PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION & COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-2663
February 20, 1986

RESOLUTION

AUTHORIZATION FOR PACIFIC GAS AND ELECTRIC COMPANY (PG&E) TO REVISE SPECIAL CONDITION SIX OF RATE SCHEDULE G-58 TO CORRECT AN ANOMALY IN GAS RATES CREATED BY THE RECENT DROP IN OIL PRICES

By Advice Letter 1347-G-Supplemental, filed February 5, 1986, and by Advice Letter 1347-G-Second Supplemental, filed February 14, 1986, PG&E has requested authority to revise the indexing special condition for Schedule G-58 and establish a floor for charges under Schedule G-50. The facts are as follows:

1. The present indexing conditions for Schedule G-50 are structured so that only the first and second tiers are responding to the reduction in price of the alternate fuel (No. 2). The third tier of Schedule G-50 as well as Schedule G-58 are indexed to the price of No. 6 fuel, as reported in Platt's Oilgram Price Report.

2. This indexing mechanism has met with a reported price drop for No. 2 fuel of more than 15 percent while the reported price of No. 6 fuel has remained unchanged. This has resulted in a commodity charge for the second tier of Schedule G-50 ($0.34737) which is lower than that for the third tier ($0.36942), effective February 4, 1986. If not modified, this anomaly of the indexing provisions may create an incentive for fuel switching, which it was intended to prevent.

3. Special Condition 5 of Schedule G-50 states that the rate for the third block shall be equal to the commodity charge of Schedule G-58.

4. To solve this problem, the indexing conditions should be modified such that the commodity rate of Schedule G-58 and the third tier of Schedule G-50 be the lesser of the second tier of Schdule G-50 or the indexed rate. The proposed language changes

a portion of Special Condition Six of Schedule G-58 as follows:

INDEXING:

" The effective commodity rate for service under this schedule shall be the lesser of the indexed rate described below or the commodity charge under the second tier of Schedule G-50. An increase or decrease in the effective commodity rate shall be filed and made effective only when the monthly calculation would increase or decrease the currently effective commodity rate by 2.50 percent or more."

5. Schedule G-58 has a floor of the incremental cost of gas plus 12% as authorized in Decision 83-06-004. Schedule G-50 currently has no such floor.

6. A floor based on a margin contribution of $.05 per therm was found reasonable by the Commission in Resolution G-2664.

7. If the reported prices of oil continue to drop without a commensurate drop in PG&E's cost of gas, the indexing provision may cause erosion of some or all of the contribution to fixed costs. To solve this problem a floor should be established for Schedule G-50. The proposed revision to the Commodity Charge is the addition of "the commodity charge shall not be less than the Utility's incremental cost of gas plus $.05 per therm".

8. In addition, the following language should be added to the commodity charge in Schedule G-58 in accordance with Decision 83-06-004: "The commodity charge per therm shall not be less than 12 percent above the Utility's incremental cost of gas".

9. Authorization of this revision to the Special Condition on less than statutory notice is requested due to the fact that the change in the oil price index became effective on February 4, 1986 by Advice Letter 1347-G.

10. A copy of this filing was provided to the Public Staff Division (PSD). PSD on February 19, 1986 commented that, the floor rate for Schedule G-58 should be not less than the utility's

incremental cost of gas plus a margin of 12% or 4.5 cents (minimum) per therm. The PSD further stated that it is imperative that the Commission put the utility, the pipelines and the gas suppliers on notice that this floor rate, with its minimal contribution to utility margin, will only be in effect for a limited period of time. Should the average cost of gas available to the utility for purchase fail to respond to the changes in the world oil markets, the Commission should increase the floor rate and allow the industrial customers to switch from gas to fuel oil creating the sort of market competition that is in the best long-term interests of all gas ratepayers.

11. We find that this rate schedule revision is just and reasonable and should be made a part of the effective tariffs.

12. However, in recognition of the concerns that have been expressed, we put the parties on notice that the appropriateness of the revised indexing mechanism should be addressed in PG&E's forthcoming Spring, 1986 GAC filing.

THEREFORE:

1. Pacific Gas and Electric Company is authorized by Sections 454 and 491 of the Public Utilities Code to place the indexing tariff revision and minimum rate for Schedule G-58 and the establishment of a minmum rate for Schedule G-50 into efffect today, which constitutes less than regular statutory notice.

2. It is also emphasized that the minimum margin to PG&E under these schedules shall be 5 cents per therm for Schedule No. G-50 and 4.5 cents per therm for Schedule No. G-58 until changed or amended by further order of this Commission.

3. The above advice letters and tariff sheets shall be marked to show that they were authorized for filing by Commission Resolution No. G-2663. This resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular conference on February 20, 1986. The following Commissioners approved it:

Joseph E. Bodovitz
Executive Director

DONALD VIAL
President

VICTOR CALVO
PRISCILLA C. GREW
WILLIAM T. BAGLEY
FREDERICK R. DUDA
Commissioners