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Decision 98-12-057 December 17, 1998

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Gas Company Regarding Year Four (1997-98) Under Its Experimental Gas Cost Incentive Mechanism and Related Gas Supply Matters. (U 904 G)	Application 98-06-033 (Filed June 15, 1998)

OPINION

Summary

We award Southern California Gas Company (SoCalGas) $2,039,913 in shareholder incentives for savings accrued under its Gas Cost Incentive Mechanism (GCIM) during "Year 4," the 12-months ending March 31, 1998. We extend operation of the GCIM on an annual basis beyond March 31, 1999, the end of Year 5.

Procedural and Factual Background

Decision (D.) 94-03-076 approved a GCIM for SoCalGas. The GCIM is a ratemaking mechanism designed to provide regulatory controls superior to reasonableness reviews. We modified certain aspects of the SoCalGas GCIM in D.96-01-003 and D.97-06-061. As modified, the GCIM is structured to provide an incentive for SoCalGas to make sound gas purchasing decisions by granting it a share of cost savings above a market price benchmark. Gas storage operations were previously included in the GCIM but were eliminated for periods after Year 3.

SoCalGas' 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 GCIM results for the prior 12-months ending March 31. This is the 4th such application, and it covers Year 4, the period from April 1, 1997 through March 31, 1998. Notice of the application was published in the Daily Calendar on June 23, 1998.

On July 23, the Office of Ratepayer Advocates (ORA) filed a response indicating that its position would be determined upon completion of a field audit and evaluation of the Year 4 results. ORA hoped to file its report by September 15, as long a state budgetary issues did not prevent ORA from traveling and conducting the audit as planned.

The Scoping Memo issued by Commissioner Duque on August 19 extended ORA's filing deadline to October 15, 1998 and identified three issues. These are, in summary: 1) should the Commission approve the calculation of the proposed shareholder award under the Year 4 GCIM; 2) approve the reasonableness of SoCalGas' gas acquisition operations within the context of the GCIM; and 3) extend the GCIM beyond March 31, 1999?

Thereafter, by D.98-09-028, we ordered that this proceeding, preliminarily categorized as "ratesetting," did not require hearings.[1] Our determination meant this proceeding was no longer covered by most of Article 2.5 of our Rules of Practice and Procedure. We ordered that the schedule and scope set out in the Scoping Memo would continue to apply.

ORA was able to file its report on September 23. On October 23, SoCalGas filed comments on the ORA report.

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[1] On July 2, 1998, the Commission issued Resolution ALJ 176-2996 which preliminarily categorized this proceeding as ratesetting and determined that hearings were necessary, as required by Rules 4 and 6.1.

Discussion

1. The Year 4 GCIM Shareholder Award And Reasonableness of Gas Acquisition Operations

SoCalGas' application states and ORA's report confirms that SoCalGas acquired gas for its core and core subscription customers at savings of approximately $6.8 million over the GCIM benchmark in Year 4. The Year 4 benchmark total, derived from monthly benchmark volumes and prices, is $672,131,591. The benchmark inputs include gas commodity costs, commodity transport costs, and transportation reservation charges. Actual gas costs totaled $665,307,357.

For purposes of calculating the portion of the total savings subject to the ratepayer/shareholder sharing incentive, the SoCalGas' GCIM applies a 0.5% tolerance band. Half of the resulting sum constitutes the shareholder award. The Year 4 calculation, rounded to the nearest tenth of a million dollars for illustrative purposes, is: $672.1 benchmark less $665.3 actual gas cost equals $6.8 savings, less $2.7 calculated tolerance (0.5% tolerance band) equals $4.1, less 50% equals $2.0 shareholder savings. Using this formula, both SoCalGas and ORA calculate a shareholder award of $2,039, 913 for Year 4.

ORA states it has "examined all gas commodity, transportation, and transportation reservation costs recorded in the GCIM, and verified any changes that occurred between detail and summary annual reporting" during the audit period. (ORA report, p. 1-4 , emphasis in original.) ORA also states it has tested and confirmed the benchmark data and calculations. ORA concludes that SoCalGas has met all regulatory objectives set for the Year 4 GCIM.

We find, after reviewing SoCalGas' application and ORA's laudatory report, that SoCalGas reasonably managed its GCIM gas acquisitions in Year 4, achieving supply security and service reliability at low cost. SoCalGas has earned a shareholder award of $2,039,913 under the Year 4 GCIM. We will permit SoCalGas to adjust the Purchased Gas Account (PGA) accordingly.

2. Extension of the GCIM Beyond March 31, 1999

Currently, the SoCalGas GCIM is authorized only through Year 5, the period April 1, 1998 through March 31, 1999. ORA recommends that we extend the program on an annual basis since the GCIM has yielded measurable benefits to gas procurement customers. SoCalGas asks that any annual extension expressly authorize a full GCIM cycle—in other words, that our decision today authorize Year 6 and each twelve month period, beginning April 1, thereafter.

The Year 4 results persuade us that it is in the public interest to extend SoCalGas' GCIM on an annual basis. We have authorized similar incentive programs into the early part of the coming decade for both Pacific Gas and Electric Company and San Diego Gas & Electric Company (SDG&E). (See, respectively, D.97-08-055 and D.98-08-038.) Continuing the SoCalGas program is consistent with our regulatory approach for local distribution company gas procurement. Since absent our order today the current SoCalGas program would terminate at the end of Year 5, the annual extension we grant begins with Year 6, the period April 1, 1999 through March 31, 2000. If SoCalGas or ORA concludes the GCIM should not continue into Year 7 or any subsequent year, either may make this position know to us in the application or report each will file in 1999 and every year thereafter.

Findings of Fact

1. SoCalGas acquired gas for its core and core subscription customers at savings of approximately $6.8 million over the GCIM benchmark in Year 4, the period April 1, 1997 through March 31, 1998.

2. Applying the GCIM formula yields a shareholder award of $2,039, 913 for Year 4.

3. SoCalGas' GCIM gas acquisitions in Year 4 achieved supply security and service reliability at low cost.

4. Unless extended, the SoCalGas GCIM will terminate at the end of Year 5, on March 31, 1999.

Conclusions of Law

1. SoCalGas' request to adjust the PGA to reflect a shareholder award of $2,039,913 under the Year 4 GCIM should be granted.

2. SoCalGas reasonably managed its GCIM gas acquisitions in Year 4.

3. It is in the public interest to extend SoCalGas' GCIM on an annual basis for 12-month cycles, beginning in Year 6, the period April 1, 1999 through March 31, 2000.

ORDER

IT IS ORDERED that:

1. Southern California Gas Company (SoCalGas) is authorized to adjust the Purchased Gas Account to recognize a shareholder award of $2,039,913 under Year 4 of its Gas Cost Incentive Mechanism (GCIM).

2. SoCalGas' GCIM is extended on an annual basis for 12-month cycles, beginning in Year 6, the period April 1, 1999 through March 31, 2000, unless the mechanism is modified or discontinued by further order of the Commission.

3. Application 98-06-033 is closed.

This order is effective today.

Dated December 17, 1998, at San Francisco, California.

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