

Decision No. 85183

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 modify its Purchased Gas  
Adjustment Clause to permit immediate  
changes in its natural gas rates and  
charges to offset changes in Southern  
California Gas Company's rates and  
charges under its proposed Northern  
Alaska Funding Agreement.

Application No. 55742  
(Filed June 16, 1975)

Chickering & Gregory, by Sherman Chickering,  
C. Hayden Ames, and David A. Lawson,  
Attorneys at Law, Gordon Pearce, Attorney  
at Law, and John H. Woy, for applicant.  
Ronald L. Johnson, Attorney at Law, and  
Manley W. Edwards, for the City of  
San Diego; Norman Elliott and John W.  
Mc Clure, by John W. Mc Clure, Attorney  
at Law, for Committee to Protect  
California Economy; interested parties.  
Walter H. Kessenick, Attorney at Law, and  
Edmund J. Teixeira, for the Commission  
staff.

O P I N I O N

This is an application by San Diego Gas & Electric Company (SDG&E) for increases in its gas rates pursuant to its purchased gas adjustment (PGA) procedure to reflect (1) a Northern Alaska Funding Adjustment (NAFA) increase in Schedule G-61 of Southern California Gas Company (SoCal); (2) a slight increase in the volume and unit cost of California source liquefied natural gas; (3) an increase in

Schedule G-61 of SoCal to reflect an increase in gas costs by its suppliers;<sup>1/</sup> and (4) to revise its PGA to allow additional annual filings in the event SoCal's NAFA becomes effective on a date other than can be accommodated within the existing PGA procedure.

At the time of filing this application SoCal's NAFA adjustment to SDG&E was estimated at .406 cents per therm. SDG&E is seeking a per therm increase of .546 cents, creating a gross annual revenue increase of \$3,463,100. SDG&E represents that if SoCal's requested increases are amended, its requests should be amended to reflect any such change. The authorized rate of return will not be affected by the increases requested.

This matter was heard and submitted before Examiner Phillip E. Blecher on September 10, 1975.

#### The Evidence

Decision No. 83675 dated October 29, 1974 authorized an overall rate of return of 8.75 percent for SDG&E. This rate will not be exceeded if the full increase requested is authorized. The forecast period used is October 1, 1975 to September 30, 1976. The primary reason for the difference between SoCal's NAFA increase of .406 cents per therm and SDG&E's requested increase of .546 cents per therm is the sharp decline in availability of power plant gas after the first two months of the test period, when about 85 to 90 percent of the total forecast year's supply will be delivered, thus creating a larger unit cost increase for the total supply of gas. SDG&E recommended a uniform cents-per-therm rate spread.

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<sup>1/</sup> This item was in response to expected increases in SoCal's rates due to increased costs of gas from El Paso Natural Gas Co. and Transwestern Pipeline Company. Those increases were not substantial enough to trigger SDG&E's PGA clause. No further discussion of this item is required.

The staff witness raised no objection to the revision requested in the form of SDG&E's PGA, but reduced SDG&E's estimates of its PGA for the following reasons:

1. Applicant's estimates of firm service requirements reflect the marked decline in firm sales per customer in 1974. For the first seven months of 1975, applicant's actual recorded and weather adjusted sales to firm customers have increased over the estimates by a weighted average of 3.4 percent. Thus the company's estimates of firm requirements and sales were increased 3.4 percent for the forecast period.
2. The Btu content of the gas to be delivered by SoCal to SDG&E was estimated by the staff based on a later gas supply estimate than SoCal furnished applicant. The staff used an average content of 1053 Btu compared to applicant's 1048.2.
3. Since the power plant gas supply falls abruptly to 12,564 M<sup>2</sup>Btu in December, 1975 (from 628,320 M<sup>2</sup>Btu in October and 213,384 M<sup>2</sup>Btu in November) and remains at approximately that level for the remainder of the forecast year, there would be an overestimate of the cost of this gas if the PGA is calculated over the entire 12 month forecast period. The test year's first three month period was chosen because the staff expects that time period to be effective, anticipating another PGA effective January 1, 1976. The company indicated that no additional PGA is expected until April 1, 1976 and thus this volume should be adjusted on not less than a semiannual basis, and not on a quarterly basis as computed by the staff witness.

The staff witness agreed with this position if no PGA is effective prior to April 1, 1976.

The staff witness concurred in SDG&E's position that its authorized rate of return would not be exceeded by approval of this PGA. He recommended a uniform cents-per-therm rate spread for the NAFA portion of this PGA, and a rate spread for the balance of this PGA solely to the lowest priced blocks until gas prices are equal to all customers.

The city of San Diego presented its expert witness who recommended that SDG&E be allowed only the actual dollar amount of the cost increase of NAFA, equal to .406 cents per therm plus an additional three percent to cover transmission line loss, or a total increase of .418. If this recommendation is not approved, he recommended approval of the staff's position.

#### Discussion

Because we believe the staff's computations to be more realistic and thus more reasonable, we are adopting its recommendations for firm service requirements and Btu content. We also agree in principle with the staff's position on the power plant gas supply, but since it appears unlikely that any further offsets will be granted SDG&E until April 1, 1976, or six months from the effective date of this order, we are recomputing this estimate for the most likely effective period of this offset, namely, October 1, 1975 through March 31, 1976, with the proviso that in the event any PGA or offset

rate increase is granted SDG&E effective prior to April 1, 1976, then this power plant gas estimate shall be recomputed to reflect the actual effective period of this PGA increase, as of the last day of the month preceding the effective date of any other PGA effective prior to April 1, 1976, thus making this PGA subject to refund. We are rejecting the city's recommendation since it is contrary to SDG&E's existing PGA clause and the existing policy of the Commission.

We shall authorize the requested change in SDG&E's PGA clause allowing it to make additional annual PGA filings in the event SoCal's NAFA filings are not made concurrently with any other PGA filing.

In Decision No. 85113 dated November 18, 1975 in Application No. 55899, we authorized SoCal to increase its rates by \$29,838,000 annually to reflect costs pertaining to NAFA. The actual increase in rates for SoCal is expected to be approximately \$27,110,000 annually, and SDG&E's obligation under that increase is approximately \$2,528,300 annually. SoCal's increase is not yet in effect; we will authorize SDG&E to file its tariffs effective the first day that SoCal's tariffs are effective.

In Decision No. 85113 we established a lifeline rate for SoCal by spreading the NAFA increase as follows: Rates for the first 75 therms for general natural gas service, no increase; all other rates increased by cents per therm. Decision No. 85113 contains an extensive discussion of our concept of lifeline service, conservation, and value of service, and a recognition that a lifeline concept would have to be implemented for gas service by SDG&E. (In Decision No. 85018 dated October 15, 1975 in Application No. 55627, we established a lifeline rate spread for SDG&E's electric customers and

spread a \$3.1 million gas increase to large customers only.) We have also stated our opinion on these subjects in a number of cases, most particularly Decisions Nos. 84902 and 84721 involving rates of Pacific Gas and Electric Company (PG&E). We see no need to restate those views here.

The Commission is currently investigating the lifeline concept in Case No. 9988 and we will take evidence on the gas lifeline concept in the pending SDG&E rate increase application (No. 55628); nevertheless it is desirable that lifeline service be implemented at this time for the benefit of SDG&E's customers. In Decision No. 84902 dated September 16, 1975 in Application No. 54280 involving the rates of PG&E for natural gas service, the Commission, in effect, designated a lifeline quantity of gas for the general service customers of that company at 75 therms per month. We did the same for SoCal in Decision No. 85113. In our opinion it would be reasonable to establish that same 75-therm per month lifeline rate for SDG&E, until a more complete record is made on this issue.

#### Findings

1. The PGA rate increase authorized herein will not cause SDG&E to exceed its presently authorized rate of return of 8.75 percent.
2. The increase in rates and charges authorized by this decision are justified and reasonable; and the present rates and charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.
3. SDG&E may raise its rates to reflect increases in Schedule G-61 of SoCal based on the staff's method of computing the dollar amount. The total amount of the increase in annual revenue authorized by this decision is approximately \$2,528,300.
4. No increase is authorized for California source liquefied natural gas.

5. The power plant gas supply estimates should be computed for the period October 1, 1975 through March 30, 1976 to determine the proper amount of increase to be authorized herein. In the event that SDG&E is authorized any PGA or offset increase effective prior to April 1, 1976, then the increase herein authorized shall be subject to refund, based on a recomputation of the power plant gas supply as of the last day of the month preceding the effective date of any such order.

6. SDG&E's PGA is amended as requested only to the extent that SoCal's NAFA filings are not made concurrently with any other offset or PGA filings.

7. For the purposes of this proceeding, until a determination is made in SDG&E's general gas rate application or Case No. 9988, a reasonable estimate of the monthly lifeline quantities of gas which is necessary to supply the minimum energy needs of the average residential user within SDG&E's service area is 75 therms.

8. Even though the supply of gas required to meet demands of the interruptible class of customer is diminishing rapidly, and it is possible that volume service to that class of customer will have ceased at such time as northern Alaskan gas is received by SoCal, rates for interruptible gas service that do not exceed the rates for firm service, other than lifeline service, and do not exceed the customer's cost of using alternate fuels, will not be unjust, unreasonable, or unduly discriminatory.

9. Rates authorized by this decision shall be spread as follows:

- a. Rate for the first 75 therms for general natural gas service, no increase.
- b. All other rates shall be increased on a cents-per-therm basis.

The Commission concludes that the application should be granted as set forth in the following order.

O R D E R

IT IS ORDERED that:

1. San Diego Gas & Electric Company is authorized to increase its rates to offset the increased cost of gas purchased from Southern California Gas Company as follows:

- a. Rates for the first 75 therms for general natural gas service, no increase.
- b. All other rates shall be increased on a cents-per-therm basis.

2. The increase authorized in Ordering Paragraph 1 shall be subject to refund pursuant to Finding 5.

3. SDG&E is authorized to file revised tariff schedules to reflect the authorized increase in rates subject to refund. Such schedules shall comply with General Order No. 96-A. The revised tariff schedules shall be effective on the date Southern California Gas Company's tariff filing pursuant to Decision No. 85113 is effective and shall apply only to service rendered on and after the effective date.



4. SDG&E may amend its PGA clause to permit it to make additional annual PGA filings in the event SoCal's NAFA filings are not made concurrently with any other PGA filing, subject to a limit of six PGA filings per year.

The effective date of this order is the date hereof.

Dated at San Francisco California, this 27<sup>th</sup> day of NOVEMBER, 1975.

*I will file a concurring  
and dissenting opinion  
William S. Lyons Jr.*

*[Signature]*  
President  
*William S. Lyons Jr.*  
*[Signature]*  
*[Signature]*  
Commissioners

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.

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COMMISSIONER WILLIAM SYMONS, JR., CONCURRING IN PART and  
DISSENTING IN PART

I concur that the revenue increases granted are justified, principally to reflect increased costs experienced by San Diego's gas supplier, Southern California Gas Company, to secure certain rights to Alaskan natural gas for Southern California.

But I dissent to this decision which settles the burden to pay for this increase on only one portion of the customers and exempts others. The rationale given is further implementation of "lifeline". "Lifeline" rates were initiated in anticipation of a specific statutory amendment in the PG&E General Rate case, Decision No. 84902 (September 16, 1975).

However, a serious complication has entered the picture since that time -- we discovered that the Lifeline Act was enacted in an unexpected, amended form. Today's decision takes notice that effective January 1, 1976, Section 739 has been added to the Public Utilities Code by the Miller-Warren Energy Lifeline Act, statutes 1975, Chapter 1010 (Lifeline Act). Yet it should take more care to examine the specific language of that law. As enacted Section 739(b) provides:

(b) The Commission shall require that every electrical and gas corporation file a schedule of rates and charges providing a lifeline rate. The lifeline rate shall be not greater than the rates in effect on January 1, 1976. The Commission shall authorize no increase in the lifeline rate until the average system rate in cents per kilowatt-hour or cents per therm has increased 25% or more over the January 1, 1976 level."

We signed Decision No. 84902 believing that the last two sentences of paragraph (b) of Section 739 read as it had prior to September 2, 1975, to wit

"The Commission shall authorize no increase in the lifeline rate until such time as the rates for all customers of electrical or gas service, whichever is applicable, exceed the lifeline rate by 25 percent or more. Thereafter, in establishing electrical and gas rates, the Commission shall maintain a lifeline rate differential of at least 25 percent."

The effect of the language change is considerable. Under the original language, the Commission was mandated to establish a 25% differential between "lifeline" rates and "non-lifeline" rates. Time was unspecified, but the Commission set about the task immediately in the cases before it, e.g., PG&E A.54280. However, after reviewing the new language amended into Section 739, it is apparent that the sooner-the-better approach is not for the best.

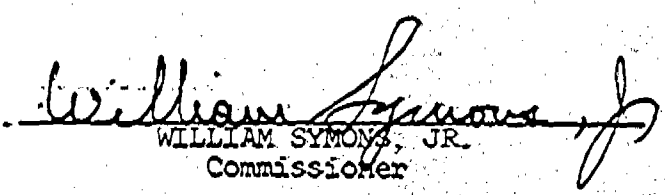
Under the changed language, no account will be taken of any amount of differential the Commission variously creates in the multiple utility systems of California prior to the end of the year. The new law freezes rates for "lifeline" quantities at the January 1, 1976 level. In those systems where the Commission has gone the furthest to create a "lifeline" differential by the end of 1975, the subsidy of "lifeline" users by the rest of the users existing at that time will be ignored, and an entirely additional amount of "lifeline" subsidy will be generated in these systems. The new differentials will be achieved by the mechanistic criteria of the new law.

This "double-dip" subsidy was not intended by the Legislature. In order to avoid its occurrence, creation of further "lifeline" differentials should be postponed six weeks until the new year beings. A uniform cents per therm increase would be more reasonable, not only to

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avoid an overly large and unintended subsidy, but also because the "lifeline" quantity for each locality is unknown. As of October 7, 1975, the Commission is proceeding on its Order of Investigation (Case No. 9988) for the purpose of obtaining the data from which it may make a determination of "lifeline" quantities.

San Francisco, California  
November 25, 1975

  
WILLIAM SYMONS, JR.  
Commissioner