ORIGINAL

Decision 93629 OCT 20 1981

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHERN CALIFORNIA GAS COMPANY and PACIFIC LIGHTING GAS SUPPLY COMPANY to Increase Revenues Under the Consolidated Adjustment Mechanism to Offset Changed Gas Costs Resulting From Increases in the Price of Natural Gas Purchased from EL PASO NATURAL GAS COMPANY, TRANSWESTERN PIPELINE COMPANY, PACIFIC INTERSTATE TRANSMISSION COMPANY, PACIFIC GAS AND ELECTRIC COMPANY and California sources; to Adjust Revenues to Recover the Undercollection in the CAM Balancing Account; to Reflect in the CAM Balancing Account Costs Related to Franchise Fees and Uncollectible Expense and Increased Carrying Costs on Natural Gas Stored Underground; and to Revise Section H of the Preliminary Statement of the Tariffs.	Application 60867 (Filed September 4, 1981)
In the Matter of the Application of SAN DIEGO GAS & ELECTRIC COMPANY For Authority to Increase its Gas Rates and Charges Pursuant to its Proposed Consolidated Adjustment Mechanism.	Application 60901 (Filed September 15, 1981)

(See Appendix A for appearances.)

INTERIM OPINION

On September 24, 1981 in Los Angeles, a consolidated hearing was held in the above-referenced applications. The subject at issue involved the requests of both the Southern California Gas Company (SoCal) and San Diego Gas & Electric Company (SDG&E) for interim authority to increase their gas rates and charges collected through SoCal's existing Consolidated Adjustment Mechanism (CAM) and SDG&E's proposed CAM.

SoCal's application seeks authority to increase rates by $790,459,000 to offset the effects of increases in the cost of gas purchased from its suppliers and to recover the undercollection in the CAM balancing account. The projected increased revenue requirement is generated by the following elements:

1. Increased charges for basic purchases from present sources;
2. Take-and-pay purchases from the new Pan-Alberta source;
3. Additional purchases from Pan-Alberta and best efforts purchases from Pacific Gas and Electric Company (PG&E); and
4. Revenue required to recover $6.4 million CAM undercollection of September 30, 1981 and the carrying cost of increased value of gas in storage.

During the hearing of September 24, 1981 SoCal noted that it had filed protests with the Federal Energy Regulatory Commission (FERC) in the PGA proceedings of El Paso Natural Gas Company (El Paso) and Transwestern Pipeline Company (Transwestern) that the PGA increases of those companies would most likely go into effect subject to refund on October 1, and that should the FERC order any adjustments in the requests of El Paso and Transwestern, SoCal would so inform the Commission and reflect those adjustments in its own request in this case.

The FERC has now issued orders accepting and modifying the El Paso and Transwestern applications and granting their PGA increases subject to refund as of October 1. As a result of the FERC order, SoCal will need to increase rates by $715,520,000 to offset the effects of increases in the cost of purchased gas. However, since the FERC action on the El Paso and Transwestern PGA increases is not yet final, the total revenue requirement being sought by SoCal remains $790,459,000.

The following table indicates the total revenue requirement associated with each specific element of the projected cost increases, as well as the percentage each element represents of the total requested increase of $790,459,000.

	Cost Element	Associated Rev. Req.	Percentage of Total Increase
(1)	Increases for basic supply from current sources	$417 million	53%
(2)	Pan-Alberta take-and-pay obligations	270 million	34
(3)	Pan-Alberta and PG&E best efforts gas	85.1 million	11
(4)	CAM undercollection and increased carrying costs of increased value of gas in storage	18.3 million	2
	Total	$790.4 million	100%

Under its CAM procedure, SoCal had originally requested an immediate partial increase of $632,367,000, or 80% of the annual revenue requirement of $790,459,000, while $158,092,000 of the total revenue would be deferred for future consideration by the Commission.

Prompted by the recent FERC action, SoCal, on October 8, 1981, submitted supplemental exhibits and affidavits for the record, decreasing its request for partial relief by 9.5% from $632,367,000 to $572,416,000.

SoCal's proposed rate design for the partial relief conforms to the rate design guidelines established in SoCal's last general rate case, Decision (D.) 92497, and reflects the intent of the Pan-Alberta authorization, D.93370. Specifically, the proposed rate design for partial relief was developed as follows:

1. The average residential rate, Tier II residential rate, GN-1 and GN-2 rates were set equal to the system average retail rate, excluding all costs associated with the Pan-Alberta project and PG&E best efforts purchases;
2. The Tier III residential rate was set at the cost of additional Pan-Alberta gas above the take-and-pay level and lifeline rates were set residually while maintaining an approximate 10¢ differential between lifeline and Tier II residential rates;
3. GN-36/46 rates, which are referenced to the cost of alternate fuel, were set at slightly less than the .5% sulfur fuel oil price;
4. GN-32/42 were set three cents higher than the GN-36/46 rates;
5. Wholesale rates were increased by 80% of the increase in the average cost of gas;
6. The Ammonia Producers' rate was set at 110% of the system average cost, the maximum rate allowed by the controlling statute, Public Utilities (PU) Code § 741.5; and
7. The remainder of the revenue requirement for the partial relief was then allocated to GN-5 customers, resulting in a rate less than the low range of .25% sulfur fuel oil consumed by electric utilities in Southern California and less than 80% of Southern California Edison's (Edison) weighted average fuel oil cost.

Summary of Commodity Rates (Per Therm)
For Partial Relief

	Present Rates1/ (Effective 8-15-81)	Proposed Rates2/ (Proposed 10-1-81)	Exemplary Rates3/ (Alternate Ammonia Rate)
Residential			
Lifeline	24.646	27.793	27.939
Tier II	35.060	37.673	37.819
Tier III	49.213	56.217	56.363
GN-1	35.060	37.673	37.819
GN-2	35.060	37.673	37.819
G-COG	35.929	45.263*	45.263*
GN-32/42	39.011	44.150	44.150
Scattergood #3	38.929	45.263	45.263
GN-36/46	36.011	41.150	41.150
GN-5	35.929	45.263	45.263
Long Beach	25.890	32.431	32.431
San Diego	25.890	32.431	32.431

* Or the rate for the customer's other usage, whichever is lower.

1/ Ammonia Producers' rate of 28.125 cents per therm.

2/ Ammonia Producers' rate of 37.118 cents per therm.

3/ Ammonia Producers' rate of 33.091 cents per therm equals 110% of the system average cost of gas excluding all costs associated with the Pan-Alberta project and PG&E best efforts purchases; this interim rate design methodology is supported by the Ammonia Producers.

SoCal's request for interim relief has a direct and immediate impact upon SDG&E since SDG&E purchases gas under SoCal's wholesale Schedule G-61. Accordingly, SDG&E's application seeks authority to increase its rates to offset SoCal's proposed interim and final net increased cost of gas sold under SoCal's Schedule G-61. The net effect of the required adjustments under SDG&E's CAM would be an annual increase of $56.7 million for the 12-month period beginning October 1, 1981.

The estimated effect of SDG&E's full rate relief proposal on revenue is set forth below:

Class of Service	Revenue Increase 12 Months Commencing October 1, 1981 (Millions)	Percent Increase
Residential	$21.1	17.3%
Other Retail*	9.7	12.6
Total from Sales to Retail Customers	30.8	15.5
Other	25.9	18.4
Total	$56.7	16.6%

* Sales under Schedules GN-1, GN-2, GN-3/36, GN-4/46 are included in this class of service.

If SoCal received its originally requested interim relief, SDG&E's request for concurrent interim relief, if granted, would have had a revenue requirement effect of $40.3 million. However, as previously noted, SoCal revised its requested interim rate relief to reflect a smaller-than-anticipated increase from its suppliers. Specifically, the proposed interim G-61 rate for sales to SDG&E was reduced from 33.032¢/therm to 32.931¢/therm. As a result, SDG&E's request for concurrent interim relief, if granted, will have a revenue requirement effect of $30.5 million.

SDG&E's proposed interim rate design is based upon the Commission gas rate design policy stated in D.91970 issued in Application (A.) 59391. Specifically, the proposed rate design for partial relief was developed as follows:

1. No increases were made to the customer charges;
2. The lifeline rate was set at approximately 80% of the average system rate while making certain that the lifeline rate to Schedule GT is larger than the average retail rate;
3. Schedules GN-36 and GN-46 rates were set close to the estimated current price of No. 6 low-sulfur fuel oil;

4. Schedules GN-3 and GN-4 rates were set at a premium of 3¢/therm (th) above the rate set for GN-36 and GN-46;

5. The Schedule GN-5 rate was increased to approximate the price of No. 6 fuel oil while providing a reasonable price incentive for development of cogeneration (Schedule GCG, cogeneration, is referenced to this rate);

6. The residential blocks were inverted with the last block having the highest rate; and

7. Schedules GN-1 and GN-2 rates were set relatively near to the modified average system rate (less lifeline sales and revenues) and designed to recover the remaining revenue requirements.

Summary of Currently Effective Rates
and Proposed Rates for Interim Relief
(Per Therm)

Class of Service and Schedule	Present Rates (9-20-81)	Proposed Rates	Increase
RESIDENTIAL			
Schedules GR, GM, GS & GT			
Customer Charge per Month	$1.70	$1.70	
Tier I (GR, GM)	.319	.34	$.021
Tier I (GS)	.287	.31	.023
Tier I (GT)	.271	.29	.019
Tier II	.442	.46	.018
Tier III	.442	.46	.018
Tier IV	.652	.66	.008
OTHER RETAIL			
Schedule GN-1	.442	.46	.018
Schedule GN-2	.442	.46	.018
Schedule GN-3	.42	.46	.040
Schedule GN-36	.39	.43	.040
Schedule GN-4	.42	.46	.040
Schedule GN-46	.39	.43	.040
INTERDEPARTMENTAL			
Schedule GN-5	.356	.4165	.0605

At the hearing of September 24, 1981, evidence in support of both SoCal's and SDG&E's requests for interim rate relief was sponsored through statements of their respective counsels. The sworn affidavits of SoCal's witnesses and the testimony of SDG&E's witnesses as attested to by their counsel were received in evidence for the limited purpose of the Commission's review of SoCal's and SDG&E's requests for interim relief.

This procedure, in which applicants' witnesses do not sponsor their direct testimony and are not subjected to cross-examination, is unusual and should not be construed as indicative of the manner in which future gas offset rate proceedings will be conducted. These consolidated applications involved unique circumstances which warranted the extraordinary procedural treatment.

In D.93370 the Commission found certain of SoCal's projected Pan-Alberta purchases prudent while it identified three general issues which should be developed further in the current proceeding. These issues, which relate to development of future gas rate design guidelines and appropriate economic tests for assessing the prudency of new long-term gas supply contracts, are highly significant and likely to require some time for consideration and resolution. SoCal began absorbing increased costs from its suppliers as of October 1, 1981, and resolution of these reserved issues before applicants are allowed any rate relief would cause large undercollections to accrue, with ratepayers unnecessarily incurring significant increased carrying costs associated with the balancing account.

In light of the need to move expeditiously on SoCal's request for partial relief and given the protection provided by granting interim relief subject to refund, we will countenance the unusual procedures followed at the September 24 hearing.

In response to the applicants' showing of September 24, the Commission staff counsel stated that the staff supported the granting of interim rate relief to SoCal but only if the rates were subject to refund, and provided that if an economic test for discretionary purchases is adopted by the Commission as a result of the further hearings, it would be applied as of the effective date of the interim order. Members of the public and interested parties also presented their statements and views concerning the requested partial rate relief (See Appendix A for list of appearances). The parties were substantially in agreement that some degree of interim relief is warranted. No party directly challenged SoCal's increased revenue requirement resulting from the higher cost of gas purchased by SoCal from its suppliers. Several parties questioned the validity of including certain portions of the costs associated with the Pan-Alberta purchases in any partial rate relief authorization. Other parties questioned the propriety of granting interim relief to cover costs which are still the subject of ongoing Commission proceedings.1/

Counsel for the Ammonia Producers proposed an interim rate for the Ammonia Producers which differed from SoCal's proposal. SoCal's rate of 37.118 ¢/th was derived by multiplying average purchased cost of all SoCal's purchased gas by 110%. The Ammonia Producers' proposed rate of 33.091 ¢/th was derived by multiplying SoCal's average purchased cost of gas, exluding Pan-Alberta and PG&E discretionary purchases, by 110%.

Based upon the record before us, we will authorize the partial rate relief requested by SoCal and SDG&E. But we are requiring that SoCal's gas purchases from October 1, 1981, be subject to the application of the economic test we adopt for

1/ E.g., SoCal's interim rate relief request includes recovery of costs associated with the increased value of gas in storage; this issue is currently before the Commission in A.60339.

discretionary purchases. This is reasonable because we announced in D.93370 that such a test would be considered in this proceeding and had not SoCal requested expeditious rate relief, this issue would have been resolved prior to SoCal being granted any rate relief. Moreover, we are concerned that SoCal is requesting rate relief for the maximum discretionary gas from PG&E and Pan-Alberta sources prior to the issue of the prudency of these discretionary takes being fully litigated. The interim rate relief we are granting, based upon 80% of SoCal's anticipated costs, should not be viewed as our acceptance or endorsement of SoCal's current gas purchasing policy. In our final order we will fully consider the propriety of SoCal's gas procurement policy. Additionally, we will be carefully examining the appropriate rate design and SoCal's projected expenditures to determine whether refunds or adjustments are necessary from the rates established under the interim order.

We will adopt SoCal's proposed rate design with one exception. We will not adopt the Ammonia Producer rate proposed by either SoCal or counsel for the Ammonia Producers. The current rate is 28.125¢/th. SoCal proposes to increase the rate by 8.993¢/th. Since this order authorizes interim relief of about 80% of the total requested, we will authorize an increase in the Ammonia Producers' rate equal to 80% of SoCal's proposed increase of 8.993¢/th. This action makes SoCal's proposal consistent since it only increased wholesale rates by 80% of the increase in the average cost of gas. It results in a rate of 35.319¢/th to the Ammonia Producers.

This charge will represent the third lowest rate on SoCal's system, with lower rates assessed only to residential lifeline customers and SoCal's wholesale customers. Further, all amounts granted today are subject to refund; the Ammonia Producers certainly reserve the right to present evidence at the further hearings in this proceeding demonstrating that a lower rate is more appropriate.

We will also adopt SDG&E's proposed alternative rate design based on a lifeline rate equaling 80% of the system average rate.

Since SoCal will incur increases in its cost of purchased gas as of October 1, 1981, this order will become effective immediately. With respect to SoCal's request for final authority to increase its rates under its CAM, hearings will commence on Monday, November 9, 1981, at 10:00 a.m. in the Commission Courtroom, State Building, 107 South Broadway, Los Angeles.

Findings of Fact

1. SoCal will incur increases in the cost of gas purchased from its suppliers as of October 1, 1981.

2. The annual revenue requirement generated by the increased costs charged by SoCal's suppliers under FERC authorization and by amortization of existing undercollections in the CAM balancing account totals $715,520,000.

3. Immediate partial rate relief of 80% of the annual revenue requirement will result in an interim rate increase of $572,416,000.

4. SoCal's proposed rate design conforms to the rate design guidelines established in SoCal's last general rate case, D.92497.

5. The rate adopted for the Ammonia Producers is consistent with SoCal's proposal and PU Code § 741.5.

6. Failure to grant immediate partial relief will impair SoCal's cash flow and will cause the ratepayer to unnecessarily bear increased carrying costs associated with resulting undercollections in SoCal's CAM balancing account.

7. The interim rates adopted for SoCal will generate additional annual revenues of approximately $570 million.

8. Approximately $220 million of the total revenue originally requested by SoCal under its CAM will be deferred for future consideration by the Commission. If the FERC order becomes final, approximately $143 million of revenue required by SoCal under its CAM will be deferred for future consideration by the Commission.

9. None of the issues reserved by D.93370 for review in this proceeding are foreclosed by the granting of interim rate relief.

10. SoCal's application for rate relief includes requests for maximum discretionary purchases of PG&E and Pan-Alberta gas.

11. An issue in this proceeding is the proper economic test for discretionary gas purchases.

12. To avoid prejudicing the issue of the prudency of SoCal's discretionary gas purchases by granting interim rate relief, the economic test adopted in the final order for this proceeding should be applied to purchases from October 1. 1981.

13. SDG&E will incur increases in the cost of gas purchased from SoCal under its Schedule G-61 as a result of any rate relief granted SoCal by this order.

14. The annual revenue requirement generated by increased interim rates charged to SDG&E by SoCal under its Schedule G-61 will total approximately $30.5 million.

15. SDG&E's proposed rate design conforms to the rate design guidelines established by D.91970 issued in A.59391.

16. Failure to grant immediate partial relief will impair SDG&E's cash flow and will cause the ratepayer to unnecessarily bear increased carrying costs associated with resulting undercollections in SDG&E's CAM balancing account.

17. The interim rates adopted for SDG&E will generate additional annual revenues of approximately $30.5 million.

18. Approximately $20.7 million of the total revenue originally requested by SDG&E under its CAM will be deferred for future consideration by the Commission.

Conclusions of Law

1. SoCal has demonstrated that its application under its CAM for immediate partial relief of approximately $572.4 million or about 80% of the revised total revenue requested is in the public interest.

2. SDG&E has demonstrated that its application under its CAM for immediate partial relief of approximately $30.5 million is in the public interest.

3. The interim rate relief should be granted to SoCal and SDG&E, subject to refund.

4. If an economic test for SoCal's discretionary gas purchases is adopted as a result of further hearings, it should be applied to purchases made from October 1, 1981, to avoid prejudicing the resolution of this issue by the granting of interim rate relief.

5. SoCal and SDG&E should be authorized to establish rates, pursuant to CAM, set forth in the following order; such rates are fair, just, and reasonable.

6. This order should become effective immediately since the adopted rates more accurately reflect the energy-related expenses incurred, or which are estimated to be incurred, by SoCal and SDG&E.

INTERIM ORDER

IT IS ORDERED that:

1. The following rates may be assessed by the Southern California Gas Company (SoCal), under its Consolidated Adjustment Mechanism (CAM), upon filing revised tariffs with the Commission within five days after the effective date of this order. Such filing shall be in conformance with General Order 96-A, and the revised tariffs shall be effective immediately upon filing.

Residential	(¢/th)
Lifeline	27.793
Tier II	37.673
Tier III	56.217
GN-1	37.673
GN-2	37.673
G-COG	45.263*
GN-32/42	44.150
Scattergood #3	45.263
GN-36/46	41.150
GN-5	45.263
Long Beach	32.431
San Diego	32.431
Ammonia Producers	35.319

* Or the rate for the customer's other usage, whichever is lower.

2. The following rates may be assessed by San Diego Gas & Electric Company (SDG&E), under its CAM, upon filing revised tariffs with the Commission within five days after the effective date of this order. Such filing shall be in conformance with General Order 96-A, and the revised tariffs shall be effective immediately.

RESIDENTIAL	
Schedules GR, GM, GS, & GT	
Customer Charge, per Month	$ 1.70
Tier I (GR, GM)	.34/th
Tier I (GS)	.31/th
Tier I (GT)	.29/th
Tier II	.46/th
Tier III	.46/th
Tier IV	.66/th
OTHER RETAIL	
Schedule GN-1	.46/th
Schedule GN-2	.46/th
Schedule GN-3	.46/th
Schedule GN-36	.43/th
Schedule GN-4	.46/th
Schedule GN-46	.43/th
Special Contract 176 (Per Lamp/per Month)	10.10
Special Contract 186	.46/th
INTERDEPARTMENTAL	
Schedule GN-5	.4165/th

3. The interim rates charged by SoCal and SDG&E by authority of this order shall be collected subject to refund.

4. The CAM balancing accounts in question in this proceeding are subject to further review with respect to the reasonableness of past and projected expenditures.

5. If an economic test for SoCal's discretionary gas purchases is adopted, it shall apply to purchases made from October 1, 1981.

This order is effective today.

Dated October 20, 1981, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. GREW
Commissioners

I certify that this decision was approved by the above Commissioners today.

Joseph E. Bodovitz

APPENDIX A

LIST OF APPEARANCES

Applicant in A.60867: Robert B. Keeler and Robert M. Loch, Attorneys at Law, for Southern California Gas Company.

Applicant in A.60901 and Interested Party in A.60867: William L. Reed, Randall W. Childress, and Jeffrey Lee Guttero, Attorneys at Law, for San Diego Gas & Electric Company.

Protestants: Herman Mulman, for Seniors for Political Action, and Ed Duncan, for himself.

Interested Parties: Susan M. Beale and Susan L. Steinhauser, Attorneys at Law, for Southern California Edison Company; Sylvia Siegel and Michel Peter Florio, Attorney at Law, for TURN; Robert W. Parkin, City Attorney, by Richard A. Alesso, Deputy City Attorney, for City of Long Beach; Vernon E. Cullum, for City of Long Beach; Ellison Bloodgood, for himself; Graham & James by Boris H. Lakusta, David J. Marchant, Thomas J. MacBride, Jr. and Ann C. Pongrancs, Attorneys at Law, for California Ammonia Producers; William S. Shaffran, Deputy City Attorney, for John W. Witt, City Attorney, for City of San Diego; Brobeck, Phleger & Harrison, by Gordon E. Davis, William H. Booth, and James E. Addams, Attorneys at Law, for California Manufacturers Association; Martin E. Whelan, Jr., Inc. by Martin E. Whelan, Jr., Attorney at Law, for Tehachapi-Cummings County Water District; James Dycus, for himself; Harry Phelan, for California Asphalt Pavement Association; Downey, Brand, Seymour & Rohwer by Philip A. Stohr, Attorney at Law, for General Motors Corporation; and Henry F. Lippitt, 2nd, Attorney at Law, for California Gas Producers Association.

Commission Staff: Richard D. Rosenberg, Attorney at Law.

(END OF APPENDIX A)