STATE OF CALIFORNIA EDMUND G. BROWN JR., *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

April 28, 2017

Advice Letter 4981

Ronald van der Leeden
Director, Regulatory Affairs
Southern California Gas Company
555 W. Fifth Street, GT14D6
Los Angeles, CA 90013-1011

SUBJECT: SoCalGas Gas Cost Incentive Mechanism 2016 Annual Storage Inventory Targets

Dear Mr. van der Leeden:

Southern California Gas Company (SoCalGas) Advice Letter (AL) 4981 is rejected without prejudice. The AL is not consistent with the guidance adopted by the Commission in D. 06-10-029. The mid-season minimum core purchased inventory target cannot be lowered to 25 Bcf for GCIM Year 23 unless SoCalGas has an agreement to that effect with ORA and TURN. SoCalGas' mid-season core storage target will be evaluated along with all of SoCalGas' core storage purchases in its Gas Cost Incentive Mechanism (GCIM) Year 23 (April 1, 2016 to March 31, 2017) proceeding to be filed at the conclusion of GCIM Year 23.

Background

On June 28, 2016, SoCalGas filed Advice Letter 4981 seeking approval to revise its Preliminary Statement, Part VIII, Gas Cost Incentive Mechanism (GCIM), to reflect a mid-season minimum core purchased inventory target of 25 Bcf for GCIM Year 23. The mid-season target reflects SoCalGas Core Gas Procurement Department's management and use of gas storage capacity dedicated to core customers within the context of the GCIM. As defined by D.07-12-019, SoCalGas' System Operator is responsible for the operation of its transmission system, including system reliability and storage. D.07-12-019 explicitly states that the System Operation functions exclude the Gas Procurement Department which is not involved in any of the system-related operational activities.

In a Joint Recommendation approved by Decision (D.) 06-10-029, Office of Ratepayer Advocate (ORA), The Utility Reform Network (TURN)[1] and SoCalGas agreed to changes in the storage capacity to benefit core customers. Historically, SoCalGas and ORA have reached agreement for the July 31 mid-season core purchased storage inventory target.[2] Previous Advice Letter filings where agreements had been reached were approved by the Energy Division.

The Joint Recommendation in D.06-10-029 contained five changes to the GCIM:

- The core's October 31 physical inventory storage target will change from 70 Bcf +5/-5 Bcf to 70 Bcf +5/-2 Bcf. This core physical inventory does not include any net park and net loan positions.
- If additional storage inventory capacity is allocated to SoCalGas' core beyond 70 Bcf, the core's October 31 physical inventory storage target will be increased by that amount.
- SoCalGas must obtain the consent of DRA and TURN to rely upon its secondary storage target.
- Unless otherwise agreed to by DRA and TURN, SoCalGas must have a minimum core-purchased inventory of 49 Bcf on July 31, 2006. This target may include net loan positions.
- For the years beyond 2006, SoCalGas will obtain agreement from DRA and TURN for mid-season core-purchased inventory targets which must be met unless otherwise agreed to by DRA and TURN. Each of these changes would be reflected in SoCalGas' GCIM tariff.

[1] In recent years, due to time constraints, TURN has been unable to participate in the review process for the mid-season storage target.

[2] In 2015, SoCalGas and ORA reached an agreement of 47 Bcf. As a result, SoCalGas Advice Letter 4806 was filed on May 15, 2015 and approved on June 19, 2015.

For SoCalGas GCIM Year 23 (which includes winter 2016-2017), due to the current limitations of the Aliso Canyon storage, SoCalGas recommends a mid-season core storage target of 25 Bcf. As such, SoCalGas proposes revisions to Section C.7 of its Preliminary Statement, Part VIII to reflect the change in the mid-season storage target.

Protests and Reply

On July 14, 2016, the Office of Ratepayer Advocates (ORA) filed a protest to AL 4981 arguing that it does not comply with D.06-10-029 or the intent of that decision. ORA acknowledges that the current Aliso Canyon gas storage facility situation has impacted the amount and availability of storage capacity in Southern California and thus limits SoCalGas' system storage availability. However, ORA argues that SoCalGas has not addressed the limitations of system storage and its implication for the mid-season target nor has SoCalGas provided any explanation or documentation to justify or support this lower mid-season target.

In its reply to the protest, SoCalGas agrees that its proposed mid-season storage target of 25 Bcf is below the level of physical inventory that SoCalGas could have achieved as a mid-season storage target, but does not agree that the target is too low.

Discussion

In light of SoCalGas' current storage and balancing situation due to the uncertainty of Aliso Canyon storage facility, Energy Division staff agrees that recent events on the SoCalGas system limit SoCalGas' ability to hold and use storage. Although SoCalGas has complied with D.06-10-029's requirement to reflect changes in the mid-season core-purchased inventory targets in the GCIM Preliminary Statement, SoCalGas has not reached an agreement with ORA on the actual mid-season storage target as required in the decision.

Energy Division staff agrees with ORA that SoCalGas' AL 4981 is not in compliance with D.06-10-029, but does not necessarily agree with ORA's interpretation of the decision's intent. Therefore, Energy Division staff is rejecting AL 4981 without prejudice. The current language in SoCalGas' GCIM Preliminary Statement should remain unchanged.[3] Any deviation from the storage targets should be explained and evaluated in SoCalGas' annual GCIM filing.

Sincerely,

Edward Randolph

Edward Randolph
Director, Energy Division

cc: Ray Ortiz, Tariff Manager, SoCalGas
Mark Pocta, ORA Program Manager
Nika Rogers, ORA

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[3] The current language in SoCalGas' GCIM Preliminary Statement states: The Annual Storage Inventory target on November 1 is 83 Bcf of the physical gas supply, with an accepted variance of +0/-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 ORA for a mid-season storage target of 47 Bcf as of July 31, 2015, which is a minimum storage level SoCalGas must meet unless otherwise agreed to by ORA and TURN. TURN was unable to participate in the review process for this most recent mid-season storage target due to time constraints. This target may include net loan positions.

Ronald van der Leeden
Director
Regulatory Affairs

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June 28, 2016

Advice No. 4981
(U 904 G)

Public Utilities Commission of the State of California

Subject: GCIM Mid-Season Storage Target

Southern California Gas Company (SoCalGas) hereby submits for approval by the California Public Utilities Commission (Commission) a revision to its Preliminary Statement, Part VIII, Gas Cost Incentive Mechanism (GCIM), as shown on Attachment A.

Purpose

Pursuant to Decision (D.) 06-10-029, SoCalGas is filing a revision to its Preliminary Statement, Part VIII, GCIM, to reflect a mid-season minimum core purchased inventory target of 25 Bcf for GCIM Year 23.

Information

SoCalGas filed Application (A.) 05-06-030 regarding Year 11 (2004-2005) of its GCIM in June of 2005. In D.06-10-029, the Commission approved A.05-06-030 along with a Joint Recommendation as negotiated by the Division of Ratepayer Advocates (DRA) now Office of Ratepayer Advocates (ORA), The Utility Reform Network (TURN), and SoCalGas. As part of this Joint Recommendation, SoCalGas is to obtain agreement from ORA and TURN for mid-season (July 31) core-purchased inventory targets. It was also recommended that each of these changes would be reflected in SoCalGas' GCIM Preliminary Statement. The Commission approved the Joint Recommendation in Ordering Paragraph 3 of D.06-10-029.

SoCalGas and ORA made good faith efforts to come to an agreement regarding a mid-season storage target for 2016, but were ultimately not able to reach an agreement. TURN was unable to participate in the review process for the mid-season storage target due to time constraints.

Due to the limited availability of system storage, SoCalGas is proposing a July 31, 2016 mid-season storage target of 25 Bcf. To reflect this 2016 mid-season target, the relevant portion of Section C.7 of SoCalGas' Preliminary Statement, Part VIII, GCIM would be revised as follows:

> 7. The Annual Storage Inventory target on November 1 is 83 Bcf of the physical gas supply, with an accepted variance of +0/-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' mid-season storage target is 25 Bcf as of July 31, 2016.** ~~SoCalGas has obtained agreement from ORA for a mid-season storage target of 47 Bcf as of July 31, 2015, which is a minimum storage level SoCalGas must meet unless otherwise agreed to by ORA and TURN. TURN was unable to participate in the review process for this most recent mid-season storage target due to time constraints.~~ This target may include net loan positions.

This filing will not result in an increase or decrease in any rate or charge, conflict with any rate schedules or rules, or cause the withdrawal of service.

Protest

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, which is July 18, 2016. 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
Attention: 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 the Energy Division Tariff Unit (EDTariffUnit@cpuc.ca.gov). A copy of the protest shall 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) pursuant to General Order (GO) 96-B. Therefore, SoCalGas respectfully requests that this Advice Letter be approved on July 28, 2016, which is 30 calendar days after the date filed.

Notice

A copy of this Advice Letter is being sent to SoCalGas' GO 96-B service list and the Commission's service list in A.15-06-011, SoCalGas' GCIM Year 21. Address change requests to the GO 96-B should be directed by electronic mail to tariffs@socalgas.com or call 213-244-3387. For changes to all other service lists, please contact the Commission's Process Office at 415-703-2021 or by electronic mail at Process_Office@cpuc.ca.gov.

Ronald van der Leeden
Director – Regulatory Affairs

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 904G)**

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) #: 4981

Subject of AL: GCIM Mid-Season Storage Target

Keywords (choose from CPUC listing): Storage

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

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #:
D.06-10-029

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL No. N/A

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: 7/28/16   No. of tariff sheets: 3

Estimated system annual revenue effect: (%): N/A

Estimated system average rate effect (%): N/A

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 TOCs

Service affected and changes proposed[1]: N/A

Pending advice letters that revise the same tariff sheets: N/A

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:

CPUC, Energy Division	**Southern California Gas Company**
Attention: Tariff Unit	**Attention: Sid Newsom**
505 Van Ness Ave.,	**555 West 5th Street, GT14D6**
San Francisco, CA 94102	**Los Angeles, CA 90013-1011**
EDTariffUnit@cpuc.ca.gov	**SNewsom@semprautilities.com**
	Tariffs@socalgas.com

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

ATTACHMENT A
Advice No. 4981

Cal. P.U.C. Sheet No.	Title of Sheet	Cancelling Cal. P.U.C. Sheet No.
Revised 52732-G	PRELIMINARY STATEMENT, PART VIII, GAS COST INCENTIVE MECHANISM, Sheet 5	Revised 51525-G
Revised 52733-G	TABLE OF CONTENTS	Revised 52720-G
Revised 52734-G	TABLE OF CONTENTS	Original 52590-G

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 flow requirements for system reliability was transferred from the Utility Gas Procurement Department to the System Operator pursuant to D.07-12-019.

7. The Annual Storage Inventory target on November 1 is 83 Bcf of the physical gas supply, with an accepted variance of +0/-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' mid-season storage target is 25 Bcf as of July 31, 2016. This target may include net loan positions. D,T

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.

(Continued)

TABLE OF CONTENTS

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.

(Continued)

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PRELIMINARY STATEMENT (Continued)