

ORIGINAL

Decision No. 90776 SEP 12 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 users of electricity or gas by such customers.

Case No. 9884
(Filed March 11, 1975)

(See Decision No. 87510 for appearances.)

Additional Appearances

Rufus G. Thayer, Freda Abbott, William J. Jennings,
and Sara S. Myers, Attorneys at Law, for the
Commission staff.

SUPPLEMENTAL OPINION

Introduction

By Decision No. 85189 dated December 2, 1975, as modified by Decision No. 86357 dated September 1, 1976, this Commission established an end-use priority system for the statewide allocation of natural gas. On January 5, 1979, by letter from the Executive Director, all respondents and interested parties were notified of modifications to the existing priority system proposed by the Commission staff. The letter summarized the three basic areas of modification as follows:

- "1. The assignment of certain central heating plants serving residential and commercial complexes to Priority 1 from the presently effective Priority 3.
- "2. The assignment of electric utility gas turbines to Priority 3 from the presently effective Priority 5.
- "3. Extensive reclassification of large commercial and institutional customers and industrial boiler fuel users with peak-day requirements between 750 and 1500 Mcf to bring the state criteria closer to the federal criteria applicable to interstate pipelines serving California."

To promote consideration of the staff proposals relating to energy efficiency a 30-day comment period was provided for the first two proposals, while a 60-day comment period was designated for the third proposal. Parties were directed to make requests for hearing and with respect to the evidence to be presented. Thirteen parties responded to the staff proposal.

A notice scheduling hearings at Los Angeles on April 4 and 5, 1979 before Administrative Law Judge Banks was issued on March 6, 1979 which contained the following language:

"Because of the substantive comments that were offered by the interested parties and respondents on the proposed reassignment of certain residential and commercial central heating plants, as well as electric utility

gas turbines to a higher priority in end-use curtailment priority system, the Commission deems it necessary to set further hearings on the subject, as scheduled below."

The notice limited the scope of the hearings to Items 1 and 2 of the staff proposed modification. On March 14, 1979 the hearings were rescheduled for April 5 and 6, 1979.

On March 6, 1979 the Ammonia Manufacturing Companies of Southern California (Ammonia Producers)^{1/} filed a document entitled: "Comments of Ammonia Manufacturing Companies of Southern California on the Commission Staff's Proposed Modifications to Decision No. 85189; Petition of Such Companies for Modification of Decision No. 85189." The petition proposed creation of a new Priority 1-B^{2/} to include end-use of natural gas:

"Where primary use is a feedstock for essential agricultural use with no alternative fuel available."

A notice was issued on March 28, 1979 setting hearing on the Ammonia Producers' petition for April 25 and 26, 1979 in San Francisco.

During the hearing held April 5 and 6, 1979 the only testimony presented was that of Mr. I. R. Farzaneh of the Commission's Gas Supply and Requirements Section-Gas Branch and Mr. Stan Young of Raypak, Inc.

During his direct testimony on April 5, 1979 staff witness Farzaneh further proposed (1) that large customers who can successfully demonstrate that solar is used as a primary (50 percent of total

1/ At the time the petition was filed the Ammonia Producers included Valley Nitrogen Producers, Inc.; U.S.A. Petrochem Corporation; and Union Oil Company of California. Prior to hearing, however, U.S.A. Petrochem Corporation closed its ammonia plant and did not participate in the proceedings.

2/ Priority 1 is presently defined as:

"1 All residential use regardless of size all other firm use with peak-day demands less than 100 Mcf/d."

requirements) source of energy be upgraded from Priority 3 to Priority 2 and (2) that boiler fuel customers presently in Priority 4 who utilize cogeneration and make substantial investments in energy efficiency improvements should be encouraged by the Commission to do so by upgrading their priority from Priority 4 to Priority 3.

Mr. Farzaneh stated that under this proposal upgrading would occur only after case-by-case consideration and approval by the Commission.

Southern California Gas Company (SoCal) moved to strike that portion of Mr. Farzaneh's testimony relating to the movement of selected customers from Priority 3 to Priority 2 and from Priority 4 to Priority 3, arguing that the testimony goes beyond the scope of issues noticed in the Executive Director's letter of March 6, 1979; that there is no procedure to handle such requests for upgrading of service; and that there are no provisions in the priority decisions whereby customers can be shifted on a case-by-case basis from one priority to another based on contributions to conservation. General Motors Corporation (GM) joined in SoCal's motion, adding that the notice of hearing did not contain any such generalized modification of the priority system to promote energy efficiency. ✓

The motion was taken under submission by the Administrative Law Judge pending receipt of briefs and the understanding that the motion would be disposed of in the decision that would be issued. The details of the staff proposal were presented by Mr. Farzaneh through his direct testimony and the introduction of Exhibit No. 214. ✓

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Based on the record herein, we are of the opinion that the motion of SoCal and GM should be granted. First, the parties were not notified in the March 6, 1979 notice that these issues were to be considered. Thus, many interested persons who might have responded did not appear, depriving the Commission of the benefit of a full record. Second, as admitted by the staff witness, there are presently no criteria by which to determine which cogeneration or solar investments should be considered. Finally, the priorities, as established in Decision No. 85189, as modified, were carefully formulated on the basis of a full and complete record, and the changes recommended by the staff are premature.

With respect to the reassignment of central heating plants serving complexes with residential and commercial tenants to Priority 1 from their presently assigned Priority 3, Mr. Farzaneh testified that at the present time there are only seven multi-unit residential complexes in California with a peak-day demand in excess of 100 Mcf/d; that only two of the seven are presently assigned to Priority 3; that transferring the existing Priority 3 would result in a volumetric decrease of only 0.275 MMcf/d; and that the assignment of these complexes to Priority 3 resulted from the definition of "residential use" as adopted in Decision No. 85189. ✓

Mr. Farzaneh further testified that because the Priority 3 classification of residential central heating plants places these users in a curtailable position, thereby requiring additional investment in liquid fuel standby facilities, such users may be discouraged from investing in solar or other energy efficient hardware and that applicants for gas service would follow the line of least resistance and install less efficient individual heating systems to qualify for Priority 1 service.

Based on the foregoing and because of the essential residential use for which large multi-unit residential dwellings utilize energy, the staff would modify the present definition^{3/} of "residential use" as follows:

"Residential Use: Service to customers which consists of natural gas use in serving a residential dwelling or multi unit dwellings for space heating, air conditioning, cooking, water heating, and other residential uses, except for central heating plants serving a combination of residential and commercial uses where the commercial portion of the use is in excess of 100 Mcf per day or is more than 15% of the total natural gas requirements."

It is argued that this definition takes into account those cases where large multi-unit residential complexes are served through a common meter together with some relatively small commercial complexes; that its adoption would achieve the beneficial goal of more efficient energy use with a de minimis impact on the present priority system and similar gas uses would be in the same priority. ✓

On upgrading electric utility gas turbines to Priority 3 from its present Priority 5 status Mr. Farzaneh stated that this proposal is the result of the Federal Energy Regulatory Commission (FERC) assigning electric utility gas turbines to Priority 3 in the federal curtailment scheme. He stated that when Decision

^{3/} "Residential use" is presently defined as "Residential Use: Service to customers which consists of direct natural gas usage in a residential dwelling for space heating, air conditioning, cooking, water heating, and other residential uses." (Emphasis added.)

No. 85189 was adopted in 1975 electric utility gas turbines were classified as Priority 5 under the El Paso Natural Gas (El Paso) curtailment plan but in 1977 were upgraded to Priority 3. Because of the difference in priority classification, it is alleged that on many days during the year, east of California gas turbine customers receive gas from El Paso on a Priority 3 basis while gas turbines classified as Priority 5 in California will be precluded from receiving service. It is also alleged that because of the difference in classification, additional operating expenses and administrative burdens are experienced by California's utilities. Finally, Mr. Farzaneh stated that the alternative fuel necessary for utility gas turbines has become increasingly scarce and expensive and that the recommended movement in priorities would increase the supply of distillate fuels available to other consumers.

Testifying in support of the staff proposal on April 6 to upgrade central heating plants to Priority 1 was Mr. Stan Young, the director of marketing for Raypak, Inc. Mr. Young stated that, as a manufacturer of boilers, water heaters for commercial and residential facilities, swimming pool heaters, and solar equipment Raypak, Inc. supports the staff because the use of a central heating and cooling system for a multi-unit residential complex is much more efficient than are individual appliances. He also stated that there is a cost saving of up to 50 percent by utilizing a central system rather than individual gas-fired appliances and that the 100 Mcf/d limitation has been a deterrent to the construction of new residential units utilizing a central system.

Southern California Edison Company (Edison) supports the staff recommendation regarding the realignment of priorities for electric utility gas turbines.

Edison states that the FERC has classified electric utility gas turbines as Priority 3 in the federal natural gas end-use priority scheme and that if the Commission fails to realign its priority system accordingly, natural gas that would otherwise be available to California

would be lost; that middle distillates, the alternative fuel for electric utility gas turbines, are presently in short supply and it is expected to get worse in the near future; that the realignment will not have the devastating effect upon other Priority 3 customers as some parties predict; that realignment of electric utility gas turbines to Priority 3 will not result in a shift in the use of such turbines from a primarily peaking mode of operating to a base load operation; and finally, that the realignment of gas turbines to Priority 3 is consistent with the announced policy of the U.S. Department of Energy (DOE).

Edison argues that El Paso's tariffs^{4/} filed pursuant to the FERC curtailment plan assures El Paso's east of California electric utility customers a Priority 3 classification for their gas turbines with little or no interruption and that the recommended reclassification is long overdue. With respect to alternate fuels for Priority 3 customers, Edison states that while other Priority 3 customers can substitute fuels such as No. 6 oil, gasturbine customers can only use middle distillates free of corrosives, deposits, or erosive elements. Edison also states that the Power Plant and Industrial Fuel Use Act restricts the use of natural gas and oil for both new and existing power plants and will accordingly greatly influence the gas requirements for electric utility gas turbines. With respect to using gas turbines for base load, Edison states that it is much more efficient for electric utilities to use their larger, conventional fired units when peak load generation is not required and thus, electric utilities would only use gas turbines for peaking purposes. Finally, Edison states that the realignment of priorities is consistent with the posture of the DOE which, through the Economic Regulatory Administration (ERA), proposes to encourage the use of natural gas in electric utility gas turbines.

^{4/} El Paso's tariffs reflect the opinion rendered by the United States Court of Appeals (D.C. Cir.) in City of Wilcox v FPC (1977) 567 F 2d 394. ✓

in lieu of middle distillate fuel and that the DOE encourages natural gas users who have switched from natural gas to petroleum, particularly middle distillates, to switch to natural gas where practicable and allowed by state or other governing laws and regulations.

Pacific Gas and Electric Company (PG&E) supports the staff proposed revisions stating that such changes would be more in alignment with federal priorities and could result in the receipt by California of greater quantities of natural gas. PG&E also states that the federal and state priorities plan should be aligned where possible to simplify the utility's operating procedures.

San Diego Gas & Electric Company (SDG&E) states that it supports any plan that would result in larger volumes of interstate gas flowing into California, particularly the proposal to elevate utility gas turbines to Priority 3.

SoCal opposes the proposal to upgrade residential central heating plants to Priority 1 status based on the residential nature of the units served. SoCal states that the concept of priority status, based on "end product", has repeatedly been rejected by the Commission in favor of an "end-use" approach where the ability to utilize an alternate fuel is determinative of the degree to which a customer will be exposed to curtailment and that there is no reasonable way to prioritize customers based on the social worthiness of various products and services. Further, SoCal states that if a large boiler can be reclassified as Priority 1 simply because its "product" may ultimately serve living quarters, a course may have been chartered where all gas customers will vie for priority preference on the basis of their particular contributions to the quality of life.

With respect to the staff's utility gas turbine proposal, SoCal states while the attempt to create consistency with federal curtailment priorities is admirable, such a change would actually result in a morass of economic, technical, and administrative difficulties; that the impact is major from a volumetric standpoint. Further, because of the huge requirements of utility turbines forecast by the

staff it alleges that it would be extremely unfair to the existing occupants of Priorities 3 and 4 who would find themselves considerably displaced by the demands of the gas turbines.

SoCal further avers that while the staff surmises that unless California's utility electric turbines are elevated to Priority 3 the State will forfeit gas which otherwise would have been available under the federal curtailment plan of El Paso, no evidence or data has been advanced to show what the "loss" of gas to California would be. In addition, SoCal states that if the staff proposal is adopted, SoCal would be required to ignore the Commission's "parity" order of Decision No. 84512 requiring comparable levels of service to all utility electric generation customers served directly or indirectly.

Finally, SoCal suggests that before proposing any change in utility electric gas turbines, the staff should (1) ensure that the federal priorities have been established, (2) investigate to what extent inconsistencies between state and federal priorities may result in a diminution of supply, (3) investigate and make recommendations concerning the conflict with the parity concept, and (4) evaluate the impact of the proposal on current Priority 3 and Priority 4 customers, and the resultant effect on the California economy.

GM did not present any witnesses during this phase of hearing but conducted extensive cross-examination of the various witnesses.

With respect to the staff proposal to revise the state priority plan to conform to applicable federal criteria, GM's position is that such action would be untimely and premature; that there is little, if any, tangible evidence that benefits will accrue to California should the proposed revisions be adopted; and that whether couched in terms of "energy efficiency consideration" or "potential loss of gas from interstate pipelines", the benefit side of the equation is speculative.

In taking exception to the staff proposal to elevate central boilers serving residential and commercial complexes from Priority 3 to Priority 1, GM argues that in Decision No. 86357 we state:

"In Decision No. 85189 we distinguished between gas for industrial boiler fuel use (Priority 4) and commercial boiler use (Priority 3). Notwithstanding the distinction made therein, we believe, as argued by all parties, that a true end-use plan requires that the use of the gas and not the end product should determine the appropriate customer priority. As pointed out and concurred in by most participants, a distinction based on customer classification, i.e., industrial and commercial, rather than how the gas is used at the burner tip is a social judgment and not based on the end-use concept."

and that nothing has occurred in the interim to call this principle into question.

On the elevation of electric utility gas turbines, GM argues that placing these turbines in Priority 5 was consistent with the end-use concept supported by the evidence as to the insignificant cost of converting gas turbines to an alternate fuel. It asserts that staff's reliance on federal action for elevating utility gas turbines to Priority 3 is misplaced in that (1) the Federal Power Commission (now FERC) in implementing the decision in Wilson v FPC, 576 F 2d 394, on July 29, 1977 determined that electric gas turbine requirements should remain in Priority 3 until further order of the Commission and that on August 10, 1977 the presiding Administrative Law Judge issued a notice of conference to establish priorities and procedures with possible reclassification to Priority 3 of gas turbines utilized to generate electricity and (2) there has been no quantification of the amount of natural gas, if any, that California might lose as the result of the present discrepancy between the federal and state priorities.

Discussion

Public Utilities Code Section 2771^{5/} requires that the Commission establish priorities for natural gas service based, in pertinent part,

^{5/} All references are to the Public Utilities Code.

on a determination of those uses which provide the most important public benefits and serve the greatest public need. Pursuant to Section 2771, and based on the supply forecast made at that time, we established, in Decision No. 85189, a priority system tied to the end-uses of natural gas and the relative ability of different types of gas-using equipment to utilize alternate fuels. ✓

In Decision No. 86357 we modified the basic priority criteria established in Decision No. 85189 and recognized that our decisions provided only a starting point from which selected modifications should be made to insure that the curtailment procedures continue to serve the public interest. Additionally, in Decision No. 86357, provision was made to allow customers to apply directly to the Commission for relief from curtailment. Relief would be granted, however, only upon a showing that the customer was subject to extensive curtailment creating undue hardship.

At the hearings of April 5 and 6, 1979 the staff provided testimony and data supporting its recommendations that the natural gas end-use priority system be modified (1) by assigning certain central heating plants serving residential and commercial complexes to Priority 1 from the presently effective Priority 3; and (2) by assigning electric utility gas turbines to Priority 3 from the presently effective Priority 5. Under the staff proposal, the reclassification of central heating plants requiring in excess of 100 Mcf on a peak day would be accomplished by modifying the presently effective definition of residential use, the narrow nature of which forces such use to be classified as Priority 3, rather than Priority 1, along with other residential use.

Because of the absence of any showing in opposition to the staff's proposed modifications, no conflicts in evidence exist to be resolved. However, there was concern expressed on certain issues which deserve comment. SoCal's reference in its brief of May 14, 1979 to legal impediments to reclassification of the turbines arising from our "parity" orders in Decision No. 84512, requires some discussion and

clarification. Decision No. 84512 was issued prior to our orders establishing end-use curtailment procedures and required comparable levels of service to SoCal's direct and indirect electric utility generating customers. Additionally, we provided for periodic reports of the loads and resources of SoCal's direct and indirect electric generating customers to assure comparable levels of service to such customers on a current basis. SoCal contends that unless all of its direct and indirect generating customers have a proportionally similar mix of turbine and boiler capacity, parity in delivery to such customers would be impossible to achieve. While SoCal correctly anticipates a potential disparity in levels of service if electric utility gas turbines are assigned to Priority 3, it does not follow that we are precluded from requiring such an assignment upon a showing before the Commission that the reclassification meets the public interest requirements of Section 2771 of the Public Utilities Code.

The concern expressed as to the impact on existing Priority 3 customers with the movement of utility gas turbines to Priority 3, is without merit. The evidence of record is that there would be little, if any, diminution of Priority 3 service. Further, the Power Plant and Industrial Fuel Use Act was enacted in November 1978 which restricts the use of natural gas and oil for both new and existing power plants. Under this act, new power plants are prohibited from using oil or natural gas while existing facilities are prohibited from using natural gas as a primary energy source after January 1, 1990 or before that date unless the gas was the primary energy source at any time in 1977 and only then in proportion to its use in 1974 through 1976.

Regarding the concern that a higher priority could lead to electric utilities "base loading" their gas turbines, the evidence is that a higher priority alone would not lead to such action because: (1) electric utility gas turbines are relatively small as compared with the larger steam generating plants used by electric utilities to generate electricity for base load purposes; (2) steam generating plants are more efficient than are gas turbines in terms of electricity production when

peak load is not required; and (3) electric utility gas turbines are primarily used for peak load rather than base load.

Ammonia Producers Petition

Hearings on the Ammonia Producers' petition to create a new Priority 1-B were held April 25 and 26, 1979 in San Francisco. The petition is for the establishment of a new Priority 1-B which would include the following end-use:

"Where primary use is as a feedstock for essential agricultural use with no alternative fuel available."

Such use is presently classified as Priority 2-A under the priority criteria adopted in Decision No. 85189, as modified.

In seeking this new priority, the Ammonia Producers state that three factors contributed to the filing of its petition. First, in passing the Natural Gas Policy Act of 1978 (NGPA), Congress recognized the importance of ensuring a reliable supply of natural gas for "essential agricultural uses" including the production of ammonia and that interstate pipelines were thereby required to establish a special priority for those uses which have no alternative fuel; second, the creation of a special new priority will benefit the California agricultural industry and all California citizens by placing ammonia above other important industrial users; and, third, the creation of a new priority class will have an important effect by facilitating the establishment of a separate rate schedule for Ammonia Producers.

Testifying on behalf of the Ammonia Producers were the Director of the State Department of Food and Agriculture, Mr. Richard E. Rominger, the Deputy Director of the State Department of Food and Agriculture, Mr. Jerry D. Scribner, the head of the long range planning program in the State Department of Food and Agriculture, Mr. Vashek Rcernka, the assistant of the President of the Western Growers Assn., Mr. Walter Jemmeson, the general manager of the California Fertilizer Assn., Mr. E. James Houseberg, the editor of the California Farmer, Mr. Jack T. Pickett, the Vice President of Valley Nitrogen Producers,

Mr. Elvis B. Lee, the Director of the Department of Economics and Business Development for the State of California, Ms. Betty Byrant, and the manager of Development for Union Chemicals Division of Union Oil Co. of California, Mr. John J. Clarke.

The Commission staff opposes the Ammonia Producers, alleging that the real motivation for the petition is for special rate treatment over present Priority 2-A customers; that the Ammonia Producers are presently only one priority removed from the highest classification with no prospect of curtailment; that to date there have been no curtailments of ammonia producers due to lack of supply; that despite no curtailments, six ammonia plants in California closed for other economic reasons; and finally, that the Ammonia Producers produced no evidence that the existing classification had been insufficient to protect their supply of natural gas.

SoCal states that petitioners are presently enjoying Priority 2-A status; that as yet, there has been no curtailment of this priority, nor is there any projected curtailment for this priority in the near future. SoCal further states that while requesting a new priority in this proceeding, the Ammonia Producers intervened in SoCal's rate increase application seeking exemption from any and all rate increases^{6/} for at least 12 months. Should they prevail in the subject petition, they would enjoy the lowest rate for any class of retail customer, including lifeline sales, if SoCal's proposed rate design is adopted in that proceeding.

Union Carbide Corporation (Union) did not participate in this phase of hearings but did file written comments in opposition to the Ammonia Producers' petition.

Union states that the Commission, in establishing its priority system, recognized and adopted the end-use principle substantially in

^{6/} In interim Decision No. 90322 dated May 22, 1979 in SoCal's Application No. 58724, we determined that to maintain the Ammonia Producers' load and preclude potentially serious and widespread adverse effects to the California agricultural industry, the rates for the Ammonia Producers should not be increased.

conformance with the priority system adopted by the Federal Power Commission in its Order 467-B; that the present priorities are based on the specific fuel or feedstock requirements of the user rather than the economic classification of users and the end products produced; and that the Ammonia Producers recognized that fact by limiting their proposed Priority 1-B to "...essential agricultural use and with no alternative fuel available." ✓

Union argues that in Decisions Nos. 85189 and 86357 the Commission was aware that there are many agricultural and food industry needs and processes that depend on natural gas because of its unique characteristics either as a feedstock (e.g., for fertilizer production) or for hydrogen and carbon dioxide production used in food processing for which there is no feasible fuel substitute and that the Commission further recognized that there are other agricultural and food industry processes in which natural gas is used merely as a boiler fuel and which therefore do not qualify as high priority uses because there are suitable alternate fuels. Union also states that both feedstock and food processing uses where there are no suitable alternate fuels presently qualify for Priority 2-A but that the adoption of the Ammonia Producers' proposal would place the food processors who are dependent on natural gas in a lower priority.

Although the Ammonia Producers and interested parties submitted ample testimony on the economic plight of the Ammonia Producers, rates are simply not an issue in this proceeding. The Ammonia Producers are not precluded, nor have they been precluded, from seeking just and reasonable rates in an appropriate proceeding independent of their priority classification. With respect to curtailment, no evidence was presented in this set of hearings which would permit us to conclude that natural gas service to the Ammonia Producers would be curtailed, absent a new Priority 1-B classification. Natural gas supply estimates have, however, been introduced into the record of this proceeding as recently as February of this year. Such

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estimates were contained in Exhibit No. 211 sponsored by the staff. Within the staff testimony contained in Exhibit No. 211, the staff concluded that it expected the California distribution utilities to be able to maintain high levels of service to Priority 3 and Priority 4 until the mid 1980's, and if base load supplemental supplies are then received, high levels of service can be maintained into the long-term future. Priority 2-A, the Ammonia Producers' present classification, has not been curtailed in California since we established the end-use procedures. Without a showing of curtailment or diminished supply creating an undue hardship on the Ammonia Producers, establishment of a higher priority occupied exclusively by Ammonia Producers cannot be justified. Creation of a separate priority to be inserted between Priority 1 and Priority 2-A, which would include essential agricultural uses, may, at some time, be both desirable and justifiable in order to bring the state criteria in conformance with the ultimately adopted federal criteria. The petition of the Ammonia Producers, however, is premature, because first, the final rules implementing Section 401 of the NGPA are not scheduled to become effective until November 1, 1979, and second, the category of essential agricultural uses as defined in Section 401 of the NGPA and further established in FERC Order No. 29 includes a plethora of uses in addition to ammonia production.

While we will deny the Ammonia Producers' petition for a separate Priority 1-B classification, we do not reject the idea of creating a separate category to be inserted between Priority 1 and Priority 2-A to accommodate essential agricultural uses as ultimately defined in the curtailment procedures applicable to interstate pipeline companies. Hearings on Item 3 of the staff's proposed modifications which deal with extensive modifications to the present criteria, to bring them in conformance with the federal criteria, have not been set. Prior to holding hearings on these extensive modifications, the federal criteria, which are presently interim in nature, must be made permanent. When such permanent criteria are established, we expect the staff to support a proposal to bring the state criteria in conformance with the federal criteria with supply-demand forecasts.

Such forecasts should include projected levels of service to the various priorities under the present criteria compared with the projected levels of service under priority criteria adopted at the federal level, including the criteria mandated by the NGPA.

Findings of Fact

1. A priority system for the statewide allocation of natural gas based on end-use was established by Decision No. 85189 dated December 2, 1975 and modified by Decision No. 86357 dated September 1, 1976.

2. The critical consideration used to establish the end-use priority system was the ability of customers to convert to the use of alternate fuels.

3. The priorities established by Decision No. 85189 defined residential use as:

"Service to customers which consists of direct natural gas usage in a residential dwelling for space heating, air conditioning, cooking, water heating, and other residential uses."

4. Certain central heating plants serving complexes with residential and commercial tenants are presently assigned to Priority 3.

5. Electric utility gas turbines are presently assigned to Priority 5.

6. The Commission staff proposes to transfer central heating plants serving residential and commercial tenants from Priority 3 to Priority 1.

7. At the present time there are only seven multi-unit residential complexes in California with a peak-day demand in excess of 100 Mcf/d. Only two of the seven multi-unit residential and commercial complexes with central heating plants are presently assigned Priority 3.

8. Transferring existing Priority 3 central heating plant multi-unit residential and commercial complexes to Priority 1 would result in an average Priority 3 volumetric decrease of 0.275 MMcf/d.

9. Classifying residential and commercial complexes with central heating plants in Priority 3 places these customers in a curtailable position thereby requiring additional investment in distillate fuels and standby facilities.

10. Requiring residential and commercial complexes with central heating plants to invest in standby facilities and carry a reserve of distillate fuel tends to discourage these customers from investigating solar and other energy efficient hardware while encouraging applicants for gas service to install less efficient individual heating systems to qualify for Priority 1 service.

11. Serving a multi-unit residential/commercial complex with a central heating plant through a single meter is more energy efficient than serving each tenant through an individual meter.

12. The definition of residential use should be amended to read as follows:

"Residential Use: Service to customers which consists of natural gas use in serving a residential dwelling or multi unit dwellings for space heating, air conditioning, cooking, water heating, and other residential uses, except for central heating plants serving a combination of residential and commercial uses where the commercial portion of the use is in excess of 100 Mcf per day or is more than 15% of the total natural gas requirements."

13. Electric utility gas turbines are presently assigned to Priority 3 under the El Paso curtailment plan. El Paso is California's primary interstate supplier of natural gas.

14. Reclassification of electric utility gas turbines from Priority 5 to Priority 3 will:

1. Bring the state curtailment plan into conformity with the El Paso curtailment plan.
2. Provide natural gas for California utility gas turbine customers when the east of California customers receive Priority 3 gas from El Paso.

3. Lessen operating expenses and utility administrative burdens.
4. Release middle distillate fuels, which are in short supply nationally, to customers who are unable to utilize any other energy source.

15. California's two Ammonia Producers are presently classified as Priority 2-A for curtailment purposes.

16. Agriculture is the No. 1 industry in the State of California and ammonia fertilizers are critical to support this industry.

17. To date there has been no curtailment of ammonia producers due to supply. For curtailment purposes, Ammonia Producers are presently only one priority removed from the highest priority.

18. Natural gas is an essential process fuel for food processors in the State who are unable to use an alternate fuel.

Conclusions of Law

1. To the extent provided in the order which follows, the staff proposal should be adopted.
2. The Ammonia Producers' petition to create a new priority should be denied.

SUPPLEMENTAL ORDER

IT IS ORDERED that:

1. The definition of residential use for curtailment purposes adopted in Decision No. 85189 is revised as follows:

"Residential Use: Service to customers which consists of natural gas use in serving a residential dwelling or multi-unit dwelling for space heating, air conditioning, cooking, water heating, and other residential uses, except for central heating plants serving a combination of residential and commercial uses where the commercial portion of the use is in excess of 100 Mcf per day or is more than 15% of the total natural gas requirements."

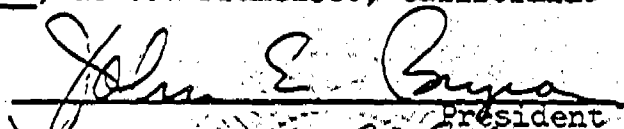
2. Electric utility gas turbines shall be reclassified to Priority 3.

3. The petition of the Ammonia Manufacturing Companies of Southern California is denied without prejudice.

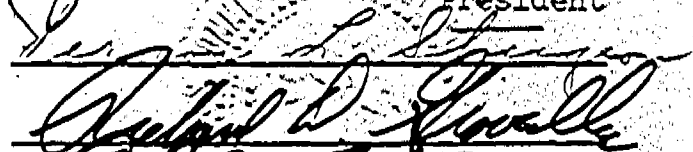
4. Respondent gas utilities shall file revised tariffs reflecting the modifications under Ordering Paragraphs 1 and 2 above to become effective on the effective date of this order.

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

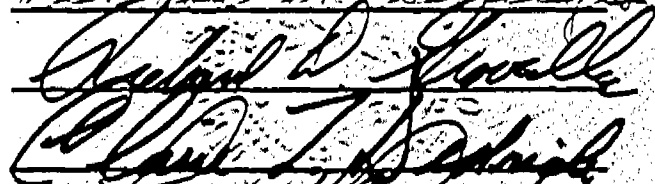
Dated SEP 12 1979, at San Francisco, California.



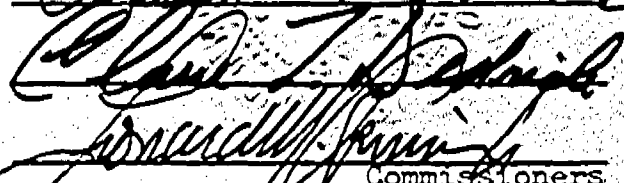
President



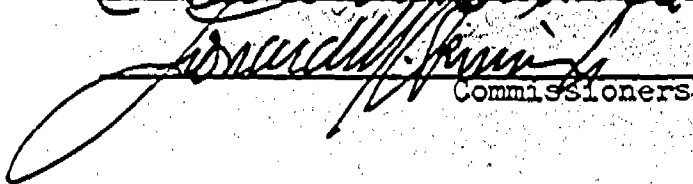
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