

JUN 27 1997

Decision 97-06-108 June 25, 1997

**ORIGINAL**

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking on the Commission's  
Proposed Policies Governing Restructuring  
California's Electric Services Industry and Reforming  
Regulation.

Rulemaking 94-04-031  
(Filed April 20, 1994)

Order Instituting Investigation on the Commission's  
Proposed Policies Governing Restructuring  
California's Electric Services Industry and Reforming  
Regulation.

Investigation 94-04-032  
(Filed April 20, 1994)

(See Attachment 2 for appearances.)

**INTERIM OPINION ON NONBYPASSABLE GAS SURCHARGE**

By today's decision, we adopt the recommendations of the Energy Division, as presented in the March 31, 1997 report "Consideration of a Nonbypassable Gas Surcharge Mechanism As Ordered In D.97-02-014" (Gas Surcharge Report), with certain clarifications and additions. Specifically, the Energy Division recommends that the Commission pursue legislation with the Legislature that would require all end use customers to pay a nonbypassable gas surcharge to fund public purpose programs, such as energy efficiency and low-income assistance programs. Funding for these programs are typically "bundled" in current rates. The surcharge mechanism would unbundle the costs of these programs into a separate rate component. Further, the Energy Division recommends that an exemption be granted for wholesale customers, utility electricity generation (UEG), and field gas. We clarify that wholesale and UEG customers should be exempted from the nonbypassable gas surcharge only to the extent that customers of these entities will be subject to their own nonbypassable public purpose program surcharge.

We also adopt the recommendations of Pacific Gas and Electric Company (PG&E) and Natural Resources Defense Council (NRDC) that funding for gas public purpose programs should be established at 1996 authorized levels in order to be consistent with the treatment of electric utilities. We find that Southern California Gas Company's (SoCal) position that we should significantly reduce authorized funding levels does not comport with our policy of treating gas and electric utilities consistently. We deny SoCal's March 20, 1997 Petition For Modification of D.97-02-014, which requests that we defer any determination of funding levels until the actual transfer of program functions to the new administrative structure occurs. With regard to the allocation of program costs, we will consider the appropriate allocation formula for gas public purpose program costs in our upcoming Natural Gas Strategy.

We direct our Executive Director to forward today's decision and the Gas Surcharge Report to the Legislature for its consideration, pursuant to the reporting requirements of Senate Bill 678. We intend to coordinate extensively with the Legislature on the issues presented in the report.

#### **Background**

By Decision (D.) 95-12-063, as modified by D.96-01-009, we described our vision of a competitive framework for the electric services industry. This vision acknowledged the continued need for activities performed in the public interest, such as energy efficiency, research, development and demonstration, and low-income programs. By D.97-02-014, we addressed threshold issues regarding the administration of public purpose programs under a restructured electric utility industry. We also stated our intention "to establish a gas surcharge mechanism that will fund all public purpose areas and that will ultimately apply to all retail gas customers." (D.97-02-014, mimeo. p. 4.) This surcharge mechanism would unbundle the costs of public purpose programs into a separate rate component, in contrast to the current practice of bundling these costs with other utility expenses. To this end, we directed our Energy Division to hold workshops and submit a report addressing gas surcharge implementation issues, including the following:

- (1) How can the Commission ensure that the costs of these programs be borne equitably by natural gas customers regardless of their natural gas provider?
- (2) Which class of customers should bear the cost for these programs?
- (3) What funding level should be established?
- (4) What further Legislative action is needed to implement these changes?

We also noted that Senate Bill 678 (Stats. 1996, Chapter 285) specifically required a Commission report on similar issues for low-income public policy programs:

"This bill would require the commission to prepare and submit a report to the Legislature that recommends an approach to financing existing low-income public policy programs that does not create a competitive imbalance between natural gas providers and nonutility natural gas providers....

"(a) On or before July 1, 1997, the California Public Utilities Commission shall prepare and submit a report to the Legislature that recommends an approach to financing existing low-income public policy programs that does not create a competitive imbalance between natural gas providers and nonutility gas providers.

"(b) The report shall identify the appropriate public policy costs to be included for consideration in this financing approach, what mechanisms are necessary to assure that the costs of these public policy programs are borne equitably by natural gas consumers regardless of their natural gas provider, and which classes of customers should appropriately bear the cost for these public policy programs.

"(c) The commission may address these issues and prepare its report by initiating a separate proceeding or through any pending or other proceeding as it deems appropriate."

On March 6, 1997, the Energy Division sent a workshop notice to the Special Public Purpose service list in this proceeding soliciting pre-workshop comments on the above issues. The Energy Division received comments from the NRDC, PG&E, SoCal, the California Energy Commission (CEC), and Grueneich Resource Advocates on behalf of the University of California.

The March 18, 1997 workshop was attended by representatives of The Utility Reform Network (TURN), Sierra Club, CEC, Insulation Contractors Association, SoCal, California/Nevada Community Action Association, Southern California Edison Company (SCE), Office of Ratepayer Advocates (ORA), PG&E, NRDC, Independent Energy Producers, Residential Energy Efficiency Clearing House, San Diego Gas & Electric Company, and the Commission's Strategic Planning Division.

The attached Energy Division report, entitled: "Nonbypassable Gas Surcharge Workshop Report" was filed and served on March 31, 1997. (See Attachment 1.)

By ruling dated April 2, 1997, the assigned Administrative Law Judge served the report on the Special Public Purpose service list in this proceeding and solicited comments on the report. Comments were filed on April 18, 1997 by ORA, PG&E, SCE, SoCal, and TURN.

#### **Discussion**

In its Gas Surcharge Report, the Energy Division recommends that:

"...the Commission pursue legislation with the legislature that would require all end use customers to pay a nonbypassable gas surcharge. Further, the Energy Division recommends that an exemption be granted for wholesale customer, UEG, and field gas. At this time, the Energy Division sees no reasonable way to prevent the substitution of propane, butane or other like fuels for natural gas as a way for some customers to bypass the surcharge." (Report, p. 9.)

The positions of the parties are summarized in Attachment 1, and will not be reiterated here. However, we note that most parties take the position that the nonbypassable charge for public purpose programs should be levied on retail gas customers connected to the distribution grid, as recommended by the Energy Division. The surcharge on gas customers is not supported by SoCal. SoCal argues that the gas industry has already experienced restructuring for over four years and public purpose programs for gas customers are successfully continuing in their present forms. Thus, in SoCal's view, there is no demonstrated need for change. SoCal remains concerned about issue of fuel substitution, and argues that a gas surcharge should not be imposed until the potential bypassability by a wide range of alternate fuels can be addressed.

We have previously stated our policy that gas and electric utilities should be treated consistently "to ensure that low-income residents receive comprehensive assistance in managing their electric use." (D.95-12-063, as modified by D.96-01-009, mimeo. p. 164 footnote 68.) We have also stated that the need for comparable treatment of electricity and gas consumption overrides SoCal's arguments for differing treatment of gas and electric public purpose programs. Nothing in SoCal's recent round of comments convinces us otherwise. We continue to believe that a broader surcharge scope "would mitigate concerns regarding cross-subsidies and promote a level playing field between electricity and gas suppliers in a competitive market." (D.97-02-014, as modified by D.97-02-026, mimeo. p. 75; Finding of Fact 25.)

Nonetheless, SoCal's comments persuade us that achieving the level playing field requires us to coordinate closely with the Legislature as we contemplate implementing a gas surcharge mechanism. While we have the authority to immediately order jurisdictional investor-owned gas utilities to collect a surcharge from their customers, as recommended by SCE, ORA, and others, we believe that it is more prudent to temporarily defer this action until we have further opportunity to coordinate with the Legislature. As TURN, SoCal, and others point out, state legislation is required in order to achieve a truly nonbypassable gas surcharge mechanism.<sup>1</sup> We plan to work with the Legislature to develop such legislation along the lines of today's recommendations. This approach provides SoCal and other jurisdictional gas utilities with a longer transition time for the changes we contemplate. It also provides us, as well as the Legislature, with the opportunity to consider how best to address the implementation issues raised by SoCal and others in their comments.

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<sup>1</sup> In its original response to the workshop notice, PG&E stated that federal legislation would likely be required to bring the customers of the interstate pipelines into the program. In its April 16, 1997 comments, PG&E cites a recent U.S. Supreme Court decision that puts to rest any question of the ability of the California legislature to impose a public purpose program gas surcharge on the California customers of interstate pipelines. Accordingly, PG&E has revised its earlier comments to reflect its belief that federal legislation is not necessary. We concur.

At the same time, we are unwilling to defer indefinitely the imposition of a retail gas surcharge program for the vast majority of gas customers. Accordingly, we may revisit today's decision to defer action, once we have had an opportunity to explore legislative options with the Legislature.

We find the Energy Division's recommendations to be consistent with our stated policies and reasonable in light of the record. We adopt them subject to several clarifications and additions. First, we agree with PG&E and TURN that wholesale and UEG customers should be exempt from the nonbypassable gas surcharge only to the extent that customers of these entities will be subject to their own nonbypassable public purpose program surcharge. These customers should be looked at on a case-by-case basis, depending upon whether their customers are subject to a public purpose surcharge. We also clarify that the summary section of the Report should reiterate the recommended exemptions for wholesale customers, UEG and field gas. This was an unintended omission that was noted by SCE in its comments.

As parties point out, the Energy Division did not submit specific recommendations on funding levels for the gas surcharge or on the specific allocation method among customer classes. SoCal's position that we should significantly reduce authorized funding levels to be consistent with its performance-based ratemaking proposal does not comport with our policy of treating gas and electric utilities consistently with respect to the provision of public purpose programs. We agree with PG&E and NRDC that the funding for gas public purpose programs should be established at 1996 authorized levels in order to be consistent with the treatment of electric utilities. We will establish these levels as a minimum, consistent with the treatment of funding for electric utilities in Assembly Bill 1890. As in the case of electric utilities, we will not be precluded from considering future increases to this level, should circumstances warrant. (See for example, D.97-02-014, mimeo., pp. 35-36, 71.) One way of distributing these funds for program development purposes would be to transfer monies to the energy efficiency and low-income boards, as we have done on the electric side.

We will not decide the precise formula for allocating public purpose program costs to customer groups "based on usage" (Gas Surcharge Report, p. 1) at this time. We are currently considering the positions put forth by parties in their comments, such as the equal cents per therm and equal percent of marginal cost approaches, in the unbundling phase of this proceeding for the electric public purpose charge. We prefer to examine separately the precise cost allocation for a gas surcharge in our upcoming Natural Gas Strategy.

On March 20, 1997, SoCal filed a Petition for Modification of D.97-02-014 (Petition) which requests certain modifications to the decision language regarding the treatment of gas public purpose programs. Some of SoCal's concerns were addressed with the recent language modifications we adopted in D.97-04-044. (See p. 13 and Ordering Paragraph 5.) In its Petition, SoCal also requests that we not determine funding levels for gas programs until the actual transfer of program functions to the new administrative structure occurs. There were no responses to SoCal's Petition. However, this issue was directly addressed by parties in the Energy Division report. (See Attachment 1.) We deny SoCal's Petition. As discussed above, we believe that it is appropriate to establish gas program funding at 1996 authorized levels, and see no reason to delay this determination.

#### **Findings of Fact**

1. Applying a public program surcharge to gas customers, as we are doing for electric customers, would mitigate concerns regarding cross-subsidies and promote a level playing field between electricity and gas suppliers in a competitive market.
2. State legislation is required in order to apply a nonbypassable gas surcharge to all of California's gas customers. This Commission currently has the authority to impose a public purpose surcharge on gas utility customers of utilities under the Commission's jurisdiction.
3. Coordinating with the Legislature before imposing a gas surcharge on customers of jurisdictional gas utilities would provide SoCal and others with a longer transition time to implement the change. It would also provide the Commission, as well as the

Legislature, with the opportunity to consider how best to address the implementation issues raised by SoCal and others in their comments.

4. This Commission has stated its policy that gas and electric utilities should be treated consistently with respect to public purpose programs, in order to ensure fair and equal access to programs by customers and to promote a level playing field between electricity and gas suppliers in a competitive market.

5. SoCal's position that we should significantly reduce authorized funding levels to be consistent with its performance-based ratemaking proposal does not comport with the Commission's policy of treating gas and electric utilities consistently with respect to the provision of public purpose programs.

6. The Natural Gas Strategy proceeding is the forum for considering the appropriate allocation of gas public purpose program costs across customer groups.

#### **Conclusions of Law**

1. The Energy Division's recommendations in its March 31, 1997 Gas Surcharge Report are consistent with the Commission's stated policies and are reasonable in light of the record. The Energy Division's recommendations, as set forth in Attachment 1, are adopted subject to the following clarifications and additions:

- (a) Wholesale and UEG customers should be exempt from the nonbypassable gas surcharge only to the extent that customers of these entities will be subject to their own nonbypassable public purpose program surcharge. These customers should be looked at on a case-by-case basis, depending upon whether their customers are subject to a public purpose surcharge.
- (b) The summary section of the report should reiterate the recommended exemptions for wholesale customers, UEG, and field gas, with the clarifications described in (a) above.
- (c) The minimum dollar funding levels for gas public purpose programs should be established at 1996 authorized levels.
- (d) The Commission will examine the allocation formula in its Natural Gas Strategy.
- (e) The Commission should temporarily defer imposing a gas surcharge on customers of jurisdictional gas utilities until it has further opportunity to coordinate with the Legislature. However, the



imposition of a retail gas surcharge for the vast majority of the gas customers should not be delayed indefinitely. The Commission should revisit today's adopted decision to defer action, once it has had an opportunity to explore legislative options with the Legislature.

2. By July 1, 1997, the Executive Director should forward today's decision and the attached Gas Surcharge Report to the Legislature for its consideration.

3. SoCal's March 20, 1997 Petition for Modification of D.97-02-014 should be denied.

4. In order to comply with Senate Bill 678 on a timely basis, this order should be effective today.

## O R D E R

### IT IS ORDERED that:

1. The Energy Division's recommendations presented in its March 31, 1997 Report entitled "Nonbypassable Gas Surcharge Workshop Report" (Gas Surcharge Report), attached to this decision, are adopted subject to the following clarifications and additions:

- (a) Wholesale and utility electricity generation (UEG) customers should be exempt from the nonbypassable gas surcharge only to the extent that customers of these entities will be subject to their own nonbypassable public purpose program surcharge. These customers should be looked at on a case-by-case basis, depending upon whether their customers are subject to a public purpose surcharge.
- (b) The summary section of the report should reiterate the recommended exemptions for wholesale customers, UEG, and field gas, with the clarifications described in (a) above.
- (c) The minimum dollar funding levels for gas public purpose programs should be established at 1996 authorized levels.
- (d) The Commission will examine the allocation formula in the Natural Gas Strategy.
- (e) The Commission should temporarily defer imposing a gas surcharge on customers of jurisdictional gas utilities until it has further opportunity to coordinate with the Legislature. However, the imposition of a retail gas surcharge for the vast majority of the gas

customers should not be delayed indefinitely. The Commission should revisit today's decision to defer action once it has had an opportunity to explore legislative options with the Legislature.

2. By July 1, 1997, the Executive Director shall forward today's decision and the attached Gas Surcharge Report, as clarified in this order, to the Legislature for its consideration.

3. Southern California Gas Company's March 20, 1997 Petition for Modification of Decision 97-02-014 is denied.

This order is effective today.

Dated June 25, 1997, at San Francisco, California.

P. GREGORY CONLON  
President

JESSIE J. KNIGHT, JR.

HENRY M. DUQUE

JOSIAH L. NEEPER

RICHARD A. BILAS

Commissioners

R.94-04-031, I.94-04-032 ALJ/MEG/wav

**ATTACHMENT 1**

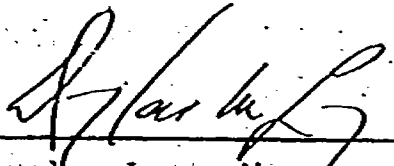
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Governing Restructuring California's ) I. 94-04-032  
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Reforming Regulation. )

**NONBYPASSABLE GAS SURCHARGE WORKSHOP REPORT**

Consideration of a Nonbypassable Gas Surcharge Mechanism  
As Ordered In D.97-02-014

  
\_\_\_\_\_  
Douglas Long, Manager  
Electric Restructuring  
Energy Division

March 31, 1997

Prepared by  
Patrick Hoglund

I. SUMMARY

Currently gas utilities do not have a nonbypassable surcharge available to them in order to collect funding for public purpose activities. To that end the Commission has stated "we intend to establish a gas surcharge mechanism that will fund all public purpose areas and that will ultimately apply to all retail gas customers"<sup>1</sup>.

In D.97-02-014, the Commission directed the Energy Division to submit a report on implementation issues for Commission consideration. This report is being served on the Special Public Purpose Service List. (Attachment 1) Parties reiterated their positions as contained in the Working Group reports.<sup>2</sup> The Energy Division relied on the workshop, filed comments, and the Working Group reports in developing the following recommendation.

The Energy Division recommends that the Commission support legislation that would apply a gas surcharge on all end use retail gas customers in the state. This surcharge should apply to all retail end-use customers of investor-owned and municipal utilities and be based on usage.

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<sup>1</sup> D.97-02-014, pg. 4

<sup>2</sup> See Working Group Report on Public Interest RD&D Activities, September 6, 1996; Low-Income Working Report, October 1, 1996.

## II. INTRODUCTION

By Decision (D.) 95-12-063, as modified by D.96-01-009 ("policy decision"), the Commission described its vision of a competitive framework for the electric services industry. This vision acknowledged the continued need for activities performed in the public interest, such as energy efficiency, RD&D, and low-income programs. However, the Commission viewed the role of utilities as the providers of these services as less clear. The Commission found it appropriate to continue ratepayer funding for various public programs as we moved towards a competitive framework, and anticipated that the Legislature would also provide guidance with respect to appropriate modification of these programs. For low-income, RD&D and energy efficiency programs in the broader public interest, we called for a nonbypassable surcharge to recover those costs. For renewables, we suggested a minimum purchase requirement.

In early 1996, the Commission requested participants in California's electric industry restructuring process to form Working Groups to address various issues related to our vision of a restructured industry. Working Groups met during 1996 to discuss RD&D, energy efficiency, renewables, and low-income assistance programs and presented their reports for our consideration. At the request of the assigned Commissioners, a separate integration report concerning energy efficiency and RD&D activities was also prepared.<sup>3</sup> Each report contained consensus

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<sup>3</sup> See Funding and Administering Public Interest Energy Efficiency Programs: The Report of the Energy Efficiency Working

and nonconsensus positions on policy and implementation issues related to the administration of these programs in a restructured environment.

On September 23, 1996, AB 1890 was signed into law. (Stats 1996, Chapter 854.) AB 1890 addresses electric restructuring in California, including the continued provision of public purpose programs through the imposition of a nonbypassable charge on local distribution service. Echoing the Commission's call for a nonbypassable surcharge for electric customers the Commission called for a nonbypassable gas surcharge in D.97-02-014 to continue funding for gas programs. The Commission has indicated that a gas surcharge, comparable to that established for electricity, is needed to fund gas programs and create a level playing field.

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Group, August 16, 1996; Renewables Working Group Report to the CPUC, August 23, 1996; Working Group Report on Public Interest RD&D Activities, September 6, 1996; Low-Income Working Group Report, October 1, 1996; Working Group Report Concerning the Integration of Certain Public Purpose Programs, October 4, 1996.

III. QUESTIONS POSED IN D.97-02-014

The Commission intends to establish a gas surcharge mechanism that will apply to all public purpose areas and ultimately to all gas customers. To this end, the Energy Division held a workshop on March 18, 1997 to address implementation issues, including the following:<sup>4</sup>

- (1) How can the Commission ensure that the costs of these programs are borne equitably by natural gas customers regardless of their natural gas provider?
- (2) Which class of customers should bear the cost for these programs?
- (3) What funding level should be established?
- (4) What further Legislative action is needed to implement these changes?

A public goods surcharge that applies to gas customers would mitigate concerns regarding cross-subsidies and promote a competitive level playing field between electricity and gas suppliers in a competitive market.

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<sup>4</sup> We note that SB 678 (Stats 1996, Chapter 285) specifically requires a report to the Legislature on these issues for low-income public policy programs. This report is due by June 1, 1997.



IV. SUMMARY OF FILED COMMENTS (Attachment 2)

The Energy Division received comments from the Natural Resources Defense Council (NRDC), Pacific Gas and Electric Company (PG&E), Southern California Gas Company (SoCalGas), the California Energy Commission (CEC) and Grueneich Resource Advocates on behalf of the University of California (UC).

The workshop was attended by representatives of The Utility Reform Network (TURN), Sierra Club, California Energy Commission (CEC), Insulation Contractors Association (ICA), Southern California Gas (SoCalGas), California/Nevada Community Action Association (Cal/Neva), Southern California Edison (SCE), Office of Ratepayer Advocates (ORA), Pacific Gas and Electric (PG&E), National Resources Defense Council (NRDC), Independent Energy Producers (IEP), Residential Energy Efficiency Clearing House (REECH), San Diego Gas & Electric (SDGE), and the Commission's Strategic Planning division.

**NRDC**

In response to question #1, the NRDC states that the cost of the programs should be recovered from all retail customers investor-owned utilities and municipal utilities. For question #2, the NRDC states that all retail customers should pay for these programs. The NRDC's answer to question #3 is that dollars for gas programs should be consistent with the electric side. Thus, the NRDC recommends 1996 authorized levels. Lastly, the NRDC responds to question #4 by pointing out that legislative action is required if the Commission wishes to capture non IOU customers and those with fuel switching capability.

**PG&E**

In response to question #1, PG&E states that the cost of the programs should be recovered from transportation rates. For question #2, PG&E states that all customers should pay for these programs, much as they do now, with the exception of UEG, cogen, and wholesale customers. PG&E's answer to question #3 is that dollars for gas programs should be consistent with the electric side. Thus, PG&E recommends 1996 authorized levels. Lastly, PG&E responds to question #4 by pointing out that legislative action is required to capture users of field gas, and customers of interstate pipelines who may bypass the local system.

**SoCalGas**

In response to question #1, SoCalGas states that the surcharge should apply to FERC regulated pipelines, field gas customers, and anyone capable of switching fuels. For question #2, SoCalGas states that customers should pay for those programs that directly benefit them. SoCalGas also would exclude UEG, cogen, Enhanced Oil Recovery (EOR) customers from being charged. SoCalGas' answer to question #3 is that dollars for gas programs should be consistent with the electric side, with the notable difference of a proposed 1997 number filed in SoCalGas' PBR proceeding. Thus, SoCalGas recommends 1996 authorized levels with a potential adjustment, based on the outcome in the instant PBR proceeding. Lastly, SoCalGas responds to question #4 by pointing out that legislative action is required if the Commission wishes to capture non IOU customers and those with fuel switching capability.

## CEC

In response to question #1, the CEC states that the cost of the programs should be recovered from all retail customers of the distribution utility. For question #2, the CEC states that all customers should pay for these programs. The CEC's answer to question #3 is that dollars for gas programs should be consistent with the electric side. Thus, the CEC recommends 1996 authorized levels with an adjustment, to 1994 levels, for RD&D activities. Lastly, the CEC responds to question #4 by pointing out that legislative action is required if the Commission wishes to capture non IOU customers and those with fuel switching capability.

## UC

UC did not go into specifics or answer the questions. They simply reiterated their position that efforts should be made to ensure a level playing field.

With the notable exception of SoCalGas, the parties achieved consensus, as reflected in the positions taken in the Working Group reports filed on public interest RD&D activities and energy efficiency issues with regard to who should pay the surcharge and the need for additional legislation to capture all end use customers. A guiding principle for the parties has been the notion of creating and maintaining a "level" playing field.

Economic efficiency requires saving electricity and gas together, rather than running independent programs for each fuel. The Commission has recognized this advantage in the past by requiring SoCalGas and Edison to jointly administer their demand-side

management competitive bidding pilot in the residential sector.

## V. DISCUSSION

Consistent with the Commission's policy decision, gas and electric utilities should be treated consistently "to ensure that low-income residents receive comprehensive assistance in managing their electric use." (D.95-12-063, as modified by D.96-01-009, mimeo., p. 164 footnote 68.)

Most parties take the position that the nonbypassable charge for public purpose programs should be levied on retail gas customers connected to the distribution grid. The surcharge on gas customers is not supported by SoCalGas. SoCalGas argues that the gas industry has already experienced restructuring for over four years and public purpose programs for gas customers are successfully continuing in their present forms. Thus, in SoCalGas' view, there is no demonstrated need for change.

The Commission believes<sup>5</sup> that the need for comparable treatment of electricity and gas consumption overrides SoCalGas' arguments for differing treatment of gas and electric public purpose programs. A broader surcharge scope would mitigate concerns regarding cross-subsidies and promote a level playing field between electricity and gas suppliers in a competitive market.

The Energy Division concurs with the majority of parties that a surcharge should apply to all customers in order to provide a level playing field. The Commission, however, can not implement

an effective surcharge without additional legislative action. Without legislative action customers would be able to bypass the surcharge by seeking service from municipal utilities and interstate pipelines, or by substituting fuels, or creating their own municipal utility,

Were any of the above situations to take place, overall revenues collected for public purpose programs would decrease, or require that remaining customers pay an increased surcharge. These conditions would create undesired consequences.

SoCalGas justifiably argues that its unique situation, two-thirds of its throughput is for the non-core and close proximity of interstate pipelines, warrants concern. The availability of competitive options requires the Commission to look beyond its own jurisdiction in developing a truly nonbypassable gas surcharge.

#### VI. ENERGY DIVISION'S RECOMMENDATION

The Energy Division recommends that the Commission pursue legislation with the legislature that would require all end use customers to pay a nonbypassable gas surcharge. Further, the Energy Division recommends that an exemption be granted for wholesale customers, UEG, and field gas. At this time the Energy Division sees no reasonable way to prevent the substitution of propane, butane, or other like fuels for natural gas as a way for some customers to bypass the surcharge.

R.94-04-031, I.94-04-032

Gas Surcharge WorkShop

Attachment 1

SPECIAL PUBLIC PURPOSE SERVICE LIST

894-04-031/194-04-032

Ctd: 11/18/96 REV: 3/4/97 lil

CORR: 3/4/97 lil

DOC. I.D.: K04591

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\* STATE SERVICE \*  
R94-04-031/194-04-032  
Special Public Purpose  
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INFORMATION ONLY List

R94-04-031/I94-04-032

\*PUBLIC PURPOSE\*

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R.94-04-031, I.94-04-032

Gas Surcharge WorkShop

Attachment 2

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March 14, 1997



Mr. Patrick Hoglund  
Energy Division, Room 4208  
California Public Utilities Commission  
505 Van Ness Avenue  
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Re: Response to Workshop Notice on Gas Surcharge Mechanism  
OIR 94-04-031/OII 94-04-032

Dear Mr. Hoglund:

Pacific Gas and Electric Company (PG&E) is responding to the invitation, in the March 6, 1997 Workshop Notice, to address the questions posed in the notice. PG&E currently collects funds for natural gas-related energy efficiency and low income public purpose programs in gas rates. On-system gas transportation customers contribute to these costs, regardless of where they obtain their natural gas supply. It makes little sense to have electric energy efficiency and low income programs run by a statewide board, while keeping the much smaller gas programs under utility administration. Since these programs provide societal benefits, all gas end-users should contribute.

PG&E has the following preliminary responses to the questions posed in the workshop notice:

1. How can the Commission ensure that the costs of these programs are borne equitably by natural gas customers regardless of their natural gas provider?

To ensure that the costs of these programs are borne equitably, these costs should continue to be recovered in customers' transportation rates. As a result, whether the customer chooses procurement service from PG&E, or whether the customer purchases gas from a third party, is irrelevant, as long as the customer uses the PG&E pipeline system. All customers, except for wholesale customers, pay the transportation rate and contribute to these costs. If the Commission returns to the equal-percentage-of-marginal-cost method advocated by PG&E in Answer 2 below and in its BCAP, wholesale customers will return to paying a share of these costs through their transportation rates. For customers of interstate pipelines and entities using field gas, see the answer to Question 4.



2. Which class of customers should bear the costs for these programs?

In general, since public purpose programs benefit everyone, they should be paid for by all customers. Currently, CARE costs are allocated to residential, commercial and industrial customers on an equal cents/therm basis. UEG, cogen, and wholesale, customers are exempt. UEG is exempt because it is assumed that UEG contributes by having a CARE program on the electric side. For the same reason, wholesale customers do not contribute to our CARE subsidy costs, because it is assumed that they provide similar services to their customers. Cogen does not contribute because its rates are set equal to UEG. PG&E did not propose any changes to this allocation in its recently filed BCAP. SoCal Gas proposed changes in its BCAP that would limit industrial customers contributions to the CARE subsidy costs, but those changes were not adopted in the proposed decision now pending before the Commission.

In PG&E's last BCAP, Decision 95-12-053, the Commission ordered a direct allocation of DSM costs to the customer classes in direct proportion to the forecasted expenditures for programs for that customer class. Because the Commission has repeatedly expressed the policy position that DSM programs primarily provide societal benefits, a policy with which PG&E agrees, PG&E has filed an application for rehearing on that part of Decision 95-12-053, which application is still pending, and has filed testimony in its current BCAP, Application 97-03-002, to change that decision. DSM costs are a societal benefit, which should be borne by all customer classes, as is done with electric DSM.

3. What funding level should be established?

The current funding level for PG&E's gas DSM, including low-income energy efficiency, is about \$27 million/year, as established in PG&E's last general rate case (Decision 95-12-055, Appendix C, page C-1). The CARE subsidy, which consists of a 15% discount for low income customers, varies depending on customer need, but currently costs ratepayers \$11 million/yr. These numbers are equivalent to the numbers used for PG&E's electric energy efficiency and low-income allocations in AB 1890, and should be adequate.

4. What further Legislative action is needed to implement these changes?

The only natural gas customers located close to PG&E who do not currently use utility transmission lines (and therefore pay for public purpose programs) are customers of interstate pipelines, such as Kern River and Mojave, and a few customers, primarily enhanced-oil recovery companies, who use local field gas. State legislation will likely be required if the field gas companies are to be brought into the public purpose program.

Mr. Patrick Höglund  
March 14, 1997  
Page 3

umbrella, and federal legislation will likely be required to bring the customers of the interstate pipelines into the program.

We will be attending the workshop on March 18th.

Very truly yours,

  
Robert B. McLennan

RBM

cc: All parties on the Special Public Purpose service list

**Order Instituting Rulemaking on the  
Commission's Proposed Policies  
Governing Restructuring California's  
Electric Services Industry and  
Reforming Regulation**

**Order Instituting Investigation on the  
Commission's Proposed Policies  
Governing Restructuring California's  
Electric Services Industry and  
Reforming Regulation**

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March 14, 1997

On March 6, 1997, the California Energy Commission (CEC) received a "Workshop Notice" in this proceeding (R.94-04-031/ I.94-04-032) from the California Public Utilities Commission's (CPUC) Energy Division concerning "implementation issues related to a gas surcharge mechanism that may apply to all public purpose areas...." The Notice has scheduled the workshop for March 18 and poses four questions for parties to answer by March 14, 1997. The CEC staff hereby tender the following responses to the questions posed.

**1. HOW CAN THE COMMISSION ENSURE THAT THE COSTS OF THESE PROGRAMS ARE BORNE EQUITABLY BY NATURAL GAS CUSTOMERS REGARDLESS OF THEIR NATURAL GAS PROVIDER?**

This question was addressed in the "Working Group Report On Public Interest RD&D Activities," submitted to the CPUC on September 6, 1996. Virtually all of the participants in that RD&D Working Group, with the exception of Southern California Gas Company, agreed that a public goods surcharge should be imposed on both electricity and natural gas consumption, and the report specifically states that "if the surcharge is imposed on both electricity and natural gas consumption, then all retail customers (e.g. retail customers of IOUs, municipal utilities, independent power producers and gas pipeline companies) should pay the public goods charge." (RD&D Report, pages 3-17 and 3-18). Obviously, additional legislation and/or reciprocal cooperative agreements will be needed to extend a public a goods gas surcharge to entities beyond the CPUC's jurisdiction.

This question was also addressed in "The Report of the Energy Efficiency Working Group," submitted to the CPUC on August 16, 1996. The CEC staff supports the answer which appears on pages 3-2 and 3-2 of that report, as set forth below: (New wording which has been added by CEC staff is underlined.)

"Question 1: Should all CPUC Jurisdictional Customers Be Required to Pay the [Public Goods Charge]?"

"All Parties agree on the necessity of developing a surcharge mechanism if public policy programs are to continue in the restructured electricity market.<sup>1</sup> Most Parties also agree this surcharge should be levied on both retail electricity and gas customers connected to the distribution grids....However, this would require a change in current Commission policy which recovers the costs of gas DSM programs from core gas customers only.

...[D]ifferences over the scope of customers who should pay the cost of these programs through a public goods charge reflect different perceptions of what types of customers are likely to benefit from programs funded by the PGC. {Most} parties believe that both electricity and natural gas customers currently benefit from DSM programs and that the switch to the PGC is simply a change in the collection method for gas DSM programs rather than a "new policy."....This will be even more true if the new EE Board is successful in developing programs that transform all energy markets because these benefits will spillover to non core customers who do not currently directly participate in utility programs.

Thus, the only way to ensure that the costs of these programs are borne equitably by those who receive benefits from the program is to collect the charges from all customers of the distribution utility.

The majority of the [EE Working] Group [including the CBC staff] was able to agree that as a minimum condition:

The public goods charge should be assessed at the meter to all jurisdictional retail customers connected to the electricity and natural gas grids.

Beyond this level of agreement, there was no clear consensus on how to treat specific customers who might attempt to bypass the PGC [by either switching fuels or switching to an unregulated distribution provider.]...

Question 2: Should the PGC Apply to Customers Who Generate All or a Portion of Their Electricity Needs? If So Should a Fee Be Charged for Both Their Natural Gas Use and the Electricity They Either Consume on Site or Resell to the Distribution Utility?

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<sup>1</sup> TURN and EMG's support for the surcharge is conditional on the rate being non bypassable for existing electricity customers.

The [EE Working] Group recommends that the CPUC structure the charge so that energy customers are not required to pay the PGC twice, once as a surcharge on the gas purchased to fuel self or co-generation units and again as a charge when customers purchase electricity at the retail level....

o Most Parties (ARCA, CEC, DRA, EMG, ICA, Onsite Energy, PG&E, SCE, NRDC, Proven Alternatives, Sierra Club, TURN) recommended that the exemption from the PGC should be limited to that portion of the total gas used by the customer to generate electricity while any remaining retail gas use should be subject to the PGC. These Parties suggest this policy would ensure that the PGC would only be levied on "retail" uses of gas such as the production of heat or the use of gas as a feedstock and not on wholesale uses of gas to produce electricity whose sale is already subject to a separate PGC.

....

[Note: The EE Working Group did not handle the more difficult issue of how to ensure customers don't switch from natural gas to some other unregulated fuel such as propane to avoid paying these costs. Some members felt the relatively small costs of the PGC less than 5 mills/therm would not be a significant enough part of the total cost to make a difference or cause a customer to switch fuels or seek gas from non jurisdictional suppliers. Others, including the Gas company disagreed.]"

## **2. WHICH CLASS OF CUSTOMERS SHOULD BEAR THE COSTS OF THESE PROGRAMS?**

For the public interest RD&D program, all customer classes should contribute equally, as is the case with electricity surcharge authorized in AB 1890.

For the Energy Efficiency (EE) program, both core and non core gas customers should bear the costs of these programs because they will provide benefits to both classes. Collecting costs from one class or the other will provide a perverse incentive for customers to switch classes and thus avoid paying these costs.

### 3. WHAT FUNDING LEVEL SHOULD BE ESTABLISHED?

For the RD&D program, the CPUC should follow the precedent set in AB 1890, and establish a gas surcharge for the IOUs consistent with "historic" gas spending levels for "public goods" RD&D prior to the onset of restructuring. For example, during the four years preceding commencement of restructuring (i.e. 1991-1994), So Cal Gas spent an annual average of approximately \$14 million per year on its RD&D activities, but this has now fallen to approximately \$8 million per year since 1995. (See RD&D Working Group Report, September 6, 1996, Appendix III-21). Therefore, the "public goods" gas surcharge for So Cal should recover the \$6 million which the company has dropped from its RD&D programs in recent years. A similar approach should be taken for PG&E's and SDG&E's gas RD&D programs.

For the EE program, the CPUC should follow the precedent set in AB 1890 for electricity programs, and use the gas IOU's 1996 authorized levels for DSM programs as the starting point that would be subject to change after the EE Board is up and running in mid to late 1998. The 1996 authorized DSM funding level for gas IOUs is approximately \$57 million per year (i.e. \$36 million for So Cal Gas; \$16 million for Pg&E; and \$6 million for SDG&E).

### 4. WHAT FURTHER LEGISLATIVE ACTION IS NEEDED TO IMPLEMENT THESE CHANGES?

With regard to the gas IOUs under the CPUC's jurisdiction, no further legislative action is required if the CPUC is willing to make its own independent determination of the appropriate minimum funding levels and order that these funds to be collected through a non bypassable gas customer surcharge. For an annual EE program funding level of approximately \$57 million, this would be roughly 5 mills/therm for core and non core customers. We have not calculated the RD&D mill rate at this time.

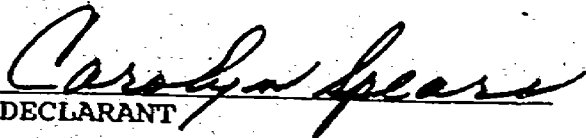
Further legislative action will be required if the CPUC feels it is also important to collect "public purpose" program costs from non IOU customers, or from customers who switch to alternative suppliers. Since the total impact of such "fuel switching" is likely to be extremely small, we would not recommend this course of action at this time.



CERTIFICATION OF SERVICE

I, Carolyn Spears, certify that on this day I served copies of the CALIFORNIA ENERGY COMMISSION STAFF RESPONSE TO QUESTIONS FOR "GAS SURCHARGE" WORKSHOP by first class mail to the Energy Division (Patrick Hoglund) of the California Public Utilities Commission, all Commissioners, and to all other parties of record, as specified on the current Special Public Purpose service list provided by the California Public Utilities Commission.

Dated March 14, 1997 at Sacramento, California.

  
DECLARANT

(Service List attached to  
the original only)

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking on the	)	
Commission's Proposed Policies Governing	)	
Restructuring California's Electric Services	)	
Industry and Reforming Regulation	)	R. 94-04-031
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Order Instituting Investigation on the	)	
Commission's Proposed Policies	)	
Governing Restructuring California's Electric	)	I. 94-04-032
Services Industry and Reforming Regulation	)	
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**COMMENTS OF THE NATURAL RESOURCES DEFENSE COUNCIL  
FOR THE MARCH 18, 1997 WORKSHOP  
ON A NATURAL GAS SURCHARGE MECHANISM**

**I. Introduction**

The Natural Resources Defense Council (NRDC) respectfully submits these comments for consideration at the March 18, 1997 workshop on implementation issues related to a gas surcharge mechanism directed by the Commission in D. 97-02-014. NRDC responds briefly here to the questions posed by the Energy Division in the workshop notice.

NRDC applauds the Commission's stated intent to establish a gas surcharge mechanism that will apply to all public purpose areas and ultimately to all gas customers. (D. 97-02-014, p. 75) We support this policy and commit to working with other parties and the Commission to develop a fair and equitable public purpose surcharge mechanism for natural gas.

With one exception, this policy was supported by all of the parties to the Energy Efficiency, Low Income, and RD&D Working Groups.<sup>1</sup> It was generally agreed that public purpose activities should be funded in a manner which:

- \* avoids or minimizes unfair competition, thus relieving pressure from natural gas utilities to cut proven investments in favor of short-term cost considerations which result in stranded benefits; and
- \* captures overlapping benefits between natural gas and electric activities, increasing incentives for collaborative efforts between them.

**II. How Can The Commission Ensure That The Costs Of These Programs Are Borne Equitably By Natural Gas Customers Regardless Of Their Natural Gas Provider?**

The public purpose charge should be nonbypassable and should ultimately apply to all retail natural gas distribution customers in the state. Though physical bypass of the electricity grid is rare and costly, this threat is potentially more relevant in the natural gas industry. This dilemma might be resolved if the charge applied to the retail customers of natural gas pipelines as well as the investor-owned and municipal utilities. NRDC is confident that workable solutions can be found to accommodate the special circumstances of the natural gas industry, and commits to working with parties to develop them.

**III. Which Class Of Customers Should Bear The Costs For These Programs?**

The public purpose surcharge for natural gas should apply to all retail distribution customers in the state based on usage. Included in this list are all retail natural gas customers of

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<sup>1</sup> Funding and Administering Public Interest Energy Efficiency Programs, August 16, 1996, p. 3-2; Working Group Report on Public Interest RD&D Activities, September 6, 1996, p. ES-3; and Low Income Working Group Report, October 1, 1996, pp. IN-3-4. The one exception in all three reports was Southern California Gas Company.

investor-owned and municipal utilities, and gas pipeline companies. As mentioned above, the majority opinion in all three working group reports supports this view.

The crucial concept here in distinguishing a retail customer is end-use service: for example, the production of heat or use of gas as a feedstock. Exemptions to this charge should be limited to wholesale uses of gas to produce electricity whose sale is subject to a separate surcharge.

#### **IV. What level of funding should be established?**

Initial funding for natural gas energy efficiency and low income assistance programs has been established by the Commission at 1996 authorized levels, with opportunities for increases as appropriate. (D. 97-02-014, p. 36) NRDC supports this initial level which is consistent with legislative and Commission policy for the electricity industry. Any proposals that seek to set initial investment at current or planned funding levels should be rejected, since those levels reflect significant reductions made largely in response to competitive pressures and not on program merit.

Southern California Gas Company (SoCal Gas) correctly points out in the working group reports submitted to the Commission, that restructuring of the natural gas industry is already underway and in fact began before the electricity industry process. Indeed, we have experienced the same disturbing trend of cuts in energy efficiency, low income and RD&D program investment in the gas industry that we did in electricity. Pressures resulting from impending electricity industry competition have more recently accelerated these reductions in investment for natural gas public purpose programs. SoCal Gas, for example, has proposed reductions through their PBR in energy efficiency, low income, and RD&D programs totaling \$47 million, or

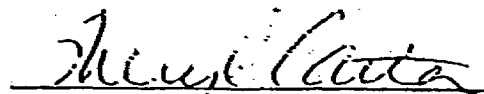
approximately 50 percent of 1996 authorized funding levels.<sup>2</sup> Instituting a non-bypassable charge to fund investment in these programs as the Commission has proposed would take the pressure off of natural gas utilities such as SoCal Gas to cut proven investments.

**V. What Further Legislative Action Is Needed To Implement These Changes?**

We believe that the Commission currently has the authority to implement a public purpose surcharge applying to natural gas utilities in their jurisdiction, under both state and federal law, without requiring legislation. However, in order to achieve a truly non-bypassable, competitively neutral result within the natural gas industry, legislation mandating such a charge for non-jurisdictional natural gas providers may be necessary.

Dated: March 14, 1997

Respectfully submitted,

  
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<sup>2</sup> Opening Brief of the Natural Resources Defense Council, January 31, 1997 in A. 95-06-002.

1                   **BEFORE THE PUBLIC UTILITIES COMMISSION**  
2                   **OF THE STATE OF CALIFORNIA**  
3

4                   Order Instituting Rulemaking on the                   )  
5                   Commission's Proposed Policies Governing                   )  
6                   Restructuring California's Electric Services                   )  
7                   Industry and Reforming Regulation                   )

R. 94-04-031

8                   Order Instituting Investigation on the                   )  
9                   Commission's Proposed Policies Governing                   )  
10                   Restructuring California's Electric Services                   )  
11                   Industry and Reforming Regulation                   )

I. 94-04-032

12  
13                   **SOUTHERN CALIFORNIA GAS COMPANY (U 904 G)**  
14                   **WRITTEN OPENING STATEMENT**  
15                   **FOR MARCH 18, 1997**

16                   **WORKSHOP ON IMPLEMENTATION ISSUES RELATED TO A GAS**  
17                   **SURCHARGE MECHANISM THAT MAY APPLY TO PUBLIC PURPOSE**  
18                   **AREAS AND, ULTIMATELY, TO ALL GAS CUSTOMERS**  
19

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March 14, 1997

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1                                   **BEFORE THE PUBLIC UTILITIES COMMISSION**  
2                                   **OF THE STATE OF CALIFORNIA**

3  
4   Order Instituting Rulemaking on the                                   )  
5   Commission's Proposed Policies Governing                           )  
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R. 94-04-031

8   Order Instituting Investigation on the                               )  
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11   Industry and Reforming Regulation                                   )

L. 94-04-032

12                                   **SOUTHERN CALIFORNIA GAS COMPANY (U 904 G)**  
13                                   **WRITTEN OPENING STATEMENT**

14   **FOR MARCH 18, 1997, WORKSHOP ON IMPLEMENTATION ISSUES RELATED**  
15   **TO A GAS SURCHARGE MECHANISM THAT MAY APPLY TO ALL PUBLIC**  
16   **PURPOSE AREAS AND, ULTIMATELY, TO ALL GAS CUSTOMERS**

17       Southern California Gas Company (SoCalGas) hereby submits its position on Issues  
18   Related to a Gas Surcharge Mechanism that may Apply to all Public Purpose Areas, and,  
19   Ultimately, to all Gas Customers as part of the Commission's Electric Industry Restructuring  
20   proceedings. Although SoCalGas is a gas-only utility, it participated in all of the Public  
21   Purpose Working Groups<sup>1</sup> at the request of the Commission in order to "assure consistent  
22   treatment of comparable costs among competitors." SoCalGas stated its position in detail in  
23   each Working Group's report and subsequent filings to the Commission. SoCalGas intends to  
24   continue to participate in all of the workshops and proceedings related to the implementation  
25   issues for a gas surcharge for public purpose programs.

26       In general, SoCalGas has maintained a position on the funding and governance of Public  
27   Purpose programs that is decidedly different than other working group participants. This  
28   difference is the understandable result of an important fact: SoCalGas operates in an industry  
29   where a restructured regulatory environment has already been established and in a marketplace

<sup>1</sup> The Public Purpose Working Groups are: Energy Efficiency (EE); Research, Development and Demonstration (RD&D); Renewables; and Low-Income (LI).

1 where competition has existed for some time which is a different kind and level of competition  
2 than experienced by electric companies, as described below. This regulatory structure and the  
3 unique competitive challenges confronting SoCalGas are the foundation of its reasoning as to  
4 why it is different than other California utilities. It is for this competitive reason that SoCalGas  
5 recommends that the non-bypassable Public Goods Surcharge (PGS) on gas consumption  
6 should only be imposed on those customer classes that are direct beneficiaries of the public  
7 purpose programs. Although the concept of a non-bypassable PGS is meritorious, it does not  
8 exist in reality since industrial customers are free to migrate to other states in order to avoid  
9 these costs.

10 The Commission itself has clearly stated that SoCalGas is unique with regard to the  
11 imminent bypass threat posed by interstate pipelines such as Kern River and Mojave.<sup>2</sup> The  
12 Commission has also clearly recognized the competitive challenge posed by the City of Vernon  
13 and its efforts to duplicate SoCalGas' distribution system. The City of Vernon has notified  
14 SoCalGas that it intends to start construction of the first phase of its bypass of SoCalGas'  
15 system on April 1, 1997. These threats are in large part driven by the fact that southern  
16 California has an extremely dense population and is still the largest manufacturing base in the  
17 nation. As a result, areas like the Los Angeles basin contain the primary targets of such  
18 competitive threats -- highly concentrated industrial and large commercial customers. No other  
19 gas utility in the state has such a customer base and the competition it attracts. Lastly, as a gas-  
20 only utility, SoCalGas directly competes with a number of electric utilities,<sup>3</sup> and many other  
21 alternate fuels, such as: butane, propane, refinery gas, fuel oil, crude oil, liquefied natural gas  
22 and coal. Such competition, with a multitude of alternate fuels and electricity differentiates  
23 SoCalGas from the electric industry and in large part from other gas utilities.

24 Over the past several years, the Commission has issued a number of decisions that have  
25 restructured the regulatory environment for the gas industry so that it could accommodate and  
26 facilitate their competition. The Commission has recognized to a fair extent the competitive  
27

28 <sup>2</sup> Competition from these interstate pipelines has already resulted in 150 Bcf per year of bypassed gas  
usage that would otherwise be served by SoCalGas.

<sup>3</sup> These include Southern California Edison and Pacific Gas & Electric, which are state-regulated  
public utilities, and several municipal utilities operating in such cities as Los Angeles, Vernon,  
Anaheim, Riverside, Pasadena, and Glendale, to name a few.



1 challenges faced by SoCalGas. This understanding of the competitive gas marketplace has  
2 played a key role in the evolution of the Commission's policies in the area of gas regulation,  
3 particularly with regard to the issue of cost allocation. For instance, the Direct Assistance  
4 Program and the vast majority of Demand-Side Management program costs are not allocated to  
5 non-core customers. The Commission should continue to keep the competitive impacts on  
6 non-core customers in mind when implementing a non-bypassable PGS for public purpose  
7 programs. For example, if the level of funding for SoCalGas' "public goods" programs<sup>4</sup>  
8 remains at current levels, and if the PGS is applied to all of SoCalGas' core customers, and only  
9 to its industrial non-core customers,<sup>5</sup> this usage-based PGS would reallocate \$12 million per  
10 year of cost responsibility from the core to the non-core market. This is roughly twice the  
11 amount currently allocated to the non-core market. The following briefly summarizes  
12 SoCalGas' specific comments on the issues outlined in the Commission's Workshop Notice of  
13 March 7, 1997.

14 1. How can the Commission ensure that the costs of these programs are borne  
15 equitably by natural gas customers regardless of their natural gas provider?

16 In order to assure that the PGS is truly non-bypassable, legislation would have to be  
17 passed to impose a PGS on all customers capable of readily switching to alternate sources of  
18 energy. This would include the following groups of customers: wholesale gas utilities'  
19 customers; local California gas production customers; Federal Energy Regulatory Commission  
20 (FERC) regulated interstate gas pipelines serving California customers; butane customers;  
21 propane customers; refinery gas customers; liquefied natural gas customers; fuel oil customers;  
22 crude oil and coal customers. At a minimum, a PGS should be imposed on FERC-regulated  
23 pipeline customers, newly created municipal or wholesale customers, and local California gas  
24 production customers. All gas customers subject to the PGS as utility customers should  
25 continue to be responsible for those costs if they by-pass the gas utility system. This will assure  
26 that gas customers are not provided an incentive to bypass the utility system in order to avoid

27 <sup>4</sup> These would be comprised of SoCalGas' California Alternate Rates for Energy (CARE) Program,  
28 Direct Assistance Program (DAP), Demand Side Management (DSM) Programs, and the public  
goods portion of its RD&D activities.

<sup>5</sup> These assumptions are used for illustration purposes only. SoCalGas does not believe they are at  
all realistic and therefore understate the probable cost allocation impacts of a usage-based PGS.

1 the PGS. It should be noted that this form of non-bypassable surcharge is not intended to  
2 include fuel switching from gas to electricity.

3 **2. Which class of customer should bear the costs for these programs?**

4 The PGS should be limited to those customer classes that are the direct beneficiaries of  
5 the programs and services currently delivered to those customer classes by the gas utility.

6 **Programs and Customer Classes**

7 **Residential - CARE, DAP, Residential DSM, and the public goods portion of RD&D**  
8 **benefiting residential customers.**

9 **Core Commercial and Industrial (C&I) - Core C&I DSM, CARE funding levels equal to the**  
10 **benefit received by core C&I low-income customers, and the public goods portion of RD&D**  
11 **benefiting core C&I customers.**

12 **Non-Core Commercial and Industrial - DSM (Select technologies only) and the public**  
13 **goods portion of RD&D benefiting non-core C&I customers.**

14 **UEG - none**

15 **Cogeneration - none**

16 **EOR - none**

17 **Wholesale - none**

18 **3. What funding levels should be established?**

19 In all instances, SoCalGas believes that the currently proposed funding levels for gas  
20 Energy Efficiency, RD&D and Low Income programs filed in SoCalGas' Performance Based  
21 Regulation (PBR) proceeding and the approved October 1996 DSM and DAP advice letter  
22 filings should be adopted by the Commission as the appropriate funding level for a PGS on gas.  
23 CARE costs, however, should be included at the 1997 actual level.

24 If a PGS is imposed, revenues collected from specific utilities and customer segments  
25 should be used to fund Energy Efficiency, RD&D and Low Income programs in each utility's  
26 service territory and customer segment. Cross-utility and cross-customer segment funding  
27 should be avoided. PGS funds collected in one gas utility's service territory should be spent on  
28 customer programs in that gas utility's service territory with the exception that a portion of

1 funds can be used for generic customer information as determined by the Independent Board  
2 for Energy efficiency and the Governing Board for Low Income programs. However, in no  
3 case should this amount exceed 5% of the total funds collected in any gas utility's service  
4 territory. Gas utilities should be allowed to retain currently allocated funds for conservation  
5 advertising in their service territories, since that is the most efficient way to assure that  
6 customers continue to receive conservation information tailored to each utility's service  
7 territory. Regulatory compliance and Measurement and Evaluation funds, currently allocated  
8 by advice letter for those activities, for all existing programs and all programs negotiated before  
9 the imposition of the PGS should be retained by the gas utilities as specified in D.97-02-014 for  
10 electric utilities. In addition, PGS funds collected in one gas utility's service territory should be  
11 spent on gas related programs in that gas utility's service territory. Gas PGS funds should not  
12 be allowed to fund fuel switching from gas to electricity or vice versa. Given SoCalGas'  
13 competitive position, it is essential that funds collected in SoCalGas' service territory not  
14 subsidize fuel switching or encourage by-pass to other gas or electric providers.

15 The PGS should be based on equal percent of marginal cost to collect dollar amounts  
16 equal to the funding levels proposed by SoCalGas in its ongoing PBR proceeding. For  
17 SoCalGas, the funding levels for all public purpose programs should be as follows:

18 Public Purpose Program Funding Level

19 Program	20 Total funding level (SMillions)
21 CARE	38.000 (a)
22 DAP	12.000
23 DSM	27.068
24 RD&D (PG)	0.500
25 Total	\$77.568

26 (a) \$38 million is an estimate for the 1997 funding level.

27 4. What further Legislative action is needed to implement these changes?

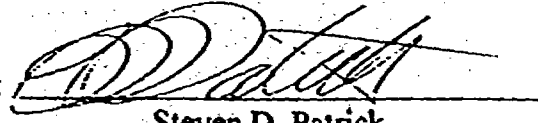
28 SoCalGas recommends legislation that would authorize a PGS on wholesale and  
municipal gas customers, FERC regulated gas pipeline customers and local California gas  
production customers. This legislation should also provide a mechanism to recover the gas  
utility's stranded costs associated with these public purpose programs.

1 This concludes Southern California Gas Company's initial written comments. We look  
2 forward to participating in the workshops and shall work with all parties to assure that a truly  
3 non-bypassable PGS and a mechanism to recover the stranded costs associated with these  
4 public purpose programs is adopted by the Commission and the Legislature for gas utilities.

5 Respectfully submitted,

6 SOUTHERN CALIFORNIA GAS COMPANY

7  
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March 13, 1997

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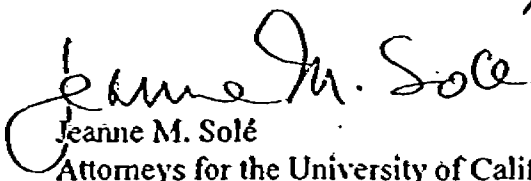
The University of California (UC) appreciates the opportunity to comment on issues related to the implementation of a surcharge on natural gas sales that may apply to all public purpose areas. All but one of the parties who signed the Working Group Report on Public-Interest Research, Development and Demonstration (RD&D) recommended that a surcharge for public-interest RD&D should apply to both electricity and natural gas. In explaining the reasoning behind this recommendation, the Working Group Report stated:

Working Group members who supported a combined electricity and natural gas surcharge did so, in part, because they felt it would be necessary to ensure a "level playing field" between electricity and competitors in a restructured market. (P. 3-17).

UC, which signed the Working Group Report, continues to support the "level playing field" principle and believes that this principle should guide the Commission as it addresses implementation issues related to a gas surcharge mechanism for public purpose programs.<sup>1</sup>

Sincerely,

Grueneich Resource Advocates

  
Jeanne M. Solé  
Attorneys for the University of California

cc: Service List R.94-04-031/I.94-04-032

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<sup>1</sup>Questions regarding UC's participation in the Working Group can be addressed to Carl Blumstein at the University of California Energy Institute, 2539 Channing Way, Berkeley, CA 94720.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) WRITTEN OPENING STATEMENT FOR MARCH 18, 1997 WORKSHOP ON IMPLEMENTATION ISSUES RELATED TO A GAS SURCHARGE MECHANISM THAT MAY APPLY TO PUBLIC PURPOSE AREAS AND, ULTIMATELY, TO ALL GAS CUSTOMERS on all parties in R.94-04-031 by mailing by first class mail, a copy thereof properly addressed to each such party included on the list appended to the original document filed with the Commission.

DATED at Los Angeles, California, this 14th day of March, 1997.

Rose Mary Ruiz  
Rose Mary Ruiz

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CERTIFICATE OF SERVICE

I, Zaida C. Amaya-Pineda, certify that the following is true and correct:

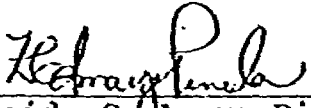
I am a resident of the United States, State of California, am over eighteen years of age, and am not a party to the within cause

My business address is 505 Van Ness Avenue, Room 3-B, San Francisco, California 94102.

By March 31, 1997, I served the foregoing document upon all workshop participants. I have also served a notice of availability on all known parties in this proceeding.

Executed this 31st day of March, 1997, at San Francisco, California

ENERGY DIVISION  
CALIFORNIA PUBLIC UTILITIES COMMISSION  
505 Van Ness Avenue  
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BY   
Zaida C. Amaya-Pineda

(END OF ATTACHMENT 1)

R.94-04-031, I.94-04-032 ALJ/MEG/wav

ATTACHMENT 2



SPECIAL PUBLIC PURPOSE SERVICE LIST

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**BEFORE THE PUBLIC UTILITIES COMMISSION OF  
THE STATE OF CALIFORNIA**

Order Instituting Rulemaking on the Commission's  
Proposed Policies Governing Restructuring  
California's Electric Services Industry and Reforming  
Regulation. )  
)  
)  
)

R.94-04-031  
(Filed April 20, 1994)

Order Instituting Investigation on the Commission's  
Proposed Policies Governing Restructuring  
California's Electric Services Industry and Reforming  
Regulation. )  
)  
)  
)

1.94-04-032  
(Filed April 20, 1994)

**NOTICE OF WORKSHOP**  
**TO ADDRESS THE TECHNICAL SPECIFICATIONS FOR**  
**METERING AND DATA COMMUNICATION STANDARDS**

Pursuant to D.97-05-040, Ordering Paragraph 7(a), the Energy Division has scheduled a workshop to address the technical specifications for metering and data communication standards in the restructured electric services industry.

The workshop will be held in the Commission's Hearing Room "A", 505 Van Ness Avenue, San Francisco CA, on July 8, 1997. The workshop will be conducted from 9:00 a.m. to 12 p.m., and 1 p.m. to 5 p.m. A workshop agenda will be distributed prior to the workshop. Any member of the public may attend this workshop. Hearing Room "A" is wheelchair-accessible. Questions regarding the workshop should be addressed to Steve Roscow of the Energy Division (phone: 415-703-2818; FAX: 415-703-2200; e-mail: [scr@cpuc.ca.gov](mailto:scr@cpuc.ca.gov)).

As discussed in D.97-05-040 (pp. 39-40), the workshop shall address the technical specifications for metering and metering communication standards, as well as protocols, and any necessary certification requirements and procedures.

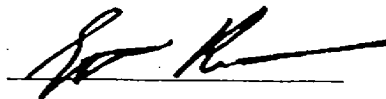
Interested parties may obtain the Final Workshop Report Outline, text of proposals by other parties, and other information from the Direct Access Implementation Workshop website, located at <http://162.15.5.2:80/wk-group/dai/>

After the workshop, a workshop report shall be jointly prepared by the UDCs in conjunction with the other workshop participants, and filed with the Commission's Docket Office by July 25<sup>th</sup>. The workshop report shall be served only on those participants attending the workshop, on the assigned Commissioners and ALJ, and anyone else requesting a copy before the workshop report is filed. Comments to this report shall be filed by August 11, 1997.

**CERTIFICATE OF SERVICE**

I certify that I have by mail this day served a true copy of the original attached Energy Division Notice of Workshop to address the technical specifications for metering and data communication standards on all parties of record in this proceeding or their attorneys of record.

Dated June 27, 1997, at San Francisco, California.



Steve Roscow

**NOTICE**

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

The Commission's policy is to schedule hearings (meetings, workshops, etc.) in locations that are accessible to people with disabilities. To verify that a particular location is accessible. Call: Calendar Clerk (415) 703-1203.

If specialized accommodations for the disabled are needed, e.g., sign language interpreters, those making the arrangements must call the Public Advisor at (415) 703-2074 or TDD# (415)703-2032 five working days in advance of the event.

**BEFORE THE PUBLIC UTILITIES COMMISSION OF  
THE STATE OF CALIFORNIA**

Order Instituting Rulemaking on the Commission's  
Proposed Policies Governing Restructuring  
California's Electric Services Industry and Reforming  
Regulation. )

R.94-04-031  
(Filed April 20, 1994)

Order Instituting Investigation on the Commission's  
Proposed Policies Governing Restructuring  
California's Electric Services Industry and Reforming  
Regulation. )

1.94-04-032  
(Filed April 20, 1994)

**NOTICE OF WORKSHOP**  
**TO ADDRESS RETAIL SETTLEMENT AND**  
**INFORMATION FLOW ISSUES**

Pursuant to D.97-05-040, Ordering Paragraph 7(c), the Energy Division has scheduled a workshop to address retail settlement and information flow issues related to implementation of direct access in the restructured electric services industry.

The workshop will be held in the Commission's Auditorium, 505 Van Ness Avenue, San Francisco CA, on July 7, 1997. The workshop will be conducted from 9:00 a.m. to 12 p.m., and 1 p.m. to 5 p.m. A workshop agenda will be distributed prior to the workshop. Any member of the public may attend this workshop. The Commission's Auditorium is wheelchair-accessible. Questions regarding the workshop should be addressed to Steve Roscow of the Energy Division (phone: 415-703-2818; FAX: 415-703-2200; e-mail: [ser@cpuc.ca.gov](mailto:ser@cpuc.ca.gov)).

As discussed in D.97-05-040 (pp. 50-51), the workshop shall address retail settlement and information flow issues, including those related to the ISO and Schedule Coordinators, using consistent methods where appropriate. The workshop will also examine how the settlement procedures can resolve problems that may occur with respect to aggregated loads, and explore whether the use of meters at the transmission and distribution nodes will help to lessen the settlement imbalances.

Interested parties may obtain the Final Workshop Report Outline, text of proposals by other parties, and other information from the Direct Access Implementation Workshop website, located at <http://162.15.5.2:80/wk-group/dai/>

After the workshop, a workshop report shall be jointly prepared by the UDCs in conjunction with the other workshop participants, and filed with the Commission's Docket Office by July 25<sup>th</sup>. The report should discuss the issues identified above, and any issues that require the Commission's further consideration. Comments to this report shall be filed by August 11, 1997.



**CERTIFICATE OF SERVICE**

I certify that I have by mail this day served a true copy of the original attached Energy Division Notice of Workshop to address retail settlement and information flow on all parties of record in this proceeding or their attorneys of record.

Dated June 27, 1997, at San Francisco, California.



Steve Roscow

**NOTICE**

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

The Commission's policy is to schedule hearings (meetings, workshops, etc.) in locations that are accessible to people with disabilities. To verify that a particular location is accessible. Call: Calendar Clerk (415) 703-1203.

If specialized accommodations for the disabled are needed, e.g., sign language interpreters, those making the arrangements must call the Public Advisor at (415) 703-2074 or TDD# (415)703-2032 five working days in advance of the event.

## PUBLIC UTILITIES COMMISSION

105 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3293

June 27, 1997

No. R.94-04-031, I.94-04-032

Ann P. Cohn  
Assistant General Counsel  
Southern California Edison Company  
P.O. Box 800  
2244 Walnut Grove Avenue  
Rosemead, CA 91770

Dear Ms. Cohn:

Re: Your letter dated June 25, 1997

I am in receipt of your letter dated June 25, 1997, which on behalf of the three major California investor-owned electric utilities, requests a two-week extension of time to file the pro forma tariffs and service agreements. In Decision (D.) 97-05-040, the Commission ordered the utilities to file their direct access implementation (DAI) plans on or before July 1, 1997. As part of the DAI plan, the utilities were ordered to include pro forma tariffs which detail the terms and conditions of direct access. Your letter states that the utilities are planning to file a single DAI plan on July 1, 1997. However, due to the magnitude of changes in the electric utility industry, the DAI plan is likely to evolve up to the July 1, 1997 filing date. In order for the pro forma tariffs to accurately reflect the final version of the DAI plan, the utilities request an extension until July 15, 1997, to separately file the pro forma tariffs and associated service agreements.

Your request for an extension of time to separately file the pro forma tariffs and associated service agreements is granted. Those items shall be filed on or before July 15, 1997 with the Docket Office, and served on all parties to the electric restructuring proceeding. As stated in Ordering Paragraph 5.e.(1)(a) of D.97-05-040, a ruling will issue in the near future which describes the process that will be followed to address the issues associated with the pro forma tariffs and service agreements.

Yours truly,

A handwritten signature in cursive script that reads 'Wesley M. Franklin'.

WESLEY M. FRANKLIN  
Executive Director

cc: Service List - R.94-04-031/I.94-04-032