PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-2796
August 24, 1988

R E S O L U T I O N

RESOLUTION G-2796, APPROVING WITH CONDITIONS PACIFIC GAS AND ELECTRIC COMPANY'S REQUEST TO TRANSFER CERTAIN CUSTOMERS FROM CORE TO NONCORE GAS SERVICE SCHEDULES; Namely, THE FOLLOWING ADVICE LETTERS FILED: JUNE 3, 1988: SUNSHINE BISCUIT, INC. (1462-G), GENERAL FOODS-CALIFORNIA VEGETABLE CONCENTRATES (1464-G); AND BARBARY COAST STEEL (1465-G); ON JUNE 20, 1988; PAGE PACKAGING CORPORATION (1467-G); AND ON JUNE 30, 1988 LONE STAR DEHYDRATOR (1470-G)

SUMMARY

Commission Advisory and Compliance Division's (CACD) investigation indicates that five large customers (greater than 250,000 therms per year) have the technical capability and economic incentive to install and use alternative fuel systems. They should thus be permitted noncore gas service, since they meet the requirements of D.87-12-039 as modified by D.88-03-085 for noncore service. Toward Utility Rate Normalization (TURN) points out that reclassification of customers from core to noncore will automatically result in a shortfall in the Core Gas Fixed Cost Account (Core CFCA) unless the fixed cost [1] revenue contribution of transferred customers is credited to the GFCA. PG&E has agreed to credit the GFCA with contributions from any of the transferred customers which were originally classified as core customers in the cost allocation of D.87-12-039. Because customers will pay a lower fixed cost rate upon transfer from core to noncore rate schedules, a revenue shortfall will occur. Unless disposed of otherwise, this revenue shortfall will accumulate in the Core CFCA, under current

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1 The utility revenue requirement, exclusive of fuel costs, generally set in general rate and attrition proceedings. Also called "margin".

acconting procedures. CACD recommends that the revenue shortfall be tracked in a memorandum account until its correct disposition is determined in PG&E's next Annual Cost Allocation Proceeding (ACAP).

BACKGROUND

1. The transfer of customers from core to noncore status was addressed in Decision 87-12-039 (pp. 43-45) as modified by D.88-03-085 (pp. 13-16). Large core customers (usage greater than 20,800 therms per month) may transfer to noncore status without actually installing standby alternative fuel burning equipment provided the following conditions are met. First, the customer is willing to accept a lower priority of service. Second, the Commission grants an exception to the standby requirment upon a successful showing that the customer "... has the clear technological capability to use alternative fuel and where the cost to do so and then use alternative fuel would be less than the cost of core service" (D.88-03-085, pp.15, and Ordering Paragraph No. 6). The exceptions are considered on a case by case basis subject to an annual requalification.

2. Decision 87-12-039 (pp. 72-75) splits Implementation Balancing Accounts between core and noncore customers on a equal cents per therm basis. The amounts to be allocated are the May 1, 1988 recorded values. Allocation factors for core and noncore are to be based on the respective annual forecast through-puts adopted in D.87-12-039. For PG&E, the core portion is 56.587 percent of the above noted balancing accounts.

3. By Advice Letters filed on June 3, June 20, and June 30, 1988, PG&E requested that five previously core priority 2A customers be transferred to noncore status priority 2B. They are (Sunshine Biscuite, Inc. A.L. 1462-G; General Foods-California Vegetable Concentrates, A.L. 1464-G; Barbary Coast Steel Corp., A.L. 1465-G; Page Packaging Corporation, A.L. 1467-G; and Lone Star Dehydrator Dehydrator, A.L. 1470-G.

4. TURN submitted comments and offered a limited protest to the advice letters. TURN states that transfer of customers to the noncore without crediting their fixed cost revenue contribution to the core balancing account would produce "unanticipated windfall profits" and allow PG&E "double recovery" of fixed cost revenues, to the detriment of core customers. As a remedy TURN recommends that the fixed costs paid by such customers continue to be recorded in the GFCA cost account until such time as the transferred customers are treated as noncore for purposes of cost allocation.

TURN also believes that core customers will not be made entirely whole, even if the fixed cost revenue contributions of the transferred customers are credited to the GFCA. Since the reclassification involves a rate reduction for the transferred customers, a revenue shortfall will be spread to the remaining core customers through the GFCA. TURN does not offer any suggestions for remedying this revenue shortfall.

5. PG&E, in its reply of June 29, 1988, acknowledges TURN's arguments and agrees that customers originally classified as core customers for the D.87-12-039 throughput forecast, should have their fixed cost revenue contributions credited to the Core GFCA. However, Page Packaging Corporation (A.L. 1467-G) should be included in the Noncore Fixed Cost Account (Noncore NCFCA) since this customer was included as noncore in the and cost allocation of D.87-12-039. PG&E indicates that it is possible to determine the status, core or noncore, of customers in the D.87-12-039 cost allocation by identifying the rate schedule under which the customer was served in 1987. PG&E indicates that it will identify customers' forecast status in future advice letters. To ensure that current and future fixed cost revenues flow to the proper class, PG&E requests that the resolution approving these filings state that the fixed-cost revenues from these customers be recorded in the fixed cost account that corresponds to the customer's classification during the most recent cost allocation. However, PG&E does not raise the issue of the revenue shortfall which may be expected to occur due to the rate reductions asssociated with the transfer of core customers to the noncore status. Under current accounting procedures, this shortfall will accrue in the Core GCFA.

DISCUSSION

1. The following three issues have been raised by these advice letters. Have the applicants met the requirements which would allow their transfer to noncore status without physically installing alternative fuel capable standby facilities? How should the fixed cost revenues from these customers be accounted for? How should the revenue shortfall resulting from the rate reduction accompanying the change from core to noncore status be accounted for?

2. CACD has inspected the sites of each of the applicants. As a result, CACD believes that each of the applicants has the physical capability to install alternative fuel burning facilities. CACD has evaluated the cost of such facilities and believe that a sufficient economic incentive exists for the applicants to install and use alternative fuel should they not be offered noncore status.

3. As to the accounting of fixed cost revenue contributions PG&E has offered a reasonable solution which responds to the concerns raised by TURN. Namely, fixed-cost revenues should be recorded in the fixed cost account that corresponds to the customer's classification in the most recent cost allocation proceeding. This would be subject to future review and reallocation in Annual Cost Allocation Proceedings (ACAPs).

4. Neither TURN nor PG&E offers a proposal to deal with the revenue shortfall which will occur due to the rate reductions associated with the transfer of customers from core to noncore status. The disposition and responsibility for this shortfall was not specifically considered in any decision to date. Therefore, CACD recommends that it be decided in the next ACAP proceeding, where the issue can be addressed by all interested parties. Meanwhile, PG&E should be required to maintain a memorandum account to tract the difference between the fixed cost revenue contributions of transferred customers and the contributions which they would have made had they remained in the core.

5. These filings will not increase any other existing rate or charge, conflict with other schedules or rules, or cause the withdrawal of service.

6. In accordance with General Order 96-A, PG&E has mailed copies of these advice letters and related tariff sheets to other utilities and interested parties.

FINDINGS

1. The applications for transferring from core to noncore service under Advice Letters 1462-G, 1464-G, 1465-G, 1467-G and 1470-G have met the conditions required by D.87-12-039 (pp. 43-45) as modified by D.88-03-085 (pp. 13-16, and Ordering Paragraphs No. 6 & 7).

2. It is possible to determine the status of customers in the load forecast leading to the cost allocation adopted in D.87-12-039 by referring to the PG&E rate schedule under which the customer was served in 1987.

3. Sunshine Biscuit, General Foods, Barbary Coast Steel and Lone Star Dehydrating Company were classified as core customers while Page Container Corporation was classified as a noncore customer in the allocations adopted in D.87-12-039.

4. To prevent a possible undercollection of core fixed cost revenues, to the detriment of core customers, fixed cost revenues should be recorded in the fixed cost balancing account corresponding to the customer's classification during the most recent cost allocation decision.

5. The transfer of customers from the core to a lower rate noncore rate schedule will produce a revenue shortfall. Under current accounting provisions this shortfall will be recorded in the <u>Core GFCA</u>. No Commission decision to date has addressed the proper disposition and dispersal of this revenue shortfall.

6. It is reasonable to track this revenue shortfall in a memorandum account until the next Annual Cost Allocation Proceeding, at which time its proper disposition can be decided.

IT IS ORDERED that:

1. PG&E is authorized to provide noncore gas service to Sunshine Biscuit, General Foods-California Vegetable Concentrates, Barbary Coast Steel, Lone Star Dehydrating Company and Page Container Corp., as requested in Advice Letters 1462-G, 1464-G, 1465-G, 1467-G, and 1470-G, with the following provisions.

2. Fixed cost revenue contributions shall be recorded in the fixed cost account that corresponds to the customer's classification during the most recent cost allocation decision. Specifically, Sunshine Biscuit, General Foods-California Vegetable Concentrates, Barbary Coast Steel and Lone Star Dehydrating Company's fixed cost revenue contribution will be credited to the core fixed cost balancing account until the next Annual Cost Allocation Proceeding is decided. Page Packaging revenue contributions shall be accounted for in the <u>Noncore</u> GFCA.

3. PG&E shall maintain a memorandum account to track the difference in fixed cost revenue contributions between core and noncore rates for any customer who transfers between the core and noncore during the interval between cost allocation proceedings. The disposition of this account will be decided in PG&E's next Annual Cost Allocation Proceeding.

4. Advice Letters 1462-G, 1464-G, 1465-G, 1467-G, and 1470-G and accompanying agreements shall be marked to show that they were approved by this Commission Resolution G-2796.

5. This Resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on August 24, 1988. The following Commissioners approved it:

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

Victor Weisser

Executive Director