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Decision No. 87193

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND ELECTRIC COMPANY for authority to revise its gas service tariff to offset the effect of increases in the price of gas from EL PASO NATURAL GAS COMPANY. (Gas)	Application No. 56392 (Filed April 8, 1976; Supplemental Application filed November 12, 1976).
Application of PACIFIC GAS AND ELECTRIC COMPANY for authority to revise its gas service tariff to offset the effect of increases in the price of gas from CALIFORNIA SOURCES. (Gas)	Application No. 56393 (Filed April 8, 1976; Supplemental Application filed November 12, 1976).

Supplemental Appearances

William H. Edwards, Attorney at Law, for Pacific Gas and Electric Company, applicant.
Sylvia Siegel, for Toward Utility Rate Normalization (TURN), interested party.
Timothy E. Treacy, Attorney at Law, for the Commission staff.

SUPPLEMENTAL OPINION

Statement of Facts

In April 1976, PG&E, reflecting the fact that it had become obligated to an as yet undetermined additional cost for natural gas obtained from one of its California Sources, Occidental Petroleum

Company (Occidental), for base year July 1, 1975,[1/] and anticipating that it would become obligated (1) on July 1, 1976 for a significant but then unknown additional cost for natural gas from California Sources (including Occidental) for base year July 1, 1976, and (2) on August 1, 1976 for an estimated $46,907,000 additional cost on an annualized basis for natural gas from El Paso Natural Gas Company (El Paso) as a result of certain filings El Paso had made with the Federal Power Commission (FPC), filed applications with this Commission for authority to increase its rates and charges to offset part[2/] of the anticipated additional costs from California Sources, and for the full estimated additional costs anticipated from El Paso.

Wishing to avoid piecemeal authorizations pending determination of actual additional costs, the Commission determined it would not at that time approve PG&E's application for a rate increase based upon the as yet undetermined costs above 75 cents per Mcf from California Sources. Instead, recognizing PG&E's obligation to pay any later agreed-on price, or price set by arbitration award, retroactive to the beginning of each base

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1/ For base year July 1, 1975 contracts, PG&E had offered its California Sources 75 cents per Mcf. One large producer, Occidental, refused the offer and went to arbitration to determine its base year July 1, 1975 price. Pending results of the arbitration Occidental continued deliveries under contract provisions that any arbitration award above 75 cents per Mcf would be retroactive.

2/ For base year July 1, 1976 contracts, PG&E offered its California Sources 90 cents per Mcf, an offer generally rejected as producers awaited results of the Occidental arbitration before coming to terms. PG&E, by its April 1976 application, proposed offset relief to the extent of $16,567,000 for anticipated California Sources cost increases. This represented the cost of an increase to 90 cents per Mcf. In addition, PG&E requested establishment of a balancing account to accrue for subsequent amortization the effect of the difference between 90 cents per Mcf and the ultimate negotiated price.

year, the Commission by Decision No. 86213 dated August 3, 1976 authorized PG&E to establish a California Sources Balancing Account to accrue the cost of natural gas above 75 cents per Mcf derived (1) from the base year July 1, 1975 Occidental contracts, and (2) from the base year July 1, 1976 California Sources (including Occidental) contracts, so that when prices would be finally established, PG&E could submit proposed tariffs for our approval. Provision was made for interest at seven percent per annum. The order also noted that when base year prices were finally established it would be the Commission's intention in further proceedings to test the reasonableness of any rate proposed, with the objective of amortizing all or such portion of the accrued balance then found just and reasonable.

By that same order (Decision No. 86213), addressing PG&E's El Paso request, the Commission found that the rates proposed by PG&E, after adoption of some adjustment, were of an offset nature and were reasonable. Accordingly, the Commission approved the adjusted offset[3/] with the provision that PG&E establish and maintain an El Paso Balancing Account to record over- and undercollection of gas costs incurred as a result of the El Paso June 30, 1976 FPC filing, using seven percent interest for both excess accrued and deficit. PG&E was directed to include a rate revision in its next offset application to adjust for any over- or undercollection.

3/ By supplemental order in Decision No. 86240 dated August 10, 1976, using updated supply volume estimates and deducting a disallowed injection into storage estimate, the Commission arrived at the lower offset estimate of $45,112,000 for El Paso.

On May 24, 1976 the Occidental-PG&E arbitration panel rendered its award. The panel ruled that for base year July 1, 1975 the reasonable market value for gas under the individual Occidental contracts ranged from $1.01 to $1.36 per MMBtu, depending upon the field and the applicable term. The weighted cost for the Occidental contracts for base year July 1, 1975 was $1.18 per Mcf. PG&E subsequently petitioned the Superior Court of San Diego County to vacate the award; that petition was denied August 11, 1976 and the award was affirmed.

For base year July 1, 1975 the award resulted in an increase over the previously authorized 75 cents per MMBtu base price of $3,812,000 in the cost of gas delivered by Occidental to PG&E.

After the award was affirmed in August, PG&E reapproached its California producers proposing in the alternative a one-year contract term price at $1.05 per Mcf, or a two-year contract term price at $1.20 per Mcf. There were no takers at the one-year price, but as of November 1, 1976, producers representing approximately 80 percent of the California Sources volume4/ had signed with PG&E at $1.20 per Mcf for two years for 1,000 Btu value gas to be delivered at 1/3 load factor beginning base year July 1, 1976. This $1.20 per Mcf price applicable to base year July 1, 1976 results in an estimated increase in cost over the previously authorized 75 cents per Mcf base price of $23,769,000 for the final six months' period of 1976.

4/ Four producers (Texaco, Aminoil, Superior, and Hunnicutt & Camp), who provide approximately 15 percent of PG&E's California gas supply, rejected the $1.20 per Mcf offer and are exercising their contractual privilege to go to arbitration. Pending the arbitration award they continue to supply natural gas to PG&E under contract provisions that any increase in price above 75 cents per Mcf would be retroactive to July 2, 1976.

Accordingly, the California Sources Balancing Account as of December 31, 1976 reflects the following estimated balance according to PG&E's calculations:

Base year 7/1/75 Occidental contracts	$ 3,812,000
Base year 7/1/76 Cal. Sources contracts to 12/31/76	23,769,000
Interest charges, franchises, & uncollectibles	1,030,000
Total Cal. Sources balance to 12/31/76	$28,611,000

After being authorized rates estimated to yield an additional $45,112,000 (annualized) to offset the August 1, 1976 increase in El Paso costs, subject to the balancing account provisions of Decision No. 86213, PG&E's recorded over- and under-collections attributed to that offset for the period ending December 1, 1976 resulted in an estimated undercollection of $1,398,000. With interest charges, franchises, and uncollectibles, PG&E estimates that the additional revenue required to amortize the December 1, 1976 balance in the El Paso Balancing Account would be $1,501,000.

Beginning January 1, 1977, the additional annualized revenue requirement for 1977 to enable PG&E to offset the effect of the increase in the cost of natural gas to be received from all California Sources, excluding Union Island but including Occidental, is estimated by PG&E to be $46,117,000.

As the after effect of the above developments, PG&E filed this supplemental application in November 1976 requesting authority effective January 1, 1977 to increase its rates and charges for natural gas service to its customers to offset increases in purchased gas costs totaling $76,229,000 as outlined above.5/ Of this total,

5/ For every day past January 1, 1977 that the proposed offset rates are delayed, PG&E estimates it will suffer a cash-flow loss of approximately $209,000. Considering the already depressed earnings level of the gas department, PG&E asks that this supplemental application be granted as soon as practical.

$30,112,000 is attributable to revenue needed to amortize the balances expected to accrue through December 31, 1976 from the California Sources Balancing Account, and through December 1, 1976 from the El Paso Balancing Account. PG&E anticipates amortizing these balances over approximately twelve months beginning January 1, 1977.

PG&E additionally requests authorization to continue the California Sources and El Paso Balancing Accounts, with authority to record therein any over- or undercollections of gas costs that may accrue, using an interest requirement of seven percent per annum for both excess and under accruals. In that four producers providing approximately 15 percent of the California Sources supply have elected arbitration on the base year July 1, 1976 price, PG&E also asks that any over- or undercollections that may arise out of these four requests to arbitrate the price of their gas be included in such California Sources Balancing Account.

By Decision No. 86281 dated August 24, 1976 in Application No. 55510, this Commission found on a 1976 test year basis that a rate of return of 9.20 percent would be reasonable for PG&E's gas department. PG&E's present gas rates to its customers do not reflect any of the $76,229,000 increase herein requested. PG&E asserts that at rates in effect at time of this filing its gas department's rate of return was 6.80 percent. Without authorization to implement the rates requested herein, the estimated increased costs would further decrease the rate of return to 4.99 percent, substantially below the 9.20 percent last found to be fair and reasonable by this Commission. To effectuate this offset PG&E proposed to place into effect on January 1, 1977 a tariff which would increase all nonlifeline rates $.01290 per therm. Each resale schedule would exempt a percentage of the firm sales from this increase in recognition of the lifeline usage of customers of purchasers under the resale schedules. That portion of the increased rates attributable to balancing account amortization would be terminated by advice-letter filing to be made 15 days prior to the beginning of the month that the balance is anticipated to become zero (i.e., approximately 12 months after amortization begins). Any residue amount (negative or positive) would be carried forward in the respective balancing account.6/

A duly noticed public hearing was held in San Francisco on January 4 and 5, 1977 before Examiner John B. Weiss, and the matter was submitted January 12, 1977 upon receipt of letter briefs. The hearing was sparsely attended by the general public although the examiner received a total of 32 written communications from members of the consumer public, all in opposition to the increase. At the hearing testimony and an exhibit were presented by the executive secretary/attorney of the California Gas Producers Association. The thrust of his evidence, which purportedly was offered to support the offset application as being reflective of the minimum increase required in order to enable PG&E to recover the increased cost for California gas purchases, was apparent in his detailed assertions, obviously tendered with an eye toward the pending

6/ As nearly as possible, the termination date would be established to (a) result in the same number of billing periods of amortization for each customer and (b) proceed the billing cycle in which each account balance will become zero. Any residual debit or credit amounts would be available for further amortization later. PG&E further noted that a Purchased Gas Account (PGA) procedure proposal is pending before the Commission in Application No. 56739 filed September 8, 1976 (hearing delayed at applicant's request). Should the Commission adopt the proposed procedure and approve its implementation, PG&E would, under its terms, incorporate both the amortization rates and the then unamortized balances.

PG&E—Occidental arbitration proceedings, that a higher multiple tier pricing level, with special features and exemptions, has begun to evolve in PG&E's gas purchasing area in northern California.7/ On the other hand, the president of Toward Utility Rate Normalization (TURN) appeared in opposition to the offset, primarily focusing criticism on the bargaining practices of PG&E, and questioning whether the staff really tested the reasonableness of any price above 75 cents per Mcf paid by PG&E.8/ TURN's president characterized the offset procedure as "...farcical and a waste of taxpayer time and money."

7/ It was asserted that this higher multiple tier pricing results principally as a result of PG&E's long standing exchange agreements with Standard Oil and Shell Oil whereby "realized value" on exchange gas vis-a-vis alternate supplies at their refineries approximates $2.00 per MMBtu; higher "market values" realized by Phillips and Union on exchanges with PG&E from the Union Island field contracts; Dow Chemical's current approximate 8 percent competitive differential (considering enhanced load factor terms) over PG&E; the Occidental-PG&E arbitration awards themselves; small liquefied natural gas sales from the Chowchilla field to San Diego Gas and Electric at double PG&E's $1.20 per MMBtu offer; "off-system" direct industrial sales involving Shell and Spreckels Sugar, and the uncertain royalty determination on the Standard Oil - State Lands Commission contract (the Decker Island field).

(NOTE - In this last regard, it would appear that in seeking for royalty reasons a higher "reasonable market value" from Standard Oil (and thus from PG&E), the State Lands Commission is acting against its own public interests. While raising a little more revenue for the state by pushing higher reasonable market value, the state is indirectly forcing the people of the state to pay more for their own resources.)

8/ TURN further characterized PG&E's renegotiation of the contracts representing 2 percent of the volume so as to bring them up to the uniform $1.20 per Mcf basis as a "gift".

The staff, after review of the application, the utilities' work papers, the price amendments to the contracts and the contracts themselves, and a partial audit of the balancing accounts, concluded that the relief sought by PG&E in this proceeding would in concept enable the utility to offset only the increased cost of purchased natural gas, and that the utility's proposal to amortize the California and El Paso Balancing Account balances as they stood at December 31, 1976 and December 1, 1976 respectively, and to offset the estimated additional cost of California source gas for year 1977, was reasonable. However, while the staff accepted PG&E's estimate of the gas supply and sales estimate for calendar year 1977, having benefit of later recorded data for 1976, it differed with PG&E over the estimates of the December 31, 1976 and December 1, 1976 respective balances in the balancing accounts. The recorded figures were somewhat less than the estimates made earlier by PG&E. Consequently, the staff's recommendation was that the total of the offset should be $70,100,000, rather than the $76,229,000 proposed by PG&E, reflecting a $0.01187 per therm increase to the consumer rather than the $0.0129 per therm increase proposed by the utility.

The staff would also recommend that amortization of the 1976 balances be terminated by advice-letter filing made 30 days (rather than the 15 days suggested by PG&E) prior to the beginning of the month that the balance is expected to become zero.

Lastly, the staff agrees with the utility that it would be more appropriate to consider any lifeline rate changes in Case No. 9988, or in Phase II of PG&E's Application No. 55510.

Discussion

As authorized in Decision No. 86213 and in the supplemental order in Decision No. 86240, PG&E accrued the incurred costs above 75 cents per Mcf for natural gas derived from base year July 1, 1976 Occidental contracts and base year July 1, 1976 California Sources contracts including Occidental, and also recorded over- and undercollections for gas costs accrued out of the El Paso June 13, 1976 FPC filing, with the approved objective of subsequent amortization of these balances when final prices were determined covering the California Sources contracts.

At the January hearing the TURN representative questioned PG&E's prudence in concluding negotiations for base year July 1, 1976 supplies on a uniform $1.20 per Mcf basis for all California Sources suppliers who signed. As noted in Decision No. 86213, when we authorized accrual of these "then to be negotiated" addition costs above 75 cents per Mcf, we specifically stated that "we must reserve judgment on the reasonableness of any price paid by PG&E", and that we would test this reasonableness in subsequent proceedings when amortization of these accrual balances was sought. Therefore, TURN's questions in this regard were both timely and appropriate. Did PG&E act reasonably and prudently in offering and in settling for $1.20 per Mcf to all California Sources producers? We conclude the answer is yes.

PG&E has approximately 241 gas purchase contracts with 80 California gas producers. A senior vice president for PG&E repeatedly testified in both this and the earlier hearing, that it has been historical policy for PG&E to pay a uniform price to its California producers. In 1975 that practice was breached as a result of Occidental's electing arbitration, and consequently winning prices ranging from $1.01 per MMBtu to $1.36 per MMBtu, with an average of approximately $1.34 per MMBtu 9/ for its gas in base year July 1, 1975. In 1976, as contract signing time approached, the then pending Occidental arbitration effectively curtailed negotiations; almost all producers were fence sitting, and only 2.1 percent of the California volume under contract to PG&E signed at the 90 cents per Mcf offered by PG&E for base year July 1, 1976. After the Occidental award was confirmed by the courts, PG&E obviously had to increase the 90 cents per Mcf offer if it was to obtain contracts. The award had in effect established $1.18 per Mcf as being the "reasonable market value" as of July 1, 1975. But since then a year had passed. Based on its experience in the arbitration proceeding, and weighing prices of other pertinent sources of supply, PG&E determined to make a new offer for 1,000 Btu gas delivered at 1/3 load factor, and offered to contract for one year at $1.05 per Mcf, or for two years at $1.20 per Mcf. It seems clear that this was done only within the framework of an unfavorable arbitration award and analysis of market conditions. No one accepted the one-year offer at $1.05 per Mcf. However, by November 1, 1976 approximately 80 percent of the California contract volume was signed up for two years at $1.20 per Mcf. 10/ This was not accomplished without negotiations. Some of the first to sign, for example, demanded so-called "Favored Nations" letters to the effect that subsequently, if higher prices were offered to others, that they would also get them. But PG&E held the line at $1.20 per Mcf and did not have to suffer economic penalties.

9/ The Occidental gas, predominantly from the Lathrop field, is of the order of approximately 881 Btu per Mcf. When adjusted for Btu content, the $1.34 per MMBtu converts to $1.18 per MMBtu.

10/ Supra, Footnote 4.

TURN, noting that there was no legal compulsion on PG&E to up the contracts of the 2.1 percent signed at 90 cents per Mcf to the $1.20 per Mcf of the other producers, characterized that portion of the negotiations as being a "gift of ratepayer's money". But we must not overlook the fact that the 2.1 percent signed at 90 cents per Mcf were signed for only one year - base year July 1, 1976, whereas by renegotiation at $1.20 per Mcf, they were signed for two years beginning July 1, 1976. PG&E, noting the long-term nature of its marketing relationships, and its belief that $1.20 per Mcf constitutes a reasonable market value, considered that neither the utility nor the ratepayers would benefit from creation of a situation where smaller producers would feel wronged because they had not held out or elected arbitration. On balance, under these circumstances we agree with PG&E's assertion that the ratepayers benefit when PG&E is able to commit suppliers to longer-term contracts at fixed prices, avoid additional arbitration elections with their delays, or outright loss of suppliers. There has been absolutely no showing that PG&E's contracting practices have been anything less than bona fide and at arm's length. Accordingly, we find that PG&E acted reasonably and prudently in settling for two years at $1.20 per Mcf with those producers it could induce to sign, and that the benefit attained by renegotiating the 2.1 percent of the volume to the same $1.20 per Mcf basis accepted by a considerable majority of the California producers, thus restoring a uniform two-year contract term and one price for all policy, is sufficient to render it a reasonable and prudent action.

The staff and the applicant differ in their estimates of the balances in the respective balancing accounts to be amortized in 1977. The staff had the advantage in making its estimate from recorded data in part obtained from its audit of the California Sources account through November 1976. Its summary of the recorded data reflects a lesser amount than PG&E's estimate, prepared earlier. The parties agree on the estimate for the month of December 1976. PG&E's and staff's estimates of the California Sources Account balance as of December 31, 1976 and of the gas supplied follow:

California Sources

	PG&E			Staff		
	MMcf	MDth	M$	MMcf	MDth	M$
Occidental 7/1/75 - 6/30/76	7,330	6,458	$ 3,812,000	7,330	6,458	$ 3,812,000
Cal. Sources thru 12/76	53,110	52,089	23,769,000	50,896	49,917	18,225,000
Interest (Including 1977)			780,000			1,041,000
Franchise & Uncollectibles			250,000			203,000
Balancing Account 12/31/76			28,611,000			23,281,000

The staff's estimate of the balance in the El Paso Balancing Account as of December 1, 1976 is based upon its completed audit of that account made by Finance and Accounts. As set forth below, the staff's determination of the balance is less than half of the amount estimated earlier by PG&E:

El Paso

	PG&E	Staff
El Paso thru 11/76	$1,398,000	$662,000
Interest (Including 1977)	90,000	34,000
Franchise & Uncollectibles	13,000	6,000
Balancing Account 12/1/76	$1,501,000	$702,000

In both instances we will adopt the staff figures.

For the twelve-month period beginning January 1, 1977, the staff's and PG&E's estimates of gas supply agree:

Gas Supply Estimates - 1977

Source	MMcf	Btu/cu.ft.	MDth
Union Island	12,833	855	11,357
Other Cal. Sources	102,142	981	100,169
El Paso	280,741*	1084	304,316
Pac. Gas Trans.	367,550	1058	388,972
	763,266		804,814

* Adopted by the Commission in Decision No. 86381 dated September 14, 1976 in Application No. 56586 (see Table 1, page 15 of that decision).

Of the 763,266 MMcf total volume anticipated, the 102,142 MMcf estimated from California Sources will cost PG&E $0.44755 more per Mcf as a result of the signing of the two-year California Sources contracts in 1976. Thus that portion of the 1977 gas supply will cost $45,714,000 more. With franchise and uncollectible provisions added, the total additional cost to PG&E for the twelve-month period beginning January 1, 1977 to be offset is $46,117,000. We will adopt this estimate.

In summary, the total estimated additional revenue which we find would be required to amortize the California Sources and the El Paso Balancing Accounts in approximately 12 months, and to offset the anticipated additional cost in 1977 of California Sources gas, is set forth below together with the respective per therm increases represented by the components:

	Revenue Required	Increase/Therm
California Sources Balancing Account	$23,281,000	$0.00394
El Paso Balancing Account	702,000	0.00012
California Annual Cost - 1977	46,100,000	0.00781
Total Revenue Requirement (Rounded)	$70,100,000	$0.01187

As can be seen from the following Results of Operations table, at rates effective October 1, 1976, the $70,100,000 (4.91 percent) increase in revenue would have no effect on PG&E's Net for Return, or Rate of Return, thus merely serving to keep PG&E whole.

Results of Operations
(At Rates Effective October 1, 1976)

Item	Test Year	Cost of Gas Increase	With increase January 1, 1977 Without Rate Prop.	Rate Proposal	With Rate Proposal
		(Dollars in Thousands)			
Gross Operating Rev.	$1,425,447	-	$1,425,447	$70,100	$1,495,547
Operating Expenses					
Cost of Gas	1,102,130	68,413	1,170,543	-	1,170,543
Other Exp., excl. Taxes Based on Income	226,995	-	226,995	1,687 1/	228,682
Taxes Based on Income	13,863	(36,040)	(22,177)	36,040	13,863
Total Operating Exp.	1,342,988	32,373	1,375,361	37,727	1,413,088
Net for Return	82,459	(32,373)	50,086	32,373	82,459
Rate Base	1,196,016	-	1,196,016	-	1,196,016
Rate of Return	6.90%	(2.71%)	4.19%	2.71%	6.90%

(Red Figure)

1/ Includes franchise, uncollectibles, and interest.

Special Note: In deriving its Net Cost of Gas, the PG&E proposal included an inappropriate $2,396,000 in the monetary exchange adjustment, adjusted for herein.

It is estimated that this increase in rates will serve to increase PG&E's gas department system average rate in cents per therm over 125 percent of the January 1, 1976 level, thereby involving Miller-Warren lifeline considerations. In Miller-Warren, the Legislature, after concluding that light and heat are "basic human rights", and that basic minimum quantities must be made available to all people at low cost, in essence froze gas rates for basic amounts to residential consumers for an interim period until the system average rate increased a prescribed amount. But the Legislature has not described what is to occur after the prescribed amount is reached. This Commission was directed to report back to the Legislature in January 1977 on the effect the legislation had on rates and costs. In Case No. 9988 this Commission opened a general investigation on lifeline rates. In addition, this issue is also before the Commission as it pertains to PG&E specifically, in the second phase of PG&E's pending Application No. 55510. We believe it would be premature and perhaps preemptive were we to attempt any interim restructuring relative to lifeline applications here, based upon the record before us in the instant proceeding. Accordingly, we agree with and adopt the PG&E and staff proposal that we exclude lifeline rates from participation in this offset increase, and we will restrict application of the $0.01187 per therm increase to the non-lifeline rates.

We will authorize PG&E to continue both the California Sources and the El Paso Balancing Accounts. The California Sources account will be utilized to record over- and undercollections of gas costs accrued as a consequence of increased costs (1) through the period January 1, 1977 - June 30, 1978 of California Sources gas derived from those presently signed two-year July 1, 1976 base year contracts representing approximately 80 percent of the California Sources volume (excluding Union Island), and (2) from such base year July 1, 1976 California Sources contracts as are still open as a consequence of arbitration procedures relating to the price. The accruals will utilize an interest requirement of seven percent per annum. The El Paso account will be utilized to include over- and undercollections of revenues from offset rates authorized and effective August 10, 1976 and any further authorized offset or tracking rates for El Paso gas and the increase or decrease in cost of El Paso gas from rates in effect on July 31, 1976. An interest requirement of seven percent per annum will apply. In our view, such balancing account practices, under the particular factual circumstances prevailing here, leading to amortization to the extent found reasonable, are a practical and fair-to-all method of offsetting undercollected costs incurred as a product of contract provisions providing for later negotiated, arbitrated, or litigated prices, arrived at after delivery of this absolutely essential commodity, and do not constitute retroactive ratemaking.

We will also adopt the staff proposal that the rates resulting from amortization of the 1976 balances in the two balancing accounts be terminated by advice-letter proceedings made 30 days prior to the beginning of the month that the balance is expected to become zero.[11/] Any residual amounts remaining after termination of the amortization of the 1976 balances will be carried forward to the respective California Sources or El Paso Balancing Accounts authorized below for subsequent amortization.

It would be our intention, after further proceedings, to authorize future amortization of all or such portions of the accrued balances as may develop, to the extent they are determined to be just and reasonable, with such amortizations to be authorized no less than annually.

Noting that for each day after January 1, 1977 that this offset relief is delayed, PG&E will suffer a cash-flow detriment of approximately $200,000, and in recognition of the fact that the rate of return of PG&E's gas department is below the rate previously determined fair and reasonable, and to alleviate this cash-flow problem as promptly as possible, we determine that this order should be made effective the date it is signed.

Findings

1. On July 1, 1975 PG&E became obligated to then unknown future additional costs for natural gas delivered from Occidental Petroleum Company under contracts where the ultimate price was to be determined by arbitration proceedings.

11/ Requiring the termination date, as nearly as possible, to be established to (1) result in the same number of billing periods of amortization for each customer, and (2) proceed the billing cycle in which each account balance will become zero.

2. On July 1, 1976 PG&E became obligated to then unknown future additional costs for natural gas delivered from California Sources excluding Union Island but including Occidental, under contracts whereby the ultimate price was to be determined both by then pending judicial review of an arbitration award and by subsequent negotiations.

3. This Commission in Decision No. 86240 authorized PG&E to offset certain increased gas costs from El Paso arising out of a June 30, 1976 FPC filing.

4. This Commission in Decision No. 86213 authorized PG&E to establish a California Sources Balancing Account to accrue certain California Sources additional costs, and an El Paso Balancing Account to record over- and undercollections derived from the El Paso June 30, 1976 FPC filing.

5. In August 1976 the Occidental award was judicially sustained, thereby establishing the Occidental-PG&E contract prices.

6. Subsequent to the affirmation of the arbitration award, PG&E negotiated a price of $1.20 per Mcf for 1,000 Btu value natural gas delivered at 1/3 load factor for two-year contracts beginning July 1, 1976 with a majority of the California producers. We find that contract price under the circumstances to be reasonable.

7. The California Sources Balancing Account as of December 31, 1976 had accrued the following actual and estimated balances:

Occidental contracts 7/1/75 - 6/30/76	$ 3,812,000
Cal. Sources incl. Occidental thru 12/31/76	18,225,000
Interest (incl. amort. period in 1977)	1,041,000
Franchise and Uncollectibles	203,000
Total Cal. Source Bal. Acct. 12/31/76	$23,281,000

8. The El Paso Balancing Account as of December 1, 1976 had accrued the following undercollection:

El Paso through 11/30/76	$662,000
Interest (incl. amort. period in 1977)	34,000
Franchise and Uncollectibles	6,000
Total El Paso Bal. Acct. 12/1/76	$702,000

9. Based upon the two-year contract price negotiated with the majority of the California producers excluding Union Island, it is estimated that the additional cost to PG&E, including provision for franchises and uncollectibles, for the estimated 102,142 MMcf of gas it will take from California producers in 1977 will be $46,117,000.

10. PG&E seeks to amortize the $23,281,000 in the California Sources Balancing Account, and the $702,000 in the El Paso Balancing Account, over an approximate 12-month period by including these balances in an offset increase.

11. PG&E seeks to offset the estimated $46,117,000 of additional cost for California Sources gas excluding Union Island by an offset increase.

12. The increase in costs for natural gas represented herein is extraordinary and the proper subject of an offset proceeding.

13. In Decision No. 86281 this Commission found a rate of return of 9.20 percent reasonable for PG&E's gas department, and authorized rates to enable PG&E to earn that rate of return.

14. PG&E's rate of return, at rates effective October 1, 1976, is 6.90 percent. The estimated $70,100,000 of this additional gas cost, if not authorized to be offset, would reduce PG&E's gas department rate of return by 2.71 percent, and would result in a depressed rate of return of 4.19 percent which would be unjust and unreasonable.

15. The offset increases adopted herein, which should be authorized to PG&E to amortize the balances in the balancing accounts, and to offset PG&E's anticipated 1977 increase in costs, would result in an increased unit cost of 1.187 cents per therm.

16. The offsets which should be authorized are just and reasonable and will not increase PG&E's gas department rate of return above the last authorized rate of 9.20 percent.

17. In consideration of pending matters otherwise before the Commission relating to interpretation and projection of Miller-Warren after the 125 percent level of system average rate is attained, it would be premature and perhaps preemptive to impose an interim restructuring of lifeline rates herein. Therefore, our exclusion of the lifeline rates of PG&E from participation in these offset increases is just and reasonable.

18. When the remaining balances in the balancing accounts approach zero, PG&E should be directed to terminate the respective offset increases by advice-letter proceedings filed 30 days prior to the beginning of the month that the balance is expected to become zero.

19. PG&E should be authorized to continue the California Sources and El Paso Balancing Accounts with their seven percent per annum interest provisions.

20. Any residual amounts, remaining of the 1976 balances after the amortization offsets are terminated, should be carried forward into the respective continued California Sources or El Paso Balancing Accounts.

21. Any over- or undercollections which may result from requests to arbitrate by the minority of California Sources producers who did not sign the $1.20 per Mcf two-year contracts in 1976 should be included in the continued California Sources Balancing Account.

22. The setting of future rates to reflect past undercollections in this context and under these circumstances is not retroactive ratemaking.

23. To minimize undercollections, alleviate cash-flow problems, and to prevent PG&E from incurring a substantial reduction in its authorized rate of return, this order should be effective the date it is signed.

Conclusions

1. The offset relief requested should be authorized PG&E to the extent set forth in this decision.

2. The two balancing accounts called (1) the California Sources Balancing Account and (2) the El Paso Balancing Account should be continued and appropriate accruals and recordings to them authorized.

3. The increased cost of the offset relief should be borne by the non-lifeline rates.

SUPPLEMENTAL ORDER

IT IS ORDERED that:

1. Pacific Gas and Electric Company (PG&E) is authorized to file with this Commission on or after the effective date of this order, in conformity with the provisions of General Order No. 96-A, revised tariff schedules with rates and charges modified to reflect the following offset increases:

California Sources Balancing Account	$0.00394	per therm
El Paso Balancing Account	0.00012	per therm
California Sources 1977 added costs	0.00781	per therm
Total increase	$0.01187	per therm

The effective date of the revised schedules shall be five days after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date of the revised schedules.

2. When the balances being amortized in the California Sources and the El Paso Balancing Accounts approach zero, PG&E shall terminate each by advice-letter proceedings filed thirty days prior to the beginning of that month in which each balance is expected to become zero. Any residual amount remaining in either account after termination of that accounts' offset shall be carried forward to the respective continued balancing account.

3. PG&E is authorized and directed to continue to maintain the California Sources Balancing Account, and to accrue therein over- and undercollections of purchased natural gas costs through June 30, 1978 derived from (1) those presently executed two-year California Sources contracts, excluding Union Island, and (2) such

unexecuted contracts as are still open as of January 1, 1977 as a consequence of the exercise of arbitration procedures relating to the July 1, 1976 price. The account will retain the seven percent per annum interest provisions.

4. PG&E is authorized and directed to continue to maintain the El Paso Balancing Account and to record therein over- and under-collections of revenue for offset rates authorized and effective August 10, 1976, and any further authorized offset or tracking rates for El Paso gas, and the increase or decline in cost of El Paso gas from rates in effect on July 31, 1976. The account will retain the seven percent per annum interest provision.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 12th day of APRIL, 1977.

Robert Batinovich
President

William Symons, Jr.

Vernon L. Sturgeon

Leonard Ross

Richard D. Gravelle
Commissioners