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Decision No. 86381

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. 56586 (Filed June 29, 1976)

Malcolm H. Furbush and Peter W. Hanschen, Attorneys at Law, for Pacific Gas and Electric Company, applicant.
Edward Mrizek, for City of Palo Alto; Brobeck, Phleger & Harrison, by Gordon E. Davis and William H. Booth, Attorneys at Law, for California Manufacturers Association; and Henry F. Lippitt, 2nd, Attorney at Law, for California Gas Producers Association; interested parties.
Elinore C. Morgan, Attorney at Law, and Vlado Bevc, for the Commission staff.

O P I N I O N

Statement of Facts

Pacific Gas and Electric Company (PG&E) is an operating public utility corporation engaged principally in the business of furnishing electric and gas service in California. It was organized under California law, and as a California public utility is subject to regulation by this Commission. At the present time approximately 45 percent of the natural gas sold in California by PG&E is of Canadian origin and is obtained through Pacific Gas Transmission Company (PGT), a PG&E controlled pipeline company engaged in interstate commerce and under regulation of the U. S. Federal Power Commission (FPC). PGT purchases natural gas at the Canadian border near Kingsgate, British Columbia, and imports it under authorization and certification from the FPC. In Canada the natural gas is in turn obtained from the Canadian fields by Alberta and Southern Gas Co., Ltd. (A&S), a wholly owned PG&E Canadian subsidiary, and is exported from Canada to the United States through facilities of Alberta Gas Trunk Line Co., Ltd. (independently owned), and Alberta Natural Gas Co., Ltd. (45 percent owned by PG&E),[1/] under export licenses issued by the National Energy Board of Canada (NEB) at border export prices established by NEB with approval of the Canadian Government.

In November 1973 NEB, pursuant to provisions of the Canadian National Energy Board Act and subsection 11.A(1) of the National Energy Board, Part VI, Regulations to review prices being charged for natural gas being exported from Canada, instituted proceedings to review their pricing policies. In its subsequent report to the Governor-in-Council (i.e., the Canadian Federal Cabinet), NEB recommended that Canadian gas exports should be priced in relationship to energy alternatives in the United States, and endorsed the principle of a series of price escalations to achieve its recommended goal of commodity value.

Late in 1974 the escalation process began. NEB, with approval of the Canadian government, on November 1, 1974 amended the existing export licenses held by A&S to establish a border price of $1.00 (Canadian) per Mcf of 1,000 Btu gas to become effective January 1, 1975. Consequently, the FPC in Docket No. RF 73-111 on November 15, 1974 adjusted PGT's tariff to reflect the effect of the Canadian gas price increases. In its turn, by Decision No. 83915 dated December 30, 1974 in Application No. 55228 this Commission authorized PG&E to adjust its tariff to reflect the new rates set by the PGT tariff.

1/ For a detailed discussion of the history, organization, and operations of PG&E's Canadian affiliates and subsidiaries, including pipeline operations see Report on Operations of Pacific Gas & Electric Company's Canadian Affiliates Alberta and Southern Gas Co., Ltd., and Alberta Natural Gas Co., Ltd., appearing as Exhibit No. 56 in Decision No. 84902 dated September 16, 1975 in Application No. 54279.

The escalation continued. NEB, with approval of the Canadian government, on May 12, 1975 again amended A&S's existing export licenses, and established a border export price of $1.40 (Canadian) per Mcf to be effective August 1, 1975, with a subsequent tandem increase in the border export price to $1.60 (Canadian) per Mcf, to be effective November 1, 1975. The FPC on June 18, 1975 authorized increases to PGT's tariff to be effective August 1, 1975 and November 1, 1975 to reflect the respective Canadian increases effective those dates. Recognizing the absence of any viable alternative existing at that time, by Decision No. 84721 dated July 29, 1975 in Application No. 55687 this Commission authorized PG&E to adjust its tariff effective August 1, 1975 and November 1, 1975 to offset the impending PGT tariff increases.

Once again, with the approval of the Canadian government, NEB has issued orders amending A&S's existing export licenses to establish a border export price of $1.80 (Canadian) per Mcf to become effective September 10, 1976, and a subsequent tandem border export price of $1.94 (Canadian) per Mcf to become effective January 1, 1977. In its turn, PGT has filed with the FPC,[2/] seeking FPC approval to include the effect of each of these two newest border export price increases in its tariff as of the same

2/ The Federal Power Commission in Docket No. RP73-111 on December 11, 1974 ordered that Pacific Gas Transmission Co.'s tariff be amended to provide that "...price filings must be made with the FPC pursuant to Section 4 of the Natural Gas Act before there is reflected in Seller's cost of service charges any increase in its cost of gas purchased from its Canadian supplier either that is approved or required by Canadian authorities or that reflects a price for purchased gas higher than the price theretofore reflected in the Canadian supplier's price; the increase in Seller's cost of service charges shall be subject to suspension by the Commission pursuant to said Section 4, and, if so suspended, shall thereafter be collected subject to refund as provided in said Section 4." This order was affirmed by the United States Court of Appeals for the District of Columbia, Docket No. 74-2046. Pursuant to this order PGT is seeking approval of the FPC to include the effect of the two new border prices in its charges to PG&E effective September 10, 1976 and January 1, 1977.

September 10, 1976 and January 1, 1977 dates. As the sequel to these PGT tariff filings made with the FPC, PG&E anticipates that the price of the natural gas it purchases from PGT, including the related impact of franchise payments and uncollectibles, will increase $81,618,000 (on an annualized basis) on September 10, 1976, and another $56,634,000 (on an annualized basis) on January 1, 1977. In Decision No. 84902 dated September 16, 1975 in Application No. 50730, this Commission found on a 1975 test year basis that a rate of return of 8.65 percent would be reasonable for PG&E's gas department, and authorized increases in rates to enable PG&E to earn that 8.65 percent rate of return. PG&E's present gas rates to its consumers do not reflect either the anticipated September 10, 1976 increase of $81,618,000 or the anticipated January 1, 1977 increase of $56,634,000, and without commensurate offsetting increases in PG&E's annual revenues, its gas department rate of return will drop by 3.42 percentage points as the result of the annualized effect of the anticipated September 10, 1976 PGT increase, and an additional 2.38 percentage points as the result of the annualized effect of the anticipated January 1, 1977 PGT increase.

Facing these anticipated additional costs in its supply of delivered natural gas from PGT, by this application PG&E requests authority to place into effect on September 10, 1976 and January 1, 1977 (or on such later dates as the PGT tariff increases should be authorized by the FPC if delayed), natural gas rates to its consumers which will offset the tandem PGT increases anticipated on those dates, including the related impact of franchise payments and uncollectibles.3/

3/ PG&E asserts that authorization of these increases will place PG&E in the same position it would be in if there were no such increases in the cost of gas from Canadian sources.

A duly noticed public hearing was held in San Francisco on August 2 and 3, 1976 before Examiner John B. Weiss. The hearing was but sparsely attended by the general public,[4] however, the Executive Secretary of the California Gas Producers AssocitION, noting the disparity in price between California produced gas compared to the price of Canadian gas,[5] the substantial peaking values of the California gas, and the benefit to the California economy of increased delivery of California produced gas, asked that the Commission take into account the benefits which he alleged would result from the purchase of additional supplies of lower cost California gas rather than the continued purchase of higher volumes of Canadian gas.

The staff is not opposed to the granting of the application but does differ with PG&E over two items in the gas supply estimates contained in the application. The staff, as it did in Applications Nos. 56392 and 56393 (the PG&E El Paso and California Sources offset matters), adheres to its asserted policy of not allowing any net storage changes resulting from injections into storage in offset matters, contending that such would not occur during a normal test year condition. Secondly, and more important here, the staff submitted gas supply estimates of natural gas volumes delivered from El Paso Natural Gas Company (El Paso) which were approximately 8.6 percent (for test year commencing September 10, 1976) and 8.9 percent

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4/ Less than half dozen individuals from the general public were in attendance during the two-day hearing; none availed himself of a proffered opportunity to speak on the applications. There were 31 communications from the general public, all but one opposed to the increases.

5/ The California Gas Producers Association witness in an opening statement related that PG&E has offered $1.20 per MMBtu to its California producers.

(for test year commencing January 1, 1977) higher than those submitted by PG&E, a difference which amounts to almost $6,000,000 in revenue. The issue centers upon what are the most realistic and reliable gas supply figures available to us as to the estimate of gas volumes to be delivered from El Paso. The staff relies upon its own projections derived out of the April 15, 1975 Annual Report of Gas Supplies made by El Paso to the FPC in compliance with federal regulations, as modified and adjusted by certain data, whereas PG&E relies upon the most recent Annual Report of Gas Supplies filed by El Paso April 15, 1976.6/ There are also differing opinions regarding the impact of allocation of El Paso's gas supply under the differing base periods and curtailment provisions of FPC Opinions 634 and 634-A which are currently in effect, and those of the more recent Opinion 697-A,

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6/ The staff counsel charged that PG&E "seems to bounce one way or another" in regard to following the latest El Paso gas estimates, noting that in a previous filing, Application No. 56392 filed April 8, 1976, PG&E used gas supply estimates derived from an FPC form 15 for year ending December 31, 1974 dated April 1, 1975, and went to hearing May 25-26, 1976 in that case without mentioning the existence of a later estimate appearing in a subsequent FPC form 15 for year ending December 31, 1975 dated April 1, 1976 (the one used by PG&E in the instant application and hearing); the inference being that PG&E knowingly used the wrong estimate in the earlier El Paso case. In rebuttal PG&E pointed out that it first received a copy of the later FPC form 15 on April 23, 1976 and was thereafter evaluating it. However, the staff's expert witness testified that he used the earlier FPC form 15 as "the starting point" in preparing the staff estimates, and that he had reviewed the same later FPC form 15 in question, but elected not to use it to update the staff study. It would appear from the evidence that both PG&E and the staff had equal opportunity to inject the question of the latest estimates into the May 25-26, 1976 hearings in Application No. 56392 had either party completed its evaluation and deemed it significant.

which has presently been stayed.[7/] Both the staff and PG&E agree on attempting to implement lifeline concepts in the rate design, as mandated by recent Decision No. 86087 dated July 13, 1976 in Case No. 9938, so as eventually to result in uniform commodity rates to all nonlifeline usage.

Discussion

An offset case differs from the traditional rate setting case substantially. In the traditional rate case each cost of service element is usually thoroughly examined, necessarily a time consuming process, but one essential to insure that the projected revenue will not exceed the cost of service. Where but one or two major elements of cost change, independent of the other major elements making up the total cost, the adjustments of rates to reflect the effect of that cost change is known as an "offset", and offset proceedings are designed to provide prompt relief for the utility on that limited issue. In the matter at hand, a change in one major element of cost is involved - the cost to PG&E of Canadian source natural gas purchased from PGT. Accordingly, PG&E's application meets the criteria for an offset proceeding.

The Commission has received a number of letters from residential consumers asking that we simply deny the relief requested by PG&E, and force PG&E to absorb the additional costs. We cannot do this. In the last completed traditional rate setting case this Commission after exhaustive testing of all cost elements found that a rate of return of 8.65 percent based on test year 1975 was reasonable for PG&E's gas department (Decision No. 84902 dated September 16, 1975

7/ FPC Opinion 697-A was issued December 19, 1974 and is stayed pending review in City of Willcox and Arizona Electric Power Cooperative Inc., et al., v FPC, DC Cir Nos. 74-2123, et al. In addition the tariffs filed by El Paso were held not acceptable by the FPC and were stayed by an FPC order dated December 24, 1975 (Docket No. RP 72-6).

in Application No. 54280). It has been amply demonstrated in the present offset proceeding that the cost offset increase requested by PG&E will only serve to keep PG&E in the same financial posture it would have been in had this additional cost in the price of Canadian source gas from PGT not occurred. The cost increase to PG&E, unless offset, would serve to drop PG&E's rate of return below that previously found reasonable by 3.42 percentage points on September 10, 1976, and another 2.38 percentage points on January 1, 1977.[8/] A rate which is too low to bring in a reasonable rate of return is said to be confiscatory and a taking of the utility's property without due process, something we cannot do constitutionally (Smyth v Ames (1898) 169 U.S. 466, 526). We have no alternative but to allow PG&E to increase rates to recover increased costs. In the evidence before us there is just no basis to burden PG&E with any part of these increases. However, some of the impact of these increases will again be blunted in their effect on the residential consumer through the application of lifeline rates.

In our consideration of the offset application we note that the Commission staff, subject to the two exceptions mentioned earlier, has basically concluded that the revenue increase requested was designed to offset only the increases anticipated for September 10, 1976 and January 1, 1977 in the cost of the Canadian source natural gas delivered by PGT, provide for the commensurate increases in franchise taxes, and cover anticipated increases in uncollectibles. We agree with the staff's basic conclusion in this regard. We further agree with the staff's approach in this instance to the gas injection issue and will disallow the 5,677 MMcf PG&E proposed to include in its

8/ PG&E asserts that unless it is permitted to make the proposed offset rates effective on the dates requested, it will suffer an irreparable daily loss of approximately the following amounts:

After September 10, 1976	$273,000 daily
After January 1, 1977	$155,000 daily

gas supply estimate for the 12-month period to begin September 10, 1976, and the 5,128 MMcf PG&E proposed to include in its gas supply estimate for the 12-month period to begin January 1, 1977.[9/] We are persuaded to this conclusion by the highly speculative possibility of the net additions proposed for inclusion. There is no way to monitor the gas that would be allowed into storage, to know when or if that gas ever comes out. Thus, the effect of granting PG&E's request to include these estimated amounts - should the possible injections not come to pass - would be a nonrecoverable overcollection. On the other hand, by disallowing the injections in making our estimates, if the injections do occur, PG&E can recoup any undercollection when the injection gas is subsequently taken out of storage and is sold. There remains the last issue which boils itself down to one question: How much natural gas will be available from El Paso to PG&E in the test years commencing September 10, 1976 and January 1, 1977?

The evidence presented is sharply in controversy. Expert witnesses for PG&E testified to the effect that in preparation of the application at hand, PG&E utilized the most recent estimates available of El Paso's future gas supplies: figures filed by El Paso pursuant to FPC regulations - the figures contained in the most recent Annual Report of Gas Supply to the FPC for the year ended December 31, 1975 (FPC form 15, a report filed April 1, 1976); figures which reflect an approximate 6.8 percent reduction in total pipeline system reserves available to El Paso.[10/] PG&E witnesses further asserted it

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9/ This is consistent with the posture we adopted in Decision No. 86213 dated August 3, 1976 in Applications Nos. 56392 and 56393.

10/ Total Pipeline System Reserves: El Paso

Annual Report: FPC form 15 for 1974	16388966 MMcf
Annual Report: FPC form 15 for 1975	15270890 MMcf

had utilized the most recent FPC permanent end-use curtailment plan, FPC Opinion 697-A, as modified by recent developments and interpreted by experience. On the other hand, staff experts testified that the staff used estimates derived from the staff's own report, 10-Year Forecast of Gas Utilities' Requirements and Supplies 1976-1985, issued and made public in January 1976. This report by the staff is also based in part on an El Paso FPC form 15, but one filed April 1, 1975 for the year ended December 31, 1974; an annual report one year older than that used by PG&E, and a report which set forth an available supply estimate for the total El Paso pipeline system of almost 3.3 billion cubic feet more gas than is reflected in the more recent report used by PG&E. The staff expert admitted he had reviewed the later 1976 FPC filing used by PG&E, but testified that he did not evaluate it nor did he make an allocation of those reported reserves as a comparison to the data he used, because in essence the staff's recorded data of actual deliveries for the total El Paso system, and for those to California exceeded the staff estimates based on the earlier 1974 FPC form 15. Further, he testified that despite the fact of the over 3 billion cubic feet reduction reflected in the later FPC form 15, the staff could not see its way clear to adjust downwards its earlier estimates for 1977 because its estimates for the first 6 months of 1976 were very close to the recorded actual deliveries for that period. But that statement holds true only as to total supplies to California from El Paso. While the total California deliveries from El Paso do track very closely in the staff study for the first 6 months of 1976,[11] that portion of the total

11/ Total California deliveries from El Paso - MMcf/day:

Month	Recorded	Staff Estimate
January 1976	2437	2357
February	2505	2380
March	2457	2480
April	2491	2479
May	2470	2461
June	2430	2408

deliveries which went to PG&E did not track. The staff estimate compared to the recorded data shows that the staff estimate exceeded actual deliveries by 8.7 percent in the first 5 months covered in the staff study.[12/] In part this overestimation by the staff is explained by the fact that the staff plotted its projection - or estimate - based on a different federal allocation opinion than the one presently in effect,[13/] the earlier one under which El Paso is still delivering gas. In this regard both PG&E and the staff prepared their estimates on the assumption that FPC Opinion 697-A, the new permanent end-use curtailment plan would control. But it now appears uncertain just when FPC Opinion 697-A will become effective, or if it will become effective for the entire 1976 heating season at all. The reason being that because of the general dissatisfaction with the filed compliance

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12/ Total deliveries to PG&E from El Paso - MMcf/day:

Month	Recorded	Staff Estimate
January 1976	907	905
February	882	928
March	847	955
April	889	990
May	885	919

13/ By Opinion 634 issued October 30, 1972 the FPC prescribed an interim curtailment plan for El Paso. Various filings stayed the order and after clarification, modification, and rehearing the FPC issued Opinion 634-A. The tariffs filed in accordance with Opinion 634-A became effective February 20, 1973, and pending acceptance of the associated tariffs filed under the subsequent permanent curtailment plan, Opinion 677 (as modified and clarified by Opinion 697-A), the interim plan is still in effect.

tariffs, they are before the District of Columbia Circuit Court of Appeals.[14] Also the FPC has recently ordered formal hearings in curtailment proceedings, including El Paso's. PG&E further asserted that El Paso has assumed that FPC Opinion 634-A will thus continue in effect in the forthcoming winter heating season. Both PG&E and the staff agree that FPC Opinion 697-A will result in less gas for California than under FPC Opinion 634-A, but there their agreement ends.

PG&E and staff experts interpret the effect of FPC Opinion 697-A on deliveries to PG&E from El Paso differently. At present, El Paso, as stated earlier, continues to operate under the interim provisions of FPC Opinion 634-A. This latter opinion uses a moving base period which functions to cause PG&E's deliveries from El Paso to decline faster than Southern California Gas Company's (SoCal) deliveries from El Paso.[15] Under the prospective provisions of FPC Opinion 697-A, the end-use profiles, or the nominations over seasonal natural periods, are limited to a historically fixed period.[16] It is

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14/ See Footnote 7.

15/ El Paso is under contract to deliver 1,140 MMcfd to PG&E and 1,750 MMcfd to SoCal. However, as a result of the curtailments forced because of declining gas supplies, PG&E's deliveries under the interim moving base provisions arising out of FPC Opinion 634-A have declined about 6.4 percent per year whereas SoCal's supply has declined about 2.7 percent per year. In the 1975-76 period PG&E received only about 81 percent of its contract quantity whereas SoCal received about 91 percent. Under provisions of FPC Opinion 634-A that spread is widening.

16/ Under FPC Opinion 697-A the end-use profiles are to be developed on historical requirements. The base period will be October 31, 1972, adjusted to include the annualized effect of priority 1 and 2 loads existing as of October 1, 1974. The volumetric entitlement of each customer of El Paso will be dependent upon the historical end-use profiles and El Paso's total available supply.

the staff's position that use of this historically fixed period would result in the present 10 point spread in percentage of actual deliveries against contract (81 percent for PG&E v 91 percent for SoCal in the 1975-76 experience) being reduced to an approximate 5 or 5.5 point spread. The staff conclusion is that PG&E would therefore receive a greater share than at present of the declining overall volume available in the future from El Paso. PG&E disagrees strongly, pointing up factors arising out of FPC Opinion 697-A which to it suggests that supplies to PG&E will be declining proportionately as before. Specifically PG&E notes the potential effect of a recent federal irrigation decision[17/] which shifts an important priority 3 irrigation usage to priority 2, with most of the gas used for irrigation pumping power going to the east of California area, an area which operates under maximum delivery obligation service agreements, many of which assertedly have never been approached, rather than fixed contractual volumes, as in the case of PG&E and SoCal. Irrigation pumping in the PG&E service area is supplied mostly by electric power (generated in steam electric plants supplied to a considerable extent by natural gas under the lowest priority), whereas irrigation pumping east of California and in SoCal's Southern California area rely more on gas service. Thus PG&E will obtain little benefit from the changed priority status granted by the FPC irrigation decision

17/ By Opinion No. 745 issued November 13, 1975, and clarified July 2, 1976 (Docket No. RP 72-6 (Irrigation), the FPC, recognizing that electric energy is not sufficiently available now, nor will it be in the immediate future, to meet El Paso's system irrigation requirements, modified its statement in FPC Opinion No. 697-A that irrigation pumping use was an industrial use of natural gas and should be included within El Paso's curtailment priority 3, and determined that natural gas for irrigation pumps meets the criteria for "process gas" and is entitled to priority 2 status in El Paso's curtailment plan.

to gas-served irrigation pumping uses.[18/] Indeed, this increased priority 2 usage means a larger pool of priority 1 and 2 usages with first claim on an overall diminishing supply of natural gas, leaving less gas for the remaining lower priority uses. Thus under the load profiles under FPC Opinion 697-A, a portion of the 1140 MMcfd contract quantity presently allocated to PG&E for steam electric plant use, reflected as a priority 5 use, will not be available prospectively. Finally, a staff expert testified that while he was "generally aware" of curtailment of the in-field drilling program of El Paso in the big San Juan Basin, the staff did not reflect this abandonment effect in their estimates of gas supply available from El Paso for the test years involved in this application. PG&E believes, and we agree, that this abandonment must be taken into consideration. It can only mean that the reserves available to El Paso must be less than those reported in the older edition of FPC form 15 relied upon by the staff.

While the Congress may yet enact into law some form of deregulation of natural gas well head prices[19/] which assertedly would ultimately result in greater reserves, this has not happened to date, and therefore would not appreciably effect the present application. Similarly it would appear that the FPC proposed interstate rate of $1.42 plus for "new" gas, a rate presently stayed, would result in

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18/ In the end-use profiles filed by the various companies in responce to the Irrigation Docket (No. RP 72-6), PG&E's end-use profile was unchanged, while SoCal showed a slight increase and a shift from priority 3 to priority 2, and east of California showed a considerable increase.

19/ The California Public Utilities Commission has opposed deregulation of gas prices.

more exploration and additional reserves. However, it is unlikely that any developments in this regard would in the short run affect these test years.

On balance, in this instance, we conclude that the PG&E estimates of deliveries of volumes of gas from El Paso for the September 10, 1976 and January 1, 1977 test years are based upon reliable and more current FPC and industry reports, opinions, orders, developments, and data which were either not considered, evaluated, or included by the staff in its estimates, and we accordingly adopt the PG&E estimates on gas supply from El Paso.

TABLE I

Gas Supply Estimates (MMcf)

A. (For 12 months beginning September 10, 1976)

Source	Staff	PG&E	Adopted
California	125,719	125,719	125,719
El Paso	314,163	288,988	288,988
PGT	368,460	368,460	368,460
Total gas purchased	808,342	783,167	783,167
Injected into storage	-	5,677	(disallowed)
Total gas charged to operations	808,342	777,490	783,167

B. (For 12 months beginning January 1, 1977)

Source	Staff	PG&E	Adopted
California	118,441	118,441	118,441
El Paso	305,981	280,741	280,741
PGT	364,966	364,966	364,966
Total gas purchased	789,388	764,148	764,148
Withdrawn from storage	-	139	(disallowed)
Injected into storage	-	5,267	(disallowed)
Total gas charged to operations	789,388	759,020	764,148

TABLE II

Estimated Sales (MDth)

A. (For 12 months beginning September 10, 1976)

	Staff	PG&E	Adopted
Firm			
General Service	394,954	394,954	394,954
Resale	9,957	9,957	9,957
Interruptible			
Regular	291,252	284,565	285,794
Resale	467	467	467
Steam Electric	128,677	101,931	106,847
Total Sales	825,307	791,874	798,019
Gas Department Use	7,788	7,788	7,788
Unaccounted For	21,413	21,413	21,413
Total Gas to Operations	854,508	821,075	827,220

B. (For 12 months beginning January 1, 1977)

	Staff	PG&E	Adopted
Firm			
General Service	398,248	398,248	398,248
Resale	10,059	10,059	10,059
Interruptible			
Regular	287,412	280,824	281,938
Resale	468	468	468
Steam Electric	109,973	83,623	88,080
Total Sales	806,160	773,222	778,793
Gas Department Use	7,431	7,431	7,431
Unaccounted For	21,413	21,413	21,413
Total Gas to Operations	835,004	802,066	807,637

TABLE III

Results of Operations - PGT - as Adopted

(000's omitted)

A:

	Test Year	Cost of Gas Increase	With PGT Increase of 9/10/76: Without Rate Proposal	Rate Proposal	With Rate Proposal
Gross Operating Revenue	$1,269,129	$ -	$1,269,129	$82,214	$1,351,343
Operating Expenses					
Cost of Gas	996,337	81,489	1,077,826	-	1,077,826
Other Expenses, excl. Taxes Based on Income	206,562	-	206,562	725	207,287
Taxes Based on Income	(5,782)	(42,928)	(48,710)	42,928	(5,782)
Total Oper. Exp.	1,197,117	38,561	1,235,678	43,653	1,279,331
Net for Return	72,012	(38,561)	33,451	38,561	72,012
Rate Base	1,120,182	-	1,120,182	-	1,120,182
Rate of Return	6.43%	(3.44%)	2.99%	3.44%	6.43%

B:

	Test Year	Cost of Gas Increase	With PGT Increase of 1/1/77: Without Rate Proposal	Rate Proposal	With Rate Proposal
Gross Operating Revenue	$1,318,161	$ -	$1,318,161	$57,027	$1,375,188
Operating Expenses					
Cost of Gas	1,059,410	56,524	1,115,934	-	1,115,934
Other Expenses, excl. Taxes Based on Income	206,995	-	206,995	503	207,498
Taxes Based on Income	(13,407)	(29,777)	(43,184)	(29,777)	(13,407)
Total Oper. Exp.	1,252,998	26,747	1,279,745	30,280	1,310,025
Net for Return	65,163	(26,747)	38,416	26,747	65,163
Rate Base	1,120,182	-	1,120,182	-	1,120,182
Rate of Return	5.82%	(2.39%)	3.43%	2.39%	5.82%

(Red Figure)

It should be noted that even with approval of these two offsets, the increases being approved will not serve to bring the rate of return up to the 8.65 percent level which the Commission last found to be fair and reasonable for PG&E's Gas Department. However, the offsets as granted will serve to keep PG&E whole, i.e., enable its Gas Department to earn the same rate of return which it would have earned absent these two PGT increases in the cost of delivered Canadian source natural gas; therefore, the rates adopted are fair and reasonable.[20]

The rate design proposed by PG&E initially was consistent with Decision No. 85082 dated October 21, 1975 in Applications Nos. 55468, 55469, 55470, and 55687, and Decision No. 85626 dated March 30, 1976 involving limited rehearing on rate design in the before stated applications. Since the hearing in the case at hand, the Commission has issued Decision No. 86281 dated August 24, 1976 in Application No. 55510 in which the following method of interim spreading for gas was found reasonable and authorized:

a. The tail block rates of Schedules G-1 through G-5 and the interruptible rates should be raised to equal the tail block rates for Schedule G-7. Then, sequentially, rates in each schedule should be increased on a uniform cents-per-therm basis until the tail block rate of the next highest schedule is reached. This procedure should be continued with all schedules until all tail block rates for all schedules are the same.

b. Any additional revenue increase should be on a uniform cents-per-therm basis for all schedules.

Accordingly, the rate spread approach enunciated in Decision No. 86281 has been followed in this instance and we will adopt the following offset increases by schedules for the two increases:

20/ It should be further noted that by Decision No. 86281 dated August 24, 1976 in Application No. 55510, an interim opinion, the Commission found that a 9.20 percent rate of return to be applied to the rate base of PG&E's gas department would be reasonable.

TABLE IV

Offset Rates by Schedules

(cents per therm)

Schedules	September 10, 1976 Lifeline	September 10, 1976 Non-Lifeline	January 1, 1977 Lifeline	January 1, 1977 Non-Lifeline
General Service				
Under 25 therms:				
G-8	0.000	1.005	0.000	0.944
G-9	0.000	0.000	0.000	0.000
25 therms-75 therms:				
G-8	0.000	1.318	0.000	0.944
G-9	0.000	0.115	0.000	0.944
Under 75 therms:				
G-1 through G-7	0.000	1.318	0.000	0.944
Over 75 therms:				
G-8	0.000	1.318	0.000	0.944
G-9	0.000	0.015	0.000	0.944
G-30	-	1.318	-	0.944
Resale				
G-60 over 33.7% of firm sales		1.318		0.944
G-61 over 59.0% of firm sales		1.318		0.944
G-62 over 44.0% of firm sales		1.318		0.944
G-63 over 35.9% of firm sales		1.318		0.944
Interruptible				
All Schedules		1.318		0.944

These offsets are approved with the understanding that PG&E will be required to make appropriate rate reductions and refunds to correspond with any reductions and refunds which might ultimately be ordered if the FPC should determine that El Paso's rates filed in this regard exceed just and reasonable levels under provisions of the Natural Gas Act.

We would be remiss were we not to respond to the request made during the hearing by the Executive Secretary of the California Gas Producer's Association that we consider the benefits which allegedly would be derived from greater use today of California source natural gas. We are reminded of the statement of a witness in the proceedings November 4 and 6, 1974 as reported in Decision No. 83915 dated December 30, 1974 in Application No. 55228:

> "The lesser takes from California simply pass on to subsequent years greater availability to be taken in subsequent years, and we feel that this is the prudent way to supply our sales by the takes from the three different sources. (California, Canada, El Paso Gas) When we take - have available gas from El Paso and Canada, if we do not take it, in general, that gas is just lost; and we feel that it is extremely important to have as much fuel available to meet our customers' needs as possible within prudent operations."

As the probability of future shortages becomes more of a certainty, it is even more important today that we conserve as much of our California gas as we can for future use. The exact time when full deliveries of California gas will be required to serve high priority uses is dependent on the amount of any curtailment of Canadian gas. Eventually it will be required, and if taken today for low priority uses it will later not be available.

Findings

1. As a result of action taken by Canada, the border price of Canadian natural gas exported to the United States will be increased to $1.80 (Canadian) per Mcf of 1,000 Btu gas effective September 10, 1976, and to $1.94 (Canadian) per Mcf of 1,000 Btu gas effective January 1, 1977.

2. PG&E obtains approximately 45 percent of its natural gas from PGT which obtains its gas in Canada, purchasing it at the Canadian border and selling it to PG&E at the Oregon-California border under jurisdiction of the FPC.

3. PGT has made application to the FPC to increase its tariff applicable to PG&E to offset the border price increases, and it is anticipated that approval will issue in timely fashion to meet the Canadian increase dates.

4. PG&E cannot afford to lose its Canadian gas, and has no realistic alternative to paying the increased tariff rates anticipated from PGT.

5. It is anticipated that on September 10, 1976 PG&E will become obligated on an annualized basis, to an $82,214,000 additional cost for natural gas, including the related impact of franchise payments and uncollectibles, for natural gas obtained from PGT, and that on January 1, 1977 PG&E will become obligated on an annualized basis, to an additional $57,027,000 cost, including the related impact of franchise payments and uncollectibles, for natural gas obtained from PGT.

6. In Decision No. 84902 this Commission found a rate of return of 8.65 percent would be reasonable for PG&E's gas department, and authorized rates to enable PG&E to earn that rate of return.

7. The anticipated increased costs of Canadian source gas purchased by PG&E from PGT, if not offset, would reduce PG&E's gas department's rate of return by 3.42 percent as the annualized effect of the September 10, 1976 increase, and 2.38 percent as the annualized effect of the January 1, 1977 increase, and would result in a depressed rate of return which would be unjust and unreasonable.

8. An offset proceeding, as differentiated from a general rate increase proceeding, is designed to provide prompt relief on limited issues.

9. The anticipated increases in natural gas costs represented here are extraordinary and the proper subject of an offset proceeding.

10. The offset increases adopted herein, which should be authorized to PG&E to offset the PGT increases in costs, would result in an increased unit cost of not more than 1.318 cents per therm applicable to the September 10, 1976 increase, and not more than 0.944 cents per therm applicable to the January 1, 1977 increase, and are spread to conform with the rate design policy most recently enunciated by this Commission in Decision No. 86281.

11. The offsets which should be authorized are just and reasonable and will not increase PG&E's gas department's rate of return above the last authorized rate of 8.65 percent.

12. The rate design set forth herein, with its lifeline features, is just and reasonable.

13. PG&E is not acting unreasonably in limiting at this time the amount of California produced gas it takes.

14. To prevent PG&E from incurring a substantial reduction in its authorized rate of return by increased costs effective September 10, 1976, this order should be effective the date it is signed.

Conclusion

The offset increases requested by PG&E should be authorized to the extent hereafter ordered.

O R D E R

IT IS ORDERED that:

1. The Pacific Gas and Electric Company (PG&E) is authorized effective September 14, 1976, or as of the effective date of the FPC authorization corresponding, whichever date is the later, to increase its rate schedules by not more than an overall $0.01318 per therm, as provided in Table IV herein, and providing lifeline exclusions.

2. PG&E is authorized, effective January 1, 1977, or as of the effective date of the FPC authorization corresponding, whichever date is the later, to increase its rate schedules by not more than $0.00944 per therm, as provided in Table IV herein, and providing lifeline exclusions.

3. PG&E is authorized to file tariff schedules to reflect the authorized increases reflected in Table IV herein; 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 the Federal Power Commission action or actions shall be refunded to PG&E's customers on a like basis through advice letter filings. The revised tariff schedules shall be effective when filed.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 14th day of SEPTEMBER, 1976.

President

William Symons Jr.

Vernon L. Sturgeon

Leonard Ross

Robert Batinovich

Commissioners