

Decision No. 8813

BEFORE THE RAILROAD COMMISSION  
OF THE STATE OF CALIFORNIA

ORIGINAL

In the matter of the Application of  
PACIFIC GAS AND ELECTRIC COMPANY, a  
corporation, for an order of the  
Railroad Commission fixing fair and  
reasonable rates for gas supplied to  
its consumers.

} Application No. 6108

C. P. Cutten, for Applicant.  
John J. Dailey, for City and County  
of San Francisco.  
Archer Bowden, for City of San Jose.  
C. K. Kirkbride, for City of San Mateo.  
W. E. Simpson, for City of Fresno.  
Harry E. Brown, for City of Sacramento.  
C. W. Byrnes, for City of San Rafael.  
Leon E. Gray, for City of Oakland.

DEVLIN, Commissioner: -

O P I N I O N

Applicant herein alleges that since the last decision of this Commission fixing its rates the price of oil has increased from \$1.81 per barrel to \$1.93 per barrel f. o. b. San Francisco, equivalent to \$282,532 increase per annum over and above the costs which were estimated in

connection with that proceeding; that the sale of gas for the year 1920 will be materially less than the Commission estimated in its former decision; that the cost of maintenance of its system will be greater than that allowed by the Commission; that the taxes incurred will be materially in excess of the former estimates, and that as a result of the above conditions it will fail to earn, under the rates now in effect, the return found to be just and reasonable by this Commission.

In the spring of 1920, following an increase of 25 cents per barrel in the price of oil, Pacific Gas and Electric Company filed its Applications Nos. 5275 and 5278 requesting the Commission to authorize it to increase its rates and charges for gas furnished and supplied to its consumers in the entire territory served. Extended hearings were held in these proceedings. The revenues and expenses in the various districts and subdivisions of the company were examined closely by the Commission and its experts and also by the municipalities affected and the Commission, in its Decision No. 7877, rendered on July 14, 1920, granted applicant certain increases in rates.

The issues raised in this proceeding are of such a nature as to affect to a large degree the entire district equally. It does not appear at this time necessary to go again into detail as to the costs of service in the various districts. Consideration of this application was opposed by the City Attorneys

represented on the ground that a reasonable time had not elapsed since the last decision; that if relief was desired, applicant should have availed itself of its rights to petition for rehearing and not have waited until after the time for rehearing had elapsed and then file a new petition; that the prices of material are falling and labor becoming more efficient, and that the increased oil costs will be largely offset by the resultant reductions in other costs. It is further urged that with the falling prices the public will face reduced profits and the gas company should bear its part of the burden by accepting a lower return.

At the time the rates were fixed in Decision 7877 there were only four months of actual record of 1920 available and eight months of estimates on which to base the rates. When the final presentation of this proceeding was had nine months of actual record of 1920 operations as to revenue and expense were available and ten months of actual sales and sendout. At practically the date of the rendering of Decision No. 7877 fixing the present rates, a further increase in the price of oil of 12 cents per barrel became effective. This increase in price of oil was not considered in Decision No. 7877.

Protestants urged that reduction in the price of supplies and general increase in efficiency of labour should gen-

erally offset any increase in the price of oil. Without question applicant's operations should become more efficient in view of the general tendency to greater efficiency in labor and also to the new scheme of organization which applicant is making effective and these facts will be given consideration in the analysis of the evidence herein.

Protestants also urge that applicant should bear part of the burden resulting from reduced profits, which they urge are at present occurring. In this connection it must be borne in mind that the same point was urged at the early part of the war when increase of gas and electric rates throughout the state were considered -- that the utilities should bear part of the war burden resulting from the tendency toward increases in the price of all commodities and the cost of living, and it is to be further borne in mind that at the time the rates were increased in 1918 consideration was given to this fact and the company was not allowed to increase its rate of profit during the war period but was only allowed sufficient return to approximately maintain its former earnings and continue to render adequate service. The records show that applicant's net profits from its gas business have not increased during the period of high prices, when it is conceded that extra profits were made by industries in general. The utility being restricted to but a fair and reasonable return during such a period must when a change in such conditions occurs reducing the profits in other lines of endeavor be maintained upon a reasonable basis, as otherwise proper and adequate service cannot be rendered.

It was urged by certain of the attorneys representing municipalities that the rates should be fixed for a definite period and that if a material change in certain costs, such as oil, should occur, that if possible those be taken care of automatically rather than require additional hearings. Also, that if allowance is made for such items as maintenance, that these should be accounted for fully, and, if not used during a given year, should be held over in reserve for application to expenses during the following year. This suggestion is one which has been given consideration by the Commission and has been carried out in certain instances where conditions justified. In this instance altho the effect on the cost of service of the price of oil is readily determined, the effect of other changes in costs may partly offset such changes and I do not believe that an automatic schedule should be fixed. If applicant is seriously affected by increase in cost of oil or cost of service reduced by reduction of same, this one item can be quickly considered upon formal proceeding.

The findings of the Commission upon the evidence in Applications Nos. 5275 and 5278 as to gross revenue, expenses and return from the then existing rates, based upon a price of oil of \$1.81 per barrel, with increased labor payroll effective for the entire year as set forth in Decision No. 7877, is as follows for the entire system:

TABLE NO. I

PACIFIC GAS AND ELECTRIC COMPANY

Gas Department

REVENUE AND EXPENSES UNDER EXISTING RATES

Gross Revenue . . . . .	\$11,181,771.00
Operating Expenses:	
Maintenance . . . . .	598,600.00
Oil . . . . .	4,233,106.00
Other operating expenses . . . . .	2,417,100.00
Electric energy . . . . .	220,000.00
General administration expense . . . . .	315,000.00
Taxes . . . . .	700,000.00
Fire and casualty insurance . . . . .	44,085.00
Uncollectible bills . . . . .	51,525.00
	<hr/>
Total operating expense . . . . .	\$8,579,416.00
	<hr/>
Net for depreciation and return . . . . .	\$2,602,355.00

The above table sets forth the estimated gross revenue and expenses applicable to the year 1920 but includes reasonable costs based upon the evidence that was introduced in that proceeding and costs applicable to the entire year. It was found in that decision that a reasonable return for interest and depreciation for the year 1920 for the Gas Department of applicant would be \$3,238,586. As set forth in the Commission's findings, it was estimated that at the rates then in effect and the cost of oil as effective on March 17th, of \$1.81 per barrel at San Francisco, the company would fail to earn the net return found reasonable by \$638,229. The evidence submitted by Pacific Gas and Electric Company in this proceeding sets forth that, based upon nine months actual and three months estimated revenues and costs, the company's actual earnings for

the year would be as set forth in the following Table No. II,  
column one:

TABLE NO. II

PACIFIC GAS AND ELECTRIC COMPANY

Gas Department

	Company's Estimate App. No. 6108 (9 Mos. Actual 3 Mos. Estimated)	Company's Estimate Revenue & Costs Based on Conditions of Rates & Costs as in effect since Decision 7877
Gas Sales - M cu.ft.	10,560,000	
Gross Revenue	\$11,060,000	\$11,457,600
Expenses:		
Maintenance	702,100	711,753
Oil	4,078,150	4,365,176
Other Operating Expense)	2,707,000	2,744,517
Electric Energy )		
General Administration Exp.	305,000	308,856
Taxes	781,000	727,862
Fire & Casualty Insurance	47,050	47,050
Uncollectible Bills	35,000	35,000
Total Operating Exp.	\$8,655,300	\$8,940,214
Net for Depr. & Return ....	\$2,404,700	\$2,517,386

The company also submitted an estimate of the revenues and costs assuming that the present price of oil, present labor costs and present rates were in effect for the entire 12 months. This estimate, based largely upon the actual records for the first 9 months, shows a net for return and depreciation of \$2,517,386, or approximately \$700,000 below that found to be reasonable by the Commission.

The points urged especially by applicant in this proceeding are as follows:

- (1) Price of oil has increased 12 cents per barrel since the last decision.
- (2) Applicant's maintenance has been greater than allowed by the Commission by an amount equivalent to approximately \$100,000.
- (3) The gas sales of applicant have fallen below that estimated by the Commission in its previous decision.
- (4) Applicant will incur taxes in excess of those allowed in the Commission's decision.

The price for oil now being paid by applicant exceeds that upon which the rates now in effect were based by 12 cents per barrel. This increase will result in an increased cost of operation, according to an analysis of the evidence in this proceeding, equivalent to \$267,600 per annum, or approximately  $2\frac{1}{2}$  cents per thousand cubic feet sold.

The Commission in its Decision No. 7877 estimated that the gas sales of applicant would increase approximately  $12\frac{1}{2}$  percent in excess of those in effect for 1919. The record for the first 9 months of 1920 shows an increase of slightly in excess of  $8\frac{1}{2}$  percent with a tendency to a greater increase in percentage during the last months of the year. In the Commission's Decision No. 7877 the Commission authorized applicant to reduce the heat content of gas supplied in Oakland to 550 B.T.U. as against a standard of 570 maintained from October 1919 to July 1920 and compared with 550 during the period prior to October 1919. Altho the exact effect of this change in B.T.U. is not definite, the Commission is of the opinion that the reduction has tended toward an increase in sales. Under the Commission's direct supervision a series of tests as to the efficiency and economy of gas production are being carried on at the San Jose plant of Pacific



Gas and Electric Company and in connection with these tests certain modifications in the heat content of gas will be made. Careful records of the tests are being kept but it will appear necessary to change the heat content of gas from time to time. In the fixing of rates for San Jose herein and the estimating of sales consideration will be given to the program of tests to be carried out.

Giving consideration to the evidence now available it appears that a reasonable estimate of the sendout upon which to base rates at this time would be 10 percent increase over 1919 figures and that the former estimate based upon the evidence in the previous applications should be reduced to the lower amount. This results in a reduction in the estimated gross revenue of \$251,000 and a deduction in the cost of oil of approximately \$107,000, and a reduction in the net revenue of approximately \$144,000.

Applicant estimates the maintenance expense for the year 1920 to be \$702,100 as compared with the Commission's allowance of \$598,600, and also estimates that, based upon existing prices of labor and material, the maintenance would have cost \$711,753. The estimate of \$598,600 in the previous decision was based upon the evidence that maintenance during the year 1920 was abnormal as a result of deferred maintenance and that considerable of the work which was being done would not have to be repeated and, therefore, the future cost of maintenance would be lower.

The evidence in this proceeding, both by the Commission's engineer supervising gas service and the company's engineer in charge of gas construction and operation, point to the

fact that the rate of expenditure for maintenance occurring in 1920 will continue if adequate service is to be maintained. It appears that the company's system has not been maintained up to the standard that it should be under more normal conditions and that if the present standard of maintenance is not continued service conditions are apt to deteriorate. Applicant estimates that for the year 1921 the maintenance cost will be in the neighborhood of \$777,000 as compared with the cost for 1920 of \$702,000. Improved efficiencies in labor and possible reduction in the cost of supplies, the latter of which has so far not occurred to any great extent, should in all probability reduce this item somewhat. I must conclude, in view of the apparent continuation of the present maintenance costs and in view of the further fact that the rates in the past have been based upon conditions from year to year, that it would be fair to allow as a maintenance item in determining the reasonableness of the rates now in effect the sum of \$700,000. I believe, however, that the company should be required to account for the maintenance allowance, and should, for the year 1921, the maintenance fall below the amount allowed, the sum should be held as a reserve to cover maintenance in the future.

Applicant estimates its operating expenses for the year 1920 at \$2,707,000, this being exclusive of maintenance or fuel oil and also exclusive of general and administrative expense. It estimates the increase in labor which was made effective in April will amount to \$37,519, making a total operating expense exclusive of oil of \$2,744,519 based upon existing rates of cost. With applicant's new organization and the general tendency to greater efficiency in labor as shown

in the evidence herein, it appears that the future operating expenses might be based upon the actual for the year 1920 rather than on the present basis.

Applicant urges that its taxes will exceed that previously estimated. An analysis of the evidence presented at the hearing shows that the taxes accruing at the rate then in effect would be only slightly greater. However, since then applicant's state taxes have been increased from 5.6% of its gross revenue to 7.5%. This increase results in an increase in cost of operation of approximately \$220,000 per annum on the basis of present rates applied to 1920 business.

The following table sets forth the conclusions as to the reasonable basis of sales, revenue and expenses based upon conditions existing as of 1920 and the costs as they exist at the present time, which should be used in determining whether the existing rates are reasonable or not.

TABLE NO. III.

PACIFIC GAS AND ELECTRIC COMPANY

Gas Department.

REASONABLE ESTIMATES OF REVENUE & EXPENSE  
UNDER EXISTING RATES.

1920 Basis.

Gas Sales -- M Cu. Ft.....	10,775,000
Gross Revenue.....	11,670,000
Expenses.....	
Maintenance.....	700,000
Oil.....	4,400,000
Other Operating Expense } Includ. Electric Energy }.....	2,700,000
General Administration Expense.....	309,000
Taxes.....	942,000
Fire and Casualty Insurance.....	47,050
Uncollectible Bills.....	35,000
Total Operating Expenses	9,133,050
Net for Depreciation and Return.....	2,536,950

According to the above the net for depreciation and return would be \$2,536,950, this to be compared with the amount which the Commission found to be reasonable in its previous Decision No. 7877 of \$3,238,586, showing that on this basis the company would have earned \$701,636 less than the return found to be just and reasonable. This amount with increased taxes which must be paid upon the extra revenue, brings the amount of additional gross revenue necessary to grant the utility the net return found to be reasonable to \$840,000. In view of the fact that during 1920 Pacific Gas and Electric Company failed to earn the return found to be reasonable by this Commission by approximately \$600,000, and that based upon existing conditions and rates it would have failed to earn during the same period the net return found reasonable by approximately \$840,000, it is apparent that additional rates should be authorized so that during the year 1921 applicant will earn the reasonable return estimated if it maintains its efficiency and the cost of oil does not further increase.

The general form of rates which was fixed in Decision No. 7877 will be continued as those rates were fixed after more detailed consideration of the effect in the various districts than in this proceeding. The greater cost herein determined is to a certain extent applicable to the various districts on the same basis with the exception that the increase in cost is less in the larger plants owing to greater efficiencies.

The rate to the city of Palo Alto as fixed originally by this commission in Decision No. 5440 in application No. 3300 was so fixed as to automatically vary with the price of oil. The basic rates and varying charge do not, however, take care of the increase in other charges including maintenance and operation other than oil and taxes. The basic rate will herein be increased two cents per 1000 cubic feet to cover increases in taxes and maintenance and other operations and the varying charge one-half mill for increase in taxes applicable.

The rates set forth in the Order herein are designed to increase applicant's <sup>gross</sup> net revenue by the amount of \$840,000 per annum herein found to be a reasonable increase based upon 1920 assessments, and the increase in cost is spread among the various rates to justly divide the burden.

I recommend 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 the respective localities, and that the rates and charges now in effect for gas, in so far 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 12th day of April, 1921, Pacific Gas and Electric Company be and it is hereby authorized to charge and collect for gas in accordance with the following schedules:

### SCHEDULE G-1

#### CHARACTER OF SERVICE:

Gas of an average heating value of 550 B.T.U. per cubic foot 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, Albany, Berkeley, Emeryville, Oakland, Piedmont and contiguous suburban territory.

SCHEDULE G-1 (Cont'd)

RATE:

On the basis of monthly consumption of gas per meter.

\$1.13	per 1,000 cu.ft. for the first	10,000 cu. ft.
1.05	" " " next	20,000 "
.97	" " " "	40,000 "
.90	" " " "	80,000 "
.85	" " " "	150,000 "
.80	" " all over	300,000 "

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, 70 cents per meter.

Minimum monthly charge for domestic and commercial service other than the above, 80 cents 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. Gas will be of approximately 530 B.T.U. per cu. ft.

TERRITORY:

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

RATE:

\$ .64 per 1,000 cu. ft. for the first 5,000,000 cu.ft. per mo.  
    .42 " " " " all over 5,000,000 " "  
    plus 2.05 cents per 1,000 cu.ft. for all gas consumed for each 10 cents per barrel that the average price of oil at the Potrero Plant of the company exceeds \$1.00 per barrel.

SCHEDULE G-2 (Cont'd)

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 at 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 cubic foot will be applied 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.

RATE:

On the basis of monthly consumption per meter.

\$ .80	for the first 500 cu. ft. or less
1.40	per 1,000 cu. ft. for the next 4,500 cu. ft.
1.25	" " " " " 5,000 "
1.05	" " " " " 10,000 "
.95	" " " "all over 20,000 "

SCHEDULE G-4

CHARACTER OF SERVICE

Gas of an average heating value of approximately 535 B.T.U. per cubic foot will be supplied under this schedule for light, heat and power service.



# SCHEDULE G-4 (Cont'd)

## TERRITORY

This rate applies to the following localities:

(1) Within the Alameda County District, Hayward, San Leandro, Richmond and Contiguous Suburban territory.

(2) Within the Redwood district, Daly City, Burlingame, Hillsborough, Redwood City, San Mateo, South San Francisco and contiguous suburban territory.

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

## RATE:

On the basis of monthly consumption per meter.

\$ .80	for the first 500 cu.ft. or less.								
1.45	per 1,000 cu.ft.	for the next	4,500	cu.ft.					
1.25	"	"	"	"	"	"	5,000	"	
1.15	"	"	"	"	"	"	10,000	"	
1.05	"	"	"	"	"	"	20,000	"	
.95	"	"	"	"	"	"	all over 40,000	"	

## SCHEDULE G-5

## CHARACTER OF SERVICE:

Gas of an average heating value of 570 B.T.U. per cubic foot 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.

\$ .80	for the first 400 cubic feet or less.								
1.60	per 1,000 cu.ft.	for the next	4,600	cu.ft.					
1.30	"	"	"	"	"	"	5,000	"	
1.10	"	"	"	"	"	"	10,000	"	
.95	"	"	"	"	"	"	all over 20,000	"	

## SCHEDULE G-6

### CHARACTER OF SERVICE:

Gas of an average heating value of 570 B.T.U. per cubic foot will be supplied under this schedule for light, heat and power service.

### TERRITORY:

This rate applies to the following localities within Marin district: San Rafael, San Anselmo, Fairfax, Ross, Kentfield, Larkspur, San Quentin and contiguous suburban territory.

### RATES

On the basis of monthly consumption per meter.

\$ .80	for the first 400 cubic feet or less.
1.90	per 1,000 cu.ft. for the next 4,600 cu.ft.
1.40	" " " " " 5,000 "
1.15	" " " " " 10,000 "
1.05	" " " " all over 20,000 "

## SCHEDULE G-7

### CHARACTER OF SERVICE:

Gas of an average heating value of 570 B.T.U. per cubic foot 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, Oroville 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.  
Petaluma district--City of Petaluma and suburbs.  
San Jose district--City of Los Gatos and suburbs.  
Santa Rosa district--Santa Rosa, Sebastopol and contiguous suburban territory.  
Yolo district--City of Woodland and suburbs.

SCHEDULE G-7 (Cont'd)

RATE:

On the basis of monthly consumption per meter.

\$1.00	for the first 500 cu.ft. or less.
1.90	per 1,000 cu.ft. for the next 4,500 cu.ft.
1.60	" " " " " " 5,000 "
1.25	" " " " " " 10,000 "
1.10	" " " " all over 20,000 "

SCHEDULE G-8

CHARACTER OF SERVICE:

Gas of an average heating value of approximately 540 B.T.U. per cubic foot will be supplied under this schedule for light, heat and power service.

TERRITORY:

This rate applies in the City of San Jose and suburbs.

RATE:

On the basis of monthly consumption per meter.

\$ .80	for the first 500 cu.ft. or less
1.35	per 1,000 cu.ft. for the next 4,500 cu.ft.
1.20	" " " " " " 5,000 "
1.00	" " " " " " 10,000 "
.95	" " " " all over 20,000 "

IT IS HEREBY FURTHER ORDERED that Pacific Gas and Electric Company shall file with the Railroad Commission within ten days of the date of this order the schedule of gas rates here-

in established.

IT IS HEREBY FURTHER ORDERED that Pacific Gas and Electric Company set aside for maintenance of its gas properties the sum of not less than \$65,000 per month commencing April 1921, the unexpended amounts thereof to be held in a reserve.

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  
31<sup>st</sup> day of March 1921.

Francis R. Dillon  
H. B. Boardman  
H. B. Boardman  
James Martin  
Chester H. Brown  
Commissioners.