Decision 83 06 073 JUN 29 1983

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Emergency Application of San Diego Gas & Electric Company for authority to revise its Consolidated Adjustment Mechanism (CAM) gas rates, to revise its Energy Cost Adjustment Clause (ECAC) electric rates, and to revise its Electrical Base Rates in accordance with the Electrical Revenue Adjustment Mechanism (ERAM) established by Decision 93892.	Application 83-03-56 (Filed March 22, 1983)

John R. Asmus, Jr., Attorney at Law, for San Diego Gas & Electric Company, applicant.
John W. Witt, City Attorney, by William S. Shaffran and Steven A. McKinley, Attorneys at Law, for the City of San Diego; Peter N. Osborn, Attorney at Law, for Southern California Gas Company and Pacific Lighting Gas Supply Company; and Allen R. Crown and Antone S. Bulich, Jr., Attorneys at Law, for California Farm Bureau Federation; interested parties.
Lionel B. Wilson, Attorney at Law, Robert Weissman, and Jeffrey O'Donnell, for the Commission staff.

O P I N I O N

I. Introduction

By Application (A.) 83-03-56 San Diego Gas & Electric Company (SDG&E) requests authority to increase its retail gas rates by about $69.3 million and to simultaneously reduce its electric rates by about $80 million on an annual basis. Following two days of public hearing and the receipt of nine exhibits, this matter was submitted upon the filing of written statements on May 5.

SDG&E offered the testimony of Alan Strachan, Manager - Rates and Valuation; Kenneth Clay, Rate Analyst; and Carl Green, Rate Supervisor, in support of its application. The Commission staff

(staff) offered the testimony of Farzad Ghazzagh, Assistant Utilities Engineer; Linda Gustafson, Research Program Specialist I; Martin O'Donnell, Supervising Utilities Engineer; and Joseph L. Fowler, Jr., Senior Utilities Engineer. The City of San Diego (City) and Southern California Gas Company (SoCal) participated by way of cross-examination of witnesses. Written statements were filed by SDG&E, staff, and City.

II. Background

This consolidated filing is in lieu of SDG&E's regularly scheduled April 1, 1983 Consolidated Adjustment Mechanism (CAM) revision to its gas rates and its July 1, 1983 Energy Cost Adjustment Clause (ECAC) revision to its electric rates. As the basis for this unusual procedure SDG&E relies on the significant rate impacts that would result from separate consideration of these matters, if its rate design proposals are adopted. No party objected to the Commission considering this application on its merits.

III. Summary

By this decision the Commission grants SDG&E a gas rate increase of $21.0 million above current rates. However, because the rate applicable to sales of gas from the gas department to the electric department is reduced, the overall impact on retail rates is an increase of $34.1 million. Retail interruptible rates are also reduced, requiring $3.0 million in additional revenue. The adopted rate design spreads the increase on the basis of equal cents per therm among customer classes and equal percentages within the residential class. The effect is to raise residential rates by about 15.0% and firm commercial and industrial rates by 12.9%.

This decision also grants SDG&E an electric rate reduction of about $54.2 million, or about 4.4%. The reduction is spread among customer classes on the basis of equal cents per kilowatt-hour (kWh). Within the residential class the entire reduction is applied to the lifeline rate. The effect is to reduce the lifeline rate by about 8.5% and the average residential rate by about 4.6%.

IV. CAM Issues

In its application SDG&E displayed an additional revenue requirement for gas of about $36.5 million. In addition it proposes to reduce its rate for interdepartmental sales from its gas department to its electric department (Schedule GN-5) by a factor calculated to reduce revenue from such sales by about $32.8 million that would then have to be recovered by way of higher rates charged to other customers.

Staff calculates the additional revenue required as $27.5 million, using a lower wholesale rate, corrected sales data, and an updated balancing account balance. Staff also proposes to reduce the Schedule GN-5 rate by a factor that would require about $29.5 million to be recovered from other sales. During the proceeding SDG&E stipulated to staff's proposed revenue requirement for gas, subject to adjustment to reflect the wholesale rate to be adopted in SoCal's then pending CAM proceeding, A.83-03-14.

By Decision (D.) 83-05-056 and GEDA Resolution No. G-2534 dated May 18, 1983, the applicable wholesale rate was determined. Based on that rate and staff's rate design proposal, the amount of additional revenue required is $34.5 million, while the reduced GN-5 rate would require further revenues of $27.6 million, a net retail rate increase of $62.1 million. Under ordinary circumstances we might simply accept this calculation as the revenue requirement and proceed to the rate design. However, in view of the extreme rate design disparity that is proposed by SDG&E, we find that the rate increase should be no larger than absolutely necessary.

We note that both SDG&E and staff calculated the revenue requirement based on six months amortization of the undercollection in the gas balancing accounts. Using 12 months as the amortization period would reduce the additional revenue requirement by about $13.5 million to $21.0 million. Since the cost of gas is relatively

stable (the wholesale rate adopted in D.83-05-056 is actually a slight reduction from the earlier rate), the longer amortization will promote more stable rates, particularly since the burden of the shorter amortization period would be borne by only a portion of the ratepayers. Therefore we adopt 12 months amortization for the calculation of the additional revenue requirement. The derivation of the $21.0 million is shown in Table 1.

TABLE 1

San Diego Gas & Electric Company
GAS DEPARTMENT REVENUE REQUIREMENT*
(Revenue Dollars in Thousands)

Line No.		Item	
	I.	PGA Revenue Requirement	
1		A. Cost of Purchased Gas	
2		1. Capacity Charge	$ 21,776.0
3		2. Commodity Charge (764,037 x $0.41958)	320,574.6
4		3. LNG Net	463.0
5		4. Total	342,813.6
6		B. Balancing Account Amortization	13,849.2
7		C. Net PGA Requirement	356,662.8
8		D. Franchise Fee & Uncollectible on Retail Sales**	4,651.9
9		E. PGA Revenue	361,314.7
	II.	SAM Revenue Requirement	
10		A. Base Cost Amount	103,427.5
11		B. Balancing Account Amortization	823.3
12		C. Gross SAM Revenue	104,250.8
13		D. SDFFD Exclusion	(502.6)
14		E. Net SAM Revenue	103,748.2
	III.	CPAC Revenue Requirement	
15		425,384 Mth x $0.01	4,253.8
16	IV.	Total Revenue Requirement (L.9+L.14+L.15)	469,316.7
17	V.	Revenue at Present Rates	448,321.4
18	VI.	Increase (L.16 - L.17)	20,995.3

(Red Figure)

*Excludes San Diego Franchise Fee Differential (SDFFD) revenue of approximately $1,834,000 which is not required for rate design purposes.

**(356,662.8 - [279,178.7 x $0.47164]) x 0.020676.

As indicated above, SDG&E proposed a rate design that would have significant impacts if adopted. Staff's proposed rate design is similar, though differing in detail. Their respective recommendations are displayed in Table 2. The major consideration underlying their proposals is the decline in fuel oil prices and the associated rate implications for interruptible customers, with the corresponding need to derive additional revenues from high priority customers. Because of the change in fuel oil prices and related fuel switching problems we are required to consider gas rate design more fully in this fuel offset proceeding than we normally would. This differs from the case of rate design in the ECAC, as noted below.

Table 2

Proposed Rate Design

Classification	Present	SDG&E	% Change	Staff	% Change
Residential					
Customer Charge	$1.70	$1.70	0	$3.10	82.4
Tier I (Lifeline)	.51293	.74470	45.2	.6304	22.9
Tier II	.68011	.91188	34.1	.9456	39.0
Tier III	.86911	1.10088	26.7	1.1340	30.5
Total	.58493	.81670	39.6	.75574	29.2
Other Retail					
GN-1 Customer Charge	$1.70	1.70	0	3.10	82.4
GN-1 Commodity	.68011	.68011	0	.75574	11.1
GN-2	.68011	.68011	0	.75574	11.1
GN-3	.67511	.59656	(11.6)	.5535	(18.0)
GN-4	.67511	.59656	(11.6)	.5535	(18.0)
GN-36	-	.56656		*	
GN-46	-	.56656		*	
Total Retail	.61725	.76215	23.5	.73551	19.2
Interdepartmental (GN-5)	.55	.42561	(20.8)	.44438	(19.2)
Total System	.59449	.64183	8.0	.63099	6.1

(Red Figure)

*Variable rate proposal.

The evidence does confirm that fuel oil prices have declined significantly and that some recognition of that decline is appropriate in rate design. In this record the issue is most thoroughly analyzed in terms of the GN-5 rate that might be adopted.

Although SDG&E did state that it will substitute some lower cost oil for gas during the test period, fuel switching is not a consideration in determining the GN-5 rate, because SDG&E makes its decision whether to burn gas or oil based on a comparison of the cost of fuel oil and the price it pays to SoCal for gas. Rather, the reason that SDG&E proposes such a major reduction is to eliminate the subsidy that it alleges its electric customers provide to its gas customers.

Originally SDG&E proposed to set the GN-5 rate at the level of one cent per therm above the wholesale rate that SDG&E pays to SoCal. SDG&E subsequently accepted the initial staff proposal setting the GN-5 rate based on the rolled-in wholesale cost of gas from SoCal (capacity charge plus commodity charge) plus one cent per therm.

Staff bases its recommended rate for GN-5 on the prevailing price of low sulfur fuel oil, subject to the condition that the GN-5 rate be set no lower than the rolled-in wholesale rate. Staff states that it recognizes that fluctuations in spot market prices for residual fuel oil limit the ability of the Commission to set a truly competitive GN-5 rate. If low sulfur fuel oil prices are lower than the rolled-in wholesale rate, staff states that SDG&E should burn the oil as power plant fuel.

While we agree with staff that the GN-5 rate should reflect alternate fuel prices, we are concerned that the rate reduction proposed by either party is too large to be absorbed entirely into the rate structure at this time without unduly destabilizing the remaining rates. Therefore we will provide for only a portion of the arguably justified reduction in this decision, reducing the rate to

50 cents per therm at this time in recognition of other factors. The next opportunity for a change in the GN-5 rate will occur in SDG&E's next CAM filing which may be decided in conjunction with SDG&E's pending general rate case. In such a setting we are better able to weigh the competing rate design considerations.

In setting the GN-5 rate we are aware that a residual consequence is the effect on SDG&E's earnings through operation of the Annual Energy Rate (AER) component of SDG&E's electric rates. Two percent of every dollar saved by SDG&E inures to the benefit of SDG&E shareholders. The City contends that the SDG&E shareholder will be the beneficiary of a windfall profit to the extent the ratepayer is denied 100% of the savings in fuel costs resulting from "elimination of the cross-subsidy." Therefore City concludes that 100% of the fuel cost savings from the lower GN-5 rate should be passed on to ratepayers in the form of lower electric rates.

City contends that the AER was never intended as a recovery vehicle for shareholders for this type of fuel cost. City states that the AER was intended as a means of placing the utility at risk for a fraction of forecast annual fuel expense, but that SDG&E has never been "at risk" for rates charged for interdepartmental sales. Further, since the rate has no impact on SDG&E's fuel management decisions, City argues that the cross-subsidy represents neither a risk nor an incentive to SDG&E and is not properly subject to the AER.

We find that City misconstrues the operation of the AER. SDG&E is at risk for changes in the GN-5 rate, as is apparent if one realizes that the rate change in this case would have been upward if alternate fuel prices were higher than the existing rate. So long as gas rate changes occur out of phase with the AER calculation, SDG&E is at risk. This style of regulation would lack credibility if savings were flowed-through to the ratepayers, while higher costs were borne by shareholders.

Further, the concept of "cross-subsidy" as expounded by SDG&E and supported by City is unsound. The notion rests on the difference between the wholesale rate and the GN-5 rate. This comparison is meaningless for this purpose. The wholesale rate is currently based on the average cost of gas to SoCal. Since GN-5 sales directly affect SoCal's purchases, such sales impact SoCal's average cost of gas. Even when SoCal's short-term marginal cost of gas is less than its average cost, as in the case of purchases from El Paso Natural Gas Company, that cost is itself a rolled-in cost that masks the higher prices that are paid to sustain high service to the electric generation customers. In the next SoCal general rate case we can consider whether some change to the wholesale rate structure is necessary to better reflect the economics of SDG&E's service to low priority customers, particularly in light of the implications of the wholesale balancing account adopted in D.83-05-056.

SDG&E asks for Commission guidance with respect to the criterion to apply in deciding whether to burn gas or oil. Currently SDG&E compares the cost of oil to the wholesale commodity rate. Staff proposed that the oil price be compared to the rolled-in wholesale cost. Under the current rate structure the commodity rate represents the avoided cost and is the appropriate measure on the one side of the equation, recognizing that the cost of burning oil includes additional costs beside the commodity costs.

The adopted GN-5 rate of 50 cents per therm reduces the contribution from interdepartmental sales by about $14 million. After recognition of the Schedule G-91 rate change, the additional revenue that must be derived from retail sales is about $4.1 million, or less than half of the amount originally requested by SDG&E.

The adopted rate design is shown in Table 3. The adopted GN-3 and GN-4 rate is about 8.7% lower than the earlier rate. This reduction reflects actual and potential fuel switching on the SDG&E system. The rate level itself is based on rates adopted in D.83-05-056 for SoCal gas for its interruptible customers with No. 6 fuel oil alternate fuel capability, plus 5 cents per therm to reflect the higher cost of No. 2 fuel oil.

Table 3

Adopted Rate Design (Gas)

Classification	Units	Sales (Mth)	Adopted Rates	Revenues (+000)	% Change
Residential					
Customer Months	5,886.7		$1.70	10,007.4	0
Tier I (Lifeline)		257,203.2	.59427	152,848.1	15.9
Tier II		42,133.7	.78795	33,199.2	15.9
Tier III		15,833.1	1.00687	15,941.9	15.9
Subtotal		315,170.0	.67264	211,996.6	15.0
Other Residential (GL)				39.6	0
Other Retail					
GN-1 Customer Months	300.2		1.70	510.3	0
GN-1 Commodity		92,638.6	.76782	71,129.8	12.9
GN-2		15,471.9	.76782	11,879.6	12.9
GN-3		30,727.7	.61656	18,945.5	(8.7)
GN-4		18,202.6	.61656	11,223.0	(8.7)
GN-36		0	*		
GN-46		0	*		
GCG		2,727.8	.56552	1,542.6	(8.8)
SC-176	.31	5.8	16.48	5.1	8.5
Subtotal		159,774.4		115,235.9	
Total Retail		474,944.4	.68907	327,272.1	11.6
GN-5 Sales		279,178.7	.50	139,589.4	(9.1)
Schedule G-91	127.3		15.00	1,909.5	78.6
Miscellaneous				545.8	0
Total Revenue		754,123.1	.62233	469,316.8	4.7

(Red Figure)

*Variable rate adopted.

The GN-36 and 46 schedules have been introduced to try to regain lost sales by providing an incentive for large gas users. SDG&E accepted staff's proposed design of this schedule in which the highest rate is the GN-3 rate less 3.0¢ and the lowest rate is the GN-5 rate. Using the blocking proposed by staff and the rates adopted in this decision, the adopted GN-36 and 46 schedules are as follows:

First 5,000 therms, per therm	$0.58656
Next 25,000 therms, per therm	$0.55771
Next 70,000 therms, per therm	$0.52886
Over 100,000 therms, per therm	$0.50000

Since this is an incentive proposal intended to regain lost sales, any sales on this schedule will be a benefit to the system.

These rate reductions require an additional $3 million to be derived from the other retail rates, or a total of about $37.1 million. This revenue is recovered from remaining sales (residential, GN-1, and GN-2) by way of an equal cents per therm allocation between classes (adjusted for rounding). The additional revenue allocated to residential sales is then derived on an equal percentage basis between the tiers in order to maintain the rate proportions.

As shown in Table 2, staff proposed to increase the customer charge from $1.70 per month to $3.10. The adopted rates retain the $1.70 customer charge. The appropriate customer charge is an issue in the current general rate case. Any change in such a basic component of the rate structure should occur in the general rate case decision.

For future rate design considerations, staff witness O'Donnell recommends that the Commission direct SDG&E to survey its customers with alternate fuel capability to try to quantify any premium such customers may place on natural gas as a fuel, with the results to be reported in SDG&E's next CAM application. We agree

that such information would be useful and direct SDG&E to proceed accordingly.

V. ECAC Issues

SDG&E proposes an electric rate reduction of about $79.9 million. The amount is actually the net of an ECAC reduction of $0.0103 per kWh and an Electric Revenue Adjustment Mechanism (ERAM) increase of $0.00247 per kWh. Staff accepts SDG&E's resource mix, balancing account amortization, and ERAM calculation. The only difference between the two parties is the estimated GN-5 gas rate. This difference is rendered moot by the action of the Commission in setting the GN-5 rate in this decision. The resulting ECAC reduction is derived in Table 4. On an annualized basis the amount of the reduction is about $54.2 million.

Table 4

Adopted ECAC Factor Calculation
May 1, 1983 to October 31, 1983

	Input	Current Unit Prices			Cost
	(M2kWh)	($/BBL)	(¢/M2Btu)	(¢/kWh)	(M$)
Purchased Energy	2,341.4			3.222132	$ 75,443.01
Nuclear Generation	0				642.9
Fossil Fuel					
Natural Gas	1,705.1		500.0	5.770	98,385.0
Diesel Oil	.7	41.5	719.35	6.371	44.597
Residual Oil	2,074.2	34.71	550.03	5.53563	114,820.0
Subtotal Fos. Fuel	3,780				213,249.6
Subtotal Fuel and Purchased Energy	6,121.4				289,335.5
Plus New Albion Resources					763.5
Plus Variable Wheeling Expenses					1,418.2
Subtotal Expenses (Subject to 2% Calculation)					291,517.2
Less 2% of Line 11					- 5,830.3
Plus 70% of Carrying Cost of Excess Oil Inventory					426.5
Plus Underlift Costs					11,721.3
Plus Carrying Cost for Changing Value of Fuel Oil Reflected in AER					- 439.1
Total					297,395.6
Allocated Amount for ECAC Recovery					293,815.3
Less ECAC Energy Cost Offset From Current ECAC Offset Rates					332,842.5
Allocated Current Cost Less Revenue From Current ECAC Offset Rates					39,027.2

Table 4

Adopted ECAC Factor Calculation
May 1, 1983 to October 31, 1983

	Input	Current Unit Prices			Cost
	(M2kWh)	($/BBL)	(¢/M2Btu)	(¢/kWh)	(M$)
ECAC Offset Rate Decrease for Recovery Sales				-.78092¢/kWh	
ECAC Offset Rate Decrease Adjusted for Franchise Fees and Uncollectibles				-.79014¢/kWh	
Balancing Rate Increase				-.00876¢/kWh	
Uniform ECAC Decrease				-.78138¢/kWh	
ERAM Increase				.24700¢/kWh	
Net Rate Change				- .53438¢/kWh	

City expressed concern regarding the conversion factors that SDG&E uses for comparing gas and oil prices for forecasting fuel costs on the one hand and for choosing between the fuels, on the other. We find that this is a matter that should be explored in SDG&E's ECAC reasonableness review. Staff should be able to comment of the conversion factors used by each of the major utilities in California.

SDG&E and staff offer radically different rate designs. SDG&E proposes that nearly the entire reduction be applied to residential customers (90%) while staff proposes that the reduction be spread among the customer classes on a uniform cents per kWh basis.

SDG&E supports its rate design recommendation on the basis that the gas and electric rate changes are related to the same principal underlying cause. SDG&E argues that equitable treatment requires that the largest part of the electric reduction should go to the residential customers, since the largest part of the gas rate

increase will be borne by such customers. In this way SDG&E alleges that the "status quo" will be maintained, which will, in turn, allow the Commission greater flexibility in setting rates in the general rate case.

Staff argues that its rate design proposal is consistent with the Commission policy of minimizing rate design issues in proceedings that are designed to expedite the examination and recovery of fuel expenses. Staff observes that the general rate case is pending as is the introduction of baseline quantities, and argues that its proposal will provide more stability as such matters are resolved. Staff counsel suggests that SDG&E's rate design proposal is intended primarily to placate residential customer concerns over rising utility bills.

This issue requires no further elaboration. Staff has correctly applied Commission policy. A uniform reduction is appropriate unless extraordinary circumstances are shown (such as a reduction following a nonuniform increase). The timing of these rate changes in relation to the pending general rate case and implementation of baseline introduces a further consideration that militates against a radical rate design change at this time. Because of seasonal variations in gas and electric usage the average residential customer that is the target of SDG&E's rate design would never see the intended "wash" on a single monthly bill.

Within the residential class staff proposes to allocate the reduction between lifeline and nonlifeline so that the lifeline rate is 80% of the system average rate, consistent with the baseline. Although this concept is reasonable, implementation at this time would result in an increase to the nonlifeline rate, an anomaly in a rate reduction proceeding. Therefore we provide for no change in the nonlifeline rate, while moving the lifeline rate toward the target set by staff. The adopted residential rates are shown in Table 5. The lifeline rate is about 81.6% of the system average rate.

Table 5

Adopted Residential Rate Design

	Present Rates	ERAM ¢/kWh	ECAC ¢/kWh	Effective Rates
Customer Charge $2.20				
Tier I	10.263	0.247	(1.1228)	9.388
Tier II	13.918	0.247	(0.247)	13.918
Average Residential Rate	11.685			11.151

Staff also states that the differential in time-of-use rates should remain consistent with existing differentials - any changes should be developed in the general rate case. We find this recommendation reasonable.

Findings of Fact

1. In view of the potential rate design disparity, the gas rate increase should be no larger than absolutely necessary.

2. The undercollection in the gas balancing accounts should be amortized over 12 months because of relatively stable gas costs.

3. Twelve months amortization will promote more stable rates.

4. The amount of additional revenue required is $21.0 million, which is increased to $34.1 million by the changes in nonretail gas rates.

5. Fuel oil prices have declined substantially since gas rates were last set for SDG&E.

6. SDG&E has suffered some loss of load and may lose more if interruptible rates are not reduced.

7. Fuel switching is not a consideration in determining the GN-5 rate.

8. The GN-5 rate should reflect alternate fuel prices.

9. The GN-5 rate reductions proposed by SDG&E and staff are too large to be absorbed entirely into the rate structure at this time without unduly destabilizing the remaining rates.

10. In these circumstances a GN-5 rate of 50 cents per therm fairly balances competing interests.

11. Under the AER, 2% of every fuel dollar saved by SDG&E inures to the benefit of the shareholders.

12. SDG&E is at risk for changes in the GN-5 rate.

13. The concept of cross-subsidy as expounded by SDG&E and supported by City is unsound.

14. The wholesale commodity rate is the appropriate measure to apply in comparing oil and gas costs.

15. The adopted GN-3 and 4 rates are based on rates adopted in D.83-05-056 for SoCal, plus 5 cents per therm to reflect the higher cost of No. 2 fuel oil.

16. The adopted GN-36 and 46 schedules provide an incentive for large gas users to return to the system.

17. The remaining revenue requirement is reasonably spread by way of uniform cents per kWh among the customer classes.

18. Within the residential class, spreading the increase on an equal percentage basis maintains rate proportions.

19. The ECAC factor is reasonably calculated based on the adopted GN-5 rate.

20. SDG&E's ERAM calculation is reasonable.

21. The amount of the electric rate reduction is about $54.2 million.

22. A uniform cents per kWh spread among customer classes maintains rate relationships.

23. The entire reduction attributable to residential sales should be allocated to the lifeline rate.

24. The differential in time-of-use rates should remain consistent with existing differentials.

25. Because of the large gas undercollection, this order should be effective on the date of issuance.

Conclusions of Law

1. The AER should not be adjusted to reflect the lower GN-5 rate.

2. The adopted gas rate design is just and reasonable.
3. The adopted electric rate design is just and reasonable.

O R D E R

IT IS ORDERED that on or after the effective date of this order San Diego Gas & Electric Company is authorized to file revised tariff schedules reflecting the gas rates attached as Appendix A and the electric rates attached as Appendix B. The revised tariffs shall become effective on the date of filing and shall comply with General Order 96-A. The revised rate schedules shall apply only to service rendered only on or after the effective date of the revised tariffs.

This order is effective today.

Dated JUN 29 1983, at San Francisco, California.

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

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

Joseph E. Bodovitz, Executive Director

APPENDIX A

San Diego Gas & Electric Company
Gas Department

ADOPTED RATES

Class of Service	CAM Rates: SAM Rates ($)	CAM Rates: PGA Rates ($)	CAM Rates: CPAC Rates ($)	Effective Rates ($)
Residential				
Schedules GR, GM, GS & GT				
Customer Charge, per month	1.70	-	-	1.70
Tier I (LL) per therm*	.10288	0.48139	0.0100	.59427
Tier II per therm	.29656	.48139	.0100	.78795
Tier III per therm	.51548	.48139	.0100	1.00687
* Discounts apply to lifeline rate on Schedules GS and GT.				
Other Retail				
Schedule GN-1				
Customer Charge, per month	1.70	-	-	1.70
All usage, per therm	.27643	.48139	.0100	.76782
Schedule GN-2				
All usage, per therm	.27643	.48139	.0100	.76782
Schedule GN-3, -4				
All usage, per therm	.13517	.48139	-	.61656
Schedule GN-36, -46 (New)				
First 5,000 therms, per therm	.10517	.48139	-	.58656
Next 25,000 therms, per therm	.07632	.48139	-	.55771
Next 70,000 therms, per therm	.04747	.48139	-	.52886
Over 100,000 therms, per therm	.01861	.48139	-	.50000
(Minimum bill $5,700 per month)				
Special Contract 176				
Per lamp, per month	7.28	9.01	.19	16.48
Special Contract 186				
All usage, per therm	.27643	.48139	.0100	.76782
Schedule G-91	15.00	0	0	15.00
Interdepartmental				
Schedule GN-5				
All usage, per therm	.02836	.47164	-	.50000

APPENDIX B

ADOPTED ELECTRIC RATES[a]
(¢/kWh)

	Present Rates	Adopted Rates
RESIDENTIAL		
Tier I	10.263	9.388
Tier II	13.918	13.918

NON-RESIDENTIAL[b]

	Present Rates			Adopted Rates		
	Base	Offset	Total	Base	Offset	Total
AL-TOU						
On-Peak	5.280	7.287	12.567	5.527	6.506	12.033
Mid-Peak	4.679	7.287	11.966	4.926	6.506	11.432
Off-Peak	2.379	7.287	9.666	2.626	6.506	9.132
A6-TOU	(SAME AS FOR AL-TOU ABOVE)					
PA-TOU						
On-Peak	11.176	7.287	18.463	11.423	6.506	17.929
Off-Peak	1.022	7.287	8.309	1.269	6.506	7.775

Note: System Average Rate is 11.511¢/kWh

a/ Customer charges and demand charges are not shown as only ERAM and ECAC components of rates are changed.

b/ Non-residential rates are adjusted as follows: the ERAM portion of the base rates is increased by 0.247¢/kWh, and the ECAC portion of the offset is decreased by 0.781¢/kWh.

IV. CAM Issues

In its application SDG&E displayed an additional revenue requirement for gas of about $36.5 million. In addition it proposes to reduce its rate for interdepartmental sales from its gas department to its electric department (Schedule GN-5) by a factor calculated to reduce revenue from such sales by about $32.8 million that would then have to be recovered by way of higher rates charged to other customers.

Staff calculates the additional revenue required as $27.5 million, using a lower wholesale rate, corrected sales data, and an updated balancing account balance. Staff also proposes to reduce the Schedule GN-5 rate by a factor that would require about $29.5 million to be recovered from other sales. During the proceeding SDG&E stipulated to staff's proposed revenue requirement for gas, subject to adjustment to reflect the wholesale rate to be adopted in SoCal's then pending CAM proceeding, A.83-03-14.

By Decision (D.) 83-05-056 and GEDA Resolution No. G-2534 dated May 18, 1983, the applicable wholesale rate was determined. Based on that rate and staff's rate design proposal, the amount of additional revenue required is $34.5 million, while the reduced GN-5 rate would require further revenues of $27.6 million, a net retail rate increase of $62.1 million. Under ordinary circumstances we might simply accept this calculation as the revenue requirement and proceed to the rate design. However, in view of the extreme rate design disparity that is proposed by SDG&E, we find that the rate increase should be no larger than absolutely necessary.

We note that both SDG&E and staff calculated the revenue requirement based on six months amortization of the undercollection in the gas balancing accounts. Using 12 months as the amortization period would reduce the additional revenue requirement by about $13.5 million to $21.0 million. Since the cost of gas is relatively

As indicated above, SDG&E proposed a rate design that would have significant impacts if adopted. Staff's proposed rate design is similar, though differing in detail. Their respective recommendations are displayed in Table 2. The major consideration underlying their proposals is the decline in fuel oil prices and the associated rate implications for interruptible customers, with the corresponding need to derive additional revenues from high priority customers. Because of the change in fuel oil prices and related fuel switching problems, we are required to consider gas rate design more fully in this fuel cost proceeding than we normally would. This differs from the case of rate design in the ECAC, as noted below.

Table 4

Adopted ECAC Factor Calculation
May 1, 1983 to October 31, 1983

	Input	Current Unit Prices			Cost
	(M2kWh)	($/BBL)	(¢/M2Btu)	(¢/kWh)	(M$)
ECAC Offset Rate Decrease for Recovery Sales				-.78092¢/kWh	
ECAC Offset Rate Decrease Adjusted for Franchise Fees and Uncollectibles				-.79014¢/kWh	
Balancing Rate Increase				-.00876¢/kWh	
Uniform ECAC Decrease				-.78138¢/kWh	
ERAM Increase				.24700¢/kWh	
Net Rate Change				-.53438¢/kWh	

City expressed concern regarding the conversion factors that SDG&E uses for comparing gas and oil prices for forecasting fuel costs on the one hand and for choosing between the fuels, on the other. We find that this is a matter that should be explored in SDG&E's ECAC reasonableness review. Staff should be able to comment of the conversion factors used by each of the major utilities in California.

SDG&E and staff offer radically different rate designs. SDG&E proposes that nearly the entire reduction be applied to residential customers (90%) while staff proposes that the reduction be spread among the customer classes on a uniform cents per kWh basis.

SDG&E supports its rate design recommendation on the basis that the gas and electric rate changes are related to the same principal underlying cause. SDG&E argues that equitable treatment requires that the largest part of the electric reduction should go to the residential customers, since the largest part of the gas rate

Table 5

Adopted Residential Rate Design

	Present Rates	ERAM ¢/kWh	ECAC ¢/kWh	Effective Rates
Customer Charge $2.20				
Tier I	10.263	0.247	(1.1228)	9.388
Tier II	13.918	0.247	(0.247)	13.918
Average Residential Rate	11.685			11.151

Staff also states that the differential in time-of-use rates should remain consistent with existing differentials - any changes should be developed in the general rate case. We find this recommendation reasonable.

Findings of Fact

1. In view of the potential rate design disparity, the gas rate increase should be no larger than absolutely necessary.

2. The undercollection in the gas balancing accounts should be amortized over 12 months because of relatively stable gas costs.

3. Twelve months amortization will promote more stable rates.

4. The amount of additional revenue required is $21.2 million. KN
Which is increased to $34.1 million by the change in residential gas rates. KN

5. Fuel oil prices have declined substantially since gas rates were last set for SDG&E.

6. SDG&E has suffered some loss of load and may lose more if interruptible rates are not reduced.

7. Fuel switching is not a consideration in determining the GN-5 rate.

8. The GN-5 rate should reflect alternate fuel prices.

9. The GN-5 rate reductions proposed by SDG&E and staff are too large to be absorbed entirely into the rate structure at this time without unduly destabilizing the remaining rates.

10. In these circumstances a GN-5 rate of 50 cents per therm fairly balances competing interests.