

**PUBLIC UTILITIES COMMISSION**505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

January 16, 2009

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Ratesetting

TO PARTIES OF RECORD IN APPLICATION 08-06-016

This is the proposed decision of Administrative Law Judge (ALJ) Lakritz. It will not appear on the Commission's agenda for at least 30 days after the date it is mailed. The Commission may act then, or it may postpone action until later.

When the Commission acts on the proposed decision, it may adopt all or part of it as written, amend or modify it, or set it aside and prepare its own decision. Only when the Commission acts does the decision become binding on the parties.

Parties to the proceeding may file comments on the proposed decision as provided in Article 14 of the Commission's Rules of Practice and Procedure (Rules), accessible on the Commission's website at www.cpuc.ca.gov. Pursuant to Rule 14.3, opening comments shall not exceed 15 pages.

Comments must be filed either electronically pursuant to Resolution ALJ-188 or with the Commission's Docket Office. Comments should be served on parties to this proceeding in accordance with Rules 1.9 and 1.10. Electronic and hard copies of comments should be sent to ALJ Lakritz at jol@cpuc.ca.gov and the assigned Commissioner. The current service list for this proceeding is available on the Commission's website at www.cpuc.ca.gov.

/s/ MICHELLE COOKE for
Karen V. Clopton, Chief
Administrative Law Judge

KVC:avs

Attachment

Decision PROPOSED DECISION OF ALJ LAKRITZ (Mailed 1/16/2009)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Gas Company (U904G) Regarding Year 14 (2007-2008) of Its Gas Cost Incentive Mechanism.

Application 08-06-016
(Filed June 16, 2008)

**OPINION REGARDING YEAR 14 OF THE
GAS COST INCENTIVE MECHANISM**

1. Summary

Today's decision addresses the Year 14 Gas Cost Incentive Mechanism (GCIM) application filed by Southern California Gas Company (SoCalGas) on June 16, 2008.

The decision finds that SoCalGas reasonably managed its gas acquisitions and operations in Year 14 within the context of the GCIM that existed at the time, and that the calculation and amount of the shareholder award is correct. Pursuant to the GCIM modifications adopted in Decision 02-06-023, SoCalGas is awarded a shareholder award of \$6,521,814 (\$6.5 Million) for Year 14. This proceeding is closed.

2. Procedural and Factual Background

The GCIM is a Commission-authorized ratemaking mechanism that SoCalGas uses to purchase natural gas on behalf of its core customers. The GCIM replaced the reasonableness reviews of SoCalGas' procurement activities. The GCIM establishes a benchmark against which to measure the price that SoCalGas pays for gas. This provides an incentive for SoCalGas to purchase gas

at or below the benchmark. Savings below the tolerance band are shared with ratepayers and SoCalGas' shareholders according to the sharing band adopted in D.02-06-023.

SoCalGas was first authorized to use the GCIM in Decision (D.) 94-03-076 [53 CPUC2d 663]. The GCIM was modified in 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.

On June 16, 2008, SoCalGas filed its Year 14 GCIM application. SoCalGas' application describes the results of operations under the GCIM structure for its gas acquisition activities for Year 14, the period from April 1, 2007 through March 31, 2008.

The Division of Ratepayer Advocates (DRA) filed a response to SoCalGas' application on July 21, 2008. On September 26, 2008, Shell Energy North America (US), L.P. (Shell Energy) filed a motion to granted authority to intervene as an interested party. SoCalGas filed a response to Shell Energy's motion on October 14, 2008.

On November 14, 2008, DRA served its Monitoring and Evaluation Report on the Year 14 GCIM.

3. Shell Energy's Request to Intervene

Shell Energy requests authority to intervene as an interested party. Shell Energy markets natural gas to wholesale and retail customers throughout California and the western United States. Shell Energy also markets gas to all of California's gas utilities for resale to utilities' core procurement customers. As a potential supplier of SoCalGas' core portfolio, Shell Energy has a direct interest in establishing the terms and conditions under which SoCalGas is rewarded for its purchases of gas and gas products for its core procurement customers.

Shell Energy also purchases SoCalGas' hub services to manage Shell Energy's gas purchases and deliveries to southern California retail customers.

In its motion, Shell Energy desires to intervene for the purpose of making proposals to modify the current GCIM so that all hedging transitions are reflected within the GCIM. Shell Energy asserts that it is filing this motion based upon guidance provided by the Assigned Commissioner and the Presiding Judge in a Ruling dated September 17, 2008 in Rulemaking (R.) 08-06-025. According to Shell Energy, the Assigned Commissioner and the Presiding Judge in R.08-06-025 decided that the Commission would not consider Shell Energy's proposals because the proposals would require a comprehensive broadening of the scope that would directly conflict with the explicit limitations that the Commission adopted as the basis for opening the rulemaking. In the same ruling, according to Shell Energy, it was suggested that the appropriate forum to consider Shell Energy's proposals might be through the annual incentive mechanism application process where there is an opportunity to propose modifications.

As described in both R.08-06-025 and the September 17, 2008 Scoping memo, the scope of that proceeding is to focus on whether hedging costs should be re-integrated into the existing incentive mechanisms, and if so, how. Shell Energy's proposals assume that it is desirable and appropriate to include costs of all hedge transactions within the GCIM, but this is also a key policy question we are considering in R.08-06-025. It would be premature to examine and evaluate Shell Energy's proposals to modify the existing GCIM structure prior to us resolving in R.08-06-025 the policy issue of whether hedging costs should be re-integrated into the existing GCIM mechanism. Shell Energy's motion to intervene in this application is denied.

4. GCIM Year 14 Results

The Year 14 GCIM application of SoCalGas reports on the results of its gas supply and storage operations for the period April 1, 2007 through March 31, 2008. In accordance with D.02-06-023, SoCalGas requests that the Commission approve a shareholder award of \$6.5 million for its Year 14 performance under the GCIM.

SoCalGas' Annual Report on the GCIM for Year 14, which was attached to SoCalGas' application, notes that "In GCIM Year 14, California continued to experience a dynamic natural gas market. Despite changing market conditions, SoCalGas' core customers continued to receive reliable natural gas supplies at below-market cost," and that "ratepayers have realized the benefit of gas purchases below the GCIM benchmark ... in thirteen of the past 14 years." (Application 08-06-016 Application; Attachment A, p. 1.)

In Year 14, SoCalGas acquired gas at a total savings of \$50,073,522 below the benchmark. Pursuant to the GCIM revisions adopted in D.02-06-023, of this total savings, \$43.6 million is the ratepayers' share, and \$6.5 million is the shareholders' share.

DRA's Monitoring and Evaluation Report states it conducted a comprehensive audit of SoCalGas' GCIM Year 14 results. This audit included a review of SoCalGas' recorded Purchased Gas Account costs, an analysis and verification of the GCIM calculations, and an evaluation of the manner in which the program operated under during the period. The report also states that DRA verified that the current sharing mechanism resulted in a total savings of \$50.1 million to be split between a ratepayer benefit of \$43.6 million and a shareholder reward of \$6.5 million. (DRA Monitoring and Evaluation Report, November 14, 2008, p. 1-1.)

Based on the results of DRA's audit, DRA recommends that SoCalGas be authorized to recover a shareholder award of \$6,521,814, and that the GCIM be continued.

After reviewing SoCalGas' application and DRA's Monitoring and Evaluation Report for Year 14, we find that SoCalGas reasonably managed its gas acquisitions and operations in Year 14 within the context of the GCIM that existed at the time. We also find that the calculation and amount of SoCalGas' shareholder award for Year 14 is correct.

In accordance with the GCIM modifications adopted in D.02-06-023, SoCalGas is entitled to a shareholder award of \$6.5 million for Year 14 of the GCIM. Thus, we will award SoCalGas a shareholder award of \$6,521,814 for Year 14 of its GCIM. SoCalGas is permitted to adjust the Purchased Gas Account to reflect this shareholder award.

5. Comments on Proposed Decision

The proposed decision of the Administrative Law Judge in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on _____, and reply comments were filed on _____ by _____.

6. Categorization and Need for Hearings

In Resolution ALJ 176-3216, dated June 26, 2008, the Commission preliminarily categorized this application as ratesetting, and preliminarily determined that hearings were not necessary. No protests have been received. Given this status, a public hearing is not necessary and the preliminary determination made in Resolution ALJ 176-3216 is confirmed.

7. Assignment of Proceeding

Rachelle B. Chong is the assigned Commissioner and Jonathan Lakritz 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 in 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 \$50,073,522 below the GCIM benchmark in Year 14.

4. DRA's Monitoring and Evaluation Report for Year 14 verified the amount and calculation of the shareholder award.

5. SoCalGas reasonably managed its gas acquisitions and operations in Year 14 within the context of the GCIM that existed at the time.

6. The calculation and amount of SoCalGas' shareholder award for Year 14 are correct.

Conclusions of Law

1. No hearing is necessary.

2. The preliminary determination made in Resolution ALJ 176-3216 should be confirmed.

3. In accordance with the GCIM modifications adopted in D.02-06-023, SoCalGas is entitled to a shareholder award of \$6.5 million for Year 14 of the GCIM.

4. SoCalGas should be awarded a shareholder award of \$6.5 million for Year 14 of its GCIM.

5. SoCalGas should be permitted to adjust the Purchased Gas Account to reflect the shareholder award of \$6.5 million.

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 \$6,521,814 under Year 14 of its Gas Cost Incentive Mechanism.

2. The September 26, 2008 Motion to Intervene filed by Shell Energy North America (US), L.P. is denied.

3. Application 08-06-016 is closed.

This order is effective today.

Dated _____, at San Francisco, California.

INFORMATION REGARDING SERVICE

I have provided notification of filing to the electronic mail addresses on the attached service list.

Upon confirmation of this document's acceptance for filing, I will cause a Notice of Availability of the filed document to be served upon the service list to this proceeding by U.S. mail. The service list I will use to serve the Notice of Availability of the filed document is current as of today's date.

Dated January 16, 2009, at San Francisco, California.

/s/ ANTONINA V. SWANSEN
Antonina V. Swansen

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