

Decision No. 84570

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
SAN DIEGO GAS & ELECTRIC COMPANY for
Authority to Increase its Gas Rates
and Charges to Offset the Increased
Costs of Purchased Gas. (Request
originally filed by Advice Letter
332-G).

Application No. 55677
(Filed May 7, 1975;
amended May 16, 1975)

Chickering and Gregory, by Sherman
Chickering, C. Hayden Ames and
David Lawson, Attorneys at Law,
for San Diego Gas & Electric
Company; Gordon Pearce, Esq.,
Attorney at Law, and John H. Woy,
for San Diego Gas & Electric
Company, applicant.
William S. Shaffran, Deputy City
Attorney, for John W. Witt, City
Attorney, City of San Diego; M. W.
Edwards, Utility Rate Consultant,
for City of San Diego, interested
parties.
Elinore C. Morgan, Attorney at Law,
for Commission Staff.

INTERIM OPINION

This is an application by San Diego Gas & Electric Company (SDG&E) for a purchased gas adjustment (PGA) increase in its gas rates due to the filing by Southern California Gas Company (SoCal), which wholesales natural gas to SDG&E under SoCal's Schedule G-61, for a PGA increase. This was originally filed as Advice Letter 332-G on April 23, 1975 and was converted by the Commission into the instant proceeding. SDG&E's requested gross revenue increase is \$4,275,600

(which includes an estimated cost decrease of \$491,500 due to an estimated volume reduction of California source liquefied natural gas (LNG)). Applicant requests this offset to be effective simultaneously with any increase granted to SoCal, to be commensurate with any increase granted SoCal, and proposes to apportion any revenue increase on a uniform cents per therm basis to retail customer classes and a slightly lower unit cost to the interdepartmental class. This application was heard and submitted on June 9, 1975 before Examiner Phillip E. Blecher.

The Evidence

Decision No. 83675 dated October 29, 1974 authorized an overall rate of return of 8.75 percent for SDG&E, based on test year 1974. SDG&E represents that the annualized gross revenue requested here will not cause it to exceed its authorized rate of return (Exhibit 4) based on rates currently in effect, with gas volumes estimated for the year commencing July 1, 1975. (The requested effective date of the instant PGA is June 16, 1975.) If the FPC grants an alternate request of El Paso (SoCal's supplier) the total revenue request of SDG&E would be reduced to \$3,216,700.

The city of San Diego presented an expert witness who sponsored Exhibit 10 which showed the company's recorded 1974 figures as earning 7.70 percent, well below its authorized rate of return. He also projected the first four months of recorded 1975 on an earnings trend estimate for the year commencing July 1, 1975, but testified that this trended estimate contains no adjustments, is on a recorded basis only, and is not as accurate as the staff's projections. In Decisions No. 83127 dated July 9, 1974 and No. 84290 dated April 2, 1975, we previously adopted the staff's method of projection based on the latest adopted test year with the usual adjustments. Exhibit 7, sponsored by the staff, indicates an 8.52 percent rate of return on this basis. In any event, the company's rate of return is not

computed by department, but on an overall basis, and there was no evidence indicating the company's overall authorized rate of return of 8.75 percent would be exceeded if the requested increase was granted in full. Based on El Paso's alternate request the staff recommended a total gross revenue increase of \$3,152,300, or \$64,400 less than the alternate request of the applicant, and recommended it be spread on a uniform cents per therm basis to all classes. These computations do not take into effect any increase in the investment tax credit (ITC) accruing to SDG&E under the Tax Reduction Act of 1975 (TRA).

Discussion

This opinion and order are being made on an interim basis for three reasons:

1. In the event the FPC orders a rate change other than the 5.48 cents Mcf we are basing this decision on, this matter may be set for further hearing without requiring the utility to formally file a new application, thus reducing costs and saving time and effort.

2. We are reserving the right to treat the ITC increase under the TRA at a time after the decision in Case No. 9915 is rendered and our study of TRA is concluded. Thus, we shall not discuss ITC any further herein.

3. Ninety days after the effective date of this order rates must be recalculated as discussed later.

Based on the rate increase authorized in SoCal's Application No. 55676, upon which this application is based, an annualized PGA revenue increase of \$2,569,000 is warranted.

We are going to restructure the rate increase we are authorizing herein. Historically, rate increases were spread among the various classes of service on a percentage basis, which always kept the relationship between the classes constant, or these increases have been spread on a uniform cents per therm basis, having the effect of raising the lower priced classes proportionately more than the higher priced classes. To achieve additional parity between the various classes of service, and to attempt to make the lower priced classes compensatory to the utility, we are spreading the newly authorized PGA as follows:

- (a) For the first 90 days after the effective date of this order, the PGA shall result in a uniform cents per therm or equivalent of .312 applied equally to all classes of service.^{3/}
- (b) After the expiration of said 90-day period set out in (a) above, the PGA shall be amended to exclude all residential classes. New tariff schedules reflecting this restructure must be calculated and filed by the utility within 60 days of the effective date of this order.

^{3/} A slightly lower rate of 2.995 cents/M²btu will apply to interdepartmental sales.

Though the short-term effect of this rate structure is beneficial to the residential consumer, it is noteworthy that the probable result in the final analysis will be to increase prices the residential consumer of gas will pay for other products which are made, sold, or distributed (or a combination thereof) by the non-residential gas consumers, who will pass on their increased costs of gas to the residential gas consumers in the form of higher prices for their products, and which will include a margin of profit added on the cost increase, thus essentially creating a greater end cost for the residential consumer. The fact that this cost is indirect and is hidden from the residential gas user appears to create a desirable form of "painless" energy cost which presumably makes the price of gas easier to bear.

Findings

1. SDG&E has requested a PGA annualized increase of \$4,275,600 as a result of the PGA increase requested by SoCal under its Schedule G-61 in Application No. 55676, and indicates that its request is modified commensurate with the increase, if any, granted SoCal.
2. Decision No. 83675 authorized an overall 8.75 percent rate of return based on test year 1974 for SDG&E.
3. The PGA increase authorized herein is reasonable and will not cause SDG&E to exceed its overall authorized rate of return.

4. The rate increase authorized herein will result in an increase of .312 cents per therm or equivalent on a uniform cents per therm basis in all retail customer classes, and 2.995 cents/M² btu in interdepartmental sales for the first 90 days hereafter, which equals an annualized gross revenue of \$2,569,000.

5. The increased rates authorized herein are just and reasonable within the meaning of the Public Utilities Code.

6. There is no just reason for residential gas consumers to equally bear the burden of this rate increase, where such customers are already paying effectively higher rates. ✓

7. It is not unreasonable for nonresidential gas consumers to share this rate increase as the value of the service provided is greater than the increased rates, and such users can add on such increased costs to their cost of doing business. ✓

Conclusion

SDG&E should be granted a PGA increase as hereinafter set forth to be applied on a uniform cents per therm or equivalent basis to all classes of service for 90 days hereafter, and commencing on September 16, 1975, to be applied on nonresidential classes of service, subject to the terms and conditions in the ensuing order. ✓

INTERIM ORDER

IT IS ORDERED that:

1. San Diego Gas & Electric Company is authorized to increase its rates as follows:

- (a) From the effective date of this order through September 15, 1975, by not more than .312 cents per therm in all retail customer classes, and by not more than 2.995 cents/M²btu in inter-departmental.
- (b) Commencing September 16, 1975 and thereafter, the total rate increase authorized by this decision shall be borne by the nonresidential classes only, including interdepartmental, and divided in accordance with the re-computations to be filed by the utility not later than 60 days after the effective date of this order, subject to our authorization. ✓
- (c) This entire rate increase is subject to equivalent refund and/or reduction in the event that any refund or reduction is required of Southern California Gas Company under its Schedule G-61.

2. San Diego Gas & Electric Company is authorized to file revised tariff schedules to reflect the above authorized increase in rates. Such schedules shall comply with General Order No. 96-A. The revised tariff schedules shall be effective on the date of filing and shall apply only to service rendered on and after the effective date hereof.

3. Ordering Paragraph 3 of Decision No. 84290 dated April 2, 1975 shall apply to this offset proceeding and all future offset proceedings, on both an individual and cumulative basis.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 17th day of JUNE, 1975.

*I will file a
concurrence.
Leonard Ross*

*I will file a
concurrence
Robert Bateman*

Vernon L. Stinson
President
William J. Gorman
Robert Bateman
Leonard Ross
Robert Bateman
Commissioners

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COMMISSIONERS BATINOVICH AND ROSS CONCURRING.

We concur in the result. We consider the rate spread adopted to represent the symbolic first significant step toward "lifeline", and we believe that the "lifeline" concept can contribute substantially to alleviating the problems of the poor and to conservation. But we must express our dissatisfaction with the language in the decision concerning the passing on to the residential consumer of the increased cost of gas. We do not believe that such "hidden" costs are painless, and in no way do we intend by our concurrence to suggest that this Commission ought to be "hiding" the cost increases. We find no support for the general proposition that non-residential gas consumers will pass on the increased cost and "a margin of profit added on the cost increase". And in the absence of any record evidence in support of that statement we must disassociate ourselves from the statement and its implications.

Dated: June 17, 1975
San Francisco, California

/s/ LEONARD ROSS

Leonard Ross, Commissioner

/s/ ROBERT BATINOVICH

Robert Batinovich, Commissioner