ALJ/WRI/eap * **Mailed 6/9/2000**

Decision 00-06-039 June 8, 2000

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Gas Company Regarding Year Five (1998-99) Under Its Experimental Gas Cost Incentive Mechanism and Related Gas Supply Matters. (U 904 G)	Application 99-06-027 (Filed June 15, 1999)

OPINION

Summary

We award Southern California Gas Company (SoCalGas) $7.7 million in shareholder incentives for savings accrued under its Gas Cost Incentive Mechanism (GCIM) during "Year 5," the 12-months ending March 31, 1999.

We order the Commission staff to issue an evaluation report of GCIM by January 1, 2001, and we defer judgment on whether to extend operation of the GCIM on an annual basis beyond March 31, 2000, the end of Year 6.

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 a profit incentive in addition to its rate of return for SoCalGas to make sound gas purchasing decisions. This is done by granting SoCalGas 50 percent of gas cost savings it achieves by purchasing gas below certain published market price benchmarks.

D.94-03-076 further provided that:

> "We will also require CACD to issue an evaluation report reviewing the program. CACD may engage the services of an independent consultant which will be funded by SoCalGas. The report should be submitted no later than August 1, 1996 in order to provide the Commission with guidance regarding the success or failure of the program prior to its completion.
>
> "Conclusions of Law
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> "1. The Commission should adopt SoCalGas' GCIM proposal as set forth in this decision. The Commission should direct CACD to undertake an evaluation of the GCIM. CACD should be directed to submit the evaluation no later than August 1, 1996 so that the Commission may review CACD's analysis before addressing whether to continue, modify or eliminate the GCIM after the third year of its operation." (53 CPUC2d 663 at pp. 669-670.)

This evaluation report was never submitted.

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 fifth such application, and it covers Year 5, the period from April 1, 1998 through March 31, 1999. Notice of the application was published in the Daily Calendar on June 22, 1999.

On July 22, the Office of Ratepayer Advocates (ORA) filed a response to the application in which it stated that it was preparing a monitoring and evaluation report that would be served on October 15, 1999. ORA served its monitoring and evaluation report on September 30, 1999.

A duly noticed prehearing conference was convened on November 22, 1999 in San Francisco at which time SoCalGas and ORA reported that there was no dispute with respect to the application. The parties recommended that the application be treated as an uncontested matter in which the decision grants the relief requested. ORA's report was accepted into evidence.

On July 22, 1999, Southern California Edison Company (SCE) filed a Motion to Intervene for the purpose of being on record that:

- SCE will rely on ORA to validate SoCalGas' claim of reasonable operating practices and SoCalGas' request for shareholder award for Year 5.
- SCE requests that the Commission be mindful that the design of the GCIM for Year 6 and beyond should be examined to ensure compatibility with the Commission's Gas Industry Restructuring proceeding.

The motion to intervene was granted.

On June 18, 1998, the Commission issued Resolution ALJ 176-2995 which preliminarily categorized this proceeding as ratesetting and determined that hearings were necessary as required by Rules 4 and 6.1. It is now clear that this proceeding requires no hearings, and the preliminary determination to the contrary is changed in this Order.

Discussion

1. *The Year 5 GCIM Shareholder Award And Reasonableness of Gas Acquisition Operations*

ORA conducted a monitoring and evaluation review of the GCIM Year 5 results submitted by SoCalGas in its application. ORA's audit confirms that cost savings of $18.1 million below market prices were generated and its procurement customers received a benefit of $10.4 million. ORA also verified the proper calculation of the proposed shareholder award of $7.7 million which SoCalGas should be authorized to recover through the Purchased Gas Account (PGA) as requested in its application.

ORA's analysis and evaluation of the application and Year 5 results concludes that the GCIM continues to provide favorable benefits to SoCalGas' natural gas procurement customers. In Year 5, procurement customers have accrued gas cost savings of $10.4 million as measured against market-based benchmarks. In prior years of the GCIM, gas procurement customers of SoCalGas derived shared savings, as measured against market benchmark, of: $4.8 million in Year 4; $12.1 million in Year 3; $4.3 million in Year 2; and $0.7 million in Year 1. The total ratepayer savings, measured against market-based GCIM benchmarks, have totaled $26.7 million over the first five years of the GCIM program.

SoCalGas filed Advice Letter (AL) 2836 on August 5, 1999 and AL 2836-A on August 25, 1999. The purpose of the Advice Letters is to update the GCIM preliminary statement in order to reflect Commission-authorized changes in D.98-12-057 and D.94-07-064. One of these modifications was to include purchases from Pan-Alberta Gas U.S. Inc. (PAGUS) and Exxon/POPCO in the GCIM beginning on April 1, 1999 (Year 6) in compliance with D.94-07-064 (Appendix A, Section B.4, page 9, No. 1(b)). With regard to purchases from PITCO and POPCO after December 31, 1998, the decision stated that "Any such purchases made by SoCalGas will remain subject to reasonableness review or any other alternative proceeding which may supercede the current reasonableness review procedure (for example the GCIM)."

SoCalGas has proposed that the PAGUS and Exxon/POPCO purchases be treated the same as any other gas supply contract or purchases in the GCIM commencing April 1, 1999. The PAGUS purchases will be compared against the mainline gas commodity index from the appropriate mainline supply basins where the gas is delivered. The Exxon/POPCO supplies will be treated the same as California gas supply purchases and compared against the border gas commodity reference price. ORA concurs with the method in which SoCalGas intends to treat the PAGUS and Exxon/POPCO purchases in the GCIM Year 6 beginning April 1, 1999.

We find, after reviewing SoCalGas' application and ORA's report, that SoCalGas reasonably managed its GCIM gas acquisitions in Year 5, achieving supply security and service reliability at low cost. SoCalGas has earned a shareholder award of $7.7 million under the Year 5 GCIM. We will permit SoCalGas to adjust the PGA accordingly.

2. Extension of the GCIM Beyond March 31, 2000

D.98-12-057 stated that if SoCalGas or ORA concludes the GCIM should not continue into Year 7 or any subsequent year, either may make this position known in the application or report that each will file in 1999 and every year thereafter. ORA recommends that the GCIM should continue into Year 7 based on its review of GCIM Year 5 and the benefits of the program.

The SoCalGas application makes no express reference to the continuation issue.

As we are ordering Commission staff completion and submittal of the evaluation report specified in D.94-03-076, we defer judgment on whether to extend operation of the GCIM into Year 7.

Comments on Draft Decision

The draft decision of the ALJ in this matter was mailed to the parties in accordance with Section 311(g)(1) of the Public Utilities Code and Rule 77.7 of the Rules of Practice and Procedure.

Joint comments were filed by SoCalGas and ORA in which they urge the Commission to forego the benefits of receiving the independent evaluation report of the GCIM ordered in D.94-03-076 because: (1) the Commission has approved annual extensions of GCIM beyond the issuance date of the report specified in D.94-03-076, thus making the contemplated report moot; and (2) the report would duplicate ORA's annual audit. We find no merit to these contentions.

Clearly, the Commission's articulated desire to receive guidance regarding the success or failure of GCIM prior to its completion is not moot. This is an annual program which remains subject to being continued, modified, or eliminated based, in part, on an independent in-depth analysis to be provided by staff. That the report arrives after the fifth year of the program rather than after the third year does not detract from its materiality to Commission review of applicant's GCIM.

We anticipate that the staff report will analyze the conditions which led to the adoption of the SoCalGas GCIM and the goals sought to be achieved in gas procurement. Have these conditions changed? Is it necessary that customers paid $23,000,000 over five years to SoCalGas for it to procure gas efficiently? Are the benchmarks against which SoCalGas measures its gas procurement performance fair and reasonable? Are the benchmarks a true measure of gas costs? Is the 50 percent sharing formula fair to SoCalGas shareholders and to its ratepayers? Other questions easily come to mind.

In sum, we again request a full independent review of GCIM which will go to the merits of the program itself and not duplicate ORA's annual audits.

Commenting parties also request pre-approval of applicant's GCIM for Year 7 because Year 7 is already well under way (it commenced on April 1, 2000). This argument is not persuasive.

We change the submittal date of the independent report from October 1, 2000 to January 1, 2001. However, our decision to re-order the independent staff report discussed in D.94-03-076 should not be taken as a prejudgment of the

SoCalGas GCIM or of any of its facets. Thus, no change in the program or in its timing is warranted prior to issuance of the report and our consideration of it.

Findings of Fact

1. SoCalGas acquired gas for its core and core subscription customers at savings of approximately $18.1 million over the GCIM benchmark in Year 5, the period April 1, 1998 through March 31, 1999.

2. Applying the GCIM formula yields a shareholder award of $7.7 million for Year 5.

3. D.94-03-076 provides for staff and/or an independent consultant to be funded by SoCalGas to issue an evaluation report in order to provide the Commission with guidance regarding the success or failure of the program prior to its completion.

4. The evaluation report has not been submitted.

Conclusions of Law

1. SoCalGas' request to adjust the PGA to reflect a shareholder award of $7.7 million under the Year 5 GCIM should be granted.

2. SoCalGas reasonably managed its GCIM gas acquisitions in Year 5.

3. Commission staff should arrange for the preparation of the evaluation report as set forth in D.94-03-076.

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 $7.7 million under Year 5 of its Gas Cost Incentive Mechanism.

2. Commission staff shall arrange for the preparation and submittal of the evaluation report as set forth in Decision 94-03-076 on or before January 1, 2001.

3. This proceeding does not require that hearings be held.

4. Under Rule 6.6, this order is a final determination that a hearing is not needed in this proceeding. Ex parte communications shall be permitted, as provided in Rule 7(e). In all other respects, the rules and procedures in Article 2.5 of the Commission's Rules shall cease to apply to this proceeding.

5. Application 99-06-027 is closed.

This order is effective today.

Dated June 8, 2000, at San Francisco, California.

LORETTA M. LYNCH
President
HENRY M. DUQUE
JOSIAH L. NEEPER
RICHARD A. BILAS
CARL W. WOOD
Commissioners