

ORIGINAL

Decision No. 87586

July 12, 1977

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 SAN DIEGO GAS & ELECTRIC COMPANY }
 for Authority to Increase its Gas }
 Rates and Charges to Offset the }
 Increased Costs of Purchased Gas. }

Application No. 57179
 (Filed March 29, 1977)

E. R. Island, Attorney at Law, and Jonel C. Hill,
for Southern California Gas Company; and
Stephen A. Edwards, Attorney at Law, and
John H. Woy, for San Diego Gas & Electric
Company; applicants.

Burt Pines, City Attorney, by Leonard L.
Snaider, Deputy City Attorney, for City of
Los Angeles; Robert W. Russell, by Manuel
Kroman, for Department of Public Utilities
and Transportation, City of Los Angeles;
Henry F. Lippitt, 2d, Attorney at Law, for
California Gas Producers Association; John
W. Witt, City Attorney, by William S. Shaffran,
Deputy City Attorney, for City of San Diego;
Brobeck, Phleger & Harrison, by William H.
Booth and Gordon E. Davis, Attorneys at Law,
for California Manufacturers Association;
Downey, Brand, Seymour & Rohwer, by Philip A.
Stohr, Attorney at Law, for General Motors
Corporation; Edward B. Novikoff, for Seniors
for Political Action; and Hyman Finkel, for Seniors for
Legislative Issues; interested parties.
Radovan Z. Pinto, Attorney at Law, Thomas Lew,
and Robert C. Durkin, for the Commission staff.

O P I N I O N

This is an application by San Diego Gas & Electric Company (SDG&E), filed pursuant to a Commission request that Advice Letter No. 383-G dated February 28, 1977 and Advice Letter No. 384-G dated March 18, 1977 be consolidated into a single application. This filing for a purchased gas adjustment (PGA) resulted from a

concurrent filing by Southern California Gas Company (SoCal) for a PGA increase to offset the increased cost of gas from its out-of-state as well as California suppliers. SoCal wholesales natural gas to SDG&E under its Schedule G-61 rates.

Using SoCal's figures in Application No. 57196 SDG&E estimates the increased revenue requirement to offset increased cost of gas for the four-month period ended September 30, 1977 to be \$3,628,644 plus \$1,125,612 to offset the balance in the Gas Cost Balance Account. SDG&E proposes to spread this revenue increase on a uniform cents per therm basis to all nonlifeline sales within the tariff schedules which are affected. Applicant requests that it be authorized to place in effect the rate changes concurrent with the SoCal rate change.

SDG&E alleges that the granting of its request will enable it to earn only the same rate of return it would earn without such increased cost. Applicant's summary of earnings for 1977 indicates that its estimated gas department earnings for 1977 will be 6.02 percent, well below its last authorized rate of return of 8.75 percent. As a result of the balancing account provision an increase in gas costs without an equivalent and concurrent increase in revenues will not affect earnings; however, applicant indicates that rate relief is necessary to prevent significant and deleterious impact on its cash flow.

After proper notice this application was consolidated for hearing with Application No. 57196 of SoCal and public hearings were held in Los Angeles on May 12 and 13, 1977 before Administrative Law Judge Kenji Tomita, and the matter was submitted on May 13, 1977 after closing statements were made by the various parties.

Walter F. Stanley, Manager of Revenue Requirements and Financial Analysis, testified for SoCal; Carl R. Green, Rate Supervisor, and R. R. Higgins, testified for applicant; and Terry R. Mowrey, Financial Examiner II, Howard J. Frantz, Junior Utilities Engineer, and Eugene S. Jones, Senior Utilities Engineer, in the Gas Branch of the Utilities Division testified for the Commission staff.

SDG&E's witness Higgins suggested that Rule 23(c) of the Commission's Rules of Practice and Procedure requiring a summary of earnings be modified so as to not require such statement in a PGA filing because the balancing account procedure makes such statement meaningless. Any over- or undercollections of expense becomes a part of the balancing account to be adjusted in a subsequent PGA revision and would have no effect on the company's summary of earnings. We will direct the staff to review this matter and recommend changes to the Rules of Practice and Procedure if appropriate. ✓

The Evidence

SoCal amended its request at the hearings on May 12, 1977 resulting in a slightly lower offset revenue requirement. Staff engineer Howard Frantz testified that \$4,690,000 was the appropriate additional revenue requirement for SDG&E to offset increased fuel costs, the balancing account from the last PGA period and associated franchise and uncollectible costs. The increased fuel cost portion of the amount is based on the assumption that SoCal is granted an increase of 2.239¢ per therm on its G-61 schedule. Such increase was adopted by the Commission in its decision on SoCal's companion Application No. 57196.

Aside from the question of rate design there were no controversial issues involving SDG&E's requested offset rate increase. While SDG&E proposed spreading the rate increase to all customers on a uniform cents per therm basis it indicated that it

would be receptive to any reasonable rate design proposal although it too was of the opinion that this was not the proceeding to make any major changes in rate design.

The staff in this proceeding also introduced various alternative rate design proposals in an attempt to be responsive to Ordering Paragraph 3 of Decision No. 87192.^{1/} Method 1 in staff Exhibit 27 represents applicant's proposal to spread the increase to all sales other than lifeline on an equal cents per therm basis. Method 2 increases all therm sales including domestic lifeline by an equal cents per therm. Method 3 introduces a five-tier rate design featuring seven rate blocks for domestic, five rate blocks for non-domestic general service, and all other rates at a single rate at the level of the third domestic tier. All of the therm sales in the third tier will take an equal increase in cents per therm set at the average increase per therm for all sales except lifeline. Method 4 smooths out the tier rates and works toward the process of making a truly inverted five-tier rate design. An alternate Method 5 introduced in the SoCal proceeding was not introduced in this proceeding.

California Manufacturers Association (CMA) in its closing statement as well as the city of San Diego argued against any major change in spreading rates in an offset proceeding. All of the major parties felt that staff alternate Methods 3 and 4 were too expansive and went beyond the scope of Ordering Paragraph 3 of Decision No. 87129. CMA argued that should the Commission feel compelled to adopt a multi-tier rate design in this proceeding it should be done in the simplest, most understandable manner possible and be limited to residential sales. CMA recommended that a proper method

^{1/} "... Multi-tier rates and/or special rates for swimming pools and other residential uses shall be introduced in pending or future gas rate offset cases."

would be to take the calculated average increase per therm and spread the increase to all sales, and doubling that increase and applying that amount to existing rates for residential sales above some particular therm level.

We will now consider the issue as to whether the increase should be spread to all sales on an equal cents per therm basis or on all sales, exclusive of lifeline, on an equal cents per therm basis. Although there is no legal prohibition to spreading the increase to all sales since SDG&E's average system rate now exceeds lifeline rates as of January 1, 1976 by more than 25 percent we will not now change our policy of not spreading increases to lifeline sales. This issue is before the Commission in Case No. 9988, a general investigation into lifeline rates, and a decision is pending. It would therefore be premature in this offset proceeding to attempt to restructure lifeline rates.

We are authorizing in this decision a restructuring of gas rates that closely parallels rate designs adopted for PG&E and SoCal. The restructuring of gas rates is properly done in this PGA offset proceeding because we find that it is in the public interest to implement conservation oriented gas rates at the earliest opportunity. The serious consequences of gas supply problems is a peril which demands prompt attention. A rate structure which provides an incentive to conserve results in an additional source of gas for California's future needs. Also, a rate structure is needed that will commence to clearly signal to low priority users the need to seriously consider alternate fuels.

At this time we are authorizing restructured summer rates. In the next PGA proceeding we will adopt a winter schedule.

Appendix A, attached hereto, illustrates the rate design we authorize by this decision. Density zones are eliminated. There is no longer a need for cost of service related demand charges as we

adopt a less complex rate structure which is primarily conservation oriented. The uniform monthly charge which we adopt in place of varying density zone charges is \$1.35. A five-tier residential summer rate structure is adopted.

For small commercial and industrial users (Priorities 1 and 2) we are adopting a uniform rate at a level equal to the highest residential tier. In an effort to establish a price for low priority users (Priorities 3, 4, and 5) that is closer to the cost of alternative fuel, we are adding one cent per therm.

We trust that this rate restructuring will be viewed as a constructive step to deal with the serious gas supply problems facing California. If we were to continue to allow unrealistically low gas prices for low priority users who have the capability to most easily convert to alternative fuels, we would be contributing to a false sense of security that would, in the end result, be extremely harmful and disruptive.

Findings

1. SoCal filed an application on April 1 and amended on May 2, 1977 which was further amended at the hearings on May 12, 1977, seeking authorization to increase rates under the PGA procedures to offset increased purchased gas costs from El Paso, Transwestern, Pac Interstate and California producers.

2. SoCal seeks to increase rates charged to SDG&E under its G-61 schedules by 2.239¢/Th to recover its increased gas costs.

3. SDG&E needs \$4,690,000 of additional revenues to offset increased charges for gas purchases of \$3,628,644 for the four-month period ended September 30, 1977 and \$1,125,612 to offset the balance in the Gas Cost Balance Account in December 31, 1976.

4. The requested PGA increase will not cause SDG&E to exceed the last authorized rate of return.

5. SDG&E should be authorized to institute a consolidated five-tier rate structure for residential service, a uniform rate for high priority non-residential service (P-1 and P-2) at a level equal to the highest residential tier, and by an additional one cent per therm to lower priority customers (P-3, P-4, and P-5).

6. The PGA increase authorized herein is reasonable and the present rates and charges, insofar as they differ from those set forth in this decision, are for the future unjust and unreasonable.

7. The increase in gas costs is an extraordinary expenditure both in nature and magnitude, and is the proper subject of an offset rate proceeding.

Conclusions

1. SDG&E should be authorized to file and place into effect the PGA rates authorized above.

2. The effective date of this order should be the date or dates on which SoCal is authorized to increase its rates to SDG&E.

O R D E R

IT IS ORDERED that:

1. San Diego Gas & Electric Company is authorized to file and place into effect revised rate schedules as set forth in Appendix A attached hereto on the same date or dates that Southern California Gas Company is authorized to increase its PGA rates in companion Application No. 57196.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 12th
day of JULY, 1977.

*I will convey dissent.
William S. Quors Jr.*

Robert Bateman
President

Leon L. Sturgeon
Richard W. Shurtle

Commissioners

Commissioner CLAYRE T. DEDRICK did not participate in the disposition of this proceeding.

A.57179 kw/dz *

APPENDIX A

SAN DIEGO GAS & ELECTRIC COMPANY - GAS DEPARTMENT

General Natural Gas Service - Summer Rates

	<u>GR, GM, GC</u>
Monthly Customer Charge	\$ 1.35
Commodity Charge - Residential:	
First 26 therms, per therm	18.13 ¢ ✓
Next 54 therms, per therm	22.500
Next 50 therms, per therm	23.500
Next 70 therms, per therm	24.500
Over 200 therms, per therm	25.500 ✓
Commodity Charge - Non-Residential:	
All usage, per therm (P-1 & P-2)	25.500¢ ✓
Minimum Charge:	
All customer usage except space heating only	\$ 1.35
Space Heating only - November through April	2.70
<u>Industrial and Regular Interruptible (P-3, P-4, & P-5)</u>	
Commodity Charge - per therm	26.5¢

A. 7124) - D. 87585 - Pacific Gas & Electric Co.
A. 57138) - D. 87586 - San Diego Gas & Electric Co.
A. 57179 - D. 87587 - Southern California Gas Co.
A. 57196

NATURAL GAS PRICING DECISIONS

COMMISSIONER WILLIAM SYMONS, JR., Dissenting

The Commission's "PUC News" release describes these three companion decisions as a "radical restructuring of gas rate schedules". I agree. The main significance of these cases is not the money involved, (even though they involve necessary rate increases totalling one fifth of a billion dollars), but the upheaval in the schedule of customer prices.

Henceforth, the people of California are to pay inverted, rather than cost-based fees for the gas they use.

I strongly dissent from this ill-considered decision for several reasons: It was generated in a rushed and thoughtless manner leaving unexplored questions which we should have faced. Under the fine sounding phrase "conservation", the Commission majority abandons cost-based rates and with it the touchstone of objectivity in setting prices. Further, the particular rates put in place today have negative impacts for utility stability, California's economy and jobs, and the utility customer.

1. There is an inadequate basis for the radical restructuring of gas rates.

Today's action reminds me of the lurch by the Commission into a radical restructuring of trucking regulation just two years ago (Case No. 9963, September 1975). There was no record developed, just a mention in a prior case that restructuring was contemplated -- then wham! The decree went out. Well, the changes were not workable. Today, the trucking industry is still suffering the results of that shoot-from-the-hip decision.

A. 57124) - D. 87585
A. 57138) - D. 87586
A. 57179 - D. 87586
A. 57196 - D. 87587

Restructuring energy pricing is no light matter. The ramifications can be enormous. I am amazed that such a change would be pushed through in an offset case. Such a fundamental transformation should have received detailed consideration in an independent proceeding, as was the expectation up until now of all the major parties to our utility regulation cases. This hastily established rate design is not pushed by the Commission staff, the parties or the utilities themselves -- it is merely the will of the Commission majority.

Ignored are questions that did not receive the attention they deserve. The Commission should, for example, have taken a careful look into the relationship between income levels and gas use. According to a PG&E study -- the only one I am aware of on this subject -- there is no correlation between income and gas consumption. If this is true, the rate structure we adopt today will work hardship on many of the poor. We have also failed to consider the effects this decision will have on revenue stability of the utilities or our state's business climate. These key questions and others were ignored in an effort to make change now.

2. We have lost touch with objective standards.

Once we have abandoned cost as a basis for setting rates, whim is King. Whatever satisfies three commissioners is by that fact alone "reasonable". Up until today, the Commission looked at what it cost to serve a particular customer, and charged

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A. 57196 - D. 87587

accordingly. While not perfected to an absolute science, this standard provided firm and clear guidelines. The fine-sounding phrase "conservation" is no substitute. No standards are given, and the word has been so loosely used in previous Commission decisions that elimination of wasteful use and cutting back on productive use were equally embraced in the term "conservation".

This nebulous word, in conjunction with someone's unproved economic opinions on elasticity of use, makes any rates "defendable". Wisconsin, for example, is considering making the first five hundred kwh of monthly electric consumption free. At present, no party endorses such an idea before our Commission; but who is to say free electricity or gas is unreasonable when "reasonable" can mean anything? Objective criteria are essential if we are to have rule of law, not rule of men. Otherwise we face an Alice-in-Wonderland future:

"When I use a word" Humpty Dumpty said, in a rather scornful tone, "it means just what I choose it to mean -- neither more nor less."

"The question is" said Alice, "whether you can make words mean so many different things."

"The question is" said Humpty Dumpty, "which is to be the master -- that's all."¹

3. The negative impacts of the inverted rate designs are of great concern.

For the first time it becomes terribly clear that utility schedules are being used to redistribute wealth in the society. For example, under the adopted PG&E winter rate schedules, it

¹ Through the Looking Glass, Lewis Carroll

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is impossible for residential users using lifeline quantities to pay to the system what it pays out-of-state suppliers for gas. The PG&E average system price of gas is 16.5¢ a therm, but the schedule sells it for 14.2¢. Below cost sales constitute 182,471,000 decatherms out of a total sale of 759,590,000.

Statutory restrictions do not bar the Commission from ordering prices high enough to pay at least the commodity cost of the gas burned. But the majority has abandoned cost-based ratemaking.

Besides its insidious effect on personal freedoms, social engineering via utility rates is expensive to achieve and can have a negative impact on the state's business climate. Today's rate increases work out unfairly -- residences are barely touched; business and industry are hit hard. The system average increase for San Diego Gas & Electric is 19%. But while residential rises only 7%, interruptibles go up 38%. For Southern California Gas Co., the system increase is 13%. Residentials, however, rise only 1%, and interruptibles rise 25%. PG&E's average system increase is the lowest 3.8%, but priorities 3, 4 and 5 rise 7.9%. Residentials actually drop 1%.

It is clear from Case 9804 that inverted electrical rates work hardship on businesses, especially energy-intensive ones which compete with foreign and out-of-state concerns not paying inverted rates. Kaiser Steel, for example, estimates that imposing such rates would cost it half of its out-of-state business, and force the layoff of 5,000 workers. Inexplicably, no evidence was introduced in these cases on the effect of inverted gas rates

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on California industry. But ironically, socking business with the increases is no answer. No one benefits from such rates, because in the short run business passes the increase on to consumers, who then pay for in stores what they no longer pay for in their utility bills. And in the long run, everyone suffers, because California companies will be less competitive against out-of-state firms.

Further, our utilities are in danger of becoming unstable financially. Inverted gas rates will encourage large users to switch to alternative fuels. (Already today's rates in San Diego go so far as to create a financial incentive for large companies to stop using gas. The City of Long Beach testified the equivalent price of alternate fuel oil was 24¢ per therm. Today's San Diego decision sets gas charges to large industry at 26.5¢ a therm.)

Such movement is undesirable for four reasons:

- A. The gas company investment in underground pipeline and rate base does not change. With fewer customers left, each will have to pay more to carry the burden. As more industry shifts, the cost increase to remaining residential customers will be substantial.
- B. Industries switching to other fuels will incur the considerable cost of premature obsolescence of operating equipment.
- C. A shift to oil or coal will reduce California air quality.

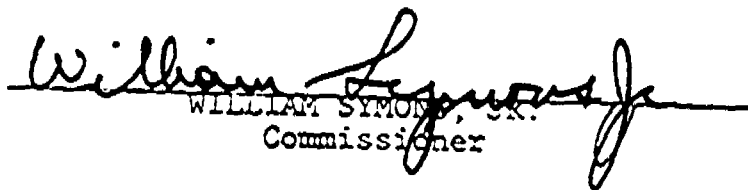
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D. Encouraging a switch to alternative fuels constitutes acceptance of the gas shortage as a permanent fact of life. Such is not the case: Federal deregulation is a sure way to increase supplies.

The danger of utility financial instability looms from a second quarter as well. The inverted design makes the utility rely on its tail blocks for more and more revenue. If a business recession hits or weather is milder than usual, it can be disastrous.. Similarly, it is hard to avoid swings the other way, such as during a cold snap. Such instability evidences a bad regulatory design.

Effective today we have a rate structure stripped of standards and reference to cost, which may harm industry and the poor, discourage conservation among low volume users, make our utilities financially unstable, and put the bureaucrats into the saddle to direct people's consumption patterns.

San Francisco, California
July 12, 1977


WILLIAM SIMON, JR.
Commissioner