

OCT 15 1990

Decision 90-10-035 October 12, 1990

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

| | |
|---------------------------------------|---------------------------|
| In the Matter of the Application of) | |
| SOUTHERN CALIFORNIA GAS COMPANY) | |
| (U 904 G) for authority to increase) | |
| rates charged for gas service based) | Application 88-12-047 |
| on test year 1990 and to include an) | (Filed December 27, 1988) |
| attrition allowance for 1991 and) | |
| 1992.) | |

(See Decision 90-01-016 for List of Appearances.)

INTERIM OPINION

Summary

Southern California Gas Company (SoCalGas) is authorized a revenue increase to implement a Research, Demonstration and Development (RD&D) program aimed toward (1) improvements and advancements in emission control for existing equipment and known technology such as burners, post-combustion controls, and prime movers; (2) development of new vehicle technologies to enable the use of cleaner-burning fuels; and (3) development of new, environmentally benign energy technologies such as fuel cells and ultra low emissions prime movers. The supplemental funding level will be \$4.1 million, \$4.9 million, and \$5.8 million for 1990, 1991, and 1992, respectively.

Also, this decision adopts a settlement reached between the Division of Ratepayer Advocates (DRA) and SoCalGas regarding SoCalGas' proposal to reallocate 1990 capital from its pipeline replacement program to the Southern Pipeline Expansion Project.

Background

In SoCalGas's test year 1990 test year general rate case decision the Commission stated:

"In addition, recent developments, related primarily to SCAQND's new air quality plan and President Bush's environmental initiatives, may have created an increased need for research programs related to conservation and to improving air quality in southern California. We believe that there may be a need to develop low NOx burners, to develop heavy duty CNG vehicles and related technology, to develop technology designed to reduce emissions from gas burning equipment, and to develop new conservation technologies. Since these areas of research were not addressed by SoCalGas or DRA, we will hold open this proceeding to receive further testimony on such a RD&D program. Accordingly, we direct SoCalGas to submit additional testimony and funding proposals for appropriate RD&D projects related to increasing environmental quality and conservation efforts. This testimony should be served on all parties no later than March 30, 1990. All parties will have an opportunity to submit testimony. Evidentiary hearing will be scheduled thereafter in a separate phase of this proceeding." (D.90-01-016, pg. 92.)

As directed, SoCalGas filed testimony responding to the Commission's interest in establishing RD&D programs that addressed southern California's environmental protection and air pollution control needs. Hearings on the proposed RD&D programs were held on May 14 and June 4, 1990 in Los Angeles.

Testimony of SoCalGas

SoCalGas witnesses Christensen and Olsen submitted prepared testimony (Exhibits 245 and 246) requesting:

- a. Authorization of supplemental funds to increase RD&D activities. The amount of funds requested totals \$4.1 million in the first year, \$4.9 million in the second year, and \$5.8 million in the third year. The proposed work will involve research aimed toward (1) improvements and advancements in emission control for existing equipment and known technology such as burners, post-combustion controls, and prime movers; (2) development of new vehicle technologies

to enable the use of cleaner-burning fuels; and (3) development of new, environmentally benign energy technologies such as fuel cells, and ultra low emissions prime movers. Gas equipment prototypes developed through this research will be demonstrated as part of technology transfer activities covering demonstration, education and information exchange to prepare the equipment or process for introduction into the user market; and

- b. That an interim memorandum account be authorized to provide a future vehicle for SoCalGas to request authority, via advice letter, to record additional but presently unquantifiable funding for air quality-related efforts required by regulatory bodies not otherwise included in rates. These recorded expenses would be subject to a reasonableness review by the Commission prior to authorization for rate recovery.

After conferring with the DRA, SoCalGas filed additional direct testimony (Exhibit 246A) reallocating funding for several program categories. This testimony was served on May 18, 1990 along with a joint SoCalGas/DRA exhibit (Exhibit 251). The programs proposed by the additional testimony and the joint exhibit are the same as originally proposed by SoCalGas. However, the joint proposal places a greater emphasis upon new vehicle technology and includes hazardous and solid waste reduction research under advances energy technologies. The supplemental funding will be allocated among the three program areas as follows:

| | Funding (Thousands of Dollars) in 1990 Dollars | | |
|------------------------------|--|---------------|---------------|
| | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> |
| Emission Control Technology | 1,800 | 2,000 | 2,100 |
| New Vehicle Technology | 1,700 | 2,000 | 2,200 |
| Advanced Energy Technologies | <u>600</u> | <u>900</u> | <u>1,500</u> |
| Total Per Year | 4,100 | 4,900 | 5,800 |

Testimony of the DRA and Intervenors

Testimony supporting SoCalGas' request for the Memorandum Account was submitted by DRA (Exhibit 253). Southern California Edison Company (Edison) submitted testimony on May 24, 1990. The California Energy Commission (CEC) also submitted a letter addressing the SoCalGas request for supplemental research (Exhibit 255).

Position of the DRA

DRA agrees with SoCalGas' request for a memorandum account to track additional air quality related costs. However, DRA contends that the expenses eligible for the memorandum account should be limited to project-specific costs on air quality-related projects, be segregated from projects already authorized by the Commission in the general rate case decision (D.90-01-016), and exclude (1) any SoCalGas direct administrative and general (A&G) expenses or related A&G overheads; (2) Pacific Enterprise charges or overheads; (3) public relations costs; and (4) advertising and/or promotional opportunity expenditures which are not program specific.

Position of Intervenors

Edison supports the RD&D request, but takes issue with a statement made in Response No. 10 of SoCalGas witness Olsen's direct testimony (Exhibit 246) regarding the superior efficiency of natural gas for mechanical and thermal energy use. Edison witness Bunnell testified to the contrary (Exhibit 254) stating specific exceptions to Mr. Olsen's statements.

The CEC letter (Exhibit 255) also supports the RD&D request but requests clarification on whether the proposed supplemental RD&D programs adequately address energy efficiency as opposed to low emission, especially in residential use, and whether an analysis was made of the need of new natural gas supply technology that may arise as a result of increased demand created by new natural gas technologies.

The CEC further supports a program for SoCalGas similar to Edison's Consumer Technology Application Center (CTAC) as a successful education facility which encourages both increased efficiency and emissions reduction.

Position of SoCalGas

SoCalGas agrees to the conditions proposed by the DRA for the Memorandum Account, provided that the listed restrictions would not exclude project-specific costs covering direct program specific expenses, or expenses related to improving awareness among equipment manufacturers, customer and public policy makers, of the characteristics and benefits of new technologies that are an outcome of the RD&D funding authorized by the Commission. SoCalGas believes that such informational and educational programs would foster the commercialization of RD&D efforts, providing maximum benefits to ratepayers.

SoCalGas addressed Edison's concerns regarding the relative efficiency of various energy options. SoCalGas agrees with Edison that the best form of energy for any use is the most efficient and economic form considering environmental constraints. Although the two utilities dispute which energy is better for motion applications, both agreed that there is a need to have multiple forms of energy available as viable choices.

In response to the clarification requested by the CEC, SoCalGas explains that (1) the supplemental RD&D program for advanced industrial, commercial as well as residential equipment is directed toward achieving a balance between an acceptably low emissions level and a given fuel conservation goal; and (2) current levels of RD&D funding by agencies such as the Department of Energy and the Gas Research Institute adequately cover the development of new gas supply technologies that might be needed to meet increasing demands for natural gas as a result of advanced equipment research.

SoCalGas concurs with and supports CEC's recommendation for a CTAC type program and is interested in pursuing this recommendation.

SoCalGas proposes that the supplemental funding for RD&D, when it is authorized by the Commission, will become part of the balancing account previously established by the Commission in D.90-01-016 for RD&D related expenditures. SoCalGas requests authority to commence expenditures related to the supplemental funding effective on the date of the Commission's decision. Amortization of the amounts so recorded will begin on January 1, 1991 by inclusion in SoCalGas' Attrition Advice Letter for that year and will continue in a like manner for each of the succeeding years.

Discussion

We believe that air quality improvement is one of the most significant issues facing southern California today. And in approving this supplemental funding request for SoCalGas' RD&D program, we are providing support to the South Coast Air Quality Management Districts' (SCAQMD) formally adopted Air Quality Management Plan, which is a 20-year plan designed to force southern California to attain federal standards.

We note that SoCalGas' request for supplemental funding of \$4.1 million, \$4.9 million, and \$5.8 million for 1990, 1991, and 1992, respectively, is supported by DRA and CEC. We believe that such expenditures for RD&D on technology for air pollution control hardware is in the ratepayers' interest and SoCalGas' funding request should be approved.

Regarding the specifics of SoCalGas' RD&D program adopted herein, we share the CEC's and Edison's view, that SoCalGas' programs should focus on technologies that reduce both emissions and energy use. Accordingly we expect SoCalGas to examine both efficiency and emissions, and their relationship, in developing

programs to improve air quality. With this understanding we will approve SoCalGas' funding request.

However, we will not grant SoCalGas' request for an Interim Memorandum Account to provide additional funding for other air quality developments as they occur, which cannot be quantified at this time. We appreciate the need for SoCalGas to be able to respond to emerging developments both in the air quality research area and the air quality regulatory area, but we do not wish to provide SoCalGas with a "blank check".

We agree that there is a need to streamline the process whereby SoCalGas could, if necessary, obtain additional funding for worthwhile programs as these become apparent. The Commission has responded to this need for flexibility in developing RD&D programs by adopting a new structure for reviewing costs associated with RD&D (D.90-09-045).

The new structure for regulating RD&D activities for SoCalGas will take effect in its next Notice of Intention (NOI) and general rate case. In response to SoCalGas' application in its next general rate case, the Commission will adopt both an authorized level of RD&D for test year ratemaking and an RD&D range with minimum and maximum levels over which SoCalGas' RD&D budget can range.

Having adopted this new framework for regulating RD&D, we see no need to adopt an interim procedure in order to allow SoCalGas to obtain additional funding prior to its next general rate case. Thus, if SoCalGas requests authorization for supplemental funding for air quality improvement projects not already covered by the funding granted in this decision, it already has the ability to ask for authorization by submitting an application to the Commission for approval. The application must include all information necessary to evaluate the supplemental funding, including an explanation why SoCalGas believes ratepayers

should provide supplemental funding. If the utility application is complete and non-controversial, the Commission would hope to expedite project funding through ex parte treatment of the utility request.

Southern Pipeline Expansion Project

During the course of the hearings in the general rate case proceeding, SoCalGas proposed to reallocate 1990 capital from its pipeline replacement program to its Southern Pipeline Expansion Project. DRA objected to this proposal and subsequent hearings were scheduled to review this matter. However, during the hearings on this RD&D funding request, DRA and SoCalGas informed the record that they had reached an agreement on the capital reallocation issue (Exhibits 243 and 244) and hearings would not be required.

Exhibits 243 and 244 contain two letters from SoCalGas to the Commission's Safety Division wherein SoCalGas confirms the reallocation of dollars from its transmission and distribution pipeline replacement programs to fund its Southern System Expansion. In these letters SoCalGas addresses the Safety Division's concerns over the reallocation of dollars from the special pipeline replacement program to fund the Southern Pipeline Expansion Project. Specifically, SoCalGas agreed not to defer those projects identified by the Safety Division as having the highest priority in terms of public safety considerations. In fact, for those projects identified by the Safety Division, SoCalGas has agreed to increase its 1990 expenditures above its previously planned budgets.

The Safety Division also stipulated to a deferral in spending for the hazardous meter, isolation area and cathodic protection programs in 1990. SoCalGas agrees that the \$3.5 million reduction in 1990 spending will be restored by increases of \$1.75 million per year for 1991 and 1992. As such, the reduced 1990 allocation will have no impact on these programs over the three-year rate case cycle.

Finally, SoCalGas agreed to a mechanism for addressing the capital expenditures for the special pipeline replacement program. If the cumulative total dollars of \$93.7 million for both Transmission and Distribution for the years 1990-1992 is not spent by the end of 1992, SoCalGas will be required to refund the revenue requirement associated with the return on any unspent amounts.

Copies of these exhibits were served on all parties with notice that parties had 10 days to file comments. No comments were received. We will adopt the agreement.

Section 311 Comments

Pursuant to Public Utilities Code § 311, the Administrative Law Judge's proposed decision was mailed on August 31, 1990. Comments were received from SoCalGas. Where appropriate, changes were made to the proposed decision.

Findings of Fact

1. SoCalGas should be provided with supplemental funding to implement RD&D programs for improvements in emission control, new vehicle technologies to use cleaner-burning fuels, and development of new and environmentally benign energy technologies.

2. SoCalGas' RD&D programs should examine both efficiency and emissions, and their relationship, in developing programs to improve air quality.

3. A supplemental funding level of \$4.1 million, \$4.9 million, and \$5.8 million for 1990, 1991, and 1992, respectively, is reasonable for these programs.

4. SoCalGas should be authorized to recover in its 1991 attrition filing the \$4.1 million for 1990 and the \$4.9 million for 1991, plus inflation. The 1992 attrition filing would recover the \$5.8 million for 1992, plus inflation.

5. The supplemental funding authorized in this decision should be subject to the same conditions as the RD&D funding authorized by SoCalGas' test year 1990 general rate case

D.90-01-016, and should be included in the same one-way interest bearing memorandum account.

6. If SoCalGas requests supplemental funding authorization to respond to changing and emerging air quality developments prior to its next general rate case, it must do so by filing an application with the Commission.

7. All funding authorized in this decision is in 1990 dollars and should be subject to the appropriate inflation adjustment in the attrition mechanism.

8. DRA and SoCalGas settled their differences regarding SoCalGas' proposal to reallocate 1990 capital from the pipeline replacement program to the Southern Pipeline Expansion Project (Exhibits 243 and 244). SoCalGas should implement the pipeline replacement program as agreed in these exhibits.

Conclusions of Law

1. SoCalGas' request for supplemental funding for RD&D programs should be granted to the extent set forth in this decision.

2. The agreement between DRA and SoCalGas on SoCalGas' proposal to reallocate 1990 capital should be approved.

INTERIM ORDER

IT IS ORDERED that:

1. Southern California Gas Company's (SoCalGas) request for supplemental funding for Research, Development and Demonstration (RD&D) programs is granted. The revenue amounts authorized for each year are \$4.1 million, \$4.9 million and \$5.8 million for 1990, 1991, and 1992, respectively. These amounts are the total supplemental funding level for each year. SoCalGas may seek recovery of these amounts through inclusion in its annual attrition filing.

2. SoCalGas is authorized to recover in its 1991 attrition filing the \$4.1 million for 1990 and the \$4.9 million for 1991 plus inflation. The 1992 attrition filing would recover the \$5.8 million for 1992 plus inflation.

3. The supplemental funding authorized by this decision is subject to the same conditions as the RD&D funding authorized in SoCalGas' test year 1990 general rate case Decision (D.) 90-01-016, and shall be included in the same one-way interest bearing memorandum account. All cumulative underspending shall be returned to the ratepayers in the next general rate case cycle or credited toward future expenses. SoCalGas shall not be compensated for any overexpenditures.

4. The expenses eligible for the memorandum account shall be limited to project-specific costs on air quality-related projects, and shall be segregated from projects already authorized by the Commission in the general rate case decision (D.90-01-016), and exclude (1) any SoCalGas direct administrative and general (A&G) expenses or related A&G overheads; (2) Pacific Enterprise charges or overheads; (3) public relations costs; and (4) advertising and/or promotional opportunity expenditures which are not program specific.

5. If SoCalGas requests supplemental funding authorization to respond to changing and emerging air quality developments prior to its next general rate case, it must do so by filing an application with the Commission.

6. The agreement (Exhibits 243 and 244) between SoCalGas and Division of Ratepayer Advocates regarding reallocation of 1990 capital is approved. SoCalGas shall implement the pipeline replacement program as agreed in these exhibits.

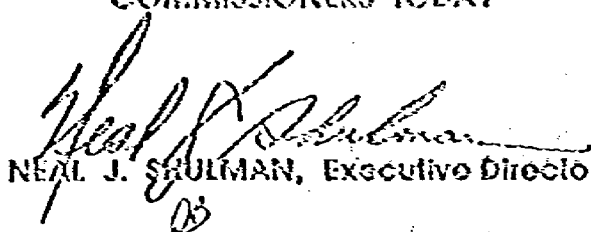
7. This proceeding shall remain open for review of other matters pending before the Commission.

This order is effective today.

Dated October 12, 1990, at San Francisco, California.

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

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


NEAL J. SHULMAN, Executive Director