

Decision 18-01-005 January 11, 2018

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

In the Matter of the Application of  
Southern California Gas Company  
(U904G) Regarding Year 23 (2016-2017) of  
Its Gas Cost Incentive Mechanism.

Application 17-06-016

**DECISION APPROVING SOUTHERN CALIFORNIA GAS COMPANY'S  
SHAREHOLDER REWARD FOR YEAR 23 (2016-2017) OF  
THE GAS COST INCENTIVE MECHANISM**

**Summary**

This decision grants Application 17-06-016 wherein Southern California Gas Company requests a shareholder reward of \$4,235,030 for Year 23 of the company's Gas Cost Incentive Mechanism.

**1. Background**

**1.1. Regulatory Background**

The purpose of the Gas Cost Incentive Mechanism (GCIM) is to provide Southern California Gas Company (SoCalGas) with a financial incentive to purchase and transport gas for core ratepayers at a cost that is equal to, or less than, prevailing market prices. The details of the GCIM are described in Section 3 of today's Decision.

The GCIM operates on a 12-month cycle that ends on March 31 of each calendar year. SoCalGas must file an application by June 15 of each calendar year to obtain its shareholder reward or penalty for the GCIM year ending on the immediately preceding March 31. The application must include a report for the

prior GCIM year that (i) describes SoCalGas Utility Gas Procurement Department's operations; (ii) reports the variance between actual gas costs and the market benchmark; (iii) reports the GCIM shareholder reward or penalty; and (iv) describes any deviation from gas storage inventory targets.

The Commission's Office of Ratepayer Advocates (ORA) is required to conduct an annual audit of the GCIM and file a monitoring and evaluation report by October 15 of each year as part of the annual GCIM application proceeding.

## **1.2. Procedural Background**

SoCalGas filed Application (A.) 17-06-016 on June 15, 2017, and filed an amendment to A.17-06-016 on August 4, 2017. In A.17-06-016, as amended, SoCalGas requests a shareholder reward of \$4,235,030 for GCIM Year 23 that covers the period of April 1, 2016 through March 31, 2017.<sup>1</sup>

In Resolution ALJ 176-3400, dated June 29, 2017, the Commission preliminarily determined that the category for this proceeding is ratesetting and that hearings are required.

ORA filed a response to A.17-06-016 on July 31, 2017. Shell Energy North America (US), LP (Shell) filed a protest on July 31, 2017, and the Southern California Generation Coalition (SCGC) filed a protest on August 9, 2017. SoCalGas filed a reply to Shell on August 10, 2017, and filed a reply to SCGC on August 11, 2017. The Commission received an e-mail comment from one member of the public on July 31, 2017.

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<sup>1</sup> The terms "Application 17-06-016" and "A.17-06-016" refer to the amended application unless otherwise indicated.

On July 21, 2017, the assigned Administrative Law Judge (ALJ) issued a ruling that set a prehearing conference (PHC) and instructed parties to file PHC statements. The ruling also directed SoCalGas to include specified information in its PHC statement regarding SoCalGas's calculation of its GCIM shareholder reward. ORA and SoCalGas each filed a PHC statement on August 15, 2017. Shell and SCGC filed a joint PHC statement the same day.

On August 17, 2017, SoCalGas filed proof of compliance with the requirement in Rule 3.2 of the Commission's Rules of Practice and Procedure to provide notice of A.17-06-016 to SoCalGas's customers and the public.

A PHC was held in San Francisco on August 21, 2017, and the *Assigned Commissioner's Scoping Memo and Ruling* (Scoping Memo) was issued on September 6, 2017. Among other things, the Scoping Memo confirmed the Commission's preliminary determination in Resolution ALJ 176-3400 that the category for this proceeding is ratesetting and that hearings are needed.

On September 22, 2017, SoCalGas filed a document that provided additional information required by the Scoping Memo.

ORA emailed its *Monitoring and Evaluation Report* to the service list on October 16, 2017 (ORA Report).<sup>2</sup> SoCalGas filed comments regarding the ORA Report on October 30, 2017. There were no reply comments.

On November 9, 2017, SoCalGas filed a document containing supplemental information pursuant to a ruling issued by the assigned ALJ on November 3, 2017.

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<sup>2</sup> ORA filed and served its ORA Report on January 9, 2018, pursuant to an ALJ Ruling issued on January 8, 2018.

The Scoping Memo provided parties with an opportunity to file motions for evidentiary hearings regarding the matters addressed in the ORA Report. There were no such motions, and no hearings were held.

## **2. Issues Before the Commission**

Pursuant to the Scoping Memo, the scope of this proceeding consists of the following issues:

1. Whether to approve A.17-06-016 wherein SoCalGas requests a shareholder reward of \$4,235,030 for GCIM Year 23.
2. Whether SoCalGas has calculated its requested shareholder reward of \$4,235,030 in accordance with applicable Commission decisions and SoCalGas's GCIM tariff.
3. Issues and recommendations raised by ORA in its *Monitoring and Evaluation Report* for GCIM Year 23.

The Scoping Memo also determined that there are no safety issues that need to be considered in this proceeding.<sup>3</sup>

## **3. Summary of Application 17-06-016**

In A.17-06-016, SoCalGas requests a shareholder reward of \$4,235,030 for GCIM Year 23 that covers the period of April 1, 2016, through March 31, 2017.

The GCIM compares the Actual Total Annual Purchased Gas Cost (Actual Annual Cost) to the Annual Benchmark Budget (Benchmark Budget). The Actual Annual Cost is the sum of (1) actual gas commodity costs and transportation costs, (2) net gain or loss from certain gas hedging transactions, (3) net revenues

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<sup>3</sup> The Scoping Memo did not bar ORA from raising safety issues in its *Monitoring and Evaluation Report*. No such issues were raised in ORA's report.

from secondary market services (SMS), and (4) certain other revenues, expenses, and adjustments identified in SoCalGas's GCIM tariff.<sup>4</sup>

The Benchmark Budget consists of the following:

- The sum of twelve (12) Monthly Benchmark Gas Commodity Costs consisting of:
  - The monthly Mainline Gas Commodity Reference Price (MGCRP) for each production basin where SoCalGas buys gas multiplied by the volumes purchased from each basin. The MGCRP is the weighted average of published indices from two gas industry publications for the mainline trading points for each production basin.
  - The monthly Southern California Border Average Indices Price (SCBAIP) multiplied by volumes purchased from California producers and at SoCalGas receipt points. The SCBAIP is the simple average of two published indices.
  - The monthly average of Published Indices Prices (PIP) multiplied by volumes purchased at non-SoCalGas receipt points (*e.g.*, PG&E-Topock, Mojave-Topock, and Malin). The PIP is the simple average of two published indices for each receipt point.
  - The sources of the published indices used by SoCalGas for Year 23 are identified in the document filed by SoCalGas on November 9, 2017.
- The sum of 12 Monthly Benchmark Commodity Transportation Costs, which consist of the monthly commodity firm and interruptible transportation charges incurred by SoCalGas for each pipeline it holds capacity on.

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<sup>4</sup> SoCalGas Tariff, Preliminary Statement, Section VIII.

- The sum of 12 Monthly Benchmark Transportation Reservation Charges, which consist of pipeline reservation charges for total core capacity, including credits from revenues generated through the release of core interstate pipeline capacity.

To determine the annual GCIM shareholder reward or penalty, the Actual Annual Cost is compared to the Benchmark Budget. Core ratepayers are assigned all gains and losses within a Tolerance Band. Gains and losses outside the Tolerance Band are shared between core ratepayers and shareholders in accordance with the formula described below.

The upper limit of the Tolerance Band is the Benchmark Budget plus two percent (2%) of the annual Benchmark Gas Commodity Cost (BGCC).<sup>5</sup> The Actual Annual Costs in excess of the upper 2% limit of the Tolerance Band (*i.e.*, a loss) is shared equally between core ratepayers and SoCalGas.

The lower limit of the Tolerance Band is the Benchmark Budget minus one percent (1%) of the BGCC. To the extent the Actual Annual Cost is 1% - 5% below the Benchmark Budget (measured as a percentage of BGCC) the first 1% of the gain (*i.e.*, the Tolerance Band) is allocated entirely to core ratepayers and the remainder is allocated 75% to core ratepayers and 25% to shareholders. To the extent the Actual Annual Cost is 5% - 10% below the Benchmark Budget (measured as a percentage of BGCC) the gain in excess of 5% is allocated 90% to core ratepayers and 10% to shareholders. To the extent the Actual Annual Cost is more than 10% below the Benchmark Budget, all gains in excess of 10% are allocated to core ratepayers.

The following table shows the GCIM sharing formula in tabular form:

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<sup>5</sup> The annual BGCC is the sum of the 12 monthly BGCCs described previously.

<b>Table 1</b> <b>GCIM Sharing Formula</b> <b>Actual Annual Cost vs. Benchmark Budget</b>		
<b>Actual Annual Cost &gt; Benchmark Difference as a Percentage of BGCC</b>	<b>Ratepayers (Loss)</b>	<b>Shareholders (Penalty)</b>
0 - 2% (Tolerance Band)	(100%)	0%
>2%	(50%)	(50%)
<b>Benchmark &gt; Actual Annual Cost Difference as a Percentage of BGCC</b>	<b>Ratepayers Gain</b>	<b>Shareholders Reward <sup>1</sup></b>
0 - 1% (Tolerance Band)	100%	0%
1% - 5%	75%	25%
5% - 10%	90%	10%
>10%	100%	0%
1. Shareholder reward capped at 1.5% of the BGCC.		

SoCalGas provided the following calculation of its requested GCIM shareholder reward of \$4,235,030 for Year 23:

<b>Table 2</b> <b>SoCalGas Reported GCIM Year 23 Results</b>				
<b>Row</b>		<b>Benchmark (\$)</b>	<b>Actual (\$)</b>	<b>Actual (Over)/Under Benchmark</b>
1	<b>Commodity</b>	1,021,436,913	1,003,111,823	
2	<b>SMS Net Revenue</b>		(9,437,169)	
3	<b>Hedging Loss</b>		607,769	
4	<b>Transportation</b>	216,391,196	216,391,196	
5	<b>Total</b>	1,237,828,109	1,210,673,619	\$27,154,490
		<b>GCIM Sharing Allocation</b>		
6	<b>Tolerance Band (0 - 1%) <sup>1</sup></b>			\$10,214,369
7	<b>Subject to 75% / 25% Sharing (1% - 5%)</b>			\$16,940,121
8	<b>Core Ratepayer Share: 75%</b>			\$12,705,091
9	<b>Shareholder Share: 25%</b>			\$ 4,235,030
	<sup>1</sup> Tolerance Band calculated as a percentage of benchmark commodity costs in Row 1.			
	<u>Source:</u> Supplemental Information of Southern California Gas Company (U 904 G) filed on September 22, 2017, at page 2.			

The GCIM shareholder reward or penalty is determined monthly and rolled into rates monthly via the core monthly gas pricing advice letter (with a lag of several months). The monthly GCIM shareholder reward/penalty is subject to later adjustment based on the ORA Report. This later adjustment, if any, is rolled into the next core monthly gas pricing advice letter.<sup>6</sup>

To hedge against winter price spikes and supply constraints, the GCIM includes gas storage inventory targets. There is no financial reward or penalty associated with the storage targets. Pursuant to D.06-10-029, a storage target of 49 billion cubic feet (Bcf) was established for July 31, 2006. D.06-10-029 also stated that for years beyond 2006, SoCalGas will obtain agreement from ORA and The Utility Reform Network (TURN) for mid-season core-purchased inventory targets that must be met unless otherwise agreed to by ORA and TURN. Each agreed upon mid-season core-purchased inventory target must be reflected in SoCalGas's GCIM tariff.

SoCalGas reports that its ability to meet storage inventory targets during Year 23 was hindered by the unavailability of most of the storage capacity at its Aliso Canyon Storage Field (Aliso Canyon). In particular, prior to the Aliso Canyon gas leak, SoCalGas's four storage fields (Honor Rancho, La Goleta, Playa del Rey, and Aliso Canyon) had a combined storage capacity of 138.1 Bcf. Pursuant to D.16-06-039, the 138.1 Bcf was allocated as follows: 83.0 Bcf to core (including 3 Bcf for Core Aggregation Transportation, or CAT, customers);

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<sup>6</sup> SoCalGas Tariff, Preliminary Statement, Sections VIII.D and VIII.E. The "core monthly gas *pricing* advice letter" is also known as the "core monthly gas *procurement* advice letter." (Italics added.)



47.1 Bcf to unbundled storage (*i.e.*, noncore); and 8.0 Bcf to the load balancing function.

Following the Aliso Canyon gas leak, SoCalGas states that it was subject to a series of orders during GCIM Year 23 to maintain a minimum Aliso Canyon inventory of approximately 15 Bcf. There was also a moratorium on injecting gas into Aliso Canyon.<sup>7</sup> As a result, the total available storage capacity was approximately 65 Bcf (15 Bcf at Aliso Canyon, 27 Bcf at Honor Rancho, 21.5 Bcf at La Goleta, and 1.85 Bcf at Play del Rey).

SoCalGas states that the highest level of storage inventory achieved during GCIM Year 23 was approximately 61 Bcf. The following table shows the actual amount of gas in storage on the last day of July, October, and November 2016.

<b>Table 3</b>					
<b>Gas Storage Inventory, in Bcf</b>					
<b>Date</b>	<b>Retail Core Purchased</b>	<b>Retail Core SMS</b>	<b>Retail Core Total</b>	<b>Noncore and Balancing (includes CAT customers)</b>	<b>Total</b>
7/31/2016	28.0	19.0	47.0	13.6	60.6
10/31/2016	50.1	0	50.1	10.7	60.8
11/30/2016	44.6	2.5	47.1	12.6	59.8
<i>Note:</i> SoCalGas’s Tariff Preliminary Statement, Part VIII.C.7, identifies GCIM storage target dates of July 31, November 1, and December 1.					
<i>Source:</i> Supplemental Information of Southern California Gas Company (U 904 G) filed on September 22, 2017, at pages 3-4.					

<sup>7</sup> SoCalGas cites a letter dated February 15, 2017, from Rodger Schwecke, SoCalGas Vice President, to Edward Randolph, Energy Division Director. The letter is available on the Commission’s website at <http://www.cpuc.ca.gov/aliso/>.

#### **4. Summary of ORA's Report and SoCalGas's Comments**

In its *Monitoring and Evaluation Report* that was emailed to the service list on October 16, 2017, ORA states that it verified that SoCalGas's GCIM savings for Year 23 was \$27,154,492.<sup>8</sup> Accordingly, ORA recommends that the Commission approve a GCIM shareholder reward of \$4,235,031 for Year 23.<sup>9</sup>

ORA expressed concern about SoCalGas's "mid-season" retail core storage of 47.0 Bcf on July 31, 2016. ORA posits that in the future, mid-season storage of less than 47.0 Bcf could lead to higher costs for core ratepayers if SoCalGas has to purchase larger quantities of gas later in the year when gas is typically more expensive. ORA is also concerned that less gas in storage at mid-season could jeopardize reliability in Southern California given that Aliso Canyon may be operating at reduced capacity for the foreseeable future. Therefore, ORA recommends that SoCalGas confer with ORA in the event that SoCalGas anticipates that its mid-season core storage inventory will be less than of 47.0 Bcf.

In its comments filed on October 30, 2017, SoCalGas states that it does not oppose ORA's recommendation.

#### **5. Discussion**

The record of this proceeding establishes that SoCalGas has calculated its requested shareholder reward of \$4,235,030 for GCIM Year 23 in accordance with applicable Commission decisions and SoCalGas's GCIM tariff. Therefore, we hereby approve SoCalGas's requested shareholder reward. SoCalGas shall recover the approved shareholder reward by adjusting its Purchased Gas

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<sup>8</sup> ORA's calculation of GCIM savings exceeds SoCalGas's calculation by \$2.

<sup>9</sup> ORA recommends a shareholder reward that exceeds SoCalGas's request by \$1.

Account (PGA), but only to the extent that SoCalGas has not already recovered this reward in accordance with its GCIM tariff.<sup>10</sup>

We adopt ORA's unopposed recommendation to direct SoCalGas to meet with ORA in the event that SoCalGas anticipates that it will have less than 47.0 Bcf of mid-season core storage inventory on July 31 of each year. This requirement shall start with July 31, 2018, and continue until further notice. SoCalGas shall also note this requirement in its GCIM Tariff Preliminary Statement. In addition, SoCalGas shall provide written notification of its mid-season (July 31) and annual (November 1) core purchased storage inventory targets to the Commission's Energy Division.

Today's Decision does not address, or constitute precedent for, matters pertaining to SoCalGas's Aliso Canyon Storage Field that are before the Commission in Investigation 17-02-002.

## **6. Need for Hearing**

In Resolution ALJ 176-3400 dated June 29, 2017, the Commission preliminarily determined that hearings are needed in this proceeding. The Scoping Memo confirmed that hearings are needed. However, none of the parties requested evidentiary hearings and no hearings were held. There are no disputed factual issues in this proceeding. Therefore, the determination that hearings are needed is changed to hearings are not needed.

## **7. Comments on Proposed Decision**

The proposed decision of ALJ Kenney in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments

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<sup>10</sup> SoCalGas Tariff, Preliminary Statement, Sections VIII.D and VIII.E.

were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. There were no comments on the proposed decision.

## **8. Assignment of Proceeding**

Carla J. Peterman is the assigned Commissioner and Timothy Kenney is the assigned ALJ in this proceeding.

### **Findings of Fact**

1. In A.17-06-016, SoCalGas requests a shareholder reward of \$4,235,030 for GCIM Year 23 that covers the period of April 1, 2016 through March 31, 2017.

2. For GCIM Year 23, the Benchmark Budget was \$1,237,828,108, the Actual Annual Cost was \$1,210,673,619, and total GCIM savings were \$27,154,489. The GCIM shareholder reward for Year 23 is \$4,235,030.

3. There is no opposition to ORA's recommendation to direct SoCalGas to meet with ORA in the event that SoCalGas anticipates that its mid-season core storage inventory will be less than 47.0 Bcf on July 31.

4. In Resolution ALJ 176-3400, dated June 29, 2017, the Commission preliminarily determined hearings are necessary in A.17-06-016. The need for hearings was confirmed in the Scoping Memo.

5. No party requested an evidentiary hearing. No hearing was held.

6. SoCalGas's GCIM tariff stipulates that the GCIM shareholder reward or penalty is determined monthly and rolled into rates monthly via the core monthly gas pricing advice letter (with a lag of several months). The monthly GCIM shareholder reward/penalty is subject to later adjustment based on the ORA Report. This later adjustment, if any, is rolled into the next core monthly gas pricing advice letter.

7. There are no material issues of fact in this proceeding.

**Conclusions of Law**

1. Application 17-06-016 should be granted.
2. SoCalGas is entitled to a shareholder reward of \$4,235,030 for GCIM Year 23. SoCalGas should receive the reward by adjusting its PGA, but only to the extent that SoCalGas has not already recovered this reward in accordance with its GCIM tariff.
3. It is reasonable to adopt ORA's recommendation to direct SoCalGas to confer with ORA in the event that SoCalGas anticipates that its mid-season core storage inventory will be less than 47 Bcf on July 31. This requirement should apply to July 31, 2018, and continue until further notice.
4. SoCalGas should revise its Tariff Preliminary Statement for the GCIM to incorporate the requirement identified in Conclusion of Law 3.
5. SoCalGas should provide written notification of its mid-season (July 31) and annual (November 1) core purchased storage inventory targets to the Commission's Energy Division.
6. There is no need for evidentiary hearings in this proceeding. The determination in Resolution ALJ-3400 and the Scoping Memo that hearings are needed should be changed to hearings are not necessary.
7. The following order should be effective immediately.

**O R D E R**

**IT IS ORDERED** that:

1. Application 17-06-016 is granted.
2. Southern California Gas Company (SoCalGas) is authorized to adjust its Purchased Gas Account to receive a shareholder reward of \$4,235,030 for Year 23 of SoCalGas's Gas Cost Incentive Mechanism (GCIM), but only to the extent that SoCalGas has not already recovered this reward pursuant to its GCIM tariff.
3. Southern California Gas Company (SoCalGas) shall confer with the Commission's Office of Ratepayer Advocates in the event that SoCalGas anticipates that its mid-season core storage inventory will be less than 47.0 billion cubic feet on July 31 of each calendar year. This requirement shall start with July 31, 2018, and continue until further notice.
4. Within 30 days from the issuance date of this Decision, Southern California Gas Company (SoCalGas) shall file a Tier 1 Advice Letter to modify its Tariff Preliminary Statement for the Gas Cost Incentive Mechanism to note that SoCalGas is required to confer with the Commission's Office of Ratepayer Advocates in the event that SoCalGas anticipates that its mid-season core storage inventory will be less than 47.0 billion cubic feet on July 31 of each calendar year.
5. Southern California Gas Company shall provide written notification of its mid-season (July 31) and annual (November 1) core purchased storage inventory targets to the Commission's Energy Division.
6. The determination in Resolution ALJ-3400 and the Scoping Memo that hearings are needed is changed to hearings are not necessary.

7. Application 17-06-016 is closed.

This order is effective today.

Dated January 11, 2018, at San Francisco, California.

MICHAEL PICKER

President

CARLA J. PETERMAN

LIANE M. RANDOLPH

MARTHA GUZMAN ACEVES

CLIFFORD RECHTSCHAFFEN

Commissioners