

Decision No. 7877

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA

In the Matter of the Application)
of PACIFIC GAS AND ELECTRIC COM-)
PANY, a corporation, for an order)
of the Railroad Commission of the)
State of California, authorizing)
applicant to increase its rates)
and charges for gas furnished and)
supplied to its consumers in the)
City and County of San Francisco.)

Application No. 5275

In the Matter of the Application)
of PACIFIC GAS AND ELECTRIC COM-)
PANY, a corporation, for an order)
of the Railroad Commission of the)
State of California, authorizing)
applicant to increase its rates)
and charges for gas furnished and)
supplied to its consumers in cer-)
tain districts.)

Application No. 5278

C. P. Cutten, for Applicant.

George Lull and John J. Dailey for the
City and County of San Francisco.

Leon Gray, for City of Oakland.

William J. Locke, for Cities of Alameda
and San Anselmo.

Frank V. Cornish, for the City of Berk-
eley.

W. E. Simpson, for City of Fresno.

J. Oscar Goldstein, for City of Chico.

Raymond A. Leonard, for City of Oroville.

H. C. Bell, for City of Willows.

F. T. Nilon, for City of Nevada City.

John T. York, for City of Napa.

Harris P. Jones, for City of San Leandro.

D. J. Hall, for City of Richmond.

Archibald Yell, for City of Sacramento.

Charles W. Kitts, a ratepayer of San
Francisco.

T. C. Judkins, for Town of Emeryville.
L. B. Leavitt, J. P. Millett and C.
C. Isaacson, for Labor Council of
Vallejo.
H. P. Hatfield, Secretary of the Cham-
ber of Commerce of Vallejo.
L. B. Klein, for Pacific Gas & Electric
Company's Consumers Association of
Santa Clara County.
Mrs. H. J. Platts, for Women's Glenview
Club of Oakland.
Mrs. Lydia Wolf, for Oakland Housewives'
League.
Mrs. L. E. Aubury, for Community Club
of Burlingame.
Mrs. S. Frances Emery, State Housewives'
League of Fruitvale.
Mrs. S. B. Foster, representing Mrs.
Dean of the San Francisco Housewives.
George Appel, for City of Daly City.
Archer Bowden, for City of San Jose.
Mrs. Harry Cobb, for Housewives' League
of Oakland.
Mrs. W. T. Cleverdon, for State House-
wives' League of California, and State
Housewives' League of Berkeley.
D. T. Jenkins, for Los Gatos.
G. J. Bradley, for Sacramento Chamber of
Commerce and Merchants' & Manufacturers'
Traffic Association.

DEVLIN, Commissioner:

O P I N I O N

In these proceedings Pacific Gas and Electric Company seeks authority to increase its rates and charges for gas by reason of the increases in the cost of oil used in gas manufacture and in the prices paid by it for labor and material used in the operation and maintenance of its gas properties. These proceedings affect the gas rates

of all of its consumers in Northern and Central California.

Applicant also supplies gas at wholesale for redistribution to the City of Palo Alto and the rate for this service, established May 28, 1918, by Decision No. 5440 in Application No. 3300, is not at issue at this time, as it provides for increases in the gas rate to correspond with the increased cost of oil.

By stipulation these proceedings were consolidated for hearing and decision. Numerous hearings were held in San Francisco and in Sacramento during April and May, 1920. The matter is now submitted and ready for decision.

With the exception of the rate for wholesale supply to the City of Palo Alto hereinabove mentioned, the rates and charges for gas of Pacific Gas and Electric Company now in effect were established by the Commission as follows:

In the City and County of San Francisco by Decision No. 4736, Case 839, dated Oct. 8, 1917, and subsequently modified by the surcharge of 10¢ per thousand cubic feet in accordance with Decision No. 5445, Application No. 3742, decided May 28, 1918.

In the Cities of Redding, Red Bluff, Willows and contiguous territory, formerly owned and operated by Northern California Power Company, Consolidated, by Decision No. 5121, Application No. 3326, Decided Feb. 7, 1918.

In all other cities and towns now supplied, by Decision No. 5439 in Application No. 3248, dated May 28, 1918, in which were established base rates and a surcharge of 10¢ per thousand cubic feet.

It is apparent, both from the evidence presented herein, and from the records of the Commission, that, as a result of the increases in operating costs which have arisen since the time the present rates were fixed, the present gas rates as a whole do not yield sufficient revenue to compensate for the present day level of prices of materials and particularly the ascending cost of oil.

On March 17, 1920, the oil producers of California increased the field price of oil by 25¢ per barrel, with corresponding increase in the retail market price to consumers. Pacific Gas and Electric Company purchases its oil, both for gas manufacture and for fuel in its electric generating stations, under a contract with Associated Oil Company, which provides for a price based upon the field price, certain charges for collection and gathering, transportation charges to tidewater points and freight charges to other points of delivery. The present ruling price, including the 25¢ per barrel increase of March 17, 1920, is \$1.81 per barrel for San Francisco bay deliveries. The price of oil at other points is correspondingly greater by reason of the freight or barge transportation charges from tidewater to such points.

It will be recalled that the present rates, when fixed in 1918, were based upon a price of oil of \$1.62 per barrel at tidewater, which, however, was subsequently adjusted to \$1.56 per barrel, and the excess has been refunded to Pacific Gas and Electric Company, so that in revising the present rates it must be borne in mind that the in-

crease in the price of oil to be absorbed is not the full amount of 25¢ per barrel, but only 19¢ per barrel, being the difference between the present \$1.81 figure and the \$1.62 upon which the present rates are based.

An analysis of the voluminous evidence presented by the applicant in these proceedings shows that, in spite of the increases in costs of operation, its sales of gas have increased considerably, and that the additions to its gas plants and systems have not required a capital expenditure at all in proportion to its increases in sales. Except for the latest increase in the cost of oil, its greater operating expenses since 1918 have, in many of its districts, been absorbed by the proportionally larger increase in its sales. By reason of these facts, and particularly because of the comparatively recent fixing of gas rates on applicant's system, and because of the emergency character of the present proceeding, it would hardly appear necessary at this time to resort to a detailed and extensive analysis of capital and depreciation in each of the operating districts of applicant's gas department. Investigations have been made of the changes that have transpired in sales, revenue, capital and operating expenses since the present rates were established, and it is my purpose at this time to ascertain the extent to which the rates now in effect ~~will~~ fail to produce an adequate return.

In past decisions, the Commission has established reasonable returns for the several parts of applicant's gas properties. In Decision No. 4736, in Case 839 supra, it appears that a reasonable net income to provide for a fair return and depreciation on the San Francisco proper-

ties was, at that time, \$1,382,914. In Decision No. 5439, Application No. 3248, a similar figure for all of the applicant's gas properties outside of the City and County of San Francisco, exclusive of Palo Alto service and the three plants since acquired from Northern California Power Company, Consolidated, was the sum of \$1,440,359. If, to the aggregate of these amounts we add \$11,575 to cover depreciation and return for the properties used in the service to Palo Alto, and the sum of \$7,738 for a similar item applicable to the Redding, Red Bluff and Willows gas systems, acquired from the Northern California Power Company, we arrive at a total of \$2,842,586, which may properly be taken as a fair allowance for return and depreciation upon all of the present gas properties of applicant at the time the rates now in effect were fixed. To cover the additions and betterments for 1918 and 1919 to date, and making due allowance for the additions and betterments to be installed during the year 1920, the above allowance should be increased by \$396,000, to provide 9 percent return and 3 percent depreciation upon \$3,300,000 of new money invested. It is my conclusion, therefore, that if rates be now adjusted to provide a net income of \$3,238,586, available for depreciation and return, after the deduction of all reasonable and proper operating expenses, such adjustment at this time will have fully provided for a fair return upon both the applicant's prior investment, and upon the additions to capital that have been made in the interim since the present rates were established.

The right to earn this return under present conditions is, of course, predicated on the assumption that

Pacific Gas and Electric Company will give to its consumers the service not only required by the orders of this Commission but dictated by good business management and practice. The results of the first service inspection of applicant's several gas systems, since the establishment of the Commission's gas standards in General Order 58, discloses that applicant has not entirely met the full requirements of our order, and the investigations of our engineers confirm the necessity of much constructive work on the part of applicant's management to bring service conditions up to standard requirements.

In establishing General Order 58, effective September 1st, 1919, the Commission promulgated a set of rules to be observed by all gas utilities, providing for standard heating contents and purity of gas, for uniformity of pressure, for the keeping of proper records of gas operations and of complaints, for the testing of meters, and other matters in order that the consumers of gas utilities in California might be furnished a satisfactory and uniform gas service. It has necessarily taken some time for gas utilities, including applicant, to change their operations to conform to the requirements of this order, and, while instances have been found in which applicant has not fully observed these requirements, it appears that in general an earnest effort is being made to comply with the service and heating value standards and that a uniform quality of service will be rendered. Gas consumers throughout the state may be assured that the Commission will continue its inspections in order to insure to them

a uniform quality of service and full value for the rates they pay.

Particular attention has been directed to the service conditions in Oroville, which are admittedly far below standard. Applicant/~~XXXX~~ attempts to absolve itself from criticism in this instance by reason of the valuation proceedings pending before the Commission, upon which the City of Oroville proposes to base condemnation proceedings to acquire applicant's gas properties in that city. It is, however, no sufficient answer to say that because of such contemplated action by the City of Oroville, applicant's consumers, pending the outcome of such proceedings, shall not be given the good service to which they would otherwise be entitled. In any valuation proceeding before this Commission proper allowances will always be made for improvements and additions to the property of a utility to be subsequently acquired by a municipality. It must be said, however, in fairness to applicant, that after the submission of this proceeding, it advised the Commission of its appropriation of some \$13,000 for additions and betterments to improve service conditions in Oroville. As improved service conditions depend upon the completion of this work, I am of the opinion that an increase of rates in Oroville, even though warranted by an increase in operating expenses, should be deferred until such time as adequate service is restored.

The evidence further shows that consumers in the City of Sacramento have not been receiving gas of the standard quality required by the Commission, although the tests made by applicant's employees show apparent compliance with

our requirements. The method of testing the heating content of gas in Sacramento has been shown to be erroneous. The necessary corrections have been made in testing the quality of gas supplied in Sacramento and assurance has been given that this difficulty will not again arise.

Some trouble has been experienced in Fresno during the past year, resulting in reduced heating value and impurities, occasioned largely by the difficulty of operating the newly constructed generating plant in that city. The evidence herein shows that these short-comings have been, to a large degree, overcome and that service conditions will hereafter conform to the requirements of the Commission's order.

The heating value standard of gas prescribed by the Commission for the various gas systems operated by applicant has been fixed at an average of 570 B.T.U. per cubic foot except in the City and County of San Francisco and in the Redwood district supplied from the San Francisco plant, where, by reason of rates having been previously established on the basis of 550 B.T.U., the exception has been authorized. In all other localities the 570 B.T.U. standard has been required.

Applicant's gas engineers and superintendents have presented evidence which is rather conclusive in its showing that in its larger plants substantial savings and economies in its operations will result in the manufacture of 550 B.T.U. gas as contrasted with 570 B.T.U. gas. This is particularly true in such plants as have in operation the newer and larger types of gas generators, which have

been designed for and most successfully operate at the lower heating value standard.

Under the direction of the Commission an exhaustive series of tests is now being conducted by a committee of the gas engineers of the state with a view to determining the most efficient methods of oil-gas manufacture and the proper quality of gas to be supplied. It is expected that a considerable period of time will have elapsed before this series of tests is completed. Pending their outcome, and in view of the testimony of applicant's engineers and the unanimous request of counsel representing the municipalities supplied with gas, it appears proper at this time to permit a reduction in the heating quality of gas supplied to the East Bay cities. The propriety of this step is confirmed by the analyses of the relative amounts of oil used and the other costs of gas manufacture by the Commission's engineers, and further points to the fact that in all probability a saving will result to both the consumers and the utility if the standard of gas manufactured at the Oakland plant of applicant and supplied to the so-called East Bay communities, extending from Richmond on the north to Hayward on the south, including all of the municipalities between, be reduced to 550 B.T.U., which is the same standard as now prevails in San Francisco.

While there is an increase in the cost of supplying gas to the East Bay cities by reason of the increases in the cost of oil, labor and material, such increases will be somewhat reduced by supplying gas of lower heating value,

which reduction should be enjoyed by consumers.

The order herein will, therefore, authorize the reduction in the heating value of gas supplied from applicant's gas manufacturing plant in Oakland to the East Bay communities. The other generating plants on the system can readily meet the requirements of the Commission's order and the present standard of 570 B.T.U. will be maintained.

In establishing the rates to be charged for gas supplied from the San Jose plant of applicant, consideration has been given to the fact that some slight modification in the heating value will be necessary at times to meet the program of tests which are there being conducted by the Commission's Joint Gas Committee.

Applicant's exhibits show an estimated revenue from its entire gas business under existing rates for the year 1920 of \$10,711,738, and operating expenses for its entire gas business, including all of its maintenance and operating expenses, oil, taxes, reserves, etc., of \$8,930,176. This figure also includes increases in wages granted, effective April 1, 1920, amounting to \$204,114 per annum.

From applicant's figures above, there would appear to be a net income of but \$1,781,562 available for return and depreciation. However, an examination of all the evidence presented upon gas operations leads to the conclusion that applicant has underestimated its revenues, and

has liberally provided for maintenance and operating expenses. This is particularly true for such costs for the current year as applicant has estimated upon a percentage increase over the corresponding items for the year 1919. Applicant's operating expenses for 1919, as ^{they} affect these proceedings, were abnormally high in many respects, due, among other things, to the making up of deferred maintenance and additional operating expenses and maintenance required by the extensive construction work under way in the reconstruction and rehabilitation of several of its plants. From a consideration of past operating expenses and present conditions, I am of the opinion that the amounts set forth in the following table represent reasonable and proper operating expenses and revenues upon which rates should at this time be based:

PACIFIC GAS AND ELECTRIC CO.

GAS DEPARTMENT

REVENUE AND EXPENSES UNDER EXISTING RATES

Gross Revenue	\$11 181 771
Operating Expenses:	
Maintenance	598 600
Oil	4 233 106
Other Oper. Expenses	2 417 100
Electric Energy	220 000
Gen. Administ'n Expense	315 000
Taxes	700 000
Fire and Casualty Insurance	44 085
Uncollectible Bills	51 525
Total Operating Exp....	\$8 579 416
Net for Depreciation and Return	\$2 602 355

The above table reflects all of the reasonable operating expenses required to adequately serve its gas consumers, provide for a reasonable amount of maintenance, including a part of that heretofore necessarily deferred, inclusive of all oil required for gas manufacture at the present prevailing price to applicant, such taxes as are properly chargeable to operating expenses, and reserves for insurance and uncollectible accounts. These items likewise reflect in full the entire amount of the wage increases granted to employees in its Gas Department effective April 1, 1920.

It will be noted from the above table that the net income from applicant's gas operations, upon the basis of reasonable operating expenses therein set forth, is approximately \$636,000 less than the sum of \$3,238,586 hereinabove set forth as constituting a reasonable net income for depreciation and return for the present rate fixing period. It is of interest to note in this connection that the nominal increases in gas rates required at this time are actually due to the fact that the increase in applicant's revenues has been larger proportionately than its increase in operating expenses, or its increases in investment during the past three years -- in fact, in several of the communities served, the growth of business has been sufficient to offset the increase in operating expenses by reason of the larger quantity of gas over which these expenses are spread.

An investigation of the relative changes in the total cost of gas per thousand cubic feet sold in the vari-

ous communities supplied, including both operating expenses and return upon investment, leads to the conclusion that a continued fair and reasonable return upon applicant's gas properties requires increases in its gas rates of from 5 to 15 cents per thousand cubic feet over and above the present charges, including the 10% surcharge, with the exception, however, of the cities of Sacramento and Vallejo, in which localities the present rates, inclusive of the surcharges, produce sufficient revenue to offset the increased costs that have occurred since these rates and surcharges were established. An increase of from 5 to 10 cents per thousand cubic feet appears necessary in the City and County of San Francisco. An increase of only 5 cents per thousand is required in the East Bay Communities by reason of the reduction in heating value. In several of the larger communities, increased costs require the additional 10¢ per thousand to the present rates, while the maximum rate increase herein included is 15¢ per thousand over and above the existing rates and surcharges. Some slight changes have been made in minimum charges to compensate for increased costs of operation affecting them.

Based on the foregoing considerations, the schedules of rates set forth in the order herein have been established. These rates will, on the basis of present costs and conditions, yield a gross revenue of \$11,930,000 per annum, and a net income available for depreciation and return of \$3,240,584 per annum. This net return is in close agreement with the figure hereinabove set forth as a fair allowance for return and depreciation upon the pre-

sent capital investment.

In view of the attitude of applicant towards the improvement of gas service in Oroville, I would recommend that the effective date of the increased rates in Oroville be postponed for three months, or until such time as applicant shall have shown a reasonable effort to improve these conditions.

I submit the following form of Order:

O R D E R

Pacific Gas and Electric Company having applied for authority to increase its rates and charges for gas, public hearings having been held, the matter submitted and now awaiting decision,

The Railroad Commission of the State of California hereby finds as a fact that the rates and charges for gas set forth in the order hereinafter are just, fair and reasonable rates to be charged for gas in their respective localities, and that the rates and charges now in effect for gas, insofar as they differ from the rates herein established, are not just, fair and reasonable rates.

Basing its order on the foregoing findings of

fact, and on the other findings of fact contained in the opinion which precedes this order,

IT IS HEREBY ORDERED that, effective for all regular meter readings taken on and after the 24th day of July, Pacific Gas and Electric Company be, and it is hereby authorized to charge and collect for gas in accordance with the following schedules, excepting, however, the rate herein established for gas supplied in the City of Oroville and suburbs, which shall not become effective until supplemental order of this Commission shall have been made upon a showing of improvement in service conditions in this territory.

SCHEDULE G-1

CHARACTER OF SERVICE:

Gas of an average heating value of 550 B.t.u. per cu. ft. will be supplied under this schedule for light, heat and power service.

TERRITORY:

This rate applies in the City and County of San Francisco, and to the following localities within the Alameda County District:

Alameda	Berkeley	Oakland
Albany	Emeryville	Piedmont
and contiguous suburban territory.		

RATE:

On the basis of monthly consumption of gas per meter.

\$1.05	per	1000	cu. ft.	for the first	10,000	cubic feet
0.95	"	"	"	"	next	" "
0.90	"	"	"	"	"	" "
0.85	"	"	"	"	"	" "
0.80	"	"	"	"	"	" "
0.75	"	"	"	"	all over	" "

SCHEDULE G-1

(Continued)

MINIMUM:

Minimum monthly charge for domestic service for flats and apartments where four (4) or more meters are continuously served in one location and on one service, 60¢ per meter.

Minimum monthly charge for domestic and commercial service other than the above, 75¢ per meter.

SCHEDULE G-2

CHARACTER OF SERVICE:

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.

TERRITORY:

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

RATE:

62¢ per 1000 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.

TERMS AND CONDITIONS:

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

SCHEDULE G-3

CHARACTER OF SERVICE:

Gas of an average heating value of 570 B.t.u. per cu. ft. will be supplied under this schedule for light, heat and power service.

TERRITORY:

This rate applies to the following localities:

City of Sacramento and suburbs.
City of Fresno and suburbs.
City of San Jose and suburbs.

RATE:

On the basis of monthly consumption per meter:

\$0.75	for the first 500 cu. ft. or less							
1.30	per 1000 cu. ft. for the next	2,500	cu. ft.					
1.10	" " " " " "	7,000	" "					
0.95	" " " " " "	10,000	" "					
0.80	" " " " " "	all over	20,000	" "				

SCHEDULE G-4

CHARACTER OF SERVICE:

Gas will be supplied under this schedule for light, heat and power service.

TERRITORY:

This rate applies to the following localities:

- (1) Within the Alameda County District,
Hayward Richmond
San Leandro and contiguous suburban territory
- (2) Within the Redwood District,
Daly City Redwood City
Burlingame San Mateo
Hillsborough South San Francisco
and contiguous suburban territory

This rate does not apply to gas served in the City of Palo Alto for redistribution.

SCHEDULE G-4
(Continued)

RATE:

On the basis of monthly consumption per meter:

\$0.75	for the first 500 cu. ft. or less								
1.35	per 1000 cu. ft. for the next	4,500	cu. ft.						
1.15	" " " " " " " "	5,000	" "						
1.05	" " " " " " " "	10,000	" "						
0.95	" " " " " " " "	20,000	" "						
0.80	" " " " " all over	40,000	" "						

SCHEDULE G-5

CHARACTER OF SERVICE:

Gas of an average heating value of 570 B.t.u. per cu. ft. will be supplied under this schedule for light, heat and power service.

TERRITORY:

This rate applies to the following localities:
City of Vallejo and suburbs.

RATE:

On the basis of monthly consumption per meter:

\$0.75	for the first 400 cu. ft. or less								
1.50	per 1000 cu. ft. for the next	4,600	cu. ft.						
1.10	" " " " " " " "	5,000	cu. ft.						
0.90	" " " " " " " "	10,000	cu. ft.						
0.80	" " " " " all over	20,000	cu. ft.						

SCHEDULE G-6

CHARACTER OF SERVICE:

Gas of an average heating value of 570 B.t.u. per cu. ft. will be supplied under this schedule for light, heat and power service.

SCHEDULE G-6
(Continued)

TERRITORY:

This rate applies to the following localities,

Within Marin District:

San Rafael	Fairfax	Kentfield
San Anselmo	Ross	Larkspur
		San Quentin and contiguous suburban territory

RATE:

On the basis of monthly consumption per meter:

\$0.75	for the first 400 cu. ft. or less								
1.75	per 1000 cu. ft. for the next	4,600	cu. ft.						
1.25	" " " " " "	5,000	" "						
1.00	" " " " " "	10,000	" "						
0.85	" " " " " "	all over 20,000	" "						

SCHEDULE G-7

CHARACTER OF SERVICE:

Gas of an average heating value of 570 B.t.u. per cu. ft. will be supplied under this schedule for light, heat and power service.

TERRITORY:

This rate applies in the following localities:

Chico District:

City of Chico and suburbs.

Marysville District:

City of Colusa and suburbs.

Marysville, Yuba City and suburbs.

Oroville, Orovista and suburbs.

Napa District:

City of Napa and suburbs.

Nevada District:

Grass Valley, Nevada City and suburbs.

Northern District:

Redding and suburbs.

Red Bluff and suburbs.

Willows and suburbs.

SCHEDULE G-7
(Continued)

TERRITORY (Cont'd)

Petaluma District:
City of Petaluma and suburbs.
San Jose District:
City of Los Gatos and suburbs.
Santa Rosa District:
Santa Rosa, Sebastopol and con-
tiguous suburban territory.
Yolo District:
City of Woodland and suburbs.

RATE:

On the basis of monthly consumption per meter:

\$1.00	for the first 500 cu. ft. or less
1.85	per 1000 cu.ft. for the next 4,500 cu.ft.
1.45	" " " " " 5,000 "
1.00	" " " " all over 10,000 "

PROVIDED, Pacific Gas and Electric Company shall file with the Railroad Commission within 10 days of the date of this order the schedules of gas rates herein established.

IT IS HEREBY FURTHER ORDERED that General Order No. 58 of this Commission, insofar as it shall apply to the standard of heating value of gas supplied by Pacific Gas and Electric Company to consumers supplied from its manufacturing

plant located in Oakland, is amended to authorize the supply of gas of an average heating value of 550 B.t.u. per cubic foot, as set forth in said General Order, and

IT IS HEREBY FURTHER ORDERED that the present rates and charges for gas in effect in the City of Oroville and suburbs shall continue in effect until further order of this Commission, as hereinabove provided.

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
14th day of July, 1920.

Edwin O. Edgerton

H. H. ...

Frank ...

H. H. ...

... ..

Commissioners: