

ORIGINAL

Decision No. 5440

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of PACIFIC GAS AND ELECTRIC COMPANY, a corporation, for an Order of the Railroad Commission of the State of California, fixing the rate and charge for gas furnished the City of Palo Alto, a municipal corporation.

Application No. 3300

Charles P. Cutten, for Applicant. Norman E. Malcolm, for City of Palo Alto.

THELEN and DEVLIN, Commissioners.

O P I N I O N

This proceeding involves the fixing of just and reasonable rates for gas supplied by applicant at wholesale to the City of Palo Alto.

The City of Palo Alto owns and operates a gas distribution system in the City of Palo Alto and environs and purchases gas at wholesale from the Pacific Gas and Electric Company.

The Pacific Gas and Electric Company owns and operates a gas plant in the City and County of San Francisco and a gas transmission line extending from its plant in a southerly direction through San Mateo County and a portion of Santa Clara County to the City of Palo Alto. Pacific Gas and Electric Company owns several distributing systems supplying cities and towns en route, and the territory thus served is designated as applicant's "Redwood District".

All gas supplied, both to its own consumers in Redwood District and to the City of Palo Alto, is manufactured at the applicant's Potrero gas plant in San Francisco, and transmitted at high pressure to points of consumption. The City of Palo Alto has been engaged in the business of supplying gas to its inhabitants and the inhabitants of certain adjacent territory since on or about the 22nd day of September 1917, at which time the City obtained possession of the gas distributing system formerly owned by the Palo Alto Gas Company.

Hearings were held in San Francisco on January 3rd and 4th and on May 17th, 1918. The matter was then submitted and is now ready for decision.

Under terms of a certain contract entered into on the 18th day of March 1905 by and between the United Gas and Electric Company and Palo Alto Gas Company, Palo Alto Gas Company agreed to purchase gas from United Gas and Electric Company for a term of ten years, and to pay for all gas purchased an amount equivalent to 50% of the gross revenue derived by Palo Alto Gas Company. Pacific Gas and Electric Company, as successor in interest to United Gas and Electric Company, carried out the provisions of this contract, until its expiration on September 8, 1915, and during said term and thereafter billed Palo Alto Gas Company in accordance therewith.

Prior to the first day of April, 1913, the rate charged by Palo Alto Gas Company for gas sold its consumers was \$1.50 per thousand cubic feet. Under the terms of the contract above mentioned, Pacific Gas and Electric Company received seventy-five cents for each and every thousand cubic feet of gas sold by Palo Alto Gas Company to its own consumers. The Railroad Commission in its Decision No. 499, Case No. 288, dated March 12th, 1913, fixed the gas rates of the Palo Alto Gas Company at \$1.20 per thousand cubic feet. Under the terms of the above-mentioned contract, Pacific Gas and Electric Company thereupon charged Palo Alto Gas Company for gas at the rate of sixty cents per thousand cubic feet sold. In fixing the Palo Alto Gas rate, the Commission stated that the cost of gas delivered to Palo Alto Gas Company by Pacific Gas and Electric Company was not in excess of 53.454 cents per thousand cubic feet, and based its conclusions upon certain testimony by officers of Pacific Gas and Electric Company. Thereupon Palo Alto Gas Company refused to pay for gas to the Pacific Gas and Electric Company more than fifty-four cents per thousand cubic feet. Out of this difference has arisen a dispute and claim for reparation, which is before this Commission in Case No. 1144 now pending.

The City of Palo Alto, as successor of Palo Alto Gas Company, has agreed that pending the decision of the present proceeding, it will pay Pacific Gas and

Electric Company at the same rate that Pacific Gas and Electric Company had heretofore billed Palo Alto Gas Company; namely, sixty cents per thousand cubic feet sold; and in the event of this Commission fixing another rate, the City will pay to Pacific Gas and Electric Company the difference between the billed rate and the rate fixed by the Commission. This arrangement was to apply to all gas purchased on and after October 1st, 1917.

We have, then, before us only the question of fixing the rate which City of Palo Alto will pay to Pacific Gas and Electric Company for gas delivered into the City's system. In Decision No. 4736, Case No. 839, dated Oct. 8th, 1917, this Commission fixed the cost of production of gas at the applicant's San Francisco plants, and further segregated the cost of gas delivered to the Redwood District, in which is included the gas delivered to the City of Palo Alto.

In Application No. 3248, this day decided, this Commission considered all matters in reference to the gas rates of applicant in Redwood District, excepting the rate for gas served to the City of Palo Alto. By stipulation, the evidence in both of these proceedings is considered a part of the record herein.

In the decision this day rendered in Application 3248, this Commission made findings of the value of the property and costs of service of applicant applicable to the service of gas in the Redwood District, and segregated

the same as between gas sold to the City of Palo Alto and gas sold to applicant's consumers in Redwood District.

The properties used and useful in the service of gas to the City of Palo Alto consist of certain portions of the transmission system and other equipment used exclusively in the service of gas to City of Palo Alto, and in addition certain portions of the transmission system and equipment, used for the joint service of gas both to the City of Palo Alto and other consumers of applicant in its Redwood District. In addition, certain plant and equipment located at Applicant's Potrero Plant in San Francisco are used for the manufacture and pumping of gas both to the City of Palo Alto and applicant's other consumers in the Redwood District.

From the evidence herein, we find as a fact that a reasonable rate base to be used in determining the cost of service of gas to the City of Palo Alto, which includes both plant and properties used exclusively in the service of gas to the City of Palo Alto and a pro-rata of the plant and properties used for the joint service of gas both to the City of Palo Alto and to applicant's other consumers in the Redwood District, is the sum of \$105,227. This does not include any portion of applicant's gas production plant in San Francisco, which has, however, been provided for as an item in the cost of manufacture of gas subsequently delivered to Palo Alto

and applicant's Redwood District. One of the items to be considered in fixing the wholesale gas rate for the City of Palo Alto is the cost of gas manufacture at applicant's plant in San Francisco. This matter was covered by this Commission in Decision No. 4736, Case No. 839, based upon the conditions which then existed.

Subsequent to this decision, however, the cost of oil used in gas manufacture has increased so that Applicant will be obliged, on and after June 1st, 1918, to pay, under its oil contract, an increased price of approximately 27¢ per barrel of oil. The effect of a change in the price of oil is to correspondingly modify the cost of gas manufacture and therefore to alter the rate. In the case of a very large consumer, such as is the City of Palo Alto herein, we deem it desirable to fix a rate that will be flexible in so far as it is affected by changes in the price of oil, and which will thereby render unnecessary repeated proceedings for adjustments in the rate. Furthermore, since the City of Palo Alto and applicant have agreed to make the rate to be fixed herein retroactive to October 1st, 1917, this form of rate will establish a basis for adjustment of charges for gas in the interim.

We have taken into consideration the probable amount of gas delivered by applicant to the City of Palo Alto, and the losses in transmission thereof between applicant's manufacturing plant in San Francisco and the point of delivery. We have also taken into account the cost of gas manufacture at the applicant's plant in San Francisco and all other fixed charges and expenses inci-

dental to the transmission and delivery of gas to the City of Palo Alto, which includes both those charges and expenses allocated exclusively against the gas supplied to the City of Palo Alto and a prorata of the fixed charges and expenses allocated to all gas sold to both applicant's consumers in Redwood District and to the City of Palo Alto. Allowance has been made for a reasonable return upon applicant's investment and for a proper depreciation annuity upon the properties of applicant used in this connection, and for all other items effecting the cost of service herein.

Under the present system of rates the Pacific Gas and Electric Company receives payment for gas supplied to the City of Palo Alto on the basis of the sales of gas as recorded on meters of the City's consumers. If the amount of gas lost in the City's distribution system were a matter of exact computation, this method would be proper, but in so far as the loss in the City's distribution system is a variable figure, this method of measurement of gas sold would be inequitable to the Pacific Gas and Electric Company and would penalize them in the event that the City of Palo Alto were negligent in the maintenance of its system, and permitted thereby a greater loss of gas. Applicant has installed at the point of delivery to the City of Palo Alto an accurate and satisfactory type of meter which measures all the gas delivered by applicant to the City of Palo Alto, and the City of Palo Alto under these conditions should necessarily assume the responsibility for whatever losses may occur in its own system. We believe it more equitable to both parties herein that the rate should be

fixed on the basis of gas as delivered by applicant to the City of Palo Alto and as measured by applicant's meter at the point of delivery.

We find as a fact that the existing charge of sixty cents per thousand cubic feet sold is not a fair, just and reasonable rate in so far as it does not take into account the cost and value of service rendered, and in so far as it differs from the rate hereinafter fixed.

We find as a fact that the rate herein set forth as Schedule "J" is a just and reasonable rate for the service of gas supplied at wholesale by applicant to the City of Palo Alto under the conditions of delivery, measurement and price of oil as set forth in said rate schedule.

SCHEDULE "J"

On the basis of monthly consumption of gas as measured at the point of delivery to the City of Palo Alto at or near the compression tanks of the City.

RATE

62¢ per 1,000 cu.-ft. for the first 5,000,000 cu.-ft. per mo.
40¢ " " " " " all over 5,000,000 " " " "
plus 2¢ " " " " " gas consumed for each 10¢
per barrel that the average price of oil at the
Potrero Plant of the Company exceeds \$1.00 per
barrel.

A cubic foot of gas is hereby defined as that volume of gas occupying the space of one cubic foot at a temperature of 60 degrees Fahrenheit and at a pressure of four inches of water above the atmospheric pressure, the atmospheric pressure being taken as the pressure equivalent to a thirty inch column of mercury.

Territory

This rate applies only to gas sold at wholesale to the City of Palo Alto.

We submit the following form of order:

O R D E R

Public hearings having been held in the above entitled proceeding, and the matter having been submitted and being now ready for decision, the Railroad Commission hereby finds as a fact that the rate charged by Pacific Gas and Electric Company for gas sold at wholesale to the City of Palo Alto is unjust and unreasonable so far as it differs from the rates herein established and that the rate herein established is a just and reasonable rate.

Basing its order upon the foregoing findings of fact and upon the other findings of fact contained in the opinion which precedes this order,

IT IS HEREBY ORDERED that the Pacific Gas and Electric Company be and is hereby authorized to charge and collect for gas sold at wholesale to the City of Palo Alto the rate set forth in the Opinion herein as Schedule "J", provided the Pacific Gas and Electric Company shall, within ten days after the date of this order, file with the Railroad Commission the rate set forth herein as Rate Schedule "J".

The foregoing opinion and order are hereby approved and ordered filed as the opinion and order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 28th
day of ~~June~~^{May}, 1918.

Max Thelem

H. B. Howard

W. G. Gordon

Edwin O. Edgerton

Frank R. DeWitt

Commissioners