

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

**RESOLUTION G-3252
MARCH 18, 1999**

RESOLUTION

RESOLUTION G-3252. SAN DIEGO GAS & ELECTRIC COMPANY (SDG&E) REQUESTS APPROVAL OF SDG&E'S YEAR FIVE GAS PROCUREMENT PBR REWARD. SDG&E'S REQUEST IS APPROVED.

BY ADVICE LETTER 1134-G, FILED JANUARY 20, 1999.

SUMMARY

1. SDG&E filed Advice Letter (AL) 1134-G on January 20, 1999 to request approval of a Gas Procurement Performance-Based Ratemaking Mechanism (PBRM) shareholder reward of \$1,962,233 for the period August 1, 1997 through July 31, 1998 (Year 5).
2. SDG&E had previously filed its Year 5 Gas Procurement Annual Report on October 30, 1998. The Office of Ratepayer Advocates' (ORA) issued its review and audit of SDG&E's Year 5 gas PBRM results in its Monitoring and Evaluation (M&E) Report on Fifth Year Results, dated January 15, 1999.
3. In its M&E Report, ORA concurs with SDG&E's PBRM Year 5 incentive reward request of \$1,962,233.
4. No protests were filed against AL 1134-G.
5. The Energy Division reviewed both the SDG&E Year 5 Report and the ORA M&E Report, and concurs with the requested reward.
6. SDG&E's request for a shareholder reward of \$1,962,233 is approved.

BACKGROUND

1. SDG&E's Gas Procurement PBRM was initially approved by the Commission for a two year initial term in Decision (D.) 93-06-092 as a two-part mechanism. Part A measures SDG&E's annual actual purchased gas costs (PGC) against a benchmark calculated from average basin gas price indices from four identified basin/pipeline receipt points (IBP), and actual transportation costs. Part A serves to encourage SDG&E to minimize its gas commodity costs within its major supply markets or basins. Part A provides for equal sharing between ratepayers and shareholders of any savings of costs

below the benchmark under this part of the mechanism, and equal sharing of any costs in excess of the deadband, or 102% above the benchmark. Part B measured the difference between the PGC and a benchmark tied to a weighted average price index of total delivered gas costs, assuming interstate transportation costs at 100% of pipeline as-billed rates. Part B provides SDG&E incentives to lower its total delivered cost of gas. Shareholders earned 5% of savings relative to Part B benchmark.

2. After the gas procurement PBRM was initially adopted, various modifications to the mechanism have been adopted, and the term of the mechanism was extended. The term of the PBRM was extended by D.95-04-051 until 90 days after a final evaluation report on the PBRM was filed.

3. Resolution G-3187, dated June 6, 1996, revised and modified the indices used to calculate the benchmarks in both Parts A and B.

4. AL 1029-G, effective November 5 1996, incorporated SDG&E's storage expenses into the calculation of Part B of the PBRM. The delivery point for gas in Part B changed from the California border to SDG&E's custody transfer points from Southern California Gas Company.

5. D.97-02-12 further modified the PBRM by replacing the simple average Delivered Price Index Benchmark of Part B with a volume-weighted average, and the term of the PBRM was extended until the Commission adopted a new gas procurement PBRM for SDG&E.

6. A new gas procurement PBRM with an initial term of five years was established in D.98-08-038, for the period beginning August 1, 1998. D.98-08-038 also provided for a procedure by which PBRM rewards and penalties would be requested annually by advice letter, upon agreement of both SDG&E and ORA. This new procedure applied both to past rewards and penalties under the old PBRM which had not yet been approved by the Commission as well as to future rewards and penalties under the new PBRM.

7. Under the gas PBRM M&E procedures, SDG&E files an annual compliance report detailing its performance results. SDG&E's filed its annual report on its PBRM Year 5 performance results on October 30, 1998.

8. ORA provided its annual audit of the Year 5 Gas Procurement PBRM in its M&E Report that was filed on January 15, 1999. In that report, ORA agreed with the SDG&E shareholder reward of \$1,962,233 which resulted from SDG&E performance in Year 5 under the PBRM.

9. As provided for under the procedures adopted in D.98-08-038, by AL 1134-G, SDG&E seeks approval of the Year 5 Gas Procurement PBRM shareholder reward.

NOTICE

1. Public notice of AL 1134-G was made by publication in the Commission calendar, and by SDG&E mailing copies of the filing to interested parties, including utilities, governmental agencies, and the service list to A.97-09-049.

PROTESTS

1. No protests were received to this Advice Letter.

DISCUSSION

1. ORA has audited SDG&E's Year 5 performance results, and agreed with the SDG&E requested PBRM reward. In the course of the monitoring and evaluation process, ORA identified \$118,878 of year-end billing and payment timing differences. ORA has made the recommendation, to which SDG&E has agreed, to include this adjustment of \$118,878 in the Year 6 PBRM calculations.

2. The Energy Division has reviewed both the SDG&E Year 5 PBRM report and the ORA Year 5 M&E report, and concurs with the shareholder reward. The Energy Division also agrees with ORA's recommendation that the above amounts of SDG&E billing and payment timing adjustments be included in the Year 6 PBRM calculations.

3. SDG&E's reward request for Year 5 of the Gas Procurement PBRM appears to be reasonable.

COMMENTS

1. This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code Section 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

FINDINGS

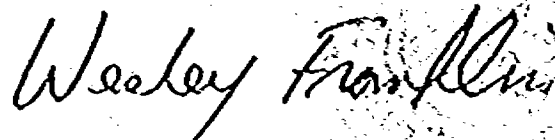
1. D.98-08-038 established a procedure under which the Commission would adopt SDG&E gas procurement PBRM rewards and penalties. The procedure provides for requests by advice letter for PBRM rewards and penalties agreed upon by both SDG&E and ORA.
2. In compliance with D.98-08-038, with AL 1134-G SDG&E requests a Year 5 shareholder reward of \$1,962,233. In its M&B report on SDG&E's Year 5 results, ORA has agreed to the requested shareholder reward amount.
3. The Energy Division has reviewed SDG&E's and ORA's Year 5 reports. The Energy Division concurs with the requested reward, and with ORA's recommendation regarding billing and payments timing adjustments.
4. SDG&E's requested Year 5 shareholder reward of \$1,962,233 should be approved.

March 18, 1999

THEREFORE, IT IS ORDERED THAT:

1. SDG&E's Advice Letter 1134-G and its request for Year 5 PBRM reward of \$1,962,233 is approved.
2. 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 March 18, 1999. The following Commissioners voting favorably thereon:



WESLEY M. FRANKLIN

RICHARD A. BILAS
President
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners