

Decision No. 35299

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the investigation on the Commission's own motion into the reasonableness of the rates, rules, regulations, charges, classifications, contracts, practices, service and operation etc., applicable to gas service within the Northern California service area of PACIFIC GAS AND ELECTRIC COMPANY.

ORIGINAL

Case No. 4622

R. W. DuVal, for Pacific Gas and Electric Company  
John J. O'Toole, City Attorney, Dion R. Holm, Assistant City Attorney, and  
Paul L. Beck, for the City and County of San Francisco  
L. S. Ready, and A. G. James, for the City of Palo Alto  
L. H. Wolters, for Golden State Company, Limited  
Frank B. Hartung, for Owens-Illinois-Pacific Coast Company  
W. D. MacKay, for Commercial Utility Service and Grant-by-Products  
L. F. Bridges, for Cannery League of California  
W. G. Stone, for Sacramento Chamber of Commerce  
J. J. Deuel, for the California Farm Bureau Federation  
J. Kerwin Rooney, Deputy City Attorney, for the City of Oakland  
E. W. Creeger, for American Radiator and Standard Sanitary Corporation  
George I. Frank, for Apartment House Association of San Francisco

BAKER, COMMISSIONER:

INTERIM OPINION AND ORDER

This proceeding on the Commission's own motion, looking into the reasonableness of the gas rates of Pacific Gas and Electric Company in its Northern California service area, was initially heard on February 9, 1942. Although informal conferences were still under way, it was scheduled for that date in order to obtain the testimony of Mr. Arthur B. Allyn, who had been called for military service. Testimony and exhibits were presented on several matters, including evidence dealing with heating values of natural gas in relation to rates for such service. The evidence at that hearing indicated a downward trend of heating values and the need of an adjustment in rates because of such fact. A suggested plan of rate form by which to accomplish this purpose was introduced in evidence as Exhibits 9 and 10.

Continued decline in heating value has brought about the necessity of these changes at the earliest possible time. Conferences have been held between members of the Commission staff and company officials. At an adjourned

hearing on April 21, 1942, Mr. E. F. McNaughton, Director of the Commission's Public Utilities Department, reported on the results of these conferences to the effect that an interim agreement had been reached, subject to approval of the Commission, that the general service, firm industrial and Palo Alto resale natural gas rates in the Kettleman service area including San Francisco, Oakland, San Jose and the Monterey Peninsula would be adjusted, incorporating in the rate schedule a provision for automatic revision of such rates when changes occur in the heating value. Mr. Roy A. Wehe, Gas and Electric Engineer for the Commission, was called as a witness and explained the operation of the proposed rate plan. Exhibit 11 shows the tariffs in form to accomplish this purpose.

Pacific Gas and Electric Company began the service of natural gas in a substantial manner in 1929, when Kettleman gas was piped to the San Francisco markets, replacing the manufactured gas service in that area. By subsequent expansion of such service and the discovery of new gas sources, the ensuing decade has seen the substitution of natural gas supply over practically all of the far-flung service area of the company, including Marysville and Eureka, from local gas fields. Manufactured gas is still supplied in Grass Valley, Nevada City, Redding, Red Bluff and Willows.

Regulation of the heating value of artificial gas is within the control of the company and the Commission's rules prescribed the limits within which such gas might be supplied. Obviously, the problem of supplying gas outside of such limits does not arise. An important part of the cost of such service, however, is the fuel oil used in the manufacture of the gas. The Commission found from experience that numerous proceedings were needed to adjust the price of manufactured gas because the price of oil had increased or decreased. Finally, in 1921, by Decision 9125 (20 CRC 64), the Commission determined the ratio of cost of oil to cost of gas and prescribed a provision in the tariff whereby to adjust gas rates up or down automatically when fuel oil costs changed. This plan has worked satisfactorily over the past twenty

years and is in effect today for the few remaining artificial gas service areas of the company.

The Commission, by Decision 29264 of November 9, 1936, (40 CRC 194), reviewed the rules and regulations governing the character of natural gas service of Pacific Gas and Electric Company. The earliest schedules provided only that natural gas would be supplied, omitting any designation of heating value. On October 22, 1935, the company filed a revised rule and regulation, providing a range of 900 to 1200 B.t.u. per cubic foot. The cities of Oakland and Fresno questioned the propriety of this rule. After hearings at San Francisco and Fresno, the Commission found that the rule had not been unlawfully filed, but required that a new rule be filed limiting the variation in average monthly heating value to a range of 100 B.t.u. per cubic foot. The company refiled its schedules accordingly, providing for a range of 1100 to 1200 B.t.u. per cubic foot.

Subsequent to this determination, a number of new sources of gas have been found, and the variation in heating value in these existing sources has been substantial. Through formal proceedings changes have been made from time to time to adjust the ranges and rates for such service when service has been transferred to other fields.

With the increasing number of sources of varying heat value, together with rearrangements of facilities and shifts of load brought about by war conditions, the need for changes in heating value ranges becomes more pronounced. The heating value of natural gas is, of course, in an individual field determined by nature, but the company has a certain control over the heating value supplied the ultimate customer through commingling of gas from two or more sources. In oil fields, the amount of extraction of liquid petroleum products from casinghead gas by oil companies likewise has an effect on the heating value of gas delivered to utilities.

It appears to the Commission that this background affords a basis for proper insertion of a provision for changes in rates without the necessity of a formal application, hearing and order in each case. The plan proposed

by the Commission's engineers fundamentally establishes rates on an average heating value for natural gas of 1100 B.t.u. per cubic foot and provides for an adjustment in rates in steps of 50 B.t.u. per cubic foot changes. Thus effective rates might be based on 1100, 1150, 1050 or 1000 B.t.u. per cubic foot. When the heating values change sufficiently to effect rates, new tariffs would be filed by advice letter, the rate applicable being that nearest the actual heating value of the gas to be supplied at the time service was inaugurated or changed. Thus, for example, gas at a heating value of 1030 would be supplied at a rate based on 1050, as would gas of 1070, while gas of 1080 would be supplied at the 1100 base. When changes during the course of normal operations occur, that bring the heating values out of these ranges, the rates are correspondingly adjusted, except that an overlap each way of 10 B.t.u. has been provided so as to make unnecessary rate changes where the average is very close to one or the other base periods.

No objection was raised at the hearing to a trial of this plan in so far as general service schedules are involved. The Commission will by order provide for its adoption. Under its actual operation it is hoped it will enable the company to operate its system to maximum economy, which, in the long-run, is in the interests of the public, yet provides for easily effective and equitable rate changes whenever any substantial change is made in the heat content of the gas supplied. Thus, in effect, the company is given a wide latitude in its operations and the public is given assurance that the rate will be properly geared to the heat content of the gas supplied. We believe this is a practical approach to the therm<sup>(1)</sup> basis of charges. The maximum range over which this plan can be carried out remains for future experience to determine, but it should encompass substantially the 900 to 1200 range which the company initially sought in 1935. The company will be expected

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(1) 100,000 B.t.u. This is the theoretically sound basis of measurement of gas heat, but has practical difficulties in administration.

to adjust consumers' appliances upon complaint, or where tests indicate that changes in heating value have brought about the necessity for such adjustments.

In working out the adjustment for the general service schedules the record shows that the theoretical change based on heating units would be about 4.5% for each unit of 50 B.t.u., but because the company will in turn be required to purchase an additional amount of gas in the field an adjustment of 4% in the rate would be fair to both customer and company. Likewise in the same manner for the lower rate firm industrial and resale service a reduction of 3%, and in the commercial building heating and surplus industrial schedules a change of 2% for each unit of 50 B.t.u. per cubic foot would be appropriate.

Mr. Wehe testified that he had studied the level of rates of the company and was concerned that any reduction at this time in the rates for lower priced gas, which do not now return full costs to serve, such as building heating and surplus, would place these definitely at too low a level, and below the competitive price of oil. Such a change was particularly undesirable too because of the increasing drafts on the Rio Vista dry gas reserve which would result. The margin between the field cost and the rates charged for these services is quite small compared to the firm schedules. He also recommended that the adjustment in firm industrial schedules be deferred pending a further study of the relationships of the industrial rates.

Representations were made by a number of surplus industrial customers that these schedules be included in the adjustment, as well as on behalf of the Apartment House Owners' Association. Some testimony and statements were likewise made in reference to the resale gas rate to the City of Palo Alto covering not only the heating value change but also certain inconsistencies that now exist between the contract rate and the published tariff for like service. Mr. B. B. Beckett, Rate Engineer for the company, testified as to some of the rate problems in developing equitable industrial rate schedules and urged that such tariffs be not adjusted at the present time.

The Commission is concerned lest an adjustment of these industrial rates at this time may conflict with its state-wide investigation, now nearing

completion. It realizes that such rates were adjusted under somewhat similar circumstances, as in the Stockton area - (Decision 34674 of October 14, 1941). Since there is no question with reference to the general service schedule changes here under submission, these will be ordered in with the understanding that they will become effective with meter readings on and after May 15, 1942. In refiling these general service tariffs such effective rates should be incorporated in the schedules as may be dictated by the heating value of the gas then supplied and as may be continued to be supplied for a reasonable time thereafter. The rates for industrial and building heating services will be disposed of in a further order in this case. The staff is instructed to proceed promptly to study the other issues in this case, as well as the industrial rate levels, and to confer with the interested parties if occasion arises prior to the next hearing. In view of the questions raised regarding the Palo Alto rate, it is likewise believed this matter should be set over and handled by subsequent appropriate action. During this interim period, the above referred to tariffs, other than the general service schedules, shall be refilled with the present 1100-1200 B.t.u. range changed to 1000-1150 as a temporary measure. Similarly, Rule and Regulation No. 2, shall be refilled in order to conform to the changed conditions so incorporated in the new schedules.

The statewide investigation now under way takes into account the fact that the major supply of gas for this area is from Rio Vista dry gas sources and is no longer a by-product in connection with the production of oil. While such rates were adjusted under somewhat similar circumstances in the Stockton area, Decision 34674 was rendered prior to the major changes in supply sources since the declaration of war. Therefore, industrial and heating rates will be determined at a later date after completion of the study now under way, and will be disposed of by further order of the Commission.

I recommend the following form of order:

I N T E R I M   O R D E R

A public hearing having been held in the above entitled investigation and the proceeding having been submitted for the purposes of establishing an automatic provision for the adjustment of certain natural gas rate schedules, with variation in the heat content of the gas supplied:

It is hereby found as a fact that:

1. The public interest requires that the general service Schedules G-1, G-2 and G-6, of the Pacific Gas and Electric Company, be changed in order to provide for an automatic rate adjustment plan to decrease or increase rates when the heating value of the gas served changes;
2. Such automatic rate adjustment plan, as provided in Special Condition (1) on each general service tariff schedule herein ordered to be filed, is a proper and reasonable provision; and
3. Pending further order of the Commission, Schedules G-40, GH-1, GH-2, GS-1, GS-2 and GS-3 should not be adjusted and the provision as to the heating value range of natural gas supplied thereunder should be changed to read "of 1000 to 1150 B.t.u. per cu. ft." in lieu of "of 1100 to 1200 B.t.u. per cu.ft."

Based upon the above findings of fact, it is hereby ordered that:

1. Pacific Gas and Electric Company shall file with the Commission, not later than May 10, and effective on and after May 15, 1942, tariff schedules of base rates and conditions as shown in Exhibit No. 11 and identified as Schedules G-1, G-1A, G-2, G-2A, G-6 and G-7, together with effective rates based on heating values of gas being supplied thereunder at the time of filing said schedules; and
2. Pacific Gas and Electric Company shall refile its gas Schedules G-40, GH-1, GH-2, GS-1, GS-2 and GS-3 and its gas Rule and Regulation No. 2 to be consistent with this opinion and order.

For all other purposes, the effective date of this order shall be twenty (20) days from and after the date hereof.

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

Dated at San Francisco, California, this 28th day of April

1942.

*Ray L. Riley*  
*Francis D. Stevenson*  
*Richard L. Lusk*

~~CERTIFIED AS A TRUE COPY~~

~~Secretary, Railroad Commission  
of the State of California~~

COMMISSIONERS.