Decision ___________

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Gas Company (U904G) Regarding Year 21 (2014-2015) of Its Gas Cost Incentive Mechanism.	Application 15-06-011 (Filed June 15, 2015)

DECISION APPROVING SOUTHERN CALIFORNIA GAS COMPANY'S YEAR 21 (2014-2015) GAS COST INCENTIVE MECHANISM SHAREHOLDER REWARD

Summary

This decision approves a shareholder reward of $7,249,855 for Southern California Gas Company's (SoCalGas) Gas Cost Incentive Mechanism, Year 21 performance. The Office of Ratepayer Advocates audited and evaluated the application and verified that SoCalGas' total savings in gas costs is $43,108,013, and recommends that SoCalGas' request for a shareholder reward of $7,249,855, be granted.

1. Background

On June 15, 2015, Southern California Gas Company (SoCalGas) filed Application (A.) 15-06-011 seeking approval of its Year 21[1] Gas Cost Incentive Mechanism (GCIM) performance, which reflects a shareholder reward of $7,249,855.

[1] SoCalGas provides its report on gas supply and storage operations for the 12-month GCIM cycle which runs from April 1, to March 31 of the following year.

The GCIM is a ratemaking incentive mechanism program originally approved in Decision (D.) 94-03-076,[2] 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.[3]

When actual costs fall outside the tolerance band, the benefits or losses are shared in different proportions between the shareholders and the ratepayers, depending on whether the actual costs are above the upper limit or below the lower limit of the tolerance band.

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[2] *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.

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

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.

The Office of Ratepayer Advocates (ORA) was given the task of auditing SoCalGas' annual reports on the GCIM[4]

This current application is SoCalGas' twenty-first annual application under the GCIM. In its Year 20 GCIM application, the Commission approved a shareholder reward of $13.7 million on February 12, 2015.[5]

On July 1, 2015, ORA filed a response to the application and proposed to submit its audit of SoCalGas' Year 21 GCIM on November 20, 2015. ORA's proposed schedule for the audit was adopted by the assigned Administrative Law Judge (ALJ) in a ruling issued on August 4, 2015.

On October 12, 2015, ORA submitted it's audit of SoCalGas' Year 21 GCIM.

[4] *See* D.94-03-076. At that time, ORA was named the Division of Ratepayer Advocates.

[5] *See* D.15-02-008.

Notice of the application appeared in the Commission's Daily Calendar on June 17, 2015. No protests have been filed.

2. GCIM Year 21 Results

SoCalGas' Annual Report for GCIM Year 21, provided an overview of the year's market conditions as follows:

> "In GCIM Year 21, market prices were somewhat supported during the injection season in response to extremely low storage levels across the U.S. Due to significant increase in U.S. gas production, the yearly storage deficit concerns decreased over time as gas prices fell accordingly. While the winter weather across the U.S. was colder than normal, it was milder than the prior winter. There were no significant weather related price increases at the locations where SoCalGas buys gas for its portfolio. 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."[6]

SoCalGas also provided a summary of performance under the GCIM during the last 21 years and notes that ratepayers have realized the benefit of gas purchases below the GCIM benchmark for 20 of the past 21 years.

For year 21, SoCalGas provides that its actual cost for all gas purchases subject to the GCIM was $1,555,377,080 while the benchmark cost was $1,598,485,093. SoCalGas therefore acquired gas at $43.1 million below the benchmark. Pursuant to the GCIM revisions adopted in D.02-06-023, and as shown in Table 1 of Attachment A to the application, of the $43.1 million in

[6] *See* Attachment A to the application at 1.

savings for purchases below the benchmark, approximately $35.9 million are ratepayer savings and $7.2 million shareholder awards.

Pursuant to D.10-02-023, the calculation of GCIM total actual cost for all gas purchases shown above[7] includes 25% of gains and losses and transaction costs from SoCalGas' winter hedging activities in Year 21. Total net costs from winter hedging activities in Year 21 resulted in a loss of $2.03 million, and so 25% thereof, or $0.5 million, was included in calculating the GCIM actual costs.

On October 12, 2015, ORA filed its Monitoring and Evaluation Report and stated that it conducted an audit and evaluation of SoCalGas' GCIM Year 21 results. The audit included a review of SoCalGas' recorded Purchase Gas Account costs, an analysis and verification of the GCIM calculations, and an evaluation of the manner in which the program operated during the period.

ORA's report verifies that Year 21 recorded gas costs for SoCalGas were below the benchmark, resulting in savings for ratepayers. ORA found that for the period April 1, 2014 through March 31, 2015, actual gas costs subject to the GCIM were $1,555.38 billion, while benchmark costs were $1,598.49 billion, which resulted in GCIM total savings of $43.11 million.

ORA's report confirms that SoCalGas' recorded costs were below the lower tolerance band. And of the $43.11 million in savings, ORA computed that ratepayer savings are $35.86 million and the shareholder reward is $7.25 million.[8] Based on its findings, ORA recommends that SoCalGas be authorized to recover its requested shareholder reward of $7,249,855.

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[7] Actual costs for all gas purchases subject to the GCIM in Year 21 are $1,555,377,080.

[8] *See* Table 1-1 of ORA's Monitoring and Evaluation Report at 1.

Upon review of SoCalGas' application and ORA's Monitoring and Evaluation Report for GCIM Year 21, the Commission finds that SoCalGas reasonably managed its gas acquisitions and operations in GCIM Year 21. In accordance with the GCIM modifications adopted in D.02-06-023, the Commission awards SoCalGas a shareholder reward of $7,249,855 for GCIM Year 21. SoCalGas is permitted to adjust its Purchased Gas Account to reflect this shareholder reward.

3. Categorization and Need for Hearings

In Resolution (Res.) ALJ 176-3359 issued on June 25, 2015, 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 176-3359 is changed to hearings are not necessary.

4. Comments on the Proposed Decision

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. Assignment of Proceeding

Carla J. Peterman is the assigned Commissioner and Rafael L. Lirag is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. The GCIM was designed to give utilities market-based incentives to acquire gas at the lowest possible cost and take on some associated risks.

2. The GCIM measures SoCalGas' gas purchasing performance against a benchmark cost of gas intended to emulate actual market conditions on a monthly basis.

3. 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.

4. 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.

5. Pursuant to D.02-06-023, when actual costs fall within the tolerance band, any associated benefits or losses accrue 100% to ratepayers.

6. If actual gas procurement costs exceed the upper 2% tolerance limit, the excess costs are shared 50/50 between shareholders and ratepayers.

7. 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.

8. 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.

9. SoCalGas' total shareholder reward is capped at 1.5% of commodity benchmark costs.

10. The actual cost of all purchases by SoCalGas subject to the GCIM was $1,555,377,080 while the benchmark cost was $1,598,485,094.

11. On October 12, 2015, ORA filed its Monitoring and Evaluation Report for GCIM Year 21, in which it conducted an audit and evaluation of SoCalGas' GCIM Year 21 results.

12. ORA's report verifies that Year 21 recorded gas costs for SoCalGas were below the benchmark, resulting in savings for ratepayers.

13. ORA's report indicated that SoCalGas' GCIM performance from April 1, 2014, to March 31, 2015, resulted in total savings in gas costs of $43,108,013.

14. ORA calculated that the total savings in gas costs results in a ratepayer benefit of $35,858,158, and a reward of $7,249,855 to SoCalGas shareholders.

15. Notice of A.15-06-011 appeared in the Commission's Daily Calendar on June 17, 2015 and no protests have been filed.

16. In Resolution ALJ 176-3359 issued on June 25, 2015, the Commission preliminarily determined that A.15-06-011 be categorized as ratesetting and that hearings would be necessary.

Conclusions of Law

1. SoCalGas reasonably managed its gas acquisitions and operations in GCIM Year 21.

2. Pursuant to revisions to the GCIM adopted in D.02-06-023, SoCalGas is entitled to a shareholder reward of $7,249,855 for GCIM Year 21, to be recovered through its Purchase Gas Account.

3. The preliminary determination made in Resolution ALJ 176-3359 that hearings are necessary, should be changed to hearings are not necessary.

O R D E R

IT IS ORDERED that:

1. Southern California Gas Company is authorized to adjust its Purchase Gas Account to recognize a shareholder reward of $7,249,855 for Year 21 of its Gas Cost Incentive Mechanism.
2. Hearings are not needed in this matter.
3. Application 15-06-011 is closed.

This order is effective today.

Dated _______________, 2015, at San Francisco, California.