Decision 83 12 048 December 20, 1983

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of SOUTHERN CALIFORNIA GAS COMPANY and PACIFIC LIGHTING GAS SUPPLY COMPANY to Revise Their Rates Under the Consolidated Adjustment Mechanism (CAM) to Offset Changed Gas Costs Resulting From Changes in the Price of Natural Gas Purchased from EL PASO NATURAL GAS COMPANY, TRANSWESTERN PIPELINE COMPANY. PACIFIC INTERSTATE TRANSMISSION COMPANY, and California sources; and to Adjust Revenues to Recover the Undercollection in the CAM Balancing Account.	Application 83-09-25 (Filed September 12, 1983)

(See Appendix A for appearances.)

INTERIM OPINION

By this application Southern California Gas Company and Pacific Light Gas Supply Company (SoCal) requests no rate change at this time and to consolidate the impacts of its request to decrease gas rates under its Consolidated Adjustment Mechanism (CAM), increase its Conservation Cost Adjustment (CCA) and attrition allowance and amortize the undercollection in its CAM balancing account. This application is also SoCal's annual reasonableness review. By the ruling of the Administrative Law Judge the proceeding was divided into two phases. The initial phase simply concerns the CAM adjustment and the second phase involves the reasonableness review. Public hearings were held on the initial phase beginning November 2, 1983 in Los Angeles, California. Hearings have not yet been set for the second phase. We take note of and will incorporate in this decision the effects of our decision also issued today concerning SoCal's attrition allowance of $58,336,000, Weatherization Financing and Credits Program (WFCP) and CCA increase of $10,335,000. The CAM decrease of $75,022,000 in the cost of gas purchased is the result of several factors changing at the same time. The two major factors, though, are the decreased cost of Canadian gas and increased sales.

As with most offset proceedings the application can be divided into revenue requirement issues and rate design issues. We will discuss the less controversial revenue requirement issues first.

Revenue Requirement

The first element in developing the revenue requirement is to establish the forecasted cost of gas. The primary issue in developing the cost of gas is of relatively minor impact. The issue is whether to include certain federal offshore purchases (Hondo and Pitas Point). These two projects were not yet complete when the staff prepared its testimony, thus the staff recommended that these purchases not be included. SoCal argues that the projects are so imminent and certain that these purchases can now be included in calculating the revenue requirement. To the extent that the purchases are included and the project is delayed a minor overcollection will occur. The opposite occurrence results in a minor undercollection. We agree with SoCal. The projected completion date is in December of 1983 and is sufficiently imminent and certain to be included in the cost of gas which is developed in the following table:

Table 1
Southern California Gas Company
Cost of Gas
Nov. 1983-Oct. 1984
(Includes Hondo & Pitas Point)*

Source	M Therms	¢/Th	M$
El Paso			
Fixed Cost			86,600
Commodity	6,282,030	35.620	2,237,659
Subtotal	6,282,030	35.999	2,324,259
Transwestern			
Fixed Cost			70,706
Commodity	2,569,460	40.160	1,031,895
Subtotal	2,569,460	42.912	1,102,601
Pacific Interstate-SW	4,020	30.597	1,230
Pan Alberta			
Fixed Cost			129,559
Commodity	338,650	50.000	169,325
Subtotal	338,650	88.257	298.884
Federal Offshore	242,670	41.267	100,143
California	357,600	33.086	118,316
Storage Withdrawal	877,050	39.299	344,672
Storage Injection	(861,380)	40.170	(346,016)
Total Gas Purchased	9,810,100	40.204	3,944,089
Company Use	(83,030)	-	-
Unaccounted for	(179,627)	-	-
Total Gas Available for Resale	9,547,443		3,944,089
System Unit Cost of Gas Sold		41.310	

*Assumes Hondo and Pitas Point on-line December 1, 1983.

The next contested issue to be decided in developing the revenue requirement is choosing a period of time over which to amortize the current undercollection in the balancing account. As many of the parties recognized, there is no certain amortization period required. The choice is dictated by various circumstances.

SoCal argues for a six-month period because that has been traditional for SoCal and because the shorter period tends to keep the balancing account from unreasonably large overcollections and undercollections. SoCal also argues that a six-month amortization now would almost certainly mean that there would need to be no CAM rate increase in the spring of 1984 whereas a 12-month amortization might very well require a spring increase.

Toward Utility Rate Normalization (TURN), on the other hand, favors the 12-month perod. Although usually favoring rate stabilization TURN argues that the revenue requirement is forecast in a very conservative manner by SoCal and is very likely overstated. Therefore, a 12-month period can be chosen with little chance for a rate increase in the spring.

California Manufacturers Association (CMA) also favors the longer amortization period because it tends to spread the undercollection equally throughout the year rather than loading it on all users in a particular season. CMA has consistently made this argument for both under- and overcollections.

Southern California Edison Company apparently favors the 12-month period so that its requested beneficial rate treatment would not be reflected in higher residential gas rates at this time.

We will adopt a six-month amortization period in order to minimize the accrual of large over- or undercollections in the CAM balancing account. We believe that the accrual and carry-forward of large balances, whether under- or overcollections, defeats one of the major purposes of establishing frequent CAM offset proceedings, namely, to facilitate reconciliation of projected versus actual costs and sales volumes, which are difficult to estimate accurately over longer periods of time.

In addition, we believe that a significant rate decrease at this time which would result from the 12-month amortization is inappropriate, given the chance of a spring rate increase. We note that the primary reason for the current CAM reduction is attributed to dramatically increased sales, relative to previous projections. Although TURN argues that the sales forecasts presented in this proceeding are conservatively stated, we are not convinced. Rather, we think there may be further significant fuel switching as shown by CMA and smaller GN-5 sales as San Onofre produces increasing amounts of electricity.

The table below develops the revenue requirement illustrating both the six- and 12-month amortization periods, when consolidated with the effects of SoCal's attrition allowance, CCA increase, and CAM decrease

We believe that SoCal Gas' request for no rate change at this time is reasonable given the relative size of the overcollection resulting from a six-month amortization of the CAM balancing account, relatively stable fuel oil prices, and the possibility of a spring rate increase.

Table 2
Southern California Gas Company
12 Months Beginning Nov. 1, 1983
Consolidated CAM Revenue Requirement

Item	Amortization Six Month M$	Amortization Twelve Month M$
Cost of Gas Purchased	3,944,089	3,944,089
Carrying Cost of Storage Inventory	-1,205	-1,205
CAM Balance (Annualized)	190,464	105,925
Subtotal	4,133,348	4,048,809
Adj for Fran & Uncol Act Exp @ 1.668%	68,944	67,534
Gas Margin	986,939	986,939
Attrition Allowance	58,336	58,336
Conservation Cost Adjustment (CCA)	97,962	97,962
GEDA	22,338	22,338
Subtotal	5,367,867	5,281,918
Less Exchange Revenue	-12,675	-12,675
CAM Revenue Requirement	5,355,192	5,269,243
Revenue at Present Rates	5,355,994	5,355,994
Additional Revenue Required	-802	-86,751

The final issue, which is related to the cost of gas, was raised by SoCal in its application. The issue is a request for guidance on sequencing of gas takes. The specific issue involved is how unavoidable costs are to be treated when analyzing the prices of different sources of gas. SoCal recommends that gas sequencing be done on the basis of marginal cost or avoided cost. The staff recommends that we not adopt a sequencing test presently because that would then remove the burden of proof of reasonableness of SoCal decisions during reasonableness reviews. TURN argues persuasively that the SoCal request as to methodology should be granted. We agree. We will adopt TURN's proposed findings of facts shown below:

> "It is not unreasonable for SoCal to base its sequencing economic analysis on the avoidable costs of its various discretionary gas sources, rather than unadjusted current commodity costs. This finding does not prejudge the reasonableness of any particular action that SoCal may take in the forecast period."

This is consistent with the guidelines adopted for Pacific Gas and Electric Company.

The specific sequencing question that also requires discussion is the "El Paso Account Surcharge". In our D.82-12-111 on SoCal's last winter CAM, we discussed this issue thoroughly. That discussion is also applicable here. The basic question is what portion of the El Paso surcharge should be considered unavoidable. Taking California as a whole 75% of the surcharge would be considered unavoidable. Taking a perspective of only SoCal 35% of the surcharge would be considered unavoidable. We believe that our present policy of taking the statewide perspective is appropriate. Thus SoCal can treat 75% of the El Paso surcharge as unavoidable.

<u>Rate Design</u>

Rate design as an issue in this proceeding was the most heavily contested. Although this issue was most heavily contested it will be the most easily resolved, given our adoption of no rate change at this time. SoCal's proposal to eliminate the GN-34 rate was made too late to provide proper notice to affected customers. Also, the analysis underlying the proposed GN-34 elimination was shown by the cross-examination of CMA to be so insufficient that the proposal could not be adopted even if it had been made timely.

Two rates which require discussion are the Cogeneration rate (G-Cog) and the ammonia producer rate (G-NH3). The G-Cog rate was raised as an issue by Federal Paper Board Company, Inc. (Federal) who is a cogenerator. Our current policy is that cogenerators should pay a rate equivalent to either 1) the GN-5 rate or 2) the applicable industrial rate. The cogenerator can choose which rate it desires, normally the lower of the two. When we authorized a bifurcated episode--non-episode day GN-5 rate which was also indexed to the price of fuel oil it became clear that it was impossible for the G-Cog rate to exactly equate the GN-5 rate. Federal feels that it is necessary that the G-Cog rate closely approximate the GN-5 rate because cogeneration might be discouraged if the cogenerators pay higher gas rates than the electric utility. We agree that a close approximation should be maintained. Federal proposes two alternatives. One choice is to establish a balancing account for the cogenerators. We feel that this choice is undesirable from an administrative point of view.

The second choice is that the G-Cog rate for any month would be set at the weighted average GN-5 non-episode day rate of the preceding month. We believe that this is a useful suggestion and can be adopted with a slight modification to increase its accuracy. We will adopt a mechanism setting the G-Cog rate at the same level as the weighted average GN-5 rate of the preceding month using both episode and non-episode day rates.

The G-NH3 rate is governed by recently passed legislation (Chapter 1265, Statutes 1983) also referred to as SB 1029. The possible issues are 1) level of G-NH3 rate, 2) whether a revenue recovery surcharge is required, and 3) how the surcharge mechanism will be implemented.

The only issue that can be resolved at this time is the level of the G-NH3 rate. The staff has circulated a proposed advice letter mechanism to implement the surcharge mechanism. We will explore the permanent resolution of this issue at a later date.

The level of the G-NH3 rate is straightforward. The legislation mandates a rate equal to the cost of the marginal supply plus two cents. During cross-examination, TURN implied that the cost of compressor fuel and line losses should be added but failed to pursue its argument in its brief. We will adopt a rate equal to the cost of El Paso gas plus two cents as proposed. SoCal may later recover some of the revenue loss associated with these sales from other California gas utilities. This potential recovery will be captured in the CAM balancing account.

With the G-Cog and G-NH3 rates resolved our rate changes are complete. However, we do not wish to leave the impression that we are at all satisfied with SoCal's rate design showing in this case. We have repeatedly requested innovative and imaginative proposals to prevent fuel switching and regain lost customers without causing high priority rates to increase. Thus far we have seen no response to this request. We note that two events will take place in the near future that will provide an opportunity for SoCal to respond. The first is the spring CAM and the second is SoCal's next general rate case that will likely go to hearing in late spring of 1984. We direct SoCal to file appropriate rate design evidence in each proceeding.

In this proceeding various rate design suggestions were made by the League of Food Processors and the University of California. These proposals were not given sufficient evaluation in this proceeding to be adopted. However, we expect SoCal to provide us with an in-depth evaluation of the impacts of these proposals next spring.

Also, we have today issued our decision in PG&E's general rate case and GAC proceedings. We intend that these decisions will provide some guidance to SoCal in formulating its rate design proposals so that we will not be faced with a single simplistic rate design proposal such as increasing the customer charge.

Findings of Fact

1. SoCal requests authority to decrease its CAM rates and revenues by $77 million annually.

2. SoCal Gas' estimates of sales, price, and supply include Hondo and Pitas Point gas which will come on line imminently. SoCal's estimates are reasonable.

3. A 6-month amortization period for the CAM balancing account will result in a small decrease and is reasonable.

4. A net decrease in SoCal's revenue requirement including the conservation offset proceedings and the attrition allowance of $802,000 is reasonable.

5. A $802,000 revenue requirement change does not require a change of rates at this time, except for the ammonia producers, cogeneration, and wholesale capacity and commodity rates.

Conclusions of Law

1. The rates authorized should include a revenue requirement increase authorized in Resolution No. G-2568 and our decisions in A.83-09-23 and A.83-09-26.

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

3. SoCal Gas should be authorized to change its gas rates as set forth in Appendix B; those rates are just an reasonable.

INTERIM ORDER

IT IS ORDERED that on or after the effective date of this order Southern California Gas Company is authorized to file the revised tariff schedules attached to this order as Appendix B and cancel its presently effective schedules. The revised tariff schedules shall become effective on date of filing but not earlier than January 1, 1984. The revised schedules shall apply only to service rendered on or after their effective date.

This order is effective today.

Dated DEC 20 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

Applicant: E. R. Island, Porter N. Osborn, and F. E. John, Attorneys at Law, for Southern California Gas Company and Pacific Lighting Gas Supply Company.

Protestant: Edward Duncan, for himself; and Henry Mulman, for Seniors for Political Action.

Interested Parties: William L. Reed, Wayne P. Sakarias, and Jeffrey Lee Guttero, Attorneys at Law; Mary E. MacDonald, Attorney at Law, and Harry K. Winters, for University of California; Downey, Brand, Seymour & Rohwer, by Philip A. Stohr, Attorney at Law, for General Motors Corporation and Federal Paper Board Company, Inc.; David L. Nye, Attorney at Law, for Los Angeles Department of Water and Power; James Squeri, for Union Chemical Division of Union Oil Company; Chadbourne, Parke, Whiteside & Wolff, by Jerry R. Bloom, Attorney at Law, for Kimberly-Clark Corporation; Richard Owen Baish, Attorney at Law (Texas), for El Paso Natural Gas Company; Robert W. Parkin, City Attorney, by Richard A. Alesso, Deputy City Attorney, for City of Long Beach; Michel Peter Florio, Attorney at Law, and Sylvia M. Siegel, for Toward Utility Rate Normalization; Nancy Johnson, for Long Beach Gas Department; Henry F. Lippitt 2nd, Attorney at Law, for California Gas Producers Association; Luce, Forward, Hamilton & Scripps, by Susan Wilson, Attorneys at Law, for U. S. Borax & Chemical Corporation; John W. Witt, City Attorney, by William S. Shaffran, Deputy City Attorney, for City of San Diego; Ed Yates, for California League of Food Processors; John R. Bury, Charles R. Kocher, H. Robert Barnes, Susan L. Steinhauser, Attorneys at Law, for Southern California Edison Company; H. Richard Carroll, for Glass Containers Corporation; Steven A. Geringer and Charlotte W. Adams, Attorneys at Law, for California Farm Bureau Federation; Brobeck, Phleger & Harison, by Gordon E. Davis, for California Manufacturers Association; and Todd Simon, for Del Monte Corporation.

Commission Staff: Freda Abbott, Attorney at Law, and S. Robert Weissman.

(END OF APPENDIX A)

APPENDIX B

SOUTHERN CALIFORNIA GAS COMPANY

Summary of Present and Adopted Rates

Class of Service	Commodity Rates in ¢/Therm Present Rates	Commodity Rates in ¢/Therm Adopted Rates	Difference
Residential			
Lifeline	46.484	46.484	-
Tier II	71.810	71.810	-
Tier III	81.810	81.810	-
Commercial-Industrial			
GN-1	71.810	71.810	-
GN-2A	71.810	71.810	-
GN-2B	62.126	62.126	-
G-COG	46.046	*	-
GN-32/42	56.746	56.746	-
GN-36/46	56.746	56.746	-
GN-34 First 900 Mth.	56.746	56.746	-
Next 600 Mth.	45.090	45.090	-
Over 11500 Mth.	43.090	43.090	-
Ammonia Producers	45.243	37.62	(7.623)
Util. Elec. Gen.			
GN-5: Episode Days	56.656	56.656	-
Non-Episode	46.584	46.584	-
Wholesale			
G-60	41.958	41.101	(0.857)
G-61	41.958	40.866	(1.092)

*Changes monthly.
Based on weighted average of episode and non-episode day rates and volumes.

(END OF APPENDIX B)

Decision 83 12 045 DEC 20 1983 ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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Application 83-09-25
(Filed September 12, 1983)

(See Appendix A for appearances.)

INTERIM OPINION

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for the cost of gas purchase R/L
CAM decrease of $__________ is the result of several factors changing at the same time. The two major factors, though, are the decreased cost of Canadian gas and increased sales.

As with most offset proceedings the application can be divided into revenue requirement issues and rate design issues. We will discuss the less controversial revenue requirement issues first.

Revenue Requirement

The first element in developing the revenue requirement is to establish the forecasted cost of gas. The primary issue in developing the cost of gas is of relatively minor impact. The issue is whether to include certain federal offshore purchases (Hondo and Pitas Point). These two projects were not yet complete when the staff prepared its testimony, thus the staff recommended that these purchases not be included. SoCal argues that the projects are so imminent and certain that these purchases can now be included in calculating the revenue requirement. To the extent that the purchases are included and the project is delayed a minor overcollection will occur. The opposite occurrence results in a minor undercollection. We agree with SoCal. The projected completion date is in December of 1983 and is sufficiently imminent and certain to be included in the cost of gas which is developed in the following table:

volumes, which are difficult to estimate accurately over longer periods of time.

In addition, we believe that a significant rate decrease at this time which would result from the 12-month amortization is inappropriate, given the chance of a spring rate increase. We note that the primary reason for the current CAM reduction is attributed to dramatically increased sales, relative to previous projections. Although TURN argues that the sales forecasts presented in this proceeding are conservatively stated, we are not convinced. Rather, we think there may be further significant fuel switching as shown by CMA and smaller GN-5 sales as San Onofre produces increasing amounts of electricity.

The table below develops the revenue requirement illustrating both the six- and 12-month amortization periods, when consolidated with the effects of SoCal's attrition allowance, CCA increase, and CAM decrease.

para added

Table 2
Southern California Gas Company
12 Months Beginning Nov. 1, 1983
Consolidated CAM Revenue Requirement

Item	Amortization	
	Six Month M$	Twelve Month M$
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Subtotal	4,133,348	4,048,809
Adj for Fran & Uncol Act Exp @ 1.668%	68,944	67,534
Gas Margin	986,939	986,939
Attrition Allowance	58,336	58,336
Conservation Cost Adjustment (CCA)	94,376	94,376
GEDA	22,338	22,338
Subtotal	5,363,945	5,277,996
Less Exchange Revenue	-12,675	-12,675
CAM Revenue Requirement	5,351,270	5,265,321
Revenue at Present Rates	5,355,994	5,355,994
Additional Revenue Required	-4,724	-90,673

The final issue, which is related to the cost of gas, was raised by SoCal in its application. The issue is a request for guidance on sequencing of gas takes. The specific issue involved is how unavoidable costs are to be treated when analyzing the prices of different sources of gas. SoCal recommends that gas sequencing be done on the basis of marginal cost or avoided cost. The staff recommends that we not adopt a sequencing test presently because that would then remove the burden of proof of reasonableness of SoCal decisions during reasonableness reviews. TURN argues persuasively that the SoCal request as to methodology should be granted. We agree. We will adopt TURN's proposed findings of facts shown below:

> "It is not unreasonable for SoCal to base its sequencing economic analysis on the avoidable costs of its various discretionary gas sources, rather than unadjusted current commodity costs. This finding does not prejudge the reasonableness of any particular action that SoCal may take in the forecast period."

This is consistent with the guidelines adopted for Pacific Gas and Electric Company.

The specific sequencing question that also requires discussion is the "El Paso Account Surcharge". In our D.82-12-111 on SoCal's last winter CAM, we discussed this issue thoroughly. That discussion is also applicable here. The basic question is what portion of the El Paso surcharge should be considered unavoidable. Taking California as a whole 75% of the surcharge would be considered unavoidable. Taking a perspective of only SoCal 35% of the surcharge would be considered unavoidable. We believe that our present policy of taking the statewide perspective is appropriate. Thus SoCal can treat 75% of the El Paso surcharge as unavoidable.

Rate Design

Rate design as an issue in this proceeding was the most heavily contested. Although this issue was most heavily contested it will be the most easily resolved. Because of our development of an insignificant revenue requirement change and because of relatively stable fuel oil prices we will adopt SoCal's proposal of no rate change at this time. SoCal's proposal to eliminate the GN-34 rate was proposals so that we will not be faced with a single simplistic rate design proposal such as increasing the customer charge.

Findings of Fact

1. SoCal requests authority to decrease its CAM rates and revenues by $77 million annually.

2. SoCal Gas' estimates of sales, price, and supply include Hondo and Pitas Point gas which will come on line imminently. SoCal's estimates are reasonable.

3. A 6-month amortization period for the CAM balancing account will result in a small decrease and is reasonable.

4. A net change in SoCal's revenue requirement including the conservation offset proceedings and the attrition allowance of $________ ________ is reasonable.

5. A $____________ revenue requirement change does not require a change of rates at this time.

Conclusions of Law

1. The rates authorized should include a revenue requirement increase authorized today in Resolution No. _______ and our decisions in A.83-09-23 and A.83-09-26.

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

3. SoCal Gas should be authorized to change its gas rates as set forth in Appendix B; those rates are just an reasonable.

APPENDIX B

(To be supplied later)