lmm

Decision No. 81898

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Joint Application of SOUTHERN CALIFORNIA GAS COMPANY and PACIFIC LIGHTING SERVICE COMPANY for Authorization to Revise Rates from Time to Time as Necessary to Reflect Expenditures and Revenues Associated with Gas Exploration and Development Activities.	Application No. 53625 (Filed October 6, 1972)

(Appearances are listed in Appendix A)

O P I N I O N

By Application No. 53625 Southern California Gas Company (SoCal) and its affiliate Pacific Lighting Service Company (PLS), the applicants in this proceeding, seek authority to establish a procedure to support gas exploration and development activities designed to bring natural gas supplies to their consumers in southern California. Applicants propose to incorporate provisions in their tariffs for adjusting rates to reflect the costs incurred in the gas exploration and development activities, and to provide for the return to the ratepayers of the net revenues generated by such activities.

Under applicants' proposal, specific gas exploration and development projects proposed to be undertaken by Pacific Lighting Gas Development Company (PLGD) will be submitted to the Commission for approval by project letter. After approval of the project, applicants will file for rate adjustments by advice letter to cover the costs related to the specific approved projects, including, where appropriate, amortization of the funds provided over a reasonable period of time. The applicable rate adjustment is referred to as the Gas Exploration and Development Adjustment (GEDA).

Applicants specifically request the Commission to issue its order authorizing:

1. PLS to include in its Cost of Service Tariff the costs associated with all Commission authorized gas exploration and development projects.

2. The accounting procedures set forth in Exhibit A to the application. Under these accounting procedures gas exploration and development funds provided by PLS to PLGD for approved gas exploration and development projects will be charged by PLS to Account 183.1, Preliminary Natural Gas Survey and Investigation Charges, and amortized over an appropriate period of time by charges to Account 798, Other Exploration Expenses. PLGD will operate as a nonprofit, nonloss company and will return all net revenues, tax credits, and other recovery of costs to PLS. All applicable federal income tax credits will be credited by PLS to Account 183.1 as received. Account 183.1 will be subdivided to identify separate projects, and the unamortized balance will be includable in rate base. Amounts to be included in the PLS cost of service and to be recovered from SoCal customers will include amortization of the investment less applicable tax credits, expense related to the project, and return on average rate base. Net revenues generated by the projects will be credited to PLS cost of service Account 495, Other Gas Revenues, and accumulated by SoCal for return to the customers under the GEDA procedure.

A different treatment is proposed for exploration and development projects which provide reasonable assurance of recovery of the original investment or equivalent within a reasonable period of time from proven reserves or through third-party corporate guarantees. No amortization will be required and the amounts to be recovered will consist only of applicable expenses and carrying charges on the amounts committed. To the extent possible, these projects will be financed directly by PLGD with, if necessary, and subject to Commission approval, a corporate guarantee of payment of interest and repayment of principal by PLS. Such guarantee would be supported by Commission approval of the specific project, approval of inclusion of costs related to the project in the PLS cost of service tariff, and authorization of SoCal to recover such costs in its rates. The costs of such financing by PLGD will be charged to PLS and will be recorded by PLS in a subaccount of Account 186, Miscellaneous Deferred Debits. A concurrent entry will be made by PLS to credit Account 186 and to charge Account 798, Other Exploration Expense. In the alternative, PLS will furnish the funds as required for the project, charging such amount to a subaccount of 183.2, Other Preliminary Survey and Investigation Charges. These amounts would be included in rate base, where they would earn a return but would not be subject to amortization. To the extent that interest is payable to PLGD or PLS, or amounts are received in excess of the amounts advanced, such amounts will be returned to PLS and in turn to SoCal and its customers through the GEDA procedure. Conversely, any amounts not fully recovered or amounts required to be supplied under the terms of PLS corporate guarantee would be transferred to Account 183.1 and amortized over a reasonable period of time.

3. SoCal to include in its Rule No. 2 a new Section M as set forth in Exhibit B to the application. Under this provision the GEDA will be limited to a ceiling of $40 million in total annual revenues or 0.500 cents per therm (or equivalent), which ever is lower.

4. SoCal to include in its Preliminary Statement a new Section H as set forth in Exhibit B to the application. This Section H provides that the rates in all filed rate schedules (except G-30) shall be uniformly adjusted by adding the appropriate GEDA.

5. SoCal to include in each of its tariff schedules (except G-30) the following provision:

> "The above rates are subject to the applicable Gas Exploration and Development Adjustment in Section H of the Preliminary Statement."

6. SoCal to revise its present rates to include in the GEDA set forth in Section H of the Preliminary Statement an amount reflecting costs of gas exploration and development authorized in Decision No. 80430. Under Decision No. 80430 SoCal is presently authorized to reflect only one-half of the costs of certain approved gas exploration and development projects in its rates. In the initial implementation of the GEDA procedure it is proposed that the costs of 0.023 cents per therm or equivalent for exploration and development authorized to be included in rates in Decision No. 80430 be included in the GEDA specification in Section H of the Preliminary Statement.

7. SoCal to utilize the advice letter procedure to revise the amount of the charge or credit from time to time to adjust for changes in costs or flow-through of net revenue for projects previously approved. GEDA advice letter filings will be made at least once each year and no more frequently than once each month.

Public hearings on the application were held before Examiner Cline in Los Angeles on March 19, 20, and 21 and on April 2, 3, and 9, 1973. The matter was taken under submission on the filing of the closing briefs on May 18, 1973.

Briefs were filed by the following parties:

1. SoCal and PLS (applicants).
2. California Gas Producers Association (CGPA).
3. California Manufacturers Association (CMA).
4. The city of Los Angeles (Los Angeles).
5. The city of San Diego (San Diego).
6. General Services Administration (GSA).
7. San Diego Gas and Electric Company (SDG&E).
8. Southern California Edison Company (Edison).
9. The Commission staff (staff).

The Gas Supply Crisis

Applicants introduced evidence to show that there has been a significant deterioration in their gas supply situation since the preparation and presentation of SoCal's Application No. 52696 filed June 18, 1971, which led to Decision No. 80430 dated August 29, 1972. Starting with 1968, the reserve-to-production ratio for natural gas in the lower 48 states has decreased each year, indicating a substantially declining ratio of proven reserves in the ground related to the amount of gas consumed each year. The existing levels of deliveries from known reserves are declining and discoveries are not great enough to offset such a decline. Applicants have not been able to contract for new increments of gas supply from their two traditional out-of-state gas suppliers, El Paso Natural Gas Company and Transwestern Pipeline Company, since the end of 1969. Applicants' last increment of 100 M^2cfd of out-of-state gas contracted for in early 1969 was certificated in 1970 for receipt in 1971. Through October 1972, these two suppliers were able to make contract volume deliveries, but the situation has now changed. El Paso started curtailment to applicants on November 1, 1972 and averaged 76 M^2cfd of curtailment through December 31, 1972. Curtailment by El Paso of the magnitude of 100 M^2cfd has continued through January and February and the first 19 days of March 1973. This was the first time in applicants' history that an out-of-state supplier curtailed volumes of gas.

Transwestern also failed to deliver its full annual contract quantity in 1972 averaging only about 740 M^2cfd for the year, 10 M^2cfd below contract volume. In September 1972 applicants received from Transwestern a notice of termination of their evergreening provision in their contract, and so the 20-year term has begun to run. Under the evergreening provision, as each year of the initial term passed, a year was added at the end of the term unless either party gave notice that such was not to be the case.

As about 75 percent of Transwestern's gas is delivered to applicants, the notice commencing the running of the 20-year term under the contract is a major event.

There has also been a drastic decline in the availability of California-produced gas. In 1968, applicants received an average of 660 M^2cfd from local production in California. In 1972, this dropped to an average of 236 M^2cfd, and by 1976 the estimate is that it will drop further to an average of 177 M^2cfd. During SoCal's last rate case, it was estimated that annual California production in 1976 would be 236 M^2cfd. Applicants' current estimate of California production is down 59 M^2cfd compared with this previous estimate.

Since 1967 applicants have purchased gas from Pacific Gas and Electric Company (PG&E) in volumes varying from about 43 Bcf to 60 Bcf per year. Applicants' 1972 contract with PG&E was for 44 Bcf. Except for just over 2 Bcf of gas to be reserved for deferred delivery to SDG&E, applicants do not expect to be able to purchase gas from PG&E in 1973 or subsequent years unless PG&E's gas supply position is changed from that now expected.

Exhibit No. 5 illustrates the effect that the gas shortage will have on different classes of SoCal's customers under various assumptions of gas supply availability. Under the assumption that applicants' out-of-state suppliers will be able to maintain their present level of contract quantity deliveries during the period 1973 through 1980, and the further assumption that no additional supply increments are obtained, the regular interruptible service would decline to approximately 72 percent level of satisfaction and utility electric generation service to about 10 percent by 1980 in an average temperature year. In a cold year, these levels would decline further to about 59 percent and 6 percent, respectively.

Under the assumption that there will be a decline in availability of out-of-state supply based on the forecasted decline in the reserves supporting El Paso's and Transwestern's deliveries as set forth in their 1970 Form 15 reports filed with the FPC, service to SoCal's regular interruptible customers will decline to about 59 percent and electric generation service will decline to about 3 percent satisfaction by 1976 in an average temperature year. If 1976 were to be a cold year, almost 60 percent of the regular interruptible requirements would be curtailed while about 99 percent of the steam plant requirements would not be served by gas. In subsequent years the electric generation plants would receive no gas while the regular interruptible customers would reach that point by 1980. Firm customers would be curtailed in a cold year in 1978, or in 1979 in an average temperature year.

In 1972 the Federal Power Commission released a report entitled "National Gas Supply and Demand 1971-1990 - Staff Report No. 2 - Bureau of Natural Gas, Federal Power Commission, Washington, D.C., February, 1972". On page one of that 160-page study, the Federal Power Commission staff concludes:

> "Our 20-year forecast to 1990 indicates that the rate of development of national gas supplies, both conventional and supplemental, will be inadequate to meet current projections of future demand (Table 1, Figure 1, Page 3). In addition we see:
>
> * Consumption of gas falling increasingly behind theoretical demand with annual supply deficits of about 9 trillion cubic feet by 1980 and 17 trillion cubic feet by 1990.
> * Domestic production peaking in the mid seventies and declining thereafter.
> * Heavy reliance on imports and other supplemental supplies of gas which will account for about 40 percent of consumption by 1990.
> * The proven reserve inventory of the contiguous 48 states dropping from its present level of 259.6 to 170.4 trillion cubic feet by 1990.

"While this outlook may appear to be pessimistic, it is not predicated on a pattern of failure. We have carefully analyzed the future prospects for domestic reserve additions, pipeline and LNG imports, Alaskan gas, and synthetic gas from coal and liquid hydrocarbons and for each of these major current or future supply sources we assume a successful program of development or implementation."

The Federal Power Commission staff goes on to say:

"While precision in long-range forecasting is impossible to attain, the important observation to be made is that a national supply deficit has developed and will continue throughout the 1971-1990 period."

In order to meet the gas shortage crisis applicants have concluded that they are going to have to make a very major effort to find and develop production from the potential gas reserves in the lower 48 states. In order to augment diminishing supplies from existing sources, PLGD has already entered into a joint venture agreement with a subsidiary of Transwestern to explore for and develop additional gas supplies in areas tributary to Transwestern's pipeline system.

Exhibit No. 8 depicts in chart form the total energy balance for the United States through 1985 estimated in the National Petroleum Council's study. This exhibit shows the rapidly increasing demand for energy which cannot be met by the domestic gas and oil reserves. While some of this growth in demand will be met by nuclear energy, coal, and gas imports and supplements, the vast bulk of the increased demand will have to be met by oil imports.

All of the market areas in the United States are facing energy shortages. In view of the worsening gas supply situation in California, together with the bleak national supply picture, applicants contend that they must expend the effort necessary to acquire new sources of gas supply both from traditional and new sources as rapidly as possible. In order to seek and develop gas reserves that can be transported to and utilized by the consumers in southern California, applicants propose to assist the producing segment of the gas industry with capital resources. Otherwise there will be no assurance that new gas reserves will be found and dedicated to applicants' service area. Gas companies in other parts of the United States are already making large capital expenditures to obtain gas supplies for their respective areas in direct competition with applicants' effort. Exhibit No. 9 entitled "Summary of Advance Payment Status Survey" which contains data compiled from the recently released Federal Power Commission report involving 22 of the largest natural gas pipeline companies shows that less than five percent of the total dollars committed have been committed by pipeline companies serving the West Coast and of the sums actually advanced, these companies have supplied under two percent of the total.

The types of expenditures that PLGD would make for gas exploration would take many forms. Applicants' witness described them as follows:

> "Basically, however, they will fall into one of three major categories. One is the category where the repayment of the expenditures is assured from proven reserves or a corporate guarantee. The second category is that where repayment is reasonably assured, and finally, there is the higher risk exploration category where there is no assurance of any recovery. Within these categories there are many different forms that the expenditures can be expected to take with a wide range of varying risks involved.
>
> "Basically, in the category of the assured return would fall those expenditures made which are in the form of advance payments, where the receiving company guarantees a payback or where the payments are secured by proved reserves, with the expenditures being paid back out of revenues received by the owner of the proved reserves at the time of their sale. The second category would include those expenditures where repayment would come only from specific reserves to be found and developed and would be contingent upon developing sufficient gas to support a project, obtaining necessary government and regulatory approvals, and obtaining financing. The third category constitutes those expenditures where the

assurance of payback is more speculative. About any type of arrangement imaginable can fall into this category, ranging from outright lease acquisition which bears the full risk of wildcat exploratory effort to farm-ins where working interests are obtained. The principal point to be emphasized, however, is that there are a variety of modes of expenditures but that they will fall basically into the three categories: assured repayment, relatively assured repayment and exploration risk ventures."

The expenditures which applicants have already made have been varied. The Artic Island venture involves payback including interest out of reserves, some of which are already proved, plus a very small working interest. In the Australian venture the payback will be out of the reserves discovered in the field including interest on the monies applicants have advanced. In the joint venture drilling program with Transwestern, PLGD has put up money for farm-ins where a working interest was obtained and also lease acquisition. In these instances applicants try to obtain a maximum call on the gas for a minimum working interest.

Applicants' arrangements with Gulf Oil Canada Limited were made jointly with Alberta and Southern Gas Company Ltd., an affiliate of PG&E. In effect applicants are obligated, if certain conditions are met, to make two types of advances. The first type involves substantial cash advances for exploration activities. These advances will be paid back after deliveries of gas commence or if sufficient reserves have not been found, each loan is to be repaid by its fifth anniversary. A second form of advance is to be made for development purposes and will be repaid from the gas delivered under the gas purchase contract.

The benefits from applicants' participation in gas exploration and development activities have already commenced as a result of the joint venture with Transwestern. Five of the 18 wells drilled by the joint venture have been producers. Gas from those producing wells will assist Transwestern in trying to meet its contract delivery requirements.

Applicants also introduced evidence to show that the competition for gas requires the adoption of a procedure which will provide for expeditious action by the Commission on requests for approval of gas exploration and development proposals. The vice president of SoCal's gas supply department testified as follows:

> "The other major gas companies having large United States markets which are competing with us in these new supply areas are doing so on the basis that they do not have to obtain the necessary approvals from the regulatory agencies having jurisdiction over them, prior to entering into these large financial commitments. For the most part, these companies are all natural gas companies regulated by the Federal Power Commission and, therefore, are governed by different regulations than are we. They now have more flexibility than do we in making these commitments without first obtaining prior approval. Their ability to do so puts us at a severe competitive disadvantage. We are simply not going to be in the ball game if we cannot make firm commitments in relatively short periods of time."

This witness further stated:

> "We feel that we can negotiate with producers and request a limited time within which to obtain formal Commission approval before making an irrevocable commitment on our part. We are thinking here in terms of a 30 to 45 day period. We feel that with adequate incentives the producers will accept that concept. What it does mean, however, is that at the time we have reached a meeting of the minds with the producer, we will only have from 30 to 45 days within which to obtain the formal Commission approval. The GEDA procedure we are advocating in this application is designed to provide an expeditious, yet thorough procedure which we believe will allow us to be active and successful on behalf of our customers. We appreciate that the time for this Commission to act is rather limited, but we believe it is the best balanced approach to follow."

Issues

The following issues which have been raised by the parties to this proceeding require resolution by the Commission:

1. Should the Commission defer establishment of the GEDA procedure until a reasoned evaluation of the National Energy Policies has been made?

II. Does the California Environmental Protection Act of 1970, as amended, require consideration of the potential environmental impact or the preparation of an environmental impact report in this proceeding?

III. Is this application an application for a rate increase?

IV. Is the GEDA procedure for future rate increases unlawful?

A. Is the proposed GEDA procedure unlawful because a public hearing may not be required?

B. Can expenses related to gas exploration and development lawfully be included as utility operating expense?

C. Is the GEDA proposal unjust, unreasonable, and discriminatory because of the range of activities permitted and because it may be counter-productive?

D. Should the Commission authorize GEDA on a case-by-case method?

E. Does the GEDA procedure involve retroactive rate making?

V. What method of accounting should be adopted to record amounts spent for gas exploration and development.

A. Should the 50/50 approach authorized by Decision No. 80430 or the cost of service method be used?

B. Should applicants be permitted to use current cost accounting as proposed or should full cost accounting for gas exploration and development expenses be required?

VI. What conditions to the GEDA procedure, if any, should be adopted?

A. Should the conditions proposed by the staff be adopted?

B. Should the conditions proposed by CMA be adopted?

VII. How should GEDA be applied to rates?

VIII. Should GEDA be applicable to rate Schedule G-20?

IX. Should SoCal be required to furnish SDG&E with a proportionate share of gas developed by the gas exploration and development program?

I. Should the Commission defer establishment of this GEDA procedure until a reasonable evaluation of the National Energy Policies has been made?

San Diego contends that the Commission should defer authorizing the GEDA procedure until a reasoned evaluation of the new national energy policies has been made.

In response the staff points out that it has proposed that authority to commit funds to new or revised gas exploration and development projects be limited to a period of not more than three years. Such a time limit would provide the Commission with an opportunity to review changes in the gas supply picture and to modify the GEDA procedure accordingly.

The Commission must decide this application on the basis of the record in this proceeding. If there is an important change in the energy picture, the Commission, at any time on its own motion, or at the instigation of a party to this proceeding, may consider what changes, if any, should be made in the GEDA procedure which is authorized in this proceeding. Also, any party may submit information to the Commission regarding the energy situation for its consideration whenever SoCal and PLS submit a project to the Commission for approval.

The Commission will not defer the establishment of the GEDA procedure but will proceed to issue its order based on the record in this proceeding.

II. Does the California Environmental Quality Act of 1970, as amended, require consideration of the potential environmental impact or the preparation of an environmental impact report in this proceeding?

None of the parties has contended that it is necessary to consider the potential environmental impact or to prepare an environmental impact report in this proceeding.

The staff has suggested that applicants be cautioned that upon presentation of specific projects under the GEDA procedure environmental issues will be fully explored pursuant to the California Environmental Quality Act of 1970.

Furthermore, the staff suggests that applicants be placed on notice that the Commission will also consider the potential environmental impact in the rate adjustment phase of the GEDA procedure.

Applicants contend that environmental impact reports have no relevance to Project Letters. Any project outside California will not be governed by California environmental laws. At such time as facilities are required to be constructed in California the construction of those facilities will be controlled by the appropriate governmental agency.

Applicants are, however, placed on notice that if environmental issues are appropriately raised by any party during the course of consideration of a project letter filing or an advice letter filing, such issues will be given consideration by the Commission, as in any other rate increase proceeding.

III. Is this application an application for a rate increase?

Los Angeles and San Diego contend that the application is one for a rate increase. SDG&E in its closing brief takes the position that the application is not a request for the Commission to establish procedures for future rate increases, but it is a request for a specific maximum increase to be implemented and made effective in the future.

Both Los Angeles and San Diego assert that the record in this proceeding does not justify a rate increase. The staff concurs. SDG&E disagrees with this contention.

In its closing brief the staff has clearly answered Issue I as follows:

> "It is abundantly clear that neither a rate increase nor approval of given projects is the subject of this proceeding. In Phase I project approval will be sought by submission of pertinent financial cost and revenue data. (Exh. 4, pp. 2-3, A.7.) During the pendency of project approval protests may be lodged and the matter set for hearing. (Tr. 104-105.) Phase II will be triggered only if projects are approved. Upon project approval a rate adjustment will be sought. (Exh. 4, p. 3.) It is at this juncture that rate increase becomes an issue. Parties would also have an opportunity to protest the rate adjustment. (Tr. 114-115.)"

The Commission agrees with the staff. The Commission is being asked to reconfirm the policy of permitting gas utilities, subject to its jurisdiction, to include in their rates amounts which can be used for expenses related to gas exploration and development, and to establish a procedure for applicants whereby their requests for future rate increases to provide such funds, subject to specific limitations, in the absence of justified protests may be expeditiously approved by the Commission.

IV. Is the proposed GEDA procedure for future rate increases unlawful?

A. Is the proposed GEDA procedure unlawful because a public hearing may not be required?

Los Angeles contends that the proposed GEDA procedure is unlawful because it makes no provision for public hearings to determine the necessity for rate increases.

As pointed out by the applicants and the staff this contention is without merit. The GEDA procedure itself will be based on the record in this proceeding which has been made at a public hearing. During the pendency of a request for project approval protests may be filed and the Commission, on the basis of such protests or even without protest on its own motion, may set the matter for hearing. Also at the advice letter stage protests may be filed and the matter may be set for hearing. If the Commission acts without hearing at either stage, any party who has appeared and filed a protest may request rehearing of the Commission's ex parte order, and if the rehearing is denied, he may take an appeal from the order denying rehearing.

The proposed GEDA procedure is not unlawful because a hearing may not be required at the project letter filing or advice letter filing stages.

B. <u>Can expenses related to gas exploration and development lawfully be included as utility operating expenses for rate-making purposes?</u>

Los Angeles argues that the proposed GEDA projects will involve nonutility operations outside of California which have no relation to applicants' present gas distribution operations and present gas customers, and that it is, therefore, unlawful to include expenses relating to such projects as utility operating expenses. Los Angeles contends that applicants seek to obtain ratepayers' funds for gas exploration and development projects which are wholly unregulated. The funds would be advanced to an unregulated gas development company, and, in turn, expended by developers wholly beyond the jurisdiction of the State of California and the United States Government. Applicants propose to search for future gas reserves, the gas from which will be made available for sale to applicants' future customers. Los Angeles further contends that however much applicants may desire to secure gas supplies to assure their ability to continue to conduct their gas distribution business in the distant future, their present customers cannot lawfully be burdened with such unregulated activities.

In its brief SDG&E points out that there is nothing in the Public Utilities Code which provides that an expense to be allowable for rate-making purposes must involve a cost which occurs in California. Utilities subject to the jurisdiction of this Commission contract for goods and services with many entities not subject to the jurisdiction of this Commission and the expenses are included in rates.

Costs related to authorized gas exploration and development projects are costs related to applicants' utility operations. Without a gas supply applicants will cease to operate as gas distribution utilities.

The GEDA program costs may ultimately be expensed through a nonutility subsidiary but the scope and amount of the expenses allowed for rate-making purposes will be regulated by this Commission.

This Commission is empowered to determine that the GEDA program involves reasonable and necessary expenses. The extent of such allowable expenses and the adjustment to the rates of the customers in the future will be determined by the Commission later by its approval or disapproval of the gas exploration and development projects and by its action with respect to the subsequent advice letter filings.

C. <u>Is the GEDA proposal unjust, unreasonable, and discriminatory because of the range of activities permitted and because it may be counter-productive?</u>

GSA in its brief points out that under the GEDA proposal the gas exploration and development transactions will include advances for exploration, development, or lease acquisition. These advance payments would, if successful, provide PLS with an option to purchase the discovered gas. Repayment of the advance would be in cash or as a reduction in the cost of gas purchased. The cost of the gas would be determined by negotiation between the parties after its discovery.

GSA contends that applicants should be subject to the same limitations, with respect to advances, for gas exploration and development as are presently imposed on pipelines by the FPC. The FPC in Order No. 465 provides that advances for lease acquisitions should not be permitted since such transactions could be a factor in bidding up the price of the leases. With respect to the guarantee of repayment of advances Order No. 465 states that if five years elapse from the time an advance has been included in Account 166 and no gas deliveries have commenced and no determination has been made that that recovery will be made in economic consideration other than gas, the pipeline shall, at the end of the five-year period, remove the advance from Account 166 and cease rate base treatment thereof. By requiring recoupment of advances the FPC ensures that pipeline customers will not be charged for a project resulting in total or partial failure. GSA contends that unguaranteed advances for wildcat ventures should not be included as rate base and amortized as operating expenses, if the venture is a failure. Otherwise the ratepayer will be subjected to the ultimate in speculation.

GSA's reference to FPC procedures is not in point, because those procedures do not contemplate FPC approval of individual company proposals for advances, but simply establish broad guidelines which must be adhered to in the exercise of discretion by the individual company. This Commission's control under the GEDA procedures, by contrast, is much more direct and specific as to individual proposals for expenditure of funds by the applicants. In this proceeding the Commission will not exclude advances for lease acquisitions and unguaranteed advances for wildcat exploration. Protests to such project letter filings will be considered at the time of the project letter filing.

GSA also argues that the proposed GEDA procedure could further aggravate the energy crisis and gas shortage by artificially increasing the demand for natural gas. This argument we find somewhat difficult to understand. The nationwide--indeed, worldwide--

demand for gas supplies has been amply documented in this proceeding. Applicants have also demonstrated beyond reasonable dispute that significant new supplies of gas will be required on their system to enable them merely to continue to serve existing customers in the coming years. The proposed GEDA procedure, rather than stimulating further demand, would simply enable the applicants to participate more effectively on California's behalf in the efforts already being made by others to satisfy the demand which already exists. Without such participation, this demand would in all probability still be there, but more of it would be unsatisfied, at least in California. In other words, the GEDA proposal is a step in the direction of alleviating the gas shortage in California, not aggravating it.

GSA also contends that since applicants intend to roll in the cost of future gas supplies the average or rolled-in price will be lower than the actual price of the incremental gas which may be as high as $1.35 per mcf as compared to the present, approximately $.50 mcf. Since the gas at such time might be sold at less than incremental cost, such volumes of incremental gas might stimulate an artificial demand not justified by economics. Costing issues may be taken up in individual project letter filings. Moreover, the Commission can at any time review SoCal's rate structure and establish rates which will discourage or prevent consumption of incremental gas at less than incremental cost, if such be appropriate to conserve gas supplies or accomplish other objectives.

D. Should the Commission authorize GEDA on a case-by-case method?

Los Angeles and San Diego question whether the proposed procedure will give the Commission and the parties the opportunity to make a proper evaluation of the project letter filings and the advice letter filings. The hearing on the present application has given the parties an opportunity to suggest limitations which should be imposed on the type of projects for which the expedited procedure may be used. With respect to project letter filings and advice letter filings which subsequently may be made, pursuant to the GEDA procedures which are to be authorized in this proceeding, the parties may file protests and request that hearings be held. The GEDA procedure is a case-by-case procedure which contemplates that most of the filings will not be so controversial as to provoke protests and requests for hearings.

E. Does the GEDA procedure involve retroactive rate making?

Los Angeles contends that the provision in the proposed GEDA tariff, which permits annual revision of GEDA to provide for correction of any over-collection or under-collection of costs in the prior year resulting from differences between estimated costs and volumes used in determining GEDA and actual costs and volumes recorded for that period, constitutes retroactive rate making. Since the tariff itself will provide for the adjustment, the adjustment will be a part of the rate which has been authorized previously. It is similar to refunds of overcharges which are made by gas distribution companies when the FPC disallows increases in wholesale gas rates by gas transmission companies, which the gas distribution companies have been authorized to pass on to their customers through increases in rates which are subject to refund. The annual revision of GEDA also will be subject to the other limitations such as the maximum annual amount of GEDA which is to be authorized.

V. What method of accounting should be adopted to record amounts spent for gas exploration and development?

A. Should the 50/50 approach authorized by Decision No. 80430 or the cost of service method be used?

San Diego and GSA contend that applicants have failed to establish any need to depart from the 50/50 approach authorized by Decision No. 80430 issued August 29, 1972 in Application No. 52696 of SoCal whereby SoCal was authorized to recover only one-half of amounts expended for gas exploration and development on a cost of service basis. The remaining nonutility one-half was to be provided by the shareholders of applicants' parent. San Diego and

GSA contend that the principle of shared risk to give applicants an incentive to control costs prudently is sound and should not be abandoned.

GSA points out that the energy crisis has created a sellers' market with buyers scurrying to and fro to get gas supplies under call. GSA contends that under such circumstances the Commission should not remove the incentive and protection of the 50/50 approach and assume the full responsibility for passing on PLS ventures. The GEDA proposal is far different from a purchased gas adjustment clause where regulated price changes in the cost of gas are flowed through as an adjustment to rates.

> "In this proceeding we are proposing to enter into an additional activity not included in Application No. 52696, which we see as also essential if we are to be able to get gas supplies under contract. This involves the making of advance payments to get producers to commit their gas to our market. We see this step as an absolute need if we are to be able to participate in obtaining gas supply commitments on our consumers' behalf. Inasmuch as the benefits from advance payments offer nothing other than commitment of the right to purchase gas supplies and the possible return of such advance payments, this is an activity where the one-half approach would in no way be applicable; this is so, since there is no possible way for the shareholder to obtain coverage of such costs because none of the benefits of the activity will flow through to the shareholder.
>
> "We consider that it is essential for the maintenance of gas service to the area we serve that we be allowed to undertake the gas development program we have proposed. If the half and half treatment were to be the conclusion that is applied to the program we now propose, then our only choice would be to take the posture of a purchaser, taking only whatever offer of supply that might be brought to us. The results we believe would be uncertain at best and with less assurance than where we were directly involved. In our view, if this program is rejected, it can only result in even higher costs that we now see in developing from our approach to bringing in new sources of supply."

Applicants point out that the record is full of evidence illustrating the increasingly critical gas supply crisis and documenting the extent of deterioration in the gas supply since the development of the record in Application No. 52696 on which the 50/50 approach was based. They contend that they have met the burden placed on them by Decision No. 80430 to show the need to modify the 50/50 concept adopted in that case.

The staff points out that Application No. 52696 was filed June 18, 1971, and that by the time Decision No. 80430 was issued on August 29, 1972, the gas supply picture had become more serious. In November of 1972 El Paso Natural Gas Company, a major supplier of gas to applicants, first began curtailment of service to California under an interim emergency curtailment plan authorized by the Federal Power Commission in Opinion No. 634, Docket No. RP72-6. Subsequently, on December 19, 1972 the Commission in Decision No. 80878 in Application No. 53118 authorized Pacific Gas and Electric Company (PG&E) to advance $3,000,000 per year for five years to its subsidiary, Natural Gas Corporation, to be used for gas and oil exploration purposes on a cost of service basis. Of this amount for the test year 1973 $1,500,000 was charged to exploration expense and $1,500,000 was added to PG&E's rate base.

The staff suggests that a cost of service treatment also be accorded GEDA. As the GEDA proposal contemplates amortization of advances only when they are determined to be unrecoverable, there is no necessity for making an estimate of amounts expected to relate to dry holes as was done in the PG&E matter. The staff also points out that because GEDA ventures are to be presented for Commission approval on a project-by-project basis and tested as to prudence with rate implementation only after approval by the Commission, the GEDA proposal is different from that in Decision No. 80430 where the choice of a venture lies solely within the discretion of management justifying the imposition of an incentive to cause management to select only the more promising ventures.

Commission approval of the various undertakings on a project-by-project basis has merit. Cost of service treatment of these items will be adopted as the best method to providing the applicant current funds and reducing the higher cost of future acquired gas to future customers. Also the cost of service approach will more equitably reflect the current cost of gas activities and operations of the applicant.

The cost of service approach means the inclusion either in expense or rate base of the costs of the GEDA program in determining rate adjustments. The costs of administration of the program would be charged to expense currently. The PLGD exploration and development expenses will be treated under Issue VB of this decision. The other type of cost of the program is in general advances to producers and others. Where monies are borrowed for an advance the carrying charges of the borrowed funds will be includable in expenses, but the advance will not be included in rate base.

Other advances which are made from general corporate funds will be included in the rate base. No amortization of such advances will be made until it is determined that the advance is not recoverable. The period of amortization will be five years unless otherwise authorized by the Commission.

All of the above expense items when used to determine the appropriate rate adjustment will reflect the applicable income tax adjustment.

B. Should applicants be permitted to use current cost accounting as proposed or should full cost accounting for gas exploration and development expenses be required?

Under the full cost accounting method proposed by CGPA, CMA, and Los Angeles costs related to future gas supplies obtained as a result of applicants' gas exploration and development program would be related to the future gas supplies, and provision for such expenses would be made in the rates charged for such gas when delivered. The result would be that the rates to be charged for current gas supplies would be lower than proposed by applicants and the rates to be charged for future gas supplies would be higher than proposed by applicants.

GSA urges that GEDA expenses be treated in the same manner as amounts expended for plant construction in progress. In other words the applicants' exploration and development expenses would be made and interest would be capitalized thereon. Such capitalized amounts would not be included in rate base for return and amortized as expenses for rate-making purposes until such time as the newly discovered gas supplies are available for delivery to future customers. Hence, gas exploration and development costs would not be paid by today's customers who may not be significant beneficiaries of the use of such funds.

Applicants and the staff contend that a current allowance for gas exploration and development costs should be made in SoCal's present rates. The staff in its brief has suggested that GSA had the opportunity to present testimony regarding the interest during construction (IDC) concept, but did not do so at the hearing, and contends that the record is insufficient to support the IDC treatment of GEDA amounts.

Full-cost accounting for exploration and development costs means the capitalization of all exploration and development costs incurred in the search for natural gas, while exploration and development costs are costs such as preliminary survey costs, well drilling costs, lease costs and other like costs incurred in the search for natural gas. These would be costs incurred by PLGD's own program to explore for and find natural gas.

The full-cost accounting method which capitalizes all exploration and development costs with provision for future write-off against revenues from producing natural gas wells is preferable to current expensing of such costs, in that expenses and revenues are matched. Such capitalized costs would be included in the rate base in determining the rate adjustments.

The recovery of costs will occur when production from a lease commences through appropriate depletion, depreciation and amortization. Abandoned leases and associated costs will be amortized over a period of five years or as otherwise authorized by the Commission. Any revenues and income tax credits will be reflected in determining the rate adjustment.

VI. <u>What conditions to the GEDA procedure, if any, should be adopted?</u>

A. <u>Should the conditions proposed by the staff be adopted?</u>

The staff proposed the following conditions:

1. Maximum GEDA amounts should be limited to 10 percent of the total cost of gas to the PLS system or 0.5 cents per therm, whichever is lower. Such a ceiling should support a reasonable exploration and development program without exposing consumers to excessive cost increases.

2. Authority to commit funds to new or <u>revised</u> projects should be limited to a period of not more than three years. Staff believes that the 3-year time limit has the virtue of applying more regulatory control to the program by enabling the Commission to address itself to possible changes in the gas supply picture.

3. Applicants should be required to file an annual result of operations report recorded and adjusted for the prior year operation.

4. For all GEDA amounts amortization of unrecoverable advances should commence only after it is established that the amounts are unrecoverable. Applicants propose that the joint venture projects approved in prior Decision No. 80430 be encompassed within the scope of GEDA thereby according said projects the full cost of service treatment previously denied to them. In line with changing the treatment of these projects to full cost of service regulation, staff recommends that the immediate monthly amortization feature of 1/60 of amounts applicable to joint venture be discontinued. Thus rate treatment

of all GEDA amounts would be uniform, and in harmony with the notion that amortization occurs only when amounts are determined not to be recoverable and therefore an item of expense

5. Frequency of reporting rate adjustments should be limited to a quarterly schedule on a calendar basis. Such a timing should provide rate adjustment at sufficiently frequent intervals to enable the applicants to recover reasonable costs. Applicants propose that rate adjustments under the GEDA procedure be made yearly and as frequently as once a month.

6. A period of 45 days within which the annual revision becomes effective will permit time for more complete staff analysis and processing requirements. Such reviews should be subject to possible hearing. GEDA changes should be included on each rate schedule rather than in the Preliminary Statement H. Applicants propose in Exhibit 18 an annual GEDA revision to correct over collection or under collection of costs, the revision to become effective 15 days after filing.

7. In the proposed letter request for project approval there should be included:

   a. The maximum annual cost and revenue requirement that may result from a project.

   b. An estimate of reserves that may be recoverable and the quantity of gas to be delivered to California.

   c: Where a working interest is acquired staff believes that there is greater potential for ratepayer benefit related to revenue attributable to the working interest. Staff therefore recommends that where no working interest is acquired the letter seeking approval contain an explanation as to why such an interest was not acquired.

   d. An explanation of customer benefits.

   e. The maximum dollar expense of all projects not limited to the calendar year.

8. Applicants should be required to give notice to participants in this proceeding and to parties requesting notice of the letter filing for project approval and of the advice letter tariff adjustment.

9. Revenue requirements should be limited to 10 years, in order to maintain regulatory order, unless specific authorization for a longer period is granted.

10. Applicants should be required to meet periodically with staff to discuss the program.

11. Applicants should file semi-annual reports on the status of approved projects. The first six-month report to be filed on September 1 and the second on March 1. The report should include the following items:

    a. A report in writing describing the various projects undertaken and the current and projected work involved.

    b. Completion of schedules set forth in the following GEDA Project Schedule:

A. 53625 lmm

GEDA Project Schedule

1. Nonproducing Leases

Item	Location	Gross Acres	Net Acres	Cost	Disposition During Period
Balance at Beg. of Period					
Additions					
End of Period Total					

2. Producing Leases
   Status of Reserves

	Cost			Reserves (M^3cf)			
Location	Lease	Other	Working Interest	Beg. of Period	Addit. or Revisions	Production	End of Period
Gross							
Net to Company							
Total							

3. List of Wells Drilled During Period

Location	Status	Number	Cost During Period	Cost to Date

4. Advance to Producers and Other

Brief Descript. Of Project & Location	Bal. at Beg. Of Period	Amt. Made Dur. Period	Pay Back	Other	Bal. at End Of Period

5. Utilization of Funds

	M$
Source	
Collected from Rates	
Revenues from Sales of Gas	
Other (Specify)	
Total	
Disposition	
Revenue Requirement of Projects*	
Administrative Costs	
Other	
Total	

*Supporting schedules for each project to be provided.

12. Applicants contemplate being compensated for total exploration related costs authorized in Decision No. 80430 attributable to the year 1973 (Tr. 554-555) under GEDA, even though GEDA may not be approved until a substantial portion of the year has transpired. Decision No. 80430 authorized only one-half of proposed exploration activity for joint venture projects to be included in rates. To the extent that applicants are permitted to recover the second half of such costs in a rate adjustment under GEDA, they recoup such costs retroactively. Staff recommends that such retroactive recoupment not be permitted.

CMA concurs in the staff conditions set forth above but contends they are incomplete and urges the Commission to adopt the additional conditions set forth in Issue VI.B. below.

Applicants have no objections to the staff's proposed Conditions 1, 2, 3, 5, 7, 8, 10, and 11.

With respect to staff proposed Condition 4 applicants point out that the recommendation that for all GEDA amounts amortization of unrecoverable advances commence only after it is established that the amounts are unrecoverable is applicants' proposal with respect to advance payments. The staff further recommends that amortization be discontinued on the joint venture drilling program authorized by Decision No. 80430 so that the rate treatment for the joint venture drilling program will be uniform with the rate treatment for the GEDA advances which provides that amortization will occur only when amounts are determined not to be recoverable and therefore to be an item of expense. Unlike advance payments, the joint venture drilling program involves the direct incurrence of lease acquisition costs, dry hole expenses, productive well drilling expenses, seismic work, and general and administrative costs. The accounting procedures previously approved by the Commission in Resolutions G-1522 and G-1563 contemplated that amounts advanced for the joint venture drilling program would be includable in rate base and amortized over a five-year period in lieu of accounting for such costs as they are reflected on the books of PLGD. Applicants urge that the Commission continue accounting for the joint venture drilling program in this manner because to do otherwise would tend to complicate the accounting or to increase the overall cost to the customer to the extent that amounts are capitalized and amortized over a period longer than five years.

In issue IV.C. above the Commission has determined that advances for lease acquisition and unguaranteed advances for wildcat exploration should not be excluded at this time under the expedited GEDA procedure which is adopted in this proceeding. Applicants request that the Commission continue the accounting procedures approved in Resolutions G-1522 and G-1563 for the drilling programs authorized by Decision No. 80430 will be denied. The rate treatment of the joint venture drilling programs authorized by Decision No. 80430 should be uniform with the joint venture drilling programs which may be authorized under the GEDA procedures to be adopted in this proceeding. Staff Condition 4 will be adopted by the Commission.

With respect to staff proposed Condition 6 applicants state that they have no objection to the recommendation that the annual GEDA revision become effective 45 days after filing rather than 15 days after filing as originally proposed by applicants. Further, applicants would agree to have the GEDA charges included on each rate schedule rather than in the Preliminary Statement H. Applicants understood the staff proposed Condition 6 to require a public hearing and opposed a required public hearing except in those instances when the Commission determines that the facts warrant such a hearing. We are of the opinion that the staff proposed Condition 6 also would require a public hearing on the annual GEDA revision only when the Commission review of the advice letter filing for the annual

GEDA revision to correct for over-collection or under-collection of costs would warrant such a hearing. The issue will be resolved in accordance with such understanding.

Applicants oppose staff proposed Condition 9 and urge that such condition be rejected. Applicants point out that certain projects currently under way including the joint venture drilling program and payments advanced in the Canadian Arctic, if successful, contemplate receipt of revenues and repayment of advances beyond ten years. Applicants point out that there is no evidence in the record to support such recommendation and urge that the condition will serve no useful purpose. We agree with applicants that staff Condition 9 should be rejected.

Applicants also oppose staff proposed Condition 12. Applicants contend that failure to allow the full 1973 costs related to the projects reviewed by the Commission in Decision No. 80430 and authorized in part is inconsistent with the change of view by this Commission in Decision No. 80878 relating to PG&E's gas rates. Applicants point out that the charges ultimately to be placed into effect if the GEDA program is approved will reflect costs incurred in 1973. The situation is similar to ordinary cost incurrence by utilities with later reflection in rate making. Such is not considered to be retroactive rate making.

Inasmuch as the Commission has previously determined in this decision (1) in its resolution of Issue IV.C. above that advances for lease acquisitions and unguaranteed advances for wild-cat exploration may be included in the GEDA and (2) in its resolution of Issue V.B. that the concept of full-cost accounting for PLGD gas exploration and development activities should be adopted, it is appropriate to incorporate in the GEDA program the projects reviewed and authorized in part in Decision No. 80430. For that reason staff proposed Condition 12 will be adopted to prevent retroactive recoupment of costs.

B. <u>Should the conditions proposed by CMA be adopted?</u>

1. CMA urges that the Commission require applicants to submit sufficient data with each project proposal to enable the Commission to make the following findings:

a. There is a reasonable prospect that the investment will produce reserves deliverable to California in sufficient quantity to justify the investment risk.

b. Any governmental restrictions or environmental limitations which pose an obstacle to bringing the developed gas supply to applicant's service area can reasonably be met. CMA points out that it is of little value to develop a gas supply in a foreign country which will not permit its exportation.

c. The potential delivered cost of the developed gas will be reasonable in relation to possible alternate supplies and the ability of the customers to pay the cost. CMA points out there is no basis for approving an LNG project with GEDA funds at a cost of more than $1.25 Mcf unless applicants can show there is no place else that the same investment could be made to obtain gas at a lower cost. Also the Commission should be able to find that the customers will be able to afford the cost of the proposed supply before requiring the customers to pay the cost of financing its development.

d. There is no reasonable possibility that the proposed gas supply can be made available to California consumers without ratepayer financing. CMA points out that the operation of any business venture is best conducted by management directly responsible to those whose funds are at risk. If the ratepayers bear the cost of financing and guaranteeing

> repayment of capital by amortization of unsuccessful investments, there is a separation of management from the responsibility to those whose funds are managed. The ratepayers want to receive the required gas supply at the lowest possible cost. Under today's sellers' market the trend is to tie up the gas supply before someone else does without much regard for its cost.

CMA suggested the following additional conditions:

2. Applicants should be required to make available to the public all data submitted to the Commission in support of the findings required in 1. above.

None of the parties in their briefs objected to the above Conditions 1 and 2 proposed by CMA. They will be made a part of the GEDA procedure to be adopted in this proceeding.

3. The Commission should give notice to the public of the filing of each specific GEDA request, and in such notice state that a period of not less than 30 days will be provided in which the Commission will receive comments from the public to be considered prior to its acting upon the GEDA request. This suggestion would place a notice burden upon the Commission itself as well as upon the applicants. We are of the opinion that the requirement that applicants serve notice and copies of GEDA project letter filings and GEDA advice letter filings upon the parties to this proceeding and upon any other parties requesting notices and copies of such filings, together with the publication of a notice of such filings in the Commission's Daily Calendar is adequate notice to the public.

4. GEDA project letter filings should be permitted only for projects in the contiguous 48 states of the United States.

CMA points out that exploration for new gas reserves has not kept pace with growth in demand for gas. The growth in reserves potentially available to California consumers has largely been outside the contiguous 48 states. Applicant attributes the drop-off in exploration largely to the pricing mechanisms of the Federal Power Commission which are not applicable in Canada and Alaska. The result is that the major recent additions to domestic gas reserves have been in Alaska. CMA contends the need for consumer stimulation of gas exploration and development is primarily in areas where price incentives do not induce producers to make the necessary investment, namely the contiguous 48 states.

CMA lists the following advantages for consumers in concentrating the use of GEDA funds in the contiguous 48 states:

a. There is a greater possibility of success in the contiguous 48 states than in Alaska. This is shown by the following table of reserves presented in evidence by applicants:

Category	48 States	Alaska
Proved	259.6 M^4cf	31.1 M^4cf
Additional probable	218. M^4cf	39. M^4cf
Additional possible	326. M^4cf	61. M^4cf
Additional speculative	370. M^4cf	227. M^4cf

b. The potential cost of delivered gas from the contiguous 48 states is significantly less than from outside sources. The incremental cost of delivery through existing facilities and necessary extensions thereto would be nominal as compared with the cost of LNG deliveries or the cost of delivery through an entire new pipeline in Alaska or Canada. The cost of new gas in the field in areas with FPC price regulation would also be lower than the free market price in areas with no FPC regulation.

c. Governmental limitations on production and delivery to California consumers are less severe in the contiguous 48 states than in Canada or Australia. There is no assurance that new supplies developed in Canada or Australia by GEDA funds would be permitted to be exported to the United States.

d. New discoveries need not be in large units in the contiguous 48 states. The record shows that from Canada, Alaska, or Australia sizeable increments around 500 M^2cf/d are required to make transportation economically feasible.

e. Relief from supply shortages can be obtained much more quickly in the contiguous 48 states.

f. There is more to gain from the risks taken in the contiguous 48 states. It is more economical to spend $400 million to develop a supply of gas which can be delivered to market at 75¢/Mcf than to spend $200 million to develop a comparable supply which can be delivered to market at a cost of $1.50/Mcf.

g. Whatever success applicants may have in obtaining LNG supplies industrial customers probably may expect no greater satisfaction of their fuel requirements than customers of El Paso and Transwestern east of California. New supplies from offshore may well mean added curtailments of deliveries from El Paso and Transwestern. Industry believes that any benefits from the use of GEDA funds outside the contiguous 48 states may be illusory to industry.

Applicants assert that the CMA proposal to limit GEDA projects to the contiguous 48 states would severely limit, if not foreclose, applicants' ability to satisfy the energy needs of southern California. They point out that the showing on the record that there are insufficient reserves located within the lower 48 states to satisfy applicants' needs was unchallenged. Applicants assert that the basis for the limitation is no more than a collection of inappropriate assertions unsupported on the record. There is no evidence in the record that the cost of new gas from the contiguous 48 states will be significantly less than from other sources. Future prices of gas from the contiguous 48 states are unknown.

The staff considers the three-year time limit which it proposed sufficient protection to applicants' consumers. During such three-year period the staff contends that applicants ought to be allowed to compete for gas supplies with others in regions such as Alaska outside the contiguous 48 states. At the end of the three years the results of such program can be reviewed and the program can be modified to the extent appropriate.

SDG&E agrees with CMA that if a source of gas can be discovered adjacent to the routes of present out-of-state pipeline suppliers or in historic supply areas that the incremental cost will be less than for a source of gas delivered from a remote area. SDG&E also agrees that such projects should take priority over some alternate foreign or remote project. SDG&E, however, contends it would be a mistake to restrict the GEDA program to the contiguous 48 states because the availability of new gas reserves in the quantity needed by applicants is not indicated by present technical information to be available in the contiguous 48 states. There is no assurance that the reserves estimated to exist in the contiguous 48 states will be found and if found will be made available to applicants. SDG&E points out that the Commission will have a second opportunity to decide on the acceptance or rejection of projects from areas other than the contiguous 48 states, and contends that, that is the time for the Commission to make the decision, not now.

SDG&E points out that to insure that the contiguous 48 states, and especially California, are being carefully considered by applicants for the GEDA program, the Commission could require an annual report on the efforts being made in the contiguous 48 states to line up good projects. Such reports would allay fears that the contiguous 48 states are being abandoned for exotic foreign projects.

CGPA goes further and requests that SoCal be required to file written reports with the Commission at least quarterly on January 1, April 1, July 1, and October 1 of each year, outlining the status of all actions and progress which SoCal has undertaken to expand and develop a supply of natural gas from California sources, including federal offshore areas off the California coast.

The Commission is of the opinion that the GEDA procedure should not be limited to projects in the contiguous 48 states, but we make no determination at this time in advance of the project filings whether any GEDA projects either within or without the contiguous 48 states should be approved. CMA will have an opportunity to renew its protest with respect to GEDA projects outside the contiguous 48 states at the time of such project filings.

The Commission will adopt SDG&E's suggestion that the Commission require that applicants file an annual report on the efforts being made in the contiguous 48 states to line up good GEDA projects. The special quarterly reports requested by CGPA will not be required. Such information will of course be included in the annual report to be filed by applicants.

VII. How should GEDA be applied to rates?

Applicants propose that the GEDA be on a uniform cents per therm or equivalent basis. Applicants' witness explained the rationale for proposing this spread as follows:

> "Increments of supply are obtained for our total market rather than solely for any single portion of our market. A major portion of new increments of supply initially will be sold to interruptible customers but will assist in meeting peak firm demands. Subsequently, as annual firm requirements increase, annual sales volumes will shift to firm customers. Exploration and development activities will thus benefit all classes of service. It is appropriate, therefore, to provide for rate adjustment for this activity on a uniform cents per therm or equivalent basis."

The staff supports applicants' proposal for spread of GEDA on a uniform cents per therm. The staff contends that GEDA costs do not lend themselves to a spread of the adjustment based on an allocation which differentiates between firm and interruptible customers. Only those who purchase gas will pay the adjustment. If during a period of curtailment only firm customers receive gas, only firm customers will be paying the adjustment. Thus, curtailment will have a balancing effect on GEDA between firm and interruptible customers. When gas is acquired under the GEDA program it will be for the use of all customers. Interruptibles such as Edison will have the benefit of such gas except to the extent their supply is curtailed.

Edison points out that under the GEDA program, if, because of delays or lack of success of some of the earlier projects, the gas were to be required by the firm customers at the time it is actually delivered to California, it is possible that the interruptible customers, such as Edison, could receive no benefits from the GEDA gas supplies for which they had been required to contribute. Applicants' proposal is that the costs would be distributed uniformly, but that the deliveries would be in accordance with the priority system, and at various points in time different customers would get different proportions of a new increment. Edison contends a more equitable way to assign and spread the costs of the GEDA program would be to spread uniformly among the firm classes only, the demand components of the costs of such program and to spread uniformly among all classes of customers, including the interruptible classes, the commodity components of the costs of such program.

Edison contends that the fact that it will be difficult to classify and allocate GEDA costs as demand costs and commodity costs is no justification for not doing so.

GSA contends that GEDA gas will for the most part go to meet service requirements to electric generating customers, then to regular interruptible customers, and lastly, if at all, to firm customers. In view of this contention GSA suggests one method would be to surcharge all bills on a sliding percentage scale with the highest percentage being applied to the electric customers and the lowest percentage to the firm customers.

CMA contends that GSA's suggestion with respect to spreading rates is based on the false premise that principally the electric generation customers and to some extent the regular interruptible customers would benefit from the GEDA expenses, whereas in fact the primary beneficiaries of the new gas supplies would be the firm customers with the benefit to the interruptible customers being incidental and temporary. There is no assurance that any significant quantity of GEDA gas will actually be made available to interruptible customers, and the interruptible customers have no right to retain any supplies that do become available.

We agree with the contentions of applicants and the staff. All classes of customers will benefit to a certain extent when additional quantities of gas become available. The interruptible customer will benefit because GEDA may bring forth additional gas supplies which would extend the capability of the applicants to provide interruptible service beyond what is presently projected without such supplies.

VIII. Should GEDA be applicable to rate Schedule G-20?

Rate Schedule G-20 is available only to multi-family dwellings taking gas for residential purposes and to military installations taking gas for combined usage. Schedule G-20 is a closed schedule not open to new customers. GSA contends that since applicants propose to exempt Schedule G-30 customers from GEDA charges because Schedule G-30 is a closed schedule with very few customers and few sales, Schedule G-20 should also be exempt from GEDA charges. As Schedule G-20 soon may be phased out completely, GSA contends that Schedule G-20 customers should not be charged for gas they may never receive.

Applicants point out that a comparison between Schedule G-20 and Schedule G-30 is unreasonable. Schedule G-30 is a gaslight schedule which provides for charges based on the number of lights served, rather than on metered volumes. Annual revenues amount to approximately $20,000. Applicants contend that administratively it is not worthwhile to attempt to apply GEDA charges to Schedule G-30. On the other hand, G-20 is a commodity rate schedule and has annual revenues of approximately $2,000,000 per year, approximately 100 times the revenue from Schedule G-30.

The staff points out that Schedule G-20 is a firm schedule. If Schedule G-20 is phased out these customers will be placed on other firm schedules. Customers who receive gas should pay GEDA charges. This is especially true since the customers who pay the GEDA charges will be receiving the GEDA gas.

We are of the opinion that GEDA charges should be applicable to rate Schedule G-20.

IX. Should SoCal be required to furnish SDG&E with a proportionate share of gas developed by the gas exploration and development program?

SDG&E asserts that since under applicants' proposal it would be making GEDA payments in advance of receiving GEDA gas, it would want assurances that proportionate benefits would flow to

SDG&E and its customers.

Applicants have indicated that they intend to provide SDG&E with a proportionate share of any gas developed by the GEDA proposal. There is no need for the Commission to make this requirement at the present time.

Findings of Fact

The Commission finds:

1. The current energy crisis justifies this Commission in adopting a GEDA procedure which provides for the expeditious handling of project letter filings and advice letter filings relating to advances by applicants for the exploration and development of gas.

2. The establishment of the GEDA procedure should not be deferred until an evaluation of the National Energy Policies has been made by the Commission.

3. The GEDA procedure which is adopted by the Commission in this proceeding does not authorize a rate increase but provides a procedure whereby applicants may file project letters and advice letters which if approved will authorize rate increases in the future.

4. The Commission on its own motion or on the basis of a protest filed with the Commission may set for public hearing a project letter or an advice letter which is filed pursuant to the GEDA procedure authorized in this proceeding.

5. The GEDA procedure authorized in this proceeding is not unjust, unreasonable, and discriminatory because of the range of activities permitted and because it may be counter-

productive.

6. The GEDA procedure authorized in this proceeding provides for a case-by-case method of approving project letter filings and advice letter filings.

7. The GEDA procedure authorized in this proceeding does not provide for retroactive rate making.

8. In determining cost to be charged ratepayers under GEDA, the cost of service method will be used for administrative cost and advances to producers and the PL gas exploration and development program will be on a full cost accounting basis as more fully discussed within the opinion part of the decision.

9. The maximum GEDA amounts should be limited to 10 percent of the total cost of gas to the PLS system or 0.5 cents per therm, whichever is lower.

10. The authority to commit funds to new or revised projects should be limited to a period of not more than three years.

11. Applicants should be required to file an annual result of operations report recorded and adjusted for the prior year operation.

12. For all GEDA amounts, and for the joint venture projects approved in Decision No. 80430 which should be encompassed within the scope of the GEDA accounting procedures and rate making methods on January 1, 1974, amortization of unrecoverable advances should commence only after it is established that the advances are unrecoverable and should be continued for a period of five years.

13. The immediate monthly amortization feature of 1/60

of amounts applicable to the joint venture projects approved in Decision No. 80430 should be discontinued January 1, 1974.

14. The rate adjustments under the GEDA procedure should be made on a calendar quarter basis.

15. The annual GEDA revision to correct for over-collection or under-collection of costs should become effective 45 days, rather than 15 days, after filing, unless the Commission sets the matter for public hearing, in which case the revision would become effective as provided in the Commission's decision issued after the public hearing.

16. The GEDA tariff changes should be included in each rate schedule rather than in the Preliminary Statement H.

17. The letter request for project approval should include:

a. The maximum annual cost and revenue requirement that may result from a project.

b. An estimate of reserves that may be recoverable and the quantity of gas to be delivered to California.

c. Where no working interest is to be acquired an explanation as to why such an interest is not to be acquired.

d. An explanation of customer benefits.

e. The maximum dollar expense of all projects not limited to the calendar year.

f. Sufficient additional information to enable the Commission to make the following findings:

(1) There is a reasonable prospect that the investment will produce reserves deliverable to California

in sufficient quantity to justify the investment risk.

(2) Any governmental restrictions or environmental limitations which pose an obstacle to bringing the developed gas supply to applicants' service area can reasonbly be met.

(3) The potential cost of the developed gas will be reasonable in relation to possible alternate supplies and the ability of customers to pay the cost.

(4) The proposed gas supply program could not be made available to California without GEDA financing.

18. Applicants should provide the parties to this proceeding, and other parties so requesting, notice and copies of (1) letter filings for project approvals and (2) advice letter filings requesting gas exploration and development tariff adjustments.

19. The Commission should publish notice in its calendar of (1) letter filings by applicants for project approvals and (2) advice letter filings by applicants for gas exploration and development tariff adjustments.

20. Representatives of applicants should meet with the staff periodically and at least semi-annually to review and discuss the GEDA program.

19. The Commission should publish notice in its calendar of (1) letter filings by applicants for project approvals and (2) advice letter filings by applicants for gas exploration and development tariff adjustments.

20. Representatives of applicants should meet with the staff periodically and at least semi-annually to review and discuss the GEDA program.

21. Applicants should file semi-annual reports on the status of approved projects to be filed on March 1 and September 1 of each year. Such reports should include the following items:

a. A description of the various projects undertaken and the current and projected work involved.

b. Information required to complete the schedules set forth in the GEDA Project Schedule below:

A. 53625 ek

GEDA Project Schedule

1. Nonproducing Leases

Item	Location	Gross Acres	Net Acres	Cost	Disposition During Period
Balance at Beg. of Period					
Additions					
End of Period Total					

2. Producing Leases
Status of Reserves

Location	Cost		Working	Reserves (M^3cf)			
	Lease	Other	Interest	Beg. of Period	Addit. or Revisions	Production	End of Period
Gross							
Net to Company							
Total							

3. List of Wells Drilled During Period

Location	Status	Number	Cost During Period	Cost to Date

4. Advance to Producers and Other

Brief Descript. Of Project & Location	Bal. at Beg. Of Period	Amt. Made Dur. Period	Pay Back	Other	Bal. at End Of Period

5. Utilization of Funds

	M$
Source	
Collected from Rates	
Revenues from Sales of Gas	
Other (Specify)	
Total	
Disposition	
Revenue Requirement of Projects*	
Administrative Costs	
Other	
Total	

*Supporting schedules for each project to be provided.

22. Costs incurred on or after January 1, 1974, in connection with the joint venture drilling projects approved in Decision No. 80430 should be accounted for and included in the gas exploration and development tariff adjustments in the same manner as joint venture drilling projects which are approved pursuant to the GEDA procedure adopted in this proceeding.

23. GEDA project letter filings should not be restricted to projects in the contiguous 48 states of the United States.

24. GEDA costs are commodity costs and should be spread on a uniform cents per therm or equivalent basis over the rates, except rate Schedule G-30.

25. GEDA should be applicable to rate Schedule G-20.

Conclusions of Law

The Commission concludes:

1. Expenses related to gas exploration and development lawfully can be included as utility operating expenses for rate-making purposes.

2. The GEDA procedure adopted in this proceeding is a lawful procedure.

O R D E R

IT IS ORDERED that:

1. Applicant Pacific Lighting Service Company is authorized to include in its cost of service tariff costs associated with Commission authorized gas exploration program in the manner approved by this decision.

2. Applicant Southern California Gas Company is authorized to file with this Commission on or after the effective date of this order revised Preliminary Statement and Rule 2 as contained in Exhibit 21 modified to reflect the conditions established by the Commission in the findings and conclusions

A. 53625 cm c

of this decision. Such filing shall comply with General Order No. 96-A. The effective date of the revised tariff schedule shall be four days after the date of filing. The revised tariff schedules shall apply only to service rendered on and after the effective date thereof.

3. The accounting procedures for applicants shall be in accordance with the conditions established by the Commission in the findings and conclusions of this decision and the Uniform System of Accounts prescribed by this Commission.

The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 25th day of SEPTEMBER, 1973.

I will file a written dissent.

[signature], Commissioner

[signature]
President

[signature]

[signature]

[signature]

Commissioners

APPENDIX A

List of Appearances

For Applicant: Robert Salter and Frederick Peasley, Attorneys at Law, for Southern California Gas Company, and Pacific Lighting Service Company.

Interested Parties: William S. Marrs and William L. Knecht, Attorneys at Law, for California Farm Bureau Federation; Henry F. Lippitt II, Attorney at Law, for California Gas Producers Association; Brobeck, Phleger & Harrison, by Gordon E. Davis, Attorney at Law, for California Manufacturers Association; Frank A. Miller, for City of Burbank; Edward C. Wright, Ceneral Manager, Roy A. Wehe, Consulting Engineer, and Leonard Putnam, City Attorney, by Harold A Lingle, Deputy City Attorney, for Long Beach Gas Department, City of Long Beach; Louis Possner, for the City of Long Beach; John O. Russell, Fuel Supply Administrator, and Arthur T. Devine, Deputy City Attorney, for Department of Water and Power of the City of Los Angeles; Robert W. Russell and Manuel Kroman, for Department of Public Utilities and Transportation, City of Los Angeles; Roger Arnebergh, City Attorney, by Charles E. Mattson, Deputy City Attorney, for City of Los Angeles; John W. Witt, City Attorney, by Robert J. Logan, Attorney at Law, and Manley Edwards, Utility Rate Consultant, for the City of San Diego; William E. Casselman, Maurice S. Street and Renn C. Fowler, Regulatory Law Division, Attorneys at Law, for General Services Administration; Gordon Pearce, Attorney at Law, and Chickering & Gregory, by Sherman Chickering, C. Hayden Ames, and Donald J. Richardson, Attorneys at Law, for San Diego Gas & Electric Company; R. E. Woodbury, Robert J. Cahall, and H. Robert Barnes, by R. E. Woodbury, Attorney at Law, for Southern California Edison Company; and Robert F. Smith and Walter C. Leist, for Linde Division, Union Carbide.

Commission Staff: Lawrence Q. Garcia and Janice E. Kerr, Attorneys at Law, Colin Garrity and J. J. Gibbons.

D. W. HOLMES, COMMISSIONER, Dissenting:

I am fully aware that the current energy crisis demands new methodological remedies in order to provide continuing sources of power for the California consumer. In light of this awareness, it is most difficult for me to dissent to any proposal which promises to facilitate the development of these sources. However, in my often stated opinion, there is no more speculative investment than one in oil and gas exploration. Whenever a speculative investment is made, it should be on a purely voluntary basis. Here again, this Commission is authorizing the utility to force its ratepayers into an involuntary investment in a speculative undertaking.

An additional concern arising out of this decision is based on the fact that the utility is automatically compensated for any expenditure which it makes in gas and oil exploration. There thus arises the untoward possibility that management will be less than diligent and exercise insufficient control over its exploration programs. This removes all risk from where it should properly be, i.e., on the investment side of the corporation, and places it on the unsuspecting ratepayer. What then is to assure these ratepayers, who have no part in the management of the corporation, that their money will be most judiciously spent?

It is my considered judgment that a viable alternative would be to permit the utility to advance interest-free moneys in return for future guaranteed sources of energy, or return of the principal amounts to the utility, for the benefit of the ratepayers, within a five year period. Thus, all parties involved would have effective incentives leading to wise expenditure of moneys and diligent follow-through on all exploration and development projects.

Commissioner

San Francisco, California
September 25, 1973.