

ORIGINAL

Decision No. 92920 APR 21 1981

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Pacific Gas and Electric Company's)
Advice Letter No. 64-S to revise)
the Fuel Cost Adjustment Factor)
for its Steam Department, resulting)
in an \$834,600 or 16 percent)
increase.)

Application No. 59597
(Filed April 16, 1980)

Robert Ohlbach, Daniel Gibson, and Joseph S. Englert, Jr., Attorneys at Law, for Pacific Gas and Electric Company, applicant.
Steinhart, Falconer & Morgenstein, by John Curran Ladd, Attorney at Law, for Hotel Employers Association of San Francisco, interested party.

O P I N I O N

On January 29, 1980 Pacific Gas and Electric Company (PG&E) filed Advice Letter No. 64-S, which sought an increase in the Fuel Cost Adjustment Factor for its steam department. A protest to the request was filed by the Hotel Employers Association of San Francisco (Association). On April 16, 1980 the Commission in Resolution No. G-2347 granted PG&E's request subject to the following conditions:

"The rate increase approved herein is subject to refund. The matter will be set for hearing and a showing by the Hotel Employers Association as to its allegations."

The proceeding was ordered to be docketed as an application.

A duly noticed public hearing was held in this matter before Administrative Law Judge Donald B. Jarvis in San Francisco on November 3, 1980. Submission was subject to the filing of transcript and concurrent opening and reply briefs. The matter was submitted on January 21, 1981.

PG&E's steam system is located in San Francisco. It is a one-pipe system which dates back to 1911. Sixty-five percent of the mains were installed prior to 1930.

Saturated steam is supplied to approximately 260 customers connected to over 65,900 feet of underground mains. The steam is used for space heating, air conditioning, and water heating. In addition, there are commercial users, including cleaning and pressing establishments and restaurants.

The distribution system is divided into two pressure levels: The low-pressure system, which is supplied with steam from the high-pressure system through reducing valves and ranges from 10 pounds per square inch gauge to 5 pounds per square inch gauge. The high-pressure system, which supplies 60 percent of the customers with steam between 20 and 125 pounds per square inch gauge.

The steam is produced in two plants, which have a maximum combined necessary capacity of 485,000 pounds per hour at 125 pounds per square inch gauge. The smaller of the plants, Station S, is located at Beecham Place and Post Street on the western edge of the service area. Two boilers, which went into service in 1950, are located at this site. Each has a maximum gross steam generation of 65,500 pounds per hour, and a combined net output of 110,000 pounds per hour at 125 pounds per square inch gauge. The larger installation, Station T, is located between Fifth and Sixth Streets on the southern edge of the service area. It has 7 boilers. These boilers went into service at intervals in the 53-year period from 1923 to 1976. They have a combined maximum gross steam capacity of 429,000 pounds per hour and a net output of 375,000 pounds per hour at 125 pounds per square inch gauge.

Material Issues

The material issues presented in this proceeding are:

- (1) Should any of the rates authorized by Resolution No. G-2347 be modified?
- (2) Should any rates collected under Resolution No. 2347 be refunded?
- (3) Should Association be granted any relief herein?

Discussion

Association states that projected steam sales volume for 1981 is less than one-half of the 1973 volume. Only two newly constructed buildings in San Francisco have used the steam system in the last six years. All other buildings built in the last five and a half years have used natural gas or fuel oil to generate steam internally.

Association contends that decreasing volume and increasing rates create a vicious circle phenomenon. Decreasing volume tends to increase rates. Increased rates tend to discourage use, which further decreases volume. This further increases rates, which further decreases volume.

Association also contends that the system is not efficient. It argues that for every thousand Btu's of fuel that are burned by PG&E, only 420 Btu's actually reach the user, a 42 percent efficiency ratio. ✓

Association argues that in 1974 the Commission adopted a procedure by which PG&E could charge its customers for 115 million pounds of lost steam every year. As the sales volume has decreased, the fixed amount of permitted losses has become an increasing percentage of sales. This imposes more burden per unit upon present customers.

PG&E argues that the cost of steam service has increased because the steam is produced by gas and the cost of gas has increased. It acknowledges that part of the steam distribution system is old

and sustains a fairly high heat loss ratio. PG&E contends that it has done several studies through the years as to the cost-effectiveness of renovating the system. These studies show that it is not cost-effective to renovate the system. PG&E asserts that if it expends money to improve the heat loss ratio of the distribution system, the amount of capital requirements to carry that investment would be several magnitudes higher than the savings involved.

Association called a witness who presented evidence in support of its position. On cross-examination he acknowledged that his analysis of the efficiency of PG&E's steam system was based on a comparison with an in-house hotel system with a boiler on the premises. The witness made no engineering study of the system. The witness also testified that he had no knowledge of whether PG&E made any efforts to obtain new customers for the system.

PG&E presented a witness who is the person who solicits and deals with steam system customers. He acknowledged the deficiencies in the system. The witness also testified about unsuccessful efforts to obtain new customers. The witness indicated that PG&E had recently created a group to study the system and make recommendations to management.

Association concedes that there is not sufficient evidence in the record to sustain an order modifying the rates established by Resolution No. G-2347. Its brief indicates that the Commission staff has indicated it will assist PG&E in designing the study of the system. PG&E would make the raw data and working papers available to Association and the staff. This appears to be an appropriate disposition of the application. The Commission makes the following findings and conclusions.

Findings of Fact

1. There is not sufficient evidence in the record to justify modifying the rates established by Resolution No. G-2347.
2. There is not sufficient evidence in the record to justify ordering any refund of monies collected pursuant to the rates authorized by Resolution No. G-2347.
3. It is reasonable for PG&E to make a comprehensive study of its steam sales system with respect to physical plant and rate design.
4. It is reasonable for the staff to assist PG&E in designing the scope of the study.

Conclusions of Law

1. PG&E should be ordered to make a comprehensive study of its steam sales system with respect to physical plant and rate design.
2. The staff should be directed to assist PG&E in designing the scope of the study.

O R D E R

IT IS ORDERED that:

1. Within one year after the effective date of this order, Pacific Gas and Electric Company shall make and complete a comprehensive study of its steam sales system with respect to physical plant and rate design.
2. The Commission staff shall assist Pacific Gas and Electric Company in designing the scope of the study mandated in Ordering Paragraph 1.
3. Pacific Gas and Electric Company shall transmit a copy of the completed study mandated by Ordering Paragraph 1 to the Hotel Employers Association of San Francisco and the Commission's Revenue Requirements

Division and Gas Branch within ten days after completion. Pacific Gas and Electric Company shall also make the raw data and working papers used in the study available to the Hotel Employers Association of San Francisco and the Commission staff.

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

Dated APR 21 1951, at San Francisco, California.

John E. Bryan
President
William J. ...
Leonard ...
Arthur ...
Prudence C. Allen
Commissioners