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Decision No. 87396 OCT 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.)

Application No. 57124
(Filed March 3, 1977)

(Gas)

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. 855-G))

Application No. 57138
(Filed March 10, 1977)

ORDER MODIFYING DECISION NO. 87585 AND
DENYING REHEARING AND RECONSIDERATION

Petitions for rehearing and reconsideration of Decision No. 87585 have been filed by the California Manufacturers Association, Kerr-McGee Chemical Corporation, General Motors Corporation and Owens-Corning Fiberglass Corporation. In addition, the first two named petitioners request an immediate suspension of the rates adopted in that decision and that a refund be made. Pacific Gas and Electric Company has filed an opposition to these petitions.

We wish to clarify our rationale in not raising the rates for lifeline quantities at this time. In adopting the rates authorized in Decision No. 87585, we were particularly conscious of the declining availability of natural gas as that fact was so clearly brought out in Case No. 9884 and Case No. 9642. Also we were attempting to make an important first step toward a rate structure which will significantly encourage conservation of a scarce commodity. In deciding not to increase the rates for lifeline quantities at this time we considered

it reasonable to conclude that a significant differential between lifeline rates and the inverted rates would tend to encourage conservation by residential customers in the above lifeline blocks. Raising the lifeline rates would tend to diminish that effect. Moreover, raising lifeline rates in this offset proceeding would require that we balance the revenue effect of that increase by setting lower rates for non-residential users than those we found to be reasonable in light of the critical need to conserve gas. That in turn would work against our conservation goals.

The Commission has considered each petition and the allegations contained therein and is of the opinion that Decision No. 87585 should be modified, but that good cause for rehearing, reconsideration or suspension of rates with refund has not been shown.

THEREFORE IT IS ORDERED that:

Decision No. 87585 is hereby modified to add the following finding:

13. Density zone rates are not appropriate in a rate structure oriented toward conservation.
14. Eliminating density zone rates and adopting a service charge element in residential rates will simplify PG&E's gas rate structure and help the residential customer to understand the financial benefits of conserving gas.
15. Adopting a multi-tier residential rate structure with rates increased for higher usage levels (inverted rates) will promote conservation.
16. Present use patterns of firm, nonresidential users and interruptible users do not support the concept of inverted rates for these customers at this time.
17. To encourage conservation of natural gas, it is reasonable to consider the use priorities which previously have been set for different classes of customers and to set higher rates for low priority users than for high priority users.
18. Not increasing the rates for lifeline quantities at this time will enhance the conservation effect of an inverted rate structure for residential customers.

bf* Applications Nos. 57124 and 57138

IT IS FURTHER ORDERED that:

Rehearing and reconsideration of Decision No. 87585 as modified hereinabove is hereby denied.

The effective date of this order is the date hereof.

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

I will file a dissent
William Synow Jr.

Robert Bakunich
President

I will file a dissent
Gerron L. Sturgeon

Richard P. Howell
Clare J. DeWitt
Commissioners

A. 57124) - D. - PACIFIC GAS & ELECTRIC CO.
A. 57138) - D. -
A. 57179 - D. - SAN DIEGO GAS & ELECTRIC CO.
A. 57196 - D. - SOUTHERN CALIFORNIA GAS CO.

DECISIONS RESTRUCTURING PRICES FOR NATURAL GAS --
DENIAL OF REHEARING

COMMISSIONER WILLIAM SYMONS, JR., Dissenting

COMMISSIONER VERNON L. STURGEON, Dissenting

Today the Commission majority passes up the opportunity to retract its rash and destructive action of two months ago. The Commission should reconsider its radical restructuring of gas prices in California. Many observers question whether the state administration has launched into open warfare against the economy of our state. That question presses for an answer.

Those who use energy for production -- the farmer, commercial entrepreneur, manufacturer -- are being penalized unreasonably and arbitrarily by the gas pricing decisions of the California Public Utilities Commission. In the decisions appealed to us today the majority mandated that productive use of natural gas would be priced more per unit than even the most wasteful residential use. Rather than put California in the vanguard of "rate reform", such craziness will leave us choking on the dust of departed industry and staggering under the burden of more workers unemployed.

A. 57124)
A. 57138)
A. 57179
A. 57196

As petitioners for rehearing point out, no evidence of the economic or social consequences was taken or considered when these three routine gas offset cases were transformed into thunderous decisions in natural gas pricing. Farmers, business and industry have yet to fully assess the disastrous consequences of these changes. Even so, in the next gas offset case (A. 57481 PG&E) these three decisions are quoted by staff in lieu of reasons for more of the same. We are critical of staff in this regard because they are aware that they gave no evidence or studies to support the departure followed in these three cases. Instead, the record shows that staff merely introduced tables of possible rates, together with mathematical consequences of these figures. For all the light such a showing sheds on policy choices, they could have introduced the "multiplication tables".

These words may seem to convey that we are in an agitated state over these decisions -- well we are. When our society's productive efforts are dealt such a blow, without rhyme or reason, it is not in the public interest to be silent.

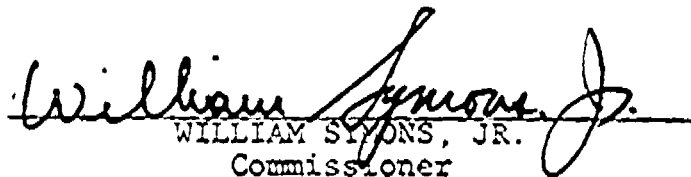
"Conservation" is the word-screen behind which the majority abuses the economy of the state. Assuming (which we do not) that conservation is the supreme task that we should set for society, even that goal has not been pursued with reason. For not one shred of evidence has been introduced on the two factual questions essential to any conservation plan: (1) the elasticity of demand for each user class or (2) how much waste is there and where this

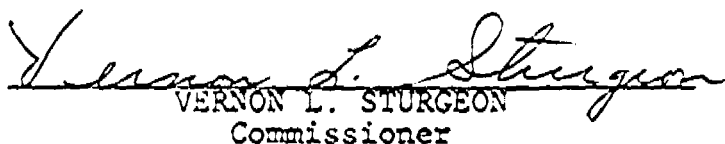
A. 57124)
A. 57138)
A. 57179
A. 57196

waste is still occurring. These three decisions have assumed without evidence, that it is not in residential use where big cutbacks in waste can be made, but instead the decisions price gas as if big waste occurs in the productive sectors of the California economy.

"Conservation" is pursued so blindly that it lumps any cutback in usage into the same basket -- be that usage wasteful or be it productive. Conservation pursued so ruthlessly, reveals a "life-raft" mentality which grips certain high-placed officials in California government. A "starvation regime" in energy is being imposed in the state, as if, in the "life-raft" analogy, just enough bread and water were rationed to "make it through" one day to the next. In such a situation the only goal is, for as long a time as possible, to eke out life. Yet, this is a distorted model for everyday life. Our situation is more properly akin to the farm on the mainland. Seed corn, water and energy must be used if we are to multiply our stores of food. Forcing a life-raft lifestyle will bring stagnation and suffering to the people of California. This is a mentality of mismanagement that must be rejected. We should instead pursue a policy which allows management of our resources most consistent with their productive use.

San Francisco, California
October 12, 1977


WILLIAM SYONS, JR.
Commissioner


VERNON L. STURGEON
Commissioner