ALJ/md/jt *

Decision 84 04 015 April 4, 1984

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND ELECTRIC COMPANY for authority to revise its gas rates and tariffs effective October 1, 1983, under the Gas Adjustment Clause.	Application 83-08-38 (Filed August 15, 1983)

(For appearances see Decision 83-12-069.)

Additional Appearances

Interested Parties: Richard K. Durant and H. Robert Barnes, Attorneys at Law, for Southern California Edison Company; Luce, Forward, Hamilton and Scripps, by Robert G. Steiner and Robert E. McGinnis, Attorneys at Law, for W. S. Borax and Chemical Company; Mary C. MacDonald, Attorney at Law, for the University of California; Thomas G. Wagner, Attorney at Law, for Transwestern Pipeline Company; Henry F. Lippitt, 2nd, Attorney at Law, for California Gas Producers Association; Morrison & Foerster, by Gary M. Rinck, Attorney at Law, for Holly Sugar Company; Brobeck, Phlegar & Harrison, by Gordon C. Davis, William Booth, and Richard C. Harper, Attorneys at Law, for California Manufacturers Association; and William E. Swanson, for Stanford University.

Commission Staff: James A. Rood and Arocoles Aguilar, Attorneys at Law.

FINAL OPINION

Interim Decision (D.)83-12-069 issued December 22, 1983 in this proceeding adjusted Pacific Gas and Electric Company's (PG&E) gas rates under its Gas Adjustment Clause (GAC) procedures. At issue in the initial phase of this proceeding were the appropriate levels of gas rates for industrial and boiler fuel customers having the

ability to burn No. 2 and No. 6 fuel oil as an alternative fuel to natural gas. Of particular concern to the Commission is the possible loss of contributions to margin which would result from the election of large industrial and boiler fuel customers switching from natural gas to fuel oil when their cost for fuel oil is less than their cost of natural gas.

Comprehensive evidence on the cost of No. 2 and No. 6 fuel oil and the possibility of fuel switching was introduced in the initial phase of this proceeding as were alternative rate proposals designed to ameliorate the fuel switching problem.

D.83-12-069 was issued concurrently with D.83-12-068 in PG&E's general rate proceeding. The rate design guidelines adopted in D.83-12-068 were implemented in D.83-12-069.

Interim D.83-12-069 adopted a two-tiered G-50 rate schedule applicable to industrial customers and concurrently canceled the former G-52 schedule. Although several proposals were made which would revise the experimental G-58 schedule, no substantive changes were adopted in that schedule.[1] The decision (at mimeo. page 33) stated as follows:

> "We believe there are at least four viable alternatives which were not fully explored in this proceeding to the present G-58 schedule for large customers who do not have the capability of burning No. 6 fuel oil.
>
> "1. Open Schedule G-58 as proposed by staff.
>
> "2. Open Schedule G-58 and change the minimum takes or create one or more additional tiers or some combination of these.

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[1] The G-58 rate schedule is an experimental schedule applicable to large industrial customers having the capability to use No. 6 fuel oil as an alternative fuel. Customers on this schedule must use 200,000 therms or more of gas monthly. Such customers are subject to curtailment before P-5 customers.

"3. Create a new schedule for large volume users who do not have the capability of burning No. 6 fuel oil.

"4. Create an additional tier for Schedule G-50.

"We are concerned that the record before us does not provide sufficient data to analyze the extent of the possible revenue shifts associated with the adoption of any of the above alternatives. We wish to explore this issue now, rather than deferring it to PG&E's August GAC proceeding. Therefore we will set hearings within the next month or so to undertake this review."

Pursuant to the above, further hearings were held before Commissioner Vial and Administrative Law Judge Mallory in San Francisco on January 30 and 31, and February 1, 1984, and the matter was submitted following oral argument.

Evidence was presented in the further hearing on behalf of PG&E; the Commission staff; U.S. Borax and Chemical Company (U.S. Borax); Holly Sugar Company (Holly); University of California (UC); Owens-Illinois (Glass Container Division); Southern California Edison Company (Edison); California League of Food Processors (Food Processors); and California Manufacturers Association (CMA).

New GAC Application

On March 2, 1984, PG&E filed its A.84-03-07, its current GAC proceeding. That application addresses some of the issues raised in this proceeding and includes a report on its Schedule G-58 operations. Hearings in A.84-03-07 are scheduled to commence April 9, 1984.

The changes in rates for Priority (P) 4 and 5 customers adopted here will be reviewed, to the extent possible, in the new GAC proceeding. As indicated, certain issues raised here also will be deferred to that proceeding.

PG&E Proposals

PG&E sponsered two witnesses. The first was its policy witness who stated in general terms PG&E policy considerations with

respect to rates for P-4 and P-5 customers. The second witness presented PG&E's specific rate proposals. As part of its presentation PG&E also introduced into evidence, for informational purposes, four advice letter filings[2] which are now effective. Those pertinent will be discussed.

PG&E's Evidence

PG&E presented two witnesses. Stephen P. Reynolds, the manager of its Rate Department, testified on policy issues. William Fairchild, the director of Rate Analyses in the Rate Department, presented and supported the specific rate proposals of PG&E.

Mr. Reynolds' testimony is summarized in the following statements: PG&E has access to large volumes of gas which, at margin, can be sold to benefit all ratepayers. This is a rather unprecedented situation, given the status of the gas distribution system over the past ten years. The counterpoint to this short-term abundant supply situation is the existence of certain rate designs for high volume low priority customers which tend to discourage gas usage by a number of these customers. PG&E proposes to resolve this situation by advancing specific rate design proposals that would allow low priority gas customers to continue to economically use gas, to the net benefit of all gas customers. PG&E maintains that maintaining competitive gas rates in industrial markets furthers economic goals recognized in past proceedings, such as in D.83-06-04,

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[2] These filings are as follows: Advice Letter 1251-G to increase the G-58 rate from 46¢/therm per index (Exhibit 35); Advice Letter 1255-G to allow G-58 customers to receive service under Schedule G-50 during periods of economic curtailment (Exhibit 36); Advice Letter 1258-G to revise the G-58 deposit charge calculation to reflect the elimination of Schedule G-52 (Exhibit 37); Advice Letter 1249-G to establish an indexing mechanism for Schedule G-50 to track changes in the average wholesale prices of No. 2 fuel oil (Exhibit 38).

in which the experimental G-58 schedule was initially established to address the fuel switching issue. The purpose of PG&E's testimony in this proceeding is to offer an immediate response to the concerns of industrial customers while maintaining the goals of PG&E's rate design policy. According to the witness, several industrial gas customers have chosen to switch to alternate fuels because the price of alternate fuels is more economical than the available gas rates.

In the initial phase of this proceeding many potential fuel-switching customers testified that they could not meet the eligibility requirement of the G-58 schedule. Either they did not meet the No. 6 exclusive alternative fuel oil capability requirement or they did not meet the minimum usage requirement. According to the witness, many such customers claim they have two alternatives: (1) to switch from PG&E supplied gas to an alternate fuel, or (2) to proceed with the construction of the facilities capable of burning No. 6 fuel oil so that they might obtain gas at the Schedule G-58 rate. The witness stated that PG&E's two rate proposals are designed to provide flexibility in PG&E's gas rates, to discourage fuel switching and to encourage customers who have switched to oil to return to PG&E's system. PG&E's proposals are also designed to retain the industrial customers' contribution to margin, without increasing that contribution.

Under cross-examination, Mr. Reynolds testified that he believed that recent Platt's Oilgram prices for high-sulphur No. 6 fuel oil, to which the G-58 rate is indexed, are moving in a direction different than indicated by specific spot market prices paid by PG&E's large industrial customers. In its closing argument, PG&E repeated this theme in arguing that the Commission should delay

action on PG&E's previously submitted Advice Letter 1251-G until the next GAC proceeding[3]

PG&E's proposals, as presented by Mr. Reynolds, are (1) to expand the present two-tier Schedule G-50 rate to three tiers with the third-tier rate equal to the G-58 rate for use in excess of 1.6 million therms per month, and (2) to eliminate the G-58 minimum qualifying load requirement of 2,400,000 therms per year or 200,000 therms per month for three months. PG&E's witnesses, in response to testimony of other parties, also agreed to vary the initial starting dates of contracts for G-58 service to satisfy the needs of seasonal customers. This would be accomplished on an individual basis, as seasonal customers' needs vary from year to year and between customers.

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[3] As noted earlier, Advice Letter 1251-G was incorporated into this record for informational purposes. The advice letter was approved by Commission Resolution G-2577 on February 16, 1984. At that time the Commission formally noted PG&E's request for a delay in implementing its previously filed advice letter request for an indexed increase in the G-58 rate. The Commission also acknowledged the positions of CMA (supporting PG&E's request) and Toward Utility Rate Normalization (TURN) (opposing PG&E's request). However, the Commission stated that, in the absence of timely Petitions for Rehearing of D.83-12-069 (the decision which had clarified the reference point of the initial G-58 rate for indexing purposes), it was required by P.U. Code § 1708 to give effect to D.83-12-069 and raise the G-58 rate from 46¢/therm to 47.483¢/therm, in accordance with the index. Nonetheless, in recognition of the legitimate concerns expressed on this issue, the Commission placed the parties on notice that the upcoming hearings in A.84-03-07 are an appropriate forum for addressing the merits of the current Schedule G-58 indexing mechanism.

PG&E proposes that the third-tier rate would not apply to Edison's Cool Water Units 3 and 4 (which burn No. 2 fuel oil) because: (1) Edison is not able to convert those units to No. 6 fuel oil, (2) PG&E does not expect Cool Water sales to increase at the lower rates, and (3) in the initial phase of this proceeding, Edison testified that the G-50 rate then in effect was "competitive."

PG&E's proposal for a three-tiered G-50 schedule would continue to index the first and second tiers to changes in No. 2 distillate fuel oil, with the third tier equal to the G-58 rate (which is indexed to No. 6 fuel oil prices). The third tier would apply to monthly sales under the G-50 schedule in excess of 1,600,000 therms, and would be open to all customers having alternative fuel capability. Assertedly the lower third-tier rate would discourage PG&E's large industrial gas customers from switching to fuel oil and would provide an incentive for large customers (such as U.S. Borax) who currently burn fuel oil or other sources of energy to switch to gas, without sacrificing PG&E's margin contribution from industrial sales.

With the removal of the minimum Schedule G-58 qualifying load requirements, PG&E anticipates that some of its lost industrial gas load may be regained and possibly some new customers would be attracted to PG&E's gas system. In particular, some of its canceled Schedule G-52 customers, now served under Schedule G-50, who would meet the new G-58 eligibility requirement would elect to take service under Schedule G-58.

Mr. Fairchild testified at length concerning the rate design objectives and revenue impacts of PG&E's rate proposals. According to the witness, the net contribution to margin under PG&E's G-50 proposals would increase by $4,916,400 annually (Exhibit 53). The witness selected a third-tier minimum monthly quantity of 1,600,000 therms in order to maximize contributions to margin, yet achieve other purposes described above.

In response to questions raised by UC in the initial phase of this hearing, Advice Letter 1255-G was approved; this advice letter revised special condition 4 of Schedule G-58 to provide that during periods of economic curtailment (when the utility determines it is uneconomic to provide service under the schedule), the customer has the option of continuing to receive service under Schedule G-50.

By approval of Advice Letter 1258-G, the method of calculating the deposit charge for service under Schedule G-58 was changed. The change in the method for calculating the deposit charge was necessitated by cancellation of Schedule G-52. The new deposit charge is related to Schedule G-50.

Staff Proposals

The staff witness, Senior Engineer Joseph Fowler, of the Rate Design Branch of our Utilities Division, proposed changes in the G-50 schedule to add a third-tier rate of 49.041¢ per therm, applicable to monthly usage over 750,000 therms. The staff would index the first tier to the September 1, 1983 Platt's Oilgram 80¢ per gallon price of No. 2 fuel oil, the second tier would would be maintained at a level 3¢/therm below the first tier (present method of setting tier one and two rates), and the third tier would be maintained at a level 5¢/therm less than the second-tier rate. When the G-58 rate was 46¢/therm, the staff proposed third-tier rate was 3¢ greater than the G-58 rate. The third-tier rate would apply to Edison's Cool Water Plant 3 and 4 usage.

The staff witness selected a lower volume than PG&E for the third tier because it would include more potential customers than PG&E's proposals (36 versus 24 customers, based on 1983 use). The staff witness estimated that the net annual contribution to margin under the staff proposal in Exhibit 39 would be $1,470,500 (Exhibit 51).

The staff's Exhibit 39 states that it was called to the staff's attention by a Texas distributor of compressed natural gas that potential customers under Schedule G-58 were told by PG&E that natural gas from sources other than PG&E would be considered as an alternate fuel in interpreting the G-58 exclusive alternate fuel clause. Thus, use of compressed natural gas by the potential G-58 customer would exclude the customer from G-58 because under PG&E's interpretation the customer's exclusive alternate fuel was not No. 6 fuel oil. The staff pointed out that "alternate fuels" are defined as nongaseous fuels in D.85139 in Case 9884. The staff asked that PG&E change its interpretation to permit customers using natural gas obtained from non-PG&E sources for a portion of their gas use to qualify for service under Schedule G-58.

Staff also stated that the minor use of fuels other than No. 6 fuel oil during a changeover from burning natural gas to burning No. 6 fuel oil should not disqualify the customer for G-58 service. Staff proposes that the special conditions of Schedule G-58 be amended to permit such short term use of other fuels.

Evidence of Interested Parties

Evidence presented by interested parties is discussed below.

U.S. Borax

U.S. Borax presented testimony in support of amending Schedule G-58 so that it would be available to customers who can (1) show a reasonable probability of obtaining authority to construct alternative fuel facilities that would burn No. 6 fuel oil, (2) show such conversion is to their economic advantage in view of the gas rates currently available to customers who use No. 2 or No. 6 oil as alternate fuel, (3) show the economic capability of making such conversion, and (4) attest to their intent to make such conversion.

In the initial phase of this proceeding U.S. Borax showed that it would meet all of the above criteria, as it now burns No. 2 fuel oil, it would burn No. 6 fuel oil upon completion of

modification of facilities planned but not constructed, and it has demonstrated its intent to construct No. 6 fuel oil facilities at a cost of approximately $5 million.

U.S. Borax also presented evidence showing possible revenue shifts under three separate rate scenarios under which the G-58 schedule would be opened to large customers which have the capability of burning No. 2 oil as an alternate fuel. Under each scenario the possible adverse revenue shifts would be partially or wholly offset by substantial contributions to margin with the assumed return to PG&E's system of former gas customers, such as U.S. Borax.

U.S. Borax stated that if it is forced to acquire No. 6 fuel facilities and No. 6 fuel oil spot-market prices continue to be below natural gas prices, it (and possibly other customers similarly situated) will burn No. 6 fuel oil instead of gas. U.S. Borax asks that it be accorded a rate on the same level as the then current Schedule G-58 rate of 46¢/therm in order to return it to PG&E's system.

Holly

Holly presented evidence showing that although it burns No. 6 fuel oil and is eligible for service under Schedule G-58, problems with that schedule discourage it from using natural gas. Because of such problems Holly is not currently buying gas from PG&E.

The evidence shows that the sugar beet industry is energy intensive, as energy comprises almost 40% of production costs. At its three California plants, Holly burns No. 6 fuel oil. It would burn natural gas if natural gas prices were competitive with fuel oil prices. Holly discontinued gas use at its Tracy and Hamilton City plants because it could buy cheaper oil. The gas-equivalent delivered price of No. 6 fuel oil at its Tracy plant was 43.33¢/therm, and at its Hamilton City plant was 46.83¢/therm. Hamilton City oil was purchased at 46.83¢/therm, and gas at

46.0¢/therm was rejected, because of the so-called "take or pay" provisions of Schedule G-58 which Holly contends required it to opt to use gas at the beginning of year, before its actual operations commence. This early option essentially prevents Holly from comparing oil and gas prices at the time the fuel actually would be burned.[4]

Owens-Illinois

Owens Illinois operates glass container manufacturing plants in Tracy and Oakland. The cost of energy represents approximately 15% of manufacturing costs. PG&E receives about $20 million annually from Owen-Illinois. It burns approximately one million therms monthly at both its northern California plants. Because of competition from container manufacturers located in other states and foreign countries, Owens-Illinois must lower energy and other costs at its California facilities. Owens-Illinois burns No. 2 fuel oil.

It seeks lower gas rates. In order to achieve this goal it is in the process of installing No. 6 fuel oil capability. When the facilities necessary to burn No. 6 fuel oil are completed, Owens-Illinois will burn No. 6 fuel oil rather than natural gas unless gas is cheaper than oil. The witness for Owens-Illinois indicated that No. 6 fuel oil could be delivered to its plants at a cost of 41¢/therm.

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[4] To meet this objection to G-58 provisions by Holly and other food processors, PG&E proposed to vary the contract-period starting date to fit the needs of individual cutomers.

Kaiser Cement

Kaiser Cement operates a manufacturing plant at Permanente. It's primary fuel is coal. Approximately 10% of its fuel use is natural gas. Its gas use is about 180,000 to 500,000 decatherms per year. Gas is a supplement and alternate to coal. As a supplement, it is used to "trim out" temporary aberrations or stoppages in the plant coal supply system. Gas is also used as pilot/start-up flame in restarting kilns shut down for over one-half hour.

Under PG&E's present gas rate design, Kaiser Cement has an economic incentive to install No. 6 fuel oil capabilities to shift from gas to oil to supplement coal. Kaiser believes the approximately $1 million investment would be an inefficient investment. Kaiser Cement can now purchase No. 6 fuel oil at 42¢/therm. Kaiser cement would discontinue most of its natural gas use unless it becomes eligible for the G-58 rate without actually installing No. 6 fuel oil capability. Should the fuel oil capability actually be installed, the G-58 rate would have to be lower than the fuel oil cost to retain Kaiser on PG&E's system.

Food Processors

Food Processors supplemented its testimony presented in the initial phase of this proceeding by presenting three proposals amending Schedule G-58: (1) eliminate the minimum use requirement, (2) eliminate the alternate fuel restriction, and (3) eliminate the minimum bill provision. The witness testified that food processors not now capable of burning No. 6 fuel oil would need to spend $8-10 million on No. 6 fuel oil facilities in order to qualify for the G-58 rate unless his proposals are adopted. The witness also testified that neither the PG&E or staff rate proposals would benefit food processors because food processors large enough to reach the third tier in either proposal already have No. 6 fuel oil capability.

CMA

CMA's witness presented several rate alternates. As these were presented late in the hearing, and as the changes in contributions to margin of the proposals were not presented, those proposals are difficult to analyze. The witness indicated that many industrial customers are willing to pay some premium for natural gas over fuel oil. The record contains conflicting evidence on this point. The CMA proposals adopt, in part, proposals made by Edison, U.S. Borax, PG&E, and the staff.

Edison

Units 1 and 2 of Edison's Cool Water plant have No. 6 fuel oil capability and are served under PG&E's Schedule G-57. The G-57 rate is equivalent to the G-55 rate applicable to gas burned by PG&E to generate electricity. This rate is currently 53.948¢/therm. Units 3 and 4 are combined cycle units of about 250 MW each and use No. 2 fuel oil as an alternate fuel. They are served under Schedule G-50.

The witness for Edison supported PG&E's proposal to eliminate the minimum purchase requirement from its Schedule G-58. He asked that fuel oil viscosity specifications in the schedule be deleted and that PG&E be authorized to suspend the deposit and/or minimum charge provisions of Schedule G-58 on a customer-specific basis. Edison could buy gas for its Cool Water Units 1 and 2 under Schedule G-58, if Edison's proposed Schedule G-58 amendments are adopted.

Edison opposed PG&E's proposal to eliminate Edison's Cool Water Units 3 and 4 from its proposed third-tier Schedule G-50 rates. Edison's witness testified that while the present G-50 rate is competitive with Edison's distillate fuel oil on site, it is not competitive with Edison's true economic alternative, namely the purchase of gas from Southern California Gas Company (SoCal Gas) for use at its other generating stations in the Los Angeles Basin. As long as PG&E's G-50 rate exceeds SoCal Gas' GN-5 rate, Edison's present alternative is to use its Units 3 and 4 only when operating conditions warrant.

According to the witness, for local sequencing purposes, all Cool Water units compete economically with all other Edison units as well as with purchased power. Cool Water Units 3 and 4 are similar in size and operating characteristics to Edison's Long Beach combined-cycle units. If fuel costs to Units 3 and 4 were the same as fuel costs to the Long Beach units, utilization of Units 3 and 4 would be similar to utilization of the Long Beach units. In 1982, before the establishment of the lower SoCal Gas GN-5 schedule, the utilization of the plants were essentially the same. After the lower GN-5 rate was established, gas use at Units 3 and 4 dropped to about half of the Long Beach units.

According to the witness, the foregoing illustrates that gas furnished under SoCal Gas' Schedule GN-5 is the true alternate fuel (rather than oil) at Units 3 and 4. (In D.83-12-069 we recognized that gas furnished under SoCal Gas' GN-5 rate was in essence the alternate fuel for Units 1 and 2; however, in that proceeding we declined to adopt a proposal to conform the G-57 rate to the current GN-5 rate.) The witness estimated that in 1983 PG&E lost sales of approximately 30 million therms because its G-50 rate was higher than SoCal Gas' GN-5 rate. The witness acknowledged that no more gas would be purchased by Edison in the aggregate; lower G-50 rates would transfer gas sales from SoCal Gas to PG&E. The witness contended that such transfer would be economic because PG&E's average cost of gas is less than that of SoCal Gas.

Discussion

It is clear from the evidence that changes in the gas rates for industrial customers are needed to retain or encourage the return of large industrial customers to PG&E's system. PG&E and our staff propose to meet this need by proposals to revise the G-50 rate schedule and to change the rules governing Schedule G-58. Proposals of other parties seek the same objective as the PG&E and staff proposals, that is, to encourage large industrial users to burn gas instead of oil.

Due to the unsettled nature of underlying events, we have declined to formulate a definitive Commission policy to be applied across the board in responding to the fuel switching issue. Instead, it is our preference to address the issue on a case-by-case basis, in order to tailor specific remedies to specified needs. Nonetheless, in our view it would be very shortsighted to lower gas prices just to achieve more gas consumption. The approach we have taken in this proceeding recognizes the importance of continuing to adhere to statewide conservation goals, tempering the goal of marketing more gas with the goal of maximizing contribution to the margin, to the net benefit of all customers. Our analysis of the various proposals in this record leads us to believe that PG&E's proposals (supported by TURN), which seek to maximize this margin contribution by selective targeting, best achieve the balance we seek.

G-50 Schedule

We will adopt PG&E's Schedule G-50 rate proposals for the purposes of this proceeding. PG&E's proposal will provide a lower third-tier rate than the staff proposal, thus encouraging the largest industrial customers to continue on or to return to PG&E's gas system. PG&E's proposed third-tier rate would be indexed to the cost of No. 6 fuel oil, which appears more properly related to the true alternate fuel of industrial customers than No. 2 fuel oil; the staff's third-tier rate would bear a fixed relationship to its first-tier rate which is indexed to No. 2 fuel oil.

A table comparing the adopted PG&E Proposal (Exhibit 53) with the Staff Proposal (Exhibit 51) follows:

Table

	Adopted PG&E Proposal		Staff Proposal	
1. Sales Profile: 32,000,000 therms total	T1: First 100,000 th/mo	1,200,000	T1: First 100,000 th/mo	1,200,000
	T2: Next 1,500,000 th/mo	18,000,000	T2: Next 750,000 th/mo	7,800,000
	T3: Excess th/mo	12,800,000	T3: Excess th/mo	23,000,000
		32,000,000		32,000,000
2. Cost of Gas $.35883/th	32,000,000 x $.35883 =	$11,482,600	32,000,000 x $.35883 =	$11,482,600
3. Sales Revenue	T1: 1,200,000 x $.57105/th =	$ 685,300	T1: 1,200,000 x $.57041 =	$ 684,500
	T2: 18,000,000 x .54105/th =	9,738,900	T2: 7,800,000 x .54041 =	4,215,200
	T3: 12,800,000 x .47483/th =	6,077,800	T3: 23,000,000 x .49041	11,279,400
		$16,502,000		$16,179,100
4. Margin Contribution:				
Sales Revenue	$16,502,000		$16,179,100	
less cost of gas	-11,482,600		-11,482,600	
Total Contribution to margin	$ 5,019,400		$ 4,696,500	
Revenue decrease due to Tier 3 sales	-103,000	(If US Borax does not return to system) (Exh. 53)	-3,226.000	(If US Borax does not return to system) (Exh. 50)
Net Contribution to Margin	$ 4,916,400		$ 1,470,500	

Also, an important factor is that, while both the PG&E and staff proposals would provide an increase in the contribution to margin, the greater contribution results under PG&E's proposal.

TURN and U.S. Borax support PG&E's proposal. CMA supports the concepts under which PG&E's and the staff proposals are made. The only opposition to PG&E's proposal is from Edison, which would be excluded from eligibility for the third-tier G-50 rate for service at Edison's Cool Water Plant, Units 3 and 4. PG&E presented two reasons for such exclusion. PG&E argued that Edison cannot convert from No. 2 fuel oil to No. 6 fuel at Units 3 and 4, because the combined cycle plants are designed for use of No. 2 fuel oil (or natural gas). Therefore, Edison cannot raise the threat of conversion to, and use of, No. 6 fuel oil to the exclusion of natural gas. Also, the first-tier Schedule G-50 rate is indexed to No. 2 fuel oil. Secondly, PG&E argued that Edison has not shown that it would use more gas from any source, or in the aggregate, if it is made eligible for the third-tier G-50 rate.

Edison argued that it should be eligible to use the third-tier G-50 rate because (1) its true alternate fuel at its Cool Water Units 3 and 4 is SoCal Gas' GN-5 rate, not No. 2 or No. 6 fuel oil, and (2) exclusion of Edison from the third-tier rate would result in a loss of sales by PG&E of approximately 30 million therms annually. Edison's testimony showed that when SoCal Gas lowered its GN-5 rate, Edison used its combined cycle plant at Long Beach in lieu of its Cool Water Units 3 and 4, and that such use resulted in an annual decrease in gas sales by PG&E of approximately 30 million therms.

Our staff argued that Edison, as a P-3 customer at its Cool Water Units 3 and 4, is now eligible for service under Schedule G-50; therefore, it should not be excluded from any portion of that schedule.

We have carefully considered Edison's position. We conclude that Edison's eligibility to use the third-tier G-50 at its Cool Water Units 3 and 4 would decrease that schedule's overall contribution to margin, assuming as PG&E asserts, that gas sales to

Edison at Cool Water are unlikely to increase even if Edison is allowed access to the third tier. Increased gas sales at Cool Water, if they did occur, would displace purchases elsewhere from SoCal Gas under its GN-5 rate. Edison presented no convincing showing of a net economic benefit from shifting power plant gas sales from SoCal Gas to PG&E. Absent such a showing, Edison's request for eligibility should not be approved at this time. PG&E's proposal, as specifically set forth in Exhibit 46, as modified by Resolution G-2577, will be adopted in full for the purposes of this proceeding.

The revised Schedule G-50 rates adopted here are interim in the sense that rate design issues for all classes of customers will again be considered in PG&E's recently filed GAC, and further changes in rates for industrial customers may be adopted there.

Schedule G-58

PG&E proposes the elimination of the minimum qualifying load requirement of Schedule G-58. This change should be adopted because it will eliminate a complicating factor in choosing whether to elect service under that schedule, and thus will encourage more participation by potential users; and it will streamline the G-58 governing rules.

PG&E proposes to vary the starting date of the initial contract period to bring that date closer to the actual starting date of service under Schedule G-58 by seasonal users, such as food processors. This proposal should be adopted as seasonal customers can better compare oil and gas prices closer to the time when their actual service commences.

Our staff proposes that the "alternate fuel" be defined as "non-gaseous" fuels, so that customers using natural gas from other than PG&E sources for a portion of their gas usage would not be excluded from Schedule G-58. This proposal is consistent with a prior decision and should be adopted.

Our staff also requests that the minor use of fuels other than No. 6 fuel oil during the changeover from burning natural gas to

burning No. 6 fuel oil not disqualify customers for G-58 service. Such very limited use of other fuels in the circumstances described would not violate the spirit or concept of the G-58 schedule and should be permitted under the governing rules.

We will not adopt proposals of intervenors to eliminate the alternate fuel requirement from Schedule G-58, or to eliminate the minimum bill requirement. In view of the adoption of PG&E's three-tier G-50 schedule, elimination of the alternate fuel requirement from Schedule G-58 may not be necessary to return some large customers to PG&E's system and to discourage others from leaving. Moreover, such elimination of that requirement would not increase the contribution to margin. In view of the elimination of the minimum qualifying load requirement, we do not believe that the minimum bill requirement is an impediment to participation in Schedule G-58 by seasonal customers.

Edison asked that the No. 6 fuel oil viscosity provisions in Schedule G-58 be eliminated to permit Edison to use a fuel oil mix of a different viscosity. PG&E opposed that proposal, contending that without the viscosity requirement the alternate fuel provision is meaningless. We agree with PG&E and will not adopt Edison's proposal.

PG&E raised the issue at the close of the hearing whether the G-58 rate of 46¢/therm should be raised under the indexing provisions of that schedule to 47.483¢/therm. As discussed, supra, the advice letter raising the rate under the indexing methodology was subsequently approved by this Commission. We expect that additional evidence concerning the proper method of indexing the G-58 rate will be introduced in the forthcoming GAC proceeding. Proposals presented but not discussed or adopted here also may be reintroduced in that GAC proceeding.

Petitions for Modification of D.83-12-069

On January 18, 1984, TURN filed its petition for modification, and on February 8, 1984, General Motors Corporation (General Motors) filed its petition for modification of D.83-12-069.

Step 5 - Guidelines

Both petitions alleged that the Commission failed to carry forward into D.83-12-069 a portion of the rate design guidelines established in D.83-12-068 (PG&E's general rate proceeding). TURN and General Motors point out that Step 5 of the guidelines dealing with setting G-2 rates for commercial customers is different in the two decisions.

D.83-12-068

"Increase the average G-1 and G-2 rates by equal percentage until G-2 equals the G-50 rate plus 5% and which with G-1 equals the revenue requirement."

D.83-12-069

"Increase the average G-1 and G-2 by equal cents/therm until the revenue requirement is reached."

TURN asks that we modify both decisions to conform what it asserts was actually done in D.83-12-069, that is:

"Increase or decrease the average G-1 and G-2 rates by equal percentage until the revenue requirement is reached."

General Motors asks that we revise the G-2 rate adopted in D.83-12-069 to conform to the guideline in Step 5 of D.83-12-068. General Motors points out that the G-50 rate schedule was revised to a two-tier schedule in D.83-12-069; therefore, General Motors states that we should determine the maximum under Step 5 of D.83-12-068 by averaging the first and second-tier G-50 rates. General Motors asserts that under the formula advocated by it, the G-2 rate would be approximately 15% below the G-2 rate adopted in D.83-12-069.

In reviewing these Petitions for Modification and the events that transpired during the December decision making process, it is clear that inadvertent textual errors in both D.83-12-068 and D.83-12-069 have caused significant confusion and uncertainty about the appropriate calculation of the G-2 rate, and that this situation must be rectified. Our intention was (and is) that the language in

both decisions track the guideline Step 5 actually effectuated in rates pursuant to D.83-12-069, i.e.:

> "Step 5. Increase (or decrease) the average G-1 and G-2 rates by equal percentages until the revenue requirement is reached."

The order we issue today will modify D.83-12-069 to reflect this correction. Since the correction has no impact on the rates actually put into effect as a result of D.83-12-069, it will result in no change in rates at this time. This resolution of the issue (1) implicitly rejects General Motors' request that we adopt the textual language from D.83-12-068 and (2) comports with the relief requested in Section I of TURN's Petition for Modification.

We have not yet completed review of the various Petitions for Modification and/or Rehearing filed in the PG&E general rate case proceeding (D.83-12-068). However, in our response to the petitions pending in that proceeding, we will make appropriate corrections to conform D.83-12-068 to the modification made herein.

G-50 Rate Index

TURN asked that the Commission review the alternate fuel cost indexing provision for the G-50 rate schedule, as it appeared an inappropriate indexing procedure was established in D.83-12-069.

TURN's petition noted that the record developed in the hearings culminating in D.83-12-069 supported a G-50 index tied to changes in the price of No. 2 distillate fuel, but that D.83-12-069 inexplicably adopted No. 6 residual oil as the basis for the G-50 index. In these earlier proceedings TURN and PG&E had both supported an index tied to No. 2 distillate fuel. As a means of clarification, on January 27, 1984, PG&E submitted Advice Letter 1249-G (Exhibit 38) containing tariff revisions which incorporated an indexing method for Schedule G-50 explicitly tied to No. 2 fuel oil. Review of the record in this proceeding indicates that TURN's attorney understood and accepted PG&E's attempt at clarification (Tr. 1095). These tariff changes became effective on January 30,

1984. To eliminate any remaining confusion, we will modify Finding of Fact 10 of D.83-12-069 to delete its reference to "high Platt's prices for San Francisco - East Bay low sulfur No. 6 fuel oil" and replace this reference with the appropriate reference to No. 2 fuel oil.

TURN's Notice of Intent to Claim Compensation

TURN filed its Notice of Intent to Claim Compensation under Rule 76.23 of the Commission's Rules of Practice and Procedure on December 8, 1983.

Rule 76.23 specifies that a Notice of Intent must set forth the following three items of information:

> "(a) A showing that, but for the ability to receive compensation under these rules, participation or intervention in the proceeding may be a significant financial hardship for such participant. . . . If the Commission has determined that the participant has met its burden of showing financial hardship previously in the same calander year, participant shall make reference to that decision by number to satisfy this requirement. (Emphasis added.)
>
> "(b) In every case, a specific budget for the participant shall be filed showing the total compensation which the participant believes it may be entitled to, the basis for such estimate, and the extent of financial commitment to the participation. . . . (Emphasis added.)
>
> "(c) A statement of the nature and extent of planned participation in the proceeding as far as it is possible to set it out when the Notice of Intent to Claim Compensation is filed."

In D.83-05-048, issued during the 1983 calendar year (May 16, 1983), we found that TURN had established its financial hardship; therefore by making specific reference to D.83-05-048 in its Notice of Intent to Claim Compensation, TURN has satisfied the

requirement of Rule 76.23(a). TURN submitted a budget of $7,800 in compliance with Rule 76.23(b). In its Request for Compensation filed January 18, 1984, TURN seeks an award of compensation in the amount of $8,800.

Rule 76.23(c) requires that a statement of the nature and extent of planned participation be filed with the Notice of Intent. TURN states that it conducted extensive prehearing discovery and attended virtually all of the hearings.

TURN has complied with the provisions of Rule 76.23(a), (b), and (c), and has established its eligibility for compensation in this proceeding.

PG&E disputes whether TURN has demonstrated that it "substantially contributed to the adoption in whole or in part, in a Commission order or decision, of an issue." PG&E also argues that the amount requested by TURN is excessive. We will determine in a subsequent order whether TURN has made a substantial contribution, and the amount of the award, if any, to which TURN may be entitled.

Findings of Fact

1. Interim D.83-12-069 kept open for further hearing the issue of appropriate levels of gas rates for PG&E's industrial customers.

2. Further hearings were held and additional evidence was adduced, which indicates the following.

3. Under present pricing policies, PG&E cannot take all the low price gas that is available.

4. The Commission is attempting to approach the fuel switching issue by balancing the need to market additional gas with the need to maximize margin contribution, to the net benefit of all customers.

5. Some of PG&E's industrial customers have switched or will switch from natural gas to No. 2 or No. 6 fuel oil because fuel oil is currently cheaper than gas.

6. Such fuel switching will continue unless industrial gas rates drop. Further fuel switching will lose a portion or all of industrial customers' contribution to margin.

7. PG&E, our staff, and other parties made proposals designed to mitigate fuel switching and to increase the industrial customers' contribution to margin.

8. The proposals of PG&E with respect to the revision of Schedules G-50 and G-58 are reasonable and should be adopted.

9. PG&E's proposals will increase the contribution to margin of industrial gas sales.

10. Other proposals amending Schedule G-58 approved for adoption, as more specifically indicated in the preceding discussion, will be reasonable and should be adopted.

11. Further review of gas rates for industrial customers will be made in connection with A.84-03-07.

Conclusions of Law

1. Schedules G-50 and G-58 should be revised in accordance with the foregoing findings.

2. Proposals for revision of Schedules G-50 and G-58 not adopted herein may be renewed in A.84-03-07.

3. TURN's Petition for Modification of D.83-12-069 (Sections I and II) should be granted to the extent previously discussed in this order, and General Motors' Petition for Modification of D.83-12-069 should be denied to the extent previously discussed.

4. This proceeding should be closed.

5. As the rate changes adopted here are necessary to retain industrial customers in PG&E's system, this order should be effective today.

FINAL ORDER

IT IS ORDERED that:

1. Five days after the effective date of this order, Pacific Gas and Electric Company is authorized to file revised gas tariff schedules reflecting the rates and governing provisions shown in this decision and cancel the presently effective schedules. The revised tariff schedules shall become effective when filed. The revised

schedule apply only to service rendered on or after their effective date and shall comply with G.O. 96-A.

2. D.83-12-069 is modified to delete the first sentence appearing on page 29, mimeo., which reads: "Step 5. Increase the average G-1 and G-2 by equal cents/therm until the revenue requirement is reached." The following sentence is inserted to replace the deleted sentence: "Step 5. Increase (or decrease) the average G-1 and G-2 rates by equal percentages until the revenue requirement is reached."

3. D.83-12-069 is further modified to delete lines three through five of Finding of Fact 10 appearing on page 36, mimeo., which reads: "the high Platt's prices for San Francisco - East Bay low sulfur No. 6 fuel oil for the first trading day of the month in which these rates become effective differs from the base price of $30.62 per barrel." The following phrase is inserted to replace the deleted phrase: "the average of the high and low Platt's prices for No. 2 fuel oil for the first trading day of the month in which these rates become effective differs from the base price of 80.25 cents/gallon." As modified, Finding of Fact 10 now reads: "10. The second-tier Schedule G-50 rate applicable to monthly usage above 100,000 therms shall be set at 54.105 cents/therm unless the average of the high and low Platt's prices for No. 2 fuel oil for the first trading day of the month in which these rates become effective differs from the base price of 80.25 cents/gallon by more than 2.5%. In that event, the second-tier G-50 rate shall equal the ratio of the current price to the base price, multiplied by 54.105 cents/therm. The first-tier G-50 rate shall be maintained at a level three cents/therm higher than the second-tier rate."

4. This proceeding is closed.
This order is effective today.
Dated APR 4 1984, at San Francisco, California.

LEONARD M. GRIMES, JR.
President
VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
Commissioners

Commissioner William T. Bagley being necessarily absent, did not participate.

I CERTIFY THAT THIS DECISION WAS APPROVED BY THE ABOVE COMMISSIONERS TODAY.

Joseph E. Bodovitz, Executive Director

ORIGINAL

Decision 84 04 015 APR 4 1984

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND ELECTRIC COMPANY for authority to revise its gas rates and tariffs effective October 1, 1983, under the Gas Adjustment Clause.	Application 83-08-38 (Filed August 15, 1983)

(For appearances see Decision 83-12-069.)

Additional Appearances

Interested Parties: Richard K. Durant and H. Robert Barnes, Attorneys at Law, for Southern California Edison Company; Luce, Forward, Hamilton and Scripps, by Robert G. Steiner and Robert E. McGinnis, Attorneys at Law, for W. S. Borax and Chemical Company; Mary C. MacDonald, Attorney at Law, for the University of California; Thomas G. Wagner, Attorney at Law, for Transwestern Pipeline Company; Henry F. Lippett, 2nd, Attorney at Law, for California Gas Producers Association; Morrison & Foerster, by Gary M. Rinck, Attorney at Law, for Holly Sugar Company; Brobeck, Phlegar & Harrison, by Gordon C. Davis, William Booth, and Richard C. Harper, Attorneys at Law, for California Manufacturers Association; and William E. Swanson, for Stanford University.

Commission Staff: James A. Rood and Arocoles Aguilar, Attorneys at Law.

FINAL OPINION

Interim Decision (D.)83-12-069 issued December 22, 1983 in this proceeding adjusted Pacific Gas and Electric Company's (PG&E) gas rates under its Gas Adjustment Clause (GAC) procedures. At issue in the initial phase of this proceeding were the appropriate levels of gas rates for industrial and boiler fuel customers having the

in which the experimental G-58 schedule was initially established to address the fuel switching issue. The purpose of PG&E's testimony in this proceeding is to offer an immediate response to the concerns of industrial customers while maintaining the goals of PG&E's rate design policy. According to the witness, several industrial gas customers have chosen to switch to alternate fuels because the price of alternate fuels is more economical than the available gas rates.

In the initial phase of this proceeding many potential fuel-switching customers testified that they could not meet the eligibility requirement of the G-58 schedule. Either they did not meet the No. 6 exclusive alternative fuel oil capability requirement or they did not meet the minimum usage requirement. According to the witness, many such customers claim they have two alternatives: (1) to switch from PG&E supplied gas to an alternate fuel, or (2) to proceed with the construction of the facilities capable of burning No. 6 fuel oil so that they might obtain gas at the Schedule G-58 rate. The witness stated that PG&E's two rate proposals are designed to provide flexibility in PG&E's gas rates, to discourage fuel switching and to encourage customers who have switched to oil to return to PG&E's system. PG&E's proposals are also designed to retain the industrial customers' contribution to margin, without increasing that contribution.

Under cross-examination, Mr. Reynolds testified that he believed that recent Platt's Oilgram prices for high-sulphur No. 6 fuel oil, to which the G-58 rate is indexed, is moving in a direction different than indicated by specific spot market prices paid by PG&E's large industrial customers. In its closing argument, PG&E repeated this theme in arguing that the Commission should delay

action on PG&E's previously submitted Advice Letter 1251-G until the next GAC proceeding[3]

PG&E's proposals, as presented by Mr. Reynolds, are (1) to expand the present two-tier Schedule G-50 rate to three tiers with the third-tier rate equal to the G-58 rate for use in excess of 1.6 million therms per month, and (2) to eliminate the G-58 minimum qualifying load requirement of 2,400,000 therms per year or 200,000 therms per month for three months. PG&E's witnesses, in response to testimony of other parties, also agreed to vary the initial starting dates of contracts for G-58 service to satisfy the needs of seasonal customers. This would be accomplished on an individual basis, as seasonal customers' needs vary from year to year and between customers.

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[3] As noted earlier, Advice Letter 1251-G was incorporated into this record for informational purposes. The advice letter was approved by Commission Resolution G-2577 on February 16, 1984. At that time the Commission formally noted PG&E's request for a delay in implementing its previously filed advice letter request for an indexed increase in the G-58 rate. The Commission also acknowledged the positions of CMA (supporting PG&E's request) and Toward Utility Rate Normalization (TURN) (opposing PG&E's request). However, the Commission stated that, in the absence of timely Petitions for Rehearing of D.83-12-069 (the decision which had clarified the reference point of the initial G-58 rate for indexing purposes), it was required by P.U. Code § 1708 to give effect to D.83-12-069 and raise the G-58 rate from 46¢/therm to 47.483¢/therm, in accordance with the index. Nonetheless, in recognition of the legitimate concerns expressed on this issue, the Commission placed the parties on notice that the upcoming hearings in A.84-03-07 are an appropriate forum for addressing the merits of the current G-58 scheduling mechanism.

PG&E proposes that the third-tier rate would not apply to Edison's Cool Water Units 3 and 4 (which burn No. 2 fuel oil) because: (1) Edison is not able to convert those units to No. 6 fuel oil, (2) PG&E does not expect Cool Water sales to increase at the lower rates, and (3) in the initial phase of this proceeding, Edison testified that the G-50 rate then in effect was "competitive."

PG&E's proposal for a three-tiered G-50 schedule would continue to index the first and second tiers to changes in No. 2 distillate fuel oil, with the third tier equal to the G-58 rate (which is indexed to No. 6 fuel oil prices). The third tier would apply to monthly sales under the G-50 schedule in excess of 1,600,000 therms, and would be open to all customers having alternative No. 6 fuel capability. Assertedly the lower third-tier rate would discourage PG&E's large industrial gas customers from switching to fuel oil and would provide an incentive for large customers (such as U.S. Borax) who currently burn fuel oil or other sources of energy to switch to gas, without sacrificing PG&E's margin contribution from industrial sales.

With the removal of the minimum qualifying load requirements, PG&E anticipates that some of its lost industrial gas load may be regained and possibly some new customers would be attracted to PG&E's gas system. In particular, some of its canceled Schedule G-52 customers, now served under Schedule G-50, who would meet the new G-58 eligibility requirement would elect to take service under Schedule G-58.

Mr. Fairchild testified at length concerning the rate design objectives and revenue impacts of PG&E's rate proposals. According to the witness, the net contribution to margin under PG&E's G-50 proposals would increase by $4,916,400 annually (Exhibit 53). The witness selected a third-tier minimum monthly quantity of 1,600,000 therms in order to maximize contributions to margin, yet achieve other purposes described above.

The staff's Exhibit 39 states that it was called to the staff's attention by a Texas distributor of compressed natural gas that potential customers under Schedule G-58 were told by PG&E that natural gas from sources other than PG&E would be considered as an alternate fuel in interpreting the G-58 exclusive alternate fuel clause. (Use of compressed natural gas by the potential G-58 customer would exclude the customer from G-58 because the customer's exclusive alternate fuel was not No. 6 fuel oil.) The staff pointed out that "alternate fuels" are defined as nongaseous fuels in D.85139 in Case 9884. The staff asked that PG&E change its interpretation to permit customers using natural gas obtained from non-PG&E sources for a portion of their gas use to qualify for service under Schedule G-58.

Staff also stated that the minor use of fuels other than No. 6 fuel oil during a changeover from burning natural gas to burning No. 6 fuel oil should not disqualify the customer for G-58 service. Staff proposes that the special conditions of Schedule G-58 be amended to permit such short term use of other fuels.

Evidence of Interested Parties

Evidence presented by interested parties is discussed below.

U.S. Borax

U.S. Borax presented testimony in support of amending Schedule G-58 so that it would be available to customers who can (1) show a reasonable probability of obtaining authority to construct alternative fuel facilities that would burn No. 6 fuel oil, (2) show such conversion is to their economic advantage in view of the gas rates currently available to customers who use No. 2 or No. 6 oil as alternate fuel, (3) show the economic capability of making such conversion, and (4) attest to their intent to make such conversion.

In the initial phase of this proceeding U.S. Borax showed that it would meet all of the above criteria, as it now burns No. 2 fuel oil, it would burn No. 6 fuel oil upon completion of

CMA

CMA's witness presented several rate alternates. As these were presented late in the hearing, and as the changes in contributions to margin of the proposals were not presented, those proposals are difficult to analyze. The witness indicated that many industrial customers are willing to pay some premium for natural gas over fuel oil. The record contains conflicting evidence on this point. The CMA proposals adopt, in part, proposals made by Edison, U.S. Borax, PG&E, and the staff.

Edison

Units 1 and 2 of Edison's Cool Water plant have No. 6 fuel oil capability and are served under PG&E's Schedule G-57. The G-57 rate is equivalent to the G-55 rate applicable to gas burned by PG&E to generate electricity. This rate is currently 53.948¢/therm. Units 3 and 4 are combined cycle units of about 250 MW each and use No. 2 fuel oil as an alternate fuel. They are served under Schedule G-50.

The witness for Edison supported PG&E's proposal to eliminate the minimum purchase requirement from its Schedule G-58. He asked that fuel oil viscosity specifications in the schedule be deleted and that PG&E be authorized to suspend the deposit and/or minimum charge provisions of Schedule G-58 on a customer-specific basis. Edison would buy gas for its Cool Water Units 1 and 2, if Edison's proposed Schedule G-58 amendments are adopted.

Edison opposed PG&E's proposal to eliminate Edison's Cool Water Units 3 and 4 from its proposed third-tier Schedule G-50 rates. Edison's witness testified that while the present G-50 rate is competitive with G-50 Edison's distillate fuel oil on site, it is not competitive with Edison's true economic alternative, namely the purchase of gas from Southern California Gas Company (SoCal Gas) for use at its other generating stations in the Los Angeles Basin. As long as PG&E's G-50 rate exceeds SoCal Gas' GN-5 rate, Edison's present alternative is to use its Units 3 and 4 only when operating conditions warrant.

Table

	Adopted PG&E Proposal		Staff Proposal	
1. Sales Profile: 32,000,000 therms total	T1: First 100,000 th/mo	1,200,000	T1: First 100,000 th/mo	1,200,000
	T2: Next 1,500,000 th/mo	18,000,000	T2: Next 750,000 th/mo	7,800,000
	T3: Excess th/mo	12,800,000	T3: Excess th/mo	23,000,000
		32,000,000		32,000,000
2. Cost of Gas $.35883/th	32,000,000 x $.35883 =	$11,482,600	32,000,000 x $.35883 =	$11,482,600
3. Sales Revenue	T1: 1,200,000 x $.57105/th =	$ 685,300	T1: 1,200,000 x $.57041 =	$ 684,500
	T2: 18,000,000 x .54105/th =	9,738,900	T2: 7,800,000 x .54041 =	4,215,200
	T3: 12,800,000 x .47483/th =	6,077,800	T3: 23,000,000 x .49041	11,279,400
		$16,502,000		$16,179,100
4. Margin Contribution:				
Sales Revenue	$16,502,000		$16,179,100	
less cost of gas	-11,482,600		-11,482,600	
	$ 5,019,400		$ 4,696,500	
	-103,000	(If US Borax does not return to system) (Exh. 53)	-3,226,000	(If US Borax does not return to system (Exh. 50)
	$ 4,916,400	Net contribution to margin	$ 1,470,500	Net contribution to margin

Also, an important factor is that, while both the PG&E and staff proposals would provide an increase in the contribution to margin, the greater contribution results under PG&E's proposal.

TURN and U.S. Borax support PG&E's proposal. CMA supports the concepts under which PG&E's and the staff proposals are made. The only opposition to PG&E's proposal is from Edison, which would be excluded from eligibility for the third-tier G-50 rate for service at Edison's Cool Water Plant, Units 3 and 4. PG&E presented two reasons for such exclusion. PG&E argued that Edison cannot convert from No. 2 fuel oil to No. 6 fuel at Units 3 and 4, because the combined cycle plants are designed for use of No. 2 fuel oil (or natural gas). Therefore, Edison cannot raise the threat of conversion to, and use of, No. 6 fuel oil to the exclusion of natural gas. Also, the first-tier Schedule G-50 rate is indexed to No. 2 fuel oil. Secondly, PG&E argued that Edison has not shown that it would use more gas from any source, or in the aggregate, if it is made eligible for the third-tier G-50 rate.

Edison argued that it should be eligible to use the third-tier G-50 rate because (1) its true alternate fuel at its Cool Water Units 3 and 4 is SoCal Gas' GN-5 rate, not No. 2 or No. 6 fuel oil, and (2) exclusion of Edison from the third-tier rate would result in a loss of sales by PG&E of approximately 30 million therms annually. Edison's testimony showed that when SoCal Gas lowered its GN-5 rate, Edison used its combined cycle plant at Long Beach in lieu of its Cool Water Units 3 and 4, and that such use resulted in an annual decrease in gas sales by PG&E of approximately 30 million therms.

Our staff argued that Edison, as a P-3 customer at its Cool Water Units 3 and 4, is now eligible for service under Schedule G-50; therefore, it should not be excluded from any portion of that schedule.

We have carefully considered Edison's position. We conclude that, as Edison's eligibility to use the third-tier G-50 at its Cool Water Units 3 and 4 would decrease that schedule's overall

contribution to margin, and as such eligibility would not increase gas sales by PG&E and SoCal Gas in the aggregate, Edison's request for eligibility should not be approved at this time. PG&E's proposal, as specifically set forth in Exhibit 46, as modified by Resolution G-2577, will be adopted in full for the purposes of this proceeding.

The revised Schedule G-50 rates adopted here are interim in the sense that rate design issues for all classes of customers will again be considered in PG&E's recently filed GAC, and further changes in rates for industrial customers may be adopted there.

Schedule G-58

PG&E proposes the elimination of the minimum qualifying load requirement of Schedule G-58. This change should be adopted because it will eliminate a complicating factor in choosing whether to elect service under that schedule, and thus will encourage more participation by potential users; and it will streamline the G-58 governing rules.

PG&E proposes to vary the starting date of the initial contract period to bring that date closer to the actual starting date of service under Schedule G-58 by seasonal users, such as food processors. This proposal should be adopted as seasonal customers can better compare oil and gas prices closer to the time when their actual service commences.

Our staff proposes that the "alternate fuel" be defined as "non-gaseous" fuels, so that customers using natural gas from other than PG&E sources for a portion of their gas usage would not be excluded from Schedule G-58. This proposal is consistent with a prior decision and should be adopted.

Our staff also requests that the minor use of fuels other than No. 6 fuel oil during the changeover from burning natural gas to burning No. 6 fuel oil not disqualify customers for G-58 service. Such very limited use of other fuels in the circumstances described

would not violate the spirit or concept of the G-58 schedule and should be permitted under the governing rules.

We will not adopt proposals of intervenors to eliminate the alternate fuel requirement from Schedule G-58, or to eliminate the minimum bill requirement. In view of the adoption of PG&E's three-tier G-50 schedule, elimination of the alternate fuel requirement from Schedule G-58 may not be necessary to return some large customers to PG&E's system and to discourage others from leaving. Moreover, such elimination of that requirement would not increase the contribution to margin. In view of the elimination of the minimum qualifying load requirement, we do not believe that the minimum bill requirement is an impediment to participation in Schedule G-58 by seasonal customers.

Edison asked that the No. 6 fuel oil viscosity provisions in Schedule G-58 be eliminated to permit Edison to use a fuel oil mix of a different viscosity. PG&E opposed that proposal, contending that without the viscosity requirement the alternate fuel provision is meaningless. We agree with PG&E and will not adopt Edison's proposal.

PG&E raised the issue at the close of the hearing whether the G-58 rate of 46¢/therm should be raised under the indexing provisions of that schedule to 47.483¢/therm. As discussed, supra, the advice letter raising the rate under the indexing methodology was subsequently approved by this Commission. We expect that additional evidence concerning the proper method of indexing the G-58 rate will be be introduced in the forthcoming GAC proceeding. Proposals presented but not discussed or adopted therein also may be reintroduced in that GAC proceeding.

Petitions for Modification of D.83-12-069

On January 18, 1984, TURN filed its petition for modification, and on February 8, 1984, General Motors Corporation (General Motors) filed its petition for modification of D.83-12-069.

schedule apply only to service rendered on or after their effective date and shall comply with G.O. 96-A.

2. D.83-12-069 is modified to delete the first sentence appearing on page 29, mimeo., which reads: "Step 5. Increase the average G-1 and G-2 by equal cents/therm until the revenue requirement is reached." The following sentence is inserted to replace the deleted sentence: "Step 5. Increase (or decrease) the average G-1 and G-2 rates by equal percentages until the revenue requirement is reached."

3. D.83-12-069 is further modified to delete lines three through five of Finding of Fact 10 appearing on page 36, mimeo., which reads: "the high Platt's prices for San Francisco - East Bay low sulfur No. 6 fuel oil for the first trading day of the month in which these rates become effective differs from the base price of $30.62 per barrel." The following phrase is inserted to replace the deleted sentence: "the average of the high and low Platt's prices for No. 2 fuel oil for the first trading day of the month in which these rates become effective differs from the base price of 80.25 cents/gallon." As modified, Finding of Fact 10 now reads: "10. The second-tier Schedule G-50 rate applicable to monthly usage above 100,000 therms shall be set at 54.105 cents/therm unless the average of the high and low Platt's prices for No. 2 fuel oil for the first trading day of the month in which these rates become effective differs from the base price of 80.25 cents/gallon by more than 2.5%. In that event, the second-tier G-50 rate shall equal the ratio of the current price to the base price, multiplied by 54.105 cents/therm. The first-tier G-50 rate shall be maintained at a level three cents/therm higher than the second-tier rate."