

Decision 82 09 107 SEP 22 1982

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of SOUTHERN CALIFORNIA GAS COMPANY)
for a Determination that Applicant)
Acted Reasonably in Buyig Certain)
Volumes of gas from Pacific Inter-)
state Transmission Company and to)
Decrease Revenues to Offset Changed)
Gas Costs Under Its Approved)
Purchased Gas Adjustments)
Procedures Resulting from)
Adjustments in the Price of)
Natural Gas Purchased from TRANS-)
WESTERN PIPELINE COMPANY, EL PASO)
NATURAL GAS COMPANY, PACIFIC)
INTERSTATE TRANSMISSION COMPANY)
and PACIFIC GAS & ELECTRIC)
COMPANY; and to Adjust Revenues)
Under the Supply Adjustment)
Mechanism to Reflect Greater Than)
Anticipated Collection of)
Revenues Due to Increases in)
Natural Gas Supplies.)

Application 59929
(Filed September 8, 1980;
amended September 18, 1980)

ORDER MODIFYING DECISION (D.) 82-04-114
AND DENYING REHEARING

An application for rehearing of D.82-04-114 has been filed by Southern California Gas Company (SoCal). On June 1, 1982, a document entitled "Petition for Rehearing and Modification of Decision No. 82-04-114 on Behalf of the California Gas Producers Association" was received in the Executive Director's office and accepted for filing as an application for rehearing by the Docket

Office. The last day for filing applications for rehearing was May 28, 1982, the date upon which D.82-04-114 became effective (Public Utilities Code Section 1731). Therefore, this filing was accepted in error. However, we have the discretion to consider the document as a petition for modification in accordance with its title which is stated in the alternative and we have done so. We have carefully considered each and every allegation of error in SoCal's Gas' application and each request in the above-described petition for modification, and are of the opinion that good cause for granting rehearing has not been shown.

SoCal makes a number of contentions regarding the reasonableness of the alternate fuel price test for discretionary gas purchases as it was developed in this proceeding and applied in this decision and in D.82-04-113 in A.60339. Although SoCal's contentions are without merit, additional discussion is appropriate to address SoCal's concerns.

In D.82-04-114 we found that SoCal made discretionary gas purchases at a price that exceeded the low priority customer rates, resulting in undercollections. SoCal argued that such purchases were reasonable because the high-priced gas displaced even higher cost oil from the energy mix in the service territory. SoCal contended that in such circumstances there is an overall economic benefit to the service territory and that its purchases were therefore reasonable. We accepted SoCal's premise. The burden of proving the reasonableness of its purchases was on SoCal.

The proof has two stages. The discretionary gas must be shown to be foreseeably likely to displace oil, and the displacement must be shown to be economically advantageous. Otherwise the proof fails.

The alternate fuel price test responds to the second stage of the proof. Having stated that alternate fuel prices are relevant, we face the methodology question: upon what data do we rely? In this case we addressed this question with respect to the specific facts of these particular purchases, as well as in terms of a guideline for future proceedings.

SoCal, staff, and TURN each offered a method for deriving comparable oil prices for purposes of the alternate fuel test. We found each of their methods inadequate for either testing the particular purchases or for the guideline purpose. We could have simply found that SoCal had failed to carry its burden of proof. However, having in mind the purpose to which the data would be applied, we found that we did have data available that were adequate. These were the data that we had used previously for rate design purposes.

Alternate fuel price data for this period had already been furnished to the Commission in conjunction with setting rates for low priority service, under our established policy of setting such rates with reference to alternate fuel prices. Since in both instances we are evaluating the relative economics of burning gas or oil, we found a strong correlation between the rate design use of the data and the discretionary gas test. Thus, we were able to judge the reasonableness of SoCal's actions in this proceeding, based on data that we had found reliable and upon which we had relied. Based on those data we found that the cost of the gas was reasonable compared to oil costs. However, we also found that the gas had foreseeably displaced lower cost gas, not higher cost oil. Thus, we found SoCal imprudent.

We also addressed the issue of a guideline for discretionary gas purchases. In light of the strong correlation we found between the two uses, we adopted the principle that the same data should be used for both purposes prospectively. This principle must be understood in terms of the purpose of a guideline and the nature of the data.

We expressly indicated that guidelines are useful for sharpening the focus on the burden of proof issue. We disavowed the "mechanical application" of such guidelines in future proceedings. We recognized that the reasonable operation of a utility is a complex matter not readily reduced to formula. We reserved the right to apply judgment to the data, just as we do in rate design.

The data upon which we relied were furnished by staff, based on a method that had been validated in previous proceedings. Staff did not simply offer the data without comment, and we have never mechanically set rates based on the results. We have always allowed room for judgment, based on indications of market trends.

The staff method depends on Platt's Oilgram for basic data, taking information from the first trading day of the month. The Platt's data are adjusted to account for low sulfur content, and transportation costs and sales tax added. As stated in D.82-04-114, we recognize imperfections in this method and have tended to interpret the data conservatively.

This point is illustrated by D.91969 in SoCal's A.59508, in which rates were set based on the same data that were used in D.82-04-114. In that matter the staff furnished data that indicated that oil prices ranged from about 49.5 to 53.3 cents-per-therm, based on an average of February and March data (Ex. 8, p. 3-12). Nevertheless the staff witness recommended that rates set by reference to those prices be set at 35.176 cents-per-therm, because:

" . . . there are indications that some softening in prices of #6 and #2 fuel oil might be taking place. The Federal Energy Regulatory Commission has revised and lowered alternative fuel price ceilings for the month of April 1980 under the incremental pricing program. Moreover, the FERC has taken official notice that the market price for high sulfur residual oil is continuing its recent downward trend." (Ex. 8, p. 3-4.)

Thus, the staff method itself does not mechanically rely on Platt's data. Our conclusion that SoCal's purchases met the alternate fuel price test indicates our willingness to give SoCal the benefit of all doubt, since that conclusion appears generous in light of all the available information.

In D.91969 we examined this evidence and adopted the staff position. We stated:

"In the past we have tended to rely on the Platt's information as interpreted by staff. . . . The Platt's information in the record is subject to a range of interpretations. The staff witness chose to emphasize indicators that recognize the 'softness' of the oil market and the potential for loss of load if rates are increased. . . . We find that the timing for this increase provides convincing support for the staff's conservative interpretation."
(4 CPUC 2d 80, 90.)

This is an example of the sort of judgment that is routinely applied in these matters.

This room for judgment neutralizes the arbitrariness of the staff's use of the first trading day of the month for Platt's data, rather than any other particular day or combination of days. Since the rates will be in effect for several months at least, the direction of the market is just as significant as the present level of oil prices.

Therefore, we are satisfied that rehearing should be denied. However, D.82-04-114 should be modified to provide findings of fact on each material issue and to correct a number of clerical errors.

IT IS ORDERED that,

1. D.82-04-114 is modified as follows:
 - a. Finding of Fact 17a is added to read, "Exhibit No. 17 shows that, at the time of the purchases in question, SoCal's rate for gas sold to its P-5 customers was substantially less than the price it paid for NW gas."

- b. On page 47 the monthly and total calculations of the disallowances are corrected to read:

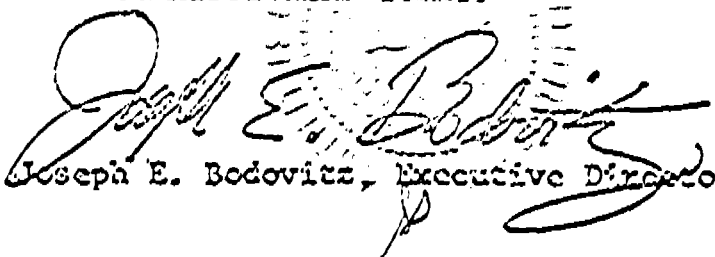
"February	\$ 4,219
March	\$ 9,209
April	\$ 4,902
Total	\$18,330"

On that same page, the figure of "18,297,000" in the last sentence of the first, full paragraph is corrected to read, "\$18,330,000."

- c. On page 50, the figure of "\$22,949,000" in the fourth sentence is corrected to read, "\$22,982,000."
- d. On page 56, the figure of "\$22,949,000" in Finding of Fact 74 is corrected to read, "\$22,982,000."
- e. On page 57 the figure of "\$22,929,000" in the second sentence of the final order is corrected to read, "\$22,982,000."
2. Rehearing of D.82-04-114 as modified is denied.
This order is effective today.
Dated SEP 22 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

Office. The last day for filing applications for rehearing was May 28, 1982, the date upon which D.82-04-114 became effective (Public Utilities Code Section 1731). Therefore, this filing was accepted in error. However, we have the discretion to consider the document as a petition for modification in accordance with its title which is stated in the alternative and we have done so. We have carefully considered each and every allegation of error in SoCal's Gas' application and each request in the above-described petition for modification, and are of the opinion that good cause for granting rehearing has not been shown.

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