Docket	:	A.14-06-009
Exhibit Number	:	
Commissioner	:	Michael Peter Florio
Admin. Law Judge	:	Julie Halligan

OFFICE OF RATEPAYER ADVOCATES
California Public Utilities Commission

MONITORING AND EVALUATION REPORT

Southern California Gas Company's Gas Cost Incentive Mechanism

April 1, 2013 through March 31, 2014
GCIM Year 20

Application 14-06-009

San Francisco, California
November 14, 2014

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Chapter

CHAPTER 1

SUMMARY AND RECOMMENDATIONS

1.1 Introduction and Summary

On June 13, 2014, the Southern California Gas Company (SoCalGas) submitted its Gas Incentive Cost Mechanism (GCIM) Year Twenty (Year 20) Application (A.) 14-06-009. SoCalGas reports on results for the twelve month gas procurement operation ending March 31, 2014. The Office of Ratepayer Advocates (ORA) performed an audit and evaluation of the documents submitted by SoCalGas of its GCIM Annual Report. The details and results of ORA's review are presented in Chapter 2 of this GCIM Monitoring and Evaluation Report. ORA's evaluation verifies SoCalGas' recorded gas costs were $70,397,961 below the benchmark, which resulted in savings for ratepayers. ORA confirmed that SoCalGas' recorded costs were below the lower tolerance band, which results in a reward of $13,710,059 to SoCalGas' shareholders and a ratepayer benefit of $ 56,687,902.

The Monitoring and Evaluation Report evaluates the SoCalGas GCIM computations, Purchase Gas Account (PGA), and SoCalGas' performance under the GCIM mechanism. Table 1-1 below summarizes SoCalGas' Year 20 performance, which is based on detailed GCIM monthly reports of core commodity transaction activities.

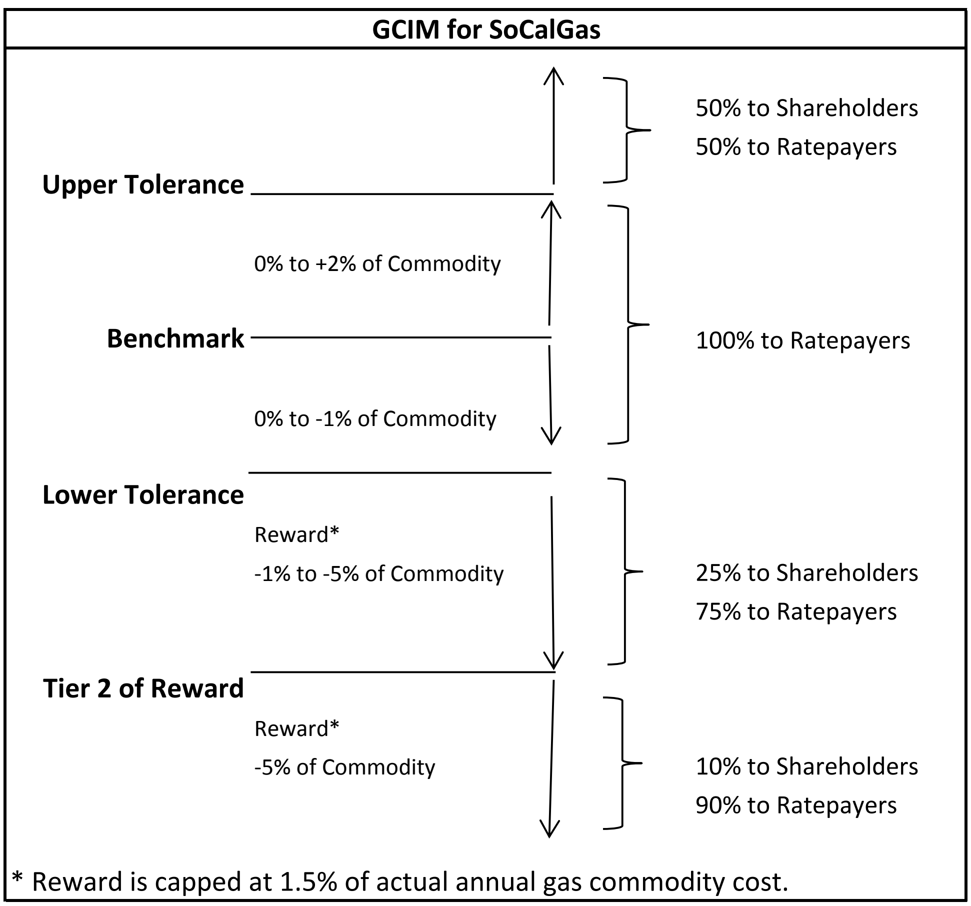
Table 1-1

Summary of GCIM Year 20 Performance ($ Millions)		
1	Benchmark Costs	1,737.21
2	Actual Costs	1,666.82
3	GCIM Total Savings	70.40
4	Ratepayer Savings	56.69
5	Shareholder Computed Reward	13.71

1.2 Background

The objective of the GCIM is to provide an incentive for reducing natural gas procurement costs, as well as related costs such as transportation, storage capacity, financial hedging, and retail core gas sales. This incentive mechanism is used as a ratemaking tool that is designed to increase efficiency in administering regulatory controls. It provides a framework for the utility in the form of a benchmark that is used to determine whether actual purchase costs are within a stated range referred to as a tolerance band. If SoCalGas' actual costs, as measured against the GCIM benchmark, were between the upper and lower range limitations of the tolerance band, there is no shareholder penalty or reward for the GCIM period. If actual gas costs fall outside the tolerance band, ratepayers and SoCalGas' shareholders share the gains or losses that occur outside the tolerance band. Detailed results of the tolerance band calculation are reported in Chapter 2 of this Report.

The following is a graphical view of how the tolerance band functions in determining the shared costs for SoCalGas' shareholder and ratepayers:



The upper limit of the tolerance band is set at two percentage points above the benchmark commodity costs and the lower limit of the tolerance band is set at one percentage point below this benchmark. When SoCalGas actual costs fall within this tolerance band, the benefits or losses accrue to the ratepayers account.[1]

In cases where actual costs fall outside the tolerance band, the benefits or losses are shared between shareholders and ratepayers. The amounts of these benefits or losses are based on whether the actual costs are outside the upper or lower limits of the tolerance band. For example, if actual costs were to exceed the upper two-percent (2%) tolerance limit, the excess costs are shared 50-50 between ratepayers and shareholders. If actual costs are below the benchmark commodity costs and between the lower one-percent (1%) tolerance limit and the five-percent (5%) range, this would produce savings that are shared at twenty-five percent (25%) for shareholders and seventy-five percent (75%) for ratepayers. If actual costs are more than five percentage points below the benchmark commodity costs, the savings are shared as ninety-percent (90%) savings for ratepayers and a ten-percent (10%) reward for shareholders. The SoCalGas reward is capped at 1.5% of actual commodity costs.

Commission Decision (D.) 94-03-076 originally approved the GCIM program, with subsequent changes and extensions that essentially enhanced the current program incentives. Most recently, D.10-01-023 changed the treatment of winter hedging costs by allowing twenty-five percent (25%) of net hedging gains and losses relating to winter gas purchases to flow through to the GCIM calculation, and seventy five percent (75%) of costs to be passed through directly to core customers.

1.3 GCIM Summary

To provide a historical perspective, Table 1-2 provides a summary of GCIM results over the past five years. ORA's supporting calculations for Year 20 are described in Chapter 2 of this Report.

[1] D.02-06-023 at p. 4 (dated June 6, 2002).

Table 1-2

GCIM Year	Period	Total Cost Savings ($ Millions)	Ratepayer Savings ($ Millions)	Shareholder Reward ($ Millions)
16	2009-2010	39.9	33.9	6.0
17	2010-2011	40.9	34.7	6.2
18	2011-2012	37.5	32.1	5.4
19	2012-2013	34.7	28.9	5.8
20	2013-2014	70.4	56.7	13.7

1.4 Natural Gas Storage

To ensure dedicated core storage capacity, Commission Decision D.06-10-029 allows SoCalGas to revise its Preliminary Statement, Part VIII, and GCIM, to reflect changes in mid-season minimum core inventory targets.[2] Prior to making a revision, SoCalGas is required to seek agreement from ORA and The Utility Reform Network (TURN) to make these changes. SoCalGas filed Advice Letter 4493, and obtained agreement from ORA and TURN for mid-season minimum storage target of 47 Bcf as of July 31, 2013, and a winter season target for October 31, 2013 of 83 +0/-2 Bcf. In Chapter 2, ORA provides a review of minimum targets to actual capacity holdings. The results show SoCalGas met the mid-season and winter season minimum core inventory storage targets.

In D.08-12-020, the Commission adopted the Phase One Settlement Agreement dated August 22, 2008[3], which eliminates the upper tolerance for core storage by combining San Diego Gas & Electric Company's (SDG&E) and SoCalGas' balancing requirements in order provide sufficient storage for core and noncore customers in southern California. As of April 1, 2009, SoCalGas implemented the core balancing requirements. For this reporting period, SoCalGas reported no core imbalance charges.

[2] Advice Letter 4493, Effective May 15, 2013

[3] D.08-12-020, Decision Regarding the Phase One Issues and the Motion to Adopt the Settlement Agreement, (dated Dec. 2, 2008)

1.5 Financial Hedging in GCIM Year 20

Pursuant to D.10-01-023, Ordering Paragraph 5, starting in April 2010, SoCalGas did not need to file the Winter Hedging Plan Report, instead they include 25% of winter hedge transactions in the GCIM. ORA reviewed the SoCalGas financial derivatives gains and losses including all minimum hedge requirements, based on the methodology described in Chapter 2 (Sections 2.10 and 2.11) and Commission policies and practices.

In GCIM Year 20, SoCalGas performed its winter hedging based on a ratio of twenty-five percent (25%) of all net gains and losses, which were included in the GCIM. The remaining seventy-five (75%) were excluded from the GCIM mechanism, which result in costs passed through to core customers.

In addition to core winter hedges, SoCalGas transacted non-winter hedges. During this period, SoCalGas' non-winter hedges resulted in losses of $596,095.14 which was included in the GCIM.[4] Table 1-3 shows the results of SoCalGas' hedging activities for the most recent five-year period.

Table 1-3

GCIM Year	Losses/(Gains) outside the GCIM ($Millions)	Losses/(Gains) inside the GCIM ($Millions)	Total Hedging Losses/(Gains) ($Millions)
16	8.92	4.82	13.74
17	3.11	2.30	5.41
18	1.00	0.30	1.30
19	0.75	0.25	1.00
20	(1.18)	.20	0.98

1.6 Interstate Capacity

The Commission established interstate pipeline contract approval procedures for SoCalGas, SDG&E, and Pacific Gas and Electric Company in D.04-09-022 for an initial period of five years.[5] These procedures included authorized capacity planning ranges to provide flexibility in meeting its regional market demands and regulatory compliance

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[4] As discussed in Section 2.10 below, regarding "Financial Derivatives Included in the GCIM."

[5] Ordering Paragraph 2 in D.04-09-022.

requirements pertaining to their respective Biennial Cost Allocation Proceedings (BCAP) or advice letter filings.[6]

In accordance with the capacity guideline procedures adopted in D.04-09-022, SoCalGas, ORA, TURN, and the Energy Division conduct on-going discussions regarding interstate capacity requirements and SoCalGas' acquisition of interstate capacity. ORA serves as a resource for addressing compliance issues that have an impact on acquisition and/or reduction of interstate capacity.

Effective October 12, 2012, Advice Letter 4402 addresses SoCalGas' capacity planning range for its combined gas portfolio with SDG&E for its winter and non-winter requirements. The updated minimum capacity for non-winter requires 948.1 MDth/d, and maximum capacity of 1,264.2 MDthd. For winter, the combined portfolio minimum capacity is 1053.5 MDth/d and maximum capacity is 1,264.2 MDth/d.

The results reported by SoCalGas for actual monthly activity of its core firm transportation capacity holdings, shows the utility met the minimum capacity requirements established in D.04-09-022 in GCIM Year Twenty. The reported capacity holdings varied from of minimum of 948.2 MDth/d to maximum of 1,115.8 MDth/d during the period.[7]

1.7 Secondary Market Services Transactions

Secondary Market Services (SMS) produce revenues from core gas supplies and resources not needed for reliability requirements. SoCalGas meets this regional market demand, while simultaneously applying these revenues to directly offset core commodity costs. As a result, this reduces core gas costs, which achieve SoCalGas' primary objectives of ensuring supply and service reliability at a low cost.[8]

For the reporting period, SoCalGas shows net SMS revenues in the GCIM of $9,483,684.[9] These revenues offset part of the gas cost and provide SoCalGas the ability to lower its core commodity costs.

[6] Conclusion of Law 6 in D.04-09-022.

[7] See discussion in Section 2.14 below.

[8] See A.12-06-005, at pp. 3-4.

[9] See discussion in Section 2.12 of Chapter 2 below.

1.8 Conclusion

ORA verified total savings of $70,397,961 for GCIM Year 20. ORA recommends a shareholder reward to SoCalGas in the amount of $13,710,059 for GCIM Year 20 to be recovered through its Purchased Gas Account. ORA confirmed ratepayer benefits in the amount of $56,687,902 in GCIM Year 20. About 81% of the total savings occurred during the winter period.[10] Due to the cold weather across most of the United States, producing regions experienced price spikes while Southern California experienced a record warm winter. SoCalGas was able to sell their unused supplies and met the core demand at the same time. ORA will continue monitoring and evaluating the GCIM and collaborate with SoCalGas and other parties to identify any modifications needed to enhance GCIM effectiveness. SoCalGas and ORA agree to present any proposed changes of the GCIM to the Commission for approval.

[10] A.14-06-009, "Master Data Request of the ORA on the Application of Southern California Company's Year 20 GCIM, April, 2013-March, 2014."

CHAPTER 2
MONITORING AND EVALUATION AUDIT

2.1 ORA’s GCIM Reward Evaluation

On June 13, 2014, SoCalGas filed the Gas Cost Incentive Mechanism (GCIM) Year 20 Application (A.) 14-06-009, which reports core gas procurement results for the period April 1, 2013 through March 31, 2014. ORA conducted a review and evaluation of SoCalGas’ accompanying annual report. The results from this evaluation include work papers from its compilations, which are incorporated as exhibits in Appendix A.

ORA's evaluation of SoCalGas’ GCIM performance for the year ending March 31, 2014, shows total savings in gas costs of $70,397,961. These savings are based on the difference between the actual costs of gas of $1,666,818,834 and the GCIM benchmark market index of $1,737,216,795. These savings are shared between ratepayers and SoCalGas shareholders. ORA has confirmed that the GCIM sharing mechanism results in ratepayer savings of $56,687,902 and a shareholder reward of $13,710,059. Table 2-1 shows ORA’s summary of the SoCalGas GCIM savings for Year 20 based on the calculated tolerance band levels shown in Table 2-2 and GCIM benchmark dollars.

TABLE 2-1 Southern California Gas Company GCIM Year 20 Reward Calculation April 1, 2013 Through March 31, 2014		
		SCG Annual Report
GCIM Year 20 Annual Report: Total Savings Below Benchmark		**$ 70,397,961**
Amount of Lower Tolerance Band Not Subject to Sharing (0%-1%)		**$ 15,557,726**
Ratepayers' share:		**$ 15,557,726**
Amount Subject to 75%-25% Sharing (1%-5%)		**$ 54,840,235**
Ratepayers' share: 75%	**75%**	**$ 41,130,176**
Shareholders' share: 25%	**25%**	**$ 13,710,059**
Amount Subject to 90%/10% Sharing (> 5%)		**$ -**
Ratepayers' share: 90%	**0%**	**$ -**
Shareholders' share: 10%	**0%**	**$ -**
Cap on Shareholder Rewards = 1.5% of commodity costs:		
Total Commodity costs:		**$ 1,485,374,672**
Shareholder Reward Cap:	**1.50%**	**$ 22,280,620**
Total Ratepayers' Share:		**$ 56,687,902**
Total Shareholders' Share:		**$ 13,710,059**
Total Savings:		**$ 70,397,961**

2.2 Summary of Benchmark and Actual Costs

Table 2-2 shows an annual summary of monthly gas commodity costs that is the basis for the 1.5% cap of the shareholder reward shown in Table 2-1. The calculated tolerance bands and the related actual commodity cost of gas are measured annually against a benchmark. The benchmark is based on the prevailing published natural gas price indices for gas delivered from the mainline to the California border. See Exhibits 2-7 and 2-7a for Border and Mainline Index Price.

TABLE 2-2
Southern California Gas Company
Tolerance Band Review GCIM Year 20
April 1, 2013 Through March 31, 2014

Month	Benchmark Dollars	Actual Dollars	(Over)/Under Benchmark	Upper Tolerance 2%	Lower Tolerance 1%	Lower Tolerance 5%	Actual Commodity Cost
Apr-13	$ 147,177,549	$ 145,516,367	$ 1,661,181	$ 2,667,924	$ 1,333,962	$ 6,669,810	$ 131,735,009
May-13	$ 156,480,264	$ 154,493,779	$ 1,986,485	$ 2,844,274	$ 1,422,137	$ 7,110,684	$ 140,227,204
Jun-13	$ 164,634,160	$ 161,630,881	$ 3,003,279	$ 3,008,347	$ 1,504,174	$ 7,520,868	$ 147,414,077
Jul-13	$ 113,800,094	$ 112,256,547	$ 1,543,547	$ 1,994,032	$ 997,016	$ 4,985,079	$ 98,158,036
Aug-13	$ 132,715,494	$ 130,312,278	$ 2,403,216	$ 2,392,730	$ 1,196,365	$ 5,981,825	$ 117,233,283
Sep-13	$ 97,421,533	$ 96,291,170	$ 1,130,364	$ 1,673,225	$ 836,612	$ 4,183,061	$ 82,530,863
Oct-13	$ 119,581,980	$ 118,025,954	$ 1,556,026	$ 2,108,987	$ 1,054,493	$ 5,272,467	$ 103,893,319
Nov-13	$ 122,181,889	$ 120,657,622	$ 1,524,267	$ 2,087,740	$ 1,043,870	$ 5,219,350	$ 102,862,730
Dec-13	$ 112,523,583	$ 102,730,168	$ 9,793,415	$ 1,911,670	$ 955,835	$ 4,779,174	$ 85,790,068
Jan-14	$ 197,892,119	$ 191,385,932	$ 6,506,187	$ 3,620,748	$ 1,810,374	$ 9,051,870	$ 174,531,208
Feb-14	$ 142,314,234	$ 113,810,226	$ 28,504,008	$ 2,539,275	$ 1,269,637	$ 6,348,187	$ 98,459,723
Mar-14	$ 230,493,895	$ 219,707,910	$ 10,785,984	$ 4,266,503	$ 2,133,251	$ 10,666,257	$ 202,539,153
Total	**$1,737,216,795**	**$1,666,818,834**	**$70,397,961**	**$31,115,453**	**$15,557,726**	**$77,788,632**	**$1,485,374,672**

2.3 Review of Benchmark Volumes and Market Costs

Table 2-3 shows the components of mainline and border dollar costs. ORA reviewed GCIM Year 20 records, which show total benchmark gas costs of $1,555,772,633. These costs consist of mainline benchmark commodity costs of $1,352,605,786 and benchmark border commodity market costs of $203,166,847. Border costs are calculated by the Southern California border costs of $88,844,179, and SoCalGas City-Gate $114,322,668.

The total benchmark market costs include flow through costs of volumetric interstate transportation of $7,117,326 and interstate capacity reservation charges of $174,326,836 plus the mainline benchmark commodity cost of $1,555,772,633 for a total of $1,737,216,795.

TABLE 2-3 Southern California Gas Company Benchmark Dollar Components GCIM Year 20 April 1, 2013 Through March 31, 2014		
		Benchmark Dollars
Annual Report:		
Mainline Benchmark Costs		**$ 1,352,605,786**
Southern California Border Costs	**88,844,179**	
SoCalGas City-Gate Commodity Costs	**114,322,668**	
PG&E Topock/City-Gate Costs	**-**	
Sub-Total Border Benchmark Commodity Costs		**$ 203,166,847**
Total Benchmark Commodity Costs		**$ 1,555,772,633**
Flow-Through Costs:		
Transport Costs from Mainline:		**$ 7,117,326**
Benchmark Reservation Charges:		**174,326,836**
Total Benchmark Market Costs:		**$ 1,737,216,795**

ORA's Table 2-3A shows the net total benchmark purchase volume is 391,473,850 MMBtus. This net total benchmark purchase volume consists of 346,917,111 in net mainline purchase volumes, plus 19,987,368 MMBtus in benchmark border volumes and 24,569,371 MMBtus in benchmark citygate volumes. The actual transported volume at 382,459,667 MMBtus is the actual total purchase volume that SoCalGas received during the period. A difference of 9,014,183 MMBtus or 2.30% was noted between the net benchmark purchase and actual transported volume. This difference is referred to as shrinkage volume, which represents uses and losses in gas during transportation of natural gas.

TABLE 2-3A Southern California Gas Company Benchmark Market Volumes (In MMBtus) GCIM Year 20 April 1, 2013 through March 31, 2014					
Month Year	Benchmark Mainline Volumes	Benchmark Border Volumes	Benchmark Citygate Volumes	Net Total Benchmark Volumes	Actual Transported Volumes
Apr-13	23,257,014	6,237,917	4,630,955	34,125,886	33,536,143
May-13	29,182,346	1,955,436	4,473,609	35,611,391	34,916,156
Jun-13	28,641,402	1,674,344	7,054,183	37,369,929	36,660,040
Jul-13	30,161,044	(1,168,355)	(404,090)	28,588,599	27,847,841
Aug-13	30,431,600	(906,507)	5,090,107	34,615,200	33,857,352
Sep-13	28,782,829	1,504,658	(4,540,506)	25,746,981	25,004,664
Oct-13	28,176,861	2,083,917	1,312,652	31,573,430	30,824,231
Nov-13	32,450,157	(95,591)	(2,362,075)	29,992,491	29,192,549
Dec-13	29,563,130	293,093	(2,794,801)	27,061,422	26,295,738
Jan-14	29,391,550	3,324,806	8,346,543	41,062,899	40,197,407
Feb-14	24,128,779	1,055,172	673,232	25,857,183	25,158,711
Mar-14	32,750,399	4,028,478	3,089,562	39,868,439	38,968,835
Total:	346,917,111	19,987,368	24,569,371	391,473,850	382,459,667

Benchmark Vol (MMBtus)	391,473,850
Less: Actual Transported Vol	382,459,667
Shrinkage	9,014,183

2.4 Actual Gas Costs and Volumes

As shown in Table 2-4, ORA examined the actual gas costs which consists of mainline gas purchases; border net and city gas purchases; revenues from gas sale; other revenues and costs; interstate volumetric transportation costs; and reservation capacity charges. Results show re-calculated costs to be consistent and are also supported by SoCalGas documentation. ORA confirmed the mainline pipeline purchases of $1,538,398,494 and border pipeline and city gate purchases of $355,541,734 for an aggregate total of $1,893,940,228 with total purchase volume of 479,913,788 MMBtus.

Gas commodity costs for purposes of gas sales are deducted from core purchases, which results in total commodity costs of $1,485,374,672. The adjustments to purchases include Secondary Market Service Revenues of $9,483,684 and losses from GCIM financial derivative transactions of $200,850 that are included as part of actual commodity costs.

The net revenues from secondary market transactions using core assets, such as parks and loans, are included as a credit to actual commodity costs.[11] The gross revenues of $10,579,053 were adjusted for related operating overhead costs of $1,095,368, resulting in net revenues of $9,483,684.

ORA's calculations verify SoCalGas' interstate volumetric transportation costs of $7,117,326 and firm reservation capacity charges of $174,326,836. These costs are added to the total commodity costs of $1,485,374,672 in arriving at the actual gas cost of $1,666,818,834 as shown in Table 2-4.

A review of mainline purchase volume required adjusting volume sales of 47,613,990 MMBtus (Table 2-4) to mainline volume of 394,531,101 MMBtus and the border and citygate purchases of 85,382,687 MMBtus were also adjusted for sales volume from the SoCal Border of 16,335,648 MMBtus and SoCal City-Gate of 24,490,300 MMBtus to arrive at the total net volume for the reporting period of 391,473,850 MMBtus.

[11] Advice Letter 4089 filed March 22, 2010, and effective April 21, 2010.

TABLE 2-4
Southern California Gas Company
Actual Gas Costs Components
GCIM Year 20
April 1, 2013 through March 31, 2014

Mainline Commodity Purchases	Volumes		Dollars
El Paso Permian	84,788,918	$	333,104,859
El Paso San Juan	95,321,881		369,176,663
Transwestern Permian	3,751,250		14,958,300
Transwestern San Juan	95,169,990		376,334,830
Kern River Pipeline	85,974,999		336,633,385
Enterprise-Waha	9,286,672		39,806,696
NOVA-AECO/NIT	20,192,391		68,095,717
GTN: Kingsgate/Malin/Stanfield	45,000		288,042
Total Mainline	394,531,101	$	1,538,398,494
Border and City Gate Purchases			
Border	36,323,016	$	149,388,822
SoCalGas-City Gate	49,059,671		206,152,912
Total Border	85,382,687	$	355,541,734
Total Mainline and Border Purchase	479,913,788	$	1,893,940,228
Gas Sales (deducting)			
Mainline	(47,613,990)	$	(225,012,894)
Border	(16,335,648)		(67,037,130)
SoCalGas- City Gate	(24,490,300)		(107,232,698)
Total Gas Sales	(88,439,938)	$	(399,282,722)
Other Revenues/Costs			
Net Secondary Market Revenue:		$	(9,483,684)
GCIM Derivative Transactions			200,850
Total Other Revenues/Costs		$	(9,282,834)
Total Commodity Costs		$	1,485,374,672
Interstate Reservation and Volumetric Transport Cost			
Interstate Volumetric Transport Costs		$	7,117,326
Reservation Charges			174,326,836
Total Related Commodity Costs		$	181,444,162
Total Volume and Costs	391,473,850	$	1,666,818,834

2.5 Mainline and Border Gas Sales

Table 2-5 provides a breakdown by pipeline for SoCalGas' gas sales. In addition, a compilation of gas sales and volume for the period is shown in Exhibit 2-1g and Exhibit 2-2d.

According to SoCalGas' Gas Acquisition team,[12] due to the persistently cold weather across the U.S. and a warm winter in Southern California, SoCalGas was able to sell gas at higher prices while still meeting the demand of Southern California.

SoCalGas reported gas purchases and sales transactions with affiliate San Diego Gas & Electric Company and SoCalGas Capacity Products. SoCalGas reports all purchases and sales were completed through arm's length transactions via brokerage firms. It was disclosed there were no Secondary Market Services (SMS) and financial transactions with existing affiliates during GCIM Year 20.

Southern California Gas Company
Table 2-5
Summary of Mainline and Border Sales
GCIM Year 20
April 1, 2013 - March 31, 2014

Mainline Pipelines		Sales	Volume (MMBtus)
El Paso Permian	$	(71,095,707)	(17,210,942)
El Paso San Juan		(31,832,325)	(7,310,324)
Transwestern Permian		(9,980,373)	(2,233,111)
Transwestern San Juan		(40,731,916)	(7,631,266)
Kern River		(45,730,747)	(8,247,920)
Enterprise Waha		(4,417,163)	(864,247)
NOVA-AECO		(7,900,214)	(1,558,506)
GTN-Kingsgate		(284,993)	(30,000)
GTN Stanfield		(4,089,474)	(511,997)
GTN Malin		(8,949,982)	(2,015,677)
Total Mainline	**$**	**(225,012,894)**	**(47,613,990)**

Border Pipelines		Sales	Volume (MMBtus)
Border	**$**	**(67,037,130)**	**(16,335,648)**
SoCal City-Gate		**(107,232,698)**	**(24,490,300)**
Total Border	**$**	**(174,269,828)**	**(40,825,948)**
Total Sales to Volume	**$**	**(399,282,722)**	**(88,439,938)**

2.6 Interstate Volumetric Transport Costs

The volumetric transport costs are variable costs, which is based on the volume of interstate pipeline gas supplies delivered at SoCal Border. The total interstate volumetric transportation costs for GCIM Year 20 are shown in Table 2-6.

[12] A.14-06-009, Southern California Gas Company: Master Data Request of the ORA for Application of Southern California Gas Company's Year 20 GCIM.

The summary of actual pipeline commodity transported costs show El Paso transport costs of $5,352,474; Transwestern costs of $1,112,415; Kern River costs of $397,361; Canadian Path cost of $251,096; and Waha cost of $3,980. Total aggregate volumetric transport costs for the period were $7,117,326.

Table 2-6
Southern California Gas Company
Summary of Actual Pipeline Commodity Transport Costs
GCIM Year 20
April 1, 2013 Through March 31, 2014

Month/ Year	El Paso Transport	Trans-Western	Kern River	Canadian Path	Waha	Mojave	Total Transport Costs
Apr-13	$ 395,867	$ 49,163	$ 34,841	$ 20,967	$ -	$ -	**$ 500,837**
May-13	432,573	92,530	39,085	22,550	$ -	$ -	**$ 586,738**
Jun-13	425,832	86,998	39,557	22,876	$ -	$ -	**$ 575,263**
Jul-13	442,119	101,882	38,987	22,878	$ -	$ -	**$ 605,866**
Aug-13	444,105	101,313	39,003	23,280	$ -	$ -	**$ 607,700**
Sep-13	425,243	94,397	37,270	22,718	$ -	$ -	**$ 579,629**
Oct-13	432,443	91,523	28,405	19,991	$ -	$ -	**$ 572,361**
Nov-13	479,493	114,454	32,741	21,226	$ -	$ -	**$ 647,914**
Dec-13	521,357	74,686	33,875	18,707	$ -	$ -	**$ 648,625**
Jan-14	440,902	104,681	26,029	23,194	$ -	$ -	**$ 594,807**
Feb-14	422,633	83,402	16,079	12,700	$ -	$ -	**$ 534,814**
Mar-14	489,907	117,387	31,490	20,009	$ 3,980	$ -	**$ 662,773**
Total	**$ 5,352,474**	**$ 1,112,415**	**$ 397,361**	**$ 251,096**	**$ 3,980**	**$ -**	**$ 7,117,326**

2.7 Interstate Reservation Charges

Table 2-7 shows monthly reservation charges by pipeline. The Pipeline reservation charges were El Paso charges of $51,921,286; Transwestern charges of $28,115,850; Kern River charges of $29,796,797; Canadian Path charges of $14,876,190 and Northwest pipeline of $4,000. Backbone Transportation Service (BTS) is the new name that replaces Firm Access Rights (FAR) for capacity contracting. The procedures for contracting continue to operate the same in those interstate purchase contracts, which enable a supplier access rights into the SoCalGas system at a specified receipt point throughout the year. Backbone Transport Service contracts were $49,612,713. The total overall reservation charges for the period are $174,326,836.

Table 2-7
Southern California Gas Company
Summary of Reservation Charges By Pipeline
GCIM Year 20
April 1, 2013 - March 31, 2014

Month	El Paso Pipeline	Transwestern Pipeline	Kern River	Canadian Path	Mojave	Northwest Pipeline	Backbone Transportation Service	Total Reservation Charges
Apr-13	$ 3,580,139	$ 2,133,000	$ 2,501,371	$ 1,239,694	$ -	$ -	$ 3,826,316	**$13,280,521**
May-13	$ 3,578,736	$ 2,204,100	$ 2,533,659	$ 1,257,288	$ -	$ -	$ 4,106,054	**$13,679,837**
Jun-13	$ 3,583,521	$ 2,133,000	$ 2,467,558	$ 1,234,724	$ -	$ -	$ 4,222,738	**$13,641,541**
Jul-13	$ 3,593,101	$ 2,250,900	$ 2,533,659	$ 1,249,411	$ -	$ -	$ 3,865,575	**$13,492,645**
Aug-13	$ 2,558,734	$ 2,283,150	$ 2,533,659	$ 1,249,207	$ -	$ -	$ 3,846,545	**$12,471,295**
Sep-13	$ 3,614,695	$ 2,133,000	$ 2,451,928	$ 1,251,928	$ -	$ -	$ 3,729,127	**$13,180,678**
Oct-13	$ 3,575,500	$ 2,204,100	$ 2,561,502	$ 1,269,149	$ -	$ -	$ 3,950,024	**$13,560,274**
Nov-13	$ 6,596,927	$ 2,538,000	$ 2,421,268	$ 1,246,035	$ -	$ -	$ 4,344,749	**$17,146,979**
Dec-13	$ 5,851,625	$ 2,622,600	$ 2,501,977	$ 1,258,472	$ -	$ 4,000	$ 4,052,802	**$16,291,475**
Jan-14	$ 5,133,832	$ 2,622,600	$ 2,511,649	$ 1,228,001	$ -	$ -	$ 4,763,836	**$16,259,918**
Feb-14	$ 5,189,213	$ 2,368,800	$ 2,276,594	$ 1,169,921	$ -	$ -	$ 3,811,161	**$14,815,689**
Mar-14	$ 5,065,263	$ 2,622,600	$ 2,501,977	$ 1,222,361	$ -	$ -	$ 5,093,784	**$16,505,985**
Totals	**$ 51,921,286**	**$ 28,115,850**	**$ 29,796,797**	**$ 14,876,190**	**$ -**	**$ 4,000**	**$ 49,612,713**	**$ 174,326,836**

2.8 Interstate Pipeline Utilization

In D.04-09-022, the Commission required tracking a pipeline's utilization of capacity usage. This allows monitoring by ORA, TURN, and the Commission's Energy Division in collaboration with SoCalGas on a bi-weekly basis via teleconference meetings.

Table 2-8 provides an overview of SoCalGas' nominated capacity. Total core capacity was 473,301,344 MMBtus and nominated capacity was 433,340,916 MMBtus. The difference is the unutilized capacity of 39,960,428 MMBtus, which is adjusted from core capacity.

Regarding the interstate pipelines, SoCalGas reports El Paso at 97.0% capacity; Foothills Pipeline, Ltd at 94.3%; Gas Transmission Northwest Corp. at 94.8%; Kern River Gas Transmission at 89.9%; NOVA at 94.5% (Canadian Path); Northwest Pipeline at 0%; Pacific Gas and Electric pipeline at 82.0% (Malin); and Transwestern Pipeline Company at 86.3%. The capacity cut of 2,421,933 MMBtus, is subtracted from nominated capacity, which results in actual volume received of 430,918,983 MMBtus.

TABLE 2-8
Cumulative Core Capacity Utilization By Pipeline (In MMBtus)
GCIM Year 20
April 1, 2013 through March 31, 2014

Pipeline	Core Capacity	Less: Nominated Capacity	Unutilized Capacity	Capacity Utilization Percentage	Nominated Capacity	Actual Volumes Received	Capacity Cut
El Paso Natural Gas Co	167,381,217	162,381,276	4,999,941	97.0%	162,381,276	160,988,626	1,392,650
Foothills PipeLines Ltd	19,644,264	18,522,872	1,121,392	94.3%	18,522,872	18,443,618	79,254
Gas Trans Northwest Corp	19,165,420	18,161,710	1,003,710	94.8%	18,161,710	18,081,312	80,398
Kern River Gas Trans Co	84,821,172	76,254,298	8,566,874	89.9%	76,254,298	76,037,633	216,665
NOVA Gas Trans Ltd	19,804,091	18,707,853	1,096,238	94.5%	18,707,853	18,707,728	125
Northwest Pipeline LLC	80,000	-	80,000	0.0%	-	-	-
Pacific Gas & Electric	18,955,180	15,537,319	3,417,861	82.0%	15,537,319	15,458,073	79,246
Transwesten Pipeline Co	143,450,000	123,775,588	19,674,412	86.3%	123,775,588	123,201,993	573,595
Totals	**473,301,344**	**433,340,916**	**39,960,428**	**91.6%**	**433,340,916**	**430,918,983**	**2,421,933**

2.9 Examination of the Purchase Gas Account (PGA)

Table 2.9 provides a PGA reconciliation of GCIM gas commodity costs. Total PGA commodity costs were $1,500,872,850, and reported GCIM commodity costs for SoCalGas' gas portfolio purchases was $1,485,173,822 (excluding hedge costs), which results in a variance of $15,699,028. The variance consists of $6,219,136 costs excluded from GCIM reported commodity costs and net Secondary Market Services revenue of $9,483,684 not reported in PGA gas costs. Other adjustments were for timing differences of $3,792.

Table 2-9
Southern California Gas Company
PGA & GCIM Reconciliation of Commodity Cost
GCIM Year 20
For the Period April 1, 2013 - March 31, 2014

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Total PGA Commodity Costs		**$**	**1,500,872,850**
Total GCIM Commodity Costs		**$**	**1,485,173,822**
Variance:		**$**	**15,699,028**
Reconciliation:			
Total PGA Commodity Cost		$	1,500,872,850
PGA Costs Excluded from GCIM Year 20:			
Playa del Rey & Aliso Production	0		
Borrego Springs LNG	112,732		
Realized (Gain)/Loss from OTC Deriv. Trans.	2,235		
Realized (Gain)/Loss from Exchange-Traded Deriv. Trans.	(1,101,308)		
Realized (Gain)/Loss from Foreign Currency Exchange (GST & Demand Charges)	15,426		
Carrying Costs of Storage Inventory	68,974		
Interruptible Storage Charges	3,752		
Transportation Chg in PGA Market Gas not in GCIM Commodity Cost (1.8.2)	7,117,326		
Sub-Total PGA Excluded Costs:		$	(6,219,136)
GCIM Related Transactions Excluded from PGA:			
Net SMS Revenue		$	(9,483,684)
Timing differences for transaction fees and other gas costs excluded from GCIM		$	3,792
Total Reconciling Items:			(15,699,028)
Total PGA Commodity Cost :		**$**	**1,485,173,822**
GCIM Commodity Cost:		$	1,485,173,822
Difference:		$	-

In addition to the PGA audit, a sampling test was conducted. Purchase invoice samples were randomly selected. SoCalGas provided copies of supporting documents and purchase invoices for the purpose of the verification. Costs of these purchase invoices were traced to the monthly statement and then to the annual report. The selected purchase invoices reconciled with recorded amounts in the annual report.

2.10 Financial Derivatives

ORA performed a review of hedging transactions for financial derivative transactions reported in the purchase gas account (PGA) to confirm the appropriate GCIM calculation and to identify timing differences that were recognized within the GCIM period of April 1, 2013 through March 31, 2014.

Pursuant to D.10-01-023, twenty-five percent (25%) of winter hedging gains and losses are included in GCIM actual costs. Table 2-10 shows SoCalGas PGA Reconciliation of Financial Gains and Losses for reported NYMEX transactions and over-the-counter (OTC) clear transactions, as well as OTC swaps. Associated transaction fees are also included based on the date of contract when net results may be a financial gain or loss. Transactions that result in gains and/or cash receipts are offset against losses. Other adjustments include reversal of fees from GCIM Year 19. Financial hedging loss for the period were $200,849, which consisted of non-winter hedges and winter hedges; the non-winter hedging for GCIM Year 20 recorded a loss of $596,095. The 25% of winter hedging gain is $395,245 which is included in the GCIM calculation and $1,185,732 of winter hedging gain (75%) is excluded from the GCIM. In general, natural gas prices are determined through the interaction of two types of markets: cash/financial markets and physical quantities of natural gas. The market involves the purchase and sale of both, when the physical quantities and financial instrument prices are connected to the price of natural gas in the physical market.

Publishers of industry newsletters such as *Platts*, and *Natural Gas Intelligence* take surveys of the price of transactions at a hub or city-gate, where natural gas is sold or delivered (Exhibit 2-7). The surveyed prices are calculated into an average, which then results in an index of those prices. These index prices are used to base the price of gas at the hub, city-gate, or a specified location.

For hedging natural gas commodities, the most commonly used financial instruments are OTC and exchange derivatives often referred to as options and swaps. These financial instruments are traded in the form of standardized contracts. This standardization provides ease of transfer and the identification of prices.[13] These hedging transactions will generally incur related transaction fees, such as broker and premium fees to purchase the hedging contract.

SoCalGas claims to regularly assess and review on a real time basis natural gas market fundamentals. Based on its review and assessment, the utility uses price trends, market fundamentals, and/or risk avoidance to optimize hedge transactions. For forecasting natural gas prices, SoCalGas uses current future prices and basis values

[13] U.S. Senate Permanent Committee on Investigations: Excessive Speculation in the Natural Gas Market, July 9, 2007.

provided by Intercontinental Exchange and/or NYMEX. SoCalGas states it does not rely on consultants to procure natural gas.

TABLE 2-10
Southern California Gas Company
PGA Reconciliation-Financial Gains & Losses
GCIM Year 20
April 1, 2013 through March 31, 2014

NYMEX Traded/Cleared Transactions		**GCIM**		**Recorded PGA**		**Variance**
Exchange Traded Transactions (Gains)/Losses	$	177,405				
Exchange Traded Transactions Costs	$	20,843				
Total:	$	198,248	$	(1,101,308)	$	(1,299,556)
OTC Swaps						
OTC Swaps (Gains)/Losses	$	-				
OTC Swap Transaction Costs	$	2,601				
Total:	$	2,601	$	2,235	$	(366)
Year 20 Financial (Gain)/Losses:	**$**	**200,849**	**$**	**(1,099,073)**	**$**	**(1,299,922)**
Reconciliation:						
75% excluded Winter Hedge from GCIM	$	(1,185,732)				
Other Reconciling Items Due to Timing Differences:						
Exchange Trade Losses		(114,191)				
Rounding (Pass)		0				
Total Timing Difference Items:	$	(114,191)				
Reconciled Derivative PGA Account	**$**	**(1,299,923)**				

2.11 Winter Hedges

SoCalGas reported $1,580,978 of winter hedging net gain. Table 2-11 shows twenty-five percent (25%) of the net gain at $395,245, which are included in the GCIM. It was confirmed that $1,185,732, which represents seventy-five percent (75%) of total winter hedge gain, was excluded from GCIM and included in the PGA for Year 20. These gains are directly allocated to core customers for the period. In addition, SoCalGas reported winter hedging transactions for OTC swap/option gains and losses; contract costs that include premiums; and transaction costs for broker fees.

For purposes of reconciliation, ORA determined related hedging costs based on contract date. If the contract date is beyond March 31, it is excluded from the reported GCIM period.

Table 2-11
Southern California Gas Company
Winter Financial Derivatives (Gains) Losses
GCIM Year 20
April 1, 2013 through March 31, 2014

Month	Winter Hedge (Gain)/Losses Included in GCIM	Winter Hedge Fee Included in GCIM	Winter Hedge (Gain)/Losses Excluded From GCIM	Winter Hedge Fee Excluded From GCIM	Winter Hedge Total
Apr-12	$ -	$ -	$ -	$ -	$ -
May-12	$ -	$ -	$ -	$ -	$ -
Jun-12	$ -	$ -	$ -	$ -	$ -
Jul-12	$ -	$ -	$ -	$ -	$ -
Aug-12	$ -	$ -	$ -	$ -	$ -
Sep-12	$ -	$ -	$ -	$ -	$ -
Oct-12	$ 199,427.50	$ 3,599.00	$ 598,282.50	$ 10,797.00	$ 812,106.00
Nov-12	$ 5,400.00	$ 141.65	$ 16,200.00	$ 424.95	$ 22,166.60
Dec-12	$ (131,847.50)	$ 1,567.04	$ (395,542.50)	$ 4,701.12	$ (521,121.84)
Jan-13	$ (97,775.00)	$ 1,650.40	$ (293,325.00)	$ 4,951.20	$ (384,498.40)
Feb-13	$ (329,253.00)	$ 277.50	$ (987,757.00)	$ 832.50	$ (1,315,900.00)
Mar-13	$ (48,433.00)	$ -	$ (145,297.00)	$ -	$ (193,730.00)
Totals:	**$ (402,481)**	**$ 7,236**	**$ (1,207,439)**	**$ 21,707**	**$ (1,580,978)**

	(402,481)		**(1,207,439)**
	7,236		**21,707**
25% Winter Hedge Included in GCIM:	**(395,245)**	**75% Winter Hedge Excluded in GCIM:**	**(1,185,732)**

2.12 Review of Secondary Market Services Revenues

SoCalGas manages its retail core using its assets of storage inventory, injection, withdrawal rights, and core supplies by applying them to Secondary Market Services (SMS). In particular, the SMS uses core assets to execute transactions and fees that are based on market conditions to generate these revenues. These SMS transactions offset core gas costs by using assets that are determined by management not to be directly needed for meeting core customer demand and reliability. The SMS revenue was $10,579,053 less $1,095,368 in overhead costs which results in net revenues of $9,483,684.

Southern California Gas Company Table 2-12 Summary of Secondary Market Service Revenues GCIM Year 20 April 1, 2013 through March 31, 2014			
Month	**SMS Revenue**	**Less: Overhead**	**Net Revenues**
Apr-13	$ 204,275	$ (61,824)	$ 142,450
May-13	$ 387,296	$ (298,760)	$ 88,536
Jun-13	$ 665,992	$ (65,382)	$ 600,610
Jul-13	$ 539,249	$ (69,136)	$ 470,113
Aug-13	$ 275,325	$ (131,247)	$ 144,078
Sep-13	$ 18,306	$ (54,095)	$ (35,789)
Oct-13	$ 559,046	$ (68,851)	$ 490,195
Nov-13	$ 403,650	$ (82,333)	$ 321,317
Dec-13	$ 215,140	$ (71,211)	$ 143,929
Jan-14	$ 1,092,975	$ (57,435)	$ 1,035,541
Feb-14	$ 4,875,589	$ (70,477)	$ 4,805,112
Mar-14	$ 1,342,210	$ (64,619)	$ 1,277,591
Totals:	$ 10,579,053	$ (1,095,368)	$ 9,483,684

2.13 SoCalGas Core Storage Inventory Targets

In D.06-10-029, the Commission approved a Joint Recommendation by ORA, TURN and SoCalGas to modify the utility's management and use of mid-season gas storage capacity for core customers. This recommendation requires more gas to enter storage during the summer for core customer use during the winter heating season. This decision requires SoCalGas to obtain agreement from ORA and TURN for mid-season inventory targets. These targets must be maintained or an agreement from ORA and TURN is needed if inventory storage changes are made by SoCalGas. In either case, these changes are reflected in the GCIM.

Effective December 4, 2008, in D.08-12-020, the Commission adopted Phase 1 of the 2009 SoCalGas' Biennial Cost Allocation Proceeding, (BCAP) Settlement Agreement, expanding gas storage by 7 Bcf during the period of 2009 to 2014. Core storage inventory would receive an additional 4 Bcf starting 2009. The Settlement Agreement required incremental inventory capacity to increase by 1.0 Bcf each year starting in April 1, 2010 to April 1, 2013.

SoCalGas filed Advice Letter 4436 on December 14, 2012, which was approved by the Commission on January 13, 2013. This update changed the storage target variance allowance from +5/-2 Bcf to +0/-2 Bcf.

SoCalGas filed Advice Letter 4499 on May 29, 2013, which updated the core inventory target from 82 Bcf to 83 Bcf +0/-2 Bcf.

Based on review of SoCalGas' inventory records, core purchased inventory levels for July 2013, showed 54.3 Bcf, which met the 47 Bcf inventory target. For GCIM Year 20, the October 31, 2013 core storage inventory target was 83 Bcf, with a variance allowance of Bcf +0/-2. For October 31, 2013, SoCalGas reported core storage inventory at 81.5 Bcf, which is within the variance allowance of -2 Bcf. Adjustments to inventory were for non-core monthly imbalances, non-core inventories and SMS activities. The data shows that SoCalGas met the core inventory target requirements.

TABLE 2-13
Southern California Gas Company
Core Storage Inventory for Summer and Winter Targets
GCIM Year 20
April 1, 2013 through March 31, 2014

System Inventory (Bcf)	7/31/13	10/31/13
Bcf Target	47	83
Physical Inventory	122.2	126.6
Month End Imbalances	(5.4)	1.5
Less: Non-Core Inventory	(42.1)	(48.1)
CTA	-	2.2
Secondary Market Services	(20.4)	(0.7)
Total Core Storage Inventory Results	54.3	81.5

Note: CTA inventory only excluded in July

2.14 Interstate Capacity Procurement

Advice Letter 4402, effective on October 12, 2012, authorized SoCalGas to update its Capacity Planning Range, which was based on the California Gas Report for 2012. The filing was to comply with D.04-09-022 and Advice Letter 3969 to update SoCalGas and SDG&E's combined portfolio capacity for GCIM Year 20 and 21 winter and non-winter seasons, beginning in April 2013 and ending March 2014. The following table provides a summary of the minimum and maximum capacity value by season for the reporting period.

GCIM Year 20	Season	Minimum Capacity Value	Maximum Capacity Value
	Non-Winter 04/2013 to 10/2013	948.1 MDth/d	1,264.2 MDth/d
	Winter 11/2013 to 03/2014	1,053.5 MDth/d	1,264.2 MDth/d

The update enabled SoCalGas to hold firm interstate pipeline capacity at no less than 90% of its forecasted core average daily load during the spring and summer months, and no less than 100% during the fall and winter months. This established the minimum firm capacity for the period of April 2013 to October 2013 at 948.1 MDth/d, and 1,053.5 MDth/d for November 2013 to March 2014. SoCalGas' GCIM Year 20 Application (A.14-06-009) in Appendix C reports actual capacity performance.

Proportionally, SoCalGas maintained a gas supply portfolio consisting of approximately 53.5% of long-term supply agreements; 46.7% month-to-month base load agreements; and -0.2% of daily transactions resulted in net gas sale.[14]

[14] A.14-06-009 Southern California Gas Company Year 20 (2013-2014) Gas Cost Incentive Mechanism.

APPENDIX A

EXHIBITS FOR GCIM YEAR 20 REPORT

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