RE/lmm *

Decision No. 85023

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND ELECTRIC COMPANY for authority to adjust its rates as necessary to provide funds to make the payments required under a certain Funding Agreement related to Northern Alaska Natural Gas. (Gas)	Application No. 55661 (Filed May 1, 1975)

Filed October 31 1975
William R. Johnson
Secretary

(Appearances are listed in Appendix A)

O P I N I O N

This is an application by Pacific Gas and Electric Company (PG&E) for an increase in its gas service tariffs to permit a periodic adjustment by advice letter filings to its rates in order to collect from its gas customers the funds required to make certain periodic funding payments to Exxon Company, U.S.A. (Exxon) under a funding agreement entered into between PG&E and Exxon dated March 11, 1975, relating to the sale of natural gas from the Prudhoe Oil Pool in Northern Alaska. This adjustment is designated the Northern Alaska Funding Adjustment (NAFA). The proposal contemplates an increase in rates sufficient to pay the interest charges on a maximum sum of $166,440,000 which is assumed to be borrowed by Exxon but which is actually being generated from Exxon's own funds. These charges are estimated over the life of this agreement at approximately $161,000,000. The actual amount will vary depending upon the current bond interest rates which are the basis for determining the actual amount due, as explained later. In order for PG&E to pay this sum it is necessary for them to collect a sum of money in addition to the interest charges, to cover the charges for uncollectibles, franchise fees, and state and federal income taxes. The total sum estimated to be collected under this proposal is approximately $275,000,000. For these funds, Exxon is granting to PG&E the sole and exclusive initial right to negotiate for the natural gas production attributable to an undivided 30 percent of Exxon's working interest in its gas reserves in the Prudhoe Oil Pool for a 20 year period.

The initial NAFA rate increase originally proposed to be effective September 1, 1975, is .377 cents per therm amounting to $31,594,000 annually for the test year used by PG&E.[1/] This is an increase of 3.2 percent over estimated gas revenues during the same period. The original increase is proposed to remain in effect until January 1, 1977, when it would be adjusted to set a new NAFA rate for the next calendar year, as it would be on the first of each succeeding year thereafter. NAFA monies would be identified and controlled through a special deferred credit account which would keep the amounts separate from the revenues of PG&E, but not placed in a segregated and restricted fund.

It is PG&E's belief that since these sums are not actually revenues there should be no taxes paid on them, a questionable view under existing tax law. PG&E has not yet applied to the Internal Revenue Service for a tax ruling exempting these funds from treatment as income, but intends to do so. In the event of a favorable ruling, the amounts collected would be returned to its customers through an appropriate refund or rate reduction pursuant to Commission order.

1/ The estimated maximum annual NAFA collection is $42,646,000 equal to .509 cents per therm, a 4.3 percent increase over annual gas revenues estimated to result from rates in effect April 2, 1975, based on estimated sales during the instant test year.

The funding payments by PG&E are required to be made semi-annually during the funding period, which will extend until the early 1990's, with an average life of 11-1/2 years. Upon the commencement of deliveries of Prudhoe Bay gas to PG&E, but in no event later than December 31, 1982, the outstanding principal will then begin to reduce to zero on a straight line basis over a ten year period and the funding payments will then be reduced proportionately. The interest rate to be charged is that rate which equals the Aaa Corporate bond yield average as reported in "Moody's Bond Survey" for the date 30 days prior to the date of each funding payment to Exxon. Since it is not possible to state in either dollar or percentage terms the precise amount of NAFA or the maximum amount of the proposed increase, all amounts mentioned herein are approximations.

The Exxon funding agreement also obligates PG&E to make capital investments in certain gas handling and conditioning facilities in the Prudhoe Bay Area. These investments, which would probably commence in 1976, are not expected to affect PG&E's rates and charges for natural gas service until deliveries of Prudhoe gas begin.

The estimated costs to PG&E for the gathering, injection, and gas conditioning facilities to be erected are $150,000,000 in then current dollars. Before the operation of the gas transportation system commences Exxon will pay a cost of service rental fee for its use of the gas gathering and injection facilities. Thereafter PG&E will bear its share of these costs of service with the field price reflecting well head delivery. Thus, after this gas starts to flow to California, PG&E's customers will bear the costs of gathering and conditioning the gas, transporting the gas and the purchase cost of the gas. The estimated total investment to bring this gas to its service area, including NAFA, is estimated at $1,170,000,000. The estimated cost of the transportation alone from the North Slope to the Bay Area in 1982 dollars (when gas is expected to begin to flow) will be $2.243 per therm, or $22.43 for a user of 100 therms per month, via the Gas Arctic pipeline system. (The transportation cost is greater for the liquefied natural gas system sponsored by El Paso Natural Gas Company.) The other necessary costs of obtaining this gas would boost the price even higher. This application does not seek authority to include the carrying cost of the required investments in the gas rates at this time.

The agreement is terminable under various conditions set forth in the funding agreement (a part of group Exhibit 2). In the event of such termination, all payments theretofore made to Exxon would be refunded with interest (except the first semiannual payment of $2,382,866 already made by PG&E to Exxon). Any such refunds would be flowed through to the applicant's gas customers. Under any termination, Exxon would also purchase from PG&E whatever gas handling facilities had been constructed at the time of termination at the then existing depreciated book value of said facilities.

The first payment of $2,382,866 due under the agreement was computed using an interest rate of 8.59 percent and was paid by PG&E to Exxon on March 31, 1975. A second funding payment was made on September 11, 1975, based on the same principal amount of $55,480,000 and using the then applicable interest rate. On March 11, 1976, PG&E will make another semiannual payment based on a principal of $110,960,000 and a similar payment every six months until the gas sales contract is executed, (expected to be in 1977 though the funding agreement indicates the gas sales agreement will not begin to be negotiated until such time as the Federal Power Commission (FPC) approves one of the two alternate transportation methods now pending before it). After the execution of the gas sales contract the funding agreement contemplates semiannual payments of interest based on the maximum principal of $166,440,000 until the date of first gas deliveries of Prudhoe gas or December 31, 1982, whichever occurs first.

Exxon reserves are estimated to be 34 percent (seven tcf) of the total in the Prudhoe Bay field. The producers on the North Slope are presently negotiating a unitization agreement. The producers will then attempt to devise a production plan, which is subject to the approval of the Alaskan regulatory authorities. The amount of gas estimated to be available to PG&E under the terms of its arrangement with Exxon is 1.46 tcf (approximately 200 M^2cf/d), which amounts to approximately 20 percent of the reserves of Exxon. PG&E is, however, obligated to purchase 30 percent of the facilities necessary to handle, gather, inject, and condition the gas, since PG&E is obligated to purchase 30 percent of Exxon's production which may or may not equal 30 percent of Exxon's reserves.

The gas purchase contract, when negotiated, is presently contemplated to contain the following major provisions:

1. PG&E agrees to take or pay for 30 percent of Exxon's gas production though the actual quantities of gas involved depend upon the determination of various contingencies such as the production plan, the unitization plan, the size of the transmission line, and other undetermined matters. PG&E must pay for all the gas tendered whether or not taken, with make-up provisions at current prices.

2. Exxon retains the right to use gas for pressure maintenance, transportation of crude oil, and other operations.

3. Exxon retains title to all hydrocarbon liquids recovered from the gas and the right to remove all constituents therefrom (with the exception of methane) subject to payment by Exxon of the reasonable transportation fee for the fuel and extraction loss volume. Exxon retains the right to process the gas only at points in PG&E's system in the lower 48 states where the gas recovered is received.

4. The delivery point shall be the outlet of Exxon's gas-oil separators, stock tanks, flash tanks, or some other point to be mutually agreed upon hereafter.

5. Exxon will deliver gas as separated from oil.

6. The price to be paid for the gas shall be determined in cents per million btu's and to be not less than the highest price then provided in any other contract for the sale of Prudhoe Oil Pool gas to be delivered in the lower 48 states (the "most favored nations" clause) or the estimated commodity value of natural gas at the time of first deliveries in the market to be served less the applicable cost to the market. The minimum prices set thereby shall include annual escalations with PG&E liable for all increases in excess royalties, production taxes, severance taxes or increases in the value of the gas. The parties further contemplate the use of price re-openers every five years during the term of the agreement. The agreement as to price shall also contain a provision for redetermination of a higher price in the event of regulatory authority adoption of higher prices; reregulation or deregulation

such that variable pricing provisions can be used, any of which results in a higher price, with such higher price to be redetermined every six months beginning with the effective date of such reregulation or deregulation. Provisions relating to the highest price in the field paid by any U. S. buyer to any seller for significant quantities of gas produced from the North Slope to be delivered in the lower 48 states and the commodity value of natural gas in the market area of PG&E adjusted for applicable cost to market also remain to be negotiated.

7. Either party has the right to terminate the gas sales contract if final governmental authorization (acceptable to both parties) of the gas sales contract and for the construction of all transportation facilities for the gas to PG&E's service area have not been obtained by January 1, 1979, or with certain conditions, if the gas transportation facilities have not been completed by December 31, 1982.

The record in Application No. 55599 (SoCal-ARCO) was fully incorporated herein. The matter was heard between July 16, 1975 and September 5, 1975 before Examiner Phillip E. Blecher and was submitted on the latter date.

The Evidence

PG&E's policy witness stated that its major sources of supply at the current time are Canadian gas (obtained through its Canadian subsidiary and shipped through its pipeline subsidiary to its service area), El Paso Natural Gas Company (El Paso), and local California gas, all of which supplies are declining and are expected to decline further in the future. Curtailment has already begun to PG&E's interruptible customers and curtailment to firm customers is expected to begin in 1985 or 1986 without any additional gas supplies being obtained. The residential portion of applicant's firm customers is 69 percent. PG&E is presently funding gas explorations and development in Canada, Alaska, and the Rocky Mountains. Since the Mackenzie Delta area of Canada has great promise for future gas reserves, PG&E is presently in a joint venture with Pacific Lighting Company in which they are helping to fund Gulf Oil Company exploration and development of six tcf of gas. Additionally, PG&E has made a $230,000,000 commitment to Shell Oil Company in the form of advance payments and loans to assist in the development of Shell's nine tcf interest in the Mackenzie Delta area. The Canadian gas is subject to the vagaries of the Canadian authorities' allowing exportation thereof, which is not currently allowed unless it is determined to be surplus to Canada's own future needs.

PG&E believes that Alaska is the most promising area for major new supplies of gas. The Prudhoe Oil Pool has proven reserves of approximately 24 tcf with total potential reserves in the area estimated to be 114 tcf. This proposal is highly desirable from PG&E's view point since it does not appear on PG&E's balance sheet and does not impair its credit or borrowing ability. PG&E believes it is both reasonable and necessary to implement this proposal or the gas will be lost to the California market and will be sold to companies east of the Rocky Mountains. Additionally, it will lose a critically important initial position in Northern Alaska gas production. A subsidiary of PG&E is a member of the consortium of companies comprising the Gas Arctic pipeline project for the transportation of gas via a large capacity pipeline to be built from the North Slope to extend across the Mackenzie Delta area down through Canada where PG&E anticipates hooking it up with its existing pipeline and transporting it to its service area. The funding agreement provides that if governmental authorization for a transportation mode has not been issued by January 1, 1978, either party has the right to terminate the funding agreement upon 30 days written notice. The funding agreement may also be terminated if the PUC does not approve this proposal by October 31, 1975. PG&E's policy witness stated that it was his opinion that the price of Alaskan natural gas delivered in the PG&E market area will be approximately equal to the then cost of an equivalent amount of fuel oil, whether under regulated or deregulated conditions.

Exxon has entered into three other agreements for the sale of its North Slope gas production. These agreements are FPC 499-type arrangements with three pipeline companies which were all submitted to the FPC for approval and which were all denied by the FPC, primarily on the basis that it demonstrably appeared that the producer (Exxon) was able to fund the arrangement alone and did not need funds from the pipelines for this purpose. The instant proposal is akin to, though distinguishable from, the 499-type proposals. 499 proposals require the full amount of the funds advanced by the pipeline or distributing company to be refunded by the producer within five years after the commencement of the flow of gas from the area in question. The Exxon-pipeline agreements also require advance payments by the pipelines to Exxon which include a proportionate share of the funds necessary for the construction of the gas gathering and handling facilities which is now commencing on the North Slope. Thus, the initial payments by the pipelines there were proportionately larger than the payments contemplated in this proposal. Other major differences between the instant proposal and the Exxon-pipeline contracts are: (1) the full repayment there would be within five years of the start of the gas flow as compared to a ten year amortization of the illusory principal amount here, and (2) the inclusion of the funds advanced by the pipeline in rate base, requiring the payment of the authorized rate of return by the pipeline's ratepayers as compared in the instant case to the direct funding of the interest cost to be paid to Exxon by PG&E's ratepayers. Essentially, the effect of the agreements is identical. Factually, in present worth the total cost to the ratepayer is slightly less under the instant proposal than under the 499-type proposal, even though PG&E used higher-than-approved returns in computing the various present worths.

The evidence discloses that there are approximately four tcf of proven reserves in California, and that the amount of gas being contracted for under the instant proposal (assuming Exxon's production would be equivalent to its total reserves) would amount to approximately ten percent of the present North Slope proven reserves.

PG&E failed to take into account any conservation, assumes no new additional supplies of gas for any of its existing suppliers, or any new sources of gas in its supply and requirement data. Under these assumptions no firm curtailment is expected until 1985. Since the residential portion of the firm service is approximately 69 percent and is the use of highest priority there would have to be an additional 31 percent curtailment of firm service after 1985 before any residential curtailment would take place. This assumes that it is possible to curtail firm service other than residential without at the same time curtailing adjacent or contiguous residential service.

The addition of Exxon's estimated 200 M^2cf/d (73 billion cubic feet (bcf) per year) would postpone the curtailment of firm service for an additional year. No estimates were made as to when curtailment could be expected after giving effect to potential conservation, separation of residential firm from other firm, and anticipated new supplies of gas.

PG&E is also exploring a potential coal gasification project in a Rocky Mountain area with vast coal reserves. PG&E is aiming for a production of 250 M^2cf/d of gas from this project. At this time no estimates of cost of this project can be made, except for the rough estimate of cost of gas at $3.35 to $4.50 per M^2btu in 1982 dollars at the tailgate of the plant. A wholly-owned subsidiary of PG&E is also exploring for natural gas in the Rocky Mountain area but as yet has not made any major discoveries of gas which would warrant the construction of transportation facilities to bring the gas to PG&E's California market. PG&E has an additional venture with Island Creek Coal Company which obligates PG&E to purchase coal reserves near Price, Utah in the event that the coal company's drilling program discloses a coal reserve of 150 million tons or more. This coal is expected to be used in a coal fired generating plant and not for coal gasification purposes.

There are other distributing and pipeline companies who are willing to purchase any amounts of gas Exxon has available in the event that this proposal is not approved. It is apparent that though there were some few negotiated items in the contract brought to us for approval, the comparative bargaining stances of the parties were greatly unequal, since a large number of buyers are willing to bid with a few sellers for a scarce and valuable commodity which is in short enough supply so that the price for the negotiating rights is in actuality dictated by the sellers. This proposal differs in a significant respect from the SoCal proposal approved in Decision No. 84729 where SoCal obtained the right to negotiate for 60 percent of ARCO's reserves while PG&E has contracted for 30 percent of Exxon's <u>production</u> for a 20-year term, which may obviously be less than 30 percent of Exxon's available gas.

Exxon continues exploration in other areas of Northern Alaska which have been estimated to have potential reserves far in excess of the instant area. PG&E did not negotiate for rights to any gas that may be discovered by Exxon in other areas in Alaska. PG&E's policy witness stated that in the event of FPC allocation if PG&E is not a purchaser of Prudhoe Bay gas it might not receive as favorable treatment for other Northern Alaskan gas. PG&E has indicated that in the event of termination of this agreement its ratepayers would be made completely whole except for the first payment made.

PG&E's policy witness further indicated that he did not believe this contract would be ideal from the purchaser's viewpoint and that the proposal does not require nor does PG&E plan to contribute any monies to be paid to Exxon. It is the company's position that they are not paying the net price of $161,000,000 for the right to negotiate the contract with Exxon but are paying at most the March 31, 1975 payment for this right. The balance is for the right to have a purchase contract, and if there is no gas purchase contract the money is refunded, and thus it is a misstatement to characterize this transaction as one where applicant is paying $161,000,000 for a mere right to negotiate a contract. Under the terms of the proposal the actual funds paid by PG&E to Exxon would never exceed $15,000,000 per year during the life of the agreement. PG&E conceded that if this project was the only project contemplated by PG&E, it could advance this money as a stockholder risk, rather than asking the ratepayers for the advance, and also advance the additional money necessary for taxes and associated charges. The arrangement as proposed is, in PG&E's opinion, far superior for PG&E because it does not impair its credit, does not appear on its balance sheet, and allows its borrowing capacity to be used for other essential projects. The ratepayers will be obtaining a benefit by obtaining gas they might not have otherwise obtained, while the shareholders will be obtaining profits on this gas that might not have otherwise been earned. Thus the company is asking the ratepayers to put up all the money for a benefit that will concededly accrue, if at all, to both the ratepayers and the shareholders. PG&E's assets are approximately $6 billion and its net worth about $2.7 billion.

PG&E's evidence, substantially corroborated by the staff, shows that the financial impact of the proposal compares favorably with all other possible arrangements that were considered in regard to present worth and net cost to the ratepayers. An arrangement whereby the ratepayers would provide the total amount of money interest-free to Exxon, which funds would be repaid completely, would have a net cost of zero to the ratepayers and would be the most desirable but is presently impracticable under existing laws.

The rate spread on a uniform cents-per-therm basis, recommended by PG&E and the staff, requires payment of the NAFA surcharge by present interruptible and lower priority customers who will be receiving progressively less gas as time passes and who will receive little or none of the North Slope gas. This is justified on the basis of present customers paying for the future replacement of the gas that they are now using. PG&E indicated that it is able to refund to large interruptible customers any sums collected which are refunded by Exxon at some future time. PG&E's witnesses indicated that the potential tax consequences of the proposal are generally the same as those in the SoCal-ARCO arrangement approved in Decision No. 84729, except that in the instant case no production payment loan is involved.

The Commission staff presented one witness, a gas engineer of the utility division. The witness essentially corroborated the company's data as to gas supply and requirements and assumed growth in the number of PG&E's customers at the rate of 2.5 percent per year in 1975, tapering to 1.5 percent in 1985. The use per customer was assumed to be constant at about 130 terms per month though he expects conservation to be effective between now and the time gas starts to flow from the North Slope. As he did not consider conservation in his requirements forecast, use per customer is likely to be overestimated. The witness estimates the additional natural gas to be received by PG&E as the result of the proposal to be in the range of 159 to 199 M^2cf/d as opposed to PG&E's estimate of 200 M^2cf/d though there were many factors that contributed to the uncertainty of the actual deliveries, itemized as follows:

1. The deliverability of the Prudhoe Bay field has not yet been tested.
2. The unitization agreement between the producers has not been negotiated.
3. The production plan for the Prudhoe Bay field has not been approved.
4. The production plan not yet completed has obviously not yet been approved by the Alaskan authorities.
5. The mode of transportation has not been approved.
6. The amount of high btu components to be removed from the raw natural gas is undetermined at this time.

The witness testified that the actual cost of this gas is presently unknown but will consist of the NAFA payments, the cost of the field facilities for gas handling and conditioning, the cost of transportation, and the commodity price paid to Exxon at the point of delivery. The ratio of cost to amount of gas indicates that this project is considerably more capital intensive than the gas supply projects set forth in Decision No. 84729.

Rate spreads omitting charges to residential customers under 100 therm usage and under 200 therm usage were considered and rejected by this witness.

The staff concluded as follows: PG&E's gas supply situation is unsettled. The gas to be obtained under this proposal will not solve the problem but can only be realistically expected to provide an additional year to deal with this problem, though it may make it easier for PG&E to later obtain additional supplies from the North Slope. The staff recommends that the application be granted as proposed, with certain minor exceptions, even though the picture of the benefits and cost of this gas as well as the need is not well defined. The staff made the following policy recommendations: (1) that the CPUC and the FPC develop a coordinated policy with regard to future advance payment programs; (2) that the PUC actively participate in any FPC proceeding related to gas purchase contracts for North Slope gas; (3) that PG&E should do likewise; (4) that PG&E should be required to keep the Commission advised on the progress of negotiations of the gas purchase contract contemplated by this proposal as well as the anticipated investments for the transportation of gas, the amount of gas to be delivered, and the expected delivered cost.

The witness expected conservation to exceed that experienced since 1973 and believes the need for this gas to be uncertain at this time. This witness did not consider any possible antitrust implications of this proposal, nor did he consider any possible allocations by the FPC, nor could he determine whether the cost for the amounts expected here are or will be economically feasible. He testified that in essence this transaction contemplates, for approximately two and a half million dollars (PG&E's initial payment) the buying of a two year option by PG&E, at which time PG&E can better determine its supplies and requirements and whether it is advantageous to enter into a gas purchase contract with Exxon. If no such agreement is finally completed, the monies previously paid would be refunded. He could not determine what factors, if any, would then militate against entering into such gas purchase contract, particularly when all the costs involved are being borne by the ratepayers without any equity participation by PG&E, but it would be imprudent not to make the investment now. The justification for this arrangement would be weaker if the presently pending El Paso LNG transportation method is approved by the FPC. The witness believes that PG&E's assumptions as to the amount of gas to be transported are optimistic and not realistic, and therefore, the cost of transportation to California ratepayers would be higher than estimated by PG&E. There is a study made by another PUC staff member indicating that it was economically justified to take the full availability of California gas as soon as possible. Since the PUC has no regulatory jurisdiction over the local gas,* it was the witness' opinion that this gas should be saved, becoming "the gas of last resort". The witness concluded that he does not think the agreement is particularly advantageous for PG&E or for the people of California though there is a great

* The Commission is considering whether to open an investigation on this subject.

possibility of California's not being able to get this gas if this proposal is not approved; therefore, he recommends approval. It was the witness' assumption that the eventual price of gas on the North Slope would be of no consequence unless it reached the price of alternate fuel or the conversion cost to alternate fuel or a combination of those two factors.

He added that the contractual provisions giving Exxon the option to purchase the gas conditioning and handling facilities at depreciated book value was unfavorable to PG&E whether Exxon did or did not exercise the option. He classified the proposal here as a high front money and perhaps a high unit cost project, but would take this gas rather than curtail either of the two highest priority classes.

There is no firm evidence that California will not get any North Slope gas in the event that this proposal is not approved, particularly since the SoCal-ARCO proposal similar to this has already been approved by the Commission.

Antitrust Considerations

Under Northern California Power Agency v PUC (1971) 5 C 3d 370, the Supreme Court of California mandated consideration of antitrust consequences by the PUC in arriving at determinations of pending matters. These potential problems were made an issue in this proceeding, though no party was able to define even a remote antitrust violation in the specific proposal of PG&E. On August 12, 1975, we sent a letter to the Attorney General of the State of California asking for an advisory opinion on the pricing provisions involved in the contract which was the subject of Decision No. 84729. On August 29, 1975, we addressed a like letter in regard to this application. Answers have not yet been received. At this time we cannot find, nor has anyone brought to our attention, any alleged existing antitrust violation in this proposal of PG&E.[2/]

After submission of this application PG&E informally presented an alternate proposal to us which proposed that PG&E make the advance payments which would be reflected in rate base when the gas starts to flow. Because of the manner of presentation we do not at this time wish to pass on this proposal.

Discussion

We are approving the agreement for one reason only: necessity. We see no alternative means for assuring an adequate supply of natural gas for California. At stake here is the potential loss to California of 200,000,000 cubic feet of gas a day for 20 years. The reasons that we gave when approving the Southern California Gas Company-ARCO contract in Decision No. 84729 dated August 1, 1975 in Application No. 55599 are equally applicable here; they need not be repeated nor elaborated upon.

Our view of this entire transaction is that the contract should be approved but that the method of reflecting the precise tariff filings to be made requires further study. Therefore, we cannot approve PG&E's request for an increase in its gas service tariffs in the manner set forth in its application. However, as we understand this proceeding, PG&E and Exxon entered into a contract which did not require Commission approval for them to execute, and what they are seeking here is assurance from the Commission that the costs incurred pursuant to that contract will be reflected in rates. That being the case, this Commission is prepared to assure the parties that we will include the costs incurred by PG&E under the contract in rates. The precise manner of reflecting those costs

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2/ Restraint of trade and price fixing pursuant to a conspiracy by North Slope producers is a possibility, but PG&E's proposal would not be part of the conspiracy.

will be determined in further hearings. We can state at this time that the rates which result from this contract will be put into effect no later than the date the gas starts to flow.

Findings

1. There is now and shall continue to be a shortage of natural gas in California.

2. The North Slope gas shall be needed by California ratepayers when it begins to flow.

3. PG&E's funding agreement is a means of obtaining a dedication of proven reserves of North Slope gas for the long term.

4. The funding agreement, though expensive, is necessary to obtain a dedication of the subject gas and warrants our approval.

5. It is reasonable for PG&E to recover in its rates its costs under the funding agreement. Such recovery shall commence no later than the date of first delivery to PG&E of the gas which is the subject of the funding agreement.

Conclusion of Law

The public interest requires the granting of this application.

O R D E R

IT IS ORDERED that:

1. The agreement between Pacific Gas and Electric Company and Exxon Company, U.S.A. is approved.

2. Pacific Gas and Electric Company is authorized to adjust its rates as necessary to reflect its participation in a funding agreement to secure certain rights to Alaskan natural gas as proposed in its application, including refund provisions.

3. The rates which will be authorized pursuant to Ordering Paragraph 2 shall become effective no later than the date of first delivery to Pacific Gas and Electric Company of the gas which is the subject of the funding agreement.

4. Within thirty days after the effective date of this order Pacific Gas and Electric Company shall submit proposed tariff provisions to implement this order.

5. Further hearings shall be held at a time and place to be determined for the purpose of determining the precise form of rate implementation to be authorized Pacific Gas and Electric Company.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 31st day of October, 1975.

[illegible]
PRESIDENT

William Symons Jr.

Vernon L. Sturgeon

COMMISSIONERS

I will file a concurring opinion.
William Symons Jr.

I dissent –
Robert Batinovich
Commissioner

Leonard Ross
Commissioner

COMMISSIONER WILLIAM SYMONS, JR., CONCURRING

God knows California will need this Alaskan natural gas when it starts to flow south in the 1980's. And more than anyone else, this Commission -- the five men who make up the Commission -- know the forecasts for severe shortage which lie ahead if a supply of natural gas as substantial as that under consideration in this instant decision is lost to us.

Therefore, I condemn the brinksmanship being played by certain members of this Commission. Sure, it is heady stuff to tilt with the Federal Power Commission and Exxon. But, the lives of Californians, our industry, and our agriculture are too big a stake for a game of "chicken."

This was a close call! What if I couldn't get back in time? I left this State yesterday morning for today's Joint Communication Meeting between the Commissioners of the Federal Communication Commission and the four state representatives of the National Association of Regulatory Utility Commissioners.

Not that tonight's opposing Commissioners couldn't have signalled their vote when all five of us were in town. This PG&E proposal has been with us since it was filed May 1, 1975, six full months ago. That was plenty of time for antics and counter-proposals by any PUC Commissioner who didn't like the proposal, to work it over or indicate they would vote against it. If certain Commissioners were going to try to sink the deal on the last day, they could easily have told me before today. Yet, the opposite impression was given -- that only wording changes were going to be made. So, I left for Washington, D.C. Now, this circus! It is not that I have to fly 6,000 extra miles here and back to the East Coast tonight that aggravates me so. Rather, what angers me is having such a critical decision, that should have been handled regularly, and would have, but for deference to certain Commissioners who wanted to work over the language, be manuevered by those same Commissioners so as to require a life-or-death dash on my part to avert a disasterous course of events for the future of this State. This is no way to run a Commission.

San Francisco, California
October 31, 1975

William Symons, Jr.
WILLIAM SYMONS, Jr.
Commissioner

COMMISSIONERS BATINOVICH AND ROSS, DISSENTING

FPC said yes to ARCO.

FPC said no to Exxon.

No one can say for sure why in either case.

[illegible]

Leonard Ross

APPENDIX A

LIST OF APPEARANCES

Applicant: Malcolm H. Furbush, Gilbert L. Harrick, and Robert Ohlbach, Attorneys at Law.

Protestants: Sylvia M. Siegel, for TURN, Consumer Action, and Consumer Federation of California.

Interested Parties: Craig McAtee, Attorney at Law, of McCutchen, Doyle, Brown & Enersen, for Exxon Company, USA; Donald Richardson, David A. Lawson, Attorneys at Law, of Chickering & Gregory, for San Diego Gas & Electric Company; Gordon E. Davis and Thomas G. Wood, Attorneys at Law, of Brobeck, Phleger & Harrison, for California Manufacturers Association; Henry F. Lippitt, 2nd, Attorney at Law, for California Gas Producers Association; Thomas M. O'Connor, City Attorney, by William C. Taylor, Attorney at Law, and Robert R. Laughead, for the City and County of San Francisco; William M. Pfeiffer, by William M. Marticorena, Attorney at Law, for Pacific Lighting Corporation; William H. Edwards, Attorney at Law, for the California Farm Bureau Federation; Michael B. Marvin, for Taketsugu Takei, Director, California Department of Consumer Affairs.

Intervenor: William M. Bennett, Attorney at Law, for Consumers Arise Now (CAN) and Consumers as a Class.

Commission Staff: Walter H. Kessenick, Attorney at Law, and Donald L. King.

Late-filed Appearance: Edward K. Aghjayan, for the City of Palo Alto, interested party.