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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Gas Company (U904G) Regarding Year 22 (2015-2016) of Its Gas Cost Incentive Mechanism.

Application 16-06-009
(Filed June 15, 2016)

SCOPING MEMO AND RULING OF ASSIGNED COMMISSIONER AND ADMINISTRATIVE LAW JUDGE

Summary

This Scoping Memo and Ruling sets forth the category, issues, need for hearing, schedule, and other matters necessary to scope this proceeding pursuant to Public Utilities Code Section 1701.1 and Article 7 of the Commission's Rules of Practice and Procedure.¹

1. Background

On June 15, 2016, Southern California Gas Company (SoCalGas) filed Application (A.) 16-06-009 seeking approval of its Year 22² Gas Cost Incentive Mechanism (GCIM) performance, which reflects a shareholder reward of \$5,039,787.

¹ California Code of Regulations, Title 20, Division 1, Chapter 1; hereinafter, Rule or Rules.

² SoCalGas provides its report on gas supply and storage operations for the 12-month GCIM cycle, which in this case runs from April 1 2015, to March 31, 2016.

The GCIM is a ratemaking incentive mechanism program originally approved in Decision (D.) 94-03-076,³ implementing a method by which the Commission oversees the reasonableness of gas purchases and gas storage decisions made by SoCalGas on behalf of core sales customers. The GCIM was designed to give utilities market-based incentives to acquire gas at the lowest possible cost and take on some associated risks.

The GCIM measures SoCalGas' gas purchasing performance against a benchmark cost of gas intended to emulate actual market conditions on a monthly basis. The benchmark is based on a combination of monthly gas price indices published in Natural Gas Intelligence, Inside Federal Energy Regulatory Commission Gas Market Report, and a New York Mercantile Exchange component for gas futures.

The benchmark is used to determine whether actual gas purchase costs are within a tolerance band with an upper limit set at two percentage points above the benchmark commodity costs, and a lower limit set at one percentage point below the benchmark commodity costs. Pursuant to D.02-06-023, when actual costs fall within the tolerance band, any associated benefits or losses accrue 100% to ratepayers.⁴

When actual costs fall outside the tolerance band, the benefits or losses are shared in different proportions between the shareholders and the ratepayers,

³ See D.97-06-061, D.98-12-057, and D.02-06-023. The latter Decisions modified and extended the GCIM on an annual basis until such time as the Commission approves a request for modification to or termination of the GCIM.

⁴ See D.02-06-023 at 4.

depending on whether the actual costs are above the upper limit or below the lower limit of the tolerance band.

If actual gas procurement costs exceed the upper 2% tolerance limit, the excess costs are shared 50/50 between shareholders and ratepayers. If actual costs fall between the lower 1% tolerance limit and five percentage points below the benchmark commodity costs, then savings are shared as a 25% reward for shareholders and a 75% savings for ratepayers. If actual costs are less than the benchmark commodity costs by more than five percentage points, savings are shared as a 10% reward for shareholders and a 90% savings for ratepayers. SoCalGas' total shareholder reward is capped at 1.5% of commodity benchmark costs.

In order to achieve GCIM objectives, the Commission allows SoCalGas to use a number of cost-saving gas procurement methods such as the physical sale of gas to third parties and hub transaction activities.

As is customary, the Office of Ratepayer Advocates (ORA) filed a response agreeing with the scope and schedule proposed by SoCalGas (as well as a ratesetting categorization) and stated that it will conduct an audit of SoCalGas's GCIM Year 22 performance in accordance with D.02-06-023.

On July 22, 2016, Shell Energy North America (US), L.P. (Shell), The Alliance for Retail Energy Markets (AREM) and the Southern California Generation Coalition (together, the Joint Parties) filed a protest requesting that, due to the limited availability of Aliso Canyon and the impact on system reliability, the Commission place any SoCalGas Year 22 GCIM shareholder reward in a memorandum account for future disposition. In addition, the Joint Parties request that the Commission place all future years' shareholder rewards in that same memorandum account until the Commission undertakes an

assessment of how the “limitations on Aliso Canyon availability have affected system reliability, customer access to storage, system balancing, and the incentives under the GCIM.”⁵ The Joint Parties state that placing GCIM shareholder reward funds in a memorandum account is consistent with Commission actions setting aside Aliso Canyon-related costs and revenues for future disposition in D.16-03-031.

In its August 1, 2016 reply, SoCalGas argues that none of the Joint Parties represent bundled SoCalGas customers or San Diego Gas and Electric core customers, and none of them would be responsible for paying the GCIM reward. Furthermore, SoCalGas argues that Aliso Canyon availability, system reliability and the frequency of Operational Flow are outside the scope of this proceeding and are best addressed by other proceedings.

The assigned Administrative Law Judge (ALJ) set a prehearing conference (PHC) by a ruling dated August 8, 2016.

On August 23, 2016, the assigned ALJ convened the PHC to determine parties, discuss the scope, the schedule, and other procedural matters.

2. Scope

Based on the application, the response of ORA, the protest of the Joint Parties, the reply of SoCalGas and discussion at the PHC, the following issue is in the scope of this proceeding:

1. Should the Commission approve SoCalGas’ requested GCIM shareholder reward of \$5,039,787 for SoCalGas’ Year 22 performance pursuant to the revised GCIM established by D.02-06-023?

⁵ July 22, 2016 Protest of the Joint Parties at 5.

Consideration of the impact of Aliso Canyon on system reliability, Operational Flow Orders and customer access to storage (referring to customers other than bundled core customers that are the subject of the GCIM) is outside of the scope of this proceeding. SoCalGas correctly states in its reply that these issues affect all customers on the SoCalGas system, not just the core bundled customers that are covered by the GCIM.

In D.06-10-029, the Commission explained the purpose of the GCIM:

The GCIM is a Commission-authorized ratemaking mechanism that is used to review SoCalGas' natural gas purchased on behalf of its core customers in lieu of reasonableness reviews of SoCalGas' procurement activities. The GCIM establishes a benchmark against which to measure the price that SoCalGas pays for gas, providing an incentive for SoCalGas to purchase gas at or below the benchmark. The GCIM also establishes a benchmark and a tolerance band. Savings between the benchmark and the tolerance band are returned to ratepayers. Savings below the tolerance band are shared between ratepayers and SoCalGas shareholders according to the sharing formula adopted in D.02-06-023.

The GCIM was established to provide an incentive for SoCalGas to make the best natural gas procurement decisions on behalf of its bundled core customers. As noted by SoCalGas in its reply, the Joint Parties are not responsible for paying the shareholder reward, if approved by the Commission, so the interest of the Joint Parties in this proceeding is unclear (nor is it clear what benefit would come to the Joint Parties if the Commission were to hold GCIM shareholder funds in a memorandum account.)

To the extent that actions taken by SoCalGas on behalf of its bundled customers in some way disadvantaged other customers as a result of the limited availability of Aliso Canyon, that issue is best addressed in proceedings specifically analyzing or investigating the events surrounding Aliso Canyon. If,

in those proceedings, the Joint Parties prove that the structure of the GCIM itself combined with the limited availability of Aliso Canyon resulted in an adverse outcome for the Joint Parties, the Commission may at that time wish to revisit the structure of the GCIM. However, it is important to note that SoCalGas' gas operations are operated independently of and physically separated from its gas acquisition.⁶

Finally, pertaining to the consideration of a memorandum account, the structure of the GCIM is such that if, upon review and audit of the previous year's activities, SoCalGas acted in accordance with the provisions of the GCIM, the shareholder and ratepayer rewards are calculated according to the formulas approved by the Commission. If an audit shows that in some way the limited availability of Aliso Canyon (recognizing that the period covered by the Year 22 GCIM extends beyond the time frame of the Aliso Canyon incident) resulted in procurement actions that were not to the benefit of SoCalGas' core customers, the GCIM shareholder incentive could be adjusted accordingly. The Commission always retains the right to hold funds in a memorandum account if it is deemed appropriate; however, consideration of this question in the context of the issues presented by the Joint Parties is outside the scope of this proceeding.

3. Categorization

The Commission in Resolution ALJ 176-3381, issued on July 14, 2016, preliminarily determined that the category of the proceeding is ratesetting.

⁶ See D.01-09-016 at 6.

This scoping memo confirms the categorization. Anyone who disagrees with this categorization must file an appeal of the categorization no later than ten days after the date of this scoping ruling. (See Rule 7.6.)

4. Need for Hearing

The Commission in Resolution ALJ 176-3381 also preliminarily determined that hearings are required. At this point, the parties have not raised any disputed issues of material fact; however, depending upon the results of ORA's audit, hearings may be needed at a later date. Thus, the preliminary determination that hearings are needed is upheld. In the event that parties seek hearing, parties may make a request through a motion to the assigned ALJ within 15 days of the submission of ORA's audit stating the nature of the disputed issues of fact. The ALJ will, at that time, set dates for hearing.

5. Ex Parte Communications

In a ratesetting proceeding such as this one, *ex parte* communications with the assigned Commissioner, other Commissioners, their advisors and the ALJ are only permitted as described at Public Utilities (Pub. Util.) Code Section 1701.3(c) and Article 8 of the Rules.

6. Intervenor Compensation

Pursuant to Pub. Util. Code § 1804(a)(1), a customer who intends to seek an award of compensation must file and serve a notice of intent to claim compensation by September 22, 2016, 30 days after the PHC.

7. Assigned Commissioner and Presiding Officer

Carla J. Peterman is the assigned Commissioner and Melissa K. Semcer is the assigned Administrative Law Judge. Pursuant to Pub. Util. Code § 1701.3 and Rule 13.2, Melissa K. Semcer is designated as the Presiding Officer.

8. Filing, Service and Service List

The official service list has been created and is on the Commission's website. Parties should confirm that their information on the service list is correct, and serve notice of any errors on the Commission's Process office, the service list, and the ALJ. Persons may become a party pursuant to Rule 1.4.

When serving any document, each party must ensure that it is using the current official service list on the Commission's website.

This proceeding will follow the electronic service protocols set forth in Rule 1.10. All parties to this proceeding shall serve documents and pleadings using electronic mail, whenever possible, transmitted no later than 5:00 p.m., on the date scheduled for service to occur. Parties are reminded, when serving copies of documents, the document format must be consistent with the requirements set forth in Rules 1.5 and 1.6. Additionally, Rule 1.10 requires service on the ALJ of both an electronic and a paper copy of filed or served documents.

Rules 1.9 and 1.10 govern service of documents only and do not change the Rules regarding the tendering of documents for filing. Parties can find information about electronic filing of documents at the Commission's Docket Office at www.cpuc.ca.gov/PUC/efiling. All documents formally filed with the Commission's Docket Office must include the caption approved by the Docket Office and this caption must be accurate.

Persons who are not parties but wish to receive electronic service of documents filed in the proceeding may contact the Process Office at process_office@cpuc.ca.gov to request addition to the "Information Only" category of the official service list pursuant to Rule 1.9(f).

9. Discovery

Discovery may be conducted by the parties consistent with Article 10 of the Commission’s Rules. Any party issuing or responding to a discovery request shall serve a copy of the request or response simultaneously on all parties. Electronic service under Rule 1.10 is sufficient, except Rule 1.10(e) does not apply to the service of discovery and discovery shall not be served on the Administrative Law Judge. Deadlines for responses may be determined by the parties. Motions to compel or limit discovery shall comply with Rule 11.3.

10. Public Advisor

Any person interested in participating in this proceeding who is unfamiliar with the Commission’s procedures or who has questions about the electronic filing procedures is encouraged to obtain more information at <http://consumers.cpuc.ca.gov/pao> or contact the Commission’s Public Advisor at 866-849-8390 or 415-703-2074 or 866-836-7825 (TTY), or send an e-mail to public.advisor@cpuc.ca.gov.

11. Schedule

The adopted schedule is:

EVENT	DATE
Prehearing Conference	August 23, 2016 (completed)
ORA Audit	October 15, 2016
Proposed Decision	January 2017
Comments on Proposed Decision	Within 20 Days of Service of the Proposed Decision
Replies to Comments on Proposed Decision	Within 5 Days of Service of Comments

EVENT	DATE
Anticipated Commission Meeting/Decision	30 Days after but no later than 60 Days after the Proposed Decision

The assigned Commissioner or assigned ALJ may modify this schedule as necessary to promote the efficient management and fair resolution of this proceeding.

It is the Commission’s intent to complete this proceeding within 18 months of the date this Scoping Memo is filed. This deadline may be extended by order of the Commission. (Pub. Util. Code § 1701.5(a).)

Although not anticipated, if there are any workshops in this proceeding, notice of such workshops will be posted on the Commission’s Daily Calendar to inform the public that a decision-maker or an advisor may be present at those meetings or workshops. Parties shall check the Daily Calendar regularly for such notices.

12. Settlement and Alternative Dispute Resolution

While the schedule does not include specific dates for settlement conferences it does not preclude parties from meeting at other times provided notice is given consistent with our Rules.

The Commission offers Alternative Dispute Resolution (ADR) services consisting of mediation, facilitation, or early neutral evaluation. Use of ADR services is voluntary, confidential, and at no cost to the parties. Trained ALJs serve as neutrals. The parties are encouraged to visit the Commission’s ADR webpage at <http://www.cpuc.ca.gov/adr> , for more information.

If requested, the assigned ALJ will refer this proceeding, or a portion of it, to the Commission's ADR Coordinator. Alternatively, the parties may contact the ADR Coordinator directly at adr_program@cpuc.ca.gov. The parties will be notified as soon as a neutral has been assigned; thereafter, the neutral will contact the parties to make pertinent scheduling and process arrangements. Alternatively, and at their own expense, the parties may agree to use outside ADR services.

13. Final Oral Argument

A party in a ratesetting proceeding in which a hearing is held has the right to make a Final Oral Argument before the Commission, if the argument is requested within the Closing Brief. (Rule 13.13.) If hearings are held, it is anticipated that briefing will also occur, at which point a party may make a Final Oral Argument request.

IT IS RULED that:

1. The category of this proceeding is ratesetting. Appeals as to category, if any, must be filed and served within ten days from the date of this scoping memo.
2. Administrative Law Judge Melissa K. Semcer is designated as the Presiding Officer.
3. The scope of the issues for this proceeding is as stated in "Section 2. Scope" of this ruling.
4. Hearings may be necessary but are not scheduled at this time.
5. The schedule for the proceeding is set in "Section 11. Schedule" of this ruling. The assigned Commissioner or Presiding Officer may adjust this schedule as necessary for efficient management and fair resolution of this proceeding.

6. With limited exceptions that are subject to reporting requirements, *ex parte* communications are prohibited. (See Public Utilities Code Section 1701.3(c); Article 8 of the Commission's Rules of Practice and Procedure.)

7. No briefs are anticipated and hearings are not included in the schedule at this time. The right to Final Oral Argument ceases to exist if hearing is not needed.

Dated September 19, 2016, at San Francisco, California.

/s/ CARLA J. PETERMAN

Carla J. Peterman
Assigned Commissioner

/s/ MELISSA K. SEMCER

Melissa K. Semcer
Administrative Law Judge