Decision 84 08 123 AUG 7 1984

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 Decrease its Gas Rates and Charges Pursuant to its Filed Consolidated Adjustment Mechanism (CAM).	Application 84-03-57 (Filed March 19, 1984)

(See Decision 84-07-071 for appearances.)

OPINION

On March 19, 1984 San Diego Gas and Electric Company (SDG&E) filed this application for authority to increase its gas rates under its Consolidated Adjustment Mechanism (CAM) tariff clause. This application was consolidated for hearing with Southern California Gas Company (SoCal) Application (A.) 84-03-30. Hearings were held on April 26, 1984 in San Francisco and submitted subject to briefs due on June 22, 1984.

Because SDG&E buys all of its gas from SoCal at the rate determined in the SoCal offset proceedings, its revenue requirement is generally without controversy. This proceeding presented only two revenue requirement issues which were not contested--(1) The cost of gas from SoCal and (2) sales quantity for electric generation (GN-5).

The rate SDG&E pays SoCal is calculated by a previously established formula based on SoCal's average cost of gas. We will adopt the rate calculated by SoCal (40.121 cents/therm) as reasonable.

The staff's GN-5 sales volumes will be adopted. The staff has reduced the GN-5 sales volumes estimated by both SoCal and San Diego. The basis for the reduction is higher estimated performance factors for SONGS Units II and III.

The following table illustrates the development of the revenue requirement which is a decrease of $16,429,000 for 12 months beginning May 1, 1984. This revenue decrease is computed after the baseline rate reduction provided in D.84-04-041 was implemented.

TABLE 1

San Diego Gas & Electric Company
Gas Department
12 Months Beginning May 1, 1984
CAM Revenue Requirement

Line No.		Item	M$
	I.	PGA Revenue Requirement	
1		A. Capacity Charge	23,072
2		B. Commodity Charge (874041 Mth @ .40121 $/th)	350,674
3		C. LNG Withdrawal	1,882
4		D. LNG Injection	-1,831
5		E. Subtotal	373,797
6		F. Balancing Account Amortization	4,256
7		G. Subtotal	378,053
8		H. Franchise & Uncol Acct Expense on Retail Sales @ .0214	4,338
9		I. PGA Revenue Requirement	382,391
	II.	SAM Revenue Requirement	
10		A. Base Cost Amount	107,643
11		B. Balancing Account Amortization	12,594
12		C. Subtotal	120,237
13		D. San Diego Franchise Fee Differential (SDFFD)	-453
14		E. SAM Revenue Requirement	119,784
15	III.	CAPS Revenue Requirement	394
16	IV.	CAM Revenue Requirement (L9+L14+L15)	502,569
17	V.	Revenue at Present Rates	518,998
18	VI.	Increase (L16-L17)	-16,429

Based on the PGA revenue requirement, the PGA rates are:

GN-5 = .43738 $/therm

Retail = .44674 $/therm

Rate Design

With the revenue requirement determined, rate design is the next major subject area. The broad rate design issue is how the CAM revenue requirement of $502,569,000 (Table I, line 16) will be recovered. Another way of discussing this issue is how will the revenue requirement decrease be allocated to the various customer classes.

SDG&E's position is provided in the following quote from its testimony in this case:

> "SDG&E recommends that, at this time, any change in the CAM requirements result in a direct change to the residential baseline rates, provided that the baseline rates do not drop below 85% of the system average rate."

TURN argues that if it is possible to have baseline equal 85% of the system average rate without increasing rates to customers in the fuel switching category (low priority) Code Section 739 allows no other result. TURN's position would have us hold the Tier I rate at 85% of the SAR without regard to the level of Residential Tier II and Commercial rates.

ALT 1c

In this proceeding, the staff position is that all customers should participate in the rate reduction. The standard applied by the staff to arrive at this position is not clear. However, in terms of Code Section 739, the staff apparently believes that the industrial rates must be lowered to prevent fuel switching and maintain or increase the industrial contribution to margin. The staff failed to elaborate on this contention or to present any evidence other than historical fuel switching figures. The staff did, however, present reasonable current fuel price data.

The company on the other hand, takes the position that the total rate reduction be allocated to baseline rates. The standard applied by the company to arrive at its position is also unclear. However, inherent in the company's position is that it believes that the industrial low priority rates do not require reduction to prevent further margin contribution loss.

Based on a comparison of the fuel price data supplied by the staff and SDG&E's current rates we cannot make a finding that low priority rates must be reduced to prevent further fuel switching. However, it is also apparent that the low priority rates are near their highest limit in terms of the alternate fuel price.

If the entire decrease is allocated only to baseline, the resulting baseline rate is equal 50.573 cents/therm which is 87% of SAR. We agree with TURN that such a result is consistent with Code Section 739, and adopt this allocation method. The following Table 2 shows (1) current rates and (2) adopted rates. We find that the adopted rates bring baseline as close as possible to 85% of SAR while maintaining reasonable commercial and Residential Tier II rates.

TABLE NO 2

SAN DIEGO GAS & ELECTRIC COMPANY

GAS DEPARTMENT

12 MONTHS BEGINNING MAY 1, 1984

SUMMARY OF RATES AND REVENUES (1)

Line No	Classification	Non-therm Units (000's)	Sales(2) (Mth)	Present Rates(3) ($/unit)	Present Revenue (M$)	Adopted Rates ($/unit)	Adopted Revenue (M$)	Increase (%)
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
	Residential							
1	Tier I (baseline)		224321.20	.57896	129873.00	.50572	113443.72	-12.65
2	Tier II		77140.80	.94139	72619.58	.94139	72619.58	.00
3	Subtotal		301462.00	.6717	202492.58	.6172	186063.29	-8.11
4	Other Retail							
5	GN-1 Customer Months	346.2		1.70	588.54	1.70	588.54	
6	GN-1 Commodity		88037.00	.77484	68214.59	.77484	68214.59	
7	GN-1 Total		88037.00		68803.13		68803.13	.00
8	GN-2		13077.00	.77484	10132.58	.77484	10132.58	.00
9	GN-3		27284.60	.61686	16830.78	.61686	16830.78	.00
10	GN-4		12644.40	.61686	7799.82	.61686	7799.82	.00
11	GN-36,-46 Blk 1		180.00	.58686	105.63	.56385	101.49	-3.92
12	" Blk 2		759.70	.55801	423.92	.56385	428.36	1.05
13	" Blk 3		758.00	.52916	401.10	.52916	401.10	.00
14	" Blk 4		1936.30	.5003	968.73	.5003	968.73	.00
15	" Average		3634.00	.52267	1899.39	.52275	1899.68	.02
16	GCS (Co-Gen) P-3		7733.00	.61686	4770.18	.61686	4770.18	.00
17	" P-5		6087.00	.5003	3045.33	.5003	3045.33	.00
18	" Average		13820.00	.56552	7815.50	.56552	7815.50	.00
20	GL-1 (LNG)				39.30		39.30	.00
21	Subtotal		158497.00		113320.51		113320.80	.00
22	Total Retail		459959.00	.68661	315813.09	.65089	299384.10	-5.20
23	GN-5 Sales		404398.00	.5003	202320.32	.5003	202320.32	.00
24	Schedule G-91	127.3		15.00	1909.50	15.00	1909.50	.00
25	Miscellaneous				545.80		545.80	.00
26	Gross Revenue		864357.00	.60228	520588.71	.58328	504159.72	-3.16
27	Adjustments (GS & GT)				-1590.40		-1590.40	
28	Net Revenue				518998.31	.58144	502569.32	

(1) Excludes San Diego franchise fee differential
(2) Sales adjusted to compensate for G-90 discounts
(3) Present rates are those in effect on May 16, 1984

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The last table is included to show the progress of bringing baseline closer to 85% of the system average rate since the general rate case rates went into effect in January 1984. We show on this table the rate structures adopted for January 1984, May 1984 and the adopted structure. The elements compared in each column reflects what we consider to be the most enlightening relationships:

1. Baseline to SAR
2. Baseline to Residential Tier II
3. Residential Average Rate to SAR
4. Commercial Average Commodity Rate to SAR

TABLE 3

	January 1984		May 1984		Adopted	
	¢/th	%	¢/th	%	¢/th	%
Baseline Compared to SAR	62.426	103.5	57.896	96	50.572	87.0
Baseline to Res. Tier II	94.139	156.1	94.139	156.1	94.139	161.9
Residential Avg. Rate to SAR	67.426	112	67.462	112	61.720	106.2
Commercial Avg. Commodity to SAR	77.484	128.5	77.484	128.5	77.484	133.3
System Avg. Rate	60.310		60.310		58.144	

Findings of Fact

1. By this application SDG&E seeks authority to decrease its rates and charges from those presently in effect.

2. The revenue requirement decrease is $16,429,000 from rates in effect May 15, 1984.

3. The present low priority industrial rates (all rates except Residential and GN-1 and 2) will not cause further fuel switching to reduce its present contribution to margin.

4. Reducing baseline rates to 85% of the SAR results in unreasonable Residential Tier II and commercial (GN-1 and 2) rates.

5. The rates shown in Table 2 are just and reasonable.

Conclusions of Law

1. Baseline rates may be greater than 85% of the system average rates in order that other high priority rates be reasonable.

2. The revenue requirement decrease should be allocated to baseline rates since the resulting rates are reasonable and the resulting baseline rates are still over 85% of the system average rate.

3. The application to reduce rates should be granted to the extent discussed herein.

4. The rates shown in Table 2 are just and reasonable.

O R D E R

IT IS ORDERED that on or after the effective of this order, SDG&E is authorized to file revised tariff schedules reflecting rates shown in Table 2. The new rate shall be effective no sooner than 5 days after the date of filing and shall apply only to service rendered on or after their effective date.

This order becomes effective 10 days from today.

Dated August 7, 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

Rate Design

With the revenue requirement determined, rate design is the next major subject area. The broad rate design issue is how the CAM revenue requirement of $502,569,000 (Table I, line 16) will be recovered. Another way of discussing this issue is how will the revenue requirement decrease be allocated to the various customer classes.

SDG&E's position is provided in the following quote from its testimony in this case:

> "SDG&E recommends that, at this time, any change in the CAM requirements result in a direct change to the residential baseline rates, provided that the baseline rates do not drop below 85 % of the system average rate."

TURN argues that if it is possible to have baseline equal 85% of the system average rate without increasing rates to customers in the fuel switching category (low priority) Code Section 739 allows no other result.

We tend to agree with TURN, however, we also believe that a standard of reasonableness governs the rate relationships among the following customer class rates:

1. Residential Tier I
2. Residential Tier II
3. Commercial GN-1
4. Commercial GN-2
5. Residential Average Rate
6. System Average Rate (SAR)

TURN's position would have us hold the Tier I rate at 85% of the SAR without regard to the level of Residential Tier II and Commercial rates. While it is certainly our goal that baseline rates be no more than 85% of the SAR, we also believe that the other high priority rates must be held within some limits of reason. We note two factors which have prevented this result thus far. The first is the low price of fuel oil. The second is the very high proportion of baseline sales to total residential sales (74.4%). With this high ratio it is very difficult to lower the baseline average while maintaining a set of reasonable rate ralationships among the other high priority rates. We hope to reexamine the baseline quantities in SDG&E's next general rate case.

In this proceeding, the staff position is that all customers should participate in the rate reduction. The standard applied by the staff to arrive at this position is not clear. However, in terms of Code Section 739, the staff apparently believes that the industrial rates must be lowered to prevent fuel switching and maintain or increase the industrial contribution to margin. The staff failed to elaborate on this contention or to present any evidence other than historical fuel switching figures. The staff did, however, present reasonable current fuel price data.

The company on the other hand, takes the position that the total rate reduction be allocated to baseline rates. The standard applied by the company to arrive at its position is also unclear. However, inherent in the company's position is that it believes that the industrial low priority rates do not require reduction to prevent further margin contribution loss.

Based on a comparison of the fuel price data supplied by the staff and SDG&E's current rates we cannot make a finding that low priority rates must be reduced to prevent further fuel switching. However, it is also apparent that the low priority rates are near their highest limit in terms of the alternate fuel price. We will, thus, allow the low priority rates to remain at their present levels and spread the rate decrease among the high priority residential and commercial customers. The method we choose is to hold the Residential Tier II at the current level and spread the decrease to Baseline and Commercial rates on an equal cents per therm basis.

The following Table 2 shows - (1) current rates and (2) adopted rates. If the entire decrease were allocated only to baseline, the resulting baseline rate would equal 50.573 ¢/therm which would be 87% of SAR. We find that the adopted rates bring baseline as close as possible to 85% of SAR while maintaining reasonable commercial and Residential Tier II rates.

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(1) Excludes San Diego franchise fee differential
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Residential Avg. Rate to SAR	67.426	112	67.462	112	63.414	109.2
Commercial Avg. Commodity to SAR	77.484	128.5	77.484	128.5	72.436	124.7
System Avg. Rate	60.310		60.310		58.072	

<u>Findings of Fact</u>.

1. By this application SDG&E seeks authority to decrease its rates and charges from those presently in effect.

2. The revenue requirement decrease is $16,429,000 from rates in effect May 15, 1984.

3. The present low priority industrial rates (all rates except Residential and GN-1 and 2) will not cause further fuel switching to reduce its presnt contribution to margin.

4. Reducing baseline rates to 85% of the SAR results in unreasonable residential tier II and commercial (GN-1 and 2) rates.

5. The rates shown in Appendix A are just and reasonable.

<u>Conclusions of Law</u>

1. Baseline rates may be greater than 85% of the system average rates in order that other high priority rates be reasonable.

2. The revenue requirement decrease can be allocated to high priority rates other than baseline if the resulting rates are reasonable.

3. The application to reduce rates should be granted to the extent discussed herein.

4. The rates shown in Appendix A are just and reasonable.

O R D E R

IT IS ORDERED that on or after the effective of this order, SDG&E is authorized to file revised tariff schedules reflecting rates shown in Appendix A. The new rate shall be effective no sooner than 5 days after the date of filing and shall apply only to service rendered on or after their effective date.

This order becomes effective 10 days from today.

Dated AUG 7 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