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Decision 98-06-024 June 4, 1998

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Gas Company Regarding Year Three (1996-97) under its Experimental Gas Cost Incentive Mechanism and Related Gas Supply Matters (U 904 G)	Application 97-06-025 (Filed June 16, 1998)

OPINION

Summary

We will award to Southern California Gas Company (SoCalGas) $10,764,024 for savings it realized under the gas cost incentive mechanism (GCIM) and the procurement incentive mechanism (PIM) and the storage incentive mechanism (SIM) thereunder.

Procedural Background

Decision (D.) 94-03-076 approved a GCIM for SoCalGas. We modified certain aspects of the GCIM in D.96-01-003 and D.97-06-061. 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 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 third such application, and it covers the year ended March 31, 1997. Notice of the application was published in the Daily Calendar on June 20, 1997.

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The Office of Ratepayer Advocates (ORA) filed a response on July 11, 1997. Southern California Edison Company (Edison) filed a protest to the application on July 21, 1997. SoCalGas filed its reply to the protest on July 31, 1997. On August 29, 1997, the assigned administrative law judge (ALJ) ordered ORA to serve its report by October 22, 1997. On September 24, 1997, we adopted D.97-09-118, in which we directed SoCalGas to respond to eight specific questions regarding the Purchased Gas Account (PGA). On October 15, 1997, the assigned ALJ ordered ORA to serve its report by December 5, 1997, to allow it to address the response of SoCalGas to D.97-09-118. On October 20, 1997, Utilicorp Energy Services, Inc. (Utilicorp) moved for leave to intervene. On October 27, 1997, SoCalGas filed its response as required by D.97-09-118. On October 27, 1997, Mock Energy Services, L.P. (Mock) filed for leave to enter an appearance as an interested party. On November 3, 1997, Interstate Gas Services, Inc. (IGS) filed for leave to enter an appearance as an interested party. On November 25, 1997, the assigned ALJ provisionally granted the motions of Utilicorp, Mock, and IGS. On December 5, 1997, ORA filed its report. Edison filed comments on ORA's report on January 6, 1998. On January 9, 1998, SoCalGas filed a response to Edison's comments. The assigned ALJ issued a ruling on February 9, 1998, permitting Utilicorp and IGS to respond, by February 17, 1998, to the ORA report and SoCalGas's October 27, 1997 filing. No such response was filed.[1]

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[1] SoCalGas also filed a response, on February 2, 1998, to a letter from Edison to the assigned ALJ. As the Edison letter does not form part of the record, since it was not filed, the SoCalGas response is properly disregarded. The ALJ should have admonished Edison that its letter was subject to the rules on ex parte communications.

Discussion

Edison's Protest

Edison claimed that through the operation of the Interstate Transition Cost Surcharge (ITCS) and the GCIM, SoCalGas was able to recover costs for capacity and to benefit its core customers at the expense of its noncore customers, through capacity release practices. Insofar as Edison's protest rests upon the reasonableness of the ITCS, it must allege "fraud and abuse" to challenge recovery of interstate pipeline capacity costs by SoCalGas. (*See* D.94.04-088.) Edison has not alleged any facts to show fraud and abuse.

In addition, Edison was "also concerned with the unusually low storage levels that existed" during the relevant period and that "[i]ncentives under the GCIM may have contributed to these low inventory levels." That indefinite concern, which has no apparent relationship to the proper calculation of the related GCIM component, is too indefinite to raise a triable issue of material fact, as ruled by the ALJ on February 9, 1998. Indeed, in its January 6, 1998 filing commenting on ORA's report (which generally concurs with the application), Edison took exception to some of the language used by ORA, but did not challenge ORA's conclusions.

SoCalGas's Response to D.97-09-118

Ordering Paragraph 4 of D.97-09-118, directed SoCalGas to respond to eight questions concerning its biennial cost allocation proceeding (BCAP).

Why the projected PGA overcollection became an undercollection

On October 15, 1996, SoCalGas projected an overcollection in the PGA balance, but the recorded PGA balance through May 31, 1997 was an undercollection. SoCalGas gives two reasons: (1) market prices for the period were higher than both the adopted weighted average cost of gas (WACOG) and the forecasted prices that were used in the October 15, 1996 filing; and

(2) SoCalGas's 1996 BCAP rates were implemented on June 1, 1997, rather than January 1, 1997.

The impact of core gas purchases and core gas storage inventory and operations during the record period (April 1996 through March 1997) due to noncore imbalances

Except for imbalance transfers, discussed in the next subsection, SoCalGas states that there was no impact on core purchasing patterns resulting from noncore imbalances, and that all operational parameters of the GCIM were met except for the March 1997 month-end core inventory levels. That variance was due, SoCalGas states, to an unusually warm month of March 1997.

How noncore storage imbalances were handled during the record period

SoCalGas states that imbalances on its system were handled in accordance with the tariffs in effect prior to the modifications adopted in D.97-04-082, SoCalGas's 1996 BCAP. SoCalGas states that the tariffs provided that if imbalances were not corrected by storage or imbalance trades during a trading period two months after the flow month, the imbalance would be transferred to or supplied by SoCalGas's core at (1) 50% of WAGOG for overdeliveries, or (2) the higher of (a) 150% of WACOG and (b) the highest purchase by the core for overdeliveries.

How the SIM influenced core storage operations

SoCalGas states that it replaced planned baseload purchases of 180,000 MMBtu/d of August 1996 volumes with 42,000 MMBtu/d of less expensive August 1996 discretionary purchases and 138 MMBtu/d of less expensive October purchases, in a hedged transaction. SoCalGas represents that the transaction resulted in a net savings to core customers of $1,539,955.

Whether and how SoCalGas hub services interacted with core storage, core gas purchases, and noncore imbalances

SoCalGas states that hub operations reduced core gas cost, had no impact on noncore imbalances, and used the core's flowing supply and unused storage inventory capacity to provide gas parking, loaning, and wheeling services to shippers on the SoCalGas system.

The impact, if any, on GCIM and SIM rewards during the record period due to the noncore and reduced core storage inventory

SoCalGas states that the imbalances of the noncore customers did not influence the GCIM or SIM calculations of shareholder earnings.

Whether and how SoCalGas's noncore storage transactions interacted with the level of core storage inventory and noncore imbalances

SoCalGas states that to the extent that noncore balances were outside the limits established by tariff, imbalance would be transferred to or supplied by SoCalGas's core at (1) 50% of WAGOG for overdeliveries, or (2) the higher of (a) 150% of WACOG and (b) the highest purchase by the core for overdeliveries.

Why SoCalGas chose to purchase high-cost flowing supply for core customers rather than exercising its Rule 23 authority to (1) suspend stand-by service and/or (2) curtail noncore load

SoCalGas states that it did not purchase flowing supply or maintain higher inventory in response to noncore imbalances and that there was no need to exercise Rule 23 authority during the 1996-97 winter.

GSIM

In the application, SoCalGas describes the results of its operations for the year ended March 31, 1997 as they affect the two parts of the GCIM, the PIM, and the SIM.

PIM

SoCalGas represents that it purchased gas at a cost of $658,875,699.99, or $21,185,839.13 below the benchmark price of $680,061,509.12. Pursuant to the PIM, 50% of savings from purchases below the benchmark ($10,592,919) are allocated to ratepayers (by adjustment of the PGA) and SoCalGas shareholders retain the rest.

SIM

SoCalGas represents that it achieved savings from storage operations in the amount of $1,711,061. Pursuant to the SIM, 90% of such savings are allocated to core customer ratepayers through the PGA, and the remainder to SoCalGas shareholders.

Combined

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

	Core Customers through the Purchased Gas Account	*SoCalGas Shareholders*	*Total*
PIM	$10,592,919	$10,592,919	$21,185,839.13
SIM	1,539,955	171,106	1,711,061
Total	$12,132,875	$10,764,024	$22,896,899

SoCalGas is entitled to $10,592,919, savings under the GCIM for procurement savings and $171,106 for storage operations. We will permit SoCalGas to adjust the PGA accordingly.

Findings of Fact

1. SoCalGas is a public utility subject to the jurisdiction of this Commission.
2. 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. D.96-01-003 and D.97-06-061 modified the GCIM with respect to certain calculations.

3. Ordering Paragraph 4 of D.97-09-118 required SoCalGas to respond in this proceeding to eight specific questions.

4. SoCalGas has responded to the questions posed by Ordering Paragraph 4 of D.97-09-118.

5. SoCalGas seeks a shareholder award of $10,592,919 for savings under the PIM.

6. SoCalGas seeks a shareholder award of $171,106 for savings under the SIM.

7. There are no disputed issues of material fact requiring an evidentiary hearing.

Conclusions of Law

1. An evidentiary hearing is not required.

2. SoCalGas's request to adjust the PGA to reflect a shareholder award of $10,592,919 in respect of the PIM and $171,106 in respect of the SIM should be granted.

ORDER

IT IS ORDERED that:

1. Southern California Gas Company's (SoCalGas) request to adjust the Purchased Gas Account to recognize a shareholder award of $10,592,919 in respect of the Procurement Incentive Mechanism and $171,106 in respect of the Storage Incentive Mechanism pursuant to the Gas Cost Incentive Mechanism is granted.

2. Application 97-06-025 is closed.

This order is effective today.

Dated June 4, 1998, at San Francisco, California.

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