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Decision 91-11-055 November 20, 1991

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

Application of Pacific Gas and Electric Company for authority to revise its gas rates and tariffs effective April 1, 1991, pursuant to Decision Nos. 87-12-073, 89-01-040, 89-05-073, and 90-04-021.	Application 90-08-029 (Filed August 15, 1990)

(See Decision 91-05-029 for appearances.)

OPINION

This decision establishes a brokerage fee for Pacific Gas and Electric Company (PG&E) in Phase II of PG&E's annual cost allocation proceeding (ACAP) for 1991.

Background

The brokerage fee is an estimate of the cost to the utility of procuring gas directly for customers. The implementation of brokerage fees promotes our policy of unbundling gas costs. Historically, brokerage costs were included in transportation rates. Unbundling those fees promotes competition by assuring that utility gas rates reflect the true cost of gas purchases.

Decision (D.) 89-09-094 first established a brokerage fee for PG&E. The decision also directed PG&E to file in its 1991 ACAP a detailed study of brokerage costs consistent with guidelines set forth therein. In general, the Commission indicated that the study should be done on a "stand-alone" rather than an avoided cost basis, and that the revenue requirement should be based on costs actually incurred by PG&E in the provision of brokerage services.

PG&E's Position

PG&E presented a study, undertaken by an independent contractor, which estimates the total brokerage revenue requirement to be $6.6 million (approximately $0.019 per decatherm). The study breaks down brokerage costs into six broad categories:

- o Sales/marketing;
- o Contract administration;
- o Gas purchasing;
- o Interstate transportation arrangements;
- o Customer accounting and billing; and
- o Common.

The study also includes estimates of capital costs associated with PG&E plant used to support the gas brokerage function.

Position of Sunrise Energy Company, SunPacific Energy Management, Inc., GasMark Inc., and GasMark, West, Inc.

Sunrise Energy Company, SunPacific Energy Management, Inc., GasMark Inc., and GasMark, West, Inc. (Sunrise) believe PG&E's brokerage fee study is seriously flawed and ask the Commission to reject that study in favor of the one undertaken by Sunrise. Sunrise's study estimates the brokerage cost for noncore procurement customers is $23 million (or $0.07 per decatherm). It estimates the brokerage cost for core-elect procurement customers to be $30.2 million (or approximately $0.09 per decatherm). Sunrise believes the PG&E study is deficient in several ways:

1. The study fails to include all of the cost elements the Commission has indicated are a part of the cost of brokerage, including working capital for gas purchased but not paid for and working capital for gas in inventory;

2. The study fails to allocate joint and common costs to brokerage on a "stand-alone" basis;

3. The study understates the direct costs of brokerage that are within the five

categories identified by PG&E's consultant; and

4. The study fails to include a proportionate share of the costs of storage in the brokerage cost estimate.

Sunrise submits that the Commission should reject PG&E's cost study, provide PG&E with guidance on future cost studies, and adopt the brokerage cost proposed by Sunrise until PG&E provides a better cost study.

Sunrise also proposes that storage costs should be allocated to brokerage.

Position of Canadian Producer Group

Canadian Producer Group (CPG) proposes a "third party transport fee," which would identify and recover from transportation-only customers the costs incurred by the utility in providing the service of transporting customer-owned gas to those customers. CPG proposes that the fee should be set to recover $2.2 million (or $0.021 per decatherm).

Discussion

In this proceeding, PG&E presented a study undertaken by an independent consultant. The study may not be perfect but we do not seek perfection in such studies. Cost studies by their nature require substantial judgment, especially where joint and common costs are estimated as they must be in this case.

Sunrise opposes several elements of the study. It proposes to add to the brokerage fee a working capital requirement which assumes that PG&E pays for its gas supply before its customers pay for their procurement purchases from the utility. The evidence suggests, however, that PG&E's noncore customers pay their bills in less time than it takes PG&E to pay its suppliers. It is therefore unnecessary to include a working capital element in the cost study. Sunrise recommends adding to the fee the costs of "shrinkage" gas. Under the new procurement rules, implemented on

August 1, 1991, however, PG&E will charge transportation-only customers for shrinkage volumes in kind. This will recover shrinkage costs from transportation rates. There is no reason to include these costs in the brokerage fee.

Sunrise also proposes that the Commission include the costs of storage in the brokerage fee. As CPG points out, this issue is a matter for broader consideration in cost allocation proceedings and is not appropriately considered here. Moreover, Sunrise has failed to demonstrate that transportation-only customers receive no benefit from the availability of storage, which is used in providing balancing and standby services to customers who procure their own gas.

Sunrise argues that several other elements of the PG&E study are improper and is particularly concerned that the study did not adequately account for joint and common costs. We need not address the myriad details of Sunrise's analysis. We have established that brokerage cost estimates should be based on costs which would be incurred as "stand-alone" operation. The difficulty of ascertaining the cost of a stand-alone operation where facilities are shared is apparent by the controversy the topic engendered. PG&E skillfully rebutted Sunrise's criticisms of PG&E's estimates of joint and common costs. PG&E's estimates and the methodology it used to derive the estimates appear reasonable. Accordingly, we well adopt PG&E's brokerage fee proposal.

An enormous amount of resources has gone into reviewing brokerage fees for PG&E considering that the issue involves the allocation of a tiny fraction of PG&E's revenue requirement. We continue to believe brokerage fees should be established in order to promote a more competitive procurement environment. However, unbundling brokerage costs is one of many ways of accomplishing this goal and it is not among the most important.

While we continue to recognize the importance of a brokerage fee, and unbundling utility rates more generally, we will not in the future entertain changes to PG&E's brokerage cost methodology unless circumstances change significantly. Inputs to the calculation may change, but the methodology we adopt today is final until and unless a party can demonstrate some condition has changed which makes the methodology illogical.

As PG&E proposes, we will direct PG&E to amend its procurement and transportation rates to incorporate the new brokerage fee concurrent with PG&E's next attrition rate change. We will direct PG&E to calculate the brokerage fee by dividing the new brokerage revenue requirement by the forecast of core-elect and noncore procurement volumes developed in Phase I of this proceeding.

Turning to CPG's proposal for a transport-only fee, we decline to adopt the fee for the same reason we decline to unbundle storage in this proceeding. This matter is more appropriately considered in the context of a broader cost allocation proceeding, such as Investigation (I.) 86-06-006. While CPG's proposed change in cost allocation merits consideration, we prefer not to make significant cost allocation changes in isolation at this time.

Findings of Fact

1. Cost studies require substantial judgment especially where joint and common costs must be estimated.

2. PG&E's cost study reasonably estimates the costs of brokerage.

3. The Commission has stated its intent to review cost allocation issues in I.86-06-006.

Conclusions of Law

1. The Commission should adopt PG&E's estimate of brokerage costs, as set forth in its cost study, and apply the throughput forecasts adopted in D.91-05-029 in deriving a brokerage fee.

2. The Commission should not unbundle storage costs at this time because the issue is more approximately considered in I.86-06-006 in the context of other cost allocation issues.

3. The Commission should not adopt a "transport-only" fee as proposed by CPG at this time because the issue is more appropriately considered in I.86-06-006 in the context of other cost allocation issues.

ORDER

IT IS ORDERED that:

1. Pacific Gas and Electric Company (PG&E) shall, concurrent with its next attrition year rate change, amend its procurement and transportation rates to reflect the brokerage revenue requirement estimated in its cost study and adopted in this decision. In determining the brokerage fee for the remainder of the test period, PG&E shall divide the adopted brokerage revenue requirement by the forecast of core-elect and noncore procurement volumes adopted in Decision 91-05-029.

2. This proceeding is closed.

This order is effective today.

Dated November 20, 1991, at San Francisco, California.

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

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

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

Neal J. Shulman

NEAL J. SHULMAN, Executive Director