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ORIGINAL

Decision No. 80878

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for authority, among other things, to increase its rates and charges for gas service. (Gas)	Application No. 53118 (Filed February 1, 1972)

(List of Appearances in Appendix A)

OPINION

Pacific Gas and Electric Company (PG&E) filed its application on February 1, 1972 for authority to increase its rates for gas service in an amount sufficient to increase its gross operating gas revenues on a 1973 test year basis by 11.8 percent, thereby increasing the gas department's rate of return from 5.66 percent to 8.50 percent. As a result of PG&E's stipulation accepting certain Staff estimates, the revenue requirement to achieve the 8.50 percent rate of return was reduced from the $68,767,000 of the original application, an increase of 11.8 percent, to $60,770,000, an increase of 10.4 percent.

PG&E has also proposed, among other things, to terminate certain interruptible rate schedules and to curtail the approximately thirty largest interruptible customers on an equal basis with PG&E's steam-electric plants. The rates for these interruptible schedules would be on an equal basis.

The proposed increase by class of service is as follows:

Class of Service	Present Rates	Proposed Rates	Percent Increase
General Service	$305,967,000	$336,221,000	9.9
Firm Industrial	16,467,000	18,944,000	15.0
Resale	5,459,000	6,028,000	10.4
Interruptible:			
Regular	161,926,000	177,142,000	9.4
Steam-electric	96,218,000	108,472,000	12.7
Total	$586,037,000	$646,807,000	10.4

Altogether 18 days of hearing were held before Commissioner Symons and/or Examiner Cline in San Francisco. Some 48 exhibits were introduced into evidence, and there were 1,585 pages of transcript.

Eleven opening briefs were filed on or before September 18, 1972, by the following parties:

1. Pacific Gas and Electric Company (PG&E).
2. Commission staff (Staff).
3. Mrs. Sylvia Siegel (Siegel).
4. California Manufacturers Association (CMA).
5. Kerr-McGee Chemical Corp., California Portland Cement Company, and Riverside Cement Division of American Cement Company (Desert Customers).
6. Southwestern Portland Cement Company (Southwestern Cement).
7. California Ammonia Company (Calamco).
8. Valley Nitrogen Producers, Inc. (Valley Nitrogen).
9. City and County of San Francisco (San Francisco).
10. City of Palo Alto (Palo Alto).
11. Consumer Interest of All Executive Agencies of the United States (United States).

Nine closing briefs were filed on or before October 4, 1972, by the following:

1. PG&E.
2. Staff.
3. CMA.

4. Desert Customers.
5. Calamco.
6. Valley Nitrogen.
7. Palo Alto.
8. Coalinga.
9. United States.

Oral argument was held in San Francisco on October 12, 1972, before President Sturgeon, Commissioners Symons, Moran, and Vukasin, and Examiner Cline. The matter was taken under submission at the close of the oral argument.

Issues

The following issues have been raised by the parties and require resolution by the Commission:

I. What is a reasonable rate of return?

II. What estimate of operating revenues for the test year 1973 should be adopted?

III. Operating expenses.

A. What amount, if any, should be allowed for sales promotion expense?

B. Should the wage increase effective April 1, 1973, be included in the 1973 test year on a full year basis?

C. What amount, if any, should be allowed for exploration expense?

IV. Is the original cost valuation of the McDonald Island underground storage facility fair and reasonable and consistent with the method prescribed by the Uniform System of Accounts for natural gas companies?

V. Is the financial treatment by PG&E of its interests in Standard Pacific Gas Lines, Inc. (Stanpac) and Pacific Gas Transmission Company (PGT) inimical to the interests of the ratepayers?

VI. What results of operation during the test year 1973 at present rates and what additional revenue requirements are fair and reasonable?

VII. Proposed rates.

A. Is PG&E's proposal to place curtailment of its steam-electric plants on an equal basis with large interruptible customers fair and reasonable?

B. Are PG&E's proposals to withdraw interruptible Schedule No. G-56, which applies to the desert customers, and interruptible Schedule No. G-57, which applies to Southern California Edison Company's steam-electric plant near Daggett, fair and reasonable?

C. Are PG&E's proposed interruptible rates fair and reasonable?

D. Are PG&E's proposed firm industrial rates fair and reasonable?

E. Are PG&E's proposed resale rates fair and reasonable?

F. Should the rate spread incorporate modified reverse rate structuring?

G. Should a minimum use rate be provided for low use customers?

I. What is a reasonable rate of return?

The following table shows the rates of return on rate base and the returns on common equity authorized for San Diego Gas & Electric Company and Southern California Gas Company in recent decisions issued by this Commission and those rates of return on rate base and returns on common equity which the various parties to this proceeding have urged that the Commission adopt as fair and reasonable:

	Proposed Rate of Return on Rate Base	Proposed Rate of Return on Common Equity
PG&E	8.50%	13.08%
Dec. 80432 issued August 29, 1972 in Appl. 52800 (San Diego G&E)	8.00%	11.96%
Dec. 80430 issued August 29, 1972 in Appl. 52696 (So. Cal. Gas Co.)	8.00%	11.65%
Staff and San Francisco	7.35%	11.50%
Siegel	7.50%	

PG&E contends that on the basis of the Price Commission regulations and the standards established by the U. S. Supreme Court's decisions interpreting the U. S. Constitution it is entitled to an 8.5 percent rate of return on rate base, as such rate is the minimum rate of return on rate base required to enable PG&E to (1) maintain its credit standing, (2) attract new capital at a reasonable cost, and (3) provide a fair and reasonable return on equity which will justify the reinvestment of internal funds. PG&E points out that a rate of return of 8.07 percent is required to compensate PG&E for increases in the embedded cost of bonds and preferred stock since the 1970 general gas rate increase proceeding in which a

7.3 percent rate of return was found to be fair and reasonable. The remaining portion is required to increase the return on common equity to 13.08 percent which is comparable to that earned by the companies with which PG&E must compete for the investor's dollar.

An 8.5 percent rate of return would provide times interest coverage less than that provided by the 7.3 percent rate of return authorized in 1970. The rating agencies which evaluate PG&E's credit standing place great reliance on PG&E's ability to obtain timely rate relief to maintain adequate coverage for its bond interest.

The Staff witness predicated his rate of return recommendation upon provision for an allowance for servicing PG&E's fixed charges and provision for an allowance for return on equity that permits payment of a suitable dividend and provides for additions to earned surplus. A major factor in his increased rate of return recommendation is the increased debt cost. He testified that a rate of return of 7.85 percent, which is an increase of .55 percent in a period of about 3 years, is the minimum rate of return required to enable PG&E to attract capital at reasonable costs and is sufficient not to impair PG&E's credit. The increase is sizeable, and in fairness the customer should not be burdened with any additional costs not absolutely essential.

The allowance for common equity is a judgment figure. At the time of the last general PG&E gas rate decision, interest costs were at a higher plateau. Since late 1970, interest rates have declined and the government has established its price control stabilization policy. The policy of this Commission in regard to tracking and offsets for purchased gas increases is another factor more favorable to PG&E.

In the period 1962 to 1971, PG&E's book value increased 74 percent; net earnings after preferred dividends increased 83 percent; dividends paid on common stock increased 77 percent; earnings to book value increased 5 percent; dividends to book value increased 2 percent; the dividend payout ratio declined 3 percent; shares outstanding increased 8 percent; book value per share increased 51 percent; earnings per share increased 69 percent; and dividends per share increased 64 percent. These gains were achieved at equity earnings rates in the neighborhood of the Staff recommendation.

PG&E's high bond rating has been maintained notwithstanding a decline in the times interest coverage for PG&E in recent years, a trend common to similar utilities. PG&E has used electric and combination utilities for purposes of comparison, rather than gas utilities. The Staff contends that statistical data of the gas utilities would be more appropriate to the development of recommendations for PG&E's gas department. The Staff also points out that over reliance upon comparative data can give rise to the problem of circularity criticized by the Staff witness and which he avoided.

PG&E's cost of debt for new issues was developed by considering costs of bonds in 1970 and 1971, whereas the Staff witness considered current trends and government action. The PG&E witness used an 8 percent cost estimate for 1972 debt placement, whereas the Staff witness used 7.50 percent. The actual was 7.62 percent.

Siegel contends that the embedded cost of debt is overstated by PG&E in view of the actual cost of debt, the downward trend in prime interest rates and discount rates, and stricter money controls. She points out that PG&E has always maintained its Aa rating for its bonds despite any alleged unsatisfactory rate of return, and she claims that a 7.5 percent rate of return would be fair both to PG&E and to the consumers.

San Francisco points out that this Commission in the last two major rate cases involving PG&E's gas department in 1958 and 1969 allowed PG&E increased rates which would produce a rate of return of 6.25 percent and 7.3 percent, respectively, and a return on common equity of 10.8 percent and 11.3 percent, respectively. Such returns on equity have allowed PG&E to increase its earnings per share from $1.25 in 1959 to $2.58 in 1969 and $2.77 in 1971. PG&E has been able to increase its dividends per share from 87¢ in 1959 to $1.50 in 1969 and to $1.72 presently.

San Francisco contends that a rate of return of 7.85 percent would be reasonable for PG&E's gas department as it would allow PG&E to earn enough to cover all costs, including a return on equity of 11.5 percent. There is no justification to increase the return on common equity above 11.5 percent at this time considering PG&E's anticipated growth and commensurate risk, it being the largest combination gas and electric utility in the United States.

After a careful review of the record the Commission finds that a rate of return on rate base for PG&E's gas department of 8.0 percent is fair and reasonable. Such rate of return on rate base is the minimum required to enable PG&E to (1) maintain its credit standing, (2) attract new capital at reasonable cost, and (3) provide a fair and reasonable return on equity which will justify the reinvestment of internal funds. It is the same rate of return on rate base as the Commission allowed San Diego Gas & Electric Company in Decision No. 80432 issued August 29, 1972 in Application No. 52800 and Southern California Gas Company in Decision No. 80430 issued August 29, 1972 in Application No. 52696. For purposes of comparison it is noted that San Diego Gas & Electric Company is a combination utility and that Southern California Gas Company is a gas utility.

The following table shows the figures used to compute PG&E's 11.88 percent return on equity:

	Ratios	Rates	Weighted Cost Total
Long-term Debt	51.8%	5.70%	2.95%
Preferred Stock	12.2	6.35	.77
Common Equity	36.0	11.88	4.28
Totals	100.0%		8.00%

The following table shows the ratios of long-term debt, preferred stock, common equity, and rates applicable to each, as well as the rates of return on rate base, which were adopted in Decision No. 80430 for Southern California Gas Company and in Decision No. 80432 for San Diego Gas and Electric Company.

	So. California Gas Co. Decision No. 80430			San Diego Gas & Elec. Co. Decision No. 80432		
	Ratios	Rates	Weighted Cost Total	Ratios	Rates	Weighted Cost Total
Long-term Debt	50.0%	5.80%	2.90%	55.47%	5.97%	3.32%
Preferred Stock	10.7	4.83	.52	13.10	7.07	.92
Common Equity	39.3	11.65	4.58	31.43	11.96	3.76
Total	100.0%		8.00%	100.00%		8.00%

II. What estimate of operating revenues for the test year 1973 should be adopted?

The Staff estimate of PG&E's gross operating revenues for 1973 at present rates exceeds PG&E's estimate by $215,000. Of this amount, $192,000 results from a higher Staff estimate of use-per-customer in the general service class, and the balance of $23,000 results because Staff's showing is based on PG&E's present curtailment practices while PG&E's showing is based on the proposed curtailment practices.

We find that the revenue estimate should be based on present rather than proposed curtailment practices, because we hereinafter find that the present curtailment practices should be continued in effect.

The remaining revenue issue concerns the $192,000 difference in revenue estimates. The Staff witness developed his 1973 test-year estimate of average-use-per-customer through the least-squares straight-line trending of historical data for the period 1967 through 1971, adjusted for temperature and billing abnormalities. PG&E's witness developed his use-per-customer estimate for 1973 by projecting the 1966 through 1970 recorded use-per-customer, likewise adjusted for temperature and billing abnormalities. The PG&E witness then adjusted his trend downward to reflect the first four months of recorded 1971 data, adjusted for temperature and billing abnormalities. These four months were considerably below the corresponding months based on historical trends. As the remaining eight months of 1971 became available, the PG&E witness' judgment in reducing the 1971 estimate was confirmed. PG&E's actual experience in 1971, in fact, showed a decline in use-per-customer compared with the preceding years. The declining use-per-customer reflects the increasing number of multiple units being built, units which are lesser users of natural gas than the larger single-family home units.

The Staff witness' application of the straight-line trend fails to recognize that in the two most recent years of adjusted recorded experience, increases in the use-per-customer dropped off and, in fact, in 1971 actually dropped below what it had been for the preceding year.

The PG&E estimate is based consistently on recorded data adjusted for temperature and billing. At no time, as the Staff brief alleges, does PG&E's estimate "jump betwen adjusted and recorded data."

We find that an estimate of $586,357,000 for gross operating revenue for the test year 1973 is fair and reasonable. This estimate is $23,000 higher than the PG&E estimate of $586,334,000.

III. Operating expenses.

A. What amount, if any, should be allowed for sales promotion expense?

The Staff and Siegel have refused to recognize any of the estimated $1,801,000 expenditures for sales promotion for the 1973 test year. They both contend that promoting additional gas usage will not conserve existing scarce supplies of gas.

PG&E contends that its sales promotion expense is directed toward energy conservation and lower gas rates and is fair and reasonable.

The PG&E witness testified that the only gas appliance which PG&E continues to promote throughout its combination area is the gas range which is 50 percent more efficient as far as energy conservation is concerned than is gas-generated electricity used through an electric range. PG&E promotes the use of gas ranges to counter promotion of electric ranges by manufacturers. In the 1940's and 1950's two gas ranges were sold for every electric range sold. The trend reversed itself, and in the early 1960's two electric ranges were being sold for every gas range sold. PG&E undertook its sales promotion effort in 1963. The trend has again reversed itself, and at the present time one gas range is sold for every one and one-half electric ranges. The customer who purchases a gas range instead of an electric range saves approximately $8.00 per year in energy costs.

PG&E also points out that coupled with the energy conservation aspect of the sales promotion program is its tendency to keep gas rates lower than they otherwise would be. During the period when electric ranges were replacing gas ranges, it became apparent that PG&E's gas facilities were not being utilized as fully as they were designed to be used, thereby creating unnecessary upward pressures on gas costs and consumer rates.

Electricity which is used to serve electric ranges increases the peak on the electric system and has a negative net benefit on PG&E's system. The gas which is used in gas ranges has a positive effect because the gas system does not peak at the time of such use. PG&E is able to get about $3.50 per gas range per year in net benefit. The total such net benefit per year is in excess of $8,000,000 over and above expenses. This keeps gas rates generally lower than they otherwise would be.

PG&E must compete with the Sacramento Municipal Utility District in the Sacramento area. In the recent Southern California Gas Company rate case proceeding the Staff included an allowance for promotional expenditures for the competitor, Southern California Edison Company. PG&E contends that it likewise should be authorized to make expenditures for sales promotion to meet its competition, to conserve energy, and to promote more efficient use of its plant facilities in the Sacramento area.

PG&E's exploration program and its sales promotion program are complementary. The first seeks additional gas whereas the latter seeks to conserve gas while increasing plant efficiency and keeping rates lower.

We find that the estimate of $1,801,000 for sales promotion expense during the test year 1973 is reasonable and should be adopted.

B. Should the wage increase effective April 1, 1973, be included in the 1973 test year on a full year basis?

As the California Supreme Court held in Pacific Telephone and Telegraph Co. v. Public Utilities Commission, 62 C 2d 634, 635 (1965), "test period results are adjusted to allow for the effect of various known or reasonably anticipated changes in gross revenues, expenses or other conditions, which did not obtain throughout the test period but which are reasonably expected to prevail during the future period for which the rates are to be fixed".

PG&E contends that the April 1, 1973 wage level will be the minimum wage level which will prevail during the future period for which the rates in this proceeding are to be fixed, and that the use of less than the full year level will result in a revenue deficiency.

The Staff points out that the 5.5 percent wage increase applies only for 9 months of the test year, and contends that to annualize the 1973 wage increase would result in a level of wage expense not in effect for the entire year. This would be inflationary and contrary to the Price Commission requirements.

Siegel also contends that the wages effective April 1, 1973 cannot properly be annualized.

We find that the Staff estimate of wage expense is reasonable and should be adopted in this proceeding, as this estimate represents the actual wage expense to be incurred by PG&E during the test year 1973.

C. What amount, if any, should be allowed for exploration expense?

1. PG&E's Proposal and Position

Because existing supplies of natural gas are diminishing PG&E must compete more vigorously for new gas supplies for its customers.

As one phase in PG&E's exploration program, Natural Gas Corporation (NGC), a PG&E subsidiary, together with El Paso Natural Gas Company and Southern California Edison Company, has entered into a partnership arrangement with Atlantic Richfield Company related to exploration for gas in four prospect areas south of Prudhoe Bay in Alaska. Negotiations are also currently being conducted with other producers who hold acreage in the vicinity of the Prudhoe Bay area, and the Home Oil Company has committed its acreage to exploration development. In addition to these efforts to expand the scope of PG&E's exploration in Alaska, opportunities are being considered in the Rocky Mountain Region and in the Gulf of Mexico in the years ahead.

PG&E is committed to providing NGC with a minimum of $3,000,000 per year beginning January 1, 1973. The $3,000,000 received by NGC will be charged as expended by it to a suspense account. That portion of the suspense account which does not result in producing wells will subsequently be charged as exploration expense. When an exploration venture results in a producing well, development of that well will be financed through separate funds provided by PG&E, which funds will be placed into an appropriate account and made part of PG&E's rate base as an advance or prepayment for the future delivery of gas. NGC's expenditures for development of producing wells will be capitalized as developmental capital on NGC's books. No funds used for the development of producing wells will be charged to the ratepayer as an expense. It is proposed that at the end of the five-year period all moneys which PG&E has provided NGC which were not properly chargeable to exploration expense will be refunded upon Commission order by NGC to PG&E, and in turn by PG&E to its ratepayers.

Gas found and brought to California as a result of NGC's exploration activities will come to the California consumers at cost. The agreement between PG&E and NGC contemplates that there will be no profit charged by NGC for gas that it finds for the California consumer. The California consumer will benefit not only from the additional gas supply but also from the cost basis of pricing the gas. If gas is found but not in sufficient quantity to make delivery to California feasible, NGC may sell gas to someone other than PG&E. In this event any net revenues derived will be used to offset the cost of gas sold to PG&E for its customers.

The allowance for gas exploration activities proposed by PG&E conforms with the cost of service method advocated by consumer representatives and approved by the U. S. Supreme Court for natural gas pipeline transmission companies regulated by the Federal Power Commission. [Federal Power Commission vs. Hope Natural Gas Company, 320 US 603, 614, fn 25, 615, and City of Detroit vs. FPC (1955) 230 Fed 2nd 810, cert. den. (1956) 352 US 829.] PG&E's customers are fully protected by the cost of service method of treating exploration expenses as proposed by PG&E and the Staff witness.

The methods of accounting for all exploration funds by PG&E and NGC have been designed so that all benefits from the program will be passed on to PG&E's customers. The Commission staff has been reviewing the proposed accounting, and Commission approval for the accounting will be sought. Through PG&E, the Commission can exercise its jurisdiction over NGC's treatment of exploration funds.

PG&E is a public utility and those investing in it do not anticipate that it will engage in exploration ventures other than on a cost of service basis. Companies which engage in exploration at the risk of their stockholders must maintain a much lower debt-to-equity ratio. The great bulk of their capital is common equity.

The investor in exploration activities requires a much higher rate of return than that earned by public utilities on the basis of utility investment.

If PG&E were required to invest stockholders' funds in exploration ventures, PG&E would be required to maximize the return on this activity and sell the gas discovered at the highest price obtainable thus frustrating its desire to obtain new sources of supply at the lowest cost to its customers.

PG&E contends that the $3,000,000 annual exploration expenditure is reasonable and necessary and should be allowed for rate-making purposes.

2. Staff Position

The principle of a distributing gas utility engaging in gas exploration ventures may be commendable under present supply conditions, but the question of the financing of such ventures is not simply resolved. For example:

> Should the ratepayer bear the risk of such ventures solely or should the utility participate?
>
> If the ratepayer alone bears the risk, what incentive does the utility or its subsidiary or partner have to control costs or exercise selectivity among risky projects?
>
> How can the Commission determine whether the ratepayer advances are being properly or improperly spent?

The offer of potential refunds by PG&E is illusory, according to the Staff counsel, since if the Commission once finds the annual charge reasonable and includes it in the rate structure, it could not thereafter order refunds of these charges retroactively. (Pac. Tel. & Tel. Co. v. Public Util. Com., 62 Cal 2d 634.)

The Commission has adopted the concept of consumer financing of exploration activities in Southern California Gas Co., Decision No. 80430 in Application No. 52695, dated August 29, 1972, but has required Southern California Gas Co. to participate equally with its consumers in the financing of gas exploration ventures. The same equality of participation should be required of PG&E, in which case the allowable annual expense for gas exploration would be reduced from $3,000,000 to $1,500,000.

A conclusion should be incorporated in the PG&E decision similar to the following conclusion in the Southern California Gas Co. decision:

> "So Cal and its affiliates should continue to keep the Commission's staff fully informed of the status of on-going gas development projects and proposed new ventures under their gas exploration and development program by periodic special reports and conferences."

PG&E points out that in the Southern California Gas Co. case the Commission did not require Southern California Gas Co. to assume the "risk" of one-half of its entire program but did require Southern California Gas Co. to assume "temporarily" the risk for one-half of one-third of the program, or one-sixth of the program.

PG&E contends that the rate treatment adopted by the Commission in the Southern California Gas Co. case is of no precedential value to the PG&E proposal, for the PG&E proposal to follow the traditional cost of service method is different from the proposal of Southern California Gas Co. That company's program involved full rate base treatment, full amortization of all expenditures (both capital and expenses) over a five-year period, a rate of return in the meantime on the unamortized portion of the expenditures, and an allowance for income taxes on the return and amortization.

3. CMA Position

CMA contends that PG&E should be required to use its own risk capital to finance its exploration and development program. It argues that the investment risk should be borne by those having the responsibility for the management of capital. If risk free funds are provided by the ratepayer, there can be no reasonable protection against questionable management. Also, if the public supplies the capital, it can make a strong claim for public ownership of the product of that capital.

CMA claims that PG&E's proposal should be rejected because it saddles the ratepayers with the cost of all the failures (dry holes) but gives PG&E the benefit of the successes. CMA also contends that PG&E's proposal for the exploration of gas in Alaska has the least chance of making any new gas supply available in the near future at any reasonable cost.

Deliveries of gas from Alaska will be a long time coming. The gas which has been discovered on the north slope of Alaska has been associated gas and its disposition is dependent upon the disposition of the associated oil reserves. The transportation of oil from the north slope has encountered numerous difficulties. Also, in order for the Alaskan venture to be a success, gas reserves in excess of five trillion cubic feet must be discovered.

The exploration program of PG&E through its subsidiary Pacific Gas Transmission in the Rocky Mountain area is financed with shareholders' capital. CMA assumes that the Rocky Mountain program has a good chance of success, but that the Alaskan venture involves the greater risk, especially because of the need to discover such large reserves. CMA contends that the ratepayer should not be required to finance such a high risk program.

CMA points out that if PG&E were to propose a program of prepayments for gas that would be delivered by a pipeline supplier, the risk would then be on the supplier that it would develop the additional gas supplies. The ratepayers would be buying gas, or would receive a refund if none is found. They would be encouraging the search for more gas and providing the time value of money to the pipeline companies in advance payments, but would not be buying dry holes.

4. Siegel's Position

Siegel contends that funds required for gas exploration should be provided by the investor and not the ratepayer, and that a precedent for requiring ratepayers to provide risk capital for gas exploration should not be established. If the exploration yields dry holes, the ratepayers lose. If the wells are productive, the consumer benefits only by continuing supplies.

Siegel argues that since rates will already have been established, refunds of unexpended or improperly expended sums for gas exploration cannot be ordered by the Commission. Since the NGC is not a utility, the Commission cannot regulate NGC, and the price of gas sold to PG&E by NGC will be an inflated border price.

Siegel suggests that if the Commission is concerned with the supply of gas, it should order an investigation of gas sources available to California users.

5. United States' Position

The Department of Defense and the Executive Agencies of the United States oppose the request of PG&E to charge $3,000,000 to expense each year for gas exploration. The United States points out that the negotiations between PG&E's gas department and NGC can never truly be at arm's length, and suggests that if PG&E's gas department wishes to explore for gas in Alaska with ratepayers' money, it should do so directly and be subject to the direct control of this Commission. The United States also points out that while the present management of PG&E is agreeable to passing on the bulk of the benefits of their exploration proposal to the ratepayers, future management officials of PG&E may not be so agreeable.

6. Resolution of the Issue

The Commission is of the opinion that PG&E should be permitted to advance $3,000,000 per year for the next five years to its subsidiary NGC to be used for gas and oil exploration purposes on a cost of service basis. The Commission, however, does not look with favor upon PG&E's proposal to defer a final accounting of the use of the funds to the end of the five-year period at which time the Commission would determine what refunds, if any, should be made to

PG&E's customers. Over a long period of time there is no real continuity of PG&E's customers, and those customers who might receive the refunds at the end of the five-year period would not be the same as the customers who have been providing the funds for gas and oil exploration expense in the form of higher rates during the five-year period. However, a refund would be appropriate in the event NGC sold its interest in a developing or developed project for an amount greatly in excess of its investment in the project.

It is not anticipated that all of the $3,000,000 to be advanced by PG&E to NGC each year will be expended for dry holes. The anticipation of reasonably successful ventures is the justification for the approval by this Commission for the undertakings. The Commission finds that of the $3,000,000 to be advanced to NGC by PG&E during the test year 1973, $1,500,000 should be charged to exploration expense and $1,500,000 should be added to rate base as investment by PG&E.

PG&E will be ordered to keep the Commission and its staff fully informed of the status of gas and oil development projects, the allocation of suspense funds of NGC to exploration expense and to rate base, and proposed new ventures under its gas and oil exploration and development program by periodic special reports.

As PG&E gains actual experience with respect to the success or failure of its gas and oil exploration and development programs, it may request the Commission to modify the allocation of the portion of the $3,000,000 to be charged to exploration expense and to rate base and to adjust PG&E's gas rates accordingly. Such request may be made in connection with any tracking, gas-offset, or general gas rate application which may hereafter be filed by PG&E, or it may be made by special application at any time. The revision of the allocation to exploration expense and to rate base of the $3,000,000 annual advance by PG&E to NGC, together with appropriate gas rate adjustments at reasonable intervals, will obviate the necessity for making provision for refunds as originally proposed by PG&E, except in those instances where the revenues derived from the gas and oil exploration program are of an unusually large magnitude and of infrequently recurring nature, such as might occur from the sale of an interest in a developing or developed project. Gas is to be sold by NGC to PG&E on a cost of service basis. The net profit on gas sold by NGC to others than PG&E and on oil and other hydrocarbon substances sold by NGC to PG&E and to others than PG&E is to be applied to the reduction of PG&E's cost of gas. The order below will require PG&E to submit its agreement with NGC for gas and oil exploration to this Commission for approval.

IV. Is the original cost valuation of the McDonald Island underground storage facility fair and reasonable and consistent with the method prescribed by the Uniform System of Accounts for Natural Gas Companies?

PG&E acquired the McDonald Island underground storage facility from its wholly owned subsidiary, Natural Gas Corporation (NGC), which had obtained the property originally from Standard Oil in exchange for NGC gas property in Rio Vista. The net book value of the Rio Vista gas property traded for the McDonald Island property was $300,000 as of April 1, 1958. PG&E has claimed that $6,800,000 is the value of the McDonald property, based on an estimate of the discovery value of gas reserves of the Rio Vista property, which should be included in PG&E's rate base.

Siegel claims that the use of an appraisal versus a cost basis for the McDonald Island property is inequitable. She points out that appraisals are not allowed in real estate evaluation for rate base purposes and argues that they should not be allowed in trades. Siegel contends that only the $300,000 book cost of the Rio Vista gas property should be included in the rate base for the McDonald Island property.

PG&E points out that the McDonald Island transaction, including the trade and the methods used to establish the value for the traded property was carefully scrutinized in the 1959 proceeding (see Decision No. 58706 issued July 7, 1959 in Application No. 41083) and that all pertinent valuations are now a matter of public record, as requested by the Commission.

The Uniform System of Accounts for Natural Gas Companies, in its instructions for setting gas plant cost, provides that original cost be determined as of the time of the property's first devotion to utility service and that "when the consideration given for property is other than cash, the value of such consideration shall be determined on a cash basis". PG&E followed these instructions precisely. The 1959 value, when the property was first devoted to public service, necessarily included discovered but unproduced gas, which was a prominent part of the total value traded for McDonald Island. The expert appraisal used to value those gas reserves was an essential measure commonly used to set such values.

No party to the 1959 proceeding or to this proceeding, including Siegel, has presented any evidence that the valuation was improper.

We find that the original cost valuation of the McDonald Island underground storage facility used by PG&E and the Staff in this proceeding is fair and reasonable and should be adopted.

V. Is the financial treatment by PG&E of its interests in Standard Pacific Gas Lines, Inc. (Stanpac) and Pacific Gas Transmission Company (PGT) inimical to the interests of the ratepayers?

PG&E owns a 6/7 interest in Stanpac. Stanpac is designated as a non-profit corporation and, in fact, actually suffered small losses during the years 1970 and 1971. A weighted average rate base of $7,635,000 which represents PG&E's interest in Stanpac has been included as part of PG&E's gas plant in the parent company's rate base.

PG&E has invested approximately $23 million to acquire approximately a 50 percent interest in PGT. The investment in plant by PGT is not included in PG&E's gas department rate base nor do revenues derived by PGT's operations appear in PG&E's operating revenues. PGT dividends and interest totaling $2,030,051 in 1971 were paid directly to PG&E stockholders.

The United States contends that by reason of the diverse financial treatment accorded Stanpac and PGT, the ratepayers of PG&E are being burdened (1) by absorbing the losses of Stanpac and paying a rate of return on its plant, and (2) by not participating in the revenues received from the investment made by PG&E in PGT out of ratepayer's funds.

The United States requests the Commission to appraise thoroughly the financial treatment of Stanpac and PGT and make such adjustments as are necessary to insure that the California ratepayers are receiving fair and just consideration for their contributed funds.

The following statement appears as paragraph 3 of Chapter 6 on page 6-2 of the Commission Staff Exhibit No. 15:

> "3. Utility data showing various transactions between Pacific Gas and Electric Company and its subsidiaries, such as billings for Pacific Gas and Electric Company services, pipeline rentals, and gas sales and purchases, were examined and appear to be reasonable and in order as stated by the company. Certain officers and employees of Pacific Gas and Electric Company devote various percentages of their time to associated companies. This time is billed to the respective subsidiaries each month at the rate of pay of each executive or other employee."

Based on the foregoing evidence the Commission finds that no adjustments to PG&E's revenues, expenses and rate base should be made in this proceeding by reasons of PG&E's transactions with its subsidiaries.

However, in view of the request made by the United States, the Commission hereby directs its Staff again to review the transactions between PG&E and its subsidiaries Stanpac and PGT, having in mind the contentions of the United States in this proceeding, and file a report of such review and recommendations pertaining thereto with the Commission in the next proceeding involving an adjustment of PG&E's gas rates.

VI. What results of operation during the test year 1973 at present rates and what additional revenue requirements are fair and reasonable?

The following table shows the estimates of results of operation of the PG&E gas department for the test year 1973 at gas rates in effect as of November 24, 1971, which are recommended by the Staff and by PG&E and those which are adopted as just and reasonable by the Commission in this proceeding.

TABLE 1

PACIFIC GAS AND ELECTRIC COMPANY
GAS DEPARTMENT RESULTS OF OPERATION
AT GAS RATES OF NOVEMBER 24, 1971
TEST YEAR 1973

Item	Staff	Utility	Adopted
	(Dollars in Thousands)		
Gross Operating Revenues	$ 586,549	$ 586,334	$ 586,357
Operating Expenses			
Cost of Gas	361.749	361,749	360,249
Sales - Promotion	-	1,801	1,801
Other Expenses	104,646	104,611	104,611
Wage Increase Adjustment	(2,334)	(1,324)	(2,334)
Sub Total	464,061	466,837	464,327
Depreciation	36,145	36,150	36,145
Taxes Other Than Income	32,275	32,278	32,275
Sub Total	532,481	535,265	532,747
Taxes Based On Income	(4,869)	(6,785)	(5,245)
Total Operating Expenses	527,612	528,480	527,502
Net Revenue for Return	58,937	57,854	58,855
Rate Base - Adjusted	1,021,047	1,021,460	1,022,547
Rate of Return	5.77%	5.66%	5.76%

The adopted operating results of PG&E at rates being authorized herein are summarized as follows:

TABLE 2

Adopted Operating Results
at Authorized Rates

Operating Revenues	$ 634,580,000
Operating Expenses	552,774,000
Net Revenue for Return	81,806,000
Rate Base	1,022,547,000
Rate of Return	8.00%

The estimated additional revenue required to increase PG&E's rate of return from 5.76 percent to 8.00 percent is $48,223,000.

VII. Proposed rates.

A. Is PG&E's proposal to place curtailment of its steam-electric plants on an equal basis with large interruptible customers fair and reasonable?

1. <u>PG&E's Proposal and Position</u>

Historically, when the gas supply was inadequate to meet demand, PG&E curtailed its steam-electric plants before curtailing any other interruptible customers. PG&E had no objection to doing this because the price of alternate fuel oil which was burned during periods of curtailment was approximately comparable to the price of natural gas.

At the present time the price of fuel oil has increased considerably beyond the price of natural gas. As a consequence, when PG&E's steam-electric plants give up natural gas to burn fuel oil, the cost of fuel is increased, and this cost is passed along to PG&E's electric customers. The demand for natural gas on PG&E's system will increasingly surpass available supplies in future years, necessitating increasing curtailment of interruptible loads. PG&E has proposed to place curtailment of its steam-electric plants served under Schedules Nos. G-55 and G-55.1 on an equal basis with the approximately 30 largest interruptible customers served under Schedule No. G-53, including the proposed transfers from Schedules Nos. G-56 and G-57. The rates for all these customers subject to equal curtailment would likewise be equal.

Under PG&E's present curtailment procedure, in 1981 the level of service is expected to be 62.2 percent for G-53 customers, 39.7 percent for G-56 customers, and 15 percent for PG&E's steam-electric plants. Under PG&E's proposed curtailment procedure, the level of service for both Schedule No. G-53, including transfers from G-56 and G-57, and steam-electric plants, would decline from 98.4 percent in 1972 to about 40.3 percent in 1981. The tightening gas supply situation will require large interruptible customers to use alternate fuel supplies, thereby increasing their costs, under either the present or the proposed curtailment procedure. They are going to have to make provision for oil transportation and storage of fuel and provide for whatever air pollution facilities are required.

Both the large interruptible customers and PG&E will have increased "swing" problems, i.e., fluctuations in annual alternate fuel requirements, caused by warm as opposed to cold years. PG&E will have additional "swing" problems arising from differences in wet years when PG&E's hydro facilities are able to provide more power as opposed to dry years when PG&E has to depend more on fossil fuel plants.

Of the approximately 30 largest interruptible customers affected by curtailment, eight are cement plants which do not have to use low sulfur fuel oil to meet existing air pollution control requirements because virtually all of the sulfur in the oil is absorbed in the product. In addition, seven of these 30 largest interruptible customers are oil refineries which presently consume approximately 40 percent of the volume of gas supplied to the 30 or so largest interruptible customers. As PG&E has to obtain fuel oil from such refineries these customers are at no greater disadvantage than PG&E in obtaining alternate fuel. As the demand for low-sulfur fuel increases, additional refinery capacity may have to be built for desulfurizing high-sulfur crude oils.

PG&E's interruptible gas customers have access to such a relatively good supply of gas that the proposed curtailment procedure will not place them in a poor competitive position. The level of service in Southern California is not as favorable as in Northern California. The situation that has caused PG&E to propose a new curtailment procedure is national in scope.

PG&E contends that its proposed curtailment procedure is the most equitable method of sharing gas supplies. Under PG&E's present curtailment procedure, the large interruptible customers will suffer increased costs and increased inconvenience as their level of service declines. Under PG&E's proposed curtailment procedure, these customers will be bearing a share of an additional cost which under present curtailment procedures would be borne by PG&E's electric customers.

PG&E has accepted the proposal of the Commission Staff to limit Schedule No. G-50 to customers whose total requirement does not exceed 24,000,000 therms per year to preclude interruptible customers from shifting to avoid curtailment. G-53 customers whose usage in any month drops below 2,000,000 therms by reason of curtailment will be paying less for gas on Schedule No. G-53 under the Staff's proposed rate of 4.36¢ per therm than under the present Schedule No. G-53.

PG&E contends that the proposed curtailment procedure will not have an adverse impact on air quality. PG&E points out that under either curtailment procedure the interruptible customers will have increased costs in order to meet whatever air pollution control regulations govern the burning of fuel oil. The situation is not one where the interruptible customers are going from gas to oil, but one where they are going from some oil to more oil.

The concern of the Legislature has been to combat air pollution within air basins by establishing ambient air quality standards. PG&E contends that a steam-electric plant in a basin emitting more pollution into the atmosphere than a number of smaller plants in the same basin will have a greater impact on the ambient air quality in the basin than will the number of smaller industrial boilers, although the smaller industrial boilers may have higher maximum ground level concentrations of pollution at hypothetical points where the maximum is measured. PG&E also points out that because the PG&E steam plants operate at such high temperatures, they will produce more oxides of nitrogen per unit of fuel than will the smaller boilers. Hence the oxides of nitrogen emissions from the controlled PG&E boiler could still be higher than such emissions from controlled smaller boilers consuming the same quantity of fuel.

PG&E contends that the Friends of Mammoth case is not applicable in this proceeding, because the decision in this proceeding will have no significant impact on the environment of the State. PG&E suggests that PG&E and every industry in this State burning fuel oil is going to have to comply with the local air pollution requirements which are designed to avoid any significant impact on the environment.

PG&E has pointed out that the contractual provisions in the interruptible contracts which require the interruptible customers to use gas if gas is available make it difficult for these customers to contract for an alternate supply of fuel oil. PG&E has suggested that if its curtailment proposal is authorized by the Commission that PG&E be required to submit a proposal for modification of such exclusive use provisions in its contracts within a specified time after the issuance of the Commission decision.

PG&E points out that if California Ammonia and Valley Nitrogen, which use about 67 percent of the gas they purchase from PG&E as a raw material, are allowed to continue on Schedule No. G-50 and thereby avoid their share of curtailment, then the other interruptible customers must bear that share of curtailment.

2. Staff Position

The Staff supports PG&E's curtailment proposal. The Staff points out that in prior proceedings the interruptible industrial customers have contended that value of service considerations based on the cost of alternate fuels justified lower rates. Now they contend that the economic impact of the cost of alternate fuels is such that the high levels of interruptible service previously enjoyed by them should be continued.

The Staff's proposal to limit G-50 customers to those whose requirements do not exceed two million therms per month is in accordance with a previous direction to Southern California Gas Company in Decision No. 30430, issued August 29, 1972, in Application No. 52696.

The Staff contends that the Friends of Mammoth case is not applicable to this proceeding because rates and not projects are the subject matter.

The position of the raw product type interruptible customers in this proceeding is that under the proposed curtailment policies the ammonia plants will have to shut down and that California agriculture will suffer a fertilizer shortage in consequence. This "doomsday" position must be contrasted with their position one year ago to the effect that without special rate consideration the ammonia plants would be forced out of business because of competition. The Staff contends that it is not the Commission's responsibility to provide economic advantages for an industry such as ammonia production. Their alleged plight can best be solved by the Legislature; not by this Commission through a subsidy extracted from the electric customers.

In Decision No. 57466, in Application No. 40321, October 15, 1958 (unreported), in which interruptible service to California Ammonia was first authorized and which exempted the customer from providing standby facilities, ordering paragraph 2 provided:

> "2. Applicant and customer shall join in a written stipulation which shall be filed with this Commission prior to the commencement of any service under this order, which stipulation shall provide that under no circumstances will customer request nor applicant provide gas service to customer for the facilities covered by the order under an interruptible schedule with priorities of curtailment differing in any manner from any other interruptible customer served under the same schedule during the period covered by the agreement."

PG&E proposes to reduce its level of gas storage in order to provide gas to interruptible customers. The Staff recommends that PG&E be directed not to use gas in storage to provide service to the interruptibles to the extent that the net effect of such use is to reduce the amount of gas that PG&E has in storage.

Rotation of curtailment has been in use in the past and has apparently been satisfactory to the customers affected. It is impractical to reduce deliveries in part to all interruptible customers to effect a minor curtailment.

The curtailment rules should not specify the needed standby facilities that may be required. It is the customer's burden to provide whatever facilities are necessary to use the alternate fuel which he selects.

3. CMA Position

CMA states that the proposal to lower the priority of service of the larger interruptible customers to that of PG&E's own steam-electric plants presents the most significant issue confronting the industry in many years and contends that the proposed change in curtailment policy is against the public interest. CMA recognizes that continuation of the present priorities will mean higher electric rates than would the proposed change. The increase in electric rates will affect substantially more of the members of CMA than would the proposed change in curtailment. Nevertheless CMA takes its position on the curtailment issue because it contends it is based on sound principles and is in the public interest.

For customers served in 1974 on Schedule No. G-53 there will be 98 percent satisfaction under present policy as compared to 73.4 percent satisfaction under proposed policy. Curtailments will increase until as projected in 1981 satisfaction under present policy is only 62.2 percent. The projected low point of 37.4 percent for satisfaction under the proposed policy occurs in 1979.

The projected deficiency in gas supply will require substantial increases in use of fuel oil, some with high sulfur content. The present supplies of low sulfur fuel oil on the Pacific Coast are imported from Indonesia and Alaska and are virtually all committed to existing markets. Creation of refinery capacity for desulfurization would require three years, and no refinery has announced its intention to install such capacity. Someone is going to have to burn high sulfur fuel oil in 1974 and 1975, and it should be PG&E. Under the present priorities, curtailment would not be so great that much of industry could not use diesel oil or obtain adequate quantities of low sulfur oil. Under existing priorities, if desulfurized oil became available in 1976, industry may not be faced at all with the problem of how to burn high sulfur oil. Under the proposed priorities there is a strong likelihood that both PG&E and its customers would have to install control equipment.

Alternate fuel supplies are more readily available to PG&E than to industry and at a much lower cost. PG&E has a much greater ability to contract for oil supplies than do its industrial customers merely from the size of its market which will justify a refinery in making capital investment to supply that market. While PG&E is now looking to its fuel supplies through 1979 to 1986, its customers are having a difficult time obtaining commitments for any oil supplies beyond 1972.

PG&E's steam-electric generating plants are all located on waterways where oil deliveries can be made by barge or tanker. There is no way that industrial plants which must take oil delivery by land can obtain deliveries of oil at prices as low as PG&E can. Adequate facilities do not now exist to provide ground transportation for the amounts of oil required under the forecast by PG&E if the priorities were to be revised. New facilities would have to be constructed before any significant deliveries of low sulfur oil could be made by land.

It is more efficient to use gas for direct heat processes than for electric generation. The assignment of gas supplies to their most efficient uses would require a denial of the proposed change in priority. It is inconsistent for PG&E to try to persuade its domestic customers to use more gas for heating instead of electricity in order to conserve gas and at the same time for PG&E to try to take gas away from its industrial customers to use for electric generation.

Oil can be used in PG&E's steam plants with less impact on air quality than use in industrial boilers and heaters. PG&E's plants have higher stacks and their larger boilers produce a plume with a higher heat content and more buoyancy than do the smaller industrial boilers and heaters. The result is a much greater dispersion of pollutants into the upper atmosphere and lower ground level concentration of pollutants. A 250 Mw plant with a 350-foot stack could successfully burn oil with a 2.5 percent sulfur content and produce no greater ground level concentration of sulfur dioxide than would result from burning the same amount of .5 percent sulfur oil in five Mw plants with the same stack height. A typical PG&E steam-electric plant while burning 12.5 times the fuel oil as a neighboring industrial plant with smaller boilers and stacks 1/4 as high would produce ground level concentrations of pollutants less than 30 percent of those caused by the industrial plant.

The history of existing priority classifications justify their continuance.

The proposed restriction on changing rate schedules to avoid curtailment should not be approved. For at least several years the supposed need for such a restriction would not exist if priorities were to remain the same as at present. Only if the priorities are changed is the problem presented.

The counsel for CMA stated that CMA is not taking the position that the Commission must issue an environmental impact report prior to changing the rules of PG&E pertaining to curtailment, but that he personally is of the opinion that a very strong case can be made that there can be no change in curtailment priorities without the issuance of an environmental impact report under the State Environmental Quality Act. He also suggests that consultation with the Bay Area Pollution Control District may be required under the State Environmental Quality Act before the proposed changes in curtailment rules could be adopted.

CMA joins in PG&E's suggestion that the Commission direct PG&E to propose a revision of the exclusive use contract provisions to enable the interruptible customers more easily to contract for alternate fuel oil supplies. CMA would urge such revision even though the present curtailment rules are not changed.

4. Desert Customers Position

The Desert Customers contend that the proposed curtailment policy is discriminatory, burdensome, and contrary to public policy. Even under the present curtailment policy, the level of service for the desert customers will decline to 91.7 percent in 1974, 64.4 percent in 1977, and 43.6 percent in 1980. Under the proposed curtailment policy, the level of service will decline to 73.4 percent in 1974, 49.2 percent in 1977, and 42.9 percent in 1980.

The Desert Customers contend that the burden which would be imposed on them by virtue of PG&E's curtailment proposal ranges from $850,000 in the test year 1973 to $11,540,000 in 1977. PG&E, however, points out that the $11,540,000 figure includes $8,370,000 in increased fuel costs that the Desert Customers must face at present gas rates without any change in curtailment procedure.

In 1977 PG&E steam-electric plants would save $25,000,000 under its proposed curtailment procedure. The Desert Customers contend that although they consume only 16 percent of the amount of gas consumed by PG&E's steam-electric plants and less than 6 percent of all interruptible gas, they will bear 50 percent of the burden from which PG&E's steam-electric plants will be relieved if its proposal is approved.

The Desert Customers point out that under both the present and proposed curtailment procedures they will be competing for delivery of fuel oil at a relatively remote location, and they contend that PG&E is better able to deal with lower levels of service than they are. Shifting additional curtailment to smaller, outlying loads is contrary to good dispatching.

Up to the present time both the desert customers and the G-53 interruptible customers have been receiving essentially a 100 percent level of service. Hence, the Desert Customers contend that they should continue to have a rate below the G-53 rate, but be placed on equal priority with the G-53 customers, both retaining priority over PG&E's steam-electric plants.

5. Southwestern Cement Position

Southwestern Cement points out that although PG&E has made no firm commitment as to rates, by contractual provisions it has bound itself to an interruptible priority for its steam plants below the priority of Southwestern Cement. Southwestern Cement acknowledges that the Commission on its own initiative may modify the contractual provision with respect to priority of interruption but urges that the Commission not countenance a repudiation by PG&E of its contractual obligations through its application for an increase in rates.

6. Calamco Position

Ammonia producing capacity of California plants has been reduced to 750,000 tons per year by the shutdown of three plants. Ammonia is in short supply in California and worldwide. Ammonia costs from $35 to $40 per ton to ship from the Gulf Coast to California. That freight cost is equal to the costs to produce a ton of ammonia in California today. There are perhaps two vessels in the whole United States that are legal for the delivery of ammonia within the United States.

Ammonia plants use about 1/3 of the natural gas they receive as a source of fuel and the remaining 2/3's as a raw material. Neither of the nitrogen producers appearing in this proceeding have standby alternate fuel storage facilities. The Commission permitted this deviation because there is no substitute for natural gas as a raw material for these plants, and, therefore, standby facilities would serve no purpose. To convert the Calamco plant to use an alternate fuel and to provide storage facilities for the fuel would cost at least $2,000,000.

It is expected that G-53 customers will be curtailed 39 percent in 1975 while G-50 customers will be curtailed only .2 percent. Ammonia plants are damaged by repeated shutdowns. It takes about 100 hours to get back into full production from a cold start, and about 145,000 therms are wasted. If the nitrogen producers are compelled to stay on G-53, they claim that they will be out of business when the curtailment gets to 40 percent in 1975.

Calamco urges the Commission to permit nitrogen producers to continue to use Schedule No. G-50 without the requirement that they be subject to the curtailment provisions of Schedule No. G-53 for three years from the date of last service under such schedule. Under revised Schedule No. G-50, Calamco will pay PG&E approximately $1,757,000 for 36,000,000 therms per year as compared to $1,569,000 under revised Schedule No. G-53. Calamco and Valley Nitrogen use only about 2 percent of the gas now sold under Schedule No. G-53.

Calamco contends that PG&E should be given the widest latitude in developing and administering curtailment policies so long as the annual curtailments do not reduce the gas supply below the customers' 1972 requirements. The fact that curtailment is rotated among customers or that customers are placed in different groupings that are curtailed at different times can conserve gas by permitting a more efficient curtailment.

Calamco points out that in Midway Gas Co., 17 CRC 761 (1920), this Commission held that only such industries as can use no other fuel will be given preference.

7. Valley Nitrogen Position

Natural gas is the only raw material available and feasible for the production of ammonia. The interruptible schedule proposed for ammonia plants would waste huge amounts of natural gas. At the Valley Nitrogen plant 65,000 therms of natural gas are wasted in the start-up process. Unless the proposed curtailment rules are rejected, Valley Nitrogen claims it will be forced out of business.

Valley Nitrogen argues that a gas user having no way of substituting an alternate substance is entitled to a higher priority than a user which can substitute another substance. Both the Constitution of the State of California and the Public Utilities Code place the primary responsibility for allocating scarce gas upon the Public Utilities Commission and not upon the Legislature. The Commission's job is to allocate the scarce gas in the public interest and in a non-discriminatory manner.

Valley Nitrogen requests the Commission to impose a grandfather provision which would permit Calamco and Valley Nitrogen, both of which are presently on Schedule No. G-50, to continue using that schedule but which would not permit new enterprises using natural gas as a raw material to avail themselves of the G-50 schedule.

8. <u>San Francisco Position</u>

San Francisco contends that the proposed curtailment rules are fair and equitable to all gas customers as well as benefiting to the electric customers.

9. <u>United States Position</u>

The United States contends that:

a. PG&E should never interrupt a customer paying more per therm when a customer paying less per therm is still being served.

b. PG&E should be required to curtail service, when necessary, within each group all at the same time and should not be permitted to rotate curtailment of service from customer to customer within a group.

c. PG&E should be required to curtail its own electric power plants prior to any other curtailment. This would assure that PG&E would not curtail service until it is actually necessary.

d. Proposed Rule No. 21 should be amended to spell out in detail what type of standby fuel facilities are required and should specify the number of days of fuel storage required for each interruptible rate schedule.

10. Resolution of the Issue

PG&E's proposal to place curtailment of its steam-electric plants on an equal basis with large interruptible customers should not be adopted.

Historically PG&E has enjoyed the benefits of the present curtailment rules. When gas was not available, PG&E used the alternate low cost fuel oil. The level of PG&E's rate for gas used in its steam-electric plants was established in the light of the relative priority for curtailment under PG&E's rules. The curtailment rules should not be changed just because the relationship between the price of gas and the price of fuel oil has changed.

Under either the proposed curtailment rules or the present curtailment rules, PG&E will have to install additional storage space for alternate fuel oil. PG&E's plants are already designed to meet the anti-pollution requirements of the local authorities and to burn low sulfur oil. Under the present priorities, for several years curtailment will not be so great that much of industry cannot use diesel oil or obtain adequate quantities of low sulfur oil. Under existing priorities, if desulfurized oil becomes available in 1976, industry may not be faced with the problem of how to burn high sulfur oil. Under the proposed priorities there is a strong likelihood that both PG&E and its customers would have to install control equipment.

Alternate fuel supplies are more readily available to PG&E and at a much lower cost than to many of its large interruptible customers. PG&E's steam-electric generating plants are all located on waterways where oil deliveries can be made by barge or tanker.

PG&E's plants have higher stacks and their larger boilers produce a plume with a higher heat content and more buoyancy than do the smaller industrial boilers and heaters. The result is a much greater dispersion of pollutants into the upper atmosphere and lower ground level concentration of pollutants. The record does not contain sufficient information to enable the Commission to determine the comparative ambient air quality in any particular air basin which would result under the present curtailment rules and the proposed curtailment rules.

PG&E has not sustained the burden of proving that the proposed curtailment rules should be adopted.

Calamco and Valley Nitrogen should be authorized to continue on Schedule No. G-50 even though their total requirements exceed 24,000,000 therms per year because approximately 2/3's of the gas they purchase is used as a raw material in the manufacture of ammonia, and there is no satisfactory substitute for natural gas as a raw material for these plants. California agriculture has a critical need for the ammonia which is produced by Calamco and Valley Nitrogen.

PG&E's proposed Rule No. 21 will be revised to provide that all interruptible customers shall be classified as follows:

<u>Group 1:</u> PG&E which is served under Schedules Nos. G-55 and G-55.1.

<u>Group 2:</u> All customers served under Schedules Nos. G-56 and G-57.

<u>Group 3:</u> All customers served under Schedule No. G-53.

<u>Group 4:</u> All customers served under Schedules Nos. G-50 and G-51 who have required or will require more than 1,200,000 therms in any consecutive 12-month period.

<u>Group 5:</u> All customers served under Schedules Nos. G-50 and G-51 not in Group 4.

The appropriate interruptible schedules will provide that customers other than Calamco and Valley Nitrogen whose total annual gas requirements equal or exceed 24,000,000 therms should be required to be served under Schedules Nos. G-55, G-55.1, G-56, G-57, or G-53, and the customers served under such schedules should not be permitted to transfer to any schedule other than the one under which they are served so long as their total annual gas requirements equal or exceed 24,000,000 therms.

PG&E will be directed not to use gas in storage to provide service to the interruptible customers when the net effect of such use would be to reduce the amount of gas that PG&E has in storage.

It is impractical to reduce gas deliveries in part to all interruptible customers to effect a minor curtailment. Rotation of curtailment of service from customer to customer within a group can conserve gas and should continue to be used by PG&E.

The curtailment rules will not specify the standby facilities that may be required. The customer should provide whatever facilities are necessary in order to use the alternate fuel which he selects.

PG&E will be directed within sixty days to propose a revision of the exclusive use contract provisions which require the interruptible customers to use gas if gas is available. Such revision is necessary to enable the interruptible customers more easily to contract for the alternate fuel supplies which they will need as a result of the curtailment of gas.

3. Are PG&E's proposals to withdraw interruptible Schedule No. G-56, which applies to the Desert Customers, and interruptible Schedule No. G-57, which applies to Southern California Edison Company's steam-electric plant near Daggett, fair and reasonable?

1. <u>PG&E Position</u>

PG&E proposes to cancel Schedules No. G-56 and No. G-57 and to place the customers presently served on these schedules on Schedule No. G-53. In support of this proposal, PG&E contends existing conditions no longer justify a rate lower for Desert

Customers than for other large interruptible customers. Fuel oil is no longer competitive with gas. In Decision No. 56967 dated July 9, 1958 the Commission maintained a lower rate for the Desert Customers than for other interruptible customers because of competition from fuel oil and because it cost less to serve the Desert Customers by reason of their closer location to the source of supply. At that time the relative proximity of the Desert Customers' load to PG&E's principal source of supply, El Paso Natural Gas Company, permitted maintenance of a higher load factor on gas purchased from El Paso to secure the lowest possible cost for all gas from that source. Under Schedule No. G-53, other large interruptible loads (over three times the sales to the present Desert Customers) have developed elsewhere on PG&E's system which now contribute in exactly the same manner as the Desert Customers' load to maintain economic utilization of sources and system capacity.

PG&E points out that the Desert Customers will continue to receive gas through the transmission facilities for which they have paid at rates, either under Schedule No. G-53 or No. G-56, which compare extremely favorably with alternative fuel costs.

2. Staff Position

The Staff contends that the Desert Customers are seeking the continuance of a favorable rate treatment originally justified but presently unwarranted. The Desert Customers' cost allocation studies are based on peak responsibility methods of cost allocation which have never been acceptable to the Commission.

The Staff claims that due to the pipeline distance between the G-56 customers and the heart of PG&E's system in the San Francisco Bay Area, a sudden increase in demand in the latter area cannot be met by a curtailment of G-56 customers, since the gas flow has already passed the G-56 customers' tap. The gas already taken by these customers cannot be directed to the Bay Area.

3. San Francisco Position

San Francisco contends that the proposal to eliminate the G-56 schedule and to include the Desert Customers on the G-53 schedule is fair and reasonable to all gas customers.

4. Desert Customers' Position

As a group the Desert Customers will require 40,000 MMcf of natural gas in 1973 of a total interruptible load of 605,000 MMcf. This compares to 170,000 MMcf required by other large interruptible industrial customers on Schedule No. G-53 and 250,000 MMcf required by PG&E's steam-electric plants.

The Desert Customer contracts with PG&E have generally provided:

a. The customer is to purchase its total fuel requirements from PG&E to the extent interruptible gas is available.

b. The customer is to pay for such interruptible gas at base rates lower than those accorded to other interruptible customers having higher priority.

Certain of the Desert Customer contracts have required the customers to pay for the construction of transmission mains from PG&E's Main No. 300 to the customer's plant.

The Desert Customers contend that there is no justification for canceling Schedule No. G-56 and placing the Desert Customers on Schedule No. G-53. Since 1958 the Desert Customers have paid rates averaging 8 percent below those charged the large interruptible customers on Schedule No. G-53.

The Desert Customers contend that costs of serving them have not increased as much as for other customer classes. In the light of increased costs of alternate fuels, lower levels of service will subject interruptible customers to higher total fuel costs and thereby magnify the impact of increased gas rates. The Desert Customers are captive customers of PG&E.

The Desert Customers contend that the Staff's proposal for a single block rate compounds the inequity, as the single rate gives no recognition to either customer size or load factor, except through the minimum charge. The Desert Customers point out that in proposing an average 16.36 percent increase for firm industrial customers, PG&E eliminated about half of the existing rate differential between firm industrial and general service customers so as not to burden the firm industrial customers with too great an increase at one time. Nevertheless, PG&E proposed a lesser percentage increase for G-53 customers than for the Desert Customers.

The Desert Customers contend that the design peak day method of cost allocation is the only method which enables the Commission to measure changes in cost of service since the last rate proceeding.

Exhibit No. 38 shows the margin of profit based on cost allocation to be 12.97¢ per decatherm for regular interruptible customers and 6.74¢ per decatherm for the Desert Customers. The Desert Customers claim that margin does not measure the benefit to the system derived from serving a particular class, but that the benefit to the system generated by service to a particular class is measured by relating margin to investment. At rates proposed for the test year 1973, a 13.8¢ per decatherm margin on service to the Desert Customers will result from an investment with carrying charges of only 9¢, yielding a rate of return of 15.6 percent. This compares to a 16.58¢ per decatherm margin on service to the other interruptible classes, on an investment with carrying charges of 34¢, or a rate of return of 44 percent. Apart from rate of return, the Desert Customers contend they provide a substantial benefit to firm service customers by virtue of a relative load equation.

5. <u>Resolution of the Issue</u>

We find that the Schedules Nos. G-56 and G-57 should not be withdrawn. The rates authorized for Schedules Nos. G-56 and G-57 will be lower than those authorized for G-53 because the customers served under Schedules Nos. G-56 and G-57 will be curtailed before the customers served under Schedule No. G-53.

C. Are PG&E's proposed interruptible rates fair and reasonable?

PG&E contends that the changed circumstances and factors which support PG&E's proposal with regard to the Desert Customers also support PG&E's proposal with reference to interruptible rates generally, which have been depressed because of competitive fuel costs. The Staff supports PG&E's approach to interruptible rates and points out that the cost of alternate fuel exceeds the rates proposed by PG&E. Both PG&E and the Staff argue that cost allocations are only one factor to be considered in fixing rates and that PG&E's proposal is based on a consideration of all the factors.

PG&E points out that if interruptible industrial rates and costs as presented by CMA in 1955 in Exhibit No. 23 of Application No. 36635 are used, it would reveal that interruptible industrial rates were 46 percent higher than costs in 1955 compared to 40 percent under PG&E's proposed rates in this proceeding. This indicates that interruptible service is of lesser benefit to firm customers than 17 years ago. PG&E argues that since there are no limiting value considerations at this time, it makes little sense to perpetuate a lesser benefit from interruptible service at a time when natural gas is in short supply.

CMA contends that the proposed rates would require interruptible customers to pay for increases in cost of serving general service customers. CMA points out that under the extreme peak day method the cost of serving interruptible industrial customers has increased only 1.9 percent of present rates while the cost for general service customers has increased 22.0 percent. The annual average day method allocates decreased costs without regard to the interruptibility of some classes and the firm rights to service for others. No allocation method more unfavorably to interruptibles has been suggested. Even under this method, the increases in cost of serving interruptibles is less than derived under the rational spread suggested in the table below.

CMA contends that on a basis of a rational spread of cost increases to customer classes, the following increases in revenue for each customer class are required:

	$M	%
General Service	$49,676	13.33%
Firm Industrial	982	6.35
Interruptible Industrial	10,911	6.74
Steam-electric Generation	6,836	7.05
Resale	348	6.38
	$68,753	11.77%

CMA also argues that for years rates for regular interruptible service have been set at high levels in relation to cost in recognition that curtailment has been small. Now that growing demands of firm customers will cause greater curtailment, it is time that the subsidy of firm service by interruptible customers be reduced, not increased.

The increases in interruptible rates to be authorized in the order which follows are not based solely on a consideration of cost studies but are also based on a consideration of other factors in the record justifying the increases in the interruptible rates. The rates authorized for the various classes of interruptible customers take into consideration the curtailment priorities which presently exist and which have been continued in the various interruptible schedules.

D. Are PG&E's proposed firm industrial rates fair and reasonable?

PG&E proposes an overall increase of about 16.4 percent for firm industrial service or 4.6 percent more than the average proposed increase for all gas service. Lower rates for firm industrial service than for general service were introduced 40 years ago to make natural gas more competitive with oil as a fuel for industrial use. At the present time the relatively high price of oil has taken it out of competition with gas. The increase proposed by PG&E for firm industrial service is to eliminate about one-half of the differential between firm industrial service and general service schedules. The utlimate objective is to transfer the existing firm industrial customers to general service schedules, thus eliminating a differential which PG&E claims is no longer justified. The Staff approves of PG&E's approach to increasing the rates for the firm industrial customers. The Staff points out that the Commission has repeatedly refused to rely solely on cost studies in allocating increases in gas rates to the various classes of service.

CMA argues that the elimination of competition is no basis for raising a rate unless the existing rate is depressed by the prior existence of that competition. CMA contends this is not true with regard to the firm industrial rate.

As the existing firm industrial rate exceeds the cost of serving the class under all methods of allocation, CMA claims it is discriminatory to increase the firm industrial rates by a greater amount than the increase for any other rate.

CMA contends that an increase of 6.35 percent based on allocated increases in cost of service is entirely adequate for firm industrial service.

The United States contends that the proposal ultimately to transfer the firm industrial customers to the general service schedule is unfair and unreasonable and argues that PG&E and the

Staff have not given appropriate weight to the factors of cost of service and relationship among the several classes of service.

The Commission agrees with PG&E and the Staff that the spread between the firm industrial and the general service classes should ultimately be closed. The increase authorized herein will eliminate about one-half of the differential between the schedules for these two classes of customers.

E. Are PG&E's proposed resale rates fair and reasonable?

PG&E contends that the proposed resale rates are fair and reasonable. The cost of gas was spread to all rate schedules on a uniform cents per therm basis. The balance was assigned primarily on a percentage of revenue basis to the various classes. This approach resulted in a system average increase of 11.8 percent and an increase to the resale class of 11.8 percent.

Palo Alto contends that the proposed resale rate increase is unfair because it would provide an allocated rate of return of 11.86 percent as opposed to the 8.50 percent proposed overall. Further, the unrecovered cost increase since the last general rate increase is only 5.0 percent for the resale customers but 12.2 percent for the system as a whole. These comparisons are essentially based on cost allocations. Cost allocations to PG&E's own general service customers include transmission level costs and distribution level costs, whereas cost allocation to Palo Alto is restricted to transmission level costs. Thus, there is no basis for meaningful cost allocation comparison. Although the increase proposed for resale customers is only 11.9 percent, there has been a 16.9 percent increase in costs allocated to resale customers.

If Palo Alto passed the increase on to its customers dollar for dollar, Palo Alto customers would experience a lesser increase than PG&E's general service customers. Palo Alto's past practice has been to match PG&E's rates. Thus, if Palo Alto follows its past practice, it will recover revenues 50 percent in excess of its increased cost. Hence, it may be argued that the increase to resale customers is too low.

The Staff points out that the dollar increase per customer is less for the Palo Alto customer (.64 cents per therm) than for PG&E's general service customer (.96 cents per therm) and contends that the increase proposed for Palo Alto is reasonable and certainly so in relation to the general service customers. Both PG&E and the Staff point out that the Commission heretofore has not relied on cost allocation concepts as an exclusive guide in assigning gas rate increases.

Palo Alto contends that the proposed increase in resale rates is so grossly disproportionate that it will amount to a denial of the equal protection of the law. Palo Alto also contends that no greater rate of return should be collected by PG&E from Palo Alto than from the system average as a whole. It argues that to permit a higher rate of return is prejudicial and disadvantageous, in violation of Section 453 of the Public Utilities Code, and unjust and unreasonable in violation of Section 451 of the same code. Palo Alto urges the Commission to order PG&E to respread the rate of return to be authorized to all of the resale customers at a rate not to exceed the rate of return authorized for the system as a whole or to fix such rates itself.

Coalinga adopts the arguments of Palo Alto and makes the same request for revision of its resale rates as that made by Palo Alto.

The Commission will authorize an increase in resale rates for Palo Alto and Coalinga which will approximately equal the overall percentage increase in the authorized rates of PG&E for the reasons set forth by PG&E and the Staff.

F. Should the rate spread incorporate modified reverse rate structuring?

Siegel contends that modified reverse rate structuring should be considered as a means to provide an incentive to promote efficient use of scarce resources.

The reduction in the block rates for interruptible customers to one block rate for each interruptible schedule and the curtailment of the gas supplies to be offered to the interruptible customers provide an appropriate incentive and proper allocation for efficient use of the gas supplies which will be available. It is not necessary to resort to modified reverse rate structuring in this proceeding.

G. Should a minimum use rate be provided for low use customers?

Siegel contends that a minimum use rate such as the "life line" rate in the telephone industry is urgently needed by low use gas consumers. Under Schedule No. G-1, the minimum charge authorized herein for two therms of gas per month to a domestic customer in San Francisco will be $1.37. This rate is already low enough to qualify as a "life line" rate for gas customers.

H. Summary of authorized increases.

The following table is a summary of the authorized increases by class of service for the test year 1973 showing the revenue estimates when the transfers are included, and the revenue estimates when the transfers are excluded. Because of the transfer of Calamco and Valley Nitrogen from Schedule No. G-53 to Schedule No. G-50 and the transfer of other customers which is contemplated by reason of revision of interruptible rate schedules, revenues for regular interruptible customers, excluding transfers, have also been shown to reflect more accurately the percentage increases in rates for the various classes of regular interruptible customers.

TABLE 3

SUMMARY OF AUTHORIZED INCREASES
TEST YEAR 1973

Class of Service	Adopted Revenues at 11-24-71 Rates M$	Revenue at Authorized Rates: Including Transfers: Total M$	Increase M$	%	Excluding Transfers: Total M$	Increase M$	%
General Service	305,967	329,944	23,977	7.84			
Firm Industrial	16,467	18,578	2,111	12.82			
Resale	5,459	5,914	455	8.33			
Subtotal	327,893	354,436	26,543	8.10			
Regular Interruptible							
G-50	70,276	78,451	8,175	11.63	75,858	5,582	7.94
G-51	3,196	3,467	271	8.48	3,460	264	8.26
G-53	70,813	74,097	3,284	4.64	76,217	5,404	7.63
G-56, -57	20,121	22,185	2,064	10.26	22,359	2,238	11.12
Steam Sale	841	907	66	7.85	907	66	7.85
Subtotal	165,247	179,107	13,860	8.39	178,801	13,554	8.20
Steam Electric							
G-55	91,850	99,581	7,731	8.42			
G-55.1	1,070	1,159	89	8.32			
Subtotal	92,920	100,740	7,820	8.42			
Total Sales	586,060	634,283	48,223	8.23			
Other Gas Revenues	297	297	-	-			
Total Operating Revenues	586,357	634,580	48,223	8.22			

Findings

Based upon a consideration of the record herein, the Commission finds as follows:

1. In this proceeding PG&E is seeking authorization for a general increase in gas rates in the amount of $60,770,000 above the rates in effect November 24, 1971, an increase of 10.4 percent.

2. A rate of return of 8.0 percent for PG&E's gas operations is fair and reasonable. A corresponding return on common equity on the capital structure adopted is 11.88 percent.

3. The revenue estimates should be based on present rather than proposed curtailment practices.

4. An estimate of $586,357,000 for gross operating revenue for the test year 1973 at present rates is fair and reasonable.

5. The estimate of $1,801,000 for sales promotion expense during the test year 1973 is reasonable and is adopted.

6. The negative wage increase adjustment of the Staff of $2,334,000 based on a 5.5 percent wage increase for 9 months instead of a 7 percent wage increase for twelve months is reasonable and should be adopted.

7. PG&E should be authorized to advance $3,000,000 per year to NGC for natural gas exploration. Of the $3,000,000 to be advanced to NGC by PG&E during the test year 1973, $1,500,000 should be charged to exploration expense and $1,500,000 should be added to rate base as an investment by PG&E.

8. It is reasonable that the economic benefits, if any, of PG&E's gas and oil exploration program through its subsidiary NGC be passed on to PG&E's gas customers as a reduction in PG&E's cost of gas.

9. The original cost valuation of the McDonald Island underground storage facility used by PG&E and the Staff in this proceeding is fair and reasonable and should be adopted.

10. No adjustments to PG&E's revenues, expenses, and rate base should be made in this proceeding by reason of PG&E's transactions with its subsidiaries Stanpac and PGT.

11. The adopted estimates in Table 1 and Table 2 of the foregoing opinion of operating revenues, operating expenses, net revenue for return, rate base, and rate of return for the test year 1973 at gas rates as of November 24, 1971 and at authorized rates are appropriate to determine PG&E's gross revenue deficiency under present rates and should be used for that purpose.

12. PG&E's net revenue for return at gas rates as of November 24, 1971 from its operations during the 1973 test year produce a rate of return of 5.76 percent on a rate base of $1,022,547,000.

13. PG&E is in need of additional revenues, but the increases it requests would be excessive.

14. PG&E is entitled to increases of $22,951,000 in annual net revenue for return to raise its test year rate of return from the present 5.76 percent to the 8.0 percent hereinabove found to be reasonable.

15. An increase of $48,223,000 in annual gross revenue based upon the test year 1973 is justified. Accordingly, PG&E should be authorized to increase its existing gas rate levels to the extent indicated in Appendix B hereto so as to yield additional annual gross revenues in the amount of $48,223,000 based upon the test year 1973.

16. The authorized increase is consistent with Rule 23.1, effective August 2, 1972, of the Commission's Rules of Procedure:

a. The increase is cost-justified and does not reflect future inflationary expectations;

b. The increase is the minimum required to assure continued, adequate, and safe service and to provide for necessary expansion to meet future requirements;

c. The increase will achieve the minimum rate of return needed to attract capital at reasonable cost and not to impair the credit of PG&E.

d. The increase does not reflect labor costs in excess of those allowed by policies of the Federal Price Commission; and

e. The increase takes into account expected and obtainable productivity gains.

17. All classes of service should bear a portion of the required revenue increase of $48,223,000.

18. The rates authorized by this Commission as set forth in Appendix B hereto reflect a fair and reasonable apportionment of the authorized increase in gross revenues of $48,223,000 to the various classes of service.

19. PG&E's proposal to place curtailment of its steam-electric plants on an equal basis with large interruptible customers should not be adopted.

20. Calamco and Valley Nitrogen should be authorized to continue on Schedule No. G-50 even though their total requirements exceed 24,000,000 therms per year.

21. PG&E's proposed Rule No. 21 should be revised to provide that all interruptible customers shall be classified as follows:

<u>Group 1:</u> PG&E which is served under Schedules Nos. G-55 and G-55.1.

<u>Group 2:</u> All customers served under Schedules Nos. G-56 and G-57.

<u>Group 3:</u> All customers served under Schedule No. G-53.

<u>Group 4:</u> All customers served under Schedules Nos. G-50 and G-51 who have required or will require more than 1,200,000 therms in any consecutive 12-month period.

<u>Group 5:</u> All customers served under Schedules Nos. G-50 and G-51 not in Group 4.

22. The appropriate interruptible schedules should provide that customers other than Calamco and Valley Nitrogen whose total annual gas requirement equal or exceed 24,000,000 therms should be required to be served under Schedules Nos. G-55, G-55.1, G-56, G-57, or G-53, and customers served under such schedules will not be permitted to transfer to any schedule other than the one under which they are served so long as their total annual gas requirements equal or exceed 24,000,000 therms.

23. PG&E should not use gas in storage to provide service to the interruptible customers to the extent that the net effect of such use is to reduce the amount of gas that PG&E has in storage.

24. PG&E should continue to be permitted to rotate curtailment of service from customer to customer within a class.

25. The curtailment rules should not specify the standby facilities that may be required. The customer should provide whatever facilities are necessary in order to use the alternate fuel which he selects.

26. Schedules Nos. G-56 and G-57 should not be withdrawn, and the rates authorized for these schedules should be lower than those authorized for G-53 because the customers served under Schedules Nos. G-56 and G-57 will be curtailed before customers served under Schedule No. G-53.

27. The increases in the interruptible rates to be authorized herein are based on a consideration of cost studies, competitive fuel costs, the benefit to firm customers which results from PG&E's serving the interruptible customers, and the curtailment priorities of the interruptible classes. The interruptible rates in Appendix B are fair and reasonable.

28. As the relatively high price of fuel oil has taken it out of competition with gas, the spread in rates between the firm industrial and the general service classes should ultimately be closed. The increase in firm industrial rates authorized herein will

eliminate about one-half of the differential between the schedules of these two classes of customers and is fair and reasonable.

29. An increase in PG&E's resale rates for Palo Alto and Coalinga which approximately equals the overall percentage increase in the authorized rates of PG&E is fair and reasonable.

30. The reduction in the block rate for interruptible customers to one block rate for each interruptible schedule and the curtailment of the gas supplies to be offered to the interruptible customers provide an appropriate incentive and proper allocation for efficient use of the gas supplies which will be available. It is not necessary to resort to modified reverse rate structuring in this proceeding.

31. Minimum use rates are already provided for low use gas customers.

32. The estimated increases in revenues as set forth in Table 3 above resulting from the rates to be authorized herein are fair and reasonable.

33. The increases in rates and charges and the other tariff changes authorized herein are justified.

34. The rates, charges, and the other tariff changes authorized herein are just and reasonable, and present rates and charges, insofar as they differ therefrom, are for the future unjust and unreasonable.

Conclusions

Based upon a consideration of the record and the foregoing findings, the Commission concludes as follows:

1. The application herein should be granted to the extent set forth in the preceding findings and in the following order and in all other respects should be denied.

2. PG&E should be ordered to submit its agreement with NGC for gas and oil exploration to this Commission for approval.

3. PG&E should be ordered to keep the Commission and its staff fully informed of the status of gas and oil development projects, the allocation of suspense funds of NGC to exploration expense and to

capital investment, and proposed new ventures under its gas and oil exploration and development program by periodic special reports and conferences.

4. PG&E should be directed not to use gas in storage to provide service to interruptible customers when the net effect of such use would be to reduce the amount of gas PG&E has in storage.

5. PG&E should be directed within sixty days to propose a revision of the exclusive use contract provisions which require interruptible customers to use gas if gas is available in order to enable interruptible customers more easily to contract for the alternate fuel supplies which they will need as a result of the curtailment of gas.

6. All motions consistent with these findings and conclusions and the order herein should be granted, and those inconsistent therewith should be denied.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company is authorized to file with this Commission, on or after the effective date of this order, revised tariff schedules with changes in rates, charges, conditions, and rules as set forth in Appendix B attached hereto. Such filing shall comply with General Order No. 96-A. The effective date of the revised rate schedules shall be one day after the date of filing. The revised rate schedules shall apply only to service rendered on and after the effective date thereof.

2. Pacific Gas and Electric Company shall not use gas in storage to provide service to interruptible customers when the net effect of such use would be to reduce the amount of gas Pacific Gas and Electric Company has in storage.

3. Within sixty days from the effective date of this order, Pacific Gas and Electric Company shall file a proposed revision of the exclusive use contract provisions which require interruptible customers to use gas if gas is available in order to enable interruptible customers more easily to contract for the alternate fuel supplies which they will need as a result of the curtailment of gas.

4. Within sixty days after the effective date of this order, Pacific Gas and Electric Company shall submit its agreement with Natural Gas Corporation for oil and gas exploration to this Commission for approval.

5. Pacific Gas and Electric Company shall keep the Commission and its staff fully informed of the status of gas and oil development projects, the allocation of suspense funds of Natural Gas Corporation to exploration expense and capital investment, and proposed new ventures under its gas and oil exploration and development program by filing quarterly reports with the Commission on or before the twenty-fifth day succeeding the end of each calendar quarter.

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6. All motions consistent with the findings, conclusions, and order set forth above in this decision are granted, and those inconsistent therewith are denied.

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

Dated at San Francisco, California, this 19th day of DECEMBER, 1972.

I dissent (in part) and (in part) concur.

President

Commissioners

LIST OF APPEARANCES

Applicant: John C. Morrissey, Malcolm H. Furbush, and Robert Ohlbach, Attorneys at Law, for Pacific Gas and Electric Company.

Protestants: Charles H. McCrea, Attorney at Law (Nevada), for Southwest Gas Corporation; William M. Bennett, Attorney at Law, for Consumers Arise Now; John Patterson, for Community Neighbors near his Home; Ireta E. Shunolm, for self; Robert Dennis Soza, for self; Richard T. Franco and Gilbert T. Graham, Attorneys at Law, San Francisco Neighborhood Legal Assistance Foundation, for William H. Mitchell, a PG&E ratepayer, and all other customers of PG&E in San Francisco similarly situated; Jeffrey Freed, for Teachers Caucus-American Federation of Teachers Venceremos Organization; and Mrs. Sylvia M. Siegel, for self and San Francisco Consumer Action.

Intervenor: Curtis L. Wagner, Jr., Chief, and James E. Armstrong, Regulatory Law Office, Office of the Judge Advocate General, Department of the Army, and Charles F. Miller, Jr., Administrative Law Branch, Office of the Army Staff Judge Advocate, Headquarters Sixth U. S. Army, for the Secretary of Defense on behalf of the consumer interest of all Executive Agencies of the United States.

Interested Parties: Robert K. Booth, Jr., Senior Assistant City Attorney, and Peter G. Stone, City Attorney, for City of Palo Alto; Thomas M. O'Connor, City Attorney, Milton H. Mares, Deputy City Attorney, and Robert Laughead, for City and County of San Francisco; Robert E. Burt and Brobeck, Phleger & Harrison, by Gordon E. Davis and Larry Hultquist, Attorneys at Law, for California Manufacturers Association; William L. Knecht and William S. Marrs, Attorneys at Law, for California Farm Bureau Federation; Thomas J. Gundlach, Attorney at Law, for People's Lobby, Inc.; R. E. Woodbury, R. J. Cahall, and H. R. Barnes, Attorneys at Law, for Southern California Edison Company; James H. Lindley, Attorney at Law, and Edward A. Boehler, for California Ammonia Company; Graham and James, by Boris H. Lakusta, Attorney at Law, and James H. Lindley, Attorney at Law, for Valley Nitrogen Producers, Inc.; K. R. Edsal, R. W. McKinney and F. A. Peasley, Attorneys at Law, for Southern California Gas Company; Tim DePace, for self; Morrison, Foerster, Holloway, Clinton & Clark, by Robert D. Raven and Marc P. Fairman, Attorneys at Law, for Kerr-McGee Corporation, California Portland Cement Company, Riverside Cement Division of American Cement Company; Morrison, Foerster, Holloway, Clinton & Clark, by Robert D. Raven and Marc P. Fairman, Attorneys at Law, and

O'Donnell, Waiss, Wall & Meschke, by Frederick S. Waiss, Attorneys at Law, for Stauffer Chemical Company; Jim Lipary, for self; Overton, Lyman & Prince, by Donald H. Ford, Attorney at Law, for Southwestern Portland Cement Company; and Henry T. Leckman, City Attorney, for the City of Coalinga.

Commission Staff: Timothy E. Treacy and Richard D. Gravelle, Attorneys at Law, Colin Garrity and John J. Gibbons.

APPENDIX B

RATES - PACIFIC GAS AND ELECTRIC COMPANY

Applicant's rates, charges, rules, and conditions are changed to the level of extent set forth in this appendix.

A. <u>Preliminary Statement</u>

Add Section 7.1 "Gas and Oil Exploration Charge and Related Revenues and Refunds" to the Preliminary Statement:

7.1 Gas and Oil Exploration Charge and Related Revenues and Refunds:

The rates herein contain a charge for the costs of a gas and oil exploration program. After the end of calendar year 1973 and each year thereafter until such charges are disallowed by the Commission, the Company will review the cost of its exploration program. If such costs are higher or lower than $1,500,000, the Company may, as part of a rate application, request adjustment of the $1,500,000 allowance. All revenues derived from the gas and oil exploration program shall be included in the operating revenues of the Company and, if of an unusually large magnitude and of infrequently recurring nature, such as might occur from the sale of an interest in a developing or developed project, shall be refundable to its customers.

<u>B RATE SCHEDULES - EFFECTIVE RATES</u>

File revised tariff schedules with the following effective rates, which include tracking offset increases of 0.048 cent per therm, effective after November 24, 1971, and on or before August 12, 1972, filed pursuant to Decision No. 79383, and an offset increase of 0.107 cent per therm effective December 5, 1972, filed pursuant to Decision No. 80794.

GENERAL NATURAL GAS SERVICE - BASIC ZONES

RATES

Commodity Charge:

	Per Meter Per Month G-1	G-2	G-3	G-4	G-5
First 2 therms, or less	$1.3651	$1.4701	$1.5781	$1.7401	$2.0081
Next 23 therms, per therm	8.355¢	8.725¢	9.145¢	9.575¢	10.345¢
Next 175 therms, per therm	7.975¢	8.245¢	8.475¢	8.695¢	9.155¢
Next 800 therms, per therm	7.685¢	7.765¢	7.805¢	7.875¢	7.995¢
Next 49,000 therms, per therm	7.585¢	7.595¢	7.615¢	7.625¢	7.655¢
Over 50,000 therms, per therm	7.345¢	7.345¢	7.345¢	7.345¢	7.345¢

Minimum Charge: The charge for the first two therms.

GENERAL NATURAL GAS SERVICE - SUBZONES

RATES

Commodity Charge:

	Per Meter Per Month G-7	G-11	G-12	G-13
First 2 therms, or less	$1.7941	$2.2221	$2.5971	$2.9181
Next 23 therms, per therm	10.885¢	12.085¢	12.815¢	14.885¢
Next 175 therms, per therm	10.285¢	11.005¢	11.465¢	12.805¢
Next 800 therms, per therm	9.645¢	10.015¢	10.275¢	11.385¢
Next 49,000 therms, per therm	9.455¢	9.725¢	9.925¢	11.195¢
Over 50,000 therms, per therm	9.025¢	9.025¢	9.025¢	10.225¢

Minimum Charge: The charge for the first two therms.

The rate applicable to gas air conditioning service on Schedules Nos. G-1 through G-13 shown above shall be 5.912¢ per therm under the conditions specified in the existing rate schedules.

PUBLIC OUTDOOR LIGHTING NATURAL GAS SERVICE

RATES

	Per Group of Lights Per Month G-30
First 10 lights or less	$17.25
For each additional gas light	$1.73
For each cubic foot per hour of total rated capacity for the group in excess of either 1.5 cubic feet per hour per light, or 15.0 cubic feet per hour for the group, whichever is greater	$0.530

FIRM INDUSTRIAL NATURAL GAS SERVICE

RATES

Commodity Charge:

	Per Meter Per Month G-40	Per Meter Per Month G-41
First 1,000 therms, per therm	7.665¢	8.205¢
Next 9,000 therms, per therm	7.365¢	7.895¢
Next 40,000 therms, per therm	7.235¢	7.765¢
Over 50,000 therms, per therm	7.065¢	7.625¢

Minimum Charge: The charge for the first 1,000 therms per meter per month, accumulative annually.

The rate applicable to gas air conditioning service on Schedules Nos. G-40 and G-41 shown above shall be 5.912¢ per therm under the conditions specified in the existing rate schedules.

INTERRUPTIBLE NATURAL GAS SERVICE

RATES

Commodity Charge:

	Per Meter Per Month G-50
First 10,000 therms, per therm	6.860¢
Next 20,000 therms, per therm	6.440¢
Next 30,000 therms, per therm	6.267¢
Next 40,000 therms, per therm	6.108¢
Over 100,000 therms, per therm	4.886¢

Minimum Charge: The charge for the first 5,000 therms per meter per month, accumulative annually.

RATES

Commodity Charge:

	Per Meter Per Month G-51
First 10,000 therms, per therm	7.234¢
Next 20,000 therms, per therm	6.815¢
Next 30,000 therms, per therm	6.633¢
Next 40,000 therms, per therm	6.482¢
Next 900,000 therms, per therm	5.261¢
Over 1,000,000 therms, per therm	4.886¢

Minimum Charge: The charge for the first 5,000 therms per meter per month, accumulative annually.

RATES

Commodity Charge:

	Per Meter Per Month G-53
For all gas deliveries, per therm	4.482¢

Minimum Charge: The charge for the first 2,000,000 therms per meter per month, accumulative annually.

INTERRUPTIBLE NATURAL GAS - STEAM ELECTRIC GENERATING PLANTS

	Per Meter Per Month G-55	Per Meter Per Month G-55.1
RATES		
Commodity Charge:		
For all gas deliveries, per therm	4.2761¢	4.734¢

INTERRUPTIBLE NATURAL GAS - OTHER

	Per Meter Per Month G-56	Per Meter Per Month G-57
RATES		
Commodity Charge:		
For all gas deliveries, per therm	4.351¢	4.351¢

Minimum Charge: The charge for the first 2,000,000 therms per meter per month, accumulative annually.

RESALE NATURAL GAS SERVICE

	Per Month G-60	Per Month G-61
RATES		
Demand Charge:		
Based on the maximum billing month consumption, per Mcf.	9.8¢	9.8¢
Commodity Charge:		
To be added to the Demand Charge: for all gas deliveries, per therm	4.605¢	4.565¢

Minimum Charge:

The minimum charge shall be the monthly demand charge.

RESALE NATURAL GAS SERVICE (Continued)

	Per Month G-62
RATES	
Demand Charge:	
Based on maximum billing month consumption	
Per Mcf of firm service in maximum month	8.6¢
Per Mcf of interruptible service in maximum month	2.7¢
Commodity Charge:	
To be added to the Demand Charge:	
For all gas deliveries, per therm	4.375¢

Minimum Charge:

The minimum charge shall be the monthly demand charge.

C. RATE SCHEDULES - OTHER CHANGES

1. Zoning

Transfer Cushenbury Springs Rate Area from Zone 12 to Zone 5, and transfer Ione - Jackson Rate Area from Zone 12 to Zone 11. Transfer Schedule No. G-41 customers in the Ione - Jackson Rate Area to Schedule No. G-40. Cancel the Cushenbury Rate Area Maps. Revise the Index of Rate Areas and Index of Communities, accordingly.

2. Public Outdoor Lighting - Natural Gas Service

In Special Condition 6 of Schedule No. G-30, delete the fourth from the last sentence (beginning "These refunds ... ") and substitute:

"For such new load the Utility will refund an amount based on the footage that the allowable free length under Section B of Rule No. 15 exceeds the length of main (if any) required to serve, multiplied by the unit cost per foot specified in Section B.3.a.(1) of the rule in effect at the time the extension was originally constructed."

3. Gas Engine Agricultural Service

Cancel Schedule No. G-45 and transfer customers thereon to the most advantageous schedule.

4. Interruptible Service

a. Schedules Nos. G-50 and G-51:

(1) Revise Special Conditions 2 and 3 to read as follows:

C. <u>RATE SCHEDULES - OTHER CHANGES</u> (Continued)

2. Service under this schedule is subject to discontinuance in whole or in part without notice in case of an actual or anticipated shortage of natural gas resulting from an insufficient supply in the fields, inadequate transmission or delivery capacity or facilities, or storage requirements. The Company will not be liable for damages occasioned by interruption or discontinuance of service supplied under this schedule.

3. No customer shall be entitled to service hereunder unless adequate standby equipment and fuel are provided and are ready at all times for immediate operation in the event that the supply of gas hereunder shall be discontinued in whole or in part.

(2) Add Special Condition 4, as follows:

4. No customer or applicant, whose total requirement exceeds or is estimated to exceed 24,000,000 therms in any consecutive twelve-month period, shall be served hereunder after December 31, 1972. Customers being served on this schedule as of this date whose requirements exceed 24,000,000 therms in any consecutive twleve-month period, have the option to remain on this schedule or to transfer to another schedule; however, if the customer transfers to a schedule having lesser charges he cannot transfer back to this schedule except under the provisions of Special Condition 5.

(3) Add Special Condition 5, as follows:

5. A customer whose total annual requirement exceeds 24,000,000 therms and is served on Schedules G-53, G-56 or G-57 as of December 31, 1972 cannot transfer to this schedule unless its requirements are reduced to meet the first provision of Special Condition 4. Further, if, after transferring to this schedule the customer's requirements again increase to exceed 24,000,000 therms, it will be required to revert to an appropriate lower priority schedule.

b. Schedule No. G-53:

(1) Revise Territory to read as follows:

The entire territory served natural gas by the Company, except in:

Portions of Kern County as follows:

1. Section 24, T11N, R14W, S.B.B.&M.
2. Section 19, T11N, R7W and Sections 22, 23 and 24, T11N, R8W, S.B.B.&M.

C. RATE SCHEDULES - OTHER CHANGES (Continued)

Portions of San Bernardino County as follows:

1. Sections 11 and 14, T3N, R1E, S.B.B.&M.
2. Section 4, T5N, R4W, S.B.B.&M. and the SE¼ of Section 8, T6N, R2W, S.B.B.&M.
3. Section 18, T6N, R4W, S.B.B.&M.
4. Section 6, T26S, R43E, M.D.B.&M.
5. Section 17, T25S, R43E, M.D.B.&M.
6. NW¼ of Section 23, Township 9N., Range 1 E., S.B.B. and M.

(2) Revise Special Conditions 2 and 3 to read as follows:

2. Service under this schedule is subject to discontinuance in whole or in part without notice in case of an actual or anticipated shortage of natural gas resulting from an insufficient supply in the fields, inadequate transmission or delivery capacity or facilities, or storage requirements. Such discontinuance will be before service is discontinued under Schedules Nos. G-50 and G-51 when in the sole judgment of the Company such sequence is practicable. Service supplied under this schedule shall be subject to discontinuance as provided for in Rule No. 21. The Company will not be liable for damages occasioned by interruption or discontinuance of service supplied under this schedule.

3. No customer shall be entitled to service hereunder unless adequate standby equipment and fuel are provided and are ready at all times for immediate operation in the event that the supply of gas hereunder shall be discontinued in whole or in part.

c. Revise the Special Condition of Schedules Nos. G-55 and G-55.1 to read as follows:

"SPECIAL CONDITION

Service under this schedule is subject to discontinuance in whole or in part without notice in case of an actual or anticipated shortage of natural gas resulting from insufficient supply in the fields, inadequate transmission or delivery capacity or facilities, or storage requirements. Such discontinuance will be before service is discontinued under Schedules Nos. G-50, G-51, G-53, G-56 and G-57 when such sequence is practicable. Service supplied under this schedule shall be subject to discontinuance as provided for in Rule No. 21. During periods of existing or threatened emergencies, the Company may serve steam-electric generating plants with priority over other interruptible gas customers. If said emergency arises, the curtailment of interruptible gas customers shall be held to a minimum and the California Public Utilities Commission shall be immediately notified of the circumstances causing the emergency."

C. RATE SCHEDULES - OTHER CHANGES (Continued)

d. Revise the Special Condition of Schedules Nos. G-56 and G-57 to read as follows:

(1) Revise Special Conditions 2 and 3 to read as follows:

2. Service under this schedule is subject to discontinuance in whole or in part without notice in case of an actual or anticipated shortage of natural gas resulting from an insufficient supply in the fields, inadequate transmission or delivery capacity or facilities, or storage requirements. Such discontinuance will be before service is discontinued under Schedules Nos. G-50, G-51 and G-53 when in the sole judgment of the Company such sequence is practicable. Service supplied under this schedule shall be subject to discontinuance as provided for in Rule No. 21. The Company will not be liable for damages occasioned by interruption or discontinuance of service supplied under this schedule.

3. No customer shall be entitled to service hereunder unless adequate standby equipment and fuel are provided and are ready at all times for immediate operation in the event that the supply of gas hereunder shall be discontinued in whole or in part.

D. RULES

File Rule No. 21, "Curtailment of Interruptible Natural Gas Service," as follows:

RULE NO. 21

CURTAILMENT OF INTERRUPTIBLE NATURAL GAS SERVICE

The amount and sequence of reductions or discontinuances of natural gas service (herein called curtailment) to each customer under interruptible service tariff schedules, as provided therein, shall be in accordance with the following provisions:

A. Classification of Customers - All interruptible natural gas customers shall be classified as follows:

Group 1: All customers served under Schedules Nos. G-55 and G-55.1.

Group 2: All customers served under Schedules Nos. G-56 and G-57.

Group 3: All customers served under Schedule No. G-53.

Group 4: All customers served under Schedules Nos. G-50 and G-51 who have required or will require more than 1,200,000 therms in any consecutive 12-month period.

Group 5: All customers served under Schedules Nos. G-50 and G-51 not in Group 4.

D. RULES (Continued)

RULE NO. 21

CURTAILMENT OF INTERRUPTIBLE NATURAL GAS SERVICE

B. Definitions:

(1) Curtailment Year - The period beginning July 1 of each calendar year and extending through June 30 of the succeeding calendar year.

(2) Unit of Demand - For each Group 1, Group 2 and Group 3 customer the unit of demand shall be the average daily therm requirement of that customer during normal operations in the immediately preceding curtailment year or such average daily requirement in the immediately preceding month of May, whichever is higher. In determining the unit of demand, changes in a customer's requirement caused by an addition or reduction in facilities or by a definite change in operations may be considered by the Utility.

A unit of demand shall be determined by the Utility for each Group 1, 2 and 3 customer as of the first day of each curtailment year. On or before August 1 of each curtailment year, the Utility shall transmit in writing to each Group 1, 2 and 3 customer and to the Public Utilities Commission a statement of that customer's unit of demand and the computation thereof.

(3) Requirement - A customer's requirement for any period is the sum of the customer's metered usage in therms and the customer's curtailed volume in therms during that period.

C. Procedure:

(1) Curtailment of service to each Group 1, 2 and 3 customer in each curtailment year shall be in the proportion that the customer's unit of demand bears to the sum of all such units of demand.

(2) Group 1, 2 and 3 curtailed units of demand shall be determined from metered hourly flows. The average hourly flow during the last full day of normal operation (excluding Saturdays, Sundays and the following holidays: New Year's Day, Washington's Birthday, Memorial Day, Independence Day, Labor Day, Veterans' Day, Thanksgiving Day, and Christmas Day, as said days are specified in Public Law 90-363 (U.S.C.A. Section 6103)) prior to curtailment, will be the base demand rate for the determination of curtailed units of demand. The curtailed volume for calculation of curtailed units of demand or fractions thereof will be equal to the measured reduction in hourly flow rate from this base multiplied by the number of hours at each level of curtailment until the utility notifies user that full service may be resumed.

(3) The allocation of curtailment to Groups 1, 2 and 3 customers, respectively, insofar as possible, shall be rotated to maintain the same number of accumulated curtailed units of demand for each Group 1, 2 and 3 customer during each curtailment year. Upon written request of any Group 1, 2 or 3 customer made prior to the beginning of

D. RULES (Continued)

RULE NO. 21

CURTAILMENT OF INTERRUPTIBLE NATURAL GAS SERVICE

any curtailment year, the utility shall allocate curtailment in fractional units of demand to that customer in that curtailment year when practicable to do so and when full curtailment of Groups 1, 2 or 3, respectively, is not required.

(4) Service to Groups 2, 3, 4 and 5 shall be curtailed in sequence at such times as service to Group 1 is fully discontinued and further curtailment is required. Each group is to be fully discontinued before any curtailment is made to the next succeeding group.

(5) Groups 4 and 5 will be subdivided into blocks of customers, among which blocks curtailment will be rotated at such times as full discontinuance for the group is not required. In each curtailment year, service to each seasonal customer in Groups 4 and 5 will be curtailed in the same proportion of annual requirements that all non-seasonal customers in the same group were curtailed in the preceding curtailment year.

(6) To the extent that curtailed units of demand are not equal among users in Groups 1, 2 or 3 at the end of any curtailment year or that a cycle of rotation among the blocks of Groups 4 or 5 is incomplete at the end of any curtailment year, the deviation shall be corrected by the Utility as soon as possible in the succeeding curtailment year

(7) As an exception to the foregoing procedures, the first curtailments in any curtailment year will be rotated among all interruptible gas customers, regardless of group assignment, until all interruptible gas customers have been curtailed once. Such curtailment to Groups 1, 2 and 3 customers shall be included in their accumulated curtailed units of demand.

(8) The foregoing procedures do not apply to local and emergency conditions that require curtailment, which will be handled in such manner as immediate operating conditions appear to require at the time.

D. Interruptible Resale Service - Service under Schedule No. G-62, resold to interruptible customers of other utilities, shall be subject to curtailment in the same manner as if such interruptible customers were customers of the Utility. Such interruptible customers shall be included in the grouping of the Utility's customers and service shall be curtailed by the supplying utility at the same time as the Utility's customers in the same group and block.

D. W. HOLMES, COMMISSIONER, Concurring in Part and Dissenting in Part:

I concur in all the findings of the instant decision with the exception of the $3 million allocation to oil and gas exploration. I am fully aware that the current energy crisis demands new methodological remedies in order to provide continuing sources of power for the California consumer. Because of this belief it is most difficult to dissent to any new proposal which will obtain those sources. However, in my opinion, there is no more speculative investment than one in oil and gas exploration. Any time that a speculative investment is made it should be on a purely voluntary basis. Here the company is being allowed to require its ratepayers to make an involuntary investment in a speculative undertaking.

My recommended alternative approach would be to permit the company to advance interest-free moneys in return for future guaranteed sources of energy, or return of the principal amounts to the utility, for the benefit of the ratepayers, within a five-year period. This has been proposed by several other companies and seems to be a much sounder approach. In the event that this alternative would not assure sufficient supplies of energy for the California consumer, I would suggest that an OII be instituted by which the Commission might determine the best available alternatives for the guarantee of necessary power.

Commissioner

Dated at San Francisco, CA
December 19, 1972