

ORIGINAL

Decision No. 87537 July 12, 1977

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of Advice Letters Nos. 1053 and 1055 of SOUTHERN CALIFORNIA GAS COMPANY to Increase Revenues to Offset Higher Gas Costs Resulting from Increases in the Price of Natural Gas Purchased from TRANSWESTERN PIPELINE COMPANY, EL PASO NATURAL GAS COMPANY and PACIFIC INTERSTATE TRANSMISSION COMPANY.

Application No. 57196
(Filed April 1, 1977;
amended May 2, 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. Snalder,
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; Hyman Finkel,
for Seniors for Legislative Issues; and
Leonard Putnam, City Attorney, by William
E. Emick, Jr., Deputy City Attorney and
Vernon E. Cullum, for City of Long Beach,
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

Southern California Gas Company (SoCal) filed its Advice Letters Nos. 1053 and 1055 on February 28 and March 11, 1977, respectively, seeking authorization to raise its rates under the purchased gas adjustment (PGA) procedure to offset higher gas costs that will result from raises in supplier rates to become effective on April 1 and June 1, 1977. The Commission by letter dated March 15, 1977 requested SoCal to combine the two Advice Letters into a single application. Consequently SoCal filed Application No. 57196 on April 1, 1977 and subsequently amended its application on May 2, 1977 requesting a gross revenue increase of \$46,273,000 for the four-month period ended September 30, 1977. The company subsequently revised this figure downward to \$41,515,000 at the hearings of May 2, 1977 to reflect the effects of a settlement agreement El Paso Natural Gas Company (El Paso) had filed with the Federal Power Commission (FPC).

SoCal's request covers the net effect on purchased gas costs of El Paso and Pacific Interstate Transmission Company (Pac Interstate) gas cost increases and a Transwestern Pipeline Company (Transwestern) decrease all of which become effective on April 1, 1977, and which are in addition to El Paso and Transwestern increases which become effective on June 1, 1977. SoCal requests that the Commission authorize it to increase its rates effective June 1, 1977 to offset both the April 1 and June 1 gas cost increases and to account for the delay in the April 1 rate increase in its PGA balancing account.

The April 1, 1977 rate adjustment for Transwestern is related to its regular PGA filing with the FPC in Docket No. RP 74-52 providing for a net decrease of 8.93¢ per Dth, composed of a purchased gas cost increase and a decrease in the surcharge adjustment to clear the balance of the gas cost adjustment account. The June 1 Transwestern increase is related to its general rate increase filing in Docket No. RP 77-19 amounting to a 21.20¢ per Dth increase in its currently effective rates at 100 percent load factor.

The April 1, 1977 El Paso increase is related to its PGA filing with the FPC in Docket No. RP 72-155 and results in an increase in its commodity rate of 7.82¢ per Mcf consisting of a purchased gas cost increase and a surcharge adjustment to clear the balance in the gas cost adjustment account. The June 1, 1977 El Paso increase amounting to 16.93¢ per Mcf in its commodity rate resulted from FPC Docket No. RP 77-18.

Pac Interstate's increase effective April 1, 1977 resulted from its regular PGA filing with the FPC in Docket No. CP 76-104. The increase in commodity rate amounts to 15.09¢ per Dth in the commodity rate applicable to SoCal.

The increased cost of gas from its out-of-state suppliers directly affects the cost of California source gas purchased from producers under long-term contracts by SoCal and Pacific Lighting Service Company (PLSC). Under these long-term contracts the price paid by SoCal and PLSC is determined by the average contract price paid by SoCal and PLSC for out-of-state gas received at the California border.

SoCal proposes that the \$41,515,000 increase be spread to classes of service on a system average increase per therm or equivalent basis including lifeline.

SoCal alleges that its earnings based on test year 1976 will not exceed the level of earnings authorized by the Commission in Decision No. 86595 and that granting the request contained in its application will do no more than allow SoCal to maintain the earnings position it would have experienced had its gas costs not increased. On the other hand, if SoCal receives no relief for the cost increases which it seeks to offset in this proceeding, its rate of return would decline from 8.80 percent to 2.29 percent for test year 1976 absent the balancing account procedure.

This application was consolidated for hearing with the filing of San Diego Gas & Electric Company (SDG&E), Application No. 57179, and public hearings were held in Los Angeles on May 12 and 13, 1977 before Administrative Law Judge Kenji Tomita. The matter was submitted on May 13, 1977 but subsequently reopened for further hearing pursuant to a petition filed by the city of Long Beach and the Long Beach Gas Department who claimed they were not notified of the initial hearing dates. The additional hearing was held on June 6, 1977 and the matter was submitted on that date.

Walter F. Stanley, manager of revenue requirements, testified for SoCal; Carl R. Green, rates supervisor, and R. R. Higgins, economist, testified for SDG&E; and Terry R. Mowrey, financial examiner, and Howard J. Frantz and Eugene S. Jones, utilities engineers, testified for the Commission staff.

At the hearing on May 12, 1977 SoCal's witness, Walter F. Stanley, requested that SoCal no longer be required to comply with Ordering Paragraph 3 of Decision No. 84291 because the conditions which led to that order no longer exist and no purpose is served by filing the statements required by such ordering paragraph.

SoCal also requested that it be authorized to revise Rule 2(n) as set forth on Tariff Sheet No. 14847-G in Advice Letter No. 1053.

The Issues

1. Did the modification of Rule 2(n) effective July 1, 1976 establishing a PGA balancing account for SoCal require any over- or undercollection resulting from prior PGA be recorded in the balancing account or was the balancing account established to commence recording any over- or under-collections commencing with the PGA authorized in Decision No. 86048?
2. Are the volumes and cost figures used by SoCal in its PGA calculations reasonable?

3. Should increases be spread to lifeline sales as well as other sales?
4. How should the proposed increases be spread to the various classes as well as within the residential customer class?

Commission Staff Position

The staff reviewed SoCal's records and work papers relating to the revised PGA and took no exception to the estimated volumes and average cost figures. The staff financial examiner while agreeing that SoCal's recorded balance in the balancing account at December 31, 1976 was a fair presentation of the PGA undercollections for the period August 1 to December 31, 1976 he was of the opinion that the account should have included overcollections for July in the amount of \$1,049,000 and that the net undercollections to be included in the PGA calculation should have been \$8,247,000 instead of the \$9,296,000 figure used by SoCal. The staff engineer responsible for determining the reasonableness of SoCal's revised PGA agreed with the staff financial examiner as to the \$1,049,000 adjustment but recommended that this adjustment be made in the next PGA filing. He further testified that SoCal's \$41,515,000 revenue requirement figure was reasonable.

A senior engineer introduced exhibits showing five alternate rate designs in response to Ordering Paragraph 3 of Decision No. 87192 dated April 12, 1977 in Case No. 9542 which reads "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". Applicant's proposal to spread the revenue increase to all classes of service including lifeline sales on a system average increase per-therm basis was designated as Method 1. Under Method 2 all therm sales other than domestic lifeline sales are increased on an equal cents-per-therm basis. Method 3 introduces a five-tier rate design featuring 5 rate blocks for domestic customers

and two rate blocks for non-domestic general service and all other rates except wholesale at a single rate at the level of the third domestic tier. All of these 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 developing a truly inverted five-tier rate design. Method 5 was introduced as a late alternate to tone down the increases in the tail blocks shown in Methods 4 and 5 to a figure that was not quite as drastic. The staff rate design witness testified that he was recommending Method 4 for the Commission's consideration for the four-month period ending September 30, 1977.

At the hearing on June 6, 1977 the staff introduced Method 6 as another alternative rate design proposal for the Commission's consideration. Method 6 is a method suggested by Pacific Gas and Electric Company (PG&E) in its companion PGA proceeding and also similar to California Manufacturers Association's (CMA) alternate proposal for residential service. It produces a penalty rate for domestic nonlifeline consumption in excess of a predetermined volume (75 therms selected for SoCal as compared to 104 therms used by PG&E). The excess rate would be calculated at twice the average offset rate necessary to produce the increased revenue requirement as shown in Table 1.

TABLE I

SOUTHERN CALIFORNIA GAS COMPANY
STAFF OFFSET RATE INCREASE OPTION
METHOD VI

Total System Sales	1,854,104 Mch
Increased Revenue Requirement	\$41,515,500
Wholesale Sales	152,279 Mch
Average System Increase	\$.02239 / th
Wholesale Revenues	<u>\$ 3,410,000</u>
Retail Revenue Requirement	\$38,104,000
Retail Sales	1,701,825 Mch
Lifeline Exemption	<u>321,383 Mch</u>
Retail Non-lifeline Sales	1,380,442 Mch
Average Offset Rate	\$.02760 / th
Retail Revenue Requirement	38,104,000
Residential Excess Non-Lifeline Sales*	134,767 Mch
2 X Offset Rate	\$.05520 / th
Retail Excess Revenues	<u>\$ 7,439,000</u>
Balance	30,665,000
Retail Sales	1,380,442 Mch
Residential Excess Non-Lifeline Sales	<u>134,767 Mch</u>
Balance Subject to Offset	1,245,675 Mch
New Offset Rate	\$.02461 / th

* Excess Residential Usage Summer: above 75 therms
Excess Residential Usage Winter: above 2 x lifeline allowance

The company introduced an alternate three-tier residential rate design (Table 2) at the request of the Commission staff. Although SoCal did not advocate the adoption of a multi-tier rate design it did indicate that its proposal was preferable to the staff's rate proposal. SoCal's proposal differed from staff Method 6 in that it spread the increase to lifeline sales and also set the excess residential sales at over 300 therms as compared to the 75 therms used by the staff. At the ALJ's request SoCal filed as late-filed Exhibit 35 (Table 3) a similar residential rate design with no increase for lifeline volumes.

TABLE 2

SOUTHERN CALIFORNIA GAS COMPANY

Alternative Rate Design Employing 3-Tier Residential Rates

-- Test Period June, 1977 through September, 1977 --

	<u>M\$</u>
Increased Revenue Requirement	41,516
Total System Sales	1,854,089 MTh
Wholesale Sales	<u>152,279 MTh</u>
Retail Sales	1,701,810 MTh
"Excess" Residential Sales*	<u>30.260 MTh</u>
Other Retail Sales	1,671,550 MTh
System Average Rate Increase to Wholesale -- 2.239¢/Th	
2 X System Average Rate Increase -- 4.478¢/Th	
Revenue from "Excess" Residential Sales**	1,355
Revenue from Wholesale Sales	<u>3,410</u>
Balance to Come from Other Retail	36,751
Rate Increase to Other Retail -- 2.199¢/Th	

*Over 300 Therms per bill

**Assumes no price elasticity.

TABLE 3

SOUTHERN CALIFORNIA GAS COMPANY

Alternative Rate Design Employing 3-Tier Residential Rates
With No Rate Increase To "Lifeline" Volumes

Test Period June, 1977 through September, 1977

		<u>MS</u>
Increased Revenue Requirement		41,516
Total System Sales	1,854,089 MTh	
Wholesale Sales	<u>152,279 MTh</u>	
Retail Sales	1,701,810 MTh	
Lifeline Sales	<u>321,383 MTh</u>	
Retail Sales less Lifeline	1,380,427 MTh	
"Excess" Residential Sales*	<u>30,260 MTh</u>	
Other Retail Sales	1,350,167 MTh	
System Average Rate Increase to Wholesale	2.23¢/Th	
2 x System Average Rate Increase**	4.47¢/Th	1,355
Revenue from Wholesale Sales		<u>3,410</u>
Balance to Come from Other Retail Sales		36,751
Rate Increase to Other Retail	2.72¢/Th	

* Over 300 Therms per bill

** Assumes no price elasticity

Position of Other Parties

Aside from the issue of the \$1,049,000 overcollection for the month of July 1976 most of the parties in the initial hearings did not take any serious exceptions to SoCal's PGA calculation. In the reopened proceedings the city of Long Beach contended that SoCal's estimated sales were understated because it used 1,044 Btu's instead of 1,047 Btu's in calculating therm sales. The city of Long Beach also raised an issue of the propriety of SoCal allocating a portion of the uncollectibles to wholesale customers.

Even CMA, whose members would benefit under the staff's alternate Method 4, opposed the various alternate rate design proposals made by the staff because of its concern that a hastily established rate design may set a bad precedent and also because the staff proposals were not responsive to Decision No. 87129 in that they were too expansive. CMA recommended that no basic rate design change be made in this proceeding as there is a lack of good data relating to residential sales in usage blocks. CMA was of the opinion that rate design changes should be considered in the context of a general rate increase proceeding. CMA also offered the suggestion that if the Commission is determined to utilize a multi-tier rate design in this proceeding, it should be done in the simplest, most understandable manner possible and not affect other classes of customers adversely. CMA also supported SoCal's proposal to spread increases to all classes of service including lifeline.

Discussion

We have disposed of the revenue requirement issues involved in this purchased gas adjustment application. Following is our discussion on other specific issues and rate design.

Balancing Account Adjustment

SoCal overcollected \$1,049,000 in July 1976, which resulted from their prior PGA procedure which did not use a balancing account. SoCal contends that the balancing account established for PGA's was initiated in Decision No. 86049 (which covered the month of July 1976) specifically to cover the increased cost of gas from Transwestern, and the fact that the Transwestern increase was postponed from July 1976 to August 1, 1976 should not mean the overcollection in July should be included in the balancing account. The fact is SoCal charged rates for July 1976 which were to recover increased costs that it did not pay during July. We agree with the staff that the \$1,049,000 in question should be credited to the balancing account in an overcollection. To do otherwise would result in a windfall to SoCal at the expense of ratepayers. The balancing account shall be adjusted in SoCal's next PGA filing.

Resale Rate Issues

The City of Long Beach and SDG&E contend that it is not reasonable to pass through to them, as wholesale customers of SoCal, uncollectible expense incurred by SoCal. That position would have merit if gas rates, including resale rates, were based on cost allocation factors. However, historically, cost allocation has not been determinative in establishing SoCal's gas rates, and it is not determinative in this decision. Accordingly, it is not proper to attempt to quantify the expense effect of uncollectibles, franchise fees or transmission loss to apply a downward expense adjustment factor to a rate which is not specifically expense related to start with. See, Decision No. 82042, Application No. 53797, SoCal (1973).

Long Beach contends that SoCal's estimated sales are understated because SoCal used a slightly lower Btu content in its estimate. While in earlier PGA proceedings the Btu content was an issue because an erroneous sales estimate could result in an over-collection to the utility's advantage, the instant PGA is tied to a balancing account whereby actual sales will be matched against actual revenues received. Given the balancing account mechanism, Btu content is not a figure we must find reasonable as the underpinning for a sales estimate.

Rate Design

In the matter of rate design, the first issue that should be resolved is whether the increased revenues relating to this PGA should be spread to lifeline customers in view of the fact that the legal limitations imposed by Section 739(b) no longer apply since the average system rate exceeds lifeline rates by more than 25 percent. The 25 percent limitation was exceeded sometime late in 1976. The issue of when the Commission should increase lifeline rates is being covered in Case No. 9983, a general investigation into lifeline rates, and a decision on that matter is now pending. It would be premature in this offset proceeding to make a change in the policy followed by the Commission of not increasing lifeline rates even though system average rates exceed lifeline rates by more than 25 percent. Therefore, for the purpose of this proceeding, no rate increase will be applied to lifeline rates.

We are, by this decision, adopting a five-tier rate design for residential customers to encourage and give incentive for conservation. This is done in a PGA offset proceeding, rather than waiting for a general rate case, because we are of the opinion that given the gas supply problems ahead, and the rapid price escalation at hand, we should not wait to adopt effective conservation oriented rates. Gas conserved is a gas source for all users, and a source that will prove important for the industrial and living environment of the Southern California area. We adopt a summer schedule only at this time. In the next PGA proceeding, we will adopt winter rates.

Under our adopted rate design there will be no increase to lifeline rates. To eliminate varying customer charges (or the basic charge irrespective of the quantity of gas used), we are abolishing the present density zones and, in their place, applying a uniform customer charge of \$3.10.^{1/} That charge is higher than the uniform \$1.20 we established for PG&E's residential users. In the next PGA proceeding for SoCal we will consider further adjustment of the customer charge to a level closer to PG&E's. However, this is a present step which is intended to simplify gas rates and bring some uniformity to conservation-oriented rates so that consumers may understand and relate to them. Also, our primary concern is to establish rates to encourage conservation, and density zones involve essentially cost-of-service factors.

Resale customers (e.g., SDG&E and the City of Long Beach) will receive the system average increase.

We are establishing a uniform rate for small commercial and industrial customers (Priority 1 and 2) at the same level as the highest residential tier. For interruptible customers (Priorities 3, 4, and 5) we are establishing a rate closer to the cost of alternate fuels. This is to serve as a signal to those interruptible customers that the hard realities of gas supply and increasing prices are close at hand. Steps by low priority users to convert to alternate fuels must be taken. If we were to allow unrealistically low gas prices it would be a cruel hoax; for industry would be lulled into a false sense of security and be disruptively shaken and set back when the day of drastic increases or supply curtailment arrives. We trust that this order is viewed as a constructive step by low priority users, for that is in the full sense what we intend.

Our adopted rates are set forth in Appendix A to this Opinion.

^{1/} The existing customer charge is \$3.13. We lack sufficient revenue effect data to lower that charge any further in this proceeding.

Findings

1. Transwestern filed Docket No. RP 74-52 with the FPC providing for a net decrease of 8.93¢ per Dth to offset purchase gas cost increases and a decrease to clear the balance of the gas purchase adjustment account to become effective on April 1, 1977 and filed Docket No. RP 77-19 amounting to a 21.20¢ per Dth increase to become effective on June 1, 1977.

2. El Paso filed Docket No. RP 72-155 with the FPC effective April 1, 1977 which results in an increase of 7.82¢ per Mcf due to gas cost increases and a surcharge adjustment to clear the balance of the gas cost adjustment account and also filed Docket No. RP 77-18 a general rate increase filing to become effective on June 1, 1977 amounting to a 16.93¢ per Mcf increase in its commodity rates to SoCal.

3. Pac Interstate filed Docket No. CP 76-104 with the FPC which provided for a 15.09¢ per Dth increase in its commodity rates applicable to SoCal to offset PGA increases effective April 1, 1977.

4. The increase in the cost of SoCal's out-of-state gas supplies will result in a related increase in the cost of California produced gas.

5. SoCal's revenue requirements related to the above-mentioned supplier rate changes will total \$41,515,000 for the four months ended September 30, 1977.

6. The overcollections for the month of July 1976 in the amount of \$1,049,000 should be included in the balancing account.

7. No adjustment will be made in the current PGA filing for the July overcollection; but it will be adjusted in the next PGA filing.

8. Although SoCal's average system rates have exceeded lifeline rates at January 1, 1976 by more than 25 percent, none of the rate increases will be spread to lifeline sales in this proceeding.

9. The need for a conservation oriented rate design is critical and the public interest compells us to restructure rates in this PGA proceeding.

10. The adopted rate design spreading to residential nonlifeline sales in excess of 300 therms, an increase greater than the average system increase, is reasonable for this proceeding.

11. SoCal should be authorized to institute a consolidated five-tier inverted rate design for residential service. SoCal should also be authorized to increase rates for high priority nonresidential usage to the level of the last tier residential rates and by an additional one cent per therm to lower priority customers.

12. The granting of the increase requested in this application is reasonable and will not affect SoCal's earnings or its rate of return but will offset only the effects of the increases in its cost of purchased gas.

13. The increase in gas costs is an extraordinary expenditure in nature and magnitude and a proper subject of an offset rate proceeding.

14. In the event the FPC orders Transwestern, El Paso, or Pac Interstate to reduce rates and make refunds, the amount of this offset increase will be reduced and appropriate refunds made subject to Commission approval.

15. The changes in gas rates and charges authorized by this decision are justified and reasonable; the present rates and charges, insofar as they differ from those prescribed by this decision are, for the future, unjust and unreasonable.

16. The requirements set forth in Ordering Paragraph 3 of Decision No. 84291 are unnecessary because the conditions which led to that ordering paragraph no longer exist and no purpose is served by filing the statements.

17. SoCal should be authorized to revise Rule 2(n) to track PGA rate changes in accordance with the revised rate structure authorized herein.

Conclusions

1. SoCal should be authorized to file and place into effect the authorized PGA set forth above.

2. The effective date of this order should be the date hereof because there is a need for rate relief. SoCal is already incurring costs which will be offset by the rate increase authorized here.

O R D E R

IT IS ORDERED that:

1. Southern California Gas Company (SoCal) is authorized to file with this Commission revised rate schedules as set forth in Appendix A attached hereto, on or after the effective date of this order. Such filing shall comply with General Order No. 96-A. The revised tariff schedules shall be effective on the date of filing.

2. SoCal shall record the July 1976 overcollections of \$1,049,000 in its PGA balancing account.

3. SoCal is relieved from filing the statements required by Ordering Paragraph 3 of Decision No. 84291 in subsequent offset proceedings.

4. SoCal is authorized to revise Rule 2(n) to accommodate the revised rate structure.

The effective date of this order is the date hereof.

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

*I will concur or dissent
William Lyons-J*

Robert B. Bahr
President

James L. Sturgeon
Robert N. Chavala

Commissioners

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

APPENDIX A
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Southern California Gas Company

General Natural Gas Service - Summer Rates

Monthly Customer Charge	<u>G Res.</u> \$ 3.10
Commodity Charge - Residential:	
First 26 therms, per therm	12.83¢
Next 54 therms, per therm	14.00
Next 50 therms, per therm	15.50
Next 170 therms, per therm	17.00
Over 300 therms, per therm	17.95
Commodity Charge - Non-Residential (Priority 1 and 2 customers):	
All usage, per therm	17.95¢
Minimum Charge:	
All customer usage except space heating only	\$ 3.10
Space heating only - May through October	None

Street and Outdoor Lighting Natural Gas Service, Rate Schedule G-30

Hourly Lamp Rating—	1.99	2.00	2.50	3.00	4.00	5.00	7.50	Over
cu.ft. per hour	or	to	to	to	to	to	to	10.00
	<u>less</u>	<u>2.50</u>	<u>3.00</u>	<u>4.00</u>	<u>5.00</u>	<u>7.50</u>	<u>10.00</u>	<u>CF/HR</u>
Per Lamp, per month	\$2.50	\$3.04	\$3.61	\$4.28	\$5.09	\$6.21	\$7.83	\$ 0.95

APPENDIX A
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Southern California Gas Company

For All Gas Engine and Regular Interruptible (Priority 3, 4, and 5 customers) (Rate Schedules G-45, G-50, G-50T, and G-53T)

All usage, per therm, per meter per month
except supplemental service to
Monolith Portland Cement Company 18.95¢
Supplemental Service to Monolith Portland Cement Company. 18.95¢

	G-45	G-50	G-50T	G-53T
Minimum Charge, per meter per month	\$ 7.00	\$ 100.00	\$16,000.00	\$16,000.00
Cumulative Annual Minimum Charge	84.00	1,200.00	-	-

Utility Electric Generation (Rate Schedule G-58)

Per million Btu 189.5¢ (or 18.95¢ per therm)

Wholesale Natural Gas Service

Schedule G-60

Monthly Demand Charge per Mcf
of Daily Contract Demand ...\$ 2.7888
Commodity Charge, per therm .. 12.906¢
Minimum Annual Charge for
Additional Peaking Demand...\$212,000

Schedule G-61

Monthly Demand Charge per
Mcf of Contract Daily
Maximum Demand\$ 2.1309
Commodity Charge, per million
Btu of monthly delivery... 129.43¢
Additional Peaking Demand Gas:
Annual Peaking Demand
Charge.....\$392,000
Commodity Charge, per
million Btu of Monthly
Delivery..... 149.48¢

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.

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. 87585
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. 57138) - D. 87585
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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%. Residential, 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%. Residential 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.

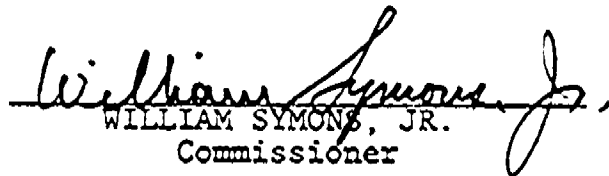
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D. Encouraging a switch to alternative fuels constitutes acceptance of the gas shortage as a permanent fact of life. Such is not the case: Federal deregulation is a sure way to increase supplies.

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 SYMONS, JR.
Commissioner