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Decision 82 02 076 FEB 17 1982

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHERN CALIFORNIA GAS COMPANY for authority to increase rates charged by it for gas service.	Application 59316 (Filed December 10, 1979)

(See Appendix A of Decision 92497 for appearances.)

Additional Appearances

Robert W. Parkin, City Attorney, by Richard A. Alesso, Deputy City Attorney, for City of Long Beach; Biddle, Walters & Bukey, by Richard L. Hamilton, Attorney at Law, for Western Mobilehome Association; and Stephen M. Cohn, Attorney at Law, for California Energy Commission; interested parties.

Lionel B. Wilson, Attorney at Law, and S. Robert Weissman, for the Commission staff.

FINAL OPINION

Decision (D.) 92497 provided for further hearings on the issue of the appropriate level of the residential customer charge. That charge is presently $3.10. Southern California Gas Company (SoCal) and California Manufacturers Association had originally proposed to increase the charge to $6.50, while the Commission staff (staff) proposed to retain the charge at the current level. At the request of the assigned Commissioner, information was provided, but not sponsored, by the staff relative to the effect of a zero customer charge. No party in the original hearings advocated a zero customer charge.

Additional hearings were held on May 13 and 14, 1981 before Administrative Law Judge Norman Haley, for the purpose of exploring

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more fully the issue of a zero customer charge and the mechanics of implementing such a change should the Commission decide to eliminate or reduce the customer charge. Evidence was presented by SoCal, staff, Western Mobilehome Association (WMA), and the California Energy Commission (CEC). The proceeding was submitted subject to receipt of briefs on June 9, 1981. The matter is ready for decision.

Position of SoCal

SoCal recommends retention of the current customer charge of $3.10. SoCal believes that there is little or no significant economic impact from elimination or reduction of the customer charge and therefore little or no incentive to conserve. In support of its arguments, SoCal's witness Belson analyzed four cases illustrating the reduction or elimination of the monthly customer charge. In each case, the commodity rates were adjusted to produce the same amount of revenue from all residential customers under average year temperature conditions as that produced by the present rate design:

Case I - No customer charge, entire revenue obtained from lifeline commodity rates (increase of 6.716¢/therm).

Case II - No customer charge, revenue obtained from lifeline and first nonlifeline commodity rate (increase of 4.984¢/therm applied to each tier).

Case III - Customer charge reduced to $1.55/month, revenue obtained from lifeline commodity rate (increase of 3.358).

Case IV - Customer charge reduced to $1.55/month, revenue obtained from lifeline and first nonlifeline commodity rate (increase of 2.492¢/therm applied to each tier).

Assuming gas usage by SoCal's typical single-family residential customer of 106 therms in winter and 47 therms in summer, typical bills would be:

	Present (4/1/81)	Case I	Case II	Case III	Case IV
Winter	$31.55	$33.88	$33.72	$32.72	$32.64
Summer	16.67	15.31	15.91	15.99	16.28
Annual Average Month	24.11	24.60	24.82	24.36	24.46

SoCal notes that in all cases, the summer monthly bills would be less than those resulting from present rates, which hardly provides an incentive to conserve. Further, during the winter, a customer under Cases I and III (revenue made up entirely from lifeline commodity rate) would have to reduce consumption by 60 therms or 57% in order to achieve any savings as a result of the elimination or reduction of the customer charge. SoCal argues that this is not a realistic expectation. For Cases II and IV, consumption would have to be reduced 44 therms or 42% to achieve any savings.

SoCal further analyzed 939,775 inquiries for the entire month of March 1981, noting that 7,120 were high-bill inquiries and only 130 or 0.014% were of a complaint nature related to customer charges. SoCal concludes that even though customers are now aware of the various components of their bills as a result of report card billing, they still focus their attention on the total amount of their bills rather than on the component parts.

SoCal's witness briefly touched on the additional effect of eliminating or reducing the customer charge on its master metered customers served under Schedule GS. This effect is set forth more specifically in the testimony of WMA and will be discussed more fully under that section.

SoCal's testimony also examined the effect of reducing or eliminating the customer charge on the furnace pilot light turnoff program and on revenue stability and concluded that the effects in either case would be small. In the case of revenue stability, undercollections or overcollections could result to the extent that actual weather conditions differ from the long-term average, but such variances should ultimately be adjusted through the supply adjustment mechanism (SAM) procedure, although short-term cash flow problems might exist.

Lastly, in support of its position that the $3.10 customer charge should be retained, SoCal points out that it incurs direct customer costs of $7.93 based on costs authorized in D.92497. It incurs these costs (on the average) for every customer whether gas is consumed or not. If a customer uses gas for space heating only and turns the pilot light off in the summer and if there were no customer charge, SoCal could not recover any of the fixed costs attributable to these customers because they use no gas in the summer and pay the same commodity charge in winter as all other residential customers. Ultimately those fixed costs would be borne by other customers.

Position of CEC

CEC favors elimination of the customer charge on the ground that this elimination makes the resulting rate design totally usage-sensitive thereby promoting more conservation than the present rate design which provides for a $3.10 monthly fixed charge regardless of the amount of gas the customer uses.

CEC presented a witness in support of this position and argued that elimination of the residential customer charge, together with equal distribution of the revenue requirement among all three tiers in the commodity rate would:

1. Create increased incentives for customers to conserve;
2. Meet the specified revenue requirement without significantly affecting revenue stability; and
3. Be consistent with equity and the policy concerns enunciated in D.92549, Southern California Edison Company's (SCE) most recent general rate case.

CEC believes that its proposed rate design will send a clear signal to all customers that the less gas they use, the less it will cost them and the more gas they use, the more it will cost them. CEC believes that elimination of the customer charge will have little or no impact on revenue stability due to the existence of adjustment mechanisms such as consolidated adjustment mechanism (CAM) and SAM.

Lastly, CEC argues that customer charges are inequitable because every customer must pay the same charge, yet not every customer imposes the same fixed costs on the system. It contends that larger users actually impose higher costs on the system because they force the utility to buy more expensive gas at the margin. The small user has less room to conserve, and thus imposes less of a financial burden on the utility and its ratepayers.

Position of WMA

WMA advocates retention of the present customer charge in order to avoid the potential for revenue instability not only for SoCal but also for Schedule GS customers. Rates for master meter service are set at a level which provides a sufficient differential to recover the reasonable average cost to master meter customers of providing submetered service. Historically, the Commission has allowed Schedule GS customers to recover the differential through a discount on rates charged for lifeline quantities and through collection and retention of a customer charge to each submetered tenant. Based on SoCal's projected 1981 lifeline sales to Schedule GS customers and using rates current at the time of hearing in June 1981, WMA estimates a current revenue requirement for Schedule GS customers of $4.9 million, of which $3.7 million results from the collection and retention of customer charges to each submetered tenant. WMA notes that a rate design dependent on sales volume or usage is subject to variation in weather and in usage patterns therefore producing revenue instability. While SoCal can use the CAM and SAM proceedings to adjust for this type of instability, no such interim procedure exists to adjust the rates for Schedule GS customers, and the revenue requirement which is 75.5% dependent on fixed customer charges may be seriously jeopardized.

If the Commission decides to eliminate the customer charge, WMA proposes to increase the discount percentage on lifeline quantities from the current 10% to 24-36%, depending on whether the customer charge is eliminated altogether or only partially, and depending on how the revenue requirement from that elimination is spread among the residential tiers.

Position of the Commission Staff

The staff concurs with SoCal's recommendation to retain the current $3.10 customer charge. Staff views the customer charge as a facilities charge or a demand charge, the purpose of which is to recover some of the costs the utility incurs simply because the customer is hooked up to the system and the utility has to furnish service upon his demand.

Staff disagrees with CEC that elimination of the customer charge would encourage conservation, stating that the present rate design does more to encourage conservation. Staff believes that the customer is more concerned about the total bill than about where the charges are placed.

If the customer charge is eliminated, staff recommends that a two-level surcharge be added to the residential Tiers I and II rates. Because 73% of the sales occur in the November-April period, this will distribute the monthly revenue more evenly throughout the year. This would amount to a 3.5¢/therm surcharge in the winter (7.0¢/therm for heat only customers) and 8.75¢/therm in the summer (with no charge for the heat only customers).

Discussion

It has been some time since the evidence in this matter was taken and there have been substantial increases to the residential rates since that time. At the time of hearing the most recent rates were those in effect April 1, 1981 as follows:

Lifeline	$.24564/therm
Tier 2	.34192/therm
Tier 3	.48021/therm

Currently the rates in effect for residential customers are shown in Application (A.) 60867 which is being decided today concurrently with this matter:

Lifeline $.27793/therm
Tier 2 .37673/therm
Tier 3 .56217/therm
Average residential rate $.38731/therm
System average rate $.41231/therm

We take official notice of the rates currently in effect for SoCal.

The two questions that must be decided to close this matter are: (1) Should all or part of the present $3.10 customer charge be eliminated and (2) if so, how should the resulting revenue requirement be spread?

Of the parties to this proceeding, only CEC advocated elimination of the customer charge. Of the three effects shown for such an action, the first, "meet the specified revenue requirement", is not seriously contested. While SoCal testified that there would be some revenue instability resulting from eliminating fixed monthly customer charges, with greater instability resulting from spreading the revenue requirement among all three residential tiers than from allocating it entirely to the lifeline tier, it admitted that ultimately the revenue would be recovered in offset proceedings, although not necessarily from the residential class of customer.

The second reason, "elimination of the customer charge will encourage conservation of energy", received by far the most attention, and it is here that the evidentiary presentations on different bases make comparisons especially difficult. CEC's evidence shows that the bill of the average customer based on average annual use would not be affected by elimination of the customer charge. However, customers who used more than the average, would pay higher monthly bills and those who used less than the average would pay lower monthly bills. In absolute terms, customers who conserved more would save more, but in relative terms, comparing the proposed rate structure to the present rate structure, SoCal's evidence shows that it is unlikely that customers will be any better off under the proposed rate structure unless they could reduce their usage by more than 40%. For larger than average users (including large families and those in single-family dwellings) elimination of the customer charge may well result in higher bills than the current rate structure.

The third assertion by CEC in support of its proposal is that elimination of the customer charge would promote "fairness within the residential class if rates reflect the cost of providing service." He explained that as meaning customers who impose greater costs on the system should pay higher rates. This assumes that larger customers ipso facto place greater costs on the system which was not demonstrated. Further, our current rate design is not based on how much cost is imposed on the utility by any particular customer or class of customers, but on other considerations such as the lifeline concept, the alternate fuel cost pricing concept, and marginal cost concepts.

While we agree in principle with CEC that conservation is a primary goal in rate design, we are concerned that elimination of the customer charge and a spread of the revenue requirement to the commodity rate may not achieve that goal any better than the current price signals being sent to the consumer by the increases in rates necessitated by increased cost of gas. We are further concerned that a change of this nature will produce no measurable benefit to the residential ratepayer unless he can reduce his usage by nearly 40% in the winter. We think it unlikely that any residential customer will be able to achieve this magnitude of reduction. A change in rate design with no measurable benefit and in some cases (such as with large families or large use in a cold winter) a detriment, only serves to confuse and perhaps anger ratepayers who are already concerned about their ever-increasing bills for utility service. We will therefore retain the current customer charge of $3.10.

Findings of Fact

1. SoCal currently charges each residential customer a fixed charge of $3.10 in addition to the commodity rate for each of three tiers of gas usage.

2. No showing was made that the residential customer would be better off at current usage levels with a rate design that had no customer charge and with the revenue requirement spread to the commodity rates and there was some evidence that he would be paying more during the winter months.

3. There was no showing that a rate design without a customer charge would encourage conservation more than a rate design that had one.

Conclusion of Law

The current customer charge of $3.10 should be retained.

FINAL ORDER

IT IS ORDERED that the current residential customer charge of $3.10 of Southern California Gas Company is retained.

This order becomes effective 30 days from today.

Dated FEB 17 1982, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. GREW
Commissioners

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

Joseph E. Bodovitz, Executive Director