

ORIGINAL

Decision No. 88310 JAN 10 1978

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of the CITY OF PALO ALTO Seeking)
Ex Parte Modification of Decision)
No. 87585 in Applications Nos.)
57124 and 57138.)

Application No. 57622
(Filed October 12, 1977)

O P I N I O N

By its application, the city of Palo Alto (Palo Alto) seeks ex parte modification of Decision No. 87585 dated July 12, 1977 in Applications Nos. 57124 and 57138 of Pacific Gas and Electric Company (PG&E). By those applications PG&E was authorized to increase its natural gas rates to offset the effect of increases in the price of gas purchased by PG&E from El Paso Natural Gas Company.

City of Palo Alto's Request

Palo Alto participated in the hearing in those applications and sought to have the increased resale rates to Palo Alto based on the amount of increased revenue that would be collected by Palo Alto if it were to raise its own customers' rates in an amount identical to the commodity rate increase to PG&E's customers.

Palo Alto asserts, in this application (Application No. 57622), that due primarily to the changes in rate design effected by Decision No. 87585, PG&E's Rate Schedule G-60 for natural gas sales to Palo Alto for resale adopted by Decision No. 87585 increases the resale rates to Palo Alto in an amount greater than the commodity rate increase to PG&E's Rate Schedule G-2 customers. Because of this, Palo Alto states that it will suffer a monetary loss in the amount of \$82,787 during the next year and every year thereafter if Schedule G-60 is not adjusted.

Palo Alto requests that the Commission issue an ex parte supplemental order adjusting PG&E's Rate Schedule G-60 by deleting the rate per therm under the "commodity rate per therm over 33.7%", which currently is \$.1802, and inserting a commodity rate of \$.1770.

Palo Alto states that the requested change is nothing more than a correction in mathematical computations to reach a result which has, in fact, been approved by this Commission in the last several offset decisions.

In Interim Decision No. 85082 dated October 31, 1975 in PG&E's gas rate Application No. 55468 et al., the Commission stated:

"We are satisfied that Palo Alto and the other resale customers have demonstrated that their residential customers are entitled to the benefits of the low-usage rate structure found appropriate for PG&E. Accordingly, with respect to this particular increase, the increase to resale rates shall be based on the amount of increased revenues that would be collected by a resale customer if it were to raise its own customers' rates in an amount identical to the commodity rate increase to PG&E's customers. For the purpose of this particular increase, we find that the characteristics of each resale customer are sufficiently alike that we may reliably make the calculation using the data put into this record by Palo Alto. In the hearing dates to follow we expect the parties to comment on the appropriateness of this formula and to provide the data from which similar calculations can be made with regard to earlier increases and the resale customers restored their original position. . . ." (Mimeo. p. 13, emphasis added.)

In Decision No. 85626 dated March 30, 1976 later in the same proceeding, the Commission stated:

"The Commission is of the opinion that, at least for the present, the resale customers should continue to receive increases and decreases in rates proportional to those of PG&E's G-2 customers. Since the G-2 customers will receive additional increases to reflect the reduction provided the multi-family service customers by reason of the revision of Schedule No. GM which is described below, the reduction in the resale rates will be slightly less than those suggested in Exhibit RH-24 which are shown above.

"Palo Alto testified that the rates it charges its customers are the same rates as the G-2 schedule of PG&E. There is some question of whether the other resale customers (Southwest Gas Corporation, California-Pacific Utilities Company and the city of Coalinga) should be accorded the same rate treatment as Palo Alto. For purposes of this decision, we will treat all of the resale customers on a similar basis. However, the staff will be directed to make a further analysis of this situation and to place in the record in the next applicable general rate increase application whether the circumstances and conditions of these other resale customers require a different result."
(Mimeo. p. 13.)

Palo Alto states that under the current Schedule G-60 PG&E will collect \$82,787 in excess of what it should be collecting. Further it states that the modification requested is minor, that Decision No. 87585 provided for an increase in revenues to PG&E of \$58,444,000, and the change requested here will be .14 percent of the revenues involved.

Palo Alto states that Schedule G-60 increased 1.027 cents per nonlifeline therm, while the average Schedule G-1 increased, based upon Palo Alto's temperature adjusted sales for 12 months ended April 30, 1977,^{1/} only .706 cent per nonlifeline therm. The result is an annual difference of \$82,787 between what Palo Alto will be required to pay (increase of 1.027 cents per nonlifeline therm) and the revenues it receives from passing through the rate increase to its customers if it charges all customers^{2/} only PG&E Schedule G-1 rates (.706 cent per nonlifeline therm).

Appendix 2 of Palo Alto's application shows a revenue increase to Palo Alto of \$181,981 from its gas customers if it applies PG&E's Schedule G-1 to all of its customers. It also shows that under Schedule G-60, Palo Alto would have to pay PG&E an increase of \$264,768, a difference of \$82,787 based upon 25,780,692 therms of nonlifeline usage.

Palo Alto states that this situation can be corrected by decreasing Schedule G-60 in the nonlifeline commodity rate by \$.00321. This would change the nonlifeline commodity rate from \$.1802 per therm to \$.1770 per therm.

^{1/} New data from Appendix 2 of Palo Alto's application for modification. Decision No. 87585 was based upon estimated sales for 12 months beginning June 1, 1977.

^{2/} Nonlifeline sales represent 69.4 percent of Palo Alto's total sales, nonresidential sales are 65.5 percent of the nonlifeline sales, and lifeline sales are 30.6 percent of total sales based upon the date appended to Palo Alto's application.

PG&E's Response

PG&E states that Palo Alto's request is cast in the form of an application for ex parte modification and was filed pursuant to Rule 43 of the Commission's Rules of Practice and Procedure. Under Rule 43, requests for modification are only to be filed to make changes in a Commission decision and further that Palo Alto's application is not limited to minor changes and must be denied.

PG&E states that Palo Alto's argument that the increase to resale rates should be based on the amount of increased revenue that would be collected by a resale customer if it were to raise its own customers' rates in an amount identical to the commodity rate increase to PG&E's customers, is precisely the same argument made by Palo Alto in its brief in Applications Nos. 57124 and 57138 on May 20, 1977. Thus, Palo Alto is not seeking correction of a minor change in Decision No. 87585; rather, Palo Alto is re-arguing a position previously stated in its brief and rejected by this Commission.

PG&E asserts that Decision No. 87585 represented a comprehensive restructuring of rates. Multi-tier inverted rates were established for residential customers, density zones were eliminated, and gas rates to large commercial and industrial customers were modified. Policies followed in the past were put aside and new principles of rate design were implemented.

Whereas Palo Alto alleges that this is a "minor" change and necessitated solely because of errors, PG&E states that this is not accurate. PG&E points out that to arrive at the conclusions argued in the application for ex parte modification, Palo Alto was forced to construct eight elaborate pages that were not presented in the offset rate proceedings. Thus, PG&E asserts that the application is not to correct typographical error or error in computation as envisioned by Rule 43, but rather the petition presents new evidence that would be more appropriately heard in PG&E's next general rate proceeding.

PG&E further states that Palo Alto's percentage of lifeline sales has decreased from 33.7 percent to approximately 30.9 percent. However, the Commission determined that it would not adjust this percentage in this proceeding; rather, it would be deferred to one of PG&E's general rate proceedings. Since a downward adjustment was required, the deferral of this issue means that PG&E is selling greater volumes of gas at the artificially low lifeline rate to Palo Alto than Palo Alto has lifeline sales. Using information from page 4 of Appendix 2 of Palo Alto's application, PG&E's sales to Palo Alto are approximately \$103,000 less on an annualized basis than they would be using the correct lifeline percentages. Thus, the Commission's action has given Palo Alto a built-in "cushion". PG&E concludes that Palo Alto is not in fact incurring a deficit. It also states that there is no legal reason that compels Palo Alto to peg its retail rates to PG&E's. Palo Alto is entirely free to increase its rates by the amount needed to cover its gas purchase costs as well as any other expense associated with this gas system.

PG&E also states that although Palo Alto uses the figure of \$82,787, the requested reduction of .321 cent per therm applied to 62.3 percent of 4,616 MDth results in the revenue reduction to PG&E of \$98,000 based on the sales volume for Schedule G-60 adopted in Decision No. 87585. For the reasons stated above, PG&E requests that Palo Alto's application seeking ex parte modification of Decision No. 87585 is inappropriate and must be denied. If Palo Alto's rates are decreased as requested, an offsetting adjustment must be made in other rate schedules.

Discussion

We have in past offset proceedings maintained a rate differential for Palo Alto, as a resale customer, which increases Palo Alto's rate in the same percentage as PG&E's commodity rate increase for G-2 customers. We were not aware that in issuing Decision No. 87585 (wherein we adopted a substantially revised rate design) that we were departing from our traditional practice of increasing the G-60 schedule in the same proportion as PG&E's G-2 schedule. That result was not intended. We intended to continue that treatment until the questions surrounding Palo Alto's resale rate is resolved in Phase II of Application No. 55510. Ordinarily, if the PG&E Schedule G-60 rate is reduced and an offsetting increase is not made in PG&E's other rate schedules, then PG&E will not fully offset its increases in cost. However, in this instance any deficiency in revenues will be accounted for in the established balancing account and become a future liability for PG&E's ratepayers. It is reasonable, therefore, to modify Decision No. 87585 by reducing the Schedule G-60 rate with this ex parte decision.

Findings

1. PG&E increased its rates to Palo Alto (Schedule G-60), pursuant to Decision No. 87585, to offset increases in the cost of purchased gas.
2. The increase to Schedule G-60 by PG&E was of a percentage greater than the increase to PG&E's Schedule G-2.
3. We have found it reasonable, pending a determination based on a full showing, that Schedule G-60 should be increased in the same proportion as Schedule G-2.
4. It is reasonable to reduce PG&E's Schedule G-60 nonlifeline commodity rate from \$.1802 per therm to \$.1770 per therm to maintain the interim rate differential between Schedule G-60 and G-2.
5. The PG&E-Palo Alto rate design issue is currently before the Commission in pending general rate proceedings.
6. Pending resolution of this rate, design issue, it is reasonable to:

- a. Reduce PG&E Schedule G-60 rate so as to eliminate Palo Alto's deficiencies.
- b. Not offset the reduction by any further increases in rates to other customers.
- c. Utilize the balancing account for these deficiencies.

7. The decrease in rates and charges directed by this decision are reasonable; the present rates and charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.

8. In order to expeditiously adjust the Schedule G-60 rate to the proper level we are issuing this order effective the date hereof.

Conclusion

PG&E's Schedule G-60 should be reduced from a nonlifeline commodity rate of \$.1802 per therm to \$.1770 per therm.

O R D E R

IT IS ORDERED that Pacific Gas and Electric Company shall file with this Commission within five days after the effective date of this order a revised Rate Schedule G-60 based upon reducing the nonlifeline commodity rate in the present rate schedule from \$.1802 per therm to \$.1770 per therm. Such filing shall comply with General Order No. 96-A. The revised rate schedule shall be effective three days after the date of filing.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 10th day of JANUARY, 1978.

Robert Bateman
President
William J. Quinn
Jürgen J. Stengen
Philip D. Swack
Chris J. DeSik
Commissioners