Decision ______________

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Gas Company (U 904 G) Regarding Year 19 (2012-2013) of Its Gas Cost Incentive Mechanism.	Application 13-06-013 (Filed June 14, 2013)

DECISION REGARDING YEAR 19 (2012-2013) OF SOUTHERN CALIFORNIA GAS COMPANY'S GAS COST INCENTIVE MECHANISM

1. Summary

This decision approves a shareholder reward of $5,830,965 for Southern California Gas Company's Gas Cost Incentive Mechanism Year 19 performance. The Commission's Office of Ratepayer Advocates confirmed total savings in gas costs of $34.7 million and recommends that Southern California Gas Company's request be granted.

2. Background

The Gas Cost Incentive Mechanism (GCIM) is a ratemaking incentive mechanism program originally approved in Decision (D.) 94-03-076.[1] The GCIM was designed to give utilities market-based incentives to acquire gas at the lowest possible cost. The GCIM program establishes a benchmark against which to measure the price that Southern California Gas Company (SoCalGas) pays for gas. The benchmark is intended to emulate actual market conditions on a

[1] D.97-06-061, D.98-12-057, and D.02-06-023 modified and/or extended the GCIM.

monthly basis. The benchmark is based on the prevailing published natural gas price indices for gas delivered from the mainline to the California border. For the most part, the benchmark has been based on southwest gas price indices published in the Natural Gas Intelligence, Inside Federal Energy Regulatory Commission Gas Market Report, and Natural Gas Week publications.

To achieve the 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. Up until GCIM Year 11, financial derivatives were completely included within the GCIM to reduce and effectively manage the cost of gas for core ratepayers. In GCIM Years 12 through 17, SoCalGas performed its winter hedging outside of its GCIM, as authorized in D.05-10-043, and subsequent decisions.[2]

SoCalGas' GCIM provides for a tolerance band, or deadband, around the benchmark cost. The upper limit of the tolerance band is set at two percentage points above the benchmark commodity cost, while the lower limit of the tolerance band is set at one percentage point below the benchmark commodity costs. Pursuant to D.02-06-023, when actual costs fall within this tolerance band, any associated benefits or losses accrue 100% to the ratepayers' account.[3] However, when actual costs fall outside of the tolerance band the benefits or losses are shared in different proportions between the shareholders and the

[2] D.05-10-043 approved SoCalGas' and San Diego Gas & Electric Company's (SDG&E) petition to allocate all costs and benefits of winter hedging transactions directly to their core gas customers for GCIM Year 12. Subsequent decisions (D.06-08-027, D.07-06-027, D.08-09-005 and D.09-08-008) approved the continued exclusion of gains and losses from winter hedging transactions for GCIM Year 13 through 16 respectively.

[3] D.02-06-023 at 4.

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

In the event that actual gas procurement costs exceed the upper 2% tolerance limit, the excess costs are shared 50/50 between ratepayers and shareholders. If actual costs fall between the lower 1% tolerance limit and the five-percentage point band 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 90% savings for ratepayers and a 10% reward for shareholders. SoCalGas' total reward is capped at 1.5% of commodity benchmark costs.

D.10-01-023 adopted a regulatory treatment that incorporated the utilities' hedging plans with the existing gas procurement incentive mechanism. For SoCalGas, a ratio of 25% of all winter hedging net gains and losses attributable to that winter hedging program must be included within the GCIM. The remaining 75% of winter hedging gains and losses attributable to the winter hedging program must be directly allocated to core customers.

On June 14, 2013, SoCalGas submitted its 19th annual application under the GCIM. As part of its application, SoCalGas reported on the results of its GCIM Year 19 for the 12 months ending March 31, 2013, and requested authority to recover a shareholder incentive reward in the amount of $5.8 million based on cost savings of $34.5 million below its Year 19 benchmark prices.

On July 16, 2013, the Commission's Office of Ratepayer Advocates (ORA) filed a response to SoCalGas' application. ORA stated that it would conduct an audit of SoCalGas' GCIM Year 19 activities consistent with D.02-06-023.

On October 25, 2013, ORA filed its Monitoring and Evaluation Report of SoCalGas' Gas Cost Incentive Mechanism (Monitoring and Evaluation Report) for GCIM Year 19.

3. GCIM Year 19 Results

SoCalGas' Annual Report for GCIM Year 19, which was attached to SoCalGas' application, states that:

> In GCIM year 19, due to the boom in shale gas development and high storage levels, California, as well as the rest of the country experienced low volatility and relatively low gas prices. Under these market conditions, SoCalGas' and SDG&E's core customers continued to receive reliable natural gas supplies at below-market cost. These results were achieved with no curtailments of core service and in compliance with all requirements and guidelines established by the California Public Utilities Commission.

SoCalGas notes that ratepayers have realized the benefit of gas purchases below the GCIM benchmark in 18 of the past 19 years. (Application (A.) 13-06-013, Attachment A at 2.) SoCalGas reports that in GCIM Year 19, it acquired gas at a total savings of about $34.7 million below the benchmark. Pursuant to the GCIM revisions adopted in D.02-06-023, of this total savings, approximately $28.9 million is the ratepayer's share, and $5.9 million is the shareholders' share (A.13-06-013, Attachment A, Table 1).

Pursuant to D.10-01-023, GCIM Year 19 includes 25% gains and losses and transaction costs from Gas Acquisition's winter hedging activities in total actual costs. Total net costs from Year 18 winter hedge activities amounted to $1 million, of which $0.25 million was included in GCIM.

ORA's Monitoring and Evaluation Report states it conducted a comprehensive audit of SoCalGas' GCIM Year 19 results. This audit included a review of SoCalGas' recorded Purchased Gas Account cost, an analysis and verification of the GCIM calculations, and an evaluation of the manner in which the program operated during the period.

ORA's evaluation verifies that Year 19 recorded gas costs for SoCalGas were below the benchmark, resulting in savings for ratepayers. ORA's evaluation indicated that SoCalGas' GCIM performance as of March 31, 2013, resulted in total savings in gas costs of $34,739,000. The savings amount is based on ORA's calculation of the difference between the actual costs of gas of $1,273,387,000 and the GCIM benchmark market index of $1,308,126,000. These savings are shared between ratepayers and SoCalGas shareholders.

ORA's evaluation also confirmed that SoCalGas' recorded costs were below the lower tolerance band, which ORA calculates results in a ratepayer benefit of $28,907,566 and a reward of $5,830,965 to SoCalGas' shareholders. (ORA Monitoring and Evaluation Report, at 2-1.) Therefore, ORA recommends that SoCalGas be authorized to recover a shareholder reward.

After reviewing SoCalGas' application and ORA's Monitoring and Evaluation Report for GCIM Year 19, we find that SoCalGas reasonably managed its gas acquisitions and operations in GCIM Year 19. Therefore, in accordance with the GCIM modifications adopted in D.02-06-023, we will award SoCalGas a shareholder reward of $5,830,965 for GCIM Year 19. SoCalGas should be permitted to adjust the Purchased Gas Account to reflect this shareholder award.

4. Waiver of Comment Period

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Public Utilities Code and Rule 14.6(c)(2) of the Commission's Rules of Practice and Procedure, the otherwise applicable 30-day period for public review and comment is waived.

5. Categorization and Need for Hearings

In Resolution (Res.) ALJ 176-3316, the Commission preliminarily categorized this application as ratesetting, and preliminarily determined that hearings were necessary. No protests have been received. Given this status, a public hearing is not necessary and the preliminary determination made in Res. ALJ-176 3316 is changed to indicate that hearings were not necessary.

6. Assignment of Proceeding

Michel Peter Florio is the assigned Commissioner and Julie M. Halligan is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. The GCIM provides an incentive for SoCalGas to purchase gas at or below the benchmark, and savings below the tolerance band are shared with ratepayers and SoCalGas' shareholders according to the sharing band.

2. The GCIM was modified by D.02-06-023, and SoCalGas was authorized to continue the use of the GCIM on an annual basis until modified or terminated by the Commission.

3. SoCalGas acquired gas at a savings of $34.7 million below the GCIM benchmark in GCIM Year 19.

4. ORA's Monitoring and Evaluation Report for GCIM Year 19 verified the amount and calculation of the shareholder reward.

5. SoCalGas reasonably managed its gas acquisitions and operations in GCIM Year 19 within the context of the GCIM that existed at the time.

6. The calculation and amount of SoCalGas' requested shareholder award for GCIM Year 19 are correct.

Conclusions of Law

1. No hearing is necessary.
2. The preliminary determination made in Res. ALJ 176-3316 should be changed.
3. In accordance with the GCIM modifications adopted in D.02-06-023, SoCalGas is entitled to a shareholder award of $5,830,965 for GCIM Year 19.
4. SoCalGas should be awarded a shareholder award of $5,830,965 for GCIM Year 19.
5. SoCalGas should be permitted to adjust the Purchased Gas Account to reflect the shareholder award of $5,830,965.

O R D E R

IT IS ORDERED that:

1. Southern California Gas Company is authorized to adjust the Purchased Gas Account to recognize a shareholder award of $5,830,965 under Year 19 of its Gas Cost Incentive Mechanism.
2. The hearing determination is changed to no hearings necessary.
3. Application 13-06-013 is closed.

This order is effective today.

Dated ____________________________, at San Francisco, California.