

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.

N

(Continued)

(TO BE INSERTED BY UTILITY)  
ADVICE LETTER NO. 3802  
DECISION NO. 06-06-065 and 07-11-032  
2C23

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 3

N  
N  
N

(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.

N

(Continued)

(TO BE INSERTED BY UTILITY)  
ADVICE LETTER NO. 3802  
DECISION NO. 06-06-065 and 07-11-  
3C22 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 4

N  
N  
N

(Continued)

B. NATIVE GAS PROGRAM PROCEDURES (Continued)

N

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.

N

(Continued)

(TO BE INSERTED BY UTILITY)  
ADVICE LETTER NO. 3802  
DECISION NO. 06-06-065 and 07-11-  
4C22 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 5

(Continued)

B. NATIVE GAS PROGRAM PROCEDURES (Continued)

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 Backbone Transportation Service, balancing, gas quality standards and monitoring protocols, meter aggregation, split metering and other operational requirements.

(Continued)

(TO BE INSERTED BY UTILITY)  
ADVICE LETTER NO. 4240  
DECISION NO. 11-04-032

ISSUED BY  
**Lee Schavrien**  
Senior Vice President  
Regulatory Affairs

(TO BE INSERTED BY CAL. PUC)  
DATE FILED May 6, 2011  
EFFECTIVE Jun 5, 2011  
RESOLUTION NO. \_\_\_\_\_

PRELIMINARY STATEMENT  
PART XIII  
NATIVE GAS PROGRAM MECHANISM

Sheet 6

N  
N  
N

(Continued)

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.

N

(Continued)

(TO BE INSERTED BY UTILITY)  
ADVICE LETTER NO. 3802  
DECISION NO. 06-06-065 and 07-11-032  
6C23

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. \_\_\_\_\_

