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ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHERN CALIFORNIA GAS COMPANY to Increase Revenues Under the Consolidated Adjustment Mechanism to Offset Changed Gas Costs Resulting from Increases in the Price of Natural Gas Purchased from EL PASO NATURAL GAS COMPANY, TRANSWESTERN PIPELINE COMPANY and PACIFIC INTERSTATE TRANSMISSION COMPANY; to Adjust Revenues to Reflect Greater Than Anticipated Collection of Revenues Due to Increases in Natural Gas Supplies; to Adjust Revenues to Reflect Undercollection of Franchise Fees, Uncollectible Expense and California Taxes on Income; to Adjust Revenues to Reflect Increased Carrying Costs on the Value of Natural Gas Stored Underground; and to Revise Section H of the Preliminary Statement of its Tariffs.	Application 60339 (Filed March 9, 1981)

(See Decision 93190 for appearances.)

Additional Appearance

Ira Reiner, City Attorney, by Ed Perez, Deputy City Attorney, for the City of Los Angeles, interested party.

FINAL OPINION

I. Introduction

By Application (A.) 60339 Southern California Gas Company (SoCal) seeks authority to increase gas rates to offset increased gas costs, changes in volumes supplied, and to recognize certain proposed adjustments in the ratemaking treatment of associated expenses. The application is SoCal's regular semiannual filing under its Consolidated Adjustment Mechanism (CAM), based on an April 1st revision date.

A duly noticed public hearing was held in Los Angeles on April 27, 28, 29, 30, and May 1, 1981, and in San Francisco on June 9, 10, 11, and 12, 1981, before Administrative Law Judge Patrick J. Power. SoCal offered the testimony of four witnesses: Robert Ballew, Manager of Budgets and Financial Planning; Robert L. Fowler, Research Engineer; Marvin Douglas, Manager of Rates and Tariffs; and Robert J. Hohne, Vice President, Gas Planning, for Pacific Lighting Gas Supply Company. Four witnesses appeared on behalf of the Commission staff (staff): Joseph L. Fowler, Jr., Senior Utilities Engineer; James R. Barrett, Associate Utilities Engineer; Paul Grimard, Research Analyst; and J. Archie Johnson, Financial Examiner III. Also participating were California Manufacturers Association (CMA), Tehachapi-Cummings Municipal Water District (Tehachapi), California Gas Producers Association (CGPA), Toward Utility Rate Normalization (TURN), Southern California Edison Company (Edison), the City of Los Angeles (LA), San Diego Gas & Electric Company (SDG&E), the City of San Diego (San Diego), and V. Edward Duncan.

This matter was submitted for an interim decision upon oral argument on May 1, 1981. By Decision (D.) 93190 dated June 16, 1981, SoCal was authorized a rate increase of $34.9 million over a six-month forecast period. The decision expressly provided that the following issues were deferred to this second phase:

1. Whether SoCal should be allowed recovery of alleged undercollection of Franchise Fees and Uncollectible Expense (F&U) that accrued from August 14, 1978 to September 12, 1979.
2. Whether SoCal should be allowed recovery of additional California income tax paid in 1980 because of large CAM undercollections resulting from alleged delayed rate relief.
3. Whether SoCal should be allowed recovery of certain carrying costs associated with the increased value of natural gas in inventory.

Any judgment regarding the reasonableness of SoCal's record period gas supply policies and balancing account balance was also deferred.

Following the additional days of hearing, the matter was submitted for this final decision upon opening and reply briefs. Opening briefs were filed by SoCal, staff, and TURN. Reply briefs were filed by SoCal and Tehachapi. Tehachapi's reply brief consists of the simple statement that it supports TURN in this proceeding.

II. Summary

This decision finds that franchise fees and company use gas costs are matters inextricably related to gas supply and price changes and are outside the control of the utility for ratemaking purposes. Therefore we provide for prospective balancing account treatment of such costs. In addition, SoCal is authorized to recover about $9.1 million of past undercollections of such costs. The rule against retroactive ratemaking is found not to be a barrier against such recovery.

Consideration of SoCal's request to recover additional California income tax expense resulting from undercollections is deferred, pending a decision in Order Instituting Investigation (OII) 24.

SoCal is found to have made a substantial showing in support of its requested treatment of carrying costs associated with changes in the value of natural gas in inventory. The adopted procedure is described as follows: A base rate component of natural gas in storage will be developed annually; CAM recovery will be allowed for carrying costs attributable to changes in the price of gas used in the base rate calculation.

SoCal's gas supply procurement practices are examined for the record period and SoCal is found to have been imprudent during the autumn of 1980. Certain purchases of gas by SoCal are found unreasonable based on a comparison of the cost of the gas and prevailing alternate fuel prices. About $11.9 million of purchased gas costs are disallowed.

TURN's contention that SoCal's practices in the winter of 1980-1981 were also imprudent is rejected.

III. Franchise Fees,
Uncollectible Expense, and Company Use Gas

A. Introduction

SoCal requests that it be permitted to recover additional company use gas costs, franchise fees, and uncollectible accounts expenses of $9.6 million, which it incurred from August 14, 1978 through September 17, 1979. The undercollections began with the implementation of the Supply Adjustment Mechanism (SAM) and continued until the effective date of D.90822, when SoCal was permitted to track its recorded F&U expense by periodic adjustments to the F&U factor. This method is also allegedly inadequate, and SoCal proposes a further modification that would operate prospectively.

B. Past Undercollections

Franchise fees are a function of sales revenue. Undercollections that occurred during the identified period were the result of several factors that increased recorded revenues above forecasted levels, including higher sales, supplier increases in the cost of gas, and abnormal weather. The increased revenue was taken into account in SoCal's semiannual offset proceedings, but the increase in F&U was not. Thus, through the operation of the ratemaking procedures, SoCal relinquished the benefit of revenues in excess of its allowed gas margin, but was forced to absorb these increases in costs. The breakdown of the amounts requested is as follows:

Company Use Gas	$5.4 million
Franchise Fees	3.7 million
Uncollectible Amounts	.5 million
Total	$9.6 million

SoCal relies on the purpose and history of the SAM procedure to support recovery of the past undercollection. It refers to our stated intention that the SAM procedure will "only insure that a utility's exceeding or failing to meet that return will not be the result of extraordinary and unpredictable fluctuations in sales and supply," (D.88835) and characterizes the undercollection as "inequitable," because the origin of these increased costs is beyond its control. SoCal alleges that it is the only gas utility that has been adversely affected in this manner, because of factual and procedural differences, and suggests that this result was "inadvertent," as shown by the Commission's formation of a SAM study committee with the object of consistent procedures. SoCal's proposal is consistent with the conclusion and recommendation of the SAM study committee.

The staff is split on this issue. The Gas Branch witness agrees that recovery should be allowed for franchise fees, but objects to recovery of uncollectibles on the ground that such costs are not beyond the control of the company. On cross-examination SoCal's witness agreed that uncollectibles should be excluded from the request.

The Revenue Requirements Division objects to recovery of the undercollection on several grounds. The witness states that the purpose of the CAM procedure "is to allow balancing account recovery of expenses only for purchased gas. F&U is an administrative expense which is not subject to balancing account treatment." Also, since prior to D.90822 company use gas was not included in the balancing account, the witness suggests that an adjustment now to recognize these items might constitute retroactive ratemaking.

The staff brief further develops the retroactive ratemaking issue. Staff counsel argues that SoCal's situation is distinguishable from the facts in the case of Southern California Edison Co. v PUC (1978) 20 C 3d 813, the case most often cited to support exceptions to the rule against retroactive ratemaking. Staff counsel states that:

> "The items for which the company seeks recovery have not previously been given balancing account treatment by the Commission, as was the case in (the Edison case), where the Commission was merely ordering a three-year refund to compensate for a previous overcollection resulting from a previously-established fuel cost adjustment clause."

Thus, staff counsel argues that to allow recovery of the undercollection would constitute retroactive ratemaking.

This staff position is difficult to reconcile with another staff recommendation regarding a related matter. The Revenue Requirements Division witness recommends that SoCal be allowed to recover F&U undercollection of about $1.3 million alleged to have accrued during January through June 1980. SoCal did not ask for recovery. The staff position appears indistinguishable from the de facto balancing account treatment sought by SoCal for the earlier period.

TURN opposes SoCal's request. TURN warns that:

> "While SoCal would like to characterize this particular item as a mere 'imperfection' in the prior tariffs, in fact there is nothing in the logic of its proposal that would prevent expansion of the theory to cover a wide variety of past 'undercollections.' . . . Once a precedent is established compensating a utility for past losses, there could be no limit to the number of ingenious requests brought before this Commission."

Furthermore, TURN suggests that SoCal did not act promptly in raising this issue. Therefore, TURN contends that equity as well as sound ratemaking policy compel the rejection of SoCal's request.

TURN also argues that relief is barred by the rule against retroactive ratemaking. TURN distinguishes the Edison case on the basis that:

> "While Decision No. 85731 underlying that case did order the utilities to refund previously collected fuel charges, the Courts and Commission both explicitly recognized that the normal course of the weather cycle would ultimately have produced the same result. . . . Surely, the same cannot be asserted in this case, where the ratemaking treatment of F&U expense has changed several times since the period in question."

TURN warns that if the Edison decision is interpreted to allow recovery by SoCal, then no dollars collected through a balancing account mechanism can be considered final.

SoCal argues that the California Supreme Court "has validated the concept that adjustments for prior periods are permissible in offset proceedings," citing the Edison case and California Manufacturers Assn. v PUC (1979) 24 C 3d 251. It contends that the only restraint on the Commission's jurisdiction is the Commission's own inclination to limit the scope of prior period review as a matter of regulatory policy. In this regard SoCal represents that it has filed for relief "within one year of actual or constructive knowledge of the deficiency in question."

We agree that there is no legal barrier to allowing SoCal its requested relief. The Edison decision signaled a fundamental change in regulatory concepts, initiated by this Commission, approved by the Supreme Court, and memorialized by the Legislature's adoption of Public Utilities (PU) Code Section 792.5.

The Edison decision is controlling. Staff is simply wrong when it states that there was a balancing account associated with the original fuel clause. Prior to the passage of PU Code Section 792.5, there was no necessary connection between offset relief and a balancing account.

TURN is wrong in its assertion that "the normal course" would not produce "the same result" as SoCal's proposal, over time. Over time SoCal could also overcollect for F&U depending on differences between recorded and estimated supplies and sales mix.

The remaining issue is the policy question. We find that franchise fees and company use gas costs are matters that are inextricably related to gas supply and price changes and are therefore outside the control of the utility for ratemaking purposes. The purpose of SAM is defeated if these kinds of costs are not recognized, as the margin becomes illusory. SoCal has responded to this problem in a timely fashion and should be allowed recovery.

C. Prospective Recovery

As indicated by the preceding discussion, we find that franchise fees and company use gas costs are properly reflected in the CAM calculation. Several methods have been tried, with various apparent deficiencies. SoCal now proposes that recorded F&U costs and offsetting F&U revenues be placed in the CAM balancing account. SoCal states:

> "The record shows conclusively that other solutions have already been tried, and that the current SoCal proposal is the last resort to resolve a serious problem which cannot be controlled or reasonably predicted by either the utility or the Commission."

The other methods are identified as the "tracking mechanism," authorized by D.90822, and use of the test year authorized F&U percentage factor.

The Revenue Requirements Division witness offers the same policy arguments for not adopting the balancing account prospectively. He contends that F&U costs are outside the scope of the CAM procedure, and that balancing account treatment would set a precedent for including even more items in the balancing account. Staff warns that:

> "...to the extent that offset proceedings are lengthened by the inclusion of such extraneous matters, the time required to consider the applications will increase, resulting in later decisions and more regulatory lag."

Neither the Revenue Requirements Division witness nor staff counsel proposed any affirmative recommendation regarding this problem.

TURN objects to the balancing account procedure. TURN points out that the volatility of franchise fees arises from the fluctuating level of P-5 sales. TURN argues that the level of P-5 sales is discretionary. In this and other cases TURN has argued that SoCal has made unreasonable gas supply choices, resulting in uneconomic sales to P-5. TURN argues that:

> "In SoCal's case, its profits are unaffected by these discretionary sales, so there is no disincentive to discourage uneconomic transactions, whatever the impact on other ratepayers."

TURN contends that the proposed balancing account treatment would eliminate even this "minor disincentive."

We find that SoCal's proposed balancing account treatment is reasonable, excluding uncollectibles. As stated in the earlier discussion, these are costs that vary directly with supply and sales levels and are appropriately recognized within the context of the CAM procedure. SoCal has shown the inadequacy of other methods. The balancing account treatment avoids these problems.

TURN's position ignores the likely prospect that discretionary purchases may be of lower, as well as higher, priced gas. The same incentive that comforts TURN is a disincentive to SoCal to purchase discretionary lower priced gas, since SoCal would bear the higher franchise fees, with no corresponding benefit. We prefer not to leave in place such an obvious conflict of interest, and instead will rely on direct periodic review of the reasonableness of SoCal's purchased gas costs as sufficient incentive to make reasonable supply choices.

IV. California Income Taxes

SoCal is requesting recovery of $3.8 million to offset California income taxes paid in 1980, allegedly resulting from regulatory lag and undercollection. As explained by SoCal:

> "California income tax rules do not allow a carryback or carryforward of net operating tax losses as do Federal rules. Consequently, when deductible expenses exceed taxable revenues in any year, such excess deductions expire and are not available to offset the related revenue when it is received in the next taxable year. In 1979, SoCal experienced net PGA/SAM undercollections of approximately $235 million because of delays in authorizing PGA/SAM offset rate increases. These large undercollections caused California tax deductions of $78,867,533 to expire in 1979 and were therefore not available to offset the related revenues when received in 1980."

SoCal asserts that recovery is necessary to accomplish dollar-for-dollar cost recovery of expenses associated with gas cost variations from the test year.

Staff and TURN oppose SoCal's recovery. During the proceeding the parties agreed that the issue was related to issues pending before the Commission in OII 24. The administrative law judge tentatively deferred consideration of the issue, pending a final decision in OII 24.

However, we are not certain that the OII-24 decision will dispose of this issue, and further delay may be disadvantageous. We find this issue suitable for study in the same way that a SAM Committee was useful to develop consistent procedures, since this issue apparently has statewide implications. Therefore, we direct SoCal to form a similar committee including gas utilities, staff, and interested parties for the purpose of providing the Commission with a technical evaluation and recommendation as soon as possible.

V. Carrying Costs on Gas in Storage

By D.92496 dated December 5, 1980, this Commission authorized electric utilities to recover certain carrying costs associated with changes in the cost of fuel oil in inventory. SoCal cites the Commission's findings in this regard and argues that these findings "are equally applicable to SoCal and PLS (Pacific Lighting Service Company)." Therefore SoCal asks for authority to recognize changes in carrying costs associated with changes in the cost of gas in storage in a manner consistent with the procedure adopted for electric utilities.

Staff opposes SoCal's request on procedural and policy grounds. Staff argues that SoCal is again inserting extraneous matters into offset proceedings that are not intended by the Commission to consider such matters. Staff states that the proposed procedure "should not be adopted for natural gas simply because it was adopted for fuel oil." Staff distinguishes natural gas from fuel oil on the grounds that "natural gas prices are more regulated than are oil prices," and that "market prices for oil have been more volatile than those for natural gas." Staff further contends that the stored gas is accounted for "in such a way as to minimize fluctuations in the market value of natural gas," since 75% of the gas is held by PLS which accounts for the gas on a last in-first out (LIFO) basis while SoCal uses the first in-first out (FIFO) basis.

TURN also opposes SoCal's request, "in part for the reasons stated by" the staff witness. TURN argues that "the complexities brought about by the LIFO accounting system...make the implications of this proposal most uncertain." TURN warns that a decision favorable to SoCal would be considered precedential by other gas utilities and suggests that a generic investigation would be more appropriate.

SoCal argues that the carrying costs on natural gas in storage increase with each and every supplier increase in the cost of gas and are beyond management's discretion and control. Thus CAM recognition of these costs is considered appropriate. SoCal contends that the three reasons cited by the staff witness in opposition (and adopted by TURN) did not withstand cross-examination and were withdrawn by the witness. SoCal asserts that the precedent has already been set by D.92496 and that approval of its proposal would be the only ruling that would be consistent with that decision.

We find that SoCal's proposal should be adopted. It has made a substantial showing in this proceeding sufficient to support the change in ratemaking treatment independently of the electric utility decision.

The basic ratemaking problem is the same for gas and electric utilities - adoption of reasonable test year estimates of volumes and price for purposes of the rate base calculation. In SoCal's case these estimates are made every two years in a general rate case proceeding. For the electric utilities these estimates are made annually. The volatility of energy prices skews the risk of forecasting error unreasonably toward undercollection. Annual forecasts more evenly balance the risk.

We reject staff's contention that natural gas prices are less volatile than oil prices. As deregulation proceeds, gas prices will foreseeably rise faster than oil prices until some level of equilibrium is attained. But even if gas prices are stable, the LIFO accounting method provides an independent basis for changing the ratemaking treatment.

The LIFO method results in ratepayers paying the current cost of gas for gas withdrawn from storage, while minimizing the cost of gas in rate base. This treatment reduces the carrying costs associated with the gas in rate base. It also reduces the risk of underrecovery of carrying costs on an average year basis, even in a period of rapidly increasing gas costs, because the higher priced gas is burned, not stored.

However, the LIFO method exposes the utility to the risk that storage levels will be drawn down below forecasted levels, and then refilled with much more expensive gas. This could occur during a cold year, whether or not gas prices are increasing. Because SoCal is unique with respect to this LIFO issue, a generic proceeding is unnecessary and this decision is not precedential.

The adopted procedure may be summarized as follows: A base rate component of natural gas in storage will be developed annually. CAM recovery will be allowed for carrying costs attributable to changes in the price of gas used in the base rate calculation. This procedure reduces the risk of forecasting error. It also enhances the forecasting that is required because it puts that forecast into the context of gas supply and price issues in the CAM proceeding, instead of the margin-related issues that dominate the general rate case. The calculation should be made in conjunction with SoCal's April 1st revision date filing and should be made from the effective date of SoCal's last general rate increase, in the same manner as the electric utility procedure was implemented.

VI. Reasonableness of Purchased Gas Costs

A. Introduction

Purchased gas costs are recovered through the CAM procedure, subject to Commission review of the reasonableness of the costs. Based on cross-examination of SoCal's witness Hohne and SoCal records, TURN argues that SoCal "has incurred unreasonable and excessive purchased gas costs of at least $16,418,000, and perhaps as much as $27,636,000." TURN focuses on two episodes that occurred during the record period. In order to illustrate points made in the following discussion, SoCal's Daily Operating Records for October 1980 through March 1981, are attached as an appendix.

B. Autumn 1980

In average year conditions SoCal buys more gas than it sells in the second and third calendar quarters, and sells more gas than it buys in the first and fourth quarters. Gas storage provides the flexibility to balance supplies and sales. Ordinarily gas is injected into storage in the warmer months and withdrawn during the colder time of the year.

In the fall of 1980 conditions were normal until October 1st, when the Los Angeles basin was struck by a series of Stage 2 smog alerts that lasted 10 days. Air pollution officials requested that SoCal provide full gas service to its electric utility customers in order to minimize fuel oil burning. In order to meet this demand SoCal withdrew gas from storage and resorted to "best-efforts" purchases from Pacific Gas and Electric Company (PG&E). Electric utility demand continued after smog levels subsided, so on October 28th SoCal also began purchases of gas from Pacific Interstate-Northwest (NW) in order to maintain high levels of service to the electric utilities and to restore its storage to the desired level. During October, November, and early December SoCal purchased 4,763 Mdth of PG&E best-efforts gas and 4,469 Mdth of NW gas. These supplies were priced at about $4.31 and $5.16 per decatherm, respectively.

TURN questions whether this course of conduct was entirely reasonable. TURN suggests that alternatively SoCal should have provided full service to its P-5 customers during the duration of the smog alert without purchasing either discretionary supply. Then, when air quality problems subsided, SoCal could have curtailed P-5 service and refilled its storage. TURN states that:

> "As evidenced by the extremely small P-5 demands beginning about mid-November, most electric utilities have experienced fuel over-supply problems and would not have suffered unduly from reduced gas availability."

The underlying question is the criteria that should be applied to judge the reasonableness of discretionary gas purchases.

TURN discusses two alternative tests: the price of alternate fuel, or the P-5 retail rate. Depending on the adopted standard, TURN argues that SoCal purchases of up to $11.2 million were unreasonable and should be disallowed.

TURN prefers the P-5 rate as the standard for discretionary gas purchases. During this period the applicable rate was $3.5048 per decatherm. Based on the earlier stated volumes and prices, the revenue deficiency associated with these purchases was $11.2 million.

If alternate fuel prices are deemed the reasonable standard, then TURN suggests that discretionary gas purchases be judged against Edison's low-sulfur fuel oil prices, discounted by 20% to reflect displacement costs. Based on this comparison, TURN states that fuel oil and NW gas were "competitively priced" in the fall of 1980.

SoCal states that its actions were consistent with its policy

> "...to take enough PGandE best-efforts gas to serve its P-5 customers' needs and fill its storage fields by November 1, and yet not take so much best-efforts gas that it might become necessary to cut back on supplies from El Paso and Transwestern at some later date."

SoCal argues that this "reasonable and prudent" policy is still subject to factors beyond the control of the utility, such as abnormal weather and unexpected hydroelectric and purchased power available to electric utilities. Such factors can cause unpredictable changes in SoCal's market, requiring "unusual steps" to restore balance to the system.

SoCal cites the severe smog conditions in October 1980 as an example of such factors. SoCal states:

> "In order to refill the storage fields and meet its goal of full storage in preparation for the coming winter, SoCal had to purchase as-available gas from Northwest Pipeline. Due to a further series of unexpected events, SoCal was not able to fill its storage fields to a satisfactory level and restore some certainty to its winter supply outlook until early December."

SoCal claims that "with its 100 years of experience," it does all that it can to assure that its system is operated as efficiently and economically as possible. It contends that management decisions must be judged in light of the circumstances known at the time decisions are made. SoCal argues that its policies are reasonable under the circumstances.

We find that SoCal was imprudent in its purchases of NW gas. This judgment is based on circumstances prevailing at the time of the purchases. We are not persuaded that SoCal has operated its system in an economically sound manner.

The matter of discretionary purchases of high-priced gas has been before the Commission previously, in SoCal and PG&E proceedings. The burden of proving the reasonableness of such purchases is on the utility applicant. SoCal has failed to meet that burden.

Discretionary gas purchases are reasonably matched with the priority system and the user of the gas identified. The threshold test of the reasonableness is the prevailing retail rate. For example, if the gas is found to have been served to P-5 customers, the first measure is the GN-5 rate. If the cost of gas is less than the rate, then the purchase of the gas creates a rebuttable presumption that the purchase is reasonable.

As pointed out by TURN, SoCal's purchases of gas from PG&E and NW after the smog alert subsided fail to meet this test. These purchases could still be found reasonable on a sufficient showing by SoCal.

SoCal argues that such purchases were reasonable because of the need to restore storage levels following the unplanned withdrawal in early October. This argument would be sufficient if it was supported by facts. However, the evidence is to the contrary.

SoCal's daily operating records show that SoCal continued to provide substantial P-5 deliveries after the smog crisis subsided, while it was refilling storage. Since refilling storage is higher in priority that serving P-5, "particularly when one considers the potentially dire consequences of facing a severe winter with inadequate gas supplies (and) the importance of maintaining an adequate reserve margin for unexpected events," (quoting SoCal's brief) the PG&E and NW volumes were apparently purchased to maintain a high level of service to the P-5 customers.

The rate at which SoCal refilled storage does not indicate any sense of urgency on SoCal's part. Storage levels could have been restored much more rapidly if SoCal had reduced deliveries to P-5 customers.

As pointed out by TURN, such curtailment of P-5 customers could hardly have caused a hardship for the electric utilities. The saturation level of service during the smog alert obviously displaced fuel oil that could have been burned while storage levels were restored. (The fuel oil was burned later, displacing gas, as discussed below.) Thus we find that storage conditions did not warrant SoCal's discretionary purchase of high-priced gas.

However, such purchases could still be reasonable if the cost of gas was competitive with alternate fuel prices, contributing a net economic benefit to the service territory. TURN discusses such a standard in its brief. SoCal's brief does not address this issue; however, its witness Hohne discussed this matter under cross-examination.

The point of this standard is that an otherwise reasonable opportunity should not be lost on account of rate design considerations. Our policy of setting low priority gas rates by reference to alternate fuel prices allows for long-term recognition of short-term economic dislocation.

TURN's method for applying this standard is stated above. TURN proposes that Edison's reported low-sulfur fuel oil costs be discounted by 20% and compared to the cost of gas. On this basis TURN concludes that gas and fuel oil were "competitively priced."

Hohne stated that "the price of alternate fuel was well in excess of" the cost of NW gas. Specifically he indicated that at this time

> "...gas was going for between $7 and $8 in the midcontinent area. That certainly is an alternate price.
>
> "Another thing is, we have checked the FPC Form 423s for our major P-5 companies, customers, and found that 94 percent of the fuel oil purchased during this time by these companies was priced in excess of $5.15 per million Btu's.
>
> "...we just took the Form 423s, and even taking that, which I consider low for Edison, still their prices were well in excess of the $5.15 price we were paying."

Thus, if SoCal's criteria are reasonable, then its gas purchases are reasonable.

We are not satisfied that either SoCal or TURN has correctly applied the alternate fuel test. Both parties have proceeded from a false premise regarding the appropriate alternate fuel price reference point.

Electric utility contract prices are not a useful standard for this purpose, even though we find that the gas was sold to P-5 customers. Instead, we consider spot market prices the meaningful reference point. Electric utility prices are useful only for evaluating the reasonableness of the electric utility's choice to burn oil or gas. The derivation of this guideline is discussed at greater length in the companion decision in A.59929.

This analysis is true at least in the context of discretionary gas purchases and electric utility fuel requirements. In such cases the gas displaces oil already contracted for by the electric utility. Thus, the original cost of oil is known; the cost of gas is known. The crucial variable in evaluating the economics of burning gas or oil is the cost of disposing of the excess fuel oil. The excess oil may be sold, stored, or underlifted. The electric utility is expected to choose the lowest cost option consistent with its obligation to provide reliable service at reasonable rates.

Lacking evidence to the contrary, the gas utility may reasonably assume that excess oil would be sold on the spot market, at least for the initial evaluation of whether gas is reasonably purchased. Even if the spot market price is less than the cost of gas the purchase may be reasonable if the gas utility can show that the electric utility has some other lower cost means of disposing of its excess oil. The burden of proving such circumstances is on the gas utility.

This analysis is illustrated by the following example. Assume that the electric utility paid 60 cents per therm for oil, the gas utility would pay 50 cents per therm for gas, and the spot market price of oil is 45 cents per therm. If the gas is purchased, the oil is sold for a loss of 15 cents per therm. Thus the cost of burning the gas is 50 cents plus 15 cents = 65 cents per therm, 5 cents per therm more than the cost of rejecting the gas and burning the fuel oil.

The principle that spot market prices control is reinforced by examination of the opposite situation. If the cost of gas is less than the spot market price for fuel oil, the gas utility should purchase the gas even if the electric utility contract price is less than the cost of gas. This point is illustrated by the following example. Assume that the spot market price of oil is 60 cents per therm, the cost of gas is 50 cents per therm, and the electric utility contract price for oil is 45 cents per therm. In this situation the oil would be sold for a gain of 15 cents per therm, yielding a net cost for the burning of gas of 35 cents per therm, a savings of 10 cents per therm.

Against this background SoCal's contention that its purchases were reasonable when measured by alternative fuel prices is not supported by evidence. The relevance of midcontinent gas prices is not shown. The Form 423 information consists generally of electric utility-reported fuel costs and is flawed as demonstrated by the preceding discussion. Hohne's statement that the Form 423 information is "low for Edison" is wrong, at least occasionally, because of the way Edison's facilities charge is included. The fewer barrels of oil burned, the higher per barrel the charge appears. Thus in periods of low oil burn and stable oil prices the Form 423 information overstates the incremental cost of oil to Edison.

These principles must be applied to the actual facts. By coincidence these purchases occurred while hearings were underway in SoCal's immediately prior CAM proceeding, A.59929. That proceeding involved a rate reduction that SoCal proposed to spread to all classes of customers, including low priority customers, even though the low priority rates had not been raised in the immediately prior CAM proceeding, D.91969. In an interim decision in A.59929 (D.92504) we rejected SoCal's proposal for the following reason:

> "The priority 3 and 4 rates (GN-32, 36, 42 and 46) were not increased in the last SoCal offset proceeding, D.91969. Since this reduction is in a smaller amount, we find that such rates should not be reduced, absent a compelling showing that alternate fuel prices require such a reduction."

However, SoCal's position is relevant to this proceeding because it reflects SoCal's state of mind.

At a time when SoCal was paying $4.31 per decatherm to PG&E and $5.16 per decatherm to NW, it was proposing to reduce the GN-36, 46, and 5 rates from $3.50 to $3.34. On November 3, 1980 its witness Douglas testified:

> "Well, based on the latest information that we have at the present time from Lundberg, as shown in the August report, the fuel oil price on a gas equivalent basis was about 35.7 cents per therm.
>
> . . .
>
> "I don't know how, how prices are going to go.
>
> "All of us can speculate as to what is going to happen in the fuel oil market but my primary concern is retaining the market so that we can proceed with our overall business of satisfying our customers' requirements to the extent possible.
>
> "I would still be very reluctant to make much of a change in the, in the rates that we're proposing here for those types of customers."

> "...I would certainly feel more comfortable in keeping those prices down for awhile until we see what's going to happen."

Thus, if SoCal's sense of alternate fuel prices is reasonable, then its purchases from both PG&E and NW were imprudent.

However, SoCal relies chiefly on a Lundberg survey for its alternate fuel price information. In the interim decision in this case (D.93190) we rejected the Lundberg survey information as unreliable, preferring information derived from Platt's Oilgram. The Platt's information is the basis for our judgment in this proceeding.

The Platt's information, adjusted by the staff, is also contained in the record in A.59929, as well as this proceeding. Briefly stated, staff takes the published No. 6 high-sulfur fuel oil price for the Los Angeles area, and makes a "sulfur content adjustment" to recognize the low-sulfur content requirement prevailing in the Los Angeles basin. SoCal has been critical of staff's method in the past, and contends that it overstates the price of oil on the west coast. However, in this instance the adjustment works to SoCal's advantage, as it raises the cost of alternate fuel higher than the cost of PG&E gas.

Although the data are contained in this record, the actual adjustments have not been calculated. However, based on the staff method, the alternate fuel price for September and October 1980 was about $4.70 per decatherm (as shown in Exhibit 19, A.59929). Prices actually decline in November and December (as anticipated by SoCal's witness Douglas) because of the diminishing low-sulfur adjustment (A.60339, Exhibit 18, Table 2). Thus the purchases from PG&E during this period meet the alternate fuel cost guideline.

However, the purchases from NW do not meet the alternate fuel price test and have been shown in no other respect to have been reasonable. Therefore, those purchases are found to have been imprudent. An appropriate adjustment to the balancing account is required.

TURN proposes that the imprudence be calculated based on the difference between the cost of the gas and the GN-5 rate. On this basis the amount that would be disallowed is $7.4 million. This method is simple, but it does not adequately reflect the consequences of SoCal's actions.

We find that SoCal unreasonably purchased NW gas from October 28 to December 4 and sold such gas to its P-5 customers. The effect of this action was to displace fuel oil from the electric utility resource mix. By early December the P-5 sendouts were substantially reduced below earlier levels as the electric utilities resorted to burning oil because of excess volumes. Beginning in late December, SoCal undernominated El Paso and Transwestern volumes for most of the next two months because of excess gas.

Apparently the major factor underlying the extent and duration of the undernomination was the relatively warm weather that is reflected in the lower than average high priority customer sendout during this period. However, if the NW purchases had not occurred SoCal would have been able to place an equivalent amount of additional El Paso and Transwestern volumes. Therefore we find that the actual consequence of the NW purchases was a reduction in the purchases from El Paso and Transwestern. Based on the undernomination ratios, as shown in the appendix, the ratio of additional purchases would have been about 2 therms from El Paso to each therm from Transwestern. The appropriate ratemaking adjustment is calculated by multiplying the number of therms by the difference between the NW price and the weighted average cost of gas from El Paso and Transwestern:

$ 5.02 (NW gas price adjusted to reflect transportation credit)
-2.36
$2.66 x 4,469 Mdth = $11,888,000

The balancing account should be adjusted accordingly, including interest.

C. Winter 1980-1981

The circumstances prevailing through the winter of 1980-1981 have been described in the foregoing discussion. By early December storage levels had been restored and purchases of PG&E best-efforts gas and NW gas had been terminated. The winter turned out to be much warmer than average, leading to undernominations of supplies from El Paso and Transwestern.

As shown in the appendix, during much of the time that SoCal was undernominating El Paso and Transwestern supplies, SoCal was also withdrawing substantial volumes of gas from storage. TURN inquired of SoCal why SoCal would simultaneously undernominate and withdraw from storage and elicited the following response from Hohne:

> "... We do have certain financial commitments that we have got to keep. We finance this storage inventory with short-term debt and we have an obligation to pay off that debt. And in order to meet that obligation we have got to draw down on storage."

TURN considers this rationale inadequate.

TURN complains that SoCal undernominated El Paso and Transwestern supplies during this period in order to draw down storage, but that storage was later refilled, using much higher priced gas. TURN states that:

> "This action was taken with full knowledge that high-cost PG&E best efforts gas would most likely be required the following summer to refill the empty storage space."

TURN calculates the cost of SoCal's strategy based on the difference between the cost of the lower priced supplies and the higher priced PG&E gas. Based on certain assumptions set forth in its brief, TURN claims that $16.4 million in additional costs were imposed on ratepayers.

TURN warns that these circumstances

> "...present a textbook case of the perverse incentives created by balancing account ratemaking. Since the utility recovers purchased gas costs dollar-for-dollar through the CAM account, cost minimization is not a particularly pressing item on the corporate agenda. When it comes to financing costs ultimately borne by the shareholder, however, the company unquestioningly acts to minimize the expense, regardless of the impact."

TURN claims that SoCal has effectively shifted the risk associated with a warm winter from shareholders to ratepayers.

TURN argues that this Commission cannot allow SoCal's actions to "slide by unadmonished." TURN contends that the integrity of the regulatory process is at stake.

> "Here SoCal imposed $16,418,000 in unnecessary and unreasonable gas costs on its customers, in order to save at most one or two million for its shareholders. The issue is not foresight versus hindsight because, as documented above, SoCal knew at the time it chose to withdraw gas from storage that high-cost supplies would be required to refill its fields." (Emphasis in original.)

TURN proposes that the $16.4 million in purchased gas costs be disallowed.

SoCal complains that TURN "completely ignores the real time and real world constraints of managing a gas distribution system." SoCal claims that during this period it had "extraordinary short term obligations to discharge which required that significant amounts of cash be generated, in addition to the normal cash flow needs of the Company." Specifically SoCal refers to Commission-ordered refunds totaling $320 million that were made at this time. SoCal argues that to delay this refund any further would have been contrary to the public interest and in violation of the Commission's resolutions directing the refunds.

SoCal further argues that TURN's calculation of the cost to the ratepayers is based on false assumptions, particularly with regard to the volumes of gas that El Paso and Transwestern would have supplied if SoCal had nominated full volumes. SoCal points out that it nominated full volumes throughout October, November, and most of December 1980, but received full volumes only occasionally. For 10 days in February SoCal nominated full volumes that were not delivered. For these 10 days average deliveries were "within the range" of actual nominations over the longer periods. Thus SoCal concludes that "it is uncertain" whether El Paso and Transwestern could have delivered significantly more gas, even if SoCal had nominated full volumes.

SoCal also complains that TURN distorts the position of the shareholders. SoCal asserts that had it sought to spare the shareholders the burden of the storage expenses imposed by the warm winter, it would have withdrawn gas from storage to the level contemplated in the 1981 general rate case. Instead of reducing storage levels to test year levels for January and February, SoCal withdrew no more than the minimum amount necessary.

We are not persuaded by SoCal's arguments. However, we reject TURN's contention that SoCal was imprudent during this period for the reasons stated below.

The pendency of refunds does not justify uneconomic operation of the gas system. SoCal could have sought permission to postpone its refund obligation if such refunds threatened to impose a substantial burden on the ratepayers. We cannot imagine that SoCal would accept such a burden on behalf of its shareholders without informing the Commission of the problem and asking for relief.

Nor are we convinced that TURN has overstated the available volumes from El Paso and Transwestern. The daily operating records show that SoCal consistently received the volumes it nominated in January and February, except for the 10 days mentioned by SoCal. Without evidence to the contrary those 10 days appear to be the exception, rather than the rule. Some further showing on SoCal's part is required to persuade us that the ordinary operation of the nomination procedure would not have produced substantial additional volumes of gas.

Nevertheless we decline to adopt the adjustment proposed by TURN. We find that TURN's argument proceeds from a false premise. The false premise is TURN's assumption that storage was refilled in the following summer with high-priced PG&E best-efforts gas. Instead, we find that storage levels were restored using lower cost supplies, while the higher priced discretionary gas was purchased to provide additional service to lower priority customers. Our conclusion is consistent with our earlier determination that NW gas was purchased in the fall of 1980 in order to provide P-5 service, not to restore storage levels. Therefore we conclude that SoCal's actions in this regard were not imprudent.

Findings of Fact

1. By an interim decision, D.93190 dated June 16, 1981, SoCal was authorized a rate increase of $34.9 million over a six-month forecast period.

2. Certain issues were deferred by D.93190 to this second phase of this proceeding.

3. SoCal requests that it be permitted to recover additional company use gas costs, franchise fees, and uncollectible accounts expenses of $9.6 million, which it incurred from August 14, 1978 through September 17, 1979.

4. During the course of the proceeding SoCal withdrew its request to recover for past uncollectible expense.

5. Franchise fees and company use gas costs are matters that are inextricably related to gas supply and price changes and are therefore outside the control of the utility for ratemaking purposes.

6. SoCal responded to the accumulating undercollection in a timely fashion.

7. Balancing account treatment of franchise fees and company use gas costs is reasonable in light of the demonstrated inadequacy of other methods.

8. The balancing account treatment avoids a conflict of interest that otherwise occurs if SoCal faces an opportunity to purchase additional gas supplies.

9. SoCal is requesting recovery of $3.8 million to offset California income taxes paid in 1980, allegedly resulting from regulatory lag and undercollection.

10. The volatility of energy prices shows the risk of forecasting error regarding natural gas inventory in rate base unreasonably toward undercollection.

11. Annual forecasting more reasonably balances this risk.

12. The LIFO accounting method exposes the utility to the risk that storage levels will be drawn down below forecasted levels and then refilled with much more expensive gas.

13. In the fall of 1980 the Los Angeles basin was struck by a series of Stage 2 smog alerts that lasted 10 days.

14. Air pollution officials requested that SoCal provide full gas service to its electric utility customers in order to minimize fuel oil burning.

15. In order to meet this demand SoCal withdrew gas from storage and resorted to "best-efforts" purchases from PG&E.

16. Electric utility demand continued after smog levels subsided, so on October 28th SoCal also began purchases of NW gas in order to maintain high levels of service to the electric utilities and to restore its storage to the desired level.

17. During October, November, and early December SoCal purchased 4,763 Mdth of PG&E best-efforts gas and 4,469 Mdth of NW gas.

18. These supplies were priced at about $4.31 and $5.16 per decatherm, respectively.

19. The PG&E and NW volumes were purchased to maintain a high level of service to P-5 customers.

20. Such purchases might be reasonable if the cost of gas was competitive with alternate fuel prices.

21. Spot market prices provide the meaningful alternate fuel price signal in the context of evaluating discretionary gas purchases.

22. The prevailing alternate fuel price range during this period, using the staff method, was from $4.70 per decatherm to $4.87 per decatherm.

23. The purchases from NW do not meet the alternate fuel price test.

24. The purchases of NW gas contributed to the undernomination of supplies from El Paso and Transwestern.

25. Substantial additional volumes were available from El Paso and Transwestern.

26. The appropriate adjustment is based on the difference between the cost of NW gas and the weighted average cost of gas from El Paso and Transwestern.

27. The amount disallowed is $11,888,000, plus interest.

28. During much of the time that SoCal was undernominating El Paso and Transwestern supplies, SoCal was also withdrawing substantial volumes of gas from storage.

29. Storage levels were restored in the following summer with lower cost supplies, while higher priced gas was purchased to provide additional service to lower priority customers.

Conclusions of Law

1. SoCal should be allowed to recover $9.1 million related to undercollected company use gas costs and franchise fees incurred from August 14, 1978 through September 17, 1979.

2. The rule against retroactive ratemaking does not bar such recovery.

3. Balancing account treatment of prospective company use gas costs and franchise fees is reasonable.

4. Consideration of recovery of increased California income taxes should be deferred until a final order in OII 24.

5. SoCal should be authorized to adjust revenues to reflect changes in the carrying costs on the value of natural gas stored underground, calculated from the effective date of SoCal's last general rate increase.

6. SoCal's purchase of NW gas from October through December 1980 was imprudent.

7. SoCal's practice of undernominating supplies from El Paso and Transwestern while withdrawing gas from storage was not imprudent.

FINAL ORDER

IT IS ORDERED that:

1. Southern California Gas Company (SoCal) is authorized to recover $9.1 million of undercollected company use gas costs and franchise fees incurred from August 14, 1978 through September 17, 1979, plus interest, by way of an appropriate adjustment to its CAM balancing account.

2. On or after the effective date of this decision SoCal is authorized to file appropriate tariff changes to provide for prospective CAM recovery of company use gas costs and franchise fees.

3. SoCal shall form a committee to examine the effect of undercollection on income taxes to provide the Commission a technical analysis and recommendations. The committee shall include gas utilities, staff, and interested parties.

4. SoCal is authorized to adjust revenues to reflect changes in the carrying costs on the value of natural gas stored underground in the manner requested in its application, calculated from the effective date of SoCal's last general rate increase.

5. On or after the effective date of this decision SoCal is authorized to file appropriate tariff changes to provide for operation of the carrying cost of gas in storage procedure.

6. SoCal shall reduce its balancing account by $11,888,000, plus interest, calculated from February 1, 1981 on account of imprudence.

This order becomes effective 30 days from today.

Dated April 28, 1982, at San Francisco, California.

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

I will file a concurring opinion.

/s/ LEONARD M. GRIMES, JR.
Commissioner

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

Joseph E. Bodovitz

Joseph E. Bodovitz, Executive Director

A.60339 /ALJ/km

Appendix A
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SOUTHERN CALIFORNIA GAS COMPANY
DAILY OPERATING RECORD

SEPTEMBER
(MMcfd)

	SUPPLY								NOMINATION		SENDOUT						
											RETAIL				WHOLESALE		
Sept.	Cal Sources	Trans-Western	El Paso	Northwest Pipeline	Pacific Interstate	Ft. Tr.	Storage Withdrawals	Total	El Paso	Trans-Western	P1, P2A, P2B Int. Fuel	P-3	P-4	P-5	SDG&E	Long Beach	Total
1	107	652	1729	0	3	0	(452)	2039	1750	650	753	195	93	758	183	57	2039
2	107	650	1750			0	(37)	2473		650	903	259	98	934	215	64	2473
3	107	651	1599			72	160	2592		675	895	262	98	1069	202	66	2592
4	107	649	1558			75	423	2815			884	263	98	1300	204	66	2815
5	106	641	1667			75	176	2668			850	257	98	1204	194	65	2668
6	111	669	1725			75	(241)	2342			800	220	98	979	184	61	2342
7	111	665	1752			75	(265)	2341			846	205	93	940	193	64	2341
8	111	687	1730			75	(72)	2534			946	257	98	960	203	70	2534
9	103	699	1739			75	(42)	2577			948	255	98	968	238	70	2577
10	103	695	1553			67	111	2532			914	255	98	959	239	67	2532
11	105	653	1407			75	299	2542			941	254	98	950	232	67	2542
12	106	639	1572				62	2457			882	257	98	951	203	66	2457
13	103	638	1736				(314)	2241			799	220	98	866	194	64	2241
14	103	641	1742				(293)	2271			854	200	93	872	188	64	2271
15	103	639	1616				(18)	2554			943	256	98	979	209	69	2554
16	105	678	1616				(55)	2530			923	259	98	967	215	68	2530
17	106	651	1748				(5)	2578			894	309	98	909	224	68	2578
18	100	652	1660				94	2584			937	314	98	964	203	68	2584
19	100	640	1751		2		(108)	2460			898	256	98	938	204	68	2460
20	100	649	1742				(317)	2251			825	210	98	868	186	64	2251
21	100	663	1752				(377)	2215			855	198	93	873	186	60	2215
22	100	668	1750				(190)	2505			955	256	98	941	187	68	2505
23	107	672	1570				241	2667			1047	255	98	1001	196	70	2667
24	107	704	1696		3		145	2729			995	263	98	1120	183	70	2729
25	108	696	1684				(24)	2542			937	258	98	992	185	72	2542
26	108	713	1736				54	2689			927	254	98	1082	261	67	2689
27	107	715	1714				(240)	2374		700	836	213	98	992	174	63	2374
28	107	705	1745				(301)	2334		700	834	189	93	989	168	61	2334
29	107	724	1732				(69)	2572		700	908	291	98	957	249	69	2572
30	106	700	1766				43	2693		700	970	316	98	1016	225	68	2693

Appendix A
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SOUTHERN CALIFORNIA GAS COMPANY
DAILY OPERATING RECORD

OCTOBER
(MMcfd)

	SUPPLY								NOMINATION		SENDOUT						
											RETAIL				WHOLESALE		
Oct.	Cal. Sources	Trans-West	El Paso	Nth-West Pipe	Pac-Inter-state	From PG&E	Storage With-drawals	Total	El Paso	Trans-West	P1,P2A, P2B Ign. Fuel	P-3	P-4	P-5	SDG&E	Long Beach	Total
1	106	727	1757	0	3	75	233	2901	1750	750	989	272	75	1268	231	66	2901
2	104	724	1756	0	3	75	251	2913			965	311	75	1270	225	67	2913
3	104	709	1757	0	3	75	237	2885			884	294	75	1374	192	66	2885
4	104	726	1754	0	3	116	(27)	2676			800	215	75	1351	176	59	2676
5	104	732	1741	0	3	150	(63)	2667			812	195	70	1346	184	60	2667
6	104	695	1726	0	3	150	252	2937			948	256	75	1383	204	71	2937
7	104	703	1685	0	3	150	247	2892			935	257	75	1341	213	71	2892
8	105	703	1582	0	3	150	387	2930			932	260	75	1364	228	71	2930
9	105	682	1668	0	3	150	264	2872			959	258	75	1288	220	72	2872
10	105	681	1660	0	3	150	201	2808			974	256	75	1251	184	68	2808
11	105	684	1709	0	3	150	(206)	2365			864	219	75	998	147	62	2365
12	101	682	1733	0	3	150	(301)	2368			882	196	70	983	176	61	2368
13	101	693	1675	0	3	150	(81)	2541			1020	254	75	944	179	69	2541
14	101	695	1704	0	3	150	84	2737			1155	253	75	1000	180	74	2737
15	101	680	1680	0	3	150	233	2847			1264	252	75	963	215	78	2847
16	97	681	1674	0	3	150	354	2959			1333	253	75	973	247	78	2959
17	95	681	1742	0	3	150	155	2826			1295	254	75	894	233	75	2826
18	96	668	1764	0	3	150	(149)	2532			1093	220	75	838	239	67	2532
19	96	661	1731	0	3	150	(175)	2466			1001	202	70	890	238	65	2466
20	96	694	1759	0	3	150	4	2706			1114	253	75	946	246	72	2706
21	103	693	1739	0	3	150	(21)	2667			1102	257	75	933	230	70	2667
22	106	686	1761	0	3	150	7	2713			1136	258	75	929	240	75	2713
23	106	694	1753	0	3	150	(25)	2681			1108	257	75	926	244	71	2681
24	102	695	1749	0	3	150	(62)	2637			1047	257	75	944	243	71	2637
25	111	753	1824	0	3	156	(265)	2582			1039	223	78	960	209	73	2582
26	107	753	1750	0	3	150	(233)	2530			1090	196	70	891	209	66	2530
27	116	753	1753	0	3	147	(101)	2671			1229	252	75	782	259	74	2671
28	125	725	1624	128	3	141	(95)	2651			1228	287	75	766	221	74	2651
29	[illegible]	691	1476	128	3	151	19	[illegible]			1231	297	75	763	148	74	2588
30	[illegible]	737	1403	147	3	150	(231)	[illegible]			1094	299	75	726	139	74	2407
31	122	751	1541	149	3	150	(328)	2388			1066	304	75	697	177	69	2388

SOUTHERN CALIFORNIA GAS COMPANY
DAILY OPERATING RECORD

NOVEMBER
(MMcfd)

Nov.	SUPPLY: Cal. Sources	Trans-West	El Paso	Nth-West Pipe	Pac-Interstate	From PG&E	Storage With-drawals	Total	NOMINATION: El Paso	Trans-West	SENDOUT: RETAIL: P1, P2A, P2B Ign. Fuel	P-3	P-4	P-5	WHOLESALE: SDG&E	Long Beach	Total
1	122	732	1619	107	2	150	(432)	2300	1750	750	998	282	83	705	172	60	2300
2	122	746	1699	32	2	34	(200)	2435			1010	208	76	912	165	64	2435
3	122	742	1719	38	2	156	(125)	2654			1138	282	83	860	216	75	2654
4	179	741	1623	116	2	150	(398)	2413			1099	286	83	661	211	73	2413
5	185	753	1518	160	2	150	(400)	2368			1165	283	83	598	168	71	2368
6	191	767	1587	128	2	150	(404)	2421			1237	282	83	571	175	73	2421
7	191	725	1664	79	2	150	(326)	2485			1269	282	83	605	167	79	2485
8	190	727	1776	0	2	150	(559)	2286			1174	203	83	569	156	70	2286
9	190	752	1780	0	2	150	(523)	2351			1260	203	76	575	166	71	2351
10	190	756	1645	109	2	150	(282)	2570			1356	279	83	605	168	79	2570
11	184	751	1541	0	2	148	(211)	2415			1366	204	76	569	122	78	2415
12	180	750	1676	84	2	150	(275)	2567			1392	278	83	587	144	83	2567
13	179	750	1658	91	2	150	(89)	2741			1561	289	83	590	132	86	2741
14	177	683	1679	74	1	150	28	2792			1552	335	83	585	152	85	2792
15	177	726	1638	121	2	150	(134)	2680			1486	278	83	573	180	80	2680
16	177	728	1677	85	2	150	(63)	2756			1589	250	76	556	203	82	2756
17	187	645	1378	146	2	116	668	3142			1872	327	83	580	184	96	3142
18	192	573	1421	139	2	149	642	3118			1815	320	83	600	203	97	3118
19	194	549	1534	140	2	135	495	3049			1762	319	83	595	197	93	3049
20	200	573	1581	137	2	150	257	2900			1617	318	83	589	203	90	2900
21	190	622	1606	138	2	150	7	2715			1463	320	83	578	188	83	2715
22	186	621	1662	90	2	150	(442)	2269			1418	273	83	257	196	42	2269
23	186	660	1633	117	2	150	(449)	2299			1451	253	76	266	209	44	2299
24	190	619	1621	129	2	150	(120)	2591			1603	342	83	287	221	55	2591
25	193	584	1498	141	2	150	194	2762			1727	353	83	285	247	67	2762
26	184	500	1268	149	2	150	246	2579			1571	342	83	280	237	66	2579
27	175	557	1536	165	2	150	(273)	2312			1287	243	76	430	212	64	2312
28	174	562	1586	164	2	150	37	2675			1157	306	83	835	217	77	2675
29	179	631	1545	164	2	150	(198)	2473			1225	261	83	618	219	67	2473
30	179	706	1680	71	2	124	(161)	2601			1416	236	76	568	237	68	2601

Storage = 119,838

SOUTHERN CALIFORNIA GAS COMPANY
DAILY OPERATING RECORD

DECEMBER
(MMcfd)

Dec.	Cal. Sources	Trans-West	El Paso	Nth-West Pipe	Pac-Interstate	From PG&E	Storage With-drawals	Total	Nomination El Paso	Nomination Trans-West	Retail P1, P2A, P2B Ign. Fuel	Retail P-3	Retail P-4	Retail P-5	Wholesale SDG&E	Wholesale Long Beach	Total
	SUPPLY								NOMINATION		SENDOUT						
1	186	723	1691	55	2	137	(87)	2881	1750	750	1728	299	91	447	238	78	2881
2	189	702	1602	93	2	150	(135)	2873			1787	306	91	365	250	74	2873
3	181	626	1573	164	2	150	(218)	2914			1904	322	91	293	229	75	2914
4	186	693	1476	160	2	150	(346)	3013			1955	315	91	324	246	82	3013
5	188	710	1554	0	2	75	(297)	2826			1828	313	91	277	241	76	2826
6	189	750	1610	0	2	75	(265)	2891			1957	250	91	259	264	70	2891
7	188	750	1582	0	2	75	(328)	2925			2010	227	84	265	270	69	2925
8	189	749	1587	0	2	75	(725)	3327			2295	316	91	259	282	84	3327
9	200	650	1505	0	2	75	(890)	3322			2268	325	91	270	277	91	3322
10	202	601	1368	0	2	75	(800)	3048			2048	314	91	262	254	79	3048
11	205	577	1357	0	2	79	(564)	2784			1806	313	91	262	236	76	2784
12	193	602	1298	0	2	75	(664)	2834			1824	315	91	262	269	73	2834
13	189	689	1313	0	2	75	(266)	2734			1802	258	91	262	254	67	2734
14	182	750	1560	0	2	75	(17)	2559			1691	228	84	265	228	63	2559
15	189	733	1645	0	2	75	(132)	2512			1535	313	91	270	233	70	2512
16	189	753	1609	0	2	75	(106)	2522			1395	280	91	482	204	70	2522
17	188	752	1576	0	2	75	27	2620			1406	277	91	571	206	69	2620
18	185	703	1683	0	2	74	211	2858			1748	280	91	413	253	73	2858
19	185	631	1559	0	2	63	258	2698			1766	276	91	259	238	68	2698
20	185	634	1472	0	2	76	64	2433			1548	239	91	264	233	58	2433
21	185	578	1440	0	2	75	63	2343			1504	216	84	258	224	57	2343
22	185	569	1533	0	2	75	216	2580			1648	288	91	240	246	67	2580
23	172	635	1605	0	2	75	76	2565			1556	292	91	346	213	67	2565
24	170	674	1683	0	2	75	15	2619			1371	271	91	605	216	65	2619
25	170	722	1639	0	2	75	(266)	2342			1214	202	84	579	197	66	2342
26	170	732	1704	0	2	15	(212)	2411	1750	750	1223	216	91	606	205	70	2411
27 —	172	597	1654	0	2	0	13	2438	1650	600	1349	215	91	506	207	70	2438
28 —	172	598	1658	0	2	0	(24)	2406	1650	600	1397	196	84	447	221	61	2406
29	190	746	1732	0	2	0	(173)	2497	1750	750	1370	270	91	481	217	68	2497
30	[illegible]	598	1694	0	2	0	(95)	[illegible]	1750	750	1232	277	91	532	187	[illegible]	2308
31 —	[illegible]	600	1391	0	2	0	(160)	[illegible]	1400	600	1267	268	91	170	180	47	2023

Response to question #1

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SUMMARY OF RECEIPTS-PACIFIC LIGHTING SYSTEM

JANUARY 1981
MMCF

PREPARED BY SYSTEM ENGINEERING--SOUTHERN CALIFORNIA GAS CO.

DAY	El Paso Nominated	Transwestern Nominated	TOTAL EL PASO	TRANS-WESTERN	PITCO TRANS-PAC	PITCO NORTH-WEST	TOTAL OUT OF STATE	CALIF. OIL AND DRY	PEAKING GAS	PG&E NON-TOPOCK	STORAGE UNDERGND INJECT-WITHDRAW	STORAGE PIPELINE PACK/DRAFT	DAILY TOTAL	6 STA. AVG.
*1	1400	600	1369	597	2	0	1968	121	70	0	-277	-20	1862	62
2	1400	600	1390	600	2	0	1992	121	70	0	-188	128	2123	58
*3	1300	600	1291	600	2	0	1893	121	70	0	-119	-9	1956	62
*4	1400	600	1389	600	2	0	1991	121	70	0	-38	28	2172	59
5	1650	600	1680	600	2	0	2282	121	70	0	-31	-83	2359	63
6	1600	600	1591	600	2	0	2193	121	70	0	-38	16	2362	64
7	1425	600	1375	600	2	0	1977	122	84	0	401	-39	2545	58
8	1600	600	1502	600	2	0	2104	121	85	0	315	113	2738	56
9	1600	600	1564	602	2	0	2168	119	85	0	277	-68	2581	58
*10	1600	600	1538	601	2	0	2141	120	85	0	-43	-194	2109	61
*11	1600	600	1341	600	2	0	1943	120	85	0	-151	51	2048	62
12	1560	600	1550	601	2	0	2153	120	74	0	-80	34	2301	63
13	1400	600	1402	598	2	0	2002	122	70	0	35	108	2337	62
14	1550	600	1553	602	2	0	2157	123	70	0	36	-7	2379	61
15	1500	600	1499	600	2	0	2101	117	70	0	61	80	2429	59
16	1500	600	1502	599	2	0	2103	117	70	0	37	82	2409	59
*17	1400	600	1403	597	2	0	2002	116	70	0	121	-102	2207	59
*18	1400	600	1354	566	2	0	1922	116	70	0	-21	-65	2022	61
19	1400	600	1353	546	2	0	1901	116	70	0	202	54	2343	59
20	1400	600	1363	532	2	0	1897	116	84	0	294	-22	2369	61
21	1400	600	1368	555	2	0	1925	118	85	0	339	-1	2466	61
22	1400	600	1403	582	2	0	1987	118	85	0	296	-67	2419	60
23	1400	600	1402	579	2	0	1983	118	85	0	271	123	2580	59
*24	1400	600	1402	588	2	0	1992	118	85	0	457	11	2663	57
*25	1400	600	1397	598	2	0	1997	118	85	0	457	-74	2583	56
26	1400	600	1398	599	2	0	1999	118	85	0	717	-13	2906	55
27	1400	600	1401	599	2	0	2002	134	85	0	792	-32	2981	55
28	1400	600	1401	599	1	0	2001	130	85	0	798	63	3077	56
29	1400	600	1400	599	1	0	2000	130	85	0	1305	16	3536	51
30	1400	600	1401	601	1	0	2003	130	85	0	1229	83	3530	52
*31	1650	625	1648	625	1	0	2274	130	85	0	920	-94	3315	52
MONTHLY TOTALS	45335	18625	44596	18365	58	0	63020	3753	2427	0	8386	112	77707	
DAILY AVERAGES	1462	601	1438	592	1	0	2033	121	78	0	270	3	2506	58

*SATURDAYS,SUNDAYS,HOLIDAYS

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SUMMARY OF DELIVERIES-PACIFIC LIGHTING SYSTEM
FROM PRELIMINARY OPERATING SHEETS
JANUARY 1981
MMCF PREPARED BY SYSTEM ENGINEERING--SO.CALIFORNIA GAS COMPANY

DATE	PRIORITY 1 & 2A	WHOLESALE SAN DIEGO	WHOLESALE LONGBEACH	PRIORITY 2A IGNITER FUEL	PRIORITY 2B	PRIORITY 3	PRIORITY 4	PRIORITY 5	TOTAL SYSTEM
1	1085	172	83	0	120	202	87	155	1862
2	1269	181	47	0	128	229	92	166	2123
3	1101	182	81	0	125	218	92	158	1956
4	1370	185	146	0	120	199	87	157	2172
5	1392	199	156	0	131	276	92	213	2359
6	1411	177	157	0	131	218	92	218	2362
7	1575	185	159	0	131	262	92	221	2545
8	1727	200	155	0	131	201	92	249	2738
9	1615	209	155	0	131	264	92	201	2581
10	1230	159	159	0	128	231	92	161	2109
11	1286	144	147	0	120	290	87	164	2046
12	1391	153	152	0	131	291	92	191	2301
13	1392	164	153	0	131	293	92	212	2337
14	1464	170	154	0	131	292	92	196	2319
15	1453	179	159	0	131	302	92	213	2429
16	1453	162	155	0	131	282	92	214	2409
17	1359	150	147	0	128	233	92	198	2207
18	1219	160	145	0	120	214	87	177	2022
19	1460	171	153	0	131	241	92	205	2343
20	1414	187	155	0	131	275	92	215	2369
21	1392	194	160	0	131	274	92	323	2466
22	1357	166	[illegible]	0	131	266	92	323	2419
23	1511	190	[illegible]	0	131	266	92	317	2560
24	1635	205	[illegible]	0	128	231	92	310	2663
25	1622	208	[illegible]	0	120	197	87	293	2563
26	1765	249	[illegible]	0	131	272	92	324	2904
27	1861	200	[illegible]	0	131	276	92	339	2981
28	1933	231	[illegible]	0	131	273	92	390	3077
29	2270	229	[illegible]	0	131	267	92	429	3535
30	2235	251	[illegible]	0	131	279	92	457	3530
31	2080	261	[illegible]	0	128	221	92	490	3315
MONTHLY TOTALS	47323	5914	[illegible]635	0	3968	7995	2827	7825	77707
DAILY AVERAGES	1526	190	[illegible]	0	128	257	91	252	2507

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SUMMARY OF RECEIPTS-PACIFIC LIGHTING SYSTEM

FEBRUARY 1981
MMCF PREPARED BY SYSTEM ENGINEERING--SOUTHERN CALIFORNIA GAS CO.

DAY	El Paso Nominated	Transwestern Nominated	TOTAL EL PASO	TRANS-WESTERN	PITCO TRANS-PAC	PITCO NORTH-WEST	TOTAL OUT OF STATE	CALIF. OIL AND DRY	PEAKING GAS	PG&E NON-TOPOCK	STORAGE UNDERGND INJECT-WITHDRAW	STORAGE PIPELINE PACK/DRAFT	DAILY TOTAL	6 STA. AVG.
1	1650	625	1536	625	1	0	2162	130	85	0	648	-25	3000	51
2	1650	625	1457	601	1	0	2054	130	85	0	777	97	3148	58
3	1650	625	1458	575	1	0	2034	129	85	0	926	-60	3114	56
4	1650	675	1484	667	2	0	2153	125	85	0	761	13	3137	55
5	1750	750	1604	642	2	0	2248	127	85	0	786	-82	3164	55
6	1750	750	1602	620	2	0	2224	125	85	0	521	101	3058	55
7	1750	750	1560	622	2	0	2184	125	85	0	389	-73	2710	56
8	1750	750	1640	737	2	0	2379	125	85	0	498	9	3096	56
9	1750	750	1623	707	2	0	2332	124	85	0	788	12	3341	57
10	1750	750	1613	581	2	0	2196	126	85	0	593	-48	2952	59
11	1750	750	1409	439	2	0	1850	125	85	0	976	66	3102	57
12	1750	750	1398	433	2	0	1833	120	85	120	520	-52	2635	63
13	1750	750	1500	499	2	0	2001	120	85	150	129	-82	2483	65
14	1750	750	1578	594	2	0	2174	120	85	[illegible]	-231	-42	2149	65
15	1538	600	1538	603	2	0	2143	120	85	0	-413	110	2065	66
16	1400	600	1402	600	2	0	2004	120	85	0	-13	4	2200	68
17	1400	600	1400	600	2	0	2002	120	85	0	82	-5	2284	69
18	1400	600	1405	599	2	0	2006	121	85	0	68	-95	2179	68
19	1400	600	1404	597	2	0	2003	121	85	0	-71	53	2191	67
20	1400	600	1401	602	2	0	2005	121	85	0	-118	110	2287	66
21	1400	600	1404	601	2	0	2007	119	85	0	-80	-83	2088	67
22	1400	600	1404	602	2	0	2008	119	85	0	-137	-23	2052	65
23	1400	600	1401	598	2	0	2001	119	85	0	165	62	2432	62
24	1400	600	1402	599	2	0	2003	118	71	0	570	-5	2757	56
25	1400	600	1399	599	2	0	2000	115	70	0	858	31	3074	55
26	1400	600	1399	600	2	0	2001	115	70	0	929	31	3126	53
27	1400	600	1397	598	2	0	1997	114	70	0	734	-131	2784	54
28	1400	600	1399	600	2	0	2001	113	70	0	709	13	2986	53
MONTHLY TOTALS	43838	18450	41215	16740	53	0	58008	3406	2306	282	11366	-54	75314	
DAILY AVERAGES	1566	659	1471	597	1	0	2071	121	82	10	405	-1	2689	59

*SATURDAYS, SUNDAYS, HOLIDAYS

FEBRUARY 1981

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SUMMARY OF DELIVERIES-PACIFIC LIGHTING SYSTEM
FROM PRELIMINARY OPERATING SHEETS
FEBRUARY 1981
MMCF PREPARED BY SYSTEM ENGINEERING--SO.CALIFORNIA GAS COMPANY

DATE	PRIORITY 1 & 2A	WHOLESALE SAN DIEGO	WHOLESALE LONGBEACH	PRIORITY 2A IGNITER FUEL	PRIORITY 2B	PRIORITY 3	PRIORITY 4	PRIORITY 5	TOTAL SYSTEM
1	1761	254	73	0	121	215	97	473	3000
2	1782	249	80	0	133	313	103	488	3140
3	1800	239	77	0	133	320	103	442	3114
4	1626	245	75	0	133	303	103	452	3137
5	1559	236	73	0	133	317	103	443	3164
6	1734	266	75	0	133	317	103	430	3058
7	1503	219	58	0	130	260	103	437	2710
8	1880	207	74	0	121	236	97	441	3096
9	1959	269	95	0	133	314	103	466	3341
10	1576	253	73	0	133	316	103	486	2952
11	1739	257	73	0	133	312	103	490	3102
12	1363	230	69	0	133	295	103	459	2635
13	1199	239	55	0	133	291	103	428	2843
14	973	212	49	0	130	252	103	398	2109
15	952	265	47	0	121	223	97	420	2065
16	1050	220	47	0	121	226	97	433	2200
17	1010	245	52	0	133	299	103	444	2284
18	991	210	53	0	133	293	103	396	2179
19	1009	219	55	0	133	295	103	382	2191
20	1013	203	50	0	133	299	103	405	2207
21	950	207	69	0	130	241	103	371	2098
22	973	205	50	0	121	216	97	390	2052
23	1180	234	64	0	133	298	103	412	2432
24	1510	236	71	0	133	300	103	462	2757
25	1770	247	75	0	133	302	103	448	3078
26	1831	268	85	0	133	299	103	407	3126
27	1525	257	72	0	133	295	103	399	2768
28	1714	265	75	0	130	246	103	373	2906
MONTHLY TOTALS	40444	6651	1812	0	3652	7896	2854	12005	75314
DAILY AVERAGES	1444	237	64	0	130	282	101	428	2689

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SUMMARY OF RECEIPTS-PACIFIC LIGHTING SYSTEM

MARCH, 1981
MMCF

PREPARED BY SYSTEM ENGINEERING--SOUTHERN CALIFORNIA GAS CO.

DAY	El Paso Nominated	Transwestern Nominated	TOTAL EL PASO	TRANS-WESTERN	PITCO TRANS-PAC	PITCO NORTH-WEST	TOTAL OUT OF STATE	CALIF. OIL AND DRY	PEAKING GAS	PG&E NON-TOPOCK	STORAGE UNDERGND INJECT-WITHDRAW	STORAGE PIPELINE PACK/DRIFT	DAILY TOTAL	6 STA. AVG.
*1	1400	600	1404	599	2	0	2005	113	70	0	831	-25	2994	58
2	1750	750	1721	752	2	0	2475	111	70	0	558	70	3284	55
3	1750	750	1716	750	2	0	2468	112	70	0	389	-62	2977	58
4	1750	750	1725	753	2	0	2480	112	70	0	396	153	3211	57
5	1750	750	1699	753	2	0	2454	113	70	0	1066	-77	3626	57
6	1750	750	1708	747	2	0	2457	118	70	0	490	-87	3048	58
*7	1750	750	1686	749	2	0	2437	118	70	0	1	90	2716	58
*8	1750	750	1747	729	2	0	2478	118	70	0	-106	-102	2458	59
9	1750	750	1747	697	2	0	2446	118	70	0	-106	-10	2510	62
10	1750	750	1747	692	2	0	2441	119	70	0	-219	39	2450	64
11	1750	600	1724	598	2	0	2324	119	70	0	-71	-33	2409	60
12	1750	650	1732	644	2	0	2378	117	70	0	-105	116	2576	61
13	1750	750	1728	737	2	0	2467	120	70	0	275	25	2957	58
*14	1750	750	1721	753	2	0	2476	120	70	0	-8	-82	2584	55
*15	1750	750	1748	750	2	0	2500	120	70	0	-237	-97	2356	59
16	1750	750	1748	749	2	0	2499	120	70	0	-181	27	2535	61
17	1750	750	1749	750	2	0	2501	119	70	0	-169	82	2623	60
18	1750	750	1759	753	2	0	2514	120	70	0	48	-87	2705	59
19	1750	750	1695	754	2	0	2451	124	70	0	407	28	3156	58
20	1750	750	1668	728	2	0	2398	127	70	0	354	79	3024	57
*21	1750	750	1675	737	2	0	2414	127	70	0	207	-109	2709	58
*22	1750	750	1661	700	2	0	2363	125	70	0	-229	59	2388	60
23	1750	750	1631	712	2	0	2345	131	70	0	65	-6	2605	62
24	1750	750	1626	726	2	0	2354	124	70	0	1	-85	2504	62
25	1750	750	1673	737	2	0	2412	126	70	0	25	-93	2540	62
26	1750	750	1657	752	2	0	2411	122	70	0	331	194	3128	58
27	1750	750	1660	751	2	0	2413	122	70	0	298	-77	2826	57
*28	1750	750	1693	735	2	0	2430	122	70	0	-153	-8	2461	57
*29	1750	750	1639	736	2	0	2377	122	70	0	-118	10	2465	58
30	1750	750	1703	751	2	0	2456	111	70	50	-36	13	2664	58
31	1750	750	1664	751	2	0	2417	107	70	43	27	-23	2641	59
MONTHLY TOTALS	53900	22850	52450	22525	62	0	75037	3695	2170	93	4183	44	85222	
DAILY AVERAGES	1739	737	1691	726	2	0	2420							

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SUMMARY OF DELIVERIES-PACIFIC LIGHTING SYSTEM
FROM PRELIMINARY OPERATING SHEETS
MARCH 1981

PREPARED BY SYSTEM ENGINEERING--SO.CALIFORNIA GAS CO.

	PRIORITY 1 & 2A	WHOLESALE SAN DIEGO	WHOLESALE LONGBEACH	PRIORITY 2A FULL	PRIORITY 2B	PRIORITY 3	PRIORITY 4	PRIORITY 5	TOTAL SYSTEM
1	1631	286	71	0	120	212	84	428	2998
2	1966	316	67	0	132	277	87	421	3286
3	1663	295	75	0	132	262	87	463	2977
4	1655	257	83	0	132	242	87	445	3211
5	2150	375	92	0	132	242	87	468	3526
6	1761	317	71	0	132	262	87	458	3089
7	1564	253	56	0	129	255	87	430	2716
8	1365	224	52	0	120	217	84	412	2458
9	1297	265	53	0	132	268	87	406	2510
10	1221	247	50	0	132	291	87	422	2450
11	1230	231	58	0	132	287	87	390	2309
12	1323	240	52	0	132	293	87	449	2574
13	1713	285	65	0	132	287	87	408	2557
14	1466	229	55	0	129	236	87	401	2584
15	1266	238	51	0	120	205	84	392	2356
16	1321	283	55	0	132	286	87	405	2535
17	1317	236	58	0	132	265	87	448	2623
18	1309	229	55	0	132	288	87	605	2705
19	1715	257	65	0	132	266	87	618	3156
20	1510	240	61	0	132	299	87	604	3024
21	1162	218	58	0	129	242	87	621	2709
22	1160	197	45	0	120	205	84	577	2388
23	1227	218	50	0	132	286	87	605	2605
24	1172	220	56	0	132	291	87	546	2508
25	1165	219	56	0	132	265	87	577	2540
26	1762	273	68	0	132	281	87	585	3128
27	1514	255	59	0	132	265	87	544	2676
28	1269	224	50	0	129	229	87	533	2701
29	1250	222	53	0	120	204	84	525	2465
30	1320	282	56	0	132	258	81	535	2664
31	1276	241	56	0	132	290	87	559	2681
MONTHLY TOTALS	45279	7793	1857	0	4020	8297	2682	15294	85222
DAILY AVERAGES	1460	251	59	0	129	267	86	493	2749

(END OF APPENDIX A)

60339
A. ~~59929~~
D.

COMMISSIONER LEONARD M. GRIMES JR., Concurring:

H-4

While I concur with the unanimous decision of this Commission to penalize the Southern California Gas Company for certain gas purchases, I do so with serious reservations.

Fuel cost adjustment clauses which we have adopted for the gas and electric utilities have in effect removed all business risk from fuel purchase and use decisions. Fuel costs are passed through to the ratepayers on a dollar for dollar basis. The only risk to the utility is that our highly overworked staff will months later (this case covers decisions made early in 1980) reconstruct a situation and find that a particular action was imprudent. The Commission is then placed in the role of Monday morning quarterback. I have become increasingly convinced that this form of regulation is ineffective, counterproductive, and misguided. I am, of course, not alone in this feeling amoung regulators across this country.

I am also concerned that our procedures are one-sided. In this case SoCal Gas has been penalized for an imprudent purchase which cost the ratepayers money. Will we in the future grant a reward for an exceptionally prudent purchase which saved the ratepayers money? A proper system of regulation should provide risks and opportunities to management similar to those which exist in the marketplace. Now the system provides them only risks of after the fact penalties; there are few if any rewards.

Of equal concern is the fact that our procedures have unfairly shifted all business risk of fuel purchase and use to the ratepayers. We are overdue in implementing modifications that will more fairly allocate risks and rewards between ratepayers and shareholders. Management would know when and how to both avoid loss from imprudent decisions and how to profit from wise actions on behalf of the ratepayers. Our need then to second guess day-to-day management decisions would subside, and ratepayers would be more confident that they were getting the lowest cost utility service possible.

Last October 1, I issued a proposal to reorient several ratemaking practices to this end. After much comment, study, and internal debate, we finally have before us today an Order Instituting Investigation to reconsider the allocation of risks inherent in fuel cost adjustment clauses. This is a most important first step to update ratemaking to the realities of the remainder of the century. I hope that each of my fellow Commissioners will agree with me that the time to get on with this investigation is now.

LEONARD M. GRIMES, JR., Commissioner

San Francisco, California
April 28, 1982

TURN warns that if the Edison decision is interpreted to allow recovery by SoCal, then no dollars collected through a balancing account mechanism can be considered final.

SoCal argues that the California Supreme Court "has validated the concept that adjustments for prior periods are permissible in offset proceedings," citing the Edison case and California Manufacturers Assn. v PUC (1979) 24 C 3d 251. It contends that the only restraint on the Commission's jurisdiction is the Commission's own inclination to limit the scope of prior period review as a matter of regulatory policy. In this regard SoCal represents that it has filed for relief "within one year of actual or constructive knowledge of the deficiency in question."

We agree that there is no legal barrier to allowing SoCal its requested relief. The Edison decision signaled a fundamental change in regulatory concepts, initiated by this Commission, approved by the Supreme Court, and memorialized by the Legislature's adoption of Public Utilities (PU) Code Section 792.5.

The Edison decision is controlling. Staff is simply wrong when it states that there was a balancing account associated with the original fuel clause. Prior to the passage of PU Code Section 792.5, there was no necessary connection between offset relief and a balancing account.

TURN is wrong in its assertion that "the normal course" would not produce "the same result" as SoCal's proposal, over time.

SS ~~TURN does not understand that~~ over time SoCal could also overcollect for F&U, depending on differences between recorded and estimated supplies and sales mix.

25. Substantial additional volumes were available from El Paso and Transwestern.

26. The appropriate adjustment is based on the difference between the cost of NW gas and the weighted average cost of gas from El Paso and Transwestern.

27. The amount disallowed is $11,888,000, plus interest.

28. During much of the time that SoCal was undernominating El Paso and Transwestern supplies, SoCal was also withdrawing substantial volumes of gas from storage.

29. Storage levels were restored in the following summer with lower cost supplies, while higher priced gas was purchased to provide additional service to lower priority customers.

55 ~~30. In order to allow for timely implementation of these matters, this order should be effective the day it is signed.~~

Conclusions of Law

1. SoCal should be allowed to recover $9.1 million related to undercollected company use gas costs and franchise fees incurred from August 14, 1978 through September 17, 1979.

2. The rule against retroactive ratemaking does not bar such recovery.

3. Balancing account treatment of prospective company use gas costs and franchise fees is reasonable.

4. Consideration of recovery of increased California income taxes should be deferred until a final order in OII 24.

5. SoCal should be authorized to adjust revenues to reflect changes in the carrying costs on the value of natural gas stored underground, calculated from the effective date of SoCal's last general rate increase.

6. SoCal's purchase of NW gas from October through December 1980 was imprudent.

5. On or after the effective date of this decision SoCal is authorized to file appropriate tariff changes to provide for operation of the carrying cost of gas in storage procedure.

6. SoCal shall reduce its balancing account by $11,888,000, plus interest, calculated from February 1, 1981 on account of imprudence.

This order ~~is~~ shall become effective 30 days from today.

Dated APR 28 1982, at San Francisco, California.

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

Grimes to file concurring opinion