PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION G-3248
FEBRUARY 4, 1999

RESOLUTION

RESOLUTION G-3248. SAN DIEGO GAS & ELECTRIC COMPANY (SDG&E) REQUESTS AUTHORIZATION TO ELIMINATE SCHEDULES GTUEG AND GITS, REVISE DEMAND CHARGES AND ELIMINATE CONDITION 11 FOR SCHEDULE GTUEG-SD, REVISE RATES FILED IN ADVICE LETTER 1086-G FOR UPDATES APPROVED FOR ADVICE LETTER 1094-G. GRANTED AS MODIFIED.

BY ADVICE LETTER 1103-G FILED JULY 2, 1998

Summary

1. On July 2, 1998, SDG&E filed Advice Letter 1103-G. SDG&E proposes to modify Schedule GTUEG-SD which recovers the cost of transportation on SDG&E's pipeline system for its Utility Electric Generation (UEG) department and is complementary to Southern California Gas Company (SoCalGas) Schedule GT-SD. SDG&E also intends to revise the rates in Advice Letter 1086-G for the updates in Advice Letter 1094-G and to eliminate Schedules GTUEG and GITS.

2. On July 22, 1998, Office of Ratepayer Advocates (ORA) filed a protest to Advice Letter 1103-G.

3. SDG&E responded to ORA's protest on July 29, 1998.

4. SDG&E Advice Letter 1103-G is approved, subject to SDG&E filing a supplement which revises the XGTS and -SD rates such that the total cost paid by ratepayers who are on the -SD rates and the complementary SoCalGas Schedule GT-SD is no more than the current costs paid by customers for transportation on the SDG&E and SoCalGas systems based on SDG&E's tariffs filed in Advice Letter 1094-G

5. The rates in the supplemental filing are interim. Cost allocation and rate design will be reviewed in the upcoming SDG&E and SoCalGas cost allocation proceedings, A.98-10-031 and A.98-10-012, respectively, to assure proper revenues are collected from SoCalGas and SDG&E.

Background

1. SDG&E is a wholesale customer of SoCalGas. SDG&E buys gas transportation on SoCalGas' pipeline system and in turn includes the cost of this transportation in the rates that SDG&E charges its customers.

2. SDG&E's customers have two options for purchasing gas transportation from SDG&E. One option is the bundled approach in which the customer purchases transportation on the SoCalGas pipeline system and the SDG&E pipeline system under a single applicable bundled SDG&E tariff. Alternatively, a customer may choose the unbundled approach. Under the latter scenario, the customer would purchase SoCalGas transportation on SDG&E's GITS schedule and transportation on the SDG&E pipeline system on the applicable SDG&E -SD schedule.

3. Currently, 98.7 percent of SDG&E's UEG load is on its bundled rate, SDG&E's Schedule GTUEG. The remainder of the load is on SDG&E's Schedule GITS in conjunction with its applicable -SD rate, SDG&E's Schedule GTUEG-SD.

4. The Federal Energy Regulatory Commission's (FERC's) approval of the Pacific Enterprise and Enova merger was contingent upon SDG&E separating its purchases of SoCalGas transportation for the UEG load from the non-UEG load.[1]

5. On February 13, 1998, SoCalGas filed Advice Letter 2675 to comply with the FERC order. In Advice Letter 2675, SoCalGas established a new rate schedule, GT-SD, which allows customers in San Diego, including SDG&E's UEG, to directly purchase gas transportation on the SoCalGas pipeline system for delivery to the SDG&E pipeline system.

6. On February 26, 1998, SDG&E filed Advice Letter 1086-G to modify SDG&E's GITS, XGTS and -SD schedules so that a customer would be indifferent to purchasing SoCalGas transportation from SoCalGas's GT-SD schedule or SDG&E's GITS schedule, with respect to the Global Settlement costs. Advice Letter 1086-G also established Schedule GTC-SD which provides core customers with the same option as noncore customers; core customers can now purchase SoCalGas transportation directly from SoCalGas and pay SDG&E only for their cost of transportation on SDG&E's system.

7. On April 22, 1998, SDG&E filed Advice Letter 1094-G to revise the rates adopted in D.97-04-082 in SDG&E's Biennial Cost Allocation Proceeding (BCAP) to reflect updates in its balancing accounts and SoCalGas costs allocated to SDG&E.

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[1] Docket No. San Diego Gas & Electric Company,79 FERC Para.61, 372 (1997)

8. On July 2, 1998, SDG&E filed Advice Letter 1103-G to modify several of its tariffs filed in Advice Letter 1086-G. These modifications include eliminating Schedules GTUEG and GITS, revising monthly demand charges under Schedule GTUEG-SD to reflect 100% of UEG load on GTUEG-SD, and eliminating Schedule GTUEG-SD's Special Condition 11 which specifies the formula for prorating demand charges between Schedules GTUEG-SD and GTUEG. Advice Letter 1103-G also requests the rates in Advice Letter 1086-G be revised to reflect the updates approved in Advice Letter 1094-G.

9. Since the UEG will now purchase all of its SDG&E gas transportation under one rate schedule, GTUEG-SD, SDG&E requests the elimination of Schedule GTUEG.

10. With the establishment of SoCalGas' Schedule GT-SD, SDG&E's Schedule GITS becomes redundant, therefore, SDG&E requests its termination.

Notice

Notice of SDG&E's Advice Letter 1103-G was made by publication in the Commisison Daily Calendar and by SDG&E mailing copies to interested parties.

Protests

1. On July 22, 1998, ORA filed a protest to Advice Letter 1103-G.

2. ORA opposes SDG&E's changes to the rate schedules for SDG&E's UEG plant because changes of this magnitude typically occur in the BCAPs where there is a more complete review of cost information.

3. Given that this Advice Letter does not contain important information such as SoCalGas' new GT-SD schedule which complements SDG&E's GTUEG-SD schedule, ORA is not able to verify that SDG&E rates will collect the proper amount of total revenues.

4. ORA recommends the Advice Letter be rejected and UEG rate design be reviewed in SDG&E's next BCAP.

Discussion

1. In response to ORA's protest, SDG&E states that procedurally, SDG&E's advice letters reflect changes to its tariffs and not other utility filings. Moreover, since this Advice Letter references SDG&E's Advice Letter1086-G which, in turn, references SoCalGas' Advice Letter 2675, SDG&E states ORA will find the necessary information regarding SoCalGas' Schedule GT-SD in SoCalGas' Advice Letter 2675.

2. To meet the FERC requirement that SDG&E separate its purchases of SoCalGas transportation for its UEG from non-UEG load, SDG&E proposes to buy transportation for its UEG from SoCalGas Schedule GT-SD and for its non-UEG load, it will continue to use SoCalGas Schedule GW-SD. Since SoCalGas Schedule GT-SD is only for transportation on the SoCalGas system, SDG&E's UEG must also purchase transportation on the SDG&E pipeline system through SDG&E's Schedule GTUEG-SD.

3. This Advice Letter's proposed GTUEG-SD rate is essentially the difference between the GTUEG rate, as filed in Advice Letter 1094-G, and the SoCalGas costs embedded in that rate, with an adjustment in demand charges to reflect that 100% of the UEG load would be on Schedule GTUEG-SD.[2] However, if SDG&E's UEG were to use SDG&E's proposed GTUEG-SD schedule in combination with the complementary SoCalGas Schedule GT-SD, SDG&E's UEG would be paying approximately $456,000 per year more than it currently does using the two SDG&E options, Schedule GTUEG and Schedule GITS with Schedule GTUEG-SD.

4. The proposed -SD rates for other customers were derived using a methodology similar to that which was used for the GTUEG-SD rate. Other non-UEG customers who also choose to purchase transportation directly from SoCalGas' Schedule GT-SD in conjunction with the applicable SDG&E -SD schedule would also be paying more than they currently do.

5. In conformance with Section 854 of the Public Utilities Code, in D.98-03-073 , the Commission allocated the merger savings 50/50 between ratepayers and shareholders. The rates in this Advice Letter, as currently proposed, would effectively reduce the merger savings to SDG&E's customers.

6. According to FERC's Merger Policy Statement, the FERC evaluates a merger application by assessing the impact of the merger on competition, rates, and regulation.[3] With respect to rates, the FERC focuses on ratepayer protection mechanisms to assure customers are protected even if the expected benefits from the merger are not realized. One of the forms of protection that FERC has accepted is a general hold harmless provision, i.e., "a commitment from the applicant that it will protect wholesale customers from any adverse rate effects resulting from the merger for a significant period of time following the merger."[4] And in fact, the applicants stated before the FERC that SDG&E will hold its future wholesale and transmission customers harmless from any increase in jurisdictional costs arising from the merger for at least five years.[5]

7. Even though FERC ordered SDG&E to separate its purchases of SoCalGas transportation for UEG from non-UEG customers, the separation should comport with the principles

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[2] The product of the average GITS rate and GTUEG volumes is used as the proxy for SoCalGas costs embedded in the GTUEG rate.
[3] Ibid.
[4] Volume III, FERC Stats. and Regs, Para. 31,044 at p.30124
[5] Docket No. San Diego Gas & Electric Company,79 FERC Para.61, 372 (1997)

underlying FERC merger guidelines with respect to rates, i.e. ratepayers should be protected from any adverse rate effects. Although the FERC focuses on wholesale customers, the policy of holding ratepayer harmless is equally applicable to retail customers

8. The proposed rates in this Advice Letter are inequitable, inconsistent with the principles underlying FERC policies, and would effectively reduce the merger benefits allocated to ratepayers in D.98-03-073.

COMMENTS

1. The draft Resolution of the Energy Division in this matter was mailed to parties in the accordance with PU Code Section 311 (g). Comments were filed on January 11, 1999 by SDG&E. No reply comments were submitted.

2. SDG&E claims the $456,000 per year difference between the what UEG would pay under the proposed rates and under the pre-merger rates is entirely due to the Commission adopting different volume determinants for ratemaking purposes between SoCalGas and SDG&E, and different methods for SoCalGas to recover its costs from SDG&E and for SDG&E to recover the same SoCalGas costs from SDG&E's customers. SDG&E further asserts that the analysis supporting the draft resolution only addresses the effects on the UEG customer class. SDG&E's claims notwithstanding, it has not demonstrated empirically that the additional amount of $456,000 paid by the UEG class is entirely attributable to difference in sales volumes and allocation methodology. The draft Resolution does state that other customer classes would also pay additional costs relative to pre-merger rates.

3. Although SDG&E agrees that the permanent solution to the problem is properly addressed in SDG&E's pending BCAP, it objects to the supplemental filing because it would not leave SDG&E revenue neutral. SDG&E states that the draft Resolution would produce an unanticipated revenue shortfall and would have a negative effect upon SDG&E shareholders who are at 25% risk of recovery for noncore transportation revenues. SDG&E proposes that the Commission establish a revenue memorandum account, concurrent with the supplemental filing, to recover the shortfall so that it can be properly allocated in the pending SDG&E BCAP. While SDG&E may not be revenue neutral, the fact that ratepayers are paying SoCalGas and SDG&E on a total basis more than would otherwise be paying under pre-merger rates indicates that shareholders of the merged entity, SDG&E and SoCalGas shareholders, are receiving more revenues than they would otherwise. Establishing a memorandum account for the shortfall to be allocate later in the SDG&E BCAP would not leave ratepayers revenue neutral, effectively reduces the merger benefits allocated to ratepayers in D.98-03-073, and is inconsistent with the principles underlying FERC policies. Therefore, the request to adopt a memorandum account is denied.

Findings

1. FERC's approval of the Pacific Enterprise and Enova merger is contingent upon SDG&E separating its SoCalGas transportation purchases for the UEG load from the non-UEG load.

2. On February 13, 1998, SoCalGas filed Advice Letter 2675 to comply with the FERC condition. In Advice Letter 2675, SoCalGas established Schedule GT-SD which allows customers in San Diego, including SDG&E's UEG, to directly purchase transportation on the SoCalGas pipeline system.

3. On February 26, 1998, SDG&E filed Advice Letter 1086-G to modify SDG&E's GITS, XGTS and -SD schedules so that a customer would be indifferent to purchasing SoCalGas transportation from SoCalGas' GT-SD schedule or SDG&E's GITS , with respect to Global Settlement costs.

4. SDG&E will continue to purchase SoCalGas transportation for its non-UEG load on SoCalGas Schedule GW-SD.

5. On July 2, 1998, SDG&E filed Advice Letter 1103-G to modify several of its tariffs filed in Advice Letter 1086-G. These modifications include eliminating Schedules GTUEG and GITS, revising monthly demand charges under Schedule GTUEG-SD to reflect 100% of UEG load on GTUEG-SD, and eliminating Schedule GTUEG-SD's Special Condition 11 which specifies the formula for prorating demand charges between Schedules GTUEG-SD and GTUEG. Advice Letter 1103-G also requests the rates in Advice Letter 1086-G be revised to reflect the updates approved in Advice Letter 1094-G.

6. By eliminating Schedule GITS, customers can only buy unbundled SoCalGas transportation directly from SoCalGas' Schedule GT-SD.

7. On July 22, 1998, ORA protested Advice Letter 1103-G.

8. The proposed GTUEG-SD rate is based on the difference between the bundled Schedule GTUEG, as filed in Advice Letter1094-G, and the proxy for the SoCalGas costs embedded in that rate. The demand charges under the proposed GTUEG-SD rate reflect SDG&E's proposal that the UEG subscribes 100% of its load on Schedule GTUEG-SD.

9. The other proposed -SD rates were derived using a methodology similar to that which was employed for GTUEG-SD.

10. The total cost of transportation for SDG&E's UEG based on the proposed GTUEG-SD rate and the complementary SoCalGas GT-SD rate is approximately $456,000 per year more than the UEG's current costs.

11. Non-UEG customers who choose to purchase transportation on SDG&E's -SD schedules in conjunction with SoCalGas' Schedule GT-SD would also be paying more than they do currently.

12. The merger benefits allocated to ratepayers in D.98-03-073 are effectively reduced if the proposed -SD rates are approved and are used in conjunction with SoCalGas Schedule GT-SD.

13. SDG&E's proposed -SD schedules in combination with SoCalGas' Schedule GT-SD are inconsistent with the principles underlying FERC's Merger Policy Statement.

14. ORA's protest is granted in part.

15. SDG&E should file a supplement which revises XGTS and all -SD rates such that the total cost paid by customers who are on the -SD rates and the complementary SoCalGas Schedule GT-SD is no more than the current cost paid by customers for transportation on the SDG&E and SoCalGas systems based on SDSG&E's tariffs filed in Advice Letter 1094-G.

16. The rates in the supplemental filing are interim.

17. In the current SDG&E and SoCalGas BCAPs (A.98-10-031 and A.98-10-012), both SoCalGas and SDG&E cost allocation and rate design will be reviewed to assure that the proper revenues are collected from SDG&E and SoCalGas. The relationship between SoCalGas' Schedule GT-SD and SDG&E's -SD and XGTS rates, as well as the relationship between this complementary SoCalGas and SDG&E rate package and SDG&E's rates for bundled SoCalGas and SDG&E transportation will be reviewed for consistency and proper cost recovery.

Therefore it is ordered that:

1. SDG&E Advice Letter 1103-G is approved, subject to SDG&E filing a supplement which revises XGTS and all -SD rates such that the total cost paid by ratepayers who are on the -SD rates and the complementary SoCalGas Schedule GT-SD is no more than the current cost paid by ratepayers for transportation on the SDG&E and SoCalGas systems based on SDG&E's tariffs filed in Advice Letter 1094-G. The supplemental filing shall include workpapers demonstrating the total cost paid is the same for the rates filed in the supplement as under rates filed in Advice Letter 1094-G.

2. SDG&E shall file a supplemental advice letter within 20 days. The tariffs shall become effective after the Energy Division has reviewed them for compliance with this Resolution.

3. ORA's protest is granted in part.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on February 4, 1999; the following Commissioners voting favorably thereon:

Wesley Franklin

WESLEY M. FRANKLIN
Executive Director

RICHARD A. BILAS
President
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners