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Decision 97-06-061 June 11, 1997

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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| In the Matter of the Application of Southern California Gas Company Regarding Year Two (1995-96) Under its Experimental Gas Cost Incentive Mechanism and Related Gas Supply Matters. (U 904 G) | Application 96-06-029 (Filed June 17, 1996) |

ORIGINAL

# OPINION

## Summary

We adopt the joint recommendation of Southern California Gas Company (SoCalGas) and the Office of Ratepayer Advocates (ORA, successor to the former Division of Ratepayer Advocates) for the award of certain savings SoCalGas realized under the gas cost incentive mechanism (GCIM) and its procurement incentive mechanism (PIM) and storage incentive mechanism (SIM) thereunder and to approve an extension of the GCIM. Although SoCalGas and ORA request that the program be extended indefinitely, we will extend the program at this time only for an additional two years until March 31, 1999 in order for the Commission to revisit this program, if it chooses, as part of its Gas Strategy.

## Background

Decision (D.) 94-03-076 approved a GCIM for SoCalGas. We modified certain aspects of the GCIM in D.96-01-003. 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 reduce the need for reasonableness reviews. SoCalGas's GCIM requires it to file an application by June 15 of each year to address the reasonableness of its operations and provide information regarding the results of the GCIM for the preceding twelve months. This is the second such application, and it covers the year ended March 31, 1996.

SoCalGas filed its application on June 17, 1996. It was noticed in the Daily Calendar on June 21, 1996. No protests were filed. On June 17, 1996, SoCalGas filed a motion for a protective order sealing certain testimony concerning matters that are the subject of potential disputes between SoCalGas and its suppliers. On July 10, 1996, the administrative law judge (ALJ) on the law and motion calendar issued a ruling granting SoCalGas's request. On August 7, 1996, ORA requested leave to file a response to the application, which was granted by the assigned ALJ on August 12, 1996. On August 29, 1996, the assigned ALJ granted ORA's motion to be permitted to serve a report, by October 22, 1996, on matters raised by the application. A prehearing conference (PHC) was held on December 19, 1996. In addition to SoCalGas and ORA, appearances were entered by or on behalf of The Utility Reform Network, the Southern California Utility Power Pool and Imperial Irrigation District (SCUPP/IID), Southern California Edison Company (Edison), San Diego Gas and Electric Company (SDG&E), and Barkovich & Yap, Inc. The assigned ALJ subsequently set a procedural schedule contemplating hearings in April 1997.

On January 17, 1997, a notice of settlement conference was filed, and a settlement conference was held on February 4, 1997. On February 13, 1997, SoCalGas and ORA filed a Joint Motion for Order Adopting Stipulation and Agreement, Suspending Procedural Schedule, Waiving Oral Hearings, Limited Consolidation of Indicated Docket, and for Other Relief. On February 26, 1997, the assigned ALJ issued an order suspending the procedural schedule and directing responses, if any, to the Joint Motion to be filed and served on or before March 7, 1997. SCUPP/IID and Edison filed comments opposing the Joint Motion.

### SoCalGas's Application

In its application, SoCalGas describes the results of its operations, for the year ended March 31, 1996, as they affect the two parts of the GCIM, the PIM and the SIM.

*PIM*

SoCalGas represents that it purchased gas at a cost approximately 3% below the market benchmark cost of gas established in the PIM (benchmark of $454,708,932 less actual cost of $443,313,459, representing a savings of $12,393,473). Pursuant to the PIM, 50% of savings from purchases below the benchmark ($6,197,737) are allocated to ratepayers (by adjustment of the Purchased Gas Account (PGA)) and SoCalGas shareholders retain the rest.

However, a portion of the gas volume was purchased from Pacific Interstate Transmission Company (PITCO) and was transported on Transwestern's San Juan Lateral. ORA's report recommended that no award should be allowed in connection with such volumes. The effect of ORA's recommendation would be to reduce the PIM award to approximately $1.6 million.

SoCalGas and ORA now agree that such volumes may be included, but that they should be subject to a monthly cap equal to actual San Juan Lateral reservation charges (currently estimated by SoCalGas to be $0.102/Dth). As a result, SoCalGas and ORA agree that the PIM shareholder award (for the year ended March 31, 1996) should be $3.2 million, which is $3.0 million less than requested.

*SIM*

SoCalGas represents that it achieved savings from storage operations in the amount of $1,117,063. A portion, $440,615, is attributable to basis shifts. (A basis shift represents the difference between cash prices in the location where physical supplies are purchased and New York Mercantile Exchange future prices.) Pursuant to the SIM, basis shifts are allocated to core customer ratepayers through the purchase gas account (PGA.) The remainder of the savings ($676,448) was attributed to spread hedges. Pursuant to the SIM, 90% of spread hedges are allocated to core customer ratepayers through the PGA, and the remainder to SoCalGas shareholders. ORA concurs.

*Combined*

The following table summarizes the allocation of PIM and SIM savings:

| | Core Customers through the Purchased Gas Account | SoCalGas Shareholders | Total |
|---|---|---|---|
| **PIM** | $9,145,474 | $3,200,000 | $12,395,474 |
| **SIM** | | | |
| *Basis* | 440,615 | | 440,615 |
| *Spread Hedge* | 608,803 | 67,645 | 676,448 |
| ***Total*** | $10,244,892 | $3,267,645 | $13,512,537 |

SoCalGas is entitled to $3,200,000 for savings under the GCIM for procurement savings and $67,645 for storage operations. We will permit SoCalGas to adjust the PGA accordingly.

**Other Matters**

SoCalGas also seeks determinations regarding two additional matters. One involves an amount paid during the year ended March 31, 1996 for gas supplies received prior to April 1, 1995. The other involves gas costs accrued for which SoCalGas has not been, and is unlikely to be, billed.

***Additional Payment***

During the year ended March 31, 1996, SoCalGas incurred an adverse outcome to litigation concerning an arrangement that it had entered into with respect to gas supplies. In the application, SoCalGas sought a finding that incurring the payment was reasonable. SoCalGas and ORA agree that such amounts should be allocated 75% to ratepayers and 25% to shareholders. For the existing amounts (which are the subject of a protective order), SoCalGas and ORA agree that the amounts involved should be offset to the extent of the unpaid accruals discussed next.

***Unpaid Accruals***

SoCalGas has been carrying amounts on its books in respect of accruals for gas received for which it has never received invoices or made payment. It proposes that it should write off the liability related to such unpaid accruals and credit the amount to certain regulatory accounts, which would have the eventual result of making future rates lower than they would otherwise be. SoCalGas and ORA agree that existing amounts should be used to offset the 75% of the additional payment discussed in the preceding paragraph, that the balance of additional unpaid accruals carried on its balance sheet for the period after 1991 should be reported in SoCalGas's GCIM filing for Year 3, and that SoCalGas should refund the entire amount of any such unpaid accruals in an appropriate manner to ratepayers as a reduction in rates.

***Proposed Modification of the GCIM for Years Beginning April 1, 1997***

SoCalGas and ORA agree that several changes should be made to the GCIM for years beginning April 1, 1997 (Year 4 and subsequent years):

1. The GCIM should continue indefinitely, rather than terminating on March 31, 1997.

2. The change to the PIM adopted in Ordering Paragraph 2 of D.96-01-003 (and reflected in the application) should be continued.

3. San Juan Lateral reservation charges paid by SoCalGas should be included in the GCIM benchmark budget in a manner similar to the treatment of other SoCalGas interstate capacity reservation charges. Any actual revenues received through a release of capacity in the Transwestern San Juan Lateral should be flowed through as an adjustment to the GCIM benchmark budget consistent with treatment of other revenues from releases of interstate pipeline capacity.

4. Any revenues generated through the release of core interstate pipeline capacity on El Paso and Transwestern should be included as adjustments to the GCIM benchmark budget with no benefit to shareholders. Interstate exchange revenues should continue to be treated as credits to SoCalGas's commodity cost in the GCIM program.

5. SoCalGas should be allowed to purchase up to 10% of its demand, on an annual basis, at the border or via incremental interstate capacity without being subject to reasonableness review. A monthly border index in proportion to the volumes purchased should be included in the monthly benchmark budget, as described in more detail in the Agreement and Stipulation between SoCalGas and ORA.

6. California Energy Hub (CEH) revenues should be included as a credit to the GCIM actual cost. The CEH revenues and expenses should continue to be captured in a

separate CEH account. On a monthly basis, the CEH net revenues should be cleared and allocated to the Core PGA. Revenues should be net of fees and other expenses to administer the CEH, subject to reevaluation as necessary.

7. Core gas sales to others should be used as a tool to reduce costs to core customers consistent with current practice by SDG&E and the proposal for Pacific Gas and Electric Company (PG&E). Any gas sales to affiliates of SoCalGas should be reported on a monthly basis, be subject to affiliate transaction rules (and any other conditions that may be ultimately adopted by the Commission), and be subject to audit by Commission staff.

8. The SIM should be eliminated. In its place, SoCalGas should identify (in appropriate planning documents) storage targets and/or minimums for November 1 and the end of January, February, and March, in each case prorated for core aggregation storage.

9. The 4% tolerance band should be replaced by a 2% tolerance band above, and a ½% tolerance band below, the benchmark budget, computed as described in the Stipulation and Agreement.

10. The GCIM program, as modified, should remain in effect until such time as a permanent program is implemented or changed by the Commission.

Edison and SCUPP/IID object to this portion of the settlement on the grounds that it is not a proper part of this proceeding, which was opened solely to deal with year two under the GCIM. We disagree. The reasons adduced by Edison and SCUPP/IID to show that this portion of the settlement is objectionable have either already been decided in other proceedings or can be dealt with in the forthcoming review of affiliate transaction rules.

### *Motion to Partially Consolidate with A.93-10-034*

SoCalGas and ORA request that Application (A.) 93-10-034 be reopened and consolidated with the present application for the limited purpose of receiving comments on and approving the Stipulation and Agreement. Although in D.94-03-076, we contemplated extending the GCIM pilot program by reopening A.93-10-034, we do not now feel that procedural vehicle is needed, in light of the availability of the current application. Although SoCalGas and ORA request that the program be extended indefinitely, we will extend the program at this time only for an additional two years until March 31, 1999 in order for the Commission to revisit this program, if it chooses, as part of its Gas Strategy.

## Findings of Fact

1. SoCalGas is a public utility subject to the jurisdiction of this Commission.

2. SoCalGas filed its application on June 17, 1996.

3. Notice appeared in the Daily Calendar on June 21, 1996.

4. No party filed a protest to the application.

5. ORA was granted leave to file a response to the application and to file a report on it.

6. A PHC was held on December 19, 1996.

7. A settlement conference was noticed on January 17, 1997.

8. A settlement conference was held on February 4, 1997.

9. SoCalGas and ORA filed a Stipulation and Agreement on February 13, 1997.

10. The assigned ALJ issued an order requiring responses to the Stipulation and Agreement by March 7, 1997.

11. Edison and SCUPP/IID object to the Stipulation and Agreement insofar as it relates to modifications of the GCIM for years other than the year ended March 31, 1996.

12. 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 12 months. D.96-01-003 modified the GCIM with respect to certain calculations.

13. SoCalGas and ORA agree that SoCalGas should receive a shareholder award of $3,200,000 for savings under the PIM.

14. SoCalGas and ORA agree that SoCalGas should receive a shareholder award of $67,645 for savings under the SIM.

15. During the year ended March 31, 1996, SoCalGas incurred an adverse outcome to litigation concerning an arrangement that it had entered into with respect to gas supplies.

16. SoCalGas and ORA agree to allocate the costs of this litigation, as well as any future claims related to California gas contracts and California gas purchases made prior to 1994, 75% to ratepayers and 25% to shareholders.

17. Such existing amounts involved should be offset to the extent of amounts on SoCalGas's books in respect of accruals for gas received for which it has never received invoices or made payment.

**Conclusions of Law**

1. A public hearing is not required.

2. The joint motion of SoCalGas and ORA to adjust the PGA to reflect a shareholder award of $3,200,000 in respect of the PIM and $67,645 in respect of the SIM should be granted.

3. The change to the PIM adopted in Ordering Paragraph 2 of D.96-01-003 (and reflected in the application) should be continued.

4. The joint recommendation of SoCalGas and ORA with respect to the allocation of amounts between ratepayers and shareholders, during the year ended March 31, 1996, in respect of an adverse outcome to litigation concerning an arrangement that it had entered into with respect to gas supplies should be approved. The joint recommendation's proposed ratemaking treatment of any future claims related to California gas contracts and California gas purchases made prior to 1994 is reasonable.

5. Such existing amounts involved should be offset to the extent of amounts on SoCalGas's books in respect of accruals for gas received for which it has never received invoices or made payment.

6. The GCIM should continue until March 31, 1999, rather than terminating on March 31, 1997.

7. The change to the PIM adopted in Ordering Paragraph 2 of D.96-01-003 (and reflected in the application) should be continued.

8. San Juan Lateral reservation charges paid by SoCalGas should be included in the GCIM benchmark budget in a manner similar to the treatment of other SoCalGas interstate capacity reservation charges. Any actual revenues received through a release of capacity in the Transwestern San Juan Lateral should be flowed through as an adjustment to the GCIM benchmark budget consistent with treatment of other revenues from releases of interstate pipeline capacity.

9. Any revenues generated through the release of core interstate pipeline capacity on El Paso and Transwestern should be included as adjustments to the GCIM benchmark budget with no benefit to shareholders. Interstate exchange revenues should continue to be treated as credits to SoCalGas's commodity cost in the GCIM program.

10. SoCalGas should be allowed to purchase up to 10% of its demand, on an annual basis, at the border or via incremental interstate capacity without being subject to reasonableness review. A monthly border index in proportion to the volumes purchased should be included in the monthly benchmark budget, as described in more detail in the Agreement and Stipulation between SoCalGas and ORA.

11. CEH revenues should be included as a credit to the GCIM actual cost. The CEH revenues and expenses should continue to be captured in a separate CEH account. On a monthly basis, the CEH net revenues should be cleared and allocated to the Core PGA. Revenues should be net of fees and other expenses to administer the CEH, subject to reevaluation as necessary.

12. Core gas sales to others should be used as a tool to reduce costs to core customers consistent with current practice by SDG&E and the proposal for PG&E. Any gas sales to affiliates of SoCalGas should be reported on a monthly basis, be subject to affiliate transaction rules (and any other conditions that may be ultimately adopted by the Commission), and be subject to audit by Commission staff.

13. The SIM should be eliminated. In its place, SoCalGas should identify (in appropriate planning documents) storage targets and/or minimums for November 1

and the end of January, February, and March, in each case prorated for core aggregation storage.

14. The 4% tolerance band should be replaced by a 2% tolerance band above, and a ½% tolerance band below, the benchmark budget, computed as described in the Stipulation and Agreement.

15. The GCIM program, as modified, should remain in effect until March 31, 1999.

## ORDER

IT IS ORDERED that:

1. The joint recommendation of Southern California Gas Company (SoCalGas) and the Office of Ratepayer Advocates (ORA) as modified to extend the Gas Cost Incentive Mechanism program through March 31, 1999 is approved.

2. SoCalGas and ORA shall file a letter with the Executive Director stating their acceptance of the modification proposed in Ordering Paragraph 1. This order shall be effective upon receipt of such letter, and Application 96-06-029 shall be closed at that time.

Dated June 11, 1997, at San Francisco, California.

P. GREGORY CONLON
President
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
RICHARD A. BILAS
Commissioners