

JUL 21 1995

Decision 95-07-052 July 19, 1995

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of the San Diego Gas and Electric Company (U 902-G) for Authority to Lower Gas Procurement Rates.

Application 95-06-034 (Filed June 26, 1995)

OPINION

ORIGINAL

San Diego Gas & Electric Company (SDG&E) requests

Commission authority to lower SDG&E's existing embedded core gas procurement rates from 19,039¹ to 15,038 cents/therm, effective August 1, 1995 or immediately thereafter. This 4,001 cents/therm reduction results from an update of SDG&E's adopted gas price forecast - the forecast used in setting core gas rates - in order to better reflect anticipated market prices for commodity gas purchases over the remainder of the current BCAP period (through December 1996). The result will be an immediate \$16.4 million annual reduction to core gas rates. The average residential rate will be reduced by 3.8 cents/therm, or 5.9%.

SDG&E's core gas procurement rate is established in its BCAP which occurs every other year. The BCAP-established core gas procurement rate is then embedded in SDG&E's bundled core gas tariff rates. The gas price forecast adopted in a BCAP reflects the best estimate of what gas commodity spot market prices will be significantly above the market as reflected in SDG&E's growing O&G

Since 1988, SDG&E has purchased and intends to continue purchasing the bulk of its gas supplies on the spot market through the current BCAP period. As a result, a gas price forecast estimating spot market prices for gas supplies is the best gauge of what SDG&E will pay for gas purchases.

1 See Decision (D.) 94-12-052, Appendix I, Table 1, in SDG&E's most recent Biennial Cost Allocation Proceeding (BCAP)

JUL 1 1995

during the two-year BCAP period.² Once established, the adopted price forecast is adjusted to incorporate a one-year amortization of the Core Purchased Gas Adjustment (CPGA) account balance plus an amount for franchise fees and uncollectibles (F&U), resulting in an annualized core gas procurement rate. The annualized procurement rate is then bundled with other core revenue requirements to derive a total bundled core rate. Generally, core rates are revised between BCAPs only to reflect updated amortization of balancing accounts.³

In D.94-12-052, the Commission adopted a core gas procurement rate for SDG&E of 19.039 cents/therm, effective January 1, 1995. As illustrated in D.94-12-052, Appendix I, Table 1, SDG&E's existing core gas procurement rate is comprised of a gas price forecast (the weighted average cost of gas, or WACOG) of 20.954 cents/therm, a negative CPGA amortization rate of 2.349 cents/therm (id. at Appendix C, Table 2, Line 59, Column C), and an adder for F&U. The next rate change for core gas rates is scheduled for January 1, 1996, and, in accordance with D.94-12-052, will reflect only the interim update of gas balancing accounts amortization.

SDG&E asserts that gas prices have dropped quickly and unexpectedly over the last year. The BCAP-established core rate continues, with spot market prices remaining below the currently adopted BCAP gas price forecast. As a result, SDG&E's core customers are paying a price for gas procurement services that is significantly above the market as reflected in SDG&E's growing CPGA

² Since 1988, SDG&E has purchased and intends to continue purchasing, the bulk of its gas supplies on the spot market through the current BCAP period. As a result, a gas price forecast estimating spot market prices for gas supplies is the best gauge of what SDG&E will pay for gas purchases.

³ See D.94-12-052, Appendix I, Table 1, in SDG&E's most recent Brief, Ordering Paragraph 4, page 103.

overcollection. SDG&E seeks immediate authority to adjust its core rates downward to reflect a cost of gas component closer to the current market. While the CPGA overcollection will be returned to SDG&E's customers as part of the annual amortization of gas membership balancing accounts, amortizing overcollections of this magnitude could result in wide fluctuations in setting future core rates.

SDG&E asserts that changes in core gas rates that are predominately driven by the amortization of CPGA balances will distort accurate price signals to customers. CPGA amortizations reflect past, not current, differences between customer rates and corresponding market prices for core gas purchases. SDG&E's proposal is expected to better align its gas price forecast with current, as well as expected, market rates. This alignment will help to minimize future overcollections to the CPGA. The scheduled year-end amortization of the CPGA balance will return the current overcollections in this account to core customers. Both updates will contribute to rate stability for core customers in 1996 and beyond.

SDG&E points out that in an effort to promote open and competitive gas markets for core commodity sales, this Commission established rules for core aggregation (D/91-02-040). Under this program, individual core gas customers may band together to form a single buying cooperative, with the utility and independent gas brokers referred to as "core aggregators" competing to purchase gas supplies for the cooperative. Several core aggregation contracts in SDG&E's service territory will be renegotiated during August 1995.

SDG&E says that in simple terms, independent gas brokers can successfully capture core market share from the utility by offering gas procurement services at prices just below the

See D.91-02-040, Appendix A, p. 3. Core aggregation customers are a subset of self-procurement core customers. The rules and definitions for core aggregation services, including rates, also apply to the broader class of self-procurement core customers.

utility's adopted core portfolio price.⁴ With SDG&E's adopted core procurement rate well above the existing market, independent brokers, who target their rates based upon SDG&E's embedded core procurement rate, also offer procurement services above market. To the extent that the adopted gas price forecast for SDG&E exceeds actual spot market prices for gas, SDG&E's self-procuring core customers will also pay significantly above market for gas procurement services. To the extent the gas price forecast for SDG&E is accurate, both utility procurement and self-procurement core customers will pay gas prices that better reflect the market.

The currently adopted gas price forecast (WACOG) of 20.954 cents/therm has been and is expected to remain at least 3.00 cents/therm above expected spot market prices for gas commodity purchases. SDG&E claims that this is tantamount to providing a 3.00 cent/therm subsidy to independent gas brokers. This price differential is expected to continue throughout 1996 and thereafter.

SDG&E's application shows that core customers who purchase their gas supplies from SDG&E have paid more for utility procurement services since February 1994 than it actually cost SDG&E to provide such services during the same period. This outcome resulted from an unexpected collapse in market prices for gas that was not captured in the previous or currently adopted gas price forecasts. Core customers paid 21.213 cents/therm for utility procurement services in calendar year 1994 and 19.039 cents/therm since January 1, 1995. During these same periods, the actual costs incurred by SDG&E for core gas purchases have averaged 17.5 cents/therm for calendar 1994 and 13.2 cents per January 1, 1995. The growing disparity between rates paid by core customers

can successfully capture core market share from the utility by offering gas procurement services at prices just below the

⁴ See D.91-02-040, Appendix A, p. 3. Core aggregation customers are a subset of self-procurement core customers. The rules and definitions for core aggregation services, including rates, also apply to the broader class of self-procurement core customers.

and costs actually incurred by SDG&E for utility procurement services, has resulted in larger than expected overcollections in SDG&E's CPGA. Even incorporating a negative CPGA amortization rate of 2.349 cents/therm since January 1, 1995, the CPGA balance stands at \$20.6 million in overcollections as of May 31, 1995, an increase of approximately \$9 million since the first of the year. Although this overcollection in SDG&E's CPGA balancing account will ultimately be returned to ratepayers, SDG&E believes that a better result can be achieved by immediately adjusting the embedded core procurement rate to a level more representative of the market, thereby minimizing the continuation of overcollections.

Enron Capital & Trade Resources (Enron) protests the application and requests a public hearing. Enron states that it is engaged in core aggregation sales in California and currently serves in excess of 10,000 core customers in the California market through the core aggregation program. Enron alleges that it is a competitor of SDG&E; Enron bases its protest and request for a hearing on the following:

The fact that gas costs have gone down is not a sufficient reason to lower rates, as gas prices may increase in the future, and the company and the public are protected by the balancing account.

Core aggregation contracts are renegotiated throughout the year, singling out August contracts is no justification for disparate treatment.

3. SDG&E's WACOG of 20.954 cents/therm is alleged by SDG&E to be at least 3 cents/therm above expected spot gas prices. SDG&E's proposed reduction of 4.001 cents/therm would disadvantage the competition. SDG&E should justify this at a public hearing.

4. SDG&E's request raises questions concerning Commission core rate policy. By reducing rates we interfere with rate stability.

Discussion

The application will be granted. The protest is insufficient to cause us to require a public hearing. Commission Rule 44.2 states:

A protest must state the facts constituting the grounds for the protest, the effect of the application on the protestant, and the reasons the protestant believes the application, in whole or in part, is not justified. If the protest requests an evidentiary hearing, the protest must state the facts the protestant would present at an evidentiary hearing to support its request for whole or partial denial of the application.

Enron Capital & Trade Resources (Enron) protests the application and requests a public hearing. Enron states that it is "The filing of a protest does not insure that an evidentiary hearing will be held. The decision whether or not to hold an evidentiary hearing will be based on the content of the protest."

Enron's protest is deficient in that it does not state "the effect of the application on the protestant," nor does it "state the facts the protestant would present at an evidentiary hearing to support its request for whole or partial denial of the application." (See Rule 44.2)

Enron has not set forth any facts to challenge SDG&E's assertions that gas prices have fallen substantially; that the gas balancing account is being overcollected by \$20 million as of May 1995 and is steadily rising, and that core ratepayers are paying more for gas than the cost of gas warrants. For Enron to argue that the balancing account makes this disparity irrelevant totally ignores the time value of money and, of equal importance, the fact that those paying the current high rates will not necessarily be those who will enjoy the low rates when the balancing account is amortized.

4. SDG&E's request raises questions concerning Commission core rate policy. By reducing rates we interfere with rate stability.

Do we believe SDG&E's proposal will benefit SDG&E's core gas customers in three ways? First, the proposal will lower bundled core gas tariff rates by an average of 4 cents/therm effective August 1, 1995. Second, this proposal will better align the rates charged to core customers for utility procurement services to the costs incurred by SDG&E in providing such services. And, third, this proposal provides an open and competitive marketplace for gas purchases. SDG&E's request does not affect existing core gas or transportation rates nor noncore gas procurement or transportation rates.

Broad Street Oil & Gas Company (Broad Street), filed a response to the application for call to our attention that in its opinion it is this Commission's core procurement pricing rules that have caused this application. Broad Street claims that if the Commission were to adopt some form of real-time pricing for utility sales of gas to core customers, applications such as SDG&E's would be avoided.

We realize that when setting rates one can expect a mismatch between actual market prices and the costs used to set rates. We have attempted to ameliorate that mismatch by the use of balancing accounts. In this instance the discrepancy has become too severe and a correction is needed. Rate stability is a valid goal, as we have stated on numerous occasions, but it is a goal not immune to change when the situation warrants, as here. The desirability of real-time pricing for core gas sales customers will be considered in other proceedings. Broad Street does not seek a hearing of this application.

Findings of Fact

1. The current adopted gas price forecast (WACOG) for SDG&E is 20.954 cents/therm. This is at least 3 cents/therm above expected spot market prices for gas commodity purchases.

President
 P. GREGORY CONNOR
 JESSIE L. KNIGHT, JR.
 HENRY M. DUQUE
 Commissioners

Witnessed and attested by me
 Notary Public
 Henry M. Duque
 Acting Executive Director

SDG&E's CPGA was \$20.6 million overcollected as of May 31, 1995, an increase of approximately \$9 million since January 1, 1995. This overcollection exists despite a negative amortization rate of -2.349 cents/therm since January 1, 1995.

In order to align revenues more closely with costs and to amortize the CPGA overcollection more expeditiously, a reduction of SDG&E's core gas procurement rate from 19.039 to 15.038 cents/therm is reasonable, effective August 1, 1995.

The reduction in rates and charges authorized by this decision are justified, and are just and reasonable.

Conclusions of Law

The application of SDG&E should be granted in response to the protest of Enron does not set forth the facts sufficient to require a public hearing. Broad Street Oil & Gas Company (Broad Street) Commission were to adopt some form of real-time pricing for utility sales of gas to core customers such as SDG&E's world.

IT IS ORDERED that we realize that when selling gas to SDG&E

San Diego Gas & Electric Company shall file, on or before August 1, 1995, in compliance with General Order 96-A, an advice letter containing revised tariff sheets to incorporate a reduction in its core gas procurement rate from 19.039 cents per therm to 15.038 cents per therm.

Application 95-06-034 is closed. This order is effective today. Dated July 19, 1995 at San Francisco, California.

Findings of Fact

1. The current adopted gas price forecast (WACC) for SDG&E is 20.924 cents/therm. This is at least 3 cents/therm above

I CERTIFY THAT THIS DECISION WAS APPROVED BY THE ABOVE COMMISSIONERS TODAY.

DANIEL W. FESSLER
President
P. GREGORY CONLON
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
Commissioners

Wesley Franklin
Acting Executive Director