PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION & COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-2730
May 29, 1987

RESOLUTION

SOUTHERN CALIFORNIA GAS COMPANY (SoCal). ORDER REJECTING SoCal's REQUEST TO INCREASE THE GAS EXPLORATION AND ADJUSTMENT RATE COMPONENT WITHOUT FILING A FORMAL HEARING. (Advice Letter No. 1704, Filed April 24, 1987)

SUMMARY

1. By Advice Letter No. 1704, filed April 24, 1987, SoCal proposes to increase the Gas Exploration and Development (GEDA) rate component of its gas tariff from 0.083 to 0.217 cents per therm. The purpose of this increase is to recover the losses associated with the termination of SoCal's GEDA program.

2. SoCal's proposed increase amounts to a $11,355,000 increase over its currently authorized revenue of $7,033,000 for a total of $18,421,000 annual revenue requirement for the 12-month period ending March 1988.

3. This request is rejected, without prejudice, by the Commission on the grounds set forth herein.

BACKGROUND

1. GEDA is a ratemaking vehicle that was instituted in 1977, at a time of threatened natural gas shortages. Its purpose was to motivate gas utilities under this Commission's jurisdiction to seek and obtain independent gas supplies by exploration for new gas fields and development of proven reserves in existing fields. In the GEDA program, the ratepayers, not the usual investors, assumed the cost of exploration and development of gas reserves and enjoyed the benefits of success if gas was found at a price below market levels. Conversely, ratepayers bore the risk if the utilities failed to outperform independent energy companies.

2. GEDA is essentially a procedure which provides the utilities full- cost recovery and a guaranteed after-tax return on their investment, with associated risks borne by ratepayers. The two gas utilities in California with GEDA programs are

PG&E and Socal. These two utilities were allowed to file project letters under Commission order, to obtain authorization for new GEDA projects. All GEDA activity is carried out by gas exploration and development corporations which are wholly-owned affiliates of utilities and which engage in no other activity. The wholly-owned GEDA affiliate of SoCal is Natural Gas Corporation (NGC) and the wholly-owned GEDA affiliate of SoCal is Pacific Gas Lighting Development Corporation (PLGD). With the advent of the West Coast LNG Project, NGC became a partner with PLGD in gas exploration and development in Alaska. The partnership is called Alaska Gas Exploration Associates (AGEA).

3. On September 25, 1973, D.81898 (A.53625) authorized a procedure by which SoCal could annually adjust for over-or under-collections of the costs of authorized GEDA activities. The procedure to determine the GEDA component is set forth in the Preliminary Statement Section H, Gas Exploration and Development Adjustment.

4. On August 4, 1977, D.93368 (A.59750) authorized GEDA balancing accounts to be subject to review and possible adjustment with respect to reasonable income tax expense to provide net after tax return on unamortized GEDA rate base.

5. SoCal was authorized to dispose of all remaining GEDA assets by Commission Resolution G-2715, dated February 11, 1987.

6. SoCal has filed Advice Letter No. 1704 seeking Commission authorization to increase the GEDA rate component from 0.083 to 0.217 cents per therm to recover the losses associated with the termination of the GEDA program. In addition, SoCal also proposes to reduce the CAM rate component for its non-core industrial, UEG, cogeneration, EOR and wholesale customers.

PROTESTS

1. Protest by Toward Utility Rate Normalization (TURN)

TURN filed a protest to Advice Letter No. 1704 on May 4, 1987. TURN's basis for this protest is that SoCal's proposed rate design effectively exempts certain industrial class customers from the effect of the GEDA increase as follows: "...SoCal is actually proposing to exempt its non-core customers from bearing any portion of the GEDA rate increase. This numerical sleight of hand is achieved by increasing the GEDA rate component of the non-core tariffs and then reducing the CAM component by an equal and offsetting amount. As a result, the non-core portion of the increased GEDA revenue requirement will simply flow into the balancing account and increase the undercollection about which SoCal has complained so loudly in other proceedings. Presumably SoCal will later attempt to impose this non-core undercollection primarily on core customers. This Commission must forbid such chicanery."

2. Protest by the Public Staff Division

The Public Staff Division (PSD) filed a protest to Advice Letter No. 1704 on May 14, 1987. The basis of PSD's protest is essentially the same as TURN's protest in that SoCal is attempting to shift a significant portion of the cost responsibility for GEDA from non-core to core customers. PSD requests that this issue as well as the appropriate ratemaking treatment regarding the recovery of the losses associated with the termination of the GEDA program be resolved in the upcoming gas implementation hearings (I.86-06-005).

The position of PSD in the gas implementation proceeding is that all costs associated with the termination of the GEDA program are transition costs which should be borne equally by all customer classes. This means that each customer class should pay on an equal cents per therm basis until all losses associated with termination of the GEDA program are recovered. In effect, this amounts to a continuation of past practices since historically the costs of the GEDA program have been paid by all customer classes on an equal cents per therm basis.

DISCUSSION

1. Historically, the costs associated with GEDA activities have applied to all gas customer classes on an equal cents per therm basis per Paragraph H.3.b, Applicability, of the Preliminary Statement. At this time, the Staff believes that SoCal is attempting to effectively shift a significant portion of the cost responsibility from non-core to core customers by reducing the CAM rate component by an amount equal and offsetting to the GEDA rate component increase. The result is a zero effective rate change for the non-core customers.

2. SoCal has provided no workpapers which supports reducing the CAM rate component for some rate schedules and not others. The staff recommends that any direct or indirect realignment of GEDA cost allocations between customer classes be considered in formal proceedings.

FINDINGS

1. SoCal requests authorization to increase gas revenues for GEDA to $18,421,000 annually for the 12-month period ending March, 1988.

2. This increase would raise the present per-therm GEDA rate component from 0.083 to 0.217 cent per therm.

3. Historically, GEDA costs have been allocated equally to all gas customer classes on an equal cents per therm basis. SoCal now proposes to effectively shift the costs of GEDA away from non-core to core customers by lowering the non-core customers' CAM rate component by an amount equal and offsetting to the increase in the GEDA rate component.

4. Appropriate ratemaking treatment regarding the recovery of the losses associated with the termination of the GEDA program should be resolved in the upcoming gas implementation hearings.

5. In accordance with Section III, Paragraph G of General Order 96-A, SoCal has provided copies of this Advice Letter to all required parties.

6. We find that the rates and charges requested by SoCal are unjust and unreasonable for the above mentioned reasons; therefore,

IT IS ORDERED that:

1. Southern California Gas Company's Advice Letter No. 1704 shall be rejected, without prejudice, in accordance with Ordering Paragraph No. 2, below.

2. Southern California Gas Company and any other gas utility seeking approval to increase the GEDA rate component for the purpose of recovering the losses associated with the termination of the GEDA program, or any GEDA cost reallocation between customer classes shall be resolved in formal hearings.

3. This Advice letter number shall not be re-used.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular scheduled meeting on May 29, 1987. The following Commissioners approved it.

Victor Weisser

Executive Director

I abstain.

G. Mitchell Wilk, Commissioner

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
JOHN B. OHANIAN
Commissioners