

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

**RESOLUTION G-3241
AUGUST 6, 1998**

RESOLUTION

RESOLUTION G-3241. SOUTHERN CALIFORNIA GAS COMPANY (SOCALGAS) REQUESTS APPROVAL FOR TARIFF REVISIONS TO PRELIMINARY STATEMENT PART VIII TO REFLECT THE MODIFICATIONS ADOPTED IN D.97-06-061 REGARDING ITS GAS COST INCENTIVE MECHANISM. SOCALGAS' REQUEST AS SUPPLEMENTED IS APPROVED.

BY ADVICE LETTERS 2700 AND 2700-A FILED ON APRIL 6 AND JULY 10, 1998 RESPECTIVELY.

SUMMARY

1. By Advice Letter (AL) 2700, Southern California Gas Company (SoCalGas) requests approval to update the Preliminary Statement, Part VIII to its tariffs, Gas Cost Incentive Mechanism, to comport with Ordering Paragraph No. 1 of Decision (D.) 97-06-061. In that decision, the Commission adopted the joint recommendation of SoCalGas and the Office of Ratepayer Advocates (ORA) for certain changes to SoCalGas' Gas Cost Incentive Mechanism (GCIM) and extended the program through March 31, 1999. In addition, SoCalGas proposes to streamline some of the text portions of the GCIM program description.
2. On July 10, 1998, SoCalGas filed a supplement, AL 2700-A, to reflect several further modifications to its Preliminary Statement as filed in AL 2700. First, the language regarding submission of program changes by advice letter was deleted at the request of the Energy Division. Secondly, the previously omitted provisions regarding treatment of core gas sales and reporting requirements from D. 97-06-061 were incorporated.
3. SoCalGas requests that the tariffs filed with its supplemental AL 2700-A be effective on August 19, 1998, forty days after the filing date. A Commission Resolution is required because 97-06-061, cited by SoCalGas, made no specific order concerning a compliance filing.

August 6, 1998

4. On April 27, 1998, Southern California Edison Company (Edison) protested one aspect of the modified GCIM program. Edison objects to the manner in which net revenues from SoCalGas' California Energy Hub (Hub) are treated within the GCIM program. However, SoCalGas' AL does not propose GCIM program changes. It updates the tariff language to reflect changes adopted in the Year 2 GCIM Review Proceeding, Application (A.) 96-06-029, and SoCalGas' 1996 Biennial Cost Allocation Proceeding (BCAP), A.96-03-031. Therefore, Edison's protest is denied.
5. The updated tariff language, Preliminary Statement Part VII, submitted by SoCalGas in AL 2700-A is consistent with the changes adopted in D. 97-06-061 and is therefore approved.

August 6, 1998

BACKGROUND

1. The Commission approved a three-year experimental GCIM for SoCalGas in D.94-03-076 that became effective April 1, 1994. The purpose of the GCIM program is to provide SoCalGas with an incentive to achieve a cost of gas that is at or below the prevailing market price for gas. The GCIM program consists of establishing a benchmark budget against which to measure the actual cost SoCalGas pays for gas purchased to meet the needs of retail core and core subscription customers.
2. In D.97-06-061, the Commission adopted modifications to the GCIM Program, based on the February 13, 1997 Stipulation and Agreement in A.96-06-029 between the Office of Ratepayer Advocates (ORA) and SoCalGas (Agreement). The GCIM program was extended through March 31, 1999. The Storage Incentive Mechanism portion of the GCIM was eliminated. Certain changes were also adopted in the calculations of the benchmark budget, actual gas costs, and incentive elements of the GCIM. Among these changes was the provision that California Energy Hub revenues should be included as a credit to the GCIM actual costs.

NOTICE

1. Notice of AL 2700 and AL 2700-A was made by publication in the Commission's calendar and by mailing copies of the filing to all parties in A. 93-10-034 and A. 96-06-029.

PROTESTS

1. On April 27, 1998, Edison filed its nearly timely protest to AL 2700. Edison objects to the inclusion of Hub net revenues as an adjustment to SoCalGas' total actual cost for purposes of its GCIM. Edison argues that, "First, Hub revenues have no relevance on SoCalGas' gas procurement activities for core customers. Second, SoCalGas would have the ability and the incentive to create an artificial demand for Hub services which would increase the cost to deliver gas into southern California, and ultimately impact the California Power Exchange market clearing price."
2. SoCalGas' May 6, 1998 response characterizes Edison's protest as a "collateral attack on two recent Commission decisions addressing the proper treatment of Hub revenues." This matter was decided in two recent Commission proceedings, the GCIM Year 2

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Review proceeding which resulted in the current GCIM framework, as well as SoCalGas' 1996 BCAP. In both cases, the Commission ruled that Hub net revenue should be used to lower the cost of gas to the core, not shared among all customer classes. (See Conclusion of Law 11 to D.97-06-061 and Finding of Fact 68 to D.97-04-082.)

3. SoCalGas' response also points out, "Advice No. 2700 is a compliance filing only to change the preliminary statement of SoCalGas' tariff merely to reflect the explicit findings of Commission decisions." Since SoCalGas proposes no changes to the method by which Hub revenues are included or used within the GCIM program, SoCalGas does not "believe it is necessary to address the "merits" of Edison's protest."

DISCUSSION

1. The stated purpose of AL 2700, as supplemented by AL 2700-A, is to "revise Preliminary Statement, Part VIII to include modifications to the calculations of the benchmark budget, actual gas costs, and incentive elements of the GCIM as provided for by D.97-06-061." Therefore, our acceptance is conditioned upon consistency with the decision, rather than upon the substantive merits of the tariff changes.
2. Based on our review of AL 2700 as supplemented by AL 2700-A, and D. 97-06-061, we find SoCalGas' filing to be consistent with the order. No protest was filed by ORA, signator to the Agreement upon which the decision was based.
3. SoCalGas' AL 2700 did not propose any changes to the method by which Hub revenues are included or used within the GCIM program in Advice 2700. Edison had the opportunity to and did argue the appropriate treatment of Hub revenues in the context of SoCalGas' Year 2 GCIM Review and the BCAP. The Commission ruled in favor of the Agreement, despite Edison's opposing comments. In D.97-06-061, Conclusion of Law No.11, we specifically concluded that California Energy Hub revenues should be included as a credit to the GCIM actual cost. Therefore, Edison's protest is denied.
4. SoCalGas' tariffs have not been consistent with D. 97-06-061 since its adoption in June of last year. By approving ALs 2700 and 2700-A, this inconsistency is now remedied.

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FINDINGS

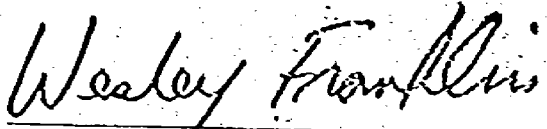
1. SoCalGas filed AL 2700 on April 6, 1998 and AL 2700-A on July 10, 1998 requesting authority to update the Preliminary Statement of its tariffs, Part VIII, Gas Cost Incentive Mechanism, to comport with Ordering Paragraph No. 1 of Decision (D.) 97-06-061.
2. A number of GCIM Program changes were adopted in D. 97-06-061, as well as an extension in the experimental GCIM.
3. SoCalGas' tariffs have not been consistent with D. 97-06-061 since it was adopted in June of last year.
4. The updated Preliminary Statement, Part VII filed for approval in AL 2700-A is consistent with D. 97-06-061.
5. In a protest filed April 27, 1998, Edison objects to the inclusion of California Energy Hub net revenues as an adjustment to SoCalGas' total actual cost for purposes of its GCIM.
6. SoCalGas' AL 2700 proposes no changes to treatment of California Energy Hub net revenues in the GCIM Program from those adopted in D. 97-06-061. Therefore, Edison's protest is denied.
7. Notice of ALs 2700 and 2700-A was made by publication in the Commission's calendar and by mailing copies of the filing to all parties in A. 93-10-034 and A. 96-06-029.
8. SoCalGas requests that this advice filing be effective August 19, 1998, which is 40 days after the date filed. There is no reason to delay implementation since the proposed tariff changes are approved by Commission Resolution.

August 6, 1998

THEREFORE IT IS ORDERED THAT:

1. The updated Preliminary Statement, Part VIII to SoCal Gas' tariffs in Advice Letter No. 2700-A is approved
2. Edison's protest is denied.
3. This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the state of California held on August 6, 1998; the following Commissioners voting favorably thereon:


WESLEY M. FRANKLIN
Executive Director

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

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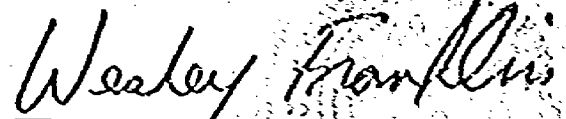
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