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10/31/25

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I2303008

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

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

I.23-03-008

**COMMENTS OF PACIFIC GAS AND ELECTRIC COMPANY (U 39-M)
ON ADMINISTRATIVE LAW JUDGE'S RULING ADMITTING
STAFF WHITE PAPER PART III**

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Dated: October 31, 2025

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Pursuant to the *Administrative Law Judge's Ruling Admitting White Paper Part III into the Record and Seeking Comments*, issued October 6, 2025, and the *Administrative Law Judge's Ruling Updating Staff White Paper Part III*, issued October 14, 2025, that attached the updated Staff White Paper: Part III, Pacific Gas and Electric Company (PG&E) hereby submits these opening comments on the Staff White Paper: Part III regarding the three changes that the California Public Utilities Commission's (CPUC or Commission) Energy Division recommends to the utilities' core procurement incentive mechanisms and provides additional clarity on PG&E's Core Procurement Incentive Mechanism (CPIM) and Hedging.

I. INTRODUCTION

PG&E agrees with Commission Staff that PG&E's actions, strategies, and mechanisms did not contribute to high gas prices during Winter 2022-23. In fact, as the White Paper Part III states, PG&E's CPIM and hedging strategies were unlikely to have contributed to the gas price spike event in the Winter of 2022-23.¹

PG&E submits the following comments to provide further context and clarity to the Staff White Paper. PG&E addresses the three CPUC Staff's Recommendations from the white paper and provides additional clarity on the CPIM and Hedging.

¹ See *Administrative Law Judge's Ruling Admitting White Paper Part III into the Record and Seeking Comments* (Staff White Paper: Part III), Att. 2, p. 3 (Oct. 6, 2025).

II. PG&E'S COMMENTS TO THE STAFF WHITE PAPER PART III

A. CPUC Staff Recommendation #1: Require utilities to submit Tier 1 advice letters updating their Preliminary Statements to fully describe their core procurement incentive mechanisms.

PG&E supports Staff's recommendation to submit a Tier 1 Advice Letter (AL) to update PG&E's Preliminary Statement Part C – Gas Accounting Terms and Definitions² with a comprehensive description of PG&E's Core Procurement Incentive Mechanism. The updated Preliminary Statement Part C will include:

- A list of gas industry journals used to calculate the CPIM Benchmark costs.
- A detailed explanation of the CPIM Benchmark costs methodology, including:
 1. Determination of the daily benchmark load amounts;
 2. Development of the daily indices;
 3. Calculation of the benchmark costs; and,
 4. the CPIM purchase sequence.
- A breakdown of actual cost components, including:
 1. Actual CPIM commodity costs such as net purchases costs, volumetric transportation costs, Cochrane extraction revenues, merchandise processing fees, winter hedge losses/(gains), and miscellaneous costs; and
 2. Actual transportation cost component.³

B. CPUC Staff Recommendation #2: Require all utilities to follow a consistent process for Commission approval of the shareholder award, either via an application or a Tier 2 or 3 advice letter.

PG&E supports aligning the CPIM and SoCalGas's Gas Cost Incentive Mechanism (GCIM) shareholder award approval process. PG&E recommends using a Tier 2 Advice Letter for approval of the shareholder award as the final step in the submittal and approval process of

² See PG&E Gas Preliminary Statement Part C, available at: https://www.pge.com/tariffs/assets/pdf/tariffbook/GAS_PRELIM_C.pdf.

³ See generally Staff White Paper: Part III.

the CPIM/GCIM report, as outlined in section C. A Tier 2 Advice Letter allows for Commission review without the resource-intensive requirements of a formal application, such as testimony and hearings, and is compliant with General Order (GO) 96B Section 5.2(5) which states that performance-based ratemaking is appropriate for Tier 2 AL.⁴ This approach achieves both, transparency and administrative efficiency, and has been successfully implemented by PG&E for at least 15 years.

C. CPUC Staff Recommendation #3: Require PG&E's Annual Core Procurement Incentive Mechanism (CPIM) Report and advice letter/application to be submitted by a set annual deadline.

PG&E supports the establishment of a fixed annual deadline for submitting the CPIM report and proposes the following process starting in CPIM Year 33 (November 2025 – October 2026) or as soon as practicable following a Commission decision adopting this recommendation.

1. Monthly and Quarterly Reports: Submit to Cal Advocates within three (3) months of the end of the gas flow month. (e.g., the October CPIM Report will be submitted by the following January 31).
2. Annual Report: Submit the full CPIM report (covering November – October) to Cal Advocates by April 30. This allows PG&E's Internal Audit to complete its comprehensive audit (which is normally provided to Cal Advocates in response to a data request) of the report prior to submission to Cal Advocates.
3. Monitoring and Evaluation Report: Cal Advocates to issue within four months, by August 31.
4. Shareholder Approval Advice Letter: PG&E to file a Tier 2 advice letter for approval of the shareholder award, if any, by September 30, or within 30 days of the Monitoring and Evaluation Report. The filing will include both the CPIM report and the Monitoring and Evaluation Report.

⁴ General Order (GO) 96B, § 5.2(5), available at: <https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M023/K381/23381302.PDF>.

D. Additional PG&E Comments on Staff White Paper: Part III

1. Citygate and Border Sales

The Staff White Paper: Part III noted that PG&E Citygate and border sales exceeded purchases, resulting in significant savings. PG&E clarifies that the savings are achieved through optimizing the physical assets procured to satisfy the CPUC-mandated reliability standards. To meet the 1-cold-day-in-10-year Reliability requirement (Decision (D.) 06-07-010), CGS contracts for intrastate pipeline and storage capacity. To meet the Interstate Capacity Planning Range (D.15-10-050), PG&E's Core Gas Supply (CGS) contracts for interstate pipeline capacity. These assets are actively managed on a daily basis to ensure reliable service and optimized to reduce costs.

On days where the contracted pipeline capacity is not used to meet customer demand, the capacity can be used to provide economic benefits.⁵ In this scenario, CGS may purchase gas from lower-priced basins, if it has not been purchased under a monthly or multi-month contract, and utilize available pipeline to deliver and sell gas into higher-priced Citygate or border markets. This optimization ensures efficient use of the contracted reliability assets and delivers cost savings for core customers.

2. Winter Hedging Clarification: Risk association with Hedging Program

Staff's White Paper: Part III states that "While Core Gas Supply put a significant amount of money at risk to pay the premiums, commissions, and fees required to procure financial hedges, the gains from these contracts more than offset these costs."⁶ This statement suggests that PG&E increased financial risk by purchasing hedges, when in fact the opposite is true.

⁵ A segment of pipeline capacity provides economic benefits when the difference between the market price for gas at the pipeline delivery point exceeds the market price at the receipt point by more than the variable cost of shipping gas on the pipeline including all variable costs such as usage charges, Federal Energy Regulatory Commission Annual Charge Unit Charge, and the cost of in-kind fuel. This is akin to "least-cost dispatch" on the electric side.

⁶ Staff White Paper: Part III at p. 6.

Hedging reduces risk. PG&E procures financial hedges to shield bundled core customers from winter natural gas price spikes. As the White Paper acknowledges, these hedges “significantly reduced core customers’ utility bills.”⁷ Hedging functions like insurance premiums which are paid to reduce future exposure, not to create risk. While PG&E’s hedge-related spending was higher in Winter 2022-2023 than in prior winters, this higher spend was in response to historically high gas prices and volatility—conditions that made the risk of severe winter price increases unusually elevated.

3. PG&Es Financial and Physical Hedges

The Staff White Paper: Part III states that "PG&E Core Gas Supply relied exclusively on financial hedging"⁸. This statement is incorrect. Core Gas Supply does not rely solely on financial hedges; it uses a diversified strategy to reduce winter price exposure and protect customers from winter price spikes. Core Gas Supply’s hedging program typically combines financial instruments—such as futures and options—with physical gas in storage to manage winter price risk. This approach was followed in Winter 2022–2023, when approximately 20% of PG&E’s hedge coverage came from gas in storage, supplementing the financial positions.

4. Hedging Cost Caps

The Staff White Paper: Part III recommends that the CPUC “consider a cap on hedging costs.” PG&E does not support such a cap, as it would be impractical and could unintentionally eliminate key hedging tools—fixed-price physical gas and financial futures or swaps—from utility programs. In fact, if such a cost cap had been in place during Winter 2022-2023, PG&E’s hedging program would have provided minimal relief to core customers’ bills.

⁷ *Id.* at p. 3

⁸ *Id.* at p. 15.

Cost caps only work for products with known costs at execution, such as financial options (where premiums are fixed) and gas storage (where facility and injection costs are predetermined).

However, the “hedging cost” of fixed-price physical gas (the difference between the price at execution and the future first-of-month index price) and the “cost” of financial futures or swaps (the difference between the price at execution and the price at settlement in the future) cannot be known upfront; such costs depend on future market price settlement. If prices fall after execution, utilities risk violating the cap, making these instruments unusable.

If the CPUC seeks to limit hedging activity, a more effective approach would be to cap hedge coverage,⁹ similar to the minimum coverage requirement established for PG&E in D.10-01-023.¹⁰

To clarify the topic of “hedging cost[s],” a comprehensive review of hedging should include all portfolio costs, including a consideration of the cost of the underlying physical portfolio in relation to the hedges. The Staff White Paper: Part II reviews “hedging cost” which is defined as the cost of financial hedges (option premiums, option settlement value, futures/swaps settlement value) and the cost of fixed-price physical gas hedges (purchase price minus settled index price). In general, when financial hedges have a positive “cost” (*i.e.*, they settle out of the money)¹¹ there will be an offsetting savings in the cost of the underlying physical portfolio that offsets the cost of the hedges.

In addition, a comprehensive review of hedging should consider the risk faced by the portfolio prior to entering into the hedges – the reason for hedging. An after-the-fact review of hedging cannot consider such risk because it was either realized or not. If the risk was not

⁹ Hedge coverage = volume of storage, fixed-price gas and financial instruments divided by customer average forecast demand for the delivery period being hedged (D.10-01-023, Appendix A, page 3.)

¹⁰ Decision (D.) 10-01-023, Appendix A, p. 3.

¹¹ See Staff White Paper: Part III at pp. 23-24.

realized the hedges appear unnecessary, though they may have shielded the portfolio from considerable risk prior to execution.

E. PG&E's Clarifications to the Staff White Paper

PG&E provides the following minor clarification to the Staff White Paper: Part III. PG&E notes on page 53, under Review of the PG&E CPIM Item 2 the reference to SoCalGas should be corrected to refer to PG&E.

III. CONCLUSION

PG&E appreciates the opportunity to provide these comments and clarifications to the Staff White Paper: Part III. PG&E applauds Commission Staff's thorough review of the IOUs' hedging strategies and incentive mechanisms.

Respectfully Submitted,

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