ALJ/jn/ec

Decision 84 06 080 JUN 6 1984 ORIGINAL 13

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 revise their rates under the Consolidated Adjustment Mechanism (CAM) to offset changed gas costs resulting from changes 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 revenues to recover the undercollection in the CAM balancing account.	Application 83-09-25 (Filed March 8, 1984)

(See Decision 83-12-048 for appearances.)

FINAL OPINION

On September 12, 1983, Southern California Gas Company (SoCal) and Pacific Lighting Gas Supply Company (PLGS) (applicants) filed Application (A.) 83-09-25 for authority to decrease the Consolidated Adjustment Mechanism (CAM) component of their rates to offset the impact of changes in the cost of purchased gas and to recover the accumulated undercollection in the CAM balancing account. As part of A. 83-09-25 the applicants filed their Review of Gas Supply Operations for the period July 1, 1982, through June 30, 1983. The proceeding was divided into two phases. Hearings on the first phase (the CAM portion) were held on November 2-4, 1983. An Interim Decision (D.) 83-12-048 was issued December 20, 1983, which incorporated the effects of SoCal's attrition allowance and conservation offset proceeding. The total net effect was that rates were essentially unchanged.

Hearings were held on the Reasonableness Review (second phase) in Los Angeles on February 8, 1984. Only one party, Norman Codd appearing for himself and a small group of friends, contested the reasonableness of SoCal's operations during the review period. Codd once again testified that SoCal should be penalized for the fuel switching of its customers. This issue was thoroughly discussed and resolved in D.82-12-047 where we found that SoCal could not be faulted for assessing its lawful tariff rates.

A review of SoCal's reasonableness report indicates that it's gas supply operations are governed by the following policy:

1. To maintain a supply of gas at least equal to the annual requirements for gas of their P1-P4 customers in a cold year and provide extreme peak day protection for P1-P2A customers, and

2. To purchase the gas at the lowest possible cost for a given volume of sales within contractual obligations and operating requirements.

This policy forms the basis of the operating standard against which its performance should be judged. The staff reviewed the company's operations and found that the company had met this standard. No other party, except Mr. Codd, took exception to the company's and staff's conclusions.

Mr. Codd incorrectly assumes that SoCal should be held responsible for the actions of its customers as they respond to economic factors largely, if not wholly, beyond SoCal's control. His arguments are without reason or merit and will be denied.

Finding of Fact

SoCal's operation during the period of July 1, 1982 through June 20, 1983 was reasonable and prudent.

Conclusion of Law

No adjustments to SoCal's CAM balancing account are warranted for any unreasonable or imprudent operations disclosed by the reasonableness review.

FINAL ORDER

IT IS ORDERED that D.83-12-048 is made final and A.83-09-25 is closed.

This order becomes effective 30 days from today.

Dated June 6, 1984, at San Francisco, California.

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

Commissioner Priscilla C. Grew, being necessarily absent, did not participate.

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

Joseph E. Bodovitz, Executive Director

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SoCal, like many gas distribution utilities, is being squeezed by several contradictory forces in the market place. In the 1970's many experts were predicting vast gas shortages. In response the gas utilities attempted to protect all their customers, including customers with alternate fuel capability. This attempt included entering contracts for gas that were long term, high cost, high minimum-take contracts with very little flexibility. The Natural Gas Policy Act (NGPA) of 1978 seems to have produced two contradictory effects: (1) higher prices and (2) increased supply. In addition to this increased supply, consumers have reduced consumption of gas leading to the present so-called gas glut. However, prices remain high while consumption continues to decrease. The net result is that the utilities are locked into high-cost long-term contracts for gas with fewer sales over which to spread their fixed costs.

The following table illustrates the changing economic situation for gas rates by comparing rates in effect January 1, 1980 with those in effect January 1, 1984.

Rate Schedule	Rates Effective Jan. 1, 1980* (¢/th)	Rates Effective Jan. 1984** (¢/th)	Percentage Increase
Residential			
Tier I	22.270	46.484	109%
Tier II	28.974	71.810	148
Tier III	37.685	81.810	117
Res. Avg.	29.654	60.383	104
GN-1	28.964	71.840	148
GN-2a	28.964	71.840	148
GN-32/42	37.000	56.776	53
GN-36/46	34.000	56.776	67
GN-5	30.000	48.258	61
System Average Rate	29.165	55.382	90

* From A.59146: Ex. 2 and D.91077.

** From A.83-09-025: Ex. 23 and D.83-12-048.

The GN-5 average rate is based on the weighted average of the estimated revenues and sales for episode and nonepisode days.

It is apparent that the classes that have borne the largest increases among the California consumers are the customers with no alternate fuel capability (residential and commercial).

Priority 3, 4 and 5 customers who have the luxury of being able to burn whichever fuel is cheapest at the moment (GN-32/42, GN-36/46, and GN-5) have borne much smaller increases. When the price of fuel oil drops below the price of gas these customers are able to leave the gas system to burn fuel oil, thereby leaving the fixed cost of the gas system to be borne by the higher priority customers. When the price of fuel oil rises above the cost of gas or a shortage of fuel oil develops these customers can then return to the gas system provided by a public utility which is required to serve these customers, and even then argue that their gas rates are too high based on allocated-cost-of-service theories.

At this point in time SoCal has attempted to deal with these conflicting market forces in a reasonable manner. We intend, however, to continue to scrutinize the gas utility industry in a more generic fashion in the near future.

It also appears that the second group of real losers in our present circumstances are gas producers. Because of the high prices maintained by producers the total gas market is getting smaller each day. This appears detrimental to the gas producers in the long run.

Finding of Fact

SoCal's operation during the period of July 1, 1982 through June 20, 1983 was reasonable and prudent.

Conclusion of Law

No adjustments to SoCal's CAM balancing account is warranted for any unreasonable or imprudent operations disclosed by the reasonableness review.

FINAL ORDER

D-83-12-043 is made final and YOI

IT IS ORDERED that A.83-09-25 is closed.

This order becomes effective 30 days from today.

Dated ______________________, at San Francisco, California.