STATE OF CALIFORNIA ARNOLD SCHWARZENEGGER, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
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May 17, 2010

Advice Letter 4089

Ronald van der Leeden, Director
Rates, Revenues and Tariffs
555 W. Fifth Street, GT14D6
Los Angeles, CA 90013-1011

Subject: Treatment of Winter Hedging Costs

Dear Mr. van der Leeden:

Advice Letter 4089 is effective April 21, 2010.

Sincerely,

Julie A. Fitch, Director
Energy Division

Southern California Gas Company
A Sempra Energy utility®

Ronald van der Leeden
Director
Rates, Revenues & Tariffs

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March 22, 2010

Advice No. 4089
(U 904 G)

Public Utilities Commission of the State of California

Subject: Treatment of Winter Hedging Costs

Southern California Gas Company (SoCalGas) hereby submits for filing with the California Public Utilities Commission (Commission) revisions to its Preliminary Statement, Part VIII – Gas Cost Incentive Mechanism (GCIM) applicable throughout its service territory, as shown on Attachment B.

Purpose

This filing modifies SoCalGas' GCIM Preliminary Statement to reflect changes in the GCIM for the treatment of winter hedging costs pursuant to Decision (D.) 10-01-023.

Background

On June 26, 2008, the Commission initiated a rulemaking to examine the California gas utilities' gas cost incentive mechanisms and the treatment of hedging under those incentive mechanisms, pursuant to D.07-06-013. The goal was to adopt a regulatory treatment of hedging that provides flexibility to accommodate changing market conditions and risk factors over time.[1]

In D.10-01-023, the Commission adopted a revised incentive framework for natural gas price "hedging" for certain California natural gas utilities, including SoCalGas and San Diego Gas & Electric Company (SDG&E).[2] For SoCalGas and SDG&E, the Commission determined that 25% of all net gains and losses attributable to the SoCalGas/SDG&E winter hedging program shall be included within the GCIM, and the remaining 75% of all net gains and losses attributable to the SoCalGas/SDG&E winter hedging program shall be directly allocated to core customers.

Proposed Revisions to GCIM Preliminary Statement

SoCalGas has revised the language in its GCIM Preliminary Statement to reflect the new treatment for gains and losses attributable to the SoCalGas/SDG&E winter hedging program adopted by the Commission in D.10-01-023. The relevant language in Section C has also been revised to clarify that Winter Hedges may include both physical and financial transactions, and that winter-month

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[1] D.10-01-023, mimeo., at 2.
[2] Hedging is a form of price insurance used to protect customers from excessive swings in natural gas prices. D.10-01-023, mimeo., at 2 (fn. 1).

transactions not included within the SoCalGas/SDG&E winter hedging program are included 100% in the GCIM.

SoCalGas is also proposing limited wording changes in Section C to reflect that the responsibility for managing minimum flow requirements has now been transferred from the Utility Gas Procurement Department to the System Operator. This particular change is the result of the passage of time rather than D.10-01-023.

Protests

Anyone may protest this Advice Letter to the Commission. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. The protest must be made in writing and received within 20 days of the date of this Advice Letter. There is no restriction on who may file a protest. The address for mailing or delivering a protest to the Commission is:

CPUC Energy Division
Attn: Tariff Unit
505 Van Ness Avenue
San Francisco, CA 94102

Copies of the protest should also be sent via e-mail to the attention of both Maria Salinas (mas@cpuc.ca.gov) and to Honesto Gatchalian (jnj@cpuc.ca.gov) of the Energy Division. A copy of the protest should also be sent via both e-mail and facsimile to the address shown below on the same date it is mailed or delivered to the Commission.

Attn: Sid Newsom
Tariff Manager - GT14D6
555 West Fifth Street
Los Angeles, CA 90013-1011
Facsimile No. (213) 244-4957
E-mail: snewsom@SempraUtilities.com

Effective Date

SoCalGas believes that this filing is subject to Energy Division disposition and should be classified as Tier 2 (effective after staff approval). SoCalGas respectfully requests that this advice letter be approved April 21, 2010, which is 30 calendar days after the date filed.

Notice

A copy of this advice letter is being sent to all parties listed on Attachment A, which includes the interested parties in Rulemaking 08-06-025.

Ronald van der Leeden
Director
Rates, Revenues & Tariffs

Attachments

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY
ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. **SOUTHERN CALIFORNIA GAS COMPANY (U 9O4G)**

Utility type:	Contact Person: Sid Newsom
☐ ELC ☒ GAS	Phone #: (213) 244-2846
☐ PLC ☐ HEAT ☐ WATER	E-mail: SNewsom@semprautilities.com

EXPLANATION OF UTILITY TYPE	(Date Filed/ Received Stamp by CPUC)
ELC = Electric GAS = Gas PLC = Pipeline HEAT = Heat WATER = Water	

Advice Letter (AL) #: 4089

Subject of AL: Revisions to Gas Cost Incentive Mechanism Preliminary Statement

Keywords (choose from CPUC listing): Preliminary Statement

AL filing type: ☐ Monthly ☐ Quarterly ☐ Annual ☒ One-Time ☐ Other

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #:

D.10-01-023

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL No

Summarize differences between the AL and the prior withdrawn or rejected AL[1]: N/A

Does AL request confidential treatment? If so, provide explanation: No

Resolution Required? ☒ Yes ☐ No Tier Designation: ☐ 1 ☒ 2 ☐ 3

Requested effective date: 4/21/10 No. of tariff sheets: 6

Estimated system annual revenue effect: (%):

Estimated system average rate effect (%):

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: Preliminary Statement VIII, and TOC

Service affected and changes proposed[1]: NA

Pending advice letters that revise the same tariff sheets: None

Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:

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mas@cpuc.ca.gov and jnj@cpuc.ca.gov

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[1] Discuss in AL if more space is needed.

ATTACHMENT A

Advice No. 4089

(See Attached Service Lists)

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ATTACHMENT B
Advice No. 4089

Cal. P.U.C. Sheet No.	Title of Sheet	Cancelling Cal. P.U.C. Sheet No.
Revised 45890-G	PRELIMINARY STATEMENT, PART VIII, GAS COST INCENTIVE MECHANISM, Sheet 1	Revised 43937-G
Revised 45891-G	PRELIMINARY STATEMENT, PART VIII, GAS COST INCENTIVE MECHANISM, Sheet 2	Revised 42773-G
Revised 45892-G	PRELIMINARY STATEMENT, PART VIII, GAS COST INCENTIVE MECHANISM, Sheet 4	Revised 42775-G
Revised 45893-G	PRELIMINARY STATEMENT, PART VIII, GAS COST INCENTIVE MECHANISM, Sheet 5	Revised 44758-G
Revised 45894-G	TABLE OF CONTENTS	Revised 45889-G
Revised 45895-G	TABLE OF CONTENTS	Revised 45654-G

PRELIMINARY STATEMENT
PART VIII
GAS COST INCENTIVE MECHANISM

Sheet 1

A. GENERAL

The Gas Cost Incentive Mechanism (GCIM) replaces the Reasonableness Review as a means of reviewing the Utility Gas Procurement Department's (Gas Acquisition) natural gas purchasing activities for retail core (core) customers. The purpose of the GCIM is to provide market-based incentives to reduce the cost of gas to core customers and to provide appropriate objective standards against which to measure the Utility Gas Procurement Department's performance in gas procurement and transportation functions on behalf of core customers.

On an annual basis, the GCIM provides the Utility Gas Procurement Department with an incentive to achieve a cost of gas that is at or below the prevailing market price for gas, by establishing an annual benchmark budget. The actual gas costs incurred to meet the needs of core customers are measured against the annual benchmark budget. If the actual total gas cost is less than the annual benchmark budget, the cost savings is shared between ratepayers and shareholders based on a tiered formula with ratepayers receiving a progressively greater percentage of the GCIM gain over certain tolerances and within established sharing bands, subject to a cap on shareholders' benefit (see Section C.9). If the actual total gas cost is greater than the annual benchmark budget plus a specified tolerance, the excess cost penalty is split equally between shareholders and ratepayers. See Section C. for the detailed methodology used to calculate these components.

B. EFFECTIVE DATES

1. A three-year experimental GCIM was approved in D.94-03-076, effective April 1, 1994. The GCIM program was modified and extended for two years by D.97-06-061, effective April 1, 1997. The GCIM program extension remained in effect through March 31, 1999.

2. Pursuant to D.98-12-057, the 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. D.02-06-023 approved a Settlement Agreement sponsored by the Commission's Office of Ratepayer Advocates (now Division of Ratepayer Advocates or DRA), The Utility Reform Network (TURN) and SoCalGas, with amendments, which further modifies the GCIM and extended it for Year 7 (April 1, 2000 through March 31, 2001) and beyond, on an annual basis until further modified or terminated upon Commission Order.

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(Continued)

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(Continued)

B. EFFECTIVE DATES (Continued)

4. D.07-12-019 approved the consolidation of SoCalGas' and SDG&E's core procurement functions into one gas portfolio to be managed by SoCalGas (the Utility Gas Procurement Department) and subject to SoCalGas' GCIM. T D

5. Pursuant to D.10-01-023, 25% of all net gains and losses attributable to the SoCalGas/SDG&E winter hedging program shall be included within the GCIM. The remaining 75% of all net gains and losses attributable to the SoCalGas/SDG&E winter hedging program shall be directly allocated to core customers. N | | N

C. GAS COST INCENTIVE MECHANISM (GCIM) METHODOLOGY

1. On an annual basis, the GCIM compares the actual cost of the Utility Gas Procurement Department's purchases to an annual benchmark budget. The annual benchmark budget is the sum of twelve monthly benchmark budget amounts.

2. The Monthly Benchmark Budget is the sum of monthly benchmark gas commodity costs, monthly benchmark commodity transportation costs, and monthly benchmark transportation reservation charges.

3. Monthly benchmark gas commodity costs are calculated at the mainline for interstate purchases and the border for border purchases. The Monthly Benchmark Gas Commodity Cost is the product of the Mainline Gas Commodity Reference Price times the volumes purchased at the mainline plus the product of the Border Gas Commodity Reference Prices times the volumes purchased at the respective border locations.

   a. The Mainline Gas Commodity Reference Price consists of the weighted average of published indices from two gas industry publications for the mainline trading points for each production basin in which the Utility Gas Procurement Department procures its gas supplies. It equals the product of pipeline and basin weights applied to pipeline and basin specific indices reported in each of the publications. Each weight equals the ratio of the actual gas purchased from a specific pipeline/basin to the total gas purchased during the month by the Utility Gas Procurement Department at the mainline. Since the Utility Gas Procurement Department's purchases from the Anadarko basin are minimal, these volumes are included in the Utility Gas Procurement Department's Permian purchases for purposes of developing weighting factors. If one publication does not report an index value for a specific pipeline/basin combination for a given month, the Mainline Gas Commodity Reference Price will use the corresponding index value from the other publication.

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(Continued)

C. GAS COST INCENTIVE MECHANISM (GCIM) METHODOLOGY (Continued)

6. Actual Total Annual Purchased Gas Costs (Continued)

c. Core gas sales will be used as a tool to reduce costs to core customers similar to other utilities and will be credited to actual gas commodity costs.

d. California Energy Hub (Hub) net revenues are included as a credit to the GCIM actual costs. On a monthly basis, the Hub net revenues are cleared from a separate Hub account and allocated to the PGA. The California Energy Hub and related tariffs will no longer be utilized by the Utility Procurement Department once the California Energy Hub operations are transferred to the System Operator pursuant to D.07-12-019.

e. Net revenues (after operating expenses) from secondary market transactions utilizing core assets, such as parks and loans, including secondary market transactions occurring prior to the transfer of the California Energy Hub operations to the System Operator, are included as a credit to the GCIM actual costs.

f. Imbalance charges incurred by the Utility Gas Procurement Department and net revenues that the Utility Gas Procurement Department receives for providing noncore standby and buy-back service will not be included in actual gas costs for GCIM calculations. Imbalance reports will be provided to the Commission as part of the monthly and annual GCIM reports.

g. Commodity cost refunds credited to the PGA are credited to the actual cost of gas in the month during which the Utility Gas Procurement Department receives the refund.

h. Surcharge adjustments to the core cost of gas are treated as an additional cost in the month during which the Utility Gas Procurement Department is billed. If the surcharge occurs due to adjustments across more than one incentive mechanism cycle, the monthly actual cost of gas will be recalculated to reflect any GCIM impacts.

i. Any prospective refunds, surcharges, penalties, liabilities, or adjustments to purchases made during the term of the GCIM, specifically in conjunction with existing long-term contracts, shall be included as actual gas costs and are not subject to subsequent reasonableness review absent fraud or abuse.

j. Seventy-five per cent of the gains and losses, including transaction costs, from all physical and financial transactions included in the SoCalGas/SDG&E winter hedging program (Winter Hedges) are excluded from the GCIM. Seventy-five per cent of the cost of Winter Hedges, and all resulting gains and losses, accrue to customers through entries to the PGA. Twenty-five per cent of the gains and losses, including transaction costs, from Winter Hedges, and 100% of the gains and losses, including transaction costs, from all physical and financial transactions other than Winter Hedges, are recorded in the PGA and included in GCIM actual commodity costs. Winter Hedges shall constitute the majority of the Utility Gas Procurement Department's hedging activities. T

(Continued)

PRELIMINARY STATEMENT
PART VIII
GAS COST INCENTIVE MECHANISM
(Continued)

C. GAS COST INCENTIVE MECHANISM (GCIM) METHODOLOGY (Continued)

k. Pursuant to Preliminary Statement, Part VI, Description of Regulatory Accounts - Memorandum, the Blythe Operational Flow Requirement Memorandum Account (BOFRMA) will record charges associated with the Utility Gas Procurement Department's purchasing and delivery of gas to sustain operational flows at Blythe. GCIM actual cost will be adjusted for charges or credits to the BOFRMA. Entries to this account, except for interest and amortization, along with related GCIM adjustments, ceased on April 1, 2009, the date the responsibility for managing minimum T
flow requirements for system reliability was transferred from the Utility Gas Procurement T
Department to the System Operator pursuant to D.07-12-019.

7. The Annual Storage Inventory target on November 1 is 79 Bcf of the physical gas supply, with an accepted variance of +5/-2 Bcf. This target does not include any park or net loan positions. If the November 1 target is not attained, deliveries must be made to insure that a minimum of 69 Bcf of actual physical gas in the core's inventory is reached by December 1. The January, February and March minimum month-end targets (equivalent to peak day minimums necessary for serving the core) must be met. Any deviation from these storage targets should be explained in SoCalGas' annual GCIM filing. SoCalGas has obtained agreement from DRA and TURN for a mid-season storage target of 51 Bcf as of July 31, 2009, which is a minimum storage level SoCalGas must meet unless otherwise agreed to by DRA and TURN. This target may include net loan positions.

8. Tolerance. To determine GCIM rewards or penalties, tolerance bands above or below the benchmark budget are used. Tolerance bands are calculated as a percentage of the monthly gas commodity portion of the benchmark budget and is added to or subtracted from the benchmark budget as "upper tolerance band" or "lower tolerance band" (sharing bands), respectively. The specific percentages are approved by the CPUC and may be redetermined in subsequent CPUC decisions (See Section 9).

9. Calculation of Rewards and Penalties Under GCIM

a. On an annual basis, actual total purchased gas costs are compared to the annual benchmark budget to determine if a reward/savings or penalty applies.

b. If actual total purchased gas costs for the incentive year are less than the annual benchmark budget, the difference constitutes a savings incentive to be shared between ratepayers and shareholders as defined by the Sharing Bands as follows:

Sharing Band	Ratepayer	Shareholder
0.0% -1.00%	100%	0%
1.00% - 5.00%	75%	25%
5.00% & Above	90%	10%

The shareholder reward will be capped at 1.5% of the actual annual gas commodity costs.

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The following listed sheets contain all effective Schedules of Rates and Rules affecting service and information relating thereto in effect on the date indicated thereon.

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