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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Accounting and Finance Branch

RESOLUTION G-2763
December 22, 1987

R E S O L U T I O N

ORDER AUTHORIZING SOUTHERN CALIFORNIA GAS COMPANY (SOCALGAS) AND PACIFIC GAS AND ELECTRIC COMPANY (PG&E) TO RECOVER IN RATES DIRECT LIQUIFIED NATURAL GAS (LNG) PROJECT COSTS.
(Advice Letter Nos. 1738, Dated October 8, 1987 and 1433-G, Dated October 9, 1987, Respectively.)

SUMMARY

1. By Advice Letters No. 1738 and 1433-G, dated October 8, 1987 and October 9, 1987, respectively, SoCalGas and PG&E hereby submit for Commission approval the recovery through rates the direct costs attributable to the Liquified Natural Gas (LNG) project. The proposals are made pursuant to Decision Nos. 84-09-089 and 85-02-071, dated September 6, 1984, and February 21, 1985, respectively. Decision 84-09-089 provides that subsequent to a prudent sale of LNG tangible assets, the applicants should be fully compensated for the assets' direct cost.

2. We find that it is reasonable to approve the requests of SoCalGas and PG&E to recover in rates the final direct costs of the LNG project after all assets have been sold or transferred. The amounts to be recovered in rates are \$5,955,000 for SoCalGas and \$6,005,000 for PG&E.

BACKGROUND

1. Decision 84-09-089 authorized SoCalGas and PG&E to recover the direct costs associated with the Point Conception LNG Project. The decision also authorized the utilities to file either formal declarations of abandonment of the LNG project or formal declarations of their intent to reexamine the potential for LNG project development. Ordering Paragraph 7(e) of Decision No. 84-09-089 was modified on February 21, 1985, by Decision 85-02-071 in which the Commission required all parties to indicate whether or not they would pursue a reasonable development plan for an LNG project before the expiration of the three-year period allowed in D.84-09-089. On February 4, 1986, SoCalGas and PG&E jointly filed a Notice of Reexamination of the Potential for LNG Project Development and Request for Dismissal. The companies requested dismissal of the LNG application on the basis that (they) would be unable to provide an LNG development plan within the requisite three year period.

2. In summary, Decision 84-09-089 found that:

- a) The special circumstances under which the Little Cojo site was chosen warranted placing the land investment in rate base as Plant Held For Future Use should the applicant(s) elect to file formal declarations of their intent to reexamine the potential for LNG project development.
- b) The LNG project qualifies for rate relief as an abandoned project should it be formally declared abandoned by the utilities.
- c) The LNG direct expenses were prudently incurred.
- d) The applicants should sell all LNG tangible assets in an expeditious and prudent manner. Subsequent to a prudent sale of the tangible assets, the Commission would fully compensate applicants for the assets' direct cost. Further, that proceeds from the sale would be used to offset the book cost to ratepayers and that any excess of proceeds over book value (gain) on the sale of all such tangible assets would be allocated according to the principles followed in D.84-05-100, (D.84-09-089, page 62).

3. In summary, Decision 85-02-071 modified (D.) 84-09-089, ordering paragraph 7(e), to provide that:

- a) If the applicants did not present a reasonable plan of LNG development within three years, the land costs would be removed from rate base and the (application) would be closed.

4. In accordance with Ordering Paragraph 7(g) of Decision 84-09-089 and Ordering Paragraph 9 of Decision 85-02-071, the Little Cojo Bay land costs were removed from SoCalGas' rate base effective February 4, 1986 and have been included in a deferred account at no cost to ratepayers and without the accumulation of accrued interest. PG&E has accounted for these costs in the same manner.

DISCUSSION

1. In September 1987, prior to the filing of the Advice Letters, there was an informal meeting between staff of the Commission Advisory and Compliance Division (CACD) and representatives from both SoCalGas and PG&E concerning the final disposition of assets remaining from the LNG terminal project.

2. CACD conducted a series of meetings with SoCalGas and PG&E in the course of its review of the Advice Letters. In the course of that review, various clarifications, additions and deletions were discussed for inclusion in the final adopted draft documents to be attached, if necessary, to this Resolution.

3. SoCalGas and PG&E believe that it is now appropriate to complete recovery of their LNG costs based upon the actual proceeds received from the sale of equipment, the expected proceeds from the pending sale of the Oxnard (California) land, and the appraised value of the South Alaska and Little Cojo Bay (California) land to be retained in a partnership subsidiary of both SoCalGas and PG&E.

4. No protests have been received regarding these Advice Letters.

5. In accordance with Section III, Paragraph 6 of General Order 96-A, SoCalGas and PG&E have mailed a copy of these Advice Letters to the parties shown on their regular gas Advice Letter mailing list which includes the parties in the proceeding in Application No. 82-12-02, which was SoCalGas' application to amortize costs associated with the LNG project and recover them in rates.

6. In response to the meeting of September 8, 1987, on the Advice Letter filing, SoCalGas submitted appraisals of (1) the Alaska property and (2) Little Cojo property. In addition, the following documents were provided as representative examples evidencing efforts to sell the LNG assets:

- a. Summary of the disposition efforts for sale of the Pacific Marine Equipment and Pacific Alaska Equipment.

- b. Option Agreement for disposition of the Oxnard property with the City of Oxnard.
- c. Assignment Agreement among Fluor Engineers, Inc., (Assignor) and Pacific Alaska LNG Associates and Earthworm Tractor Co., Inc., (Assignee).

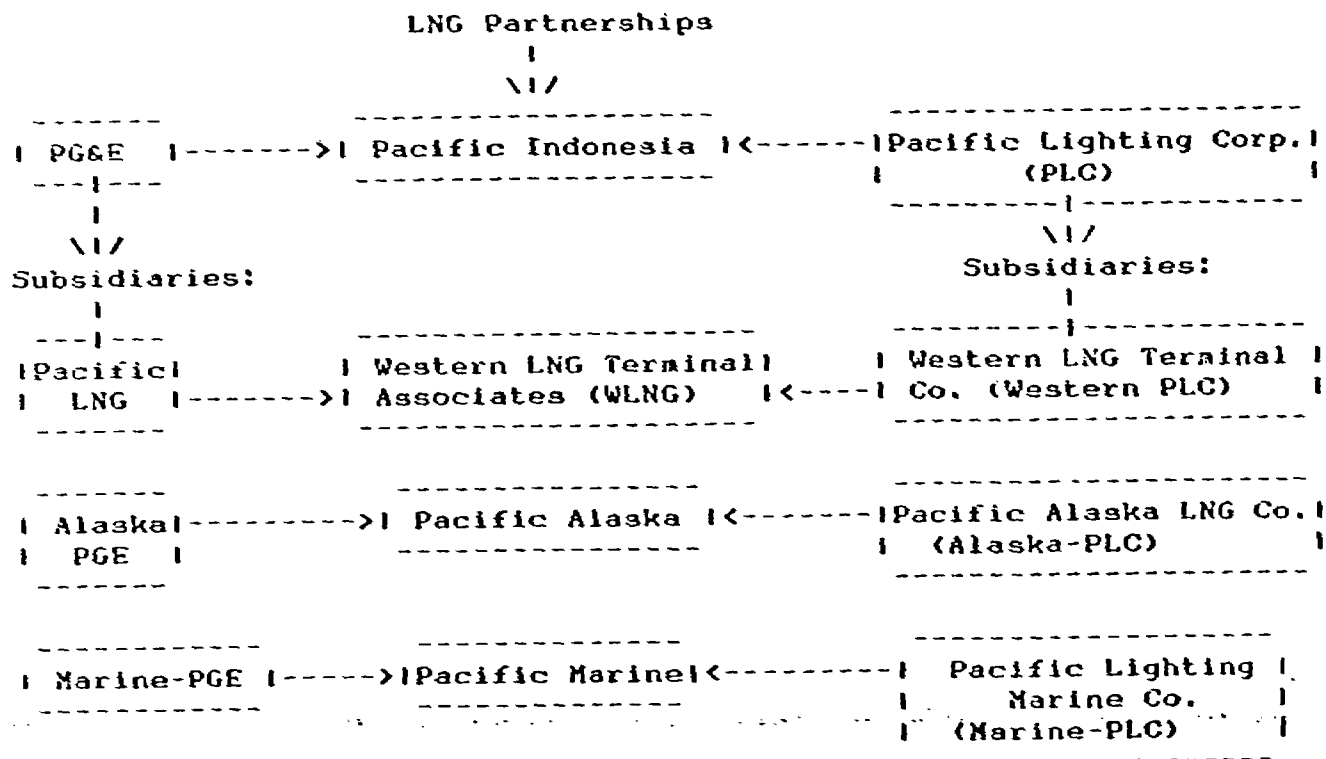
7. The Advice Letter filings made by SoCalGas and PG&E included tabulations showing the calculation of the costs to be recovered in rates. The utilities' respective share of net costs related to tangible LNG assets was calculated in accordance with Decision 84-09-089. In addition, the worksheets provided by the utilities show sales proceeds or appraised value of the LNG assets and allocated gains as directed by the Commission in Decision 84-09-089 according to the principles set forth in Decision 84-05-100, dated May 16, 1984. Decision 84-05-100 authorized PG&E to recover the direct costs associated with certain abandoned projects and established principles to govern the recovery of such costs.

8. A meeting was conducted by the CACD with officials from SoCalGas and PG&E to discuss the aforementioned calculations and methodology. Certain tax adjustments included in the amounts to be recovered in rates were also discussed. As a result, an agreement was reached as to the method of determining the amount of LNG costs recoverable, including the development of tax adjustments included in the amounts to be recovered in rates.

9. Tax adjustments included in the calculation of the amount of LNG costs to be recovered in rates were demonstrated to be attributable to tax consequences resulting from the income tax deduction of certain LNG related costs and capital gains taxes arising from the sale of the pertinent property. In addition, the total of the net recoverable costs were "grossed up" for the 1988 federal and state income taxes payable on the additional revenues collected from customers. These tax adjustments were determined by the CACD to be reasonable and correct. The following table summarizes the revenue requirement resulting from LNG cost recovery plus tax adjustments:

<u>Description</u>	<u>SoCalGas</u>	<u>PG&E</u>
After-Tax LNG Costs to Recover	\$ 3,448,000	\$ 3,561,000
"Gross-Up" for Taxes	2,339,000	2,388,000
Franchise & Uncollectible Expense	<u>128,000</u>	<u>56,000</u>
 Total Revenue Requirement	 \$ 5,955,000 =====	 \$ 6,005,000 =====

10. The entities involved in the LNG project were organized as follows: Pacific Indonesia is the only partnership among the LNG project sponsors formed between PLC and PG&E. Pacific Indonesia was formed in October 1973 as a wholly owned subsidiary of PLC. Western LNG Terminal Associates (WLNG) is the general partnership formed by Western LNG Terminal Co. (Western PLC), a wholly owned subsidiary of Pacific Lighting Corporation (PLC), and Pacific LNG, a wholly owned subsidiary of PG&E. Pacific Alaska is the general partnership formed by Pacific Alaska LNG Co. (Alaska-PLC) a wholly owned subsidiary of PLC, and Alaska-PG&E, a wholly owned subsidiary of PG&E. Pacific Marine is the general partnership formed by Pacific Lighting Marine Co. (Marine-PLC), a wholly owned subsidiary of PLC, and Marine-PG&E, a wholly owned subsidiary of PG&E. The following chart summarizes the organization of the LNG project entities:



11. SoCalGas and PG&E propose to retain the South Alaska and Little Cojo Bay land in the WLNG partnership renamed Western Associates. The companies propose to hold these parcels in the general expectation of an undetermined long term potential for profitable use, development or sale. The companies propose to offset the losses on tangible LNG equipment with the appraised value of the two parcels. Because these parcels are not to be sold to a third party at arms length, the companies have provided appraisals of the land which were obtained essentially for these Advice Letters.

12. The CACD proposed to the companies that because of the unique circumstances of retaining these properties which had been the nucleus of an abandoned gas supply project, a reasonable safeguard for SoCalGas' and PG&E's customers would be to require the companies to file another Advice Letter to address the proposed ratemaking treatment of any profitable proceeds of any subsequent sale of the two parcels within five years of the effective date of this Resolution. This would provide a clear assurance that in fact, no profitable near-term use was contemplated. The companies indicated that they would accept this as a reasonable safeguard in the interest of completing all other LNG matters at this time. Accordingly, the CACD recommends that a five year restriction be applied to the South Alaska and Little Cojo Bay land.

13. SoCalGas proposes to include the recovery of these costs in rates beginning on January 1, 1988 concurrent with a number of other rate changes contemplated for that date. PG&E proposes that the increase to Gas Base Revenue resulting from this request be incorporated with revenue and rate changes proposed by the Company in Application No. 87-04-040 which was filed in response to the Commission's gas OII/OIR Decisions Nos. 86-12-009, 86-12-010, and 87-05-046. In short, PG&E proposes to incorporate the base revenue increase with any final revenue allocation adopted in the gas OII/OIR proceeding. This would place the timing of such increase stemming from this Advice Letter to December 1987 with revised rates effective May 1, 1988 consistent with the gas OII/OIR Implementation Decision.

14. SoCalGas proposes to increase residential, commercial, industrial, Utility Electric Generation, wholesale rates on a uniform cents per therms basis in order to recover its share of costs related to net tangible LNG assets over an approximately one year period beginning on January 1, 1988. This one year period is based on a demand forecast for the period January 1, 1988 through December 31, 1988. SoCalGas requests that the proposed rate increase be made effective on January 1, 1988 to avoid multiple rate revisions within a short time span.

PG&E proposes that any difference in authorized margin and actual revenue collection would accrue to PG&E's Gas Cost Balancing Account for later reflection in gas rates.

FINDINGS

1. We find that it is reasonable for SoCalGas and PG&E to recover in rates their direct costs associated with the Liquefied Natural Gas project.
2. It is reasonable to require SoCalGas and PG&E to file an Advice Letter addressing the proposed ratemaking treatment of any profitable proceeds of any subsequent sale of the South Alaska or Little Cojo lands within five (5) years from the effective date of this Resolution.
3. It is reasonable for SoCalGas to recover LNG costs through a uniform cents per therms basis applied to all its customer classes.

IT IS ORDERED THAT:

1. Southern California Gas Company and Pacific Gas & Electric Company are authorized to recover in rates direct LNG project costs of \$5,955,000 and \$6,005,000, respectively.
2. If Western LNG Associates or its successor within five years of the effective date of this order, sells either parcel, Southern California Gas Company and Pacific Gas & Electric Company shall file an Advice Letter addressing the proposed ratemaking treatment of any profitable proceeds of the sale.
3. The utilities shall file revised gas tariff schedules in accordance with the provisions of G.O. 96-A.

The effective date of this Resolution is today.

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I hereby certify that the foregoing Resolution was duly introduced, passed and adopted at a regular meeting of the Public Utilities Commission of the State of California, held on December 22, 1987. The following Commissioners approved it:

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

A handwritten signature in cursive script, appearing to read "Victor V. ...", is written over a horizontal line.

Executive Director