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Decision 82 12 111 DEC 22 1982

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of PACIFIC GAS AND ELECTRIC COMPANY for authority to revise its gas rates and tariffs effective October 1, 1982, under the Gas Adjustment Clause.

Application 82-08-51
(Filed August 24, 1982)

Daniel E. Gibson, Shirley A. Woo, and Steven F. Greenwald, Attorneys at Law, for Pacific Gas and Electric Company, applicant.

W. Randy Baldschun and Don Maynor, Attorneys at Law, for City of Palo Alto; Brobeck, Phleger & Harrison, by Gordon E. Davis, William H. Booth, and Richard Harper, Attorneys at Law, for California Manufacturers Association; Michel Peter Florio and Robert Spertus, Attorneys at Law, and Sylvia M. Siegel, for Toward Utility Rate Normalization (TURN); Richard L. Hamilton and Halina F. Osinski, for Western Mobilehome Association; Antone S. Bulich, Jr. and Allen R. Crown, Attorneys at Law, for California Farm Bureau Federation; Dan Hyska, for Los Angeles Department of Water & Power; Jane S. Kumin, Attorney at Law, for Natomas Company and Thermal Power Company; Henry F. Lippitt, 2nd, Attorney at Law, for California Gas Producers Association; Robert M. Loch, and Thomas D. Clarke, Attorneys at Law, by Robert W. Jacoby, Attorney at Law, for Southern California Gas Company; and Susan L. Steinhauser, John R. Bury, and H. Robert Barnes, Attorneys at Law, for Southern California Edison Company; interested parties.

Edward W. O'Neill, Attorney at Law, and S. R. Weissman, for the Commission staff.

INTERIM OPINION

By this application, Pacific Gas and Electric Company (PG&E) requests an increase in gas rates to produce an annual revenue increase of $267,225,000. The request was later lowered to $187,964,000 in part because PG&E has negotiated extended favorable amendments to its Canadian gas contracts which permit lower takes of Canadian gas. Also, a change of sequence of takes provides for greater amounts of California-produced gas instead of more expensive El Paso Natural Gas Company (El Paso) gas.

The increase in gas rates is caused by the Federal Energy Regulatory Commission's (FERC) approval of higher prices charged by El Paso.

We take official notice of our decision issued in Application (A.) 60153 (attrition phase). We will add the attrition allowance to the revenue requirement developed in this decision in developing the new rates.

This proceeding is not a reasonableness review and simply involves forecasted takes of gas and sales at present prices. The ultimate issues of this proceeding therefore involve the development of a Gas Adjustment Clause (GAC) revenue requirement and rate design. A single issue regarding the calculation of the billing lag effect on the balancing account will be decided after further hearing in A.82-09-12 and A.82-09-21 (Southern California Gas Company CAM) in which PG&E has been invited to participate.

The secondary issues in developing the revenue requirement raised in this proceeding concern a new sequence of gas takes by PG&E. The old sequence was as follows:

1. California to minimum
2. PGT-Canadian to 80% DCQ
3. Rocky Mountain to Minimum
4. Rocky Mountain Section 102

5. El Paso as allocated
6. California @ 42% LF
7. California to maximum
8. PGT-Canadian to maximum
9. Rocky Mountain to maximum.[1]

The new sequence which PG&E adopted on October 1, 1982 is as follows:

1. California to minimum
2. PGT-Canadian to 80% DCQ
3. Rocky Mountain to minimum
4. Rocky Mountain Section 102
5. El Paso to minimum
6. California @ 42% LF
7. California to maximum
8. El Paso to allocation
9. PGT-Canadian to maximum
10. Rocky Mountain to maximum.

The new sequence results from the lower price of California gas compared to the price of El Paso gas which became effective October 1, 1982. El Paso filed revised tariff sheets with the FERC to become effective October 1, 1982 reflecting an increase in rates of 55.17¢/Mcf, which would have resulted in a tariff rate of 423.25¢/Mcf applicable to purchases by PG&E at the California-Arizona border. El Paso also filed alternative revised tariff sheets reflecting an increase of 45.82¢/Mcf, which would have resulted in a tariff rate of 413.90¢/Mcf. On September 30, 1982 the FERC accepted the lower of El Paso's filed tariffs to become effective October 1,

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[1] DCQ = Daily Contract Quantity; LF = Load Factor; Section 102 = Natural Gas Policy Act, § 102; and PGT = Pacific Gas Transmission.

1982 subject to the further revisions to be filed by El Paso within 30 days. Under the FERC's September 30 order, El Paso filed further revised tariff sheets to become effective retroactively to October 1, 1982. We take official notice of El Paso's filing. The rate applicable to PG&E, as developed in El Paso's filing, and the price of gas purchased from California sources as estimated by the staff in Exhibit 7 are as follows:

El Paso Tariff Rate

	¢/Mcf	¢/MMBtu*
Cost of Purchased Gas	282.79	262.57
Company Use and Unaccounted	33.16	30.79
Cost of Purchased Gas Sold	315.95	293.36
Noncost-of-Gas Elements	44.05	40.90
Tariff Rate Excluding Surcharge Adjustment	360.00	334.26
Surcharge Adjustment**	35.25	32.73
Effective Tariff Rate	395.25	366.99

Average Price of California Source Gas

	¢/Mcf
October 1982	316.70
November 1982	319.10
December 1982	321.50
January 1983	323.90
February 1983	326.40
March 1983	329.00

*Based on an estimated heating value of 1,077 Btu per cubic foot.

**Surcharge to adjust for past period under- or overcollection of purchased gas costs.

The El Paso rate remains effective until revised by the FERC. The next scheduled date is April 1, 1983. The price of California gas is adjusted monthly under the wellhead pricing provisions of Title 1 of the Natural Gas Policy Act (NGPA). The average field price paid by PG&E for California source gas presently exceeds the average field price paid by El Paso by approximately 17%. However, after adding transmission costs and a surcharge to recover past period undercollected gas costs, the El Paso tariff rate applicable to PG&E exceeds the current price of California source gas by over 45¢/MMBtu.

The staff witness recommended that we establish a guideline for determining when discretionary California gas takes should be sequenced ahead of discretionary El Paso gas. The staff witness testified that a certain element of El Paso's rate, the surcharge adjustment, represents past unrecovered gas costs which will have to be paid eventually regardless of the volumes of El Paso gas purchased currently. Since the staff witness regarded that element of cost as unavoidable, he recommended eliminating the surcharge adjustment from the effective El Paso tariff rate for purposes of establishing a guideline. The staff witness also testified that there are hard to quantify costs associated with moving California source gas ahead of El Paso gas in the sequence and speeding the decline in deliverability of California gas. Since those longer-term considerations were not quantifiable, the staff witness recommended an arbitrary 10¢/MMBtu premium be assigned to El Paso gas based on his judgment. Thus, the staff recommends that California discretionary gas should be sequenced ahead of El Paso gas only if California source gas is more than 10¢/MMBtu below the price of El Paso gas excluding the surcharge adjustment.

Toward Utility Rate Normalization (TURN) objected that more information and a fuller record should be developed before any guideline is adopted. Additionally, under cross-examination by TURN, the staff witness indicated that to the extent PG&E paid a lesser amount to the surcharge adjustment due to reduced purchase volumes, the unpaid surcharge would go into the balancing account for future El Paso recovery. Thus, a portion of the unpaid surcharge would fall on non-California customers when rates were adjusted in El Paso's next PGA.

The recent El Paso filings for the October 1 PGA have pushed the overall current El Paso price beyond the average price of California gas and the El Paso price threatens to continue escalating at an unacceptable rate. Because of the rapid increases in El Paso's price this year and El Paso's continued purchases of gas at high deregulated prices, we are very concerned about the present and future cost of El Paso gas and must encourage El Paso to take vigorous action to keep its gas price to PG&E competitive with other sources of gas, including other domestic supplies. For that reason, this Commission believes that the establishment of a gas sequencing guideline for El Paso discretionary supplies relative to California discretionary supplies is a desirable step at this time. A test will allow both El Paso's and PG&E's California suppliers to know the point at which they become competitive.

The guideline we adopt today recognizes that any deferral in the collection of El Paso's surcharge adjustment will ultimately result in the recovery of a portion of the deferred amount through higher rates to non-California consumers. California represents 75% to 80% of El Paso's market. Consequently, a minimum of 75% of the surcharge adjustment is recovered through rates applicable to

California service. It is therefore reasonable to treat 75% of El Paso's surcharge as an unavoidable cost to be excluded from the El Paso's tariff rate prior to comparing such rate against the cost of California source gas. Stated another way, it is reasonable to add 25% of El Paso's surcharge adjustment to its currently effective commodity rate excluding the surcharge.

We reject the staff recommendation to assign a 10¢/MMBtu premium to El Paso gas. Any premium that might be assigned to either El Paso gas or California-produced gas would necessarily be arbitrary.

The staff witness recommended that the California price used in developing the guideline differential should be the average price for the next six months. We do not perceive any reason to use an average over six months as opposed to the current month's California gas price which is easier to estimate. Therefore, the current gas price should be used for both El Paso and California sources. The guideline should be calculated at the beginning of each month and should be based on the latest available recorded Btu data. An example of the calculation of current differential follows:

		¢/MMBtu
1.	El Paso's currently effective rate excluding surcharge	334.26
2.	0.25 x currently effective surcharge adjustment	8.18
3.	Adjusted El Paso rate	342.44
4.	Estimated January 1983 California gas price	323.90
5.	Price Differential	18.54

Under the guideline calculation, California gas currently enjoys a price advantage over El Paso gas of about 18¢/MMBtu and would continue to be sequenced ahead of El Paso gas.

This example is by way of illustration only. PG&E should calculate the guideline each month and sequence its discretionary El Paso and discretionary California gas takes in accordance with the calculation. This test is to apply prospectively from the effective date of this decision.

A second issue involving the revenue requirement concerns the operating date of Diablo Canyon. In its application PG&E assumed an operating date of February 1983. TURN contests this date and recommends that we assume no Diablo production during the forecast period. We agree with TURN. In prior electric and gas offset cases we have assumed no Diablo production. We will continue to make this assumption until the operating date of Diablo is much more certain. The effect of this assumption is that we can forecast more sales between PG&E's Gas and Electric Departments under the G-55 schedule, which has a price substantially above the average cost of gas. Even with the additional costs to purchase gas for interdepartmental use, the additional revenue from this schedule results in a decrease of the revenue requirement of about $57 million.

The following table develops the cost of gas using the new sequence of takes and assuming no Diablo Canyon production.

Table 1

Pacific Gas and Electric Company
Gas Department
Current Cost of Gas

Forecast Period: 12 Months Beginning October 1, 1982

Line No.	Source	Supply (MDth)* (A)	Price $/Dth (B)	Cost (M$) (C)
	Cost of Gas			
1	California	151,205	3.1660	478,715
2	El Paso	394,145	3.6699	1,446,473
3	PGT-Canadian	285,809	4.9693	1,420,271
4	Rocky Mountain	15,149	4.2050	63,702
5	Subtotal Purchases	846,308	4.0283	3,409,161
6	Withdrawal	38,384	2.1226	81,474
7	Injection	(25,951)	4.0283	(104,538)
8	Total	858,741	3.9431	3,386,097

*Thousands of Decatherms.
Decatherm = 10 therms.

The results of the cost of gas table above are carried over to the following table.

Table 2

Calculation of Current Recovery Amount
and
Revenue Requirement

Forecast Period: 12 Months Beginning October 1, 1982

Line No.		Thousands of Dollars
1	Current Cost of Purchased Gas	$3,386,097
2	Plus: Gas Cost Balance Account	117,246
3	Plus: Carrying Cost of Prepaid Gas	6,266
4	Subtotal	$3,509,609
5	Plus: Adjustment for Franchise Fees & Uncollectibles	27,480
6	Plus: Base Cost Amount	772,299
7	Subtotal	$4,309,388
8	Less: Base and GAC Revenue at Present Rates and Gas Transportation Revenue	4,245,358
9	Additional Revenue Requirement	$ 64,030

Line 3: As adopted in Decision (D.) 82-04-117.
5: Line 4 x 0.783%
6: As adopted in D.93887.
8: Present rates of May 4, 1982 excluding the Gas Exploration and Development Adjustment (GEDA), Conservation Financing Adjustment (CFA), Solar Financing Adjustment (SFA), and Residential Conservation Service (RCS) and including Pacific Interstate Transmission Company (PITCO) and Chevron revenue of $M11,446.

Two other issues were raised that have an impact on the revenue requirement. The first involves an assumption in the Table 2 figures that the PG&E/Chevron Gas Purchase Agreement is authorized. That agreement is the subject of pending A.82-06-20. Since the agreement has not been authorized, the revenue requirement should be adjusted to reflect a $16.4 million decrease from $4,309,388,000 (Ln. 7, Table 2) to $4,292,988,000. Thus, the additional revenue requirement is decreased from $64,030,000 (Ln. 9, Table 2) to $47,630,000.

The final issue bearing upon the revenue requirement is the amount of money included for gas transportation. PG&E has entered into an agreement to transport gas for Southern California Gas Company (SoCal Gas). The total revenue paid to PG&E from this agreement for the forecast year is about $11.8 million. This figure has two components (1) compressor fuel and line losses of $8.0 million and (2) miscellaneous gas revenues of $3.8 million. The miscellaneous revenues are not related to fuel cost. PG&E proposes that the $8.0 million be credited to the balancing account, treating it as a gas sale, but that the $3.8 million be flowed through to the shareholders. These revenues of $3.8 million are base-type revenues which will be reflected in the next general rate case. The company and staff agree that this type of revenue historically has been treated in the manner proposed by PG&E.

TURN and our Legal Division, on the other hand, recommend that the total $11.8 million be credited to the balancing account as fuel-related revenues. The recommendation is based on the assumption that PG&E has not yet incurred any base-type costs offsetting the $3.8 million revenue and that to allow the $3.8 million to flow to the shareholders would be an unwarranted windfall.

We agree with the staff and PG&E. Base rates and costs are made on a forecast basis in general rate cases. Between general rate cases there are deviations from the forecasts, both plus and minus. It would be unfair to recognize only the plus deviations and not the minus deviations. Therefore, PG&E will be allowed to treat the $3.8 million as miscellaneous gas revenues not subject to the balancing account.

At this point we must recognize the attrition allowance. The following table shows the total revenue requirement that will be used to develop rates in this proceeding.

Table 3

GAC Revenue Requirement	=	$4,292,988
Attrition Allowance	=	+ 46,174
Subtotal		4,339,162
Current Revenues	=	-4,245,358
Increase		$ 93,804

Rate Design

The first step of the rate design guidelines (Appendix A) is to select a price of low sulfur No. 6 fuel oil for establishing an alternate fuel price. Both staff and PG&E have relied on the data in Platt's Oilgram. The staff finds a range of alternate fuel prices of 55.13¢/therm to 58.00¢/therm. The staff recommends using a price equal to 95% of the low end of the range. This results in a price of 52.3¢/therm. PG&E develops a range of 49.25¢/therm to 55.09¢/therm with 50¢/therm recommended. Southern California Edison Company (SoCal Edison) supports a price of 49¢/therm. In reviewing the data supplied by both staff and PG&E, as well as the testimony of SoCal Edison, we find that the price of 54.5¢/therm is within a reasonable range that should prevent substantial fuel switching. TURN also recommended such a figure.

After adopting alternate fuel prices, we will develop effective rates in a step-by-step fashion. The first step is to apply Steps 1-5 of the guidelines developed in the last general rate case to the revenue requirement. This results in criteria rates. Next the criteria rates are adjusted to eliminate any revenue requirement shortfall or overage, resulting in guideline rates. Finally, miscellaneous adjustments are added to the guideline rates to arrive at adopted commodity rates.

Table 4

Criteria Rates

Line No.	Class of Service and Schedule	Adjusted Sales */ Mth	¢/th **/	M $
	RESIDENTIAL			
1	Tier I	1,529,225		
2	Tier II	331,338		
3	Tier III	138,263		
4	TOTAL RESIDENTIAL	1,998,826	.46977	938,988
	NONRESIDENTIAL			
	COMMERCIAL			
5	G-2	1,521,300	.575	874,748
	INDUSTRIAL			
6	G-50	743,340	.575	427,421
7	G-52	622,030	.545	339,006
8	G-55A	26,220	.545	14,290
9	SUBTOTAL	1,391,590		780,717
	STEAM ELECTRIC			
10	G-55 (PG&E)	3,221,160	.545	1,755,532
11	G-57 (EDISON)	103,190	.545	56,239
12	SUBTOTAL	3,324,350		1,811,771
	RESALE			
13	G-60	32,920	.44367	14,606
14	G-61-63	44,140	.43851	19,356
15	TOTAL RESALE	77,060		33,962
16	TOTAL	8,313,126		4,440,186

Rates Excluding GEDA, CFA, and SFA

* Notes: Application of the criteria rates produces a revenue overcollection of:

System Average	$4,440,186
Rate = .52197$/th	-4,339,162
	$ 101,024

**These are calculated based on the general rate case guidelines set forth in Appendix A.

Table 5

Guideline Rates

Class of Service	Criteria Rate	Adjustments (¢/th)	Guideline Rates (¢/th)
Tier I			39.930
Tier II			65.779
Tier III			79.861
Total	46.977	0	46.977
G-2	57.5	-1.620	55.88
G-50	57.5	-1.620	55.88
G-52	54.5	-1.620	52.88
G-55/57	54.5	-1.620	52.88
G-55A	54.5	-1.620	52.88
G-60	44.367	0	44.367
G-61/63	43.851	0	43.851

Adjustment:

Total Sales
(G-2, G-50, G-52, G-55, G-55A, G-57) = 6,237,240 Mth.

$$\frac{\$-101,024,000}{6,237,240} = -1.620¢/th.$$

TABLE 6

PACIFIC GAS AND ELECTRIC COMPANY

Adopted Effective Commodity
Rates and Comparison with Present Rates

	Guideline Rates	CFA	Base Commodity & GAC	GEDA & SFA	Present Effective Commodity Rates	Adopted Effective Commodity Rates	Increase %
Res.							
Tier I	39.930	0.290	40.220	0.478	40.111	40.698	1.5
Tier II	65.779	0.290	66.069	0.478	65.459	66.547	1.7
Tier III	79.861	0.290	80.151	0.478	79.454	80.629	1.5
Nonres.							
G-2	55.88	0.290	56.17	0.478	55.600	56.648	1.9
G-50	55.88	0.290	55.17	0.478	55.268	56.648	2.5
G-52	52.88	0.290	53.17	0.478	52.268	53.648	2.6
G-55A	52.88	0.290	53.17	0.336	52.126	53.506	2.6
G-55	52.88	0.290	53.17	0.336	52.126	53.506	2.6
G-57	52.88	0.290	53.17	0.336	52.126	53.506	2.6
Resale							
G-60	44.367	-	44.367	0.336	43.737	44.703	2.2
G-61, -62 and -63	43.851	0.290	44.141	0.336	42.068	44.477	5.7

Findings of Fact

1. A.82-08-51 requests authority for PG&E to increase its gas revenues by $187,964,000, annually.

2. Diablo Canyon does not have a commercial operating date at present and therefore it is reasonable to assume no Diablo Canyon electricity production during the forecast period, which reduces revenue requirement by about $57 million.

3. PG&E's estimate of gas takes and prices, assuming no Diablo Canyon production, is reasonable and is adopted.

4. The PG&E/Chevron Gas Purchase Agreement has not been authorized.

5. The figures shown in Table 2 for calculation of the current recovery amount and revenue requirement assume that the PG&E/Chevron Gas Purchase Agreement has been authorized, when in fact it has not been authorized. Therefore, a decrease in the revenue requirement of $16.4 million is reasonable.

6. Miscellaneous gas revenues resulting from PG&E's agreement to transport gas for SoCal Gas are not related to fuel cost and therefore should be reflected in base rates in PG&E's next general rate case.

7. A price for alternate fuel of 54.5¢/therm falls within the range suggested by PG&E and staff and is reasonable.

8. The attrition allowance found reasonable for gas department in the attrition phase of A.60153 is $46,174,000.

9. The GAC revenue requirement increase is $47,630,000.

10. An increase in GAC and base rates to produce annual increased revenues of $93,804,000 is justified and reasonable.

Conclusion of Law

The changes in rates and charges authorized by this decision, as discussed above, are justified and reasonable.

INTERIM ORDER

IT IS ORDERED that:

1. On or after the effective date of this order Pacific Gas and Electric Company (PG&E) is authorized to file revised gas tariff schedules reflecting the rates shown in Table 6 and cancel its presently effective schedules. The revised tariff schedules shall become effective on date of filing but not earlier than January 1, 1983. The revised schedules apply only to service rendered on or after their effective date.

2. PG&E shall send to all its gas customers a bill insert notice explaining the reasons behind today's gas rate increase. The form and content of the notice will be furnished by the Executive Director. Within 50 days after receipt of the notice from the Executive Director, PG&E shall send the bill insert notice to all gas customers.

This order is effective today.

Dated DEC 22 1982, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. GREW
Commissioners

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

Joseph E. Bodovitz

Joseph E. Bodovitz, Executive Director

APPENDIX A
Page 1

Determination of Specific Rates

In order to let all parties know with some certainty how specific rates will be determined in this proceeding and in future GAC proceedings, we will establish an orderly sequence of steps.

Step 1. We will adopt a revenue requirement, a sales figure, and a reference price of low sulfur No. 6 fuel oil.

Step 2. The G-52, G-55, and G-57 rates will be set at the reference price of low sulfur No. 6 fuel oil in Step 1. The G-50 rates will be set at 3 cents per therm higher than the G-52 et al. rates.

Step 3. The G-2 class rates will be set equal to the G-50 rate. In other words, G-2 sales times the G-50 rates will equal the G-2 revenue requirement.

Step 4. The residential revenue requirement will be determined by multiplying residential sales times a rate which is 10% less than the system average rate.

Step 5. The resale rates will be established by the formulas which we have previously discussed.

Step 6. If at this point the revenue requirement is not met, the residential and G-2 rates will be increased by an equal number of cents per therm to meet the revenue requirement. The G-2 rates should not be more than 3% higher or 3% lower than the G-50 rate.

If excess revenue is produced, the G-2, G-50, G-52, G-55, and G-57 rates will be reduced by an equal cents per therm to meet the revenue requirement.

Step 7. Within the residential class:

a. Tier I will be set 15% less than the residential class average rate.

b. Tier III will be set at a rate 70% above the class average rate.

c. Tier II will be set residually.

(END OF APPENDIX A)

INTERIM OPINION

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TURN, on the other hand, recommends that the total $11.8 million be credited to the balancing account as fuel-related revenues. The recommendation is based on the assumption that PG&E has not yet incurred any base-type costs offsetting the $3.8 million revenue and that to allow the $3.8 million to flow to the shareholders would be an unwarranted windfall.

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Findings of Fact

1. A.82-08-51 requests authority for PG&E to increase its gas revenues by $187,964,000 ~~[illegible]~~, annually.

2. Diablo Canyon does not have a commercial operating date at present and therefore it is reasonable to assume no Diablo Canyon electricity production during the forecast period, which reduces revenue requirement by about $57 million.

3. PG&E's estimate of gas takes and prices, assuming no Diablo Canyon production, is reasonable and is adopted.

4. The PG&E/Chevron Gas Purchase Agreement has not been authorized. √

5. The figures shown in Table 2 for calculation of the current recovery amount and revenue requirement assume that the PG&E/Chevron Gas Purchase Agreement has been authorized, when in fact it has not been authorized. Therefore a decrease in the revenue requirement of $16.4 million is reasonable. √

6. Miscellaneous gas revenues ~~[illegible]~~ resulting from PG&E's agreement to transport gas for SoCal Gas are not related to fuel cost and therefore should be reflected in base rates in PG&E's next general rate case.

7. A price for alternate fuel of 54.5¢/therm falls within the range suggested by PG&E and staff and is reasonable.

8. The attrition allowance found reasonable for the gas department in decided in ~~the rate design phase of~~ attrition phase A.60153 is $46,174,000. KA

9. The GAC revenue requirement increase is $47,630,000.

10. An increase in GAC and base rates to produce annual increased revenues of $93,804,000 is justified and reasonable.

Conclusion of Law

The change in rates and charges authorized by this decision, as discussed above, are justified and reasonable.