Decision 83 06 007 JUN 1 1983 ORIGINAL

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 April 1, 1983, under the Gas Adjustment Clause.

(Gas)

Application 83-01-62
(Filed January 31, 1983)

Peter W. Hanschen, Shirley Woo, and Steven Greenwald, Attorneys at Law, for Pacific Gas and Electric Company, applicant.
George Agnost, City Attorney, by Leonard L. Snaider, Deputy City Attorney, for the City and County of San Francisco; Richard Owen Baish, Attorney at Law (Texas), for El Paso Natural Gas Company; Anthony C. Bennetti and Don Maynor, Attorneys at Law, for City of Palo Alto; Robert E. Burt and Messrs. Brobeck, Phleger & Harrison, by Gordon E. Davis, William H. Booth, and Richard C. Harper, Attorneys at Law, for California Manufacturers Association; John R. Bury, Charles R. Kocher, H. Robert Barnes, and Susan L. Steinhauser, Attorneys at Law, for Southern California Edison Company; Allen R. Crown and Antone S. Bulich, Jr., Attorneys at Law, for California Farm Bureau Federation; Michel Peter Florio, for Toward Utility Rate Normalization (TURN); William L. Knecht, for California Association of Utility Shareholders; T. D. Clarke, R. M. Loch, and Robert W. Jacoby, Attorneys at Law, for Southern California Gas Company; Henry F. Lippitt, 2nd, Attorney at Law, for California Gas Producers Association; Robert Logan and Evet Abt, Attorneys at Law,

for City of San Jose; Messrs. Downey, Brand, Seymour & Rohwer, by Philip A. Stohr, Attorney at Law, for General Motors Corporation; William E. Swanson, for Stanford University; Harry K. Winters, for University of California; and E. D. Yates, for California League of Food Processors; interested parties.

Freda Abbott and Lionel Wilson, Attorneys at Law, Donald King, and Raymond Charvez, for the Commission staff.

O P I N I O N

By this application, Pacific Gas and Electric Company (PG&E) requests an increase in gas rates to produce an annual revenue increase of $252,711,000. The overall increase in gas rates is caused by the Federal Energy Regulatory Commission's (FERC) approval of higher prices for El Paso Natural Gas Company (El Paso) and California gas. The increase in the various high priority (residential and commercial) rates is a result of falling alternate fuel oil prices to industrial customers, as compared to the high prices of natural gas, along with decreased sales of gas by PG&E.

This proceeding is not a reasonableness review and simply involves forecasted prices of gas and sales at present rates to develop a new revenue requirement. The ultimate issues of this proceeding therefore involve the development of a Gas Adjustment Clause (GAC) revenue requirement and a rate design. Three days of hearings were held during the week of March 14, 1983 before Administrative Law Judge Henderson at which time the proceeding was submitted. After submission the price paid by PG&E for Canadian source gas was changed by the Canadian Government. We take official notice of the order of the Canadian National Energy Board issued

April 14, 1983 reflecting this new price. The new price will be used in the development of the revenue requirement. We note that the new lowered price will save PG&E's high priority ratepayers about $150 million per year.

Gas Revenue Requirement

The gas revenue requirement is developed in Table 1 (Cost of Gas) and Table 2 (Revenue Requirement) below. The controversial items of Table 1 involve the total amount of gas taken and what portion of the total will be supplied by California source gas versus El Paso source gas.

PG&E originally estimated that it would take a total of 807,534 decatherms (Mdth). The staff on the other hand estimated a total requirement of 751,347 Mdth. The staff's estimate was based on later information than was available to PG&E and will be adopted. The smaller requirement is due primarily to lower amounts of gas to be used for electric generation due to the extraordinary amount of hydro resources available to PG&E's electric generation department this year.

While the staff exhibit reflects a more accurate total take, the staff did not develop numbers that reflect a resequencing of El Paso gas ahead of California source gas. The staff did, however, include in its exhibit a monthly gas balance forecast for the coming 12-month period. We will adopt staff's forecast as reasonable in the circumstances. From this projection we can forecast that PG&E will take California gas to the 42% load factor amount. This is forecasted to be 119,637 Mdth. The following table develops the cost of gas with our adopted figures.

Table 1

Pacific Gas and Electric Company

Gas Department

Current Cost of Gas

Forecast Period: 12 Months Beginning April 1, 1983

Line No.	Source	Supply (MDth) (A)	Price $/Dth (B)	Cost (M$) (C)
	Cost of Gas			
1	California	119,637	3.2931	$ 393,977
2	El Paso-Demand	-	-	54,345
3	-Commodity	335,968	3.5691	1,199,103
4	Subtotal	455,605		1,647,425
5	PGT-Canadian	262,989	4.4269	1,164,226
6	Rocky Mountain	20,940	4.3197	90,455
7	Subtotal Purchases	739,534	3.9242	2,902,106
8	Withdrawal	39,768	2.1243	84,479
9	Injection	(27,955)	3.9242	(109,701)
10	Total	751,347	3.8290	2,876,884

(Red Figure)

The results of Table 1 are carried over to Table 2 which develops the new revenue requirement and compares our adopted results to PG&E's request which was revised at the hearing to reflect the resequencing of El Paso gas.

Table 2

Calculation of Current Recovery Amount
and Revenue Requirement

Forecast Period: 12 Months Beginning April 1, 1983

	PG&E Proposed Revised Amount in Thousands of Dollars	Adopted Amount in Thousands of Dollars
Current Cost of Purchased Gas	$3,224,691	$2,876,884
Plus: Gas Cost Balance Account	145,920	166,910
Plus: Carrying Cost of Prepaid Gas	6,164	5,927
Subtotal	3,376,775	3,049,721
Plus: Adjustment for Franchises & Uncollectible Accounts Expense (0.783%)	26,440	23,879
Plus: Base Cost Amount	818,473	818,473
Subtotal	4,221,688	3,892,073
Less: Base and GAC Revenue at Present Rates and Gas Transportation	4,044,872	3,746,230
Difference	176,816	145,843
Additional Requirement to Amortize GCBA over eight months	73,531	0
Additional Revenue Requirement	250,347	145,843

The issues that are reflected in Table 2 involve:

1. The amount of the Gas Cost Balance Account.
2. The amortization period chosen to amortize the balancing account (8 months vs. 12 months).
3. Revenues at current rates.

In our decision issued today in A.83-01-61 (ECAC) we have decided that special rates with an affiliated balancing account should be separately stated so that revenues and expenses can be matched in the balancing account. Similar treatment is required for PG&E's gas tariffs. Therefore PG&E will be authorized to state a separate Residential Conservation Service (RCS) rate at the appropriate place in PG&E's preliminary statement.

PG&E originally forecast the balancing account to be about $146 million undercollected. During cross-examination of PG&E's witness a new estimate of $166,910,000 was developed which simply reflects more current data and was uncontested.

An always present and related issue concerns the period chosen to amortize the balancing account. Our GAC procedure calls for a 12-month forecast of results of operation with GAC revisions scheduled every six months. A short amortization period every six months will tend to maintain the balancing account near zero and thus prevent the growth of large balances. On the other hand, a short amortization period will result in volatile rate changes. In this proceeding PG&E has suggested an eight-month period which is somewhat longer than the next revision date. We will adopt a slightly longer period of 12 months as recommended by the staff. This 12-month period has the effect of reducing the revenue requirement presently and also stabilizing rates. We believe that the 12-month period can be chosen without the undercollection growing because we expect only modest gas price increases in the near future. In fact, we believe that we can reasonably expect to see gas prices to PG&E lowered in the future to reflect both the surplus of gas and the falling price of competitive fuel oil.

The last issue regarding the revenue requirement concerns revenues at current rates. As stated previously in the "cost of gas" section, the Commission staff, with updated estimates, projected smaller sales of gas to PG&E's electric department for electric generation (G-55). This lower level of G-55 sales is reflected in a lower revenue at present rates.

The resolution of these issues produces the revenue requirement of about $146 million shown at the bottom of Table 2.

Rate Design

The rate design portion of most of our GAC decisions involves the application of the rate design guidelines previously established. The keystone of our present rate design guidelines established in 1981 in Decision (D.) 93887 is the price of alternate fuels which we have used as a proxy for marginal cost. This is the first proceeding since D.93887 in which the mechanical application of the guidelines must be modified. Application of the guidelines requires modification because the foundation (price of alternate fuels) is currently very unstable. With the lowering of the alternate price of fuel as shown by PG&E, the staff, and others, it is readily apparent that the rates for certain industrial customers (G-52, G-55, G-55-A, G-57) cannot be increased at this time without substantial fuel switching which would result in higher rates for all remaining customers. These industrial rates will not be lowered, however, because today we have authorized a G-58 rate schedule designed to prevent fuel switching by large industrial customers at present rates. The total increased revenue requirement will therefore be recovered in the following manner:

1. The G-50 rate will be set at a level that is $.05 higher than the G-52 rate.
2. The G-2 rate will be increased to a level 3% above the adopted G-50 rate, consistent with the current guideline.
3. The resale customers will be assessed an increase based on current guidelines.
4. The residential rates will be increased by a flat percentage to produce the remaining revenue requirement.

These steps are illustrated in Table 3 below which also shows the new rates.

Table 3

Adopted Rate Design
12 Months Beginning April 1, 1983
(¢/Therm)

Type of Service	Present Rates*	Base Commodity and GAC*	GEDA**	SFA	Effective Commodity Rate	% Change Over Present Rates****
Residential						
Tier I	40.552	43.339	0.517	0.142	43.998	8.5
Tier II	66.401	71.321	0.517	0.142	71.980	8.4
Tier III	80.483	86.567	0.517	0.142	87.226	8.4
Average	47.173	50.507	0.517	0.142	51.166	
Nonresidential						
G-2	56.502	59.784	0.517	0.142	60.443	7.0
G-50	56.502	58.024	0.517	0.142	58.683	3.9
G-52	53.502	53.024	0.517	0.142	53.683	0.3
G-55A	53.360	53.024	0.517	0	53.541	0.3
G-55	53.360	53.024	0.517	0	53.541	0.3
G-57	53.360	53.024	0.517	0	53.541	0.3
Resale						
G-60	44.703	45.682	0.517	0	46.199	3.3
G-61, 62, 63	44.331	43.074	0.517	0	43.591	(1.7)***
SoCal Gas	49.839	48.728	0	0	48.728	(2.3)***

(Red Figure)

*Includes CFA rate of 0.144¢/therm and RCS rate of 0.130¢/therm except no charge to G-60 or SoCal Gas.

**New GEDA rate as authorized on 5-18-83, Resolution G-2533.

***G-61, 62, 63 rate based on the average cost of gas which decreased by 2.7% from October 1982 GAC and a decrease in the CFA rate. Same gas cost decrease for SoCal Gas rate.

****Includes % change resulting from GEDA increase of 0.181¢/therm.

Findings of Fact

1. By A.83-01-62 PG&E requests authority to increase its gas revenues by $252,711,000 annually.

2. The staff estimates of gas takes and prices modified to reflect a resequencing of El Paso and California gas are reasonable.

3. A 12-month amortization period will result in a lower revenue requirement at present and is reasonable.

4. The GAC revenue requirement increase is $145,843,000.

5. The loss of non-residential gas sales can result in higher rates for remaining customers as gas utility fixed costs are spread across a smaller customer base.

6. The maintenance of non-residential gas sales requires cognizance of alternate fuel burning capabilities and alternate fuel prices.

7. The G-50 rate is referenced to #2 distillate fuel oil.

8. The G-52, G-55, G-55A, and G-57 rates are referenced to #6 residual fuel oil.

9. The price of alternate fuel oil has not increased.

10. The price of #2 distillate remains substantially higher than the price of #6 residual fuel; in the range of 10¢ per therm higher at present.

11. a 5¢ per therm differential between the G-50 and G-52 rates is reasonable.

Conclusions of Law

1. Rates referenced to the price of residual fuel oil should not be increased.

2. The G-50 rate should be set at a level that is 5¢ per therm higher than the G-52 rate.

3. The remaining rate schedules should be increased as shown in the decision.

4. The RCS rate should be separately set forth in the appropriate portions of the Preliminary Statement.

5. The changes in rates and charges authorized by this decision are justified and reasonable.

6. Because the revision date is past this order should be effective immediately.

O R D E R

IT IS ORDERED that on or after the effective date of this order Pacific Gas and Electric Company is authorized to file revised gas tariff schedules reflecting the rates shown in this decision and cancel its presently effective schedules. The revised tariff schedules shall become effective on date of filing but not earlier than June 15, 1983. The revised schedules apply only to service rendered on or after their effective date.

This order is effective today.

Dated June 1, 1983, at San Francisco, California.

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

I will file a concurring opinion.
/s/ VICTOR CALVO
Commissioner

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

Joseph E. Bodovitz, Executive Director

A.83-01-62
D.83-06-007

COMMISSIONER VICTOR CALVO, I concur.

The decision as modified today increases the rate charged to small commercial customers on Schedule G-2 to a level which is considerably higher than the average rate charged to any other class. I caution that continued increases to the G-2 customer may create an unfair burden on a user class which typically has no advocate appearing in our proceedings.

The argument is generally made that the small commercial customer facing large utility costs can simply pass on these costs to the consumer; hence, a significant portion of a utility rate increase can be placed on the small commercial class. While this argument may have some merit there is nevertheless a limit on how much of these costs can be passed on before the commercial customer prices himself out of the market. In today's economy especially, I would expect that a small company's increased utility costs cannot be readily absorbed by the customers of that company. A merchant, no matter how efficient his operation, can generate only so many dollars from a given amount of selling or working space. If prices on goods or services have to be repeatedly adjusted to accommodate the demands of the utility rate design, a competitive merchant must eventually absorb the utility rate increases along with the resulting adverse impact on his margin and business.

I therefore urge in the next GAC proceeding that we carefully review the rates charged to the G-2 customer in the same manner as we review rates charged to the residential customer, mindful that the small commercial customer may suffer from the same lack of flexibility as the residential customer in mitigating costs.

June 1, 1983
San Francisco, California

Victor Calvo
VICTOR CALVO, Commissioner

April 14, 1983 reflecting this new price. The new price will be used in the development of the revenue requirement. We note that the new lowered price will save PG&E's high priority ratepayers about $150 million per year.

Gas Revenue Requirement

The gas revenue requirement is developed in Table 1 (Cost of Gas) and Table 2 (Revenue Requirement) below. The controversial items of Table 1 involve the total amount of gas taken and what portion of the total will be supplied by California source gas versus El Paso source gas.

PG&E originally estimated that it would take a total of 807,534 decatherms (Mdth). The staff on the other hand estimated a total requirement of 751,347 Mdth. The staff's estimate was based on later information than was available to PG&E and will be adopted. The smaller requirement is due primarily to lower amounts of gas to be used for electric generation due to the extraordinary amount of hydro resources available to PG&E's electric generation department this year.

While the staff exhibit reflects a more accurate total take, the staff did not develop numbers that reflect a resequencing of El Paso gas ahead of California source gas. The staff did, however, include in its exhibit a monthly gas balance forecast for the coming 12-month period. We will adopt staff's forecast as reasonable in the circumstances. From this projection we can forecast that PG&E will take California gas to the 42% load factor amount. This is forecasted to be 119,637 Mdth. The following table develops the cost of gas with our adopted figures.

tariffs. Therefore PG&E will be authorized to state a separate Residential Conservation Service (RCS) rate at the appropriate place in PG&E's preliminary statement.

PG&E originally forecast the balancing account to be about $146 million undercollected. During cross-examination of PG&E's witness a new estimate of $166,910,000 was developed which simply reflects more current data and was uncontested.

An always present and related issue concerns the period chosen to amortize the balancing account. Our GAC procedure calls for a 12-month forecast of results of operation with GAC revisions scheduled every six months. A short amortization period every six months will tend to maintain the balancing account near zero and thus prevent the growth of large balances. On the other hand, a short amortization period will result in volatile rate changes. In this proceeding PG&E has suggested an eight-month period which is somewhat longer than the next revision date. We will adopt a slightly longer period of 12 months as recommended by the staff. This 12-month period has the effect of reducing the revenue requirement presently and also stabilizing rates. We believe that the 12-month period can be chosen without the undercollection growing because we expect only modest gas price increases in the near future. In fact, we believe that we can reasonably expect to see gas prices to PG&E lowered in the future to reflect both the surplus of gas and the falling price of competitive fuel oil.

The last issue regarding the revenue requirement concerns revenues at current rates. As stated previously in the "cost of gas" section, the Commission staff,with updated estimates, projected smaller sales of gas to PG&E's electric department for electric generation (G-55). This lower level of G-55 sales is reflected in a lower revenue at present rates.

The resolution of these issues produces the revenue requirement of about $146 million shown at the bottom of Table 2.

Rate Design

The rate design portion of most of our GAC decisions involves the application of the rate design guidelines previously established. The keystone of our present rate design guidelines established in 1981 in Decision (D.) 93887 is the price of alternate fuels which we have used as a proxy for marginal cost. This is the first proceeding since D.93887 in which the mechanical application of the guidelines must be modified. Application of the guidelines requires modification because the foundation (price~~s~~ of alternate fuels) is currently very unstable. With the lowering of the alternate price of fuel as shown by PG&E, the staff, and others, it is readily apparent that the rates for certain industrial customers (G-52, G-55, G-55-A, G-57) cannot be increased at this time without substantial fuel switching which would result in higher rates for all remaining customers. These industrial rates will not be lowered, however, because today we have authorized a G-58 rate schedule designed to prevent fuel switching by ~~present~~ large industrial customers at present rates. The total increased revenue requirement will therefore be recovered in the following manner:

1. The G-50 rate will be set at a level that is \$.05 higher than the G-52 rate.
2. The G-2 rate will be increased to a level 3% above the adopted G-50 rate, consistent with the current guideline.
3. The resale customers will be assessed an increase based on current guidelines.
4. The residential rates will be increased by a flat percentage to produce the remaining revenue requirement.

These steps are illustrated in Table 3 below which also shows the new rates.

Table 3

Adopted Rate Design
12 Months Beginning April 1, 1983
(¢/Therm)

Type of Service	Present Rates*	Base Commodity and GAC*	GEDA**	SFA	Effective Commodity Rate	% Change Over Present Rates****
Residential						
Tier I	40.552	43.339	0.517	0.142	43.998	8.5
Tier II	66.401	71.321	0.517	0.142	71.980	8.4
Tier III	80.483	86.567	0.517	0.142	87.226	8.4
Average	47.173	50.507	0.517	0.142	51.166	
Nonresidential						
G-2	56.502	59.784	0.517	0.142	60.443	7.0
G-50	56.502	58.024	0.517	0.142	58.683	3.9
G-52	53.502	53.024	0.517	0.142	53.683	0.3
G-55A	53.360	53.024	0.517	0	53.541	0.3
G-55	53.360	53.024	0.517	0	53.541	0.3
G-57	53.360	53.024	0.517	0	53.541	0.3
Resale						
G-60	44.703	45.682	0.517	0	46.199	3.3
G-61, 62, 63	44.331	43.074	0.517	0	43.591	(1.7)***
SoCal Gas	49.839	48.728	0	0	48.728	(2.3)***

(Red Figure)

*Includes CFA rate of 0.144¢/therm and RCS rate of 0.130¢/therm except no charge to G-60 or SoCal Gas.

**New GEDA rate as ~~to be~~ authorized on 5-18-83, Resolution G-2533.

***G-61, 62, 63 rate based on the average cost of gas which decreased by 2.7% from October 1982 GAC and a decrease in the CFA rate. Same gas cost decrease for SoCal Gas rate.

****Includes % change resulting from GEDA increase of 0.181¢/therm.

Findings of Fact

1. By A.83-01-62 PG&E requests authority to increase its gas revenues by $252,711,000 annually.

2. The staff estimates of gas takes and prices modified to reflect a resequencing of El Paso and California gas are reasonable.

3. A 12-month amortization period will result in a lower revenue requirement at present and is reasonable.

4. The GAC revenue requirement increase is $145,843,000.

5. The price of alternate fuel oil has not increased.

Conclusions of Law

1. Rates referenced to the price of the alternate fuel (G-50, G-52, G-55, G-55A, and G-57) should not be increased.

2. The remaining rate schedules should be increased as shown in the decision.

3. The RCS rate should be separately set forth in the appropriate portions of the Preliminary Statement.

4. The changes in rates and charges authorized by this decision are justified and reasonable.

5. Because the revision date is past this order should be effective immediately.

O R D E R

IT IS ORDERED that on or after the effective date of this order Pacific Gas and Electric Company is authorized to file revised gas tariff schedules reflecting the rates shown in this decision and cancel its presently effective schedules. The revised tariff schedules shall become effective on date of filing but not earlier than June 15, 1983. The revised schedules apply only to service rendered on or after their effective date.

This order is effective today.

Dated JUN 1 1983, at San Francisco, California.

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

I will file a concurring opinion.

/s/ Victor Calvo
Commissioner