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Decision 89 03 053 MAR 2 2 1989 ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHERN CALIFORNIA UTILITY POWER POOL and IMPERIAL IRRIGATION DISTRICT to Modify Resolution No. G-2787.	Application 88-04-062 (Filed April 20, 1988) Mailed MAR 2 3 1989
Order Instituting Investigation on the Commission's Motion into implementing a rate design for unbundled gas utility services consistent with policies adopted in Decision 86-03-057.	I.86-06-005
And Related Matters.	R.86-06-006 Application 87-01-033 Application 87-01-037 Application 87-04-040

OPINION MODIFYING DECISION

By this order, we grant Pacific Gas and Electric Company's (PG&E) petition to modify Decision (D.)88-08-070. Its petition, filed September 23, 1988, asks the Commission to delete the requirement in D.88-08-070 that demand charges for UEGs be prorated during periods of capacity or supply curtailment. PG&E requests, in the alternative, that the Commission provide a mechanism for recovery of the loss of such revenue from all other ratepayers.

The Division of Ratepayer Advocates (DRA), Toward Utility Rate Normalization (TURN), and Southern California Gas Company (SoCalGas) filed responses supporting the petition. Southern California Utility Power Pool and Imperial Irrigation District (SCUPP) and Southern California Edison Company (SCE) filed responses opposing the petition.

I. Background

In D.88-08-070, the Commission granted a petition for modification of Resolution G-2787. The petition asked that the demand charges paid by UEG customers be prorated during periods of capacity curtailments.

In our order, we found that imposing full demand charges during curtailments would be unfair because UEG customers receive no future reductions in demand charges as a result of an unforecasted capacity curtailment. We found that because demand charges are based on forecasted monthly sales (not "ratcheted"), they represent UEG customers' appropriate payments for the services which the gas utility provides them in that month.

II. Positions of the Parties

A. PG&E

PG&E's petition argues essentially that the Commission erred in D.88-08-070 because that order overlooked policy set forth in other decisions. PG&E states that in G-2787 the Commission first refused SCUPP's proposal because "the utility would not be fully compensated for transmission service already provided." PG&E states that whether the demand charge is set based on an historical record or a forecast, a demand charge is an "allocation of costs for which the utility is entitled to receive compensation."

PG&E also cites that portion of G-2787 which states that gas supplies to UEG customers are not guaranteed and are provided on a "best efforts" basis. Accordingly, a demand charge should not be reduced when a curtailment occurs.

Finally, PG&E's petition argues that UEG curtailments are already reflected in rates because D.87-12-039 established allocation factors which are based on a cold year forecast. If UEG customers are relieved from demand charges during curtailment, they will receive a double benefit.

PG&E requests that the Commission allocate to other customer classes revenue losses associated with the prorated demand charge if it does not reverse D.88-08-070.

B. DRA

DRA supports PG&E's request to reinstate the demand charge during periods of curtailment. It agrees that demand charges do not guarantee service to UEG customers and that consequently UEG customers should continue paying their share of fixed costs during curtailments. DRA agrees that even though the demand charge is based on a forecast rather than historical usage, it does not represent a payment for future service.

DRA also cites D.86-12-004 which allocates demand related costs on the basis of cold year throughput. Curtailments are most likely during cold years. Accordingly, UEG customers "have already been compensated for curtailments through the cost allocation procedure."

Finally, DRA cites D.87-01-044 where we noted that the purpose of demand charges is to provide revenue stability and send appropriate signals with regard to the utility's long run fixed costs. Accordingly, all noncore customers should be required to pay demand charges during curtailment.

C. SoCalGas

SoCalGas supports PG&E's request and notes that the Commission has reflected capacity curtailments in cost allocations by basing demand related costs on cold year peak demand periods. By relieving UEG customers of demand charges, the Commission would confer a double benefit on UEG customers. It argues that UEG customers do not pay for firm service and should therefore continue paying demand charges during curtailments.

D. TURN

TURN agrees with PG&E, SoCalGas, and DRA that relieving UEG customers from demand charges during curtailments provides a double benefit to those customers. Such a double benefit would constitute a subsidy from core gas customers.

TURN states further that "if the UEGs are not required to pay higher demand charges for usage above the forecast, they should not be excused from payment where curtailment results in their using less than the forecast."

TURN also argues that shifting of costs to other customer classes would violate Public Utilities (PU) Code § 739.6 which bars changes in the adopted cost allocation methodology until 1991.

TURN proposes that the Commission consider, as an alternative to prorated demand charges, base UEG rates on historical gas usage rather than forecasted gas usage. Using an historical base would guarantee that UEG customers will pay less over time as a result of curtailment. TURN recommends modifying D.87-12-039 to effect this change.

E. SCE

SCE opposes PG&E's petition, stating that "if gas utilities cannot provide the level of service UEG customers pay for, UEG customers should be relieved from paying that portion of their demand charge." UEG demand charges, according to SCE, represent payments for a level of service which takes into account an expected level of curtailment. D.88-08-070 only relieves UEGs from curtailments beyond those reflected in the forecast of throughput.

SCE states that gas utilities recover demand costs, even when they are not charged during curtailment, to the extent curtailments are accounted for in the forecast. When the gas utilities levy demand charges during curtailments, they do not have appropriate incentives to increase system capacity so that curtailments do not occur in the future. SCE also comments that additional demand payments increase the cost of gas to electric customers.

Finally, SCE believes TURN's proposal would be a violation of PU Code § 739.6 because its proposal represents a change to the cost allocation methodology.

F. <u>SCUPP</u>

SCUPP's response argues that prorated demand charges do not result in an underrecovery of gas utility revenues because demand charges are payments made in return for making capacity available. When capacity is unavailable, demand charges should not apply. Like SCE, SCUPP argues that UEG customers do not realize a double benefit when they are relieved from demand charges because the proration provision only applies when curtailments exceed those reflected in the monthly forecast.

SCUPP also objects to PG&E's request to make up revenue losses by allocating those losses to other customers. Resulting losses, according to SCUPP, should be borne by the utility under the provisions of the settlement adopted by the Commission in D.86-12-010.

III. <u>Discussion</u>

We agree with DRA that D.88-08-070 is inconsistent with the purpose of demand charges and the implementation of cost allocation and rate design principles. As we stated in D.87-01-044, one of the functions of the demand charge is to signal long-run fixed costs to customers. This objective would be undermined by the elimination of those charges during short-term capacity curtailments.

We have used forecasts to estimate appropriate demand charges. It does not follow, however, that the charge should be relieved when the forecast is wrong. We routinely use forecasts in setting rates and do not adjust those rates during periods when forecasted values do not match recorded values.

PG&E, DRA, TURN, and SoCalGas are correct that UEG curtailments are reflected in cold year estimates of demand related charges. Accordingly, UEG customers already receive a sort of discount through their rates to account for the interruptible nature of their service. Relieving the UEGs from demand charges when curtailments exceed those forecast essentially provides a guarantee to UEGs that they will never pay more revenues than the forecast predicts. Such guarantees are not provided under test year ratemaking. As TURN states, if UEG customers are permitted to pay less when service is less than forecast, they should pay more when service levels are higher than forecast. Commission policy does not provide for this reciprocation and no party suggests it. Under our original policy, UEGs will, on average, pay the appropriate revenue requirement. Accordingly, prorated demand charges confer a double benefit on UEG customers.

SCE is correct that demand charges levied during periods of curtailment are passed along to electric ratepayers. However, under D.88-08-070, the gas utility must bear the burden of lost revenue. Since some customer group must pay the fixed costs of the gas system, it is appropriate that we allocate those costs to those customer groups which incur them.

Since we will grant PG&E's request to reinstate UEG demand charges during periods of curtailment, we do not need to rule on whether PG&E's alternative request--that the Commission allow recovery of lost revenues from other customers if it does not reinstate demand charges--violates Section 739.6.

TURN's recommendation that we base UEG rates on historical rather than forecast values is one that interests us. However, we would prefer to review this type of proposal in the context of other related ACAP issues in order to have a more complete record. We suggest that TURN raise this issue in PG&E's next ACAP if it so desires.

The effect of our gas rate design on the payments paid by electric companies to qualifying facilities (QFs) has been a recurring theme throughout our gas industry restructuring. One aspect of the relationship between gas rate design and payments to cogenerators is of particular concern to us in considering PG&E's petition; during a gas curtailment in which demand charges are not prorated, are electric ratepayers unfairly disadvantaged in both paying demand charges to the gas utility and paying increased energy payments to QFs?

As part of our continuing effort to improve the working of our new gas industry structure we commit ourselves to considering and resolving as quickly as possible in an appropriate proceeding (or proceedings) the interplay between energy payments to QFs and our gas rate design as it applies both to cogenerators and to UEGs.

Findings of Fact

1. One of the purposes of the demand charge is to signal long run fixed costs to customers.

2. Relieving customers from demand charges on the basis of short term events, whether supply- or capacity-related, would undermine one of the purposes of the demand charge.

3. Under test year ratemaking, the Commission does not adjust on a monthly basis rates set to recover fixed costs when forecasted values are inconsistent with actual values.

4. Anticipated curtailments are reflected in UEG rates because estimates of demand-related costs are based on cold year throughput.

5. Relieving UEG customers from demand charges during curtailments would confer a double benefit on UEG customers.

6. TURN's proposal to base UEG rates on historical rather than forecast values is appropriately considered along with related

ACAP issues in an ACAP proceeding, where a more complete record would be developed.

<u>Conclusions of Law</u>

1. It is reasonable that UEG customers should continue to pay demand charges during periods of supply or capacity curtailment.

2. PG&E's petition to modify D.88-08-070 should be granted to the extent outlined in this order.

3. TURN's petition to modify D.87-12-039 should be denied.

<u>O R D E R</u>

IT IS ORDERED that:

1. Ordering Paragraph 1 of Decision 88-08-070 is vacated.
2. TURN's request to modify Decision 87-12-039 is denied.

This order is effective today.

Dated March 22, 1989, at San Francisco, California.

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

Commissioner Patricia Eckert
present but not participating.

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

Victor Weisser, Executive Director

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Commissioners

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