

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

**RESOLUTION G-3229
DECEMBER 3, 1997**

RESOLUTION

RESOLUTION G-3229. SOUTHERN CALIFORNIA GAS COMPANY (SOCALGAS) REQUESTS APPROVAL OF TARIFF REVISIONS IMPLEMENTING ITS BASE RATE PERFORMANCE-BASED RATEMAKING MECHANISM. SOCALGAS' ADVICE LETTER 2617, AS REVISED BY ADVICE LETTER 2617-A, IS APPROVED.

SOCALGAS REQUESTS APPROVAL OF REVISIONS TO ITS REVENUE REQUIREMENT AND RATES EFFECTIVE JANUARY 1, 1998. SOCALGAS' ADVICE LETTER 2633-A IS APPROVED.

BY ADVICE LETTER 2617, FILED AUGUST 15, 1997, AND ADVICE LETTER 2617-A, FILED OCTOBER 1, 1997, AND ADVICE LETTER 2633, FILED OCTOBER 1, 1997, AND ADVICE LETTER 2633-A, FILED OCTOBER 9, 1997.

SUMMARY

1. This Resolution approves revisions to the tariff of Southern California Gas Company (SoCalGas) filed with Advice Letter (AL) 2617, as modified by AL 2617-A. This Resolution also approves revisions to SoCalGas' base rate revenue requirements and rates as submitted with AL 2633-A. The 1998 PBR authorized base rate revenue requirement is \$1,342,274,754.
2. ALs 2617 and 2617-A revise SoCalGas' tariffs in compliance with Decision No. (D.) 97-07-054, which adopted a performance-based ratemaking mechanism (PBR) for SoCalGas. The tariff revisions proposed in AL 2617 and AL 2617-A explain how SoCalGas will implement the adopted PBR.
3. AL 2633 provided SoCalGas' calculation of its 1998 base rate revenue requirement and sets forth the rates which incorporate the 1998 PBR revenue requirement, using the PBR indexing and adjustment mechanism adopted in D.97-07-054 and methods proposed in AL 2617 and AL 2617-A, except for one item. AL 2633-A corrected the inflation factor used in the PBR formula to incorporate the normalization of the three escalation components used to calculate the Gas Utility Price Index (GUPI). SoCalGas indicates that AL 2633-A replaces in its entirety AL 2633.

4. SoCalGas requested that the ALs 2617 (as modified by AL 2617-A) and AL 2633-A be approved effective January 1, 1998.
5. Southern California Edison Company (SCE) and the Office of Ratepayer Advocates (ORA) protested AL 2617 on a variety of issues. In AL 2617-A, SoCalGas reports that it met with these two parties and was able to resolve all of the outstanding issues. AL 2617-A describes all of the proposed revisions to AL 2617 which resulted from the discussions. SoCalGas also states that "ORA and Edison have authorized SoCalGas to state that they withdraw their protests."
6. No protests were subsequently received to AL 2617-A.
7. No protests were received in response to AL 2633-A.

BACKGROUND

1. SoCalGas' base rate PBR was adopted by the Commission in D.97-07-054. Ordering Paragraph 3 of that decision ordered SoCalGas to file within 30 days of the effective date of the order an advice letter to implement the PBR. AL 2617 was filed on August 15, 1997 in compliance with that ordering paragraph. Ordering Paragraph 3 states that the filed advice letter "will be subject to approval by means of a resolution."
2. SoCalGas requests that the PBR tariff revisions attached to AL 2617, as modified by AL 2617-A become effective on January 1, 1998.
3. Ordering Paragraph 7 of D.97-07-054 orders SoCalGas to file on October 1st of each year an advice letter which will implement the annual PBR rate adjustment for the following year. ALs 2633, filed on October 1, 1997, and 2633-A, filed on October 9, 1997, were filed in compliance with that ordering paragraph.
4. D.97-07-054 adopted a 1996 base margin of \$1,315,341,000.
5. SoCalGas AL 2609 was filed on July 23, 1997. With that AL, SoCalGas implemented the revenue requirement adopted by the Commission in D.97-07-054, adjusted to reflect the 1997 cost of capital adopted in D.96-11-060, and the rates effective August 1, 1997. The 1997 revenue requirement set forth by SoCalGas in AL 2609 is \$1,315,333,000. AL 2609 went into effect on its own motion, with an effective date of August 1, 1997.
6. SoCalGas AL 2614 was filed on August 4, 1997. With that AL, SoCalGas filed revisions to its tariff schedules in compliance with D.97-08-062. In D.97-08-062, the Commission adopted the rental method for cost allocation within SoCalGas' core class.

The rates set forth in AL 2614 reflect the base margin adopted in AL 2609. AL 2614 went into effect on its own motion, with an effective date of August 7, 1997.

7. The rates set forth in AL 2614 are the rates which are being revised by AL 2633-A to reflect the 1998 PBR revenue requirement.

NOTICE

1. Public notice of ALs 2617, 2617-A, and 2633 was made by publication in the Commission calendar, and by SoCalGas mailing copies of the filing to interested parties, including other utilities, governmental agencies, and the service list to Application No. 95-06-002.

PROTESTS

1. SCE filed a protest to AL 2617 on September 4, 1997. SCE protested the following provisions of SoCalGas' proposed tariff contained in AL 2617: the escalation factor used in the indexing mechanism, the definition of the number of customers used in the indexing mechanism, various issues related to the Z-factor, financial sharing, negotiated core pricing, and monitoring and evaluation.

2. ORA filed a protest to AL 2617 on September 3, 1997. ORA protested the following provisions of SoCalGas' proposed tariff language: the use of connected meters rather than actual customers in its calculation of base margin per customer, the use of forecasted growth rates per connected meter rather than actual customers when updating base margin, the requirement that ORA notify the Commission and SoCalGas of the identity of proposed Z factors, the explanation of Z-factor accounting, certain language related to DSM programs, and language related to core pricing flexibility.

3. On September 11, 1997, SoCalGas responded to both protests on all of the above issues, indicating that the ORA and SCE protests should be denied except in those limited and specific circumstances in which SoCalGas had noted agreement.

4. On October 1, 1997, SoCalGas filed AL 2617-A. SoCalGas states that, as a result of discussions held with SCE and ORA, the parties have been able to resolve all of the outstanding issues, and SoCalGas agreed to revise its tariff, as described in AL 2617-A. SoCalGas further states that "ORA and Edison have authorized SoCalGas to state that they withdraw their protests."

5. On October 2, 1997, Edison filed a letter with the Commission stating that it had withdrawn its protest to AL 2617.

6. The Energy Division verbally confirmed with ORA that ORA had withdrawn its protest to AL 2617.
7. No protests were subsequently received to AL 2617-A.
8. No protests were received to AL 2633 or AL 2633-A.

DISCUSSION

1. As a result of discussions between SoCalGas, SCE, and ORA, the parties have been able to resolve all of their disagreements related to AL 2617, and SoCalGas states that it revised its proposed tariff in accord with that resolution, as shown in AL 2617-A.
2. The Energy Division has reviewed AL 2617, the protests, SoCalGas' response to the protests, and AL 2617-A. The Energy Division agrees that the tariff language in AL 2617, as modified by AL 2617-A, is in compliance with D.97-07-054.
3. The 1998 PBR revenue requirement adjustment calculated in AL 2633-A is an increase of \$26.9 million over SoCalGas' current base margin of \$1,315.3 million.
4. The increase in revenue requirements is based on the formula adopted by the Commission in D.97-07-054. That formula adjusts the PBR authorized revenue requirement per customer by a productivity factor and for inflation. The authorized revenue requirement per customer is then multiplied by the forecasted number of customers for 1998. The revenue requirement will be trued-up to account for the actual average number of customers when SoCalGas files its Shareable Earnings filing.
5. SoCalGas, ORA, and SCE agreed that the number of customers is defined by the number of active meters.
6. SoCalGas, ORA, and SCE agreed that the number of customers forecast in the annual update will be determined by increasing the recorded number of active meters in June of the previous year by a customer growth factor, where the customer growth factor is the ratio of the number of active meters in June of the current year to the number of active meters in June of the previous year.
7. AL 2633 calculated an inflation factor to be used in the 1998 PBR update formula of 2.62%.
8. The inflation factor calculated in AL 2633 did not incorporate the normalization of the three escalation components used to calculate the GUPI. The normalization of these three escalation components was on the issues agreed to by SoCalGas, SCE, and ORA, and discussed in AL 2617-A.

9. The revenue requirement calculated in AL 2633-A includes an inflation factor which incorporates the normalization of the three escalation components. The inflation factor calculated in AL 2633-A is 2.56%.
10. The Energy Division has reviewed AL 2633-A and its associated workpapers. The Energy Division finds that the 1998 revenue requirements proposed therein are appropriate, in compliance with D.97-07-054, and conform to the language contained in AL 2617, as modified by AL 2617-A.
11. The Energy Division reviewed the rates calculated by SoCalGas and did not discover any apparent errors.
12. SoCalGas notes in AL 2633-A that "additional rate adjustments are expected to be authorized by the Commission prior to the end of this year, such as SoCalGas' annual BCAP Balancing Account Updates and proposed changes to DSM, DAP, and DSM Incentives. After the Commission issues a ruling on each of these rate matters, SoCalGas will file an advice letter, including appropriate tariff schedules, to consolidate all of the rate changes resulting from the above-mentioned Commission actions."

FINDINGS

1. SoCalGas' AL 2617 was filed on August 15, 1997 proposing tariff revisions which explain how SoCalGas will implement its adopted base rate PBR, in compliance with D.97-07-054.
2. Protests to AL 2617 were received from ORA and SCE on September 3, 1997 and September 4, 1997, respectively.
3. SoCalGas filed a reply to SCE and ORA on September 11, 1997, stating that SCE's and ORA's protests should be denied except in those limited and specific circumstances in which SoCalGas had noted agreement.
4. With AL 2617-A, filed on October 1, 1997, SoCalGas states that as a result of discussions with ORA and SCE, the parties had been able to resolve all of the outstanding issues, and that SCE and ORA had agreed to withdraw their protests.
5. SCE and ORA have withdrawn their protests to AL 2617.
6. The tariff revisions filed with AL 2617, as modified by AL 2617-A, are in compliance with D.97-07-054.
7. SoCalGas' AL 2633 was filed on October 1, 1997, proposing 1998 revenue requirements calculated using the PBR methodology adopted in D.97-07-054 and the

methods agreed to by SoCalGas, ORA, and SCE, discussed in AL 2617-A, except that the calculation of the inflation factor did not incorporate the normalization the three escalation components.

8. AL 2633-A corrected the inflation factor calculated in AL 2633 by incorporating the normalization of the three escalation components used to calculate the GUPI.
9. The revenue requirements calculated in AL 2633-A are in compliance with D.97-07-054 and the tariff revisions provided for in AL 2617, as modified by AL 2617-A.
10. D.97-07-054 requires that AL 2617 and AL 2617-A be subject to approval by means of a resolution.
11. No protests were received to AL 2617-A or AL 2633-A.
12. AL 2617, as modified by AL 2617-A, should be approved.
13. AL 2633-A should be approved. The 1998 SoCalGas authorized PBR base rate revenue requirement is \$1,342,274,754.

THEREFORE, IT IS ORDERED THAT:

1. AL 2617, as modified by AL 2617-A, is approved. The tariff revisions submitted by SoCalGas in AL 2617, as modified by AL 2617-A, are approved.
2. AL 2633-A is approved.
3. The 1998 authorized PBR base rate revenue requirement for SoCalGas is \$1,342,274,754.
4. SoCalGas shall file an Advice Letter on or before December 29, 1997 to consolidate all of the appropriate 1998 rate changes. The Advice Letter shall be effective January 1, 1998.
5. This resolution is effective today.

Resolution G-3229
SoCalGas AL 2617 and 2617-A/ram
SoCalGas AL 2633-A/ram

December 3, 1997

I hereby certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on December 3, 1997. The following Commissioners approved it:



Wesley Franklin

WESLEY FRANKLIN
Executive Director

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