

JUL 18 1997

Decision 97-07-061 July 16, 1997

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

In the Matter of the Application )  
of San Diego Gas & Electric )  
Company (U 902-G) for Authority )  
to Change its Gas Procurement for )  
Core Customers (GPC) Tariff. )

**ORIGINAL**

Application 97-02-022  
(Filed February 19, 1997)

**OPINION**

**Summary**

We will grant San Diego Gas & Electric Company (SDG&E) authority to remove a rate cap on gas procurement rates and to recover the current undercollection in its Core Procurement Gas Account (CPGA) due to the rate cap through a nonbypassable charge.

**Procedural History**

SDG&E filed its application on February 19, 1997. Notice appeared in the Daily Calendar on February 27, 1997. Protests were filed by the Utility Consumers Action Network (UCAN) and Enron Capital and Trade Resources (Enron).

**Discussion**

This application presents another illustration of why the phrase "it seemed like a good idea at the time" is so frequently heard in connection with assessments of how actual experience compares to forecasts.

Core customers, generally, consist of residential and small commercial customers. Rates for gas service to core customers are based on several components, reflecting the utility's cost of providing the service. The cost that is subject to the greatest variability is the market price of the commodity natural gas. To bring consumer behavior into closer alignment with commodity gas prices, we approved SDG&E's application last year to forecast on a monthly, rather than an annual basis. (Decision (D.) 96-05-071.) As a result, changes in commodity prices are reflected in consumer bills much more quickly than would otherwise occur.

Nevertheless, SDG&E proposed in that application that its core procurement rate, then \$0.1746/therm, be capped at \$0.20/therm over the first 12

months, and at \$0.25/therm over the 12 months following that as a consumer protection measure to guard against "rate shock." SDG&E proposed that if rates would otherwise exceed \$0.20/therm over the first year, it should track the excess to be amortized into rates during the second year, subject to a \$0.25/therm cap during that period. After the end of the second year, the cap would disappear, and any remaining deficit could be amortized into core rates in the third year. SDG&E expressed a degree of doubt that the price cap would come into play. The first year cap represents an increase of 14.55%, or 1.21% per month over 12 months. The second year cap represents an increase from the present rate of 43.18%, or 1.8% per month over 24 months. Nonetheless, SDG&E observed that "extreme gas price increases over the next two years ... are possible." We approved a \$0.25/therm cap for the entire two-year period.

In the event, the core procurement rate, which was \$0.12778/therm core in the first month of the two-year period, June 1996, swiftly increased to the maximum permitted under the cap, \$0.25/therm, in November 1996. This is approximately \$0.10/therm below what the core procurement rate would have been without the cap. As a result, SDG&E's CPGA is undercollected by an estimated \$26.7 million as of the end of February 1997, and customers (who must eventually bear the cost of the undercollection) have not had the benefit of accurate price signals.

UCAN asks whether it is appropriate to subject core customers to severe natural gas price volatility in the absence of readily available means to dampen the effects of volatility. To an extent, price volatility and demand interact, and spikes in the commodity price component of natural gas service have the beneficial effect of moderating demand, which in turn results in dampening of prices. In fact, this is how markets are supposed to operate, and provides one corrective. A second corrective directly addresses volatility. SDG&E's Balanced Payment Plan permits customers to reduce the month-to-month variations in their gas bills that arise from changes in consumption and prices. Thus, while a customer ultimately pays the same total amount, month-to-month variability is decreased. The customer pays more during some months so that less may be paid in other months. Therefore, UCAN's fundamental premise is mistaken--available means to dampen the effects of volatility of commodity gas prices

do exist. In addition, UCAN failed to allege any facts that it would present at an evidentiary hearing.

We were prepared for the possibility that the cap might be reached in the two-year period, and we noted that we would be concerned if the cap created a persistent and appreciable disparity between costs and prices. Because the cap was high, relative to recent experience, and because it was temporary, we thought the risk that the cap would create significant, long-term price distortions would be justified by its cushioning of rate shock to consumers. Even though we required a higher cap than SDG&E proposed, the cap was not high enough, and we should now eliminate it so that the required adjustments can be started during the summer months. We should also require SDG&E to set about reducing the undercollection beginning in July 1997.

Enron does not object to removing the price cap and it does not believe evidentiary hearings are required unless SDG&E contests Enron's claims of the competitive harm that has arisen from the price cap. Enron does object to the recovery of the undercollection from all core customers, including those who choose to transport, except for those core customers who procured gas from other sources on December 31, 1996. SDG&E believes that Enron misunderstands SDG&E's proposal, which would exempt those core customers who did not benefit from the rate cap (*i.e.*, transport customers) from the obligation of retiring the undercollection. We will direct SDG&E to make an appropriate modification to its proposed Rate Cap Transition Charge<sup>1</sup> to clarify that it does not apply to core customers who were core transport customers on December 31, 1996, but only applies to core customers who were core sales customers on such date.

#### Findings of Fact

1. SDG&E is a public utility subject to the jurisdiction of this Commission.
2. SDG&E filed its application on February 19, 1997.

---

<sup>1</sup> The Rate Cap Transition Charge now states: "Customers that are exempted from the Rate Cap Transition Charge are those customers who procured their own gas on December 31, 1996."

3. Notice appeared in the Daily Calendar on February 27, 1997.

4. Two protests were filed but neither stated facts that the protestant would present at an evidentiary hearing to support its request for whole or partial denial of the application.

5. The \$0.25/therm cap approved in D.96-05-071 has resulted in a substantial undercollection in the CPGA and is distorting accurate price signals.

6. SDG&E's proposed Rate Cap Transition Charge is potentially misleading.

#### **Conclusions of Law**

1. A public hearing is not necessary.

2. SDG&E should be authorized to amend its rate schedules as set forth in the application, except for the description of the Rate Cap Transition Charge, which should be clarified.

3. SDG&E should be permitted to recover the undercollection in the CPGA through a nonbypassable charge to apply to all core customers (except those core customers who, on December 31, 1996, were solely core transport customers, and who did not, on such date, purchase gas from SDG&E) for a 12-month period beginning August 1997 (or as soon thereafter as practicable).

### **O R D E R**

#### **IT IS ORDERED that:**

1. San Diego Gas & Electric Company (SDG&E) is authorized to modify Schedules GTC, GTCA, GT-NGV, GTNC, GTNC-SD, GTCG, CTCG-SD, and XGTS as set forth in Revised Exhibit C dated March 4, 1997 to its application; provided, that SDG&E shall first file by advice letter (with service on the service list for Application (A.) 97-02-022) a modification to Revised Exhibit C to clarify that the Rate Cap Transition Charge does not apply to core customers who, on December 31, 1996, were solely core transport customers, and who did not, on such date, purchase gas from SDG&E.

A.97-02-022 ALJ/RC1/jac

2. A.97-02-022 is closed.

This order is effective today.

Dated July 16, 1997, at San Francisco, California.

P. GREGORY CONLON

President

JESSIE J. KNIGHT, JR.

HENRY M. DUQUE

JOSIAH L. NEEPER

RICHARD A. BILAS

Commissioners.