NB/ltc

Decision No. 83915

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 increases in the price of gas from PACIFIC GAS TRANSMISSION COMPANY. (Gas)	Application No. 55228 (Filed October 2, 1974)

John C. Morrissey, M. H. Furbush, Robert Ohlbach, and Donald L. Freitas, Attorneys at Law, for Pacific Gas and Electric Company, applicant.
Silver, Rosen, Fischer & Stecher, by Granville Harper, Attorney at Law, for City of Palo Alto; and Sylvia Siegel and George R. Gilmour, for TURN and Consumer Federation of California; protestants.
Henry F. Lippitt, 2nd, Attorney at Law, for California Gas Producers Association; Warren L. Williams, Attorney at Law, for Valley Nitrogen Producers, Inc.; Thomas M. O'Connor, City Attorney, by Robert Laughead, for City and County of San Francisco; and William L. Knecht and William H. Edwards, Attorneys at Law, for California Farm Bureau Federation; interested parties.
Ira R. Alderson, Jr., Attorney at Law, Kenneth Chew, and Sesto F. Lucchi, for the Commission staff.

OPINION

Pacific Gas and Electric Company (PG&E) requests authority to increase its rates and charges by approximately $149 million for natural gas service to offset the cost of gas delivered to PG&E from Pacific Gas Transmission Company (PGT) resulting from action of the Canadian government which will increase the border export price of Canadian natural gas. As the Canadian action establishes a border price in Canadian dollars which fluctuates in respect to United States dollars, PG&E further requests authorization to include in its gas tariff a procedure to reflect these fluctuations. That procedure will enable PG&E to reflect accurately its cost of Canadian gas as such cost fluctuates because of changes in the monetary exchange ratio. Public hearings were held before Examiner Robert Barnett in San Francisco on November 4 and 6, 1974.

The evidence shows that in the year ending June 1974, PG&E obtained approximately 40 percent of its natural gas from PGT, which obtains its gas from Canada. The gas is purchased in Alberta, Canada, by Alberta and Southern Gas Co., Limited, (A&S), a wholly owned subsidiary of PG&E, and exported to the United States under export licenses issued by the National Energy Board of Canada (NEB). PGT purchases the gas at the Canadian border and sells it to PG&E at the Oregon-California border under the jurisdiction of the Federal Power Commission (FPC).

On September 20, 1974, the Canadian government instructed the NEB to amend existing export licenses to establish a border export price not less than nor greater than one dollar (Canadian) per Mcf of 1,000 Btu gas. This price is to become effective on all export contracts in Alberta on January 1, 1975. The Canadian government has also accepted an NEB recommendation that those receiving current exports of gas be given the option of continuing to receive such exports under existing pricing conditions for a period of two years. If this option is taken, the export licenses will be terminated at the end of two years, or earlier if the importer so elects, and the gas will be reallocated to uses within Canada. Because alternate supplies of gas are not available, PGT must pay the new price of Canadian gas, and PG&E must pay PGT's resulting rates to meet the demands of PG&E's gas customers for continued service. PGT has made an appropriate filing with the FPC and the FPC has granted PGT's offset request.[1/] PG&E seeks, by this application, to pass that offset through to its customers, and seeks an order of this Commission effective prior to the FPC order so that the offset may be passed through without loss to PG&E.

1/ FPC Docket No. RP 73-111, order issued November 15, 1974, making PGT's rate filing effective January 1, 1975, without suspension.

PG&E originally proposed to increase gas rates effective January 1, 1975 to produce increased revenues of approximately $150,920,000 per year to offset the cost of gas purchased from PGT. Upon receipt of the staff's exhibit which computed an increased revenue requirement of $148,979,000 to offset the cost of Canadian gas, PG&E adopted the staff's analysis and offset estimate. Both PG&E and the staff used a Canadian-U. S. monetary exchange rate of 1.0168 as of September 23, 1974 to compute the estimate of revenue increase in United States dollars to cover the cost of the gas increase in Canadian dollars. The staff's analysis caused PG&E to reduce its request by $1,941,000. Granting this offset will not increase PG&E's gas department rate of return.

PG&E's expert considered that it is reasonable for PG&E to pay the increased Canadian costs because PG&E has no alternate gas supply for the Canadian gas and the cost of alternate fuels would greatly exceed the new cost of Canadian gas. PG&E receives about 40 percent of its total gas supply from Canada.

The computation showing the sought revenue increase is:

TABLE A

Pacific Gas and Electric Company
Gas Department

REVENUE INCREASE REQUIRED BY PG&E AS RESULT OF JANUARY 1, 1975
CHANGE IN PRICING OF GAS PURCHASED BY PGT AT CANADIAN-U.S. BORDER

Item	Unit Cost at Canadian U.S. Border ¢/Mcf Canadian	U.S.	Total Cost U.S. M$
Cost of Gas			
At Price Basis of January 1, 1975			
At 1,000 Btu/cubic foot	100.00	101.680[a]	-
At 1,051 Btu/cubic foot[c]	105.10	106.866	$408,344[b]
At Price Basis of July 10,1974			
Price prior to 7-1-74 per Decision No. 83127, page 33, line 2 ...	-	38.300	-
Increase authorized by Decision No. 83127, page 41 ($114,274,000 U.S. + 382,108 MMcf)	29.00	29.906	-
TOTAL	-	68.206	260,621
Increased gas cost to be offset	-	38.660	$147,273[b]
Franchise and uncollectibles	-	-	1,256
Total revenue requirements	-	-	148,979

a. At Canadian-U.S. monetary exchange rate of 1.0168 on September 23, 1974.

b. Purchases of 382,108 MMcf. 15,000 MMcf used for compressor stations.

c. Staff proposed revised showing Application No. 52480.

The staff estimate of total gas supply for test year 1975 is:

TABLE B

Pacific Gas and Electric Company
Gas Department

STAFF ESTIMATE OF TOTAL GAS SUPPLY - TEST YEAR 1975

Source	MMcf	Btu	MDth
California Gas	127,353	990	126,079
El Paso	317,741	1,084	344,431
Canadian	367,108	1,070	392,806
Subtotal			863,316
Company Use			(7,209)
Unaccountable Gas			(21,300)
Available for Sales			834,807
G-10 Sales Exclusion			(609)
Total			834,198

(Red Figure)

Revenue to be spread on ¢/therm basis.
\$148,979,000 ÷ 8,341,980,000 therm = 1.786¢/therm.

PG&E's witness set forth three methods by which PGT could purchase Canadian dollars to pay for the Canadian gas. (PGT is owned 51 percent by PG&E; PGT's method therefore is PG&E's method.) One method is called Cash-Canada and means that Canadian dollars would be bought at the exchange rate prevailing on the day payments were to be made to the Canadian sellers. PGT does not use this method because the large purchases involved, about \$20,000,000, would influence the market detrimentally to PGT. The second method is daily averaging. In this method PGT would purchase on each day of the year a proportionate amount of the dollars required to meet its Canadian obligations at the prevailing price on each day. The third method, the one that PGT uses, is a forward commitment method. By this method PGT purchases, over a number of days during the month, the Canadian dollars that it requires. The dollars are to be delivered to PGT on the payment date later in the month. In essence this is a future's market. Under this method PGT requests bids from three large banks dealing in Canadian funds and takes the lowest bid. PG&E submitted an exhibit showing each of the three methods and the fact that the forward commitment method produced the lowest cost to PGT.

Finally, PG&E proposes to set up a new account called the "Canadian-U.S. Monetary Exchange Adjustment Account". To this account would be added the increase or subtracted the reduction in PG&E's cost of gas from PGT which is attributable to a Canadian-U.S. dollar exchange ratio of greater or less than 1.0168 U.S. dollar per Canadian dollar at the time of payment by PG&E to PGT. This exchange ratio is the ratio which underlies the offset rates which are being considered in this application, and is the base exchange ratio from which calculations to the proposed new account would be made. Semiannually, the balance in this new account would be divided by sales volume in a preceding 12-month period to determine an exchange adjustment per therm which would then be filed with the Commission to apply to rates for the ensuing six months. Revenues resulting from the exchange adjustment rate would be applied to the account to amortize the balance. Any refunds from PGT which represent the conversion of Canadian dollars into U.S. dollars would be credited to the account. The account would be increased or decreased by seven-twelfth percent of the average balance each month, depending upon whether there is a debit or credit average balance in the account to reflect interest on the sums in the account.

The proposed provision protects the interest of ratepayers in two ways. First, no charge would ever be made to ratepayers which was not already incurred by PG&E. Second, at times when the exchange rate is below the base exchange rate, the resulting saving will flow directly into the new adjustment account and into the resulting adjustment rate. If such saving should result in a credit balance in the account, the resulting adjustment rate would be negative and such saving would be passed along to customers as a rate reduction.

The staff presented one witness who agreed in all essential points with PG&E's presentation except that his computation showed that the rate increase should be $1,941,000 less than PG&E's computation. As set forth above, PG&E agreed to this modification. The tables set forth above are those presented by the staff in support of the staff's position.

A witness for the California Gas Producers Association asserted that PG&E should be taking at least 10 percent more California gas. He did not dispute the fact that the border price of gas is going up to one dollar on January 1, 1975, nor that PG&E must pay this price in order to get the gas, nor that the amount of the increase of $148,979,000 is reasonable. However, he asserted that the computation of the spread of this increase on a cost-per-therm basis[2/] should be made as if PG&E were purchasing 10 percent more California gas in test year 1975. If this were so, it would lower the cents-per-therm offset by approximately $.03.

In rebuttal, PG&E presented a witness who testified that notwithstanding increased California gas production, PG&E would not take more California gas than its current estimate for test year 1975. He justified this on the ground that:

> "The lesser takes from California simply pass on to subsequent years greater availability to be taken in subsequent years, and we feel that this is the prudent way to supply our sales by the takes from the three different sources. (California, Canada, El Paso Gas.) When we take - have available gas from El Paso and Canada, if we do not take it, in general, that gas is just lost; and we feel that it is extremely important to have as much fuel available to meet our customers' needs as possible within prudent operations."

2/ Offsetting rates on a cost-per-therm basis means that larger users pay a proportionately larger share of the increase.

Discussion

The staff is in essential agreement with PG&E. Their slight differences have been resolved by PG&E's acquiesence. There is no doubt that Canada has raised the border price of gas and that PG&E will have to pay the price or see its longer term contracts canceled. There was some slight evidence that PG&E can expect further increases in Canada's border price of 20 cents a year in 1976 and beyond. The citizens of California cannot afford PG&E's losing 40 percent of its natural gas supply.

The controversy over the price PG&E (PGT) must pay for Canadian dollars should be resolved in favor of PG&E's method. The evidence shows that during 1974 - January through September - PG&E's forward commitment method saved over $176,000 more than the two alternate methods. There was no evidence that PG&E could purchase Canadian dollars at parity. PG&E's proposal to adjust rates to provide for fluctuations in conversion rates of Canadian dollars is reasonable.

We will not adjust the spread of the rate increase on the assumption that PG&E is purchasing 10 percent more California gas than it actually expects to purchase. We are not prepared to find, on the basis of this record, that PG&E's conservation program for California gas is imprudent.

Findings

1. On January 1, 1975 Canada will raise its border export price of natural gas to $1 (Canadian) per Mcf of 1,000 Btu gas.

2. PG&E obtains approximately 40 percent of its natural gas from PGT, which obtains its gas from Canada. PGT purchases the gas at the Canadian border and sells it to PG&E at the Oregon-California border under jurisdiction of the FPC.

3. PGT has obtained an increase in its rates to offset the Canadian border price increase.

4. PG&E has no alternate gas supply for the Canadian gas and the cost of alternate fuels would greatly exceed the new cost of Canadian gas.

5. PG&E cannot afford to have its long-term Canadian gas contracts canceled. PG&E must pay the increased costs.

6. For test year 1975 PG&E will have to pay an additional $148,979,000 to obtain Canadian gas at the new border price. That estimate is based on a Canadian-U.S. monetary exchange rate of 1.0168 on September 23, 1974.

7. PG&E should be authorized to increase its rates by $148,979,000 as of January 1, 1975.

8. The PG&E increase should be spread on a cents-per-therm basis of 1.786 cents per therm.

9. PG&E's, and PGT's, forward commitment method to purchase Canadian dollars is reasonable.

10. PG&E should set up a new account called the "Canadian-U.S. Monetary Exchange Adjustment Account" to adjust rates to provide for fluctuations in the Canadian-U.S. monetary exchange rate.

11. PG&E is not acting unreasonably in refusing to purchase more California produced gas than it currently takes.

12. The offset authorized by this decision is justified. It will not increase PG&E's rate of return above that last authorized.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company is authorized to increase its gas rates by 1.786 cents per therm to offset Canadian border price increases effective January 1, 1975 in the price paid for gas by Pacific Gas Transmission and sold to PG&E.

2. Tariff filings to reflect the authorized increase shall be made in accordance with General Order No. 96-A and shall include consistent revisions to the contingent offset provisions contained

in the preliminary statement. The revised tariff schedules shall become effective on January 1, 1975. The revised tariff schedules shall apply to service rendered on and after the effective date.

3. PG&E shall include in its gas tariff the Canadian-U.S. Monetary Exchange Adjustment provision set forth in Section C, Part B, of its application.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 30th day of DECEMBER, 1974.

Vernon L. Sturgeon
President

William Symons Jr.

Thomas Moran

[illegible]

Robert E. McDavid

Commissioners