

ORIGINAL

Decision No 84289

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for authority to increase rates for gas service pursuant to fuel cost adjustment procedure. (Filed by Advice Letter No. 700-G.) (Gas)

Application No. 55542
(Filed March 6, 1975;
amended March 13, 1975)

(Appearances listed in Appendix A)

O P I N I O N

This matter was originally filed as Advice Letter No. 700-G for a tracking increase in gas rates pursuant to the fuel cost adjustment procedure of the Commission. The Commission filed this advice letter as Application No. 55542. The applicant (PG&E) filed its amendment on March 13, 1975 which indicated an increase in the estimate of natural gas to be received during the period from April 1, 1975 through March 31, 1976 from 302,230 MMcf to 327,703 MMcf from El Paso Natural Gas Company (El Paso). The basis for PG&E's request here is El Paso's filing of its fifth semi-annual adjustment to its Base Tariff Rate under Federal Power Commission orders and rules, to be effective April 1, 1975,^{1/} increasing El Paso's commodity rate by 11.71 cents per Mcf.^{2/} PG&E requests that its

1/ 1.39 cents Mcf of this request is to be delayed one day to April 2, 1975 and all figures in the decision reflect adjustment for the one day.

2/ El Paso's original filing was for a 12.06 cents per Mcf increase.

offset increase be effective simultaneously with its increased cost of gas on April 1, 1975. The gross revenue request due to the net increase in gas cost is \$38,359,000, to which PG&E has added the sum of \$326,000 to cover the increase in franchise costs and uncollectibles, making a total request of \$38,685,000 by PG&E in this proceeding.

This requested increase amounts to .464 cents per therm, to be applied on a uniform cents per therm basis, including gas air conditioning rates pursuant to the authority granted in Decision No. 84119, dated February 19, 1975. Pursuant to Commission direction, public hearing was held before Commissioner Vernon L. Sturgeon and Examiner Phillip E. Blecher on March 19 and 20, 1975 in consolidated hearings on similar requests by Southern California Gas Company and San Diego Gas and Electric Company.

The Evidence

PG&E based its presentation on the latest test year, 1973, which was adopted by the Commission in Decision No. 80878 dated December 19, 1972. This procedure was approved in an earlier offset proceeding, Decision No. 83127 dated July 9, 1974. Decision No. 80878 authorized an eight percent rate of return. The pertinent test year was updated to include gas cost increases, increased revenue from offset rates through January 1, 1975 and gas supply for the twelve months commencing April 1, 1975 (the effective date of the subject offset), as set forth in page 2 of Appendix A of Exhibit E. Based on this adjusted test year and projected gas volumes from El Paso, verified by the Commission staff, the adjusted results of operation show a realized rate of return before the increased gas cost below the authorized rate, as set forth in Table 1 below:

PACIFIC GAS AND ELECTRIC COMPANY
GAS DEPARTMENT

RESULTS OF OPERATIONS
ADOPTED IN DECISION NO. 80878 AS ADJUSTED
WITH AND WITHOUT EL PASO OFFSET TRACKING

(000's Omitted)

		: El Paso :	:	:	:	:	:
		: Increase :	: Without :	:	: With :	:	:
Line		: in Cost :	: Proposed :	: Offset :	: Proposed :	: Line :	:
No.	: Test Year :	: of Gas :	: Offset :	: Proposal :	: Offset :	: No. :	:
	(A)	(B)	(C)=(A)+(B)	(D)	(E)=(C)+(D)		
1	Gross Operating Revenues	\$ 940,765	\$ -	\$ 940,765	\$ 38,685	\$ 979,450	1
	<u>Operating Expenses</u>						
2	Cost of Gas	685,195	38,359	723,554	-	723,554	2
3	Other Expenses, Excluding Taxes Based on Income	173,543	-	173,543	326	173,869	3
4	Taxes Based on Income	9,518	(19,928)	(10,410)	19,928	9,518	4
5	Total Operating Expenses	\$ 868,256	\$ 18,431	\$ 886,687	\$ 20,254	\$ 906,941	5
6	Net for Return	\$ 72,509	\$(18,431)	\$ 54,078	\$ 18,431	\$ 72,509	6
7	Rate Base	\$1,022,547	\$ -	\$1,022,547	\$ -	\$ 1,022,547	7
8	Rate of Return	7.09%	(1.80%)	5.29%	1.80%	7.09%	8

The Commission staff recommended an alteration in the adjusted test year to effect an increase in the total sales subject to offset^{3/} by adjusting the storage injection by 6,515 MDth. This was accepted by PG&E, and resulted in the staff recommending an offset increase of .460 cents per therm in lieu of the requested .464 cents per therm. The staff further recommended granting PG&E the gross offset revenue requested of \$38,685,000. There was no evidence offered disputing the testimony, exhibits, or conclusions of either the applicant or the staff.

Various parties at the hearing voiced objection to the comparatively short time between the advice letter filing and the hearing dates. Under our adopted procedures, an advice letter need not be set for hearing, but the Commission, in an effort to allow additional objective examination of this large offset request, converted the advice letter filing into an application. This has the effect of requiring broader service of notice, and an opportunity for public hearing. To be fair, the hearing was scheduled at the earliest possible time to allow the utility the opportunity to obtain relief, if any, with a minimum loss of revenue (estimated at \$105,000 per day after April 1, 1975.) The original advice letter was filed February 25, 1975. There was more than ample opportunity for a meaningful examination of the requested increase, and the Commission provided the public a greater opportunity to be heard than its existing rules presently provide. To extend this opportunity, we are herein ordering that notice of all future advice letter filings that effectively increase rates be served upon all entities who appeared at the utility's last general rate proceeding, as well as all entities who have requested, in writing, notice of all such filings.

3/ Page 1 of Appendix A of Exhibit E.

Findings

1. El Paso has filed a purchased gas adjustment with the Federal Power Commission (FPC) which provides for a net increase in the unit cost of natural gas of 10.32 cents per Mcf on April 1, 1975, and an additional increase of 1.39 cents per Mcf effective April 2, 1975, pursuant to FPC Order Nos. 452 and 452-A.

2. PG&E has requested the tracking of the above increase of 11.71 cents per Mcf (adjusted for the one day differential) amounting to an annualized gross revenue increase request, including a proportionate increase of franchise and taxes, of \$38,685,000, effective April 1, 1975, or whenever El Paso's increased charges become effective, subject to any reductions or refunds ordered or required by the FPC. The staff concurred in the amount of the increase.

3. Decision No. 80878 authorized an eight percent rate of return for PG&E, based on test year 1973, adopted by the Commission after being fully analyzed and tested.

4. PG&E rate of return is 7.09 percent, based on test year 1973, as adjusted, and the revenue increase requested will not increase the adjusted rate of return for test year 1973.

5. The offset increase authorized to PG&E will result in an increased unit cost of .460 cents per therm, which is to be spread on a uniform cents per therm basis to all classes and schedules of gas service.

6. The rate of return and rates authorized by Decision No. 80878 were found to be reasonable, and only offset increases have been added to those rates, all of which offset increases have been found to be reasonable.

7. The offset authorized herein is reasonable and will not increase the rate of return above the last authorized rate of eight percent.

8. The increased cost of gas purchased by PG&E from El Paso, if not offset, will reduce PG&E gas department's earned rate of return, for adjusted test year 1973, by 1.80 percent to 5.29 percent, and this rate of return would be unreasonable.

9. The increase in uniform cents per therm to each class and schedule of service of .460 cents is reasonable, and the new rates authorized herein are reasonable and justified.

10. There was no evidence offered to dispute or contradict the statements, computations, and conclusions of PG&E or the staff.

11. The increase in gas costs is an extraordinary expenditure, both in nature and magnitude, and is the proper subject of an offset proceeding limited in issue to specific items directly related to the increased commodity charge.

Conclusions

1. PG&E should be granted an offset increase in all classes and schedules of service of not more than .460 cents per therm, to be applied on a uniform cents per therm basis, subject to the conditions in the ensuing order.

2. The increased gas rates, authorized herein, are justified and reasonable within the meaning of the Public Utilities Code.

3. The Tax Reduction Act of 1975 has made changes in the applicability of the investment credit to utilities under our jurisdiction. Because of our uncertainty about the effects of those changes we will make our order in this proceeding an interim order subject to refund. This will permit us to act promptly, if the utility elects to flow through the benefits of the investment credit to the ratepayers, to offset, by reduced rates, the investment credit and to refund that portion of the credit accruing since the effective date of this order.

INTERIM ORDER

IT IS ORDERED that:

1. Pacific Gas and Electric Company is authorized to increase its gas rates in all classes of service by not more than .460 cents per therm to offset the increased commodity charge of El Paso Natural Gas Company of 11.71 cents per Mcf, to be charged by El Paso to Pacific Gas and Electric Company commencing April 1 and 2, 1975.

The effective date of the authorized increase shall be the last to occur of either (a) April 2, 1975, or (b) the effective date of El Paso's increase, or (c) the date of the tariff filings hereinafter required.

2. Pacific Gas and Electric Company is authorized to file revised tariff schedules to reflect the authorized increase in rates. Such schedules shall comply with General Order No. 96-A and shall include a provision that any refund or reduction of these offset increases ordered or required by any Federal Power Commission action as to El Paso shall be refunded to its customers on a like basis, and a provision for a refund because of changes in the investment credit. The revised tariff schedules shall apply only to service rendered on and after the effective date thereof.

3. Simultaneously with any future filing by Pacific Gas and Electric Company for an offset increase, it shall file a statement indicating the recorded results of this offset increase, including, but not limited to, the following items:

- a. Total gross revenue increase, by class of service.
- b. Total commodity cost increase, by schedule.
- c. Total franchise increase.
- d. Total uncollectibles increase.
- e. Total federal income tax increase.
- f. Total state income tax increase.
- g. Total other taxes increase.
- h. Results of operation with indicated rate of return with and without the offset increase authorized herein.
- i. Changes in any other items of income and expense attributed by the company to this offset increase.

4. Notice of all future filings for offset increases shall be served upon all persons or entities having filed appearances in its last general rate increase proceeding, whether pending or not, together with the notice required by General Order No. 96-A. These notice requirements shall apply to advice letter filings and applications.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 11th
day of APRIL, 1975.

*I will file a dissent
William Lyons, Jr.*

*I will file a
written concurrence*

Vernon L. Sturgeon

Vernon L. Sturgeon
President

Leonard Ross

Commissioners

Commissioner ROBERT BATINOVICH

Present but not participating.

APPENDIX A

List of Appearances

Malcolm H. Furbush, Robert Ohlbach, Joseph S. Englert, Jr., by Joseph S. Englert, Jr., Attorney at Law, for Pacific Gas and Electric Company; David B. Follett, Attorney at Law, for Southern California Gas Company; Chickering and Gregory, by Sherman Chickering, Donald Richardson, C. Hayden Ames, and David A. Lawson, II, Attorneys at Law, for San Diego Gas & Electric Company; Gordon Pearce, Attorney at Law, Vice President and General Manager, for San Diego Gas & Electric Company; John H. Woy, for San Diego Gas & Electric Company; for all applicants at consolidated hearing.

Burt Pines, City Attorney, by Leonard L. Snaider, Deputy City Attorney, for the City of Los Angeles; Leonard Putnam, City Attorney, by William E. Emick, Jr., Deputy City Attorney, for the City of Long Beach; Rollin E. Woodbury, William Marx, H. Robert Barnes, Jr., and Dennis G. Monge, Attorneys at Law, for Southern California Edison Company; Edward C. Wright, General Manager, Long Beach Gas Department, for the City of Long Beach; Roy A. Wehe, Consulting Engineer, for the City of Long Beach; Manley W. Edwards, for the City of San Diego; Ronald L. Johnson, Attorney at Law, for the City of San Diego; William S. Shaffran, Attorney at Law, for the City of San Diego; Brobeck, Phleger & Harrison, by Thomas G. Wood and Gordon E. Davis, Attorneys at Law, for California Manufacturers Association; William Knecht and William Edwards Attorneys at Law, for California Farm Bureau Federation; Robert W. Russell and Manuel Kroman, Department of Public Utilities and Transportation, City of Los Angeles; Overton, Lyman & Prince, by Donald H. Ford, Attorney at Law, for Southwestern Portland Cement Co.; A. Barry Cappello, City Attorney, for the City of Santa Barbara; interested parties.

Herman Mulman, for The Coalition for Economic Survival; and Alex Googooian, City Attorney, for the City of Bellflower; protestants.

Janice E. Kerr, Attorney at Law, and Edmund J. Texeira, for the Commission staff.

A. 55542, D. 84289
A. 55543, D. 84290
A. 55544, D. 84291

COMMISSIONER VERNON L. STURGEON, concurring in part, dissenting in part

I concur in part, and I dissent in part. I dissent strongly to making an offset order of this type subject to refund. It has the effect of putting a cloud on the companies' ability to attract new financing, both equity and debt, to the detriment of the companies and their customers at a time when it is difficult and costly for utilities to finance even under the most favorable of circumstances.

I concur to avoid a stalemate which would deprive the utilities of revenue which the record clearly demonstrates is warranted. This order should have been final and the matter of investment tax credit should have considered in a general rate case in public hearings.


Vernon L. Sturgeon
Commissioner

San Francisco, California
April 2, 1975

A. 55542 - D.84289
A. 55543 - D.84290
A. 55544 - D.84291

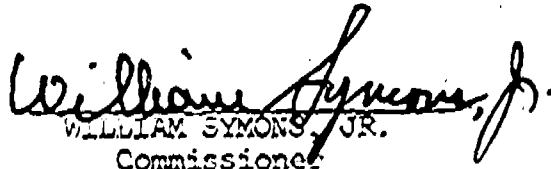
COMMISSIONER WILLIAM SYMONS, JR., DISSENTING

Although I support the authorization for the increase to cover the cost of increased price of gas as fully justified by the evidence, my conscience forces me to dissent from the condition relating to the Investment Tax Credit. I may have an old-fashioned approach but I still believe there is a right way and a wrong way of doing things. It is not right to attach a condition for the purpose of extracting a concession from the utilities as the price of getting what they need and are entitled to.

It is especially bad in this situation where the new Investment Tax Credit law has not been the subject of hearings in which the purpose of the credit, its effect on the utility's cash flow, the financial needs of the utility and the long run interest of the consumers have been evaluated. In the absence of a record made in such proceedings I must object to the hasty decision that has been made today and I believe that the condition on the authorization is simply totally improper.

The Investment Tax Credit of 1975 is not an issue properly before us in this purchase gas adjustment application and can be handled adequately by the Commission in either a general rate case or special proceedings. Conditioning the rate approval here upon conjectured possible future action with regard to the Investment Tax Credit has the harmful effect of unnecessarily clouding the quality of utility earnings to the ultimate detriment of both the utility and the ratepayer.

San Francisco, California
April 1, 1975


WILLIAM SYMONS, JR.
Commissioner