STATE OF CALIFORNIA GRAY DAVIS, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

January 9, 2002

TO: PARTIES OF RECORD IN APPLICATION 01-04-007

Enclosed is the Alternate Draft Decision of Commissioner Brown to the Draft Decision of Administrative Law Judge (ALJ) Wong. ALJ Wong's draft decision was mailed to you on December 6, 2001. These items are on the Commission's agenda for January 23, 2002.

When the Commission acts on this agenda item, it may adopt all or part of it as written, amend or modify it, or set aside and prepare its own decision. Only when the Commission acts does the decision become binding on the parties.

Public Utilities Code Section 311(e) requires that an alternate to a draft decision be served on all parties, and be subject to public review and comment prior to a vote of the Commission. Rule 77.6(d) provides that comments on the alternate draft decision be filed at least seven days before the Commission meeting.

Comments to this alternate draft decision shall be filed and served no later than 5:00 p.m. on January 16, 2002. Any reply comments shall be served no later than 8:00 a.m. on January 22, 2002 and filed that day. Pursuant to Rule 77.3 comments shall not exceed 15 pages. These rules are accessible on the Commission's website at http://www.cpuc.ca.gov. In addition, comments must be served separately on the ALJ, the assigned Commissioner, and on the service list by electronic mail, hand delivery, overnight mail, or other expeditious method of service.

/s/ LYNN T. CAREW
Lynn T. Carew, Chief
Administrative Law Judge

LTC:cgj

Enclosure
COM/GFB/beg

Alt. To Item H-3
From 1/9/02

Decision **ALTERNATE DRAFT DECISION OF COMMISSIONER BROWN**
(Mailed 1/9/02)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Gas Company for Authority Pursuant to Public Utilities Code Section 851 to Sell Cushion Gas in its Aliso Canyon and La Goleta Storage Fields. (U 904 G)	Application 01-04-007 (Filed April 9, 2001)

OPINION REGARDING THE SALE OF THE RECLASSIFIED CUSHION GAS

I. Summary

In this decision, we consider what should be done with the 14 billion cubic feet (Bcf) of natural gas in the storage fields owned by Southern California Gas Company (SoCalGas) at its Aliso Canyon and La Goleta sites. Previously, in Decision (D.) 01-06-086, the Commission authorized SoCalGas to perform the well drilling and associated work that would allow SoCalGas to free up and reclassify the 14 Bcf of cushion gas as working gas available for sale. D.01-06-086 prohibits SoCalGas from selling the reclassified cushion gas until the Commission directs SoCalGas to do so on the terms and conditions specified in a future Commission decision. This same decision also authorized SoCalGas to

recover the book cost of the gas and the cost of the well work needed to reclassify the cushion gas.

Today's decision authorizes SoCalGas to sell 100% of the 14 Bcf of reclassified cushion gas at the two storage fields on the open market utilizing the sealed bid procedure as described in its July 6, 2001 comments. This decision also requires SoCalGas to hold the one-round sealed bid process within 15 business days from the effective date of this decision. The winning bidders, as the new owners of the reclassified gas, will be required to withdraw the gas from storage within 12 months. The determination of how the net proceeds should be allocated, and other ratemaking issues described in D.01-06-086, shall be addressed in Phase 2 of this proceeding.

II. Background

SoCalGas filed its application with the Commission on April 9, 2001. The application described how SoCalGas planned to make design changes at its Aliso Canyon and La Goleta underground gas storage fields through a combination of the drilling of new wells and reworking several existing wells. According to the application, the redesign of these storage fields will allow SoCalGas to provide the same level of current deliverability with less cushion gas at both fields. SoCalGas estimates that 14 Bcf of cushion gas will no longer be needed, which can then be reclassified and sold on the open market.

D.01-06-086 authorized SoCalGas to perform the redesign work on the two storage fields, and after the well drilling and associated work is completed, SoCalGas is authorized to reclassify 7 Bcf of cushion gas at Aliso Canyon and 7 Bcf of cushion gas at La Goleta as working gas available for sale. The decision also authorized SoCalGas to sell the reclassified gas "on the terms and conditions specified in a future Commission decision." (D.01-06-086, p. 37.) The decision

also stated that there would be a second phase of this proceeding to address all of the remaining ratemaking issues, "including the allocation of the anticipated net gain on sale of the reclassified cushion gas, the anticipated reduction in prospective operating costs, and the allocation of benefits among customer classes…." (D.01-06-086, p. 32.)

Ordering paragraph 2 of D.01-06-086 solicited opening and reply comments on whether any restrictions should be imposed on SoCalGas with respect to the sale of the 14 Bcf of reclassified cushion gas, the advantages or disadvantages of the various proposals to restrict the sale of the reclassified cushion gas, and whether Phase 2 of this proceeding should be handled in SoCalGas' Biennial Cost Allocation Proceeding (BCAP).[1]

Opening comments were filed by SoCalGas, the Office of Ratepayer Advocates (ORA), and the Southern California Generation Coalition (SCGC). Duke Energy North America and Duke Energy Trading and Marketing (collectively "Duke Energy") also filed joint opening comments. Reply comments were filed by SoCalGas, ORA, and The Utility Reform Network (TURN).

Pursuant to Ordering Paragraph 1.g. of D.01-06-086, SoCalGas has filed its monthly reports to keep the Commission informed about the status of the drilling work, and to provide a summary of the costs incurred to date.

[1] SoCalGas filed its BCAP application (A.01-09-024) with the Commission on September 21, 2001.

III. Position of the Parties

A. SoCalGas

SoCalGas proposes that the 14 Bcf of reclassified cushion gas be sold in a one-round sealed bid process, with all bids made in increments of 1 Bcf. A bidder would be allowed to submit up to 14 bids of 1 Bcf increments, and could bid different prices for different 1 Bcf increments. SoCalGas proposes to award the 14 Bcf to the highest 14 increments bid, and each of 14 increments sold would be at the price bid for the individual increment. SoCalGas does not propose to put any limit on the amount of the 14 Bcf that could be won by a single bidder. At the time SoCalGas submitted its application, SoCalGas proposed that the gas become the property of the winning bidders as of November 1, 2001, and that the new owners be required to withdraw the gas from storage within five months, i.e., by March 31, 2002, unless the winning bidder(s) obtained rights to store the gas beyond that date. [2]

SoCalGas proposes to allow any creditworthy person or entity to submit a bid to purchase gas. In order to submit a bid, SoCalGas would require prospective bidders to pre-qualify their creditworthiness for an amount at least as great as the amount (price times volume) for which they submit a bid. SoCalGas would allow its Gas Acquisition department to participate in the bidding process, and states that the Gas Acquisition department will not be

[2] In the report dated December 3, 2001, SoCalGas states that if the Commission authorizes the sale of the gas at the December 11, 2001 meeting, SoCalGas expects that it will be able to sell the gas for withdrawal beginning January 1, 2002, and that the gas withdrawal would have to be completed by May 31, 2002. If the Commissioner does not approve the sale of the gas until after December 11, 2001, SoCalGas expects to ask the Commission to allow a withdrawal period of longer than five months.

involved in the administration of the sale, or be privy to any information relevant to the sale that has not been made available to other bidders.

SoCalGas states that the only restriction that should be imposed on the sale of the reclassified cushion gas is to set the minimum quantity bid low enough so that it would be feasible and potentially economical for a large number of entities to bid for the reclassified cushion gas. SoCalGas believes that the 1 Bcf minimum quantity bid satisfies this goal since the noncore throughput on its system exceeds 600 Bcf.

SoCalGas states that it does not believe that the sale of the gas will create the potential for an increase in market power by any one person. The 14 Bcf represents less than 1.5% of the total SoCalGas system demand of approximately 1 Tcf per year. SoCalGas states that "[n]o matter how this gas is sold, it cannot reduce competition in the current market and is virtually certain to increase competition." (SoCalGas Opening Comments, p. 3.)

SoCalGas recommends that the Phase 2 issues remain in this proceeding, and that the Phase 2 issues should not be considered in SoCalGas' BCAP. SoCalGas contends that consolidating the Phase 2 issues into the BCAP will unnecessarily delay consideration of how to allocate the net proceeds because the BCAP will probably not be decided by the Commission until late 2002.[3] By resolving the Phase 2 issues in this proceeding, SoCalGas states that ratepayers' rates will be reduced sooner.

In addition, SoCalGas does not believe that there is a sufficient overlap of issues pertaining to the allocation of the benefits of the reclassified cushion gas

[3] SoCalGas' BCAP application proposes that a Commission decision be adopted on October 21, 2002.

with the issues to be addressed in the BCAP. The Phase 2 allocation issues revolve around an assessment of past risks and rewards arising out of SoCalGas' ownership of the cushion gas before its sale, rather than the BCAP issues of forward-looking allocations of costs between customer classes.

SoCalGas notes that it is within the Commission's discretion to decide whether consolidation of the Phase 2 issues with the BCAP is appropriate, and that SoCalGas does not believe that such a consolidation would prejudice its rights or those of any other party. SoCalGas states that it will cooperate regardless of whether the Phase 2 issues are handled in this proceeding or in the BCAP.

SoCalGas is opposed to ORA's proposal that 70% of the reclassified cushion gas (9.8 Bcf) be allocated to core customers at book cost, and that the remaining 4.2 Bcf be sold by SoCalGas pursuant to a competitive bidding process. From the sale proceeds, ORA proposes that SoCalGas recover the book value of the gas and the cost of the well work. Under ORA's proposal, any proceeds in excess of this amount would be allocated between SoCalGas' shareholders and noncore customers.

SoCalGas contends that ORA's proposal is an improper attempt to determine the allocation of the gain on sale prior to the Phase 2 issues being heard. SoCalGas states that D.01-06-086 specifically set aside a second phase to consider these kinds of issues. Specifying the transfer price of 70% of the 14 Bcf of reclassified cushion gas at book cost, and recovery of the well redesign costs from the sale proceeds of the 4.2 Bcf, would clearly prejudge the ratemaking treatment in advance of any Phase 2 proceeding.

SoCalGas acknowledges in its reply comments that the Commission could order some or all of the 14 Bcf transferred to the core portfolio, instead of selling the gas on the open market, and that the Commission could determine in

Phase 2 the price the core should pay for the gas, and how the book cost of the gas and the cost of the well work should be allocated. However, SoCalGas contends that such an approach has no value over the sale of the reclassified cushion gas on the open market.

SoCalGas contends that its Gas Acquisition department "has already made excellent progress to date toward achieving its November 1 winter-opening target storage inventory level." (SoCalGas Reply Comments, p. 5.) Thus, there is no basis for the Commission to conclude that SoCalGas will not achieve its storage target if it is not allocated some of the 14 Bcf of gas. In addition, if the Commission does not issue a decision until the end of September 2001, the Gas Acquisition department must continue to plan and inject gas for the benefit of the core portfolio under the assumption that the reclassified cushion gas will not be designated for the core. By the end of September, the start of the winter season will be only one month away, and core storage will be very close to its winter-beginning target. SoCalGas contends that this gas is likely to be of more value to other market participants who have not been as diligent in storing gas.

SoCalGas contends that selling the gas on the open market will provide reliability benefits to the system as a whole, if the buyer(s) take title to the gas on November 1, 2001, the start of the high-demand winter season. Since the gas is already in storage, the gas can be delivered without the need to move the gas through the interstate or backbone intrastate pipelines. In addition, under SoCalGas' proposal, its Gas Acquisition department could also bid for some or all of the 14 Bcf of gas. By allowing the gas to be sold on the open market, SoCalGas believes that those who value the gas more, will pay a higher value for the gas. The end result is that there will be a greater amount to be allocated in Phase 2.

SoCalGas also points out that ORA has neither alleged nor shown that core customers will receive a greater net economic benefit from transferring the gas to the core versus a sale of the gas on the open market.

SoCalGas states in its reply comments that no evidentiary hearings are needed at this time because the allocation on the gain on sale and other economic benefits of the project are to be considered in Phase 2. If the Commission were to consider ORA's allocation proposals, then SoCalGas states that evidentiary hearings would be required before any decision was issued.

B. ORA

ORA proposes that 70% of the reclassified cushion gas (9.8 Bcf) be allocated at book cost to core customers, and that the remaining balance of 4.2 Bcf be sold into the market using a competitive sealed bid procedure.

ORA states that allocating the 9.8 Bcf to core ratepayers over the five month period from November 2001 through March 2002 at 1.96 Bcf per month will contribute to the core storage target of 70 Bcf of inventory. The 70% allocation to the core, or 9.8 Bcf, is analogous to the historical cost allocation to core customers of the revenue requirement associated with gas storage facilities. ORA contends that such an allocation will reduce the overall core gas costs for this coming winter, and reduce the amount of expensive gas that must be purchased at the California border during the balance of the injection season and this coming winter. By allocating this gas to core customers at book value, core customers will get a significant amount of gas supply at a low cost, and avoid the loss in value if the gas was sold into the market and the after-tax proceeds were then passed on to core customers. ORA asserts that the after-tax proceeds would only allow core customers to purchase a fraction of the 9.8 Bcf of gas.

ORA also contends that its proposal for core customers will help mitigate the high cost of gas that was injected into storage by SoCalGas during the early months of the current injection season when California border prices were high. ORA asserts that noncore customers benefited from the early season core storage injections by enabling noncore customers to have sufficient gas delivered to meet their peak summer demand.

As for the remaining 4.2 Bcf of gas, ORA states that SoCalGas should be allowed to recover from the sale proceeds the book cost of the cushion gas plus the capital cost of the improvements before the net proceeds are allocated between SoCalGas and noncore customers. ORA estimates that the gross proceeds from the sale of the 4.2 Bcf of gas could range between $17 million (assuming a $4.00 per Mcf border price) and $42 million (assuming a $10 per Mcf border price). If the gas sale proceeds are not enough to cover the cost of the capital improvements, which is estimated to be about $16 million, ORA states that the balance should then be recovered from core ratepayers.

ORA states that its approach is reasonable because both SoCalGas and noncore customers will benefit. SoCalGas will benefit from any incremental noncore throughput that is associated with the sale of the 4.2 Bcf of gas. SoCalGas will also have additional storage inventory, injection capacity, and withdrawal capacity to market. In addition, according to SoCalGas' testimony in its application, operating costs will be lower, which should improve SoCalGas' net earnings. ORA asserts that noncore customers will benefit by having access to this incremental gas supply, and by having incremental storage capacity available in future years.

ORA also notes that the introduction of the reclassified cushion gas into the market will serve as an additional source of flowing supply, help alleviate

any potential gas curtailment, enhance system integrity, increase storage inventory on the system, and moderate gas prices at the California border.

ORA acknowledges that under its proposal, one could argue that SoCalGas will unfairly forego huge profits, and that core customers will derive the bulk of the benefits. ORA points out, however, that SoCalGas will not realize any loss on its original investment because core customers have contributed a return on SoCalGas' investment in cushion gas since 1943 for La Goleta, and since 1972 for Aliso Canyon. ORA also states that the benefits to affected parties will be fairly balanced because the average cost of gas stored for core customers will be reduced, while shareholders and noncore customers will share in the sale proceeds, along with new storage services.

ORA is opposed to the idea of giving generators or qualifying facilities a priority for the reclassified cushion gas unless a commitment is made that the gas will be used to generate electricity that will be sold to California ratepayers at reasonable prices. ORA notes that the generators and qualifying facilities have already benefited by the early injection of core gas, which provided a more flexible and reliable system during the peak summer months of electric generation demand.

ORA states that if its proposal is adopted, there is no need for a second phase of this proceeding to address the ratemaking and allocation issues. Under ORA's proposal, a majority of the reclassified cushion gas would be allocated to core customers at cost, and the gain from the sale of the remaining gas would be shared between non-core customers and SoCalGas' shareholders.

C. SCGC

SCGC supports the proposal of SoCalGas to sell the reclassified cushion gas at market prices without any restrictions, and to address the ratemaking

issues in a second phase of this proceeding. SCGC states that such a sale will presumably maximize the gross proceeds and the net gain on sale.

SCGC states that if the proposal of ORA and TURN to assign a portion of the reclassified cushion gas to the core at book cost is adopted, this will substantially reduce the net proceeds that SoCalGas proposes to allocate among customers in Phase 2 of the proceeding. The proposal of ORA and TURN would also eliminate the need for a second phase of this proceeding since core customers would receive a substantial portion of the economic benefit. SCGC states that the Commission should reject this attempt by ORA and TURN.

SCGC believes that the allocation of the net benefits derived from the sale of the reclassified cushion gas should be consolidated and considered in SoCalGas' BCAP, rather than having Phase 2 considered in this proceeding.

D. Duke Energy

In the absence of a shortage of natural gas,[4] Duke Energy believes that the best use of the reclassified cushion gas is to sell it to the highest bidder to maximize the revenues from the sale of the gas. Thus, no preference should be given to electric generators and qualifying facilities, nor should the Commission reserve this reclassified cushion gas for the use of core customers, or to sell it to the core at book value. Duke Energy asserts that selling the gas on the open market will provide the Commission with maximum flexibility to exercise its judgment on how the revenues received for the gas should be allocated.

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[4] Duke Energy states that SoCalGas does not expect any curtailments this winter due to a shortage of natural gas, and that San Diego Gas & Electric Company does not expect that a shortage of natural gas will create any curtailments on its system this winter.

By selling the gas into the market, SoCalGas claims that this will increase the supply of gas in the intrastate Southern California market. Duke Energy contends that this will help ensure that the gas supply remains adequate, and it will put downward pressure on gas prices when prices tend to be at their highest. Duke Energy also points out that selling the gas to the highest bidder should mean that the gas will be put to its most valuable use, which should increase overall economic efficiency.

Duke Energy does not believe that evidentiary hearings are necessary because any restrictions about the sale of the reclassified cushion gas raises policy issues that can be argued in comments and supplemental briefs.

Duke Energy believes that the issues about the allocation of the proceeds from the sale of the reclassified cushion gas should be addressed as part of SoCalGas' next BCAP proceeding, when the Commission considers the other issues and concerns that affect the allocation of utility revenues. Duke Energy contends that a separate phase in this proceeding to consider the allocation of the sale proceeds would consume time and resources, and would overlap with the schedule for the BCAP.

E. TURN

TURN supports ORA's position that 70% of the reclassified cushion gas be allocated to core customers at book value. TURN agrees with ORA that core customers have paid additional costs to inject gas since March of 2001, and that such storage injections benefit all customers since they free up flowing supplies for the coming winter.

TURN notes that SoCalGas and SDG&E have proposed to consolidate their core procurement portfolios which would result in additional interstate pipeline capacity for this combined portfolio. If this proposal is adopted by the

Commission, an additional 90 MMcfd of flowing gas for core customers would be made available, and would help ensure that additional costs are not imposed on core ratepayers. Although TURN and ORA support this proposal, it is still unknown whether such a proposal will be adopted.

If the Commission does not adopt ORA's proposal, TURN does not oppose SoCalGas' recommendation to sell the reclassified cushion gas through a sealed bid process for 14 one-Bcf increments with no limit on the purchase amount. TURN is opposed to giving any priority to generators of qualifying facilities because such a priority would enrich the generators.

TURN states that if the Commission does not adopt ORA's proposal, the cost allocation and ratemaking issues should be addressed in Phase 2 of this proceeding, rather than in SoCalGas' BCAP. TURN contends that past Commission proceedings, judicial economy, and timeliness all support resolving the Phase 2 issues in this proceeding. In addition, the profits from the sale of the reclassified gas are unrelated to the methodologies used in the BCAP to functionalize and allocate costs between system components and customer classes.

IV. Discussion

In D.01-06-086, the Commission authorized SoCalGas to sell the 14 Bcf of reclassified cushion gas upon the terms and conditions specified in a future Commission decision. This same decision also authorized SoCalGas to recover the well work costs associated with reclassifying the cushion gas. D.01-06-086 invited the parties to submit additional comments as to whom the reclassified cushion gas should be sold. The parties who commented have suggested two options. The first proposal is to allow SoCalGas to sell the 14 Bcf on the open market using a sealed bid procedure. The second proposal is to allocate 70% of

the 14 Bcf to core customers at book value, and to sell the remaining 30% on the open market. The proceeds from the remaining 30% would be used to reimburse SoCalGas for the book cost of the cushion gas and for the cost of the well redesign work. Any remaining net proceeds would be divided between SoCalGas' shareholders and noncore customers. A third option, which none of the commenting parties support, is to give electric generators and qualifying facilities a preference over others to purchase the gas.

SoCalGas expressed the need for an evidentiary hearing regarding the disposition of the reclassified cushion gas if ORA's proposal was adopted in its entirety. No other parties who commented believe that evidentiary hearings are needed. As discussed below, since we are not adopting ORA's proposal on the sale price of the gas transferred to core customers or as to the split of the remaining net proceeds, no hearings are needed at this point.

In order for the Commission to decide under what terms and conditions the reclassified cushion gas should be sold, each proposal's advantages and disadvantages should be considered. In addition, the Commission should consider which proposal is more appropriate in light of other policy concerns and current market conditions.

None of the commenting parties support the idea of giving electric generators and qualifying facilities a preference over others to purchase the 14 Bcf of gas. Both ORA and TURN argue that these types of gas purchasers should not be given a preference because of a fear that the generators and qualifying facilities will raise electricity rates to unreasonable levels at the expense of ratepayers. By selling the gas into the open market, Duke Energy and others believe that these generators will have a fair opportunity to bid on this gas, and that such bidding will reflect the economic value of the gas to the purchasers.

SoCalGas' proposal to sell the 14 Bcf in the open market through a sealed bid procedure has the advantage of maximizing the proceeds from the sale of the gas. Any creditworthy purchaser could bid on part or all of the supply. The bid prices for the 1 Bcf increments are likely to reflect the market demand and availability of gas. The sale of this gas is also likely to have a temporary effect of lowering gas prices.

The disadvantage of selling the gas in the open market is that core customers will have to compete with other prospective gas purchasers for this supply. Under ORA's proposal, 70% of the gas would be allocated to the core at book value. However, if core customers have to bid for this supply of gas, or have to purchase additional supplies elsewhere, the cost of the gas will be substantially higher.

The advantage of ORA's proposal is that core customers will be assured of an additional 9.8 Bcf of gas during the 2002 winter season at a low cost. This will help to lower the average cost of gas for core customers during the winter season, although SoCalGas' core gas storage inventories started the winter-opening storage target of 70 Bcf and core customers have adequate gas supply this winter season.

The disadvantage of ORA's proposal is that the maximum value from the sale of the reclassified cushion gas will not be realized because the reclassified cushion gas would be transferred to the core at book value. If ORA's proposed allocations are adopted, this will effectively determine the Phase 2 issues and eliminate the need for a second phase.

Other considerations the Commission needs to take into account are the impact of the well redesign, and whether noncore customers received any benefits from the core storing gas during the injection season.

The well redesign work will open up additional storage for core and noncore customers in the future. The well work will also free up 14 Bcf of gas which is already in storage. The availability of this gas will also free some of the interstate and backbone system capacity of the gas pipelines.[5]

As for core storage, noncore customers undoubtedly benefit from core storage because additional interstate and backbone capacity is made available during the winter season. By putting gas into storage during the injection season, core customers are assured of gas supplies during the winter demand for gas by noncore customers. Although this is a benefit to noncore customers, this is a natural result of the core storage program. If gas is not procured for the core during the injection season, this would cause problems for all gas consumers during the winter. Thus, this benefit alone should not be an overriding consideration.

The issue that confronts us in this proceeding is to determine how to make the best use of the 14 Bcf of gas. After weighing the advantages and disadvantages of each proposal, the policy concerns and the current market conditions, the best course of action at this time, is to authorize SoCalGas to sell 100% of the 14 Bcf of reclassified cushion gas in the open market using the sealed bid procedure described in its comments.

At the time SoCalGas filed its Application, market conditions for gas both throughout the United States as well as within the California market were significantly different. Monthly Contract Index prices for gas at the Southern

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[5] In D.01-06-086, at pages 24 to 25, the Commission noted that the availability of the 14 Bcf of gas would "temporarily increase SoCalGas' capacity to deliver gas to its customers by about 90 MMcf per day without having to utilize the interstate pipelines."

California border in April 2001 were in excess of $12.50/Dth. The gas price for SoCalGas large packages at the California border on January 9, 2002 was $2.24/Dth. The book cost of the gas is $4.4 million and the cost of the rework on the wells to make the cushion gas available for sale is estimated by SoCalGas to be $16 million.

When ORA originally proposed allocating 70% of the reclassified gas to core, high gas prices at the time suggested that there would be excess proceeds to share and a net gain from the sale of 30% of the reclassified gas after recovery of the cost of the rework. In its comments, ORA has stated that SoCalGas be allowed to recover the cost of the rework and no party has disputed this assertion. With the substantial decline in the cost of gas, ORA's allocation may now create a net loss issue in addition to what would be a reasonable price for core to pay as the "final" price in order for SoCalGas to recover the cost of the rework as was authorized by D.01-06-076.

In today's gas market, only SoCalGas' proposal would produce sufficient revenue to recover the cost of the rework and the book cost of the gas. As several parties have pointed out in their comments to the ALJ's Proposed Decision and Commissioner Duque's Alternate Proposed Decision, due to the change in the gas market, the gas as a commodity has ceased to be of significant value; its value is economic. Although we are deferring to Phase 2 of this proceeding the allocation of the proceeds from the sale and the allocations of the rework on the wells, we believe it is prudent to maximize the economic value of this gas by selling it on the open market. SoCalGas' storage fields are sufficiently full to provide core customers with gas for the duration of winter 2002. Reliability is not an issue. For these reasons, we are ordering SoCalGas to sell 100% of the reclassified cushion gas on the open market within 15 business days from the effective date of this decision.

In D.01-06-086, we authorized SoCalGas to recover the costs associated with the well redesign work and the book cost of the reclassified cushion gas from the sale proceeds of the gas. We also deferred to a second phase of this proceeding "all other ratemaking issues, including the allocation of the anticipated net gain on sale of the reclassified cushion gas, the anticipated reduction in prospective operating costs, and the allocation of benefits among customer classes…." (D.01-06-086, p. 32.)

Since we have previously decided that a second phase will be held to address all the other ratemaking issues, the determination of the proceeds as well as the expenses incurred with the rework, will be decided in the second phase of this proceeding in conjunction with the other Phase 2 issues identified in D.01-06-086.

Accordingly, SoCalGas is directed to do the following:

1. SoCalGas is authorized to sell 100% of the 14 Bcf of reclassified cushion gas on the open market utilizing the sealed bid procedure as described in its July 6, 2001 comments within 15 business days from the effective date of this decision. The revenues generated from this sale shall be tracked in the previously authorized memorandum account for tracking the costs associated with the well redesign work.

2. Upon sale of the reclassified cushion gas, SoCalGas shall allow the new owners to complete withdrawal of the gas from storage within 12 months.

3. Within five days of the sale, SoCalGas shall file and serve a notice describing: (1) when the sale of the 14 Bcf reclassified cushion gas in the open market has taken place; and (2) the price paid for each 1 Bcf increment.

Based on the comments, the Phase 2 issues will be considered in this proceeding rather than in SoCalGas' BCAP. The issues regarding the price of the

gas sold to the core, the anticipated reduction in operating costs, and the allocation of benefits, are better suited for resolution in this proceeding than in the BCAP. A ruling with regard to the Phase 2 issues will be released after the reclassified cushion gas has been transferred and sold in accordance with the above discussion.

V. Comments on Alternate Draft Decision

Public Utilities Code Section 311(e) generally requires that an alternate to a draft decision be served on all parties, and be subject to public review and comment prior to a vote of the Commission. Rule 77.6(d) provides that comments on the alternate draft decision be filed at least seven days before the Commission meeting. Accordingly, interested parties shall file and serve comments to this alternate draft decision no later than 5:00 p.m. on January 16, 2002. Any reply comments shall be filed by 8:00 a.m. on January 22, 2002. Anyone filing comments shall ensure that assigned Administrative Law Judge and others on the service list are timely served.

Findings of Fact

1. D.01-06-086 authorized SoCalGas to perform the well design work that would allow it to free up and reclassify the 14 Bcf of cushion gas as working gas available for sale.

2. D.01-06-086 authorized SoCalGas to recover the cost of the well work performed in order to reclassify the cushion gas.

3. D.01-06-086 prohibits SoCalGas from selling the reclassified cushion gas until the Commission directs it to do so on the terms and conditions specified in a Commission decision.

4. D.01-06-086 stated that there would be a second phase of this proceeding to address all of the remaining ratemaking issues, including the allocation of the

anticipated net gain on sale, the anticipated reduction in operating costs, and the allocation of benefits among customer classes.

5. D.01-06-086 solicited opening and reply comments on whether any restrictions should be imposed on SoCalGas with respect to the sale of the 14 Bcf of reclassified cushion gas, and whether Phase 2 of this proceeding should be handled in SoCalGas' BCAP.

6. SoCalGas proposes that the 14 Bcf of gas be sold in a one-round sealed bid process, with all bids made in increments of 1 Bcf.

7. ORA proposes that 70% of the reclassified cushion gas (9.8 Bcf) be allocated at book cost to core customers, and that the remaining balance of 4.2 Bcf be sold using a competitive sealed bid procedure.

8. ORA also proposes that SoCalGas be allowed to recover from the sale proceeds of the 4.2 Bcf the book cost of the cushion gas plus the capital cost of the improvements, and that the remaining net proceeds be allocated between SoCalGas' shareholders and noncore customers.

9. None of the commenting parties supported the idea of giving electric generators and qualifying facilities a preference over others to purchase the 14 Bcf of gas.

10. No hearings are needed.

11. The proposals of SoCalGas and ORA both have their own advantages and disadvantages.

12. Sale of the gas to any party will provide the same capacity benefits from the project to all SoCalGas customers and there is no reliability need to transfer the gas to the core portfolio because core storage has met its reliability for winter 2002.

13. The sale of 100% of the reclassified gas on the open market will maximize the economic benefit of the project which can then be allocated as appropriate in Phase 2 of this application.

14. The proposed sale procedure will not result in any purchaser obtaining market power over the price of gas in Southern California.

15. The Commission has not acted to authorize the sale of the reclassified cushion gas in time for it to be sold by November 1, 2001, as originally proposed by SoCalGas. The market value may be reduced if purchases are not allowed a reasonable amount of time to withdraw the gas.

16. All of the Phase II issues will be addressed in this proceeding since the issues are better suited for resolution in this proceeding than in the BCAP.

Conclusions of Law

1. In order to decide under what terms and conditions the reclassified cushion gas should be sold, the Commission should consider each proposal's advantages and disadvantages, as well as other policy considerations and current market conditions.

2. SoCalGas should be authorized to sell 100% of the 14 Bcf of reclassified cushion gas on the open market in a one-round sealed bid process, with all bids made in increments of 1 Bcf.

3. The determination as to what should be done with the net proceeds, as well as the cost of the rework, will be decided in Phase 2 of this proceeding in conjunction with the other Phase 2 issues.

O R D E R

IT IS ORDERED that:

1. Southern California Gas Company (SoCalGas) sell 100% of the 14 Bcf of the reclassified cushion gas at its Aliso Canyon and La Goleta storage facilities in the open market according to the sealed bid procedure proposed in its July 6, 2001 comments, and that this sale occur within 15 business days from the effective date of this decision.

2. Upon sale of the reclassified cushion gas, SoCalGas shall allow the new owners to complete the withdrawal of the gas from storage within 12 months.

3. Within five days of the following events, SoCalGas shall file and serve a notice describing: (1) when the sale of the 14 Bcf reclassified cushion gas has taken place; and (2) the price paid for each 1 Bcf increment of gas.

This order is effective today.

Dated _____, at San Francisco, California.