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Decision No. 90821 SEP 12 1979

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. 58469 (Filed November 16, 1978)
Application of PACIFIC GAS AND ELECTRIC COMPANY for authority to revise its gas rates and tariffs under the Supply Adjustment Mechanism, to change gas rate design, and to consolidate the Supply Adjustment Mechanism with the Gas Cost Adjustment Clause. (Gas)	Application No. 58470 (Filed November 16, 1978)

ORDER GRANTING LIMITED REHEARING OF DECISION No. 90424

Petitions for rehearing of Decision No. 90424 have been filed by California Manufacturers Association, (CMA), General Motors Corporation (GMC) and Pacific Gas and Electric Company (PG&E). PG&E has also filed a response to the petitions filed by CMA and GMC asking that those petitions be denied. On August 16, 1979, a late filed petition for rehearing was received from Western Mobile Home Association (WMA), a party to these proceedings. In view of our action taken here we believe WMA has the relief it seeks.

We have considered each and every allegation of error in the petitions filed by CMA, GMC and PG&E and are of the opinion that good cause has been shown to grant a rehearing on the issue of rate design. therefore, IT IS HEREBY ORDERED that rehearing of Decision No. 90424 is granted limited to receipt of evidence and argument on the issue of rate design. Said rehearing will ~~be consolidated~~ proceed along with the further hearings mandated by the California Supreme Court, in CMA et al. vs CPUC, (1979) 24 C 3d. 263.

Except as to the issue of rate design, rehearing of Decision No. 90424 is hereby denied.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 12th day of SEPTEMBER 1979.

John E. Bryson
President

Vernon L. Sturgeon

Richard D. Gravelle

Claire T. Dedrick

Leonard M. Grimes, Jr.
Commissioners

fc/ks

Decision No. 90424 June 19, 1979

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. 58469 (Filed November 16, 1978)
Application of PACIFIC GAS AND ELECTRIC COMPANY for authority to revise its gas rates and tariffs under the Supply Adjustment Mechanism, to change gas rate design, and to consolidate the Supply Adjustment Mechanism with the Gas Cost Adjustment Clause. (Gas)	Application No. 58470 (Filed November 16, 1978)

Malcolm H. Furbush, Robert Ohlbach, and Peter W. Hanschen, Attorneys at Law, for Pacific Gas and Electric Company, applicant.

Stephen A. Edwards, Attorney at Law, for San Diego Gas & Electric Company; James P. Bennett and Charles R. Farrar, Jr., Attorneys at Law, for Kerr-McGee Chemical Corp.; George Agnost, City Attorney, and Leonard L. Snaider, Attorney at Law, for City and County of San Francisco; Gordon E. Davis and William H. Booth, Attorneys at Law, for California Manufacturers Association; Philip A. Stohr, Attorney at Law, for General Motors Corporation; Graham & James, by Boris H. Lakusta, David J. Marchant, and Thomas J. MacBride, Jr., Attorneys at Law, for California Hotel and Motel Association; Ronald J. Mulcare, Attorney at Law, for City of Palo Alto; Warren Tullman, for Southwest Gas Corp.; Harry K. Winters, for University of California, Berkeley; Glen J. Sullivan, Attorney at Law, for California Farm Bureau Federation; interested parties.

Patrick J. Power, Attorney at Law, and John L. Dutcher, for the Commission staff.

OPINION

By these applications Pacific Gas and Electric Company (PG&E) requests authority effective January 1, 1979, to increase its gas rates under the Gas Cost Adjustment Clause (GCAC) (Application No. 58469) and under the Supply Adjustment Mechanism (SAM) (Application No. 58470), both of which are included in its gas tariff. The sought increases on an annualized basis as set forth in the applications are $133.5 million under GCAC and $83.9 million under SAM, a total of $217.4 million. PG&E also requests modification of the Gas Cost Balancing Account (GCBA) to include carrying costs on investments in gas in storage and in prepaid gas to be reflected to the extent those costs are more or less than the amounts provided through base rates. Application No. 58470 also includes a proposal that would consolidate the SAM and GCAC mechanisms into a Gas Adjustment Clause (GAC).

These matters were consolidated for hearing, which was held, after due notice, at San Francisco before Administrative Law Judge O'Leary on seven days between February 26 and March 9, 1979. The matters were submitted subject to the filing of concurrent opening and closing briefs, the closing briefs due on or before March 23, 1979.

In the intervening four months between the filing of the applications and the hearings scheduled therein, two events occurred that tended to outdate PG&E's supply and sales estimates. On December 8, 1978, PG&E and Southern California Gas Company (SoCal Gas) entered into a contract whereby PG&E agreed to sell to SoCal Gas a yearly average of 27,375 MMcf (75 MMcf daily average) on a firm basis and a like amount on a best efforts basis, at a price of $2.29 per decatherm.

The contract extends through 1981. An escalator provision equal to the average increase or decrease in rates to PG&E's Gas Department customers authorized by this Commission is included in the contract. The sale was authorized by the Commission on December 19, 1978, pursuant to Resolution No. A-2259 dated December 19, 1978.

Similarly, in late December 1978 El Paso Natural Gas Company (El Paso) released new gas projections which showed increased volumes of gas being available to customers on its system because of increased reserve additions. Based on these new projections, PG&E expects to receive more gas from El Paso than was reflected in the applications. As of the date of filing the applications El Paso is PG&E's least expensive source of supply.

On February 16, 1979, PG&E received a copy of the staff's "Report For Pacific Gas and Electric Company Gas Department" (Exhibit 5). Exhibit 5 reflects the sale to SoCal Gas at a level of 150 MMcf daily (58,344 MDth) and the increased supplies available from El Paso. Based upon a review of Exhibit 5, PG&E stipulated for the purposes of the instant applications that the staff estimates of total supplies, sales, and increased revenue requirement should be utilized. Based on the staff showing, which PG&E adopts, the increased annual revenue requirement is now $163,988,000 of which $114,046,000 is attributable to GCAC and $49,942,000 is attributable to SAM. The application of SAM to PG&E's operating results is illustrated in Appendix A attached hereto.

The additional revenue sought by PG&E is necessitated because the cost of gas PG&E is being charged by its interstate and intrastate gas suppliers is more and because gas sales are less than projected for test year 1979 as adopted in Decision No. 89316 dated September 6, 1978, in Application No. 57285, its last general rate increase.

To recover the additional revenue requirement, PG&E proposes to increase Schedules Nos. G-1, GS, GM, G-2, G-30, G-60, G-61, G-62 and G-63 on a uniform cents per therm basis. This method results in an increase of $0.02511 per therm for the requested GCAC increase and $0.01187 per therm for the requested SAM increase. In accordance with the escalator clause provision in its contract with SoCal Gas, the contract price will increase $0.01559 per therm under GCAC. No increase is proposed in the contract price under SAM. PG&E suggested in Application No. 58470 that the customer charge under Schedules Nos. G-1, GS, and GM could be increased from $1.20 to $1.70 to absorb a portion of the SAM increase. The customer charge for Schedule G-2 could also be increased from $1.20 to $2.20 for the same reason. PG&E alleges this would help reduce the deficiency between the present customer charge and the allocated customer cost to serve.

In Decision No. 89316 the Commission recognized that gas rates to certain industrial customers had reached a level equal to or greater than certain alternate fuel prices for those customers. As a result, PG&E was losing gas customers at a precipitous rate. To remedy this situation and to provide stability, the Commission stated:

> ". . . The undisputed departure of certain customers from PGandE's system is indicative that the gas price adopted in Decision 87585 represents a plateau from which to survey the alternative fuel market. We will therefore authorize a Schedule No. G-52 rate as proposed by PG&E, but we find that a rate of 22.90 cents per therm is reasonable. This will provide a point of stability in our alternative fuel pricing policy. As more information is developed by the staff, PG&E, and other interested parties, further opportunities for differentiation along the lines of alternative fuel use may present themselves. For the future, PG&E's semiannual Gas Cost Adjustment Clause (GCAC) and SAM filings should be used to develop and maintain rates that are

> current and competitive with respect to alternative fuels and new gas supplies." (Decision No. 89316, p. 69.)

As a result, PG&E does not propose to increase Schedules Nos. G-50, G-52, G-55, or G-57.

In support of its proposal not to increase the above schedules, PG&E presented evidence concerning the cost of No. 2 and No. 6 fuel oil. Schedule G-50 customers have the capability of utilizing No. 2 fuel oil as their alternate fuel. Schedules Nos. G-52, G-55, and G-57 customers have the capability of utilizing No. 6 fuel oil as their alternate fuel.

PG&E's study of alternate fuel prices consists of a telephone survey conducted in August 1978 wherein PG&E contacted customers actually purchasing alternate fuel to determine the actual prices paid by said customers for the alternate fuel. The survey discloses, with respect to No. 6 oil, the average price paid by 25 customers contacted was \$1.97 per million Btu (\$0.197 per therm); with respect to No. 2 oil, the average price paid by 46 customers was \$2.74 per million Btu (\$0.274 per therm).

The present Schedule No. G-52 rate is \$0.22629 per therm. PG&E's alternate fuel survey shows that for customers on its G-52 Schedule 99.7 percent of Priority 3 customers' requirements and 96.8 percent of Priority 4 customers' requirements could be satisfied by No. 6 oil purchased at a cost per therm less than the present G-52 Schedule rate.

The present Schedule No. G-50 rate is \$0.24929 per therm. PG&E's alternate fuel survey shows that of 37 of its Priority 3 customers surveyed on its G-50 Schedule only six surveyed customers comprising 27.4 percent of surveyed Priority 3 customers' requirements and that of nine of its Priority 4 customers surveyed on its G-50 Schedule only one surveyed customer comprising 8.8 percent of surveyed Priority 4 customers' requirements could be satisfied by No. 2 oil purchased at a cost per therm less than the present G-50 Schedule rate.

Steam Electric Service customers, PG&E Electric Department (Schedule No. G-55) and Southern California Edison Company (Edison) (Schedule No. G-57), have the capability of utilizing No. 6 oil. No increase is proposed for said schedules by PG&E.

Presently, PG&E is authorized to include $79,652,000 of stored gas and zero prepaid gas in rate base. PG&E presented evidence that at certain times of the year gas in storage and prepaid gas exceeds the amount authorized in rate base. PG&E believes that it was prudent to store gas for future use by its customers. PG&E proposes that the GCAC be modified so that future carrying costs on investments in stored gas will vary directly with changes in such investments from the amount authorized in rate base. The proposed revision would add to or subtract from the GCBA provision 1.3 percent per month of the difference between the average costs of stored gas and prepaid gas and the amounts allowable in rate base.

In Decision No. 88835 dated May 16, 1978, in Case No. 10261, the Commission ordered PG&E and other gas utilities to include a proposal in its first SAM filing for consolidating SAM and GCAC. PG&E's proposal, which it labels GAC, is set forth in Exhibit 3 pp. A-8 and A-9. PG&E's proposal would have the effect of reducing the number of balancing accounts and rate adjustment proceedings. As there are several balancing accounts, we will require PG&E to add a new Part B to its preliminary statement showing the derivation of the effective commodity rates. This new part is shown in Appendix D, page 3. The combined GCAC-SAM shall become Part C.

As previously stated, for the purposes of these applications PG&E has adopted the staff's estimated revenue requirements. The staff recommends a reblocking of residential rates as follows:

TABLE 1

Proposed Residential Blocking

Tier	Therm Usage Basic & Summer		Therm Usage Winter Climatic Zone	W	X	Y	Rate $ Per Therm1/
I-A	First	10	First	50	50	50	0.15770
I-B	Next	16	Next	31	56	91	0.17450
II	Next	26	Next	30	30	30	0.24759
III	Next	26	Over	111	136	171	0.26349
IV	Over	78	-	-	-	-	0.33739

The present blocking of residential rates is as follows:

TABLE 2

Tier	Therm Usage Basic & Summer		Therm Usage Winter Climatic Zone	W	X	Y	Rate $ Per Therm
I	First	26	First	81	106	141	0.16520
II	Next	26	Next	81	106	141	0.24729
III	Next	26	-	-	-	-	0.27229
IV	Next	26	Over	162	212	282	0.29729
V	Over	104	-	-	-	-	0.37329

As can be seen from a comparison of the above charts, the staff's proposal splits the present lifeline block (Tier 1) into two lifeline blocks, Tiers I-A and I-B.

In Exhibit 5 the staff sets forth its reasoning for revision of the residential blocking as follows:

1. The present residential blocking is based on lifeline allowance multiples and has been in effect since July 1977. For the estimated year 1979 87 percent of residential sales are in the first two tiers and 88 percent for

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1/ Present rates as revised by staff to reflect Proposed Residential Blocking.

the estimated year 1980. The staff analyzed the 12 months ending June 1978 data and the PG&E projections for 1979 and 1980 and concluded that the commodity blocks were too many in the summer, too large in the winter and should be adjusted. It was also determined to split the lifeline block due to the large volume of consumption.

2. The proposed lifeline split will leave approximately 25 percent of the summer sales and 50 percent of the winter sales in the first consumption block; present blocking sales would be 57 percent in summer and 83 percent in winter. At the proposed rates the first lifeline block is priced approximately 5 percent below and the second lifeline block approximately 5 percent above the lifeline average. This split will offer residential consumers an economic incentive if they conserve and use less than the lifeline allowance.

C. NONLIFELINE BLOCKS

3. The present summer tiers contain five consumption blocks with some 98 percent of the residential sales in the first four tiers. Eliminating the fifth tier and reducing the GM and GS blocking will place about 10 percent of the summer sales in the fourth tier and provide an adequate area for conservation.

4. For winter consumption over 98 percent of use is within the first two tiers. The therm quantity in the second tier has been reduced so that approximately 10 percent of the sales would be in the third tier and, as for summer, provide an adequate area for conservation.

A comparison of revenues generated under the present residential blocking and the staff's proposed residential blocking is set forth in Table 3.

TABLE 3

	Present Blocking			Proposed Blocking		
Schedule	Volume M Therms	Present $/th Rate	Revenue M $	Volume M Therms	Adjusted Present $/th Rate	Revenue M $
Per Customer	-	1.20	$ 37,453	-	1.20	$ 37,453
Tier I	1,590,275	.16520	262,713	-	-	-
Tier I-A	-	-	-	880,275	.15770	138,819
Tier I-B	-	-	-	710,000	.17450	123,895
Tier II	424,561	.24729	104,990	314,697	.24759	77,916
Tier III	78,471	.27229	21,367	216,480	.26349	57,040
Tier IV	66,940	.29729	19,901	88,661	.33739	29,913
Tier V	49,866	.37329	18,614	-	-	-
GM-N, GS-N	133,320	.27229	36,302	133,320	.27229	36,302
Total	2,343,433	-	$501,340	2,343,433	-	$501,338

To recover the additional revenue requirement, under GCAC and SAM, the staff recommends increases as follows:

TABLE 4

Schedule	Volume (M Therms)	GCAC Increase $ Per Therm	GCAC Revenue M $	SAM Increase $ Per Therm	SAM Revenue M $
(Residential)					
Tier I-A	880,275	.0223	$19,630	.003	$2,640
Tier I-B	710,000	.0223	15,833	.003	2,130
Tier II	314,697	.0324	10,196	.004	1,259
Tier III	216,480	.0324	7,013	.004	866
Tier IV	88,661	.0324	2,873	.004	355
GM-N, GS-N	133,320	.0324	4,320	.004	533
Total	2,343,433	-	$59,865	-	$7,783
(Nonresidential)					
G-2	1,769,260	.0246	$43,524	.00398	$ 7,042
G-50	821,010	-	-	.01800	14,778
G-52	303,410	-	-	-	-
G-55	1,318,220	-	-	.01390	18,323
G-57	127,500	-	-	.01390	1,772
Total	4,339,400	-	$43,524		$41,915
Resale					
Lifeline 33.7%	36,118	.0187	$ 675	.00220	$ 79
Nonlifeline 66.3%	56,742	.0268	1,521	.00290	165
Total	92,860	-	$ 2,196	-	$ 244
SoCal Gas Sales	542,350	.0156	$ 8,461	-	-
Total	7,318,043	-	$114,046	-	$49,942

Appendix B, attached hereto, contains the recommendations of PG&E and the staff so that the similarities and differences between the two proposals can be compared.

The staff also conducted a study of alternate fuel prices based on its study; it agrees with PG&E that no increase is appropriate at this time in the G-52 Schedule under GCAC or SAM. It also agrees with PG&E that no increase is appropriate in the G-50, G-55, or G-57 Schedules under GCAC; however, it does recommend an increase to the G-50, G-55, and G-57 Schedules under SAM. PG&E does not recommend an increase to those schedules under SAM. In its survey the Commission staff utilized Platt's Oilgram which is a daily publication which quotes daily posted prices offered by refineries for various grades of oil in different geographical areas. The staff witness also took into consideration transportation costs of the alternate fuel and sales tax at 6.5 percent in arriving at the average cost of No. 2 and No. 6 oil. The No. 6 fuel oil prices quoted were for oil containing a maximum of 3 percent sulphur content. The staff witness added $3.00 per bbl. to adjust for an estimated price of the No. 6 fuel oil with a maximum of .5 percent sulphur content. The staff study (Exhibit 5, Table 7A) shows the average and cents per therm price of alternate fuel as 22.86 cents for No. 6 oil and 27.42 cents for No. 2 oil for the last six months of 1978. The staff study was updated by Exhibit 17 which shows the average for the three-month period from December 1, 1978, to February 28, 1979, to be 23.64 cents for No. 6 oil and 29.99 cents for No. 2 oil.

The staff financial examiner takes exception to the proposal of PG&E to recover carrying costs of stored and prepaid gas in excess of $79,652,000 and zero, respectively, for the following reasons:

a. The purpose of the GCAC is to set forth a procedure to allow the utility to recover the increased costs of purchased gas resulting from suppliers' price increases on a timely basis. PG&E's

proposal is not related to price increases but rather to investment costs on excess gas storage which should be accounted for in a general rate case proceeding.

b. If the proposal was granted, the incentive to maintain a reasonable inventory level would be impaired. There would be no incentive to maintain authorized limits on the level of inventory on which a return could be earned.

c. The Commission staff determines the reasonableness of inventory levels and associated carrying costs in a general rate case proceeding. By allowing automatic pass through of costs in excess of this reasonable level, without adequate chance for review, regulatory control is impaired.

d. This proposal would, in effect, be substituting a guaranteed return for what otherwise would be an opportunity to earn a return on its investment on inventory.

e. A similar request by Edison filed in Application No. 55198 dated September 17, 1974, was denied in Decision No. 84577 dated June 24, 1975. Edison requested an offset to allow a return on increased fuel oil inventory. Finding No. 7 of Decision No. 84577 stated: "Rate adjustments relating to elements of rate base should only be considered together with overall test year earnings to avoid the risk of unbalancing customer and investor interest."

An engineer from the Commission staff's Gas Branch testified on cross-examination that it was prudent for PG&E to purchase and store additional quantities of gas. He did not endorse PG&E's proposal to recover the carrying costs of gas in storage over that last authorized in rate base in a general rate case.

The staff has no objections to the PG&E proposal for combining GCAC and SAM, except as follows:

a. Separate rates must be established so that SAM rates can be reduced to zero when a decision in a general rate case is issued. The general case would establish a new base for SAM and terminate current SAM conditions.

b. GCAC rates would be additive to those in a general rate case decision and could vary depending on the adopted cost of gas.

The Commission staff recommends that the revenue requirement under SAM be adjusted downward by $3,925,000 to reflect the decrease in the corporate income tax rate from 48 percent to 46 percent. The figures previously set forth by the staff's rate spread witness do not reflect this recommendation.

On the last day of the hearings, the staff proposed a modification for rate Schedules Nos. G-50 and G-52 which would provide an "optional rate" and an "alternative rate". The optional rate, the lower of the two, would apply to customers who agree to use gas when available as the exclusive fuel in the operation of gas fuel equipment for a six-month period or until the next commodity rate change, whichever was less, and also agreed to supply alternate fuel cost information. The alternate rate would apply to customers who do not enter into the above described agreement. The optional rate proposed by the staff for both schedules is identical to the rate proposed before it presented this proposal. The alternate rate proposed is 1 cent higher per therm for Schedule No. G-50 and 0.[illegible] cent higher per therm for Schedule No. G-52.

The staff also presented certain alternate proposals for implementation with either offset applications or general rate increase applications as follows:

1. Lifeline Allowance for Air Conditioning

   Exhibit 91 in Application No. 57285 (PG&E's last general rate application) discloses that a gas air-conditioning allowance equivalent to the electric air-conditioning allowances of 280 kWhr for Territory A and 230 kWhr for Territory B would be 55 and 45 therms, respectively. Territories A and B are identified in the electric tariff as being within the Sacramento-San Joaquin Valleys. The staff recommends that the gas air-conditioning allowance be set at its recommended Tier 1-B level.

2. Solar Incentive for Central Space Heat and/or Hot Water

   A solar incentive rate schedule for new construction could be offered to GM and GS customers that install a solar system for central space heating and/or hot water system with a gas back-up system. The solar system would have to meet minimum design requirements that could be formulated by the Commission staff and be separately metered.

3. Alternate Residential Blocking

   As an alternative to its previously discussed revised residential blocking, the staff proposes a rate design based on the recently authorized structure for SoCal Gas (Decision No. 89710 dated December 10,1978, in Application No. 57639).

4. Co-Generation Incentive

   The staff alleges such a rate should be offered. Based on the limited information now available, tentative principals for the rate are suggested as follows:

   a. The rate should be available for a limited term.

   b. Each applicant for such a rate would require authorization from the Commission.

   c. The rate would be based upon a formula set forth in Exhibit 5, page 9-2.

   d. The rate would be increased at the same rate as the average cost of gas increases.

5. Rate Simplification
   a. Rates should be expressed in not more than tenths of a cent per therm.
   b. Eliminate prorationing of bills for periods within which a rate change is authorized. The applicable rate to be charged to be determined as of the date a customer's meter is read.

California Manufacturers Association (CMA) presented a recommended rate design (Exhibit 14, Schedule No. 8) which would increase the staff's recommended lifeline blocks, Tiers 1-A and 1-B, on a uniform per therm basis of $0.0735 and an increase in the residential customer charge of 80 cents per month. Said recommendation would account for $141,854,000 of the requested increased revenue. The remainder would be obtained by increasing the Schedule No. G-2 customer charge by 80 cents per month and the therm rate by $0.0052 per therm; increase resale by $0.0720 per therm for lifeline and $0.0052 for nonlifeline; and $0.0156 for sales to SoCal Gas. CMA's recommendation would result in increased revenues of $164,014,000. CMA's recommendation is based on evidence presented by its witness that lifeline service is provided below PG&E's cost of service. CMA contends that because of this PG&E's nonresidential customers are charged exorbitant rates in order to make up the deficit. CMA contends that such a rate design is discriminatory. CMA further contends that evidence concerning the cost of alternate fuel is relevant to gas pricing only when gas prices based on full cost of service would exceed the cost of alternatives. CMA's proposal is not consistent with our recently adopted policy to price gas at a level approximately the same as alternate fuel and is not consistent with the Natural Gas Policy Act soon to be implemented and will not be adopted.

Southwest Gas Corporation (Southwest) presented alternative formulas for allocating GCAC and SAM increases for Schedule No. G-63 which is PG&E's resale schedule of rates to Southwest. In arriving at its proposed increases for both GCAC and SAM, with the exception of SoCal Gas, PG&E divided the required additional revenue figures by the volume of therms for each schedule it proposes to increase to arrive at the uniform per therm increase. With respect to the GCAC increase, Southwest proposes that the revenue requirement should be divided by the total sales volume for all of PG&E's customers to determine the amount to be borne by resale customers. Southwest proposes that the difference be borne by customers other than resale customers. With respect to the SAM increase, Southwest utilizes a different formula to arrive at the systemwide percentage increase which is arrived at by dividing the SAM amount by the base cost amount and then applying the systemwide percentage to the average margin for Schedule No. G-63. Again Southwest proposes that PG&E's other customers absorb the difference. Southwest's proposal would have us allocate a minimal increase to Southwest at the expense of other customers and will not be adopted.

The city and county of San Francisco (SF) did not present any direct evidence; however, it participated in the hearing process by cross-examining witnesses and filed briefs. SF alleges that the SAM Revenue Requirement is excessive because actual January data shows that the staff's January 1979 estimate overestimated revenue requirements by $4,000,000 and staff estimates do not take into account the current fuel oil situation (ostensible increases in price and reductions in supply). SF alleges that under the current fuel oil situation it is inevitable that PG&E will have significantly greater interruptible demand and steam electric demand. SF also alleges that PG&E could also be expected to sell gas to Edison, Los Angeles Department of Water & Power, and other electric companies. SF recommends that rates of all customers be increased on a uniform cents per therm basis.

SF further alleges that the revenue requirement under SAM should not be adjusted to reflect the decrease in the corporate income tax rate from 48 percent to 46 percent. SF believes it is appropriate and consistent with Commission and California Supreme Court decisions that this offset be considered in the GCAC portion of the case rather than SAM. SF also points out that although Federal income taxes are being reduced, Social Security taxes are being increased, and there is no reason that the increase in Social Security taxes should not be taken into account as well as the decrease in Federal income taxes.

In Decision No. 89316, the Commission found in Finding No. 16, "It is reasonable to establish Palo Alto's rate (Schedule No. G-60), so that Palo Alto has a $0.0458/therm differential above the cost of purchased gas on every dollar of sales, using PG&E's general service rates as a basis for determining Palo Alto's revenue." Palo Alto maintains that the same differential should be maintained in these proceedings. General Motors Corporation's position is basically the same as CMA's. It urges that the PG&E and CMA proposals be given favorable consideration.

Western Mobilehome Association did not take an active role in these proceedings; however, it filed a closing brief wherein it recommends that should the Commission adopt the staff's recommended reblocking of residential tiers it should revise the discount provisions of Schedules Nos. GT and GS to be applicable to Tiers I-A and I-B.

We will adopt the staff's recommended reblocking of the residential tiers; in so doing, we will also revise the discount provisions of Schedules Nos. GT and GS to be applicable to Tiers I-A and I-B. We will also maintain the $0.0458 per therm differential for Palo Alto.

Except for the representations of SF, that the staff estimates do not take into account the current fuel oil situation and that the staff's January 1979 estimate overestimated revenue requirements by $4,000,000, the parties are in agreement as to the revenue requirements under GCAC and SAM with the exception of whether the implementation of rate reductions flowing from the Revenue Act of 1978 should be effected in Application No. 58470.

The representations of SF regarding the current fuel situation may have some merit; however, it is purely speculative and no factual data is contained in this record. Factual data concerning the situation should be available in PG&E's next SAM and GCAC filings when rates will again undoubtedly be adjusted.

Conclusion of Law 7 in Decision No. 90316 dated May 22, 1979 in OII 33 stated that:

> "Implementation of rate reductions and revenue credits for over-collections flowing from the Revenue Act of 1978 upon the revenue requirement of PG&E (Gas Department) will be accomplished in the decision in Application No. 58470."

We will, therefore, reduce the SAM revenue requirement by $3,499,000, which amount is arrived at by deducting from the $3,925,000 income tax savings the increased Social Security taxes of $426,000 for the year 1979 making the SAM revenue requirement $46,443,000 ($49,942,000 minus $3,499,000).

The staff and PG&E are in agreement as to what classes of customers should absorb the GCAC increase. The staff recommendation ranges from a low of $0.0187 per therm for lifeline resale schedules to a high of $0.0324 per therm for nonlifeline residential service. PG&E's recommendation spreads the increase on a uniform cents per therm basis to all affected customers. Both recommendations include an increase of $0.0156 per therm for sales to SoCal Gas under the recent contractual arrangement. Said increase is governed by the contract.

The staff recommendation to revise the residential block structure was not controversial and reasonably results in a greater portion of residential sales being subject to the conservation pressures of increasing block rates, by putting a higher percentage in the tail blocks. In order to implement this reblocking, it is reasonable to apply a nonuniform spread of the revenue requirement, based on the marginal cost and conservation evidence advanced by staff. We will adopt the staff's recommendation with respect to GCAC.

With respect to Application No. 58470, the SAM proceeding, the major issue to be decided is whether any of the sought increase should be borne by PG&E's industrial customers (Schedules Nos. G-50 and G-52) and its steam electric customers (Schedules Nos. G-55 and G-57). PG&E, the staff[1], and most other parties to the proceeding agree that no increase should be borne by Schedule No. G-52 customers, based on evidence as to the cost of alternate fuel (#6 fuel oil). We concur. Our discussion in this regard, therefore, will be confined to whether Schedules Nos. G-50, G-55, and G-57 should bear any of the SAM increase. In arriving at a determination in this regard, we must consider the incentives of customers on these schedules to utilize alternate fuels.

Studies concerning the possible use of alternate fuels were presented by PG&E and the staff. There are basic differences between the studies presented by PG&E and the staff. PG&E's study is based upon data furnished by its customers, said survey having been conducted by telephone in August 1978. The study presented by the staff is based upon prices published in Platt's Oilgram and

1/ The staff recommendation was tempered by a proposal to add conditions of service as a precedent to a continuation of the present rate. P.13 supra.

the reported fuel contracts of Southern California Edison Company and PG&E's Electric Department. While the staff's study contains more current data than PG&E's study, the major difference is not in the range of prices identified, but in the interpretation of the results. PG&E proposes to set the gas price at the low end of the oil price range, while staff recommends a price in the middle of the range. We think that the average price is substantially more relevant, in the absence of evidence that enormous volumes of oil are available at a lower price.

The survey evidence of PG&E is wholly deficient in this regard. It is based on only a small portion of its customers - only those who had recently bought fuel oil. This is itself important evidence - that only 10 percent of the customers had bought any oil. The survey results do not disclose the volumes purchased or the terms and conditions. There is no basis for drawing the conclusion from PG&E's survey that any industrial gas demand would be lost by basing the low priority gas rate on the average price of oil. This is confirmed by the evidence that some 50 customers have signed up for the G-52 rate schedule, even though the cost of No. 6 fuel oil has been less than the price of gas for these customers. Thus, there must be other factors that enter into the judgment whether to lower gas or oil, rather than simply the comparative cost of fuel on a Btu equivalent basis. The use of an average oil price seems conservative, based on this record.

The present Schedule No. G-50 rate is $0.24929 per therm for all usage. The staff recommends an increase of $0.01800 under SAM. The staff rate design recommendation does not take into consideration the reduction of the $3,925,000 in the SAM revenue requirement. Based on the staff's recommendation, the Schedule No. G-50 rate would increase to $0.26729 per therm.

Sales to Schedules G-55 and G-57 are made to Priority 5 customers who must use No. 6 fuel oil with a 0.5% sulfur content or less. This fuel oil is purchased under long-term contracts and commands a premium price; a staff engineer testified that PG&E's July 1978 weighted average price was 25.57¢/therm and the current tariff rate is 22.629¢/therm. The long-term contract price, rather than current posted prices, is the relevant price for setting the gas price for these customers. We shall apply the SAM increase to these schedules.

With the pending implementation of federal law that will set some boiler fuel commodity rates based on the incremental price of alternate fuel(s), it is essential that the Commission be kept informed of alternate fuel prices. Therefore, we will require that PG&E present information on alternate fuels used in its service area. This information shall include, but not be limited to, the delivered price per barrel, lot size, Btu content, and sulfur content. The above information will be furnished to the Commission staff quarterly and coordinated with the semiannual PGA-SAM filing dates.

The record in A-57978, Tr. 653 on July 20, 1978, shows that PG&E was to provide a study on its equivalent costs to burn #6 fuel oil and natural gas. As this study has not yet been provided, we shall require PG&E to include the study with its next SAM application and on a quarterly basis thereafter. The study shall also include the relative efficiencies between the fuels as it is burned to produce equivalent boiler heat. Any excess air (oxygen) burned with the fuel to control smoke stack emissions must be considered with respect to fuel efficiency. Each steam plant shall be stated separately.

Having determined the classes of customers who should bear the increases under SAM, we now turn to the question of whether rates should be increased on a uniform basis, as proposed by PG&E, or on a nonuniform basis, as proposed by the staff. The basis of the rate increase spread to Schedules G-50, G-55, and G-57 is the alternate fuel price study and analysis as discussed above. The resulting rate spread for remaining schedules as proposed by staff is reasonable - uniform except for lifeline and resale.

The adopted rate design is shown in Table 5.

In connection with PG&E's request to modify the GCBA to include carrying costs on investments in gas, in storage and in prepaid gas to be reflected to the extent those costs are more or less than the amounts provided through base rates, we concur with the reasoning of the staff financial examiner and reaffirm Finding No. 7 of Decision No. 84577 that: "Rate adjustments relating to elements of rate base should only be considered together with overall test year earnings to avoid the risk of imbalancing customer and investor interest."

We will adopt PG&E's proposal to combine the GCAC and SAM with the modifications recommended by the staff. This new procedure, which will be entitled GAC, is set forth in detail in Appendix D to this decision.

The staff proposed a lifeline allowance for gas air conditioning of 55 therms for Territory A and 45 therms for Territory B. said territories being identified in PG&E's electric tariff, Preliminary Statement Part A-1. In Resolution No. G-2279 dated May 22, 1979 we authorized a lifeline allowance of 50 therms for both territories. The allowances will be set at the staff's recommended Tier I-B level.

The staff's proposals, with respect to solar incentive for central space heat and/or hot water, cogeneration incentive, rate simplification, and the modification of Schedules Nos. G-50 and G-52 which would provide an "optional rate" and an "alternative rate", require further study and, therefore, will not be adopted herein.

TABLE 5
ADOPTED RATES

Schedule	Volume (M Therms)	GCAC Increase $ Per Therm	GCAC Revenue M $	SAM Increase $ Per Therm	SAM Revenue M$
(Residential)					
Tier I-A	880,275	.0223	$19,630	.00260	$2,289
Tier I-B	710,000	.0223	15,833	.00260	1,846
Tier II	314,697	.0324	10,196	.00286	900
Tier III	216,480	.0324	7,013	.00286	619
Tier IV	88,661	.0324	2,873	.00286	254
GM-N, GS-N	133,320	.0324	4,320	.00286	381
Total	2,343,433	-	$59,865		$6,289
(Nonresidential)					
G-2	1,769,260	.0246	$43,524	.00286	$ 5,060
G-50	821,010	-	-	.01800	14,778
G-52	303,410	-	-	-	-
G-55	1,318,220	-	-	.01390	18,323
G-57	127,500	-	-	.01390	1,772
Total	4,339,400	-	$43,524		$39,933
Resale					
Lifeline	36,118	.0187	$ 675	.00208	$ 75
Nonlifeline	56,742	.0268	1,521	.00248	141
Total	92,860	-	$ 2,196	-	$ 216
SoCal Gas Sales	542,350	.0156	$ 8,461	-	-
Total	7,318,043	-	$114,046	-	$46,438

On May 16, 1979, the California Supreme Court issued its decision in California Manufacturers Association, et al. vs. Public Utilities Commission, et al. (S.F. Nos. 23720 and 23721). In that decision, the Court remanded to this Commission, for further hearings, decisions issued in offset proceedings similar to the present case. The Court was of the opinion that the Commission lacked sufficient evidence and failed to make sufficient findings of fact and conclusions of law on the issue of the rate design. Specifically, the Court held that we had insufficient evidence in the record regarding demand and price elasticity among the various classes of customers to determine which of the proposed rate designs would produce the most conservation. It may be that some party will contend that the same evidentiary defect is present in the record of the present case, which was submitted prior to the Supreme Court's decision. We believe the best way to follow the mandate of the Court in the present case is to make the rates adopted subject to refund or surcharge if it should be determined at later hearings that some alternative rate design would more effectively result in conservation or otherwise be more reasonable.

Findings of Fact

1. The sought additional revenue by PG&E is necessitated because the cost of gas PG&E is being charged by its suppliers is more and because gas sales are less than projected for test year 1979, as adopted in Decision No. 89316 dated September 6, 1978 in Application No. 57285.

2. PG&E's additional revenue requirement pursuant to GCAC is $114,046,000.

3. PG&E's additional revenue requirement before adjustment of the reduction in the corporate income tax rate and increase in Social Security taxes pursuant to SAM is $49,942,000.

4. Decision No. 90316, dated May 22, 1979 in OII 33, which ordered utility rates to be reduced, based on the amount of Federal tax reductions flowing from the Revenue Act of 1978, and permitted utilities to offset the income tax reduction by the amount of the increase in Social Security (FICA) taxes also concludes that implementation of such rate reductions for PG&E's Gas Department would be accomplished in the decision in Application No. 58470.

5. PG&E's Gas Department Federal income tax reduction for 1979 is $3,925,000. Its increased Social Security taxes for 1979 are $426,000.

6. PG&E's revenue requirement, after adjustment for reduced income taxes and increased Social Security taxes, is $46,443,000 ($49,942,000 minus $3,499,000).

7. The staff's revised blocking of residential schedules better implements the policy objectives of increasing block rates by relating the rates for nonessential residential uses to marginal costs.

8. The revenue requirement pursuant to GCAC of $114,046,000 should be recovered by increasing the rates of all schedules except for G-50, G-52, G-55 and G-57 as shown in Table 5. The imposition of the highest increase on the non-lifeline residential schedules is reasonably related to the reblocking of residential rates.

9. The revenue requirement pursuant to SAM, as adjusted for reduced income taxes and increased Social Security taxes, of $46,438,000 should be recovered by increasing rates of all schedules except G-52 as shown in Table 5.

10. For rate design purposes, it is reasonable to base the price for low priority customers on the average price of competing alternate fuel in the absence of compelling evidence that significant demand will be lost, resulting in a loss of contribution. There are many factors besides comparable Btu prices that control the judgment whether to burn gas or oil. Basing the gas price on the average oil

price results in greater stability by not making the price dependent on occasional quirks in the market such as might occur if the price is based on the low or high end of oil price ranges.

11. The request of PG&E to modify the GCBA to include carrying costs on investments in gas in storage and in prepaid gas relates to rate base and should only be considered with overall test year earnings to avoid the risk of unbalancing customer and investor interest.

12. PG&E's proposal to combine the GCAC and SAM with the modifications recommended by the staff is reasonable. The GAC rate for each schedule will consist of two parts: (1) the current (forecast) period adjustment rate, and (2) a single adjustment rate for the other components.

13. The recently authorized lifeline allowance for gas air conditioning at the Tier I-B level of 50 therms for Territory A and 50 therms for Territory B, as said territories are described in PG&E's electric tariff, Preliminary Statement, Part A-1 is reasonable.

14. The charges in gas rates and charges authorized by this decision are justified and reasonable; the present rates and charges, insofar as they differ from those prescribed by this decision, are for the future, unjust and unreasonable.

15. The alternate fuel study presented by PG&E was based on August 1978 data and does not reflect current conditions. It is reasonable for PG&E to provide periodic reports on current costs of alternate fuels to the Commission.

16. PG&E utilizes both natural gas and fuel oils in its steam-electric plants and has the ability to determine the equivalent costs associated with burning each type of fuel. Periodic reports to the Commission on these costs are reasonable.

Conclusions of Law

1. The request of PG&E to modify the GCBA to include carrying costs on investments in gas in storage and in prepaid gas relates to rate base and should only be considered with the review of overall test year earnings to avoid the risk of unbalancing customer and investor interests.

2. Applications Nos. 58469 and 58470 should be granted to the extent set forth in the following order.

3. The effective date of this order should be the date hereof because there is an immediate need for the rate relief. PG&E is already incurring the costs which will be offset by the rate increase authorized herein.

4. PG&E should be directed to submit alternate fuel cost reports, covering its service area and its interdepartmental operations on a quarterly basis.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company is authorized to file with this Commission revised rate schedules as set forth in Appendix C, attached hereto, on or after the effective date of this order. Such filing shall comply with General Order No. 96-A. The revised tariff schedules shall be effective on the date of filing.

2. Within thirty days of the effective date hereof, Pacific Gas and Electric Company shall file under General Order No. 96-A the Gas Adjustment Clause set forth in Appendix D, which will supersede the Gas Cost Adjustment Clause and Supply Adjustment Mechanism presently contained in its tariff.

3. Pacific Gas and Electric Company shall submit alternate fuel cost reports, covering its service area and its interdepartmental operations to the Commission's Gas Branch on a quarterly basis.

4. The rates collected pursuant to this decision be subject to refund and/or surcharge pending further hearings on the subject of rate design as hereinbefore discussed.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 19th day of June, 1979.

JOHN E. BRYSON
President
VERNON L. STURGEON
RICHARD D. GRAVELLE
CLAIRE T. DEDRICK
Commissioners

Commissioner Leonard M. Grimes, Jr., present but not participating.

APPENDIX A

Pacific Gas and Electric Company

Summary of SAM Revenue Requirements

1. The SAM requirements established by Decision No. 89316, test year 1978, are as follows:

General Sales Revenue	$1,760,112,000
Cost of Gas Revenue	(1,292,560,000)
Authorized SAM Margin	$ 467,552,000
Total Test Year 1978 Adopted Estimated Sales	7,513,600 M therms

2. The recorded period (June through September, 1978) gas revenues are as follows:

Recorded Period Revenue	$ 449,303,000
Recorded Cost of Gas Revenue*	(337,985,000)
Recorded SAM Margin	$ 111,318,000
Authorized SAM Margin	(141,139,000)
Margin Difference	$ (29,821,000)
Interest on Margin Difference	(331,000)
SAM Margin Balance	$ (30,152,000)

3. The current period (Year 1979 Estimated) gas revenues are as follows:

Current Period Revenue	$1,581,819,000
Current Period Cost of Gas Revenue	(1,165,622,000)
Current Period SAM Margin	$ 416,197,000
Authorized SAM Margin	(467,552,000)
Margin Difference	$ (51,355,000)
SoCal Margin Adjustment Credit	31,570,000
Tax Adjustment (re: OII No. 33)	3,499,000
Current Period SAM Deficiency	$ (16,286,000)
SAM Margin Balance	(30,152,000)
SAM Revenue Requirement	$ (46,438,000)
Year 1979 Estimated Sales (Exhibit No. 5, Part C, page 4-7)	7,318,043 M therms

(Red Figure)

* PGA revenue plus franchise fees and uncollectibles.

4. The GCAC revenues for the current period are as follows:

a. Current Period

Authorized Cost of Gas Revenue	$1,249,848,000
Current Cost of Gas	(1,368,750,000)
Cost of Gas Deficiency	$ (118,902,000)
SoCal Sales Adjustment	7,561,000
GCAC Deficiency	$ (111,341,000)
Franchise Fees & Uncollectibles	(808,000)
Current Period GCAC	$ (112,149,000)

b. Gas Cost Balancing Account (GCBA)

GCBA, 9/30/78	$ (1,885,000)
Franchise Fees & Uncollectibles	(13,000)
GCBA	$ (1,898,000)

c. GCAC Requirements

Current Period GCAC	$ (112,149,000)
GCBA	(1,898,000)
GCAC Revenues	$ (114,047,000)

(Red Figure)

5. The GAC rates shown in Appendix D, Page 3 of 3 are as follows (in ¢/therm):

Schedule	Current SAM	Other GAC: SAM Balance	Other GAC: Current GCAC	Other GAC: GCBA	Other GAC: Total Other GAC
Residential					
Tiers I-A, I-B	0.091	0.169	2.193	0.037	2.399
Tiers II, III, IV	0.101	0.185	3.186	0.054	3.425
GM-N, GS-N, GT-N	0.101	0.185	3.186	0.054	3.425
G-2	0.101	0.185	2.419	0.041	2.645
G-50	0.631	1.169	0	0	1.169
G-52	0	0	0	0	0
G-55, G-57	0.487	0.903	0	0	0.903
Resale					
G-60					
Lifeline	0.075	0.168	2.180	0.037	2.385
Non-Lifeline	0.076	0.159	2.527	0.043	2.729
G-61, G-62, G-63					
Lifeline	0.056	0.127	1.644	0.028	1.799
Non-Lifeline	0.082	0.173	2.739	0.047	2.959

APPENDIX B

Schedule	Volume M Therms	PG&E Proposal: Increase Rate $ Per Therm GCAC	PG&E Proposal: Increase Rate $ Per Therm SAM	PG&E Proposal: Revenue M $ GCAC	PG&E Proposal: Revenue M $ SAM	Staff Proposal: Increase Rate $ Per Therm GCAC	Staff Proposal: Increase Rate $ Per Therm SAM	Staff Proposal: Revenue M $ GCAC	Staff Proposal: Revenue M $ SAM
(Residential)									
Tier I-A	880,275	.02511	.01187	$ 22,104	$10,449	.0223	.003	$ 19,630	$ 2,640
Tier I-B	710,000	.02511	.01187	17,828	8,428	.0223	.003	15,833	2,130
Tier II	314,697	.02511	.01187	7,902	3,735	.0324	.004	10,196	1,259
Tier III	216,480	.02511	.01187	5,436	2,570	.0324	.004	7,013	866
Tier IV	88,661	.02511	.01187	2,226	1,052	.0324	.004	2,873	355
GM-N, GS-N	133,320	.02511	.01187	3,348	1,583	.0324	.004	4,320	533
Total	2,343,433	-	-	$ 58,844	$27,817	-	-	$ 59,865	$ 7,783
(Nonresidential)									
G-2	1,769,260	.02511	.01187	$ 44,426	$21,001	.0246	.00398	$ 43,524	$ 7,042
G-50	821,010	-	-	-	-	-	.01800	-	14,778
G-52	303,410	-	-	-	-	-	-	-	-
G-55	1,318,220	-	-	-	-	-	.01390	-	18,323
G-57	127,500	-	-	-	-	-	.01390	-	1,772
Total	4,339,400	-	-	$ 44,426	$21,001	-	-	$ 43,524	$41,915
Resale									
Lifeline 33.7%	36,118	.02511	.01187	$ 907	$ 429	.0487	.00220	$ 675	$ 79
Nonlifeline 66.3%	56,742	.02511	.01187	1,424	674	.0268	.00290	1,521	165
Total	92,860	-	-	$ 2,331	$ 1,103	-	-	$ 2,196	$ 244
SoCal Gas Sales	542,350	.01559	-	$ 8,455	-	.0156	-	$ 8,461	-
Total	7,318,043	-	-	$114,056	$49,921	-	-	$114,046	$49,942

APPENDIX C

Pacific Gas and Electric Company
Gas Department

1. Applicant's rates and charges are changed to the level or extent set forth in this appendix (includes TCAC adjustment).

		Per Meter Per Month
a.	Customer Charge	
	Schedules G-1, G-2, GM, GS, GT	$ 1.20
b.	Commodity Charge	
	Schedules G-1, GM, GS, GT:1/	
	Tier IA - All deliveries, per therm	$ 0.18260
	Tier IB - " " " "	0.19940
	Tier II - " " " "	0.28285
	Tier III - " " " "	0.29875
	Tier IV - " " " "	0.37265
	GM-N, GS-N, GT-N - " " " "	0.30755
	Schedule G-2	
	All deliveries, per therm	$ 0.28015
	Schedule G-30	
	To be increased commensurately with Schedule G-2	
	Schedule G-50	
	All deliveries, per therm	$ 0.26729
	Schedule G-52	
	All deliveries, per therm	$ 0.22629
	Schedules G-55, G-57	
	All deliveries, per therm	$ 0.24019

Resale Schedules	G-60 33.7%	G-61 53.9%	G-62 38.8%	G-63 44.0%
First (Lifeline), per therm	$0.17860	$0.17405	$0.17335	$0.17035
Excess, per therm	0.22324	0.22680	0.22610	0.22430

2. The gas air-conditioning lifeline allowance shall be billed at the Tier IB rate.

1/ Quantity blocks in accordance with table on page 2-1, Part C of Exhibit No. 5. Schedule GT blocking same as Schedule GS. Discounts in Schedules GS and GT are applicable to Tiers I-A and I-B.

Pacific Gas and Electric Company

Gas Department

PRELIMINARY STATEMENT (Continued)

PART C

Gas Adjustment Clause (GAC)

No. 1--Applicability:
This Gas Adjustment Clause (GAC) provision applies to bills for service under all rate schedules and contracts for gas service.

As used herein, the terms "cost of purchased gas" and "purchased gas cost" are synonymous and include only those items includable in Accounts Nos. 728, 800 through 806, 808, and 809 of the Uniform System of Accounts.

No. 2--Base Rates:
The Base Rates are the gas rates effective September 11, 1978 (excluding TCAC rates).

No. 3--Current Period Volumes:
The volumes of gas, expressed in therms, to be utilized hereunder shall be those estimated to be purchased and those estimated to be sold during the twelve calendar month period beginning with the applicable Revision Date. The total volumes of gas purchased shall include withdrawals from storage and shall exclude injections into storage.

No. 4--Revision Dates:
The Revision Dates are January 1 and July 1 of each year. On such dates, or as soon thereafter as the Commission may authorize, the Utility shall, in accordance with the provisions hereof, increase or decrease the GAC Rates applicable to each rate schedule and contract. In the event of any change or changes in prices charged by a gas supplier or suppliers which would change a GAC Rate by at least one cent per therm, when applied to data in the most recent regular filing hereunder, the utility may file a revised GAC Rate based on such data in accordance with the provisions hereof.

No. 5--GAC Rates:
The Commission shall determine and fix applicable GAC Rates to be placed into effect on each Revision Date based on the Current Recovery Amount computed under Section 6 below. The Utility shall file one or more proposed GAC Rates. (See Note on page 2 for addition).

No. 6--Current Recovery Amount:
The Current Recovery Amount shall be determined as (1) the amount of the Current Cost of Purchased Gas determined as specified in Section 7 below plus the balance in the Gas Cost Balance Account, both increased by 0.726% (to adjust for franchise requirements and uncollectible accounts expense) plus (2) $467,552,000 minus (3) revenues calculated at Base Rates applied to Current Period Volumes.

No. 7--Current Cost of Purchased Gas:
The current cost of purchased gas by the Utility under each gas supplier rate schedule and contract shall be determined by application of the rates in effect thereunder on or before the date of filing under Section 9 below to the Current Period Volume of gas purchased under each such supplier rate schedule and contract; provided, however, that if an interstate supplier has filed with the Federal Energy Regulatory Commission a higher or lower rate which will become effective on or before the Revision Date, the Utility may apply such rate. The cost of gas delivered to and withdrawn from storage shall be included in the current cost of purchased gas at the unit delivery and withdrawal rates of Accounts No. 808 and 809 of the Uniform System of Accounts in effect on or before the filing date.

Pacific Gas and Electric Company

Gas Department

No. 8--Gas Cost Balance Account

Commencing on the effective date hereof, the Utility shall maintain a Gas Cost Balance Account. Entries shall be made to this account at the end of each month as follows:

(a) A debit entry equal to the actual purchased gas cost during the month.

(b) A credit entry equal to (1) the amount of Gas Department revenue from sales billed during the month (not including any GEDA or TCAC revenue), less (2) $38,962,667 and multiplied by the reciprocal of 1.00726 (to exclude the adjustment for franchise requirements and uncollectible accounts expense).

(c) If the Utility receives from any of its gas suppliers cash refunds, including any associated interest, on and after the date this Gas Adjustment Clause becomes effective, the amount thereof not included as a credit to purchased gas cost shall be recorded as a credit to the Utility's Gas Cost Balance Account.

(d) A debit entry, if positive (credit entry, if negative) equal to the difference, if any, of:

(1) the amounts which the Utility must pay for California source gas pursuant to settlement with suppliers of such gas or pursuant to determination by an arbitration panel or panels, less

(2) the amounts previously paid for such gas.

(e) A storage credit equal to payments by or credits from El Paso Natural Gas Company for gas storage in excess of costs not otherwise recovered attributable to the period on and after August 27, 1976.

(f) An entry equal to 7/12 percent of the average of the balance in the account at the beginning of the month and the balance in the account after entries (a) through (e) above.

(g) At the beginning of the month following the effective date hereof, any balance in the Supply Adjustment Account shall be reduced by dividing such balance by 1.00726 and the remaining balance shall be transferred to this account.

No. 9--Time and Manner of Filing and Related Reports:

The Utility shall file revised GAC Rates with the California Public Utilities Commission at least 30 days but not more than 90 days prior to the Revision Date. Each such filing shall be accompanied by a report which shows the derivation of the adjustment to be applied. A results of operation report for the prior year will be filed by April 15 of each year.

<u>Note:</u>

The following sentence shall be added to Item No. 5 -- GAC Rates.

The GAC rates will consist of two parts: one for the current (forecast) period; and one for the other GAC components.

Pacific Gas and Electric Company
Gas Department

PRELIMINARY STATEMENT (Continued)

PART B

Commodity Rate Adjustments (¢ per therm)

1. Statement of Rates

The rates in all filed Rate Schedules, except G-30, include adjustments listed below. Schedule G-30 rates are revised commensurately with revenue adjustments.

Type of Service	Base Commodity Rates1/	GAC Current SAM2/	GAC Other	GEDA	TCAC	Effective Commodity Rate
Residential						
Tier IA	15.770	0.091	2.399		0	18.260
Tier IB	17.450	0.091	2.399		0	19.940
Tier II	25.030	0.101	3.425		(0.271)	28.285
Tier III	26.620	0.101	3.425		(0.271)	29.875
Tier IV	34.010	0.101	3.425		(0.271)	37.265
GM-N, GS-N, GT-N	27.500	0.101	3.425		(0.271)	30.755
Nonresidential						
G-2	25.540	0.101	2.645		(0.271)	28.015
G-50	25.200	0.631	1.169		(0.271)	26.729
G-52	22.900	0	0		(0.271)	22.629
G-55, G-57	22.900	0.487	0.903		(0.271)	24.019
Resale						
G-60 LL	15.400	0.075	2.385		0	17.860
G-60 NLL	19.790	0.076	2.729		(0.271)	22.324
G-61 LL	15.550	0.056	1.799		0	17.405
G-61 NLL	19.910	0.082	2.959		(0.271)	22.680
G-62 LL	15.480	0.056	1.799		0	17.335
G-62 NLL	19.840	0.082	2.959		(0.271)	22.610
G-63 LL	15.180	0.056	1.799		0	17.035
G-63 NLL	19.660	0.082	2.959		(0.271)	22.430

(Red Figure)

1/ As of (date) per Decision No. (this decision).

2/ SAM recovery for the current period.

Note: The Base Cost Amount included in Base Rates is $467,552. The annual Base Weighted Average Cost of Gas included in Base Rates is 17.079¢ per therm (excluding franchise fees and uncollectibles).