Decision 09-08-008 August 20, 2009

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 G) for Approval of their Combined Core Portfolio 2009-2010 Winter Hedging Program.	Application 09-04-023 (Filed April 24, 2009)

DECISION APPROVING SOUTHERN CALIFORNIA GAS COMPANY AND SAN DIEGO GAS & ELECTRIC COMPANY'S 2009-2010 WINTER HEDGING PROGRAM

Summary

This decision approves the confidential hedging plan of Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) for their combined core 2009-2010 Winter Hedging Program. The 2009-2010 Winter Hedging Program costs and volumes shall be viewed as a maximum cap that SoCalGas and SDG&E shall not exceed. SoCalGas shall make every effort to keep gas hedging costs low.

1. Relief Requested

In Application (A.) 09-04-023, filed April 24, 2009, (Application), Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) seek Commission approval and authority to implement their proposed Combined Core Portfolio 2009-2010 Winter Hedging Program. The proposed program is similar to SoCalGas' winter hedging programs approved by the Commission for each of the past four winters. However, because of lower natural gas costs this year, SoCalGas and SDG&E are proposing a winter maximum expenditure level of $7 per SoCalGas' and SDG&E' core customer on average for the 2009-2010 winter season, which is $6 less than the $13 maximum expenditure level for each SoCalGas' and SDG&E's core customer last winter specified in Decision (D.) 08-09-005.[1]

Addendum A to the Application is the confidential SoCalGas/SDG&E's Combined Core Portfolio 2009-2010 Winter Hedging Plan, which is a description of SoCalGas' proposed natural gas hedging to help protect the retail core customers of SoCalGas and SDG&E from potential significant spikes in natural gas prices for the 2009-2010 winter.[2]

2. Background

SoCalGas implemented a Gas Cost Incentive Mechanism (GCIM) in 1994, pursuant to D.94-03-076. The GCIM is a ratemaking mechanism structured to provide an incentive for SoCalGas to invest in its Gas Acquisition Department and to make sound gas purchasing decisions.[3] It is also structured to provide regulatory controls of greater benefit to ratepayers than annual reasonableness reviews. Certain aspects of that ratemaking mechanism, including modifications to a sharing mechanism between ratepayers and shareholders, were most recently modified in 2002 by D.02-06-023.

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[1] D.08-09-005, *mimeo*. at 8.

[2] An Assigned Administrative Law Judge's (ALJ) Ruling on June 17, 2009, granted SoCalGas/SDG&E motions for authority to file under seal the confidential information contained in Addendum A, and for adoption of a protective order. The June 17, 2009 Ruling protects the Combined Core Portfolio 2009-2010 Winter Hedging Plan for three years from the effective date of the ruling.

[3] Gas hedging was one mechanism pursued in GCIM activities.

In D.05-10-043, SoCalGas obtained Commission authority to expand its hedging activities for its 2005-2006 winter period because of price spikes in the natural gas market that resulted from Hurricanes Katrina and Rita. That authority allowed SoCalGas to expand its hedging activities outside of and in addition to its GCIM, with all associated costs and benefits flowing directly to SoCalGas' core customers to help safeguard those customers from high natural gas prices at a moderate cost to those customers.

Expansion of the gas hedging program was adopted for the winter of 2006-2007 in D.06-08-027, and an extension of the hedging program was authorized in D.07-06-027 for the winter of 2007-2008.

In D.07-12-019, the Commission approved the consolidation of SoCalGas' and SDG&E's core procurement functions into a single core procurement portfolio managed by SoCalGas. The Commission also authorized SoCalGas to engage in winter hedging for the combined portfolio outside of SoCalGas' GCIM. In accordance with this authorization, all financial transactions used by SoCalGas to hedge natural gas prices for the combined core portfolio for the period from November through March each year are excluded from the calculation of costs and savings allocated under the GCIM. As a result, SoCalGas' and SDG&E's core customers are allocated 100% of gains and losses from such hedge transactions.

In D.08-09-005, the Commission approved SoCalGas and SDG&E's 2008-2009 winter hedging program. D.08-09-005 granted confidential protection of SoCalGas' hedging program, and authorized SoCalGas to spend the lower of $13 per SoCalGas' and SDG&E's core customer on average for the 2008-2009 winter season, or up to the amount requested in the confidential 2008-2009 hedging plan. D.08-09-005 also specified that the maximum hedging costs are not a "budget" and the maximum hedging volumes are not a "target," but that these costs and volumes represent a maximum cap that SoCalGas shall not exceed.

The Commission's authorization for SoCalGas and SDG&E to engage in winter hedging outside of the GCIM is subject to reevaluation. This reevaluation is the subject of Rulemaking (R.) 08-06-025, which is a rulemaking to address the gas utilities' incentive mechanisms and the treatment of hedging under those incentive mechanisms. A decision in R.08-06-025 is anticipated in 2009 or early 2010. Nothing in this decision is intended to prejudge any decision adopted in R.08-06-025.

SoCalGas and SDG&E must file an application each year for approval of their proposed winter hedge plans.[4] The instant application complies with this annual filing requirement and seeks the requisite authority to implement the SoCalGas/SDG&E Combined Core Portfolio 2009-2010 Winter Hedging Program.

SoCalGas discussed the Application with the Division of Ratepayer Advocates (DRA) and The Utility Reform Network (TURN), and states that neither DRA nor TURN objects to the Application.[5] No party filed any response to the Application.

3. Discussion

Hedging is a form of insurance to protect gas customers from price spikes in the natural gas markets. The proper use of hedging provides the ability to

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[4] D.07-12-019, pp. 48-49 and 103 (Finding of Fact 23).

[5] Application, pp. 2-3.

secure price protection in case natural gas prices spike and thereby mitigate the impact these higher prices would have on customer bills.[6]

This Application is uncontested, and is hereby approved because it is in the ratepayers' interest. The potential threat of price spikes during the winter season cannot be ignored hence prudence dictates that we act now to protect customers from unforeseen price increases by providing SoCalGas' flexibility to respond quickly to the changes in the natural gas market instead of reacting to an unforeseen event. Applicants' proposed hedging program will enable SoCalGas and SDG&E to secure a significant amount of price protection for their core customers in case natural gas prices spike this winter.[7] Approval of the Application is consistent with the previous authorizations for winter hedging for each of the past four winters for SoCalGas and SDG&E.

In addition, the Application proposes to reduce the potential exposure of SoCalGas' and SDG&E's core customers to hedging costs for winter 2009-2010 compared to amounts adopted for the 2008-2009 hedging plan. Because of lower natural gas costs this year, SoCalGas and SDG&E propose a winter hedging maximum expenditure level of $7 per SoCalGas' and SDG&E's core customer on average for the 2009-2010 winter season, which is $6 less than the $13 maximum expenditure level for each SoCalGas' and SDG&E's core customer last winter specified in D.08-09-005.[8] [9]

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[6] D.08-09-005, p. 4.

[7] Application, Attachment A.

[8] D.08-09-005 at 8 (Ordering Paragraph 6).

In order to evaluate the 2009-2010 winter hedging program, SoCalGas should provide the Commission's Energy Division and DRA with a report no later than April 1, 2010, that provides information about its combined core portfolio 2009-2010 Winter Hedging Program.

4. Conclusion

For all of the foregoing reasons, SoCalGas and SDG&E's Application for approval of their Combined Core Portfolio 2009-2010 Winter Hedging Program should be adopted.

5. Categorization and Need for Hearings

In Resolution ALJ 176-3233, May 7, 2009, the Commission preliminarily categorized this Application as ratesetting, and preliminarily determined that hearings were not necessary. No protests or responses to the Application were received. We affirm that this is a ratesetting proceeding, and that hearings are not necessary.

6. Comments on Proposed Decision

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Pub. Util. Code § 311(g)(2) 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.

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[9] SoCalGas and SDG&E are limited to the lower of the $7 per SoCalGas' and SDG&E's core customer or the amount requested in the approved SoCalGas/SDG&E's Combined Core Portfolio 2009-2010 Winter Hedging Plan, whichever is lower.

7. Assignment of Proceeding

John A. Bohn is the assigned Commissioner and Bruce DeBerry is the assigned ALJ in this proceeding.

Findings of Fact

1. SoCalGas was authorized to expand its gas hedging activities for its 2005-2006 winter season outside of and in addition to its GCIM.

2. SoCalGas was authorized to expand its gas hedging of natural gas purchases for the winter of 2006-2007.

3. SoCalGas was authorized to extend its gas hedging program for the winters of 2007-2008 and 2008-2009.

4. SoCalGas and SDG&E were authorized to consolidate their gas core procurement functions into a single core procurement portfolio managed by SoCalGas.

5. SoCalGas' maximum authorized hedging expenditure level for the winter of 2008-2009 was limited to an average of $13 per SoCalGas' and SDG&E's customer.

6. SoCalGas proposes a maximum of $7 per SoCalGas' and SDG&E's core customer on average for the 2009-2010 winter season hedging program.

7. The level of the hedges and the expiration dates thereof specified in the Combined Core 2009-2010 Winter Hedging Program are attached as confidential Addendum A to the Application.

8. The SoCalGas/SDG&E's combined core portfolio 2009-2010 Winter Hedging Program will enable SoCalGas and SDG&E to secure a significant amount of price protection for their core customers in case natural gas prices spike this winter.

9. The Commission's authorization for SoCalGas and SDG&E to engage in winter hedging outside of the GCIM is subject to reevaluation pending the outcome of R.08-06-025.

Conclusions of Law

1. SoCalGas and SDG&E's Application for approval of their Combined Core Portfolio 2009-2010 Winter Hedging Program should be approved.

2. Approval of this Application should become effective immediately so that SoCalGas may engage in hedging on behalf of SoCalGas' and SDG&E's core customers to mitigate spikes in natural gas prices during the 2009-2010 winter season.

3. This is a ratesetting proceeding and hearings are not necessary.

O R D E R

IT IS ORDERED that:

1. Southern California Gas Company (SoCalGas) is hereby authorized to purchase additional hedges for the combined SoCalGas/San Diego Gas & Electric Company's core portfolio in 2009 and 2010 for the 2009-2010 winter, as specified in the 2009-2010 Winter Hedging Plan attached as confidential Addendum A to the Application.

2. Pursuant to Decision 07-12-019, all costs and benefits associated with the approved Southern California Gas Company (SoCalGas)/San Diego Gas & Electric Company's (SDG&E) combined core portfolio 2009-2010 Winter Hedging Program shall flow directly to SoCalGas' and SDG&E's core gas customers.

3. All costs and benefits associated with the approved Southern California Gas Company (SoCalGas)/San Diego Gas & Electric Company's (SDG&E) combined core portfolio 2009-2010 Winter Hedging Program already entered into

by SoCalGas at the time of this Decision shall flow directly to SoCalGas' and SDG&E's core gas customers.

4. Pursuant to Decision 07-12-019, neither the costs nor the benefits associated with these hedges will be shared by Southern California Gas Company's or San Diego Gas & Electric Company's shareholders.

5. All transactions associated with the approved 2009-2010 Winter Hedging Program shall be separately recorded and identified in monthly and annual reports filed by Southern California Gas Company with the Commission. In addition, supplemental reporting on a more current basis will be provided to the Commission staff upon request.

6. Southern California Gas Company (SoCalGas) is authorized to spend up to $7 per SoCalGas' and San Diego Gas & Electric Company's (SDG&E) core customer on average for the 2009-2010 winter season, or up to the amount requested in the approved SoCalGas/SDG&E's Combined Core Portfolio 2009-2010 Winter Hedging Plan, whichever is lower.

7. Southern California Gas Company shall submit a report to the Energy Division and to the Division of Ratepayer Advocates, no later than April 1, 2010, that provides information about its combined core portfolio 2009-2010 Winter Hedging Program.

8. The cost of Southern California Gas Company's (SoCalGas) hedging activities on behalf of SoCalGas/San Diego Gas & Electric Company's (SDG&E) combined core portfolio shall continue to be calculated and collected as it is currently, through SoCalGas' Purchased Gas Account. Costs shall be allocated to all core customers and the amounts included in the monthly core procurement advice letters filed by SoCalGas and SDG&E.

9. The 2009-2010 Winter Hedging Program Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company filed under seal is approved. The 2009-2010 Winter Hedging Program shall remain under seal for three years from June 17, 2009. The maximum hedging costs are not a "budget" that SoCalGas should be trying to fully spend, and maximum volumes being authorized for hedging are not a "target." Rather, the costs and volumes shall be viewed as a maximum "cap" that SoCalGas shall not exceed, and SoCalGas shall make every effort to keep costs low.

10. Application 09-04-023 is closed.

This order is effective today.

Dated August 20, 2009, at San Francisco, California.

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners