

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



FILED

10/31/25

04:59 PM

12303008

Order Instituting Investigation on the Commission's
Own Motion into Natural Gas Prices During Winter
2022-2023 and Resulting Impacts to Energy Markets.

Investigation 23-03-008
(March 16, 2023)

**COMMENTS OF THE UTILITY REFORM NETWORK
ON STAFF WHITE PAPER PART III**



David Cheng, Staff Attorney
Jennifer Dowdell, Senior Policy Expert
THE UTILITY REFORM NETWORK
360 Grand Avenue, #150
Oakland, CA 94610
Phone: (415) 929-8876
DCheng@TURN.org

October 31, 2025

COMMENTS OF THE UTILITY REFORM NETWORK ON STAFF WHITE PAPER PART III

I. INTRODUCTION

Pursuant to the Administrative Law Judge’s Ruling Admitting Staff White Paper Part III Into the Record and Seeking Comments (“ALJ Ruling”), issued on October 6, 2025, The Utility Reform Network (“TURN”) submits these comments in response to the Staff White Paper Part III (“White Paper”), addressing: “What action should the Commission and/or other entities take to mitigate the harm to ratepayers if such gas price spikes do recur?”¹ Specifically, the White Paper makes a number of recommendations regarding: 1) Transparency: Are all components of the incentive mechanism clearly described in the utility’s tariffs?; 2) Simplicity: Does the methodology consist of straight forward process that customers, staff, and stakeholders can understand?; 3) Alignment: Are the mechanisms and performance review processes consistent across California utilities where possible?; and Effectiveness: Does the mechanism provide the utility with an incentive to procure core gas supplies at below benchmark costs while appropriately balancing risks and rewards for ratepayers and shareholders?² TURN’s comments support the Staff Recommendations.

II. TURN’S COMMENTS REGARDING STAFF WHITE PAPER PART 1

1. Overview

TURN continues to appreciate the diligence and thoughtfulness Commission staff has shown in preparing its three-part White Paper and analyzing the gas price spikes of winter 2022-23. In

¹ Whitepaper Part III, p. 1.

² Whitepaper Part III, p. 6.

White Paper Part III, Staff focuses on utility incentive mechanisms. As the White Paper Part 1 explains: “since core customers constitute about one-third of gas consumption in California, and 40-50 percent during winter months, PG&E Core Gas Supply and SoCalGas Gas Acquisition...are among the largest purchasers of gas in the state and are major participants in Western gas markets.”³ As TURN has stated in prior comments, it is inconceivable that utility procurement incentives would not impact the prices bundled ratepayers pay for gas commodity.⁴ CPUC’s goals for incentive mechanisms have included:

- Reducing regulatory burden and complexity for parties,
- Providing the utilities with clear incentives to minimize gas costs to ratepayers and adjust to changing circumstances without micromanagement,
- Encouraging the utilities to develop innovative methods for improving performance, and
- Aligning ratepayer and shareholder interests.⁵

Nonetheless, SoCalGas’ Gas Cost Incentive Mechanism (“GCIM”) and Core Procurement Incentive Mechanism (“CPIM”) differ in a number of administrative and functional ways. It is likely that neither mechanism optimizes key objectives of transparency, simplicity, alignment and effectiveness. TURN agrees with White Paper Part III that there is simplicity and transparency value in aligning incentive structures between PG&E and SoCalGas as much as is possible given system and operational differences.

GCIM includes deadlines for annual reporting and filing to recover incentives, but CPIM has no specific timetable.⁶ GCIM recovery is based on application, and CPIM on Tier 2 advice

³ White Paper Part I, p. 21.

⁴ TURN Comments on First Staff Whitepaper, dated July 31, 2024, p. 6.

⁵ White Paper Part III, p. 4.

⁶ White Paper, Part III, p. 4.

letter.⁷ TURN favors aligning GCIM and CPIM administratively to use the same regulatory mechanism and timetable. These changes could be made in this proceeding in addition to suggested clarifications to utility “descriptions of their incentive mechanisms in their Preliminary Statements.”⁸ However, as the White Paper indicates, more substantive changes “would be outside the scope of this proceeding,”⁹ and “the CPUC may wish to consider these changes in a new proceeding.”¹⁰ TURN agrees and supports evaluation of staff proposals in a new proceeding. While core gas procurement incentive mechanisms may not be “broken” as asserted by the Sierra Club, TURN agrees elements of GCIM could be aligned with CPIM to increase fairness to ratepayers. It is notable that over a 10-year period, “the utilities were consistently able to beat the benchmarks, generate ratepayer savings, and reap shareholder rewards.”¹¹

Both PG&E and SoCalGas entered into significant hedges for winter 2022-23. 100 percent of PG&E’s hedges were financial and did not involve receipt of gas commodity.¹² “Since PG&E Core Gas Supply had no physical hedges during this period, its hedges did not increase the volume of gas purchased.”¹³ They simply provided a cash offset to core procurement costs that lowered customer costs.¹⁴ In fact, the White Paper Part III finds that “[h]edging revenue helped

⁷ White Paper, Part III, p. 4.

⁸ White Paper Part III, p. 6.

⁹ White Paper, Part III, p. 6.

¹⁰ Id.

¹¹ White Paper, Part III, p. 5.

¹² White Paper, Part III, p. 3.

¹³ White Paper, Part III, p. 15.

¹⁴ “Since financial hedges settle in cash, gains or losses show up directly as dollar amounts, and there was no effect on the volume of gas purchased.” (White Paper Part III, p. 16)

reduce PG&E Core Gas Supply's overall gas procurement cost and **significantly**¹⁵ reduced core customers' utility bills."¹⁶ In contrast, SoCalGas bought "only physical hedges, where there is at least the option to have gas molecules delivered."¹⁷ SoCalGas' "Gas Acquisition's net physical hedges resulted in about \$10.1 million in savings relative to the associated benchmark costs, **modestly** reducing core customers' utility bills."¹⁸

As the White Paper explains:

For winter 2022-23 SoCalGas' Gas Acquisition acquired hedges to purchase 1,700,000 MMBtu of physical gas. Of these, it used 1,204,100 MMBtu for core customer supplies and sold 495,900 MMBtu into the market. Gas Acquisition's net physical hedge costs amounted to \$38.6 million, and these hedges resulted in about \$10.1 million in ratepayer savings relative to its associated benchmark costs.¹⁹

It appears that under the existing GCIM, as long as its firm capacity exceeds core demand,²⁰ in volatile gas market conditions, SoCalGas is able to arbitrage between gas capacity it purchases at the border of its territory and storage gas that it injected earlier in the year to sell into the market.²¹ This is a win-win for shareholders as long as the cost of hedged gas results in overall

¹⁵ "The exact amount of that reduction is not available publicly because of the still-pending California Public Advocates Office (Cal Advocates) and CPUC review of PG&E's recently submitted Core Procurement Incentive Mechanism (CPIM) Annual Performance Report covering winter 2022-23. This paper thus relies on, but does not disclose, information that PG&E provided confidentially." (White Paper, Part III, p. 3)

¹⁶ White Paper Part III, p. 3, original emphasis.

¹⁷ Id.

¹⁸ Id., original emphasis.

¹⁹ White Paper Part III, p. 16.

²⁰ Even during winter 2022-23 when gas supplies and storage were driving constrained driving gas commodity spikes in the overall market, this appears to have been the case.

²¹ "While meeting core load requirements and balancing core demand are Gas Acquisition's primary obligations, it can also look for opportunities to buy or sell gas that will lower overall costs. Daily purchase and sales opportunities arise due to the volatility of prices in the market, particularly during extreme weather events elsewhere in the continental United States or when transportation infrastructure fails leading to temporary gas scarcity. Gas Acquisition's ability to take advantage of these opportunities is enhanced by having significant amounts of core storage capacity. So long as Gas Acquisition continues

procurement costs below the benchmark. It appears that shareholder could win even when ratepayers do not end up paying the lowest possible commodity cost because gas that creates the highest margin is sold into the market rather than used for core customers --whether it is storage gas or firm capacity. CPIM includes storage while GCIM excludes it.²²

Under GCIM, SoCalGas' shareholders may be incentivized to procure gas that just meets the incentive benchmark, keeping customer savings low because these are shared with ratepayers and as the savings increase, shareholders' share declines.²³ For sales into the market, (such as the roughly 500,000 MMBtu during the winter 2022-23 season), shareholders enjoy 100 percent of the margin. TURN believes aligning GCIM more closely with CPIM both by including storage and ratepayer/shareholders sharing percentages below the benchmark would create stronger incentives for SoCalGas to ensure that core customers are credited with the lowest possible commodity price.

During winter 2022-23, core gas demand was increased by colder-than normal sustained winter temperatures across California.²⁴ At the same time, gas supplies in California were constrained due to factors including: 1) Ukraine War; 2) limitations on El Paso pipeline gas transmission capability which impacted both Northern and Southern California,²⁵ and 3) Aliso Canyon injection limitations which negatively impacted available storage in Southern

to meet its storage objectives, it can make storage withdrawals and sell those supplies when opportunities arise." (White Paper, Part III, p. 37).

²² White Paper, Part III, p. 5.

²³ For savings between 1%-5% shareholders get 25%, for greater than 5% shareholders get 10% (White Paper, Part III, p. 5).

²⁴ "The winter of 2022-2023 was the coldest winter in PG&E and SoCalGas territories in the last 10 years in terms of average temperatures, and thus, in heating degree days." (White Paper Part I, p. 38.)

²⁵ White Paper Part I, p. 3.

California.²⁶ As the Commission and parties to this proceeding are aware, these collective circumstances resulted in significantly higher bills for customers. PG&E customers “saw an average 30 percent increase in their January 2023 gas bills compared to January 2022.”²⁷ On the other hand, “Southern California Gas Company (SoCalGas) customers saw an average 147 percent increase in their January 2023 gas bills compared to January 2022.”²⁸ While this unusual confluence of negative events may not recur, TURN agrees with the staff White Paper Part III that the long-standing GCIM and CPIM procurement incentive mechanisms could benefit from careful evaluation. Appropriate regulatory incentives for procurement of captive core demand are imperative as climate change and weather unpredictability are increasingly the new normal.

III. CONCLUSION

TURN appreciates the opportunity to provide these comments. TURN respectfully requests that the Commission adopt the staff recommendations outlined in the White Paper and opens a new proceeding to evaluate appropriate changes to GCIM and CPIM that will enhance customer fairness.

Date: October 31, 2025

Respectfully submitted,

By: /s/
David Cheng

David Cheng,
Staff Attorney

²⁶ White Paper, Part III, p. 11.

²⁷ White Paper Part I, p. 7.

²⁸ Id.

Jennifer Dowdell,
Senior Policy Expert

THE UTILITY REFORM NETWORK

360 Grand Avenue, #150

Oakland, CA 94610

Phone: (415) 929-8876

DCheng@TURN.org