

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION & COMPLIANCE DIVISION
Energy BranchRESOLUTION G-2672
April 16, 1986

RESOLUTION

AUTHORIZATION FOR PACIFIC GAS AND ELECTRIC COMPANY (PG&E)
TO TEMPORARILY SUSPEND INDEXING FOR SCHEDULES G-50 AND G-58

By Advice Letter 1351-G, filed March 13, 1986, PG&E has requested authority to suspend indexing for Schedules G-50 and G-58 until a decision is made in the upcoming Gas Adjustment Clause (GAC) Application 86-03-030 filed March 17, 1986. PG&E has also requested a modification to Schedule G-85 to establish a minimum rate equal to PG&E's incremental cost of gas plus \$0.03 per therm, in lieu of using the G-59 rate in effect at the time a contract is signed as the floor. This change would reflect the fact that some customers may be able to purchase alternative fuels at prices less than the alternatives available to G-59 customers. This revised floor would allow PG&E to compete with alternative energy sources while collecting some contribution to margin.

The suspension of indexing is necessary for the near-term to prevent additional loss of revenue. The reduction in projected annual revenue because of indexed rate reductions in these schedules since January 1, 1986 is \$148 million. This is in addition to a \$40 million decrease attributable to the January 1 GAC decision. The suspension of indexing is proposed only as an interim measure to prevent further revenue loss while the scope of indexing is examined in the GAC rate hearings.

Depending on the behavior of the oil market, the suspension of indexing may cause some fuel switching. PG&E will use Schedule G-85 to encourage potential fuel switchers to remain on gas.

The Public Staff Division (PSD) on March 21, 1986 protested Advice Letter 1351-G and proposed certain alternatives as discussed herein. First, PSD agrees with temporarily suspending the index mechanism for Schedules G-50 and G-58. This matter can be reviewed in PG&E's semi-annual gas offset Application No. 86-03-030. PSD has taken the position in OII 84-04-079 that indexing gas rates to fuel oil prices should be discontinued.

The existing margin contribution for G-85 is approximately 7.3 cents per therm. With 2.5 cent towards the utility's fixed pipeline charges and 0.9 cents to compressor fuel and line loss, the current margin contribution of 7.3 cents provides a contribution of 3.9 cents to what has been traditionally considered the utility's margin. The 3 cent margin contribution as proposed by PG&E does not cover the utility's fixed pipeline charges, compressor fuel, and line losses.

PSD maintains that the minimum rate should be the incremental cost of gas plus 4.5 cents per therm. Until there are hearings on long-term gas rate design, PSD believes that 4.5 cents per therm is the absolute minimum the Commission should approve in any rate design proposal. This level is consistent with the 4.5 cents per therm minimum contribution to fixed costs recently adopted by the Commission (Resolution No. G-2663) for PG&E's G-58 rate.

PROTESTS

Protests to Advice Letter No. 1351-G were received from U.S. Borax and Chemical Corporation (U.S. Borax), California Industrial Group (CIG), California Manufacturers Association (CMA) and the California Cogeneration Council (CCC). The issues raised by the protestants are varied but they all have one request in common and that is to reject Advice Letter No. 1351-G and to consider the indexing issues in the Gas Adjustment Cost (GAC) hearings commencing on April 21, 1986. Essentially, all protestants believe that the merits of PG&E's proposal requires greater scrutiny by the Commission, affected customers and interested parties before any action can be taken.

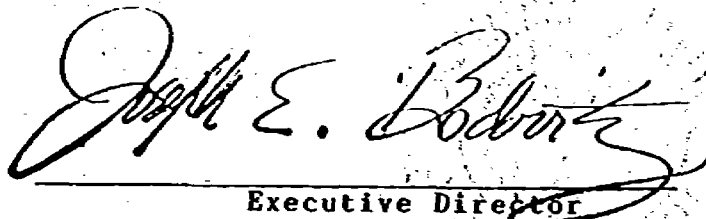
FINDINGS

1. Given the current behavior of the oil market, Schedules G-50 and G-58 should be temporarily suspended from indexing to avoid further loss of revenue.
2. This is a temporary suspension of indexing and this issue should be addressed at the hearings in Application 86-03-030.
3. The three cent margin contribution to Schedule G-85 as proposed by PG&E does not cover the utility's fixed pipeline charges, compressor fuel and line losses.
4. Until hearings are held on long-term gas rate design the minimum contribution to fixed costs should be the incremental cost of gas plus 4.5 cents per therm.
5. Pacific Gas and Electric Company should be encouraged to use Schedule G-58 to persuade fuel switchers to remain on gas, but the margin contribution should be as outlined in Finding No. 4.

THEREFORE:

1. Pacific Gas and Electric Company is authorized under Sections 454 and 491 of the Public Utilities Code to temporarily suspend indexing of gas rate to fuel oil prices for Schedules G-50 and G-58.
2. Pacific Gas and Electric Company shall not modify Schedule G-58 to establish a minimum contribution to fixed cost margin at less than PG&E's incremental cost of gas plus 4.5 cents per therm.
3. Advice Letter 1351-G and accompanying tariff sheets shall be marked to show that they were authorized for filing by Commission Resolution No. G-2672. This Resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on April 16, 1986. The following Commissioners approved it:


Executive Director

DONALD VIAL
President
VICTOR CALVO
PRISCILLA C. GREW
FREDERICK R. DUDA
Commissioners