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Decision No. 87585 July 12, 1977 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. 57124 (Filed March 3, 1977)
Application of PACIFIC GAS AND ELECTRIC COMPANY for authority to increase its natural gas rates to offset increases in purchased gas adjustment of EL PASO NATURAL GAS COMPANY. (Advice Letter No. 885-G)	Application No. 57138 (Filed March 10, 1977)

Malcolm H. Furbush, Robert Ohlbach, Shirley Woo, and Peter W. Hanschen, Attorneys at Law, for Pacific Gas and Electric Company, applicant.
Silver, Rosen, Fischer & Stecher, by John Paul Fischer, Attorney at Law, and Edward Mrizek, for the City of Palo Alto; Brobeck, Phleger & Harrison, by Gordon E. Davis and William H. Booth, Attorneys at Law, for California Manufacturers Association; William A. Claerhout, for Southwest Gas Corporation; and Downey, Brand, Seymour & Rohwer, by Philip A. Stohr, Attorney at Law, for General Motors Corporation; interested parties.
Timothy E. Treacy, Attorney at Law, and Robert Durkin, for the Commission staff.

OPINION

By these applications, Pacific Gas and Electric Company (PG&E) requests authority to increase its rates for natural gas service to offset increases in expense caused by two increases in the price of gas delivered to PG&E by El Paso Natural Gas Company (EPNG). PG&E states that its additional revenue requirement to offset the effects of the increases in cost of gas received from EPNG is $66,844,000, 0.881 cents per therm of total sales (7.5959 billion therms) or 4.4 percent increase in present total revenues ($1.527 billion).

These offset cost rate increase applications are filed to cover the EPNG rate increases authorized by the Federal Power Commission (FPC). None of the proposed increases will increase the utility's earnings--there is no profit markup. Increasing PG&E's rates to offset only the effects of the two EPNG increases will place PG&E in the same position it would be in if there had been no increase in the cost of gas from EPNG.

A duly noticed public hearing in these matters[1/] was held in San Francisco on May 2, 4, 5, and 6, 1977 before Administrative Law Judge John J. Doran, and the matter was submitted May 20, 1977 upon receipt of briefs.

Cost of Gas Increase

On November 30, 1976, EPNG filed a general rate increase with the FPC which would increase jurisdictional revenues to EPNG by approximately $126 million annually. By order issued December 29, 1976 in Docket No. RP77-18, the FPC suspended the proposed rate increase until June 1, 1977, at which time the rate increase was to become effective subject to refund. The effect of the change in

1/ Applications Nos. 57124 and 57138 were consolidated for public hearing on March 28, 1977.

EPNG's rates is to increase the price which PG&E must pay to EPNG for gas by 16.93 cents per Mcf, effective June 1, 1977.[2/]

PG&E states that based upon a purchase volume of 267.718 million Mcf for 12 months beginning June 1, 1977, the cost of gas increase is $45,325,000, the related franchise and uncollectible expenses are $399,000, and the revenue requirement is $45,724,000.

On February 25, 1977 EPNG filed with the FPC its semiannual adjustment to its Base Tariff Rate Order authority of FPC's Orders Nos. 452, et seq. The effect of this filing was to increase the EPNG rate by 7.82 cents per Mcf, effective April 1, 1977, subject to refund.[3/]

PG&E states that when related to 267.718 million Mcf of EPNG's source gas, this results in a $20,935,000 cost of gas increase, $185,000 franchise and uncollectibles, and $21,120,000 in revenue requirement. The combined effect of the two offset filings is $66,844,000 in increased rates.

The Commission staff reviewed PG&E's filing and work papers and discussed the details with the utility's personnel who were responsible for the preparation of its exhibits and estimates. The

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2/ PG&E filed Application No. 57124 on March 3, 1977 to offset this increase in the price of natural gas. The 16.93 cents increase was revised to 13.82 cents as authorized by the FPC letter dated May 26, 1977 accepting revised EPNG tariffs. The discussion in the opinion will continue on the basis of the hearing record of 16.93 cents, however, the effects of the revised increase will be ultimately discussed and reflected in the order.

3/ PG&E filed Advice Letter No. 885-G on February 28, 1977 to offset this increase in the price of natural gas. On March 10, 1977 the Commission filed Advice Letter No. 885-G as Application No. 57138.

staff witness on results of operations presented one exhibit and stated that the gross revenue effects of the increases in cost of gas is $66,831,000 or $13,000 less than PG&E's calculation. This minor difference results from the data used to calculate the quantity of gas available for sale and confirms the utility's estimate.

The increase in revenue requirement is based upon the following reasonable estimates of PG&E's gas supply and cost of purchased gas for the 12-month period beginning June 1, 1977.

Gas Supply
12 Months Beginning June 1, 1977

Source	MMcf	Mdth	Expenses
California	109,901	106,600	$ 121,008,000
PGT	369,153	390,564	821,855,000
EPNG	267,718	290,173	325,676,000
Adjustment*			(19,417,000)
Total	746,772	787,337	1,249,122,000
Gas Dept. Use		6,700	
Unaccounted for		21,047	
Total Sales		759,590	

(Red Figure)

*Unbilled cost of gas to balancing account.

The effect of the increases upon the results of operations of PG&E's Gas Department is as follows:

Results of Operations
12 Months Beginning June 1, 1977

Item	Present Rates* Before EPNG Increases	Present Rates* After EPNG Increases	Proposed Rates# After EPNG Increases
	(Dollars in Thousands)		
Revenues	$1,527,222	$1,527,222	$1,594,066
Cost of Gas	1,182,862	1,249,122	1,249,122
Other Expenses	252,364	217,458	252,948
Total Expenses	1,435,226	1,466,580	1,502,070
Net Revenue	91,996	60,642	91,996
Rate Base	1,196,016	1,196,016	1,196,016
Rate of Return	7.69%	5.07%	7.69%

*Rates effective April 17, 1977.
#Rates authorized herein.

Lifeline Considerations

PG&E's April 17, 1977 gas department system average rate in cents per therm is 127.1 percent of the January 1, 1976 level, thereby involving Miller-Warren lifeline considerations.4/

There are estimated to be 182,471,000 decatherms of residential lifeline sales, 301,008,000 decatherms of total residential sales, and 759,590,000 decatherms of total sales. Lifeline usage amounts to 61 percent of residential sales and 24 percent of total system sales. Rates for lifeline usage have not been increased since the lifeline act became effective.

4/ P. U. Code Section 739(b): ". . . The Commission shall authorize no increase in the lifeline rate until the average system rate in cents per kilowatt-hour or cents per therm increased 25% or more over the January 1, 1976 level."

The average cost of PG&E's purchased gas is $1.6466 per decatherm of sales after reflecting the two EPNG increases. The average lifeline commodity rate is estimated to be $1.417 per decatherm or about 23 cents per decatherm less than the purchased cost of gas.

The legislature, in effect, froze the rates for the lifeline quantities of natural gas, but did not enact the changes to occur after the average system rate has increased 25 percent over the January 1, 1976 level. The issue is before the Commission in Case No. 9988, a general investigation in lifeline rates. It also will be at issue in Applications Nos. 57284 and 57285, PG&E's general rate increase applications, filed May 5, 1977, having been removed by Decision No. 87018 dated March 1, 1977, as being an issue in Phase 2 of PG&E's pending general rate Applications Nos. 55509 and 55510.

It would be premature to increase lifeline rates here in these purchased gas offset rate proceedings. Therefore, we will limit our modification of lifeline rates to development of a uniform rate for all lifeline consumption.

<u>PG&E's Proposed Rate Design</u>

PG&E proposes to increase natural gas rates by 1.166 cents per therm of 5.5 percent for nonlifeline use, including the portion of resale service in excess of the percentage associated with lifeline use of ultimate consumers. The proposed increase was computed by dividing the total additional revenue requirement of $66,844,000 by the 5.7319 billion therms of nonlifeline sales. The additional revenue requirement consists of $66,260,000 cost of gas increases and $584,000 for additional franchise and uncollectible expenses. Any over- or undercollections resulting from this proposed rate increase will accrue in the Gas Cost Balancing Account with seven percent per annum interest. If lifeline use were to receive the same increase as all other use, then the increase for all therms would be 0.881 cents per therm. Other alternative rate designs will be discussed following the staff's proposals.

PG&E also recommended that the question of whether one balancing account is sufficient or whether a balancing account for each source of gas is necessary be clarified in this proceeding. Pursuant to Resolution No. G-2004 dated December 21, 1976, PG&E has maintained a single balancing account for all gas sources. Recently Decision No. 87193 dated April 12, 1977 stated that a balancing account for each source of gas be continued. PG&E demonstrated that with a single gas cost balancing account, it is capable of tracking the total cost of gas and the amount billed and of assuring the customer that it does not pay more than the cost of gas. This procedure is similar to the ECAC procedure. It is reasonable and is adopted for the gas cost balancing account.

Staff Rate Proposals

In Decision No. 87192 dated April 12, 1977 the Commission states:

> "We believe the application of a multi-tier rate structure can be applied in conjunction with lifeline rates, thereby encouraging conservation. Such rate design in this instance has the advantage of similar treatment of all nonlifeline or nonessential uses as well as residential swimming pool heating systems. We will expect the staff to develop and introduce such a rate design for swimming pools and other nonessential residential uses in pending gas rate offset cases." (Mimeo. p. 19.)

In the notice of hearing bill insert which outlined the nature and amount of the increase, PG&E advised its customers:

> "The Commission staff has indicated that it will present testimony on rate design which will provide a materially greater rate increase than proposed by PG&E for large usage by residential consumers."

The staff presented two witnesses on rate spread and five exhibits. Under the traditional approach of spreading rate increases only to nonlifeline rates, one staff witness proposed that all nonlifeline rates be increased by a uniform $.01161 per therm. The staff also presented a rate design witness and four exhibits. The purpose of this evidence was to present to the Commission a number of multi-tier rate designs that could be instituted to encourage conservation. The staff presented one three-tier rate design and two five-tier rate designs. The staff report also advocates changes in lifeline rates, the elimination of density zones, and a change from the present minimum charge rate form to a customer charge rate form. The proposal must be viewed as a comprehensive restructuring of PG&E's rates.

Under the staff proposal, rates for lifeline usage would be reduced overall about $4.4 million. There would be increases and decreases within lifeline usage. There would be significant changes made in the minimum service charges, particularly decreases for residential users. The present density zoning charges would be eliminated. The staff proposal also had significant effects upon nonresidential rates.

To provide for any inaccuracies for its proposed restructuring of rates, the staff recommended a separate balancing account to compare restructured revenues with revenues that would have been collected on a uniform-cents-per-therm basis.

Interested Parties

The interested parties generally objected to the comprehensive restructuring of rates proposed by the staff.

A question was also raised as to the percentage of lifeline sales of resale customers (e.g., the city of Palo Alto). It is understood that this same question is in Phase 2 of Application

No. 55510, and therefore would not be considered here. In the meantime, we will continue to use the lifeline percentage of total purchases as shown in the present tariffs.

PG&E's Multi-Tier Rate Proposals

In response to the staff's multi-tier restructured rate design proposal, PG&E submitted evidence of an alternate three-tier inverted rate design.

The PG&E proposal is a simplified, three-tier inverted rate for residential customers only. Under this proposal a third tier would be imposed on existing residential rates beginning at use over 104 therms (84 therms for Schedule GM) in summer and twice the appropriate lifeline use in winter. For the instant offset requirement, rates for the third-tier excess use block would be set at a rate of 1 cent more than the nonlifeline rates. For the instant offset proceeding, the second or interim tier for residential use would be increased $.00886 per therm to $.22369 per therm and the excess or third-tier block would be raised to $.23649 per therm. Lifeline or first-tier rates would not be modified. All other nonlifeline rates for all customers would be increased by $.01166 per therm to $.22649, as originally proposed in PG&E's applications.

The usage blocks selected by PG&E are related to winter lifeline allowances and recognize the different heating needs of each climate band in the lifeline and interim tiers of the three-tier proposal. In the summertime, the excess rate becomes effective at 104 therms. It is believed that most swimming pool use occurs in excess of 104 therms per month. Thus, the direction the Commission expressed in Decision No. 87192 with respect to swimming pool heating would be satisfied. Other uses in the excess summer block have not been clearly identified.

PG&E presented a sample of 60,000 customers (50,000 gas customers) to measure the number of customers who will be affected by the proposed three-tier rate proposal. PG&E estimated that 6.6 percent of the all year basic plus summer heating customers will be affected by the three-tier inverted rate proposal and 20.9 percent of Temperature Band W, 8.8 percent of Temperature Band X, and 2.1 percent of Band Y will be affected in the winter.

In response to a request of the presiding officer, PG&E presented a modification to the aforementioned proposal. In the modification, the increase to the third-tier or excess residential block was two times the offset rate. The excess revenues from the third tier were then uniformly credited to all other nonlifeline use just as the deficiency in revenues from lifeline use is charged against all nonlifeline use.

In the modified proposal, the third-tier residential rate would be increased 2.332 cents per therm to 23.815 cents per therm. The second-tier residential and all other nonlifeline rates would be increased 1.111 cents per therm to 22.594 cents per therm. Lifeline rates would not be changed.

Adopted Results

EPNG amended its filing with the FPC for its June 1, 1977 general increase in Docket No. RP77-18 to reflect settlement agreements filed with the FPC[5/]. The FPC by letter dated May 26, 1977 accepted the revised tariffs effective June 1, 1977. The revised tariffs include a 13.82 cents per Mcf EPNG June 1, 1977 increase or a 3.11 cents reduction in 16.93 cents increase heretofore considered.

5/ PG&E letter dated June 15, 1977 including FPC letter dated May 26, 1977, revised revenue requirement, revised offset rates, and amount of increases as attachments was served upon the parties to the proceeding.

PG&E states that the combined effects of the April 1 and June 1 EPNG increases authorized by the FPC now requires a $58,444,000 offset increase in revenue requirement including $510,000 for local franchise and uncollectibles.

This increase is reasonable and will be adopted. It is a reduction of $8,400,000 from the original request of $66,844,000 that resulted from EPNG rate settlements.[6/]

The Restructuring of Gas Rates

It has been said that we should undertake a comprehensive restructuring of gas rates only in general rate proceedings. We have indicated in prior decisions that rate restructuring should not wait for consideration in general rate proceedings. Rate restructuring can serve to encourage conservation, and conservation is of critical concern. California faces gas supply reductions and steps must be taken to conserve gas if California is to continue to have a healthy industrial and living environment. Purchased gas adjustment offset proceedings such as this afford the earliest procedural forum to address rate restructuring. We cannot afford to put this issue off. Also, given the frequency of purchased gas offset proceedings and the considerable sums of revenue requirement increase included (which cumulatively exceeds that presented in general rate proceedings) we can gradually move toward a conservation effective rate design. If a drastic restructuring of rates were to be put off another year or so the sudden rate changes would be far more drastic and difficult for consumers and industrial users to adjust to. It is then in the public interest for us to deal with establishing conservation effective rate structures in gas cost offset proceedings such as this.

6/ This subject was discussed at Tr. 24-25A.

The rate structure we adopt should serve to let lowest priority users know of the impending cost of alternative fuels so they may start now to plan their operations around the gas prices of the future (as prices of existing gas escalates, and more expensive gas sources are brought on line). Also, it should not pose an unreasonable burden on high priority users who cannot convert to alternative fuels, or who would have the greatest difficulty with such conversion. Yet, at the same time the goal of encouraging conservation must be kept uppermost in mind.

For residential users we are essentially adopting the staff's proposed five-tier rate proposal for summer months, and a modified three-tier structure for winter months. We find that as we adopt a conservation oriented rate structure there is no longer a need for density zones. The elimination of density zones also makes gas rates more easily administered and understood by consumers. The staff recommended the establishment of a uniform lifeline rate as well as a uniform basic customer charge. Presently, those rates vary, which results in a rate structure that only technical experts can interpret and understand. We want a rate structure that consumers statewide can comprehend and adjust their usage to. The inverted rates adopted for residential users encourage conservation in that if gas is conserved it would have been the last increments of usage priced at the highest level. Thus, a conservation incentive is built into our gas rate design. We are not adopting such inverted rates for firm nonresidential users and interruptible users because it would penalize the larger operations within those classes of users.

For small commercial and industrial users (Priority 1 and 2) we are establishing a rate at the level of the highest residential tier. Lower priority users (interruptibles) will be served at a rate level closer to their cost of alternate fuel. We establish this rate to signal to them the trend of energy prices so they may, if they have not already done so, commence to plan their operations accordingly. Low priority users should not be lulled into a false sense of security by unrealistically low gas prices now. If California industry plans now it will be ahead of the rest of the nation's industrial community as gas supply problems intensify and prices steeply escalate. We trust that this order will be viewed in a positive light by all gas users, for we are dealing with and planning for what may be critical gas supply problems, and price increases that will certainly continue to be the trend.

The following table shows the impact of the adopted rate increase upon the priorities of service:

Impact of Adopted Rate Increases
12 Months Beginning June 1, 1977

	Sales Decatherms	Present Revenue	Increase	Increased Revenue	Percent Increase
		(In Thousands)			
Priority 1					
Residential	301,008	$ 550,677	$(5,340)	$ 545,337	(1.0)%
Resale	10,276	17,094	641	17,735	3.7
Other	71,251	148,772	8,859	157,631	5.9
Total Priority 1	382,535	716,543	4,160	720,703	0.6
Priority 2					
Priority 2A	39,345	84,517	2,750	87,267	3.3
Priority 2B	58,037	124,670	4,056	128,726	3.3
Total Priority 2	97,382	209,187	6,806	215,993	3.3
Priority 3					
Resale	453	801	50	851	6.2
Other	73,403	157,692	12,456	170,148	7.9
Total Priority 3	73,856	158,493	12,506	170,999	7.9
Priority 4	91,804	197,222	15,580	212,802	7.9
Priority 5					
So. Cal. Edison	3,739	8,033	634	8,677	7.9
Steam Electric	110,274	236,901	18,714	255,615	7.9
Total Priority 5	114,013	244,934	19,348	264,282	7.9
Total Natural Gas	759,590	1,526,379	58,400	1,584,779	3.8
Other Gas Revenues	-	843	-	843	-
Total Operating Revenues	759,590	1,527,222	58,400	1,585,622	3.8

(Red Figure)

The overall increase is 3.8 percent. The large nonresidential increase is 7.9 percent, and the increase to Priority 2 customers is 3.3 percent.

Findings

1. EPNG has filed an application with the FPC for a general rate increase (FPC Docket No. RP77-18) and an application for an

adjustment to its base tariff rate, the combined effect of which will increase PG&E's annual expenses, including the related impact on franchise and uncollectibles by $58,444,000 commencing June 1, 1977.

2. PG&E has been paying an increased price of 7.82 cents per Mcf to EPNG since April 1, 1977 and 13.82 cents per Mcf to EPNG as of June 1, 1977. Such payments are reasonable. Undercollections arising from the date of the increase to the date of this decision should accrue to PG&E's gas cost balancing account.

3. An increase in revenues of $58,444,000 is just and reasonable and does nothing more than offset the increase in the cost of gas purchased from EPNG, plus the associated increase in franchise and uncollectibles, and allows PG&E to maintain its present actual rate of return.

4. Reasonable estimates of PG&E's gas supply for the 12-month period beginning June 1, 1977 are 267,718 MMcf from EPNG, 369,153 MMcf from Pacific Gas Transmission Company, and 109,901 MMcf from California sources.

5. Reasonable estimates of PG&E's sales for the 12-month period beginning June 1, 1977 are 759,590 decatherms.

6. PG&E's Gas Department rate of return, at rates effective April 17, 1977, is 7.69 percent at pre-April 1, 1977 EPNG gas costs and 5.40 percent at June 1, 1977 EPNG gas costs.

7. Lifeline rates should not be increased but should be modified by establishment of a uniform rate.

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

9. PG&E shall maintain a consolidated balancing account for all gas sources, as directed in Commission Resolution No. G-2004, dated December 21, 1976.

10. PG&E should be authorized to institute a consolidated five-tier (summer) and three-tier (winter) inverted rate design for residential customers, with the fifth-tier beginning at usage over

104 therms (84 therms for Schedule GM) in summer and twice the appropriate lifeline usage in winter. PG&E should be authorized to increase rates for high priority nonlifeline small commercial and industrial (Priority 1 and 2) usage to the level of top tier residential rates and by an additional one cent per therm to lower priority customers (Priority 3, 4, and 5).

11. The changes in rates and charges authorized by this decision are reasonable; the present rates and charges, insofar as they differ from those set forth in this decision, are for the future unjust and unreasonable.

12. The effective date of this order should be the date on which it is signed because there is immediate need for rate relief. PG&E is now incurring the increased costs of purchased gas which are being offset by the rate increase being authorized herein.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company (PG&E) is authorized to file with this Commission revised rate schedules as set forth in Appendix A hereto on or after the effective date of this order. Such schedules shall comply with General Order No. 96-A. The revised tariff schedules shall be effective on the date of filing.

2. PG&E is authorized to maintain its gas cost balancing account in the form authorized by Commission Resolution No. G-2004 dated December 21, 1976, and to accrue therein, for all sources of gas supply, any under- or overcollections of purchased natural gas costs.

The effective date of this order is the date hereof.

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

I will concurr & dissent
William Symons Jr.

Robert Batinovich
President

Vernon L. Sturgeon

Richard D. Gravelle

Commissioners

Commissioner CLAIRE T. DEDRICK did not participate in the disposition of this proceeding.

A.57124, 57138 km

Pacific Gas and Electric Company
Gas Deparment

RATES PER THERM

Residential

May through October Only

26-Therm Lifeline Allowance
G-1 ABA through G-9 ABA
G-1 AHS through G-9 AHS
All Climate Zones

G-S

		Therms	
Lifeline Customer Charge			$1.20
	First	26	.1417
	Next	26	.1832
Nonlifeline	Next	26	.1924
	Next	26	.2188
	Over	104	.2218

November through April Only

81-Therm Lifeline Allowance
G-1 WHW through G-9 WHW
Climate Zone W Only

G-W

		Therms	
Lifeline Customer Charge			$1.20
	First	81	.1417
Nonlifeline	Next	81	.2188
	Over	162	.2218

141-Therm Lifeline Allowance
G-1 YHW through G-9 YHW
Climate Zone Y Only

G-Y

		Therms	
Lifeline Customer Charge			$1.20
	First	141	.1417
Nonlifeline	Next	141	.2188
	Over	282	.2218

106-Therm Lifeline Allowance
G-1 XHW through G-9 XHW
Climate Zone X Only

G-X

		Therms	
Lifeline Customer Charge			$1.20
	First	106	.1417
Nonlifeline	Next	106	.2188
	Over	212	.2218

Pacific Gas and Electric Company
Gas Department

RATES PER THERM

Nonresidential

	G-N
Customer Charge	$1.20
All Firm Nonresidential Usage (P. 1 and 2):	$0.2218
	G-30
First 10 lights	$37.10
Each Additional Light	3.71
Each cubic foot rated capacity in excess of 1.5 cf/hr	1.70
	G-50, G-55, G-57
All Usage (P. 3, 4, and 5):	$0.2318

Resale Rates

	G-60		G-61	
	Commodity Lifeline Percentage	Rate Per Therm	Commodity Lifeline Percentage	Rate Per Therm
Demand, Per Mcf Per Month		$0.098		$0.098
Commodity, Per Therm, First	33.7%	.1171	59.0%	.1155
Commodity, Per Therm, Over	33.7	.1830	59.0	.1812

	G-62		G-63	
	Commodity Lifeline Percentage	Rate Per Therm	Commodity Lifeline Percentage	Rate Per Therm
Demand, Per Mcf Per Month				
Firm Service		$0.086		$0.086
Interruptible Service		.027		.027
Firm Service				
Commodity, Per Therm, First	44.0%	.1141	35.9%	.1164
Commodity, Per Therm, Over	44.0	.1800	35.9	.1823
Interruptible Service		.1806		.1829

A. 7124)
A. 57138) - D. 87585 - Pacific Gas & Electric Co.
A. 57179 - D. 87586 - San Diego Gas & Electric Co.
A. 57196 - D. 87587 - Southern California Gas Co.

NATURAL GAS PRICING DECISIONS

COMMISSIONER WILLIAM SYMONS, JR., Dissenting

The Commission's "PUC News" release describes these three companion decisions as a "radical restructuring of /gas/ rate schedules". I agree. The main significance of these cases is not the money involved, (even though they involve necessary rate increases totalling one fifth of a billion dollars), but the upheaval in the schedule of customer prices.

Henceforth, the people of California are to pay inverted, rather than cost-based fees for the gas they use.

I strongly dissent from this ill-considered decision for several reasons: It was generated in a rushed and thoughtless manner leaving unexplored questions which we should have faced. Under the fine sounding phrase "conservation", the Commission majority abandons cost-based rates and with it the touchstone of objectivity in setting prices. Further, the particular rates put in place today have negative impacts for utility stability, California's economy and jobs, and the utility customer.

1. <u>There is an inadequate basis for the radical restructuring of gas rates.</u>

Today's action reminds me of the lurch by the Commission into a radical restructuring of trucking regulation just two years ago (Case No. 9963, September 1975). There was no record developed, just a mention in a prior case that restructuring was contemplated -- then wham! The decree went out. Well, the changes were not workable. Today, the trucking industry is still suffering the results of that shoot-from-the-hip decision.

Restructuring energy pricing is no light matter. The ramifications can be enormous. I am amazed that such a change would be pushed through in an offset case. Such a fundamental transformation should have received detailed consideration in an independent proceeding, as was the expectation up until now of all the major parties to our utility regulation cases. This hastily established rate design is not pushed by the Commission staff, the parties or the utilities themselves -- it is merely the wi.. of the Commission majority.

Ignored are questions that did not receive the attention they deserve. The Commission should, for example, have taken a careful look into the relationship between income levels and gas use. According to a PG&E study -- the only one I am aware of on this subject -- there is no correlation between income and gas consumption. If this is true, the rate structure we adopt today will work hardship on many of the poor. We have also failed to consider the effects this decision will have on revenue stability of the utilities or our state's business climate. These key questions and others were ignored in an effort to make change now.

2. <u>We have lost touch with objective standards</u>.

Once we have abandoned cost as a basis for setting rates, whim is King. Whatever satisfies three commissioners is by that fact alone "reasonable". Up until today, the Commission looked at what it cost to serve a particular customer, and charged accordingly. While not perfected to an absolute science, this standard provided firm and clear guidelines. The fine-sounding phrase "conservation" is no substitute. No standards are given, and the word has been so loosely used in previous Commission decisions that elimination of wasteful use and cutting back on productive use were equally embraced in the term "conservation".

This nebulous word, in conjunction with someone's unproved economic opinions on elasticity of use, makes any rates "defendable". Wisconsin, for example, is considering making the first five hundred kwh of monthly electric consumption free. At present, no party endorses such an idea before our Commission; but who is to say free electricity or gas is unreasonable when "reasonable" can mean anything? Objective criteria are essential if we are to have rule of law, not rule of men. Otherwise we face an Alice-in-Wonderland future:

> "When I use a word" Humpty Dumpty said, in a rather scornful tone, "it means just what I choose it to mean -- neither more nor less."
>
> "The question is" said Alice, "whether you can make words mean so many different things."
>
> "The question is" said Humpty Dumpty, "which is to be the master -- that's all."[1]

3. <u>The negative impacts of the inverted rate designs are of great concern.</u>

For the first time it becomes terribly clear that utility schedules are being used to redistribute wealth in the society. For example, under the adopted PG&E winter rate schedules, it

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[1] Through the Looking Glass, Lewis Carroll

is impossible for residential users using lifeline quantities to pay to the system what it pays out-of-state suppliers for gas. The PG&E average system price of gas is 16.5¢ a therm, but the schedule sells it for 14.2¢. Below cost sales constitute 182,471,000 decatherms out of a total sale of 759,590,000. Statutory restrictions do not bar the Commission from ordering prices high enough to pay at least the commodity cost of the gas burned. But the majority has abandoned cost-based ratemaking.

Besides its insidious effect on personal freedoms, social engineering via utility rates is expensive to achieve and can have a negative impact on the state's business climate. Today's rate increases work out unfairly -- residences are barely touched; business and industry are hit hard. The system average increase for San Diego Gas & Electric is 19%. But while residential rises only 7%, interruptibles go up 38%. For Southern California Gas Co., the system increase is 13%. Residentials, however, rise only 1%, and interruptibles rise 25%. PG&E's average system increase is the lowest 3.8%, but priorities 3, 4 and 5 rise 7.9%. Residentials actually drop 1%.

It is clear from Case 9804 that inverted electrical rates work hardship on businesses, especially energy-intensive ones which compete with foreign and out-of-state concerns not paying inverted rates. Kaiser Steel, for example, estimates that imposing such rates would cost it half of its out-of-state business, and force the layoff of 5,000 workers. Inexplicably, no evidence was introduced in these cases on the effect of inverted gas rates on California industry. But ironically, socking business with the increases is no answer. No one benefits from such rates, because in the short run business passes the increase on to consumers, who then pay for in stores what they no longer pay for in their utility bills. And in the long run, everyone suffers, because California companies will be less competitive against out-of-state firms.

Further, our utilites are in danger of becoming unstable financially. Inverted gas rates will encourage large users to switch to alternative fuels. (Already today's rates in San Diego go so far as to create a financial incentive for large companies to stop using gas. The City of Long Beach testified the equivalent price of alternate fuel oil was 24¢ per therm. Today's San Diego decision sets gas charges to large industry at 26.5¢ a therm.)

Such movement is undesirable for four reasons:

A. The gas company investment in underground pipeline and rate base does not change. With fewer customers left, each will have to pay more to carry the burden. As more industry shifts, the cost increase to remaining residential customers will be substantial.

B. Industries switching to other fuels will incur the considerable cost of premature obsolescence of operating equipment.

C. A shift to oil or coal will reduce California air quality.

D. Encouraging a switch to alternative fuels constitutes acceptance of the gas shortage as a permanent fact of life. Such is not the case: Federal deregulation is a sure way to increase supplies.

The danger of utility financial instability looms from a second quarter as well. The inverted design makes the utility rely on its tail blocks for more and more revenue. If a business recession hits or weather is milder than usual, it can be disasterous.. Similarly, it is hard to avoid swings the other way, such as during a cold snap. Such instability evidences a bad regulatory design.

Effective today we have a rate structure stripped of standards and reference to cost, which may harm industry and the poor, discourage conservation among low volume users, make our utilities financially unstable, and put the bureaucrats into the saddle to direct people's consumption patterns.

San Francisco, California
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William Symons Jr.
WILLIAM SYMONS, JR.
Commissioner