

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



FILED

11/14/25

04:59 PM

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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.

I.23-03-008
(Filed March 20, 2023)

**REPLY COMMENTS OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) TO
ADMINISTRATIVE LAW JUDGE'S RULING ADMITTING STAFF WHITE PAPER
PART III INTO THE RECORD AND SEEKING COMMENTS**

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Dated: November 14, 2025

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Pursuant to Administrative Law Judge's (ALJ) Ruling Admitting Staff White Paper Part III into the Record and seeking Comments (Ruling), dated October 6, 2025,¹ Southern California Gas Company (SoCalGas) hereby respectfully submits these reply comments.

I. REPLY COMMENTS

A. Sierra Club Mistakenly Claims the GCIM Is Broken, Contradicts Energy Division's Assessment, and Fails to Acknowledge the Mechanism's Value for Bundled Core Customers

As part of White Paper III, Commission Staff evaluated the utilities' core gas procurement incentive mechanisms, including how they performed over a 10-year period and how they performed over winter 2022-23.² Through its review, Staff considered Sierra Club's comments, whether the Commission should authorize changes to SoCalGas's Gas Incentive Mechanism (GCIM) and Pacific Gas and Electric Company's (PG&E) Annual Core Procurement Incentive Mechanism (CPIM), and whether these mechanisms met the objectives set forth by the Commission over time and whether improvements might be made.³ Commission Staff correctly concluded that:

After reviewing the topic in depth, Staff did not find the core gas procurement incentive mechanisms to be "broken" as asserted by the Sierra

¹ On October 14, 2025, the ALJ issued a ruling updating the document titled "High Natural Gas Prices in Winter 2022-23: Part III" (White Paper: Part III) that was originally admitted into the record on October 6, 2025. The October 14, 2025, ruling did not change the comment deadlines set forth in the initial ruling.

² CPUC, *High Natural Gas Prices in Winter 2022-23: Part III (Updated)*, A Staff White Paper Supporting CPUC Investigation (I.) 23-03-008 (October 13, 2025) at 34.

³ *Id.*

Club, despite finding some aspects of the mechanisms that could be improved. These programs still advance the CPUC's original goals of reducing regulatory burden, providing clear incentives, allowing for innovation, and aligning ratepayer and shareholder interests.⁴

Additionally, Sierra Club's assertions about supposed "loopholes" reflect a fundamental misunderstanding of the GCIM and the substantial benefits it provides—for example, approximately \$1.9 billion in gas cost savings through GCIM Year 30. The items Sierra Club mischaracterize as loopholes include the 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.⁵ In reality, Commission Staff identified these items as structural design differences between SoCalGas's GCIM and PG&E's CPIM⁶ and items that could be considered for closer alignment in a future proceeding. Commission Staff also highlight that there are differences between the SoCalGas and PG&E systems, the markets they access, and how they operate, which may justify differences in the incentive mechanisms.⁷

Rather than acknowledging these well-documented and Commission Staff recognized differences, Sierra Club resorts to misplaced claims of "loopholes" and recycled assertions of a "broken" mechanism which Commission Staff have refuted. As an example, SoCalGas's storage capacity, injection, and withdrawal costs are bundled and included in transportation rates outside the purview of SoCalGas's Gas Acquisition Department and therefore are appropriately excluded from SoCalGas's GCIM. By contrast, PG&E's storage capacity, injection and withdrawal costs are unbundled and recovered through the monthly core procurement rate. Likewise, SoCalGas's treatment of winter physical hedges complies with Decision (D.) 10-01-023⁸ and results in the same net effect as financial hedges.

⁴ *Id.* at 5.

⁵ Sierra Club Opening Comments on Energy Division's White Paper, High Natural Gas Prices in Winter 2022-23: Part III (Updated) (October 31, 2025) (Sierra Club Opening Comments) at 2.

⁶ CPUC, *High Natural Gas Prices in Winter 2022-23: Part III (Updated)*, A Staff White Paper Supporting CPUC Investigation (I.) 23-03-008 (October 13, 2025) at 4-5.

⁷ *Id.* at 7.

⁸ D.10-01-023 at 70 (Ordering Paragraph (OP) 4) (OP 4 requires SoCalGas to include, "A ratio of 25% of all winter hedging net gains and losses attributable to that winter hedging program shall be included within the Gas Cost Incentive Mechanism.").

B. Sierra Club’s Request to Replace the Utility Incentive Mechanisms with a Fuel-Cost-Sharing Program or Place a Moratorium on Shareholder Rewards Should Be Rejected

Sierra Club’s proposals to replace the incentive mechanisms with a fuel-cost-sharing program⁹ or impose a moratorium on shareholder rewards,¹⁰ are unsupported by the Commission Staff’s analyses and run counter to the Commission’s stated goals for gas procurement mechanisms as reaffirmed by Staff in White Paper III. Energy Division expressly confirmed that the Commission’s goals remain appropriate: reducing the regulatory burden and complexity for parties by reducing or eliminating the need for after-the-fact reasonableness reviews; provide the utilities with known, balanced incentives to make efficient purchases, minimize gas costs to ratepayers, and adjust to changing circumstances without micromanagement; encourage the utilities to develop innovative methods for improving performance; and align ratepayer and shareholder interests through the sharing of gains and losses.¹¹ Sierra Club’s proposals advance none of these objectives.

As SoCalGas has previously explained, the Commission should reject Sierra Club’s fuel-cost-sharing proposal. Under the GCIM framework, SoCalGas is incentivized to procure gas below a market-based benchmark and share savings with ratepayers, while retaining the obligation to meet reliability standards. Sierra Club’s fuel-cost-sharing proposal would undermine these incentives by distorting market signals and artificially lowering the price that core customers face, meaning customers would pay less than the actual cost of gas in the market. As a result, core demand would likely increase, even at times when conservation is critical to maintaining reliability. This outcome contradicts Sierra Club’s own position in this proceeding that the Commission needs to change the incentive mechanism so that it incentivizes the gas utilities to reduce both gas prices and gas use as much as possible.¹²

Further, requiring utilities to provide gas to core customers at a discounted price could threaten the utilities’ ability to attract capital, resulting in an increase in the cost of financing

⁹ Sierra Club Opening Comments at 9.

¹⁰ *Id.* at 3.

¹¹ CPUC, *High Natural Gas Prices in Winter 2022-23: Part III (Updated)*, A Staff White Paper Supporting CPUC Investigation (I.) 23-03-008 (October 13, 2025) at 68.

¹² Sierra Club Reply Comments on Assigned Commissioner’s Ruling Issuing First Amendment to Scoping Memo and Seeking Comments (June 21, 2024) at 10.

and/or not having sufficient capital to make investments which would ultimately harm ratepayers. PG&E also disagrees with Sierra Club’s proposal, stating that the proposal would lead to “financially unstable utilities” and jeopardize utilities’ ability to invest in needed infrastructure and increase the cost for all gas and electric customers.¹³ Such financial instability would undermine, rather than advance, the Commission’s goal of aligning ratepayer and shareholder interests. Unlike gas incentive mechanisms, which reward utilities when they procure gas below a market benchmark, with most savings passed to ratepayers, Sierra Club’s proposal is not performance based and would penalize utilities even when they perform well, removing any meaningful incentive to achieve procurement savings. This directly contradicts the Commission’s long-standing intent that the mechanisms reward superior performance, encourage innovation, and align utility and ratepayer outcomes.

Sierra Club’s alternative proposal to impose a moratorium on shareholder rewards pending a future review suffers from the same fundamental flaws as its broader proposal to eliminate or replace the incentive mechanisms. Energy Division did not conclude that the GCIM is “broken,” and in fact expressly rejected that characterization in White Paper III.¹⁴ A moratorium would therefore be unsupported and would directly undermine the Commission’s objectives. Nothing in Sierra Club’s comments or in White Paper III suggests that suspending rewards is necessary, appropriate, or consistent with the Commission’s goals.

C. Sierra Club’s Proposal to Make the Average Monthly Billing Payment Plan the Default Plan for Core Gas Customers is out of Scope of Comments and Should be Rejected

Commission Staff neither analyzed customer billing structures nor recommend changes to billing practices in White Paper III. Moreover, the Ruling sought recommendations, corrections, and/or clarifications to White Paper III and encouraged parties to focus their comments on the three changes Energy Division recommends to the utilities’ core procurement incentive mechanisms.¹⁵ Accordingly, Sierra Club’s billing plan proposal¹⁶ is outside the scope

¹³ PG&E Reply Comments on Questions in Attachment A of the Assigned Commissioner’s Ruling Issuing First Amendment to Scoping Memo and Seeking Comments (June 21, 2024) at 7.

¹⁴ CPUC, *High Natural Gas Prices in Winter 2022-23: Part III (Updated)*, A Staff White Paper Supporting CPUC Investigation (I.) 23-03-008 (October 13, 2025) at 5.

¹⁵ Ruling at 1.

¹⁶ Sierra Club Opening Comments at 12-14.

of comments on White Paper III. Regardless, even if the Commission were to consider Sierra Club's proposal, establishing an average billing plan as the default for more than six million residential customers is not supported. As SoCalGas has previously explained, while SoCalGas educates customers about available payment plan options, making a level-pay plan the default would fundamentally alter price signals seen by customers. Smoothing monthly bills would insulate customers from the natural cost signals associated with increased seasonal usage, such as higher consumption during colder months, which could unintentionally create higher gas use and reduce conservation behavior. As explained above, Sierra's Club's proposal goes against its own comments regarding reducing gas usage. In addition, an opt-out level pay plan could risk the utilities' financial health and obligations or their ability to provide reliable natural gas supplies at a reasonable cost to customers. Accordingly, Sierra Club's billing proposal should be rejected.

D. SBUA's Proposals are More Appropriate for a Future Proceeding, and TURN Mistakenly Characterizes the Treatment of Market Sales Under the GCIM

Small Business Utility Advocates (SBUA) recommends aligning benchmark methodologies, standardizing incentive-structure reporting, imposing minimum hedge coverage ratios, revising reward caps and sharing percentages while altering tolerance bands.¹⁷ These are complex topics that warrant careful evaluation, robust stakeholder input, and thoughtful consideration to confirm that any changes preserve the mechanisms' proven effectiveness. Consistent with Commission Staff's recommendations in White Paper III, these types of structural changes are more appropriately considered in a future proceeding. Staff concluded that while limited refinements could be made in this proceeding, broader changes could be taken up in a separate proceeding in the future.

The Utility Reform Network (TURN) states that "[f]or sales into the market [...] shareholders enjoy 100 percent of the margin."¹⁸ This statement reflects a misunderstanding of how the GCIM operates. Under the GCIM, all purchases and sales are evaluated against the GCIM benchmark and are subject to the GCIM sharing mechanism. Shareholders do not retain 100 percent of margins from such transactions. Rather, GCIM applies the benchmark and

¹⁷ SBUA Opening Comments on Staff White Paper Part III (October 31, 2025) at 2-6.

¹⁸ TURN Comments on Staff White Paper Part III (October 31, 2025) at 5.

sharing formulas to the net position of the portfolio, which includes gains and losses from all approved procurement activities.

II. CONCLUSION

SoCalGas appreciates the opportunity to provide these reply comments.

Respectfully submitted,

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