PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-2988
June 17, 1992

RESOLUTION

RESOLUTION G-2988. SOUTHERN CALIFORNIA GAS COMPANY REQUESTS TO IMPLEMENT A NEW CUSTOMER CHARGE TIER FOR RATE SCHEDULE NO. GN-32 AND GT-30.

BY ADVICE LETTER 2075, FILED ON OCTOBER 10, 1991.

SUMMARY

1. On October 10, 1991, Southern California Gas Company (SoCalGas) filed Advice Letter 2075 requesting Commission authority to implement a new customer charge tier for Rate Schedule Nos. GN-32 and GT-30. These schedules are applicable to core subscription and transportation-only natural gas service for noncore commercial and industrial customers.

2. This Resolution conditionally approves Advice Letter 2075. SoCalGas shall record in an interest-bearing Memorandum Account the revenue shortfall resulting from this new, lower customer charge tier (from $150 to $50). SoCalGas shall file in its next Biennial Cost Allocation Proceeding (BCAP) a request addressing the question of whether and in what manner the outstanding balance in this Memorandum Account will be allocated to customers.

BACKGROUND

1. SoCalGas proposes to implement a new customer charge tier for average monthly consumption of 0 (zero) to 2,500 therms with an associated charge of $50 into its Schedules GN-32 and GT-30 (Core Subscription and Transportation for Noncore Commercial and Industrial Customers). Currently, the first customer charge tier for these rate schedules is 0 to 5,000 therms with a corresponding charge of $150. The new $50 tier would lower the customer charge by $100 per month. The customer charge for average monthly consumption of 2,501 to 5,000 therms would remain at $150.

2. This request for a change in customer charge will result in a reduction in revenues, which the utility has estimated to be $200,000 a year. SoCalGas believes such a reduction in rates will result in maximum overall revenue retention for the class, preventing load loss through the avoidance of fuel switching.

3. SoCalGas has approximately 221 customers whose average monthly consumption is in the range of 0 to 2,500 therms. The utility estimates that approximately 212 of these customers are highly price sensitive and have the capability of switching between natural gas and propane. These customers can either:

1) Receive core gas service under Rate Schedule GN-10 and use propane, thereby only paying approximately $10 per month in a gas service customer charge; or

2) Agree to reclassification to noncore status via economic practicality (Decision No. 88-03-085), thereby availing themselves of a lower transportation rate under Rate Schedules GN-32 or GT-30.

4. Because of the relatively high GN-32/GT-30 customer charge and the higher cost of core gas service, these alternate fuel capable customers were, some time prior to August 1, 1991, on Rate Schedule GN-10 and using propane instead of natural gas to meet their fuel needs. Accordingly, SoCalGas negotiated with these customers so that they would utilize gas service under either Rate Schedule GN-32 or GT-30. With the Procurement implementation (Decision No. 90-09-089, et al.), SoCalGas is not able to negotiate rates with customers who elect Service Level 2 service. These customers are not inclined to either transport their own gas or to take a lower level of service. Therefore, absent a lower overall cost of gas, these customers would prefer to return to Rate Schedule GN-10 and fuel switch.

5. This filing will not increase any rate or charge, cause the withdrawal of service, nor conflict with any rule or schedule.

6. In accordance with Section III, Paragraph G, of General Order No. 96-A, a copy of this filing was sent to the parties listed on an Attachment. Notice of this advice letter appeared in the Commission Daily Calendar.

<u>PROTESTS</u>

1. A protest was received on October 29, 1991 from the Division of Ratepayer Advocates (DRA) to Advice Letter 2075. SoCalGas responded to the protest by letter dated November 8, 1991.

2. DRA protested SoCalGas' Advice Letter 2075 and recommends the Commission reject this filing for the following reasons:

1. DRA believes the advice letter process is not the proper forum for changing customer charges. The advice letter procedure is designed primarily to expedite non-controversial filings. SoCalGas had the opportunity to present its new customer charge tier proposal in its Biennial Cost Allocation Proceeding (BCAP) which only concluded recently. SoCalGas did not present any cost based analysis for the new customer charge tier in its 1991 BCAP filing or in the documentation supporting Advice Letter 2075.

2. In its assessment of the number of customers that would switch back to propane if they were not granted the new lower customer charge, SoCalGas failed to consider the take-or-pay and use-or-pay provisions in its bypass analysis. GN-32/GT-32 customers are subject to a two year contract with take-or-pay and use-or-pay provisions.

Futhermore, SoCalGas' own Attachment B indicates the bypass volumes are dependent on the premium (additional costs) the customer associates with using propane rather than gas. The bypass volumes would be reduced by one-third if the propane premium increased from 5% to 10%. Thus, the actual load loss is uncertain given its sensitivity to premium levels.

3. The bypass volumes in question are relatively small. Assuming a 5% propane premium and the new lower customer charge, SoCalGas projects it would only retain 193 Mdth annually of the potential bypass volumes. Based on data submitted by SoCalGas in the 1991 BCAP, 193 Mdth represents .5% of the total projected sales for GN-32/GT-32 customers in the first year of the BCAP.

3. SoCalGas responded to DRA's protest as follows:

1. DRA argues that the issue is inappropriate to be considered in an advice letter. DRA states that the advice letter process is primarily only for "non-controversial" filings. SoCalGas respectfully responds that the advice letter process is not limited to matters that are uncontested. To find otherwise would be to give any party a veto over changes requested in an advice letter filing merely by filing a protest. In fact, General Order 96A provides that the advice letter process is available for minor rate increases and for

rate decreases. Because the instant request is both relatively minor in size (as DRA itself states in its protest) and a decrease in rates, it is appropriate for consideration in an advice letter.

DRA also argues that the request could have been made in SoCalGas' 1991 BCAP proceeding. This statement fails to recognize the substantial amount of lead time that goes into the preparation of a cost allocation application. In order to have included the customer charge reduction request in the 1991 BCAP, SoCalGas would have had to have made the decision to request a change in December of 1990. Unfortunately, at that time SoCalGas was not able to determine the competitive danger from propane for this class of customer under the rate design and tariff rules that would emerge from the procurement rulemaking.

2. DRA also argues that SoCalGas' analysis of lost revenues from fuel switching is inaccurate because the target customers have elected SL-2 service for the most part and therefore are subject to take-or-pay/use-or-pay penalties that will discourage fuel switching. In fact, many customers were willing to elect SL-2 service only so long as they had the potential of obtaining the lower $50 customer charge. The SL-2 contracts SoCalGas has signed with these customers allow them to terminate the contracts if the Commission rejects the requested $50 customer charge.

DRA also argues that if the customers put a 10% premium value on natural gas over propane, rather than the 5% used by SoCalGas in its calculations, the potential lost revenue would be much reduced (but not eliminated). SoCalGas used the 5% premium as an upper boundary to ensure that its calculation would be so conservative as to be noncontroversial. In fact, SoCalGas believes that these customers may put no premium value at all on natural gas, but that the maximum credible premium value is 5%. These seasonal customers can burn propane instead of natural gas with little or no difficulty. DRA has provided no basis for its suggestion that customers <u>might</u> attach a 10% or greater premium to natural gas over propane.

3. DRA notes that the potential lost revenues are relatively small. This is correct; they are about $200,000 per year. However, this fact does not support a conclusion that action should not be taken to retain this load. Because of the 75/25% split in responsibility for noncore revenues effective August 1, 1991, ratepayers have a direct $150,000 interest in the approval of this advice letter and the retention of the load.

DISCUSSION

1. SoCalGas submitted Advice Letter 2075 for the purpose of implementing a new customer charge tier for Rate Schedule No. GN-32 and GT-30. The new customer charge tier will be for average monthly consumption of 0 (zero) to 2,500 therms with an associated charge of $50. The utility is requesting this new customer charge to be effective for service on and after December 1, 1991. Currently, the first customer charge tier for these rate schedules is 0 to 5,000 therms with a corresponding charge of $150.

2. With regard to DRA's concerns that the advice letter process is not the proper forum for changing customer charges, Commission Advisory and Compliance Division (CACD) believes that SoCalGas correctly states in its response to DRA that advice letter filings may be controversial. Futhermore, General Order 96A provides that the advice letter process is available for minor rate increases and for rate decreases.

3. The Commission has encouraged the energy utilities to negotiate discounts with customers who have the economic incentive to bypass the system. The Commission's anti-bypass policy is outlined in Decision 89-12-045 and Decision 89-10-034. This policy pertains to anti-bypass long term contracts. The criteria for review of anti-bypass contracts are as follows:

> First, the utility must support the credibility of the customer's bypass threat.
>
> Second, the utility must demonstrate that bypass would be uneconomic for ratepayers as a group.
>
> And third, the utility must show that the agreement reaches the highest rate that could be negotiated with the customer.

The Commission has not approved discounted rates and the resulting cost shift to other ratepayer classes without a strong showing using the criteria outlined above.

4. It appears from our review that SoCalGas has met the above guidelines. The utility represents that this group of customers is a real bypass threat since they are quite price sensitive and have been known to switch from gas to propane. Secondly, although the revenue loss is small ($200,000) other customers remaining on the system would be required to make up the revenue loss in the absence, it appears, of short-term compensating reductions in the cost of service. Thirdly, the utility believes it would be able to retain this potential load loss by reducing the customer charge to $50 for these customers. If these customers are retained, they will provide a consistent demand for gas which would otherwise be lost. This consistent demand should serve to counter any revenue losses resulting from

charging a lower customer charge. Thus, ratepayers benefit from retention of the load.

5. CACD recognizes that SoCalGas' proposal is an effort to avert customer bypass and to retain load. In the past, the Commission has allowed the utilities to negotiate a customer's transportation rate to accomplish the same purposes. However, SoCalGas' proposal departs from the standard discounting practices by offering a discount of the customer charge instead of the transportation rate. SoCalGas has signed this group of customers to core subscription service which relies on a bundled procurement and transportation rate, and which may not be discounted. CACD believes that the utility should have the flexibility to provide customers with some incentive to avert bypass, especially as California enters into a new era of unconstrained capacity, and therefore recommends approval of the customer charge discount in this case. However, we will put SoCalGas and all California energy utilities on notice that CACD will be guided by the above anti-bypass criteria for review of all future rate discounts.

6. Both DRA and SoCalGas seem to agree that the potential revenue loss is relatively small. SoCalGas has estimated the loss to be approximately $200,000 per year. However, this revenue shortfall is not totally a utility (stockholder) loss because of the 75/25% Noncore Fixed Cost Account (NFCA) balancing account split in responsibility for noncore revenues effective August 1, 1991. This will result in the non-core customers having to make up $150,000 in revenue shortfall. The allocation of these monies will be addressed in SoCalGas' next BCAP.

7. CACD requested additional information concerning where these customers' revenue was included in the development of SoCalGas' revenue requirements in the utility's 1991 BCAP. SoCalGas responded as follows:

> The accounts affected by the customer charge issue had either switched to propane or transferred to noncore status principally during the 1986-1989 period. Therefore, for purposes of estimating gas demand in the 1991 BCAP, these accounts and their related consumption were assumed to have been fuel-switched or were classified as noncore customers in priority P-2B at the GN-30 rate.

The above response concerns CACD because it is not clear whether SoCalGas knows at this time how many of these customers have been included in its 1991 BCAP forecast of revenue requirements. Therefore, CACD recommends that the utility be required to establish an interest bearing Memorandum Account for the purpose of recording the revenue shortfall resulting from the new lower customer charge tier until the funds are reviewed by DRA in SoCalGas' next BCAP proceeding. At that time, the question to resolve is whether and in what manner the outstanding balance in this Memorandum Account will be allocated to customers.

FINDINGS

1. SoCalGas is requesting authority to implement a new customer charge tier for average monthly consumption of 0 (zero) to 2,500 therms with an associated charge of $50.

2. Currently, SoCalGas's first customer charge tier for these rate schedules is 0 to 5,000 therms with a corresponding charge of $150.

3. DRA is incorrect in its belief that the advice letter process does not provide a forum for introducing a change in customer charge.

4. CACD will be looking at the guidelines as outlined in D.89-12-045 and D.89-10-034 as criteria for reviewing all future energy utility discounts to avert bypass.

5. Both SoCalGas and DRA agree that the potential revenue loss is quite small (an estimated $200,000).

THEREFORE, IT IS ORDERED that:

1. Southern California Gas Company's Advice Letter 2075 requesting approval to implement a new customer charge tier for Rate Schedule Nos. GN-32 and GT-30 is approved.

2. Southern California Gas Company is required to establish an interest bearing Memorandum Account to record the revenue shortfall resulting form the new lower customer charge tier.

3. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on June 17, 1992. The following Commissioners approved it:

Neal J. Shulman

NEAL J. SHULMAN
Executive Director

DANIEL Wm. FESSLER
President
JOHN B. OHANIAN
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
Commissioners