

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION G-3219
NOVEMBER 19, 1997

R E S O L U T I O N

RESOLUTION G-3219. REQUEST OF SAN DIEGO GAS & ELECTRIC COMPANY (SDG&E) FOR APPROVAL TO REVISE ITS GAS RATE SCHEDULES TO REFLECT AN ANNUAL RATE DECREASE OF 4.2%, ESTABLISH CORE INTERSTATE TRANSITION SURCHARGE ACCOUNT, IMPLEMENT AN INTERIM SURCHARGE ORDERED BY DECISION (D.) 97-04-082, AND CORRECT THE CALIFORNIA ALTERNATE RATES FOR ENERGY (CARE) RATE DISCOUNT FILED IN ADVICE LETTER 1052-G, EFFECTIVE JUNE 1, 1997. REQUESTS APPROVED WITH MODIFICATION.

BY ADVICE LETTERS 1052-G, 1053-G, AND 1056-G FILED MAY 20, 1997, MAY 29, 1997, JUNE 18, 1997, RESPECTIVELY.

SUMMARY

1. By Advice Letters 1052-G and 1053-G, San Diego Gas & Electric Company (SDG&E) seeks approval to revise its gas rate schedules to reflect an annual rate decrease of \$19.0 million or 4.2%, establish a Core Interstate Transition Cost Surcharge (CITCS) balancing account, and implement an interim surcharge in compliance with the Biennial Cost Allocation Proceeding (BCAP) Decision (D)97-04-082. On June 18, 1997 SDG&E also filed Advice Letter 1056-G to correct an inadvertent California Alternate Rates for Energy (CARE) discount error affecting CARE rates filed in Advice Letter 1052-G. These rates became effective June 1, 1997.
2. The BCAP decision orders a rate decrease of \$25.65 million or 5.7%. The rate decrease is reduced to 4.2% because SDG&E deferred the implementation of a net rate increase of \$7.1 million granted by Resolution E-3401 on December 20, 1996 concurrently with the BCAP rates. In compliance with D.97-04-082, SDG&E implements a new transmission level service, unbundles interstate pipeline demand charges from core rates, and sets a brokerage fee that will be applied to customers procuring gas from SDG&E.
3. In compliance with D.97-04-082, SDG&E establishes CITCS to record the difference between its actual brokered capacity and the above market cost of its firm reservation capacity for the El Paso Natural Gas Company (El Paso) interstate pipeline. SDG&E also implements an interim surcharge to recover in rates the

cost differential from all core customers. Advice Letter 1056-G corrects the inadvertent mistake in Advice Letter 1052-G, which contains discounted CARE rates at 10% instead of 15%, effective June 1, 1997. SDG&E proposes to discount CARE rates at 20% for the same number of days it under-discounts the rates.

4. The Office of Ratepayer Advocates (ORA) protested Advice Letter 1052-G because it believes the core rate schedules do not reflect the unbundling of interstate capacity costs as directed by D.97-04-082. ORA also alleges that the Natural Gas Intrastate Transportation Service (GITS) tariff schedule reflects a rate structure not authorized by D.97-04-082.

5. Both ORA and Enron Capital and Trade Resources (Enron) protested Advice Letter 1053-G. ORA's protest states that "SDG&E's advice filing does not achieve the goal of unbundling interstate capacity costs from core rates and the method used by SDG&E to calculate the market rate for El Paso capacity is not appropriately defined." Enron alleges that the surcharge developed by SDG&E provides recovery of costs in excess of the total annual cost of SDG&E's El Paso capacity. Enron objects to the CITCS balancing account bearing interest since it believes this was not authorized by the Commission.

6. SDG&E's Advice Letters 1052-G and 1053-G are approved except that SDG&E should remove the core interstate pipeline costs currently booked in the Core Fixed Cost Account (CFCA) and place them in the Core Purchase Gas Account (CPGA) in order to align all gas costs and promote competition at the California border. ORA's protest with respect to rate Schedule GITS, Natural Gas Intrastate Transportation Service is denied without prejudice. ORA may petition to modify D.97-04-082. The protests of ORA and Enron to Advice Letter 1053-G are denied except as authorized by this Resolution. Advice Letter 1056-G is approved because it timely corrects the error without any negative consequence to CARE customers in an efficient manner.

BACKGROUND

1. SDG&E filed Advice Letters 1052-G and 1053-G in compliance with D.97-04-082. Advice Letter 1052-G revises portions of SDG&E's Gas Preliminary Statement and certain gas rate schedules to reflect an annual rate decrease of \$19.0 million or 4.2% effective June 1, 1997. The net decrease of \$19.0 million is a combination of SDG&E's 1996 BCAP approved annual revenue requirement decrease of \$25.65 million and other rate adjustments deferred by SDG&E to allow for a one time rate adjustment. Resolution E-3401, dated December 20, 1996 approved a net rate increase of \$7.1 million. This includes an increase of \$6.4 million in Performance based Ratemaking (PBR) Base Rate for 1997, a 1995 Demand Side Management (DSM) reward of \$773,191, and a decrease of \$62,000 authorized by the Cost of Capital decision, D.96-11-079. In addition, SDG&E requests a rate decrease of \$431,000 approved by a Commission letter dated May 15, 1997 to reflect the impact of the new California corporate income tax rate on SDG&E's previously approved PBR

base rate revenue requirement for 1997. All of these changes are reflected in the compliance filings.

2. By Advice Letter 1052-G SDG&E also implements a new transmission level service for noncore customers who are served directly from SDG&E transmission lines. SDG&E also establishes an authorized brokerage fee that will be applied to customers who purchase their gas supply from SDG&E. SDG&E implements authorized tariff changes that include the unbundling of core interstate pipeline demand charges and brokerage fees from core rates. Schedule GPC, Gas Procurement for Core, is revised to include the cost of gas, the cost of interstate pipeline charges (formerly Schedule GPIN) and brokerage fees. Schedule GCORE, Core Subscription Natural Gas Service for Retail Noncore Customers, reflects a simple two part rate design that includes customer charges and seasonal volumetric rates.

3. SDG&E's Advice Letter 1053-G implements other changes approved by D.97-04-082. SDG&E establishes an interest bearing CITCS balancing account and the initial surcharge to recover from core customers the cost differential between SDG&E's actual brokered capacity costs and its firm reservation costs on El Paso pipeline. The surcharge is calculated monthly.

4. By Advice Letter 1056-G, SDG&E proposes to correct the inadvertent error made when it developed the CARE rate schedules filed in Advice Letter 1052-G that became effective June 1, 1997. SDG&E calculated CARE rates that resulted in 10% discount instead of 15%. SDG&E has proposed to revise the affected rate schedules to reflect a 20% discount effective from June 19, 1997 through July 7, 1997 or 19 days. SDG&E revises its procurement rates monthly and the next revision is July 3, 1997. SDG&E corrected the discounted CARE rates when it revised its procurement rates by Advice Letter 1058-G, filed July 3, 1997 and effective July 8, 1997.

NOTICE

1. Public notice of this filing has been made by publication in the Commission's calendar and by mailing copies of the advice letter to parties specified by Section III-G of General Order (GO) 96-A including parties to Application (A) A.96-04-030.

PROTESTS

1. On June 9, 1997, ORA filed a timely protest to Advice Letter 1052-G and 1053-G, and Enron also filed a protest to Advice Letter 1053-G on June 18, 1997. On June 16, and 25, 1997 respectively, SDG&E responded to these protests. There are no protests to Advice Letter 1056-G. These protests and SDG&E's responses are discussed below.

ORA's Protest and SDG&E's Response

2. ORA alleges that the core rates set forth in SDG&E's tariff schedules filed by Advice Letter 1052-G do not reflect the

unbundling of interstate capacity costs as directed by D.97-04-082. ORA states that SDG&E continues to recover the core interstate capacity costs through the CFCA. ORA argues that the recovery of these costs through the CFCA is anticompetitive since SDG&E would have full balancing account protection not available to its competitors. It recommends that these costs be booked in the the CPGA. ORA states that this would ensure that costs associated with the movement of gas to the California border are recorded together and recovered separately from intrastate costs incurred by SDG&E and recorded in CFCA.

3. ORA also protests SDG&E's rates filed by Advice Letter 1052-G in tariff Schedule GITS because it contains a rate structure that ORA believes was not approved by D.97-04-082. ORA argues that SDG&E inexplicably shifted the collection of interstate transition cost surcharge (ITCS) costs from the volumetric rate to the demand charge since SDG&E did not request the change in its BCAP application or was authorized to make the change.

4. ORA contends that the rate table attached to the decision may be similar to the rate structure filed by SDG&E in its new GITS. ORA argues that the tariffed \$.01010 per therm volumetric rate would hardly recover the ITCS surcharge of \$.01241 per therm. ORA observes that SDG&E continues to show in the new tariff that "the volumetric charge includes an interstate transition cost surcharge (ITCS) of \$0.01241 per therm." ORA further supports its arguments by citing exhibits from the BCAP proceeding. ORA claims that SDG&E made the change when it updated its regulatory accounts after the record was closed and did not allow parties to comment. ORA believes the change is significant because it "...has the effect of shifting the responsibility for ITCS undercollections to different customer groups."

5. In addition, ORA protests Advice Letter 1053-G because "the method used by SDG&E to calculate the market rate for El Paso capacity is not appropriately defined" and that the filing does not achieve the goal of unbundling interstate capacity costs from core rates. ORA argues that it would be difficult to determine the surcharge reasonableness without the market rate information. ORA repeats its arguments on the unbundling issue addressed earlier. ORA urges the Commission to reject portions of Advice Letter 1052-G and all of Advice Letter 1053-G.

6. SDG&E responds that ORA's allegation that SDG&E failed to unbundle core interstate capacity costs from core rates as required by D.97-04-082 is a repeat of ORA's arguments that were not adopted by the decision. SDG&E states that it has removed the 1.536 cents per therm rate for core interstate pipeline costs from transportation rates and "placed this rate into its procurement tariff Schedule GPC." SDG&E added that "the BCAP decision does not require SDG&E to transfer the recovery of pipeline demand charges to the CPGA." SDG&E states ORA can not reargue its position in a compliance advice letter filing except by filing a petition to modify the decision.

7. With respect to ORA's protest to the rate structure in tariff Schedule GITS, SDG&E states that its filing reflects the rates shown in Appendix C, page 7 of the decision. As to ORA's allegation that the volumetric rate of \$0.01010 per therm is not sufficient to collect the ITCS rate of \$.01241 per therm indicated as inclusive in the volumetric rate, SDG&E states that "this statement was inadvertently overlooked and shall be eliminated in a subsequent clean-up filing." SDG&E urges the Commission to reject ORA's recommendations.

8. SDG&E responds to ORA's protest that deals with lack of market rate definition for the El Paso capacity used in the calculation of the surcharge by providing the information in its response to the protest. SDG&E states that it did not provide the information in its tariffs because it is competition-sensitive and confidential.

Enron's Protest and SDG&E's Response

9. Enron protests SDG&E's Advice Letter 1053-G because it believes "the surcharge developed by SDG&E provides recovery of costs in excess of the total annual cost of SDG&E's El Paso capacity...." Enron alleges that SDG&E would have "a pool of dollars" to subsidize its noncore capacity costs to the detriment of the competitive market. Enron claims that SDG&E's proposed CITCS surcharge is excessive and that SDG&E has not justified the substantial difference between core and noncore capacity charges. Enron further alleges that the decision did not authorize SDG&E to establish an interest bearing balancing account.

10. Enron alleges that the \$0.00412 per therm CITCS surcharge will collect a total of \$1.98 million annually based on core sales forecast. Enron believes this amount is greater than SDG&E's annual cost of El Paso capacity of \$1.48 million provided during the BCAP by SDG&E's witness. Using this comparison, Enron asserts that SDG&E has inflated the surcharge "by comparing its total capacity cost to some artificially low projection of the value of brokered capacity." Enron further states that SDG&E did not disclose how it derived the surcharge for parties' opportunity to challenge. Enron suggests that the surcharge should be based "upon the difference between the unit cost of SDG&E's weighted average cost of brokered capacity for the month (exclusive of El Paso) and its contract cost for El Paso capacity." Enron states that the inclusion of the value of El Paso brokered capacity "...will tend to increase CITCS...." Enron sums up its arguments that "the proposed surcharge suggest either that (1) there is no value to the El Paso capacity; or (2) that SDG&E has no incentive to broker that capacity to reduce the surcharge."

11. Enron alleges further that SDG&E has not justified the significant difference between its core and noncore capacity charges of \$0.01506 and \$0.00267 per therm and claims that this difference is greater than the \$0.00412 per therm surcharge. Enron requests that SDG&E should be required to justify this difference. In addition, Enron asserts that the Commission did

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not approve an interest bearing balancing account and quoted the language from the decision authorizing the account. Enron urges the Commission to consider its protest in view of its significance to competition.

12. SDG&E responds to Enron's protest that the surcharge is excessive by stating that "Enron assumes that the CITCS is a fixed, annual rate and fails to recognize that the CITCS was established as an "initial" surcharge subject to change... whenever the unrecorded balance would result in the surcharge changing by 10% or more on a sustained basis" to prevent any large overcollections. SDG&E agrees that the CITCS surcharge will not change monthly because it would take \$16,150 ($\$0.00412 \times 39,200,000 \times .10$) to trigger a rate change based on average core volumes of 39,200 thousand therms compared to \$453,000 implied by Enron that SDG&E will over-recover.

13. SDG&E further responds that Enron's allegations that its CITCS surcharge is excessive and that the excess will subsidize noncore rates are unfounded. SDG&E states that Enron presents no facts or support for the assertion that it has inflated its surcharge by using a low projection for the value of its brokered capacity. SDG&E adds that Enron's proposition that the surcharge be based on the difference between the unit cost of SDG&E weighted average cost of brokered capacity for the month (exclusive of El Paso) and its contract cost for El Paso capacity, is without cited authority. SDG&E asserts that Enron's proposal will make the surcharge equal to 100% of the full-as billed rate during the months when SDG&E procures brokered capacity only from El Paso pipeline.

14. SDG&E asserts that its surcharge is based on the "difference between its actual brokered capacity cost of pipeline demand charges for interstate capacity for the transmission of natural gas from Eastern U.S. producing basins for the month (including El Paso) and its contract cost for El Paso Capacity." It adds that this forms the basis for establishing its initial surcharge and that the detailed cost information has been provided to the Commission under confidentiality.

15. With respect to other allegations by Enron, SDG&E states that there is no need for it to receive an "incentive" to broker El Paso capacity because the core utilizes this firm capacity every month and it represents the first 10 million cubic feet per day (mmcf/day) through the meter. SDG&E responds that the difference between core and noncore capacity rates is due to the different basis being used for each calculation. SDG&E indicates that Enron's objection to an interest-bearing account has no merit since SDG&E is only following Commission precedent. SDG&E urges the Commission to deny Enron's requests in all cases.

DISCUSSION

1. ED has reviewed Advice Letters 1052-G, 1053-G, and 1056-G including the protests of ORA and Enron, and SDG&E's responses.

We also reviewed portions of D.97-04-082 related to the issues raised by the protestants and any other relevant documents.

2. We agree with ORA that the interstate pipeline capacity costs should be removed from the CFCA and placed in the CPGA to align the total cost of moving gas to the California border in order to promote competition among market participants who want to bring gas into California. We believe that this is the goal of unbundling the interstate transportation costs from core rates.

3. We recognize that ORA's recommendation is similar to its testimony filed in SDG&E's 1996 BCAP (Exhibit 217, pp 5-1 - 5-3) which the decision did not discuss (D)97-04-082, Section XI, 145-150). We believe this was an oversight and could not be construed as a rejection of ORA's recommendation since the decision spent a great deal of time justifying why unbundling should be adopted at this time for SDG&E. The decision adopted the unbundling proposal by ORA and this includes the transfer of the interstate costs from the CFCA to the CPGA.

4. ORA proposed the unbundling of interstate pipeline costs from core rates and that these be removed from the CFCA to the CPGA, to reflect the cost of commodity at the California border in order to promote competition. In its protest, ORA asserts that its unbundling proposal can not be separated into two distinct proposals if competition is to be promoted at the California border. SDG&E thinks otherwise in its protest response. ORA believes the Commission's acceptance of unbundling signifies its readiness to promote competition at the California border. ORA states that competition can only take place if all market participants are on the same level playing field. It asserts that SDG&E's continuous inclusion of the interstate pipeline costs in the CFCA would not accomplish the goal of competition. SDG&E, however, believes that since the decision did not order the transfer recommended by ORA, it is a partial rejection of ORA's proposals. We disagree with this assumption of SDG&E. If this issue is not obvious to SDG&E, we will clarify it here.

5. The decision went to great lengths to justify the reason for changing SDG&E's time-table (January 1, 1998) for the unbundling of interstate costs from core rates and resolved the associated issue of stranded costs. This was done to promote competition sooner than later. We believe that in order to promote competition at the California border costs associated with the movement of gas to the border should be grouped with the cost of the commodity and these must be readily available and transparent. We recommend that the core interstate pipeline costs be removed from the CFCA and put into the CPGA. This should enable all market participants to readily determine SDG&E's cost of gas to the California border in order to promote competition.

6. SDG&E's new GITS rate schedule is in compliance. We however, agree with ORA that SDG&E did not request a rate design change for GITS in its original BCAP application. We also agree

with ORA that the rate design change reflected in the GITS occurred when SDG&E filed its updated filing in the BCAP on October 25, 1996, that was later supplemented on November 7, 1996 as ordered by the presiding Administrative Law Judge (ALJ).

7. The supplemented computer spreadsheet models contained the recommendations of the two active parties in the proceeding, SDG&E and ORA. A review of relevant information discloses that that there is no change to the GITS rate structure submitted for the model implementing ORA's recommendations, unlike the model for SDG&E. The GITS rate design structure was not an issue in the proceeding. We find that SDG&E did request that the proposed decision be clarified with respect to the existing rate design for the utility electric generation (UEG), which is related to GITS rate schedule. The model submitted for SDG&E's recommendations was later used for the development of the rate tables attached to the Alternate Decision (AD) adopted by the Commission. If ORA wants to correct this inadvertent error, it may file a petition to modify the decision. The Advice Letter filing process can not be used to modify Commission's decision.

8. SDG&E's response to the ORA's protest that SDG&E failed to demonstrate how it derived its CITCS surcharge is satisfactory and raises no further questions.

9. Enron alleges the following: the CITCS surcharge proposed by SDG&E is excessive; SDG&E does not justify the difference between the core and noncore pipeline capacity rates; and the decision did not authorize a CITCS interest-bearing account. Enron urges the Commission to order SDG&E change how it calculates the difference between the monthly brokered capacity (without El Paso brokered capacity) and its firm capacity costs for El Paso. Enron further suggests that the El Paso capacity be brokered by SDG&E to reduce the surcharge. We disagree with Enron on these issues because SDG&E has adequately responded to Enron's protest. SDG&E's filings are in compliance with the decision except in the case of the unbundling issue. Enron's protests are denied.

10. We agree with SDG&E's request as proposed in Advice Letter 1056-G, to correct the inadvertent mistake made with respect to the discounted CARE rates filed in Advice Letter 1052-G. The proposal would correct the mistake in a timely manner with a positive consequence to ratepayers. According to SDG&E's analysis, ratepayers benefit by about \$4,416 based on April 1997 actual consumption. We recommend that SDG&E's request be approved.

FINDINGS

1. In compliance with D.97-04-082, SDG&E filed Advice Letters 1052-G and 1053-G.
2. SDG&E filed Advice 1056-G to correct an inadvertent error made with respect to the discounted CARE rates filed in Advice Letter 1052-G.

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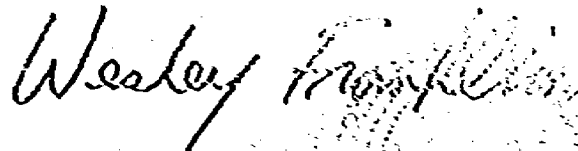
3. On July 3, 1997 SDG&E filed Advice Letter 1058-G to revise its procurement rates and to correct the discounted CARE rates filed in Advice Letter 1052-G. The rates became effective July 8, 1997.
4. ORA protested Advice Letters 1052-G and 1053-G because it believes they are not in compliance with D.97-04-082.
5. Enron protested Advice Letter 1053-G because it disagrees with the approach taken by SDG&E in the calculation of the CITCS surcharge.
6. We agree with ORA's protest regarding where the unbundled interstate pipeline costs should be recorded but its other request with respect to GITS is denied.
7. The removal of core interstate pipeline costs from the CFCA into the CPGA is reasonable, in order to align all gas costs to the California border and promote competition.
8. Enron's protest to Advice Letter 1053-G is denied.
9. SDG&E's request in Advice Letter 1056-G is reasonable and timely corrects the error in CARE rates.

THEREFORE, IT IS ORDERED that:

1. Advice Letters 1053-G and 1056-G are hereby approved.
2. Advice Letter 1052-G is approved with this modification. SDG&E shall transfer all interstate pipeline costs from the Core Fixed Cost Account to the Core Purchase Cost Account in order to align all gas costs to the California border and promote competition. SDG&E shall file a Supplemental Advice Letter within 10 business days of the effective date of this Resolution. The Advice Letter shall be effective upon filing.
3. All other protests by Enron and ORA are denied.
4. This resolution is effective today.

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I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on November 19, 1997. The following Commissioners approved it:



WESLEY FRANKLIN
Executive Director

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