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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Re Resolution G-2730 re Advice Letter 1704 of Southern California Gas Company to increase the Gas Exploration and Development Adjustment revenue requirement.	Application 87-06-053 (Filed June 29, 1987)

OPINION

Summary of Decision

We adopt the joint motion of the Division of Ratepayer Advocates (DRA) and Southern California Gas Company (SoCal) to approve their Stipulation concerning the Gas Exploration and Development Adjustment (GEDA) program.

The purpose of the Stipulation is to resolve all outstanding issues related to SoCal's GEDA program, including the method of recovering SoCal's GEDA investment costs.

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 the GEDA program. D.85-11-062 ordered SoCal to submit a plan for disposal of its remaining GEDA properties. The disposal plan submitted by SoCal was approved by the Commission in D.86-08-081. In January 1987, SoCal submitted an advice letter seeking authorization to sell its remaining GEDA properties (Advice Letter 1679). The sale of SoCal's remaining properties was authorized by Resolution G-2715 dated February 11, 1987. The unamortized difference between the acquisition cost and sales price of SoCal's GEDA properties was reflected in SoCal's GEDA rate base.

On April 24, 1987, SoCal filed Advice Letter 1704 requesting authority to increase the GEDA component of its rates by $11.355 million annually to recover a portion of the difference between the unamortized GEDA investment costs and the proceeds from the sale of the GEDA properties. In Resolution G-2730 the Commission rejected Advice Letter 1704 and provided that any GEDA cost reallocation between customer classes and request to increase the GEDA rate component for the purpose of recovering the unamortized GEDA investment costs must be resolved in formal proceedings.

SoCal filed Application (A.) 87-06-053 requesting, among other things, that Resolution G-2730 be modified to provide that SoCal's GEDA cost-of-service tariff shall remain in full force and effect.

On January 28, 1988, DRA filed a motion in A.87-06-053 requesting an ex parte ruling on the ratemaking treatment to be accorded recovery of losses associated with the termination of SoCal's GEDA program. In particular, DRA requested a ruling which would allow SoCal to recover its direct investment in this abandoned program, but would not allow it to earn a rate of return on the unamortized rate base on the ground that there is no longer any GEDA property that is used and useful in serving the ratepayers. According to DRA, such a ruling would be consistent with the stipulation recently approved by the Commission (D.87-07-015) regarding the recovery of losses associated with the Energy Exploration and Development Adjustment (EEDA) program and which disallowed rate base treatment of EEDA investments. DRA states that ex parte treatment of this issue is appropriate since there is no dispute as to any material issue of fact; this is instead an issue of regulatory law.

Action in A.87-06-053 was deferred to allow DRA and SoCal an opportunity to negotiate the resolution of GEDA issues. However, in D.87-12-039 issued December 9, 1987 in I.86-06-006 and Order Instituting Rulemaking (R.) 86-06-005, the Commission authorized an annual GEDA revenue requirement of $18.4 million. This $18.4 million revenue requirement was subsequently incorporated in SoCal's rate adjustment that became effective May 1, 1988 in the proceedings restructuring the natural gas industry.

In accordance with the existing GEDA procedures, on March 23, 1988 SoCal filed Advice Letter 1777 requesting that the annual GEDA revenue requirement be reduced from $18.4 million to $15.2 million and that the difference in revenue requirement between the $18.4 million adopted in D.87-12-039 and the $15.2 million revenue requirement be reconciled in the amortization account for transition costs authorized in D.87-12-039. GEDA expenses are classified as transition costs by that decision.

On June 17, 1988 the Commission issued Resolution G-2785 which approved Advice Letter 1777, including SoCal's request to reconcile the revenue requirement decrease in SoCal's transition cost amortization account.

On August 10, 1988, DRA and SoCal filed a joint motion for approval of their Stipulation for resolving all outstanding issues concerning SoCal's GEDA program, including the method of recovering the GEDA investment costs. The Stipulation was filed in A.87-06-053.

The dispositive portion of the Stipulation provides:

"1. SoCalGas shall be authorized to recover in rates, on a dollar-for-dollar basis, $32.6 million which consists of its remaining unamortized net GEDA investment costs as of June 30, 1988 of $19.4 million grossed-up to include state and federal income taxes at current rates. This amount shall be added to the present undercollection of the GEDA revenue requirement as of June 30, 1988 of $3.8 million to arrive at an adjusted balance of $36.4 million. Such adjusted balance shall be added to the balance of SoCalGas' Consolidated Adjustment Mechanism (CAM) balancing accounts for core and noncore customers existing as of April 30, 1988 and shall be recovered in rates from core and noncore customers on an equal cents per therm basis as set forth in Commission No. D.87-12-039.

"2. It is expected that SoCalGas will continue to incur expenses and receive revenues associated with the winding down of its GEDA activities. Such expenses may include tax payments to state and federal tax agencies for redetermination of income taxes and related interest expenses. These expenses and revenues, as adjusted for state and federal income taxes, shall be debited or credited to the April 30, 1988 CAM balancing account balances until such time as the Commission shall determine otherwise, after which time such future adjustments shall be recorded in the GEDA transition cost account established in D.87-12-039.

"3. The DRA has distributed an audit report concerning SoCalGas' GEDA expenses dated December 1987. This audit report has been reviewed and discussed between SoCalGas and the DRA. SoCalGas and the DRA hereby agree that the accounting issues raised in the DRA's audit report have been reviewed between them and that no further adjustment to reflect the audit report is necessary.

"4. If this Stipulation is not approved by the Commission, the GEDA cost-of-service tariff approved in prior Commission decisions shall continue in effect.

"5. This Stipulation shall not be effective or binding on any party unless it is approved by the Commission. Every term and condition of this Stipulation is material.

> Neither SoCalGas nor the DRA shall be bound by this Stipulation if the Commission does not approve the Stipulation in its entirety. This Stipulation shall not be used as precedent for any purpose."

A copy of the Stipulation was served on all parties in the proceeding and no party has filed any comments or protest to the Stipulation.

Discussion

We note that SoCal, by the Stipulation, will transfer its unamortized GEDA investment costs (adjusted for federal and state taxes) to its CAM balancing account. This action will be in conformance with DRA's suggested treatment for the costs. This treatment will also be consistent with treatment of losses associated with the EEDA program adopted in D.87-07-015.

The ratepayers benefit from this SoCal transfer since the costs will no longer be receiving a return equivalent to SoCal's rate of return, but will be receiving the lesser CAM balancing account interest rate.

Since the terms of the Stipulation conform to the treatment of losses associated with the EEDA program and are beneficial to the ratepayers, we find that the Stipulation is reasonable and should be adopted.

It should be noted that in a case where SoCal seeks recovery of costs not previously reflected in rates, we would authorize recovery effective from the date of our decision. However, in this instance the GEDA revenue requirement has been reflected in SoCal's rate base. Since these costs are currently reflected in rates and since the stipulation proposes only to change the form of recovery from rate base to a balancing account, we believe that a retroactive adjustment is appropriate.

Findings of Fact

1. SoCal filed Advice Letter 1704 requesting authority to increase rates to recover a portion of the difference between the unamortized GEDA investment costs and proceeds from the sale of its GEDA properties.

2. The Commission rejected Advice Letter 1704 by Resolution G-2730 and provided that any GEDA cost allocation between customer classes and approval to increase the GEDA rate component for the purpose of recovering the unamortized GEDA investment costs shall be resolved in formal hearings.

3. SoCal filed A.87-06-053 requesting rehearing of G-2730.

4. On August 10, 1988, DRA and SoCal filed a joint motion for approval of a Stipulation for resolving all outstanding issues concerning SoCal's GEDA program.

5. The terms of the Stipulation are consistent with the treatment of losses associated with the program.

6. The method of recovery of SoCal's GEDA investment proposed in the Stipulation will provide cost savings for the ratepayers.

7. No party has filed a protest to the Stipulation.

Conclusions of Law

1. The Stipulation filed by DRA and SoCal regarding the treatment of SoCal's GEDA program should be adopted.

2. Since the adoption of the Stipulation will result in savings to the ratepayers, this order should be made effective immediately.

O R D E R

IT IS ORDERED that:

1. Southern California Gas Company (SoCal) shall be authorized to recover in rates, on a dollar-for-dollar basis, $32.6 million which consists of its remaining unamortized net GEDA

investment costs as of June 30, 1988 of $19.4 million adjusted to include state and federal income taxes at current rates. This amount shall be added to the present undercollection of the GEDA revenue requirement as of June 30, 1988 of $3.8 million to arrive at an adjusted balance of $36.4 million. Such adjusted balance shall be added to the balance of SoCalGas' Consolidated Adjustment Mechanism (CAM) balancing accounts for core and noncore customers existing as of April 30, 1988.

2. SoCal's GEDA revenue requirements shall be recovered in rates from core and noncore customers on an equal cents per therm basis as set forth in D.87-12-039.

3. SoCal's expenses and revenues associated with the winding down of its GEDA activities, as adjusted for state and federal income taxes, shall be debited or credited to the April 30, 1988 CAM balancing account balances until the CAM balancing account ceases to exist, after which time such future adjustments shall be recorded in the GEDA transition cost account established in D.87-12-039.

4. This proceeding is terminated.

This order is effective today.

Dated November 23, 1988, at San Francisco, California.

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

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

Victor Weisser, Executive Director

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2. SoCal's GEDA revenue requirements shall be recovered in rates form core and noncore customers on an equal cents per therm basis as set forth in D.87-12-039.

3. SoCal's expenses and revenues associated with the winding down of its GEDA activities, as adjusted for state and federal income taxes, shall be debited or credited to the April 30, 1988 CAM balancing account balances until the CAM balancing account ceases to exist, after which time such future adjustments shall be recorded in the GEDA transition cost account established in D.87-12-039.

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