

Decision 97-09-118 September 24, 1997

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Gas Company for Authority to Revise its Rates Effective January 1, 1997, in its Biennial Cost Allocation Proceeding.

Application 96-03-031
(Filed March 15, 1996)

ORIGINAL

In the Matter of the Application of San Diego Gas & Electric Company for Authority to Revise its Rates Effective January 1, 1997, in its Biennial Cost Allocation Proceeding.

Application 96-04-030
(Filed April 15, 1996)

O P I N I O N

Summary

On May 16, 1997, Southern California Gas Company (SoCalGas) filed a proposal to recover the undercollected balance in the core purchased gas cost account (PGA) in the following manner: (1) to amortize the estimated \$86.9 million undercollection for residential sales customers over a 12-month period; and (2) to amortize the \$633,000 undercollection for commercial and industrial (C&I) sales customers over a one month period.

The PGA balance reported by SoCalGas is substantially different from the balance it estimated in its Biennial Cost Allocation Proceeding (BCAP) filings. We find that since there is no record in the BCAP of the events which occurred during the past winter that caused this significant change, the appropriate proceeding to review the reasonableness of these costs is in SoCalGas' pending Gas Cost Incentive Mechanism and Storage Incentive Mechanism (GCIM/SIM) Application, Application (A.) 97-06-025. Therefore, SoCalGas' recovery of its PGA balance will be subject to refund pending the completion of a reasonableness review in A.97-06-025.

We grant SoCalGas' proposal to amortize the PGA balance subject to refund. We also direct SoCalGas to supplement its GCIM/SIM filing to specifically address the

effects of noncore imbalances and core storage inventory levels and operations on the PGA account balance being recovered in this decision.

Background

In its BCAP application filed on March 15, 1996, SoCalGas estimated it would have a \$120 million overcollection in its core PGA account on December 31, 1996 and proposed to amortize this balance in rates over a 12-month period. In its update filing of October 15, 1996, SoCalGas revised its projection downward to a year-end overcollection of \$80 million. On May 16, 1997, when SoCalGas filed to recover its PGA balance which is the subject of this decision, it reported that the balance in the core PGA on December 31, 1996 was actually an undercollection of \$2.2 million, and that the PGA balance as of May 31, 1997 was an undercollection of approximately \$86.9 million.

Due to the large PGA balance to be collected from core customers, SoCalGas proposes that collection from residential customers should occur over a 12-month period, resulting in an increase of 3.6 cents per therm in residential procurement rates. It proposes to amortize the C&I undercollection over a one-month period as the per-therm impact is much less.¹ SoCalGas proposes to include recovery of its C&I PGA balance as part of its routine monthly adjustment to reconcile commodity costs and revenues in accordance with Decision (D.) 96-08-037. By letter dated June 3, 1997, it requests the Commission set the implementation date for residential customers to also be concurrent with the rate change for core residential monthly pricing.

While SoCalGas prefers a 12-month amortization for residential customers, it proposes for the Commission's consideration an alternative four-month schedule that would move more quickly to market-level commodity rates.

The Office of Ratepayer Advocates (ORA) and The Utility Reform Network (TURN) filed timely responses to SoCalGas' proposal. ORA states it is not opposed to SoCalGas' preferred 12-month amortization proposal but does not support its four-

¹ C&I procurement customers were shifted to monthly pricing in January 1997 while residential customers did not move to monthly pricing until June 9, 1997.

month alternative because of the significant impact this short amortization period would have on residential rates. ORA recommends that if the Commission is interested in implementing an amortization plan that is complete in less than 12 months, it consider adopting instead a nine-month period.

TURN agrees with SoCalGas that a 12-month amortization is preferable to a four-month alternative, stating that this amortization plan balances the need for rate stability with the desire to reduce undercollections quickly.

Discussion

The 12-month amortization plan for residential customers and one-month plan for C&I customers, as proposed by SoCalGas and supported by ORA and TURN, is reasonable and preferable to the proposed alternatives; therefore, it should be adopted, subject to refund pending a finding of reasonableness.

However, we are concerned with the discrepancy between SoCalGas' original estimated PGA balance in its BCAP application and the current balance. In its May 9, 1997 filing, SoCalGas' only explanation of the significant difference is that it resulted from a sharp upturn in California border prices in the winter of 1996-97. However, in other filings before the Commission, SoCalGas states that noncore imbalances could have caused high core customer costs in the winter of 1996-97.²

In two October 1996 filings, Advice Letters 2529 and 2532, SoCalGas requested changes in noncore imbalance rules, stating that immediate adoption of these changes was necessary to prevent increased costs to core customers as a result of underdeliveries by noncore transportation customers. While information existed that significant noncore imbalances and impacts on core storage were occurring before the winter, SoCalGas did not introduce this evidence into the BCAP record, even though its

² See discussion in Resolution G-3200, issued February 19, 1997. In this resolution, the Commission denied SoCalGas' request without prejudice, finding that the complexity and number of issues raised by the filings could be better addressed through a petition to modify D.90-09-089. SoCalGas filed such a petition on July 18, 1997 and the matter is currently pending.

BCAP update exhibit and its opening and closing briefs were filed contemporaneously with Advice Letters 2529 and 2532 and changes in the imbalance rules were at issue in the BCAP. Therefore, no record exists in this proceeding to determine the reasonableness of the PGA balance.

The appropriate proceeding to determine the reasonableness of the PGA balance is SoCalGas' pending GCIM/SIM application, A.97-06-025, for the record period from April 1996 through March 1997. This proceeding takes the place of the traditional reasonableness review for SoCalGas. However, A.97-06-025 contains little information concerning the operation of core storage during the record period; a graph in the application showing core storage inventory appears to show the "paper" level of core storage inventory, not the amount of inventory actually in the ground.

In order to determine the reasonableness of SoCalGas' PGA balance, SoCalGas should submit a supplement to A.97-06-025 which explains in detail at least the following:

1. Why the projected PGA overcollection became an undercollection;
2. the impact on core gas purchases and core gas storage inventory and operations during the record period (April 1996 through March 1997) due to noncore imbalances;
3. how noncore storage imbalances were handled during the record period;
4. how the Storage Incentive Mechanism influenced core storage operations;
5. whether and how SoCalGas hub services interacted with core storage, core gas purchases, and noncore imbalances;
6. the impact, if any, on GCIM and SIM rewards during the record period due to the imbalances and reduced core storage inventory;
7. whether and how SoCalGas' noncore storage transactions interacted with the level of core storage inventory and noncore imbalances; and
8. why SoCalGas chose to purchase high cost flowing supply for core customers rather than exercising its Rule 23 authority to: (1) suspend stand-by-service; and/or (2) curtail noncore load.

SoCalGas should serve this supplement on parties to A.97-06-025 no later than 30 days after the effective date of this decision. The Commission expects ORA and other interested parties to address this supplemental filing in their response testimony.

Therefore, we approve SoCalGas' proposal to collect its PGA balance subject to refund pending the completion of reasonableness review in A.97-06-025.

Findings of Fact

1. SoCalGas' proposal to recover its uncollected core PGA balance through a 12-month amortization period for residential customers and a one-month amortization period for C&I core customers is reasonable, subject to refund pending the completion of a reasonableness review.

2. The record in this proceeding does not allow the Commission to determine the reasonableness of the costs included in the PGA balances.

3. SoCalGas' pending application A.97-06-025 is the appropriate proceeding to determine the reasonableness of the PGA balance.

Conclusions of Law

1. SoCalGas should amortize the recovery of its PGA balance over a 12-month period for residential customers and a one-month period for C&I customers. SoCalGas' recovery of its PGA balance should be subject to refund pending the completion of a reasonableness review in A.97-06-025.

2. SoCalGas should supplement its filing in A.97-06-025 as specified in the ordering paragraphs.

O R D E R

IT IS ORDERED that:

1. Southern California Gas Company's (SoCalGas) proposal to amortize recovery of its purchased gas cost account (PGA) balance is adopted subject to refund pending completion of a reasonableness review.

2. SoCalGas shall file, on or after the effective date of this order, and at least ten days prior to their effective date, tariffs which implement the adopted changes.

3. SoCalGas' recovery of its PGA balance is subject to refund pending the completion of a reasonableness review in Application (A.) 97-06-025.

4. SoCalGas shall file no later than 30 days after the effective date of this order a supplement to A.97-06-025 which explains in detail at least the following:

- a. Why the projected PGA overcollection became an undercollection;
- b. the impact on core gas purchases and core gas storage inventory and operations during the record period (April 1996 through March 1997) due to noncore imbalances;
- c. how noncore storage imbalances were handled during the record period;
- d. how the Storage Incentive Mechanism influenced core storage operations;
- e. whether and how SoCalGas hub services interacted with core storage, core gas purchases, and noncore imbalances;
- f. the impact, if any, on Gas Cost Incentive Mechanism and Storage Incentive Mechanism rewards during the record period due to the imbalances and reduced core storage inventory;
- g. whether and how SoCalGas' noncore storage transactions interacted with the level of core storage inventory and noncore imbalances; and
- h. why SoCalGas chose to purchase high cost flowing supply for core customers rather than exercising its Rule 23 authority to: (1) suspend stand-by-service; and/or (2) curtail noncore load.

This order is effective today.

Dated September 24, 1997, at San Francisco, California.

JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
RICHARD A. BILAS
Commissioners

President P. Gregory Conlon,
being necessarily absent,
did not participate.