Decision 84 02 003 FEB 1 1984

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHERN CALIFORNIA GAS COMPANY and PACIFIC LIGHTING GAS SUPPLY COMPANY to increase revenues under the Consolidated Adjustment Mechanism to offset changed gas costs resulting from increases in the price of natural gas purchased from EL PASO NATURAL GAS COMPANY, TRANSWESTERN PIPELINE COMPANY, PACIFIC INTERSTATE TRANSMISSION COMPANY, and California sources; and to adjust revenue to recover the undercollection in the CAM Balancing Account.	Application 82-09-12 (Filed September 8, 1982)
In the Matter of the Application of SAN DIEGO GAS & ELECTRIC COMPANY for authority to increase its gas rates and charges pursuant to its filed Consolidated Adjustment Mechanism.	Application 82-09-21 (Filed September 15, 1982)
In the Matter of the Application of PACIFIC GAS & ELECTRIC COMPANY for authority to revise its gas rates and tariffs effective October 1, 1982, under the Gas Adjustment Clause.	Application 82-08-51 (Filed August 24, 1982)

(For appearances see D.82-10-040 and D.82-12-111)

O P I N I O N

These proceedings were consolidated to consider an issue raised by the Commission staff that is common to all three major California gas utilities--Southern California Gas Company (SoCal), Pacific Gas and Electric Company (PG&E), and San Diego Gas and Electric Company (SDG&E). The dispute concerns the manner in which

the utilities have implemented the Supply Adjustment Mechanism (SAM) adopted by the Commission on May 16, 1978 in Decision (D.) 88835.

Following a prehearing conference on January 14, 1983, evidentiary hearings were held on February 7-9 and 28, 1983 before Administrative Law Judge (ALJ) Bertram Patrick. SoCal, PG&E, SDG&E, Toward Utility Rate Normalization (TURN), and the Commission staff (staff) participated and submitted opening and closing briefs.

Summary of Decision

In staff's opinion, the utilities incorrectly implemented SAM since its inception to recover what has been described as "billing lag". Staff recommends that the utilities be required to modify the method by which SAM has been implemented and that past alleged overcollections be refunded together with accrued interest. As of January 1, 1983, staff estimates this overcollection by SoCal, PG&E, and SDG&E to be $12.6 million, $13.5 million, and $1.6 million respectively.

In this decision we conclude that the utilities have failed to follow the intent of the SAM decision which allows the utility to recover no more than the last authorized gas margin. Instead, the utilities have collected for billing lag. This is a result which the Commission never intended when the SAM tariff was authorized in 1978.

The problem with billing lag did not come to the Commission's attention until 1982. On April 28, 1982, by D.82-04-117, the Commission denied authorization of the collection of additional revenues due to billing lag. This occurred in the first Electric Revenue Adjustment Mechanism (ERAM) filing involving PG&E.

In this opinion we point out that there is no difference between ERAM for electric utilities and SAM for gas utilities in regard to billing lag. Therefore, we reiterate our conclusion that there is no justification for utilities to recover for billing lag.

We have also determined that there is no legal barrier to ordering a refund of the whole amount collected by the gas utilities on account of billing lag.

We therefore find it reasonable to adjust the gas utilities' balancing accounts for billing lag retroactive to May 16, 1978, the date the Commission authorized the Supply Adjustment Mechanism. The SAM balancing accounts shall be adjusted by the amount of overcollection calculated by staff for each of the three utilities, plus any amounts overcollected for the years 1983 and 1984.

The utilities are ordered to file revised SAM tariffs which will no longer allow further collection for billing lag.

Background

This proceeding concerns an accounting phenomenon called "billing lag" which has occurred in the implementation of SAM.

SAM is a balancing account which the Commission introduced in 1978. The objective of SAM is to insulate earnings from fluctuations in gas supply and reduction in sales due to conservation.

The SAM balancing account permits the utilities to recover the full margin dollar amount (or total revenue authorized in the utilities' last general rate case, also called the base cost amount), no more, no less. Margin covers all authorized expenses, including profit, but it does not cover cost of gas which is treated separately. Margin is synonymous with a general rate increase; both exclude the cost of gas.

SAM is structured so that the utilities recover 1/12th of the authorized annual margin each month. Any amount by which the authorized annual margin is overcollected or undercollected is accumulated in the SAM balancing account, where it accrues interest. The dispute in this proceeding concerns the margin calculation in the month following a general rate increase when the margin changes. There is no disagreement regarding the implementation of SAM for the

remaining eleven months of the rate period. Appendix B of D.88835 establishes the tariff language whose interpretation gives rise to billing lag:

> "Beginning as of the date the Supply Adjustment Mechanism provision becomes effective, the utility shall maintain a Supply Adjustment Account. Entries shall be made to this account at the end of each month as follows:
>
> "(a) A debit entry equal to, if positive (credit entry, if negative):
>
> (1) One-twelfth of the Base Cost Amount, less
>
> (2) The amount of Gas Department revenue billed during the month at Base Rates minus the product of the applicable volumes of gas sold during the month multiplied by the Base Weighted Average Cost of Gas..."

Billing lag occurs because of the accounting procedures used by the utilities. It occurs the month following a change in rates. Bills sent to customers following the effective date of each rate change include sales which are partly calculated at old rates and partly calculated at new rates. As a consequence, revenues (margin) recorded by the utilities the month following a change in rates never reflect the full effect of the new rates.

By the second month following a change in rates, customer bills reflect all sales billed at the new rates and thus no further billing lag question arises.

Since the inception of SAM, the utilities reflected this billing lag as an undercollection in their respective SAM balancing accounts the first month following each general rate increase. These alleged undercollections were recovered in subsequent offset proceedings together with accrued interest.

How billing lag effects SAM is best explained through an example.

Assume a utility is granted a general rate increase effective on January 1, 1982. Also, assume the utility was authorized revenue or margin of $120 per year at the old 1981 rates. Assume further that the increase for 1982 was $24 per year. The new revenue or margin would then be $144 per year.

SAM allows the utility to recover 1/12th of the margin each month, either through actual revenue or through accumulation in the SAM balancing account. Therefore at the old 1981 rates, the revenue or margin recovery would be $10 each month. At the new 1982 rates, revenue or margin recovery would be $12 each month.

As we indicated previously, the problem occurs in the month following the general rate increase. In our example that would occur in January 1982.

Since most meters are not read and billed as of the first day of each month, when a rate increase occurs most customers are somewhere in the middle of a billing cycle. Therefore, in January, revenue or margin includes sales billed partly at the new 1982 rate and partly at the old 1981 rate. For this reason the revenue or margin billed in January cannot match the prescribed SAM margin for January, which is 1/12th of the 1982 test year revenue or margin.

In our example, the utility will bill a margin of $11 in January. This assumes equal apportionment of sales at the old rate and new rate. Since the new authorized margin is $12 per month, the margin billed in January is $1 short. The utilities argue that the tariff language in SAM permits recovery of the $1 January margin shortfall through the balancing account. The basis of the utilities' argument is that the margin or test year revenue should be recovered in the calendar year and not one month later.

Staff points out that the utilities do recover the full annual margin amount not in the calendar year but one month later. Since there is no actual margin or revenue shortfall, staff recommends that the utilities be ordered to refund such collections for this alleged margin shortfall or billing lag.

Staff contends that comparison of the full 1982 authorized monthly margin to revenue resulting from a combination of 1981 and 1982 sales creates a mismatch. Since the rate change involves an increase, comparison of January revenue billed with the full 1982 monthly margin leads to an "automatic undercollection" in the balancing account. This undercollection with accrued interest is eventually recovered from customers. Accordingly, staff contends the utilities misinterpreted SAM.

Staff proposes to remedy these past errors by prorating the January margin in the same way the January revenues are prorated. Thus, the December sales billed in January would be charged against the December margin and January sales billed in January against the prorated January margin. According to staff, using this approach, the utilities would still recover the entire authorized test year margin.

Staff Position

In staff's opinion, D. 82-12-055 and D.82-12-056 have laid to rest the propriety of recovering billing lag through ERAM and SAM balancing accounts. According to staff there is no difference between the two balancing accounts in this regard. Staff argues that the only issues remaining in this proceeding are:

1. The appropriate method of prospectively correcting the utilities' method of implementing SAM.
2. Whether ordering the utilities to refund past overcollections resulting from the improper implementation of SAM would violate the rule against retroactive ratemaking.
3. Determining the appropriate refund for each affected utility.

The staff testimony was presented by Benny Y. B. Tan. He made two separate recommendations regarding the prospective application of SAM.

Staff estimates that as of January 1, 1983, the overcollection for billing lag by SoCal, PG&E, and SDG&E to be $12.6 million, $13.5 million, and $1.6 million respectively (Exhibits 71 and 73). Staff recommends that the utilities be ordered to refund these amounts with accrued interest.

Position of SoCal

SoCal argues that it is in complete compliance with the Commission's decisions instituting and establishing the SAM procedure. According to SoCal, it has implemented the SAM procedure precisely as the Commission instructed in Appendix B of D.88835, the decision which authorized SAM. SoCal further argues that the language of Appendix B is clear and it has complied with the plain and ordinary meaning of this language. SoCal submits that in fairness to all utilities the Commission in interpreting the language of its decisions must follow the language used and give to it its plain meaning.

SoCal notes that staff proposes that the tariffs which set forth the precise SAM methodology be amended to instruct the utilities to employ "services rendered during the month" rather than "revenue billed during the month" to define revenue for purposes of the SAM balancing account entries. SoCal contends that such a proposed change is a patent concession that these parties seek to amend that procedure, not simply interpret it. According to SoCal, staff, however, conveniently overlooks this fact and argues that the utilities have incorrectly implemented the SAM procedure from its inception.

SoCal further notes that throughout the time SoCal and the other utilities have been applying the SAM procedure, the staff auditors have never questioned the appropriateness of its application. SoCal contends that this is further evidence that staff is now proposing a substantive retroactive modification of the SAM procedure.

SoCal emphasizes that staff cites no evidence that the utilities have incorrectly implemented the SAM procedure, but relies solely on the decisions modifying the ERAM procedure, D.82-12-055 and D.82-12-056, to support this contention. SoCal further argues that both these ERAM decisions were issued on December 13, 1982 and are relevant to the Commission's intent at that time regarding the ERAM procedure for electric utilities. But according to SoCal, they are totally irrelevant to the issue of whether the gas utilities have correctly implemented the SAM procedure as it was set forth by the Commission on May 16, 1978, more than five years ago in D.88835.

Specifically, SoCal argues that unlike the SAM procedure, the ERAM procedure correlates an electric utility's margin recovery with sales made throughout the year. SoCal submits that while it might have been a logical extension of the ERAM procedure to base margin recovery on services rendered during a year, the SAM procedure has never operated to correlate sales with margin recovery and to do so in the partial manner in which staff proposes would simply be inconsistent with the way the SAM procedure operates.

SoCal further argues that retroactive application of staff's proposals would violate the rule against retroactive ratemaking.

Finally, SoCal contends that the SAM procedure should not be modified because there are distinct differences between the SAM and ERAM procedures which militate in favor of making the test year and calendar year identical for gas utilities.

Position of PG&E

PG&E's position is essentially the same as SoCal's. However, PG&E points out that staff's proposed changes to SAM are not entirely consistent with ERAM and would impact the utilities differently.

Position of SDG&E

SDG&E's position is essentially the same as the other utilities. However, SDG&E does have separate margin and gas cost accounts, whereas SoCal and PG&E do not. This is a significant difference but only with respect to staff's proposed prospective changes to SAM.

Position of TURN

TURN strongly supports the staff. TURN argues that the Commission in D.88835, the SAM decision, never intended to compensate the utilities for billing lag.

TURN notes that prior to SAM, traditional ratemaking did not provide for collection of the billing lag at the time of a rate increase. TURN further argues that if the Commission intended that such a benefit be included in the SAM, one would expect that such intention would have been revealed somewhere in D.88835. According to TURN, a close reading of the decision indicates nothing of the sort. The concept of billing lag is never even mentioned, much less approved for collection in rates through SAM.

TURN further notes that the entire discussion in D.88835 revolves around the impact of sales fluctuations on utility recovery of the margin. TURN points to the following findings:

> 3. Small deviations in actual sales from adopted test year sales may result in significant deviations from adopted test year gas margins.
>
> 4. Traditional ratemaking treatment of supply and sales has proven to be an inadequaate method of considering the fluctuations described in Finding 3. Offset treatment between general rate proceedings is required.
>
> 5. A SAM will insure that each gas utility recovers the gas margin authorized in its last general rate case but no more than the last authorized gas margin. (Id. at 14)

According to TURN, the above findings are significant because of what they do not include. TURN points to the fact that in D.88835, there is no reference at all to billing lag. Also, there is no indication that "traditional ratemaking treatment" was considered inadequate with respect to billing lag--only fluctuations from adopted test year sales are cited as a problem. Further, TURN notes, the utility is to be insured recovery of the authorized test year margin, but there is no indication that such recovery is to be guaranteed within the calendar year of the rate increase. TURN emphasizes that nowhere are calendar year and test year treated as synonymous concepts.

Discussion

When ERAM was introduced, it was modeled on SAM. For this reason we used the same language in question, "revenue billed" rather than "services rendered". (PG&E's last general rate case decision, D.93887, Appendix D, dated December 30, 1981.) When PG&E made the first ERAM filing, we rejected it because PG&E had included billing lag. This is the first time the question of billing lag surfaced and we stated:

> "The first and most basic misunderstanding by PG&E concerns the purpose of ERAM. PG&E testified that it is believed that the purpose of ERAM was to guarantee that it earn a stated revenue. This is incorrect. The purpose of ERAM is to protect PG&E from fluctuations in earnings resulting from differences between estimated and recorded sales. In short, PG&E will not benefit if sales increase more than estimated, nor will PG&E be harmed if customers conserve more than anticipated.
>
> "The result of PG&E's interpretation is that it would recover for the so-called billing lag. The billing lag results because PG&E records as sales quantities of energy billed for rather than quantities of energy provided...
>
> "...The postponement of an ERAM rate at this time should cause no great harm. Also, with this further clarification of ERAM, both PG&E and the

> staff should be able to calculate a reasonable ERAM rate at the next ECAC proceeding." (D.82-04-117, p. 16.)

The impropriety of balancing account recovery for billing lag was well established by the Commission in two subsequent cases. In D.82-12-056 dated December 13, 1982, the Commission, in very strong language, rejected the attempt of SDG&E to recover billing lag (booking lag) related to electric sales through its proposed ERAM. The Commission stated:

> "We disagree with SDG&E that the purpose of ERAM was to enable SDG&E to recover the so-called booking lag through ERAM. We further strongly disagree with SDG&E that without recognition of the booking lag, it would not have the opportunity to earn the rate of return authorized by D.93892. Both SDG&E and PG&E have a mistaken understanding that test year ratemaking and calendar year operating results should be identical.
>
> "Under test year ratemaking, the Commission adopts a set of rates which will provide the necessary revenue requirements to cover reasonable expenses, taxes, and a reasonable return on the investment necessary to provide service to the utility's customers during the estimated test year period. For test year ratemaking purposes, the Commission assumes a perfect matching of revenues, expenses, investment, and return on such investment. In order to more closely track the test year with the calendar year, the Commission, under its Rate Case Processing Plan, has attempted to establish general rate case rate changes effective on the first of the calendar year. In adopting this practice, the Commission did not intend to make the ratemaking test year synonymous with calendar year recorded results of operations.
>
> "The Commission is well aware that under SDG&E's accounting practices, revenues for services rendered in a given calendar year are not necessarily recognized in that calendar year. SDG&E's use of ERAM to attempt to obtain additional revenues to make up a perceived revenue deficiency resulting from its reluctance to recognize unbilled revenues for services rendered

> in 1981 because of possible additional income tax obligations represents an unreasonable interpretation of ERAM. In attempting to obtain additional revenues through ERAM for the booking lag, SDG&E is, in effect, attempting to make its ratepayers pay 1982 rates for services rendered in December 1981 at 1981 expense and return levels. There is no revenue shortfall. The test year base rate revenues authorized by the Commission will be earned. Only the company's accounting methods prevent 1982 revenues from being recognized in total in the calendar year and result in part of 1982 revenues being recognized in the month subsequent to the end of the calendar year." (D.82-12-056, mimeo. p. 7-9.)

The same issue was resolved in virtually identical fashion in Edison's most recent general rate case, D.82-12-055 also dated December 13, 1982.

While the above discussion concerns ERAM and electric utilities, it applies equally to SAM and gas utilities. SAM and ERAM serve the same purpose. There is no justification for compensating either electric or gas utilities for so-called billing lag.

The utilities argue that they have followed the plain and ordinary meaning of their tariffs and have correctly applied SAM accounting methods as set forth in D.88835. They point to Section 9(2)(a) of the tariff in D.88835 which provides that balancing account revenue entries will be based on "revenue billed during the month."

We find no merit in this argument. If we were to review the cited tariff language in isolation without reference to the SAM decision establishing the tariff, we might agree that the utilities have interpreted the tariff correctly. The tariff, however, was not established in a vacuum. It was designed to implement the SAM procedure which the Commission adopted in D.88835 to "insure that each gas utility recovers the gas margin authorized in its last general rate case <u>but no more than the last authorized gas margin</u>." (emphasis added.)

When the tariff is read in light of D.88835, as it must be, it is clear that the utilities have incorrectly calculated SAM revenues because they have not accounted for the extent to which January bills represent services rendered during the previous month. Specifically, their calculations are improper because the utilities have failed to extend the requirements of D.88835 to Section 9(2)(c) of the tariff which requires a reduction from the revenue from gas sales equal to "one-twelfth of annual gas margin." Instead the utilities have applied the January gas margin to services rendered in December, but which were billed in January. In effect, the utilities have collected from their ratepayers amounts derived from margins that were never authorized for the periods in question. The correct gas margin is the one which is authorized during the period that services are rendered. This is the only interpretation of the tariff that is consistent with the intent of D.88835.

The utilities' interpretation is inconsistent not only with the intent of SAM as set forth in D.88835 but also with longstanding ratemaking principles. New rates become effective for services rendered, not sales billed, on or after the applicable date of a decision authorizing new rates. It is logical that if base rates are prorated to account for a changed margin, the margin used to calculate balancing account revenues should be likewise prorated.

In establishing the SAM mechanism, we intended and authorized each gas utility to recover its gas margin, no more and no less. Recovery of revenue for so-called billing lag has allowed the utility to receive more than its margin, a result clearly contrary to the express intent of SAM.

In arguing that SAM should not be modified prospectively, for gas utilities, SoCal points out that:

> "The SAM procedure has mitigated the effects of variations in supply and sales. It appropriately allows a gas utility to collect its annual authorized margin, not one dollar more or less, during the calendar year" (emphasis added).

In two separate decisions, Edison D.82-12-055 and SDG&E D.82-12-056, we pointed out that the utilities have the mistaken understanding that test year ratemaking and calendar year operating results should be identical. It is only the utilities' accounting methods which prevent test year results from being reflected in the calendar year. Accordingly, once again, this argument is rejected.

SoCal also argues that there is a difference between ERAM and SAM, because the gas utilities collect the test year margin by an equal 1/12th each month, whereas the electric utilities collect the annual margin in unequal portions each month based on the percentage of revenue distribution in each month. The end result of both methods of collecting margin is the same. As we stated previously, ERAM and SAM have the same goal, which is to protect the

utility's earnings from fluctuations in sales. Therefore, there is no justification for SAM to provide the gas utilities with different benefits. The fact that the margin is collected differently under SAM and ERAM is incidental. Therefore, we reiterate our conclusion that the utilities should not be compensated for billing lag.

The issues now remaining are:

1. Should the utilities be ordered to refund the revenue attributable to billing lag collected over the last five years?
2. What changes should be made to SAM in order to adjust for billing lag?

Retroactive Ratemaking

The utilities raise the same general arguments regarding retroactive ratemaking. We will quote SoCal's argument:

> "Any modification of the SAM procedure to require refunds of previously authorized general rate revenues would violate the rule against retroactive ratemaking. The reliance of Staff and TURN on Southern California Edison Co. v. Public Utilities Com., 20 Cal. 3d 813 (1978) to support a retroactive modification of the SAM procedure is misplaced. The narrow exception to the rule against retroactive ratemaking, first set forth in Southern California Edison Co., 79 CPUC 758 (1976), is inapplicable because a retroactive modification of the SAM procedure would require SoCal to refund part of the previously authorized annual margin (i.e., general rate revenue) which is neither subject to balancing account treatment nor inextricably related to those costs which are subject to balancing account treatment. Annual margin (i.e., general rate revenue) is distinguishable from cost-offsetting revenue because annual margin, once fixed, may not be retroactively changed. Pacific Tel. & Tel. Co. v. Public Utilities Com., 62 Cal. 2d 634 (1965)."

We note that in Southern California Edison Co. v. Public Utilities Comm., (1978), 20 Cal. 3d 813, the Court found that an adjustment of rates which does not involve general ratemaking does

not violate the rule against retroactive ratemaking. Although an adjustment of rates based upon changes in a single operating expense may be retroactive in effect, the Court found that there must be general ratemaking before there can be retroactive ratemaking. Southern California Edison Company v. Public Utilities Comm., supra, at 830.

Staff contends that "no such general ratemaking is involved in the case at issue." According to staff the "refunds only affect the utilities' SAM related balancing accounts."

TURN argues that the situation most closely analagous to the one in this proceeding involved both SoCal and the SAM mechanism. In A.60339, filed March 9, 1981, SoCal sought recovery of $9.6 million of past franchise fees and Company Use Gas costs that had been incurred from August 14, 1978 to September 17, 1979. Recovery of these dollars through the balancing account had not been authorized in SoCal's SAM tariff then in effect. In its brief SoCal argued that such an adjustment would not constitute retroactive ratemaking. TURN took the opposite view and opposed the adjustment on both legal and policy grounds. In D.82-04-113 the Commission agreed with SoCal that the purpose and history of the SAM procedure supported inclusion of these costs in the balancing account and granted SoCal $9.1 million of the requested amount.

TURN contends that "The above-cited cases clearly demonstrate a Commission determination that retroactive changes involving balancing accounts do not violate the rule against retroactive ratemaking as interpreted in Edison." TURN does not make it clear whether this determination includes "general ratemaking" balancing accounts which include margin.

The utilities' argument in this proceeding is that the retroactive adjustment proposed by staff is "general ratemaking." Accordingly, the utilities contend D-82-04-113 does not fit this situation.

We agree with the utilities that the annual margin is general ratemaking and, once fixed, may not be retroactively changed. However, we find that, contrary to the utilities' argument, the issue in this proceeding is billing lag, not margin.

We find that the billing lag is an item separate from margin. It is an accounting phenomenon which, in this instance, occurred as a result of collecting margin through the SAM balancing account. The mere fact that it occurred as part of the collection process related to margin does not automatically classify it as part of margin or an item of "general ratemaking."

We have pointed out previously that the utilities do recover the full authorized margin amount, not in the calendar year but by the subsequent month. Also, we note that it is the utilities' accounting methods which prevent test year revenues from being recognized in total in the calendar year (D.82-12-056). Accordingly, we find that refund of billing lag does not impact margin.

Billing lag was never a component of any kind of ratemaking authorized by this Commission. Since billing lag was not recognized as a part of our ratemaking scheme, we fail to see how the utilities can label it "general ratemaking". It is not margin or part of margin. It is an unintended windfall for the utilities but certainly, it is not general ratemaking as discussed in Edison and Pacific Tel. & Tel. Accordingly, we find no legal barrier to making a retroactive adjustment for billing lag. We further observe that the ERAM balancing account was adjusted to reflect the intention of the Commission retroactively to the first implementation of ERAM.

We reject the utilities' argument that a retroactive adjustment would be unfair as a matter of policy. We note that this case is analogous to A.60339, in which SoCal Gas sought recovery of $9.6 million in past franchise fees and company gas costs through its SAM balancing account. We authorized, SoCal in D.82-04-113, to recover $9.1 million of the requested amount, rejecting legal and policy arguments regarding retroactive ratemaking. As a matter of fairness, we must respond in a similar fashion where the benefit accrues to ratepayers.

We also reject SoCal's assertion that if we ordered an adjustment to its balancing account now we would create great uncertainty regarding the finality of past earnings. The amounts at issue were never intended to be earnings, and should not have been treated as such.

We will order the respondent utilities to include the adjustments to their balancing accounts in their next SAM filings as recommended by staff. For PG&E, SoCal, and SDG&E, these amounts are $13.5 million, $12.6 million, and $1.6 million, respectively, not including amounts associated with changed margins effective in 1983 and 1984. The utilities shall also include the 1983 and 1984 adjustments in their next SAM filings. These amounts shall be calculated on the same basis as the amounts calculated by staff as of January 1, 1983.

Prospective Changes to SAM

Staff witness Tan's first proposal for modifying SAM is that the utilities prorate the gas margin the first month following each change in base gas rates in the same way that billed revenue is prorated. (Ex. 62, p.4.) Tan set forth a formula which he later modified to a simple 1/24th adjustment to margin in the month following a change in margin. This result is reached by assuming that sales at the old rates and sales at the new rates are equally distributed.

Tan offered an alternate approach following the issuance of D.82-12-055 and D.82-12-056. In Exhibit 63, he recommended that the definition of "revenues" in the utilities SAM related balancing accounts be changed to "the amount of revenue for services rendered during the month", instead of "revenue billing during the month". According to Tan this is consistent with the approach adopted by the Commission for implementing ERAM. Tan submits that either of these proposals would remedy the problem of billing lag.

Since SoCal and PG&E have consolidated the margin account (SAM) and gas cost account (PGA/GCAC), Tan's alternative recommendation to use "services rendered" does present a problem for these utilities. However, it does not present a problem for SDG&E since SDG&E keeps separate margin and gas cost accounts.

In order to properly apply a services rendered approach, SoCal and PG&E would need to exclude gas cost revenues from the monthly balancing account entry just as they now exclude other balancing account revenues such as Gas Exploration and Development Account (GEDA) and Conservation Cost Adjustment (CCA) revenues.

Therefore, separate gas cost and SAM balancing accounts would be required. Also, the Commission would be required to set and approve separate gas cost and SAM rates in each biannual offset case in the future.

Therefore, we conclude that a services rendered approach would unnecessarily complicate future gas offset case proceedings of SoCal and PG&E. Adoption of such a procedure would require various estimates for gas volume sendouts and customer consumption patterns. The estimating procedure would generate controversy as staff and the utilities applied their judgment to the various areas to arrive at "services rendered" revenues.

Because of these difficulties and the differences in balancing accounts between the utilities, we conclude that the staff witness' alternative services rendered approach to correct for billing lag is not the preferred approach.

Accordingly, we will adopt the staff witness' first proposal with the 1/24th modification. If rate changes become effective on other than the first of the month, this modification should be prorated accordingly.

The meters of certain large industrial customers and steam-electric generation plants are generally read and billed as of the first day of each month. These customers are not on billing cycles and therefore do not contribute to billing lag. Therefore sales to these customers should be excluded from any adjustment.

For purposes of adjusting for billing lag, it is reasonable to assume that sales to cycle billed customers, in the month of a margin change or general rate increase, are billed in equal proportions at the old rate and the new rate. On this basis, it is reasonable to modify the SAM procedure so that in the month of a gas margin change the entry to the balancing account will contain an appropriate adjustment for 1/24th of the change in the annual gas margin for cycle billed customers. This comports with the modified

procedure used by staff in estimating past alleged overcollections. (Exhibit 67). Also, it can be applied uniformly by all three utilities and has the virtue of simplicity.

Accordingly, we will have each utility, in its next CAM/GAC proceeding, present an adjustment retroactive to May 16, 1978 based on the 1/24th method (plus all related interest). An appropriate correcting entry to the balancing account can be reflected at that time. There is no need for separate refunds, because billing lag impacts only the balancing account.

Findings of Fact

1. In D.88835 the Commission implemented the SAM procedure to insure that each gas utility recovers the gas margin authorized in its last general rate case but no more than the last authorized gas margin.

2. When the SAM tariff is read in light of D.88835, it is clear that the utilities have incorrectly calculated SAM revenues because they have not accounted for the extent to which January bills represent services rendered during the previous month.

3. Each of the respondent utilities has incorrectly and improperly applied the January gas margin to services rendered in December, but which were billed in January.

4. Because of improper application of the SAM tariff, each of the respondent utilities has effectively collected from their ratepayers amounts derived from margins that were never authorized for the period in question.

5. The correct gas margin is the one which is authorized during the period that services are rendered.

6. Long-standing ratemaking principles dictate that new rates become effective for services rendered, not sales billed, on or after the applicable date of a decision authorizing new rates.

7. SAM and ERAM serve the same purpose, which is to protect the utility's earnings from fluctuations in sales. The fact that the margin is collected differently is incidental.

8. The fact that billing lag should not be recovered in an ERAM proceeding applies equally to a SAM proceeding. Billing lag is the same issue in either proceeding.

9. The impropriety of balancing account recovery for billing lag was further established in D.82-12-056 dated December 13, 1982.

10. The SAM balancing account permits the utilities to recover 1/12 of the annual margin each month, based on services rendered during that month.

11. The intent of SAM is that the utilities recover the full test year margin through the SAM balancing account.

12. The SAM balancing account permits the utilities to recover the full margin amount for total revenue authorized in the utilities' last general rate case, no more, no less.

13. In recovering the annual margin through the SAM balancing account, the utilities presently collect an additional amount for billing lag.

14. Billing lag was never included as an item of ratemaking in any Commission ratemaking procedure. Since it was not recognized as an item of ratemaking, it cannot be labeled an item of "general ratemaking."

15. Billing lag is not part of margin. It is an accounting phenomenon that has occurred in the process of collecting margin.

16. The annual margin is "general ratemaking" and once fixed, may not be retroactively changed.

17. Retroactive adjustment for billing lag does not affect the annual margin amount, since it is not part of margin.

18. Since billing lag is not an item of "general ratemaking", there is no legal barrier to making a retroactive adjustment for billing lag.

19. A modification is required to SAM to cease further collections for billing lag, so that in the month of a margin change the entry to the balancing account will contain an appropriate

adjustment for 1/24th of the change in the annual margin for cycle billed customers, or an appropriate proration if the margin change is not effective on the first of the month.

20. Certain large industrial customers and steam-electric generation plants are not cycle billed customers and do not contribute to billing lag. Sales to these customers should not be included in the adjustment for billing lag.

Conclusions of Law

1. It is legally permissible to make a retroactive adjustment for unauthorized recovery of billing lag.

2. There is no need for separate refunds because this is an accounting problem which only impacts the SAM balancing account.

3. The respondent utilities should adjust their balancing accounts in their next SAM filings by the amounts set forth by staff, plus any amounts associated with changed margins effective in 1983 and 1984. The latter amounts should be calculated on the same basis as the amounts calculated by staff as of January 1, 1983.

ORDER

IT IS ORDERED that:

1. Southern California Gas Company (SoCal), Pacific Gas and Electric Company (PG&E), and San Diego Gas and Electric Company (SDG&E) each submit a SAM tariff reflecting the 1/24th change in the annual gas margin and excluding non-cycle billed customers to delete revenue collection for billing lag. This submission should be made in each utility's next CAM/GCAC proceeding.

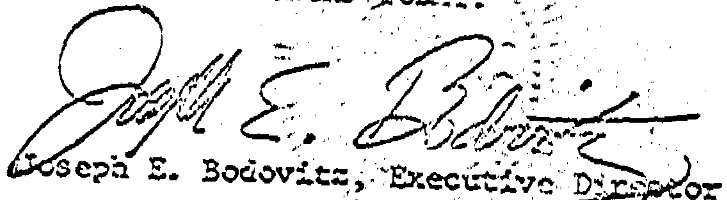
2. In their next SAM filings SoCal, PG&E, and SDG&E shall adjust their SAM balancing accounts by $12.6 million, $13.5 million, and $1.6 million respectively for billing lag as set forth in this opinion. Each utility shall further adjust its SAM balancing account for billing lag by amounts associated with changed margins effective in 1983 and 1984, with each adjustment calculated on the same basis as the adjusted amount calculated by staff as of January 1, 1983.

This order becomes effective 30 days from today.

Dated FEB 1 1984, at San Francisco, California.

LEONARD M. GRIMES, JR.
President
VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners

I CERTIFY THAT THIS DECISION WAS APPROVED BY THE ABOVE COMMISSIONERS TODAY.



Joseph E. Bodovitz, Executive Director

the utilities have implemented the Supply Adjustment Mechanism (SAM) adopted by the Commission on May 16, 1978 in Decision (D.) 88835.

Following a prehearing conference on January 14, 1983, evidentiary hearings were held on February 7-9 and 28, 1983 before Administrative Law Judge (ALJ) Bertram Patrick. SoCal, PG&E, SDG&E, Toward Utility Rate Normalization (TURN), and the Commission staff (staff) participated and submitted opening and closing briefs.

Summary of Decision

In staff's opinion, the utilities incorrectly implemented SAM since its inception to recover what has been described as "billing lag". Staff recommends that the utilities be required to modify the method by which SAM has been implemented and that past alleged overcollections be refunded together with accrued interest. As of January 1, 1983, staff estimates this overcollection by SoCal, PG&E, and SDG&E to be $12.6 million, $13.5 million, and $1.6 million respectively.

In this decision we conclude that the utilities have failed to follow the intent of the SAM decision which allows the utility to recover no more than the last authorized gas margin. Instead, the utilities have collected for billing lag. This is a result which the Commission never intended when the SAM tariff was authorized in 1978.

The problem with billing lag did not come to the Commission's attention until 1982. On April 28, 1982, by D.82-04-117, the Commission denied authorization of the collection of additional revenues due to billing lag. This occurred in the first Electric Rate Adjustment Mechanism (ERAM) filing and it involved PG&E.

In this opinion we point out that there is no difference between ERAM for electric utilities and SAM for gas utilities in regard to billing lag. Therefore, we reiterate our conclusion that there is no justification for utilities to recover for billing lag.

> in 1981 because of possible additional income tax obligations represents an unreasonable interpretation of ERAM. In attempting to obtain additional revenues through ERAM for the booking lag, SDG&E is, in effect, attempting to make its ratepayers pay 1982 rates for services rendered in December 1981 at 1981 expense and return levels. There is no revenue shortfall. The test year base rate revenues authorized by the Commission will be earned. Only the company's accounting methods prevent 1982 revenues from being recognized in total in the calendar year and result in part of 1982 revenues being recognized in the month subsequent to the end of the calendar year." (D.82-12-056, mimeo. p. 7-9.)

The same issue was revolved in virtually identical fashion in Edison's most recent general rate case, D.82-12-055 also dated December 13, 1982.

While the above discussion concerns ERAM and electric utilities, it applies equally to SAM and gas utilities. SAM and ERAM serve the same purpose. There is no justification for compensating either electric or gas utilities for so-called billing lag.

The utilities argue that they have followed the plain and ordinary meaning of their tariffs and have correctly applied SAM accounting methods as set forth in D.88835. They point to Section 9(2)(a) of the tariff in D.88835 which provides that balancing account revenue entries will be based on "revenue billed during the month."

We find no merit in this argument. If we were to review the cited tariff language in isolation without reference to the SAM decision establishing the tariff, we might agree that the utilities have interpreted the tariff correctly. The tariff, however, was not established in a vacuum. It was designed to implement the SAM procedure which the Commission adopted in D.88835 to "insure that each gas utility recovers the gas margin authorized in its last general rate case <u>but no more than the last authorized gas margin</u>." (emphasis added.)

adjustment for 1/24th of the change in the annual margin for cycle billed customers, or an appropriate proration if the margin change is not effective on the first of the month.

20. Certain large industrial customers and steam-electric generation plants are not cycle billed customers and do not contribute to billing lag. Sales to these customers should not be included in the adjustment for billing lag.

Conclusions of Law

1. It is legally permissible to make a retroactive adjustment for unauthorized recovery of billing lag.

2. There is no need for separate refunds because this is an accounting problem which only impacts the SAM balancing account.

3. The respondent utilities should adjust their balancing accounts in their next SAM filings by the amounts set forth by staff, plus any amounts associated with changed margins effective in 1983 and 1984. The latter amounts should be calculated on the same basis as the amounts calculated by staff as of January 1, 1983.

O R D E R

IT IS ORDERED that:

1. Southern California Gas Company (SoCal), Pacific Gas and Electric Company (PG&E), and San Diego Gas and Electric Company (SDG&E) each submit a SAM tariff reflecting the 1/24th change in the annual gas margin and excluding non-cycle billed customers to delete revenue collection for billing lag. This submission should be made in each utilities' next CAM/GCAC proceeding.