Decision 92-01-021 January 10, 1992

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 Revise Its Rates And Recover Costs For Implementation Of Its Natural Gas Vehicle Market Development Program.	Application 91-06-032 (Filed June 14, 1991)

(See Appendix A for appearances.)

O P I N I O N

Summary

Southern California Gas Company (SoCalGas) is authorized to implement a Natural Gas Vehicle (NGV) Market Development Program limited to $10.8 million over a two-year period. The program will add 0.062 cents per therm to SoCalGas' rates. There will be no immediate rate change since these program costs will be accrued in a balancing account for inclusion in rates in 1993.

The Commission exempts San Diego Gas & Electric Company (SDG&E) from allocation of costs related to the SoCalGas NGV program since SDG&E has its own NGV program which will add 0.297 cents per therm to SDG&E's rates.

Background

On June 14, 1991, SoCalGas filed Application (A.) 91-06-032 seeking ex parte approval of a $7.627 million increase in its revenue requirement beginning on January 1, 1992, and for $5.401 million beginning on January 1, 1993. The $13 million would fund a new NGV program. The Application also requests that a balancing account be established for the purpose of funding program costs and accumulating NGV revenues.

A prehearing conference was held on October 4, 1991, in San Francisco.

At the prehearing conference, SoCalGas distributed a Settlement Agreement between it and the Commission's Division of Ratepayer Advocates (DRA), in which it agreed that program expenditures would be limited to $10.8 million for the two-year period. Under the Settlement Agreement, SoCalGas' NGV program costs would be allocated to all customer classes including SDG&E.

SDG&E objects to being allocated any costs related to SoCalGas' NGV program. If the Commission decides that SDG&E's customers should be allocated a portion of SoCalGas' NGV program costs, then SDG&E requests evidentiary hearings to ensure that only reasonable costs are passed through. However, if the Commission decides that SDG&E is exempt from allocation of such costs, SDG&E states that it has no reason for hearings.

Except for SDG&E, no party took exception to SoCalGas' request for ex parte treatment of this Application.

The Administrative Law Judge (ALJ) directed the parties to file briefs on allocation to SDG&E of SoCalGas NGV program costs; the need for evidentiary hearings to examine the appropriate level of expenditure for the SoCalGas NGV program; and the Settlement Agreement.[1]

Briefs were filed by SoCalGas, SDG&E, DRA, and the City of Long Beach (Long Beach).

Allocation to SDG&E of SoCalGas NGV Program Costs

Pursuant to the Settlement Agreement, SoCalGas proposes to allocate its NGV program costs over all customer classes on an equal-cents-per-therm basis over all volumes sold by SoCalGas to all customer classes excluding customers with whom SoCalGas has established long-term contracts with stated rates.

If the Settlement Agreement is approved by the Commission, SDG&E ratepayers will fund approximately $1.24 million of SoCalGas' NGV program over the two-year period. The allocation to SDG&E is estimated at 0.063 cents per therm.

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1 Since the Commission recently issued its decision on NGV programs for Pacific Gas and Electric Company and SDG&E, the parties agree that there is no policy issue regarding the need for a similar SoCalGas NGV program. See Decision (D.) 91-07-018 and D.91-07-017, respectively. Rehearing denied by D.91-09-086 and D.91-09-087.

SDG&E's own NGV program is estimated to cost its ratepayers 0.297 cents per therm. The combined impact of both programs on SDG&E ratepayers is estimated at 0.360 cents per therm.

In comparison, the impact on SoCalGas' ratepayers is estimated at 0.062 cents per therm. In other words, SDG&E ratepayers would pay at least five times more in their rates than SoCalGas' ratepayers for NGV programs.

<u>Position of SDG&E</u>

SDG&E argues that allocation of SoCalGas' NGV costs to SDG&E is improper. According to SDG&E, it is inconsistent with the limited funding authorized in SDG&E's own NGV program, is contrary to long-standing precedent, and results in double payment by SDG&E's ratepayers. SDG&E asserts that the Commission has repeatedly recognized and encouraged SDG&E's unique status as both a wholesale customer and a local distribution company (LDC) in its own right. SDG&E believes that it cannot be an LDC, responsible for its own customers, if it must also bear the constant burden of paying for SoCalGas' programs in addition to its own. The basis for SDG&E's argument is set forth below.

First, SDG&E argues that SoCalGas' allocation proposal is totally inconsistent with the Commission's recent D.91-07-017 (July 2, 1991), which established SDG&E's NGV program. In D.91-07-017, the Commission authorized SDG&E to spend $6.761 million on its NGV program over the next two years. In Ordering Paragraph 3, the Commission states:

> "SDG&E is authorized to spend <u>no more</u> than $6,761,000 plus interest in the initial two years of its program as costs to be charged to the ratepayers." (Mimeo. at p. 16, emphasis added.)

Ordering Paragraph 4 states:

> "No additional funding will be granted until the completion of the two year program." (Mimeo. at p. 16.)

SDG&E contends that the decision specifies how much money SDG&E's ratepayers should pay in their rates to encourage the development of natural gas vehicles. It specifies where the money is to be spent, and does not provide additional money to pay for SoCalGas' NGV program.

Second, SDG&E argues that NGV program costs are a distribution-related expense and that wholesale customers have never been allocated SoCalGas' distribution-related expenses. Since NGV customers will be served off SoCalGas' distribution system[2] (which SDG&E does not utilize nor pay for) and since SDG&E's customers are already paying for SDG&E's NGV program (which utilizes SDG&E's distribution system), SDG&E believes that SoCalGas' proposed allocation to SDG&E is inconsistent with established Commission precedent.

Third, SDG&E argues that SoCalGas' allocation proposal is inconsistent with the Commission's adopted cost allocation for conservation programs.

SDG&E and SoCalGas both have conservation programs, each of which directly or indirectly benefit the customers of both companies. Both companies have had such programs for over a decade. Many years ago the Commission determined an equitable allocation of the costs of such programs would require each company's customers to pay only the costs incurred by that company. The Commission stated:

> "SDG&E's customers should not be required to bear the expenses for the energy conservation programs of SoCal since SDG&E has its own energy conservation programs and since the system as a whole, rather than SDG&E

2 In response to SDG&E data requests, SoCalGas has stated that it intends to utilize approximately $5 million in <u>distribution-related</u> capital to build NGV fueling stations, in addition to the funding requested in A.91-06-032.

exclusively, benefits from conservation effected on the SDG&E system for which SDG&E ratepayers bear the cost." (D.92497, 4 CPUC 2d 725, 823.)

Accordingly, SDG&E believes that where a program offers systemwide benefits, customers in SDG&E's service territory should participate in and pay only for SDG&E's program, while customers in SoCalGas' service territory should participate in and pay only for SoCalGas' program. SDG&E believes that this principle is as applicable to the NGV programs as it is to conservation programs. SDG&E points out that the Commission has noted the potential harm to SDG&E's ratepayers from improper allocation of SoCalGas' costs to wholesale customers:

> "We are increasingly concerned about the total effect of our allocation of wholesale rates on SoCalGas' system has on retail customers in SDG&E's system. . . . If SDG&E's residential customers are to receive the full benefit of our rate design policies, they ought not to be burdened any more than SoCalGas' residential customers by the rates we set herein." (D.92497, 4 CPUC 2d 725, 823.)

Fourth, SDG&E argues that SoCalGas' proposal is inconsistent with the Commission's allocation of Low Income Ratepayer Assistance (LIRA) program costs. As the Commission stated in D.89-09-044, SoCalGas' wholesale customers are excluded from paying for SoCalGas' LIRA program due to the potential for double payment. (D.89-09-044, p. 20, 32 CPUC 2d, 406, 416.)

Fifth, SDG&E argues that in another instance, the Commission granted SDG&E relief from double payment of carrying costs on storage inventory. SDG&E previously paid carrying costs of gas in storage to SoCalGas. Since SDG&E also stored its own gas, this resulted in SDG&E's customers being charged twice for this cost. The Commission exempted SDG&E from SoCalGas' carrying costs, both historically and prospectively. (D.89-02-082, pp. 7-8.)

Sixth, SDG&E argues that in yet another instance, the Commission protected SDG&E's ratepayers from double payments, specifically ruling that SDG&E should not pay any allocation of SoCalGas' uncollectible expenses, since SDG&E's ratepayers already pay for uncollectibles on SDG&E's system. (D.82-04-166, 9 CPUC 2d 26, 49.)

Seventh, SDG&E argues that although the Commission allocated costs of PG&E's NGV program to PG&E's wholesale customers, SDG&E is unlike PG&E's wholesale customers in important respects.

According to SDG&E, PG&E's wholesale customers, in comparison, are groups of residential customers. Their throughput is a small percentage of PG&E's total system throughput. PG&E's wholesale customers are non-jurisdictional to the Commission and do not have a Commission-approved NGV program. They are located in the heart of PG&E's service territory, in the same air basins. Given these significant differences, SDG&E cannot be placed in the same category as, e.g., the City of Palo Alto, for purposes of allocating NGV costs.

Lastly, SDG&E argues that the Commission has recognized the unique status of SDG&E, not only among other customers of SoCalGas, but as the third LDC in California. In Resolution G-2921 (approving a long-term contract between SoCalGas and SDG&E), the Commission stated that its intention was to position SDG&E to take on obligations and responsibilities similar to SoCalGas' and PG&E's:

> "We recognize SDG&E is an independent utility with its own set of customers and territory... SDG&E has a unique and peculiar situation. It has the anomalous position of being the only major LDC in California without its own pipeline. To approve its contract will elevate its gas department to par with SoCal and PG&E and will rectify an imbalance among LDCs within the State." (Resolution G-2921 (July 6, 1990), p. 13.)

Accordingly, SDG&E believes that it is nothing like the PG&E wholesale customers who were allocated NGV costs in D.91-07-018. Therefore, SDG&E requests that the Commission continue its practice of protecting SDG&E's customers from having to pay twice.

<u>Position of SoCalGas</u>

SoCalGas disagrees with SDG&E's argument that its NGV decision stands for the proposition that it is legally prohibited by the Commission from spending more than $6,761,000 for a two-year period on <u>any</u> NGV-related program. Also, SoCalGas disagrees with SDG&E that its NGV decision stands for the proposition that the cost of each company's program should be shouldered by the ratepayers <u>within</u> each company's own service territory. SoCalGas contends that the decision does not place any limit on amounts SDG&E should spend to receive the benefits of SoCalGas' NGV program. SoCalGas believes that Commission's true intent is clearly stated as follows:

> "Finding of Fact 12 - The fixed infrastructure costs associated with the NGV program result in air quality benefits enjoyed by <u>all Californians</u> in their capacity as ratepayers and, as such, should be recovered on an equal cents-per-therm basis over all volumes sold by SDG&E to all customer classes consistent with the intent of Public Utilities Code § 740.3.
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> "Conclusion of Law 5 - The allocation of fixed infrastructure costs over all customer classes is consistent with the intent of Public Utilities Code § 740.3(c) given the finding of air quality benefits that will be enjoyed by all Californians in their capacity as ratepayers." (Emphasis added, D.91-07-017.)

Regarding the question of benefits to SDG&E customers resulting from the SoCalGas NGV program, SoCalGas notes that the San Diego Air Pollution Control District (SDAPCD) states that the highest air pollution concentrations in San Diego are from smog transported from the South Coast Air Basin. SDAPCD also states[3] that 75% of the federal air quality standard violations and 40% of the state standard violations in San Diego are directly attributable to air pollution which is transported from the Basin. And for purposes of this discussion, it may be assumed that the Basin equates to SoCalGas' service territory.

According to SoCalGas, several things can be deduced from the SDAPCD findings, but clearly chief among them is that reducing the level of mobile source pollution in the Basin, which is the stated purpose of SoCalGas' NGV Program, will reduce the quantity of air pollution transported from SoCalGas' service territory into SDG&E's service territory. SoCalGas contends that though one may argue over the quantification of this benefit to businesses and the general population of air breathers in San Diego, it is enough to note that any reductions in air pollution in the Basin will benefit SDG&E's customers.

Lastly, SoCalGas argues that the Commission has in the recent past declined to excuse SDG&E from paying its share. In SoCalGas' 1990 Annual Cost Allocation Proceeding, SDG&E complained that it should not bear any of SoCalGas' costs incurred in 1989 for operation of the Commission-authorized clearinghouse activity implemented for the benefit of the Women and Minority-owned Business Enterprises (WMBE) program. SoCalGas proposed to allocate its 1989 clearinghouse costs to all of its customers on an equal-cents-per-therm basis arguing that the WMBE program is intended to achieve general social goals and cannot be said to be a benefit to

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3 See pages 4-6 of the Draft 1991 San Diego Regional Air Quality Strategy dated July 1991 published by the SDAPCD. This item is marked for identification as Exhibit 2. It is not received into evidence since evidentiary hearing has yet to be held. SDG&E objects to consideration of this exhibit since it has not been the subject of cross-examination.

only one particular customer class or another. SDG&E and DRA argued that SDG&E should be excused from paying its share of these costs because SDG&E either participated in the clearinghouse for its own WMBE program or had its own affirmative action purchasing program. The Commission rejected DRA and SDG&E's arguments.

> "We agree with SoCal for the reasons it gives. To accede to DRA's [and SDG&E's] argument would cause us to exempt every utility, city, county and any other organization that has its own WMBE program and buys gas from SoCal." (D.90-11-023, p. 7.)

According to SoCalGas, the analogy between that case and the instant one could not be more clear or direct. The Commission must achieve certain clean air social goals mandated by the legislature. The Commission has chosen the equal-cents-per-therm to all customers as its method for the proper sharing of these costs in the case of SDG&E and PG&E's customers. SoCalGas contends that for the same clearly stated reasons that SDG&E was not exempted from paying its proper WMBE costs, it should not be exempt from paying its proper share of SoCalGas' NGV program costs.

<u>Position of DRA</u>

DRA opposes exempting SDG&E from paying a portion of SoCalGas' NGV program costs.

DRA points out that the costs for SDG&E's own NGV program were allocated to all of its customers. DRA believes the same sharing of air quality benefits that justified SDG&E's allocation also applies to SDG&E as a customer of SoCalGas. San Diego is a beneficiary of improvements in air quality in the South Coast Air Basin since much of this pollution is transported south to the San Diego area.

DRA opposes exempting SDG&E for a second reason. DRA believes that if the Commission were to exempt SDG&E, the Commission would be swamped with requests from numerous other individual customers arguing that the Commission must also exclude them to be equitable. If the Commission were to allow such exemptions, it would not only create a large administrative burden for a small amount of money, but also increase the burden on the residential ratepayers who will not be given the opportunity to opt out of NGV program expenses. DRA believes that the Commission recognized this problem when it did not exclude PG&E's wholesale customers from payment.

As support for its position, DRA points out that the Commission decided that SDG&E should pay for a portion of SoCalGas' WMBE clearinghouse expense. Also, the Commission allocated the cost of NGV programs to PG&E and SDG&E electric customers.

City of Long Beach

Long Beach supports SDG&E in its position that it should be excluded from the allocation of SoCalGas' NGV program costs. Long Beach appeared at the prehearing conference in this matter to state its support for SoCalGas' NGV program, based on an agreement between Long Beach and SoCalGas regarding the nature and extent of assistance and support that Long Beach will receive from SoCalGas in regard to Long Beach's own NGV development program.

Long Beach is very concerned with principles of cost allocation to be applied by the Commission in the various rate proceedings. Long Beach states that, generally, the Commission has observed the principle of cost causation as the basis for distinguishing between retail and wholesale customers for purposes of cost allocation. Absent the specific agreement between Long Beach and SoCalGas, Long Beach believes that the allocation of SoCalGas' NGV program costs to Long Beach would not be consistent with cost causation principles.

Discussion

The cases cited by SoCalGas and SDG&E show that the Commission has considered the allocation of SoCalGas program costs to SDG&E on a case-by-case basis. For example, a decade ago we decided that SDG&E should not be allocated SoCalGas' conservation program costs. On the other hand, more recently we decided that SDG&E should be allocated SoCalGas' WMBE clearinghouse costs. In both cases, SDG&E had its own programs. In retrospect, we believe that there may be an inconsistency in our treatment of these costs. Nevertheless, we shall continue our practice of deciding such allocation issues on a case-by-case basis rather than by following a rule that simply does not take into account rate impacts or the equity of such allocation.

First, we agree with SoCalGas that SDG&E's NGV decision does not stand for the proposition that SDG&E ratepayers cannot be allocated any portion of SoCalGas' NGV costs.

Second, we do not agree with SoCalGas and DRA that our treatment of SoCalGAS' WMBE clearinghouse costs stands for the proposition that SDG&E shall henceforth be automatically allocated any and all SoCalGas' program costs regardless of the nature of such programs and the rate impact on customers of the two utilities.

Third, Long Beach raises the issue of "causation." We note that Exhibit 2 (marked for identification and sponsored by SoCalGas) clearly shows that pollution from the Los Angeles Basin is blown out to sea (west) and then blown back (south) into the San Diego Basin. Therefore, we may characterize SoCalGas' argument as saying "that SDG&E ratepayers should be happy to pay for SoCalGas' program because it will reduce the amount of pollution that SoCalGas ratepayers export to SDG&E territory." We are not persuaded that SDG&E's ratepayers would appreciate the logic of such an argument that the benefit to them is less pollution generated by SoCalGas' ratepayers.

In summary, aside from the disparity in the amounts that SDG&E and SoCalGas customers would pay in rates for NGV programs (0.360 and 0.062 cents per therm respectively), it is not equitable that SDG&E customers be also required to pay for this SoCalGas program since they have their own. For these reasons, we conclude that SDG&E's request for exemption from allocation of SoCalGas NGV program costs should be granted. Our decision to exempt SDG&E applies only to the two-year program covered by this Application and it does not set a precedent for future ratemaking decisions.

As we stated above, SDG&E is the only party opposing SoCalGas' request for ex parte treatment. Since we have now decided that SDG&E should not be allocated any SoCalGas NGV program costs, SDG&E has no further interest in this proceeding and there remains no party opposed to SoCalGas' request for ex parte treatment. And since the Commission has already addressed the policy issues in the NGV decisions for SDG&E and PG&E, we believe that there is no need for evidentiary hearing in this matter. Accordingly, we shall address the proposed Settlement Agreement.

The Proposed Settlement Agreement

On October 4, 1991, in compliance with Rule 51, SoCalGas and DRA executed and filed a Settlement Agreement settling all differences between them regarding the approval and implementation of SoCalGas' NGV program. Both parties stated for the record that the settlement was fair to ratepayers and shareholders alike and each urged the Commission to accept the settlement as reasonable. The parties thereto agreed that the settlement conforms with prior Commission NGV decisions issued by this Commission on behalf of PG&E and SDG&E, regarding overall level of funding, cost allocation methodology, duration, scope, objective and purpose.

At the prehearing conference, the ALJ directed the parties to file briefs on the Settlement Agreement. SoCalGas, DRA, SDG&E and Long Beach responded. Aside from the concerns raised by SDG&E, which are now moot following our decision on the cost allocation issue, no party opposes the Settlement Agreement.

SoCalGas urges the Commission to approve the instant Application, as modified by the Settlement Agreement, as soon as possible, but in no event later than such time as would allow

SoCalGas to begin its NGV program and open the balancing accounts described therein by January 1, 1992.

We note that on July 2, 1991, this Commission approved the modified NGV applications of PG&E and SDG&E.[4] Among the many policy issues decided therein were those that stated the Commission had a mandate from the legislature to ensure NGV market penetration in all of California, that NGV programs will produce cleaner air, that all customers of utilities implementing NGV programs will benefit from cleaner air. We intend that the policy issues decided in these decisions apply to SoCalGas, and we reflect the determinations of these decisions in our findings and conclusions.

As a result of these decisions, both PG&E and SDG&E have begun their NGV programs. Therefore, we see no reason to delay implementation of SoCalGas' program. Accordingly, we shall adopt the terms of the Settlement Agreement as modified by our decision to exempt SDG&E from allocation of SoCalGas' NGV program costs and establish a balancing account for SoCalGas effective as of the date of this decision.

<u>Rule 51.9 - Inadmissibility</u>

Since this decision in effect modifies the Settlement Agreement to the extent that we have exempted SDG&E from allocation of SoCalGas' NGV program costs, there is a procedural issue resulting from our treatment of this matter ex parte. Rule 51.9 of the Commission's Rules of Practice and Procedure makes inadmissible the terms of a proposed settlement that is not adopted in total by the Commission, unless the parties to the Settlement Agreement agree to their admission piecemeal. We note for the record that

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4 D.91-07-018, PG&E's decision, contains extensive discussion regarding the policy issues that confronted the Commission regarding NGV programs <u>per se</u>. The discussion set out therein was referenced in and adopted for the decision in SDG&E's case, D.91-07-017.

the parties to the Settlement Agreement - SoCalGas and DRA - have expressly agreed to piecemeal use of the terms of the proposed Settlement Agreement as the basis for granting SoCalGas ex parte relief in this proceeding.

<u>ALJ's Proposed Decision</u>

On December 6, 1991, the ALJ's proposed decision was served on the parties.

On December 20, 1991, SoCalGas and DRA filed comments accepting a modification of the Settlement Agreement exempting only SDG&E from paying any of the costs of SoCalGas' NGV Program. SoCalGas and DRA accept the modification with the understanding that the cost allocation methodology, which excludes SDG&E, is unique to this proceeding and is not a precedent for future cases.

Lastly, DRA requests that it be made clear that it does not agree that development of CNG fuel vehicles requires a ratepayer-funded program. No such stipulation is contained in the Settlement Agreement. However, DRA does recognize that the Commission addressed this issue in D.91-07-018 and D.91-07-017 and found that NGV programs do require ratepayer subsidies.

We have carefully reviewed the comments filed. To the extent necessary, appropriate changes have been incorporated into the body of this order.

<u>Findings of Fact</u>

1. The Commission has previously determined in D.91-07-018 that to achieve substantial market penetration for the use of compressed natural gas (CNG) fuel vehicles, a ratepayer-funded program is required to develop the equipment and infrastructure needed to encourage the use of natural gas to fuel low-emission vehicles.

2. Impediments to the use of NGVs include: (1) lack of customer acceptance, (2) lack of participation by automobile manufacturers, (3) unfavorable fuel economics, (4) lack of refueling stations, (5) lack of trained mechanics, and (6) safety

perceptions that natural gas in its gaseous form is less safe than gasoline in its liquid form. An NGV industry requires initial public assistance to establish itself.

3. To provide an opportunity for potential users to become knowledgeable about the benefits of NGVs a program must be established which does more than merely convert utility facilities and vehicles, but reaches out to the public in a way that makes it convenient and economical for the public to participate.

4. The specific objectives of SoCalGas' NGV program are to begin to develop the needed CNG commercial fueling infrastructure by installing a limited number of NGV fueling stations; convince influential fleet operators to replace conventionally fueled vehicles with natural gas powered vehicles by competitively pricing natural gas and by co-funding the incremental cost of Original Equipment Manufacturer supported NGVs; and conduct critical market support activities to help overcome barriers and to assure high levels of customer satisfaction with NGVs, successful market introduction and continued market growth.

5. In order to meet its program objectives, SoCalGas proposes to install up to 51 refueling stations to serve SoCalGas and customer NGVs; implement market-based NGV service tariffs and rates; continue activities with vehicle manufacturers to deliver production-line NGVs; stimulate private sector involvement in the acquisition, production, servicing, and support of NGVs; and collect emissions and performance data from dedicated Original Equipment Manufacturer supported vehicles as they become available.

6. Under the Settlement Agreement, SoCalGas requests that the Commission authorize two years of funding for SoCalGas' NGV program, consistent with D.91-07-017 and D.91-07-018, and that SoCalGas will spend no more than the authorized amount, $10,818,000, during the two years authorized for this program.

7. SoCalGas does not request additional capital in its application, therefore, capital-related issues such as depreciation are not addressed.

8. The $10,818,000 Settlement Agreement figure does not include an estimated $18 million of capital investment required to install the 51 additional fueling stations.

9. The tariff rates proposed by SoCalGas for the sale of CNG and natural gas for compression do not cover the total costs of the service.

10. The cost allocation proposed by SoCalGas to recover the variable costs of the NGV program as part of SoCalGas' NGV tariffs will be reviewed annually to ensure that they do not result in any direct or indirect subsidy from residential gas or electric customers to persons using gas or electricity to refuel vehicles in violation of Public Utilities Code § 745(c).

11. SoCalGas' NGV program is experimental and its proposed tariff rates are incentive rates. For those reasons, and under the circumstances, the tariff rates for the sale of CNG and natural gas for compression proposed by SoCalGas are just and reasonable.

12. The fixed infrastructure costs associated with the NGV program result in air quality benefits enjoyed by all Californians in their capacity as ratepayers and, as such, should be recovered on an equal cents-per-therm basis over all volumes sold by SoCalGas to all customer classes consistent with the intent of Public Utilities Code § 740.3.

13. The evidence is insufficient to make a finding when, if ever, the NGV program will be profitable.

14. SoCalGas shall capitalize and place into ratebase those facilities which are normal capital items, such as station construction and the conversion costs of new utility vehicles.

15. SoCalGas should not prohibit customers from owning their own CNG refueling stations.

16. The sale by SoCalGas of natural gas for resale to customers using NGVs is in the public interest.

17. Any funds derived from the sale or transfer of assets devoted to SoCalGas' NGV program shall be accounted for to offset losses from the program.

18. Persons operating service stations for the sale of CNG for use solely as a motor vehicle fuel, other than those who are public utilities by reason of operations other than operating a service station, are not subject to regulation by this Commission. Those persons may sell CNG as a motor vehicle fuel at prices they deem appropriate.

19. Our jurisdiction on CNG sales is limited to SoCalGas' side of the meter and the connection to the service stations' side of the meter.

20. Should the NGV market expand to a point where nonregulated entities are prepared to enter the market without subsidy, we should review SoCalGas' continued presence in that market.

21. It is in the public interest that SoCalGas commence its NGV program without delay.

22. In compliance with Rule 51, SoCalGas and DRA executed and filed a Settlement Agreement settling all differences between them, agreeing that SoCalGas' NGV program expenditures would be limited to $10.8 million for a two-year period, and that SDG&E, among others, would be allocated a portion of these costs.

23. Since SDG&E has its own Commission authorized NGV program which calls for expenditure of $6.761 million over two years, SDG&E objects to being allocated any portion of SoCalGas' NGV program costs as proposed in the Settlement Agreement.

24. With the allocation to SDG&E of a portion of SoCalGas' costs, SDG&E ratepayers would pay 0.360 cents per therm, whereas SoCalGas' ratepayers would pay 0.062 cents per therm in their gas rates for NGV programs.

25. If, SDG&E is allocated any portion of SoCalGas' NGV program costs, SDG&E requests evidentiary hearings to ensure that only reasonable costs are passed through to it.

26. SDG&E is the only party opposing SoCalGas' request for ex parte treatment of its Application.

Conclusions of Law

1. The terms of SoCalGas' NGV program as set forth in the Settlement Agreement as modified by this decision should be adopted.

2. The SoCalGas program for recovering variable costs included as part of its tariffs will be reviewed annually to ensure they do not result in any direct or indirect subsidy from residential gas or electric customers to persons using gas or electricity to refuel vehicles in violation of Public Utilities Code § 745(c).

3. SoCalGas' NGV program should be permitted to be in effect for approximately two years through December 31, 1993 unless further modified by the Commission. No additional funding should be granted until the completion of this program.

4. Persons and corporations operating service stations for the sale of CNG, other than those who are public utilities by reason of operations other than operating a service station, are not subject to regulation by this Commission.

5. The allocation of fixed infrastructure costs over all customer classes is consistent with the intent of Public Utilities Code § 740.3(c) given the finding of air quality benefits that will be enjoyed by all Californians in their capacity as ratepayers.

6. It is reasonable to exempt SDG&E from allocation of SoCalGas' NGV program costs since SDG&E has its own NGV program and its customers would be expected to pay at least five times more than SoCalGas' customers in their rates for NGV programs. Such exemption should be limited to this NGV program and not set a precedent for future ratemaking proceedings.

7. Since SDG&E's concerns are now moot with the issuance of this decision, SoCalGas' request for ex parte treatment of the instant application should be granted since no party except SDG&E opposes the request.

8. SoCalGas' program should begin as of the date of this decision and should terminate on December 31, 1993 unless modified by further order of the Commission.

O R D E R

IT IS ORDERED that:

1. Southern California Gas Company (SoCalGas) is authorized to implement its natural gas vehicle (NGV) program as set forth in the terms of the Settlement Agreement as modified by this decision.

2. SoCalGas shall establish an NGV balancing account to record the revenue and expenses related to the NGV program. The balancing account shall accrue interest at the 3-month commercial paper rate and become effective as of the date of this decision.

3. SoCalGas is authorized to spend no more than $10,818,000 plus interest in the approximately two-year duration of its program as costs to be charged to the ratepayers.

4. SoCalGas' NGV program shall terminate on December 31, 1993 unless further ordered by the Commission. No additional funding will be granted until the completion of the program authorized by this decision.

5. SoCalGas may file on three days' notice to the Commission and the public tariffs setting forth the rates for the sale of CNG and natural gas for compression proposed in its NGV program. Such tariffs shall reflect the terms of the Settlement Agreement, modified to exempt San Diego Gas & Electric Company (SDG&E) from allocation of SoCalGas NGV program costs, and be consistent with the Commission's policies set forth in the NGV program decisions for SDG&E and Pacific Gas and Electric Company.

6. The terms of the Settlement Agreement, as modified by this decision, are adopted.

7. SoCalGas may seek recovery of the balance in its balancing account during its next cost allocation proceeding.

8. The costs of SoCalGas' NGV program shall be allocated over all customer classes on an equal-cents-per-therm basis over all volumes sold by SoCalGas to all customer classes <u>excluding</u> customers with whom SoCalGas has established long-term contracts with stated rates, and SDG&E.

9. SoCalGas is authorized to capitalize and place into ratebase those facilities which are normal capital items, such as station construction.

This order becomes effective today.

Dated January 10, 1992, at San Francisco, California.

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

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

Neal J. Shulman
NEAL J. SHULMAN, Executive Director
DB

APPENDIX A

List of Appearances

Applicant: Steven Patrick, Attorney at Law, for Southern California Gas Company.

Protestants: Keith W. Melville and Nancy W. Doyne, Attorneys at Law, and Judy Anderson, for San Diego Gas & Electric Company.

Interested Parties: Michel Peter Florio, Attorney at Law, for Toward Utility Rate Normalization (TURN); Steve Harris and Lisa Dannelly, for Transwestern Pipeline; Phyllis Huckabee, for El Paso Natural Gas Company; Mike Mumford, Attorney at Law, for Pacific Gas & Electric Company; Patrick J. Power, Attorney at Law, for the City of Long Beach; Gene Everett Rodrigues, Attorney at Law, for Southern California Edison Company; Victoria Simmons, for Edson & Modisette; and David R. Stevenson, Attorney at Law, for Chevron, U.S.A., Inc.

Division of Ratepayer Advocates: Robert Cagen and James Scarff, Attorneys at Law, and Robert M. Pocta.

Commission Advisory and Compliance Division: Maria De Punzio.

(END OF APPENDIX A)