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Decision 91-05-039 May 22, 1991

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Investigation on)
 the Commission's own motion into)
 implementing a rate design for)
 unbundled gas utility services)
 consistent with policies adopted in)
 Decision 86-03-057.)

ORIGINAL

I.86-06-005

(Filed June 5, 1986)

And Related Matters.)

R.90-02-008

R.86-06-006

(See Appendix A for appearances.)

OPINION

This decision adopts, with minor modifications, the rate design proposals of Southern California Gas Company (SoCal), Pacific Gas and Electric Company (PG&E), and San Diego Gas & Electric Company (SDG&E). The proposals, submitted pursuant to Decision (D.) 90-09-089, would eliminate demand charges for noncore gas customers in favor of seasonally differentiated volumetric rates. This decision also adopts a stipulation under which demand charges for utility electric generation (UEG) departments of combined utilities would be retained.

Background

In D.90-09-089, we stated our intent to eliminate demand charges in favor of all-volumetric rates, with the condition that all-volumetric rates would be designed to reflect the different costs of serving customers during different seasons of the year. We directed SoCal, PG&E, and SDG&E to submit proposals with these principles in mind.

Hearings were held on this issue in January 1991 and focused on minor issues raised by the utility proposals. During the course of the hearing, the assigned administrative law judge ruled that proposals by PG&E and Toward Utility Rate Normalization (TURN) to retain demand charges for UEGs of combined utilities were beyond the scope of the hearing. The parties' testimony was stricken because the issue had been resolved in another docket, R.90-02-008. On January 4, 1991, PG&E filed a petition in R.90-02-008 to modify D.90-12-100 seeking to retain demand charges for UEGs of combined utilities. On January 18, 1991, several parties filed a stipulation in R.90-02-008 and R.86-06-005 addressing the issue of UEG demand charges. This decision addresses the stipulation.

**Proposals for Seasonally
Differentiated Rates**

PG&E, SDG&E, SoCal, Division of Ratepayer Advocates (DRA), and Southern California Utility Power Pool and Imperial Irrigation District (SCUPP/IDD) propose volumetric rates which would vary according to season. The variations would reflect cost differences occurring as a result of demand changes over the course of a year. The higher cost of storage during the winter season is the primary cause of seasonal cost differences.

TURN and California Industrial Group (CIG) recommend eliminating rate differentials between the industrial class and the P-2B class by combining them into a single class. TURN and CIG reason that the rate differential is small, and combining the rate classes will simplify rate design. The proposal is supported by SoCal and DRA, and no party objects to it. We will adopt the proposal because it would simplify rate design without compromising rate design objectives.

SoCal proposes that wholesale rates for the City of Long Beach (Long Beach) be set so that the volumetric rate to Long Beach equals that which SoCal charges Southern California Edison Company (Edison). The remainder of revenues currently allocated to Long Beach would be collected in a demand charge. SoCal's proposal would be interim until the effective date of the next rate revision. Long Beach comments that SoCal's proposal addresses a longstanding controversy regarding its wholesale rates. It comments that SoCal's proposal is a step in the right direction and supports it as an interim measure. We will adopt SoCal's proposal for wholesale rates to Long Beach because it would allow Long Beach to compete more effectively with SoCal for Edison's UEG requirements.

California Cogeneration Council (CCC) proposes that PG&E equalize its UEG and cogeneration rates seasonally rather than annually. PG&E does not object to this proposal. We will adopt

CCC's proposal in order to preserve rate parity between UEGs and cogenerators.

The utility proposals raised little other controversy. With the minor modifications discussed above, they are reasonable and will be adopted with the exception that DRA's proposal, which is not opposed by SoCal, is adopted.

SoCal's Proposal to Establish
a Tracking Account

Although SoCal does not oppose DRA or SCUPP/IDD's proposals for seasonally differentiated rates, it comments that it will not have an opportunity to recover its rate of return if the Commission establishes the rates on August 1, 1991. SoCal states the lower summer rates would be in effect for several months before its new rates are set under the biannual cost allocation proceeding (BCAP) cycle. SoCal estimates the potential loss would be about \$5 million. It urges the Commission to establish a tracking account to enter the difference between the revenues associated with authorized rates and the revenues from lower rates which would be effective August 1, and to allow it to recover undercollections in its BCAP decision. Alternatively, it recommends the new rate be deferred until the effective date of the BCAP rate changes.

DRA opposes the establishment of a tracking account. It argues the undercollection would be relatively small, and would be even smaller with the concurrent implementation of the 75/25% balancing account adopted in D.90-09-089. DRA also believes that undercollections are likely to be less than \$5 million because throughput may be higher than forecasted or the BCAP revision date may not become effective until the winter season.

We intend to implement the rate design changes adopted in D.90-09-089 on the same date that other program changes become effective in order to avoid additional program complexities. We will not, therefore, defer these rate design changes until SoCal's BCAP revision date. The rate design changes may, as SoCal points

out, result in lower revenues for the end of the summer period than we anticipated in SoCal's last annual cost allocation proceedings (ACAP). We hesitate to establish yet another tracking account, especially because the likelihood of undercollections is small. On the other hand, it would be unfair to impose an additional element of risk on SoCal at this time. We will permit SoCal to establish a tracking account. SoCal should enter into the tracking account the difference between the revenues associated with the most recent ACAP rates and the revenues from the prevailing summer (or winter) rates times actual throughput. The tracking account will be eliminated on the effective date of SoCal's subsequent BCAP decision. If we allow SoCal to recover imbalances in the tracking account, we will allocate them to noncore customers because related costs are incurred on their behalf. The imbalances will be subject to review in SoCal's BCAP.

The Stipulation Retaining Demand Charges for UEGs of Combined Utilities

The parties filed a stipulation in this proceeding and in R.90-02-008 which would retain demand charges for UEGs of combined gas and electric utilities. The stipulation was signed by PG&E, TURN, CCC, DRA, SDG&E, Edison, and SCUPP/IDD. No party opposes the stipulation.

PG&E strongly supports the stipulation because UEGs of combined utilities cannot negotiate transportation rates. TURN comments that eliminating demand charges for UEGs of combined utilities would create a "perverse" incentive whereby the gas department of a combined utility could maximize its profits by selling as much gas as possible to its affiliated electric department even if such sales result in turning back cheaper purchase power. TURN is also concerned that all-volumetric rates for UEGs of combined utilities could create unstable rates for gas and electric ratepayers.

We concur with the parties that retaining demand charges for UEGs of combined utilities promotes fair and sensible

purchasing practices by combined utilities. We will adopt the stipulation.

Findings of Fact

1. Combining industrial and P-2B rates would simplify rate design without compromising other rate design objectives.

2. SoCal's proposed rate design for Long Beach would improve Long Beach's ability to compete with SoCal for Edison's UEG requirements.

3. CCC's uncontested proposal that PG&E equalize UEG and cogenerator rates seasonally would retain rate parity, consistent with Commission's policy.

4. SoCal may not be able to recover its authorized rate of return if seasonally differentiated rates are made effective August 1, 1991 because the summer rate would be lower than the currently authorized rate.

5. UEGs of combined utilities may not have adequate incentives to pursue least-cost purchasing strategies if demand charges are eliminated for that class of customer.

6. PG&E, DRA, TURN, SDG&E, CCC, Edison, and SCUPP/IDD signed a stipulation which would retain demand charges for UEGs of combined utilities. No party opposes the stipulation.

Conclusions of Law

1. The utilities' proposals for seasonally differentiated all-volumetric rates should be adopted, except that DRA's proposal for seasonal differentiation be adopted for SoCal, industrial rates and P-2B rates should be combined into a single rate, and PG&E's UEG and cogenerator rates should be equalized seasonally.

2. SoCal should be permitted to establish a tracking account into which it would enter the difference between the most recent ACAP rate and the prevailing summer (or winter) all-volumetric rate times actual throughput. SoCal may apply for rate recovery in its BCAP. Approved imbalances should be allocated to noncore customers

because costs are incurred on their behalf. The tracking account should be eliminated upon the revision date of SoCal's BCAP.

3. The rate design changes adopted by this decision should be made effective concurrent with the implementation of the gas regulatory program changes adopted in D.90-09-089.

ORDER

IT IS ORDERED that:

1. Southern California Gas Company (SoCal), Pacific Gas and Electric Company, and San Diego Gas & Electric Company shall file tariffs implementing rate design changes set forth in this decision. The filing shall be made no later than 10 days prior to the date upon which the rates are to become effective.

2. SoCal may establish a tracking account into which it will enter the difference between the most recent transportation rate and the effective all-volumetric rate times actual throughput. Recovery of imbalances shall be determined in SoCal's biannual cost allocation proceeding (BCAP). The tracking account shall be eliminated upon the revision date of SoCal's subsequent BCAP.

3. Rate design changes adopted in this decision shall become effective concurrent with the implementation of the gas regulatory program changes adopted in Decision 90-09-089 in R.90-02-008.

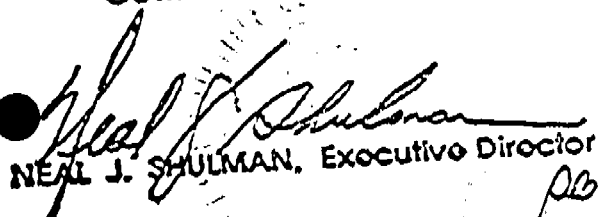
This order becomes effective 30 days from today.

Dated May 22, 1991, at San Francisco, California.

PATRICIA M. ECKERT
President
G. MITCHELL WILK
DANIEL Wm. FESSLER
NORMAN D. SHUMWAY
Commissioners

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

Commissioner John B. Ohanian,
being necessarily absent, did
not participate.


NEAL J. SHULMAN, Executive Director

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List of Appearances

Respondent: Roger Peters and Harry W. Long, Attorneys at Law, for Pacific Gas and Electric Company; E. Gregory Barnes, Attorney at Law, and Beth Bowman, for San Diego Gas & Electric Company; and Earl K. Takemura, Steven Patrick, and Joan M. Le Sage, for Southern California Gas Company.

Interested Parties: Lindsay, Hart, Neil & Weigler, by Michael P. Alcantar, Attorney at Law, for Cogenerators of Southern California; Morrison & Foerster, by Jerry R. Bloom and Lynn Haug, Attorneys at Law, for California Cogeneration Council; Jackson, Tufts, Cole & Black, by William H. Booth, Evelyn Elsesser and Joseph Faber, Attorneys at Law, for Jackson, Tufts, Cole & Black; Jones, Day, Reavis & Pogue, by Donald J. Boucy, Attorney at Law, for Jones, Day, Reavis & Pogue; Brobeck, Phleger & Harrison, by Gordon E. Davis, Attorney at Law, for Brobeck, Phleger & Harrison; Lindsay, Hart, Neil & Weigler, by Paul J. Kaufman, Attorney at Law, for Kern River Cogeneration; Roberts and Kerner, by Douglas K. Kerner, Attorney at Law, for Roberts and Kerner; Luce, Forward, Hamilton & Scripps, by John W. Leslie, Attorney at Law, for Salmon Resources Ltd.; Squire, Sanders & Dempsey, by Keith R. Mc Crea and Michael T. Mishkin, Attorneys at Law, for California Industrial Group, California Manufacturers Association, and California League of Food Processors; Jones, Day, Reavis & Pogue, by Norman A. Pedersen, Attorney at Law, for Southern California Utilities Power Pool; Armour, Goodin, Schlotz & Mac Bride, by James D. Squeri and Barbara L. Snider, Attorneys at Law, for EOR Producers/Cogenerators Group and Kelco Division of Merck; Downey, Brand, Seymour & Rohwer, by Philip A. Stohr, Attorney at Law, for Industrial Users; Brady & Berliner, by Roger A. Berliner, Attorney at Law, for Alberta Petroleum Marketing Commission and Canadian Producers Group; C. Hayden Ames, Attorney at Law, for Chickering & Gregory; Patrick J. Bittner, Attorney at Law, for California Energy Commission; Matthew V. Brady, Attorney at Law, for Department of General Services; Richard K. Durant and Frank J. Cooley, Attorneys at Law, for Southern California Edison Company; Michel P. Florio and Joel R. Singer, Attorneys at Law, for Toward Utility Rate Normalization; Norman Furuta, Attorney at Law, for Department of the Navy; Patrick J. Power, Attorney at Law, for City of Long Beach; John B. Price, Attorney at Law, for Mobil Natural Gas, Inc.; Randolph

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L. Wu and Phyllis Huckabee, Attorneys at Law, for El Paso Natural Gas Company; Stephen Pickett and Florence Pinigis, Attorneys at Law, for Southern California Edison Company; Jones, Day, Reavis & Rogue, by Angela M. Sousa, Attorney at Law, for Jones, Day, Reavis & Rogue; Chris Albrecht, for Midway-Sunset Cogeneration; Ron Belval, for City of Palo Alto; Maurice Brubaker, for Drazen-Brubaker & Associates; Monte Doris, for California Independent Petroleum Association; Michael P. Hopkins, for City of Glendale; Adrian J. Hudson, for California Gas Producers Association; Kenneth B. Johnston, for H. Zinder and Associates; Ralph Kortz and Chuck Milam, for Long Beach Gas Department; William B. Marcus, for JBS Energy; Patrick Mc Donnell, for Sun Pacific Energy and Sunrise Energy; Keith Mc Naik, for Mock Resources, Inc.; Leamon W. Murphy, for Imperial Irrigation District; Robert L. Pettinato, for Los Angeles Department of Water and Power; David Plumb, for City of Pasadena; Paul M. Premo, for Chevron U.S.A. Inc.; John D. Quinley, for Cogeneration Service Bureau; Thomas J. O'Rourke, for Southwest Gas Corporation; Andrew Safir, for Recon Research Corporation; Donald W. Schoenbeck, for Regulatory & Cogeneration Services; Ed Small, for Suncor Incorporated; Ronald V. Stassi, for City of Burbank; Brian Sway, for Capitol Oil Corporation; Thomas A. Tribble, for Regents, University of California; Robert B. Weisenmiller, for Morse, Richard, Weisenmiller & Associates; Kevin D. Woodruff, for Henwood Energy Service, Inc.; E. D. Yates, for California League of Food Processors; Malcolm H. Messman, for Tehachapi Cummings County Water District; and Eric C. Woychik, for Synergic Resources Corporation; Barkovich and Yap, by Barbara Barkovich, for Barkovich and Yap; and R. W. Beck & Associates, by David T. Helsby, for R. W. Beck & Associates.

Division of Ratepayer Advocates: Patrick L. Gileau, Attorney at Law, Richard E. Dobson, and Natalie Walsh.

Department of General Services: Dian Grueneich, Attorney at Law, and John Baca.

(END OF APPENDIX A)