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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHERN CALIFORNIA GAS COMPANY and PACIFIC LIGHTING GAS SUPPLY 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, PACIFIC INTERSTATE TRANSMISSION COMPANY, and California sources; and to Adjust Revenues to Recover the Undercollection in the CAM Balancing Account.	Application 82-09-12 (Filed September 8, 1982)
In the Matter of the Application of SAN DIEGO GAS & ELECTRIC COMPANY for Authority to Increase its Gas Rates and Charges Under its Filed Consolidated Adjustment Mechanism.	Application 82-09-21 (Filed September 15, 1982)

See Appendix A for List of Appearances.

INTERIM OPINION

In Application (A.) 82-09-12, Southern California Gas Company (SoCal) and Pacific Lighting Gas Supply Company (PLGS) seek authority to increase rates effective November 1, 1982 by $733,724,000 annually to offset the impact of further increases in the cost of gas purchased from their suppliers, and to recover the accumulated undercollection in the Consolidated Adjustment Mechanism (CAM) balancing account.

In the interim phase of A.82-09-12, SoCal seeks to recover in rates the increases in the cost of gas supplied to it by El Paso Natural Gas Company (El Paso) and Transwestern Pipeline Company (Transwestern). The application states that on August 31, 1982 El Paso and Transwestern filed applications for rate increases with the Federal Energy Regulatory Commission (FERC) which will increase the cost of gas purchased by SoCal/PLGS by $304 million and $49 annually, respectively. Under FERC rules, these increases become effective on October 1, 1982, subject to refund. In addition, El Paso's increase of $107 million to SoCal became effective on July 1, 1982, and $13 million from El Paso's April Purchase Gas Adjustment (PGA) application, which had been suspended, became effective on September 1, 1982. SoCal seeks an immediate increase in rates to offset the estimated $473 million increase in the cost of purchased gas which became effective October 1, 1982, or before, as just described. SoCal asserts that failure by us to expeditiously authorize offset rate relief will cause significant adverse impact on it and its ratepayers, as lack of timely relief would cause large undercollections in the interest-bearing CAM balancing account.

In A.82-09-21, San Diego Gas & Electric Company (SDG&E) seeks to recover in rates the increases in costs of gas purchased by it from SoCal, its sole gas supplier. SDG&E estimates that the cost of gas sold to it under SoCal's Schedule G-Cl will increase by $38,910,600 annually if the interim increase in rates sought by SoCal in A.82-09-12 is granted.

Public hearing of the interim requests (Phase I) was held before Administrative Law Judge (ALJ) J. W. Mallory in San Francisco on September 20 and 21, 1982, and the matters were continued for further hearing commencing October 4, 1982 on the balance of requests (Phases II and III).

Evidence was presented on behalf of SoCal, SDG&E, the Commission staff, Los Angeles Department of Water and Power (LADWP), California Manufacturers Association (CMA), and Southern California Edison Company (Edison). Oral argument was presented on behalf of SoCal, SDG&E, Toward Utility Rate Normalization (TURN), and CMA. Written argument was presented by the Commission staff, LADWP, Consumers for Utility Rate Equity (CURE), and General Motors Corporation (GMC). A full day of public witness testimony was heard with approximately 100 people in attendance.

Summary of Decision

This interim order grants increases in rates to SoCal and SDG&E sufficient to offset the current increases in costs of gas purchased by SoCal and PGLS from El Paso and Transwestern effective October 1, 1982, or before. Those increases, plus associated franchise fees and uncollectibles, total $396.1 million to SoCal and the pass-through to SDG&E amounts to $39.0 million.

The increased revenue is spread to SoCal customers based on its sales estimates for the current CAM period and the rate design adopted in SoCal and SDG&E's last CAM proceeding in D.82-04-116.

SDG&E's increased revenue is spread to its customers in accordance with the rate spread adopted in D.82-04-116.

The interim increases authorized average 8.3% for SoCal and 9.9% for SDG&E. Based on a representative usage of 100 therms per month, monthly charges for residential service will increase from $40.54 to $46.78 (15%) for SoCal and from $46.87 to $50.82 (8.4%) for SDG&E customers.

Request for Interim Relief

The parties to Phase I of this proceeding agree that it is appropriate and necessary for the Commission to issue an interim order near to the October 1 effective date of the FERC increase filings of El Paso and Transwestern which will increase rates for SoCal in the same amount as its purchased gas cost increases effective on that date or before.[1/] This amount totals $396.1 million for SoCal and PLGS. It is also generally the position of the parties that SDG&E's increases in the cost of gas purchased from SoCal should be recovered concurrently with the date that SoCal's rates are raised.[2/] The parties agree that other issues, including the accumulated undercollections, raised in the CAM applications or deferred from D.82-04-116 should be considered in Phase II of these proceedings. The Commission concurs that an interim increase is reasonable and necessary, based on the following considerations:

1. Timely rate relief minimizes undercollection in the balancing accounts and reduces the ultimate cost to the ratepayer. SoCal's undercollections, currently hundreds of millions of dollars, cost its ratepayers tens of millions of dollars in interest-carrying costs annually. It is cheaper to the ratepayer to increase rates on a timely basis than to defer that payment.

2. Large undercollections in the CAM balancing account can cause a net operating loss and, ultimately, an increase in California income taxes. Unless offset rates are granted to SoCal and PLGS by early November 1982, they will incur a California net operating loss in 1982. They will result in a permanent loss of

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1/ Finding 5 of D.82-04-116 states that in calculating the gas costs for that decision it is inappropriate to reflect in projected costs the effect of FERC increases which would become effective subsequent to the April 1, 1982 CAM revision date.

2/ D.82-04-116 states that because of the clear interrelationship between SoCal and SDG&E CAMs, those proceedings should be consolidated for hearing.

approximately $5 million if the rate increase becomes effective concurrent with their general rate relief scheduled for January 1, 1983. Unlike federal tax rules, California tax rules do not allow a carryback or carryforward of net operating tax losses. As a result, when deductible balancing account expenses exceed taxable balancing account revenues in any year in which a California net operating loss is incurred, such excess deductions, to the extent of the net operating loss, expire without reducing taxes and are not available to offset related revenues when received in the next taxable year.3/

3. Timely rate relief would minimize short-term borrowings. Extraordinarily high short-term debt balances cause several significant problems.

   a. Interest coverage ratios deteriorate significantly with high undercollection balances. This could prevent issuance of long-term debt or, at a minimum, cause that debt to be more expensive.

   b. Bond rating agencies and the financial community in general expect short-term debt to be paid off in the short-term, i.e. within one year. Perpetually high

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3/ In D.82-04-113, we ordered SoCal to form a statewide Committee to analyze the California tax problem and make recommendations to the Commission on appropriate action. The Committee, composed of all California energy utilities and CPUC staff, is near completion of its report and anticipates filing that report by early October, 1982.

undercollections can cause perpetually high short-term debt and this could have a substantial negative impact on utility capitalization and other financial ratios and could ultimately weaken the utilities' long-term ratings.

4. The increases in gas costs offset in this interim order are the result of decisions made at the national level to relax regulation of prices charged by domestic gas producers and to facilitate pass-through of purchased gas costs by interstate pipeline companies; thus, this Commission has no direct control over the price levels charged by SoCal's suppliers and has no discretion but to pass along to SoCal's customers these increased costs.

5. The interim relief requested by SoCal is more than 50% of the total CAM increases sought.

6. The other issues presented in the CAM applications will require substantial time for full presentation, such as:

   a. The annual reasonableness review of CAM balancing accounts.

   b. Whether substantial further fuel switching is likely to occur under rate design guidelines adopted in D.82-04-116.

c. The variable pricing proposal of SoCal for alternate gas supplies directed to be presented in this CAM proceeding by Ordering Paragraph 8 of D.82-04-116.

The reasons described above are sufficient and adequate to justify granting interim relief pending a full review of all issues raised in these CAM proceedings, and such relief should be granted to SoCal and to SDG&E.

SoCal Interim Revenue Requirement

In Phase I the increase in revenue requirement is limited to the increase necessary to offset increases in SoCal's cost of gas resulting directly from rate increases for gas purchased from El Paso and Transwestern, as established by FERC, plus associated franchise fees and uncollectibles. This is determined by calculating the difference between the rates underlying the April 1982 CAM offset (D.82-04-116) and the rates authorized by FERC effective October 1, 1982, or before, multiplied by estimated purchases for the forecast period ending September 30, 1983. As anticipated in staff Exhibit 16, FERC accepted the lower revised alternative tariffs filed by Transwestern and El Paso effective October 1, 1982, subject to further revisions to be filed within 30 days.[3a/] The resulting revenue requirement, including provision for franchise fees and uncollectibles is $396,124,000. Table 1 sets forth these calculations:

3a/ These revisions should result in a reduction in El Paso's rates. In its Orders of October 1, 1982, the FERC required El Paso to file additional information to demonstrate that its purchase of deregulated gas from its production company meet the "affiliated entities test" of the Natural Gas Policy Act. In addition, as requested by the CPUC and other parties, the FERC ordered El Paso to delete from its tariff increased costs for its company-owned and-produced gas which El Paso had sought to collect retroactively under the U.S. Fifth Circuit Court of Appeals decision in Mid-Louisiana Gas Co. v. FERC. Although the FERC did not reject prospective cost increases mandated by the Mid-Louisiana decision, the U.S. Supreme Court on October 4, 1982 agreed to review the Court of Appeals decision. The CPUC joined many parties in seeking this review.

TABLE 1

Southern California Gas Company
Increase in the Cost of Gas
Attributable to Increases in El Paso and Transwestern Rates

Item	4/1/82 Rate ¢/Dth	10/1/82 Rate ¢/Dth	Rate Increase ¢/Dth	Volume Purchased MTh	Increase M$
El Paso	334.53	393.34	58.81	6,191,000	364,093
Transwestern	409.48	419.66	10.18	2,485,650	25,304
Subtotal (or average)			44.88	8,676,650	389,397
FF & U*			.77		6,727
Total			45.65	8,676,650	396,124

* Franchise fee and uncollectibles at 1.7275%.

Any subsequent revision in El Paso and Transwestern rates resulting from the additional filings required by FERC, and which become effective retroactively to October 1, 1982, will impact the revenue requirement adopted in Phases II and III of this proceeding.

Rate Design

The purpose of rate design is to spread the additional revenue requirement to SoCal's various customer classes.

D.82-04-116 adopted guidelines for rate design for that and subsequent proceedings. The rate design guidelines require that a marginal rate first be determined. Development of the marginal rate is based upon consideration of the following elements:

1. A reasonable price for discretionary gas purchases;
2. The variable cost of the most expensive gas supply, and
3. The price of 0.25% and 0.5% low sulfur fuel oil and the price of #2 distillate oil.

The marginal rate is the central element of the proposed rate design guidelines and is used to set rates for all customer classes with the exception of lifeline, Tier III residential sales, and rates for GN-1 and GN-2 customers.

D.82-04-116 provided that the marginal rate be established once a year during SoCal's annual reasonableness review. D.82-09-105, dated September 22, 1982 modifying D.82-04-116, ordered that the Commission-established marginal rate will be reviewed in each semi-annual CAM proceeding. The marginal rate established in D.82-04-116 will be reviewed in the subsequent phase of this proceeding.

The marginal rate adopted in D.82-04-116 is 51.7¢/therm to 52.6¢/therm. For the interim phase, SoCal proposes a marginal rate of 53.8¢/therm to 54.7¢/therm, or 2¢/therm above the adopted marginal rate in D.82-04-116.4/

The rate design guidelines are to be implemented in the following sequence:

Step 1 - A marginal rate is established.

Step 2 - Ammonia Producers' rate is developed by using the average cost of all SoCal's gas suppliers, plus 10%. The wholesale commodity rate for Long Beach and San Diego (Schedule G-60) is determined by using SoCal's average cost of gas plus SoCal's Gas Exploration and Development Adjustment (GEDA) rate, plus a component for franchise fees.

Step 3 - The residential Tier II, GN-1, GN-2, GN-36/46, GN-32/42, GN-5 and cogeneration rates are set equal to the marginal rate, and the residential Tier III rate is set equal to 10¢/therm above the marginal rate. The revenue from each of these customer classes is then calculated.

4/ Such a rate is not calculated with mathematical certainty, but rather judgment must be applied to various factors to develop a limited range for the marginal rate. For D.82-04-116 only, the marginal rate was derived mathematically since fuel switching and economic studies necessary for its development were unavailable.

Step 4 - The lifeline rate is set at between 15% and 25% below the system average rate.

Step 5 - It is determined whether the rates in Steps 2, 3, and 4 collect the revenue requirement.

Step 6 - In the event the above calculations produce an excess or deficiency in the revenue requirement, each rate (other than Step 2 rates) is adjusted downward or upward on a uniform ¢/therm basis.

In developing its Phase I rate design, SoCal proposes to diverge from the guidelines by holding the GN-5 and cogeneration rates at their present level, spreading the deficiency in revenue requirement to rates for classes other than the GN-5, Ammonia Producers, or wholesale commodity rates.

The Commission staff adopted SoCal's proposed marginal rate, and followed the D.82-04-116 guidelines in developing its rate design proposal. For comparison the staff presented interim rate proposals on other bases. The following table shows SoCal's and staff's recommended rate design proposals based on the lowest revenue requirement which may result from the October 1, 1982 FERC increases for El Paso and Transwestern sales to SoCal, as separately estimated by SoCal and staff.

TABLE 2

Southern California Gas Company

Summary of Present and Proposed Commodity Rates in ¢/Therm

October 1982 CAM - Partial Increase Effective 10-1-82

Class of Service	Present Rates	SoCal Proposed Rates	SoCal % Inc.	Staff Proposed Rates	Staff % Inc.
Residential					
Lifeline	34.062	40.724	19.6	40.480	18.8
Tier II	51.825	59.645	15.1	57.318	10.6
Tier III	62.750	69.645	11.0	67.318	7.3
Total Residential (incl. demand charges)			15.3		13.3
Commercial-Industrial					
GN-1	51.825	59.645	15.1	57.318	10.6
GN-2	51.825	59.645	15.1	57.318	10.6
G-COG	51.808	51.808	-	53.808	3.8
GN-32/42	52.750	54.750	3.8	54.750	3.8
GN-36/46	52.750	54.750	3.8	54.750	3.8
Ammonia Producers	42.582	47.033	10.5	46.958	10.3
Total Commercial-Industrial			10.3		7.8
Util. Elec. Gen.					
Scattergood Unit #3	51.808	51.808	-	53.808	3.8
GN-5	51.808	51.808	-	53.808	3.8
Total Util. Elec. Gen.			-		3.8
Total Retail			8.2		8.1
Wholesale					
G-60	39.455	43.563	10.4	43.494	10.2
G-61	39.455	43.563	10.4	43.494	10.2
Total Wholesale (incl. demand charges)			10.1		9.9
System Total			8.4		8.2

* Excludes 10% of GS lifeline sales; 6087 M Therms

Alternative Fuel Prices

A key element in the determination of the marginal rate is the price of 0.25% and 0.5% LSFO and the price of #2 distillate oil. Also, such fuel oil prices are an important consideration in determining the appropriate level of rates for Priority (P)-4 and P-5 customers that can alternatively burn natural gas and fuel oil. A key issue in the proceeding leading to D.82-04-116 was the possibility of fuel switching in the event the P-4 and P-5 rates are set too high in relationship to the price of fuel oil.

Current data on alternative fuel oil prices were presented by SoCal and the staff. LADWP presented testimony with respect to its current contract price for 0.25% LSFO. Edison testified with respect to its analyses of recent Los Angeles prices for LSFO.

A summary of current alternative fuel prices developed in SoCal's Exhibit 11 is set forth in Table 3.

TABLE 3

Primary Alternative Fuel Prices in the
Southern California Gas Company Service Area
- August, 1982 -

	Approximate Prices (Cents Per Therm)	
	Low	High
Propane	53.0	64.5
No. 2 Fuel Oil	67.5	71.5
No. 6 Residual Fuel Oil 0.25% Sulfur Maximum		
- Contract price	51.0	57.5
- Spot market price	50.0	55.0
No. 6 Residual Fuel Oil 0.5% Sulfur Maximum	46.0	54.0
No. 6 Fuel Oil High Sulfur Maximum		
- Outside SCAQMD	41.0	47.0

Contract prices of LSFO developed by staff in Exhibit 17 for the three major electric utilities subject to our jurisdiction are set forth in Table 4. No data are available for Edison for the months of May, June, and July. Edison's witness testified that no fuel oil purchases were made in those months but declined to state the reason for Edison's decision. LADWP presented evidence that showed its current contract price for 0.5% LSFO is 48.3¢/therm under its contract with Newhall Refinery (Exhibit 20).

TABLE 4

Contract Prices of No. 6 Residual Fuel Oil as Reported By the Three Major California Electric Utilities

These prices are weighted monthly average prices of fuel oil delivered to the steam powered electric generation plants including sales tax, but excluding deferral and deletion charges.

DATE		SDG&E	PG&E	SCE**
November 1981	$/Barrel	43.24	40.80	44.54
	Therms/Bbl.	62.53	62.30	61.30
	¢/Therm	69.15	65.49	72.66
December 1981	$/Barrel	45.87	39.80	43.27
	Therms/Bbl.	62.60	62.32	61.27
	¢/Therm	73.27	63.86	70.62
January 1982	$/Barrel	44.07	NA	44.03
	Therms/Bbl.	62.37	-	61.23
	¢/Therm	70.66	-	71.91
February 1982	$/Barrel	43.04	NA	43.73
	Therms/Bbl.	62.65	-	61.21
	¢/Therm	68.70	-	71.44
March 1982	$/Barrel	48.15	NA	44.16
	Therms/Bbl.	62.58	-	61.18
	¢/Therm	76.94	-	72.18
April 1982	$/Barrel	42.29	NA	40.92
	Therms/Bbl.	62.46	-	61.20
	¢/Therm	67.71	-	66.86
May 1982	$/Barrel	42.17	NA	NA
	Therms/Bbl.	62.67	-	-
	¢/Therm	67.29	-	-
June 1982	$/Barrel	42.53	NA	NA
	Therms/Bbl.	62.68	-	-
	¢/Therm	67.85	-	-
July 1982	$/Barrel	41.32	NA	NA
	Therms/Bbl.	62.80	-	-
	¢/Therm	65.80	-	-

** Edison is restricted to 0.25% sulfur content by the South Coast Air Quality Management District and by the California Air Resources Board regulations.

The staff evidence concerning low spot fuel oil prices in cents per therm shows the following for the month of September 1982:

	Market	
	San Francisco	Los Angeles
0.25% LSFO	55.13	54.97
#2 Distillate	69.62	68.66

The staff also developed a summary by months of Platt's Oilgram low sulphur waxy residual fuel oil prices for Singapore cargoes. The September 7, 1982 price, adjusted for a 5% efficiency advantage of oil over gas, is 50.8¢/therm, excluding sales taxes.

Edison's witness testified that because of the limited demand for LSFO in the Los Angeles area, a current market in the usual sense for LSFO does not exist; however, Edison continues to evaluate the cost of oil cargoes delivered in that area in quantities of 350,000 barrels or more. That analysis showed that in recent months Edison could have 0.25% LSFO delivered to it at prices ranging between 52 and 55¢/therm (including a 3% efficiency factor), less a 5% discount. The discounted price would range from 49.4 to 52.3¢/therm. Edison's witness stated that the spot market prices developed by SoCal of 47.5 to 52.2¢/therm were consistent with its estimates. Edison made no fuel oil purchases in the months of May, June, July, and August of 1982.

Fuel Switching

The issue of fuel switching is to be explored in Phase II.[5] However, evidence was received on this subject to support contentions that fuel switching had occurred with respect to electric steam generation (GN-5) customers, that other classes of customers have the ability to burn alternative fuels, and that any increase in rates for such classes of customers would cause further fuel switching in the period in which interim rates would be in effect.

Evidence on this issue was adduced by SoCal, LADWP, and CMA. SoCal's position is that fuel switching results in a market loss, which in turn reduces its overall revenues. SoCal's witness stated that the loss of a major portion of SoCal's retail P-3, P-4, and P-5 market at this time would probably result in significantly increased residential and P-1 and P-2 nonresidential rates. The gas supply that would be cut back if there were a major market loss is El Paso gas at 40.2¢/therm. Therefore, there would be over a 10¢/therm loss in contribution to margin for each therm of market loss. Since the remaining customers on the system must make up the net loss in contribution to margin for each therm of market loss, higher rates for the remaining customers would result.

5/ Fuel switching was an issue in D.82-04-116. That decision found that the P-5 rate of 51.808¢/therm should not cause any material fuel switching.

The LADWP witness testified that it had switched from gas to oil since the last CAM offset, partly because it had oil available at a contract price of 48.3¢/therm, and partly to reduce oil in inventory. The Newhall Refinery contract at 48.3¢/therm provides for only a limited portion of its total needs and that contract did not supply all of the oil burned in the CAM period. LADWP is required by the South Coast Air Quality Management District (SCAQMD) to burn gas during episode days, which occur approximately 85 to 100 days per year.

CMA presented testimony concerning the possibility of fuel switching to propane by P-1, P-2, and P-3 customers. According to the witness, propane fuel has similar qualities as natural gas. Natural gas prices are rising to the level of propane prices. Surveys conducted by CMA indicate that P-1, P-2, and P-3 customers can install propane storage tanks at most locations; that CMA is looking into arranging for stable supplies of propane for its members; and, if adequate supplies at stable prices can be obtained, it will urge its members to switch from natural gas to propane. CMA urged that P-1, P-2, and P-3 gas rates should not exceed propane prices. The record shows fuel switching to propane has not yet occurred, and that there may not be a sufficient supply of propane to satisfy a large increase in that market.

Position of Parties

SoCal and SDG&E urged that prompt interim relief be granted to avoid large undercollections in their CAM balancing accounts, to reduce the interest costs absorbed by consumers of such undercollections, and to mitigate the other negative effects of large undercollections. SoCal asked that we adopt its proposed GN-1 and GN-2 rates, as it had observed no switching to propane by its P-1, P-2, and P-3 customers.

SoCal believes that fuel switching should be avoided, if at all possible. Therefore, it asked that current G-61 rates be retained to avoid fuel switching by customers that use large volumes of gas.

LADWP asked that we consider a GN-5 rate more closely approximated to the cost of service to GN-5 customers, and which in no case will exceed the costs of alternate fuels. That action assertedly would eliminate damage to utility ratepayers and the citizens of Los Angeles.

TURN agreed that fuel switching by large customers can have a negative impact on remaining customers on the system; on the other hand, setting rates significantly lower than they otherwise would be to an entire customer class in order to keep a few of the customers on the system actually may be more damaging to remaining customers than allowing a limited amount of switching to occur. TURN asks that a more detailed analysis be developed on the economic crossover point. TURN argued that LAWDP's fuel switching was for purposes other than price; the low-priced Newhall Refinery contract supplies only about 15% of LAWDP's total energy requirement, and LAWDP acknowledged that it burned fuel oil rather than gas for reasons other than price. TURN believes that the staff's proposed GN-5 rate falls within the range of alternative fuel prices and its proposal is reasonable. TURN asked that in spreading the revenue shortfall under the guidelines, equal percentage increases be used instead of equal ¢/therm. The effect of TURN's method is to reduce the increase for lifeline and increase the balance of the residential and the GN-1 and GN-2 rates. TURN's proposal is a revision of the guidelines adopted in D.82-04-116.

CMA argued that the staff's analysis of alternative fuel prices is inadequate to support its proposed rate design, as the staff rate design witness considered only the alternative fuel price data developed by the staff, and the staff witness on alternative fuel prices did not submit evidence that rebutted the lower prices developed in SoCal's presentation. CMA asked that propane prices developed by SoCal be considered in setting rates for GN-1, GN-2, and GN-3 customers.

GMC, Monsanto Company, and Union Carbide Corporation (industrial users) urged that GN-2 customers may be able to switch to propane and that further exploration should be made of that possibility in Phase II. Industrial users ask that the interim rates be adopted subject to refund because the expedited hearings in Phase I did not accord full review of the fuel switching issue.

The staff stated that the only significant difference between it and SoCal in Phase I is the issue of whether increases in GN-5 rates will cause switching by GN-5 customers to alternate fuels. (SoCal proposes to leave the GN-5 rate at its present 51.8¢/therm; the staff proposes to raise this rate to 53.8¢/therm, which is the marginal rate of 54.750¢/therm minus the CCA rate of .942¢/therm.) The staff argued that alternate fuel for these customers is No. 6 low sulphur oil, and the Platt Report for September indicates a range of 54.97¢ to 57.27¢/therm for this fuel delivered in the LA area, up from the April price of 49.37¢ to 52.52¢/therm, an increase of 11%; therefore, the staff proposal for GN-5 rates is below the lowest price of alternate fuels as estimated by Platt.

Discussion Re SoCal Rate Design

The principal issue to be decided with respect to rate design for SoCal is the level at which the GN-5 interim rate should be set.

The parties testifying or arguing on that point (except the staff) take the position that some fuel switching has occurred, that the GN-5 rate is as high as it can be set in relationship to alternate prices for 0.25% and 0.5% LSFO, that LSFO fuel prices are soft, and that any increase in the GN-5 rate above the lowest current price for LSFO will cause additional fuel switching by large customers. The staff proposes an approximate 3.8% increase in the GN-5 rate based on the staff analysis that LSFO prices have increased about 11% since the current rate was set. The staff believes that the GN-5 rate can be set near the high end of the range of alternate fuel prices without causing significant fuel switching.

As indicated before, the record in Phase I of this proceeding is not complete on the issue of fuel switching. The evidence on this issue shows that two GN-5 customers have switched in the period since the last CAM decision, LADWP and Imperial Irrigation District (IID). The IID loss was minor and will have little effect on gross revenues; LADWP's switch accounted for the preponderance of the GN-5 fuel switching since the last CAM. As indicated above, while LADWP has a lower contract rate than the current GN-5 rate, the fuel oil deliverable under that contract accounts for only a small part of LADWP's total requirements, and LADWP must burn natural gas during heavy air pollution periods. We find that the majority of fuel switching since the last CAM would not have been averted if the present

GN-5 rate had been set at a lower level. The evidence presented in the interim phase does not show that there is a major potential for further fuel switching by users of 0.25% LSFO. Table 4 indicates that current prices paid by the major utilities for fuel oil recently purchased are in the range of 63.86¢ to 66.86¢/therm. Those prices sufficiently exceed the staff's proposed rate of 53.808¢/therm to discourage further fuel switching by utilities. Edison's ability to actually purchase fuel oil at the prices described in its testimony was not demonstrated on the record.

CMA's testimony concerning use of propane by GN-1, GN-2, and GN-3 customers indicates that there is a potential for such fuel switching if propane prices remain at present levels and gas rates are increased. Substantial initial costs must be incurred for propane storage facilities. A supply of propane sufficient to meet the needs of a larger market is not yet assured. SoCal has discovered no shift to propane by its GN-1, 2 or 3 customers. The record indicates that there is a resistance to change that would permit gas prices to exceed propane prices by unspecified amounts before substantial switching to propane would occur. We find that while there may be a potential for GN-1, GN-2, and GN-3 customers to switch to propane, market forces do not presently exist which will cause such switching to occur in the period interim rates will be in effect.

TURN's proposal that equal percentage increases, rather than equal ¢/therm increases, be used to distribute the revenue shortfall under the guidelines constitutes a major revision of the guidelines and was not supported by evidence which would show that TURN's proposed rates will be reasonable. Therefore, TURN's proposal is inappropriate for consideration at this time.

The Commission staff's rate design proposal for SoCal follows the guidelines adopted in D.82-04-116 and appears reasonable for the purposes of Phase I of this proceeding pending receipt of further evidence on fuel switching. The staff rate proposal will be adopted.

SDG&E Interim Revenue Requirement

The interim revenue requirement for SDG&E is derived from the increase in SoCal Schedule G-61. The annual increase to SDG&E in cost of gas purchased from SoCal resulting from the interim increase granted to SoCal in this order is $38,910,600. The interim order will permit SDG&E to recover that amount, plus a provision for franchise fees and uncollectibles for a total annual increase of $39,002,800. In line with our actions in prior joint CAM proceedings, SDG&E will be authorized to increase its rates concurrently with its increase in purchased gas costs resulting from the SoCal interim authorization.

SDG&E's Rate Design

The rate design proposed by SDG&E for application in Phase I complies with the guidelines outlined in D.82-04-116 and is concurred in by our staff. SDG&E's proposal was opposed only by CMA which asked that propane gas prices be considered in setting G-1, G-2, and G-3 rates. We find SDG&E's proposal to be reasonable for the purposes of Phase I, and that proposal as modified to reflect the revised revenue requirement should be adopted.

Findings of Fact

1. SoCal experienced an annual increase of $389,397,000 in purchased gas costs resulting from authorizations by FERC to SoCal's gas suppliers, El Paso, and Transwestern on October 1, 1982, or before.

2. Unless immediate interim relief is accorded, substantial increases will result in undercollections in SoCal's CAM balancing account.

3. Substantial undercollections in CAM balancing accounts cost consumers because of the interest costs added to operating expenses.

4. Substantial undercollections in CAM balancing accounts adversely affect the utility's cash flow, and adversely impact the utility's ability to acquire short- and long-term borrowings at reasonable costs.

5. This Commission has no alternative but to pass through to SoCal's customers (including SDG&E) the FERC rate increases.

6. Based on findings 1 through 5, immediate interim rate relief for SoCal and SDG&E will be reasonable and in the public interest.

7. The interim rate increases to be authorized to SoCal are the increases in purchased gas costs resulting from FERC orders applicable to El Paso and Transwestern, effective October 1, 1982 or before and not covered by prior orders, plus a provision for franchise fees and uncollectibles in the amount of $6,727,000.

8. The interim rate increases to be authorized to SDG&E are the increases in costs of gas purchased from SoCal resulting from the preceding paragraph, plus a provision for franchise fees and uncollectibles.

9. While there is a potential for GN-1, GN-2, and GN-3 customers to switch to propane if GN-1, GN-2, and GN-3 gas rates materially exceed the price of propane, such fuel switching has not yet occurred, and such switching is not likely under the interim rates adopted here.

10. Fuel switching by GN-4 and GN-5 customers is not likely to occur under the interim rates adopted here.

11. Based on Findings 9 and 10, the interim rates should not be adopted subject to refund.

12. The staff rate design proposal for SoCal for Phase I of this proceeding was developed using the guidelines set forth in D.82-04-116, and such proposal will be reasonable and should be adopted for the purposes of Phase I.

13. The rate design proposed by SDG&E for Phase I of this proceeding was developed using guidelines set forth in D.82-04-116, and such proposal, revised for the interim revenue requirement described in Finding 8, will be reasonable for the purposes of Phase I.

14. All other issues in A.82-09-12 and A.82-09-21 should be considered in Phases II and III.

15. Any subsequent revision in El Paso and Transwestern rates resulting from the additional filings required by FERC and which become effective retroactively to October 1, 1982 will impact the revenue requirement in Phases II and III of this proceeding.

Conclusions of Law

1. Increased annual revenues of $396,124,000 should be authorized for SoCal on an interim basis, pending resolution of other issues raised in A.82-09-12.

2. Increased annual revenues of $39,002,800 should be authorized for SDG&E on an interim basis, pending resolution of other issues raised in A.82-09-21.

3. The increased rates and charges authorized by this decision are justified and reasonable; the present rates and charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.

INTERIM ORDER

IT IS ORDERED that:

1. On or after the effective date of this order, Southern California Gas Company (SoCal) is authorized to file revised tariff schedules reflecting rates attached to this order as Appendix B, to be effective no earlier than October 13, 1982. The revised schedules shall apply only to service rendered on or after their effective date.

2. On or after the effective date of this order, San Diego Gas & Electric Company (SDG&E) is authorized to file revised tariff schedules reflecting rates attached to this order as Appendix C, to be effective no earlier than October 13, 1982. The revised schedules shall apply only to service rendered on or after their effective date.

3. SoCal and SDG&E shall send to all their gas customers a bill insert notice explaining the reasons behind today's gas rate increase. The form and context of the notice will be furnished by

the Executive Director. Within 50 days after receipt of the notice from the Executive Director, the notice shall be sent to all gas customers.

This order is effective today.

Dated October 8, 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

APPENDIX A

List of Appearances

Applicants in A.82-09-12: T. D. Clarke, E. R. Island, and M. D. Gayda, Attorneys at Law, for Southern California Gas Company and Pacific Lighting Gas Supply Company.

Applicant in A.82-09-21: Jeffrey Lee Guttero and William M. Reed, Attorneys at Law, for San Diego Gas & Electric Company.

Interested Parties: John R. Bury, H. Robert Barnes, and Susan L. Steinhauser, Attorneys at Law, for Southern California Edison Company; Norman L. Codd, Attorney at Law, for Consumers for Utility Rate Equity (CURE); Brobeck, Phleger & Harrison, by Gordon E. Davis, William H. Booth, and Richard C. Harper, Attorneys at Law, for California Manufacturers Association; Michel Peter Florio and Robert Spertus, Attorneys at Law, and Sylvia M. Siegel, for Toward Utility Rate Normalization (TURN); Thomas Greene, Attorney at Law, for California Department of Consumer Affairs; William L. Knecht, Attorney at Law, for California Association of Utility Shareholders; Henry F. Lippitt, II, Attorney at Law, for California Gas Producers Association; Graham & James, by Boris H. Lakusta, David J. Marchant and Thomas J. MacBride, Attorneys at Law, for Simcal Chemical Company and Union Chemical Division of Union Oil Company of California; David L. Nye, Attorney at Law, for Los Angeles Department of Water and Power (LADWP); Downey, Brand, Seymour & Rohwer, by Philip A. Stohr, Attorney at Law, Otis M. Smith, General Counsel, and Julius Jay Hollis, Attorney at Law, for General Motors Corporation, Monsanto Company, and Union/Carbide Corporation; Harry K. Winters, for the University of California; Robert W. Parkin, City Attorney, by Richard A. Alesso, Deputy City Attorney, for the City of Long Beach; and Allen R. Crown and Antone S. Bulich, Jr., for California Farm Bureau Federation.

Commission Staff: James S. Rood, Attorney at Law, and Robert Weissman.

APPENDIX B
SOUTHERN CALIFORNIA GAS COMPANY

PRESENT AND ADOPTED RATES (¢ PER THERM)
OCTOBER 1982 CAM - PARTIAL INCREASE EFFECTIVE 10-10-82

CLASS OF SERVICE	COMMODITY RATES IN ¢/THERM		% INCREASE
	PRESENT RATES	ADOPTED RATES	
RESIDENTIAL			
Lifeline	34.062	40.480	18.8%
Tier II	51.825	57.318	10.6%
Tier III	62.750	67.318	7.3%
COMMERCIAL-INDUSTRIAL			
GN-1	51.825	57.318	10.6%
GN-2	51.825	57.318	10.6%
G-COG	51.808	53.808	3.8%
GN-32/42	52.750	54.750	3.8%
GB-36/46	52.750	54.750	3.8%
Ammonia Producers	42.582	46.958	10.3%
UTIL. ELEC. GEN.			
Scattergood Unit #3	51.808	53.808	3.8%
GN-5	51.808	53.808	3.8%
WHOLESALE			
G-60	39.455	43.494	10.2%
G-61	39.455	43.494	10.2%

APPENDIX C
SAN DIEGO GAS & ELECTRIC COMPANY

SUMMARY OF PRESENT AND ADOPTED RATES
OCTOBER 1982 CAM - PARTIAL INCREASE EFFECTIVE 10-1-82

CLASS OF SERVICE	COMMODITY RATES IN ¢/THERM		% INCREASE
	PRESENT RATES	ADOPTED RATES	
RESIDENTIAL			
Lifeline	41.721	44.800	7.4%
Tier II	59.839	67.511	12.8%
Tier III	78.738	86.411	9.7%
COMMERCIAL-INDUSTRIAL			
GN-1, -2	59.838	67.511	12.8%
GN-3	59.338	67.011	12.9%
GN-4	59.338	67.011	12.9%
GN-5	50.500	53.800	6.5%

Evidence was presented on behalf of SoCal, SDG&E, the Commission staff, Los Angeles Department of Water and Power (LADWP), California Manufacturers Association (CMA), and Southern California Edison Company (Edison). Oral argument was presented on behalf of SoCal SDG&E, Toward Utility Rate Normalization (TURN), and CMA. Written argument was presented by the Commission staff, LADWP, Consumers for Utility Rate Equity (CURE), and General Motors Corporation (GMC). A full day of public witness testimony was heard, with approximately 100 people in attendance. Kr

Summary of Decision

This interim order grants increases in rates to SoCal and SDG&E sufficient to offset the current increases in costs of gas purchased by SoCal and PGLS from El Paso and Transwestern effective October 1, 1982, or before. Those increases, plus associated franchise fees and uncollectibles, total $396.1 million to SoCal and the pass-through to SDG&E amounts to $39.0 million.

The increased revenue is spread to SoCal customers based on its sales estimates for the current CAM period and the rate design adopted in SoCal and SDG&E's last CAM proceeding in D.82-04-116.

SDG&E's increased revenue is spread to its customers in accordance with the rate spread adopted in D.82-04-116.

The interim increases authorized average 8.3% for SoCal and 9.9% for SDG&E. Based on a representative usage of 100 therms per month, monthly charges for residential service will increase from $40.54 to $46.78 (15%) for SoCal and from $46.87 to $50.82 (8.4%) for SDG&E customers.

Request for Interim Relief

The parties to Phase I of this proceeding agree that it is appropriate and necessary for the Commission to issue an interim order near to the October 1 effective date of the FERC increase filings of El Paso and Transwestern which will increase rates for SoCal in the same amount as its purchased gas cost increases effective on that date or before.[1/] This amount totals $396.1 million for SoCal and PLGS. It is also generally the position of the parties that SDG&E's increases in the cost of gas purchased from SoCal should be recovered concurrently with the date that SoCal's rates are raised.[2/] The parties agree that other issues, including the accumulated undercollections, raised in the CAM applications or deferred from D.82-04-116 should be considered in Phase II of these proceedings. The Commission concurs that an interim increase is reasonable and necessary, based on the following considerations:

1. Timely rate relief minimizes undercollection in the balancing accounts and reduces the ultimate cost to the ratepayer. SoCal's undercollections, currently hundreds of millions of dollars, cost its ratepayers tens of millions of dollars in interest-carrying costs annually. It is cheaper to the ratepayer to increase rates on a timely basis than to defer that payment.

2. Large undercollections in the CAM balancing account can cause a net operating loss and, ultimately, an increase in California income taxes. Unless offset rates are granted to SoCal and PLGS by early November 1982, they will incur a California net operating loss in 1982. They will result in a permanent loss of

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1/ Finding 5 of D.82-04-116 states that in calculating the gas costs for that decision it is inappropriate to reflect in projected costs the effect of FERC increases which would become effective subsequent to the April 1, 1982 CAM revision date.

2/ D.82-04-116 states that because of the clear interrelationship between SoCal and SDG&E CAMs, those proceedings should be consolidated for hearing.

undercollections can cause perpetually high short-term debt and this could have a substantial negative impact on utility capitalization and other financial ratios and could ultimately weaken the utilities' long-term ratings.

4. The increases in gas costs offset in this interim order are the result of decisions made at the national level to relax regulation of prices charged by domestic gas producers and to facilitate pass-through of purchased gas costs by interstate pipeline companies; thus, this Commission has no direct control over the price levels charged by SoCal's suppliers and has no discretion but to pass along to SoCal's customers these increased costs.

5. The interim relief requested by SoCal is more than 50% of the total CAM increases sought.

6. The other issues presented in the CAM applications will require substantial time for full presentation, such as:

   a. The annual reasonableness review of CAM balancing accounts.

   b. Whether substantial further fuel switching is likely to occur under rate design guidelines adopted in D.82-04-116.

   ~~c. The matters described in the order granting limited rehearing of D.82-04-116 (D.82-09-109 dated September 22, 1982).~~

3a) These revisions should result in a reduction in El Paso's rates. In its Orders of October 1, 1982, the FERC required ~~[illegible]~~ El Paso to file additional information to demonstrate that its purchases of deregulated gas from its ~~affiliate~~ production company meet the "affiliated entities test" of the Natural Gas Policy Act. In addition, as requested by the CPUC and other parties, the FERC ordered El Paso to delete from its tariff increased costs for its company-owned and produced gas ~~[illegible]~~ which El Paso had sought to collect retroactively ~~pursuant to~~ under the U.S. Fifth Circuit Court of Appeals decision in Mid-Louisiana Gas Co. v. FERC, ~~for the retroactive period December, 1978 to June, 1980.~~ Although the FERC did not reject prospective cost increases mandated by the Mid-Louisiana decision, the U.S. Supreme Court, on October 4, 1982 agreed to ~~hear an appeal~~ review ~~of~~ the Court of Appeals decision. ~~The Commission had joined in requests to the FERC that it take these steps and we sought a U.S. Supreme Court review of the Mid-Louisiana case~~. The CPUC joined many parties in seeking this review.

~~[illegible] by the CPUC.~~

Call Randy Deutsch for translation of [illegible]

ℓ
~~4~~. The variable pricing proposal of SoCal for alternate gas supplies directed to be presented in this CAM proceeding by Ordering Paragraph 8 of D.82-04-116.

Kh

The reasons described above are sufficient and adequate to justify granting interim relief pending a full review of all issues raised in these CAM proceedings, and such relief should be granted to SoCal and to SDG&E.

SoCal Interim Revenue Requirement

In Phase I the increase in revenue requirement is limited to the increase necessary to offset increases in SoCal's cost of gas resulting directly from rate increases for gas purchased from El Paso and Transwestern, as established by FERC, plus associated franchise fees and uncollectibles. This is determined by calculating the difference between the rates underlying the April 1982 CAM offset (D.82-04-116) and the rates authorized by FERC effective October 1, 1982, or before, multiplied by estimated purchases for the forecast period ending September 30, 1983. As anticipated in Staff Exhibit 16, FERC accepted the lower revised alternative tariffs filed by Transwestern and El Paso effective October 1, 1982, subject to further revisions to be filed within 30 days.[3a] The resulting revenue requirement, including provision for franchise fees and uncollectibles is $396,124,000. Table 1 sets forth these calculations:

3a/

fuel prices did not submit evidence that rebutted the lower prices developed in SoCal's presentation. CMA asked that propane prices developed by SoCal be considered in setting rates for GN-1, GN-2, and GN-3 customers.

GMC, Monsanto Company, and Union Carbide Corporation (industrial users) urged that GN-2 customers may be able to switch to propane and that further exploration should be made of that possibility in Phase II. Industrial users ask that the interim rates be adopted subject to refund because the expedited hearings in Phase I did not accord full review of the fuel switching issue.

The staff stated that the only significant difference between it and SoCal in Phase I is the issue of whether increases in GN-5 rates will cause switching by GN-5 customers to alternate fuels. (SoCal proposes to leave the GN-5 rate at its present 51.8¢/therm; the staff proposes to raise this rate to 53.8¢/therm, which is the marginal rate of 54.750¢/therm minus the CCA rate of .942¢/therm.) The staff argued that alternate fuel for these customers is No. 6 low sulphur oil, and the Platt Report for September indicates a range of 54.97¢ to 57.27¢/therm for this fuel delivered in the LA area, up from the April price of 49.37¢ to 52.52¢/therm, an increase of 11%; therefore, the staff proposal for GN-5 rates is below the lowest price of alternate fuels as estimated by Platt. ~~Staff pointed out the Commission reaffirmed its intentions to rely on Platt in D.82-09-107, dated September 23, 1982.~~ K

Findings of Fact

1. SoCal experienced an annual increase of $389,397,000 in purchased gas costs resulting from authorizations by FERC to SoCal's gas suppliers, El Paso, and Transwestern on October 1, 1982, or before.

2. Unless immediate interim relief is accorded, substantial increases will result in undercollections in SoCal's CAM balancing account.

3. Substantial undercollections in CAM balancing accounts cost consumers because of the interest costs added to operating expenses.

4. Substantial undercollections in CAM balancing accounts adversely affect the utility's cash flow, ~~must result in excessive state for payments,~~ and adversely impact the utility's ability to acquire short- and long-term ~~boroughings~~ borrowings at reasonable costs. KL

5. This Commission has no alternative but to pass through to SoCal's customers (including SDG&E) the FERC rate increases.

6. Based on findings 1 through 5, immediate interim rate relief for SoCal and SDG&E will be reasonable and in the public interest.

7. The interim rate increases to be authorized to SoCal are the increases in purchased gas costs resulting from FERC orders applicable to El Paso and Transwestern, effective October 1, 1982 or before and not covered by prior orders, plus a provision for franchise fees and uncollectibles in the amount of $6,727,000. KL

8. The interim rate increases to be authorized to SDG&E are the increases in costs of gas purchased from SoCal resulting from the preceding paragraph, plus a provision for franchise fees and uncollectibles.

9. While there is a potential for GN-1, GN-2, and GN-3 customers to switch to propane if GN-1, GN-2, and GN-3 gas rates materially exceed the price of propane, such fuel switching has not yet occurred, and such switching is not likely under the interim rates adopted here.

10. Fuel switching by GN-4 and GN-5 customers is not likely to occur under the interim rates adopted here.

11. Based on Findings 9 and 10, the interim rates should not be adopted subject to refund.

12. The staff rate design proposal for SoCal for Phase I of this proceeding was developed using the guidelines set forth in D.82-04-116, and such proposal will be reasonable and should be adopted for the purposes of Phase I.

13. The rate design proposed by SDG&E for Phase I of this proceeding was developed using guidelines set forth in D.82-04-116, and such proposal, revised for the interim revenue requirement described in Finding 8, will be reasonable for the purposes of Phase I.

14. All other issues in A.82-09-12 and A.82-09-21 should be considered in Phases II and III.

Conclusions of Law

1. Increased annual revenues of $396,124,000 should be authorized for SoCal on an interim basis, pending resolution of other issues raised in A.82-09-12.

2. Increased annual revenues of $39,002,800 should be authorized for SDG&E on an interim basis, pending resolution of other issues raised in A.82-09-21.

3. The increased rates and charges authorized by this decision are justified and reasonable; the present rates and charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.

15. Any subsequent revision in El Paso and Transwestern rates resulting from the additional filings required by FERC and which become effective retroactively to October 9, 1982 will impact the revenue requirement in Phases II and III of this proceeding. K

INTERIM ORDER

IT IS ORDERED that:

1. On or after the effective date of this order, Southern California Gas Company (SoCal) is authorized to file revised tariff schedules reflecting rates attached to this order as Appendix B, to be effective no earlier than October 13, 1982. The revised schedules shall apply only to service rendered on or after their effective date.

2. On or after the effective date of this order, San Diego Gas & Electric Company (SDG&E) is authorized to file revised tariff schedules reflecting rates attached to this order as Appendix C, to be effective no earlier than October 13, 1982. The revised schedules shall apply only to service rendered on or after their effective date.

3. So Cal and SDG&E shall send to all their gas customers a bill insert notice explaining the reasons behind today's gas rate increase. The form and content of the notice will be furnished by the Executive Director. Within 50 days after receipt of the notice from the Executive Director, the notice shall be sent to all gas customers.

This order is effective today.

Dated OCT 8 1982, at San Francisco, California.

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

APPENDIX A

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