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ORIGINAL

Decision No. 91077 NOV 30 1979

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHERN CALIFORNIA GAS COMPANY to Increase Revenues to Offset Changed Gas Costs Under Its Approved Purchased Gas Adjustment Procedures Resulting from Adjustments in the Price of Natural Gas Purchased from TRANSWESTERN PIPELINE COMPANY, EL PASO NATURAL GAS COMPANY and PACIFIC INTERSTATE TRANSMISSION COMPANY; and to Adjust Revenues under the Supply Adjustment Mechanism to Reflect Greater Than Anticipated Collection of Revenues Due to Increases in Natural Gas Supplies.	Application No. 59146 (Filed September 17, 1979)

David B. Follett and Robert B. Keeler, Attorneys at Law, for Southern California Gas Company, applicant.
Herman Mulman and Edward B. Novikoff, for Seniors for Political Action, protestant.
Martin E. Whelan, Jr., Inc., by Carl M. Faller, Jr., and Martin E. Whelan, Jr., for Tehachapi-Cummings County Water District; Downey, Brand, Seymour & Rohwer, by Philip A. Stohr, Attorney at Law, for General Motors Corporation; William E. Emick, Attorney at Law, and Vernon E. Cullum, for City of Long Beach Gas Department; Brobeck, Phleger & Harrison, by Gordon E. Davis, Attorney at Law, for California Manufacturers Association; Henry F. Lippitt, 2nd, Attorney at Law, for California Gas Producers Association; Graham & James, by Boris H. Lakusta, David J. Marchant, and Thomas J. MacBride, Jr., Attorneys at Law, for Valley Nitrogen Producers, Inc., and Union Chemicals, Division of Union Oil Company of California; Rollin E. Woodbury, John Bury, L. Christian Hauck, and Larry R. Cope, Attorneys at Law, for Southern California Edison Company; John W. Witt, City Attorney, by William S. Shaffran, Deputy City Attorney, for the City of San Diego; Stephen A. Edwards and Jeffrey Lee Guttero, Attorneys at Law, for San Diego Gas & Electric Company; and Burt Pines, City Attorney, by Ed Perez, Deputy City Attorney, for the City of Los Angeles; interested parties.
Thomas P. Grant, Attorney at Law, for the Commission staff.

OPINION

I. Introduction

Southern California Gas Company (SoCal) seeks authority to increase its rates to provide additional gross revenues of $289,085,000 for the 12 months ending September 30, 1978, to offset the increased cost of purchased gas of $328,650,000 under its approved Purchased Gas Adjustment (PGA) procedure and to reflect a Supply Adjustment Mechanism (SAM) reduction in the amount of $39,565,000.

After due notice, public hearings were held before Administrative Law Judge Patrick J. Power at Los Angeles on October 15, 16, 17, 18, and 19, 1979. The matter was submitted on oral argument.

Testimony was presented on behalf of SoCal by its manager of rates and tariffs, M. J. Douglas, and by a revenue service systems coordinator, R. L. Ballew. Testimony was presented on behalf of the Commission staff by senior utility engineer, J. L. Fowler, Jr. The entire record of the most recent SoCal PGA-SAM proceeding, A.58724, was incorporated by reference.

Three members of the public, Herman Mulman, Edward Novikoff, and Jules Kimmett made statements on the record.

Oral argument was received from SoCal, the Commission staff, the city of San Diego (San Diego), California Manufacturers Association (CMA), California Gas Producers Association (Producers), Southern California Edison Company (Edison), San Diego Gas & Electric Company (SDG&E), the city of Long Beach (Long Beach), and Tehachapi-Cummings Water District (Tehachapi). A written statement was received from Valley Nitrogen Producers, Inc. (Valley) and the Union Chemical Division of Union Oil Co. (Union), together hereafter identified as "Ammonia Producers."

II. Background

SoCal filed A.59146 on September 17, 1979, seeking to recover increased revenue sufficient to offset projected changed gas costs during the period October 1, 1979 through September 30, 1980, as well as to eliminate the undercollection balance in the PGA balancing account. The filing follows by less than a week the Commission's final decision in A.58724, D.90822 (September 12, 1979), and SoCal requests that this proceeding not be similarly delayed. The entire record of A.58724 was incorporated in this proceeding without objection, and the extensiveness and freshness of that record allowed the parties in this proceeding to relate their positions to the larger record, allowing for timely submission. We observe that the decision in this proceeding must be read in the context of the lengthy decision in A.58724. This decision is intended to be consistent with D.90822, except as where expressly noted. We recognize that several petitions for rehearing of D.90822 have been filed. Those petitions will be judged individually in the ordinary course of process and are not disposed of by this order.

Official notice is taken of the following orders of the Federal Energy Regulatory Commission (FERC), all issued September 28, 1979: Order No. 49 (Docket No. RM79-14), Order No. 50 (Docket No. RM79-21), and Order No. 51 (Docket No. RM79-21). Order No. 49 addresses the regulations for implementing the incremental pricing provisions of the Natural Gas Policy Act of 1978. The substance of Orders Nos. 50 and 51 is summarized by FERC in this quote from Order No. 51:

> "In a companion 'Final Rule' issued today in this docket, the Commission has promulgated a three part ceiling system (three-tier approach). Depending upon

a facility's installed capability and legal authority to use certain fuels, an incrementally priced facility would have its ceiling price for natural gas set at the level of the appropriate regional price of No. 2, low sulfur No. 6 or high sulfur No. 6 fuel oil. The Commission found that such a system best met the Congressional purpose embodied in Title II of the NGPA.

"However, the Commission also concluded that this system may result in significant investment by facilities in order to install No. 6 capability to gain the advantage of a lower ceiling price for natural gas. The amount of this induced investment cannot be estimated with precision at this time, but the record indicates it could be a sizable amount. More importantly, the public benefits, if any, that would result from a significant amount of the nation's capital being devoted to this purpose remains unclear. Thus, the Commission is extremely concerned about the three-tier approach becoming effective without more time to gain familiarity with the incremental pricing program, the incrementally priced industrial facilities, and the extent to which the three-tier approach would be likely to result in an inducement to install otherwise unneeded No. 6 oil burning equipment. Therefore, the Commission believes it would be in the public interest to hold the upper two tiers of the system in abeyance for 10 months - from January through October, 1980 - to provide a period during which a better understanding of the implications of the three-tier approach can be obtained." (Pages 2-3.)

III. Summary

This decision authorizes SoCal to increase its rates to recover an additional $287,041,000 for the forecast year ending September 30, 1980. The increased revenue offsets increases in the cost of gas from SoCal's suppliers, and amortizes existing PGA and SAM balancing accounts. It does not contribute to additional profit for the utility.

The central issue in the proceeding is the rate design. The adopted rate structure reflects the policy considerations supporting the Commission's decision in SoCal's last PGA-SAM proceeding, D.90822 in A.58724. Industrial gas rates are set by reference to alternate fuel prices. A two-tier rate is established for industrial customers, depending on the type of fuel oil that is the alternate fuel. The third tier residential rate remains the highest in the tariff. A uniform rate is adopted for GN-1, GN-2, and the second tier residential block. The lifeline rate is priced residually. Wholesale rates are raised on an average basis. An extension of the special rate for ammonia manufacturing is denied.

IV. Revenue Requirement

SoCal originally requested overall relief of $289,085,000. Staff found SoCal's forecast period gas supply estimates reasonable and adopted its purchase volumes and costs and associated sales volumes.

Staff independently calculated the resulting revenue requirement and derived a figure of $287,041,000, a difference of $2,044,000 from SoCal's. In oral argument counsel for SoCal stated that it would accept the revenue requirement found reasonable by the staff. The adopted revenue is $287,041,000.

The three members of the public who appeared and made statements all advocated that the relief requested be denied. They all cite the hardship for the poor and elderly if utility rates are raised. The Legislature has expressed its concern by enacting Section 739 of the Public Utilities Code, providing for lifeline rates. To the extent that parties are of the opinion that lifeline rates are not an adequate remedy, we urge that a legislative solution be explored.

V. Rate Design

A. Introduction

The major contested issue in this proceeding is the matter of the rate design to be applied to the estimated sales to recover the authorized revenue requirement. Within this broad subject there are various sub-issues which are raised by the contentions of the parties.

B. Positions of the Parties

SoCal proposes a uniform commodity rate applicable to all retail sales. This effect is achieved in the context of the existing residential rate blocks by way of weighted averages. It proposes to base its wholesale rate schedules on a method it describes as based on "allocated costs". This rate design proposal is depicted herein as Table 1.

TABLE 1

SoCal Proposed Rates Through 12/31/79

Type of Service	Unit	Base Commodity Rates	CAM SAM	CAM PGA	GEDA	TCAC	Effective Commodity Rates
Residential							
Lifeline	¢ per therm	16.387	(2.992)	13.651	.257	.134	27.437
Non-Lifeline							
First 100	¢ per therm	20.487	(4.607)	13.651	.257	.149	29.937
Over 100	¢ per therm	25.887	(7.507)	13.651	.257	.149	32.437
Non-Residential							
GN-1	¢ per therm	22.025	(7.427)	13.651	.257	.144	28.650
GN-2	¢ per therm	20.913	(6.299)	13.651	.257	.128	28.650
GN-3	¢ per therm	20.913	(6.299)	13.651	.257	.128	28.650
GN-4	¢ per therm	20.913	(6.299)	13.651	.257	.128	28.650
GN-5	¢ per MMBtu	209.13	(62.99)	136.51	2.57	1.28	286.50
Wholesale							
G-60	¢ per therm	14.558	(2.962)	13.651	.257	.097	25.601
G-61							
Commodity	¢ per MMBtu	145.95	(21.81)	136.51	2.57	0.97	264.19
Peaking	¢ per MMBtu	166.00	(21.81)	136.51	2.57	0.97	284.24

SoCal opposes the introduction of differential rates for industrial customers, depending on the type of alternate fuel oil. It points to FERC Order No. 51, which postpones the implementation of three-tier pricing until November 1, 1980. It warns of the risk of induced investment, the perceived economic waste that would result if customers install equipment merely to qualify for a lower gas rate.

It supports its own rate design proposal as reasonably calculated to preserve its industrial market so as not to cause any loss of load. It suggests that its residential rate design will most effectively promote conservation. It proposes a slight, uniform reduction effective January 1, 1980, when the temporary Ammonia Producers' rate is set to expire.

Staff argues that its rate design recommendation is consistent with the policy pronouncements of this Commission in D.90822 and should be adopted. It bases its low priority rates on alternate fuel costs and proposes that a differential be established between industrial customers, depending on whether No. 2 or No. 6 fuel oil is the alternate fuel. It observes that the existing differential within the residential blocks is about 10 cents per therm, and proposes to maintain that relationship. The staff rate design proposal is shown herein as Table 2.

TABLE 2

Staff Proposed Rates

Schedule	9-27-79	To 12/31/79 Rate	To 12/31/79 Increase 2/	1-1-80 to 5-31-80 3/ Rate	1-1-80 to 5-31-80 3/ Increase 2/	Beginning 6-1-80 3/ Rate	Beginning 6-1-80 3/ Increase 2/
	(Cents per Therm)						
Residential							
Lifeline	20.669	23.025	11.4%	22.884	(0.6)%	20.762	(9.3)%
Non-lifeline							
First 100 therms	25.217	27.809	10.3	27.668	(.5)	25.317	(8.5)
Excess	30.617	33.209	8.5	33.068	(.4)	30.717	(7.1)
GN-1	26.318	28.964	10.1	28.823	(.5)	26.639	(7.6)
GN-2 1/	25.506	27.836	9.1	27.695	(.5)	25.511	(7.9)
GN-32	25.506	40.000	56.8	40.000	-	40.000	-
GN-36	25.506	34.000	33.3	34.000	-	34.000	-
GN-42 1/	25.506	40.000	56.8	40.000	-	40.000	-
GN-46	25.506	34.000	33.3	34.000	-	34.000	-
GN-5	25.506	30.000	17.6	30.000	-	30.000	-
G-60	20.063	23.808	18.7	23.667	(.6)	20.361	(14.0)
G-61 Reg.	20.100	23.845	18.6	23.704	(.6)	20.398	(13.9)
G-61 Pkg.	22.105	25.850	16.9	25.709	(.5)	22.403	(12.9)

(Red Figure)

1/ Supplemental service to Ammonia Producers at 21.17¢/therm through December 31, 1979.

2/ Percent increase (decrease) based on prior effective rate reading from left to right.

3/ Approximate dates; actual dates will be determined by the effective tariff date revision due to a decision in this filing.

Staff also proposes a slight reduction on January 1, 1980. It proposes a further change in rates effective in six months to reflect the complete amortization in the balancing account.

The cities of San Diego and Los Angeles expressed general support for the staff rate design proposal, on the basis that it is consistent with D.90822 and supported by the evidence. They urge that the Commission proceed cautiously with regard to the implementation of the differential natural gas price and allege a hypothetical anticompetitive effect that should be investigated. San Diego objects particularly to SoCal's wholesale rate proposal and describes it as discriminatory and unlawful. It contends that the cost allocations underlying SoCal's proposal have not been adequately tested and should not be utilized.

CMA repeated its support of cost-based rates and the rate design principles defended by its witness, Mr. Burt, in A.58724. It did not offer complete rate design calculations, but rather a description of a methodology from which rates may be derived. The basis of its lifeline proposal is that sales to a residential customer using exactly the lifeline quantity yields exactly a zero rate of return, assuming CMA's cost allocation method. The resulting revenue deficiency would be made up largely within the residential class. The proposed commodity charge for lifeline service has been calculated; it is 29.166 cents per therm. CMA then proposes that the residual revenue requirement should be spread to other customer classes as necessary to produce the additional revenue, based on the annual average-day cost allocation method.

CMA observed that at page 39 of D.90822 this Commission offered a thorough statement of rate design considerations. CMA compared the various rate design proposals submitted in this proceeding in terms of these "attributes" and "factors", and contends that in all instances its proposal is superior or at least equal to the proposals of SoCal and staff.

CMA also offered a number of critical comments regarding this Commission's reasoning, as expressed in D.90822. It objects to the use made of the concept of value of service and contends that competition is an appropriate factor only when it results in rates being less than fully allocated costs. It argues that the amount of expensive Canadian gas purchased by SoCal is insignificant for cost allocation purposes, and does not support the Commission's result. CMA reaffirmed its view that if the Commission is to adopt a policy that bases the rates for industrial customers on the cost of incremental supplies (including LNG) that is materially higher than the system average cost of gas, it would recommend that the high priced supplies not be purchased.

CMA cautions that to the extent that alternate fuel prices are used in setting industrial rates, this Commission should be guided by FERC Order No. 51. In particular it warns against induced investment by establishing a large differential between gas prices and recommends that this Commission exempt those classes of customers (steam electric plants and agricultural users) that are exempt from the surcharge to be imposed by FERC regulations.

Producers states that its interest is to maximize the market for natural gas in California in order to allow California gas producers to sell as much gas as possible. It argues that the staff rate design proposal could have serious adverse effects on large natural gas customers, particularly relative to

competition from other states. It proposed two alternative rate designs - a uniform cents-per-therm increase, or a "FERC type" increase with one industrial rate, based on No. 6 fuel oil prices. It warns of the potential for induced investment and supports continuing the reduced rate for Ammonia Producers. Its rate design alternatives are the subject of late-filed exhibits.

Edison objects to the use of value of service for setting low priority rates, where the value of service exceeds the fully allocated cost of service. It observes that the Natural Gas Policy Act exempts electric utilities from the mandatory incremental pricing provisions, and argues that it should be similarly excluded. It suggests that the initial inquiry should be to consider allocated costs of service, followed by adjustments which the Commission may determine are justified, in the exercise of sound discretion, based on evidence and adequate findings.

Edison complains that staff's proposed rate design produces an excessive rate of return from the GN-5 class. It says there are no conservation factors that justify this result and that there is no intention to cause GN-5 customers to reject gas. It points out that it will have to pass on its higher costs to its electric customers.

Edison characterizes the SAM procedure as coming "uncomfortably close" to a guaranteed rate of return for SoCal and objects that SAM overcollections are not "returned" to the customer classes who contributed.

SDG&E points out that the rates authorized will be passed on to its customers by way of its own purchased gas adjustment procedure. Its interest is in the wholesale rate, and it objects to the SoCal rate proposal for wholesale on the ground that it is the only rate proposed to be based on cost of service. San Diego points out that cost of service requires complex analysis and extensive examination into the assumptions and accuracy of the allocation method with the potential for delaying these offset proceedings. It supports the staff proposal as the better choice on this record.

Long Beach expressed its support for the staff proposal and agreement with San Diego and SDG&E. It points out that wholesale customers are similarly in a position where rate structures must be maintained.

Tehachapi-Cummings supports the staff rate design proposal as consistent with D.90822. It says that the staff proposal appropriately considers the particular position of gas customers without alternate fuel capability, while adequately providing protection against loss of load.

The Ammonia Producers filed a written statement asking that the Commission extend the expiration date of the special rate for ammonia manufacturing from December 31, 1979, to April 30, 1980. While they believe that it is the responsibility of the Commission to give special rates in special circumstances without need to resort to special legislation, they state that they have been working on such legislation since the Commission's order, D.90822.

C. Adopted Rate Design

1. Introduction

The rate design adopted in this proceeding is based on the same policy considerations that support this Commission's decision in A.58724, D.90822. The rates adopted are shown in Table 3.

TABLE 3

Adopted Rate Design

Class	Present Rate ¢/th.	Adopted Rate ¢/th.	% Increase
Residential			
Lifeline	20.669	22.270	7.7
Nonlifeline			
1st 100 th.	25.217	28.964	14.9
Over 100 th.	30.617	37.685	23.1
Commercial - Industrial			
GN-1	26.318	28.964	10.1
GN-2	25.506	28.964	13.6
GN-32, ~~36~~ 42	25.506	37.000	45.1
GN-~~42, 46~~ 36,46	25.506	34.000	33.3
GN-5	25.506	30.000	17.6
Wholesale			
G-60	20.063	23.808	18.7
G-61 Reg.	20.100	23.845	18.6
G-61 Pkg.	22.105	25.850	16.9

The calculations supporting the adopted rates show that purchased gas expense has been spread on a uniform basis, while the SAM factor has been adjusted to provide the desired spread in rates. This approach is consistent with the presentations of SoCal and staff. It is contrary to the position of Edison that SAM overcollections should be returned to the customer classes whose sales exceed test year estimates. We reject this contention as based on the mistaken assumption that the rates to these same customers would have been lower had the actual sales been as expected. In fact, so long as low priority rates are set by reference to alternate fuel prices, they are not a function of sales estimates and will not be affected by either SAM rate reductions or increases.

SoCal and staff each proposed that rates be slightly reduced January 1, 1980, to reflect the increased contribution from Ammonia Producers. We decline to provide for such a result. Our action is based on several grounds.

First, the delay associated with these proceedings makes undercollections certain. Prolonging the life of these rates beyond January 1, 1980 may contribute to lessen slightly the effects of undercollection.

Second, we know that the increases passed through in this proceeding are only part of a stream of increases and that additional increases will occur soon. In these circumstances a slight rate reduction would provide a misleading signal to the public and is not worth the administrative burden to the utility.

Third, the Legislature may act to provide relief, thereby requiring further action by this Commission.

Fourth, we may be persuaded to continue the rate when acting on the pending petition for rehearing.

2. Industrial Rates

In this decision we continue our practice of pricing natural gas for customers in low priorities with reference to alternate fuel prices. For customers in the GN-5 category, the reference point is Edison's price under its long-term contracts. We adopt the staff proposed price of 30 cents per therm as reasonably related to the oil price while preserving the opportunity for Edison to maximize its gas purchases.

With respect to priorities 3 and 4, in D.90822 we stated that "separate rate schedules for No. 2 and No. 6 fuel oil alternatives will be established by tariff filings as soon as feasible pursuant to decisions on subsequent rate increase applications." (mimeo., p. 12) Subsequently FERC has issued Order No. 51, which postpones the mandatory implementation of the multi-tiered industrial rate until November 1, 1980. In the interim, FERC proposes to implement its incremental pricing rule based on the price of No. 6 high sulfur oil. Several of the parties to this proceeding propose that we act accordingly.

FERC cites two grounds for deferring implementation of its multi-tiered pricing system - the problem of "induced investment," and the administrative, data, and enforcement considerations. In deciding not to follow FERC's lead, we recognize that our situation in California allows us to proceed.

With regard to administrative, data, and enforcement problems, these are matters well in control within California. The data has been collected, and the PG&E experience supports the conclusion that administrative and enforcement problems are manageable. Obviously, FERC has a much greater burden to bear in attempting to impose its rate proposal on a national basis.

Induced investment is the potential investment by an industrial entity in the capability to burn No. 6 fuel oil in order to qualify for a lower natural gas rate. Such investment would appear to be otherwise unproductive and should not be encouraged.

FERC addresses this issue at some length in Order No. 51. From its analysis it appears that the crucial factor is not whether there is a difference in the gas rates, but the amount of the difference. From our experience in California with PG&E we find that a difference of 3 cents per therm will reasonably distinguish between the types of fuel oil, while minimizing the risk of induced investment. The adopted rates for these classes of customers are 34 and 37 cents per therm.

The basis for these rates is staff's evidence of alternate fuel prices, using Platt's Oilgram. We find these published posted prices to be the best evidence available at this time as to the general state of the oil market as it appears to a prospective purchaser. We recognize that individuals may pay more or less than Platt's prices, and we respect the staff practice of pricing conservatively, based on Platt's.

With regard to the actual tariff provisions that will implement this rate design, we think that it is appropriate that the qualifying language for the lower rate be uniform statewide. Therefore we adopt the staff proposal that the service under schedules to be designated as GN-36 and GN-46 shall be applicable to customers whose "alternate fuel is exclusively oil with a viscosity higher than 150 Saybolt Seconds Universal (SSU) at 100° F. (commonly referred to as Grade No. 5 and Grade No. 6 fuel oil)."

The other issue that has been raised regarding industrial rates is the risk that load will be lost by the gas utility if the

gas price is set too high, relative to oil. We are satisfied that the gas prices herein authorized are reasonably set so as to avoid load loss. In future proceedings the risk of load loss will be balanced against the consequences; if the incremental gas supply is the highest priced, we may assume the risk of some load loss.

In Ordering Paragraph 3(c) of D.90822 we ordered SoCal to "present a proposal for separate rate schedules for service to customers with No. 2 and No. 6 alternative fuel capability." SoCal has responded with an "exemplary rate" which sets forth a differential of over 16.5 cents per therm between industrial gas prices. Examination of SoCal's witness indicates that this is only an example and is not a proposal of the utility. Staff counsel has characterized this action by SoCal as in "bad faith". We are disappointed that SoCal has chosen to so interpret our plain language in D.90822, with the resulting consequences for the record.

3. Other Retail Rates

The residential rate design adopted in this proceeding continues our policy of inverted rates. It also reflects our policy considerations in providing for the inverted residential rates, by continuing to have the last tier rate the highest of all rates in the tariff. This reflects our determination that this tail block residential use is primarily for luxurious or extravagant purposes (such as swimming pools) which, though not necessarily wasteful, may be fairly characterized as low priority in nature. On this basis the adopted rate for the third tier is 37.685 cents per therm. This rate is derived by taking the staff's proposed third tier rate and eliminating the SAM reduction that staff proposed to apply.

With respect to schedules GN-1, GN-2, and the 2nd tier of the residential blocks, staff proposed three separate rates, with

less than 1.2 cents per therm separating the high and the low. SoCal proposed that these rates be set on a uniform basis, and we find merit in its proposal. Therefore we adopt a uniform rate, based on staff's proposal for GN-1. Thus the adopted rate for GN-2 and the 2nd tier residential is higher than proposed by staff.

The lifeline rate is derived on a residual basis after these other rate calculations are made. The effect of these adjustments is that the adopted lifeline commodity rate is slightly lower than the rate proposed by staff. This is reasonable because, combined with the increases from the staff's proposed residential rates in the second and third blocks, the adopted rates show a much greater difference between blocks. This greater inversion should promote greater residential conservation where the potential is greatest. The adopted rate is nearly 10 percent higher than the average cost of gas, which is 20.641 cents per therm.

We again decline to increase the customer charge in an offset proceeding. The existing customer charge is $1.90 higher than the charge presently in effect in the PG&E tariffs. This difference distorts comparisons of the rates between the two utilities; if it is allocated on a uniform cents per therm basis to lifeline sales, the result shows that SoCal's residential rates have been relatively less inverted. This is a matter to be addressed in more detail in the pending SoCal general rate case.

4. Wholesale Rates

SoCal has proposed an increase in wholesale rates that is substantially greater than the system average. Its proposal is opposed by SDG&E, San Diego, and Long Beach, who support the staff proposal. We find the staff proposal reasonable and adopt it for the purpose of this proceeding.

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less than 1.2 cents per therm separating the high and the low. SoCal proposed that these rates be set on a uniform basis, and we find merit in its proposal. Therefore we adopt a uniform rate, based on staff's proposal for GN-1. Thus the adopted rate for GN-2 and the 2nd tier residential is higher than proposed by staff.

The lifeline rate is derived on a residual basis after these other rate calculations are made. The effect of these adjustments is that the adopted lifeline commodity rate is slightly lower than the rate proposed by staff. This is reasonable because, combined with the increases from the staff's proposed residential rates in the second and third blocks, the adopted rates show a much greater difference between blocks. This greater inversion should promote greater residential conservation where the potential is greatest. The adopted rate is nearly 10 percent higher than the average cost of gas, which is 20.641 cents per therm.

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4. Wholesale Rates

SoCal has proposed an increase in wholesale rates that is substantially greater than the system average. Its proposal is opposed by SDG&E, San Diego, and Long Beach, who support the staff proposal. We find the staff proposal reasonable and adopt it for the purpose of this proceeding.

SoCal supports its wholesale rate recommendation as based on allocated costs and therefore reasonable. As stated in D.90822, this Commission does not consider cost of service as the sole factor, and we decline to apply it here. We are concerned about the ability of wholesale customers to pass on a larger increase, and consider this a matter to be addressed in detail in the general rate case.

5. Ammonia Producers

In this proceeding the Ammonia Producers offered no additional evidence. Their petition for rehearing of D.90822 is officially noticed, and the substance of their position in this proceeding is as stated in the petition for rehearing - that an extension of time should be granted in order to pursue legislation.

By this order we deny an extension for purposes of this proceeding only. We will act on the petition for rehearing and grant or deny an extension in that context by separate order.

Several comments are appropriate with regard to the request for additional time. First, the original plea was for a six-month deferral of any rate increase. The six months have passed. Second, the rationale expressed was that so long as the rate was higher than the wholesale rate, there was no subsidy. By this order that rationale fails. Third, we are not impressed that the Ammonia Producers went to the Legislature immediately upon learning of our decision, D.90822. We do not understand why the legislative solution was not earlier pursued, particularly in light of this statement from D.90322 (mimeo, p. 12):

> "A decision to grant such long-term protection, which might require a subsidy of the ammonia industry by other customers in its class or by other customers of SoCal, should more appropriately be made by the Legislature."

Since D.90322 was dated May 22, 1979, we are at a loss to understand why no action was taken during the intervening several months.

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6. Balancing Account Amortization

The adopted rates include factors for the amortization of the balances in the PGA and SAM balancing accounts. For accounting purposes we adopt as reasonable the staff calculations of the appropriate factors to be applied. This balancing account amortization is shown in Table 4.

TABLE 4

Southern California Gas Company
BALANCING ACCOUNT AMORTIZATION

Line No.	Classification	Sales (Mth) (A)	Base Rate Revenue (M$) (B)	Recommended PGA Bal. Rate ($/th) (C)	Recommended SAM Bal. Rate ($/th) (D)	Recommended Revenue (M$) (E)	Recommended Increase % (F)
	Residential						
1	Customer Charge		66,327				
2	Tier I 1/	1,395,745	228,721	0.05941	(0.03819)	29,618	12.9
3	Tier II	627,400	128,535	.06597	(.04246)	14,750	11.5
4	Tier III	210,210	54,417	.06597	(.04246)	4,942	9.1
5	Total Residential	2,233,355	478,000	.06187	(.03979)	49,310	10.3
	Nonresidential						
6	Customer Charge		7,189				
7	GN-1	678,093	141,810	.06187	(.04003)	14,810	10.4
8	GN-2						
9	Regular	423,492	88,565	.06187	(.04003)	9,249	10.4
10	Ammonia Producer	63,857	13,354	.06187	(.04003)	1,395	10.4
11	Total GN-1 & GN-2	1,165,442	250,918	.06187	(.04003)	25,454	10.1
	Wholesale						
12	Long Beach	103,262	13,391	.06187	(.02881)	3,414	25.5
13	San Diego	408,102	62,836	.06187	(.02881)	13,492	21.5
14	Total Wholesale	511,364	76,227	.06187	(.02881)	16,906	22.2
15	Total Sales	3,910,161	805,145	.06187	(.03843)	91,670	11.4

(Red Figure)

1/ Includes GS discount of -2,838 Mth.

VI. Other Matters

Several parties had difficulty understanding the manner of SoCal's presentation of its SAM account calculations. One issue associated with this difficulty and raised again by San Diego is the manner in which franchise fees and uncollectibles are calculated for balancing account purposes. As we stated in D.90822 we are satisfied that the record supports SoCal's calculation as reasonable. We are optimistic that the committee formed by SoCal pursuant to Ordering Paragraph 4 of D.90822 will develop consistent balancing account formats that will be more readily understood by the parties.

Findings of Fact

1. SoCal is entitled to additional revenue as estimated for the forecast period October 1, 1979, through September 30, 1980, in the amount of $287,041,000, consisting of a PGA increase of $328,650,000 and a SAM reduction of $39,565,000.

2. The authorization of the above increase would offset increased gas costs and will not result in SoCal exceeding its authorized rate of return.

3. SoCal's treatment of franchise fees, uncollectible expenses, and company use gas is reasonable, pending further consideration of this matter with respect to consistent procedures among all gas utilities.

4. Industrial gas rates are appropriately set by reference to alternate fuel prices, for the reasons discussed in detail in D.90822.

5. It is reasonable to establish two tier alternate fuel cost pricing for SoCal, based on No. 2 and No. 6 fuel oil prices.

6. The adopted differential is not likely to induce substantial investment in No. 6 fuel oil capability.

7. The adopted rates are not likely to cause a loss of load.

8. The third tier residential block is properly charged the highest rate on the system, reflecting the low priority status of the uses to which such gas is most likely applied.

9. A uniform rate is reasonable for schedules GN-1, GN-2, and the second tier residential block, reflecting the relative equal priorities of such classifications. The adopted rate reasonably contributes to the inversion in the residential rate by increasing the differential between lifeline and nonlifeline.

10. The lifeline rate is reasonably derived residually, as it exceeds the system average cost of gas, which includes the cost of expensive incremental supplies.

11. The wholesale rates are reasonably increased in accordance with the method applied in D.90822, pending further consideration in a general rate proceeding.

12. There is no basis for spreading the SAM commodity adjustments by recorded sales to customer classes.

13. The adopted balancing account amortization fairly recovers the undercollection.

14. There is no new or additional evidence in this record that supports an extension of the special rate for Ammonia Producers.

15. The rates authorized by this decision should remain in effect until subsequent order by the Commission.

16. Since SoCal is already incurring the costs offset hereby, this order should be made effective the date hereof.

Conclusions of Law

1. The increases in rates and charges authorized herein are reasonable and the present rates and charges, insofar as they differ from those prescribed herein are, for the future, unjust and unreasonable.

2. SoCal should be authorized to file and place into effect the rates found reasonable by this decision.

ORDER

IT IS ORDERED that, on or after the effective date of this order, Southern California Gas Company is authorized to file the revised rate schedules attached to this order as Appendix A and concurrently to withdraw and cancel its presently effective schedules. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be four days after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date thereof.

The effective date of this order is the date hereof.

Dated NOV 30 1979, at San Francisco, California.

We concur: see attached

John E. Bryson

Richard D. Gravelle

John E. Bryson
President

Vernon L. Sturgeon

Richard D. Gravelle

Claire T. Dedrick

Leonard M. Grimes, Jr.
Commissioners

APPENDIX A

Southern California Gas Company

1. Statement of Rates (¢ per therm).

Type of Service	Base 1/ Commodity Rates	PGA	SAM	GEDA	TCAC	Effective Commodity Rates
Residential						
Lifeline	16.387	13.953	(8.461)	.257	.134	22.270
Nonlifeline						
First Block	20.487	15.497	(7.426)	.257	.149	28.964
Excess	25.887	15.497	(4.105)	.257	.149	37.685
Nonresidential						
GN-1	22.025	14.545	(8.007)	.257	.144	28.964
GN-2 2/	20.913	14.545	(6.879)	.257	.128	28.964
GN-32,-42 2/ 3/	20.913	8.358	7.344	.257	.128	37.000
GN-36,-46 3/	20.913	8.358	4.344	.257	.128	34.000
GN-5	20.913	8.358	0.344	.257	.128	30.000
Wholesale						
G-60	14.558	14.545	(5.649)	.257	.097	23.808
G-61						
Regular	14.595	14.545	(5.649)	.257	.097	23.845
Peaking	16.600	14.545	(5.649)	.257	.097	25.850

1/ As of April 1, 1979 per Decision No. 90105.

2/ Ammonia Producers (Temporary Supplemental Service)

GN-2, GN-42	20.913	0	0	.257	0	21.17

3/ New Schedules

2. Applicants effective commodity rates are changed to the level or extent shown in this appendix. Schedule G-30 rates to be increased commensurately with Schedule GN-1.

3. Applicants customer charges and demand charges are unchanged.

(Red Figure)

A.59146
D.91077

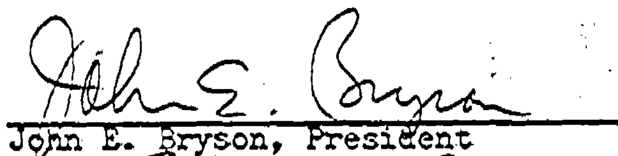
JOHN E. BRYSON, President
RICHARD D. GRAVELLE, Commissioner

We concur.

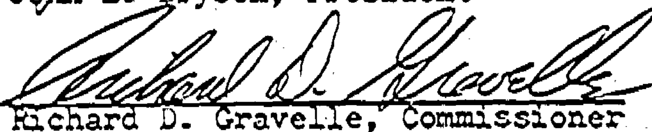
With respect to the Ammonia Producers' position however, we believe that several comments are appropriate with regard to the request for additional time. First, the original plea was for a six-month deferral of any rate increase. The six months have passed. Second, the rationale expressed was that so long as the rate was higher than the wholesale rate, there was no subsidy. By this order that rationale fails. Third, we are not impressed that the Ammonia Producers went to the Legislature immediately upon learning of our decision, D.90822. We do not understand why the legislative solution was not earlier pursued, particularly in light of this statement from D.90322 (mimeo. p. 12):

> "A decision to grant such long-term protection, which might require a subsidy of the ammonia industry by other customers in its class or by other customers of SoCal, should more appropriately be made by the Legislature."

Since D.90322 was dated May 22, 1979, we are at a loss to understand why no action was taken during the intervening several months.



John E. Bryson, President



Richard D. Gravelle, Commissioner

San Francisco, California
November 30, 1979