NB

Decision No. 51736

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of PACIFIC GAS AND ELECTRIC COMPANY, a corporation, for an order of the Public Utilities Commission of the State of California authorizing applicant to carry out the terms and conditions of an agreement with PERMANENTE CEMENT COMPANY, dated February 17, 1955. (Gas - Interruptible)	Application No. 36765
In the Matter of the Suspension and Investigation on the Commission's own motion of Revised Schedule G-52 Interruptible Natural Gas Service, and Revised Schedule G-93, Interruptible Natural Gas Service filed by Pacific Gas and Electric Company.	Case No. 5655

(Appearances and list of witnesses are set forth in Appendix A)

O P I N I O N

Pacific Gas and Electric Company, operating public utility electric, gas, water, and steam heat systems in central and northern California, on March 2, 1955 filed the above-entitled application seeking authorization of an agreement that would provide a lower interruptible gas rate to Permanente Cement Company to meet the threatened competitive price of high viscosity fuel oil. Later, on May 20, 1955, Pacific filed, under its Advice No. 245-G, revised Schedules Nos. G-52 and G-93 that would make available to other large customers interruptible gas at rates practically as favorable as those offered to Permanente. Inasmuch as the proposed schedules represent sizable reductions from the presently effective tariffs for the larger users, the Commission suspended the filing pending an investigation, hearing and decision thereon. For convenience the two matters were consolidated for public hearing purposes.

Public Hearing

After due notice to all of Pacific's interruptible gas customers, two days of public hearing were held on the two matters on June 20 and 27, 1955, in San Francisco, before Commissioner Matthew J. Dooley and Examiner M. W. Edwards. The matter was submitted for decision on the latter date.

Reason for Lower Interruptible Rate

Pacific stated that in surveying its interruptible rates, as required by our Decision No. 51360, Application No. 36635, dated April 19, 1955, which authorized increases in interruptible rates up to 3.56 cents per Mcf, it found that the rates to the great bulk of the interruptible customers could be increased and still be competitive with the delivered cost of fuel oil. However, it found that the competitive situation did not permit a similar increase for large customers who were better situated for obtaining fuel from competitive sources at lower prices and for very large customers it appeared that if Pacific was to retain the business it was necessary to have a reduction in the rates for sales over 200,000 Mcf per month.

Rate Change Proposal

The rate change proposed in revised Schedules Nos. G-52 and G-93 is to lower the terminal rate of Schedule No. G-52 by 4.1 cents per Mcf for usage over 200,000 Mcf and to lower the terminal rate of Schedule No. G-93 by 3.5 cents per Mcf for usage over 240,000 Mcf per month. Schedule No. G-52 applies over most of Pacific's system and Schedule No. G-93 is a somewhat similar schedule applicable to territory formerly served by Coast Counties Gas and Electric Company, now merged with Pacific. The two rates are different in blocking and rate levels and the proposed effective rates may be summarized as follows:

Proposed Schedule No. G-52				Proposed Schedule No. G-93			
First	1,000 Mcf,	per Mcf	- 52.7¢	First	50 Mcf,	per Mcf	- 59.5¢
Next	2,000 Mcf,	per Mcf	- 39.1	Next	200 Mcf,	per Mcf	- 48.6
Next	3,000 Mcf,	per Mcf	- 38.1	Next	750 Mcf,	per Mcf	- 43.6
Next	4,000 Mcf,	per Mcf	- 37.2	Next	1,000 Mcf,	per Mcf	- 42.3
Next	190,000 Mcf,	per Mcf	- 32.7	Next	8,000 Mcf,	per Mcf	- 35.6
Over	200,000 Mcf,	per Mcf	- 28.7	Next	230,000 Mcf,	per Mcf	- 32.1
				Over	240,000 Mcf,	per Mcf	- 28.7

The above schedules are the effective rates based on 1050 Btu gas; for higher or lower Btu ratings the rates change in accordance with Rule and Regulation 2(c). Pacific proposed to continue the present minimum charge of $16,000 per month on each of the above schedules.

Comparative Fuel Oil Costs

The Permanente Cement Company introduced Exhibit No. A-5 to show that fuel oil of 1,500 viscosity could be purchased f.o.b. trucks at Redwood City for $1.658 per barrel under a four-year contract and, after allowing for 3 per cent sales tax, truck back haul at 4.7 cents and oil handling cost at Permanente at 2 cents per barrel, is available at the burner for $1.775 per barrel. The comparative fuel cost per barrel of clinker produced is 40.2 cents for gas on the Schedule No. G-50, effective prior to May 25, 1955, 36.7 cents on proposed Schedule No. G-52 and 34.7 cents on fuel oil of 1,500 viscosity. The indicated annual difference of fuel price between fuel oil and gas under proposed Schedule No. G-52 was $138,000 in favor of fuel oil. Permanente's witness testified that the proposed Schedule No. G-52 rates represent the maximum rates above which the management is not prepared to go.

The rates in the proposed agreement with Permanente Cement Company are slightly lower for the first 10,000 Mcf per month but are predicated on a monthly minimum charge of $150,000. Permanente's position is that it is willing to have the proposed Schedule No. G-52 substituted in its agreement and also to have the minimum charge of $16,000 per month replace the minimum charge of $150,000 provided for in the proposed agreement.

The Calaveras Cement Company introduced Exhibit No. A-6 to show that 1,500 viscosity fuel oil could be obtained at Stockton for $1.78 per barrel. After 3 per cent sales tax and 10 cents trucking cost, the fuel oil would cost $1.934 per barrel, delivered to the Calaveras Plant at Kentucky House. Such a fuel oil cost is computed as being equivalent to gas at 28.6 cents per Mcf. This exhibit showed an annual difference in favor of fuel oil of $90,000 compared with gas under proposed Schedule No. G-52, on a total annual gas cost of $1,370,000. The witness for Calaveras testified that he has recommended to the company that it change to fuel oil if the proposed lower gas rate is not made available.

Fuel Oil Situation

A representative of the Oil Producers Agency of California protested the proposed decrease in interruptible rates because of the oversupply of heavy residual fuel oils in California. He indicated that this oversupply is in part due to the fact that the California market for petroleum products is overwhelmingly in favor of the lighter products, such as jet, diesel, and motor fuels, and with the "heavy" California crudes about 35 per cent become residual fuels. He stated that the dieselization of railroads and the use of natural gas as boiler fuel in steam power plants as well as for industrial uses on an interruptible basis does not improve the over supply situation.

He suggested that in the public interest dry natural gas should be conserved for the domestic and commercial customers by means of additional underground storage projects and by means of the operation of dry gas fields as storage reservoirs with increased deliverability to handle winter peak loads. He contended that the proposed average sales price for the gas of 30.35 cents per Mcf at Permanente is lower than the cost of out-of-state gas at 24.3 cents at the border plus 7.5 cents delivery cost from the state line to San Francisco.

Through cross-examination, counsel for Pacific brought out the point that the representative was using average transmission costs and that the incremental costs of transmission from the state line are less than one cent per Mcf for compression fuel. Also, through redirect examination of one of its witnesses, Pacific developed the fact that the present commodity rate for out-of-state gas is 18 cents at the state line. Counsel for the California Manufacturers Association brought out through cross-examination that the over-all unit cost to supply interruptible gas is generally considered to be lower than to supply firm gas.

With regard to the stocks of residual fuel oil in California, Pacific showed that the situation has improved compared to a few months ago. At the end of May, 1955, there were about 22,650,000 barrels in stock compared to about 30,000,000 barrels in November, 1954. However Pacific also showed that during the first three months of 1955, 1,550,000 barrels were shipped to the East Coast of the United States which was almost as much as the total shipped to the East Coast during the year 1954, and that such shipments result in a net price to the shipper below the posted price.

<u>Revenue and Costs</u>

Pacific's main showing as to the revenue and cost effect of retaining the load or losing the load is set forth in Exhibit No. A-4.

This exhibit shows that for seven customers[1] the proposed rates would reduce the annual revenue by $353,000 and after allowing for $190,000 decrease in income taxes, the net reduction would be $163,000. This would have the effect of lowering Pacific's rate of return on its Gas Department operations from 5.64 to 5.60 per cent. If Pacific lost the entire business a revenue loss of $7,381,000 is estimated to result. The corresponding saving in cost of gas and taxes would be $6,522,000 and the net revenue would decrease by $859,000. The effect would be to lower the rate of return from 5.64 to 5.40 per cent.

Contract Term

Applicant is proposing that the initial term of contract be for three years and continue in force from year to year thereafter subject to termination on 30 days' notice before the end of any period. The California Manufacturers Association was opposed to a three-year contract provision and urged that the present one-year contract period be continued particularly for old established customers where no added service investment is being made. Pacific indicated it needed a three-year minimum period with year to year extension provisions to guard against customers switching back and forth between oil and gas to take advantage of a temporarily depressed oil market.

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1 The seven customers involved and their actual annual usage for 1954 and revenues under current rate levels are:

Company	Mcf	Revenues
Permanente Cement	8,352,196	$2,780,000
Calaveras Cement	3,567,540	1,152,000
C & H Sugar	3,147,262	1,016,000
U. S. Steel	2,623,869	848,000
Spreckles Sugar (Salinas)	2,062,472	689,000
Spreckles Sugar (Woodland)	1,407,764	457,000
Holly Sugar (Alvarado)	1,306,896	439,000
Total	22,467,999	7,381,000

Minimum Charge Level

The staff representative through cross-examination brought out the fact that the $16,000 monthly minimum was based on the judgment of Pacific's officials. Counsel for the California Manufacturers Association opposed upward revision of the minimum charge by the Commission because of the fact that it would increase the rates to certain existing customers on Schedules Nos. G-52 or G-93 without a proper showing.

Public Objections

The City of Fresno, by Resolution No. 4282 of the City Commission, objected to the proposed decrease to Permanente on the grounds that large customers with an alternative source of fuel can use this fact to obtain rate reductions at the expense of home owners and others who cannot switch back and forth between one type of fuel and another. The City of Roseville, by letter dated June 17, 1955, the City of Modesto, by letter dated June 13, 1955, and the CIO - California Industrial Union Council, by letter dated June 15, 1955, entered similar types of objections to the proposed lower rates. Pacific's answer to these objections was that it is not requesting to increase the domestic and commercial rates to offset the reduction in revenue, but that it is to the domestic and commercial customers' advantage in the long run to retain the interruptible business.

Findings and Conclusions

When investigating the natural gas situation in the past and when acting on requests for increasing the quantity of out-of-state gas, the Commission has always considered all factors before it bearing on the propriety and justification of the proposals, considering both current and future conditions. The interruptible load has provided a valuable means of balancing the sharp peak load of the domestic and commercial classes and provides a desirable outlet for gas during the offpeak season. This has been one of the elements in maintaining the rates to all consumers at reasonable levels. The Commission is not unmindful of the importance of underground storage facilities, and in its Decision No. 49127, dated September 22, 1953, the Commission recommended that the several gas utilities in this state take cooperative action to investigate the development of new underground or seasonal storage projects in the state.

After considering the evidence of record and the statements for and protests against the proposed interruptible rates, it is the Commission's finding and conclusion that currently it is in the public interest, as well as of benefit to Pacific's domestic and commercial customers, to permit Pacific to meet the competition of high viscosity fuel oil by offering new and lower interruptible rate tariffs.

The evidence in the record shows that in so far as the Permanente and Calaveras Cement Companies are concerned it will be necessary for applicant to reduce its rates as proposed if it is to retain the business. However, no affirmative showing has been made with respect to the other five customers who would receive reductions under the applicant's proposal. A witness for Pacific testified that he did not know what the situation is with respect to the ability of the other five customers to obtain and utilize high viscosity fuel oil. The witness further testified that, in so far as he knew, Pacific has received no notices from customers served under present Schedules Nos. G-50, G-52 and G-93 canceling their present contracts. While it appears reasonable to permit Pacific to file tariffs to meet competitive situations with regard to the two cement companies, the Commission is of the opinion that a sufficient showing has not been made with regard to other customers served or expected to be served under Schedules Nos. G-52 and G-93.

According to the evidence in this proceeding at least one of the cement companies would have to sign a contract having an initial term of three years with a one year termination clause in order to obtain high viscosity fuel oil at costs competitive with gas. Accordingly, Pacific's request for an initial three-year contract term for gas service appears reasonable for service to the cement companies.

In view of the objection to revision of the minimum charges or contract terms of existing Schedules Nos. G-52 and G-93, it appears that Pacific should be permitted to file, if it so elects, one new schedule to be designated Schedule No. G-53, rather than to make effective the proposed revised Schedules Nos. G-52 and G-93. Schedule No. G-53 should be designed to include the service area, rate levels, the requirement for a three-year service contract and other provisions suggested for proposed Schedule No. G-52 and a minimum charge of $70,000 monthly, accumulative annually. On such a basis Application No. 36765 will be denied as the Commission does not look with favor on special rate contracts where the business can be served on a regularly filed tariff. The filing made by Advice No. 245-G will be permanently suspended. If Pacific elects to file a new Schedule No. G-53, it should develop an equitable plan for curtailment of interruptible customers along the lines of the proposed curtailment plan testified to by a witness for Pacific in this proceeding. Such plan should be submitted to the Commission for its review.

<u>ORDER</u>

The Commission having considered the request of the Pacific Gas and Electric Company for authorization to enter into a special agreement with Permanente Cement Company and being of the opinion that the application should be denied; and the Commission having on its own motion suspended the effective date of Tariff Sheets Nos. 3767-G to 3770-G, inclusive, filed under Advice No. 245-G by Pacific Gas and Electric Company, which sheets comprise a revision of Schedules Nos. G-52 and G-93, Interruptible Service; and having on its own motion instituted an investigation into the propriety and reasonableness of said Schedules Nos. G-52 and G-93; public hearing having been held; the matter having been submitted and the Commission being of the opinion that the said schedules are unreasonable and the filing should be permanently suspended and that a new schedule similar to the proposed Schedule No. G-52, but with a minimum monthly charge of $70,000 accumulative annually, is reasonable; therefor,

IT IS ORDERED as follows:

1: Application No. 36765 is hereby denied.

2. The suspension of tariff sheets Nos. 3767 to 3770-G, inclusive, covering Schedules Nos. G-52 and G-93, Interruptible Natural Gas Service, be and it is hereby made permanent.

3. Pacific Gas and Electric Company may, if it so elects, file in quadruplicate with this Commission, after the effective date of this order, in conformity with General Order No. 96, Schedule No. G-53 with serving areas, rates and conditions as contemplated in proposed revised Schedule No. G-52 except that the minimum charge shall be $70,000 per month, accumulative annually, to be effective upon five days' notice to the Commission and to the public for service furnished on and after the effective date.

4. Pacific Gas and Electric Company, if it elects to file Schedule No. G-53, shall file a revised plan for curtailment of interruptible customers,

acceptable to this Commission, within sixty days after the effective date of this order.

The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 26th day of July, 1955.

President

Ray E. Untereiner

Justus F. Craemer

Marvin K. Hudson

Rex Hardy

Commissioners

Commissioner ~~Peter E. Mitchell~~, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

LIST OF APPEARANCES

For Applicant: F. T. Searls and John C. Morrissey.

Interested Parties: City of San Francisco, by Dion R. Holm and Paul L. Beck; California Manufacturers Association, by George D. Rives of Brobeck, Phleger & Harrison; Permanente Cement Company, by Kenneth M. Robinson and P. S. Hass; Calaveras Cement Company, by John Phillip Coghlan of Chickering & Gregory; Monolith Portlant Cement Company, by Norman Elliott of Enright & Elliott and Waldo A. Gillett; Bay Shell Company, by N. E. Keller; Kaiser Aluminum & Chemical Corporation, by Leland D. Killough; American Smelting and Refining Company, by W. S. Reid; Sing Hop Company and Gentry Division of Consolidated Grocers Corporation, by W. D. MacKay.

Protestants: Oil Producers Agency of California, by Robert A. Prior and Robert S. Tulin.

For the Commission staff: M. J. Kimball.