

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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to Executive Director

RESOLUTION: G-2647

EVALUATION & COMPLIANCE DIVISION

BRANCH: Energy

DATE: August 7, 1985

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R E S O L U T I O N

SOUTHERN CALIFORNIA GAS COMPANY (SoCal). ORDER AUTHORIZING RECOVERY IN RATES OF ANY "EXCESS ROYALTY PAYMENTS" INCURRED

By Advice Letter No. 1526, filed June 18, 1985, SoCal seeks Commission approval of a request to recover in rates any "excess royalty payments" incurred by Pacific Interstate Offshore Company (PIOC) and passed on by it to Pacific Lighting Gas Supply Company (PLGS) and SoCal. The facts are as follows:

1. There is a potential cost to PLGS and to SoCal during the interim period between November 3, 1984 through the date of dismissal of the lawsuit filed by Texaco, Inc. (Texaco) against SoCal, PLGS, PIOC and certain affiliates.
2. Section 8.2 of the gas sales agreement between PIOC and Texaco provides that PIOC will reimburse Texaco for all "excess royalty payments" which Texaco is required to pay under the terms of its Federal Leases.
3. The term "excess royalty payment" is defined as the amount by which actual royalty payments by Texaco to the United States Government exceed the amount such payment would have been if the royalty value had been calculated upon the price Texaco actually received for the gas.
4. The United States Government has a one-sixth royalty on all revenues received by Texaco for the sale of hydrocarbons.
5. Since PIOC and Texaco have agreed that the price shall be \$3.00/MMBtu from November 3, 1984 through and including the date of approval by the Commission of the new agreements, there is a potential for excess royalty payments.
6. The possibility exists that the U. S. Government may, at some future date, determine that, regardless of the interim agreement between PIOC and Texaco, royalties should not be calculated on the basis of \$3.00/MMBtu but rather on the \$3.5153/MMBtu market-out price, or on the full contract price.
7. In the event that the \$3.5153/MMBtu price is used, PIOC would owe Texaco approximately 8.588¢ (one-sixth of \$0.5153/MMBtu) for each decatherm of gas purchased by PIOC from Texaco during the full term of the interim agreement. This amounts to approximately \$443,000.

8. If total deliveries continue at their current average rate of 85,000 MMBtu per day, PIOC may incur an additional obligation to Texaco up to \$2,900 per day until the date of the necessary Commission approvals.
9. In the event that the full contract price is utilized, PIOC would owe Texaco approximately \$768,000 for the period of November 3, 1984 through April 30, 1985 and approximately \$4,900 per day thereafter.
10. These excess royalty costs, if incurred by PIOC, will be passed through PLGS to SoCal via way of PIOC's FERC Gas Tariffs, Original Volume No. 1, Rate Schedule G-10, and by PLGS's Tariff Schedule No. G-62.
11. SoCal, therefore, requests by this filing that any such costs, if incurred, be recovered through the Consolidated Adjustment Mechanism (CAM) procedure.
12. This filing has been reviewed by the staff of the Evaluation & Compliance Division (E&CD) and approval of this filing concurrent with the other filings germane to this issue, specifically SoCal Advice Letters 1524, 1526 & 1527 and PLGS Advice Letters 69 & 70, is recommended.
13. Public notification of this filing has been made by mailing copies of this filing to other utilities, governmental agencies and to all interested parties who requested such notification. The staff of the E&CD have received no protests in this matter.
14. We find that this filing is just and reasonable and is an integral part of the agreements between Texaco and SoCal et. al., which are proposed to result in the dismissal, with prejudice, of the lawsuit commenced by Texaco against SoCal and certain affiliates in the United District Court for the Central District of California.
15. We further find that the continuation of such lawsuit and the possible loss of such suit by SoCal would be detrimental to all SoCal ratepayers.

THEREFORE:

1. Southern California Gas Company is authorized by Section 532 of the Public Utilities Code to place any "excess royalty payment" costs received from Texaco through PIOC and PLGS into the CAM Balancing Account in accordance with the CAM procedures of the filed tariff schedules. Such authorization is effective as of July 28, 1985, which constitutes regular 40-day statutory notice as directed by the Commission in its April 17, 1985 order approving certain changes in the tariff filing procedures.

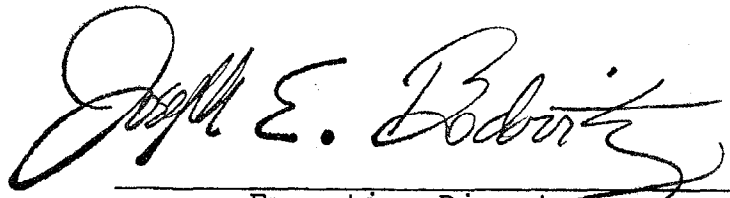
2. This authorization is limited solely to the "excess royalty payments" possibly incurred by PIOC through its Pitas Point Gas Sale and Purchase Agreement with Texaco and shall not be construed as a blanket authorization, or precedent setting action, for the inclusion in the CAM Balancing Account of any other extra-ordinary costs incurred in this or any other sales or exchange agreements, without further Commission action.

3. Southern California Gas Company's Advice Letter No. 1526 shall be marked to show that it was authorized for filing by Commission Resolution No. G-2647. This resolution is effective today.

4. The recovery of any and all "excess royalty payments" obligations incurred by PIOC and passed on to PLGS and SoCal Gas will be subject to reasonableness review in the appropriate, future CAM proceedings. ]

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on August 7, 1985. The following Commissioners approved it:

DONALD VIAL  
President  
VICTOR CALVO  
WILLIAM T BAGLEY  
FREDERICK R. DUDA  
Commissioners

  
Executive Director