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Decision No. 84721

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. 55687 (Filed May 13, 1975)

Malcolm H. Furbush, Robert Ohlbach, and Donald L. Freitas, Attorneys at Law, for applicant.
Silver, Rosen, Fischer and Stecher, by Granville Harper and John Fischer, Attorneys at Law, for City of Palo Alto; and Sylvia Siegel, for TURN and Consumer Federation of California; protestants.
Brobeck, Phleger & Harrison, by Gordon E. Davis and Thomas G. Wood, Attorneys at Law, for California Manufacturers Association; Thomas M. O'Connor and William C. Taylor, Attorneys at Law, and Robert Laughead, for City and County of San Francisco; interested parties.
Robert T. Baer, Attorney at Law, for the Commission staff.

INTERIM OPINION

Public hearing was held at San Francisco before Examiner Thompson on July 7 and 8, 1975 and this application was submitted on the latter date.

By this application Pacific Gas and Electric Company (PG&E) requests authority to increase its rates and charges for natural gas service by approximately $164 million effective August 1, 1975 and by approximately $82 million effective November 1, 1975. The proposed rate increases are intended to offset increases in the border export price of natural gas ordered by the Canadian Government to become effective on those dates.

A detailed description of the arrangements under which PG&E purchases Canadian gas and the conditions under which the gas is received by it at Antioch, California, is set forth in Decision No. 83127 dated July 9, 1974 in Application No. 54618 and will not be repeated herein. Suffice it to say that PG&E buys the gas from Pacific Gas Transmission Company (PGT) and takes delivery at the California-Oregon border; PGT purchases the gas from Alberta and Southern Gas Co. Ltd. (A&S) and takes delivery at the Canadian-Idaho border. PG&E owns 51 percent of the stock of PGT and 100 percent of the stock at A&S.

A&S purchases natural gas from approximately 120 producers in Alberta under licenses issued by the National Energy Board of Canada. On May 5, 1975 the Canadian Government (Governor in Council) established increases in the export price of natural gas from $1.00 (Canadian) per MMBtu to $1.40 to become effective August 1, 1975, and to $1.60 to become effective November 1, 1975. Pursuant to that action, the National Energy Board on May 12, 1975 amended the licenses held by A&S to require the latter to pay the producers the increases in the export price ordered by the Governor in Council. A&S is required by the order to charge PGT the increased prices in Canadian dollars on the dates indicated above. While the procedures under which the price increases are to be flowed through to the producers is under consideration, the orders of the National Energy Board require that <u>all</u> of the funds so provided be flowed through and none be retained by A&S. PG&E undertook to determine the distribution of the amount of money that resulted from the last increase in the export price of gas ordered by the Governor in Council effective January 1, 1975 and found that the Canadian Government received about 30 percent and the Province of Alberta received about 61 percent which left between 9 and 10 percent to the producers. The only ownership interests of PG&E in the producers is that A&S has a working interest in gas developed by Anderson Exploration Ltd. in Peace River No. 2 project in northwestern Alberta. It acquired this working interest as a partial consideration for advances made to carry out exploration and drilling in this project. As of June 30, 1975, A&S's working interest share of the total contractable reserves in this project amounted to 14,766 MMcf at a pressure base of 14.73 psia. This volume represents 0.1 percent of A&S's total gas supply. The evidence shows that no significant amount, if any amount, of the funds generated by the increases in the export price will revert to PG&E or any of its subsidiaries or affiliates.

By order dated June 18, 1975 the Federal Power Commission permitted PGT to increase its rates effective August 1, 1975 and November 1, 1975 to reflect the increases in the export price of Canadian gas.

Both PG&E and the Commission staff estimated the revenue requirement from the August 1st increase to be $164,049,000 per year, and from the November 1st increase to be $82,026,000 per year. PG&E, the staff, and the California Manufacturers Association each recommended that we raise the required revenue by spreading the increase on a uniform cents-per-therm basis across the rate schedule, increasing each commodity rate by 1.951 cents per therm on August 1st and by an additional .987 cents per therm on November 1st. None of the parties to this proceeding contested these figures.

We received a number of letters from persons asking this Commission to simply deny the rate increase. We cannot. There is no indication that PG&E or any of its subsidiaries will gain any material advantage from the increase in border price. There is no suggestion that the rates allowed by this order will permit PG&E to exceed its last authorized rate of return. There is no basis for burdening PG&E with any part of the increase. We have no alternative but to increase rates to allow PG&E to recover the increase in its cost of service.

There will be more rate increases. Canada has announced its intention to continue to raise the border price until it reaches the energy equivalent price of oil. Domestic suppliers will continue to raise the price to PG&E. Each of these increases will require a corresponding rate increase.

Underlying all of these increases is the spreading shortage of natural gas. We have had curtailments; we can expect more. We have had to consider priorities among the various classes of gas customers for the purposes of allocating available gas between them. (Decision No. 83819.) We are being asked to approve unique financing plans that would raise gas rates today for the purpose of obtaining possible future supplies. Our utilities are exploring various alternative sources of gas supply that are feasible only in the face of these higher prices and depleting supplies that are associated with existing sources.

In this context, the important question is not whether we shall pay more for gas, but how should the increased prices be spread across the rate schedules. In this decision we depart dramatically from the typical rate structure that was based on the premises that gas was cheap and in abundant supply.

It has been suggested that we should wait to restructure rates in either a general rate case or in a case designed for that specific purpose. But the rate increases do not wait, and the magnitude of this August 1st increase requires that we consider carefully the manner in which that increase should be passed on.

The existing declining block rate structure has been the object of much criticism. Whether the rate structure should be inverted, whether minimum charges should be eliminated, these are complex questions and we do not intend by this decision to foreclose further inquiry in these areas. By this decision (spreading the August 1st increase) and the decision that will follow (spreading the November 1st increase) we do intend to establish on an interim basis a new rate structure.

We are satisfied that the circumstances no longer support a declining commodity charge based on consumption. In Decision No. 83819 we made the express finding: "11. Present residential and small commercial customers should be accorded the highest priority for service because of their inability to (use) alternate fuels." We find the declining charge to be inconsistent with that determination.

In simple terms, the highest rates should be paid by the lowest priority users, because the highest priced gas is for their benefit - without that gas those users would have to find alternative fuels. But we cannot now impose a rate structure based on end use priorities because of the lack of a determination of those priorities. We do have matters pending in which that determination can be made. In the meantime we find that a reasonable basis for rates is a uniform commodity charge.

We do not go so far as to impose the uniform commodity charge in this proceeding. Even the substantial amount of revenue required could not be spread so as to produce the uniform charge without slightly lowering the rate for residential users. We find the prospect of a slight temporary rate reduction to be little more than misleading and to be inconsistent with the need for continuing conservation.

The new rate structure is embodied in the schedules attached as Appendix A. With respect to the general service tariffs, we have eliminated the tail blocks, by raising each of those blocks to the rate presently paid for the range of 26 to 200 therms. In each general service tariff we have retained the existing minimum charge. We find no basis for continuing the commodity charge disparity between Schedule G-1 (San Francisco) and Schedule G-2 (East Bay, Peninsula - San Jose, and Sacramento) and therefore raise the G-1 commodity rates to conform to the G-2 schedule. With that exception, the effect of this order is to maintain unchanged the existing rate applicable to the first 200 therms of consumption under a general service tariff.

We have eliminated Schedules G-40 and G-41, formerly providing firm industrial natural gas service rates. The record shows that sales under such tariffs have been relatively small compared to sales under general service and interruptible schedules. Customers formerly served under such schedules will be hereafter served under the general service schedule applicable to their territory.

We have raised the interruptible rates substantially. We have also changed the structure of those schedules by establishing a uniform commodity charge without regard to blocks of consumption, where such uniform charge did not already exist. We have provided for one uniform rate across these schedules, but retain the separate schedules and their respective priorities. The interruptible rate remains below the lowest general service rate.

We have increased the other tariffs (resale and outdoor lighting) by the figure of 1.951 cents per therm, or equivalent, representing the average increase on a cents-per-therm basis.

We have eliminated the special provision applicable to gas energized air conditioning equipment. We find the discount to be inconsistent with existing policies and circumstances.

We expect to change the general service rate blocks in the next order. We propose to establish a new block at a level of reasonable residential consumption (perhaps 75 therms) and to spread the increase across the remainder of the schedules. We consider such a rate structure essential to encourage residential conservation and consistent with our discussion of priorities. We intend that as further rate increases occur by offset we will retain this "two-tier" rate structure, at least until we have the opportunity to consider fully some of the more sophisticated rate structures explored in other proceedings. We will hold further hearings in this proceeding for the purpose of ascertaining the appropriate block.

A subject of concern is the possibility that some industrial customers will attempt to secure private sources of supply from California gas producers, rather than pay the higher rates imposed by this order. We have indicated earlier that conservation of California gas and consumption of higher priced gas is not imprudent (see Decision No. 83915). We now indicate that it might be imprudent for PG&E to participate in this circumvention of policy by "wheeling" such gas. We have undertaken an investigation into the subject of California gas producers and will include this matter in the scope of our inquiry.

Findings

1. PG&E's rate structure for the service of natural gas was established by the Commission in its Decision No. 80878 dated December 19, 1972 in Application No. 53118. In that decision the Commission found that an 8 percent rate of return on rate base, and an 11.88 percent return on equity would be reasonable for such public utility service by PG&E.

2. Since December 19, 1972 the rates in that rate structure have been adjusted to offset increases in costs to PG&E of providing natural gas service by reason of increases in the prices of natural gas it receives from its purveyors.

3. One of PG&E's purveyors is PGT which acquires all of the natural gas it sells to PG&E from A&S. It takes delivery of gas from A&S at a location on the Canada-Idaho border. A&S purchases gas from producers at fields in the Province of Alberta, Canada.

4. On May 5, 1975 the Government of Canada ordered increases in the export price of natural gas from $1.00 (Canadian) per MMBtu to $1.40 to become effective August 1, 1975, and to $1.60 to become effective November 1, 1975.

5. Pursuant to said order, The National Energy Board of Canada on May 12, 1975 amended the licenses of A&S under which it is permitted

to gather and export Canadian natural gas to require A&S to pay the producers the increases in the export price it is required to charge PGT.

6. By order dated June 18, 1975, the United States Federal Power Commission permitted PGT to increase its rates effective August 1, 1975 and November 1, 1975 to reflect the increases in the export prices of Canadian gas.

7. On August 1, 1975 and on November 1, 1975 PG&E will be required to pay the increases indicated above in its acquisition of Canadian natural gas from PGT.

8. The increases in rates paid by PG&E to PGT will not provide any earnings or windfall benefits to PG&E, its subsidiaries, or affiliates.

9. The revenue requirement per year to offset the added costs on August 1, 1975 is $164,049,000 and to offset the additional costs on November 1, 1975 is $82,026,000.

10. By this application PG&E requests authority to increase its rates for natural gas for all classes of service by 1.951 cents per therm effective August 1, 1975, and to further increase its rates by 0.987 cents per therm effective November 1, 1975.

11. The increases in costs to PG&E are unavoidable and are necessary expenses to its public utility service of natural gas.

12. The additional revenues to be provided by the rates and charges authorized herein will not exceed such unavoidable and necessary increases in expense, will not provide PG&E with additional net earnings, nor will they change PG&E's rate of return on rate base or improve its return on equity.

13. PG&E's rate of return on rate base under the rates and charges authorized herein will not exceed 6.94 percent.

14. 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 $164,049,000 to become effective August 1, 1975.

2. The $164,049,000 increase should be apportioned to PG&E's customers on the basis prescribed by the schedules attached as Appendix A.

3. PG&E should be authorized to increase rates to its customers by $82,026,000 to become effective November 1, 1975. The Commission will consider the apportionment of that increase following further hearing in this matter.

INTERIM ORDER

IT IS ORDERED that Pacific Gas and Electric Company is authorized on or after the effective date of this order to file the revised rate schedules attached to this order as Appendix A and concurrently to cancel and withdraw the presently effective schedules. Such filing shall be in accordance with General Order No. 96-A and shall be effective on August 1, 1975 or the date filed, whichever is later, and shall apply only to service rendered on or after the effective date of the filing.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 29th day of JULY, 1975.

Concurring opinion

Commissioner

Commissioner D. W. Holmes, being necessarily absent, did not participate in the disposition of this proceeding.

President

William Symons Jr.

Vernon L. Sturgeon

Commissioners

APPENDIX A

GENERAL NATURAL GAS SERVICE - BASIC ZONES

RATES

	Per Meter Per Month				
	G-1	G-2	G-3	G-4	G-5
Commodity Charge:					
First 2 therms, or less	$1.47586	$1.58086	$1.68886	$1.85086	$2.11886
Next 23 therms, per therm	14.263¢	14.263¢	14.683¢	15.113¢	15.883¢
Over 25 therms, per therm	13.783¢	13.783¢	14.013¢	14.233¢	14.693¢

Minimum Charge: The charge for the first two therms.

GENERAL NATURAL GAS SERVICE - SUBZONES

RATES

	Per Meter Per Month			
	G-7	G-11	G-12	G-13
Commodity Charge:				
First 2 therms, or less	$1.90486	$2.33286	$2.70786	$3.02886
Next 23 therms, per therm	16.423¢	17.623¢	18.353¢	20.423¢
Over 25 therms, per therm	15.823¢	16.543¢	17.003¢	18.343¢

Minimum Charge: The charge for the first two therms.

PUBLIC OUTDOOR LIGHTING NATURAL GAS SERVICE

RATES

	Per Group of Lights Per Month G-30
First 10 lights or less	$25.86
For each additional gas light	$2.59
For each cubic foot per hour of total rated capacity for the group in excess of either 1.5 cubic feet per hour per light, or 15.0 cubic feet per hour for the group, whichever is greater	$1.107

INTERRUPTIBLE NATURAL GAS SCHEDULES (all)

RATES

Commodity Charge:	Per Meter Per Month
For all gas deliveries, per therm	13.667¢

Minimum Charge: The charge for the first 5,000 therms per meter per month accumulative annually.

RESALE NATURAL GAS SERVICE

	Per Month G-60	Per Month G-61
RATES		
Demand Charge:		
Based on the maximum billing month consumption, per Mcf.	9.8¢	9.8¢
Commodity Charge:		
To be added to the Demand Charge: for all gas deliveries, per therm	12.094¢	12.054¢
Minimum Charge:		
The minimum charge shall be the monthly demand charge.		

	Per Month G-62
RATES	
Demand Charge:	
Based on maximum billing month consumption	
Per Mcf of firm service in maximum month	8.6¢
Per Mcf of interruptible service in maximum month	2.7¢
Commodity Charge:	
To be added to the Demand Charge: For all gas deliveries, per therm	11.864¢
Minimum Charge:	
The minimum charge shall be the monthly demand charge.	

Rate Schedules - Other Changes

1. Cancel Schedules G-40 and G-41.

2. Cancel air-conditioning discount.

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CONCURRING OPINION OF COMMISSIONER ROSS

This is only the beginning of the bad news about natural gas. Prices will continue to go up, even faster than the price of gasoline and other fuels. The Canadian government will increase its prices by another 14 percent on November 1, and perhaps 30 percent or more after that. California gas producers raised their prices by 66 percent last July 1, and they are asking for increases of up to 200 percent more. New supplies of gas from Alaska will be at least twice as expensive as current supplies. Synthetic gas from coal may be three times as expensive.

While gas prices are soaring, the supply is dwindling. Without new supplies, in a few years we might not have enough gas to cook dinner and heat the home.

Today we are doing what we can to share this burden fairly. For too long, large industrial customers have been able to buy gas at bargain basement prices. We are today moving to a fair rate system which charges heavy users more, not less, for this precious natural resource.

But it will not be long before the average household, too, will have to face steep price increases. Industrial use of gas is being phased out. Soon the only people left to pay will be residential and small business customers.

Then there will be only one way to hold back rate increases: conservation. If we can cut down our use of gas, supplies will last longer and cost a good deal less. If we increase our use of gas, we will be paying prices almost beyond belief.

A. 55687 D. 84721 KB

Conservation doesn't just mean turning your thermostat down -- though that will help a great deal. The Public Utilities Commission, as well as the customer, has its own tasks ahead. In the next few months, I hope that the Commission will:

1. Establish a Conservation Branch to work closely with the State Energy Commission and the utilities in reducing the waste of energy.

2. Require all utilities in the State to draw up and implement an annual conservation plan.

3. Give utilities a clear set of financial rewards and punishments depending on the vigor of their conservation efforts.

4. Aggressively promote a home insulation program for the millions of uninsulated homes in California.

5. Develop incentives for the use of solar energy, especially in home heating.

These steps are only a beginning. But without them consumers could be paying $50.00 a month for gas within a decade.

Leonard Ross

Leonard Ross
Commissioner

San Francisco, California
July 29, 1975