

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION & COMPLIANCE DIVISION  
Energy BranchRESOLUTION G-2133  
May 29, 1987R E S O L U T I O N

PACIFIC GAS AND ELECTRIC COMPANY (PG&E). ORDER REJECTING PG&E'S REQUEST TO INCREASE THE GAS EXPLORATION AND ADJUSTMENT RATE COMPONENT WITHOUT FILING A FORMAL HEARING. (Advice Letter No. 1411-G, Filed May 8, 1987)

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SUMMARY

1. By Advice Letter No. 1411-G, filed May 8, 1987, PG&E proposes to increase the Gas Exploration and Development (GEDA) rate component of its gas tariff from 0.389 to 0.817 cents per therm. The purpose of this increase is to recover the losses associated with the termination of PG&E's GEDA program.
2. PG&E's proposed increase amounts to a \$26,203,407 increase over its currently authorized revenue of \$23,796,530 for a total of \$50,000,000 annual revenue requirement for the 12-month period ending June 30, 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 PG&E 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 November 11, 1977, PG&E was authorized by D.88121 (A.56471) to file revised tariff schedules to adjust for over- or under-collections of the cost of authorized GEDA activities. The procedure to determine the GEDA component is set forth in the Preliminary Statement Part D, 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. PG&E has filed Advice Letter No. 1411-G seeking Commission authorization to increase the GEDA rate component from 0.389 to 0.817 cent per therm to recover the losses associated with the termination of the GEDA program. In addition, PG&E also proposes to reduce the Base Commodity and GAC rate component by an equal and offsetting amount for G-50, G-55A, and G-58 customers.

#### PROTESTS

1. Protest by Toward Utility Rate Normalization (TURN)

TURN filed a protest to Advice Letter No. 1411-G on May 15, 1987. TURN's basis for this protest is that PG&E's proposed rate design effectively exempts certain industrial class customers from the effect of the GEDA increase as follows: "While the actual GEDA component of each rate schedule is increased to 0.817 cents per therm, the "Base Commodity Rate and GAC" components of Schedules G-50 and G-58 are then decreased by an equal and offsetting amount, resulting in a zero effective rate change for those customers."

2. Protest by the Public Staff Division

The Public Staff Division (PSD) filed a protest to Advice Letter No. 1411-G on May 21, 1987. The basis of PSD's protest is essentially the same as TURN's protest in that PG&E 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 D.2, Applicability, of the Preliminary Statement. At this time, the Staff believes that PG&E is attempting to effectively shift a significant portion of the cost responsibility from non-core to core customers by reducing the Base Commodity and GAC 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. PG&E has provided no workpapers which supports reducing the Base Commodity Rate & GAC 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. PG&E requests authorization to increase gas revenues for GEDA to \$50,000,000 annually for the 12-month period ending June 30, 1988.

2. This increase would raise the present per-therm GEDA rate component from 0.389 to 0.817 cent per therm.

3. Historically, GEDA costs have been allocated equally to all gas customer classes on an equal cents per therm basis. PG&E now proposes to effectively shift the costs of GEDA away from non-core to core customers by lowering the non-core (G-50, G-55A, G-58) customers' Base Commodity Rate and GAC 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, PG&E has provided copies of this Advice Letter to all required parties.
6. We find that the rates and charges requested by PG&E are unjust and unreasonable for the above mentioned reasons; therefore,

IT IS ORDERED that:

1. Pacific Gas and electric Company's Advice Letter No. 1411-G shall be rejected, without prejudice, in accordance with to Ordering Paragraph No. 2, below.
2. Pacific Gas and Electric 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.



Executive Director

I abstain.

G. Mitchell Wilk, Commissioner

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