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ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Pacific Gas and Electric Company (PGand E) Order Authorizing Disposal by Sale of all Remaining Gas Exploration and Development Adjustment (GEDA) Assets. (Advice Letter No. 1402-G, filed April 3, 1987 and Supplement filed April 7, 1987.) U-39-G	Application 87-06-027 (Filed June 18, 1987)

INTERIM OPINION

Summary of Decision

We adopt the joint petition of the Division of Ratepayer Advocates (DRA - formerly the Public Staff Division-PSD) and Pacific Gas and Electric Company (PG&E) to set aside submission of the proceeding and for issuance of a decision in accordance with their stipulation.

The purpose of the stipulation is to provide a plan for recovery of PG&E's remaining investment in gas exploration and development adjustment (GEDA) program, including project financing of remaining GEDA rate base.

Background

The GEDA program was instituted in 1973 to allow gas utilities operating under this Commission's jurisdiction to seek and obtain independent gas supplies by exploration of new gas fields and development of proven reserves in existing fields. GEDA was operated as a full cost of service recovery mechanism in connection with a balancing account. On December 20, 1983, the Commission issued Order Instituting Investigation (I.) 83-12-02 on its own motion to investigate the desirability and advisability of continuing the GEDA program. On November 13, 1985, the Commission issued Decision (D.) 85-11-062 in I.83-12-02 terminating further GEDA exploration and development as of August 4, 1985. D.85-11-062 was amended and clarified by D.86-02-032, dated February 5, 1986. The decisions ordered PG&E to file a plan to dispose of the California and Rocky Mountain GEDA properties of Natural Gas Corporation of California (NGC), a wholly owned subsidiary of PG&E. PG&E filed its plan on June 5, 1986 and subsequently amended it on July 9, 1986. Upon review of the plan, DRA found that it was in the interest of the ratepayers to sell all GEDA properties. Accordingly, PG&E placed the California and Rocky Mountain GEDA properties of NGC and its wholly owned subsidiary, NGC Production Company, for sale in late 1986. In February 1987 sealed bids were submitted to a consultant selected by DRA and, in March 1987, PG&E Gas Supply Company (Supply Company), a PG&E affiliate, was notified by the consultant that it was the successful bidder on the properties.

By Advice Letter 1402-G, filed April 3, 1987, as supplemented by Advice Letter 1402-G-A, filed April 14, 1987, PG&E requested Commission approval of the sale of NGC's and NGC Production Company's GEDA properties to Supply Company, which would reduce GEDA rate base by $35.866 million. In order to secure project financing of the GEDA rate base remaining after the sale of such GEDA properties, PG&E also requested the Commission to reaffirm the provision of D.85-12-002 that provides for dollar-for-dollar recovery of funds obtained through project financing.

On May 21, 1987, DRA submitted its "Limited Protest and Protest to PG&E's Advice Letters 1402-G and 1411-G."[1] Advice

1 Advice Letter 1411-G, dated May 8, 1987, in which PG&E sought approval of a GEDA rate change, was rejected in Resolution G-2733, dated May 29, 1987.

Letter 1411-G was also protested by Towards Utility Rate Normalization for PG&E's proposed rate design.

In its protest of Advice Letter 1402-G/G-A, DRA argued that:

a. PG&E should not receive a return on its remaining GEDA rate base after sale of NGC's GEDA properties since there is no longer any utility property that is used and useful in providing service to the ratepayers.

b. Prior Commission decisions endorsing project financing of GEDA investment should not be reaffirmed.

c. Rate treatment of remaining GEDA rate base and the results of the Commission staff audit of GEDA rate base should be addressed in implementation hearings in I.86-11-005 regarding "transition costs."

On May 29, 1987, the Commission issued Resolution G-2726 in response to Advice Letter 1402-G/G-A. In addition to authorization of the sale of NGC's GEDA properties to Supply Company, Resolution G-2726 ordered that:

> The method of recovery of any losses obtained by PG&E as a result of this sale shall be determined by the Commission in I.86-06-005 and shall not be dependent upon or guaranteed by the GEDA surcharge. (Resolution G-2726, Ordering Paragraph 2.)
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> NGC shall not be permitted to secure any loans by filed tariffs pertaining to the remaining rate base on the GEDA surcharge. (Resolution G-2726, Ordering Paragraph 3.)
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> The Commission shall be kept informed of any and all additional activity by PG&E relating to these and other GEDA properties in which PG&E may have an interest. This information shall be sent to the Chief of the Fuels Branch of DRA. (Resolution G-2726, Ordering Paragraph 4.)

Application for Rehearing

On June 18, 1987, PG&E filed Application (A.) 87-06-027 for rehearing of Ordering Paragraph 2 and modification of Ordering Paragraphs 3 and 4 of Resolution G-2726. PG&E applied for rehearing of Ordering Paragraph 2 of Resolution G-2726 asserting the following grounds of error:

> Ordering Paragraph 2 of Resolution G-2726 is contrary to Commission decisions establishing, continuing, and terminating the GEDA programs.
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> The GEDA rate procedure is a full cost of service tariff in which the ratepayer bears the cost of capital advanced for GEDA projects and realizes the benefits of successful gas exploration and development. (D.88121, dated November 22, 1987, p. 6; D.93368, dated August 4, 1981, pp. 3, 6; D.85-11-062, dated November 13, 1985, p. 5; D.86-02-032, dated February 5, 1986, pp. 1-2.) As described in a recent Commission resolution authorizing sale of the Cook Inlet, Alaska GEDA properties:
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> GEDA is a ratemaking vehicle that was instituted at a time of threatened natural gas shortages. Its purpose was to motivate gas utilities under Commission jurisdiction to seek and obtain independent gas supplies by exploration for new gas fields and development of proven reserves in existing fields. In the GEDA program the ratepayers, not the usual investors, assume the cost of exploration and development of gas reserves and reap the benefits of success if gas can be found at a price below market levels. Conversely, ratepayers bear the risk that the utilities fail to outperform independent energy companies.
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> GEDA is essentially a procedure which provides the utilities full-cost recovery and a guaranteed after-tax return on investment, with associated risks borne by ratepayers. (Resolution G-2715, dated February 11, 1987, p. 1.)

By D.87-08-062, dated August 26, 1987, in A.87-06-027 the Commission denied rehearing of Resolution G-2726. However, D.87-08-062 modified Resolution G-2726 regarding the sale of such GEDA properties and affirmed that matters regarding recovery of PG&E's remaining GEDA investment, including project financing, are appropriately addressed in I.86-06-005. Although the most recent phase of I.86-06-005 had been submitted at the time, the decision provided that motions to set aside the submission would be entertained if necessary to address GEDA matters.

On November 17, 1987, DRA and PG&E filed a stipulation and a petition to set aside submission of the proceeding and for issuance of a decision in accordance with the stipulation regarding recovery of PG&E's remaining investment in GEDA, including project financing of remaining GEDA rate base. In addition, the parties request that the above proceeding thereafter remain open in order to permit the conduct of hearings in the future regarding exceptions to certain GEDA expense items identified in DRA's audit of PG&E's GEDA program.

Although PG&E and DRA have filed a joint petition to set aside submission of A.87-06-027, since the proceeding was closed by D.87-08-062, we will treat it as petition to reopen the proceeding.

The provisions of the stipulation are:

"1. PG&E's remaining unamortized GEDA rate base attributable to all previously approved GEDA projects shall be amortized in rates over five years. NGC is authorized to project finance ninety percent (90%) of this rate base, at a rate of interest up to the prime rate plus one percent, with the remaining ten percent (10%) at PG&E's authorized rate of return. PG&E shall thereby recover one hundred percent (100%) of its remaining investment in GEDA through the GEDA balancing account.

2. PG&E's GEDA revenue requirements will be allocated to the core and non-core customer classes in direct proportion to the average-year throughput forecast for such

customer classes adopted in PG&E's A.87-04-040 and as modified in subsequent cost allocation proceedings. PG&E's GEDA revenue requirements shall be recovered on a dollar-for-dollar basis.

3. This stipulation does not resolve the exceptions to certain GEDA expense items identified in DRA's audit report. Such exceptions shall hereafter be addressed by the parties hereto and be resolved either by stipulation submitted to the Commission for review and approval or through hearings.

4. Any and all expenses incurred by NGC and/or benefits received by NGC after the effective date of the sale of NGC's GEDA properties which are attributable to such properties prior to such effective date shall be recorded, subject to review for reasonableness, in the GEDA balancing account.

5. Since existing NGC project financings of GEDA rate base must be repaid upon sale of the GEDA properties, and since prompt acquisition by NGC of new project financing of post-sale remaining GEDA rate base will result in substantial savings to the ratepayer, time is of the essence in respect to this stipulation.

6. This stipulation shall serve as PG&E's and DRA's agreed-upon basis for a Commission decision. Every part of this stipulation is material. If the Commission does not adopt this stipulation in its entirety, the parties hereto shall not be bound by any provision hereof."

No party has filed a protest to the stipulation.

Discussion

A review of the cost to the ratepayers of recovery of PG&E's GEDA investment demonstrates that amortization in rates of the remaining post-sale GEDA rate base over five years, with project financing of ninety percent (90%) of such rate base, is most beneficial to the ratepayer as shown in Exhibit A attached to the stipulation. This method of recovery of PG&E's remaining GEDA investment is consistent with the Commission's decisions regarding GEDA.

We believe that since the terms of the stipulation will provide cost savings for the ratepayers, the stipulation should be adopted.

Findings of Fact

1. Resolution G0-2726 authorized PG&E to sell the California and Rocky Mountain GEDA properties of NGC to Supply Company.

2. PG&E filed A.87-06-027 for rehearing of Resolution G-2726.

3. By D.87-08-062 in A.87-08-062 the Commission modified Resolution G-2726 and denied rehearing.

4. On November 17, 1987, PG&E and DRA filed a stipulation and a joint petition to set aside submission of A.87-08-062 and for issuance of a decision in accordance with the stipulation.

5. The petition to set aside submission of A.87-08-062 is in fact a petition to reopen the proceeding.

6. The recovery of PG&E's GEDA investment in accordance with the stipulation will provide cost savings for the ratepayers.

7. The method of recovery of PG&E's investment proposed in the stipulation is consistent with the Commission's decision regarding GEDA.

8. DRA has taken exception to certain expense items in its audit of PG&E's GEDA program.

9. PG&E and DRA request that this proceeding remain open to resolve the exception noted in Finding of Fact 8.

10. No party has filed a protest to the stipulation.

Conclusions of Law

1. The petition to reopen A.87-08-062 should be granted.

2. The stipulation filed by PG&E and DRA regarding the recovery of PG&E's remaining GEDA investment should be adopted.

3. The proceeding should remain open to resolve the issue of DRA's exception to certain GEDA expense items.

4. Since the adoption of the stipulation will result in savings to the ratepayers, the order should be made effective immediately.

INTERIM ORDER

IT IS ORDERED that:

1. Pacific Gas and Electric Company's (PG&E) remaining unamortized GEDA rate base attributable to all previously approved GEDA projects shall be amortized in rates over five years. Natural Gas Corporation of California (NGC) is authorized to project finance ninety percent (90%) of this rate base, at a rate of interest up to the prime rate plus one percent, with the remaining ten percent (10%) at PG&E's authorized rate of return. PG&E shall thereby recover one hundred percent (100%) of its remaining investment in GEDA through the GEDA balancing account.

2. PG&E's GEDA revenue requirements shall be allocated to the core and non-core customer classes in direct proportion to the average-year throughput forecast for such customer classes adopted in PG&E's A.87-04-040 as modified in subsequent cost allocation proceedings. PG&E's GEDA revenue requirements shall be recovered on a dollar-for-dollar basis.

3. Any and all expenses incurred by NGC and/or benefits received by NGC after the effective date of the sale of NGC's GEDA properties which are attributable to such properties prior to such effective date shall be recorded, subject to review for reasonableness, in the GEDA balancing account.

4. This proceeding shall remain open to resolve the exceptions to certain GEDA expense items identified in Division of Ratepayer Advocates' audit report.

This order is effective today.

Dated APR 1 3 1988, at San Francisco, California.

STANLEY W. HULETT
President
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

Commissioner Donald Vial, being necessarily absent, did not participate.

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

Victor Weisser

Victor Weisser, Executive Director

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