



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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Order Instituting Rulemaking to Address
the Gas Utilities' Incentive Mechanisms
and the Treatment of Hedging Under
Those Incentive Mechanisms.

Rulemaking 08-06-025
(Filed June 26, 2008)

**REPLY COMMENTS
OF THE DIVISION OF RATEPAYER ADVOCATES**

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August 14, 2008

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I. INTRODUCTION

Pursuant to the Order Instituting Rulemaking to Address the Gas Utilities' Incentive Mechanisms and the Treatment of Hedging Under Those Incentive Mechanisms (OIR) and the July 17 ALJ Ruling, the Division of Ratepayer Advocates (DRA) hereby files its reply comments on procedural and scoping issues.

II. DISCUSSION

In their opening comments various parties expressed support of and concerns with the scope of this proceeding. DRA supports the narrow scope of this proceeding. As stated in the OIR, "this rulemaking is not intended to be a broad reexamination of the utilities' gas incentive mechanisms...we will focus more narrowly on whether hedging costs should be re-integrated into the existing incentive mechanisms." (OIR, p. 22.) To the extent parties argue for a different or broader scope, DRA disagrees as discussed below. Shell, SCE and TURN presented substantive positions in their procedural comments. DRA will address these issues in its substantive comments or testimony later in the proceeding. Additionally, DRA comments on the procedural issues raised by parties below.

Lodi

Lodi proposes to broaden the OIR to “include[] a comprehensive review of how incentive mechanisms can be structured to reward LDCs for using the tools in their procurement toolboxes in an integrated and optimized manner.” (Lodi Comments, p. 2). DRA disagrees. The OIR clearly states that the focus of the OIR is on the narrow issue of whether hedging costs should be re-integrated into the existing incentive mechanisms. (OIR, p. 2). The Commission can address the issues raised by Lodi within the annual monitoring and evaluation of the incentive mechanisms “where there is an opportunity to propose modifications.” (Id.)

Lodi requests to address issues that go well beyond the stated OIR scope, into the matter of interstate pipeline capacity and storage asset mix. Lodi states, “LDCs could probably rely more than they do today on interruptible interstate pipeline capacity...”, and “the LDC may purchase more storage capacity and reach into stored reserves to cover the peaks, as opposed to flowing supplies on interstate pipelines.” The issues raised by Lodi on interstate pipeline and storage asset mix are addressed in other proceedings, and their review within the OIR is unnecessary and would be redundant. For instance, phase 1 of the currently litigated SDG&E/SoCalGas BCAP proceeding (A.08-02-001) considers storage assets for core customers. In its pipeline capacity rulemaking, the Commission already dealt with the interstate pipeline capacity issues raised by Lodi. (D.04-09-022.) The decision adopted interstate pipeline capacity ranges associated with the gas utilities core demand which “should be revisited in the utilities respective BCAP’s or through the advice letter process for possible adjustments”.¹ There are separate procedural vehicles to address the storage and pipeline capacity assets, and Lodi’s request to expand the OIR scope should be rejected.

¹ D.04-09-022, COL 6, p. 90.

Shell

Shell's opening comments provide extensive discussion of issues identified within the OIR and specifically "whether hedging costs should be re-integrated into the existing incentive mechanisms, and if so, how." DRA intends to address the OIR issues at the appropriate time and its silence on comments submitted by Shell does not imply consent by DRA. At this time, DRA is commenting only on the scope of the proceeding.

TURN

TURN proposes that this proceeding "review the methods and results of financial hedging on the electric side to evaluate hedging strategies." (TURN Comments, p. 1). DRA disagrees. This Rulemaking is for gas utilities only, and electric hedging is not relevant to this proceeding. To DRA's knowledge, there has been no comprehensive review of electric hedging and incorporation of additional information outside the scope of this proceeding will add unnecessary complexity to the direct OIR issues. Additionally, DRA disagrees with TURN's proposal that this proceeding "incorporate the results of ongoing customer risk preference market assessment being conducted by PG&E." (TURN Comments, p. 1). That study is currently being conducted pursuant to D.07-06-013 and is intended to apply only to PG&E's hedging program as a part of PG&E's proceeding. Section 1.8 of the Settlement Agreement adopted by D.07-06-013 states, "The goal of such a study will be to obtain a quantitative estimate of the consumer risk tolerance of PG&E's core gas customers ..." and "PG&E shall include the results of the study, together with any recommendations flowing from the study, in a report to the Advisory Group due before June 30, 2009."

SoCalGas/SDG&E, PG&E

SoCalGas/SDG&E propose a procedural schedule in their comments. The assigned ALJ should wait until the PHC before setting a schedule. Furthermore, any schedule should have reply comments/briefs. PG&E and SoCalGas/SDG&E

propose workshops. DRA does not see a need for workshops in this proceeding. The OIR clearly sets a narrow scope for the proceeding. Parties can present their positions through substantive comments and reply comments or testimony and hearings if warranted.

Respectfully submitted,

/s/ Gregory Heiden

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of “**REPLY COMMENTS OF THE DIVISION OF RATEPAYER ADVOCATES**” in **R.08-06-025** by using the following service:

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Executed on the 14th day of August, 2008 at San Francisco, California.

/s/ Nelly Sarmiento

Nelly Sarmiento

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