

\* State of California

File No.: 402

## MEMORANDUM

Date: April 15, 1980 **6-2347**  
Conference

To : THE COMMISSION

Subject: PG&E Steam Fuel Cost Adjustment  
Resulting in Increase in Annual  
Steam Revenue of \$834,600 or  
16.4%.  
(Resolution No. G-2347)

## RETURN TO GAS BRANCH

From : Public Utilities Commission--San Francisco--G. L. Way  
Chief Gas EngineerRECOMMENDATION: Pacific Gas & Electric Company (PG&E) should be granted a rate increase applicable to its Steam Sales Department under the following provisions:

1. The rate increase outlined in PG&E Advice Letter No. 64-S, dated January 28, 1980, should be granted, subject to refunds at a later date if required.
2. The question of PG&E steam rate increases should be set for hearings at an appropriate time.
3. Rate reductions and/or refunds will be ordered if deemed appropriate by such hearings.

BACKGROUND: On January 29, 1980, PG&E filed Advice Letter No. 64-S, requesting a rate increase in the utility's steam tariffs in accordance with the provisions of The Fuel Cost Adjustment Factor (FCAF) of the filed steam tariffs. The requested revision would increase the FCAF by \$1.537 per 1,000 lbs. of steam from \$3.968 to \$5.505 per 1,000 lbs. of steam and would result in an annual revenue increase of \$834,600 or 16.4% of the utility's Steam Department.

On February 14, 1980, the Commission received a letter from the Law Offices of Steinhart, Falconer & Morgenstein representing the Hotel Employers Association of San Francisco (HEA), who constitute a large percentage of PG&E's steam customers. This letter represented a protest to Advice Letter No. 64-S. The HEA raised questions concerning frequency of rate increases, efficiency of the system, and operating procedures.

At approximately the same time, on February 13, 1980, the Commission issued Decision No. 91325, granting PG&E a general rate increase to its Steam Department, in Application No. 57202. The decision granted PG&E an annual revenue increase of \$394,800 for steam sales and was based on test year 1977. The effective date of the increase was 30 days after the date of the decision. On March 19, 1980, PG&E filed Advice Letter No. 66-S to implement the new rate design authorized in Decision No. 91325.

On March 11, 1980 the Commission received a response from PG&E to HEA's protest. The Commission staff discusses the positions of both parties in the section entitled "Analysis".

ANALYSIS: The first objection raised by HEA concerns the frequency and amounts of PG&E's steam fuel cost adjustments. The HEA cites that there have been three other fuel cost increases granted to Advice Letter filings since April 1, 1979 for a total annual revenue increase of \$1,122,600 or 28.5%. If granted, Advice Letter No. 64-S would raise this to \$1,957,200 or 49.7% increase in an eleven month period. The HEA contends that increases of this magnitude should not be granted without hearings.

The utility responds by contending that the fuel cost adjustment clause in its filed tariff only allows PG&E to pass on actual increases in the cost of fuel and that the rapidity and magnitude of such increases is beyond the control of the utility. The utility further contends that the increased cost of gas and oil is due almost exclusively to out-of-state suppliers and that the validity of PG&E's fuel costs has been the subject of repeated scrutiny of the Commission in the utility's ECAC and GCAC proceedings.

Further allegations by HEA concern the efficiency of the system by claiming that it now requires 1,630 BTU's of energy to generate a pound of steam as opposed to 1,480 BTU's in 1976 for a 10% loss in efficiency. The utility responds that the figure of 1,480 BTU's used in 1976 was in error due to misreading of two of the steam flow sendout meters and this error was reflected in the test year data. This error has since been corrected in the proceedings on Application No. 57202 and the utility contends that it always has required approximately 1,630 BTU's of energy to produce a pound of steam.

The HEA raises the issue that the amount of allowed losses on the system remains the same as in 1976 despite the fact that PG&E's steam sales have declined by approximately 30% since that time. They feel that the steam customers are being required to pay for increased inefficiency of the steam system. The utility responds that the amount of allowed losses and unaccounted for, which was established by Commission Decision No. 84902, was a minimum incentive for PG&E to renovate its system and does not represent the actual total amount of losses experienced by the utility.

The HEA further contends that PG&E is allowing the steam system to wither away by allowing fewer customers to absorb inefficiency costs and by discouraging use by higher prices. The utility denies this charge and contends that it has actively sought new steam customers and that decreased sales are due primarily to conservation efforts on the part of the customers in regards to all forms of energy.

PG&E further contends that these and other issues concerning technical and operational matters are proper subjects to be raised in a general rate case proceeding for the Steam System. Some of these points were covered in the recent steam rate case in Application No. 57202, in which HEA is not listed as having participated.

Decision No. 91325 in Application No. 57202 redesigned the rate structure from a descending block rate schedule to a flat rate. A comparison of the present steam rate structure and the one approved by Decision No. 91325 is shown below:

Schedule S-1 General Service

<u>Present Rates</u>	<u>Decision No. 91325 Rates</u>
First 20,000 lbs., per 1,000 lbs. \$7.866	Customer Charge, per Month \$7.00
Next 80,000 lbs., per 1,000 lbs. 7.336	
Next 150,000 lbs., per 1,000 lbs. 7.036	All Deliveries, per 1,000 lbs. 7.5927
Next 250,000 lbs., per 1,000 lbs. 6.836	
Over 500,000 lbs., per 1,000 lbs. 6.686	

If approved, the fuel cost adjustment filed in Advice Letter No. 64-S would increase the commodity rate an additional \$1.537 per 1,000 lbs. to \$9.1297 per 1,000 lbs. of steam. A comparison of typical bills at low, medium and high usage levels at the present (pre-D.91325 rates) and the new proposed rate of \$9.1297 per 1,000 lbs. is shown below:

Monthly Usage	Present Rates	Proposed Rates	Increase	
			Amount	Percent
5,000 lbs.	\$ 39.33	\$ 52.65	\$ 13.32	33.9%
100,000 lbs.	744.20	919.97	175.77	23.6
500,000 lbs.	3,508.60	4,571.85	1,063.25	30.3

Of the rate increase percentages shown in the above table, only about 17%-20% are attributable to the fuel cost adjustment. The balance has already been approved by Decision No. 91325.

The Commission staff recognizes the fact that the amount requested for a fuel cost adjustment represents an increase in fuel costs already borne by PG&E. Any substantial delay in rate relief would place a burden on the Steam Department to earn a positive rate of return. After reviewing both sides in this matter, the staff recommends that the fuel cost adjustment rate increase should be granted, subject to refund and to later hearings at an appropriate time to be determined by the Commission. In the event that overcharges are determined, refunds may be ordered.

In order to prevent two rate increases in a short period of time, the staff recommends that the fuel cost rate increase become effective on April 18, 1980, concurrent with the rate increase authorized by Decision No. 91325.

In the event that the Commission concurs with the staff's recommendation, the attached Resolution No. G-2347 has been included for Commission approval and adoption.

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Copy for:

Orig. and Copy  
\_\_\_\_\_to Executive Director  
\_\_\_\_\_Director  
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\_\_\_\_\_Alphabetical File  
\_\_\_\_\_Accounting Officer

RESOLUTION NO. G-2347

RESOLUTION

UTILITIES DIVISION  
BRANCH/SECTION: Gas Branch  
DATE: April 15, 1980

RETURN TO GAS BRANCH

SUBJECT: Pacific Gas & Electric Company, Order Authorizing Revised Fuel Cost Adjustment Factor Resulting in Rate Increases in Steam Tariffs and Producing an Annual Revenue Increase of \$834,600 or 16.4%

WHEREAS: PACIFIC GAS & ELECTRIC COMPANY (PG&E), by Advice Letter No. 64-S, filed January 29, 1980, requests authority under Section 454 of the Public Utilities Code to adjust its steam tariff rates in accordance with the provisions of Decision No. 83117, dated July 9, 1974, in Application No. 54025, as set forth on Cal. P.U.C. Sheets Nos. 243-H and 244-H, and resulting in the following:

1. The fuel cost adjustment factor (FCAF) is proposed to be changed by \$1.537 per 1,000 lbs. of steam from \$3.968 to \$5.505 per 1,000 lbs. of steam, resulting in an annual revenue increase of \$834,600 or 16.4% for the utility's Steam Department.
2. Decision No. 91325, dated February 13, 1980, in Application No. 57202, granted PG&E a general rate increase to the Steam Department, which was filed on March 14, 1980 by Advice Letter No. 66-S, and which will become effective on April 18, 1980.
3. Decision No. 91325 revised the fuel cost adjustment factor from \$3.968 to \$2.929, thereby revising the FCAF filed here to \$4.466 per 1,000 lbs. of steam.
4. This fuel cost rate increase was held in abeyance pending review of a protest by the Hotel Employers Association of San Francisco (HEA) as to:
  - (a) frequency of rate increases
  - (b) efficiency of the system
  - (c) operating procedures
  - (d) failure to promote Steam Sales to sustain an efficient steam system
5. The above matters should be considered as general rate matters and are not usually taken up in increased energy cost proceedings.
6. The Commission staff has reviewed this matter and has recommended that the fuel cost increase be granted subject to refunds and to later hearings, and

WHEREAS: We find that the staff's recommendations, as outlined above, are reasonable; therefore, good cause appearing,

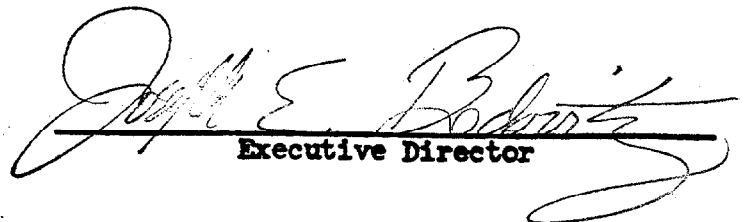
IT IS ORDERED that:

1. Pacific Gas & Electric Company is instructed to file a supplemental Advice Letter No. 64-S and substitute tariff sheets to reflect the rate design revisions ordered by Decision No. 91325.

2. Authority is granted under Sections 454, 491 and 701 of the Public Utilities Code to place such subsequent substitute tariff sheets into effect on April 18, 1980 concurrent with and superceding the tariff sheets filed with Advice Letter No. 66-S.
3. The advice letters will be assigned an application number. 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.
4. The above advice letter, the supplemental advice letter, and the above tariff sheets and/or subsequent substitute tariff sheets be marked to show that they were approved for filing by Resolution No. G-2347 of the Public Utilities Commission of the State of California. The effective date of this Resolution is the date hereof.

I hereby certify that the foregoing Resolution was duly introduced, passed and adopted at a regular conference of the Public Utilities Commission of the State of California, held on April 15, 1980, the following Commissioners voting favorably thereon:

VERNON L. STURGEON  
RICHARD D. GRAVELLE  
CLAIRE T. DEDRICK  
LEONARD M. GRIMES, JR.  
Commissioners

  
Executive Director