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Decision No. 84571

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 CALIFORNIA SOURCES. (Gas)	Application No. 55468 (Filed January 30, 1975)
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 EL PASO NATURAL GAS COMPANY. (Gas)	Application No. 55469 (Filed January 30, 1975)
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. 55470 (Filed January 30, 1975)

(Appearances are listed in Appendix A)

INTERIM OPINION

Nature of Proceeding

On January 30, 1975, Pacific Gas and Electric Company (PG&E) filed a series of three applications requesting authority to increase its rates and charges for natural gas service to offset increases in expense caused by increases in the price of gas delivered to PG&E from its three sources of supply, California gas producers, the El Paso Natural Gas Company (El Paso), and from Canadian sources delivered by the Pacific Gas Transmission Company (PGT).

The matters were assigned to Commissioner Leonard Ross and referred to Examiner John R. Gillanders for hearing.

In the applications, PG&E states that the increases of price of gas obtained from El Paso will become effective on June 16, 1975, from California sources on July 1, 1975, and from PGT on July 16, 1975. PG&E therefore proposes to increase its gas rates to its customers for service on and after those dates to offset the increased cost of gas and related franchise payments and uncollectibles on a uniform cents-per-therm basis as follows:

Source	Cents-Per-Therm
El Paso	0.216
California Producers	0.467
Canadian Gas (PGT)	0.059
Total	0.742

PG&E estimated, in the three applications, that the offset rates would increase annual revenues, based on an estimated 1975 test year, $70,062,000, broken down as follows:

El Paso	$24,393,000
California Producers	40,336,000
Canadian Gas (PGT)	5,133,000
Total	$70,062,000

The rate of return, according to PG&E, would drop by:

Effect of Increases From:	
El Paso	1.13%
California Producers	1.88
Canadian Sources (PGT)	0.24
Total	3.27%

PG&E claims that, should the offsets be granted as proposed, during the year 1975, as estimated, it would only earn a 7.43 percent rate of return on its Gas Department rate base, which return is below the 8.0 percent last found to be fair and reasonable for the Gas Department by the Commission in Decision No. 80878 dated December 19, 1972 in Application No. 53188.

Stated Reasons for Proposed Increases

El Paso

In Application No. 55469, PG&E states that it obtains approximately 38 percent of its natural gas from El Paso, which obtains its gas from out-of-state sources. On December 16, 1974 El Paso filed increased rates with the Federal Power Commission (FPC) amounting to 7.21¢ per Mcf for gas purchased by PG&E (FPC Docket No. RP75-39). Although El Paso in its filing sought to reduce the customary full five-month suspension period to one day, the FPC has suspended the effective date of El Paso's filing until June 16, 1975, at which time the increase will become effective.

El Paso also filed alternative revised tariff sheets in that same application seeking an alternative increase of only 6.58 cents per Mcf. The difference of 0.63 cents per Mcf is attributed by El Paso to the impact of the FPC authorized nationwide rate for "new" gas, as set forth in FPC Opinion No. 699-H, issued on December 4, 1974, on settlement agreements reached earlier by El Paso with certain owners of special overriding royalty interests. Under the terms of these settlement agreements, the present unit amounts payable to these overriding royalty interest owners will be revised on June 1, 1975 and on each succeeding June 1 by a formula based on the highest FPC prescribed or permitted interstate gas rate then extant. Since this June 1, 1975 increase in overriding royalty interest payments will occur one day after the May 31, 1975 close of the test period selected by El Paso in the Docket No. RP75-39 filing, El Paso sought waiver of the filing requirements contained in Section 154.63 (e) (2) (i) of the FPC's regulations to extend the test period one day in order to include the "known and measurable" increase attributed to the overriding royalty payments. This request for waiver was granted by order of the Federal Power Commission dated January 15, 1975.

The basis for this present offset application by PG&E is the full 7.21 cents per Mcf unit price increase sought by El Paso. Should the FPC rescind its waiver and only permit El Paso to place into effect those alternate revised tariff sheets reflecting the lower unit price increase of 6.58 cents per Mcf, PG&E will adjust its offset rates accordingly to reflect only those costs incurred from the El Paso rates actually placed into effect pursuant to FPC authorization.

The El Paso rate filing will become effective subject to reduction and refund under provisions of the Natural Gas Act if the FPC should ultimately determine in the proceeding before it that El Paso's rates exceed just and reasonable levels. PG&E proposes to make appropriate rate reductions and refunds to correspond with any rate reductions and refunds ordered by the FPC.

California Sources

In Application No. 55468, PG&E explained that it obtains approximately 17 percent of its natural gas from California gas producers. Under the terms of PG&E's contracts with these producers the present pricing period ends June 30, 1975. The contracts require that PG&E pay the reasonable market value for California gas.

In response to producer demands ranging between $1.11 and $3.00 per Mcf, which the producers alleged is the reasonable market value, PG&E is negotiating for a price of 75 cents per Mcf for 1,000 Btu heating value delivered at 33-1/3 percent load factor. This represents a 30 cent increase over the present contract price of 45 cents established July 1, 1974 and negotiated two years ago. A number of producers have agreed to this price, and PG&E is negotiating with the remainder at this price level.

As a result of the foregoing July 1, 1975 base price increase for California gas PG&E's annual expense will increase $40,336,000 effective July 1, 1975, based on a 1975 test year.

Canadian Sources

PG&E explains in Application No. 55470 that it obtains approximately 45 percent of its natural gas from PGT, which obtains its gas from Canada. PG&E expects its cost of gas from this source to increase 1.387¢ per Mcf effective July 26, 1975. As a result of the foregoing PGT rate increase, PG&E's annual expenses are expected to increase $5,133,000, effective July 26, 1975, based on a 1975 test year.

The PGT rate filing will become effective subject to reduction and refund under provisions of the Natural Gas Act if the FPC should ultimately determine in the proceeding before it that PGT's rates exceed just and reasonable levels. PG&E proposes to make appropriate rate reductions and refunds to correspond with any rate reductions and refunds ordered by the FPC.

Public Hearing

The three applications were consolidated for hearing, and after due notice, including notices sent with customers' bills for service, 13 days of hearing and one night hearing were held in San Francisco, and one night hearing in Fresno, during the period March 3, 1975 through June 4, 1975 before Commissioner Ross and/or Examiner Gillanders. Statements and/or evidence was taken from members of the public. Evidence was given by PG&E, staff, City of Palo Alto, Textile Service Industries, and the California Gas Producers Association.

PG&E'S Presentation

PG&E's requests are summarized in the table following:

PACIFIC GAS AND ELECTRIC COMPANY
GAS DEPARTMENT

RESULTS OF OPERATIONS
ADOPTED IN DECISION NO. 80878 AS ADJUSTED

(000's Omitted)

	Test Year	California 7/1/75	El Paso 6/16/75	P.G.T. 7/26/75	Total	With California, El Paso, And P.G.T. Increases: Without Rate Proposal	Rate Proposal(a)	With Rate Proposal
Gross Oper. Revenues	$ 967,458	$ -	$ -	$ -	$ -	$ 967,458	$ 64,162	$1,031,620
Operating Expenses								
Cost of Gas	701,831	39,996	18,535	5,090	63,621	765,452	-	765,452
Other Exp. Excluding Taxes Based on Income	173,543	-	-	-	-	173,543	541	174,084
Taxes Based on Income	16,093	(20,779)	(9,629)	(2,644)	(33,052)	(16,959)	33,052	16,093
Total Oper. Exp.	891,467	19,217	8,906	2,446	30,569	922,036	33,593	955,629
Net for Return	75,991	(19,217)	(8,906)	(2,446)	(30,569)	45,422	30,569	75,991
Rate Base	1,022,547	-	-	-	-	1,022,547	-	1,022,547
Rate of Return	7.43%	(1.88%)	(.87%)	(0.24%)	(2.99%)	4.44%	2.99%	7.43%

(Red Figure)

(a)	El Paso Natural Gas	$18,693,000	6/16/75	=	0.216 cents per therm *
	California	40,336,000	7/ 1/75	=	0.467 cents per therm
	P.G.T.	5,133,000	7/26/75	=	0.059 cents per therm
	Total	$64,162,000			0.742 cents per therm

*PG&E is requesting offset increases based on an increase from El Paso of $24,593,000.

Staff Presentation

The staff presentation was made through two engineers. Upon learning of the possible adjustment to El Paso's cost of gas, the staff modified its previous exhibit and recommended that its results, shown below, be adopted by the Commission:

TABLE D

(Second Revision)

SUMMARY OF OFFSET INCREASES USING 5.48¢/Mcf RATE RISE IN EL PASO GAS EFFECTIVE 6-16-75 IN LIEU OF 7.21¢/Mcf

Item	Staff	Utility	Utility Exceeds Staff Amount	Utility Exceeds Staff Percent
		(Dollars in Thousands)		
California Gas	$36,366	$40,336	$3,970	10.9%
El Paso Gas	17,578	18,692	1,114	6.3
P.G.T. Gas	2,365	5,133	2,768	117.0
Totals	56,309	64,161	7,852	13.9
		(Cents Per Therm)		
California Gas	0.438¢	0.483¢	0.045¢	10.3
El Paso Gas	.212	.216	.004	1.9
P.G.T. Gas	.028	.061	.033	117.9
Totals	.678	.760	.082	12.1

Presentation of City of Palo Alto

The City of Palo Alto, through a consulting engineer, presented evidence to show that it, as a resale customer, on a cost-of-service basis was producing a return to PG&E on its sales to Palo Alto higher than the system average rate of return. Palo Alto requested that its rate schedule not be increased on a cents-per-therm basis.

Presentation of Textile Service Industries, Inc.

Textile Service Industries, Inc. argues that the textile maintenance industry is best served by maintaining the historic fully-allocated-cost design of rates which would continue a volume discount to the large user.

Public Participation

In addition to the members of the public who made statements or presented testimony at the public hearings, many wrote letters to the Commission. Of those who wrote letters, 334 protested the applications and four were in favor of the Commission granting all or part of the applications. As a sub-category, 62 of those letters were in the form of a mimeographed postcard which requested the Commission to deny further rate increases until a lifeline - a low flat fixed rate for gas and electricity use - was established.

In addition to the letters, there were several petitions which protested the increase and requested favorable action of the Commission in not granting the applications. The signatures totalled 310 on the various petitions.

In the miscellaneous category, there was one resolution by the County of Placer, Resolution No. 75-131, dated February 25, 1975, which reflected the action of the County's Council in protesting the applications.

By letter addressed to all parties in Application No. 54279 et al. (PG&E's general rate increase applications), the presiding commissioner stated that the subject of rate structure would be an issue in these proceedings. No testimony was presented as a result of the letter.

Position of California Gas Producers Association

The California Gas Producers Association supports the rate increases particularly insofar as they have to do with an offset for the increased cost of California gas.

Adopted Results

At this time, we will only issue an interim decision in order that PG&E may promptly recover in rates the amount it will reasonably pay to its supplier El Paso (plus amounts for franchise taxes and uncollectibles).

The subject of the amounts to be allowed for increases in payments to California suppliers and PGT will be covered in subsequent decisions.

We have compared the estimates of offset relief required as prepared by PG&E and by the staff. We will adopt, in this case and in the related applications, the same heating value estimates as were used in the last general rate case (Decision No. 80878).

We are of the opinion that by using the fiscal year 1975-76 test period and the purchased volumes associated therewith, PG&E's obligation to El Paso will be $17,578,000 as estimated by the staff.

Rate Spread

Although this Commission has previously spread gas offset rate increases on an equal cents-per-therm basis, we are persuaded that the natural gas rate structure must be changed. In the past, interruptible customers were granted discount rates in order to induce them to use gas. Rising prices of alternate fuels make such an inducement unnecessary. Moreover, the current rate structure has not been designed with reference to the increasing curtailment of natural gas and the imperative need for conservation. Thus, the present federal allocation policies and the current rate structure actually penalize residential customers as a class for their conservation efforts. A reduction in California residential use results under current federal policies in a reallocation of the unused volume throughout the pipeline system. Some of this gas goes to out-of-state customers; the remainder to California interruptible customers. Each of these reallocations results in a net reduction of PG&E's revenues. The reallocation to interruptible California customers does not in any way reduce PG&E's costs. Thus, residential conservation in California has two perverse effects: first, it shifts gas to out-of-state customers; second, it increases the utility's revenue requirement per therm, and thus increases rates to residential as well as other customers.

We urge the FPC to modify its allocation system to ensure that gas saved as a result of a conservation effort be reallocated within the same state. Further, we propose to alter our rate structure so that it will not penalize residential conservation. Toward that end, we will require PG&E to file gas rate schedules designed solely for domestic (residential) use. We will then establish a new set of tariffs which will remove the amount of this offset from the residential class and redistribute it to the customer classes benefitting from residential conservation.

Insulation Program

PG&E presented testimony and an exhibit (28) regarding its ceiling insulation program. According to PG&E, there are more than 700,000 homes in northern and central California that have no ceiling insulation. There also are many homes where existing insulation is inadequate and additional ceiling insulation would be beneficial. If all these homes were insulated, the savings of natural gas required for space heating could amount to twenty-nine billion cubic feet per year. Using 21¢ per square foot as an average installed cost and assuming a 30 percent saving, the cost for insulation installed in the typical home could be returned in fuel bill savings in about seven years at today's gas rates. If the rates increase to 21¢ per therm (the approximate gas cost if pending PG&E rate requests are authorized), the payback period would be about 5 years.

It appears from the above that, since new gas supplies cost substantially above the average of existing gas supplies and even above what customers pay directly for gas, there is a margin where all customers are benefited by conservation measures taken by any customer.

It is our view that the facts might justify some modest form of insulation subsidy program paid for by all customers who benefit from conservation, and we request PG&E and the other parties to prepare such a program for our consideration.

Findings

1. On June 16, 1975 the cost of gas supplied by El Paso to PG&E is estimated by PG&E to increase by $24,593,000 based on El Paso's filing before the FPC (Docket RP75-39).

2. El Paso has indicated to the FPC that certain of its calculations presented in Docket RP75-39 were in error.

3. The effect of the errors, if recognized by the FPC, would reduce PG&E's estimated increase to $18,693,000 based on a 1975 calendar test year.

4. According to the staff, based on a fiscal 1975-76 test year, the increase in gas costs from El Paso to PG&E would be $17,578,000 on a corrected RP75-39 basis.

5. The staff's estimate of cost of gas is reasonable.

6. The increase in rates and charges authorized herein are justified; the rates and charges authorized herein are reasonable, and the present rates and charges insofar as they differ from those prescribed herein are for the future unjust and unreasonable.

Conclusions

1. PG&E should be authorized to increase rates to its customers by $17,578,000.

2. The $17,578,000 increase should be apportioned to PG&E's customers on the following basis:

(a) A uniform cents-per-therm increase to all rate schedules effective as of June 17, 1975.

(b) Not more than sixty days from June 17, 1975 PG&E shall file tariff sheets which will establish schedules for the class of residential customer and concurrently shall file rate schedules for residential customers which exclude any increase due to this interim decision.

(c) Within 30 days after the receipt of the PG&E rate schedules this Commission will adopt tariff sheets which will apportion the amount of the increase granted herein to the non-residential schedules.

INTERIM ORDER

IT IS ORDERED that:

1. Pacific Gas and Electric Company (PG&E) is authorized on or after the effective date of this order to file increased gas rates to offset the increased cost of gas from its supplier El Paso Natural Gas Company as follows:

Rate Schedule

Effective Date	Offset Increase
June 17, 1975	0.211/Therm

2. Tariff filings to reflect these increases shall be in accordance with General Order No. 96-A. The revised schedules shall be effective on the date of filing and shall apply only to service rendered on and after June 17, 1975.

3. Such increases shall be subject to refund as specified in applicant's Preliminary Statement.

4.a. Not more than sixty days from the effective date of this order PG&E shall file tariff sheets establishing schedules for the class of residential customers and concurrently shall file rate schedules for residential customers which exclude any increase due to this interim decision.

b. Rates for resale customers will be set to allow similar exclusion of this increase from their residential schedules, without burdening their nonresidential customers in any greater degree than those of PG&E.

5. Within thirty days after the receipt of the PG&E rate schedules this Commission will adopt tariff sheets which will apportion the amount of the increase granted herein to the nonresidential schedules.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 17th day of JUNE, 1975.

Vernon L. Sturgeon
President

William Symons Jr.

Leonard Ross

Robert Batinovich

Commissioners

APPENDIX A

LIST OF APPEARANCES

Applicant: Malcolm H. Furbush and Donald L. Freitas, Attorneys at Law, for Pacific Gas and Electric Company.

Protestants: Silver, Rosen, Fischer and Stecher, by John Paul Fischer, Attorney at Law, for City of Palo Alto; Sylvia M. Siegel, George Gilmour, Attorney at Law, and Eugene Coyle, for Toward Utility Rate Normalization (TURN), Consumer Federation of California, and themselves; Joseph D. Regacho and Elsie Steiner, Attorneys at Law, and Charlotte Schoen, for themselves; and H. C. Buchanan, City Councilman, City of Manteca, for Senior Citizens.

Interested Parties: 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; Thomas M. O'Connor, City Attorney, by Robert Laughead, for the City and County of San Francisco; and Charles G. Lowe, Juanita F. Loomis, Gary W. Lindsey, and Allene Silverman, for themselves.

Commission Staff: Peter Arth, Jr., Attorney at Law, and Edmund J. Texeira.