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Process
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Decision 83 02 081 February 24, 1983 ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHERN CALIFORNIA GAS COMPANY to revise tariff schedules related to utility electric generation service under the GN-5 rate schedule. (Adv. Ltr. 1350)	Application 83-02-04 (Filed February 1, 1983)

(See Appendix A for Appearances.)

OPINION

Summary of Decision

Today's decision adopts an interim mechanism, which will allow Southern California Gas Company's (SoCal) rates to electric utilities to fluctuate along with volatile fuel oil prices. This change will eliminate the electric utilities' existing financial incentive to switch from natural gas to fuel oil. SoCal's present "GN-5" rate to electric utilities is 55 cents per therm, compared with fuel oil prices equivalent to 49 cents per therm.

The current fuel switching crisis results from fluctuations in energy markets. World oil prices have fallen. At the same time, natural gas prices have risen sharply as the federal government has exercised its regulatory control over prices. ✓

Today's decision resets SoCal's GN-5 rate at 49 cents per therm. The interim rate mechanism allows for twice-monthly review of oil prices and related recalculation of GN-5 rates.

These changes will directly benefit all SoCal customers. If the electric utilities' demand for natural gas falls, SoCal's fixed costs will have to be spread over the lower sales, producing larger rate increases for remaining customers.

The interim mechanism will be reviewed in SoCal's next fuel cost adjustment proceeding, scheduled for April.

In this application, originally filed as Advice Letter 1350, SoCal seeks authority to file revised tariff schedules on less than 30 days' notice reducing its GN-5 rate for natural gas service to utility generating plants. The present rate is 55 cents per therm. The sought rates are as follows:

Commodity Charge

	Per Therm
1. Outside South Coast Air Quality Management District..	49.000¢
2. Within the District on	
a. Declared Episode Days..............................	55.000¢
b. Nonepisode Days....................................	49.000¢

Episode days are defined by the South Coast Air Quality Management District in its Regulation VII, specifically Rule 715 therein.

On the effective date of this rate schedule the rate for nonepisode days shall be the rate, to the nearest thousandth of a cent, as adjusted and made effective on the first and sixteenth of each calendar month in accordance with the following formula:

$$\$.49000 \times \frac{LSWR}{\$28.30} \times 100 = \text{Rate in ¢/therm}$$

where LSWR is defined as the mean value of the high and low Singapore Cargo LS Waxy resid 0.3% S prices published in "Platt's Oilgram Price Report" for the ten trading days immediately preceding the first and sixteenth of each calendar month. The first adjustment to the rate, if required, would be effective on February 16, 1983. The commodity charge for 1 and 2.b. shall be no lower than the commodity charge for Schedules G-60 and G-61. At the time of adjustment utility will promptly notify each GN-5 customer and the Commission by letter of the effective rate levels.

Emergency Considerations

SoCal asked for immediate consideration of its request on an emergency basis because of the lost gas sales resulting from fuel switching by its principal GN-5 customers, Southern California Edison (Edison) and Los Angeles Department of Water and Power (LADWP). SoCal asserted that estimated sales to GN-5 customers in its last rate proceeding are about 35% of total 1983 test year retail sales. The lost sales assertedly would seriously impact its gas margin, causing a substantial increase in the undercollections in its Consolidated Adjustment Mechanism (CAM) account.

Public Hearing

In response to SoCal's request, public hearing was held before Commissioner Grew and Administrative Law Judge Mallory in San Francisco on February 11, at which time the matter was submitted. Evidence was presented on behalf of Edison and LADWP concerning current and prospective fuel purchases. Evidence was presented on behalf of Edison and the Commission's Utilities Division staff concerning the economic and financial impacts of fuel switching and with respect to the details of SoCal's proposal. El Paso Natural Gas Company (El Paso), which with Transwestern Pipeline Company (Transwestern) supplies SoCal with lower-than-average cost gas, actively participated in the proceeding.[1/]

1/ El Paso's current rate for its deliveries in the SoCal system is 37.7 cents per therm; Transwestern's commodity rate is 40.9 cents per therm. Any additional sales to SoCal's GN-5 customers under the proposed lower GN-5 rate would result in increased purchases from El Paso.

Position of the Parties

Opening or closing statements in support of the application were made by the following interested parties: SoCal, El Paso, Edison, Public Service Department of the City of Burbank (Burbank), San Diego Gas & Electric Company (SDG&E), California Gas Producers Association, California Farm Bureau Federation, California Manufacturers Association, General Motors Corporation, Union Carbide Corporation, Toward Utility Rate Normalization (TURN), and the Commission staff (staff). No party appeared in opposition to the relief sought.

SoCal stated that it has lost a significant portion of its GN-5 sales to alternate fuels, as its principal GN-5 customers (Edison and LADWP) have switched to fuel oil except during episode days. SoCal argued that its proposal has the effect of tying its GN-5 gas service rate to alternative fuel prices, which will allow natural gas to be competitive with alternative fuel in its GN-5 market. SoCal also argued the lower GN-5 rates are designed to forestall further fuel switching by GN-5 customers and to attract back to the system those customers who have switched to fuel oil.

SoCal argued that the lower rates will benefit all customers in that the uncollected amounts in its CAM balancing account in the next CAM proceeding will be less under the lower rate than if the GN-5 sales are lost in the February-to-April period before the next CAM decision.

SoCal is El Paso's largest customer, accounting for about 50% of its total load. El Paso is SoCal's swing source of supply.

El Paso supports the application because of the effect SoCal's purchases have on El Paso's sales. El Paso stated that it had exercised its market-out provisions in its deep gas purchase contracts,[2/] which El Paso expects will assist SoCal to maintain its industrial and power plant load. El Paso sees SoCal's proposal as another important step towards keeping alternative fuel-equipped users on line.

El Paso explained that the granting of this application may have a material effect on negotiations with the Federal Energy Regulatory Commission (FERC) on settlement of El Paso's current general rate increase. If lost or potentially lost GN-5 sales are avoided, a settlement more favorable to California may be obtained and future increases may be less than would result if such sales are lost. El Paso estimated that if it is successful in reaching settlement, there likely would be no appreciable increase in its gas rates to SoCal through the balance of 1983. On the other hand, if a favorable settlement is not reached, El Paso's rates to SoCal will increase by 14 to 16 cents per decatherm in April.

2/ Market-out provisions in gas purchase contracts permit the buyer (pipeline) to establish an alternative price, to replace the price being paid under the pricing term of the contract if the purchased gas cannot be marketed at the price being paid. The producer (seller) then has a period of time to attempt to find a different buyer willing to pay a higher price (typically 30 days). If the producer is unable to find another buyer, it must then sell to the pipeline at the alternative price. El Paso has set the alternate price for its high cost gas at $5.00 decatherm effective March 1, plus applicable taxes, in lieu of current prices of $8.00-$9.00 being paid to gas producers. A portion of this reduction will flow back to SoCal.

Edison and Burbank support the application because it will price gas competitively with fuel oil as fuel for electric generation, permitting them to burn gas rather than oil.

Industrial users appearing as interested parties and California Gas Producers Association welcome a change from present pricing policies for industrial gas use. They assert that the current rate now exceeds what the traffic will bear and should be reduced to reflect the reduced costs of alternative energy. They urge pricing Priority 5 gas closer to a cost of service basis, rather than attempting to establish rates for low-priority customers based on what the traffic will bear.

SDG&E, a wholesale customer of SoCal, supports the proposed rate changes as being in the best interest of California's gas customers because keeping electric generation load on the gas system, even at the reduced rate proposed, will result in lower rates to all customers than those which would otherwise exist.

TURN's closing statement best expresses the effect of this application on SoCal's residential customers, as follows:

> "In TURN's view, this can only be seen as a bleak day for the residential gas ratepayers of SoCal. What seems to be presented here is a choice between losing a little and losing a lot. There is no good option available. It seems to be relatively clear that there will be, or has been and will be, further significant fuel switching if the GN-5 rate is not reduced. The reduction in rate may achieve a reduction in those losses, but I don't see a lesser rate as a benefit. It is still a loss. There can be little doubt that there is going to be the residential customers that are ultimately expected to make up the undercollections that result from this reduction in rates, and I think this fact has to be clear and recognized by the decision-makers when their difficult decision is made."

The staff stated that both the application and the staff's analyses treat the SoCal's request for a reduction as a temporary measure designed to eliminate further fuel switching and the accompanying revenue loss in the GN-5 schedule only; the question of a permanent or long-term solution to fuel switching under GN-5 rates, or other rate schedules, should be reserved for the next CAM proceeding at which a full inquiry into such issues can be made. The questions relating to rate design as a whole, particularly how the revenue loss would be made up from other customer classes should be reserved to the next CAM proceeding. The staff generally supported the application. It opposed a separate rate applicable only on episode days.

In a letter to the Commission, received as Item C, South Coast Air Quality Managment District's (SCAQMD) Chief Deputy Executive Officer/Operations stated that SCAQMD's staff has reviewed SoCal's request and it appears to be consistent with SCAQMD's policy of encouraging the use of natural gas in lieu of fuel oil due to the resulting lower air pollution. The letter further states that SCAQMD believes that the proposal has merit, provided that the revised rate schedules do not result in increased costs to other gas consumers.

Evidence of GN-5 Customers

Edison and LADWP presented evidence concerning their present and prospective fuel procurement policies. The general manager of Burbank stated that during the week of the hearing Burbank made a decision to switch to fuel oil as a means of reducing high cost oil in storage preliminary to replacing that oil with lower cost oil currently available.

Edison

The witness for Edison testified that Edison had begun burning fuel oil on January 25. During the period between January 25 and February 11, it had burned the oil equivalent of 8 billion cubic feet of gas. In the January period prior to January 25, Edison had burned only a small amount of oil for testing purposes; the balance of its generation fuel requirement was met by burning gas. Edison could increase its fuel oil usage over the January 25-February 11 usage.

Edison has a minimum gas requirement of about 20 million cubic feet per day for ignition purposes and an additional 20 to 40 million cubic feet per day for startup, depending upon the activity levels of its fossil fuel plants.

The situation which prompted Edison to switch to fuel oil after January 24 was the significant reduction in the price of low sulfur fuel oil in late 1982 and early January 1983. By mid-January Edison determined that the price of low sulfur fuel oil was at least $3.00 per barrel below the equivalent cost of gas; by the end of January that difference was about $5.00 per barrel. Edison felt compelled to reduce its inventory of higher cost oil in storage in order to be able to purchase and flow through the lower cost oil.

Edison contacted about 17 potential fuel oil suppliers in late January and early February and received firm offers or indications of supply and price from 12 of them. The responses indicated that at least 5 million barrels could be purchased over the next few months at an average price equivalent to 49 cents per therm. Further reductions in fuel oil prices are expected by Edison based on offers from potential suppliers. Edison believes that the mechanism for tracking oil prices set forth in SoCal's proposal is a proper indicator of future changes in oil prices.

Edison stated it will immediately terminate its efforts to burn down its current fuel oil inventory and would switch back to natural gas as its primary fossil fuel for electric generation if the application is granted.

Edison accepts the higher rate that would be applicable on episode days in order to expedite the processing of this application. However, Edison would oppose the dual rate structure if it is proposed in the next CAM proceeding for application on a permanent basis.

LADWP

LADWP's witnesses testified that based on the current oil market conditions, recognizing the market is extremely volatile at this time, LADWP would, in all likelihood, do the following with respect to its gas purchases:

a. At a cost-of-service based rate of about 42¢ per therm, LADWP would switch to 100% gas on the day the rate went into effect.

b. At a single-tiered, alternate-fuel-based rate of about 47¢ per therm, LADWP would probably switch to gas when its current fuel supply contracts are ended.

c. At a rate of 49¢ per therm or higher, LADWP would not switch fuels; oil is less expensive.

d. At the dual rate proposed in the present application, LADWP would not switch back to gas except possibly some gas use on nonepisode days when operational convenience would dictate. LADWP would probably attempt to further minimize gas use on episode days.

e. At the current rate of 55¢ per therm, LADWP would not switch back to gas.

f. LADWP is currently planning a test of Scattergood Unit 3 to determine problems associated with operating above the unit's derated-load capability. The test is to begin in February, last up to six weeks, and use from 200 to 800 MMcf of gas regardless of price.

g. Gas use for episode days and igniter gas will continue, but be minimized, regardless of price.

LADWP opposed the dual rate structure under which a higher price would be charged for gas burned on episode days. LADWP would not disclose the current price of oil under its present fuel contracts, except to state that oil has been available to it from Newhall Refinery Company, Inc. (Newhall) from May 1982 to date at a gas equivalent price of 47.4 cents to 49.6 cents per therm; in January 1983 the price was 49.5 cents per therm. LADWP indicated that it is discussing with suppliers potential supplies of fuel oil at a gas equivalent price below the proposed initial nonepisode day price in SoCal's proposal.

LADWP stated that it had advised the Commission in prior proceedings that contemplated GN-5 gas rates would cause LADWP to switch to fuel oil. It now advises the Commission the proposed dual rate structure is not likely to induce a change in its current policy, and LADWP will continue to burn fuel oil rather than gas.

Applicant's Evidence

SoCal presented five witnesses in support of the relief sought. Their testimony developed the following facts:

On January 24, 1983, Edison notified SoCal that Edison would substantially reduce its use of natural gas for the future. Edison's switch to the use of fuel oil was to achieve a least cost fuel mix. Edison's use of oil since January 24 has been at the rate of 1.8 million barrels per month, equivalent to almost 11 billion cubic feet (Bcf) of gas. LADWP switched to the use of fuel oil on May 4, 1982, except for episode days when air quality regulations require the burning of gas, if available. LADWP's switching resulted from an increase in the GN-5 rate to 51.8 cents per therm, which was greater than LADWP's cost of fuel oil. The GN-5 requirements of Edison and LADWP represent about 94% of SoCal's current retail GN-5 load.

Recent fuel oil purchases by LADWP indicate low-sulfur fuel oil (LSFO) prices to be in the range of 49 cents to 50 cents per therm. Recent prices for low-sulfur waxy residual fuel oil are equivalent to a delivered burner-tip price of 48.8 cents per therm.

The proposed rate reduction should mitigate fuel switching; by setting the GN-5 rate initially at 49 cents per therm and providing a mechanism to adjust the rate twice monthly would ensure that the GN-5 rate can remain competitive with LSFO. SoCal believes it can immediately regain the Edison portion of its GN-5 market; SoCal also believes that it can regain LADWP's GN-5 purchases after its existing LSFO contracts expire after June 1983.

SoCal believes that if its GN-5 load is not regained and maintained, non-GN-5 customers will be forced to pay even higher rates than if the GN-5 rate is lowered and some sales are retained. In 1982, retail GN-5 customers represented 33% of SoCal's total retail sales and 36% of its retail revenues. Loss of this GN-5 market would result in an additional undercollection in SoCal's CAM balancing account, which deficit can only be recovered from other customers including the residential class if the GN-5 market is not retained.

El Paso is SoCal's supply source for additional sales that would result from approval of the reduced GN-5 rate. The current cost of gas supplied by El Paso is 37.6 cents per therm, which is well below the proposed nonepisode day rate of 49 cents per therm.

Tables 1 and 2 in the application set forth SoCal's estimates of the potential reduction in future revenue requirements which could be realized by retaining its GN-5 market during the period February through April 1983. Those tables show estimated monthly CAM balancing account adjustments with reduced sales and at potential sales to GN-5 customers for January through April.

Table 1 is based on reduced sales estimates and current GN-5 rates. The calculations on Table 2 showing revenue calculations with retention of the GN-5 market, assume the proposed variable tariff be effective February 1, at rates of 49 cents per therm for February, 48 cents per therm in March and 47 cents per therm in April. No episode days or increased cost of gas supplies are included in the February through March period. The net effect between the two levels of service as calculated from the two tables is as follows:

TABLE A

SoCal's estimate of its April 30, 1983 CAM balancing account. (A) assuming current rate in effect and (B) proposed rate in effect during February-April, 1983.

	A With Reduced Market (MM $)	B With Market Retention (MM $)
April 30, 1983 balance	(192.5)	(140.6)
January 31, 1983 balance	(156.5)	(156.5)
Improvements in balance	(36.0)	15.9

(Red Figure)

The above calculations show that the combined improvement in the balancing account is $51.9 million if the Edison sales are recaptured in this February-April period. The calculations assume levelized sales to Edison based on historical usage, but only start-up and ignition gas sales to LADWP.

SoCal's rate design witness explained the proposed method for calculating the changes in the nonepisode day rate, and the reasons for retaining the episode day rate at its current level.

Staff Evidence

The staff evidence was presented by two witnesses.

The data presented showed the staff's calculations of LSFO and No. 2 distillate fuel oil in the Los Angeles market developed from posted prices published in Platt's Oilgram Price Report (Platt's). Since Platt's does not track the price of LSFO on the west coast, the price is estimated based on the differential between high-sulfur and low-sulfur residual fuel oil prices on the east coast. The data are similar to those presented by the staff in recent CAM proceedings, which the Commission has relied on in part, to establish gas rates for Priority 3, 4, and 5 customers. The staff witness stated that it is apparent from known transactions that this staff method does not adequately track west coast LSFO prices, either in terms of the current level of prices or the direction and magnitude of price changes.

The staff witness also presented a summary of Platt's published prices for Singapore Cargo Low Sulfur Waxy Residual (LSWR). The witness testified that the posted prices of Singapore LSWR are reasonably consistent with prices paid in recent purchases of LSFO by LADWP. It was the witness' conclusion that the posted prices of Singapore LSWR represent the most reasonable index of LSFO prices that is readily available on the short-term emergency basis considered here.

The staff estimated the fuel requirements of Edison, LADWP; the cities of Burbank, Glendale, and Pasadena; and the Imperial Irrigation District (IID), (SoCal's GN-5 customer group), for the months of March and April 1983 to show the impact of the requested emergency relief over that period. Staff estimates the gas and oil boiler fuel requirements for the GN-5 customer group for March will be 27,711 MDth. If the present rate of 55 cents per therm is continued, staff estimates gas sales to the group will be 6,611 MDth in March and 6,384 MDth in April. Under proposed rate conditions expected by the staff where LADWP and IID will continue to burn oil, but Edison will switch back to gas, staff predicates SoCal sales to the GN-5 customer group of 22,180 MDth in March and 15,775 MDth in April. The following table sets forth the estimated effect in SoCal's gas cost balancing account under the above assumptions:

TABLE B

SOUTHERN CALIFORNIA GAS COMPANY

IMPACT OF STAFF'S ESTIMATE GN-5 SALES ON THE GAS COST BALANCING ACCOUNT (GCBA)

March and April 1983

Cost of El Paso Gas			GN-5 Revenue			Net Contribution to GCBA Through April 30, 1983 (Revenue Less Cost of Gas)
$/Dth	MDth	M$	$/Dth	MDth	M$	M$
At Present GN-5 Rate of 55¢/Therm						
$3.75	12,995	$ 48,731	$5.50	12,995	$ 71,472	$22,741
At Proposed GN-5 Rate of 49¢/Therm						
3.75	37,955	142,331	4.90	37,995	186,175	43,844

GCBA BALANCE DIFFERENTIAL AS OF APRIL 30, 1983

PRESENT VS. PROPOSED GN-5 RATES

Net Contribution to GCBA: Present Rates	Net Contribution to GCBA: Proposed Rates	Differential
(Millions of Dollars)		
22.7	43.8	+21.1

The above staff estimates assume that the present price of El Paso gas will remain constant through April. The staff witness testified that a number of events have occurred, or potentially could occur, that could result in an essentially flat El Paso rate over the next several months to a year. El Paso exercised market-out provisions in its high cost gas purchase contract effective March 1, 1983. This action will reduce El Paso's cost of purchased gas by an estimated 20¢/Mcf. Additionally, El Paso's general rate increase, which became effective in July of 1982, subject to refund, soon may be settled. If a settlement is achieved in a timely manner, additional reductions in El Paso's effective rates will occur and the combined reductions would likely offset El Paso's April 1, 1983 Purchased Gas Adjustment (PGA) increase, leaving El Paso's April 1st rate at approximately the present level. As part of the settlement package, El Paso would withdraw its scheduled April 15, 1983 general rate increase, eliminating an approximate $60 million increase in SoCal's gas costs that would otherwise occur. El Paso's estimated sales volumes in the proposed settlement assume that Edison will purchase gas, not oil, to meet its fuel requirements. If Edison continues to burn oil and reject gas, El Paso is likely to proceed to settlement in a different manner than it would if SoCal sales to Edison were assured. A possible result is that El Paso's scheduled April 15, 1983 increase would not be withdrawn.

The staff further testified that any increases in the estimated balancing account undercollections would have to be absorbed by SoCal's residential and GN-1 and GN-2 customers.

The staff accepts as a temporary condition applicant's proposal that the GN-5 rate be no lower than the current GO-60 and GO-61 wholesale commodity rate of 42.1 cents per therm. The 42.1 cents per therm floor represents the weighted average cost of gas plus franchise fees for the current CAM period. This floor should be revised accordingly in the next CAM proceeding.

The staff opposes the dual rate system where the present 55 cents per therm rate would be assessed within SCAQMD on episode days, and a lower rate on nonepisode days. The staff prefers a single rate of 49 cents per therm for this proceeding as episode days are not expected until June; therefore, the dual rate proposal can be deferred to the April CAM proceeding.

Discussion

We will grant the application as indicated in this discussion. I is clear from the record that LSFO can now be purchased at significantly lower cost than natural gas for electric generation and that, as a consequence, substantial fuel switching has occurred by SoCal's GN-5 customers. The record is also clear that the loss of load from fuel switching will have severe economic impacts on SoCal, its supplier El Paso, and on SoCal's remaining customers. The evidence shows that the adverse economic impacts on SoCal and its customers can be mitigated by authorizing an immediate reduction in the GN-5 rate and the related floating GN-5 rate proposed in the application.

The evidence also shows that retention of the Edison portion of the load that otherwise would be lost by SoCal and El Paso will be a favorable factor in negotiations now underway with FERC. If these negotiations are concluded favorably, California gas utilities and their customers will receive lower rate increases from El Paso in the near term than otherwise would take place.

This application has been presented to us as an emergency measure to prevent undue revenue losses pending resolution of GN-5 rates and fuel switching issues in SoCal's May 1983 CAM proceeding. Granting this application will give this Commission and the parties opportunity to assess the effectiveness of the floating rate provisions in keeping or returning GN-5 load to SoCal's system and will provide a cooperative atmosphere for completion of El Paso's negotiations with FERC.

The return of a portion of the GN-5 load to SoCal's system at the lower rates approved here will lessen the impact of fuel switching on other customers, as the balancing account undercollections will be less than if the lower GN-5 rate were not approved. We will consider in the May CAM proceeding the rate increases necessar to recover the CAM undercollections and the customer groups on which the necessary rate increases must fall. It is noted that representatives of all customer groups and gas suppliers appearing at the hearing support this application.

Our decision today is not a finding of reasonableness of Edison's fuel procurement policies which will be reviewed in its ECAC reasonableness proceeding.

Floating Rate

The method proposed by SoCal under which the floating rate for nonepisode days would be calculated has the support of our staff and is reasonable.

The issue raised was the manner in which this rate should be made known. SoCal intends to notify its GN-5 customers of the new rate on the date of the change. Staff proposes a 5-day filing and review period before the rate is effective. Other parties ask that the rate change be made through General Order 96A advice letter procedures.

The requested review period and advice letter procedures do not recognize the need to make timely changes in the GN-5 rate during this two-month period. The methodology used to calculate the floating rate is set forth in SoCal's application and is adopted in this decision. It will be fixed in SoCal's tariff. The data used to calculate the change are public information. The rate changes are subject to a specific floor equal to the commodity charge for Schedules G-60 and G-61 of 42.1¢ per therm, and a ceiling equal to the current commodity charge for Schedule GN-5 of 55¢ per therm. The rate changes should be filed with the Commission to become effective on the date of filing, subject to future Commission review for consistency and compliance with this decision.

Dual Rate Structure

SoCal proposed that the present GN-5 rate of 55 cents per therm be applicable within SCAQMD on episode days, as gas must be burned on those days to reduce air pollution. Edison reluctantly agreed to this proposal in order to achieve the balance of the rate proposal. Staff opposes the dual rate structure for this interim proceeding as it believes there will be no episode days in the period to the next CAM proceeding; thus, the dual rate issue can be more fully explored in the CAM proceeding.

We have not directed our full attention to this issue in this proceeding and desire to explore it fully in the next CAM proceeding. Since we expect few, if any, episode days will occur in March and April, revenue losses will be insignificant. We will not authorize the dual episode-nonepisode day rate structure at this time.

Gas Rate for Cogenerators

The issue was raised in cross-examination whether the proposed lower GN-5 rate would also apply to cogenerators. The staff pointed out that D.92792 in A.59684 et al. directed that utilities establish cogeneration gas rates equal to the applicable industrial/commercial rate.[3/] SoCal's tariff schedules now provide a rate of 55 cents per therm for cogeneration gas use. PG&E's tariff schedules provide that the cogeneration gas rate shall be the same as its gas rate for utility electric generation without naming the specific rate. SoCal should amend its tariff to contain a similar provision so that its cogeneration gas rate will always be the same as the authorized floating GN-5 rate.

Findings of Fact

1. D.82-12-047, dated December 8, 1982, in A.82-09-12 established a GN-5 rate of 55 cents per therm effective January 1, 1983.

2. Finding 4 of D.82-12-047 stated that the evidence in A.82-09-12 is inconclusive to determine the gas rate levels to industrial and steam-electric generation customers which would cause fuel switching.

3. SoCal's principal steam-electric generation (GN-5) customers are Edison and LADWP, accounting for more than 90% of SoCal's GN-5 load.

4. On May 4, 1982, prior to the date of D.82-12-047, LADWP had switched from the use of natural gas to LSFO as its primary fuel for its steam-electric generation plants.

5. On January 24, 1982, Edison advised SoCal that it would cease to purchase natural gas as its principal fuel for its steam-electric generation plants and would purchase LSFO.

3/ Ordering Paragraph 2 of D.92792 provides: "2. This tariff shall be equal to the rate at which the electric utility buys natural gas to generate electricity or the applicable industrial/commercial rate, whichever is lower."

6. The decision of Edison and LADWP to switch to LSFO was based on the availability of LSFO at gas equivalent prices substantially below the GN-5 rate of 55 cents per therm established in D.82-12-047.

7. SoCal's GN-5 sales in 1982 represented 33% of total retail sales and 36% of retail revenue.

8. Edison's use of oil since January 24, 1983 has been approximately 1.8 million barrels per month, which is equivalent to almost 11 Bcf of gas.

9. El Paso is SoCal's swing source of gas. El Paso's current rate to SoCal is 37.6 cents per therm.

10. Continued loss of GN-5 load will result in higher rates to SoCal's customers who continue to use gas, because SoCal's fixed costs will have to be borne by remaining customers and spread over reduced gas sales. At current rates, when electric utilities and cogenerators pay 55 cents per therm and incremental supplies of natural gas cost SoCal 37.6 cents per therm, each therm of gas not sold as a result of fuel switching will result in a lost contribution in excess of 17 cents to SoCal's fixed costs. This loss will have to be made up by customers who continue to use natural gas.

11. Recent utility fuel purchases show that LSFO prices are in the range of 49 cents to 50 cents per therm range.

12. Setting SoCal's GN-5 rate initially at 49 cents per therm and providing a mechanism to adjust the GN-5 rate twice a month will ensure that the GN-5 rate will remain competitive with LSFO.

13. The loss of SoCal's GN-5 load may adversely affect the settlement in El Paso's current FERC rate proceeding. Retention of a substantial portion of SoCal's GN-5 load may result in no major increases by El Paso to SoCal in the near term.

14. Edison can reasonably be expected to resume purchases of natural gas and discontinue use of LSFO for fuel in its steam-electric generation plants if SoCal's rate proposal is adopted.

15. Retention of Edison's load on SoCal's system at the lower rate of 49 cents per therm will contribute to the maintenance of SoCal's gas margin, resulting in a lower balancing account under-collection in SoCal's April CAM than if Edison's load was lost to the system.

16. The expected lower balancing account undercollections resulting from approval of SoCal's GN-5 rate proposals will benefit all retail customers of SoCal.

17. The initial proposed GN-5 rate of 49 cents per therm is reasonably related to the current utility cost of LSFO, estimated to be $28.30 barrel.

18. The use of Singapore Cargo LSWR as the indicator of changes in the initial LSFO price of $28.30 barrel and the formula proposed by SoCal to revise the initial rate on a twice-monthly basis is reasonable and should be adopted.

19. The floor of 42.1 cents per therm (the current wholesale G-60/G-61 rate) and the ceiling of 55 cents per therm (the current retail GN-5 rate) for application in the formula sets reasonable parameters in which the GN-5 rate may fluctuate, until reviewed in the next CAM proceeding.

20. The rate changes resulting from the application of the formula described above should be filed with the Commission on the date of change to become effective immediately so that GN-5 customers may have the immediate use of such revised rates.

21. Few, if any, episode days are expected within SCAQMD in the months of February, March, and April, the period in which the proposed rates are intended to be in effect. Therefore, it is not necessary or reasonable to establish at this time a dual rate system under which a higher GN-5 rate would apply on episode days than on nonepisode days.

22. The rate proposals of SoCal in this application, modified to delete the dual rate system, are reasonable on an interim basis, pending further consideration in SoCal's next CAM proceeding. The rate increases, if any, resulting from the periodic application of the formula for adjusting rates are justified.

23. Prior decisions have established SoCal's gas rate for cogenerators at the same level as its GN-5 rate. The lower rate established here should also apply to gas service to steam-electric cogenerators.

24. The order which follows should become effective immediately so that the benefits to SoCal and its customers may accrue immediately.

Conclusions of Law

1. The application should be granted to the extent provided in the above findings.

2. SoCal should amend its tariff schedule to establish a rate for steam-electric cogenerators at the same level as its GN-5 rate.

3. The rates and related provisions authorized in the following order should be reviewed in SoCal's next CAM proceeding. SoCal is placed on notice that in that review the Commission must determine that the floating rate provisions will not create long-term problems which exceed recognized short-term benefits.

ORDER

IT IS ORDERED that:

1. Southern California Gas Company (SoCal) is authorized to file the revised tariff sheets attached to A.83-02-04, except that the commodity charge of 55 cents per therm for application on declared episode days within South Coast Air Quality Management District shall be deleted.

2. The tariff publication authorized in Ordering Paragraph 1 shall be filed with the Commission and made effective on three days' notice to the Commission and the public. Rates will apply prospectively from the effective date of the tariff.

3. Tariff pages reflecting revised rates resulting from the application of the formula for adjusting the initial GN-5 rate shall be filed on the first and sixteenth days of each calendar month to become effective on date of filing, subject to subsequent review in SoCal's next CAM proceeding.

4. SoCal shall establish and maintain the rate for gas service to electric cogenerators on the same level as its then current GN-5 rate.

5. To the extent not granted, the application is denied.

This order is effective today.

Dated FEB 24 1983, at San Francisco, California.

LEONARD M. GRIMES, JR.
President
VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
Commissioners

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

Joseph E. Bodovitz

Joseph E. Bodovitz, Executive Director

APPENDIX A

LIST OF APPEARANCES

Applicant: Southern California Gas Company, by Michael D. Gavda, E. R. Island, R. M. Loch, and T. D. Clarke, Attorneys at Law.

Interested Parties: John R. Bury, Charles R. Kocher, H. Robert Barnes, and Susan L. Steinhauser, Attorneys at Law, for Southern California Edison Company; Peter W. Hanschen, Shirley Woo, and Steven Greenwald, Attorneys at Law, for Pacific Gas and Electric Company; John R. Asmus, Jr., Attorney at Law, for San Diego Gas & Electric Company; David L. Nye, Attorney at Law, for Los Angeles Department of Water and Power; Brobeck, Phleger & Harrison, by Gorden E. Davis and Richard C. Harper, Attorneys at Law, for California Manufacturers Association; Henry R. Lippett, 2nd, Attorney at Law, for California Gas Producers Association; Brobeck, Phleger & Harrison, by Malcolm T. Dungan, Attorney at Law, and Richard Owen Baish, Attorney at Law, for El Paso Natural Gas Company; Ronald O. Snyder, for the City of Burbank Public Service Department; Ray Griest, for City of Redondo Beach; Allen R. Crown, Antone S. Bulich, Jr., and Charlotte W. Adams, Attorneys at Law, for California Farm Bureau Federation; Jerry R. Bloom, Attorney at Law, for Kimberly-Clark Corporation; Michel Peter Florio, Attorney at Law, for Toward Utility Rate Normalization (TURN); Harry K. Winters, for the University of California (Berkeley); Downey, Brand, Seymour & Rohwer, by Philip A. Stohr, Attorney at Law, for General Motors Corporation (Otis M. Smith, General Counsel) and Union Carbide Corporation.

Commission Staff: Michael B. Day, Attorney at Law, William R. Stalder and William A. Charvez.

(END OF APPENDIX A)

ORIGINAL

Decision 83 02 051 FEB 24 1983

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHERN CALIFORNIA GAS COMPANY to revise tariff schedules related to utility electric generation service under the GN-5 rate schedule. (Adv. Ltr. 1350)	Application 83-02-04 (Filed February 1, 1983)

(See Appendix A for Appearances.)

OPINION

Summary of Decision

Today's decision adopts an interim mechanism, which will allow Southern California Gas Company's (SoCal) rates to electric utilities to fluctuate along with volatile fuel oil prices. This change will eliminate the electric utilities' existing financial incentive to switch from natural gas to fuel oil. SoCal's present "GN-5" rate to electric utilities is 55 cents per therm, compared with fuel oil prices equivalent to 49 cents per therm.

The current fuel switching crisis results from fluctuations in energy markets. World oil prices have fallen. At the same time, natural gas prices have risen sharply as the federal government has [illegible] ~~relaxed~~ its regulatory control over prices.

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Today's decision resets SoCal's GN-5 rate at 49 cents per therm. The interim rate mechanism allows for twice-monthly review of oil prices and related recalculation of GN-5 rates.

These changes will directly benefit all SoCal customers. If the electric utilities' demand for natural gas falls, SoCal's fixed costs will have to be spread over the lower sales, producing larger rate increases for remaining customers.

in "Platt's Oilgram Price Report" for the ten trading days immediately preceding the first and sixteenth of each calendar month. The first adjustment to the rate, if required, would be effective on February 16, 1983. The commodity charge for 1 and 2.b. shall be no lower than the commodity charge for Schedules G-60 and G-61. At the time of adjustment utility will promptly notify each GN-5 customer and the Commission by letter of the effective rate levels.

Emergency Considerations

SoCal asked for immediate consideration of its request on an emergency basis because of the lost gas sales resulting from fuel switching by its principal GN-5 customers, Southern California Edison (Edison) and Los Angeles Department of Water and Power (LADWP). SoCal asserted that estimated sales to GN-5 customers in its last rate proceeding are about 35% of total 1983 test year retail sales. The lost sales assertedly would seriously impact its gas margin, causing a substantial increase in the undercollections in its Consolidated Adjustment Mechanism (CAM) account.

Public Hearing

In response to SoCal's request, public hearing was held before Commissioner Grew and Administrative Law Judge Mallory in San Francisco on February 11, at which time the matter was submitted. Evidence was presented on behalf of Edison and LADWP concerning current and prospective fuel purchases. Evidence was presented on behalf of Edison and the Commission's Utilities Division staff concerning the economic and financial impacts of fuel switching and with respect to the details of SoCal's proposal. El Paso Natural Gas Company (El Paso), which with Transwestern Pipeline Company (Transwestern) supplies SoCal with lower-than-average cost gas, actively participated in the proceeding.1/

1/ El Paso's current rate for its deliveries in the SoCal system is 37.7 cents per therm; Transwestern's commodity rate is 40.9 cents per therm. Any additional sales to SoCal's GN-5 customers under the proposed lower GN-5 rate would result in increased purchases from ~~these suppliers.~~ El Paso.

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El Paso supports the application because of the effect SoCal's purchases have on El Paso's sales. El Paso stated that it had exercised its market-out provisions in its deep gas purchase contracts,[2/] which El Paso expects will assist SoCal to maintain its industrial and power plant load. El Paso sees SoCal's proposal as another important step towards keeping alternative fuel-equipped users on line.

El Paso explained that the granting of this application may have a material effect on negotiations with the Federal Energy Regulatory Commission (FERC) on settlement of El Paso's current general rate increase. If lost or potentially lost GN-5 sales are avoided, a settlement more favorable to California may be obtained and future increases may be less than would result if such sales are lost. El Paso estimated that if it is successful in reaching settlement, there likely would be no appreciable increase in its gas rates to SoCal through the balance of 1983. On the other hand, if a favorable settlement is not reached, El Paso's rates to SoCal will increase by 14 to 16 cents per decatherm in April.

2/ Market-out provisions in gas purchase contracts permit the buyer (pipeline) to establish an alternative price, to replace the price being paid under the pricing term of the contract if the purchased gas cannot be marketed at the price being paid. The producer (seller) then has a period of time to attempt to find a different buyer willing to pay a higher price (typically 30 days). If the producer is unable to find another buyer, it must then sell to the pipeline at the alternative price. El Paso has set the alternate price for its high cost gas at $5.00 decatherm effective March 1, plus applicable taxes, in lieu of current prices of $8.00-$9.00 being paid to gas producers. A portion of this reduction will flow back to SoCal. ~~if sufficient gas is taken by SoCal.~~

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55 Edison and Burbank support the application because it will price gas competitively with ~~lower than~~ fuel oil as fuel for electric generation, permitting them to burn gas rather than oil.

Industrial users appearing as interested parties and California Gas Producers Association welcome a change from present pricing policies for industrial gas use. They assert that the current rate now exceeds what the traffic will bear and should be reduced to reflect the reduced costs of alternative energy. They urge pricing Priority 5 gas closer to a cost of service basis, rather than attempting to establish rates for low-priority customers based on what the traffic will bear.

SDG&E, a wholesale customer of SoCal, supports the proposed rate changes as being in the best interest of California's gas customers because keeping electric generation load on the gas system, even at the reduced rate proposed, will result in lower rates to all customers than those which would otherwise exist.

TURN's closing statement best expresses the effect of this application on SoCal's residential customers, as follows:

> "In TURN's view, this can only be seen as a bleak day for the residential gas ratepayers of SoCal. What seems to be presented here is a choice between losing a little and losing a lot. There is no good option available. It seems to be relatively clear that there will be, or has been and will be, further significant fuel switching if the GN-5 rate is not reduced. The reduction in rate may achieve a reduction in those losses, but I don't see a lesser rate as a benefit. It is still a loss. There can be little doubt that there is going to be the residential customers that are ultimately expected to make up the undercollections that result from this reduction in rates, and I think this fact has to be clear and recognized by the decision-makers when their difficult decision is made."

The staff stated that both the application and the staff's analyses treat the SoCal's request for a reduction as a temporary measure designed to eliminate further fuel switching and the accompanying revenue loss in the GN-5 schedule only; the question of a permanent or long-term solution to fuel switching under GN-5 rates, or other rate schedules, should be reserved for the next CAM proceeding at which a full inquiry into such issues can be made. The questions relating to rate design as a whole, particularly how the revenue loss would be made up from other customer classes should be reserved to the next CAM proceeding. The staff generally supported the application. It opposed a separate rate applicable only on episode days.

In a letter to the Commission, received as Item C, South Coast Air Quality Managment District's (SCAQMD) Chief Deputy Executive Officer/Operations stated that SCAQMD's staff has reviewed SoCal's request and it appears to be consistent with SCAQMD's policy of encouraging the use of natural gas in lieu of fuel oil due to the resulting lower air pollution. The letter further states that SCAQMD believes that the proposal has merit, provided that the revised rate schedules do not result in increased costs to other gas consumers.

Evidence of GN-5 Customers

Edison and LADWP presented evidence concerning their present and prospective fuel procurement policies. The general manager of Burbank stated that during the week of the hearing Burbank made a decision to switch to fuel oil as means of reducing high cost oil in storage preliminary to replacing that oil with lower cost oil currently available.

Edison

The witness for Edison testified that Edison had begun burning fuel oil on January 25. During the period between January 25 and February 11, it had burned the oil equivalent of 8 billion from El Paso in the near term than otherwise would take place.

This application has been presented to us as an emergency measure to prevent undue revenue losses pending resolution of GN-5 rates and fuel switching issues in SoCal's May 1983 CAM proceeding. Granting this application will give this Commission and the parties opportunity to assess the effectiveness of the floating rate provisions in keeping or returning GN-5 load to SoCal's system and will provide a cooperative atmosphere for completion of El Paso's negotiations with FERC.

The return of a portion of the GN-5 load to SoCal's system at the lower rates approved here will lessen the impact of fuel switching on other customers, as the balancing account undercollections will be less than if the lower GN-5 rate were not approved. We will consider in the May CAM proceeding the rate increases necessary to recover the CAM undercollections and the customer groups on which the necessary rate increases must fall. ~~We recognize that, whether or not we approve this application, a large portion of the rate increase necessary to offset the balancing account undercollections must fall on residential gas customers.~~ It is noted that representatives of all customer groups and ~~of~~ gas suppliers appearing at the hearing support this application ~~as being in their best interests~~.

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Floating Rate

The method proposed by SoCal under which the floating rate for nonepisode days would be calculated has the support of our staff and is reasonable.

The issue raised was the manner in which this rate should be made known. SoCal intends to notify its GN-5 customers of the new rate on the date of the change. Staff proposes a 5-day filing and review period before the rate is effective. Other parties ask that the rate change be made through General Order 96A advice letter procedures.

Replace w/attached

The requested review period and advice letter procedures do not recognize the need to make the new GN-5 rate effective immediately. The method to arrive at the rate will be fixed in SoCal's tariff; the data used to calculate the change are public and are well-known. The rate changes are subject to a specific floor and ceiling (the average cost of gas, and the present GN-5 rate) and the method is also fixed in SoCal's tariff. We have not delegated our ratemaking powers to SoCal by approving procedures which can reach only a specified result. Therefore, the rate changes should be filed with the Commission to become effective on the date of filing, without a review period.

Dual Rate Structure

SoCal proposed that the present GN-5 rate of 55 cents per therm be applicable within SCAQMD on episode days, as gas must be burned on those days to reduce air pollution. Edison reluctantly agreed to this proposal in order to achieve the balance of the rate proposal. Staff opposes the dual rate structure for this interim proceeding as it believes there will be no episode days in the period to the next CAM proceeding; thus, the dual rate issue can be more fully explored in the CAM proceeding.

We have not directed our full attention to this issue in this proceeding and desire to explore it fully in the next CAM proceeding. Since we expect few, if any, episode days will occur in March and April, revenue losses will be insignificant. We will not authorize the dual episode-nonepisode day rate structure at this time.

Gas Rate for Cogenerators

The issue was raised in cross-examination whether the proposed lower GN-5 rate would also apply to cogenerators. The staff pointed out that D.92792 in A.59684 et al, directed that utilities establish cogeneration gas rates equal to the applicable

13. The loss of SoCal's GN-5 load may adversely affect the settlement in El Paso's current FERC rate proceeding. Retention of a substantial portion of SoCal's GN-5 load may result in no major increases by El Paso to SoCal in near term.

14. Edison can reasonably be expected to resume purchases of natural gas and discontinue use of LSFO for fuel in its steam-electric generation plants if SoCal's rate proposal is adopted.

15. Retention of Edison's load on SoCal's system at the lower rate of 49 cents per therm will contribute to the maintenance of SoCal's gas margin, resulting in a lower balancing account under-collection in SoCal's April CAM than if Edison's load was lost to the system.

16. The expected lower balancing account undercollections resulting from approval of SoCal's GN-5 rate proposals will benefit all retail customers of SoCal.

17. The initial proposed GN-5 rate of 49 cents per therm is reasonably related to the current utility cost of LSFO, estimated to be $28.30 barrel.

18. The use of Singapore Cargo LSWR as the indicator of changes in the initial LSFO price of $28.30 barrel and the formula proposed by SoCal to revise the initial rate on a twice-monthly basis is reasonable and should be adopted.

19. The floor of 42.1 cents per therm (the current wholesale G-60/G-61 rate) and the ceiling of 55 cents per therm (the current retail GN-5 rate) for application in the formula sets reasonable parameters in which the GN-5 rate may fluctuate, until reviewed in the next CAM proceeding.

ORDER

IT IS ORDERED that:

1. Southern California Gas Company (SoCal) is authorized to file the revised tariff sheets attached to A.83-02-04, except that the commodity charge of 55 cents per therm for application on declared episode days within South Coast Air Quality Management District shall be deleted.

2. The tariff publication authorized in Ordering Paragraph 1 shall be filed with the Commission and made effective on three days' notice to the Commission and the public. ; only Rates will apply [illegible] from the effective date of the tariff.

SS

3. Tariff pages reflecting revised rates resulting from the application of the formula for adjusting the initial GN-5 rate shall be filed on the first and sixteenth days of each calendar month to become effective on date of filing, subject to subsequent review in SoCal's next CAM proceeding.

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4. SoCal shall establish and maintain the rate for gas service to steam-electric cogenerators on the same level as its then current GN-5 rate.