

Decision 11-09-011 September 8, 2011

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of Southern California Gas Company (U904G) Regarding Year 16 (2009-2010) of Its Gas Cost Incentive Mechanism.

Application 10-06-006
(Filed June 14, 2010)

DECISION REGARDING YEAR 16 (2009-2010) OF THE SOUTHERN CALIFORNIA GAS COMPANY'S GAS COST INCENTIVE MECHANISM

1. Summary

This decision approves a shareholder reward of \$6,012,199 for the Southern California Gas Company's Gas Cost Incentive Mechanism Year 16 performance. The Commission's Division of Ratepayer Advocates confirmed these results and recommends that the Southern California Gas Company's request be granted.

2. Background

The Gas Cost Incentive Mechanism (GCIM) program was originally approved in Decision (D.) 94-03-076.¹ The GCIM program was designed to give utilities market-based incentives to acquire gas at the lowest possible cost and to take on some associated risks. To achieve the GCIM objectives, the Commission allows Southern California Gas Company (SoCalGas) to use a number of cost-saving gas procurement methods such as the physical sale of gas to third

¹ D.97-06-061, D.98-12-057, and D.02-06-023 modified and/or extended the GCIM.

parties and hub transaction activities. Up until GCIM Year 11, financial derivatives were completely included within the GCIM to reduce and effectively manage the cost of gas for core ratepayers. In GCIM Years 12 through 16, SoCalGas performed its winter hedging outside of its GCIM, as authorized in D.05-10-043, and subsequent decisions.

The GCIM is a ratemaking incentive mechanism that provides for the measurement of SoCalGas' gas purchasing performance by weighing actual performance against a benchmark cost of gas intended to emulate actual market conditions on a monthly basis. For the most part, the benchmark has been based on southwest gas price indices published in the Natural Gas Intelligence, Inside Federal Energy Regulatory Commission Gas Market Report, and Natural Gas Week publications. These indices reflect a weighted combination of basin and border prices.

SoCalGas' GCIM provides for a tolerance band, or deadband, around the benchmark cost. The upper limit of the tolerance band is set at two percentage points above the benchmark commodity cost, while the lower limit of the tolerance band is set at one percentage point below the benchmark commodity costs. As provided for in D.02-06-023, when actual costs fall within this tolerance band, any associated benefits or losses accrue 100% to the ratepayers' account.² However, when actual costs fall outside of 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.

² D.02-06-023 at 4.

In the event that actual gas procurement costs exceed the upper 2% tolerance limit, the excess costs are shared 50-50 between ratepayers and shareholders. If actual costs fall between the lower 1% tolerance limit and the five percentage point band 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 90% savings for ratepayers and a 10% reward for shareholders. SoCalGas' total reward is capped at 1.5% of commodity benchmark costs.

On June 14, 2010, SoCalGas submitted its sixteenth annual application under the GCIM. As part of its application, SoCalGas reported on the results of its GCIM Year 16 for the 12 months ending March 31, 2010, and requests authority to recover a shareholder incentive reward in the amount of \$6,012,199 based on cost savings of \$39.9 million below its Year 16 benchmark prices.

On July 19, 2010, the Commission's Division of Ratepayer Advocates (DRA) filed a response to SoCalGas' application. DRA stated that it would confirm the premise underlying SoCalGas' request for a shareholder reward by undertaking a thorough review of SoCalGas' GCIM Year 16 activities. In particular, DRA stated that it would confirm SoCalGas' results after a thorough independent audit and review of the Year 16 GCIM filing.

On May 9, 2011, DRA filed its Monitoring and Evaluation Report of SoCalGas' Gas Cost Incentive Mechanism (Monitoring and Evaluation Report) for GCIM Year 16 which covers April 1, 2009, through March 31, 2010.³

³ Exhibit DRA-1.

3. GCIM Year 16 Results

In support of SoCalGas' request that the Commission approve a shareholder award of \$6,012,199 for its GCIM Year 16 performance, SoCalGas filed an Annual Report for GCIM Year 16. SoCalGas' annual report, which was attached to SoCalGas' application, notes that:

In GCIM Year 16, California continued to experience a dynamic natural gas market, although not as volatile as in prior years. Despite changing market conditions, SoCalGas' and SDG&E's core customers continued to receive reliable natural gas supplies at below-market costs. These results were achieved with no curtailment of service and in compliance with all requirements and guidelines established by the California Public Utilities Commission.

SoCalGas notes that ratepayers have realized the benefit of gas purchases below the GCIM benchmark in 15 of the past 16 years. (Application 10-06-006, Attachment A at 1.) SoCalGas reports that in GCIM Year 16, it acquired gas at a total savings of \$39.9 million below the benchmark. Pursuant to the GCIM revisions adopted in D.02-06-023, of this total savings, \$33.9 million is the ratepayer's share, and \$6,012,199 is the shareholders' share.

DRA's Monitoring and Evaluation Report states it conducted a comprehensive audit of SoCalGas' GCIM Year 16 results. This audit included a review of SoCalGas' recorded Purchased Gas Account cost, an analysis and verification of the GCIM calculations, and an evaluation of the manner in which the program operated during the period. The report also states that DRA verified that the current sharing mechanism resulted in a total savings of \$39.9 million to be split between a ratepayer benefit of \$33.9 million and a shareholder reward of \$6,012,199. (DRA Monitoring and Evaluation Report, at 1-1 and 1-6.) Based on the results of its audit, DRA agrees that SoCalGas should be authorized to recover a shareholder award of \$6,012,199.

After reviewing SoCalGas' application and DRA's Monitoring and Evaluation Report for GCIM Year 16, we find that SoCalGas reasonably managed its gas acquisitions and operations in GCIM Year 16. We also find that SoCalGas' calculation of the amount of SoCalGas' shareholder award for GCIM Year 16 is correct.

In accordance with the GCIM modifications adopted in D.02-06-023, SoCalGas is entitled to a shareholder award of \$6,012,199 for GCIM Year 16. Thus, we will award SoCalGas a shareholder award of \$6,012,199 for GCIM Year 16. SoCalGas should be permitted to adjust the Purchase Gas Account to reflect this shareholder award.

4. Waiver of Comment Period

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. Categorization and Need for Hearings

In Resolution ALJ 176-3256, 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 176-3256 is confirmed.

6. Assignment of Proceeding

Michel Peter Florio is the assigned Commissioner and David M. Gamson 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 \$39.9 million below the GCIM benchmark in GCIM Year 16.

4. DRA's Monitoring and Evaluation Report for GCIM Year 16 verified the amount and SoCalGas' calculation of the shareholder award.

5. SoCalGas reasonably managed its gas acquisitions and operations in GCIM Year 16 within the context of the GCIM that existed at the time.

6. The calculation and amount of SoCalGas' requested shareholder award for GCIM Year 16 are correct.

Conclusions of Law

1. No hearing is necessary.

2. The preliminary determinations made in Resolution ALJ 176-3256 should be confirmed.

3. In accordance with the GCIM modifications adopted in D.02-06-023, SoCalGas is entitled to a shareholder award of \$6,012,199 for GCIM Year 16.

4. SoCalGas should be awarded a shareholder award of \$6,012,199 for GCIM Year 16.

5. SoCalGas should be permitted to adjust the Purchased Gas Account to reflect the shareholder award of \$6,012,199.

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 \$6,012,199 under Year 16 of its Gas Cost Incentive Mechanism.

2. Application 10-06-006 is closed.

This order is effective today.

Dated September 8, 2011, at San Francisco, California.

MICHAEL R. PEEVEY

President

TIMOTHY ALAN SIMON

MICHEL PETER FLORIO

CATHERINE J.K. SANDOVAL

MARK J. FERRON

Commissioners