Decision 83 05 056 MAY 18 1983

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA GAS COMPANY AND PACIFIC LIGHTING GAS SUPPLY COMPANY for Authority to Revise its Gas Rates and Tariffs Effective May 1, 1983, under the Consolidated Adjustment Mechanism.	Application 83-03-14 (Filed March 8, 1983)

(See Appendix A for appearances.)

O P I N I O N

I. Summary

By Application (A.) 83-03-14, the Southern California Gas Company (SoCal) requests authority to increase rates effective May 1, 1983 by $397.285 million. The requested increase is due mainly to an estimated undercollection of $148.5-179.2 million in the Consolidated Adjustment Mechanism (CAM) balancing account and a revised forecast showing reduced revenues from sales to GN-5 customers. SoCal's revised sales forecast increases its revenue requirement by $167-305 million. SoCal projects a small decrease in its cost of gas during the forecast period of $19-26.149 million.

As part of the rate increase, SoCal requests authority to include for the first time costs associated with gas purchases from its affiliate's, Pacific Offshore Pipeline Company (POPCO), Hondo Field in the Santa Barbara Channel. SoCal expects to receive gas from POPCO's Hondo Field starting in November 1983.

Finally, SoCal requests authority to amend its Preliminary Statement to allow the use in future CAM offset applications of estimated CAM balancing account under- or overcollections and scheduled price changes from SoCal's suppliers. These tariff revisions are proposed by SoCal to minimize future under- or overcollections in the CAM balancing account.

We grant a rate increase of $397.285 million to SoCal, recognizing that a large undercollection has accumulated in the CAM balancing account. In addition, we note that sales variations caused by fuel switching in the forecast period may result in additional undercollections in the CAM balancing account. For these reasons, we conclude that SoCal's full request of $397.285 million should be granted.

The major issue deferred to this proceeding is the appropriate GN-5 rate. We again adopt a GN-5 rate mechanism which ties the price of gas to Platt's posted prices for Singapore Cargo Low Sulfur Waxy Resid. (LSWR). This floating rate index was first adopted in Decision (D.) 83-02-081 issued February 24, 1983. We choose to lower the 49¢/therm (thm) base price adopted in that decision to 48¢/thm to reflect an average price of $27.70/barrel for Singapore LSWR. Also, we implement an episode day rate which is based on SoCal's system average retail rate. Electric utilities in the South Coast Air Quality Management District (SCAQMD) are prohibited from burning oil if gas is available on an episode day declared by SCAQMD.

SoCal's request to include the costs of gas purchased from POPCO's Hondo Field is granted. Finally, the tariff revisions sought by SoCal are authorized.

II. Procedural Background

A.83-03-14 was filed on March 8, 1983 for a revision date of May 1, 1983. Public hearing was held on March 21, 1983 in Los Angeles to receive statements from seven customers of SoCal.

Evidentiary hearings were held on March 22-25, April 6-8, and April 20-21. A.83-03-14 was submitted after the receipt of oral argument on April 21 and a written statement from Toward Utility Rate Normalization (TURN) filed on April 26.

Many of the appearances actively participated in the evidentiary hearings. SoCal presented six witnesses in support of its application. The Commission staff (staff) reviewed the entire application and offered its recommendations through three witnesses. The Los Angeles Department of Water and Power (LADWP) presented its position through one witness who testified on the relationship of the GN-5 rate and LADWP's inclination to fuel switch from gas to oil. The Southern California Edison Company (Edison) presented two witnesses who testified on SoCal's and staff's rate design proposals. Last, the Kimberly-Clark Corporation (Kimberly) presented one witness who testified on the impact of the proposed GN-32/42 rates on Kimberly's mill operations in California. Parties such as the California Manufactuers Association (CMA), San Diego Gas & Electric Company (SDG&E), the California Gas Producers Association (Producers), El Paso Natural Gas Company (El Paso), General Motors Corporation (GM) and Union Carbide Corporation (Carbide), and TURN participated through cross-examination.

A.83-03-14 closely follows D.83-02-081 in A.83-02-04 which lowered the GN-5 rate from 55¢/thm to 49¢/thm and tied subsequent GN-5 rates to Platt's posted prices for Singapore LSWR. A floor for the GN-5 rate was set at 42.5¢. This adjustment of the GN-5 rate was an interim measure designed to induce SoCal's electric utility customers to burn gas rather than oil at a time when oil prices were dropping. Edison and LADWP, SoCal's major GN-5 customers, eventually did resume buying gas after the indexed GN-5 rate was adopted. The Commission in D.83-02-081 deferred a final determination on the rate design issues raised by the indexed GN-5 rate to this proceeding, SoCal's next CAM application.

III. Issues

A.83-03-14 is not a "reasonableness" proceeding and thus does not involve a review of SoCal's past procurement policies and operational decisions. This application addresses only the level of rates that are necessary to recover SoCal's cost of gas, margin requirement, and the undercollected balance in the forecast period. The required rates are calculated by adopting a revenue requirement, sales volume, and rate design.

SoCal's revenue requirement and predicted sales volumes were not contested by the other parties. Accordingly, we will adopt SoCal's numbers with one adjustment. We will add LADWP's sales volumes including Scattergood Unit No. 3 electric generating facility (Scattergood) and sales to the Imperial Irrigation District (IID) to the forecasted GN-5 sales.

The remaining issue is rate design, i.e., how to spread the adopted revenue requirement among the customer classes. In particular, we must address the appropriateness of the GN-5 indexed rate, the level of the floor and ceiling of the index, and the desirability of "episode" and "nonepisode" day rates.

IV. Revenue Requirement

SoCal initially showed an additional revenue requirement of $397.285 million for the forecast period. The major components are shown in Exhibit 4 as follows:

Cost of Gas	$3,698 million
CAM Balance of $148 Million Amortized over 8 Months	244
Franchise Fees & Uncollectibles	66
Gas Margin	983
Conservation Reward	5
Revenue Requirement	$4,996
Revenue at Present Rates	-$4,599
Additional Rev. Req.	$ 397 million

Near the end of the evidentiary hearings, SoCal introduced a revised exhibit which showed a revenue requirement of $528 million in the forecast period. The revised exhibit incorporates changes which occurred after Exhibit 4 was prepared. SoCal introduced this updated information only to support its original request for an increase of $397 million.

The changes as summarized by SoCal's counsel are as follows:

1. The Canadian border price for Pan Alberta gas was lowered from $4.94/MMBtu to $4.40/MMBtu on April 11. This price reduction lowers the revenue requirement by $27 million.

2. The original estimated CAM balance of $148 million on April 30 has increased to $178 million based on March 31 recorded data. Recognition of the higher undercollection estimate increases the revenue requirement by $51 million if an eight-month amortization period is used.

3. Revenue from sales to GN-5 and cogeneration (COG) customers is reduced based on the updated assumption that the average rate for those sales should be 42.5¢/thm rather than the 47.9¢/thm used in Exhibit 4. Use of the lower rate increases the revenue requirement by $138 million.

4. The price of gas purchased from El Paso increased from 35.538¢/thm to 35.692¢/thm, increasing the revenue requirement by $8 million.

5. LADWP and IID are assumed to burn available gas rather than oil in the forecast period. These increased sales lower the revenue requirement by a net of $32 million.

These changes added together yield a new revenue requirement of $528 million.

	Original Estimate in Exhibit 4	$397 million
1.	Lower Canadian Price	-27
2.	Larger CAM Undercollection	+51
3.	Less GN-5, COG Revenue	+138
4.	Higher El Paso Price	+8
5.	LADWP and IID Sales Included	-32
6.	Miscellaneous Adjustments	-7
	New Rev. Req. Estimate	$528 million

The above changes were made to Exhibit 4 and are shown in Exhibit 22 as follows:

Cost of Gas	$3,857 million
CAM Balance of $179 Million Amortized over 8 Months	293
Franchise Fees & Uncollectibles	69
Gas Margin	983
Conservation Reward	5
Revenue Requirement	$5,207
Revenue at Present Rates	-$4,679
Additional Rev. Req.	$ 528 million

The staff's estimates of SoCal's revenue requirement are contained in Exhibits 19 and 23. Exhibit 19 shows a revenue requirement of $440 million while Exhibit 23 shows a revenue requirement of $413 million. The only difference between the two exhibits is that Exhibit 23 reflects the lower Pan Alberta price of $4.40/MMBtu and its impact on SoCal's overall cost of gas and supply mix. Both exhibits are based upon the original CAM undercollection estimate of $148 million rather than the updated figure of $178 million.

Since both of staff's revenue requirement estimates exceed SoCal's request for $397 million, staff recommends that the full increase sought by SoCal be granted. Staff states that any undercollection in the CAM balancing account should be amortized over an eight- or six-month period to prevent any further accumulation of interest that is ultimately flowed through to the ratepayer. Staff also believes that even if the Commission grants the full increase sought by SoCal, a large undercollection in the CAM balancing account will remain to be recovered in the next CAM proceeding. Thus, staff concludes that the existing undercollection should be amortized over a relatively short period.

After reviewing the estimates made by SoCal and staff, we find that SoCal's actual revenue requirement will most likely exceed its $397 million request. We cannot grant SoCal more than it has requested. Under current projections, it is reasonable to grant the full increase sought by SoCal. We will authorize an increased revenue requirement of $397.285 million.

V. Sales Volumes

SoCal prepared the only sales forecast submitted in this proceeding. Staff accepted SoCal's forecast but unlike SoCal assumed that LAWDP and IID would purchase all available gas in the forecast period. Staff's assumption of continued sales to LADWP and IID in the forecast period increases the estimated GN-5 sales by 514,720 Mths.

LADWP suggests that sales to Scattergood of 76,599 Mths also should be included in estimated GN-5 sales. The Commission did not address the rate applicable to Scattergood in the A.83-02-04 proceeding. Both SoCal and LADWP urge the Commission to extend to Scattergood an indexed GN-5 rate. If Scattergood's rate is lowered to the indexed rate, LADWP believes that the facility will resume burning gas. Consequently, inclusion of Scattergood's 76,599 Mths in the forecast of GN-5 sales would be appropriate.

We will adopt SoCal's sales volumes with the adjustments made by staff and LADWP. The adopted sales forecast will include continued sales to LADWP and IID as well as renewed sales to LADWP's Scattergood. We will authorize service to Scattergood at the two-part indexed GN-5 rate.

VI. Rate Design Proposals

Three parties, SoCal, staff, and LADWP, sponsored rate design proposals. A summary of each proposal is appropriate before we discuss the parties' positions.

A. SoCal's Rate Design Proposal

SoCal based its rate design on the marginal rate concept adopted by the Commission in D.82-04-116. Under this concept, all rates except for wholesale, ammonia producer, residential lifeline, and Tier III rates, are to be set approximately equal to the marginal rate. The marginal rate is derived from the price of alternate fuels, the variable cost of the most expensive gas supply, and the potential for fuel switching. (D.82-04-116, page 53.) SoCal derived a marginal rate of 54.950¢/thm after considering the above factors.

The wholesale rate is set at the average cost of gas sold plus franchise fee and the Gas Exploration and Development Account (GEDA) factor. The ammonia producer rate is prescribed by statute to be 110% of the average cost of gas sold. (See Public Utilities (PU) Code § 741.)

The residential lifeline rate is set at 75-85% of the system average rate (excluding CCA and GEDA) minus the residential customer charge rate component. The residential Tier III rate is set at 10¢/thm above the marginal rate.

SoCal applied the above guidelines as follows:

1. The wholesale and ammonia producer rates were set in accordance with the D.82-04-116 method.

2. The residential Tier II, GN-1, and GN-2A rates were set equal to the marginal rate. The residential Tier III rate was set at 10¢ above the marginal rate.
3. The GN-2B and GN-36/46 rates were frozen at their present levels. The GN-32/42 rate was set 3¢/thm above the GN-36/46 rate.
4. The GN-5 nonepisode day rate was set at the Singapore LSWR index rate adopted in D.83-02-081. The GN-5 episode day rate was set at 5¢/thm above the nonepisode day indexed rate.
5. The residential lifeline rate increase was limited to a 20% increase over the current rate. The high priority rates were readjusted slightly to prevent a larger lifeline increase.

SoCal explained that the GN-2B and GN-36/46 rates were frozen at current levels to avoid fuel switching by these customers. In addition, SoCal proposes an exemplary three-tier rate for large GN-36 and GN-46 customers to minimize fuel switching.

The GN-32/42 rate was increased by 3¢/thm because SoCal expects most of these customers to burn gas at the increased rate.

SoCal proposes a dual GN-5 rate, episode and nonepisode day, because electric utilities located in the SCAQMD are prohibited from burning oil on episode days when gas is available. SoCal sets the episode day rate 5¢/thm above the nonepisode day rate because 0.1% low sulfur fuel oil (LSFO), the alternative fuel to gas on some episode days, costs about 5¢/thm more than .25% LSFO which can be burned by the electric utilities on nonepisode days.

SoCal's proposed rate design is attached as Appendix B. (This proposal was not adjusted by SoCal to incorporate the changes shown in Exhibit 22.)

B. Staff's Rate Design Proposal

The staff reviewed SoCal's rate design proposal and decided to present an alternate rate design based on gas costs which departs from the current guidelines based on alternate fuel oil prices. The primary feature of staff's proposal is an alternate GN-5 rate. Staff cites both the volatility of the current oil market and the difficulty in choosing a fuel index which accurately tracks the price of alternate fuels in southern California as two reasons why a rate design that is based on gas costs rather than alternate fuel prices is preferred. Staff asserts that any GN-5 rate indexed to the price of alternate fuels may drop sharply as oil prices fall and thereby produce a large revenue undercollection in the balancing account. Staff points out that the recovery of any undercollection in the next October CAM proceeding could increase rates to high priority customers just before the winter season.

As an alternative to an indexed GN-5 rate for electric utilities, staff proposes "an experimental, marginal cost based rate" for GN-5 customers. This rate would impose a facility or capacity charge (staff used both terms) and would create three-tier block rates. The third tier or tailblock rate would be set at the marginal cost of gas. The first two tiers or blocks include a margin contribution in the rate. The facility or capacity charge would be about 2¢/thm or $60 million per year, prorated among all GN-5 customers.

Staff produced the following example of its proposed GN-5 rate:

Capacity Charge	$5,076,000
Total Monthly Sales	253,802 Mths
Block I - First 84,601 Mths (1/3 of Monthly Sales)	53.84¢/thm
Block II - Second 84,601 Mths (1/3 of Monthly Sales)	45.570¢/thm
Block III - Third 84,601 Mths or More (1/3 of Monthly Sales)	37.293¢/thm
Average Commodity Rate	45.5¢/thm
Average Total Rate (Including Capacity Chg.)	47.5¢/thm

Under this GN-5 rate proposal, the three blocks would vary each month depending on the individual GN-5 customer's estimated monthly usage. For example, if sales to LADWP in May are estimated as 27,000 Mths, the first and second blocks would each be set at 9,000 Mths. If sales to LADWP in June are estimated to increase to 39,000 Mths, the first and second blocks would each be set at 13,000 Mths.

Staff claims that under this marginal cost based GN-5 rate, GN-5 customers are encouraged to exceed their estimated gas consumptions to lower their average costs. In addition, staff asserts that under its proposal even if GN-5 customers stop buying gas in the forecast period, capacity charges still will be paid by those customers. These payments will partially offset any resulting undercollection due to revenue loss caused by fuel switching.

Apart from the GN-5 rate, staff supports most of the rates proposed by SoCal. In particular, staff recommends approval of SoCal's exemplary three-tier rate for large GN-36/46 customers who have a No. 5 or No. 6 fuel oil burning capability. Staff suggests that service under this schedule should be Priority (P) 5 since P4 customers will be on a higher cost schedule.

Staff's proposed rate design is attached as Appendix C. (This proposal was not adjusted to incorporate the changes shown in Exhibit 23.)

C. LADWP's Rate Design Proposal

After reviewing the rate designs proposed by SoCal and staff, LADWP introduced its own proposal which it claims will minimize fuel switching by LADWP, maximize the margin contribution of the electric utilities, and lower rates to other customers below those proposed by SoCal.

LADWP recommends adoption of the staff's rate design with two changes. First, the indexed GN-5 rate adopted in D.83-02-081 is used with the base rate lowered from 49¢/thm to 48¢/thm. LADWP claims that just a 1¢/thm reduction will allow the indexed gas price to compete with oil prices. Second, residential lifeline is calculated as 15% below the system average retail rate rather than 15% below the system average rate. LADWP contends that other retail ratepayers should not subsidize residential lifeline usage below wholesale rates.

LADWP's rate design proposal is attached as Appendix D.

VII. Positions of the Parties

A. SoCal

SoCal urges the Commission to adopt its proposed two-part indexed GN-5 rate. SoCal maintains that the Singapore LSWR index has proven it will keep GN-5 customers on the gas system since all six GN-5 customers are currently purchasing gas at the indexed rate of 42.5¢/thm. SoCal submits that an indexed GN-5 rate is essential if gas prices are to compete with changing oil prices.

SoCal argues that LADWP's proposal to reduce the GN-5 base rate to 48¢/thm is unnecessary since LADWP is buying gas under the present 49¢/thm base rate.

SoCal further argues that the staff's three-tier GN-5 rate will cause GN-5 customers to burn oil rather than gas in certain months. SoCal cites the rebuttal testimony of LADWP and Edison as strong evidence that staff's proposal will cause LADWP and Edison to fuel switch.

SoCal criticizes staff's three-tier GN-5 rate as being heavily dependent on forecasted levels of GN-5 requirements. SoCal asserts that it cannot accurately predict GN-5 gas use and consequently would be unable to calculate the three tiers or usage blocks called for in staff's proposal.

SoCal concludes that while the staff proposal is creative, the company believes it is inappropriate to experiment with an innovative rate design. SoCal claims that the risk of losing P5 sales is substantial and that the Commission should continue to use the indexed GN-5 rate which has proven that it can work.

B. Staff

Staff points out that the present indexed GN-5 rate was adopted by the Commission as an interim measure. Staff asserts that selection of Singapore LSWR as the index was somewhat arbitrary and was chosen primarily because Platt's posted prices for Singapore LSWR are readily available. However, the index does not necessarily track the price of LSFO on the west coast.

Staff asserts that an indexed GN-5 rate allows the GN-5 rate to drop over short periods of time and produce a large revenue undercollection in the balancing account.

The staff's experimental, marginal cost GN-5 rate is proposed to address the undercollection problem. The staff believes that its three-tier rate design will maximize gas sales in the forecast period and moderate the impact of future undercollections.

Staff identifies the CAM balancing account mechanism as the real culprit since it insulates SoCal from the risk of varying sales volumes. Staff suggests that it may be time for the Commission to reconsider the value of a balancing account and perhaps redistribute some of the risk of sales fluctuations to the company.

C. El Paso

El Paso, SoCal's largest supplier, explained that it has a large stake in this proceeding since the level of SoCal's sales affects the amount of SoCal's purchases from El Paso. El Paso claims that it must sell 2.75 billion cubic feet per day (Bcfd) to earn its allowed rate of return. Of the 2.75 Bcfd, 1.3 Bcfd is sold to SoCal.

El Paso submits that any gas sold above the price of SoCal's swing supply yields margin revenues exceeding SoCal's cost. El Paso gas at 35.7¢/thm is SoCal's swing supply. Therefore, El Paso concludes that since any GN-5 sales above 35.7¢/thm are desirable, the floor of the GN-5 index should be lowered to SoCal's marginal cost of delivering gas to the GN-5 customers. El Paso maintains that indexed rates with a floor set at marginal cost also should be offered to industrial customers to prevent fuel switching by those customers.

In summary, El Paso supports the current indexed GN-5 rate and asks that the floor be lowered from the wholesale rate to SoCal's marginal cost.

D. LADWP

LADWP has actively participated in SoCal's recent CAM proceedings because of its interest in the GN-5 rate. LADWP contends that the interim indexed GN-5 rate adopted in D.83-02-081 was designed to bring only Edison back on SoCal's system. SoCal was aware in that proceeding that the indexed GN-5 rate probably would not induce LADWP to switch back to gas. LADWP argues that the

49¢/thm base rate adopted in D.83-02-081 may be adequate for Edison's market share but it is not low enough to recapture LADWP's market share. LADWP submits that just a 1¢/thm reduction in the base rate may be enough to return LADWP to SoCal's system. Accordingly, LADWP asks that we lower the base rate to 48¢/thm. LADWP does not ask that we change the floor or the ceiling on the current indexed GN-5 rate.

Regarding SoCal's proposed 5¢/thm premium for episode days, LADWP argues that the proposed 5¢/thm differential is discriminatory and not cost based. LADWP points out that SoCal's derivation of the 5¢/thm premium is based on the assumption that electric utilities must burn 0.1% LSFO on all episode days if gas is not available. However, LADWP notes that SCAQMD requires the burning of .1% LSFO only on sulfate episode days. Of the 80 episode days forecast by SoCal, LADWP asserts that only 0-5 days could be reasonably predicted to be sulfate episode days. Thus, LADWP argues that the 5¢/thm premium is not based on the alternate fuel which may be burned if gas in not available on 75 of the 80 predicted episode days. For this reason, LADWP asks the Commission to reject SoCal's episode, nonepisode day GN-5 rate proposal.

Regarding staff's three-tier GN-5 proposal, LADWP concludes that although the intent of staff's proposal is to avoid fuel switching, if adopted, the three-tier rate would compel LADWP to fuel switch in certain months of the year. LADWP contends that under staff's proposal, electric utilities seeking the lowest cost fuel supply would fuel switch when the cost of gas exceeds oil prices and when the estimates of a GN-5 customer's gas consumption are inaccurate.

LADWP also opposes staff's proposed capacity charge of $60 million per year. LADWP submits that such a charge is not justified since GN-5 customers would not be entitled to any demand rights. In addition, LADWP points out that the amount of the charge is not based on any identified costs of providing service to GN-5 customers. LADWP characterizes the proposed capacity charge as a gimmick for increasing the GN-5 rate.

E. Edison

Edison is SoCal's largest retail customer and its largest GN-5 customer. Edison joins LADWP in opposing SoCal's episode day rate proposal and the staff's proposed three-tier rate and capacity charge. Edison reiterates LADWP's argument that the 5¢/thm episode day premium is neither cost based nor based on the alternate fuel which may be burned on most episode days. Edison also comments that the Commission should not consider alleged social benefits resulting from the burning of gas rather than oil on episode days since the record does not contain any evidence on the environmental benefits associated with the use of gas or oil.

Regarding staff's three-tier proposal and capacity charge, Edison also asserts that the proposal, if adopted, would cause Edison to fuel switch in some months. The three-tier rate would compel Edison to choose between a gas burn all month with the risk that Edison might turn away cheaper purchased power that becomes available in that month or an oil burn with the risk that electric demand and other energy source availability would be no higher than predicted. Edison maintains that an indexed GN-5 rate will mitigate the above risks and allow Edison to more effectively pursue a least cost fuel mix.

Edison recommends adoption of the current indexed GN-5 rate with a floor lowered to 36.9¢/thm. This floor is derived from an estimated El Paso discretionary gas cost of 35.5¢/thm and a margin contribution for the GN-5 class of 1.4¢/thm. Edison states that this lower floor will prevent fuel switching if the price of gas falls below the current floor of 42.1¢/thm, the present wholesale rate.

F. SDG&E

SDG&E supports any GN-5 rate schedule which will maximize the gas consumption of SoCal's power plant customers. SDG&E believes that continued gas use by Edison and LADWP will lower the average cost of gas to other SoCal customers, including SDG&E.

SDG&E opposes staff's three-tier proposal and instead supports a GN-5 rate which covers SoCal's cost of service and a margin contribution found reasonable by the Commission.

SDG&E also asks that if SoCal's amendments to its Preliminary Statement regarding the use of estimated CAM balances and gas price changes in the forecast period are approved, the Commission also should institute a wholesale balancing account similar to the memorandum account already recorded by SoCal. SDG&E asserts that a wholesale balancing account would allow the Commission in each CAM proceeding to "true up" the weighted average rate of gas which underlies the wholesale rate. The City of Long Beach joined SDG&E in recommending institution of a wholesale balancing account.

G. Producers

The Producers support SoCal's proposal for an indexed GN-5 rate with a floor lowered to El Paso's overall rate of $3.73/MMBtu or $3.57/MMBtu commodity rate.

The Producers claim they have suffered a market loss in California of more than 30% in recent months even though their gas is priced at $3.37/MMBtu. The Producers urge the Commission to expand the market for natural gas in California by encouraging the use of gas by the electric utilities.

H. GM, Carbide, Kimberly-Clark, and CMA

The commercial and industrial customers submit that the Commission's rate design should be based on SoCal's cost of service to each customer class. A cost allocation study prepared by SoCal was received as Exhibit 16.

The industrial-commercial customers assert that the Commission should consider not only fuel switching by GN-5 customers but also the possibility of significant fuel switching by the lower priority industrial customers.

The testimony of Kimberly-Clark shows that at least one industrial customer is prepared to fuel switch. Kimberly-Clark stated that its Fullerton mill has purchased about 5.5 MMths from SoCal each year on the GN-32/42 schedule. On April 13, 1983 Kimberly-Clark began converting from gas use to No. 2 fuel oil since No. 2 fuel oil is available at a price below the current GN-32/42 rate of 56.656¢/thm and SoCal's proposed rate of 59.656¢/thm. Over the long term, Kimberly-Clark will consider burning No. 6 fuel oil since SoCal's proposed GN-36/46 rate of 56.656¢/thm also exceeds LSFO prices.

Kimberly-Clark prefers to continue burning gas rather than switching to oil. It suggests that a special rate for P3 and P4 customers who are actually going to fuel switch should be considered by the Commission. Kimberly-Clark points out that other Kimberly-Clark mills located in other states such as Wisconsin have been offered alternative-fuel priced rates if they are willing to attest by affidavit that they will fuel switch if an alternative-fuel priced rate is not offered to them. Kimberly-Clark contends that small P3 and P4 customers who will sign such an affidavit are equally deserving of the indexed rate that SoCal has proposed only for GN-5 customers. Kimberly-Clark suggests that a special GN-32/42 rate could be referenced to the current market price for No. 2 oil. This rate would keep Kimberly-Clark on SoCal's system and perhaps induce other low priority customers to remain on the system by attesting through affidavit to their capability and their intent to fuel switch.

The industrial-commercial customers support SoCal's proposed GN-2B rate for customers with propane capability as well as the exemplary three-tier rate designed for large GN-36/46 customers. They ask the Commission to give similar consideration to SoCal's other industrial-commercial customers who cannot take advantage of these special rate schedules.

I. TURN

TURN supports staff's rate design proposal with the exception of the declining block GN-5 rate. TURN instead recommends adoption of an episode day, nonepisode day rate, similar to SoCal's proposal.

TURN supports retention of the floating or indexed rate on nonepisode days since it has proven to be effective in preventing fuel switching. TURN also contends that a higher GN-5 rate is justified for episode days. TURN points out that there is no true alternate fuel on episode days when gas is available. Electric utilities in SCAQMD must burn available gas on episode days. Therefore, TURN argues that there is no valid fuel switching rationale for discounting the GN-5 rate on episode days. TURN asserts that the GN-5 rate on episode days should be set equal to the rate charged to customers without any fuel switching capability, i.e. GN-1, GN-2A, and residential nonlifeline customers.

TURN further recommends that if an episode day rate is established, the Commission should consider LADWP's proposal for a 1¢ reduction in the base price for the floating rate index. TURN believes that a lower base price may prevent renewed fuel switching once the Singapore LSWR market stabilizes.

Finally, TURN recommends adoption of SoCal's exemplary three-tier declining block rate for large GN-36/46 customers. TURN also agrees with staff that service under the exemplary schedule should be at a lower priority than P4.

VIII. Adopted Rate Design

As discussed earlier, we will authorize the full revenue increase of $397.285 million requested by SoCal. The sales volumes will include GN-5 sales to LADWP, IID, and Scattergood.

We will use as the average cost of gas the figure of 41.130¢/thm shown in SoCal's updated Exhibit 22 on page 2. This exhibit incorporates the most recent information showing a Pan Alberta price decrease and an increased El Paso price. With the average cost of gas determined, the wholesale and ammonia producer rates are easily calculated by the method set forth in D.82-04-116.

Wholesale Rate: (41.130 x 1.0144) + 0.145 = 41.868

Ammonia Producer Rate: 110% x 41.130 = 45.243

As recommended by SoCal and staff, we will hold the GN-2B and GN-36/46 rates at their present levels to prevent fuel switching by customers served under those schedules. In addition, we will freeze the GN-32/42 rate at its present level of 56.656¢/thm based on the testimony of Kimberly-Clark that an increased rate will cause it to burn No. 2 fuel oil. We recognize that Kimberly-Clark may decide to fuel switch even at the current GN-32/42 rate. However, we are unwilling to implement a special alternative-fuel indexed rate as requested by Kimberly-Clark until we can determine what index will track the No. 2 or No. 6 fuel oil market that smaller customers with Kimberly-Clark's energy needs would participate in. We will ask both SoCal and our staff to study this matter and to propose in SoCal's next CAM proceeding special rate schedules for P3 and P4 customers that will switch fuels. At this time, however, we find that the present GN-32/42 rate of 56.656¢/thm is below the range of No. 2 fuel oil prices shown in Exhibit 9 and expect that the present rate will minimize fuel switching in the forecast period. The exemplary GN-36/46 rate and GN-2B rate proposed by SoCal are approved. Service under the exemplary schedule will be P5 as suggested by staff.

Turning to the GN-5 rate, we have carefully reviewed the proposals made by SoCal, staff, and LADWP. We find that an indexed GN-5 rate similar to the rate adopted in D.83-02-081 will best prevent additional fuel switching in the forecast period.

We decline to adopt SoCal's 5¢/thm premium for episode days since it has been shown that the premium is not based on alternate fuel prices relevant to most episode days. Moreover, if gas is available to be burned on episode days, there is no alternate fuel. For this reason, we find merit in TURN's contention that an indexed or floating GN-5 rate to prevent fuel switching is not appropriate on episode days since the electric utilities in SCAQMD are required to burn gas. Instead, the rate on episode days should be calculated to recover SoCal's revenue requirement. We will derive an episode day rate based on SoCal's average retail rate of about 56¢/thm. Since the average retail rate is about equal to the GN-32/42, GN-36/46 rate, we will adopt an episode day rate of 56.656¢/thm for this forecast period. This produces an average GN-5 rate of 45.956¢/thm, well below the system average rate. (We accept staff's projection that the average indexed GN-5 rate will be 42.5¢/thm in the forecast period.) The floor of the GN-5 rate will remain at the wholesale rate recalculated as 41.868¢/thm. The ceiling is set at the episode day rate of 56.656¢/thm. Finally, we will adopt LADWP's recommendation to lower the base rate of the GN-5 index to 48¢/thm since that rate is equivalent to the $27.70/barrel estimated average price of Singapore LSWR in the forecast period.

The residential lifeline rate is set at about 85% of the system average rate as suggested by staff. The residential Tier III rate is set 10¢/thm above the residential Tier II rate. Residential Tier II, GN-1, and GN-2A then are calculated to recover the remainder of SoCal's revenue requirement.

The adopted rate design is attached as Appendix E. The revenue increase by customer class is shown in Appendix F.

To the extent possible, we have followed the rate design guidelines set forth in D.82-04-116. Our adopted rate design however is strongly influenced by the prospect of fuel switching in the forecast period and the recovery of the undercollected CAM balance. As a result, the GN-2B, GN-32/42, GN-36/46, and GN-5 nonepisode day rates have been calculated to compete with alternate fuel prices and to maximize revenues in the forecast period. The remaining rates, apart from the wholesale rate and the ammonia producer rate, pick up the remainder of SoCal's authorized revenue requirement.

Findings of Fact

1. SoCal's additional requirement in the forecast period probably will exceed its revenue request of $397.285 million.

2. The undercollection in the CAM balancing account as of March 31, 1983 was about $178 million.

3. Continued fuel switching in the forecast period will add to the undercollection in the CAM balancing account.

4. The average cost of gas shown in Exhibit 22 as 41.130¢/thm incorporates the latest information on SoCal's cost of gas in the forecast period and should be used to calculate the wholesale and the ammonia producer rates.

5. An indexed GN-5 rate for nonepisode days will prevent fuel switching by the electric utilities in the forecast period.

6. Electric utilities in SCAQMD are required to burn available gas on episode days declared by SCAQMD.

7. An indexed GN-5 rate to prevent fuel switching is not required on episode days.

8. The GN-5 rate on episode days should be based on the recovery of SoCal's revenue requirement; a rate based on the average retail rate is reasonable.

9. The base price of the indexed GN-5 nonepisode day rate should be lowered to 48¢/thm since the estimated average price of Singapore LSWR in the forecast period is $27.70/barrel.

10. The floor of the indexed GN-5 nonepisode day rate should remain at SoCal's wholesale rate; the ceiling should be set at the GN-5 episode day rate.

11. The current GN-5 rate of 42.507¢/thm is a reasonable estimate of the average GN-5 nonepisode day rate in the forecast period.

12. The exemplary three-tier GN-36/46 schedule and the new GN-2B schedule proposed by SoCal will minimize fuel switching by GN-2 and GN-36/46 customers; the two schedules should be approved.

13. The current GN-32/42 and GN-36/46 rates should be maintained in the forecast period to minimize fuel switching by customers served under those schedules.

14. The G-COG rate should be set equal to the estimated average GN-5 rate of 45.956¢/thm.

15. LADWP's Scattergood should receive service under the indexed GN-5 nonepisode day and fixed GN-5 episode day rates.

16. SoCal's estimated sales volumes should be adopted including GN-5 sales to LADWP, IID, and Scattergood.

17. The residential lifeline rate should be set approximately equal to 85% of the system average rate; residential Tier III should be set 10¢/thm above residential Tier II.

18. SoCal's request to include in its forecast cost of gas the cost of gas purchased from POPCO's Hondo Field should be granted; the reasonableness of those costs should be reviewed in a later CAM proceeding.

19. SoCal's proposed revisions to its Preliminary Statement regarding the use of estimated CAM under- or overcollections and scheduled price changes by SoCal's suppliers should be approved.

20. The SDG&E and Long Beach request for a wholesale balancing account procedure is reasonable and should be followed by SoCal.

21. Since the revision date of May 1, 1983 is past, this order should take effect on the date of issuance.

Conclusions of Law

1. The rates set forth in Appendix E are just and reasonable for the period these rates will be in effect.

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

O R D E R

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 the rates attached as Appendix E. The revised tariff schedules shall take effect on the date of filing.

2. SoCal may revise its Preliminary Statement to permit the use of estimated CAM under- or overcollections in the forecast period and scheduled gas price changes in the forecast period.

3. SoCal shall establish a wholesale balancing account procedure.

4. SoCal is authorized to file revised tariff schedules for its exemplary three-tier GN-36/46 schedule and its GN-2B schedule. Service under the exemplary three-tier GN-36/46 schedule shall be Priority 5. The revised tariff schedules shall take effect on the date of filing.

5. SoCal may include in its forecast cost of gas the estimated cost of gas purchased from POPCO's Hondo Field.

6. The indexed GN-5 rate approved in D.83-02-081 is adopted for nonepisode days; the base price of the Singapore Cargo Low Sulfur Waxy Residue index is reduced to 48¢/therm; the floor is set at 41.868¢/therm and the ceiling at 56.656¢/therm.

This order is effective today.

Dated MAY 18 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

JS

APPENDIX A

LIST OF APPEARANCES

Applicant: David B. Follett, Peter N. Osborn, and Robert M. Loch, Attorneys at Law, by David B. Follett, for Southern California Gas Company and Pacific Lighting Gas Supply Company.

Protestants: Herman Mulman, for Seniors for Political Action and James C. Dycus and Edward Duncan, for themselves.

Interested Parties: Robert W. Parkin, City Attorney, by Richard A. Alesso, Deputy City Attorney, Syndee Brill, and Vernon E. Cullum, for the City of Long Beach; Sylvia M. Siegel and Michel Peter Florio, for Toward Utility Rate Normalization (TURN); Jerry R. Bloom, Attorney at Law (Washington), for Kimberly-Clark Corporation; Peter W. Hanschen, Shirley Woo, and Steven Greenwald, Attorneys at Law, for Pacific Gas and Electric Company; Graham & James, by Boris Lakusta and James Squeri, Attorneys at Law, for California Ammonia Producers; Harry K. Winters, by H. Curt Castberg, for University of California; J. R. Bury, C. R. Kocher, H. R. Barnes, and Susan L. Steinhauser, Attorneys at Law, for Southern California Edison Company; Richard Owen Baish, for El Paso Natural Gas Company; Allen R. Crown and Antone S. Bulich, Jr., Attorneys at Law, for California Farm Bureau Federation; Norman L. Codd, Attorney at Law, for Consumers for Utility Rate Equity (CURE); Downey, Brand, Seymour & Rohwer, by Philip A. Stohr, Attorney at Law, for General Motors Corporation; John W. Witt, City Attorney, by Steven A. McKinley and William S. Shaffran, Deputy City Attorneys, for the City of San Diego; David L. Nye, Attorney at Law, for Los Angeles Department of Water and Power; Barton M. Myerson, Attorney at Law, for San Diego Gas & Electric Company; Henry E. Lippitt, 2nd, Attorney at Law, for California Gas Producers Association; and Brobeck, Phleger & Harrison, by Gordon E. Davis and Richard C. Harper, Attorneys at Law, for California Manufacturers Association.

Commission Staff: Timothy E. Treacy, Attorney at Law, and Robert Weissman.

(END OF APPENDIX A)

APPENDIX B

Summary of Present and Proposed Rates of
Southern California Gas Company

Class of Service	Commodity Rates in ¢/Therm: Present Rates	Proposed Rates	Increase
Residential			
Lifeline	42.229	50.675	8.446
Tier II	62.036	70.132	8.096
Tier III	72.036	80.132	8.096
Commerical-Industrial			
GN-1	62.036	70.132	8.096
GN-2A	62.036	70.132	8.096
GN-2B	62.036	62.036	0.0
G-COG	47.900	47.900	0.0
GN-32/42	56.656	59.656	3.0
GN-36/46	56.656	56.656	0.0
Ammonia Producers	45.494	45.896	0.402
Utility Electric Generation			
GN-5 and Scattergood			
Episode Days	47.900	52.900	5.0
Nonepisode Days	47.900	47.900	0.0
Wholesale			
G-60	42.100	42.471	0.371
G-61	42.100	42.471	0.371

(END OF APPENDIX B)

APPENDIX C

Summary of Present and Proposed Rates of Commission Staff

Class of Service	Present Rates	Proposed Rates	Increase
	Commodity Rates in ¢/Therm		
Residential			
Lifeline	42.229	46.862	4.633
Tier II	62.036	68.240	6.204
Tier III	72.036	78.240	6.204
Commercial-Industrial			
GN-1	62.036	68.240	6.204
GN-2	62.036	68.240	6.204
G-COG	42.500	47.530	5.030
GN-32/42	56.656	59.656	3.000
GN-36/46	56.656	56.656	-
Ammonia Producers	45.491	44.817	(.674)
Utility Electric Generation			
Scattergood	55.000	45.530*	(9.470)
GN-5	42.500	45.530*	3.030
Wholesale			
G-60	42.100	41.476	(.624)
G-61	42.100	41.476	(.624)

(   ) Negative Number.

*This rate increases to 47.5¢/therm if the proposed capacity charge is added in.

(END OF APPENDIX C)

APPENDIX D

Summary of Present and Proposed Rates by Los Angeles Department of Water and Power

Class of Service	Commodity Rates in ¢/Therm		
	Present Rates	Proposed Rates	Increase
Residential			
Lifeline	42.229	47.659	5.430
Tier II	62.036	67.211	5.175
Tier III	72.036	77.211	5.175
Commercial-Industrial			
GN-1	62.036	67.211	5.175
GN-2	62.036	67.211	5.175
G-COG	42.500	46.900	4.400
GN-32/42	56.656	59.656	3.000
GN-36/46	56.656	56.656	-
Ammonia Producers	45.491	44.519	(.972)
Utility Electric Generation			
Scattergood	55.000	46.900	(8.100)
GN-5	42.500	46.900	4.400
Wholesale			
G-60	42.100	41.201	(.899)
G-61	42.100	41.201	(.899)

(   ) Negative Number.

(END OF APPENDIX D)

APPENDIX E

Summary of Present and Adopted Rates

Class of Service	Commodity Rates in ¢/Therm: Present Rates	Adopted Rates	Increase
Residential			
Lifeline	42.229	46.394	4.165
Tier II	62.036	71.720	9.684
Tier III	72.036	81.720	9.684
Commerical-Industrial			
GN-1	62.036	71.720	9.684
GN-2A	62.036	71.720	9.684
GN-2B	62.036	62.036	0.0
G-COG	42.507	45.956	3.449
GN-32/42	56.656	56.656	0.0
GN-36/46	56.656	56.656	0.0
Ammonia Producers	45.494	45.243	(0.251)
Utility Electric Generation			
GN-5 and Scattergood			
Episode Days (Fixed)	42.507	56.656	14.149
Nonepisode Days (Indexed)	42.507	42.507*	0.0
Average Rate (Based on Estimated Episode Day Usage of 761,019 Mthms)	42.507	45.956	3.449
Wholesale			
G-60	42.100	41.868	(.768)
G-61	42.100	41.868	(.768)

(   ) Negative Number.

*This rate will be recalculated to reflect the current posted price for Singapore LSWR and the adjusted 48¢/therm base price.

(END OF APPENDIX E)

APPENDIX F

Summary of Adopted Revenue Increase

Class of Service	Estimated Sales MTherms	Estimated Revenue Present Rates (M$)	Estimated Revenue Proposed Rates (M$)	Difference (M$)
Residential				
Lifeline	1,994,704	842,344	925,431	83,087
Tier II	618,637	383,778	443,686	59,908
Tier III	312,908	225,406	255,708	30,302
Commercial-Industrial				
GN-1	905,355	561,646	649,321	87,675
GN-2A	310,590	192,678	222,755	30,077
GN-2B	174,873	108,484	108,484	0
G-COG	31,364	13,332	14,414	1,082
GN-32/42	428,179	242,589	242,589	0
GN-36/46	462,419	261,988	261,988	0
Ammonia Producers	25,075	11,408	11,345	(63)
Utility Electric Gen.				
GN-5 and Scattergood	3,122,217	1,327,161	1,434,846	107,685
Wholesale				
G-60 (Commodity)	299,158	125,946	125,251	(695)
G-61 (Commodity)	764,037	321,660	319,887	(1,773)
System Total (Excluding Customer and Capacity Charges	9,449,516	4,618,420	5,015,705	397,285

( ) Negative Number.

(END OF APPENDIX F)

20. The SDG&E and Long Beach request for a wholesale balancing account procedure is reasonable and should be followed by SoCal.

21. Since the revision date of May 1, 1983 is past, this order should take effect on the date of issuance.

Conclusions of Law

1. The rates set forth in Appendix E are just and reasonable for the period these rates will be in effect.

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

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 the rates attached as Appendix E.

2. SoCal may revise its Preliminary Statement to permit the use of estimated CAM under- or overcollections in the forecast period and scheduled gas price changes in the forecast period.

3. SoCal shall establish a wholesale balancing account procedure.

4. SoCal is authorized to file revised tariff schedules for its exemplary three-tier GN-36/46 schedule and its GN-2B schedule. Service under the exemplary three-tier GN-36/46 schedule shall be Priority 5.

APPENDIX E

Summary of Present and Adopted Rates

Class of Service	Present Rates	Adopted Rates	Increase
	Commodity Rates in ¢/Therm		
Residential			
Lifeline	42.229	46.394	4.165
Tier II	62.036	71.720	9.684
Tier III	72.036	81.720	9.684
Commerical-Industrial			
GN-1	62.036	71.720	9.684
GN-2A	62.036	71.720	9.684
GN-2B	62.036	62.036	0.0
G-COG	42.507	45.956	3.449
GN-32/42	56.656	56.656	0.0
GN-36/46	56.656	56.656	0.0
Ammonia Producers	45.494	45.243	(0.251)
Utility Electric Generation			
GN-5 and Scattergood			
Episode Days (Fixed)	42.507	56.656	14.149
Nonepisode Days (Indexed)	42.507	42.507	0.0
Average Rate (Based on Estimated Episode Day Usage of 761,019 Mthms)	42.507	45.956	3.449
Wholesale			
G-60	42.100	41.868	(.768)
G-61	42.100	41.868	(.768)

( ) Negative Number.

(END OF APPENDIX E)