

ORIGINAL

Decision No. 83819

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's  
Own Motion into the Adequacy and  
Reliability of the Energy and Fuel  
Requirements and Supply of the  
Electric Public Utilities in the  
State of California.

Case No. 9581  
(Filed July 3, 1973)

Investigation on the Commission's  
own motion into the natural gas  
supply and requirements of gas  
public utilities in the State of  
California.

Case No. 9642  
(Filed December 18, 1973)

CERTAIN-TEED PRODUCTS CORPORATION,  
a corporation,

Complainant,

v.

SOUTHERN CALIFORNIA GAS COMPANY,  
a corporation,

Defendant.

Case No. 9723  
(Filed April 29, 1974)

JOHNS-MANVILLE FIBER GLASS INC.,  
a corporation,

Complainant,

v.

PACIFIC GAS AND ELECTRIC COMPANY,  
a corporation,

Defendant.

Case No. 9734  
(Filed May 13, 1974)

JOHNS-MANVILLE FIBER GLASS, INC.,  
a corporation,

Complainant,

v.

SOUTHERN CALIFORNIA GAS COMPANY,  
a corporation,

Defendant.

Case No. 9735  
(Filed May 13, 1974)

(Appearances are listed in Appendix A.)

INTERIM OPINION

INTRODUCTION

On December 18, 1973 this Commission issued its Order Instituting Investigation, as Case No. 9642, into the natural gas supply and requirements in the State of California. The purpose of the investigation is to ascertain facts relevant to the general problem of natural gas shortages in order that appropriate action be taken to ameliorate the problems associated with a deteriorating gas supply as it affects gas corporations in the State of California.

Recognizing the fact that as much as 80 percent of California gas supply is imported from sources outside California subject to the regulatory supervision of the Federal Power Commission (FPC) and that two interstate pipeline suppliers have curtailment plans on file with the FPC and that such curtailment plans are currently in effect, we stated our intention to fully investigate the effect of past and potential federal regulatory action as it affects California gas supply in an effort to seek realistic solutions and measures to deal with a rapidly deteriorating gas supply situation.

In addition to investigating the effect of past and potential federal regulatory action as it affects California gas supply, we also designated the following specific issues for consideration as representative but not exclusive of other possible steps to find realistic solutions and measures to deal with the rapidly deteriorating gas supply situation:

- (a) Obtaining additional fuel supplies from present sources;
- (b) Obtaining additional supplies by making federal reserves available;
- (c) Initiation of action with the appropriate federal agencies or authorities seeking an upgrading of priorities assigned to fuel requirements;
- (d) Obtaining supplies from new sources;
- (e) New or expanded energy conservation measures;
- (f) Establishing or strengthening agreements among utilities providing for mutual assistance during shortage periods; and
- (g) Development or modification of new or existing energy-curtailement plans, including load and customer limitations.

Case No. 9642 was consolidated with Case No. 9581 (Investigation on the Commission's Own Motion into the Adequacy and Reliability of the Energy and Fuel Requirements and Supply of the Electric Public Utilities in the State of California) and hearings began on January 28, 1974. After 26 days of hearings, and some 3,100 pages of testimony, Case No. 9642 was adjourned until further notice on August 19, 1974.

Respondents Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (San Diego), and Southern California Gas Company (SoCal) presented evidence concerning estimates of their gas supply requirements for the years 1974, 1975, and 1976, their views on gas curtailment and conservation procedures, their efforts towards augmenting gas supplies and the effect of the El Paso Natural

Gas Company's (El Paso) curtailment program on their systems. Gas transmission companies and fuel suppliers also appeared and presented evidence with respect to gas supplies and their efforts toward augmenting gas supplies. End-users of natural gas appeared and testified to the effect upon their business or industry if natural gas was to become unavailable. Several end-users appeared and made recommendations with respect to end-use priority programs for the distribution of natural gas when such gas is not sufficient to meet the requirements of all gas consumers in California.

#### DISCUSSION

##### Obtaining Additional Fuel Supplies From Present Sources

The declining availability of natural gas from present sources was amply documented throughout the record. The three major sources of supply of gas to California consumers are (1) El Paso and, to a lesser extent, Transwestern Pipeline Company (Transwestern) to SoCal; (2) Canadian gas supplied to PG&E in addition to that which it receives from El Paso; and (3) California gas produced primarily in northern California with some from southern California fields. The testimony further indicates that deliveries of gas to the California border from the El Paso and Transwestern systems, have been diminishing over the last few years.

El Paso and Transwestern presented testimony and exhibits about their present supplies of natural gas and about various projects to increase supplies, such as coal gasification, obtaining supplies of natural gas from overseas sources to be transported to the United States in liquefied form (LNG), and about a pipeline project for the transportation of gas from the Alaskan northern slope to warm water seaports for liquefaction and transportation to the lower 48 states.

Various gas producers also testified about their exploration and development programs to increase reserves and production.

The record indicates that it will be several years, perhaps until the end of the 1970's, before supplies of gas can be obtained from new sources. There was testimony that due to expanded drilling activity there is a shortage of drilling equipment that could be used for increasing production from existing fields.

PG&E and SoCal presented testimony about declining supply to meet known requirements through 1976. It appears that consumers on interruptible schedules will experience progressively deeper curtailments over the next few years. Reversal of the trend of deeper curtailments appears contingent upon the success of developing gas supplies from new sources and to some degree on expanding supplies from existing sources. (See Exhibits 93, 102, 161, and 164.)

Mr. Radford Shantz, testifying on behalf of several natural gas producers, traced the declining availability of natural gas in the United States from traditional supplies in an attempt to demonstrate that higher wellhead prices are needed to stimulate further exploration and development of potential additional supplies of gas. It is argued that increased prices for domestic gas would still be less expensive than imported gas or gas manufactured from coal (Exhibit 133).

While it has long been recognized that the reserves to production (r/p) ratio of gas nationwide has been declining, it still appears that over one-third of the nation's natural gas production is sold on an intrastate basis and therefore not subject to federal regulation. It is understandable that the present difficulty of interstate pipelines to acquire gas is because of the differential in pricing of interstate versus intrastate gas. However, even in the present gas supply situation, where requirements are much greater than the available supply, some believe that the cost impact on gas customers, if complete deregulation of producer-pricing should occur, is potentially more chaotic and disruptive to those who traditionally have depended upon the use of gas than a more orderly and gradual

change in this new era of limited gas supply. The testimony of the sugar industry witnesses and the testimony by the witness for Fibreboard Corporation are indicative of the problems that could result should there be sudden and widespread steep price increases for gas. Likewise, the indications of growing residential consumer resistance to price increases for utility services would be compounded.

The staff's recommendation was that the Commission support realistic prices for new supplies stressing that complete deregulation of producer pricing will not materially change gas supply patterns and that some price protection for the ultimate user of gas should continue. The Commission is aware that such projects as LNG and SNG will have cost levels at the \$1.50 to \$2.00 per Mcf range, and that the Canadian government has recently established an export price of \$1 per Mcf for gas exported to the United States; however, such pricing does not relieve the government of its responsibilities to the consuming public. The record in this proceeding indicates that the costs for finding new gas will be significantly greater than those experienced in the past. Recognition of these higher costs has been advocated by the staff. We support the staff in this regard as evidenced by expenses allowed SoCal and PG&E for exploration and development. Realistic regulation as opposed to deregulation can provide the incentive for further exploratory activity for gas without the chaotic condition that could occur with complete deregulation.

Obtaining Supplies  
From New Sources

Both the pipeline transportation companies and respondent utility companies testified with respect to the various projects in which they were engaged with the objective of obtaining supplies of gas from new sources.

These included geographic locations outside the lower 48 United States. The pipeline project from the Alaskan north slope to a warm water Alaska port, together with an LNG supertanker program, was mentioned, as were projects to bring LNG from North Africa and Central and South America. Coal gasification projects were also mentioned. The testimony indicates that these projects are primarily in the planning stage, and that gas supplies should not realistically be expected from these projects for at least three to four years, perhaps later.

The cost of the LNG projects, including facilities for liquefaction, transportation, and regasification, together with the cost of obtaining clearance from various environmental and regulatory agencies appears to be substantial.

The respondent utilities each presented detailed testimony on their worldwide efforts to acquire additional supplies of natural gas. For example PG&E witness Mr. Sproul indicated that PG&E and its affiliates are attempting to obtain additional supplies from present sources, California, the Southwest, and the Province of Alberta in Canada. These efforts are in addition to an extensive program of exploration, drilling, and gas purchase in the Rocky Mountain states, Western and Northern Canada, and Northern Alaska. It is also studying overseas sources of LNG.

SoCal testified that it is engaged in an exhaustive effort to acquire all gas available to it. Included are the efforts of the Pacific Lighting Companies in the Gas Exploration and Development Adjustment (GEDA) project approved by the Commission in Decision No. 81898.

New or Expanded Energy  
Conservation Measures

While stressing the importance of the acquisition of new supplies, it must be recognized that conservation is closely related to the amelioration of a deteriorating gas supply situation.

Data furnished by the utilities to date indicate that public response to energy conservation has effected some reduction in consumption. For example, SoCal testified that the use per firm customer for 1974 is estimated to be 130.4 Mcf as compared to a 1973 usage of 137.3 Mcf on a comparable temperature adjusted basis; that because of this cutback by firm gas users in southern California in 1974, about 45 billion cubic feet of natural gas has gone and will go to lower priority customers, principally regular interruptible customers.

The Commission supports the programs and efforts of the utilities with respect to energy conservation and encourages the continuation of such programs.

Development or Modification of New  
or Existing Energy Curtailment Plans,  
Including Load and Customer Limitations

The crux of the energy problem and closely allied with the question of conservation of natural gas is the problem of curtailment of customers in a shortage situation. The record supports the conclusion that the supply-requirement disparity will continue to widen in the future. It appears that the situation in southern California is more critical than in the northern part of the State.

Conservation efforts of firm customers appear significant and while higher prices may result in more conservation of use, such is not expected to have a sizable effect on the reduction of deliveries to large interruptible customers.

Curtailment plans of California utilities are based on a price quantity concept where residential, small commercial, and industrial customers are on firm use schedules while larger commercial and industrial customers are categorized as interruptible. Generally interruptible customers are required to have alternate fuel capability ready for use during curtailments. Historically such curtailments have been of short duration. Consequently alternate fuel storage systems generally have capacity for a few days up to a few weeks.



The FPC curtailment plan as it applies to the El Paso system is oriented to an end-use concept as shown in Exhibit 159. The California utilities are presently opposed to the end-use concept. SoCal alleges there are two significant differences between its existing curtailment program and the end-use programs of the FPC. Its position is that the FPC assigns certain industrial uses of gas to priority 2 even though these customers, who are served at much lower priorities in California, are as capable of using alternate fuels as are larger-size steam boilers. Under the California system feedstock users are served at a priority lower than that assigned for such use by the FPC plan which ignores the fact that the demands of these feedstock customers are so large that the assignment of a higher priority might well endanger service to firm customers, most of whom are residential users. Thus, SoCal has unequivocally opposed each proposal of firm service, be it ten months or 11 months per year, for any individual or group of feedstock users as proposed by the staff and certain customers.<sup>1/</sup>

San Diego's position is that the adoption of an end-use priority system, as in the El Paso and Transwestern FPC curtailment cases, would have the effect of rendering the Schedule G-61 Gas Service Agreement between San Diego and SoCal meaningless and that it would create a vast upheaval among deliveries to SoCal's regular interruptible customers since many large "A" block and "B" block customers would achieve a much higher priority rating under any of the proposed end-use systems.

PG&E's position is that the adoption of an end-use priority curtailment without a more thorough examination of the impact would result in a reduction of service to their firm customers.

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<sup>1/</sup> In its brief filed herein on September 23, 1974 the staff withdrew its proposal of 10-month firm service for fertilizer manufacturers.

The record indicates that some large interruptible customers would have difficulty in availing themselves of alternate fuels without substantially expanding storage capacities or without drastically modifying their equipment or plant process. Users of natural gas for raw material feedstock purposes, such as ammonia manufacturers and manufacturers of industrial gases, allege there are no realistic substitute feedstocks available.

Other groups of customers use natural gas as a process fuel, where the high reliability combustion characteristics and clean-burning characteristics are of critical importance in the manufacturing process. Manufacturers of fiberglass insulation material, industrial tile companies, and agricultural product drying and dehydration companies have provided testimony about their great dependence upon the use of natural gas as a process fuel. It was indicated that alternate distillate fuels would not produce the same quality of product, if usable at all. Finally, certain boiler fuel customers, including sugar manufacturers, claim that the cost of alternate fuels would put California manufacturers at a substantial competitive disadvantage.

To be responsive to the needs of these industries would mean further curtailment of other interruptible customers. Over the next few years as the supply-to-requirements gap continues to widen, it appears that there may not be enough gas to meet even the special feedstock and process gas requirements.

The concept of a system of end-use priorities as an alternative to the present method of allocation of natural gas received considerable attention in the form of presentations by various industrial users of gas whose use is primarily that of a raw material feedstock or process gas. (See the testimony of the fertilizer industry participants: Johns-Manville Company, Certain-Teed, General Motors, American Oleon Tile Company, California Grain and Feed Association, and the American Onion and Garlic Dehydraters Association.) A witness for the Energy-Planning Council also testified in support of an end-use of priority system for allocation of gas.

The respondent utilities are united in their opposition to a change from the present firm - interruptible, price-quantity method of allocation. They agree that far more serious economic consequences would be suffered by the commercial and industrial users in the State if end-use priorities were instituted because California industry has been designed and operated around the present system; that an economic burden of conversion would be placed upon those presently in the lower priority blocks; that an economic and administrative burden would be placed on the distribution utilities and the Commission; and that such would merely shift gas among the present interruptible customers.

The FPC, however, has adopted a system of end-use priorities governing curtailments of deliveries of gas in the El Paso system. The consequent potential adverse effect upon deliveries of gas to California, so long as the method of distribution and allocation within California is different from the method of allocation of gas to the California border, makes it advisable to consider the development of an end-use priority system of allocation of gas intrastate.

In addition, the legislature in its attempt to deal with the energy problem as it relates to the electric and gas shortage passed SB 1476 (Chapter 1319, Statutes of 1974) which was signed by the Governor on September 26, 1974. This bill, which takes effect immediately, adds Chapter 4.5 to the Part 2 of Division 1 of the Public Utilities Code (Sections 2771-2776). These sections are automatically repealed as of July 1, 1976. The chapter provides as follows:

"PUBLIC UTILITIES CODE

"CHAPTER 4.5. ELECTRICAL AND GAS CORPORATIONS

"2771. The commission shall establish priorities among the types of categories of customers of every electrical corporation and every gas corporation, and among the uses of electricity or gas by such customers. The commission shall determine which of such customers and uses provide the most important public benefits and serve the greatest public need

and shall categorize all other customers and uses in order of descending priority based upon these standards. The commission shall establish no such priority after the effective date of this chapter which would cause any reduction in the transmission of gas to California pursuant to any federal rule, order, or regulation.

"2772. In establishing the priorities pursuant to Section 2771, the commission shall include, but not be limited to, a consideration of all of the following:

"(a) A determination of the customers and uses of electricity and gas, in descending order of priority, which provide the most important public benefits and serve the greatest public need.

"(b) A determination of the customers and uses of electricity and gas which are not included under subdivision (a).

"(c) A determination of the economic, social, and other effects of a temporary discontinuance in electrical or gas service to the customers or for the uses determined in accordance with subdivision (a) or (b).

"(d) Any curtailment or allocation rules, orders, or regulations issued by any agency of the federal government.

"2773. The commission may establish as many priorities of use for a customer as that customer has uses of gas or electricity.

"2774. In the event any electrical or gas corporation experiences any shortage of capacity or capability in the generation, production, or transmission of electricity or gas and is unable to obtain electricity or gas from any other source so that the corporation is unable to meet all demands by its customers, the commission shall, to the extent practicable, order that service be temporarily reduced by an amount that reflects the priorities established pursuant to this chapter, for the duration of the shortage. The commission may, to the extent permitted by federal law or regulation, require electrical or gas corporations to mutually assist each other in dealing with shortages resulting from inadequate fuel supplies, and shall determine the terms, including compensation, under which such assistance shall be provided.

"2775. No electrical or gas corporation which reduces or discontinues service in accordance with any order of the commission issued pursuant to this chapter shall be liable for any damages to any person or property resulting from such reduction or discontinuance.

"2776. This chapter shall remain in effect only until July 1, 1976, and as of such date is repealed unless a later enacted statute, which is chaptered before July 1, 1976, deletes or extends such date."

Accordingly, in the order which follows we will require the respondent utilities to supply data and the analysis will be on the priority system advocated by the Energy Planning Counsel, Exhibit 153, modified as follows: (1) expand priority 1 to include all usage less than 50 Mcfd; (2) combine priorities 3 and 4; and (3) include storage injection gas in priority 2.

It appears that the 200 Mcf per day dividing line between firm service and interruptible service has historical origins from a time when prolonged shortages of gas were not in prospect. The addition of more customers to the firm-service schedules in this period of growing shortage will have the inevitable effect of further reducing levels of service to gas utility customers on interruptible schedules. Based on this information the staff recommended that either the criteria for firm service, i.e., 200,000 cubic feet or less per day, should be modified or the order of preference (priority) for firm service should be revised to indicate more specifically a priority for service by type of customer rather than by schedule.

In addition, since new, large customers can only be served by reducing the level of service furnished to other interruptible customers, the staff recommended that no new, additional, nonresidential customers whose demands exceed 200,000 cubic feet per day be provided service without specific authorization of the Commission and that the Commission should take under consideration for new service the need for such a customer or product, the gas supply situation, and the ability of that customer to use alternate fuels. While the need for such a limitation could be delayed until after the next group of

hearings in this proceeding, there is the problem than such new customers will only further reduce the amount of natural gas available to existing customers, some of whom are now having difficulty in acquiring sufficient alternate fuel supplies. As indicated above, the supply situation will worsen in the coming years and to allow new large customers will only aggravate the problems of the existing customers to whom the utilities have a degree of obligation to provide service. Therefore, we will order respondent gas utilities not to accept further applications without Commission approval for service for customers whose requirements will exceed 200,000 cubic feet per day, or for the expansion of a customer's requirements that require additional utility facilities where the customer's new requirement will be in excess of 200,000 cubic feet per day. The advice letter procedure can be used by utilities for this purpose. Respondent utilities will also be required to furnish, within 30 days, lists of outstanding requests for service where the requirements as determined by the gas utility will exceed this amount.

Mutual Assistance

PG&E and SoCal have a mutual assistance agreement which provides mutual support for firm customers in case of temporary emergencies; it was entered into on August 31, 1965. It provides that PG&E or SoCal will divert gas from their own storage facilities and, if necessary, their interruptible customers if service to the other company's firm customers is in jeopardy. The agreement was made in contemplation of temporary emergencies which would threaten shortages to firm gas customers.

The staff has taken the position that information filed by PG&E and SoCal indicates a significant difference in level of service between northern and southern California. Because of the large number of small interruptible customers that could be affected in southern California it may be necessary to extend the mutual assistance agreements between PG&E and SoCal to include certain levels of interruptible customers.

PG&E feels that SoCal should provide for its own interruptible customers without involving PG&E's facilities because the use of the mutual assistance agreement to serve these customers merely shifts

the burden of such higher level of service to PG&E's customers. It opposes any expansion of the mutual assistance agreement on the grounds that its interruptible customers and, ultimately, firm customers would be adversely affected by diversion of gas supplies.

We concur with the staff's position on the difference in level of service on the SoCal and PG&E system. However, further hearings are contemplated in these proceedings to determine whether or not this Commission should modify the present priority system now in effect in California. Thus, any modification or change in the mutual assistance program is premature at this time.

Environmental Impact

The staff in its briefs filed July 1 and September 23, 1974 raised the issue of the environmental impact resulting from the adoption of end-use priorities for the allocation of natural gas.

Whether a Commission order shifting the use of gas from one service schedule to another or from one customer to another in time of shortage is subject to the Environmental Impact Report (EIR) provisions of the California Environmental Quality Act (CEQA) is being litigated in Application No. 53797, application of Southern California Gas Company for a rate increase, Phase 2.

CEQA, Public Resources Code, Section 21000, et seq. provides in part that all state agencies shall prepare or cause to be prepared an EIR on any project they propose to carry out or approve which may have a significant effect on the environment (Public Resources Code, Section 21100). Project includes activities directly undertaken by any public agency, activities undertaken by others with the assistance of one or more public agency, and activities involving the issuance of an entitlement for use by one or more public agency (Public Resources Code, Section 21065). See also the Commission's Rules of Practice and Procedure, Rule 17.1.

We note that the FPC was faced with a similar question in the El Paso curtailment case, Docket No. RP72-6. In its Decision No. 697 (Exhibit 159 herein), pages 22-27, the FPC reviewed and reaffirmed the conclusion in its order of August 22, 1972, that compliance with the procedural requirements of NEPA with respect to environmental impact statements in curtailment cases is "not meaningfully possible".<sup>2/</sup> In view of the close similarity between NEPA and CEQA and given the fact the substantial curtailments in the use of natural gas will take place, whether under present interruptible schedules or under a system of end-use priorities, we will await the outcome of Application No. 53797, Phase 2, before we determine if an EIR is required upon a shift to an end-use system of priorities.

Obtaining Additional Supplies by  
Making Federal Reserves Available

Testimony as to the probable availability of gas fields offshore of the east and west coasts and the outer continental shelf of both coasts appears in various places in the record.

The testimony indicates that some years will be needed to obtain drilling rights, environmental clearance, and drilling rigs.

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<sup>2/</sup> In the American Smelting case, supra, the court followed the decision of the Fifth Circuit in Atlanta Gas Light Co. v Federal Power Commission (5th Cir 1974) 494 F 2d 925. There it was held that under the circumstances of imminent shortages, the duties of the Commission under the Natural Gas Act to prevent discriminatory practices in times of gas shortage called for prompt action and thus "created the type of 'statutory conflict' which alone can excuse compliance with the NEPA". (494 F 2d at 948.)

It should be noted that in both cases noncompliance with Section 102(c) of NEPA, 42 USCA 4332(c), was excused because of the need for prompt action in implementing curtailment plans by interim order. In Atlanta Gas Light Co., the court expressly stated it did not reach the question whether tariff revisions implementing curtailment plans involved a "major federal action significantly affecting the human environment" within the meaning of NEPA (476 F 2d at 148).



Accordingly, it does not appear realistic to expect offshore gas supplies from the east and west coasts to be available until the next decade.

Priorities Assigned to Fuel Requirements

A substantial portion of the record deals with testimony by various parties concerning the establishing of end-use priorities for the use of natural gas as a raw material feedstock and for process gas purposes. Process gas is defined by the FPC as:

"Gas use for which alternate fuels are not technically feasible such as in applications requiring precise temperature controls and precise flame characteristics. For the purpose of this definition propane and other gaseous fuels shall not be considered alternate fuels." (FPC Order No. 493, Docket No. R-47, order adopting certain definitions to standardize and to use classifications issued September 21, 1973.)

There is testimony by end-users in the record that gas is used in certain industrial operations for the generation of steam merely because gas is less costly than other fuels. It may be concluded that as gas shortages increase, continued use of gas merely for steam generation by industrial users will decrease the amounts available for raw material feedstocks and process uses where there may be no feasible alternatives.

The staff recommends the adoption of policies that will discourage the use of gas under boilers for steam generation in times of gas shortages. Industrial users of gas, merely because it is less costly than other fuels, should be urged to shift to other fuels.

The Commission is aware that the adoption of any priority system necessarily leaves some customers toward the lower end of the scale for natural gas service. This, of course, is regrettable, but serious curtailments of service appear unavoidable in the immediate future, and it is incumbent on the Commission to minimize their adverse impact. Some industrial customers have alleged that their alternative fuel costs will be substantially higher than their costs for natural gas. Others argue that their products are in some way more essential

than other manufactured products. This consideration only has validity if such a customer is uniquely dependent on natural gas for fuel as raw material and is not compelling when other fuels are available. Accordingly, the uses singled out for special priority herein are those which are uniquely tied to natural gas.

#### Wheeling

Ancillary to the question of obtaining new supplies is the wheeling of gas by the gas distribution utilities. Wheeling in its simplest terms is utility company transportation or displacement of gas, privately owned by a consumer, from the point of production to the point of consumption.

The proponents of wheeling argue that it would provide the incentive for substantial exploration and development while adding to the gas reserves and that with adequate safeguards with respect to high priority uses there would be no diminishing availability of supply and therefor no adverse impact to the general public.

The staff opposes wheeling by California utilities on the basis that it is not in the best interest of the State as a whole and that to require wheeling may cause an increase in competition for California gas while removing regulatory control over certain portions of local supply.

We are in agreement with the staff's position that wheeling would provide for undue competition for California gas. The effects of such competition can be seen by looking at the Texas gas picture, where the gas supply shortage is not as significant, but where industrial and unregulated intrastate pipelines are paying up to \$1.60 per Mcf for gas. An industrial customer in California can think in terms of the cost of an alternate fuel which at the present is approximately \$12 to \$16.

In addition, because of curtailments due to diminishing supplies such a practice would have the effect of penalizing some firm and interruptible customers who might not be geographically located near the supply or financially able to explore for gas. Also, any wheeling could be looked upon as circumventing the utilities curtailment programs approved by the Commission.

Findings

1. The level of service for the years 1974 through 1976 to interruptible customers for natural gas in California will decline.
2. Interruptible gas customers on the SoCal system will experience a lower level of service and higher curtailments than those of the PG&E system for the period 1974 through 1976.
3. New sources of gas supplies will not be available within the next three years.
4. The FPC has established a system of end-use priorities for the allocation of gas on the El Paso interstate pipeline system, including deliveries to California.
5. Intrastate allocations of gas by California utilities are still on the historic firm-interruptible price/quantity basis.

6. Users of natural gas making presentations in this proceeding, who would qualify as users of gas for feedstock or process purposes under the FPC end-use priority system, advocate an end-use priority system for intrastate allocations of natural gas in California.

7. Gas utilities in California are opposed to a shift from the present priority system for natural gas service.

8. Industrial users of natural gas in California, for boiler fuel purposes, continue to use gas because it is cheaper than alternative fuels.

9. Manufacturers in California who use gas for feedstock purposes and manufacturers who use gas for process purposes are faced with substantial curtailments within the next heating season on some gas utilities' present curtailment schedules.

10. The capability of different classes of customers to utilize fuels other than natural gas must be considered in any allocation process.

11. Present residential and small commercial customers should be accorded the highest priority for service because of their inability to alternate fuels.

12. Few if any interruptible users of natural gas having alternate fuel capabilities have made preparations for extending alternate fuel capacity to shift to alternate fuel as a predominant source of energy.

13. The economic impact on their operations was the prime concern of the end-users of natural gas testifying in this proceeding.

14. Some large volume users of natural gas are being provided firm service because, historically, they obtained firm service in the past, when gas was in plentiful supply.

15. As California remains on a firm versus interruptible price/quantity method of intrastate gas allocations, different than the end-use priority allocation method established by the FPC on the El Paso and Transwestern systems, it is in danger of receiving less than its full entitlement of gas deliveries to the California borders.

16. The mutual assistance agreement between PG&E and SoCal was established to provide short term emergency service to firm gas customers and should not be changed at this time.

17. Energy conservation programs should be continued.

18. Wheeling is the transportation of privately owned gas by the utility to the owners facilities.

19. Wheeling natural gas by California utilities would not be in the best interest of the citizens of the State of California.

20. Respondent utilities are engaged in worldwide efforts to obtain additional gas supplies.

21. Additional supplies of gas from federal reserves do not appear likely in the near future.

22. Semiannual reports, as of January 1 and July 1, delineating the monthly supply requirements situation for the subsequent 36 months, should be required of the Pacific Gas and Electric Company and Southern California Gas Company.

#### Conclusions

1. The record is not developed to provide the Commission with sufficient information to determine the effects of (a) continuing

the present curtailment system of natural gas or (b) changing to an end-use concept of priorities.

2. The Commission should not adopt an end-use system of priorities at this time.

3. In order to provide a basis for an analysis of the impact of shifting to end-use concept of priorities, the respondent gas utilities should provide the data in response to the subject matter set forth in Appendix B of this decision.

4. Additional hearings will be scheduled in order to provide the Commission with a record sufficient to render a decision on a timely basis with respect to the 1975-1976 winter heating season regarding a gas allocation system based on end-use priorities.

5. Requests for new nonresidential service with requirements exceeding 200 Mcf per day shall be approved by the Commission.

6. Utilities shall continue to stress their conservation programs.

7. It does not appear that an Environmental Impact Report is necessary when an emergency situation requires an allocation of existing supplies of natural gas.

#### INTERIM ORDER

IT IS ORDERED that:

1. Respondents Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Gas Company shall file with the Commission by January 13, 1975 the data outlined in Appendix B of this decision. The priorities to be used shall be that shown in Exhibit 153 as modified in this decision.

2. Replies and answers to the utilities' filing required in Ordering Paragraph 1 shall be filed with the Commission by March 3, 1975.

3. Hearings on the feasibility of an end-use system of priorities for the allocation of natural gas shall commence on April 21, 1975. ✓

4. All requirements ordered in prior decisions, except as modified herein, shall remain in effect pending further order of the Commission.

5. Commission approval will be required before a gas utility can (1) provide service to any new nonresidential customer with a demand exceeding 200 Mcf per day and (2) install additional facilities to provide additional service to a nonresidential customer wherein the new level of demand is in excess of 200 Mcf per day.

6. Respondents Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Gas Company will file, within thirty days after the effective date of this order, lists of pending applications for service or expansions of service wherein the customers's requirement will be in excess of 200 Mcf per day.

7. Pacific Gas and Electric Company and Southern California Gas Company shall file semiannual reports as of January 1 and July 1 delineating the monthly supply requirement situation for the subsequent 36-month period.

8. Ordering Paragraph 3 of Case No. 9642 should be modified to monthly reports due on the twentieth day of the following month.

The Secretary is hereby directed to cause copies of this order to be served upon each respondent to this investigation and also upon the various governmental agencies, publicly owned utilities, major fuel suppliers, and other informed parties listed in Appendix B

to the Order Instituting Investigation in Case No. 9642, to members of the California Legislature, and to those parties entering appearances not otherwise included in Appendix A or Appendix B to the Order Instituting Investigation in Case No. 9642.

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

Dated at San Francisco, California, this 10<sup>th</sup>  
day of DECEMBER, 1974.

Vernon L. Sturgeon  
President  
William Symons Jr.  
Thomas Morab  
Robert E. Myland  
Commissioners



APPENDIX A  
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Respondents: Chickering & Gregory, by C. Hayden Ames, David A. Lawson, III, and Edward P. Nelsen, Attorneys at Law, John H. Woy, Paul L. Hathaway, Jr., and Stanley Jewell, General Counsel, for San Diego Gas & Electric Company; H. Robert Barnes and Dennis G. Monge, Attorneys at Law, for Southern California Edison Company; Harvey L. Brown, John P. Vetromile, and Donald J. Carman, for California Pacific Utilities Co.; Ralph P. Cromer, John Madariaga, and Richard G. Campbell, General Counsel, for Sierra Pacific Power Company; Bernard J. Della Santa, Malcolm H. Furbush, and John G. Morrissey, Attorneys at Law, for Pacific Gas and Electric Company; A. E. Engel, for Plumas-Sierra Rural Electric Cooperative, Inc.; Ivan Lewis Gold and Robert F. Harrington, Attorneys at Law, and George L. Rodgers, Corporation Counsel, for Pacific Power & Light Company; Charles H. McCrea, General Counsel, for Southwest Gas Corporation; Thomas D. Clarke, K. R. Edsall, and David B. Follett, Attorneys at Law, and John C. Abram, for Southern California Gas Company; Cecilia Arnold, for Bay Point Light & Power Company; Mrs. H. Dambacher, for Alex Brown Electric Plant; W. V. Caveney, for Southern California Water Co.; Donald W. Hicks, for Surprise Valley Electrification Corp.; O. M. Spear, for Valley Electric Association; P. F. Stewart, for Del Norte Gas Company and Garberville Gas Corporation; Carl Swanson, for Lake County Utility Company; D. F. McClendon, for McCloud Gas Company, Inc.; J. C. Abram, for Pacific Lighting Service Company; R. J. Munzer, for Petrolane Sierra Gas Service; Dean W. Knight, for Rolling Green Utilities, Inc.; N. E. Waltenspiel, for Russian River Gas Company, Inc.; George Pangborn, for The Sea Ranch Gas and Water Co.; E. H. Schneider, for Siskiyou Vangas.

Interested Parties: Lou A. Papais, for Ad-Art, Inc.; G. J. Whittlinger, for Anza Electric Cooperative, Inc.; Rollin E. Woodbury, Attorney at Law, for Southern California Edison Company; Lee Adler, for California Grain & Feed Association; Robert M. Aran, Attorney at Law, and Clarke Williams, for California Electric Sign Association; Vaughan, Paul & Lyons, by John G. Lyons, Attorney at Law, and Sidney H. Bierly, for California Fertilizer Association; Edward A. Boehler, for California Amonia Company; W. J. Bogaard, Attorney at Law, for California State Outdoor Advertising Association; George C. Bond and Kenneth L. Riedman, Jr., Attorneys at Law, for Union Oil Company of California; C. Rex Boyd and John L. Williford, Attorneys at Law, for Phillips Petroleum Company; James T. Brodie, for Pasadena Water and Power; Donald G. Burns, for Swimming Pool Industry Energy Conservation Task Force; Brobeck, Phleger & Harrison, by Gordon E. Davis and Robert N. Lowry, Attorneys at Law, and Robert E. Burt, for California Manufacturers Association; Tom Burton, Attorney at Law, and R. R. Fritz, for

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Continental Oil Company; Pillsbury, Madison & Sutro, by James L. Wanvig, Attorney at Law, and Noel Dyer, Attorney at Law, and C. J. Carlton, for Standard Oil Company of California; Grant Cattaneo, for California Hospital Association; James A. Chilko, for National Electrical Contractors Association; Edward E. Clark and D. A. Preavy, Attorneys at Law, for Atlantic Richfield Company; J. T. Huggill, for Liquid Air, Inc.; Edwin S. Hurst and Walter Shellshear, for Gulf Oil; Scott Poole, for Gulf Oil Company of California; LeRoy Jackson, Attorney at Law, and John McKinnon, for City of Torrance; Ronald L. Johnson, Attorney at Law, and Robert J. Logan, Deputy City Attorney, for City of San Diego; Thomas G. Johnson, James W. McCartney, Earl A. Radford, William G. Riddoch, Chester D. Walz, and William A. Wood, Jr., Attorneys at Law, for Shell Oil Company; Gordon B. Jones, for The Irvine Company; Donald W. Kolstad and Robert L. Schmalz, Attorneys at Law, for Amstar Corporation; Thomas A. Lance, Attorney at Law, for The Atchison, Topeka & Santa Fe Railway Company; Thomas M. O'Connor, City Attorney, and Robert R. Laughead, for City and County of San Francisco; Walter C. Leist, John R. Morgan, and R. F. Smith, for Union Carbide Corporation - Linde Division; Archie A. Messenger, for Union Carbide Corporation; Henry F. Lippitt, II, Attorney at Law, for California Gas Producers Association; Skornia, Rosenblum & Gyemant, by Thomas A. Skornia, Attorney at Law, and Robert Lorenzini, for WEMA; Corbett, Welden, Kane & Hartman, by Jacquines R. Welden, Attorney at Law, and Robert A. Loudon, for American Sign & Indicator Corporation; Robert G. Lunche and John S. Nevitt, for Los Angeles County Air Pollution Control District; Lawrence S. Luton and Paula L. Nuschke, for Program in Public Policy Studies of the Claremont Colleges; Thomas W. Lynch, Attorney at Law, for Amerada Hess Corporation; George Mabry, Attorney at Law, and Myron P. Simmons, for Certain-Teed Products Corporation; N. W. Matthews, for Surprise Valley Electrification Corporation; McDonough, Holland, Schwartz & Allen, by Martin McDonough, Attorney at Law, for Northern California Power Agency; M. E. Moseley, for San Gabriel Water Company; Robert N. Noyce, for Intel Corporation; Dave W. Paradis, for Arcadia Chamber of Commerce; Louis Possner, for City of Long Beach, Bureau of Franchises and Public Utilities; Robert O. Randall, for Suburban Water Systems; Don Reining, for Southern California Rock Products Association; Gerson Ribnick, for The Heating & Air Conditioning Industry of the State of California; Robert W. Russell, for City of Los Angeles, Department of Public Utilities and Transportation; Sylvia M. Siegel, for Consumer Federation of California, et al.; Howard J. Smiley, for California Broadcasters Association; James F. Sorensen, for Friant Water Users Association; Jan Staklis, for State Department of Water Resources; William E. Still, Attorney at Law, for Southern Pacific Transportation Company; Clicksberg, Kushner & Goldberg, by Terrance L. Stinnett, Attorney at Law, for Optical Coating Laboratory;

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Lawrence J. Straw, Jr., Attorney at Law, for Mobile Oil Corporation; Robert L. Sullivan, Attorney at Law, for Sun Oil Company; Robert W. Thompson, for Metropolitan Water District of Southern California; Bert Trask, for California Trucking Association; Philip Tyner, for Powerline Oil Company; R. D. Copley, Jr. and L. E. Kell, Attorneys at Law, for Getty Oil Company; Lawler, Felix & Hall, by Richard D. De Luce, Attorney at Law, and William F. Marsh, for Air Products & Chemicals, Inc.; Arthur T. Devine, Ralph Guy Wesson, and Frederick H. Kranz, Jr., Attorneys at Law, for City of Los Angeles, Department of Water & Power; Col. Frank J. Dorsey, Attorney at Law, for Executive Agencies of the U.S.A., Office of the Staff Judge Advocate; Cassandra Dunn, Attorney at Law, for U.S. Environmental Protection Agency; Alan R. Watts, Attorney at Law, George H. Edwards, and Henry Wiley, for City of Anaheim; William H. Edwards, Attorney at Law, Ralph O. Hubbard, and William L. Knecht, for California Farm Bureau Federation; William H. Fell and Richard L. Young, for City of Glendale; E. J. Ferguson, for County of Orange; Donald F. X. Finn, for Geothermal Energy Institute; William R. Frehse, for Federal Aviation Administration; C. H. Fuller, Jr., for California Coin-op Association; Gerald Geiger, for Energy Crisis Task Force; Albert Gluckson, Attorney at Law, for Computer Sciences Corporation; Charles L. Fair and Kenneth J. Mellor, for Sacramento Municipal Utility District; James Hammersley, Attorney at Law, for Aluminum Recycling Association; Walker Hannon, for Suburban Water Systems; Argue, Preston & Myers, by Stephen F. Harbison, Attorney at Law, for Armco Steel Corporation; Howrgey, Simon, Baker & Murchison, by Richard S. Harrell, Attorney at Law, for American Olean Tile Co., Inc.; William R. Harris, for The Rand Corporation; A. M. Hart and Kenneth K. Okel, Attorneys at Law, for General Telephone Company of California; Walter W. Henderson, Attorney at Law, for El Paso Natural Gas Company; William R. Veal, Attorney at Law, for Exxon Company, U.S.A.; William D. Watt, for California & Hawaiian Sugar Co.; John W. Whitsett, Deputy County Counsel, for County of Los Angeles; James D. Woodburn, for City of Burbank; Joel S. Wight, Attorney at Law, for General Electric Company; Boris H. Lakusta, Attorney at Law, and John Clark, for Collier Carbon & Chemical Corporation; Dunne, Phelps & Mills, by Robert M. Dunne, Attorney at Law, for ADOGA; Morrison, Foerster, Holloway, Clinton & Clark, by James J. Garrett, Attorney at Law, for Hercules Incorporated; Milton J. Carlson, for Union Sugar, Division of Consolidated Foods Co.; Charles J. Maxwell, for Interpace Corporation; Downey, Brand, Seymour & Rohwer, by Philip A. Stohr, Attorney at Law, for General Motors Corporation; John P. Mathis, Attorney at Law, for Baker & Botts; Dr. J. O. Bray, for Stanford Research Institute; Warren Williams, Attorney at Law, for Valley Nitrogen Products Inc.

Commission Staff: General Counsel, Rufus G. Thayer, Jr., Attorney at Law, Page E. Golsan, John E. Johnson, and Colin Garrity.

APPENDIX B

1. List the customers with requirements in excess of 50 Mcfd by end use.
  - (a) Segregate the customers by size, schedule, and present priority status.
  - (b) To the extent any customer has significant loads in more than one priority, this data should also be tabulated.
2. Estimate gas balances that provide level of deliveries on both existing and proposed priority bases for the years 1975 and 1976.
3. Compare the alternate fuel requirements of the customers tabulated in Item 1 above based on the balances in Item 2.
4. Recommend a rate spread that would establish rates compatible with end-use priority concepts.
5. Estimate the effect on interstate deliveries with an end-use concept consistent with Exhibit 153 as modified.