

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



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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
(Filed March 16, 2023)

**OPENING COMMENTS OF SIERRA CLUB ON
ENERGY DIVISION'S WHITE PAPER,
HIGH NATURAL GAS PRICES IN WINTER 2022-23: PART III (UPDATED)**

Jim Dennison
Sierra Club
1650 38th Street, Suite 103W
Boulder, Colorado 80301
Telephone: (435) 232-5784
Email: jim.dennison@sierraclub.org

Attorney for Sierra Club

Tyson Siegele
Clean Energy Strategies LLC
11750 W 135th St #1080
Overland Park, KS 66221-9395
Telephone: 917-771-2222
Email: tyson@cleanstrat.com

Consultant to Sierra Club

Dated: October 31, 2025

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Pursuant to the rulings: Administrative Law Judge's Ruling Admitting Staff White Paper Part III Into The Record And Seeking Comments ("Ruling")¹ and Administrative Law Judge's Ruling Updating Staff White Paper Part III ("White Paper Update Ruling"),² Sierra Club submits these comments on the Energy Division's ("ED") white paper, High Natural Gas Prices in Winter 2022-23: Part III-Updated ("White Paper 3").³

I. INTRODUCTION

Sierra Club appreciates the work completed by ED regarding the high natural gas prices during the 2022-2023 winter season. ED has written three white papers: White Paper 1,⁴ White Paper 2,⁵ and White Paper 3.⁶ The following comments focus on the gas procurement incentive mechanisms reviewed in White Paper 3.

In White Paper 3, ED provides a very good review of the gas procurement incentive mechanisms. SoCalGas's core customer gas procurement department, Gas Acquisition, operates

¹ I.23-03-008, Administrative Law Judge's Ruling Admitting Staff White Paper Part III Into The Record And Seeking Comments ("Ruling") (October 6, 2025), <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M582/K206/582206835.PDF>.

² I.23-03-008, Administrative Law Judge's Ruling Updating Staff White Paper Part III ("White Paper Update Ruling") (October 14, 2025), <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M583/K959/583959079.PDF>.

³ I.23-03-008, Administrative Law Judge's Ruling Updating Staff White Paper Part III, Attachment 2, High Natural Gas Prices in Winter 2022-23: Part III - Updated ("White Paper 3") (October 13, 2025), <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M583/K960/583960292.PDF>.

⁴ White Paper 1, <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M556/K897/556897251.PDF>.

⁵ White Paper 2, <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M567/K955/567955443.PDF>.

⁶ White Paper 3, <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M583/K960/583960292.PDF>.

under the Gas Cost Incentive Mechanism (“GCIM”) and Pacific Gas and Electric’s (“PG&E”) core customer gas procurement department, Core Gas Supply, operates under the Core Procurement Incentive Mechanism (“CPIM”). When discussed together, Sierra Club refers to the GCIM and the CPIM as the incentive mechanisms (“IMs”).

White Paper 3 highlights at least three major loopholes in the GCIM incentive mechanism as well as loopholes in the CPIM. These loopholes include under-recording of losses due to physical hedging in the GCIM, omission of storage costs from the GCIM, and a mismatch between monthly benchmark prices and daily recorded GCIM prices.⁷ For decades, these loopholes have enabled the gas IOUs to extract millions of nearly risk-free dollars from ratepayers.⁸ For example, as Sierra Club has noted, every year for the last 30 years SoCalGas has received a GCIM-based reward.⁹ SoCalGas has never been assessed a GCIM-based penalty.¹⁰ The IMs’ “rewards” are based on the premise that without the reward mechanisms, the gas IOUs would not do their jobs to procure cost-effective fuel for ratepayers. This is a reasonable assumption because the IOUs have a fiduciary duty to their shareholders but no financial incentive to protect ratepayers beyond potential incentives and penalties.

White Paper 3 recommends several changes to the GCIM’s and the CPIM’s administrative rules and to the implementation of the mechanisms. Of those changes, ED recommends three minor administrative changes for adoption in the current proceeding:¹¹

⁷ White Paper 3, p. 42, (White Paper 3 noted that SoCalGas-caused losses due to physical hedging are recorded at only 25% of the loss in the GCIM. For example: “GCIM Year 30 also saw large costs for physical hedges, but they resulted in large excess costs of roughly \$210 million compared to the benchmark. Under the GCIM, only 25 percent of those excess costs, or \$52.5 million, were included in the Year 30 GCIM. Thus, SoCalGas shareholders still received an award. If 100 percent of the excess costs had been included, shareholders would have incurred a \$27 million penalty.”); See also White Paper 3, p. 33, 51, (Table 4 states that the GCIM does not include storage costs. White Paper 3 also notes that “Gas Acquisition has access to substantial amounts of storage capacity that allow it to not only meet core reliability requirements but to take advantage of purchase and sales opportunities.” Thus, it appears that the storage costs that enable the Gas Acquisition to beat the benchmark are not included in the GCIM. However, White Paper 3 includes internal inconsistencies on this point.); *See also*, White Paper 3, Table 4, p. 33 and p. 51 (Benchmark prices are set based on first-of-month indices however GCIM sales are recorded at daily prices. White Paper 3 calls out this mismatch to the baseline price stating that “[t]his may indicate that Gas Acquisition is able to make daily purchases at the citygate at prices that are below the monthly benchmark and/or make daily sales at the citygate when prices are above the monthly benchmark to achieve much of GCIM savings.”).

⁸ White Paper 3, p. 52, (“But given that SoCalGas has been able to achieve GCIM savings and rewards in virtually every year since the GCIM was established, the savings and rewards appear to be fairly routine, with minimal risk to the utility.”).

⁹ *See* Figure 1.

¹⁰ *See* Figure 1.

¹¹ White Paper 3, p. 69-70.

1. Require the utilities to submit Tier 1 advice letters updating their Preliminary Statements to thoroughly describe all aspects of their core procurement incentive mechanisms.
2. Require all utilities to follow the same process for receiving CPUC approval of the shareholder award, either via an application or a Tier 2 or 3 advice letter.
3. Require PG&E's Annual CPIM Report and advice letter/application to be submitted by a set annual deadline.

These initial changes recommended in White Paper 3 for this proceeding form part of a common-sense first step to updating to the implementation process, and all three recommended changes should be adopted in this proceeding if the IMs are kept in place. However, the Commission should take additional steps in order to address the significant underlying problems with the IMs described in White Paper 3. Sierra Club recommends that the Commission take additional actions in this proceeding, beyond the initial steps recommended in White Paper 3, in order to provide timely relief and protections for customers and act on the robust record that has been developed in this proceeding.

Sierra Club's preferred solution is for the Commission to discontinue the IMs because of the numerous problems and shortfalls with the incentive mechanisms that White Paper 3 describes. The Commission should replace the IMs with Sierra Club's fuel-cost-sharing proposal.¹² Sierra Club's fuel-cost-sharing proposal is the only proposal that incentivizes cost-effective fuel procurement and incentivizes the gas IOUs to embrace or at least accept policies that reduce gas use. Reduction of gas use is required if the Commission is to align its orders with California Energy Policy, which the Legislature states in Health and Safety Code §38562.2(c)(1): "It is the policy of the state to... [a]chieve net zero greenhouse gas emissions as soon as possible, but no later than 2045[.]"¹³

If the Commission declines to replace the IMs with Sierra Club's fuel-cost-sharing proposal at this time, then Sierra Club makes the following proposal. The Commission should place a moratorium on shareholder rewards under the IMs until the Commission completes a review of the IMs in a proceeding dedicated to updating, replacing, or eliminating the IMs. The potential penalties under the IMs should remain in place to prevent changes to procurement

¹² I.23-03-008, Sierra Club Reply Comments on Assigned Commissioner's Ruling Issuing First Amendment to Scoping Memo and Seeking Comments (June 21, 2024), p. 9-13, <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M534/K105/534105832.PDF>.

¹³ Health and Safety Code §38562.2(c)(1), https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=HSC§ionNum=38562.2.

policies that risk harming customers. This will likely have no negative impacts on the IOUs because PG&E has not paid a penalty in at least the last 10 years, and SoCalGas has not paid a penalty anytime during the entire history of the GCIM.

II. AT A MINIMUM, THE COMMISSION SHOULD ADOPT THE THREE ADMINISTRATIVE RECOMMENDATIONS IN WHITE PAPER 3 AND DISCONTINUE SHAREHOLDER REWARDS UNTIL A FUTURE PROCEEDING.

Energy Division completed a very good evaluation of the IMs in White Paper 3. ED's analysis confirms the points on which Sierra Club reached the conclusion that the GCIM is "broken." By broken, Sierra Club means that the GCIM is not functioning as intended and instead the GCIM has become an annual multi-million-dollar give-away from ratepayers to shareholders.¹⁴ There has not been a single time in the last 30 years when SoCalGas paid a penalty for subpar performance.¹⁵ When gas prices increase, SoCalGas's GCIM reward increases.¹⁶ The White Paper 3's analysis confirms these facts, but did not agree with Sierra Club that, based on these facts, the IMs can be described as "broken." While Sierra Club stands by its conclusion, Sierra Club's and ED's different views about which words best describe the IMs are less important than our shared understanding of the underlying facts, or our recommendations for how to respond. In fact, White Paper 3's conclusion regarding the effectiveness of the IMs is nearly identical to Sierra Club's findings. White Paper 3 states that:

[s]hareholders have consistently received rewards under the GCIM and CPIM for decades, under many different market conditions. Shareholders' consistent wins and almost non-existent losses raise the question: could the rules of these incentive mechanisms be modified to preserve the benefits of performance-based ratemaking while allocating more of the savings to ratepayers?¹⁷

The IOUs have been able to beat the benchmark every year because the benchmark includes several significant loopholes. White Paper 3 also does an excellent job of uncovering

¹⁴ I.23-03-008, Sierra Club Comments (August 14, 2024), pp. 2-3, <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M538/K617/538617449.PDF>.

¹⁵ See Figure 1.

¹⁶ See Figure 1.

¹⁷ White Paper 3, p. 70, (The referenced quote is from the "Effectiveness" section of White Paper 3).

numerous ways that the GCIM can be gamed.¹⁸ The loopholes have enabled the IOUs to qualify for rewards under the IMs regardless of market conditions, weather conditions, infrastructure conditions, IOU staff's mistakes, and IOU staff's inaccurate forecasts. White Paper 3 also noted that:

“...given that SoCalGas has been able to achieve GCIM savings and rewards in virtually every year since the GCIM was established, the savings and rewards appear to be fairly routine, with minimal risk to the utility. In recent years, the level of savings relative to benchmark costs and relative to actual commodity costs has become quite high relative to previous years. The shareholder reward as a percentage of actual commodity costs has also increased relative to previous years, even after application of the reward cap.¹⁹

Sierra Club agrees with White Paper 3's conclusion above. These are the same facts that led Sierra Club to conclude that the GCIM is broken. The IMs require fixing, or better yet, replacing. White Paper 3 appears to agree with Sierra Club's position and proposes numerous changes to the IMs.²⁰ As a first step, Energy Division proposed the following administrative changes:²¹

1. Require the utilities to submit Tier 1 advice letters updating their Preliminary Statements to thoroughly describe all aspects of their core procurement incentive mechanisms.
 - a. *Note: this White Paper recommendation is described in more detail on White Paper page 69. Sierra Club agrees with the detailed recommendations.*
2. Require all utilities to follow the same process for receiving CPUC approval of the shareholder award, either via an application or a Tier 2 or 3 advice letter.
 - a. *Note: Sierra Club recommends adoption of an application process for both mechanisms similar to the GCIM.*
3. Require PG&E's Annual CPIM Report and advice letter/application to be submitted by a set annual deadline.

Sierra Club agrees that each of the three proposed changes above should be implemented. However, these changes do not address the underlying loopholes in the IMs that have enabled the

¹⁸ See Footnote 7 of these comments.

¹⁹ White Paper, p. 52.

²⁰ White Paper, pp. 51-53.

²¹ For a detailed list, See White Paper 3, p. 69-70.

IOUs to collect multi-million-dollar rewards from ratepayers each year, across widely varying levels of performance. White Paper 3 called out multiple ways in which the IM structures favor shareholders,²² leading to its conclusion that shareholder “rewards appear to be fairly routine.”²³ The first issue in the scope of this proceeding is “[w]hat factors caused or contributed to observed gas price increases beginning on November 1, 2022? This includes market fundamentals as well as other applicable factors.”²⁴ It is reasonable to conclude that IMs which increase shareholder reward as gas prices increase, did little or nothing to mitigate gas price increases. The third scoping issue in this proceeding is “[w]hat actions in this proceeding or other proceedings should the Commission or other entities take to avoid or minimize the likelihood of similar gas price spikes occurring in the future in California?”²⁵ White Paper 3’s detailed analysis uncovered several additional ways that the IOUs are able to gain a reward year after year and lists numerous changes that would make the broken system better.²⁶ Several of the changes proposed in White Paper 3 would better incentivize the gas IOUs to reduce gas price spikes. White Paper 3 refers to these updates as “substantive changes.”²⁷ White Paper 3 specifically “recommend[s] more substantive changes to increase the simplicity, alignment, and effectiveness of the incentive mechanisms...”²⁸ The White Paper states that the Commission may wish to consider the substantive changes “in a future proceeding.”²⁹ If the Commission defers all substantive changes to a future proceeding, Sierra Club recommends that the Commission immediately suspend shareholder rewards pending the outcome of that future proceeding, in recognition that the White Paper noted numerous substantive changes that need to be addressed before the IMs would function as intended.

While shareholder rewards should be discontinued, the penalties portion of the IM structures should continue until the Commission completes its review of the IMs in another

²² See, Footnote 7 of these comments.

²³ White Paper, p. 52.

²⁴ I.23-03-008, Assigned Commissioner’s Scoping Memo and Ruling (“Scoping Memo”) (September 5, 2023), p. 1,

²⁵ Scoping Memo, p. 2.

²⁶ White Paper, pp. 51-53.

²⁷ White Paper, p. 68, (“Staff also recommend more substantive changes to increase the simplicity, alignment, and effectiveness of the incentive mechanisms that the CPUC may wish to consider in a future proceeding.”).

²⁸ *Ibid.*

²⁹ *Ibid.*

proceeding. Even though the White Paper notes that the IMs pose “minimal risk to utilities,”³⁰ the Commission should retain the penalty portion of the IMs to ensure a baseline gas price protection. Figure 1 below shows the reward and the penalty history of the GCIM since its inception.³¹

Figure 1: GCIM Shareholder Reward Calculation, Years 1-30

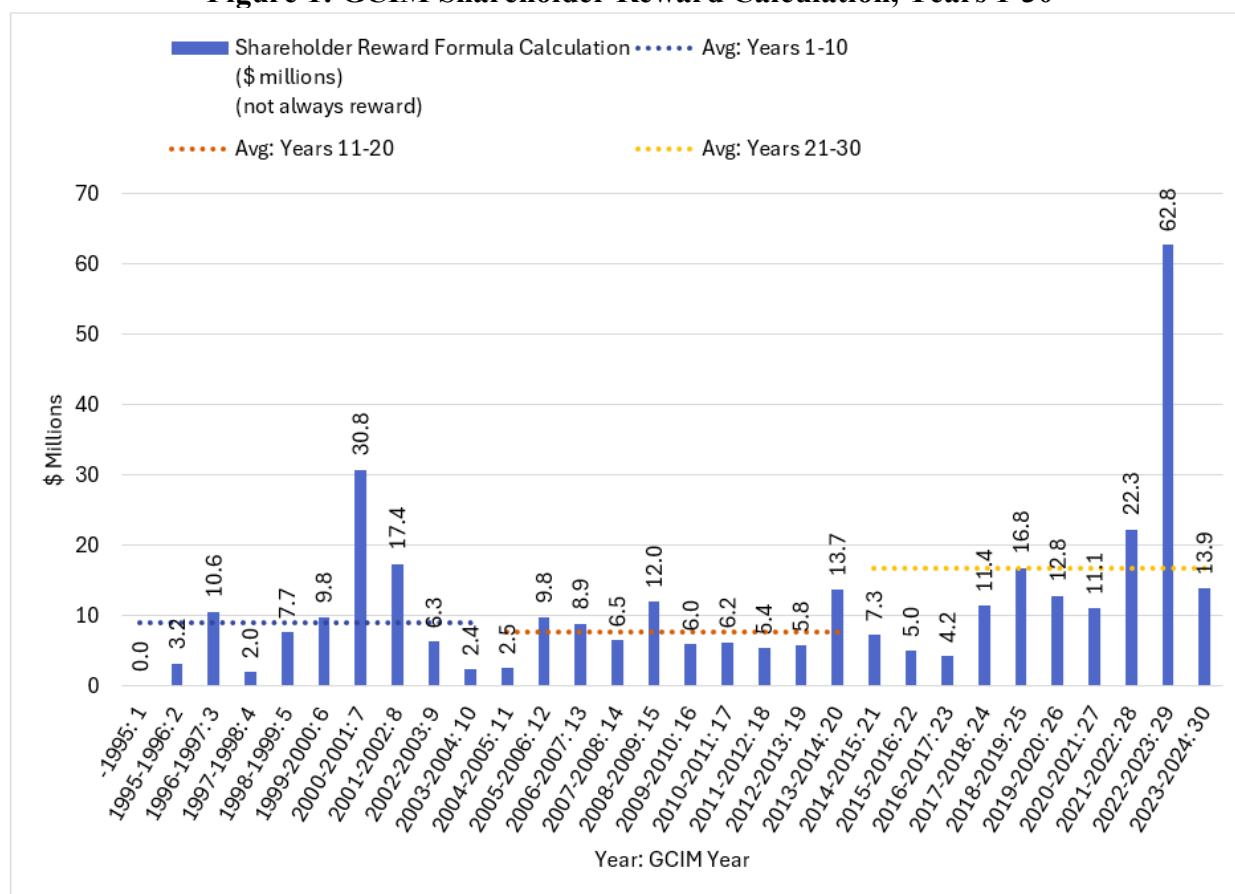


Figure 1 shows that the GCIM has never resulted in a shareholder penalty. The White Paper reports that similar results are seen in the CPIM.³² It is worth noting that Figure 1 shows the shareholder reward calculated according to the GCIM formula. The calculated reward was so

³⁰ White Paper, p. 52, (“But given that SoCalGas has been able to achieve GCIM savings and rewards in virtually every year since the GCIM was established, the savings and rewards appear to be fairly routine, with minimal risk to the utility.”); SoCalGas has never paid a penalty as a result of the GCIM, *See* Figure 1.

³¹ Source data from SoCalGas GCIM applications; Data for most years can be found in: A.23-07-005, Application Of Southern California Gas Company (U 904 G) Regarding Year 29 (2022-2023) Of Its Gas Cost Incentive Mechanism, Attachment A, Table 1, p. 7, <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M514/K477/514477140.PDF>.

³² White Paper 3, p. 67, (“Core Gas Supply was able to regularly achieve shareholder rewards under the CPIM during the review period.”).

extreme in Year 29 that SoCalGas proposed to reduce the amount that ratepayers would pay to shareholders.³³ The calculated reward provides a good example of why Sierra Club continues to refer to the GCIM as broken. Year 7 and Year 29 are the two years with the highest core customer gas prices during the history of the GCIM. Those two years also have the highest calculated shareholder reward; a result that conflicts with common sense because that element of the GCIM effectively incentivizes SoCalGas to increase gas prices as high as possible.

In summary, Figure 1 shows that the Commission should maintain the penalty portion of the IMs as a baseline protection for ratepayers. Maintaining the penalty portion will also retain the reporting and review of the IOUs' performance by the Public Advocates Office ("Cal Advocates"). Sierra Club agrees with White Paper 3 that "Cal Advocates' *Monitoring and Evaluation Reports* are generally issued in a timely manner and provide a great deal of useful, public information."³⁴ Until the Commission replaces the IMs with a system that better protects ratepayers, Cal Advocates' reports help establish a record of IOUs' procurement performance, which will help the Commission in its future review.

Thus, at a minimum, the Commission should adopt the three administrative recommendations from White Paper 3 and discontinue shareholder rewards until a future proceeding establishes the system or process that should replace the IMs. In the following section Sierra Club recommends a more effective course of action for protecting ratepayers and the environment than the IMs provide.

III. THE COMMISSION SHOULD REPLACE THE INCENTIVE MECHANISMS WITH SIERRA CLUB'S FUEL-COST-SHARING PROPOSAL TO REDUCE FUEL COSTS, TO ALIGN WITH CALIFORNIA ENERGY POLICY, AND TO INCREASE ENERGY RELIABILITY.

The IMs were created 30 years ago, against a very different policy background and during a time when natural gas presented a very different risk profile for customers. Today's Commission understands the global warming potential of natural gas, knows the negative health

³³ A.23-07-005, Application of Southern California Gas Company (U 904 G) Regarding Year 29 (2022-2023) Of Its Gas Cost Incentive Mechanism, p. 2, ("In recognition of the confluence of market conditions and unprecedented high winter commodity prices that adversely affected customers' bills, SoCalGas proposes to share a substantial portion of its Year 29 reward with core customers through procurement rates over the 2024-25 winter period."), <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M514/K477/514477140.PDF>.

³⁴ White Paper 3, p. 50.

impacts from natural gas, and has been directed by the Legislature to eliminate emissions from natural gas use as soon as possible.³⁵

The prior section discussed the minimum actions that the Commission should take in this proceeding to protect ratepayers. In this section Sierra Club highlights its proposal for fuel-cost-sharing that was put forth in previous comments.³⁶ Sierra Club's proposal reduces ratepayers' gas costs while incentivizing the transition away from natural gas. Minimizing energy costs³⁷ and transitioning away from natural gas are both needed to align with Legislative requirements.³⁸ Sierra Club's proposal allows the Commission to replace the IMs rather than attempt to fix a broken mechanism that was created for a different time with different priorities.

Sierra Club has proposed two Commission actions (1) replace the IMs with a fuel-cost-sharing program, and (2) require the gas IOUs' to make their existing average monthly billing payment plan options the default payment plan for all core customers. These proposals are discussed below.

A. The Commission should replace the incentive mechanisms with a fuel-cost-sharing program.

In prior comments Sierra Club proposed that the Commission replace the IMs with a fuel-cost-sharing program.³⁹ Sierra Club's proposal would more effectively accomplish the Commission's goals for gas cost incentive mechanisms while encouraging the transition away from natural gas. White Paper 3 lists four Commission goals for the gas price incentive mechanisms,⁴⁰ which are:

- 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,

³⁵ Health and Safety Code §38562.2(c)(1), ("It is the policy of the state to... [a]chieve net zero greenhouse gas emissions as soon as possible, but no later than 2045[.]"), https://leginfo.ca.gov/faces/codes_displaySection.xhtml?lawCode=HSC§ionNum=38562.2.

³⁶ I.23-03-008, Sierra Club Reply Comments on Assigned Commissioner's Ruling Issuing First Amendment to Scoping Memo and Seeking Comments (June 21, 2024), p. 9-13, <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M534/K105/534105832.PDF>.

³⁷ Public Utilities Code § 747, https://leginfo.ca.gov/faces/codes_displaySection.xhtml?sectionNum=747.&lawCode=PUC.

³⁸ Health and Safety Code §38562.2(c)(1), https://leginfo.ca.gov/faces/codes_displaySection.xhtml?lawCode=HSC§ionNum=38561.2.

³⁹ I.23-03-008, Sierra Club Reply Comments on Assigned Commissioner's Ruling Issuing First Amendment to Scoping Memo and Seeking Comments (June 21, 2024), p. 9-13, <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M534/K105/534105832.PDF>.

⁴⁰ White Paper 3, p. 4.

- Encouraging the utilities to develop innovative methods for improving performance, and
- Aligning ratepayer and shareholder interests.

Sierra Club’s fuel-cost-sharing proposal aligns better with each of the four goals than the current IMs. First, while the IMs are less burdensome than the reasonable review process that they replaced, the IMs remain complex and difficult to navigate. White Paper 3 points out that PG&E filed its Tier 2 Advice Letter 19 months after the completion of its Year 30 CPIM.⁴¹ The experts at Cal Advocates who review the gas IOUs’ reward requests require another year to evaluate the requests. While this may be less burdensome than a reasonableness review, the IM process is clearly difficult to navigate and remains burdensome. In contrast, Sierra Club’s proposal would require a single calculation that could be completed in minutes after the IOUs report core-customer gas procurement costs.⁴²

Second, the fuel-cost-sharing program would better incentivize the IOUs to reduce gas costs because a portion of the gas cost would be paid by IOU shareholders. This meets the Commission’s second goal which is “[p]roviding the utilities with clear incentives to minimize gas costs to ratepayers and adjust to changing circumstances without micromanagement.”⁴³ In contrast Sierra Club has shown that the IMs inadvertently incent the IOUs to drive up the cost of gas because the higher the gas cost, the higher the potential shareholder reward. Thus, some unintended consequences of the IMs are directly contradictory to the Commission’s goals.

Third, the Commission has a goal of “[e]ncouraging the utilities to develop innovative methods for improving performance.”⁴⁴ White Paper 3 highlights a number of loopholes in the IMs that enable the gas IOUs to qualify for rewards even though the gas purchases occur at prices above the benchmark. This loophole was called out by Energy Division when it stated that “Sales Are Critical to Beating the GCIM Benchmark.”⁴⁵ In fact, during the 10-year period evaluated in White Paper 3, there was not a single year in which SoCalGas’s gross purchase cost beat the benchmark.⁴⁶ White Paper 3 also noted that the storage costs which enable the arbitrage

⁴¹ White Paper 3, footnote 10, p. 3.

⁴² I.23-03-008, Sierra Club Reply Comments on Assigned Commissioner’s Ruling Issuing First Amendment to Scoping Memo and Seeking Comments (June 21, 2024), p. 9-13, <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M534/K105/534105832.PDF>.

⁴³ White Paper 3, p. 4.

⁴⁴ White Paper 3, p. 4.

⁴⁵ White Paper, p. 36.

⁴⁶ White Paper, Table 5, p. 36.

necessary to accomplish the net purchase price – the factor that has enabled SoCalGas’s 30-straight-years of rewards from ratepayers – are not included in the GCIM calculations because SoCalGas storage is considered a transportation cost.⁴⁷ SoCalGas’s 30-year record of zero penalties appears to conflict with White Paper 3’s assertion that SoCalGas’s GCIM savings were not necessarily easy to achieve.⁴⁸

Unless the major loopholes in the IMs are closed, ratepayers will continue to pay rewards to shareholders for subpar results. In contrast, Sierra Club’s fuel-cost-sharing proposal is a simple method to encourage low-cost gas and to encourage a transition away from gas.⁴⁹ Not only does Sierra Club’s proposal align with the Commission’s goals for incentive mechanisms, it also aligns with California Energy Policy and §747.⁵⁰ Section 747 states that “[i]t is the intent of the Legislature that the commission reduce rates for electricity and natural gas to the lowest amount possible.”⁵¹

Fourth, the IMs conflict with Commission’s goal to “[a]lign[] ratepayer and shareholder interests.”⁵² As noted previously, the IMs incentivize high gas prices and include loopholes that enable shareholder rewards for subpar performance. For example, another loophole called out in White Paper 3 is that the GCIM only includes 25% of the cost of physical hedging.⁵³ White Paper 3 describes the flaw in the GCIM in this way:

Under the GCIM, only 25 percent of those excess costs, or \$52.5 million, were included in the Year 30 GCIM. Thus, SoCalGas shareholders still received an award. If 100 percent of the excess costs had been included, shareholders would have incurred a \$27 million penalty.⁵⁴

⁴⁷ See, Footnote 7 of these comments.

⁴⁸ White Paper 3, GCIM staff finding 22 (“This is not to say that SoCalGas’ GCIM savings have been easy to achieve. SoCalGas needs to not only look for savings opportunities but also needs to ensure that core customers have adequate supplies of gas, core storage is adequately filled, and that core deliveries are balanced.”).

⁴⁹ I.23-03-008, Sierra Club Reply Comments on Assigned Commissioner’s Ruling Issuing First Amendment to Scoping Memo and Seeking Comments (June 21, 2024), p. 9-13, <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M534/K105/534105832.PDF>.

⁵⁰ Health and Safety Code §38562.2(c)(1), https://leginfo.ca.gov/faces/codes_displaySection.xhtml?lawCode=HSC§ionNum=38561.2.

⁵¹ Public Utilities Code § 747, https://leginfo.ca.gov/faces/codes_displaySection.xhtml?sectionNum=747.&lawCode=PUC.

⁵² White Paper 3, p. 4.

⁵³ White Paper 3, p. 42.

⁵⁴ *Ibid.*

It is worth noting when reviewing the IM reward requests, Cal Advocates does not review whether the gas IOUs are taking advantage of loopholes or if the IMs are fair to ratepayers. Cal Advocates' task is to review whether the gas IOUs qualify for a reward or penalty under the existing rules of the IMs. White Paper 3 does a good job of calling out the flaws with the IMs and, in Sierra Club's evaluation, these flaws and loopholes demonstrate that the IMs are not functioning as intended and need to be replaced.

In contrast to the IMs, Sierra Club's fuel-cost-sharing proposal aligns the interests of shareholders with ratepayers because when fuel costs increase, the proposal causes a portion of that increase to be paid by shareholders, not just ratepayers.

One concern that SoCalGas has raised with Sierra Club's fuel-cost-sharing proposal is that the proposal "would penalize utilities even if they performed well."⁵⁵ Sierra Club highlights that due to the loopholes in the GCIM, SoCalGas has received 30 years of payments from ratepayers. Thus a few years without rewards would serve to re-balance benefits for ratepayers compared to benefits for shareholders. However, Sierra Club is willing to supplement its proposal so that the gas IOUs receive a pre-determined reward, such as \$17 million (similar to the average GCIM reward over GCIM Years 21-30 when including the full \$62 million calculated for the 2022-2023 GCIM year), for each year in which its core-customer gas demand drops by 10% compared to the prior 4-year annual average. While this reduction is not nearly fast enough to meet California Energy Policy, and in some years gas IOUs might qualify for the reward simply based on an exceptionally warm year, the reward would be a step toward meeting the state's 2045 decarbonization goals.

In summary, Sierra Club's fuel-cost-sharing proposal accomplishes each of the Commission's four goals better than the IMs and should be adopted by the Commission.

B. To protect gas ratepayers from bill volatility, the Commission should require the gas IOUs to make their existing average monthly billing payment plan options the default payment plan for core gas customers.

The Commission should immediately adopt Sierra Club's proposal to require the IOUs to make their average billing plans the default billing plans for core gas customers.⁵⁶ This proposal

⁵⁵ I.23-03-008, SoCalGas Comments (July 25, 2025), p. 12.

⁵⁶ I.23-03-008, Sierra Club Comments (July 31, 2024), p. 10, <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M537/K135/537135456.PDF>.

would immediately and dramatically reduce gas bill volatility. Reducing core gas customers' bill volatility (1) will reduce gas procurement costs by eliminating the justification for hedging and thus eliminating hundreds of millions in hedging losses, (2) will allow customers to anticipate and plan for their monthly gas expenses (3) and will enable the Commission to focus on transitioning away from natural gas, which has the potential to remove customers' exposure to volatile gas prices altogether in the long run. As Sierra Club has noted previously, its proposal could be adopted as an interim solution.

Sierra Club continues to recommend that the Commission immediately eliminate core customers' gas bill volatility by requiring the IOUs to make their existing average billing plans the default payment option for gas customers. Similar to the fuel cost sharing fix, a long-term solution requiring average billing plans to be uniform across all California IOUs can be completed in a separate proceeding dedicated to that task, however, the temporary fix can require the IOUs to use their existing average billing plans as the default billing plan.⁵⁷

White Paper 3 discusses how hedging can act as insurance against price volatility,⁵⁸ but hedging can also result in significant financial losses which increase volatility. D.10-01-023 states that “[f]inancial hedging is a form of price insurance that, *when managed properly*, can provide a degree of protection to core customers from excessive natural gas price volatility.”⁵⁹ In this proceeding Alliance for Retail Energy Markets (“AREM”) has asked the Commission to require the gas IOUs to purchase hedges from their members in the form of fixed-rate contracts.⁶⁰ That demonstrates AREM’s members believe that they would make a profit from ratepayers by charging significant risk premiums for this type of insurance. AREM’s offer demonstrates that core customers would be better off exposed to the volatility of the gas market than hedging in the form of fixed-rate contracts.

Sierra Club’s position that hedging should be avoided is supported by Southern California Edison’s statement that “[i]n a vacuum on a long run, hedging will always be more

⁵⁷ I.23-03-008, Sierra Club Comments (July 31, 2024), p. 10.

⁵⁸ White Paper 3, p. 2 (“Hedging is a form of insurance in which the utility takes offsetting financial positions that limit both potential losses and potential savings from market movements.”).

⁵⁹ D.10-01-023, FOF 1, p. 65, https://docs.cpuc.ca.gov/PublishedDocs/WORD_PDF/FINAL_DECISION/112833.PDF, [emphasis added].

⁶⁰ I.23-03-008, AREM Comments (September 26, 2023), pp. 2-3, <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M520/K480/520480537.PDF>.

expensive than being just being exposed to the daily price.”⁶¹ Sierra Club’s proposal to reduce bill volatility through average monthly billing all but eliminates the need for risky hedging behavior from the gas IOUs. It thus eliminates the costs associated with hedging. And it eliminates hedging losses which increase volatility. White Paper 3 notes that in GCIM 2023-2024 SoCalGas’s hedging lost ratepayers \$210 million thereby *increasing* rather than decreasing *volatility*.⁶²

Finally, it should be noted that neither hedging nor average monthly billing eliminates gas price volatility. In both cases the gas market will remain volatile. However, average monthly billing is a zero-cost method to eliminate month-to-month bill volatility, while gas price hedging costs hundreds of millions of dollars and can increase volatility as it did for SoCalGas customers in GCIM Year 30.⁶³

The Commission should immediately adopt Sierra Club’s proposal to require the IOUs to establish their average billing plans as the default billing plans for core customers. This proposal saves ratepayers money and allows the Commission to focus on the important actions needed to transition away from natural gas. The Commission then has the option of opening a new proceeding to establish a uniform average billing plan for core gas customers of all gas IOUs.

IV. CONCLUSION

For the reasons listed above, Sierra Club recommends that Commission (1) adopt the administrative changes to the incentive mechanisms that were proposed by in White Paper 3, (2) discontinue shareholder rewards resulting from the incentive mechanisms until the Commission can review and close the numerous loopholes in the mechanisms that were detailed in White

⁶¹ CPUC Gas Price En Banc (February 7, 2023), Southern California Edison presentation, available at <https://www.cpuc.ca.gov/events-and-meetings/en-banc-2023-02-07>.

⁶² White Paper 3, p. 42, (“GCIM Year 30 also saw large costs for physical hedges, but they resulted in large excess costs of roughly \$210 million compared to the benchmark.”).

⁶³ White Paper 3, p. 42, (“GCIM Year 30 also saw large costs for physical hedges, but they resulted in large excess costs of roughly \$210 million compared to the benchmark.”).

Paper 3, (3) adopt Sierra Club's fuel-cost-sharing proposal, and (4) adopt Sierra Club's average billing plan proposal.

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Respectfully submitted,

/s/ Jim Dennison

Jim Dennison

Sierra Club

1650 38th Street, Suite 103W

Boulder, Colorado 80301

Telephone: (435) 232-5784

Email: jim.dennison@sierraclub.org

Attorney for Sierra Club