

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION & COMPLIANCE DIVISION
Energy BranchRESOLUTION G-2715
February 11, 1987

RESOLUTION

SOUTHERN CALIFORNIA GAS COMPANY (SOCAL GAS), ORDER
AUTHORIZING DISPOSAL BY SALE OF ALL REMAINING GAS EXPLORATION
AND DEVELOPMENT ADJUSTMENT (GEDA) ASSETS

By Advice Letter No. 1679, Filed January 13, 1987, SoCal Gas submits for filing a request for Commission authorization to dispose of all remaining GEDA assets.

BACKGROUND

GEDA is a ratemaking vehicle that was instituted at a time of threatened natural gas shortages. Its purpose was to motivate gas utilities under Commission jurisdiction to seek and obtain independent gas supplies by exploration for new gas fields and development of proven reserves in existing fields. In the GEDA program the ratepayers, not the usual investors, assume the cost of exploration and development of gas reserves and reap the benefits of success if gas can be found at a price below market levels. Conversely, ratepayers bear the risk that the utilities fail to outperform independent energy companies.

GEDA is essentially a procedure which provides the utilities full-cost recovery and a guaranteed after-tax return on investment, with associated risks borne by ratepayers. The two gas utilities in California with GEDA programs are PG&E and SoCal. These two utilities file project letters, as allowed under Commission order, to obtain authorization for new GEDA projects. All GEDA activity is carried on by gas exploration and development corporations which are wholly-owned affiliates of utilities and which engage in no other activity. The wholly-owned GEDA affiliate of PG&E is Natural Gas Corporation (NGC) and the wholly-owned GEDA affiliate of SoCal is Pacific Gas Lighting Development Corp. (PLGD). With the advent of the West Coast LNG Project, NGC became a partner with PLGD in gas exploration and development in Alaska. The partnership is called Alaska Gas Exploration Associates (AGEA).

This filing is in compliance with Decision No. 85-11-062, dated November 12, 1985, as amended by Decision No. 86-02-032, dated February 5, 1986.

These decisions provided for a separate evaluation of each currently active California, Rocky Mountain Region, and Alaska GEDA project to determine how each property should be treated to best serve the interests of gas ratepayers. The evaluation is to indicate whether continued production and development, sale, or abandonment is the most economic alternative for ratepayers. The evaluation is to also indicate whether or not further exploration and development is justifiable for any properties, that the Commission authorizes the companies to keep. No further exploration is to be permitted at ratepayer expense. Project funding must be used to fund any development drilling that may be justified on a case-by-case basis.

The Decisions found that the insignificant size of the Alaska GEDA properties compared with that level of reserves necessary for the Federal Energy Regulatory Commission (FERC) to approve the LNG project and the lack of cost-effectiveness suggest termination of this project is appropriate, and therefore, the remaining Alaska GEDA properties were to be evaluated according to previously mentioned mechanism and to be sold or abandoned.

DISPOSAL PLAN

The decisions ordered SoCal Gas to dispose of all its remaining GEDA assets and to file a Plan of Disposal regarding the South Alaska GEDA properties for the Commission's consideration. SoCal Gas filed its Plan of Disposal on April 7, 1986, which plan was reviewed and approved by Natural Gas Corporation of California.

By Decision No. 86-08-081, dated August 18, 1986, the Commission adopted SoCal Gas' Plan of Disposal and included the following language:

"Because SoCal Gas is required to submit its disposal plan for each GEDA property for our review by Advice Letter filing, there will be sufficient opportunity for our staff to review the proposal before the utility may lawfully consummate the transaction."

The properties to be disposed of are the South Alaska GEDA properties and are owned by Alaska Gas Exploration Associates (AGEA), as noted above. This filing is made on behalf of the AGEA partnership and the associated parties who have reviewed and approved of the sale.

Accordingly, the following documents were attached to the Advice Letter and submitted only to the Commission under the confidentiality provisions of Section 583 of the Public Utilities Code and General Order No. 66-C:

1. A copy of a letter dated December 12, 1986 from the successful bidder offering to purchase the subject properties.
2. A copy of the executed Purchase and Sale Agreement between the buyer and seller. The Agreement is fully binding on all parties, subject only to a final approval by the Commission.
3. A copy of the Bid Solicitation package transmitted to potential buyers by Morrison-Knudsen Engineers, Inc. (MKE), on November 3, 1986. MKE was retained by Alaska Gas Exploration Associates to assist in the divestiture of the subject properties. A copy of this material was provided to the Commission Staff on November 12, 1986 following several discussions on the Plan of Disposal and the offering solicitation.

DISCUSSION

The Commission staff has reviewed this filing and determined that SoCal Gas received a bid of \$14,333,063 for the Alaskan properties, with 10% of the money put up front. SoCal Gas received only one other bid, which was zero, but that bidder would be willing to take any liability from SoCal in exchange.

There are requirements that the property operators continue to drill additional gas wells, and there is also a potential liability associated with the disposal of drilling muds.

The current gas production from the property is insignificant. Should the Alaska LNG project ever come to fruition, the properties hold only enough gas to cover 3% of required production.

The value of holding the property is strictly contingent upon the expected price of gas and the expected date of when and how the gas can become marketable. The extreme cost of LNG makes it unlikely that the property will increase in value enough in the near future to offset the current benefit of \$14 million and the elimination of the drilling mud liability.

Thus, the staff recommends approval of the plan to sell the properties as filed.

The Commission has received no protests to this Advice Letter.

Public notification of this filing has been made by supplying copies of the filing to other utilities, governmental agencies, and to all interested parties who requested such notification.

1. This filing is in compliance with Decisions Nos. 85-11-062, 86-02-032, and 86-08-081, and approval of the sale is in the interest of the ratepayers of SoCal Gas and PG&E.
2. This filing should be authorized by the Commission on February 11, 1987, under Section 491 of the Public Utilities Code in order to permit the sale agreement to go into effect as requested.

THEREFORE:

1. Southern California Gas Company is authorized to dispose of its South Alaska GEDA properties according to the Purchase and Sale Agreement submitted in Advice Letter No. 1679.
2. The Commission shall be kept informed of any and all additional activity by Southern California Gas Company relating to these and other GEDA properties in which SoCal Gas may have an interest.

This information shall be sent to the Chief of the Fuels Branch of the Public Staff Division.

3. Within 10 days of the actual sale, SoCal Gas shall record the gain/loss from the sale in an appropriate account and submit such accounting entries and supporting documentation to the Evaluation and Compliance Division of the Commission within 30 days thereafter for review and approval.

4. This advice letter shall be marked to show that it was accepted for filing by Commission Resolution G-2715. This Resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular scheduled meeting on February 11, 1987. The following Commissioners approved it.



Executive Director

I abstain.

G. Mitchell Wilk, Commissioner

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
Commissioners