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Decision No. 82137

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for authority to revise its gas service tariff to offset the effect of an increase in the price of gas from El Paso Natural Gas Company. (Gas)	Application No. 54127 (Filed June 26, 1973)

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

James J. Cherry, Attorney at Law, for San Francisco Consumer Action; Sylvia M. Siegel, for herself, TURN, Consumer Federation of California, Alameda County Consumer Action, and Consumer United; Robert K. Booth, Jr., City Attorney, for the City of Palo Alto; and Howard Wallace, for himself; protestants.

Brobeck, Phleger & Harrison, by Gordon E. Davis, Attorney at Law, for California Manufacturers Association; Henry F. Lippitt, II, Attorney at Law, for California Gas Producers Association; and Edward A. Boehler, for California Ammonia Company; interested parties.

Walter H. Kessenick, Attorney at Law, for the Commission staff.

OPINION AND ORDER

By this application Pacific Gas and Electric Company (PG&E) seeks to offset an increase in the price of gas delivered to it by El Paso Natural Gas Company (El Paso) from out-of-state sources. PG&E proposes to increase its gas rates by a uniform 0.151 cent per therm and alleges that that increase will no more than enable its Gas Department to continue to earn the same rate of return now experienced. It contends that that return is less than rate of return (8 percent) found reasonable in PG&E's last general rate decision (No. 80378 in Application No. 53118 issued December 19, 1972).

The El Paso rate increase will raise the costs of PG&E's interstate gas supply (the increase became effective November 2, 1973[1/]) subject to reduction and refund if ordered by the Federal Power Commission pursuant to provisions of the Natural Gas Act.

The proposed offset would affect the classes of consumers as set forth below:

TABLE I

Class	Dollars (M)	Percent Increase
General Service	$ 5,345	1.6%
Firm Industrial	368	2.1
Resale	152	2.5
Interruptible		
Regular	5,473	3.1
Steam Electric	3,727	3.5
	$15,065	Average 2.3%

1/ FPC Docket RP 73-104.

Hearings were held before Examiner Gilman in San Francisco on September 24, 25, 26, and 27, 1973 on a common record with Phase II hearings on Application No. 53866.2/

PG&E's direct case consisted of the testimony of its Vice President, Rates and Valuation. He indicated the effect of the expected El Paso increase on Gas Department costs and return. He also explained the revenue and cost effect to PG&E of the supply curtailments imposed on El Paso.3/ As a result of this decrease and other supply difficulties, he claimed that there would be less gas available for interruptible customers and, consequently, a decline in revenues exceeding the decline in cost of gas. He indicated that the El Paso rate increase would amount to 4.40¢ per Mcf and that the appropriate purchase volume was 343,090 MMcf.

The staff witness challenged the company's estimate of El Paso gas supply and its calculation of the unit price. He calculated that El Paso under its present tariff is receiving from PG&E a demand charge of $20,588,000 per year plus a commodity charge of 35.20¢/Mcf. Based on PG&E's estimated 1973 volumes of 343,090 MMcf, the total cost under this calculation would be $141,356,000 or 41.20¢/Mcf.

2/ That application sought rate increases to offset increased costs of Canadian and California gas. After Phase I hearings, Decision No. 81590 in Application No. 53866 granted PG&E an interim refundable offset increase for the increased price of Canadian gas; to date no relief has been granted for California gas price increases. Phase II hearings were held to establish finally whether and to what extent PG&E was entitled to permanent offset relief and also to resolve finally certain issues left unresolved in Decision No. 79873 in Application No. 52565 and Decision No. 80794 in Application No. 53552. A separate decision will be issued in that proceeding since it involves issues not present herein.

3/ Required by FPC Opinions 634 and 634A.

He made his own estimate of test year volumes - 328,855 MMcf, based on an El Paso filing with the FPC (RP 73-104). He concluded that PG&E was entitled to an increase of no more than $10,129,000.

Volumes

Staff asserts that the appropriate purchase volume to be used in calculating the revenue requirements is 328,855 MMcf. It has adopted this figure from a pleading filed with the FPC by El Paso. This figure represents El Paso's forecast of 1974 deliveries.

PG&E supports an estimate of 343,090 MMcf based on its 1973 deliveries. PG&E also provided its own 1974 projection (293,402 MMcf).

There is, of course, no special significance in the date attached to an estimate; the real question is whether it accurately represents the future. Use of a 1973 estimate would be appropriate if this were a proposal for retroactive relief. However, it is not. The offset procedure is designed to accommodate changes which are expected to have their impact during the period between the effective date of this order and the effective date of PG&E's next general rate proceeding.

There is little reason to believe that El Paso will be able to continue delivering as much gas as it has in the immediate past. This leads us to discount the reliability of a projection based only on 1973 experience. We will therefore use a figure which is a rounded average of the 1974 estimates, since both are equally well supported by the evidence of record.

We find that:

1. PG&E will be able to purchase 311,000 MMcf/year from El Paso in the near-term future.

Amount of Increase

Both staff and PG&E calculate the price increase by comparing the new unit cost with a unit cost determined at some point in the past. The staff and PG&E differ as to the proper past cost to be used in the formula. If we applied PG&E's method to our estimated 1974 consumption, it would be entitled to nearly $14,000,000/year in increased revenue. Under the staff's calculation, it would be entitled to less than $9 million.

El Paso's charges to PG&E under the tariff in effect prior to November 2, 1973 consisted of two elements - the so-called demand charge and a commodity charge. The latter is simply a charge of 35.20 cents for every Mcf of gas actually delivered. It was based on El Paso's variable expenses - primarily consisting of El Paso's cost of purchased gas. The demand charge, however, is a fixed charge ($20,588,000/year) which PG&E would have been required to pay regardless of the amount of gas purchased. The charge was originally established as a rough equivalent to El Paso's fixed system costs, allocable to its service to PG&E. Nevertheless, the demand charge was keyed to a delivery of 1140 MMcf/day. Under this tariff PG&E's unit cost of El Paso gas increased as deliveries decreased.

El Paso has proposed a new rate structure which, in effect, eliminates the demand charge and fixes a new unit charge at a level to cover both fixed and variable costs. These new rates were effective November 2, 1973.

Both staff and PG&E agree that the new unit cost will be 44.55¢/Mcf. The evidence shows that PG&E's unit cost of El Paso gas underlying its January 3, 1973 rates, based on a contract demand of 1140 MMcf per day, was 40.15¢ per Mcf. Toward the end of 1972 when El Paso reduced its deliveries to PG&E to 940 MMcf per day, the unit cost of that gas increased to 41.20¢ per Mcf.

PG&E expects El Paso to refund $3,581,000, which sum is intended to retroactively cancel the increase in unit cost caused by curtailment. PG&E plans to pass this refund through to its consumers.

PG&E contends that we should measure the amount of the effective cost increase by comparing the new unit price with the 40.15¢ price level; the staff contends that, for any estimated volume less than 1140 MMcf/day, the new price should be compared with the higher post-curtailment unit price corresponding to that same volume. PG&E claims that the staff method would require it to absorb the difference between El Paso unit cost before curtailment and the new unit cost and to give it future relief only for the difference between the post-curtailment unit cost and the new unit cost.

The PG&E method gives effect to three different occurrences: The curtailment which raised the unit cost, a hoped-for refund which would retroactively cancel out the unit cost increase, and, finally, a flow-through of this refund to consumers. This latter event, instead of being used to readjust the old unit cost, is considered as belonging in an "other expense" category. This last step is the fundamental difference between the staff and PG&E unit costs; if PG&E had treated the flow-through to consumers as an entry in the gas cost category, it would have offset the effect of the El Paso refund, and PG&E's and staff's old unit cost would have been the same.

However, PG&E, by treating the consumer refund as an increase in its total operating expenses, is claiming a nonrecurring transaction as a continuing future expense. In setting PG&E's rates for the future, we should not make an allowance for this nonrecurring item; consequently, we will reject the PG&E method of calculating the old price.

The staff method can be verified in the following manner. The El Paso tariff in effect at the time of Decision No. 80878, supra, used two price elements: a charge for each Mcf delivered and an invariable annual charge. The new rate structure will increase the cost per Mcf by 9.35¢ and decrease the total annual charge by $20,588,000. Multiplying the 9.35¢ by PG&E's estimate of 1973 supplies and subtracting $20,588,000 produces a predicted net cost increase of $11,491,000 which, except for rounding errors, agrees with what the staff contends should have been PG&E's result. Multiplying the 9.35¢ by our estimate of near-term future supplies and subtracting $20,588,000 produces a net cost increase of $8,490,000. Spread over PG&E's total sales[4] after adjustment for franchises and uncollectibles, and a credit for storage injection, this increased cost would nearly be offset by a 0.088¢/therm rate increase.

In adopting this approach, we have expressly avoided a finding as to whether a refund will or should be made to PG&E; that is a matter within the jurisdiction of the Federal Power Commission. Likewise, we will not attempt to determine whether any refund that is made must be flowed through to consumers; that issue was not litigated, and, under the calculation we have adopted, is immaterial to the determination of just and reasonable future rates.

4/ On the basis of 1/3 El Paso to 2/3 California and Canadian gas.

We further find that:

2. After November 2, 1973 El Paso's charges to PG&E will be increased from 35.20¢ to 44.55¢/Mcf and will be reduced by elimination of the $20,588,000/year charge.

3. The net effect of the El Paso price change and delivery curtailment will increase PG&E's cost of El Paso gas by $8,490,000.

4. A uniform 0.088¢/therm gas rate increase will produce a revenue increase of $8,449,000.

5. A uniform 0.088¢/therm gas rate increase will not cause PG&E's Gas Department rate of return to exceed 8 percent.

Environmental Issues

San Francisco Consumer Action claims that this rate increase, and more particularly the uniform cents/therm type of rate spread, is a project within the meaning of the California Environmental Quality Act and that an Environmental Impact Report is required. We have already rejected a similar contention in Decision No. 81590 in Application No. 53866 and no further discussion is needed.

Consumer Action also contends that, even if no EIR is necessary, we must nevertheless withhold rate relief indefinitely while someone[5/] designs and litigates a different rate spread specifically designed to accomplish environmental goals. Movant apparently envisions a rate spread under which some classes of consumer would pay less and others more than a rateable proportion of the increase, with the disproportion being great enough to significantly alter consumption patterns. Such a proposal would certainly generate substantial controversy between groups of consumers and could not be adopted without substantial additional delays.

Even if we were to assume that a different rate spread would ultimately produce environmental benefits, the expected benefit

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5/ It is not clear whether Consumer Action feels that this burden is on our staff or on PG&E.

bears no logical relationship to either the amount or the timing of the El Paso cost increase, or to the timing of an offsetting rate increase.

We further find that:

6. It would be arbitrary and unreasonable to delay offset rate relief to PG&E in order to consider some other form of rate spread.

7. PG&E's present gas rates will after November 2, 1973 be unjust and unreasonable, and a rate increase of 0.088¢/therm is just and reasonable.

IT IS ORDERED that:

1. Pacific Gas and Electric Company is authorized, on or after the effective date of this order, to increase its gas rates by a uniform 0.088 cents per therm.

2. All motions pending are denied.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 13th day of NOVEMBER, 1973.

Vernon L. Sturgeon
President

William Symons, Jr.

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Commissioners