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Decision 96-01-003 January 10, 1996

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

1995 Application of Southern California Gas Company (U 904 G) Under the Experimental Gas Cost Incentive Mechanism.	)	Application 95-06-043 (Filed June 22, 1995)

ORIGINAL

O P I N I O N

By this decision, we award to Southern California Gas Company (SoCalGas) $103,364 for savings it realized under the Storage Incentive Mechanism and grant SoCalGas' request to approve four changes to its gas cost incentive mechanism (GCIM).

Background

Decision (D.) 94-03-076 approved a GCIM for SoCalGas. The GCIM is a ratemaking mechanism designed to provide an incentive for SoCalGas to make sound gas purchasing and storage decisions by granting the company a share of cost savings above a market price benchmark. In adopting the GCIM, we hoped to eliminate, or limit, reasonableness reviews. SoCalGas' GCIM requires that it file an application by June 15 of each year which addresses the reasonableness of its operations and provides information regarding the results of the GCIM for the previous twelve months. This application fulfills that requirement.

SoCalGas' Application

SoCalGas' application states that its gas purchase costs were within the "tolerance band" established in D.94-03-076 and therefore no rewards or penalties are forthcoming for this period. It did, however, realize savings of approximately $1.1 million in its storage operations. Under the GCIM, it is entitled to 10% of these savings, or $103,364. It asks the Commission to adjust its Purchased Gas Account by that amount.

SoCalGas also asks that the Commission make six changes to the GCIM as follows:

> To limit the volumes of any single supplier included in the NYMEX basis bid calculation to minimize the effect any single supplier may have on the reference price;
>
> To adjust the NYMEX portion of the benchmark so that it is weighted by the actual monthly flow from each production basin;
>
> To include the cost of brokered transportation in the benchmark to reflect the relative value of border gas and alternatives which flow using the company's firm transportation;
>
> To protect against the shift in basis (the future price) by hedging the marginal gain through a basis swap in determining optimal storage purchases;
>
> To keep the benchmark price of gas neutral from the effect of gas bought for the storage incentive mechanism shift by adjusting the benchmark price rather than the tolerance band; and
>
> To increase the storage incentive mechanism volume of the storage shift from 5 billion cubic feet per day (Bcf) to 10 Bcf.

DRA filed a report commenting on SoCalGas' application. In its report, DRA recommends the Commission approve SoCalGas' proposal to modify the GCIM to limit the volumes bid by a single supplier. However, DRA objects to SoCalGas' proposals to weight the NYMEX reference price and to include the cost of brokered transportation in the benchmark. It does not object to the other three proposals.

At a prehearing conference scheduled in this proceeding on October 18, 1995, DRA and SoCalGas stated their intent to try to resolve outstanding disputes over the GCIM changes SoCalGas proposes. Subsequently, on November 17, 1995, SoCalGas mailed a letter to the assigned administrative law judge (ALJ) stating its acceptance of DRA's recommendations with respect to the GCIM for the time being. On November 20, 1995, TURN mailed a letter to the assigned ALJ stating that it would not participate further in the proceeding as a result of SoCalGas' acceptance of DRA's recommendations.

Discussion

SoCalGas is entitled to $103,364 for the savings it realized under the GCIM for storage operations. We will permit SoCalGas to adjust the PGA accordingly.

We grant SoCalGas' request to modify the GCIM to limit the volumes bid by a single supplier in the NYMEX basis bid calculation. Consistent with SoCalGas' letter of November 17, we deny SoCalGas' request for the two changes to the GCIM which are the subject of DRA's protest. We grant the other three proposed changes which apply to storage operations.

We consider this matter in the procedural context within which we adopted the GCIM. The conceptual framework for the GCIM was presented to the Commission as part of a settlement signed by seven parties following several months of negotiations. The specific details of the GCIM were developed and adopted in a separate application. We reviewed the settlement and the GCIM in careful detail with the participation of dozens of parties.

Now, only a year after the implementation of the mechanism, SoCalGas unilaterally seeks changes to the GCIM. We must presume that the changes would work to SoCalGas' advantage or else it would not have proposed them. Under the circumstances, the request violates the spirit of our settlement program. SoCalGas has repeatedly admonished us not to "cherry pick" the settlements it proposes on the basis that to do so would create an imbalance in the trade-offs developed by way of negotiation. SoCalGas now proposes selective changes after the fact. We grant the changes SoCalGas proposes which are unchallenged. However, we hope we are not asked to consider modifications to the GCIM again in the near future unless they are supported by all parties to the original settlement.

Findings of Fact

1. D.94-03-076 adopted the GCIM and required SoCalGas to submit an application by June 15 of each year which addresses the reasonableness of its operations and provides information regarding the results of the GCIM for the previous twelve months.

2. SoCalGas seeks a shareholder award of $103,364 for savings realized from its storage operations during the GCIM review period, consistent with the GCIM guidelines.

3. SoCalGas seeks six prospective changes to the GCIM.

4. The GCIM was part of a settlement that was negotiated and reviewed over many months.

5. DRA opposes two of six changes to the GCIM mechanism proposed by SoCalGas.

6. SoCalGas effectively withdrew its request for two of the six changes proposed for the GCIM mechanism by letter dated November 17, 1995.

7. No controversies or concerns are raised by SoCalGas' application with respect to the reasonableness of its gas operations during the review period.

Conclusions of Law

1. The Commission should grant SoCalGas' request to adjust the PGA to reflect a shareholder award of $103,364.

2. The Commission should grant SoCalGas' request to modify the GCIM (1) to limit the volumes bid by a single supplier in the NYMEX basis calculation, (2) to protect against the shift in basis by hedging the marginal gain through a basis swap in determining optimal storage purchases, (3) to adjust the benchmark price rather than the tolerance band in setting storage levels, and (4) to increase the storage incentive mechanism volume of the storage

shift from 5 Bcf per day to 10 Bcf but deny SoCalGas' request to modify the GCIM in other respects.

3. The Commission should close this proceeding.

O R D E R

IT IS ORDERED that:

1. Southern California Gas Company's (SoCalGas) request to adjust the Purchased Gas Account to recognize a shareholder award of $103,364 pursuant to the Gas Cost Incentive Mechanism (GCIM) is granted.

2. D.94-03-076 is modified (1) to limit to 100,000 MMBtu/d the volumes bid by a single supplier in the New York Mercantile Exchange basis bid program to be used for benchmark purposes, as SoCalGas proposes in this application, (2) to protect against the shift in basis by hedging the marginal gain through a basis swap in determining optimal storage purchases, (3) to adjust the benchmark price rather than the tolerance band in setting storage levels, and (4) to increase the storage incentive mechanism volume of the storage shift from 5 billion cubic feet per day (Bcf) to 10 Bcf.

3. In all other respects, SoCalGas' request to modify the GCIM and D.94-03-076 is denied.

4. This proceeding is closed.

This order is effective today.

Dated January 10, 1996, at San Francisco, California.

DANIEL Wm. FESSLER
President
P. GREGORY CONLON
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners