Decision 93889 DEC 30 1981 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 Effective October 1, 1981, under the Gas Adjustment Clause.

(Gas)

Application 60863
(Filed September 1, 1981)

(See Appendix A for appearances.)

OPINION

I. Introduction

By Application (A.)60863, Pacific Gas and Electric Company (PG&E) requests authority to increase gas rates under its Gas Adjustment Clause (GAC) to produce an annual increase of revenues of $54,486,000, which was later reduced to $40,075,000. The application also requests authority to recover in the GAC the carrying costs associated with fluctuations in the value of gas in inventory.

Public hearing was held on November 2, 3, and 4 in San Francisco, at which time the case was submitted subject to three late-filed exhibits.

We take notice of the decision signed today in A.60153 et al., PG&E's general rate case. In that decision we have adopted a new Gas Department revenue requirement and new rate guidelines which are being carried over to this decision.

II. Issues and Summary

This decision finds a rate increase of $34.8 million is necessary because of increased cost of domestic gas, and because of increased requirements of Canadian gas. The rates authorized in this decision include both the $34.8 million plus the new revenue requirement adopted in the general rate case decision. The two rate increases are combined for this decision because the record in this GAC proceeding contains the latest oil price information which is essential for setting those rates referenced to the alternate fuel price.

Because the general rate case decision contains form guidelines for gas rate design, rate design is not a relevant issue for this decision. The two remaining major issues are: (1) the revenue requirement, and (2) recovery of inventory carrying costs.

III. Carrying Cost of Gas in Inventory

In this application, PG&E requests authority to modify its GAC procedure to allow recovery of carrying costs associated with the increased unit cost of gas in storage. PG&E alleges that there is presently no mechanism to recover these costs. It further argues that we have recognized the need for a similar mechanism for carrying costs associated with fuel oil inventory in ECAC and we should therefore grant the request.

The staff position is best summarized in the following quote from its closing argument (Tr. pg. 264):

> "Thirdly, your Honor, addressing the matter of carrying costs, staff is opposed to PG&E being allowed a mechanism for the carrying cost of incremental increase in value of inventory.
>
> "We are really making this on two bases, one is a legal basis. I think that PG&E has a requirement and a substantial requirement and burden of proving the need for such an adjustment.
>
> "We have had no such showing in this case. PG&E has said it has been done in ECAC, and we think we should have it too for gas. There has been no showing in this proceeding, your Honor, as to the similarity between the oil inventory requirements for electric generation and the gas storage requirements for gas distribution requirements on the gas system.
>
> "There has been no showing as to the financial impacts of failure to provide this mechanism.
>
> "Staff is aware that in the general rate case, for instance, both the staff and PG&E have proposed rate mechanisms to deal, one, with financial attrition, two, with operational attrition.
>
> "Miss Woo says we will not be recovering these carrying costs. This has not been made clear in this record."

We agree with the staff, and will deny the request without prejudice. PG&E has failed to develop a sufficient basis for us to adopt the mechanism at this time. Also, any further request to adopt such a mechanism should not be made in a GAC proceeding. PG&E has complained vociferously in the past about our failure to issue offset decisions in a timely manner. We have recognized those complaints and have attempted to streamline these proceedings to allow expeditious decisions. Therefore, the proposal should be pursued in a separate application rather than tied to a future GAC proceeding.

IV. Revenue Requirement

PG&E has contracts which provide for certain quantities of Canadian gas. These contracts contain amendments which allow PG&E to purchase reduced volumes of gas; these amendments begin expiring in June 1982. PG&E's application in this case is based on forecasts which assume that the amendments will not be extended. Another assumption having a major effect on this case is the projected operational date for Diablo.

During this proceeding there was a very limited number of issues surrounding the revenue requirement. The contested issues were entirely in the area of the sources of gas supply. The parties were primarily concerned with the different supply scenarios depending on whether Canadian contract amendments were to be extended.

The administrative law judge directed the filing of two late-filed exhibits at the request of Toward Utility Rate Normalization (TURN). Exhibit 8 is the results of operations assuming that the contract amendments were to be extended for the full test period. Exhibit 10 is the results of operations assuming that Diablo's operational date was August 1, 1982.

The following table is helpful to understand ramifications of the various assumptions.

Table 1

Supply Takes*

Forecast Period 12 Months Beginning October 1, 1981

Line No.	Source	Original Updated Est. (A)	Canadian Amend.-Ext'd. (B)	Diablo Aug. 1, 1982 (C)
1	California Gas	135,399	140,382	147,331
2	El Paso	431,853	434,437	436,324
3	PGT-Canadian	293,762	285,883-	330,545
4	Rocky Mountain	7,792	8,104	8,428
5	Total	868,806	868,806	922,628

*MDth

The original PGT-Canadian estimate assumed expiration of the amendments (Col. A, L.3). By comparing that estimate with Exhibit 10, which assumes the operational date of Diablo to be August 1982, (Col. C, L.3), we see that these required increased volumes are more than the Canadian minimums without the amendments. PG&E's original assumption in forecasting gas demand for electric generation was that Diablo would be on line in January 1982. Diablo will clearly not be on line in January 1982. For the purposes of forecasting gas demand, we think it is realistic to assume Diablo will not be on line before August 1982 at the earliest. Also, we will be reviewing this matter further before August 1982 in the next PG&E Gas Adjustment Clause filing. Any changes in this assumption will be reviewed at that time. For the purposes of this proceeding, the following table shows the development of the current cost of gas under that assumption:

Table 2

Forecast Period: 12 Months Beginning October 1, 1981

Line No.	Source	Supply (MDth) (A)	Price ¢/Dth (B)	Cost (M$) (C)
1	Cost of California Gas	147,331	276.77	407,768
2	El Paso	436,324	279.70	1,220,398
3	PGT-Canadian	330,545	506.24	1,673,351
4	Rocky Mountain	8,428	337.81	28,471
5	Subtotal Purchases	922,628	360.92	3,329,988
6	Withdrawal	36,427	169.21	61,638
7	Injection	(31,595)	360.92	(114,033)
8	Total	927,460	353.39	3,277,593

(Red Figure)

The next issue to be resolved in order to compute a revenue requirement is a decision regarding the amortization period of the Gas Cost Balancing Account (GCBA). Presently there is an overcollection in the balancing account of $10,938,000. PG&E recommended that a six-month amortization period be used, and no parties differed. We realize, however, that a recent El Paso rate increase will be reducing the overcollection. In order to minimize undercollection by the time of the next GAC proceeding, we will adopt a 12-month amortization period.

The following table shows the development of the additional revenue requirement of $34,849,000 due solely to the GAC proceeding.

Table 3

Revenue Requirement GAC Only

	Amount In Thousands Of Dollars
Current Cost of Purchased Gas	$3,277,593
Balance Account[1]	(10,938)
Subtotal	3,266,655
Adjustment for franchise and uncollectibles[2]	25,245
Base Cost Amount	569,758
Subtotal	3,861,658
Less: Revenue @ Present Rates[3]	3,826,809
Increase Revenue Requirement	34,849

(Red Figure)

(1) Balance Account as of September 1, 1981.
(2) 0.7828%.
(3) Excludes Gas Exploration and Development Adjustment (GEDA), Conservation Financing Adjustment (CFA), and Solar Financing Adjustment (SFA).

V. Revenue Requirement -
GAC and General Rate Case Combined

We have issued our decision today in PG&E's general rate case. In order to calculate new effective rates, we provided that the gas department revenue requirement authorized in the general rate case would be carried over and spread in this GAC proceeding. The general rate case authorized a new gas margin of $772,299,000 which replaces the figure of $569,758,000, the previous margin.

The following table computes the revenue requirement combining the GAC results with the results of the general rate case.

Table 4

Revenue Requirement GAC and General Rate Case Combined

Item	Amount ($000)
Cost of Purchased Gas	$3,277,593
Gas Cost Balance Account	(10,938)
Subtotal	3,266,655
Franchise Fees & Uncollectibles	25,245
Base Cost Amount	772,299
CFA, in Rates	9,450
GEDA	32,370
SFA	7,469
Revenue Requirement	4,113,488
Revenue at Present Rates	3,876,098*
Increase	237,390

(Red Figure)

* Includes CFA, SFA, and GEDA as of 10/1/81.

Rate Design

As discussed previously, the combined revenue requirement will be translated into rates according to the rate design guidelines which are provided in the general rate case decision. The single issue which will appear in every GAC proceeding is the cost of low sulfur #6 fuel oil. In this proceeding, PG&E provided updated alternate fuel data which support its recommended price of 47¢/therm. This figure was not seriously contested. We find that a market price of #6 low sulfur fuel oil would be in the range of 47¢/therm to 50¢/therm. For ratemaking purposes, we adopt the price of 47¢/therm.

Table 5, below, shows the application of the guidelines to reach our adopted effective rates for the combined revenue requirement. For illustrative purposes, Table 6 shows a comparison of present rates, and the adopted combined rates.

Table 5

Development of Adopted Effective Rates
(GAC and General Rate Proceeding)

Class of Service	Sales M-therm	Guideline Rate(1)	Adjustment(2)	Adopted Effective Rate
Tier I	1,549,534			.34966
Tier II	454,711			.55478
Tier III	105,550			.69931
Total Res.	2,109,795	.41136		.41136
G-2	1,610,550	.50	(.00799)	.49201
G-50	921,830	.50	(.00799)	.49201
G-52	617,500	.47	(.00799)	.46201
G-55	3,230,390	.47	(.00799)	.46201
G-57	108,660	.47	(.00799)	.46201
G-60	34,030	.38851		.38851
G-61-63	45,630	.37175		.37175
SoCal Gas	321,360	.44037	-	.44037
Total	8,999,745	.45707		.45707

(Red Figure)

Price of #6 low sulfur level = 47 ¢/therm
Rev. Requirement = $4,113,488
System Avg. Rate = .45707
Sales = 8,999,745 M-therms

(1) Per general rate decision.
(2) Result of guideline rates producing excess revenue.

Table 6

Class of Service	Sales M-Therm	Present Rates Effective 7-14-81 $/th	Present Rates Effective 7-14-81 $M	Combined GAC and General Rates $/th	Combined GAC and General Rates $M	Combined GAC and General Rates % Increase
Residential:						
Customer Nos.	32,940	1.20	39,528	-		-
Tier I	1,549,534	0.29833	462,273	0.34966	$ 541,810	7.97
Tier II	454,711	0.58202	264,651	0.55478	252,265	(4.68
Tier III	105,550	0.68382	72,177	0.69931	73,812	2.27
Total	2,109,795	0.39749	838,629	0.41136	867,887	3.49
Nonresidential:						
G-2 Cust. Nos.	2,074	1.20	2,495	-	-	-
Commodity	1,610,550	0.46012	741,046	0.49201	792,407	6.57
Subtotal	1,610,550	0.46167	743,541			
G-50	921,830	0.46080	424,779	0.49201	453,550	6.77
G-52	617,500	0.43080	266,019	0.46201	285,291	7.25
G-55	3,230,390	0.42938	1,387,065	0.46201	1,492,472	7.60
G-57	108,660	0.42938	46,656	0.46201	50,202	7.60
Total Non-Res.	6,488,930	0.44197	2,868,060	0.47372	3,073,922	7.18
G-60	34,030	0.37370	12,717	0.38851	13,221	3.96
G-61-63	45,630	0.35980	16,418	0.37175	16,963	3.32
Total Resale	79,660	0.36574	29,135	0.37891	30,184	3.60
SoCal Gas	321,360	0.43650	140,274	0.44037	141,517	0.89
Total	8,999,745	0.43069	3,876,098	0.45707	4,113,488 1/	6.13

1/ Subtotals do not add due to rounding.

Findings of Fact

1. By A.60863, PG&E requests authority to increase its rates under its GAC to produce increased revenues of $54,486,000 annually.

2. PG&E estimates of sales, prices, and supply are adopted.

3. For the forecast period Diablo will not be assumed to be commercially operable before August 1, 1982.

4. The GCBA should be amortized over 12 months.

5. An increase in GAC rates to produce an annual increased revenue of $34,849,000 is justified and reasonable.

6. There is insufficient evidence to warrant granting that portion of the application requesting the inclusion of gas inventory carrying cost in the GAC.

Conclusions of Law

1. The rates authorized should include the revenue requirement increase authorized today in our decision in A.60153 et al.

2. Because of the substantial undercollections, there is an immediate need for rate relief. Therefore, the following order should be effective today.

3. The increase in rates authorized by this order 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.

4. PG&E should be authorized to increase its gas rates as set forth in Appendix B; those rates are just and reasonable.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order Pacific Gas and Electric Company is authorized to file the revised tariff schedules attached to this order as Appendix B and cancel its presently effective schedules. The revised tariff schedules shall become effective on date of filing but not earlier than January 1, 1982. The revised schedules shall apply only to service rendered on or after the effective date thereof.

2. To the extent not granted, A.60863 is denied.

This order is effective today.

Dated DEC 30 1981, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. GREW
Commissioners

I CERTIFY THAT THIS DECISION WAS APPROVED BY THE ABOVE COMMISSIONERS TODAY.

Joseph E. Bodovitz

Joseph E. Bodovitz, Executive Director

APPENDIX A

LIST OF APPEARANCES

Applicant: Daniel Gibson and Shirley Woo, Attorneys at Law, for Pacific Gas and Electric Company.

Interested Parties: Brobeck, Phleger & Harrison, by James M. Addams and William M. Booth, Attorneys at Law, for California Manufacturers Association; W. Randy Baldschun, for the City of Palo Alto; John R. Bury, H. Robert Barnes, Susan M. Beale, and Larry R. Cope, Attorneys at Law, for Southern California Edison Company; Michel Peter Florio, Attorney at Law, for Toward Utility Rate Normalization (TURN); Henry F. Lippitt, II, Attorney at Law, for California Gas Producers Association; Robert M. Loch, Thomas D. Clarke, Nancy I. Day, and David B. Follett, Attorenys at Law, for Southern California Gas Company; and Pettit & Martin, by Edward B. Lozowicki, Attorney at Law, for Owens-Corning Fiberglas Corp.

Commission Staff: Lionel B. Wilson, Attorney at Law.

(END OF APPENDIX A)

APPENDIX B

PACIFIC GAS AND ELECTRIC COMPANY

Statement of Commodity Rates
(Cents per therm)

Type of Service*	Effective Commodity Rate**
Residential	
Tier I	34.966
Tier II	55.478
Tier III	69.931
Nonresidential	
G-2	49.201
G-50	49.201
G-52	46.201
G-55	46.201
G-57	46.201
G-60	38.851
G-61	37.175
G-62	37.175
G-63	37.175
SoCal Gas	44.037

* Schedule G1-N: First 300 therms at 55.478¢/therm excess at 69.931¢/therm.
Schedules GM/S/T-N: All use at 55.478¢/therm.
Schedule G-30: Increase commensurately with Sechdule G-2.

** Includes CFA, GEDA and SFA as of December 1, 1981.

(END OF APPENDIX B)