

Decision No. 84697**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)

THIRD INTERIM OPINIONNature of Proceeding

On January 27, 1975 Pacific Gas Transmission Company (PGT)^{1/} filed a notice of rate change with the Federal Power Commission (FPC). According to the filing, the request for increased revenues is due solely because of a required increase in its rate of return from 7.875 percent to 10 percent. PGT states that this increase is necessary to enable it to attract additional capital to finance

^{1/} PGT is owned 51 percent by PG&E.

expansions of its gas transmission facilities and to compensate it for an increase in risk occasioned by the FPC's requirement that it file under Section 4 of the Natural Gas Act for increases in the price it must pay for gas from Canada.

According to the FPC a review of the proposed increase in rates indicates that it has not been shown to be just and reasonable and may be unjust, unreasonable, unduly discriminatory or preferential or otherwise unlawful. The FPC, therefore, accepted the proposed rate increase for filing and suspended it for five months, when it will be permitted to become effective, subject to refund, pending hearing and decision as to the lawfulness of the proposed increase.^{2/}

PG&E states in Application No. 55470 that it obtains approximately 45 percent of its natural gas from PGT, which obtains its gas from Canada.

Beginning July 26, 1975 PG&E claims it must pay PGT an additional \$5,133,000 on an annual basis due to a raise in price of 1.387¢ per Mcf. PG&E requests that this amount be passed through to its customers on a uniform 0.059 cents-per-therm basis. The staff recommends that \$2,365,000 be passed through to PG&E's customers on a uniform 0.028 cents-per-therm basis. California Manufacturers' Association and California Gas Producers Association also recommended that any increases be passed through on a cents-per-therm basis.

On the last day of hearing, a representative of TURN made a motion to dismiss Application No. 55470 on the basis that PG&E did not disclose the true nature of the PGT request before the FPC, and more important, that the requested authorization of a 10 percent rate of return for its affiliate, PGT, is in direct violation of this Commission's rules respecting allowable rates of return for affiliates under the Western Electric formula enunciated by the California Supreme Court in 6 Cal 3d 119 that the affiliate subsidiary

^{2/} Order issued February 26, 1975.

company cannot earn more than the parent company. According to TURN, any monies flowed through to the California customers would result in unjust and unreasonable rates and, therefore, be unlawful in accordance with Section 451 of the Public Utilities Code.

Section 454 requires that a showing be made that fully justifies the company's request. TURN believes that PG&E has not borne its burden and thus its showing does not support its request.

TURN believes that under Section 728 of the Public Utilities Code it is up to the Commission to fix rates that are just and reasonable and that if it finds that the rates requested are unreasonable or unjust it can order other rates established.

The motion was taken under submission by the presiding examiner.

Discussion

On January 31, 1974 PG&E filed Application No. 54618 for authority to revise its gas service tariff to offset the effect of increases in the price of gas from PGT along with similar applications to offset increases from California sources and from El Paso Natural Gas Company. Decision No. 83127 was issued in the consolidated matters on July 9, 1974.

In Decision No. 83127 we said:

"Concept of an Offset Proceeding

"The traditional public utility rate setting procedure as followed in California is based on the authorization of rates designed to produce revenues sufficient:

- (a) to recover proper operating expenses, depreciation expense, and taxes other than those based on income;
- (b) to provide a reasonable return on the utility's net investment, or 'rate base'; and (c) to cover the taxes based on income that would be payable if the authorized return were earned.

"Stated more concisely, the revenue requirement is determined so as to equal the cost of service. In order to meet the requirements of due process, each element of the cost of service is usually thoroughly examined and a 'general rate case' involving a major utility is usually a lengthy and time consuming process, often requiring upwards to a year.

"Absent any major changes in price level, taxes, or technology, rates prescribed after a general rate case may be appropriate for many years. Occasionally, a specific element of the cost of service can undergo a sudden and significant change. The adjustment of rates to reflect the effect of a change in specific definable elements, independent of the changes that may have occurred to other elements, is known as an offset, and a rate proceeding involving such a change is known as an offset proceeding."

We also said in Decision No. 83127:

"Affiliates' Cost of Service Tariffs

"We have expressed above our concern over the inclusion of purported cost increases arising from the operation of the cost of service tariffs of PG&E's affiliates. The troublesome question of affiliate costs and profits has been a concern of the Commission since its inception. In Southern Sierras Company, Decision No. 224 dated September 16, 1912 in Application No. 220 (1 CRC 556, 558), we said, 'The construction of a utility's plant by a subsidiary construction company consisting of the same people will always call for the most careful scrutiny of this Commission in a rate case or in an application to issue stocks, bonds, or other securities.'"

In spite of the definition of an offset proceeding and the warning about affiliates in Decision No. 83127 there is, in this proceeding, in the words of staff counsel, "...an absolutely zero record as to the bases upon which PGT could ask for a 10 percent rate of return on its operation."

PG&E's position regarding its showing is:

"What Pacific Gas and Electric Company is here before the Public Utilities Commission requesting is that those rates which are established by the national regulatory body and which are the lawful rates which Pacific Gas and Electric Company must pay beginning July 26, 1975 be granted offset rate relief, that they be spread and passed to the consumer in an offset proceeding. That is the nature of Pacific Gas and Electric Company's request."

As we understand PG&E's position, it is that this Commission must abide by the decision of the FPC and can do nothing but pass through any rates authorized by that agency. If we wish to protest the request before the FPC we can avail ourselves of the FPC procedures but we are powerless to prevent PGT from filing for increased rates.

Although we do not necessarily agree with PG&E's position, we believe that this proceeding is not the proper vehicle in which to argue our responsibilities towards PG&E's affiliates versus those of the federal agencies. TURN's motion is denied.

Adopted Results

We will issue an interim decision in order that PG&E may promptly recover in rates the amount it will reasonably pay to PGT (plus amounts for franchise taxes and uncollectibles).

We have compared the estimates of offset relief required as prepared by PG&E and by the staff. We will adopt 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 PGT will be \$2,365,000 as estimated by the staff, or an increase of 0.028¢ per therm.

Findings

1. On July 26, 1975 the cost of gas supplied by PGT to PG&E is estimated by PG&E to increase by \$5,133,000.
2. According to the staff, based on a fiscal 1975-76 test year, the increase in gas costs from PGT to PG&E would be \$2,365,000.
3. The staff's estimate of cost of gas is reasonable.
4. 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 \$2,365,000.
2. The \$2,365,000 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 July 26, 1975.
 - (b) When PG&E files tariff sheets which establish schedules for the residential customers pursuant to Decision No. 84571, it 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.

THIRD 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, Pacific Gas Transmission Company, as follows:

<u>Rate Schedule</u>	
<u>Effective</u> <u>Date</u>	<u>Offset</u> <u>Increase</u>
July 26, 1975	0.028¢/Therm

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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 July 26, 1975.

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


4.a. When PG&E files tariff sheets establishing schedules for the class of residential customers as ordered by Decision No. 84571, it shall concurrently file rate schedules for residential customers which exclude any increase due to this interim decision.

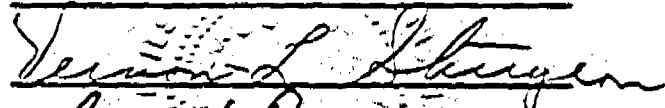
b. Rates for resale customers will be set to allow similar exclusion of this increase from their residential schedules, without burdening their nonresidential customers in any greater degree than those of PG&E.

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 22nd
day of JULY, 1975.


President






Commissioners

Commissioner William Symons, Jr., being necessarily absent, did not participate in the disposition of this proceeding.