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Decision No. 36686

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Suspension and Investigation on the Commission's own motion of certain gas schedules of PACIFIC GAS AND ELECTRIC COMPANY.

Case No. 4698

R. W. DuVal, for Pacific Gas and Electric Company.

W. D. MacKay, for Chapman Dehydrator Company, Modesto.

John J. O'Toole, City Attorney, Dion R. Holm, Assistant City Attorney and Paul L. Beck, Chief Valuation and Rate Engineer, by Paul L. Beck, for the City and County of San Francisco, interested party.

L. H. Wolters, for Golden State Company, Limited, San Francisco.

Frank Hartung, for Owens-Illinois Pacific Coast Company.

Richard E. Doyle, Jr., for Joshua Hendy Iron Works, San Francisco.

R. S. Coulter, for Bethlehem Steel Company.

BY THE COMMISSION:

OPINION

This is an investigation on the Commission's own motion into the propriety and reasonableness of certain proposed new gas rate tariffs submitted for filing under Advice No. 8-G on August 20, 1943, by the Pacific Gas and Electric Company.

The order of suspension and investigation was issued September 17, and a public hearing was held in the Commission's Courtroom at San Francisco on Friday, September 24 before Examiner Wehe, at which time and place evidence was taken and the matter submitted for decision.

The gas rate tariffs in suspension are three in number and are designated GI-1, GI-2 and GI-3.[1] Such tariffs set forth under what conditions, at what

(1) All three tariffs are identical as to requirements and conditions including "Base Rates," and the one difference arises from the heating value of the gas to be served, namely 1050, 1100 or 1150 B.t.u., which in turn is reflected in a proportionate different level in the "Effective Rates" and the service area in which each tariff schedule is applicable. All the natural gas service area of the Pacific Gas and Electric Company is covered except the limited portions in the Humboldt Division, Marysville and Bakersfield areas.

rates, and the localities natural gas will be served to industrial establishments that are located along existing mains. Probably the most distinguishing characteristic of the proposed tariffs is that the gas service to be furnished is not on a continuous or "firm" basis, but is subject to interruption, depending upon the availability of gas after the requirements of the Company's preferred customers, such as those classified as domestic, commercial and firm industrial, are provided with gas. Because of this characteristic the tariffs carry the caption "Interruptible Gas Service."

Mr. B. B. Beckett, rate engineer for the Company, testified at some length as to the purpose and necessity of the proposed tariffs as well as to the general background in reference to other gas services. There is a marked similarity between the service proposed under the interruptible tariffs and that now rendered under the surplus schedules, inasmuch as the latter service is likewise subject to interruption. It was principally for this reason that the Commission deemed it necessary to proceed in this matter as it has, in order that a public record might be developed and the nature and effects of the proposed tariffs be carefully reviewed.

In Application No. 25139 the Company asked that all its surplus gas tariffs be closed to new customers or to old customers for new uses. This Commission by Decision No. 35707 granted such application and the surplus gas tariffs of the Pacific Gas and Electric Company were closed as of September 25, 1942 through the filing of Emergency Rule and Regulation A-4, said closing to be effective for the duration of the war plus six months, or as the Commission might otherwise order. Such action was deemed necessary because of sharp increases in use of gas and, even more important, changes in the availability of the gas supply and the character of that gas supply. This is covered in part in Decision No. 35707 referred to, at which time the Commission stated as follows:

> " . . . Applicant points out that such surplus service has been furnished to many industrial customers in competition with other fuels under contracts, schedules and regulations, on file with this Commission, and it has the right to discontinue such gas service if, in the ordinary course of the operations of its gas system, Applicant finds that it has need for the presently available gas supply for its other customer requirements on "firm" gas tariffs; that from the inception of natural gas service by Applicant until recent date, the greater part of its natural gas supply has been obtained from gas that has been produced in

combination with oil. The important Kettleman Hills oil and gas field, in the San Joaquin Valley, has been the principal source of gas supply. Inasmuch as such gas was produced with oil, the available supply depended, in a large measure, on the rate of oil production. Since the oil production was the highest in the summer period, when the firm gas demands were the lowest, there were available large quantities of gas that had no immediate market and to utilize such surplus gas and reduce actual "blow" to the air an industrial market was developed. Early decisions of this Commission clearly show that such seasonal sales to industries were developed by the utilities in this State in order to utilize this excess gas and decrease wastage. Such sales were termed "surplus" and were subject to discontinuance at any time that there was insufficient gas available or if transmission facilities were needed for handling gas of higher priorities."

During the intervening period from September 25, 1942 to date all new industrial gas load has been served under the firm industrial tariffs of the Company. Mr. Beckett testified that within the last few months new conditions have arisen and make it necessary in his opinion that gas service be made available on an interruptible basis and at a rate that will afford approximately the same level of cost as oil so that large oil consumers, if transferred to gas, would neither appreciably be penalized nor gain by such transfer. In this respect it was pointed out that the supply of fuel oil is becoming increasingly more critical and that both the offices of the Petroleum Administrator for War and the War Production Board are using every means to have utilized the fuels that can be most advantageously used where available, and to the very best advantage. Some oil consumers have already shifted to gas and others are now under survey. Mr. Beckett further stated that in carrying out the Government's program of producing large quantities of dehydrated foodstuffs a number of dehydrating plants had already been built and more are under construction to become operative this current year. Such plants are estimated to require up to 11,500,000 cu.ft. a day. Each plant has received authorization from the War Production Board to burn gas rather than fuel oil because of the greater efficiency realized and the saving in critical materials. Such authorization provides, however, that the gas so supplied is subject to curtailment, as the industry is not classed as "vital," thus calling for gas service on an interruptible basis. Dehydrator operations, too, normally occur during the off-peak season, and provide a desirable type of load.

Because of this situation, the Company concluded it was much more desirable to take on new gas load on an interruptible basis than to be obligated to carry such loads during times of system peaks, especially when the industry could curtail by shifting to stand-by fuels or shutdown. It was likewise Mr. Beckett's view that it was illogical and unfair to request deviations from this Commission's orders that would permit the serving of these loads under the low "closed" surplus rates - rates materially below the cost these customers are now paying or would pay if burning fuel oil.(2)

With this resumé of the general situation the specific rate tariffs under suspension may now be reviewed.

In addition to the testimony hereto referred to, Mr. W. E. Fitzpatrick, one of the Commission's engineers, presented certain testimony relating to the possibility of reducing the level of the proposed interruptible rates as well as rewording some of the special conditions.

The rate level proposed is the same for the first 3,000,000 cu.ft. as is presently available under the firm industrial tariffs of the respondent utility. This is a relatively large consumption and would result in limiting the use of the interruptible service to a comparatively few larger users. The medium sized users would find no advantage in availing themselves of the tariffs, inasmuch as the firm industrial rate would be as low up to the amount referred to and, in addition, the firm tariff would afford a priority of use for a continuous operation and without the necessity of providing stand-by fuels.(3) A minimum charge of $150.00 per month is proposed. This appears high, especially so in view of the minimum now required on other tariffs.(4)

It is the Commission's opinion that while it is clearly desirable from a practical viewpoint to limit an interruptible rate to the larger users so that curtailment may actually be made effective when necessary, it does appear that a

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(2) The proposed interruptible rates are approximately midway, as to level, as between the firm industrial and the closed surplus for medium sized and large industrial users. Such rates are further at about the level of 90¢ per barrel fuel oil for the largest users and higher for the smaller. They are generally more favorable than the presently posted price of $1.15 per barrel, f.o.b. Richmond.

(3) The interruptible tariffs require adequate stand-by fuel and facilities as a condition to qualify for service; this requirement is, however, waived during the war period.

(4) The present surplus tariffs generally provide for a $20.00 monthly minimum and the firm industrial, $40.00.

block of 3,000,000 cu.ft. is too long and unnecessarily precludes many potential users from benefits of the schedule. Likewise, too many seasonal users, such as packing and dehydrating plants, will be unable to qualify. A shorter initial block and lower minimum charge is believed justified. The order will provide for such changes.

At the hearing different views were expressed as to priority classifications. The tariffs as filed are silent in this respect except special condition (6) provides that "the use of available gas is reserved by the Company for its own plants as against customers supplied hereunder." Mr. Beckett testified, however, that it was his understanding that customers on the interruptible schedules would be treated in the same manner as on "surplus" for shutoff. (Under the "surplus" program of curtailment customers are grouped by geographical areas irrespective of rate paid, and rotated for shutoff so each group takes its turn in being curtailed.) Mr. W. D. Mackay, representing Chapman Dehydrator Company, Modesto, recommended a priority for customers choosing the proposed schedule as compared to lower rate surplus consumers. Mr. L. H. Wolters, for Golden State Company, Limited, however, held a divergent view.(5)

This matter of priority raises an important question. A new gas service is proposed. Such a service on an interruptible basis should not be looked upon as merely a continuation of the old "surplus" service under a different name. There is no "surplus" gas being produced that is available for new load in the Pacific Gas and Electric area at the present time. However, the Company will continue to have considerable excess in its transmission line capacities during off-peak periods of the year that can be utilized in service subject to curtailment. Tariffs of a rate level hereinafter authorized in the order provide for rates lower than the firm industrial and thus do not provide for full costs; but it is likewise clear such rates provide for a larger portion of the full costs than the closed surplus schedules. It thus appears clear that the interruptible

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(5) Mr. Wolters further asked that this proceeding be set over in order that surplus customers might be afforded an opportunity to present a more full statement, inasmuch as it was his view that a new tariff such as proposed would place existing surplus customers at a disadvantage; i. e. be subject to shutoff more frequently than they are now.

tariffs provide for a different and higher class of service than is rendered under "surplus" and accordingly should enjoy priority over all surplus service, except the Company's own requirements, rendered at a lower rate.(6) The Commission is likewise of the opinion that existing surplus customers, enjoying a special service, can have little grounds for complaint. Anyone purchasing a surplus commodity can only expect to receive what is left over after superior obligations are fulfilled as such latter are constantly changing. In the case of the present surplus customers, their present status is left undisturbed. As a matter of fact they will continue to be served at a "surplus" rate under conditions greatly different than when originally instituted.(7)

In view of the circumstances the Commission is of the opinion that a new class of gas service on an interruptible basis can be advantageously made effective at this time. However, it is likewise our view that the proposed tariffs filed under Advice No. 8-G should remain permanently suspended, (8) and is lieu thereof the order will provide for authority to file and make effective the tariffs substantially in the form and wording as attached as Exhibit "A" of this Order. No increases will result from the application of such tariffs

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(6) In order to minimize the practical difficulties in classifying surplus consumers by rate levels, due to the varying rates earned under a blocked tariff, broad customer classifications or groupings appear to be justified for purposes of determining priority for shutoff. It is not the intention, however, to disturb the present method of shutoff of the surplus customers, other than that the customers on the interruptible tariffs shall have preference over the lower average rate surplus customers and, further, those higher rate small surplus customers shall be grouped with the interruptibles for purpose of curtailment.

(7) This whole matter is the subject of the Commission's investigation under Case No. 4591, and so decisions issued prior to a decision in this major proceeding must be considered preliminary and subject to further review when the over-all state situation is considered.

(8) Advice No. 8-G submitted for filing not only the three interruptible rate tariffs, but likewise a slight revision in Emergency Rule and Regulation A-4 and a new Emergency Rule and Regulation A-5. It is not the intention that these two emergency rules and regulations shall be permanently suspended, and the order will remove the suspension as to these latter filings.

and, as a matter of fact, material savings will be realized by customers that transfer from the present firm industrial and to new customers who take this service in lieu of the latter service.

O R D E R

The Commission having on its own motion issued an order suspending the effective date of certain tariff sheets filed under Advice No. 8-G on August 20, 1943, by Pacific Gas and Electric Company, namely, Original C.R.C. Sheets Nos. 1196-G, 1197-G, 1198-G, 1200-G and revised C.R.C. Sheet No. 1199-G, a public hearing having been held, the matter being under submission, and the Commission concluding that said tariff sheets 1196-G, 1197-G and 1198-G are unreasonable and discriminatory to the extent that said tariff sheets differ from those in Exhibit "A" attached and made a part of this order, and that tariff sheets 1199-G and 1200-G are not unreasonable or otherwise unlawful; therefore,

IT IS ORDERED that the suspension of tariff sheets 1196-G, 1197-G and 1198-G covering interruptible gas service under proposed Schedules GI-1, GI-2 and GI-3 be and is hereby made permanent.

IT IS FURTHER ORDERED that the suspension of tariff sheets 1199-G and 1200-G on Emergency Rules and Regulations A-4 and A-5 be and is hereby vacated.

IT IS FURTHER ORDERED that Pacific Gas and Electric Company be and is hereby authorized to file and make effective interruptible gas service schedules labeled GI-1, GI-2 and GI-3 substantially in the form and wording as contained in Exhibit "A" attached.

For all other purposes the effective date shall be twenty days from and after the date hereof.

Dated at San Francisco, California, this 26th day of October 1943.

Franck R. Havenner
C. J. Baker
Justus F. Craemer
Richard Sachse
Fremont W. Clark
Commissioners.

EXHIBIT A

SCHEDULE GI-1
INTERRUPTIBLE GAS SERVICE
NATURAL GAS

APPLICABILITY

Available, upon application, for natural gas supplied to industrial establishments located along existing mains having a delivery capacity in excess of the then existing requirements of domestic and commercial customers, where the supply of gas is interruptible as provided below.

TERRITORY

The entire territory served by the Company in San Francisco Division; the North Zone of San Jose Division as more fully described under Description of Special Rate Areas; also all territory supplied from the Fresno distribution system and that portion of the Northern District of San Joaquin Power Division south and east of the City of Fresno.

RATE	BASE RATES	EFFECTIVE RATES
First 250,000 cu.ft.per month, the firm industr.rate applicable		
Next 250,000 cu.ft.per month	27.9¢ per 1,000 cu.ft.	26.3¢ per 1,000 cu.ft.
Next 1,750,000 cu.ft.per month	26.0¢ per 1,000 cu.ft.	24.3¢ per 1,000 cu.ft.
Next 20,000,000 cu.ft.per month	21.0¢ per 1,000 cu.ft.	19.3¢ per 1,000 cu.ft.
All excess use per month	19.0¢ per 1,000 cu.ft.	17.3¢ per 1,000 cu.ft.

The effective rates are based on an average monthly heating value of 1100 B.t.u. per cu.ft. and a posted price of fuel oil of $0.90 per barrel.

MINIMUM MONTHLY CHARGE

Accumulative annually on basis of 250,000 cu.ft. per meter per month.

SPECIAL CONDITIONS

(1) The above base rates for natural gas are subject to an adjustment of 3% (computed to the nearest 0.1¢) for each 50 B.t.u. change in the heat content from the base of 1100 B.t.u. and as set forth in Rule and Regulation No.2.

(2) This schedule is applicable, at customer's option, to gas used in industrial plants for all purposes except directly for the cooking of meals.

(3) The rates in effect at any time vary with the market price of fuel oil as regularly quoted or "posted" by the Standard Oil Company of California f.o.b. its Richmond refinery and shall be determined from the above base rates by adding or deducting, respectively, 1¢ for each 6¢ that such price of oil is above or below $1.00 per barrel, the computation to be carried to the nearest 0.1¢, provided that no such deduction from the above base rate shall exceed 3.3¢.

When a change in the price of fuel oil occurs, the Company shall submit to the Railroad Commission, within a period of fifteen (15) days, an Advice Letter and appropriate tariff schedules setting forth the new effective rates and accompanied by an affidavit of such change in the price of fuel oil. The new rate shall be effective on all regular meter readings taken on and after the thirtieth (30th) day following such change in the price of fuel oil.

The market price of fuel oil is now $1.15 per barrel, but the adjustment in the above effective rates corresponding to the increase from $0.90 to $1.15 was temporarily deferred in conformity with Decision No. 36323.

(4) In case rate changes made in conformity with Sections (1) and (3) above are due to become effective within 15 days of each other, they shall be combined and the later of the two effective dates shall govern.

(5) A contract will be required for a period of one year when service is first rendered and year by year thereafter, continuing until cancelled by either party by written notice thirty days in advance of the end of the initial year or any subsequent year.

(6) This service has priority in use of available gas over all service rendered on a surplus basis at lower rates except that the service to the Company's own plants shall be considered as having priority over service rendered hereunder.

(7) Service under this schedule is subject to discontinuance without notice in case of an actual or threatened shortage of natural gas, whether due to insufficient supply in the fields or to inadequate transmission or delivery facilities. The Company will not be liable for damages occasioned by interruption or discontinuance of service supplied under this schedule.

(8) Customers to whom the supply of gas may not be discontinued because of orders of the War Production Board or other governmental authority shall not be eligible to receive or continue to receive service hereunder unless the customer has provided adequate and usable standby facilities.

(9) Customers served under this schedule will be required to install, within six months following the termination of the war, adequate standby facilities so that they can continue operating when gas is shut off. Failure so to provide an alternate fuel supply will automatically place the service on a firm basis and at the Company's firm gas rates.

SCHEDULE GI-2
INTERRUPTIBLE GAS SERVICE
NATURAL GAS

APPLICABILITY

Available, upon application, for natural gas supplied to industrial establishments located along existing mains having a delivery capacity in excess of the then existing requirements of domestic and commercial customers, where the supply of gas is interruptible as provided below.

TERRITORY

The entire territory served by the Company with natural gas in East Bay, North Bay, Sacramento, Stockton and Drum Divisions.

RATE	BASE RATES	EFFECTIVE RATES
First 250,000 cu.ft.per month, the firm industrial rate applicable		
Next 250,000 cu.ft.per month	27.9¢ per 1,000 cu.ft.	25.4¢ per 1,000 cu.ft.
Next 1,750,000 cu.ft.per month	26.0¢ per 1,000 cu.ft.	23.6¢ per 1,000 cu.ft.
Next 20,000,000 cu.ft.per month	21.0¢ per 1,000 cu.ft.	18.7¢ per 1,000 cu.ft.
All excess use per month	19.0¢ per 1,000 cu.ft.	16.8¢ per 1,000 cu.ft.

The effective rates are based on an average monthly heating value of 1050 B.t.u. per cu.ft. and a posted price of fuel oil of $0.90 per barrel.

MINIMUM MONTHLY CHARGE

Accumulative annually on basis of 250,000 cu.ft. per meter per month.

SPECIAL CONDITIONS

(1) The above base rates for natural gas are subject to an adjustment of 3% (computed to the nearest 0.1¢) for each 50 B.t.u. change in the heat content from the base of 1100 B.t.u. and as set forth in Rule and Regulation No. 2.

(2) This schedule is applicable, at customer's option, to gas used in industrial plants for all purposes except directly for the cooking of meals.

(3) The rates in effect at any time vary with the market price of fuel oil as regularly quoted or "posted" by the Standard Oil Company of California f.o.b. its Richmond refinery and shall be determined from the above base rates by adding or deducting, respectively, 1¢ for each 6¢ that such price of oil is above or below $1.00 per barrel, the computation to be carried to the nearest 0.1¢ provided that no such deduction from the above base rate shall exceed 3.3¢.

When a change in the price of fuel oil occurs, the Company shall submit to the Railroad Commission, within a period of fifteen (15) days, an Advice Letter and appropriate tariff schedules setting forth the new effective rates and accompanied by an affidavit of such change in the price of fuel oil. The new rate shall be effective on all regular meter readings taken on and after the thirtieth (30th) day following such change in the price of fuel oil.

The market price of fuel oil is now $1.15 per barrel, but the adjustment in the above effective rates corresponding to the increase from $0.90 to $1.15 was temporarily deferred in conformity with Decision No. 36323.

(4) In case rate changes made in conformity with Sections (1) and (3) above are due to become effective within 15 days of each other, they shall be combined and the later of the two effective dates shall govern.

(5) A contract will be required for a period of one year when service is first rendered and year by year thereafter, continuing until cancelled by either party by written notice thirty days in advance of the end of the initial year or any subsequent year.

(6) This service has priority in use of available gas over all service rendered on a surplus basis at lower rates except that the service to the Company's own plants shall be considered as having priority over service rendered hereunder.

(7) Service under this schedule is subject to discontinuance without notice in case of an actual or threatened shortage of natural gas, whether due to insufficient supply in the fields or to inadequate transmission or delivery facilities. The Company will not be liable for damages occasioned by interruption or discontinuance of service supplied under this schedule.

(8) Customers to whom the supply of gas may not be discontinued because of orders of the War Production Board or other governmental authority shall not be eligible to receive or continue to receive service hereunder unless the customer has provided adequate and usable standby facilities.

(9) Customers served under this schedule will be required to install, within six months following the termination of the war, adequate standby facilities so that they can continue operating when gas is shut off. Failure so to provide an alternate fuel supply will automatically place the service on a firm basis and at the Company's firm gas rates.

SCHEDULE GI-3
INTERRUPTIBLE GAS SERVICE
NATURAL GAS

APPLICABILITY

Available, upon application, for natural gas supplied to industrial establishments located along existing mains having a delivery capacity in excess of the then existing requirements of domestic and commercial customers, where the supply of gas is interruptible as provided below.

TERRITORY

The entire territory served by the Company in Coast Valleys Division and the South Zone of San Jose Division, as more fully described under Description of Special Rate Areas, except that portion supplied on Schedule G-20; also all territory in the Northern District of San Joaquin Power Division, north and west of the area served from the City of Fresno distribution system.

RATE	BASE RATES	EFFECTIVE RATES
First 250,000 cu.ft.per month, the firm industr.rate applicable		
Next 250,000 cu.ft.per month	27.9¢ per 1,000 cu.ft.	27.1¢ per 1,000 cu.ft.
Next 1,750,000 cu.ft.per month	26.0¢ per 1,000 cu.ft.	25.1¢ per 1,000 cu.ft.
Next 20,000,000 cu.ft.per month	21.0¢ per 1,000 cu.ft.	20.0¢ per 1,000 cu.ft.
All excess use per month	19.0¢ per 1,000 cu.ft.	17.9¢ per 1,000 cu.ft.

The effective rates are based on an average monthly heating value of 1150 B.t.u. per cu. ft. and a posted price of fuel oil of $0.90 per barrel.

MINIMUM MONTHLY CHARGE

Accumulative annually on basis of 250,000 cu. ft. per meter per month.

SPECIAL CONDITIONS

(1) The above base rates for natural gas are subject to an adjustment of 3% (computed to the nearest 0.1¢) for each 50 B.t.u. change in the heat content from the base of 1100 B.t.u. and as set forth in Rule and Regulation No. 2.

(2) This schedule is applicable, at customer's option, to gas used in industrial plants for all purposes except directly for the cooking of meals.

(3) The rates in effect at any time vary with the market price of fuel oil as regularly quoted or "posted" by the Standard Oil Company of California f.o.b. its Richmond refinery and shall be determined from the above base rates by adding or deducting, respectively, 1¢ for each 6¢ that such price of oil is above or below $1.00 per barrel, the computation to be carried to the nearest 0.1¢, provided that no such deduction from the above base rate shall exceed 3.3¢.

When a change in the price of fuel oil occurs, the Company shall submit to the Railroad Commission, within a period of fifteen (15) days, an Advice Letter and appropriate tariff schedules setting forth the new effective rates and accompanied by an affidavit of such change in the price of fuel oil. The new rate shall be effective on all regular meter readings taken on and after the thirtieth (30th) day following such change in the price of fuel oil.

The market price of fuel oil is now $1.15 per barrel, but the adjustment in the above effective rates corresponding to the increase from $0.90 to $1.15 was temporarily deferred in conformity with Decision No. 36323.

(4) In case rate changes made in conformity with Sections (1) and (3) above are due to become effective within 15 days of each other, they shall be combined and the later of the two effective dates shall govern.

(5) A contract will be required for a period of one year when service is first rendered and year by year thereafter, continuing until cancelled by either party by written notice thirty days in advance of the end of the initial year or any subsequent year.

(6) This service has priority in use of available gas over all service rendered on a surplus basis at lower rates except that the service to the Company's own plants shall be considered as having priority over service rendered hereunder.

(7) Service under this schedule is subject to discontinuance without notice in case of an actual or threatened shortage of natural gas, whether due to insufficient supply in the fields or to inadequate transmission or delivery facilities. The Company will not be liable for damages occasioned by interruption or discontinuance of service supplied under this schedule.

(8) Customers to whom the supply of gas may not be discontinued because of orders of the War Production Board or other governmental authority shall not be eligible to receive or continue to receive service hereunder unless the customer has provided adequate and usable standby facilities.

(9) Customers served under this schedule will be required to install, within six months following the termination of the war, adequate standby facilities so that they can continue operating when gas is shut off. Failure so to provide an alternate fuel supply will automatically place the service on a firm basis and at the Company's firm gas rates.