

ORIGINALDecision No. 91336 FEB 13 1980

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 effective January 1, 1980 under the Gas Adjustment Clause, and to change rate design.

Application No. 59249
(Filed October 31, 1979)

Application of PACIFIC GAS AND ELECTRIC COMPANY for authority to revise its gas rates and tariffs under the Gas Adjustment Clause to reflect increased gas costs.

Application No. 59406
(Filed January 28, 1980)

(Gas)

(Appearances are listed in Appendix A.)

INTERIM OPINION

By A.59249 Pacific Gas and Electric Company (PG&E) seeks authorization to increase gas rates pursuant to its Gas Adjustment Clause by \$535.7 million on an annual basis. A portion of the relief sought was included in A.58892 and A.59045 and was disposed of by D.91106, dated December 19, 1979. The remaining amount of the increase requested is \$424.8 million.

Public hearing was held in San Francisco, beginning December 10, 1979, before Administrative Law Judge Patrick J. Power. The matter was submitted following 11 days of hearing, with briefs due on January 21, 1980.

By A.59406 PG&E seeks authorization to increase gas rates by about \$440 million in addition to the relief requested by A.59249, to recover increased gas costs - particularly an increase in the cost of Canadian gas effective February 17, 1980. By ALJ's ruling the submission of A.59249 has been set aside and these two matters consolidated for ultimate Commission action.

Pending completion of these proceedings it is reasonable to grant PG&E some portion of the relief requested in A.59249 on an interim basis. Therefore, by this order we provide for a rate increase in the amount of \$336,019,000. This amount is based on the staff's estimates of supplies and requirements in A.59249 with an updated balancing account balance and is justified as the minimal level of relief that is supported by the record in A.59249.

Interim relief is appropriate in view of the existing undercollection in PG&E's gas balancing account and the scheduled revision date - January 1, 1980, already a month and a half past. This substantial undercollection is a matter of concern for this Commission for several reasons. It contributes to cash flow problems for the utility, a condition only partly alleviated by our order in OII No. 56 allowing an interest rate on the balancing account balances that better reflects market conditions (D.91269, January 29, 1980). It distorts the ratemaking process to the point that rate increases must be much larger than otherwise in order to "catch up" with the accrued undercollection. This case illustrates the problem in classic terms. The amount of the undercollection as of November 30, 1979 (the basis of the rate relief) is \$345,699,000, actually exceeding the rate increase granted by this order. Thus, based on the staff revenue requirement, this rate increase would be entirely unnecessary if the balancing account balances were close to zero. The rates authorized by this order could be characterized as a surcharge imposed during the year 1980 to make PG&E whole for cost increases incurred during 1979. This fact will surely surprise that portion of the general public that believes that excessive rate increases have already been granted (probably the greater part), but it serves to dramatize further the extent of the gas cost increases - simply put, even the unprecedented increases of the past year have not been enough.

The undercollection also reduces our flexibility in addressing rate design issues. A cornerstone of our gas rate design policy is our practice of setting low priority gas rates with reference to alternate fuel prices - a ceiling for such rates. Depending on changes in alternate fuel prices, it may occur that low priority customers will pay very little of the undercollection, resulting in higher rates for higher priority customers and detracting from our ability to recognize some of the competing preferential rate design considerations, such as cogeneration incentive rates and exemptions from incremental pricing for agricultural uses, schools, and hospitals.

The interim nature of this decision allows us the opportunity to defer consideration of the various issues raised during the initial stage of this proceeding to the final decision in this matter, when the record will have been enhanced by the additional evidence that will be offered in the hearing days to follow. The only issue that requires further discussion in this decision is rate design.

In the recently decided PG&E general rate case decision, D.91107 (in A.58545 and 58546) dated December 19, 1979, we stated:

"The rate design principles adopted in this general rate proceeding serve as a basis for rate design in this proceeding...and in subsequent natural gas offset proceedings until a decision is issued in a subsequent general rate increase proceeding."
(Mimeo. p. 137.)

In the final decision in this matter we will apply these principles as supported by the record developed in the consolidated hearing. On an interim basis we find that it is reasonable to spread the increase to all customers on the basis of uniform cents per therm.

A uniform cents per therm increase is appropriate for this limited purpose in view of the immediacy of the final order and the substantial additional relief that is likely to follow. Thus, we

can see with certainty that the application of our principles to the final revenue requirement will not result in any rates ultimately being lower than interim rates. A uniform cents per therm increase also facilitates the early submission of the consolidated matter because of its neutral effect on the record in progress. It allows the parties to complete their showings without updating exhibits to reflect the newly authorized rate - thereby avoiding potential for significant delay. Such delay would be seriously detrimental to the ratepayers in view of the additional undercollection that will accrue at a rate of over \$1 million per day after the Canadian increase is granted, based on PG&E's allegations.

Based on the staff showing (Exhibit 24), the authorized increase on a uniform cents per therm basis is 3.808 cents per therm. An immediate effective date is required in view of the substantial undercollection in PG&E's gas balancing account.

Findings of Fact

1. PG&E's gas balancing account undercollection as of November 30, 1979, is \$345,699,000, unaudited.
2. Based on the staff estimates of PG&E gas sales and requirements for the test year 1980 a rate increase of \$336,019,000 is reasonable as the minimal amount of the increase supported by the record in A.59249. Additional relief will be considered in the consolidated matters.
3. Judgment on the various other issues raised by the parties in A.59249 shall be deferred to the final decision in the consolidated A.59249/59406.
4. A uniform cents per therm increase of 3.808 cents per therm fairly balances the interests of the ratepayers while providing a basis for timely submission and final decision in this matter.
5. The increase in rates and charges authorized by this decision is 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.

6. In view of the substantial undercollection the effective date of this order is reasonably the date hereof.

Conclusion of Law

PG&E should be authorized to increase its gas rates as described in Finding of Fact No. 4.

INTERIM ORDER

IT IS ORDERED that on or after the effective date of this order Pacific Gas and Electric Company is authorized to file revised rate schedules implementing to all classes of gas customers a uniform cents per therm increase of 3.808 cents per therm and to withdraw and cancel its presently effective schedules. Such filing shall comply with General Order No. 96-A. The revised schedules shall be effective five days after filing and shall apply only to service rendered on and after the effective date thereof.

The effective date of this order is the date hereof.

Dated FEB 13 1980, at San Francisco, California.

John E. Bryson
President

Thomas L. Larkin

Robert D. Kavelle

Alvin J. Dedrick

Edmund J. ...
Commissioners

APPENDIX A

LIST OF APPEARANCES

Applicant: Malcolm H. Furbush, Robert Ohlbach, Daniel E. Gibson, and Shirley A. Woo, by Shirley A. Woo, Attorney at Law, for Pacific Gas and Electric Company.

Protestants: Michel Peter Florio, Attorney at Law, and Sylvia M. Seigel, for Toward Utility Rate Normalization (TURN); Robert Gnaizda, Attorney at Law, for Mexican-American Political Association, and Chinese For Affirmative Action; Reverend Cecil Williams, for Glide Methodist Memorial Church; Clifford Boxley, for Probe Community Center; and Paul Cobb, for OCCUR.

Interested Parties: Nicholas R. Tibbetts, for Assemblyman Douglas H. Bosco, 2nd Assembly District; Graham & James, by Boris H. Lakusta, David J. Marchant, and Thomas J. MacBride, Jr., Attorneys at Law, for Western Mobilehome Association and California Hotel & Motel Association; Kenneth M. Robinson, Attorney at Law, for Kaiser Cement Corporation; Morrison & Foerster, by Charles R. Farrar, Jr., Attorney at Law, Thomas R. Cochran, Attorney at Law (Oklahoma), and John M. Adler, Attorney at Law, for Kerr-McGee Chemical Corporation; David K. Takashima, for the Agricultural Council of California; Barry F. McCarthy, Attorney at Law, and Robert T. Kyle, for Electric Department, City of Santa Clara; Brobeck, Phleger & Harrison, by Gordon E. Davis, and William H. Booth, Attorneys at Law, for California Manufacturers Association; Allen R. Crown, and Glen J. Sullivan, Attorneys at Law, for California Farm Bureau Federation; John R. Bury, H. Robert Barnes, and Rollin E. Woodbury, Attorneys at Law, for Southern California Edison Company; Downey, Brand, Seymour & Rohwer, by Philip A. Stohr, Attorney at Law, for General Motors Corporation, Otis M. Smith, General Counsel, and Julius Jay Hollis, Esq.; Leonard L. Snaider, Attorney at Law, for George Agnost, City Attorney, and Robert R. Laughead, P.E., for the City and County of San Francisco; Overton, Lyman & Prince, by John A. Payne, Jr., Attorney at Law, for Southwestern Portland Cement Company; Harry K. Winters, for University of California; Henry F. Lippitt, Inc., Attorney at Law, for California Gas Producers Association; Ed Yates, for Canners League of California; W. Randy Baldschun, and Turner, Mulcare & Whitaker, by Ronald J. Mulcare, Attorney at Law, for City of Palo Alto; James H. Woods, for California Independent Producers Association; William L. Knecht, Attorney at Law, for California Association of Utility Shareholders; H. R. Carroll, for Glass Containers Corporation; John H. Craig, III, and John Fick, Attorney at Law, for Southern California Gas Company; and Robert L. Schmalz, for Amstar Corporation.

Commission Staff: Thomas F. Grant, Attorney at Law, and Ray Charvez.