Decision No. 89317 SEP 6 1978

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND ELECTRIC COMPANY for authority to revise its gas rates and tariffs under the Gas Cost Adjustment Clause, to change gas rate design, and to modify the Gas Cost Balance Account to reflect carrying costs of gas in storage. (Gas)	Application No. 57978 (Filed April 7, 1978)

Malcolm H. Furbush, Robert Ohlbach, and Shirley A. Woo, Attorneys at Law, for the Pacific Gas and Electric Company, applicant.

Robert Spertus, Attorney at Law, for Toward Utility Rate Normalization; Phillip A. Stohr, Attorney at Law, for General Motors Corporation; Glen J. Sullivan, Attorney at Law, for California Farm Bureau Federation; Boris H. Lakusta, David Marchant, and James Proctor, Attorneys at Law, for Union Chemicals Division of Union Oil Company of California, Western Mobile Home Association, and California Hotel & Motel Association; Susan L. Paulus and Joseph Martin, Jr., Attorneys at Law, for Owens-Corning Fiberglas Corporation; James W. Bell, for Canners League of California; Gordon E. Davis, and William M. Booth, Attorneys at Law, and Robert Burt, for California Manufacturers Association; W. Randy Baldschun, for the City of Palo Alto; Walter V. Hays, Attorney at Law, for Alten Corporation; George Agnost, City Attorney, Leonard L. Snaider, Deputy City Attorney, and Robert R. Laughead, Professional Engineer, for the City and County of San Francisco; Harry K. Winters and Allen B. Wagner, for the University of California; Richard F. Lynch, for TOSCO Corporation; Diane Stevens, for herself; and James P. Bennett, Thomas R. Cochran, and Charles R. Farrar, Jr., Attorneys at Law, for Kerr-McGee Chemical Corp.; interested parties.

Patrick J. Power, Attorney at Law, for the Commission staff.

INTERIM OPINION

By this application, Pacific Gas and Electric Company (PG&E) requests authority effective July 1, 1978 to increase its gas rates and charges under the Gas Cost Adjustment Clause (GCAC) included in its gas tariff. PG&E also proposes changes in gas rate design and modification of the Gas Cost Balance Account (GCBA) to include the carrying costs of gas in storage. The proposed rates will increase PG&E's gas revenues approximately 9.6 percent or $145,317,000 on an annualized basis.

After due notice, hearing was held at San Francisco before Administrative Law Judge Gillanders on eight days between June 7 and July 28, 1978. On the fourth day of hearing (June 19) the staff moved to have the Commission partition the matter. The staff requested that an interim order be issued on the basis of the staff's showing of a rate increase of approximately $90 million and to defer further hearings on the issues of gas storage, gas deliveries, and the deficiency adjustment rate until its studies on these issues were completed. Subsequently, the motion was granted by the presiding officer. The matter of the rate increase and rate design was submitted on July 28 at the conclusion of oral argument and the other issues were set over to a date to be set.

Testimony was presented by PG&E through four witnesses. The staff showing was presented by two engineers from the Utilities Division. Testimony was also received from the Canners League of California (League), Kerr-McGee Chemical Corporation (Kerr-McGee), City of Palo Alto (Palo Alto), Owens-Corning Fiberglas Corporation (Owens-Corning), and California Gas Producers Association.

Summary of PG&E's Evidence

PG&E seeks authorization from this Commission to increase its rates for gas service in order to recover increases in purchased gas costs which it is incurring.

The increased gas costs are primarily due to increases in charges and prices charged PG&E by its interstate gas suppliers, El Paso Natural Gas Company (El Paso) and Pacific Gas Transmission Company (PGT).

There are three El Paso increases involved in this application and one PGT increase.

There was a PGT increase which became effective on September 21, 1977. Earlier that year the National Energy Board of Canada (NEB), with the approval of the Canadian government, ordered the export prices of Canadian gas at the U.S.-Canadian border to increase on September 21, 1977 from $1.94 Canadian to $2.16 U.S. per Mcf of 1,000 Btu gas. The effect of the NEB orders was to increase the price of gas PGT had to pay to buy the gas at the border in order to serve PG&E.

On July 25, 1977, PGT filed with the Federal Power Commission (FPC) for authority to increase its rates to offset the Canadian price increase. By its order issued September 19, 1977, the FPC authorized PGT to increase its rates effective September 21, 1977. PG&E has been paying the September 21, 1977 increase to PGT ever since its effective date. The effect of the Canadian increase to PG&E is to raise its cost of gas from PGT by approximately $27.6 million.

On July 28, 1977, in order to recover the PGT increase, PG&E filed Application No. 57481 with this Commission, seeking authorization to increase its gas rates to offset the effect of the Canadian increase. While Application No. 57481 was still pending, El Paso filed an application with the FPC to increase its rates to PG&E at the Arizona-California border effective October 1, 1977 to offset increases in its purchased gas costs.

By a decision dated October 21, 1977, the FPC permitted El Paso's October 1 increase to go into effect. The effect of the El Paso October 1 increase was to raise PG&E's cost of gas from El Paso by approximately $21.5 million.

PG&E initially requested authorization to increase its rates to offset the El Paso October 1 increase in Advice Letter No. 938-G, which was filed in September 1977. The advice letter filing also contained a retroactive El Paso rate reduction which had been ordered by the FPC on August 1, 1977 to be effective as of June 1, 1977.

That El Paso reduction has been included in this application and has reduced the gas cost increase by approximately $15.2 million.

The Commission did not act on the advice letter immediately, but instead addressed the advice letter rate changes when it issued its decision on the PGT September 21 increase. That decision was No. 88261, and it did find that PG&E's increased gas costs expense from PGT and El Paso increases resulted in increased revenue requirements which PG&E was and is entitled to recover.

Decision No. 88261 did not authorize PG&E to increase its gas rates, however, but instead directed PG&E to utilize gas supply refunds and credit amount in PG&E's GCBA to offset the increases.

Therefore, PG&E's current gas rates and charges do not reflect the effect of the September 21, 1977 Canadian increase or the El Paso increase of October 1, 1977 which is why PG&E is now seeking authorization to increase its gas rates to reflect those two increases.

There are two other increases which PG&E seeks authority to recover. One is an El Paso increase that became effective on April 1, 1978 by a Federal Energy Regulatory Commission (FERC) order issued March 31, 1978. That increase, which was approved by FERC, allowed El Paso to pass on to PG&E and its other customers the increased purchased gas adjustment costs which El Paso had incurred. The effect of the April 1, 1978 El Paso increase raised PG&E's cost of gas by approximately $32.3 million.

The other El Paso increase is an El Paso general increase which became effective June 1, 1978, in connection with an order of the FPC issued on December 30, 1977, which suspended the rate for five months and allowed it to become effective June 1. That general El Paso increase raises PG&E's cost of gas by $31.4 million.

In addition to the El Paso and PGT increases PG&E also is seeking authorization in this application to increase its rates to offset approximately $38.8 million in gas costs for the test year beginning July 1, 1978, which the present offset rates in the gas cost portion of base rates failed to recover.

The cost of gas portion of base rates and the current offset rates were adopted using gas supply and sales estimates for earlier test years than the July 1, 1978 test year used in this proceeding.

In the period since those estimates were adopted, the percentages of PG&E's gas sales in each class of service has changed significantly, while its supply mix from El Paso, PGT, and California has also changed significantly. As a result of those changes, the cost of gas included in present offset and base rates fails to recover approximately $38.8 million in gas costs for the test year beginning July 1, 1978.

As a result of the El Paso-PGT increases, PG&E's cost of gas has increased approximately $181.4 million. This amount has been reduced in this application by the GCBA March 1, 1978 balance of $37.5 million. As a result, the total increased cost of gas for which rate relief is requested is approximately $145.3 million.

According to PG&E, its present gas rates do not reflect any of the increases in gas costs described above.

At present rates PG&E's Gas Department rate of return is 6.94 percent, which is well below the 9.20 percent level last authorized by the Commission for PG&E's Gas Department.

Allowing PG&E to recover its increased gas cost will not enable it to earn a rate of return above the authorized level.

Failure to allow PG&E to recover the approximately $145 million of gas costs not included in current rates would, however, cause PG&E's Gas Department rate of return to plummet to approximately 1.3 percent.

In order to recover the increased cost of gas PG&E presented a rate design containing rate increases for all usage except certain industrial and steam-electric usage for which the customer has the ability to use certain alternative fuels.

With the rate increase proposed by this application, PG&E's systemwide gas rates will have increased approximately 44 percent over the January 1, 1976 rate level yet the lifeline rates have remained at essentially the same level as they were on January 1, 1976.

Under the Public Utilities Code rates for lifeline service may be increased when the system average gas rate has increased at least 25 percent over the January 1, 1976 level.

Therefore, PG&E has proposed to include a rate increase to lifeline in this application which will still keep lifeline rates below its average commodity cost of gas.

In the recent past a number of PG&E's larger industrial Priority 3 (P-3) and P-4 customers have substantially reduced their gas service from PG&E and have converted to alternate fuels. As a result, PG&E has lost large volumes of gas sales and those lost sales have adversely affected the recovery of PG&E's fixed costs.

If the loss of large industrial sales is allowed to be unchecked, the residential and small commercial customers, including the lifeline customers, will increasingly have to bear the burden of the gas system's fixed costs.

In response to this specific unique situation PG&E proposes to establish a new gas service tariff G-52 with a rate of 20 cents per therm which would only be applicable to industrial customers with a capacity to use cheaper high viscosity fuel oil, primarily No. 6 oil.

The G-52 schedule has been proposed to keep the cost of gas to these customers comparable with the cost of alternative fuel.

Additionally, PG&E proposes not to increase the P-5, G-55, and G-57 schedules above the existing level of .229 dollars per therm.

The rate proposal PG&E offered to recover the increases would spread the increase on an equal cents-per-therm basis of 2.29 cents to the lifeline tier, to all other residential except the tail block and to all service to Priority Classes P-3 and P-4 excluding the sales proposed under the G-52 schedule.

The remaining residential tail block and other non-lifeline P-1 and P-2 service would increase 3.43 cents per therm.

Increases to the four resale schedules would be made on a weighted basis such that the specific lifeline and nonlifeline portion increases the same amount in cents per therm as PG&E's corresponding rates.

Summary of Staff Evidence

"EXECUTIVE SUMMARY

"1. PG&E proposed Deficiency Adjustment Rate.

'Witness: Disallow same because it is a Supply Adjustment Mechanism.

"2. PG&E's anticipated purchases of PGT (Canadian) gas at 100% of annual contract quantities.

'Witness: Reduce purchases to 96% with takes at contractual minimums.

"3. Inclusion of Gas Storage Carrying Costs in Gas Cost Balancing Account.

'Witness: Disallow such an expense entirely.

"4. Rate design.

'Witness: Oppose proposed G-52 schedule because PG&E has not demonstrated a reliable cost-demand elasticity relationship and because of the premium nature of natural gas as a fuel.

Study: A. Schedules for schools, hospitals & agricultural (related) uses and cogeneration.

Propose: B. Modifications to lifeline rates and introduce sumptuary charge of $2.00 above LL consumption.

Propose: C. Identical tail block rates.

"5. Witness' issues: Discuss prudency of pricing related to goal of supplying all P-1 through P-4 requirements and the position of natural gas as the fuel of last resort when compared to other fossil fuels. Identify special drawing rights of electric utility generation and appropriate pricing therefor."

Summary of Canners League of California Evidence

The canning industry has for many years used natural gas as its principal fuel for the production of steam to clean the plant and product and also to process or commercially sterilize the product. Most plants were on interruptible service since the high demand period coincides with the utility's lowest demand period. With the establishment of the priority system, the majority of canners were placed in P-4 since the gas consumption was for the production of steam. Under the interruptible schedule, the plants were supposed to have alternate energy sources available. Only limited facilities were provided since there had been no interruption of service, except emergencies, for many, many years. After adoption of the priority system, plants were urged to convert to oil and in most instances were encouraged to provide adequate facilities to use No. 2 or No. 6 fuel oil since there was a question of availability to adequately supply the energy needs.

In the past four years all of the plants have been and are continuing boiler conversion and installation of oil storage facilities. Because of unavailable capital this conversion process has not been completed but continues since there has been some interruption in off-season months and all P-4 customers are required to alternately burn other fuels at the same curtailment level. Canners typically burn the curtailment percentage during the summer season. Relief from this alternate burn has been granted in 1978.

Since some companies have converted boilers to No. 5 and No. 6 fuel oils, the proposed G-52 schedule in PG&E's application appears to provide an incentive to burn gas instead of oil. The 12.6 percent or 2.9 cent reduction in the rate per therm could cause some plants to switch back from oil to gas, although the price of the high viscosity oils is presently considerably lower than the proposed 20 cents per therm. Canners capable of burning residual fuel oil have been able to buy it in the range of 14.6 cents to 18.7 cents per therm. In a low-profit margin industry like canning, any price difference in excess of 1 cent per therm would probably dictate the fuel to be used. In addition, the lack of assurance that gas would be available during the season has caused some canners to contract for oil which must be done prior to the beginning of the season if they are to be assured of a definite supply.

The League believes that PG&E's proposal is a step in the right direction toward balancing the cost of alternate fuels, but it would appear to be only a beginning. For those canners not capable or not permitted by regulation to burn heavy residual oils (Nos. 5 and 6) the natural gas price rate per therm will increase by 10 percent or 2.29 cents per therm. The effective date for the increase was proposed for July 1, 1978. This will effect the budgeting for fuel in the current season for those plants under the G-50 schedule. Initially, it would appear that the plant burning residual oils would have an advantage, but it should be remembered that those plants capable of burning No. 6 fuel oil have expended additional capital which could have been used in plant improvements to increase production. A special gas rate for those plants could become an economic advantage after the conversion costs have been amortized.

It also should be remembered that a new or expanded plant has been prohibited from gas service since the adoption of the priority system. The option of using gas does not exist. Perhaps consideration should be given to allowing gas service if desirable, and feasible, to these as well as to future installations. This is extremely important in light of the stringent air pollution requirements that exist or that are being considered.

As PG&E's proposal appears to be only a beginning toward balancing fuel costs, it seems reasonable that the entire rate schedule be reviewed so that services provided to all customers are based upon the cost of that service plus a reasonable profit for the utility. As indicated in previous hearings, utility rate schedules should not be used to supplement welfare or assistance programs by reducing the rate to some customers and charging the additional cost of service to others. This added cost must be passed on to the householder in increased costs of food and other products. The philosophy under which this Commission operated for many years (charging according to the cost of service) should again be adopted.

The food processing industry is highly seasonal and must process extremely perishable agricultural commodities in short periods of time. This situation demands a sure and reasonable supply of energy if the industry is to continue as an important segment of California's economy. Although the national energy policies continue to be debated in the Congress, the canning industry must have assurance from all levels of government that it will have adequate fuel whether it be gas or oil.

Since the majority of products packed in California are processed during the low demand period on the gas supply, the League suggests that consideration be given to the establishment of a special summer seasonal rate competitive with all types of oil. If this were to be considered, it probably would require a review of gas costs at the beginning of each year since oil contracting must be accomplished prior to the summer season. Again it should be emphasized under such a special rate structure, the cost of service to the canner would have to be considered. A summer seasonal rate could assist the utilities in balancing the supply and demand on a year-round basis and in this way would be of benefit in the winter use of gas by the householder.

According to the League, its exhibit showing the relationship of the canners' usage in the San Joaquin Valley to the total usage supports the idea for a special summer seasonal rate. The months of December and January are the peak demand periods for natural gas in the Valley while August and September are the peak months for the processor. It is aware of the fact that during the off-season the utilities strive to fill all underground storage with gas, but in the two most recent years they have been able to accomplish this during the months of April, May, and June.

Summary of Kerr-McGee Chemical Corporation Evidence

Historically, Kerr-McGee's Trona plant was PG&E's second largest natural gas customer and its Westend facility was historically PG&E's fourth largest gas customer. Commencing in late 1977 and continuing through 1978, Kerr-McGee has substantially reduced its natural gas usage at its Trona and Westend facilities. The shift from natural gas to oil at these facilities is attributable to cost advantages realized in burning oil. The disparity between present oil and natural gas prices to Kerr-McGee is significant. During the early months of 1978, Kerr-McGee has taken delivery of fuel oil at these facilities at delivered prices ranging between $11 and $12.50/Bbl. Expressed in cost per Btu, Kerr-McGee's 1978 costs of fuel oil have ranged between $1.83 and $2.05 per MMBtu. The current PG&E P-4 natural gas rate of 22.9 cents per therm translates into an equivalent cost of $2.29 per MMBtu.

The establishment of PG&E's proposed G-52 schedule would affect Kerr-McGee's natural gas usage depending upon the precise rate set and the relationship of that rate to the delivered cost of No. 6 fuel oil. The general statement can, however, be made that if natural gas were priced at or below alternative fuel costs, Kerr-McGee's natural gas usage at its Trona and Westend facilities would increase substantially.

Kerr-McGee's use of alternate fuels at the Trona facility has been dictated solely by the higher costs of natural gas. In switching its Westend limestone kiln from gas to oil, Kerr-McGee has realized certain process improvements. For that reason, Kerr-McGee might be reluctant to return to natural gas absent some sort of discount below the alternative fuel price. Lowered natural gas prices would, however, likely forestall or prevent the conversion of Kerr-McGee's Westend boilers to alternate fuels as will soon be dictated under the existing natural gas rate structures. These process units can use alternate fuel. Kerr-McGee has average daily energy requirements of 25,500 MMBtu at its Trona facility and 4,000 MMBtu at its Westend facility that are sensitive to the cost relationship between natural gas and alternate No. 6 fuel oil. These daily energy demands translate into historical natural gas demands of 27,300 Mcf per day. If PG&E's natural gas rates are set at or below prevailing alternate fuel costs, Kerr-McGee's preference would be to burn natural gas in satisfaction of these energy demands. If existing P-4 natural gas rates are left in effect or increased, Kerr-McGee will burn No. 6 fuel oil to satisfy most or all of these energy demands.

At the present time Kerr-McGee is purchasing oil at an equivalent cost (including handling costs) of $2.04/Decatherm. Kerr-McGee would purchase natural gas to satisfy its energy demands that can be met with No. 6 fuel oil only if a G-52 rate at or below this $2.04/Decatherm cost was established. It should, however, be noted that it has at times this year been able to purchase fuel oil at as low a cost as $1.83/Decatherm. If fuel oil prices were to drop from their present $2.04/Decatherm equivalent level Kerr-McGee would, of course, purchase natural gas only if it was competitively priced.

According to Kerr-McGee, natural gas rates should, to the extent possible, be set so as to yield class revenues covering but not exceeding the average cost of service to the class. The rates which PG&E has proposed for service to P-2 customers and P-3 and P-4 customers who would be served under the existing G-50 schedules would simply add to noncost justified premiums which the evidence submitted at hearings on PG&E's general rate increase Application No. 57285 demonstrates has been imposed on those classes of service. From the evidence submitted in Application No. 57285 hearings, the G-50 rates proposed by PG&E appear to substantially exceed average costs of service to G-50 customers.

Therefore the G-50 rates adopted in this proceeding should be set at or near the average cost of service to customers on that schedule.

Summary of City of Palo Alto Evidence

Based upon sales consumption data for the recently ended fiscal year 1977-78, the lifeline percentage of sales in Palo Alto is 33.7 percent. This percentage should be reflected in the G-60 rate schedule.

Coincidently, the G-60 rate schedule is presently set at a lifeline percentage of 33.7 percent so no adjustment is required to the current percentage.

The 33.7 percent figure is based upon lifeline sales of 10,450,000 therms out of a total sales volume of 31,035,000 therms for fiscal year 1977-78.

The staff has proposed a lifeline percentage of 30.9 percent based upon sales data supplied by Palo Alto for fiscal year 1976-77. Furthermore, Palo Alto submitted lifeline sales data in PG&E's general rate case (Application No. 57285) recommending a lifeline percentage of 32.3 percent. The 32.3 percent was based upon sales for the calendar year 1977. It is appropriate that these aforementioned proposals (30.9 percent and 32.3 percent) become superseded by the 33.7 percent recommendation in these hearings. In conclusion, no adjustment to the lifeline percentage on the G-60 rate schedule is required at this time.

Summary of Owens-Corning Fiberglas Corporation Evidence

PG&E's proposed G-52 schedule for P-4 users of natural gas is very discriminatory against Owens-Corning because in 1972 when Owens-Corning initiated a program to install a dual burner system in order to use an alternate fuel to natural gas available, information dictated the choice of No. 2 fuel oil instead of No. 6.

Owens-Corning, which is critically dependent on a continuous supply of natural gas for process use, has witnessed recently drastic changes in the design of natural gas rates which have had a severe impact on the cost of its operations. Of the greatest concern was the adoption last summer of the inverted-tier gas rate structure in Decision No. 87585. Owens-Corning had no forewarning of that decision or the fact that rate design would be considered in that case. Owens-Corning believes that the adoption of the preferential rate proposal suggested by PG&E in the present application will only compound the error wrought by Decision No. 87585, and in the process penalize a class of customers--P-2--who by definition have no fuel choice except natural gas, and P-3 and P-4 users who are unable to burn No. 6 oil.

Owens-Corning analyzed the responses to a questionnaire used by PG&E in recommending its G-52 rate. According to Owens-Corning if the proposed G-52 rate is adopted, it will produce $1,217,270 less net revenue from the 46 respondents to the survey instead of PG&E's claim that the G-52 schedule would increase net revenues by $7.8 million from these respondents.

Summary of California Gas Producers Association Evidence

There is no question that an additional supply of up to 90,000 Mcf per day (33 Bcf) of northern California dry gas could be produced and made available to PG&E in northern California. Based upon even additional purchases of 33 billion cubic feet in 1978 there are three alternative dispositions for these additional purchases:

1. Cut back in PG&E purchases of Canadian gas.
2. Additional sales of gas to PG&E customers.
3. Sales of additional gas volumes to SoCal Gas.

In each instance these alternatives provide substantial benefits in lowering the cost of gas deliveries to PG&E's northern California gas consumers. In addition, however, there will be substantial additional benefits in reducing the cost of alternative fuels to natural gas customers in California (including PG&E's own steam electric generating plants). Finally, the production of additional northern California dry gas supplies will provide additional revenues to the California gas producers, their employees, royalty holders (landowners from whose land the gas is produced), and the various taxing entities (principally the individual counties) throughout the northern part of the State, providing much needed assistance to the California economy.

Summary of Alten Corporation Evidence

Assuming the average cost of a solar pool heating system is $2,900, at today's rate of 22 cents per therm, the payback period is 6.1 years. At 45 cents per therm the payback period is 3 years. On the basis that solar heating should be encouraged, a residential tail block rate of 45 cents per therm would be appropriate.

Position of Parties at Submission of Phase 1

PG&E

PG&E endorses the staff's proposed increase of $90.3 million which reflects no adjustment rate deficiency, a GCAC balance of $47 million, and a 96 percent take of the annual Canadian gas obligation.

PG&E proposed the G-52 schedule in order to protect the system ratepayer and also because it thought the proposal was consistent with the Commission's statement (Decision No. 88664) that if there is ample gas available, it is not necessarily to the best benefit of the high-priority residential user to have the low-priority load driven off the system because of the effect on the margin. The G-52 survey was an attempt to gauge the cost of alternate fuels and the best it could do at that point.

PG&E objects to the staff's proposed $2 sumptuary charge recommendation because it does not believe it would be an effective conservation tool as claimed by the staff. PG&E further objects to the staff's claim of conservation as there were no studies or calculations put forth on the record to support the staff's claim. PG&E also objects to the proposed charge because of the negative effect it would have on a consumer who was told that the charge was luxurious, wasteful, and extravagant.

PG&E objects to the staff's rate design which calls for some interesting changes in the lifeline rates.

The staff tiers lifeline and establishes two rates: One at 10 cents a therm for the first half, and 20 cents a therm for the second half. The staff cites a conservation incentive as the reason for tiering the lifeline.

However, there were no evidence, no surveys, no studies, and no calculations put on the record by the staff to indicate that there would be a conservation effect, nothing but the staff witness's own statement that he hoped there would be a conservation effect.

The staff, in its Exhibit 13, stated that it thought a minor increase in lifeline rates was indicated because of the magnitude of the overall increase that is needed, and the relationship of the existing lifeline rate to what it costs to buy the gas to serve people.

However, the staff's lifeline rate design and the revenues that would be generated would produce no increase, but rather a decrease of $2.2 million.

In addition, there is a $6.1 million decrease in the customer charge, for a total of approximately $8.3 million reduction overall for bills through the lifeline tiers.

PG&E also takes issue with the staff's reduction of the customer charge in this case. The staff witness indicated that he did not know what the customer charge went for. According to PG&E, the customer charge is meant to cover fixed costs of serving customers.

PG&E believes that in a gas offset proceeding such as this, a GCAC proceeding, that the Commission should not be tinkering with fixed costs.

PG&E believes that a healthy rate design would start moving the lifeline rate toward the commodity cost of gas.

Under the staff's proposal the commodity cost of gas is approximately 17.59 cents per therm.

Neither PG&E's proposal nor any other proposals in this case would move lifeline to that 17.59 cents.

However, PG&E believes it is time to start moving lifeline rates upward toward the average commodity cost of gas.

In addition, PG&E thinks that high-priority nonresidential gas should not be priced lower than industrial-commercial gas which is subject to curtailment.

Simply by reason of being given a P-1, P-2 designation, such industrial-commercial gas is protected against curtailment to a greater extent than any other industrial-commercial gas sales or gas priority.

The P-1 and P-2 nonresidential sales will be curtailed last of all the industrial sales; commercial users and PG&E feel that this factor means that they should at least not be priced at a rate less than the rate for the P-4, P-5, and P-3 usage. After all, they have gotten greater protection, and these users assign a value to having more stability in their supply, and by being P-1 and P-2 they have gotten more stability.

PG&E states that its rate design is superior and it recommends that the Commission adopt it, but PG&E thinks the staff's alternate is better than the staff's initially recommended rate design.

PG&E believes that rate design issues can be addressed in GCAC proceedings such as this, and it believes that it should be done since the rate design issues in PG&E's general gas case are, for all effective purposes, identical to those developed on this record.

PG&E believes that in the general case all rate design presentations, both by the applicant, Commission staff, and intervenors were subject to a great deal of cross-examination and thought and in-depth study, so it thinks there should be no problem at all with the Commission redesigning rates in this case.

PG&E requests that the Commission grant it an interim increase to offset its increased gas costs based on the staff's recommended $90.3 million figure.

It also requests that in granting the increase the Commission adopt a rate design such as the one it has proposed or in the alternative, such as is reflected in the staff's alternative design.

Commission Staff

Based on the record, the amount of relief recommended by the staff, $90.3 million, is reasonable.

It is the only figure put forward that has been adequately tested by cross-examination and the only figure developed that clearly comports with the traditional offset requirement of leaving unchanged the rate of return.

With respect to the proposed G-52 rate, the staff submits that the record indicates that no such rate differential is justified.

The major infirmities in PG&E's showing according to the staff are as follows:

1. The cover letter accompanying the questionnaire clearly establishes a potential benefit to the respondents if they are able to demonstrate low oil costs. This potential for bias undermines the entire survey.

2. The questionnaire itself is ambiguous. This is confirmed by the failure of most respondents to indicate any carrying or other costs in addition to delivery costs. Lame explanations such as they might have included such costs in delivery costs only affirm the ambiguity of the survey.

3. The results were shown to have been inadequately audited. This is crucial in view of the potential for bias in the cover letter and the patent ambiguities in the questionnaire.

4. The predictions arising out of the results are untested. In the nearly nine months since the questionnaires were sent out PG&E should have acquired adequate empirical data to indicate the validity of the predictions. The record is strangely silent in this regard.

5. The economic justification for the proposed rate is misleading. It assumes that all of the gas sold will be purchased from California and El Paso sources. Even if this assumption was valid, it overlooks the question of the source of gas for customers who return to the system to achieve the G-52 rate as well as ignoring the increased

price of California gas that will be in effect during the test year. It is also contrary to Mr. Sproul's stated purpose of husbanding California gas for the future.

6. The proposed G-52 rate overlooks entirely the prevailing oil supply situation on the West Coast. The highly publicized oil glut has precipitated the situation that prompted the G-52 rate proposal in the first place. There has been no evidence offered regarding the elasticity of oil prices so that there is a real possibility that the only effect of lowering the gas price will be a corresponding lowering of oil prices, resulting in no change in gas sales, but a net detriment to PG&E in terms of revenue.

7. The proposed rate overlooks the possible effect on competition, both between PG&E and oil suppliers and between customers of PG&E. If the rate does generate additional sales and if Canadian gas is used in the economic equation, the rate is subsidized to such an extent that it may be illegal by the same standards that the Commission applies in the pricing of communications interconnection equipment. On the other hand, even if no sales occur under the schedule it could still suppress oil prices for customers otherwise eligible for the rate, widening the gap between No. 6 and No. 2 fuel oil prices and resulting in a detriment for competition for the customers subject to No. 2 fuel oil prices.

For all of these reasons the staff recommended that the proposed G-52 rate schedule should not be adopted.

According to the staff, it is unfortunate that the parties have tended to focus on the historical usage of the term "sumptuary", and the question of whether the usage would be extravagant or luxurious, rather than the merits of providing a strong signal for lifeline usage.

The important corollary element to the proposed charge is the recommended billing notation to indicate to the customers the nature of the charge.

There has been no evidence to suggest that the proposed charge is unreasonable or to suggest that there is a different level of usage upon which to impose such a charge.

It is true there would be resulting reductions for some residential customers who use less than lifeline amounts under the staff recommendation.

Staff believes that this proposal establishes a further reward for customers who conserve and, therefore, is reasonable and deserving the Commission's consideration.

While the customer charge may have originally been intended to recover fixed costs, it has been plain for several years that it is no longer so intended.

The staff sees no barrier to changing the customer charge in this or similar proceedings.

The staff has recommended a uniform rate for nonresidential uses that equals the last tier of the residential rate which represents a conservative approach to value-of-service pricing because of the lack of evidence in the record regarding the true costs of alternate fuels for nonresidential customers, particularly for P-5.

California Manufacturers Association (CMA)

CMA points out that in the general rate case (Application No. 57285) testimony showed that the residential class was providing $75 million less than the direct cost to serve them without any tax or profit for the utility.

In this proceeding, CMA contends that the staff proposal, including the sumptuary charge, would add around $23 million to that loss.

CMA believes a cost-of-service analysis is necessary for two reasons:

1. To determine the extent of discrimination of any rate.

2. To foster conservation.

It is CMA's view that wise use of a resource is best fostered by charging what it costs to provide service, and whenever a resource is charged more than it costs, other customers are paying less. CMA does not believe that paying less, substantially less than what it costs to provide a utility service, really leads to conservation because it is a misleading signal to the customer that gas is cheaper to deliver to him than in fact it really is.

CMA believes that an "artificial price" is not an appropriate allocation tool and that the Commission should establish a fair price, and let priorities allocate the fuel.

If alternate fuel costs are a reasonable basis for rates, it is obvious that the highest rate of all should be charged to the residential users, because it would cost that class of customer the most to provide an alternate supply compared to other users.

CMA recognizes that Supply Adjustment Mechanism (SAM) calls for, in effect, a respite but the fact is, that if the Commission does not go somewhat in the direction of reducing the subsidy to the residential class, the Commission will be presented with an even more adverse situation to decide upon, and with no experience as to where the P-1 and P-4 sales level might fall with a given established price.

CMA suggests that lifeline gas be sold at cost; in other words, at no loss to the utility, and that eventually the losses of profit and tax be recovered from the balance of the residential class. However, in this case, that could not be done as it would provide an unreasonable shift. Therefore, it suggests simply that the customer charge, which it believes is the portion of the lifeline rate furthest from real costs, be raised to the level of $4.71 a month, and this increase be added to lifeline.

CMA thinks that basically the staff's sumptuary charge could provide a conservation signal, but that it would be a rather old signal because once a customer's use crossed a certain point, he would then have no further incentive to conserve.

With respect to the other classes, CMA sees merit in the staff witness's "keg-of-nails approach" for P-1 through P-4. CMA suggests that to avoid injustice to the electric customers, the P-5 rate (for boiler fuel) be established with cost-of-service-type commodity and customer charge. In that way, neither the Gas nor Electric Department would come out ahead on those sales.

With respect to the G-52 rate, fundamentally, it is CMA's position that it would strongly support a rate of this kind, provided it could be determined that the other customers benefit.

However, until the Commission determines whether or not it thinks that the Canadian gas takes should be reduced, CMA does not think it could be logically asserted that a G-52 type rate benefits all of the customers.

Since the G-52 is sold at less than the Canadian delivered cost, it must be assumed, until the Commission decides otherwise, that the Canadian supply is an incremental price when looking at the overall supply of gas.

So, until such time as the Commission determines whether it agrees with PG&E's position, the Canadian supply must be maintained at 100 percent of takes.

But, without such a determination, CMA states that it is illogical for the Commission to approve a G-52 type rate even though there are many of its members who sincerely desire and would benefit from such rate.

TURN

According to TURN, the issues are the present gas surplus and and its ramifications for PG&E's revenue requirement, in this case, rate spread and rate design.

The gas surplus, which PG&E believes is a temporary one, is of very large magnitude. From the record, we know that in July 1978, there was 170 billion cubic feet of gas in storage, and by December 1979, there will be 211 billion cubic feet in storage which is equivalent to well over one-half year of Canadian gas underground here in California. No one testified when the temporary gas surplus would end.

The storage figures indicate that it will continue at least through December 1979, and possibly for years after.

At any rate, the surplus has caused PG&E to propose a new schedule, G-52, to sell more gas to low priority customers who do not want it now at present rates.

According to TURN, the proposed G-52 schedule has been rightly opposed by the staff. TURN has criticized the unpersuasive and self-serving nature of the studies and surveys which PG&E has offered in its support.

From the cross-examination of PG&E witnesses by representatives of large industrial customers, TURN believes it may be observed that such customers think it is unfair to offer reduced rates to those who are able to burn No. 6 fuel oil, a rate from which they themselves will not be able to benefit, and which will, in fact, result in higher rates for them.

Furthermore, the anticompetitive nature of such rates, which would be tantamount to an officially sanctioned price war between gas and No. 6 oil, is another reason why the G-52 schedule should be opposed.

There are two other reasons for opposing the G-52 schedule. First of all, even to a layman, there is an obvious contradiction between creating a rate to sell more gas and the attempt to conserve gas. As is known from the general rate case, PG&E is asking for $32.8 million for conservation. One-third to one-half of this amount would be for gas conservation. At the same time, TURN wants PG&E to sell available gas which would not otherwise be sold.

TURN states that having a customer switch to another fuel is the ultimate form of conservation, and one which must be encouraged by the Commission. A second reason for opposing the G-52 schedule is that, as TURN's Exhibit 10 shows, any savings which would result by having the fixed costs spread over a larger amount of sales would be less in savings and commodity costs if we did not need the extra gas in the first place.

PG&E has set forth a gas supply plan that TURN believes would relieve the sales and storage problems already mentioned.

TURN submits that the only justification for not taking Canadian gas at a lesser rate in the face of the ongoing surplus is the political justification offered by Mr. Sproul and that there are no demonstrable economic or technical reasons for not reducing this most expensive source of supply during the surplus.

As for the political issue, PG&E's relation to its subsidiary in Canada, Alberta and Southern Gas Co., Ltd., and to the transmission company, PGT, creates at least the inference that this relationship colors its view of the politics involved.

TURN states that the staff has taken an admirable step of challenging that the traditional Canadian gas must be taken at full amount whether or not it is needed.

TURN has offered a different gas balance, starting more or less the other way around.

TURN asked PG&E to prepare a results of operation that takes Canadian gas at 90 percent, maximizes El Paso, and takes California at obligation. This would result in some curtailment of P-5 gas sales. However, such curtailment would not cost PG&E's electric customers any more for their electric service because, as both PG&E and the staff maintain, the P-5 rate should be priced at least at the oil equivalent cost; therefore, it would not cost any more to burn oil than gas for making electricity.

We now come to the bottom line of this issue. TURN points out that Exhibit 10 indicates that a $10 million savings could result if the results of operation and gas balance which TURN proposes to adopt rather than those of the staff. In other words, the increase would be about $80 million rather than $90 million.

TURN agrees with the suggestion by PG&E and others that the G-52 schedule would reduce the SAM amount and, therefore, save all customers money and that the sale of all available gas has an immediate economic benefit for the customers. However, TURN believes Exhibit 10 shows that the savings in commodity costs outweigh the reduced net available for return by at least $5 million, and, therefore, the net benefit to the customer who looks at his bill will be greater under this plan than that of the staff or PG&E. It is TURN's position that the Commission is under an obligation to adopt a results of operation of this type.

TURN believes this is the only time when such a plan can be adopted on a timely basis, and this is the case for the Commission to commence a policy leading to this end.

TURN opposes the staff's sumptuary charge and the tiering of lifeline.

Although it supports inverted rates and economic signals for conservation, TURN does not believe that this is the best way of addressing such rates.

TURN thinks the sumptuary charge would lead to unstable rates which would oscillate widely with small changes in the weather and that it would not allow a customer to take appropriate conservation measures because very few customers could plan on their gas consumption so closely.

Concerning the rate spread between the various customer classes, TURN thinks it should be obvious that the residential class of all classes is the most dependent on gas for survival. There is no alternative fuel that is practical for it to use.

General Motors (GM)

GM opposes the consideration of rate design issues in offset cases. It notes that that issue is now before the California Supreme Court with reference to the Commission's July 12, 1977 decisions, and it suspects that the issue will arise in the future in the context of the semiannual rate design adjustments which the Commission has now called for in the context of the SAM proceedings.

GM feels very strongly that the Commission should have before it the best possible record. And on that basis it moved for consolidation of the record in this proceeding with that of the general rate case (which we have done since the additional revenue requirement found needed herein is spread in the rate design adopted in Decision No. 89316, Application No. 57285).

GM states, however, that in so moving it reserves all of its rights and contentions with respect to the legal issues still pending in that regard.

On the merits of this particular proceeding, GM opposes the Commission's adoption of the G-52 proposal and does so on the basis of several distinct grounds.

First, it is GM's position that the G-52 proposal is administratively impractical. It has been brought out with abundant evidence in this record that there is, first of all, no single alternate fuel price for the customers in question in which the natural gas rate could be pegged.

GM submits that an alternate fuel price constitutes an unreliable and rather volatile ratemaking standard.

Secondly, there is obviously widely differing evidence on this record as to the impact of the adoption of the G-52 schedule on PG&E sales, and in the final analysis it is GM's opinion that the evidence on that point is speculative at best.

GM's most fundamental objections, however, to the G-52 schedule relate to the fact that it represents, in effect, a form of ratemaking gimmickry instead of a basic solution to the rate revenue instability problems which have confronted PG&E over the past several months.

GM characterizes that the proposed reduction of rates for particular industrial customers represents band-aid type relief. GM believes this proposal places the brunt of the revenue deficiency burden on the utility's commercial and industrial customers which the record of this case and numerous other cases before this Commission establishes, as being virtually locked into gas for their fuel needs. GM refers here specifically to the feedstock and the process requirements of commercial industries.

The proper approach to the revenue instability problem confronting PG&E is, in GM's view, twofold.

First, as to the question of supply and allocation of gas, GM advocates continued reliance on the Commission's curtailment priorities.

GM submits that the experience of the last couple of years establishes beyond any doubt the serious problems inherent in attempting to allocate gas by various manipulations of PG&E's rate structure.

With respect to ratemaking itself, GM advocates, consistent with its position in the general rate case, cost-of-service based rates that will, in its view, diffuse the revenue instability problem inherent in the current rates.

GM's position in this regard can be very succinctly summarized; aligning revenues more closely with the utility's actual cost incurrence will mitigate the serious cost recovery problems posed when PG&E loses interruptible load whether as a result of curtailment or the impact of price, and it includes in the latter regard the kind of competitive alternate fuel pricing situation which has given rise to the G-52 proposal.

In this record GM finds nothing to embody the principles which it advocates. GM notes that any similarity between PG&E's G-52 based proposal and cost of service is strictly coincidental.

Apart from the cost-of-service problems inherent in PG&E's proposal, PG&E's proposal also continues the anomaly of equating the nonresidential P-1 and P-2 rates with the rates applicable to residential Tier 5. PG&E's proposal also raises serious questions as regards to the potential economic impact of the proposed 25.33 cents per therm rate for nonresidential P-1 and P-2 consumption.

GM points out that PG&E's witness admitted that he had attempted no study of the demand elasticity characteristics of the customers who would be subject to that 25.33 cent rate.

While, as noted by TURN, one of the alternatives for the commercial and industrial customer is to pass on any increases to the consuming public, there are, as noted in GM's cross-examiniation, other alternatives, among them a reduction of production, location of plants in states other than California, et cetera.

Finally, it appears to GM that the PG&E proposed solution for the revenue instability situation may, to the extent that P-2 sales are reduced as a result of proposed higher rates, plant the seed of PG&E's next revenue deficiency crisis; the next one perhaps having to do with P-1 and P-2 nonresidential revenues as oppcsed to those that are at issue in this proceeding.

Turning to the staff's proposal, GM finds that there are several commendable features in that proposal, though in the final analysis it is flawed.

First, GM notes with favor that the staff has presumably turned its back on alternate fuel pricing or, in any event, has pointed out the serious difficulties involved in that type of approach to pricing.

Secondly, while GM acknowledges what appears to be a sound premise behind the sumptuary charge, it believes the concept is flawed mechanically. In GM's view any penalty for consumption in excess of lifeline should be in the commodity rate and in a magnitude sufficient to affect the bottom line of the bill and to convey to the residential customer the cost realities of energy today.

Thirdly, lifeline reductions would be the result of the staff proposal. The staff testified that, according to its calculations, 90 percent of the bills to the lifeline customers would be reduced under the staff's basic proposal.

This kind of reduction violates a very basic Commission maxim, namely, there shall be no rate reductions in periods of energy scarcity or high cost energy. To the contrary, GM believes lifeline rates should be increased.

The proposed reduction of the customer charge is, in GM's view, totally unfounded and contradicted, once again, by prior staff recommendations when it referred in particular to the recommendations of the staff in the generic gas rate case, Case No. 9884, wherein the staff recommended that there be a meaningful increase in the customer charge.

With respect to the uniform commodity rate proposed by staff for all nonresidential consumption, GM believes that that type of arrangement would be mechanically simpler to administer for the utilities.

GM is also of the view that that kind of uniform rate is well suited to deal with the revenue stability problem if--and that is a very important "if"--the fixed costs properly charged to the residential class are taken out of the commodity rate.

In the final analysis, GM believes the Commission must look to the general rate case for the kind of solution that is called for to meet the revenue instability problem on PG&E's system.

GM advocates, in the context of these two cases, allocation of PG&E's general rate case revenue requirement consistent with the fundamental reordering of PG&E's rates proposed by CMA.

With respect to the $90 million interim purchase gas adjustment increase at issue here, GM proposes that that amount be allocated on a uniform cents-per-therm basis on the basis of substantially revised rates like those proposed by CMA.

GM suggests that the Commission consider another uniform cents-per-therm alternative if it has continued concern about the loss of P-3 and P-4 sales. Subject to a basic revision of PG&E's rates along the lines proposed by CMA in the general rate case, this alternative would contemplate a uniform cents-per-therm allocation of the $90 million to all sales, P-3 and P-4 excluded in toto. Such an approach would benefit all P-3 and P-4 customers rather than a selected group of customers.

Owens-Corning Fiberglas

Owens-Corning thinks that it is paradoxical, to say the least, that in this proceeding it is being asked to pay for processed gas for which there is no alternative fuel at the same rate as people who are heating their swimming pools to 80 degrees all winter pay for their gas.

Owens-Corning thinks it especially paradoxical in view of the fact that in another proceeding before this Commission (Case No. 10032), which is the retrofit insulation case, Owens-Corning is being urged to expand its facilities for making insulation in this State and to keep the insulation at the lowest possible price. These two objectives are inconsistent and conflicting. Owens-Corning urges the Commission to give more thought to a proper rate for P-2 gas for manufacturers who have no alternate fuel.

Owens-Corning agrees with PG&E that it has a real and serious problem which resulted in the proposed G-52 schedule. The problem, in Owens-Corning's view, arises directly from the decision of the Commission in last year's El Paso offset case, and it was even foreseeable that this type of result could have occurred. Owens-Corning thinks that the G-52 schedule is merely a jerry-built attempt to stanch a little of the blood, and that it does not get to the basic problem that is posed for PG&E.

Owens-Corning agrees with the staff that there is nothing in this record which would substantiate the G-52 schedule as a reasonable classification.

According to Owens-Corning, there is another aspect of PG&E's case which has received no attention so far in this proceeding and one which Owens-Corning thinks would completely destroy the G-52 schedule application.

It believes it is not a traditional ratemaking function that PG&E is asking the Commission to perform in this offset case. Owens-Corning believes the proposed G-52 schedule will inevitably encourage the use of the alternate fuel, which in this case is Grade 6 fuel oil. Grade 6 fuel oil has an adverse environmental impact compared to the use of Grade 2 fuel oil, and clearly, to the use of natural gas. Thus, Owens-Corning asserts that there has been an environmental issue inserted into this case.

In Owens-Corning's view, it was PG&E's burden, probably under Rule 17.1 of the Commission's Rules of Practice and Procedure, to furnish an environmental data statement with the application and if that contention is correct, the application is fatally defective in that no such statement was filed. But, even if Owens-Corning is not right that under Rule 17.1 there should be that type of statement, there seems to Owens-Corning to be no question under the decided cases, both court and Commission cases, that where environmental issues are involved in a case, it is the proponent's obligation to make a sufficient record on these issues so that the Commission can make the findings which, again, the Commission's rules and case law provide for. Without sufficient evidence in this case for the Commission to make the necessary environmental effect findings, and with evidence that is uncontroverted that there may be adverse environmental effects, Owens-Corning recommends that the proposed G-52 schedule not be adopted.

Kerr-McGee Chemical Corporation

According to Kerr-McGee, the record which has been developed in this proceeding and in the consolidated PG&E general rate Application No. 57285 cannot sustain an increase in PG&E's existing P-4 rates. The record, instead, dictates an immediate reduction in the P-4 rates paid by PG&E's customers in order to effect rates reasonably calculable under either cost of service or value of service theories. Consistent with the record developed in these proceedings, the Commission should undertake an immediate restructuring of rates with a reallocation of revenue requirements to residential customers to effect parity with cost of service. The Commission should also undertake the adoption of the G-52 rate proposed by PG&E for customers with a No. 6 oil alternate fuel capacity. The adoption of such a measure would be consistent with the larger objective of restoring cost based rates and would, at the same time, generate lower priority sales and revenue contributions of systemwide benefit.

Kerr-McGee, in these consolidated proceedings, contends that current PG&E P-4 rates bear no relationship to either the cost of service <u>or</u> the value of service to it and similarly situated lower priority customers. This present P-4 rate of $.229/therm adopted in Decision No. 87585 was intended to approximate alternate fuel costs to lower priority customers. Kerr-McGee believes that the record in this proceeding has demonstrated that the Commission's attempt to estimate alternate fuel costs for PG&E's P-4 customers has proven unsuccessful. The $.229/therm rate rather than tracking alternate fuel costs constitutes a prohibitive rate for a substantial segment of PG&E's historical P-4 load taken by customers with the capacity to use No. 6 fuel oil as an alternate fuel. The effect of the present rate, adopted in the Commission's July 12, 1977 Decision No. 87585, has been to force the conversion by Kerr-McGee of approximately 100 million therms annual historical natural gas usage. Kerr-McGee's declining natural gas usage characterizes, and is probably the outstanding example of the reductions in commercial and industrial loads which PG&E has experienced in the wake of rate inversion. PG&E and the staff have estimated such lost load at approximately 400 million therms per year in this proceeding.

Kerr McGee states that much has been made in this proceeding (particularly in opposition to the G-52 proposal) of the Commission's, the staff's, and PG&E's practical inability to precisely estimate average alternate fuel costs to the various PG&E customer classes. It notes that the staff witness in this proceeding has testified that there are no reliable estimates of costs of No. 6 fuel oil or other fuels upon which alternate fuel rates can be reliably based and concedes that his proposed $.236/therm P-4 rate cannot be characterized as a reliable estimate of alternate fuel costs.

Kerr-McGee does not suggest that an exact figure can be cited as an average alternate fuel cost for all P-4 customers. It believes the staff and interested parties to this proceeding, in basing objections to the G-52 proposal upon perceived infirmities in PG&E's estimate of a $.20/therm alternate fuel cost to P-4 customers subject to the tariff have, however, grossly misconstrued the nature of the inquiry here to be undertaken. The PG&E $.20/therm proposed for G-52 schedule customers is, in effect, a proposal for a cost-of-service based rate to these customers. Parties opposing this rate under value of service theories bear the burden of demonstrating that the higher rates which they advocate for P-4 service more reliably estimate or approximate alternate fuel costs. The parties who have opposed the G-52 proposal have undertaken no showing upon which a P-4 rate in excess of a $.206/therm rate could be so justified.

Kerr-McGee states that all the available evidence in this proceeding demonstrates that the $.20 G-52 rate proposed by PG&E would more closely approximate the cost of alternate fuels to these customers. That evidence consists of (1) PG&E's own survey in support of the schedule showing an average No. 6 fuel oil cost of $.204/therm for P-3 and P-4 customers; (2) the testimony of Don Higgins on behalf of Kerr-McGee identifying Kerr-McGee's delivered alternate fuel costs at between $.18-$.20/therm; (3) the Commission staff's own survey of F.O.B. No. 6 fuel oil costs ranging from $.157/therm to $.180/therm from northern California terminal locations; and (4) the demonstrated loss of P-3/P-4 loads since January 1977 which convincingly demonstrates an alternate fuel cost of less than $.229/therm for PG&E customers with aggregate annual usages of approximately 400 million therms. All of this available evidence indicates an alternate fuel cost for customers subject to the G-52 proposal more closely approximated by the $.20/therm rate than by the existing rate of $.229/therm.

Kerr-McGee thinks the adoption of the PG&E G-52 proposal is a natural incident to the rate restructuring which the Commission should be undertaking in these proceedings. The $.20/therm G-52 rate proposed by PG&E closely approximates the P-4 average cost of service of $.206 calculated in these proceedings. The adoption of the G-52 proposal, therefore, will advance the dual goals of restoration of cost based rates and retention of loads contributory to fixed cost coverage. Attempts to characterize the G-52 rate as a "promotional" or bargain rate ignore wholly the cost evidence in the record. Such arguments are grounded in the implicit argument that once the Commission has erred in its prior rate orders (here in the establishment of an unreasonably high P-4 rate) it is without power to correct such error by rolling back rates.

Kerr-McGee's position is that the Commission should adopt a G-52 type rate in the rate proceedings now before it to restore some semblance of cost/revenue balance to the PG&E gas system.

According to Kerr-McGee, the instant consolidated proceedings constitute a significant juncture in the development of natural gas rate design within this State. Disproportionate increases over the last three years in the rate burdens borne by PG&E's lower priority customers have yielded P-4 rates which exceed average cost of service calculated upon the Average Annual Day method and, furthermore, exceed all reliable estimates of alternate fuel costs (and, therefore, the value of service) which are before the Commission. Any Commission rate order preserving or increasing the $.229/therm rate which PG&E presently charges its P-4 customers cannot be justified by reference to the generalized theory which the Commission has cited in the last three years' development of the existing rate design. The record in this proceeding defies justification of the current P-4 rate or any higher rate in either cost-of-service or value-of-service theories.

Current P-4 rates (and any increase in those rates) charged to customers eligible for the G-52 proposal can find "justification" only if gas rates are to be viewed as a mechanism for prohibiting certain natural gas sales. Such prohibitive ratemaking, or ratemaking calculated to deny public utility service to a customer or customer class, is beyond the Commission's authority. Kerr-McGee urges the Commission to reaffirm its legitimate ratemaking function and the extension of Commission regulatory protection to lower priority customers by rejecting arbitrary and unjustified P-4 rates. In the exercise of this legitimate ratemaking authority, no increase in P-4 rates can be justified at this time. Rather reductions in those rates as proposed by PG&E in its G-52 proposal should be effected by the Commission.

Discussion

With the granting of the staff's motion to partition this matter and with the understanding that only an interim decision would be issued, all parties except TURN[1/] agreed that the amount of increase authorized in Phase 1 should be the staff's recommended $90.3 million. The issue then becomes, as it always does, who should pay? The staff came forth with a suggested type of rate design never before advocated. It proposed a "sumptuary charge", whereby the instant the residential user exceeded his lifeline volume a $2.00 charge would be imposed. Along with the $2.00 charge the staff proposed a 20-cent reduction in the customer charge and the splitting of lifeline into two blocks. Of the staff's suggested $90.3 million increase, $36.7 million would come from the sumptuary charge. The staff's innovative proposal was not well received by the parties, most of whom much preferred the staff's alternate rate design based on conventional cents-per-therm increase.

PG&E testified that some of its large industrial P-3 and P-4 customers have discontinued taking gas service and have converted to alternative fuels.

1/ TURN recommended some $10 million less based on a 90 percent Canadian gas take. It appeared from TURN's presentation that the rate of return at present rates would be lowered from 6.94 percent to 6.50 percent. As no one could explain why at the 90 percent take there would be a reduction in rate of return while there was no reduction in rate of return at 96 percent take, the hearing officer requested an exhibit be prepared detailing the reasons. Such exhibit can be tested at the hearings in Part 2. As it is improper to change the authorized rate of return in a PGA proceeding, we will, for interim purposes, adopt the staff's $90.3 million increase.

The erosion of sales to these two classes of customers prompted PG&E to develop and propose Schedule No. G-52. The two salient features of the G-52 rate were its applicability based on the type of alternative fuel that the customer was capable of using[2] and the reduction in rate from the present 22.90 cents per therm to a flat 20.00 cents per therm.

We have incorporated the record of this proceeding into that of PG&E's Application No. 57285 (general rate case), and it is reasonable to adopt a gas rate design in that proceeding (with a decision issued today) that spreads the $90.3 million of additional revenue required as a result of this interim decision, as well as the additional Gas Department revenue requirement for test year 1978. The rate design proposals of PG&E and the participating parties presented herein are resolved in the decision issued in Application No. 57285.

Findings

1. For the purposes of this interim decision the staff's recommended $90.3 million increase is reasonable.

2. The $90.3 million increase will be spread to customer classes in Decision No. 89316 issued today in Application No. 57285.

3. The concept of a sumptuary rate should be further studied by the staff and proposed, if it desires, in forthcoming proceedings.

4. Because PG&E needs prompt rate relief the effective date of the interim order should be the date hereof.

Conclusion

PG&E's application should be granted to the extent set forth in the following order.

2/ "APPLICABILITY

"Applicable to natural gas service to uses classified in Rule No. 21 as P3 and P4, for which the alternate fuel is exclusive oil with a viscocity higher than 150 Saybolt Seconds Universal (SSU) at 100°F (commonly referred to as Grade No. 5 and Grade No. 6 fuel oil)."

INTERIM ORDER

IT IS ORDERED that:

1. Pacific Gas and Electric Company (PG&E), on an interim basis, is authorized a rate increase of $90.3 million.

2. On or after the effective date of this order, PG&E is authorized to file the appropriate changes in rates, as authorized in Decision No. 89316 in Application No. 57285. Such filing shall comply with General Order No. 96-A. The effective date of the revised tariff 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 thereof.

3. Further hearings in Phase 2 will be held at a time and place to be announced.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 6th day of SEPTEMBER, 1978.

Robert Batinovich
President

Vernon L. Sturgeon
Richard D. Gravelle
Claire T. Dedrick
Commissioners

I dissent.
William Symons, Jr.