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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND
COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-3133
July 8, 1994

R E S O L U T I O N

RESOLUTION G-3133. PACIFIC GAS AND ELECTRIC COMPANY REQUESTS APPROVAL OF ITS REVISED CORE GAS RATES FILED UNDER THE CORE TRIGGER FILING MECHANISM AUTHORIZED IN DECISION 90-09-089

BY ADVICE LETTERS 1795-G, 1795-G-A, AND 1795-G-B FILED, RESPECTIVELY, ON SEPTEMBER 16, 1993, MARCH 31, 1994, AND MAY 5, 1994.

SUMMARY

1. Pacific Gas and Electric Company [PG&E] seeks approval of its revised core gas rates submitted under the core trigger filing mechanism approved in Decision [D.] 90-09-089.
2. This is the first mid-Biennial Cost Allocation Proceeding [mid-BCAP] filing under D.90-09-089.
3. D.90-09-089 changed the structure of gas utilities' procurement practices and refined the regulatory framework for gas utilities.
4. The filing was triggered because the proposed change in core rates [9.30%] exceeds 5%.
5. The 9.3% change in core rates is based on a revenue requirement increase of \$161.9 million -- a \$76.2 million increase in the core Purchased Gas Account [PGA], an \$84.1 million increase in the core Fixed Cost Account [FCA], and an adjustment of \$1.6 million for Franchise Fees and Uncollectibles [FF&U].
6. Division of Ratepayer Advocates [DRA], Towards Utility Rate Normalization [TURN], and Enron Access Corporation [Enron] protested the advice letters.
7. This Resolution grants the request.

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BACKGROUND

1. D.90-09-089 provides that PG&E may file an advice letter forty-five days prior to the end of the first year of the BCAP -mid BCAP--to change the amortization component for the core FCA and core PGA balances if the percentage adjustment to bundled core rates exceeds five percent.
2. The first year of the BCAP cycle ended on November 1, 1993. PG&E's initial filing, AL 1795-G, was made 45 days prior to that on September 16, 1993. PG&E requested at the time that the new rates not be implemented until May 1, 1994 to minimize rate shock during the winter months. This delay would have kept the residential bills lower during the peak heating season. May 1, 1994 would also be the time around which the baseline quantities would have been lowered for residential customers.
3. The latest proposed change [AL 1795-G-B filed on May 5, 1994] in bundled core rates is 9.30%. The earlier filings [AL 1795-G and 1795-G-A filed on September 16, 1993 and March 31, 1994] put the number at 7.66% and 9.63%.
4. The 9.30% change in core rates is based on a \$76.2 million increase in the core PGA, an \$84.1 million increase in the core FCA, and an adjustment of \$1.6 million for FF&U -- or a revenue requirement increase of \$161.9 million.
5. The requested change in rates is to amortize the net under-collections in the core FCA [recorded from November 1, 1992 through February 28, with forecasts for March and April, 1994] and core PGA [recorded from November 1, 1992 through February 28, 1994] and the consequent adjustments to FF&U.
6. PG&E's next cost allocation proceeding is scheduled for August of 1994 with an expected effective date of April 1, 1995 [D.92-12-058, Ordering Paragraph #3].

NOTICE

1. PG&E served notice of ALs 1795-G, 1795-G-A, and 1795-G-B by mailing copies to other utilities, government agencies, and all parties that requested such information.

PROTESTS

1. Advice letter 1795-G was protested on October 5 and 6, 1993 by Enron and DRA, respectively. PG&E responded to both protests on October 13, 1993. Additional protests by TURN and DRA were filed on April 20, 1994, to which PG&E responded on April 27, 1994 and May 3, 1994. DRA protested again on May 25, 1994. PG&E answered the latter on June 10, 1994.

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Protests to AL 1795-G

2. Enron protests the initial AL 1795-G on two grounds.

- a. The rates presented by PG&E on September 16, 1993 filing are based upon partial implementation of capacity brokering and are therefore misleading in that the proposed rates will never become effective. The reason is because a week later, on September 22, 1993, PG&E, in the capacity brokering case, filed its AL 1714-G-E for tariff changes to reflect the full implementation of capacity brokering. Because the rate changes proposed in AL 1795-G would have become effective after the proposed full implementation of capacity brokering on November 1, 1993, the rate impact of the trigger filing could not be assessed.

PG&E responded that, in compliance with the Commission's directives [D.90-09-089, p.28], it filed the advice letter on September 16, 1993, forty-five days prior to the first year of the BCAP cycle which would be November 1, 1993, therefore full capacity brokering rates could not be incorporated. PG&E, however, had stated in the advice letter that it would supplement the advice letter to include full capacity brokering and updated recorded information.

- b. Enron protests that the advice letter does not show the allocation of undercollections [which the trigger filing is intended to recover] to the various procurement, transportation, and storage accounts among core customers.

PG&E responded by providing workpapers [with the response letter] that show the allocation of various procurement and transportation accounts among the customer classes.

3. DRA, in addition to Enron's concerns, protests the advice letters on the grounds that they are inconsistent with the amount of PGT core capacity reservation and the treatment of Canadian north-of-the-border demand charges [pursuant to D.93-09-084]. PGT passes on to PG&E costs of gas commodity purchases and pipeline capacity billed to it by the Canadian gas transport companies [such as NOVA and Alberta Natural Gas]. PG&E allocates these costs between core and noncore customers according to the Commission's cost allocation procedures [D.92-10-051]. D.93-09-084 addresses how PG&E treats the Canadian pipeline demand charges that have been booked in the core FCA once the capacity brokering is implemented on PGT. DRA contends that the trigger calculation used by PG&E in its advice letter filing fails to remove from the core FCA the costs associated with Alberta & Southern's Canadian upstream pipeline capacity and PGT capacity in excess of core needs.

PG&E responded that D.93-09-084 was issued on September 17, 1993 a day after the filing of AL 1795-G. PG&E promised to incorporate in a supplemental filing [1795-G-A] full capacity

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brokering, the changes in the allocation of Canadian upstream pipeline demand charges from the core FCA to the PGA as ordered in the above decision, and any subsequent changes adopted by the Commission.

Protests to AL 1795-G-A

4. DRA protests the advice letter on the following three grounds:

- a. D.94-03-050 ordered PG&E to refund \$115 million to ratepayers as a result of its Canadian gas purchases during 1988-90 that were found unreasonable by the Commission. D.94-03-040, on the other hand, ordered PG&E to refund to core ratepayers \$7.75 million because the Commission found PG&E's management of its underground storage operations during December of 1990 as unreasonable. The two orders would credit more than \$120 million to PG&E's core PGA balance. Moreover, in pending reasonableness review cases [A.92-04-001 & A.93-04-011] DRA has recommended that the Commission find PG&E unreasonable for its Canadian and Southwest procurement practices and gas storage operations and requires PG&E to refund approximately \$200 million to its ratepayers. The combined effect of the total dollars that PG&E is to refund to ratepayers plus the over \$200 million pending in reasonableness review cases more than offset the \$76.2 million forecasted undercollection in the core PGA that PG&E is requesting at this time.

PG&E responded that ordering paragraph 2 of D.94-03-050 states that the disposition of the Canadian gas purchase disallowance will be considered in PG&E's forthcoming BCAP decision which would be due after February 1995. At this stage it is not known what portion of the \$115 million disallowance will be allocated to the core and the noncore classes. Moreover, PG&E has filed an application for rehearing of D.94-03-050. Therefore, disposition of any portion of the Canadian disallowance in this proceeding would be premature until the Commission decides on PG&E's application. Concerning the disallowance of \$7.75 million, PG&E stated that the amount was for Electric Department cost and not Gas Department core costs. Regarding the refunds of about \$200 million in the pending reasonableness cases, PG&E's opinion is that it would be speculative to include the DRA-proposed refunds in the present core rate calculations.

- b. DRA could not determine whether PG&E included or excluded Canadian demand charges as part of its forecast procurement rates. DRA asserts that Resolution G-3087 [dated October 20, 1993] excluded from core rates the costs related to Canadian demand charges and required that PG&E establish a subaccount within the core PGA to book all core-related Canadian

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demand charges once full capacity brokering was implemented on the PGT pipeline beginning in November 1, 1993. Those costs are to be included in core rates only after found reasonable by the Commission. From the submitted workpapers it could not be determined what portion of Canadian upstream demand charges are recorded in the subaccount and whether PG&E has included any portions of the charges in the forecast of core PGA increase.

PG&E responded that all core Canadian demand charges incurred from November 1, 1993 through February 28, 1994 have been booked to the subaccount and none were included in the core trigger filing.

- c. DRA further contends that the core FCA rate adopted in the BCAP reflects the booking of certain Canadian demand charges which are not appropriate in the light of capacity brokering implementation.

PG&E responded that the core FCA balance in 1795-G-A is based on the recorded February 1994 balance [which excludes Canadian demand charges] and forecasted March and April 1994 account balances. PG&E acknowledged that the latter forecast balances included the Canadian demand charges and agreed to correct them in the subsequent supplemental filing [AL 1795-G-B].

5. TURN in its protest of AL 1795-G-A agrees that the calculated increase in costs do sum up to more than the 5% trigger level, but like the DRA protest in 4(a) above, contends that although the Commission has not yet determined the final disposition of the \$115 million disallowance, it would appear likely that even a partial reflection of it would reduce the indicated core rate increase below the 5% threshold for a trigger filing. TURN, therefore, urges rejection or deferral of PG&E's AL 1795-G-A.

PG&E's response is the same reply as in 4(a) and argues that TURN has provided no procedural grounds to reject the advice letter.

Protests to AL 1795-G-B

6. DRA protested the advice letter on the same grounds as AL 1795-G-A before it, reiterating DRA's earlier points of contention. PG&E, in turn, submitted its response by attaching to it the previous rebuttal letter.

DISCUSSION

1. ALs 1795-G, 1795-G-A, and 1795-G-B are compliance filings under D.90-09-089 [Appendix A, page 3, paragraph 3] to adjust core rates between BCAP decisions. The core trigger mechanism filing was approved by the Commission to prevent the accrual of

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large balancing account amounts [to the core PGA and core FCA] between BCAP decisions, whether they be over- or under-collections.

2. Subsequent to its first filing on September 16, 1993, and in response to protests by the DRA, TURN, and Enron, PG&E updated the rate change calculations using the full capacity brokering rates and the recent available recorded data to arrive at the core FCA and PGA undercollected balances. PG&E also corrected its core FCA balance by excluding the Canadian upstream pipeline capacity charges from the account's March and April 1994 balances.

3. The \$7.75 million disallowance [see D.94-03-040, page 5 and Finding #15] associated with gas curtailment oil burns which occurred in December 1990 was for PG&E's Electric Department [UEG] costs and not Gas Department costs as implied by DRA's protest, therefore unrelated to the case on hand.

4. The disposition of the \$115 million refund to the ratepayers ordered in D.94-03-050 as a result of PG&E's Canadian gas purchases between 1988 and 1990 will be considered in PG&E's next BCAP case. D.94-03-050, Ordering Paragraph 2 states:

Adjustments in revenue requirement, revenue allocation, rate design and appropriate accounting entries associated with this disallowance shall be considered in PG&E's next scheduled Biennial Cost Allocation Proceeding.

A decision on the next scheduled BCAP is expected earliest in April 1995. Accordingly, DRA's contention that the amount should be considered in the instant case is not warranted.

5. CACD also finds that DRA's proposed disallowance of some \$200 million pending in the reasonableness review cases, hearings on which are due to start in August 1994, and the \$115 million disallowance by the Commission [in the case of Canadian gas charges] should, when settled, find their way eventually into the appropriate core PGA accounts which may bring about overcollections in the account and thus lead to reductions in the core rates. To grant DRA's request would require that the Commission contradict its own order and prejudice the outcome of proceedings that have not yet taken place.

6. Regarding swings in rates that could result in approving this advice letter, it is the CACD opinion that the current trend in the Commission's recognition of the salutary effects of introducing market forces in the gas industry would invariably give rise to fluctuation and uncertainty in rates. Initially this instability compares unfavorably with the stability and certainty of rates in medium-term periods under a regulated environment. The current trend towards real time pricing and the introduction of costs and revenues in rates as they become due promises more efficient operations which would give rise to lower rates and higher returns in the long run.

7. The protestants' concerns about the calculation of the \$161.9 revenue requirement have been resolved. CACD has reviewed the workpapers supporting the request for \$161.9 million and finds them adequate. CACD therefore concludes that the \$161.9 proposed undercollection is reasonable and recommends its approval.

8. Table 1 shows the summary of increases in account balances in various filings.

TABLE 1

[\$ Millions]

Advice letter	Core PGA Increase	Core FCA Increase	FF&U	Total Increase	% Increase
1795-G	\$ 8.4	\$ 127.0	\$ 1.3	\$ 136.7	7.66
1795-G-A	76.2	89.8	1.7	167.7	9.63
1795-G-B	76.2	84.1	1.6	161.9	9.30

FINDINGS

1. PG&E filed advice letter 1795-G, 1795-G-A, and 1795-G-B on respectively September 16, 1993, March 31, 1994, and May 5, 1994, requesting approval of its first revised core gas rates filed under the core trigger filing mechanism as authorized in D.90-09-089.

2. The core trigger filing mechanism was approved by the Commission to prevent the accrual of large over- or under-collections in the balancing accounts of the core PGA and FCA between BCAP decisions.

3. The 9.30% change in core rates is based on a \$76.2 million increase in the core PGA, an \$84.1 million increase in the core FCA, and an adjustment of \$1.6 million for FF&U, or a revenue requirement of \$161.9 million.

4. The core Fixed Cost Account increase of \$84.1 million includes full capacity brokering rates, recorded data through February 1994, and estimated data for March and April 1994.

5. The core Purchased Gas Account increase of 76.2 is the recorded data from November 1, 1992 through February 28, 1994.

6. The core Fixed Cost Account does not include the Canadian pipeline capacity charges incurred since November 1, 1993 through February 28, 1994 and excludes the charges in the forecasts for March and April 1994.

7. The \$7.75 million disallowance in D.94-03-040 for PG&E gas curtailments is for the Electric Department, not the Gas Department.

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8. It is not reasonable to defer a resolution on AL 1795-G-B until the outcome of the contested \$115 million disallowance in D.94-03-050 and the more than \$200 million proposed disallowances in pending reasonableness reviews.

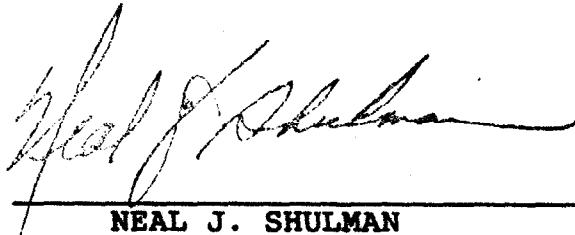
9. The proposed \$161.9 million undercollection leading to a 9.3% change in core rates is reasonable.

THEREFORE, IT IS ORDERED that:

1. Pacific Gas and Electric Company Advice Letter 1795-G-B, requesting approval of its revised core gas rates filed under the core trigger filing mechanism, is approved.
2. Protests of Division of Ratepayer Advocates, Toward Utility Rate Normalization, and Encron Access Corporation are denied.

This resolution is effective on July 15, 1994.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on July 8, 1994. The following Commissioners approved it:



NEAL J. SHULMAN
Executive Director

DANIEL Wm. FESSLER
President
PATRICIA M. ECKERT
P. GREGORY CONLON
JESSIE J. KNIGHT, JR.

Commissioner Norman D. Shumway, being necessarily absent, did not participate.