

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION G-3205  
March 18, 1997

R E S O L U T I O N

RESOLUTION G-3205. PACIFIC GAS AND ELECTRIC COMPANY (PG&E) REQUESTS APPROVAL OF REVISIONS TO GAS RATES TO TRUE-UP ANNUAL BALANCING ACCOUNTS AND TO REVISE THE COST OF GAS FOR 1997. PG&E'S REQUESTS ARE APPROVED WITH MODIFICATION.

BY ADVICE LETTERS 1987-G FILED NOVEMBER 15, 1996.

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SUMMARY

1. By Advice Letter 1987-G PG&E proposes revised rates in compliance with D.95-12-053 (BCAP decision) to true-up annual balancing accounts and forecast the weighted average cost of gas (WACOG) for 1997 as required by D.95-07-048 (Core Aggregation decision). PG&E revises its second year Biennial Cost Allocation (BCAP) forecasts to be consistent with current expectations. PG&E projects an annual procurement revenue requirement decrease of \$217.9 million using a weighted average cost of gas (WACOG) of \$1.41/decatherm (dth) and an annual transportation revenue requirement increase of \$234.8 million. This translates to an increase in the core transportation rate of \$0.06744/therm and a decrease in the core procurement rate component of \$0.07044/therm. The decrease in procurement revenues is the result of a lower actual cost of gas than that adopted for 1996 and a lower cost of gas forecast for 1997. The increase in transportation revenues is the result of an undercollection in the Core Fixed Cost Account (CFCA) because of lower throughput than that adopted in the BCAP due to warmer than average weather during 1996.
2. PG&E proposes not to make direct refunds because of the overcollection in the Core Purchased Gas Account (CPGA) as in the past but to offset the rate decrease with the increase in the Core Fixed Cost Account (CFCA) to maintain stable rates. PG&E states that if refunds are made directly to customers, the average rate would increase by 6.8%. For noncore, rates would increase by 14.3% due to actual throughput lagging behind forecast as reflected in the Noncore Fixed Cost Account (NCFCFA).
3. Enserch Energy Services Inc. (Enserch) and Enron Capital and Trade Resources (Enron) protest PG&E's Advice Letter 1987-G on the ground that the offset proposal violates the Commission's prior orders and stress the need for monthly real time pricing. They cite D.95-09-075 in reference to SoCalGas' direct refunds and D.95-12-053, PG&E's BCAP decision containing direct refunds. These are related to the overcollection in the PGA balancing accounts. They also allege that PG&E's proposal would distort the market price of gas. Enserch and Enron want PG&E to revise its current core WACOG forecast of \$1.41/dth to match current market rates or at a minimum maintain its existing core WACOG of

March 18, 1997

\$1.71/dth for 1997 because of recent market behavior. They also protest the core subscription overcollection treatment by PG&E. Enserch levels more charges against PG&E on this matter as discussed below. We considered the arguments of Enserch and Enron on the issue of direct refunds to customers and PG&E's response to this and other protests.

4. PG&E's request to offset the PGA overcollection with the CFCA undercollection is denied. The actual PGA overcollection balance as of December 31, 1996 should be refunded to customers, and the CFCA undercollection as of April 30, 1996 is to be amortized in rates with all other recorded balancing account balances as of December 31, 1996 over the remainder of 1997. PG&E should not revise the existing WACOG, and the request to true-up the unamortized balance in the CFCA on July 1, 1997 is denied.

#### BACKGROUND

1. In compliance with D.95-12-053, Conclusion of Law No. 22, PG&E filed Advice Letter 1987-G to true-up balances in the balancing accounts and to revise the WACOG for 1997 as required by Ordering Paragraph 6 of D.95-07-048. The filing proposes to offset a procurement revenue requirement decrease of \$217.9 million with a transportation revenue requirement increase of \$234.8 million to maintain rate stability. The projected balances in the PGA and CFCA balancing accounts for the second year of the BCAP are responsible for these changes necessitated by weather and market conditions. Procurement rates would go down by \$0.07044/therm and transportation rates are to increase by \$0.06744/therm. PG&E recognizes that procurement revenue decreases of the past have been refunded directly to customers but PG&E believes its proposal would avoid an average core rate increase of 6.8%.

2. The procurement balancing account balances were based on actual balances as of September 30, 1996 and three-month forecasts (October-December 1996). The balance in the PGA subaccounts is forecasted at \$123.036 million. PG&E's update of the actual undercollection is \$138.025 million as of December 31, 1996. The CFCA balance reflects the balance as of April 30, 1996. PG&E proposes a one-time true-up of any unamortized amount in the CFCA effective July 1, 1997.

3. This filing incorporates pending rate changes by Advice Letter 1986-G dated November 13, 1996 which was filed in compliance with D.96-11-04. This approved corrections from PG&E's Petition for Modification of D.95-12-053. The filing also reflects proposed changes in PG&E's Cost of Capital and Annual Earnings Assessment Proceedings.

#### NOTICE

1. Public notice of this filing has been made by publication in the Commission's calendar and copies of the advice letter have been distributed in accordance with Section III-G of General Order (GO) 96-A.

PROTESTS

1. Enron and Enserch filed timely protests to Advice Letter 1987-G on December 5, 1996, opposing PG&E's proposals. PG&E responded to their protests on December 12, 1996.
2. Enron and Enserch protest that PG&E should not be allowed to amortize the overcollected balance in the core PGA balancing account in core bundled rates since this is contrary to the Commission's precedents and provides only a temporary rate reduction. They argue for direct refunds to customers as ordered by the Commission in prior core PGA overcollections of SoCalGas and PG&E. Their other argument is the need to send accurate gas price signals to customers and market participants. They protest that PG&E's forecasted core WACOG of \$1.41/dth should be adjusted to reflect current market rates or retain the current WACOG of \$1.71/dth if significant future overcollections are to be avoided. Enserch suggests that PG&E's WACOG be based on publicly traded NYMEX futures contracts. Enron and Enserch want PG&E to implement monthly core procurement pricing as other utilities have done.
3. With respect to the core subscription subaccount of the PGA, Enron and Enserch oppose the amortization of the overcollected balance in rates because this contradicts approved Commission treatment of the subaccount. Enserch wants direct refunds to customers as done in the previous PG&E overcollection of the core subscription shrinkage account. Enserch also challenges the accuracy of the projected balance in the subaccount. It believes the balance at the end of 1996 should be an undercollection. Enron and Enserch request that PG&E address other issues related to the core subscription pricing, including the pricing of Pacific Gas Transmission (PGT) firm capacity in view of the PGT settlement approved by the Federal Energy Regulatory Commission (FERC) and the monthly true-up of the core subscription pipeline demand charges. PG&E's responses are as follows.
4. PG&E believes its proposal to offset the core PGA subaccount with the CFCA is consistent with its Annual True-up mechanism adopted in the most recent BCAP decision. With \$123.04 million overcollection forecast in the core PGA subaccount as of December 31, 1996, PG&E provides a table which compares the impact of a direct refund with that of amortization under the proposed core WACOG forecast and the existing WACOG. PG&E indicates that if the proposed core WACOG of \$1.41/dth is adopted and the Commission orders a direct refund, the average core bundled rate would increase from \$5.62/dth to \$6.04/dth or 6.71%. PG&E also shows that if the existing core WACOG is maintained at \$1.71/dth and the Commission orders a direct refund the average core rate would increase from \$5.93/dth to 6.34/dth or by 12.12%. But the increase would be 4.79% if the core PGA subaccount is amortized with the CFCA undercollection over a 12-month period. If the PGA overcollection is offset with the CFCA undercollection and the balance is amortized over 9 months, PG&E represents that the average core rates will

March 18, 1997

increase by 7.1%. PG&E's concern is to minimize the rate increase to core customers.

5. PG&E states that its core WACOG forecast is consistent with the approach used in D.95-07-048 to determine its forecast by averaging two nationally published indices using October 1996 information available at the time of the filing. PG&E accepts that the condition in the market has changed since the filing as described by Enron and Enserch and agrees to maintain the current \$1.71/dth. PG&E does not agree with Enserch that its core WACOG forecast be based on NYMEX futures contracts because it has not proven to be a reliable tool for forecasting California supply prices because of a large amount of volatility.

6. PG&E filed monthly core procurement pricing application A.97-002-005 on February 3, 1997 as encouraged by Enron and Enserch with the Commission.

7. PG&E indicates that the core subscription rates in this true-up filing are for illustrative purposes and agrees with Enserch's observation regarding the treatment of the balancing account. It states that it needs to update the core subscription pipeline demand charge monthly as required and would reflect the change in PGT rates that became effective November 1, 1996 by advice letter filing. We urge PG&E to make the necessary corrections as soon as possible to rectify these concerns.

#### DISCUSSION

1. We have reviewed Advice Letter 1987-G including its attachments, Enron's and Enserch's protests, and PG&E's response to them. The response to the protests leaves some issues to be decided as discussed below.

2. In response to a data request from the Energy Division (ED), PG&E represents that under the direct offset option, the average residential customer will receive \$25.00 if there is a direct credit or refund for the PGA. The CFCA produces either a \$45.00 direct charge or its amortization over a 12-month period could increase core rates by 12.12% with WACOG at \$1.71/dth or by 21.8% if the amortization period is 9 months. If the CFCA undercollection is offset to the extent of the PGA direct refund, and the remaining CFCA balance is amortized in rates over 12 months, average core rates will increase by 3.4% but if amortized over 9 months, the increase is 7.1%.

3. We agree with Enserch and Enron that we should stick to our policy of sending the correct and accurate market signals to customers and market participants. We understand PG&E's concern to minimize the rate increase impacts to core customers during the winter season when consumption is high. Our policy of sending accurate market signals to customers and market participants should not change because of PG&E's concern since we want to continue to promote competition in the gas industry. We find minimizing the increase in customer bills during a high consumption period in this instance not as paramount as sending

March 18, 1997

accurate market signals. We agree with Enserch and Enron that the PGA overcollection be refunded to customers as refunds as we have directed in the past.

4. PG&E's one-time refund should be made to eligible customers by dividing the core PGA overcollection by the average monthly therms billed for PG&E's core commodity gas sales for the period March 1996 through February 1997 to arrive at a refund rate per therm. The refund for each core customer is calculated by multiplying each customer's average monthly usage billed for the same period by the refund rate per therm. The refund should be a credit on the eligible customer's bill. An eligible customer is a PG&E core procurement customer for any month during the period March 1996 through February 1997 and is a PG&E customer during the time of the refund. The refund amount for those customers that no longer take service from PG&E as of the time of the refund would remain in the core PGA. An eligible customer who terminates service should receive a cash refund. PG&E shall file a refund plan five business days after the approval of this resolution. PG&E will amortize in rates the balance in the CFCA undercollection as of April 30, 1996 and the recorded December 31, 1996 balances of all other balancing accounts for the remainder of 1997.

5. PG&E has agreed to maintain its current core WACOG of \$1.71/dth in its response to the Enron and Enserch protests. We support this decision. We also accept PG&E's proposal to amortize the undercollected balance in the NCFCA as of December 31, 1996. We deny PG&E's proposal for a one-time additional true-up of the balance in the CFCA on July 1. PG&E cannot use the advice letter filing process to make this request, but it may propose this in its next BCAP application.

#### FINDINGS

1. D.95-12-053 directed PG&E to file an annual true-up of its balancing accounts.
2. D.95-07-048 directed PG&E to revise its core WACOG annually.
3. On November 15, 1996 PG&E filed Advice Letter 1987-G to revise its procurement and transportation revenue requirements to reflect changes in its balancing accounts and core WACOG.
4. PG&E's request to offset the overcollection in the core PGA subaccount with the CFCA undercollection is denied.
5. The direct refund of the core PGA overcollection is consistent with our policy of sending accurate market signals to market participants and customers.
6. PG&E will amortize the April 30, 1996 CFCA undercollection and the recorded December 31, 1996 balances in all other balancing accounts in rates for the remainder of 1997.

March 18, 1997

7. PG&E's response to maintain the current core WACOG of \$1.71/dth established in its last BCAP is appropriate and reasonable.
8. PG&E should not request a change in the true-up date for the balance in its CFCA through an advice letter filing.

THEREFORE, IT IS ORDERED that:

1. Pacific Gas and Electric Company (PG&E) shall make a one-time refund of the core PGA overcollection, continue to use the established core WACOG of \$1.71/dth, and amortize in rates the April 30, 1996 CFCA undercollection and all other recorded December 31, 1996 balances in other balancing accounts during the remainder of 1997.
2. PG&E shall file a refund plan for the PGA refund ordered herein five business days after the approval of this resolution and submit a refund report 30 days after completing the refund to the Director of Energy Division of the Commission.
3. PG&E shall file a supplemental advice letter five business days after the approval of this resolution to revise the workpapers filed in Advice Letter 1987-G to reflect the Order in paragraph 1.
4. The protests of Enron and Enserch are granted.
5. This resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on March 18, 1997. The following Commissioners approved it:

*Wesley Franklin*

WESLEY FRANKLIN  
Executive Director

P. Gregory Conlon, President  
Jessie J. Knight, Jr.  
Henry M. Duque  
Richard A. Bilas  
Commissioners

Commissioner Josiah L. Neeper  
dissented.