

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



February 13, 2008

Advice Letter 3802

Mr. Sid Newsom
Regulatory Tariff Administration
Southern California Gas Company – GT14D6
555 West Fifth Street
Los Angeles, CA 90013-4957

Subject: Establishment of the Native Gas Program Mechanism (NGPM)
and Native Gas Tracking Account (NGTA)

Dear Mr. Newsom:

Advice Letter 3802 is effective January 13, 2008.

Sincerely,

A handwritten signature in black ink, appearing to read "Sean H. Gallagher".

Sean H. Gallagher, Director
Energy Division



Ken Deremer
Director
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December 14, 2007

Advice No. 3802
(U 904 G)

Public Utilities Commission of the State of California

Subject: Establishment of the Native Gas Program Mechanism (NGPM) and Native Gas Tracking Account (NGTA)

Southern California Gas Company (SoCalGas) hereby submits for approval by the California Public Utilities Commission (Commission) revisions to its tariffs (or Preliminary Statement), applicable throughout its service territory, as shown on Attachment B.

Purpose

This advice letter provides revisions to SoCalGas' Preliminary Statement to include the NGPM (i.e., Part XIII) consistent with the Settlement Agreement (SA) adopted by Decision (D.) 06-06-065 and modified by D.07-11-032, which includes establishing the NGTA to record the ratepayers' allocation of revenues and costs associated with the Native Gas Program.

Background

On July 25, 2005, SoCalGas entered into a SA with the Southern California Generation Coalition (SCGC), The Utility Reform Network (TURN) and the Division of Ratepayer Advocates (DRA). The SA proposed a mechanism which shared equally the costs and revenues associated with SoCalGas' Native Gas Program to explore for and to produce native natural gas that may be located adjacent to its existing natural gas storage fields.

On September 7, 2005, SoCalGas filed a Revised Joint Stipulation with the California Producers which reconciled differences between the SA and the original Joint Stipulation filed by the same parties on July 13, 2004.¹ The original Stipulation conflicted with the SA regarding how the costs and revenues of the native gas program would be treated, supporting the original 90/10 split proposed by SoCalGas with A.04-01-034. The Revised Joint Stipulation accepted the revenue and cost allocation provisions of the SA.

¹ The California Producers refer to the Indicated Producers, the California Independent Petroleum Association, the California Natural Gas Producers Association, Exxon, and the Western States Petroleum Association.

D.06-06-065 adopted both the SA and the Revised Joint Stipulation.²

On September 4, 2007, SoCalGas, the DRA, TURN, and the SCGC filed a joint Petition for Modification of D.06-06-065. On November 16, 2007, the Commission issued D.07-11-032 granting modification of D.06-06-065 which will amend the SA and provide that the ratepayers' allocation of revenues tracked through the Aliso SS-1-0 Internal Order be net of development and production costs (e.g., dehydration costs) and allow SoCalGas to proceed with other native gas projects before obtaining the permits necessary to develop the known reservoir at La Goleta.

Establishment of the NGPM and NGTA

SoCalGas proposes to include as a new section, Preliminary Statement, Part XIII, to formally document the NGPM, consistent with Ordering Paragraph (OP) 3 of D.06-06-065, which adopted a cost and revenue sharing mechanism for SoCalGas' Native Gas Program as set forth in the SA as modified by D.07-11-032, Revised Joint Stipulation, and Interim Rules Applicable to Native Gas.³ The NGPM shall also include the establishment of the NGTA to record the ratepayers' share of revenues and costs associated with the Native Gas Program. The ratepayers' share of acquisition and exploration (A&E) costs for unsuccessful prospects would be limited to \$3 million, funded from their 50% share of net revenues from the known gas reservoir at La Goleta and other successful prospects. The balance in the NGTA will be amortized in transportation rates in connection with SoCalGas' annual regulatory account balance update filing. The ratepayers' allocation of revenues, net of development, production and de-commissioning costs, recorded to the NGTA will be allocated 70% to core customers and 30% to noncore customers. The shareholders' allocation of net revenues, including A&E costs for unsuccessful prospects and de-commissioning costs in excess of amounts initially reserved for a producing well, will be an exclusion under SoCalGas' Performance Based Ratemaking (PBR) Sharing Mechanism.

Protest

Anyone may protest this advice letter to the Commission. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. The protest must be made in writing and received within 20 days of the date this advice letter was filed with the Commission. There is no restriction on who may file a protest. The address for mailing or delivering a protest to the Commission is:

CPUC Energy Division
Attention: Tariff Unit
505 Van Ness Avenue
San Francisco, CA 94102

Copies of the protest should also be sent via e-mail to the attention of both Maria Salinas (mas@cpuc.ca.gov) and Honesto Gatchalian (jnj@cpuc.ca.gov) of the Energy Division. A copy of the protest shall also be sent via both e-mail and facsimile to the address shown below on the same date it is mailed or delivered to the Commission.

² D.06-06-065 and the established revenue sharing mechanism for the production of native gas does not apply to the production of native gas from SoCalGas' Montebello storage field, which operates under a sharing mechanism previously approved by the Commission in D.01-06-081.

³ As included in Appendices B-D, respectively, of D.06-06-065.

Attn: Sid Newsom
Tariff Manager - GT14D6
555 West Fifth Street
Los Angeles, CA 90013-1011
Facsimile No. (213) 244-4957
E-Mail: snewsom@semprautilities.com

Effective Date

SoCalGas believes that this filing is subject to Energy Division disposition and should be classified as Tier 2 (effective after staff approval) pursuant to GO 96-B. This filing is consistent with D.06-06-065 and therefore SoCalGas respectfully requests that this filing be approved on January 13, 2008, which is 30 calendar days after the date filed.

Notice

A copy of this advice letter is being sent to all parties listed on Attachment A, which includes the interested parties in A.04-01-034.

KEN DEREMER
Director
Tariffs and Regulatory Accounts

Attachments

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. **SOUTHERN CALIFORNIA GAS COMPANY (U 904-G)**

Utility type:

ELC GAS
 PLC HEAT WATER

Contact Person: Sid Newsom

Phone #: (213) 244-2846

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EXPLANATION OF UTILITY TYPE

ELC = Electric GAS = Gas
PLC = Pipeline HEAT = Heat WATER = Water

(Date Filed/ Received Stamp by CPUC)

Advice Letter (AL) #: 3802

Subject of AL: Establishment of the Native Gas Program Mechanism and Native Gas Tracking Account

Keywords (choose from CPUC listing): Storage, Preliminary Statement, Compliance

AL filing type: Monthly Quarterly Annual One-Time Other _____

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #:

D06-06-065, 07-11-032

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL No

Summarize differences between the AL and the prior withdrawn or rejected AL¹: N/A

Does AL request confidential treatment? If so, provide explanation: No

Resolution Required? Yes No

Tier Designation: 1 2 3

Requested effective date: 1/13/08

No. of tariff sheets: 11

Estimated system annual revenue effect (%): None

Estimated system average rate effect (%): None

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: PS VII, a new PS XIII and TOCs

Service affected and changes proposed¹: N/A

Pending advice letters that revise the same tariff sheets: None

Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:

CPUC, Energy Division

Attention: Tariff Unit

505 Van Ness Ave.

San Francisco, CA 94102

mas@cpuc.ca.gov and jnj@cpuc.ca.gov

Southern California Gas Company

Attention: Sid Newsom

555 West Fifth Street, GT14D6

Los Angeles, CA 90013-1011

snewsom@semprautilities.com

¹ Discuss in AL if more space is needed.

ATTACHMENT A

Advice No. 3802

(See Attached Service Lists)

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ATTACHMENT B
Advice No. 3802

Cal. P.U.C. Sheet No.	Title of Sheet	Cancelling Cal. P.U.C. Sheet No.
Revised 42597-G	PRELIMINARY STATEMENT - PART VII - TRACKING ACCOUNTS, DESCRIPTION AND LISTING OF TRACKING ACCOUNTS, Sheet 1	Revised 40920-G
Original 42598-G	PRELIMINARY STATEMENT - PART VII - TRACKING ACCOUNTS, NATIVE GAS TRACKING ACCOUNT (NGTA), Sheet 1	
Original 42599-G	PRELIMINARY STATEMENT, PART XIII, NATIVE GAS PROGRAM MECHANISM, Sheet 1	
Original 42600-G	PRELIMINARY STATEMENT, PART XIII, NATIVE GAS PROGRAM MECHANISM, Sheet 2	
Original 42601-G	PRELIMINARY STATEMENT, PART XIII, NATIVE GAS PROGRAM MECHANISM, Sheet 3	
Original 42602-G	PRELIMINARY STATEMENT, PART XIII, NATIVE GAS PROGRAM MECHANISM, Sheet 4	
Original 42603-G	PRELIMINARY STATEMENT, PART XIII, NATIVE GAS PROGRAM MECHANISM, Sheet 5	
Original 42604-G	PRELIMINARY STATEMENT, PART XIII, NATIVE GAS PROGRAM MECHANISM, Sheet 6	
Original 42605-G	PRELIMINARY STATEMENT, PART XIII, NATIVE GAS PROGRAM MECHANISM, Sheet 7	
Revised 42606-G	TABLE OF CONTENTS	Revised 42596-G
Revised 42607-G	TABLE OF CONTENTS	Revised 42059-G

PRELIMINARY STATEMENT - PART VII - TRACKING ACCOUNTS
DESCRIPTION AND LISTING OF TRACKING ACCOUNTS

A. GENERAL

Tracking accounts reconcile the difference between Commission-authorized forecasted costs and SoCalGas' recorded costs. Balances in the tracking accounts shall be reconciled in revenue requirement in SoCalGas' next BCAP or other appropriate rate proceeding.

B. LISTING OF TRACKING ACCOUNTS

Other Hazardous Substance Tracking Account (OHSTA)
Noncore Fixed Cost Tracking Account (NFCTA)
Noncore Interstate Transition Cost Surcharge Account (NITCSA)
Core Interstate Transition Cost Surcharge Account (CITCSA)
Vernon Revenue Tracking Account (VRTA)
Montebello True-Up Tracking Account (MTTA)
Native Gas Tracking Account (NGTA)

N

(TO BE INSERTED BY UTILITY)

ADVICE LETTER NO. 3802
DECISION NO. 06-06-065 and 07-11-032
1H18

ISSUED BY

Lee Schavrien
Vice President
Regulatory Affairs

(TO BE INSERTED BY CAL. PUC)

DATE FILED Dec 14, 2007
EFFECTIVE Jan 13, 2008
RESOLUTION NO. _____

PRELIMINARY STATEMENT - PART VII - TRACKING ACCOUNTS
NATIVE GAS TRACKING ACCOUNT (NGTA)

Sheet 1

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The NGTA is an interest bearing tracking account recorded on SoCalGas' financial statements pursuant to the Settlement Agreement approved by D.06-06-065 and modified by D.07-11-032. The purpose of the NGTA is to track the ratepayers' share of revenues and costs associated with the Native Gas Program Mechanism as described in Preliminary Statement, Part XIII.

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SoCalGas maintains the NGTA by making entries to the account at the end of each month, as follows:

- a. A credit entry equal to the 100% of the net revenues related to the sale of native gas from the Aliso SS-1-0 producing well, reduced by one-half of any unsuccessful permitting costs as described in Preliminary Statement Part XIII, B.1.
- b. A credit entry equal to the ratepayers' 50% allocation of the net revenues related to the sale of native gas from the known native gas reservoir at the La Goleta Storage field or other successful prospects that result in proven oil and gas reserves after reimbursement of interest to shareholders for funding the ratepayers' 50% share of development and production costs and contribution to the Acquisition and Exploration (A&E) Internal Order (I/O) up to a ceiling of \$3 million as described in Preliminary Statement, Part XIII, B.2. and B.3.b., respectively.
- c. A credit entry equal to the balance transferred from the A&E I/O as described in Preliminary Statement Part XIII, B.4.c.
- d. A credit entry for the ratepayers' 50% share of actual de-commissioning costs that are less than the amount reserved for any well as described in Preliminary Statement, Part XIII, B.2.
- e. An entry equal to the amortization of the balance as authorized by the Commission.
- f. An entry equal to interest on the average of the balance in the account during the month, calculated in the manner described in Preliminary Statement, Part I, J.

The ratepayers' 50% share of development, production and de-commissioning costs are limited to their 50% share of revenues from the sale of native gas, gas condensates, and/or oil as described in Preliminary Statement Part XIII, B.2.b. The disposition of the balance in the NGTA will be refunded to ratepayers in connection with SoCalGas' Annual Regulatory Account Balance Update filing for transportation rates effective January 1 of the following year. The balance in the account shall be allocated 70% to core customers and 30% to noncore customers. The shareholders' allocation of net revenues, including A&E costs for unsuccessful prospects and de-commissioning costs in excess of amounts initially reserved for a producing well, will be an exclusion under SoCalGas' Performance Based Ratemaking (PBR) Sharing Mechanism.

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(TO BE INSERTED BY UTILITY)
ADVICE LETTER NO. 3802
DECISION NO. 06-06-065 and 07-11-032
1C17

ISSUED BY
Lee Schavrien
Vice President
Regulatory Affairs

(TO BE INSERTED BY CAL. PUC)
DATE FILED Dec 14, 2007
EFFECTIVE Jan 13, 2008
RESOLUTION NO. _____

PRELIMINARY STATEMENT
PART XIII
NATIVE GAS PROGRAM MECHANISM

Sheet 1

A. GENERAL

1. The Native Gas Program Mechanism (NGPM), approved by Decision (D.) 06-06-065 and modified by D.07-11-032, provides a revenue sharing mechanism for allocating revenues and related costs associated with the exploration, production and sale of native gas, gas condensates, and/or oil from reservoirs other than the storage reservoirs or wells producing prior to July 25, 2005, at or adjacent to SoCalGas' storage fields other than Montebello. The costs associated with the NGPM include costs associated with acquisition, exploration, development, production, and de-commissioning of the known gas reservoir at La Goleta and prospects as set forth in D.06-06-065. The Native Gas Tracking Account (NGTA), as set forth in Preliminary Statement Part VII, is a tracking account that will record the ratepayers' share of revenues and costs associated with the NGPM.
2. Internal orders (I/Os) will be established that, although are not formal regulatory accounts, are interest-bearing accounting mechanisms which provide a basis for recording entries in the NGTA. The Aliso SS-1-0 I/O will be maintained to track the ratepayers' 100% allocation of the net revenues associated with Aliso SS-1-0 producing well. The Acquisition & Exploration (A&E) I/O will be maintained to track the ratepayers' 50% share of A&E costs and the ratepayers' 50% share of net revenues from the sale of native gas, gas condensates, and/or oil from the known gas reservoir at La Goleta or other successful prospects. Net revenues from the La Goleta reservoir and other successful projects recorded to the A&E I/O shall not exceed \$3 million. The revenues from the sale of gas from the Aliso SS-1-0 well will not be tracked in the A&E I/O.
3. Definitions of terms used in this Preliminary Statement may be found in the Settlement Agreement included in Appendix B (Section III.2) of D.06-06-065.

B. NATIVE GAS PROGRAM PROCEDURES

1. Aliso SS-1-0 Producing Well
 - a. The ratepayers' 100% allocation of net revenues from the Aliso SS-1-0 producing well will initially be recorded in the Aliso SS-1-0 I/O. Revenues include all native gas produced by SoCalGas that is sold on the open market, net of development and production costs such as dehydration costs, and minus any royalties due to third parties. In addition, revenues may include sales to an affiliate or to the SoCalGas Gas Acquisition Department through an open, competitive bidding process (including through the InterContinental Exchange).
 - b. The ratepayers' 50% share of any unsuccessful permitting costs associated with developing the known native gas reservoir at La Goleta will be used to reduce the revenues in the Aliso SS-1-0 I/O. If the revenues are insufficient to offset the ratepayers' share of unsuccessful permitting costs, utility shareholders will be responsible for the difference.

(Continued)

(TO BE INSERTED BY UTILITY)
ADVICE LETTER NO. 3802
DECISION NO. 06-06-065 and 07-11-
1C20 032

ISSUED BY
Lee Schavrien
Vice President
Regulatory Affairs

(TO BE INSERTED BY CAL. PUC)
DATE FILED Dec 14, 2007
EFFECTIVE Jan 13, 2008
RESOLUTION NO. _____

PRELIMINARY STATEMENT
PART XIII
NATIVE GAS PROGRAM MECHANISM

Sheet 2

N
N
N

(Continued)

B. NATIVE GAS PROGRAM PROCEDURES (Continued)

N

1. Aliso SS-1-0 Producing Well (Continued)

- c. Any remaining net revenues in the Aliso SS-1-0 I/O will be recorded to the NGTA. The costs associated with operating the Aliso SS-1-0 well will be treated as a normal utility cost of operation and such costs will not be separately tracked in the I/O for purposes of the NGPM.

2. Known Native Gas Reservoir at La Goleta/Funding of the A&E I/O

Cost and revenues associated with the known gas reservoir at La Goleta will be tracked as follows:

- a. Successful permitting costs will be treated as development costs and recorded to the La Goleta I/O; however, if SoCalGas is unsuccessful in obtaining permits to develop the known gas reservoir at La Goleta, the ratepayers' and shareholders' allocation of these unsuccessful permitting costs will be shared as described in B.1.b.
- b. Development and production costs will be recorded to the La Goleta I/O. There will be no separate charge or accounting for the use of any ratepayer-funded facilities. SoCalGas guarantees that the ratepayers' share of development and production costs for any prospect will never exceed their share of revenues from that same prospect. Accordingly, if the revenues from the sale of native gas, gas condensates, and/or oil from any prospect are insufficient to cover the prospect's development, production and estimated de-commissioning production costs, SoCalGas' shareholders will be responsible for the difference.
- c. A reasonable reserve for de-commissioning costs for successful wells will be recorded to the La Goleta I/O. SoCalGas will consult with the Joint Parties to establish the amount of reserve for each well.

If the reserve established is insufficient to cover actual de-commissioning costs of the producing well, shareholders will be responsible for the difference. However, if actual de-commissioning costs are less than the amount reserved, the balance will be shared with ratepayers like other net revenues from the sale of gas, gas condensates, and/or oil.

- d. Revenues from the sale of gas, gas condensates, and/or oil net of any royalties due to third parties from the known gas reservoir at La Goleta will be recorded to the La Goleta I/O.

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Sheet 3

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(Continued)

B. NATIVE GAS PROGRAM PROCEDURES (Continued)

N

2. Known Native Gas Reservoir at Goleta/Funding of the A&E I/O (Continued)

e. The ratepayers' 50% share of the net revenues from the known gas reservoir at La Goleta will first be used to reimburse SoCalGas' shareholders, with interest (at the 90-day commercial paper rate), for having funded the ratepayers' 50% share of development and production costs. The remaining net revenues will first be recorded in the A&E I/O such that cumulative contributions to the A&E I/O do not exceed a ceiling of \$3 million with any excess net revenues recorded to the NGTA.

3. Other Prospects

SoCalGas may pursue other prospects under the NGPM. The activities regarding each prospect shall be recorded in a separate I/O as follows:

- a. One hundred percent of A&E costs (e.g., costs to drill an exploratory well) will be recorded in the I/O.
- b. Successful Prospect - If native gas is discovered, before developing the prospect, SoCalGas will evaluate the economic potential of that prospect. If the prospect is deemed by SoCalGas to be economic to develop, SoCalGas shall proceed to develop the prospect and track costs and revenues similar to the known gas reservoir at La Goleta as described in B.2. A&E costs for a successful prospect will be treated as development and production costs and offset the revenues from the prospect. The ratepayers' share of net revenues will first be used to reimburse SoCalGas' shareholders, with interest (at the 90-day commercial paper rate), for having funded the ratepayers' 50% share of development and production costs. Any remaining revenues will be recorded in the A&E I/O such that cumulative contributions to the A&E I/O do not exceed a ceiling of \$3 million with any excess net revenues recorded to the NGTA.
- c. Unsuccessful Prospect - If native gas is not discovered or the prospect is not economic to develop, the A&E I/O will be charged for the ratepayers' 50% share of A&E costs incurred not to exceed a ceiling of \$3 million. The A&E I/O will also be charged for the ratepayers' 50% share of de-commissioning costs as such costs are treated as A&E costs for unsuccessful prospects.

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B. NATIVE GAS PROGRAM PROCEDURES (Continued)

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4. Ratepayer Contributions to A&E Costs

- a. As described in B.2.e. and B.3.b., the ratepayers' 50% share of net revenues from the known gas reservoir at La Goleta and other successful prospects will be recorded in the A&E I/O not to exceed \$3 million. Any net revenues in excess of \$3 million will be recorded to the NGTA as described in B.5.a.
- b. The balance in the A&E I/O will be reduced for the ratepayers' 50% share of A&E costs related to unsuccessful prospects as described in B.3.c.
- c. Any remaining credit balance in the A&E I/O will be transferred to the NGTA, only if SoCalGas determines that there are no further prospects worth funding. Conversely, if a remaining debit balance exists and SoCalGas determines that there are no further prospects worth funding, the balance will not be transferred to the NGTA as SoCalGas shareholders will bear the risk of any A&E costs in excess of the net revenues recorded to the A&E I/O.

5. Native Gas Tracking Account (NGTA)

- a. As described in B.2.e. and B.3.b., any net revenue above the \$3 million ceiling recorded in the A&E I/O will be recorded to the NGTA. Detailed entries are described in Preliminary Statement, Part VII, Description of Regulatory Accounts – Tracking.
- b. As described in B.4.c., any remaining credit balance in the A&E I/O will be transferred to the NGTA if SoCalGas determines that there are no further prospects worth funding.
- c. The balance in the NGTA shall be refunded to ratepayers in gas transportation rates in connection with SoCalGas' Annual Regulatory Account Balance Update filing for rates effective January 1 of the following year. There will be no adjustments made for any tax effects on ratepayers associated with rate reductions caused by the ratepayer allocation of revenues from the sale of native gas, gas condensates, and/or oil. The balance in the NGTA will be allocated 70% to core customers and 30% to noncore customers.

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B. NATIVE GAS PROGRAM PROCEDURES (Continued)

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5. Native Gas Tracking Account (NGTA) (Continued)

Under the NGPM, the shareholders' allocation of net revenues from the sale of gas, gas condensates and/or oil, including their allocation of A&E costs for unsuccessful prospects and de-commissioning costs in excess of amounts initially reserved for a producing well, will be an exclusion under SoCalGas' Performance Based Ratemaking (PBR) Sharing Mechanism.

C. SPECIAL CONDITIONS

Storage Field Integrity - SoCalGas will actively monitor native gas production and storage reservoir data to ensure that none of the native gas produced from any field is storage gas. If SoCalGas should find that any storage gas in a given field has been produced by the Native Gas Program, SoCalGas will take the following actions:

- a. Immediately suspend native gas production at all relevant wells in such field,
- b. Submit a report, served on all parties of record in A.04-01-034, to the Commission within 30 days detailing this occurrence and the remedial measures taken or proposed to be taken to restore storage field integrity, and
- c. Compensate customers for gas produced from storage facilities on a basis to be determined by the Commission.

D. CONVERSION TO STORAGE SERVICE

1. Conversion to Storage Service (La Goleta) – Subject to permitting requirements, SoCalGas plans to develop the known gas reservoir for storage service and sell as a storage product:

- a. Design and construct the wells and other facilities for storage service.
- b. Sell at least 2 Bcf of this gas as a package of gas commodity in place with associated inventory and withdrawal rights, until it is determined that SoCalGas has sold all of the gas except that necessary to maintain the cushion. Prior to the capacity created by withdrawal of the native gas being offered for tariffed storage services, this gas will be subject to the same charges and access rules as other new California gas production including, without limitation, rules requiring the execution of an access agreement or operational balancing agreement, as adopted in D.07-08-029, and all rules affecting firm access rights, balancing, gas quality standards and monitoring protocols, meter aggregation, split metering and other operational requirements.

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D. CONVERSION TO STORAGE SERVICE (Continued)

N

1. Conversion to Storage Service (La Goleta) (Continued)

- c. Thereafter, SoCalGas will use the wells funded under the Native Gas Program for purposes of injecting and withdrawing gas into this new reservoir without seeking additional Commission approval to do so.

If there should be any additional cost to utilize these wells for purposes of storage inventory, SoCalGas would seek to add any such incremental costs (specifically not including the costs funded under the Native Gas Program) in the costs used by the Commission for purposes of determining SoCalGas' storage costs in the next rate proceeding in which such costs are established.

- 2. Conversion to Storage Service (Other Prospects) - With the exception of the known native gas reservoir at the La Goleta storage field, if SoCalGas determines that a depleted native gas or oil reservoir or any wells or other facilities that have been installed pursuant to the Settlement Agreement are suitable and economic to use in providing storage service, SoCalGas shall seek Commission approval by application before placing the reservoir or facilities into storage service. In such application, SoCalGas will propose that any facilities that were used for the Native Gas Program that were funded from the A&E I/O or from the revenues obtained from the sale of native gas, gas condensates, and/or oil shall be transferred to storage service at the cost of converting such facilities to storage service. Any costs incurred in preparing a native gas well for storage service, including, but not limited to, the cost of installing casing on a well that did not produce gas, shall be considered to be a cost of conversion to storage service and shall not be considered to be an acquisition, exploration, development, production, or de-commissioning cost.

E. AUDIT RIGHTS

Under the NGPM, the Commission has full authority to audit any aspect of this program in accordance with its statutory authority over SoCalGas as a jurisdictional public utility.

F. REPORTING REQUIREMENTS

SoCalGas will file quarterly and annual reports regarding native gas production and revenue associated with the NGPM with the Commission and serve them on the parties of record in A.04-01-034. These reports will not be redacted and any person may file a protest regarding their contents.

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