can be met with contract services under existing tariffs. So long as the proposed new services are physically practical and cannot be affirmatively demonstrated to impact the reliability of service to other customers, SoCalGas would thereafter present the new services to the Commission for approval. Applicants propose that SoCalGas be entitled to recover from customers all reasonable costs of establishing and providing these new services. Applicants do not oppose the SCGC's proposal to seek approval through application rather than advice letter filing.

8.2.2. Discussion

We grant Applicants' request for approval of the proposal to meet and confer with customers interested in optional enhanced balancing services with the stipulation that Commission approval of any such services shall be sought through formal application rather than by advice letter.

8.3. Transmission System Usage

8.3.1. Parties' Positions

In accordance with terms of the Edison Settlement, Applicants propose that SoCalGas and SDG&E will annually publish the capacity and projected average daily usage of their combined backbone transmission system for the upcoming year. If actual usage for any 12-month period exceeds 75%, SoCalGas and SDG&E will convene a public workshop to review the forecast and determine whether a change to the five-year forecast is warranted.

8.3.2. Discussion

No party opposed this proposal, and DRA and Indicated Producers expressed support for it. We find the proposal reasonable and hereby approve it.

8.4. System Expansion Study

8.4.1. Parties' Position

Applicants propose that, within one year after approval of their proposal, and at least once every three years thereafter, SoCalGas and SDG&E will develop a system expansion study of the SoCalGas and SDG&E interconnect points, backbone system, and storage facilities as described in their testimony. SoCalGas and SDG&E seek authorization to recover from customers all reasonable costs related to performing these studies and having the studies reviewed by an independent third party.

8.4.2. Discussion

No party opposed this proposal. Indicated Producers expressed support for it. All customers have the potential to benefit from the expansion of system capacity. We accordingly approve Applicants proposal to develop a system expansion study of the SoCalGas/SDG&E interconnect points, backbone system, and storage facilities. Interested parties will have the ability to comment upon and challenge these studies, including key supporting assumptions and reliability parameters.[86]

---

[86] The timing and scope of these studies are set forth in Ex. 45 (Trinooson) at 3-4.

9. Core Parity Proposals

9.1. Parties' Positions

Long Beach objects to certain structural changes in the provisions of the Edison Settlement which it believes would potentially adversely impact its customers. Long Beach argues that Applicants' proposals for changes to the storage operations and services that SDG&E obtains from SoCalGas, are inconsistent with the principle of core parity adopted by the Commission in prior proceedings. SoCalGas has proposed significant changes in the way SDG&E's core storage requirements are treated.

Long Beach argues that under the combined portfolio proposal, its customers will be placed at a disadvantage relative to those of SDG&E. While SDG&E wholesale core customers will be entitled to the same price for storage service as SoCalGas core customers, based on fully-scaled long-run marginal costs, Long Beach wholesale core customers will have to pay whatever the market will bear to access future storage rights under Tariff Schedule G-TBS, up to the proposed storage price caps.

Southwest[87] likewise argues that under the proposed combination of portfolios, both Southwest and Long Beach will be disadvantaged in the reservation of storage capacity, and that SDG&E wholesale core customers will gain special storage advantages that are foreclosed to core customers of Southwest and Long Beach. Southwest

---

[87] Southwest is a multi-state utility providing natural gas distribution and transportation service in California, Arizona and Nevada. Southwest serves approximately 76,000 customers two distinct service territories in California – the high desert area in southern California and the high Sierra area in northern California. The majority are core residential customers.

argues that such a result is inherently discriminatory and contradicts the concepts of fundamental fairness and core parity for wholesale core customers.

Long Beach argues that these proposals be approved only on the condition that comparable changes apply in the storage operations and services provided by SoCalGas to Long Beach and other similarly situated wholesale customers with core customer responsibilities. Specifically, Long Beach seeks authority to obtain storage capacity reservations to meet its core customers' reliability requirements in the same manner and to the same extent as SoCalGas/SDG&E may make for their own core customers. At a minimum, Long Beach proposes that SoCalGas be required to make further payments by Long Beach subject to refund in SoCalGas' next BCAP, and to establish a memorandum account for the rates and costs applicable to Long Beach comparable to the account established in Resolution G-3378 and G-3387 for SDG&E's core storage costs and rates. Long Beach opposes deferral of this issue for consideration in the next BCAP, arguing that such deferral would be an unreasonable delay. Assuming that the a Commission decision in the next BCAP would not take effect until the end of 2008, Long Beach anticipates that April 1, 2009 (the beginning of the 2009-2010 storage season) would be the first time that new storage rates, terms, and conditions would apply. Long Beach argues that it would be unfair to deny wholesale customers comparable relief to that provided to SDG&E for such an extended period.

Applicants argue that Long Beach is advocating a new "core parity" proposition that unreasonably expands the Commission's existing policy regarding "core parity" which is limited to parity of service in terms of curtailment risk. Applicants argue that Long Beach, however, seeks rate parity. Resolutions G-3378 and 3387 do not establish parity of storage rates as a principle for SDG&E, but only determine that the Commission *may* require that SDG&E be provided cost-based rates after a critical examination and evidentiary hearings. Applicants argue that Long Beach seeks to be "on par" with unbundled customers when the market is relatively weak and to be partially "on par" with SoCalGas' core storage when market prices for storage are slightly above the fully-scaled LRMC rate. Long Beach seeks to pay the same $1.47/dth rate as do SoCalGas' core customers, based on fully-scaled LRMC, rather than the $1.66/dth rate that it previously negotiated with SoCalGas. Applicants argue that Long Beach's view of "core parity" is self serving by seeking cost-based rates now when the market price of unbundled storage is temporarily above cost.

Applicants argue that if Long Beach seeks true parity with core customers of SoCalGas and SDG&E, then Long Beach should accept additional conditions beyond those contained in its proposal. Specifically, Applicants argue that true parity would require consolidation of Long Beach core load into the combined SoCalGas/SDG&E core portfolio, pro-rata allocation of transportation and storage assets, and payment by Long Beach of $1.6 million, credited to the NSBA, to compensate for prior years' storage charges priced below fully-scaled LRMC.

Applicants respond that it is not clear that Southwest will even be a SoCalGas customer after the current transportation and storage contracts expire in August 2008. Applicants thus propose that any claims of Southwest be deferred to the upcoming BCAP when it will be clearer who will be serving Southwest. However, Southwest indicated in its Opening and Reply Briefs that the proposed wholesale core procurement option had merit and that it was interested in exploring such an option for its future wholesale service. DRA also stated that deferring consideration of pricing for this option and these issues to the BCAP would allow other wholesale customers, such as Southwest, to weigh in on the issue and provide a broader context for the Commission's consideration.

9.2. Discussion

We conclude that the concerns raised by Long Beach and Southwest raise a number of issues that warrant further consideration in the next BCAP. The Commission's current core parity policy applies to the level of reliability of service, but does not currently articulate that prices be equivalent among all categories of core customers.[88] SoCalGas agrees that service to the core load of wholesale customers should have a priority of service that is "on par" with that of the utilities' core service. Thus, transportation services to noncore customers would be curtailed ahead of transportation services to wholesale core customers. Likewise, Long Beach's storage withdrawal has service-level parity with firm withdrawal for all wholesale core customers must have service-level parity with firm withdrawal for SoCalGas' core.

In D.93-02-013, the Commission stated that "[w]holesale core customers should not be disadvantaged when utilities compute core

[88] This principle is elaborated upon in Schedule GW-LB, Special Condition 3, as cited in Ex. 9 (Watson Rebuttal) at 30.

reservations."[89] Under the combined portfolio approved in this decision, SDG&E will have storage reservations through the combined portfolio prior to release of remaining storage capacity through the G-TBS program. Under G-TBS, other wholesale core customers would have to compete with noncore customers and marketers to bid for available storage capacity.

Requiring Long Beach and Southwest to compete with other noncore customers for the smaller amount of storage capacity that would remain available under the G-TBS program, after the increased set aside of capacity for the combined SDG&E and SoCalGas storage portfolio, would increase the risk that Long Beach and Southwest may not be able to contain the capacity required to meet the reliability requirements of their core customers and would be inconsistent with existing principles of core parity.

We agree with DRA that core customers should not be required to participate or compete with noncore customers in a storage auction.[90] In order to maintain core parity, an additional condition will be imposed on SoCalGas' G-TBS storage service that all wholesale core customers are entitled to rights of first refusal and a first round reservation to acquire storage capacity at the same time as the combined portfolio reservations are made on an annual basis and prior to release of storage capacity of the G-TBS noncore program. No releases of storage capacity are to be made to

---

[89] *Re Natural Gas Procurement and System Reliability Issues,* D.93-02-013, A.92-03-038; 48 CPUC 2d 107 (February 3, 1993).

[90] DRA Opening Brief, at 14.

the noncore until all wholesale core customers have had an opportunity to make their desired storage reservations in the same proportion as the combined portfolio core reservation.

The proposal of Long Beach for equivalent prices to those paid by SoCalGas' core customers would constitute a departure from the current core parity policies. Although Long Beach seeks to obtain the same rate treatment that applies to SDG&E, it is not clear that Long Beach is similarly situated to SDG&E. There is insufficient basis at this time to resolve the request of Long Beach for rates equivalent to those of SDG&E. Nonetheless, we believe that a further consideration of the nature and extent of any rate adjustments to be applied to Long Beach or other similarly situated wholesale core customers should be addressed in the upcoming BCAP.

In Resolution G-3387, dated April 13, 2006, the Commission found that SDG&E was entitled to obtain firm SoCalGas storage service at the same rate as SoCalGas core customers. The Commission ordered SoCalGas to establish a memorandum account to track the difference between SDG&E's G-TBS charges and the storage rates paid by SoCalGas' own core customers. Disposition of the charges in the memorandum account would be determined in the next BCAP.

In order to preserve the ability for the Commission to make any appropriate adjustments to other wholesale customers storage charges incurred subsequent to the effective date of this decision, SoCalGas must establish similar memorandum accounts, effective as of the date of this order, to track charges incurred by wholesale core customers under the revised Schedule G-TBS. Disposition of such memorandum account charges will be determined in the next BCAP, along with the wholesale storage rate parity issue.

Even before the BCAP, SoCalGas, Long Beach, Southwest and DRA are encouraged to further explore the option of establishing a wholesale core procurement service tariff.

10. Comments on Proposed Decision

The ALJ's proposed decision 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. Opening comments were filed on November 26, 2007, and reply comments were filed on December 3, 2007. We have taken the comments into account, as appropriate in finalizing this decision.

11. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and Thomas R. Pulsifer is the assigned ALJ in this proceeding.

Findings of Fact

1. The instant application seeks approval to implement 16 structural changes arising from the Continental Forge Settlement and 18 operational and service changes arising from the Edison Settlement Agreement with the Sempra utilities.

2. Parties entered into the Continental Forge and Edison settlement agreements outside of Commission proceedings, with the proposals related to issues in multiple Commission proceedings. No settlement conference regarding these settlements has been convened, in A.06-08-026 or any other proceeding.

3. Applicants' proposed minimum monthly storage injection targets are intended to address concerns that too much flexibility with storage injections enable the Core Procurement Department to unduly impact gas prices at the California border.

4. Applicants' proposed monthly injection targets could require purchases at times when prices are not favorable to customers, and could require injection levels in excess of core injection rights.

5. The use of mid-season inventory targets as prescribed in D.06-10-029 are preferable to Applicants' proposal for monthly injection targets as a basis for making storage injections. Because the 2007 storage injection season has already occurred, the adoption of new 2007 mid-season target is moot. Determination of a storage inventory target on a combined company basis will become applicable once the combination of core procurement functions has been implemented. For storage seasons subsequent to 2007 pursuant to D.06-10-029, SoCalGas is still required seek agreement with DA and TURN regarding an appropriate mid-season core-purchased inventory target.

6. Whereas SoCalGas and SDG&E each maintain separate gas portfolios to serve their respective core customers, Applicants propose to consolidate the separate portfolios to be managed by SoCalGas.

7. Gas portfolio consolidation will reduce costs of regulation, increase supply diversity for both utilities, and reduce procurement costs. Annual savings of approximately $2 million can be realized with a reduction of 15 full-time employees in the core procurement function upon consolidation of the two procurement portfolios.

8. A combination of the SoCalGas and SDG&E core procurement functions would not enable SoCalGas and SDG&E to exert increased market power to any material extent.

9. Coral's proposal for a "Core Portfolio Diversity Program" would segment the Sempra utilities' combined core demand into five equally-sized gas supply portfolios, with responsibility for purchasing for the core portfolio allocated among five creditworthy "wholesale core procurement agents" (WCPAs) through competitive bidding.

10. Coral's proposal for a "Core Portfolio Diversity Program" would constrain diversity in the procurement of core supplies by limiting the wholesale market to only five entities, and adoption of the proposal would not be in consumers' best interests.

11. Applicants' proposal to reduce the core storage inventory capacity below 79 Bcf and related daily injection rights in conjunction with consolidation of the SoCalGas/SDG&E portfolios would not be in the public interest.

12. Although a reduction in core storage inventory would offer potential advantages to noncore customers by making available additional storage, those advantages would be at the expense of reduced protections for core customers.

13. The existing levels of core storage provide not only reliability of gas deliveries during peak days, and assurance of firm supplies during winter months, but also protection against increases in gas prices during high demand periods in the form of arbitrage benefits.

14. If the core storage capacity were reduced, core customers would risk paying higher prices for gas during the winter season (and/or incurring additional costs for winter hedges).

15. Applicants propose adoption of a process whereby the SoCalGas and SDG&E would submit, by advice letter annually, a natural gas procurement plan to the Commission for review and pre-approval.

16. Existing Commission processes and protocols for the review of SoCalGas/SDG&E natural gas procurement and operations are adequate and the additional processes proposed by Applicants for submission and review of a gas procurement plan are not necessary and should not be adopted.

17. Applicants propose to transfer SoCalGas' California Energy Hub operations from Gas Acquisition to the System Operator, with net revenues from Hub Services allocated on a 50/50 sharing basis between all customers and shareholders.

18. Applicants' proposal to transfer hub operations from Gas Acquisition to the System Operator is consistent with Applicants' proposal to expand the role of the System Operator and to provide for more consistency between core and noncore operations.

19. Since Gas Acquisition will not longer be performing system reliability and balancing services, under Remedial Measure 16, as adopted in D.98-03-073, unrestricted communications between Gas Operations and Gas Acquisition are no longer permitted.

20. Given the need for further recorded development concerning the appropriate ratepayer/shareholder sharing allocation and shareholder cap for hub revenues, it is reasonable to defer such a determination pending a

Commission decision in the BCAP proceeding. On an interim basis, it is reasonable to implement a memorandum account to track all hub revenues from the effective date of this decision until further disposition is made in the BCAP proceeding.

21. Under applicants' proposal, all financial transactions used by SoCalGas to hedge natural gas prices for the period from November through March each year would be excluded from the calculation of costs and savings allocated under the GCIM. As a result, customers would be allocated 100% of gains and losses from such hedge transactions.

22. Higher gas costs and increased volatility have increased the costs of winter hedges to the point that continued inclusion of winter hedges in the GCIM could create a disincentive to hedge at an appropriate level.

23. By limiting the authorization for winter hedging outside of the GCIM to a three-year period, the authorization will not be open-ended, and requiring an application for approval of each year's hedging will preserve accountability.

24. In prior proceedings, we have declined to suspend or modify the GCIM in conjunction with authorizing winter hedging costs to be funded by ratepayers, and likewise, the record here does not provide adequate analysis or support for reducing the GCIM sharing percentage from 25% to 20%.

25. There is no need to reallocate balancing assets at this time as a result of adopting Applicants' core balancing and minimum flow proposals.

26. The GCIM provides an incentive for SoCalGas to purchase gas at or below a benchmark. Savings between the benchmark and tolerance band are returned to ratepayers and savings below the tolerance band are

shared between ratepayers and SoCalGas' shareholders according to a sharing formula.

27. Under Applicants' proposal, all customers, including the core, would be subject to imbalance requirements and operating flow orders, with the core having the same monthly balancing tolerance (currently 10%) as do noncore customers. Core procurement would consequently have an additional 300 MMcf/day of storage and injection capability.

28. Applicants' core balancing and minimum flow proposals work together to treat core customers more like noncore customers, to address noncore customers' perceptions of the core as having a "privileged" position with respect to system balancing, and to address the fact that the core currently shoulders all system minimum flow responsibilities.

29. It would be inefficient to require SoCalGas to duplicate within the System Operator function, the modeling and forecasting expertise that exists within its Regulatory Affairs Department.

30. SoCalGas/SDG&E's EBB is the primary system that manages gas flow on the pipeline system at a customer level, facilitating gas system operations, planning, and regulatory compliance.

31. Applicant's proposal to post additional operational information on the SoCalGas EBB on a weekly basis will benefit customers and other market participants by increasing hub operations transparency and disclosing weekly information about core storage inventory positions.

32. Public postings of daily core information on the EBB would lead to competitive harm and would not be in core customers' best interests.

33. The current 50/50 risk sharing of unbundled storage revenues was instituted at a time when there was concern over the potential for stranded storage capacity.

34. The calculations of unbundled storage revenue produced by SCGC, showing a revenue requirement allocation of 70% to customers are based on the assumption that 100% of scaled long run marginal costs were to be allocated to the unbundled storage program.

35. Due to the subsequent increase in demand for SoCalGas storage services, however, the resulting prices and revenues have risen to unforeseen levels, the original rationale for the 50/50 sharing as an incentive for SoCalGas to market that storage no longer applies.

36. SCGC's proposed allocation for unbundled storage revenues is predicated on the assumption that the LRMC scalar is fully allocated to the at-risk unbundled storage program. The Commission, however, rejected that approach in the 1999 BCAP proceeding, and instead, applied unscaled marginal costs for purposes of allocating risk to shareholders.

37. The next BCAP proceeding will provide another forum in which to determine the appropriate risk sharing allocation for future unbundled storage revenues.

38. Applicants proposed rate caps for unbundled storage service are below the current maximum G-TBS tariff rate of $14.27/dth, with SoCalGas' firm storage service reservation changes not to exceed the following: (1) $1.63/dth for inventory capacity; (2) $60/dthd for injection capacity; and (3) $30/dthd for withdrawal capacity. Applicants' interruptible injection and withdrawal service would be capped at $2/dth each.

39. Applicants' proposed caps for unbundled storage customer rates are reasonable as an interim measure pending further review and possible adjustment in the next BCAP.

40. The capping of unbundled storage rates at the cost-based levels proposed by SCGC would be detrimental to ratepayers by denying them the benefits of additional revenue flow-through from rates that are more market-based.

41. Market-based pricing of unbundled storage assets promotes more economically efficient allocation of those assets.

42. According to the market analysis evidence presented by SoCalGas' witness, which applies FERC guidelines, there is limited market concentration for unbundled gas storage with less potential for any market participant to exercise significant market power.

43. The Commission previously rejected the request of SoCalGas for a 10% allocation of interruptible receipt point access revenues in D.06-12-031. In repeating their request for a similar treatment in this proceeding, Applicants have not justified a change from the Commission's previous rejection.

44. Applicants propose that 90% of the interruptible receipt point access revenues be credited to customers, with SoCalGas shareholders retaining 10%, subject to an annual cap of $5 million as an incentive to market interruptible services.

45. Applicants proposal is reasonable to establish and administer a secondary market for storage capacity rights to enable holders of firm rights to trade those rights, in whole or partially, on a permanent or short-

term basis. The secondary market for storage capacity and imbalance trading would function through the SoCalGas EBB.

46. Applicants proposal is reasonable for the establishment of a service that facilitates customers' ability to manage transportation imbalances by permitting arrangements with SoCalGas' storage and third-party storage providers directly connected to the SoCalGas system (*e.g.*, a fifth nomination cycle before the end of the flow day).

47. Under Applicants' core balancing proposal, the expected imbalance of about 2 Bcf could be managed, and core will only be the supplier of last resort to the extent that the System Operator tools fail to ensure system reliability. The core can cure imbalances by transferring gas from its imbalance account into storage until it reaches capacity.

48. Because it is not physically possible for SoCalGas to obtain real-time usage information from each core customer, the core must balance to a forecast.

49. Applicants' proposal to transfer responsibility for managing minimum flow requirements for system reliability from the Gas Acquisition Department to the System Operator is reasonable.

50. The specific tools proposed by Applicants for use by the System Operator provide a reasonable means of meeting the System Operator's expanded role of providing system reliability.

51. Applicants' request for authority to implement additional System Operator tools should be subject to Commission review and approval through the regular advice letter process.

52. It is reasonable for the net costs incurred by the System Operator for maintaining minimum flow requirements should be tracked in a memorandum account.

53. Applicants proposal is reasonable that SoCalGas provide a storage development plan to increase the storage capacity and operational capability of existing storage services, to be made available to SoCalGas customers on an open access basis.

54. Applicants proposal is reasonable that SoCalGas and SDG&E will annually publish the capacity and projected average daily usage of their combined backbone transmission system for the upcoming year. If actual usage for a 12-month period exceeds 75%, SoCalGas and SDG&E agree to convene a public workshop to review the forecast and determine if a change to the five-year forecast is warranted.

55. SoCalGas and SDG&E will incur costs in implementing the programs to establish and maintain new postings on the EBB, a secondary market for storage rights, a new fifth nomination cycle, new optional enhanced balancing services, and system expansion studies (plus any related third party review). It is reasonable to authorize SoCalGas and SDG&E to recover from customers the prudent costs associated with such programs.

56. Applicants' proposals for changes to the storage operations and services that SDG&E obtains from SoCalGas, raise questions concerning the appropriate application of principles of core parity in reference to the rights and obligations of other wholesale customers such as Long Beach and Southwest Gas that warrant further consideration in the next BCAP.

57. Although Long Beach seeks to obtain the same rate treatment for its core customers on par with that offered to the SDG&E core customers pursuant to Applicants' proposal for core consolidation, Long Beach is not similarly situated to SDG&E.

58. There is insufficient basis in this proceeding to justify the request of Long Beach for equivalent rate treatment with SoCalGas core customers.

59. In Resolution G-3387, dated April 13, 2006, the Commission established memorandum account protection for SDG&E core customers for the difference between charges for storage service under G-TBS and charges to SoCalGas' own core customers for storage.

60. Requiring Long Beach and Southwest to compete with other noncore customers for the smaller amount of storage capacity that would remain available under the G-TBS program, after the increased capacity for the combined SDG&E and SoCalGas storage portfolio is set aside, would increase the risk that Long Beach and Southwest may not be able to obtain the capacity required to meet the reliability requirements of their core customers and would be inconsistent with existing principles of core parity.

61. Under core parity, wholesale core customers are not to be disadvantaged in reservation of storage capacity. Core customers should not be required to participate or compete with noncore customers in the G-TBS storage auction for initial reservations of storage capacity. For this reason, other wholesale core customers are entitled to equal opportunity and access to initial reservations of storage capacity on an annual basis as SDG&E core customers.

Conclusions of Law

1. Although the joint application is offered to implement the provisions of two settlement agreements, the Commission's rules governing settlements do not apply to those settlements.

2. Although Applicants seek approval of the package of proposals as an integrated package, each of the proposals in A.06-08-026 should be assessed on its individual merits. In evaluating each proposal, its relationship and interaction with other elements of the package of proposals may be considered.

3. Applicants' proposals intended to provide additional benefits to noncore customers should not be approved at the expense of impairing the protections to which core customers are entitled.

4. The joint application of SoCalGas and SDG&E, and Edison should be granted in part and denied in part, in accordance with the ordering paragraphs below.

5. Applicants' should be authorized to proceed with implementation of the proposals that are approved pursuant to the ordering paragraphs below.

6. While Applicants' proposed exemplary tariff language provides useful context for understanding the details of how Applicants envision the implementation of the proposals, the exemplary tariffs should not be adopted in this order. The precise revisions to each respective tariff should be approved through the normal process of review and approval of tariff revisions under applicable Commission rules for advice letters or application filings, as relevant.

O R D E R

IT IS ORDERED that:

1. The joint application of Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E), and Southern California Edison (Edison) is granted in part and denied in part, as set forth below.

2. Applicants are hereby authorized to proceed with implementation of the approved proposals in accordance with the ordering paragraphs below.

3. Applicants' proposal for monthly storage targets is denied. Mid-season inventory targets shall continue to be utilized rather than separate month-end target in accordance with the procedures previously established in Decision (D.) 06-10-029.

4. Applicants' proposal to consolidate the core portfolios of SoCalGas and SDG&E is hereby granted on the condition that existing combined core storage capacity remain in effect. The approved storage capacity for the combined core portfolio is 79 Billion Cubic Feet (Bcf), with daily injection capacity of 369 Million cubic feet per day (MMcf/d) and daily withdrawal capacity of 2,225 MMcf/d.

5. Upon implementation of the consolidation of the core portfolios, Applicants are directed to reduce their requested Test Year 2008 revenue requirement in order for the estimated cost savings to be passed on to core customers when rates are implemented upon approval of SoCalGas and SDG&E's 2008 General Rate Case (A.06-12-009 *et al.*). The specific quantification of the applicable revenue requirement reductions to reflect the consolidation of core procurement functions is deferred to the GRC.

6. Coral's Proposal for Approval of a "Core Portfolio Diversity Program" is hereby denied.

7. Coral's Proposal for Approval of revisions to the Gas Cost Incentive Mechanism (GCIM) is hereby denied.

8. Applicant's proposal that SDG&E's procurement of natural gas for utility electric generation (UEG) be subject to separate Commission review and approval processes is granted.

9. Applicants' proposal for additional processes for preapproval of gas procurement plans is denied.

10. Applicants' proposal that SoCalGas' California Energy Hub operations be transferred from Gas Acquisition to the System Operator is granted.

11. Applicants proposal that net revenues from Hub Services be allocated on a 50/50 sharing basis between all ratepayers and shareholders with no cap is denied. Effective with this order, the hub services revenues shall be recorded in a memorandum account subject to refund. Determination of the appropriate sharing allocation and cap for hub revenues shall be addressed in the next Biennial Cost Allocation Proceeding (BCAP).

12. Applicants' proposal for authority to engage in winter hedging outside of the GCIM, but only for an initial three-year period, subject to reevaluation after the third year, 2009-2010 winter hedge period, is granted. This authorization is subject to revision pending disposition of the generic rulemaking on gas utilities treatment of hedging under incentive mechanism (*see* D.07-06-013, O. P. 3).

13. The shareholder/ratepayer risk allocation percentages under the GCIM shall be not revised in this proceeding.

14. Applicants' proposal that all SoCalGas/SDG&E gas customers, including the core, be subject to imbalance requirements and operating flow orders, with the core having the same monthly balancing tolerance (currently 10%) as do noncore customers, is granted.

15. Applicants' proposal that responsibility for managing any minimum flow requirements for system reliability be transferred from the Gas Acquisition Department to the System Operator and paid for by all customers, is granted.

16. Applicants' proposal is granted for the following System Operator tools:

(a) The ability of the System Operator to buy and sell gas on a spot basis, as needed, to maintain system reliability.

(b) Authority to conduct requests for offers (RFO) or open season process consistent with the System Operator needs.

(c) Authority to approve an expedited Advice Letter approval process for contracts that result from a RFO or open season process.

17. Applicants' requests for approval of additional System Operator tools on an interim basis shall be made by regular advice letter. Further consideration of the process for review and approval of additional System Operator tools shall be made in the next BCAP. Applicants are authorized to establish a memo account to track System Operator costs, as proposed. SoCalGas and SD&GE shall be required to submit to a reasonableness

review of System Operator costs recorded in the System Reliability Memo Account before passing the costs through the customers.

18. Applicants' proposals for additional postings on the Electronic Bulletin Board (EBB) is granted. The postings of information on the SoCalGas/SDG&E EBB shall accordingly be augmented to disclose the following on a weekly basis: net hub position, net volumes loaned parked, withdrawal schedules for all hub volumes parked, repayment schedules for all hub volumes loaned, and physical core storage inventory positions.

19. Applicants' proposal for 50/50 ratepayer/shareholder revenue allocation with a $20 million cap for unbundled storage services revenue is denied. Consideration of the appropriate revenue allocation sharing and earnings cap shall be addressed in the next BCAP.

20. Applicants proposed rate caps for unbundled storage services under the G-TBS tariff are adopted on an interim basis effective with this order, pending further review and possible revision in the next BCAP.

21. The proposal of Southern California Generation Coalition for rate caps based on fully-scaled LRMC subject to a two-step open season process is denied.

22. Applicants' proposal that unbundled storage rates and rate caps be permitted to change proportionately with changes in overall increases in other system-wide revenue requirement changes is denied.

23. Applicants' proposal for a 90/10 sharing of interruptible transmission revenues is denied.

24. Applicants' proposal to provide a storage development plan to increase the storage capacity and operational capability of its existing storage services, to be made available to SoCalGas customers on an open

access basis is granted. Determination as to the appropriate storage shareholder earnings cap for expansion of facilities is deferred to the next BCAP.

25. Applicants' proposal for a secondary market for storage rights is granted.

26. Applicants proposal that existing SoCalGas storage tariffs, G-AUC, and G-BSS, be closed to new subscriptions for five years, and that all storage be sold through the new G-TBS schedule with the modifications ordered herein, which is designed as the vehicle for all new unbundled storage transactions, is granted. The moratorium for new subscriptions under Schedule G-LTS is not approved. SoCalGas shall continue to offer storage service under Schedule G-LTS.

27. Applicants' proposal for establishment of a service that facilitates customers' ability to manage transportation imbalances by permitting arrangements with SoCalGas' storage and third-party storage providers directly connected to the SoCalGas system (*e.g.*, a fifth nomination cycle before the end of the flow day), is granted.

28. Applicants' proposal for approval to meet and confer with customers about enhanced balancing services is granted.

29. Applicants' proposal to publish annually the capacity and projected daily usage of the combined backbone transmission system is granted.

30. SoCalGas and SDG& E are hereby authorized to recover from customers the reasonable costs of establishing and maintaining new postings on the EBB, a secondary market for storage rights, a new fifth nomination cycle, new optional enhanced balancing services, and system expansion studies (plus any related third-party review).

31. The remaining concerns raised by Long Beach and Southwest Gas Corporation (Southwest) regarding the issue of rate parity and further issues regarding service parity, not otherwise addressed below, shall be considered in the next SoCalGas BCAP.

32. SoCalGas shall establish memorandum accounts, effective as of the date of this order, for wholesale core customer storage charges under G-TBS. SoCalGas shall record storage charges paid by wholesale core customer in the memorandum accounts to the extent that the charges exceed the rates paid by SoCalGas' own core customers for storage service. Disposition of the charges in the memorandum accounts shall be determined in the next BCAP.

33. SoCalGas together with Southwest, Long Beach, and DRA shall meet and confer to procurement service tariff, similar to that proposed by SoCalGas Witness Watson. Service under this tariff shall be at the option of the wholesale customer.

34. SoCalGas shall modify the G-TBS schedule to allow for initial reservations of storage capacity on an annual basis for wholesale core customer requirements at the same time as core storage reservations are made for SD&GE and prior to release of storage capacity for the G-TBS program to the noncore. No releases of storage capacity are to be made to the noncore until all wholesale core customers have had an opportunity to make their desired storage reservations.

35. Within 45 days of the effective date of this decision, SoCalGas and SDG&E shall file appropriate advice letters, containing the applicable tariff and service offerings to implement and comply with the provisions adopted in the ordering paragraphs of this decision.

36. Such advice Letters shall be subject to protest, and any such protests shall be filed within 20 days after the advice letters have been filed.

37. SoCalGas and SDG&E shall serve the advice letters by e-mail on the service list to this proceeding, as well as on any other interested parties who have requested notification of advice letter filings for either or both of the utilities.

38. Application 06-08-026 is closed.

This order is effective today.

Dated December 6, 2007, at San Francisco, California.

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