

ORIGINAL

Decision No. 90548 JUL 17 1979

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's own motion into the adequacy and reliability of the energy and fuel requirements and supply of the electric public utilities in the State of California.

Case No. 9581
(Filed July 3, 1973)

Investigation on the Commission's own motion into the natural gas supply and requirements of gas public utilities in the State of California.

Case No. 9642
(Filed December 18, 1973)

Investigation on the Commission's own motion into the establishing of priorities among the types of categories of customers of every electrical corporation and every gas corporation in the State of California and among the uses of electricity or gas by such customers.

Case No. 9884
(Filed March 11, 1975)

(See Decision No. 87510 for Appearances.)

INTERIM OPINION

In Decision No. 85189 dated December 2, 1975, the Commission established an end-use priority system for the statewide allocation of natural gas. Ordering Paragraphs 3 and 4 of that decision provided:

- "3. California gas utilities shall not provide service to new customers, or additional service to current customers, when the customer's new requirement will be in excess of 50 Mcf/d and that requirement can be met with an alternate fuel.

- "4. Commission approval will be required before a gas utility can (1) provide service to any new nonresidential customer with a demand in excess of 50 Mcf/d and (2) install additional facilities to provide additional service to a nonresidential customer when the new level of demand is in excess of 50 Mcf/d."

By Decision No. 89337 dated September 6, 1978, Ordering Paragraphs 3 and 4 were rescinded, thereby lifting the moratorium on new gas hookups imposed by Decision No. 85189. That decision also required Commission approval for a utility to provide gas service for new industrial boiler fuel use with a peak-day demand in excess of 300 Mcf and ordered Southern California Gas Company (SoCal), Pacific Gas and Electric Company (PG&E), and San Diego Gas & Electric Company (SDG&E) to "...maintain data and report to the Commission on January 1, 1979, and semiannually thereafter, the number of new connections where the peak-day requirements of the customer exceed 50 Mcf/d. The report shall be by customer name, priority, peak-day demand, and annual requirements."

In issuing Decision No. 89337, the Commission stated that the administration of Ordering Paragraph 4 of Decision No. 85189 had resulted in the expenditure of many man-hours by the utility companies, the Commission staff, and the Commission in processing deviations for customers unable to use an alternate fuel, that conservation efforts of high priority users, mild weather, and the conversion of certain large users to alternate fuels had resulted in continuing deliveries to the lowest priority, and that the prohibition against connecting new services had, because of additional gas available to Priority 5 customers, complicated the short-term planning of the electric utilities.

On October 6, 1978, a petition for rehearing of Decision No. 89337 was filed by General Motors Corporation (GM). The petition alleged that the lifting of the conditions on new gas service connections would jeopardize the level of service to existing customers, that the condition of approval as to certain industrial boiler fuel use was discriminatory, and that the ex parte issuance of Decision No. 89337 was improper.

Rehearing of Decision No. 89337 was granted by Decision No. 89756 dated December 12, 1978.

The matter was heard in Los Angeles on February 6, 1979, before Administrative Law Judge Banks. Testimony was presented by John Ricca on behalf of GM, Donald L. King on behalf of the Commission staff, and Henry F. Lippitt, 2nd, on behalf of the California Gas Producers Association. A late-filed exhibit of counsel (Ex. No. 212) was submitted by SoCal on February 13, 1979. At the close of the hearing, all parties were given the opportunity to file a summary of position 30 days after the date of hearing.

Position of Parties

California Gas Producers Association

Mr. Lippitt of California Gas Producers Association stated that, at present, there is a surplus of natural gas within the State that will last for the next several years. He stated that this surplus supply results from (1) a "collapse" of the electric generation, and part of the interruptible industrial market for natural gas within the State and (2) the advent of additional supply of natural gas from California's traditional suppliers, El Paso Natural Gas Company (El Paso) and Transwestern Pipeline Company (Transwestern), as well as additional supplies from California and Canadian sources. In view of the continued deliveries, particularly in northern California, for lowest priority large boiler fuel electric generating purposes, Mr. Lippitt stated there is no reason to "deny supplies of this premium, relatively inexpensive fuel to small residential and commercial customers desiring to secure such supplies for their own use throughout the State."

SoCal

SoCal asserts that Decision No. 89337 in no way jeopardizes levels of service to existing customers or threatens the assurances that the full requirements of high priority customers will continue to be satisfied in the future and is a reasonable response by the Commission to current facts of natural gas supply. Further, SoCal argues that Decision No. 89337 is in line with congressional intent in that Title II of the National Gas Policy Act (NGPA) of 1978 singles out industrial boiler fuel use in excess of 300 Mcf/d to bear a surcharge while imposing no such restriction on commercial boiler fuel use.

GM

GM objects to Decision No. 89337 because it (1) rescinds the condition imposed in Decision No. 85189 that Commission approval be obtained before a utility provides new service or additional service in excess of 50 Mcf/d and (2) distinguishes between commercial and industrial boilers for purposes of requests for new service in excess of 300 Mcf/d.

In expressing concern over Decision No. 89337, GM's witness Mr. Ricca testified that it was not GM's position that the Commission should roll back entirely the action taken therein. Mr. Ricca stated:

"...we are of the opinion, based upon the evidence at hand, that the restrictions imposed in Decision No. 85189 are still well-justified and represent the most prudent course of action. We also noted in our Petition, however, that there were a number of unaddressed key questions affecting the new attachments issue, among them the basic long range supply question itself, the anticipated demand for new hook-ups and the impact of such hook-ups on existing high priority gas uses, including industrial process gas. Given further in-depth consideration of these questions, it is quite possible that some relaxation of the Decision No. 85189 restrictions could be justified, particularly

if appropriate safeguards were instituted to prevent new attachments today from becoming the source of deeper curtailments tomorrow. It is our central concern, however, that the Commission not act so precipitously and out of line with supply realities as to jeopardize or dilute the maintenance of service to existing customers. In the final analysis, it is in no one's best interest, including the new gas customers attached, to proceed in reliance on a hoped-for or supposed gas supply that has no foundation in fact."

He stated further that the action that should be taken is a thorough analysis of the adequacy of the reserves of the suppliers to California, both within and without the State, with the objective to determine whether California's gas supply for a stipulated period of years is in fact sufficient to meet the projected demands of existing customers as well as those new customers to be attached and that it is critical that such analysis be made in relation to proven reserves rather than potential reserves or speculative and uncertain supplemental supplies.

Mr. Ricca also stated that GM does not advocate that no attachments be authorized by the Commission nor does it object to load growth per se, but it does advocate that the Commission maintain a close, case-by-case review of the applications for new gas service and that the addition of new load only be allowed in the narrowest of circumstances after compelling proof that gas supplies for the foreseeable future are ample to serve both existing and later added customers.

Commission Staff

It is the staff's position that the restrictions on natural gas hook-ups contained in Ordering Paragraphs 3 and 4 of Decision No. 85189 were no longer necessary and were properly rescinded by the Commission.

Staff witness King testified that the basis for the recommendation to restrict the connection of new customers in Decision No. 85189 was the near-term possibility of extensive to total curtailment of service to Priority 3 (P-3) and Priority 4 (P-4) customers. He stated that under this near-term outlook at the time Decision No. 85189 was issued, connection of new P-3 and P-4 customers would have resulted in substantial investment in new facilities to serve such customers with little possibility that gas would be available to deliver through the new facilities and that connection of these new customers would have diminished the gas available to the then existing P-3 and P-4 customers. Under these circumstances the recommended moratorium seemed reasonable.

Staff Exhibit 203, which contained the recommendation to limit new connections, contained the supply estimates on which the recommendation to limit new connections was made. Staff Exhibit 211, introduced during the rehearing, contained the following comparison of the supply estimates included in Exhibit 203 and recorded deliveries to PG&E and SoCal:

<u>Year</u>	<u>PG&E</u>		<u>SoCal</u>	
	<u>Estimated</u>	<u>Recorded</u> (Average Mcf/d)	<u>Estimated</u>	<u>Recorded</u>
1975	2,308	2,319	2,175	2,252
1976	2,125	2,282	1,994	2,132
1977	2,001	2,194	1,826	2,115
1978	1,889	-	1,690	-
1979	1,803	-	1,583	-

Mr. King explained that the higher estimated levels of gas supply, coupled with reduced demand due to conservation and the voluntary utilization of fuel oil by some large low priority customers, resulted in continued high levels of service to P-3 and P-4 customers and significant deliveries to P-5 rather than the extensive curtailment of P-3 and P-4 service projected at the time the moratorium on new hook-ups was recommended.

With respect to the present outlook for natural gas service to P-3 and P-4 customers, Mr. King stated that current supply estimates, the recently enacted NGPA of 1978, and regulatory action at both the federal and state level have resulted in a much improved supply outlook. He stated that the net effect of the current supply estimates and government action is that the staff now expects the California distribution utilities to be able to maintain high levels of service to P-3 and P-4 customers until the mid-1980's; and if base load supplemental supplies from Indonesia, Mexico, and Alaska are received as expected, high levels of service to P-3 and P-4 customers can be maintained into the long-term future.

Discussion

While we appreciate GM's concern, for the following reasons we believe the rescission of Ordering Paragraphs 2, 3, and 4 of Decision No. 85189 was sound.

First, with respect to the present gas supply, GM's witness Mr. Ricca testified that the type of gas supply analysis that alone would support a modification of Ordering Paragraphs 3 and 4 of Decision No. 85189 had yet to be undertaken and that no additional evidence had been submitted to refute the Commission's conclusion in Decision No. 89177 in Case No. 10342^{1/} that "the gas supply presently available to California's gas distribution utilities 'is at a level too low to meet high priority requirements in the State of California.'"

The record is that the extensive supply and demand studies which were presented in Case No. 10342 and formed the basis of our decision to lift the gas service moratorium imposed by Decision No. 85189 clearly support and justify that decision. In addition to the staff studies in Case No. 10342, during rehearing staff witness King presented an update of the State's estimated gas supply and actual deliveries for the years 1975-1978 which further confirms our decision to lift the moratorium on new connections.

^{1/} Case No. 10342 is the Commission's investigation into California's future gas supplies, including consideration of the need to import liquefied natural gas (LNG).

Decision No. 89177 specifically considered the issue of removing the restrictions on new or additional gas service imposed by Decision No. 85189 and deferred ruling on this issue because Case No. 9642 was the appropriate vehicle to undertake such a modification. Decision No. 89177 reviewed the circumstances under which the restrictions were first imposed and concluded:

" . . . The projected curtailment of Canadian deliveries combined with the existing, and continuing, decline in gas available from domestic sources introduced the possibility of a serious decline in the gas available for the existing P3 and P4 customers. It later became apparent that the effective Canadian export permits would likely be honored - a likelihood clearly supported on the record in this proceeding. Continued deliveries of Canadian gas at contract levels and the conservation achieved by the higher priorities, combined with our order herein, will assure continued high levels of service to P3, P4 customers and we will consider, in the appropriate proceeding, a lifting of the moratorium." (D.89177, p. 43; emphasis added.)

During rehearing the staff witness testified that staff's estimates, relied on by the Commission in issuing Ordering Paragraphs 3 and 4, are no longer supported by the recorded data accumulated subsequent to the issuance of Decision No. 85189.

In addition, other changes which have taken place subsequent to the time Decision No. 85189 was issued which further justifies its modification include:

(1) Reduction in demand due to conservation. As Mr. King testified, although variation in demand may occur due to external circumstances such as publicity or weather conditions, the type of reduction considered by the staff for purposes of this proceeding is more permanent since it is associated with hardware modifications.

Therefore, it can be concluded that the reduction created by this type of conservation will continue and that additional conservation will occur with the development of programs to retrofit ceiling insulation and the imposition of new building and appliance standards.

(2) Voluntary utilization of fuel oil by some large, low priority customers. Voluntary use of fuel oil by larger low priority users has resulted in continued high levels of service to priority P-5 customers. This level of service is to be contrasted with the extensive curtailment of P-3 and P-4 projected at the time the moratorium was recommended. Because this usage did not occur until late 1977 and 1978, the resulting increase in gas supply is additional to that considered in Decision No. 89177 and would further assure continued high levels of service to P-3 and P-4 customers.

(3) Updated gas supply estimates. As noted in Decision No. 89177, the potential for curtailment of deliveries from Canadian sources under existing export permits, a primary reason for imposition of the gas moratorium in Decision No. 85189, has diminished. Extension of these export permits beyond their termination dates now appears possible. Additionally, because of the unusual success which El Paso has experienced in recent exploratory drilling activity, an additional 400 Bcf per year is expected to be added to its reserve base over the next several years contrasted to the 220 Bcf estimated in the past.

(4) Recent legislative and regulatory action. Under the provisions of the recently enacted NGPA, it has become possible for natural gas, which from time to time becomes surplus on the intrastate market, to be sold under longer term contracts without the jurisdictional constraints imposed by previous legislation. Although this gas cannot be considered as a base load supply, it may be a valuable addition to the supply mix until base load supplemental supplies are received.

Further, with respect to regulatory action, Decision No. 89177 ordered PG&E and SoCal to modify the mutual assistance agreement ordered by Decision No. 85189. This amended agreement will provide for best efforts delivery of P-5 natural gas from one system to alleviate any curtailment of P-2B, P-3, and P-4 customers on the other utilities system.

These recent developments, considered together with the extensive supply and demand studies presented in Case No. 10342, clearly demonstrate that California distribution utilities will be able to maintain high levels of service to P-3 and P-4 customers until the mid-eighties. Further, with the addition of base load supplemental supplies from Indonesia, Mexico, and Alaska, such levels of service to P-3 and P-4 customers could be maintained into the long-term future. This gas supply situation, healthier than estimated in 1975, is reflected in the absence of any recent curtailments of P-2 customers and by the present high-levels of service to P-3 and P-4 customers. Curtailment of P-3 and P-4 has been necessary only this past winter, a circumstance directly attributable to an extreme cold condition in November and December, particularly in southern California. With the completion of the intertie system referenced above, such curtailments will become more unusual. However, even with curtailment of this past winter, P-3 and P-4 customers are still experiencing a high level of service over an annual period. As testified to by Mr. King, it would not be practical to design and develop a system to assure a 100 percent level of service to P-1 through P-4. Thus, because of the dynamics of the system and load equation requirements, interruption of some customers occurred even in the 1960's, a period when gas supply was plentiful.

From the foregoing, it is clear that the present and future gas supply situation in California has been fully considered. The supply analysis provided in Case No. 10342, coupled with the updating provided by the staff at rehearing, fully justifies a lifting of the restrictions on gas service connections in the manner provided in Decision No. 89337. The factors reviewed by staff witness Mr. King involve permanent, rather than temporary or uncertain, changes in the gas supply situation. The existence of supplemental supplies is only needed to support an estimate of high levels of service to P-3 and P-4 customers through the long-term future. Although it cannot be assumed that all such supplies will materialize, it is equally unrealistic to assume that none will become available. The Commission has made the supply consideration requested by GM and has also considered many factors overlooked by GM which would additionally support the rescission of the gas service moratorium imposed by Decision No. 85189.

GM also suggested that the decision to lift the moratorium could never be changed and that the Commission would not keep "abreast" of the continuing dynamics of the gas supply situation. Decision No. 89337 was an interim decision in Case No. 9642 allowing flexibility in issuing orders which will accommodate any changes in gas supply in the future. To ignore the changes in the gas supply situation which have occurred since the issuance of Decision No. 85189 would be unreasonable and would be in direct conflict with our stated policy in Decision No. 89177 with respect to the preferred use of natural gas in California. Despite additional gas supplies, new customers would be forced, unnecessarily, to use unacceptable alternatives such as coal or oil. The issue of alternatives for new customers, should the moratorium be continued, was not addressed by GM.

As to the steps taken by the Commission to ensure that it keeps "abreast" of the gas supply situation, we would point to Ordering Paragraphs 2 and 3 of Decision No. 89337. Under Ordering Paragraph 2, Commission approval is a prerequisite to gas service for new industrial boiler fuel use with a peak-day demand in excess of 300 Mcf. Further, SoCal, PG&E, and SDG&E are required to maintain data and report to the Commission January 1, 1979, and semiannually thereafter, on the number of new connections where the peak-day requirements of the customer exceed 50 Mcf/d. The report is to include customer name, priority, peak-day demand, and annual requirements.

Finally, to ensure continuous monitoring by the Commission of the gas supply situation, a staff gas demand and supply requirements section has been created by the Commission for the express purpose of producing periodic independent forecast reports.

Findings of Fact

1. Decision No. 85189 imposed a moratorium on new gas service, or additional service to current customers, when the new or additional requirement was in excess of 50 Mcf/d and that requirement could be met with an alternate fuel.

2. Decision No. 85189 required Commission approval for a gas utility to provide service to any new nonresidential customer with a demand in excess of 50 Mcf/d and to install additional facilities to provide additional service to a nonresidential customer when the new level of demand is in excess of 50 Mcf/d.

3. Decision No. 89337 lifted the moratorium on new or additional gas service imposed by Decision No. 85189.

4. Decision No. 89337 required that Commission approval be obtained for a gas utility to provide gas service for new industrial boiler fuel use with a peak-day demand in excess of 300 Mcf/d and required gas utilities to report periodically the number of new customers with peak-day requirements in excess of 50 Mcf/d.

5. The moratorium on new gas service ordered by Decision No. 85189 was designed to protect the then existing P-3 and P-4 customers and was based on potential curtailment of deliveries of Canadian gas combined with a continuing decline in the quantity of gas available from domestic sources.

6. Deliveries of natural gas to California gas utilities for the period subsequent to 1975 have declined at a lower rate than was estimated at the time Decision No. 85189 was issued.

7. The lower rate of decline of gas deliveries subsequent to 1975 plus conservation efforts of high priority customers and the voluntary use of alternate fuels by certain large industrial users has resulted in continued high levels of service to P-3 and P-4 customers with substantial quantities of gas for P-5 electric generation.

8. Present natural gas supply projections indicate that curtailment of deliveries from Canada under existing export permits is unlikely and although the decline of availability of domestic sources continues, it is projected to be at a lower rate than once expected.

9. Current projections indicate that high levels of natural gas service to P-3 and P-4 customers can be maintained through the early to mid-eighties from present supply sources.

10. Supplemental supplies, if timely acquired, could assure high levels of natural gas service to such customers over the long-term future.

11. The mutual assistance agreement ordered by Decision No. 85189, as amended by Decision No. 89177, will alleviate curtailment of deliveries to P-2B, P-3, and P-4 customers throughout the State.

12. The natural gas supply analysis provided in Case No. 10342 plus the updating of supply projection and deliveries provided by the staff during rehearing justify lifting the restrictions on new gas service connections as provided in Decision No. 89337.

13. The requirement that Commission approval be obtained before a gas utility may provide gas service for new industrial boiler fuel use with a peak-day demand in excess of 300 Mcf/d does not result in unjust discrimination.

Conclusion of Law

We conclude that the record herein supports the decision to lift the moratorium on new service connections as provided in Decision No. 89337. The relief requested should be denied.

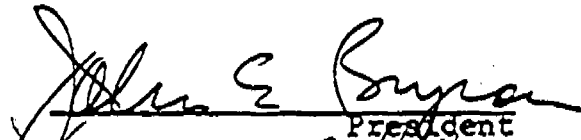
INTERIM ORDER


IT IS ORDERED that:


1. The relief requested by petitioner General Motors Corporation is denied.
2. Decision No. 89337 is reaffirmed.


The effective date of this order shall be thirty days after the date hereof.


Dated at San Francisco, California, this 17th day of 7 JULY, 1979.



President








Commissioners