

ORIGINAL

Decision No. 88538 MAR 7 1978

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of Application of Southern California Gas Company for Authorization to (1) Increase Rates for Gas Service to Offset the Costs Associated with 1978 Voluntary Load Reduction Plan (2) Establish a Conservation Adjustment Account and (3) Implement Major Customer Incentive Programs.

Application No. 57578 (Filed September 16, 1977)

ORDER OF DISMISSAL

By this application, Southern California Gas Company

(SoCal) seeks ex parte authorization of its proposed Conservation Adjustment Account (CAA) and, after hearing, authorization to

increase its rates approximately \$13,932,000 to offset expenses associated with its Voluntary Load Reduction Plan (VLRP) in addition to the \$7,163,000 level of expenditures for conservation included in D.86595 dated November 2, 1976 in SoCal's general rate increase A.55345.

SoCal is proposing to conduct fifty separate conservation programs in 1978. Included in the proposal are home insulation, rental market insulation, do-it-yourself home insulation, independent insulation contractors, insulate weatherization for low-income families, real estate retrofit,

intermittent ignition device, heat recovery, and customer incentive programs. The total estimated cost of SoCal's 1978 proposed conservation program is \$20,879,770 of which \$7,163,000 consists of amounts authorized for a conservation program in D.86595. By this application SoCal seeks immediate implementation of CAA with early offset rate relief for the

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conservation expenses in excess of the amount authorized by D.86595. According to the application, part of the impetus for the early implementation of the expanded conservation efforts has been the urging of the Commission as evidenced by President Batinovich's letter dated January 25, 1977, to the chief executives of California gas and electric utilities which stated in part:

"You have been, for some time, aware of the Commission's policy that conservation ranks at least equally with supply as the primary commitment and obligation of a public utility. The Commission has also been keenly interested in developing programs for adequate ceiling insulation in all existing residential structures within five years through the use of utility incentives."

SoCal agrees with the necessity for additional conservation measures but notes that without the requested rate relief offset, it will be unable to accomplish the expansion of the conservation efforts desired by all.

Although Section 792.5 of the Public Utilities Code provides that a balancing account must be established whenever specific changes in expense levels are passed on to ratepayers, we are reluctant, as a matter of general policy, to allow offset ratemaking. Offset rate relief has been allowed for utilities which have experienced sudden and

1/ "792.5. Whenever the commission authorizes any change in rates reflecting and passing through to customers specific changes in costs, except rates set for common carriers, the commission shall require as a condition of such order that the public utility establish and maintain a reserve account reflecting the balance, whether positive or negative, between the related costs and revenues, and the commission shall take into account by appropriate adjustment or other action any positive or negative balance remaining in any such reserve account at the time of any subsequent rate adjustment."

significant increases in operating expenses (e.g., for purchased gas, fuel, and purchased power). However, as a matter of diligent ratemaking practice it is most desirable to examine a utility's total results of operations before increasing rates. This procedure is particularly appropriate for addressing utility operating costs, such as energy conservation expenses, which are largely within the control of the utility.

Furthermore, we have streamlined our procedures for processing general rate cases, and any need for offset relief as a practical consideration in view of regulatory delay is no longer a reason for entertaining offset applications.

In D.88272 dated December 20, 1977 in A.56845, we denied Pacific Gas and Electric Company's request for an increase in rates for electric and gas service to offset the costs of supplemental conservation programs and abolished the conservation cost balancing account previously established in interim D.86940 dated February 8, 1977. This decision formed the basis for a Commission staff motion that this application be dismissed "for the reason that an offset proceeding is not appropriate for consideration of test year 1978 conservation expenses and associated increases in rates."

In D.88272 it is stated:

"We have before us, in the early stages of hearing, PG&E's general rate proceeding (with a 1978 test year), Applications Nos. 57284 and 57285. That is the proper forum for PG&E to submit its proposed test year expense for conservation programs, and to explain and justify the reasonableness of the proposed efforts. Any incremental revenue increase needed for conservation efforts can be reflected in base rates as we adopt a rate design. We do not expect this process to delay those proceedings." (Mimeo. page 8.)

As noted in the staff's motion to dismiss this application, SoCal's general rate proceeding, A.57639, is also in the early stages of hearing. It is axiomatic that conservation is a source of energy supply for California and that through successful increased conservation efforts, existing gas supplies will last longer. A vigorous and effective conservation program is clearly a utility responsibility. We have taken the measures we can to provide utility management with the incentive to give conservation efforts high priority. And as we have previously announced, if we find inadequate efforts to promote conservation, we will not hesitate to make a commensurate downward adjustment to the authorized rate of return. Under these circumstances the pending general rate increase application would be the appropriate proceeding to evaluate past efforts (and consider whether any rate of return adjustment is appropriate), and at the same time review proposed programs and their estimated expense levels as we set rates for the future.

#### Findings

1. Southern California Gas Company should present its proposed conservation and the estimated associated expenses in its general rate proceeding.
2. SoCal should continue with a vigorous and sustained effort to encourage the conservation of gas. Such efforts are an essential element of sound utility management and responsibility in this time of diminishing energy supplies and rapidly escalating construction costs.
3. No determination should be made at this time with respect to the reasonableness of the proposed conservation programs submitted by SoCal. The propriety of implementing

new or continuing SoCal's other proposed energy conservation programs and the expenses associated therewith should be considered in SoCal's general rate proceeding.

4. SoCal's Application No. 57578 should be dismissed.
5. A public hearing is not necessary.

The Commission concludes that Application No. 57578 should be dismissed.

IT IS ORDERED that Application No. 57578 is dismissed.

The effective date of this order shall be thirty days after the date hereof.

Dated at San Francisco, California, this 7th day of MARCH, 1978.

I abstain  
William Synoux, Jr.

Robert Bateman  
President

Vernon L. Stiggen

Robert D. Stovall

Carole T. DeWitt  
Commissioners