

Decision No. 36082

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.

Case No. 4622

In the matter of the investigation upon 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 San Joaquin Power Division of PACIFIC GAS AND ELECTRIC COMPANY

Case No. 4621

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. Reedy, and A. G. James, for the City of Palo Alto
 L. H. Walters, 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
 Chester E. Watson, Assistant District Attorney, for San Joaquin County
 Chester C. Fisk, City Manager, and Gerald W. Stateman, Assistant City Attorney, for the City of Berkeley.

BAKER, COMMISSIONER:

O P I N I O N

These cases, investigations on the Commission's own motion into the rates of Pacific Gas and Electric Company for service of natural gas in Northern California and in the San Joaquin Valley, were consolidated at the hearing on December 18, 1942, for the purpose of hearing and decision. Previously, two hearings had been held in reference to Case 4622, evidence taken,

and two decisions rendered therein.

Reports of the Commission's staff for the Northern California Gas Department (Ex. 1)^(a) and for the San Joaquin Gas Department (Ex. 12)^(a), including estimates for the year of 1941, were introduced in the record. Those reports indicate that the Northern California Gas Department earned, on the basis of estimated results for 1941 adjusted to average conditions, 6.89%, while the San Joaquin Gas Department earned 6.50%, or a combined earning for both of 6.86% on a historical cost rate base of \$131,349,000. The actual rate-of-return for the 12 months ending September 30, 1942, as shown by the book amounts of revenue and expense as related to the Commission's staff's rate base capital as of December 31, 1941, was 6.81%, or slightly lower than the estimate. However, various adjustments including revenue adjustment for temperature conditions and additions to the rate base were not made, nor is the wage increase of September 1, 1942, or increased field cost of gas included. Since a plan of rate reclassification has been submitted to the Commission herein after numerous conferences and negotiations with the Company, it is unnecessary to discuss in detail the elements involved in above rate-of-return calculations. It should be noted that the Company reserved its rights of cross-examination and presentation of rebuttal testimony, should occasion arise.

Shortly after the opening of the investigation on January 27, 1942, war conditions necessitated substantial modifications of the natural gas supply to Northern California, including the supply of gas from new sources and consequently of different heat content. These changes, while modifying the conditions under which the estimate of the staff was prepared, brought to the foreground a suggestion of the Commission's engineering staff that a tariff

(a) The reports on Results of Operation were prepared by members of the Commission's Public Utilities Department. The chapters on History, Present Operations, General Expense, Taxes and Rate of Return were prepared by Loren W. East, Research Engineer, assisted by C. W. Moss and Stewart Weber. The chapters on Clearing Accounts, Fixed Capital and Rate Base were prepared under the supervision of C. T. Moss, Valuation Engineer, by Paul E. Dufour. Landed properties were appraised by E. P. McAuliffe. Operating Revenues, Operating Expenses and Depreciation Annuity were investigated by R. A. Wehe, Gas and Electric Engineer, assisted by A. B. Allyn and Lloyd E. Cooper.

provision be established by which, so long as natural gas of heating values suitable for consumption in consumers' appliances was supplied, the rates would be adjusted by refiling of tariffs whenever the heating value changed by 50 B.t.u. per cu. ft. from its base. Thus, the public would be assured of a rate commensurate with the heating quality of the fuel supplied, while the Company's operations would be made more flexible. The immediate problems were at that time in the San Francisco, East Bay and Stockton Divisions, and, after hearing, the Commission issued its interim order, Decision No. 35299 in Case 4622, providing for reduction in general service schedules of 4% in San Francisco, 8% in the East Bay, and certain changes in other areas; together with the filing of the automatic adjustment clause for changes in heating values. Such tariffs were filed by the Company pursuant to the order. The order left for further consideration the firm industrial schedules, commercial building heating schedules, surplus industrial schedules and the Palo Alto re-sale contract, with instructions to the staff to study these tariffs and report results.

At the initial hearing on February 9, 1942, one of the Commission's engineers, A. B. Allyn, introduced in evidence a proposed ultimate reclassification of the Northern California natural gas rate schedules (Exhibit No. 8) by separating city and rural services into approximately six zones, depending on population, customer density, customer usage and other considerations. The present classification was developed basically following the discovery of Kettleman Field and building of lines in 1929-1930; and some areas are at substantially higher rate levels than other areas, without major recognition of relative customer densities in the several segments of each area or between areas. The Sacramento, Santa Rosa, and Monterey Peninsula areas are examples of areas at higher-rate levels.

The discovery of the Rio Vista Field in Northern California and the accumulated experience to date indicate a reserve of gas in excess of even the Kettleman source. Numerous other gas discoveries in other sections of the territory bring about a situation where the changed conditions indicate

a need for reclassification to place cities of like characteristics on comparable rate schedules. Company representatives agreed to undertake a study of this problem. The City and County of San Francisco, through its representatives, urged that San Francisco, because of its high customer density, be accorded the lowest rate.

As a result of the understandings reached at the two earlier hearings, and as expressed in the Interim Order, the Commission's staff and Company representatives reviewed the trends of revenue, wages and operating expenses, and rate base, and the heating value and rate reclassification problems herein set forth; and E. F. McNaughton, Director of the Commission's Public Utilities Department, testified at the consolidated proceeding December 18, 1942, that a proposed agreement had been reached following such consideration to the effect that, subject to the approval of the Commission, a plan of adjustment for heating values and of rate reclassifications be effected as soon as the necessary tariffs and billing charts can be prepared to effect a realignment of gas rates at a saving of \$1,300,000 per annum to the public.

The testimony of Gas and Electric Engineer R. A. Wehe shows under the prepared plan, if adopted, six general zones would be established with base rates at the following levels:

: Zone:	Description	: First : Base Rate -Cents per 100 Cu.Ft. :						
		: 300 Cu. Ft. :	: :	: :	: :	: :	: :	: :
:	:	: or less :	: Next:	: Next:	: Next:	: Next:	: All Over:	:
:	:	: Inc. :Uninc.:	:2,200:	:7,500:	:10,000:	:30,000:	:100,000 :	:
No. 1	San Francisco and Daly City	\$.70	\$ -	4.6¢	4.2¢	4.0¢	3.7¢	3.4¢
No. 2	East Bay Cities	.70	.80	4.7	4.3	4.0	3.7	3.4
No. 3	Cities of 50,000 to 100,000 Population	.75	.85	4.8	4.4	4.0	3.7	3.4
No. 4	Cities of 5,000 to 50,000 Population	.80	.90	4.9	4.5	4.1	3.7	3.4
No. 5	Cities and Towns Under 5,000 Population and Built-up Unincorporated Communities	.85	.95	5.0	4.5	4.1	3.7	3.4
No. 6	Rural Areas	-	1.05	5.0	4.5	4.2	3.7	3.4

The above base rates are predicated upon service of natural gas of a heating value of 1100 B.t.u. per cu. ft. standard. Likewise, the rates for usage in excess of 20,000 cu. ft. per month are based on fuel oil at \$1.00 per barrel, and subject to adjustment when fuel oil changes in price.

The level of present rates is such that the areas cannot entirely be equalized at this time and certain areas are continued as subdivisions of the six general zones, including certain smaller cities and towns, the Marysville District, and certain rural sections.

Exhibits 13, 14 and 17 present the effective rates as proposed. It is believed the effective rates as set forth in these exhibits are reasonable and should be adopted with, however, the following modifications:

Exhibit No. 13:

1. In Schedule G-4.2B, minimum charge of 80¢ instead of 85¢
2. In Schedule G-5.1C and G-6.1C, rate per hundred cubic feet per meter per month for 80,000 cubic-foot block of 3.18¢ instead of 3.17¢

Exhibit No. 17:

1. In Schedule G-3.1A, minimum charges as follows:
 - a. City of Fresno, 68¢ instead of 70¢
 - b. Fresno suburban and Calwa, 85¢ instead of 80¢

In accomplishing this reclassification it is apparent that some areas, such as rural in the present low-rate areas, will be accorded no reduction because of the existing low rate levels, while in the case of certain other rural areas, and certain cities formerly in the high-rate area, reductions in charges as great as 15% are effected.

In the reclassification to be ordered it might be concluded that the zoning to be established was set up solely on the basis of population. This is not the case. It is true that population has been indicated as a practical means of delineating one zone from another. Actually the number of customers served and the density of those customers per unit of investment, operating expense, and revenue received were the more prime and controlling factors in setting up the population steps by zones. This being so, these other factors must necessarily be given consideration before reclassifying cities from one zone to another.

A study indicated that San Francisco should be accorded a differential as compared to the East Bay Area, although the evidence indicated it should not

be in direct ratio to the customer density differences.

The San Joaquin areas centering on Fresno are likewise reclassified in the proposal, although Bakersfield is not included since its gas rate is already substantially lower than any other general service rate on the system, both on a volumetric and on a heat unit basis of comparison.

There are three cases of minor increases in the minimum charges of the general service rates^(b) but material reductions in other blocks of such rates were made so that an over-all net reduction is made in each of the tariffs.

Following a plan somewhat similar to that presented under the general service schedules, the rates for firm industrial service under present Schedules G-40 and G-41 are to be revised in order to give recognition to the differences in the heating value of gas served. It is proposed to split the present G-40 schedule into two parts, to be known as G-40 and G-40A. Schedule G-40 will cover the territory served by natural gas of a heating value of 1100 B.t.u., and the balance of the territory now served under G-40, and more specifically in the service areas supplied with 1050-B.t.u. gas, will be served under a new tariff designated G-40A. In making this proposed revision, the G-40 rates should reflect a 3 per cent and the G-40A a 6 per cent reduction in order to accord proper recognition to the respective heating values of the gas served.

In addition it is proposed to stolisth the present firm industrial schedule in the North Bay and Sacramento-Stockton areas (G-41) and transfer that service to the new proposed Schedule G-40A. This will bring about needed uniformity, inasmuch as all service under Schedule G-40A in the future will then be that of the 1050-B.t.u. gas standard. This latter change will result in the same or in lesser charges in all cases except to a very few customers who, in certain months of the year, may receive small increases in the magnitude of between one and two per cent. On an annual basis such increases will be negligible and any that may actually materialize are looked upon as just and reasonable.

(b) Such increases are limited to changes in the minimum charges and are as follows:

1. Schedule G-3.1A - Minimum charge increased from 88¢ to 90¢ in unincorporated areas other than those classed as suburban.
2. Schedule G-6A - Minimum charge increased from \$1.03 to \$1.05 in unincorporated areas formerly served on Schedules G-3 and G-4 unincorporated.
3. Schedule G-6.2B - Minimum charge increased from 90¢ to \$1.05 in unincorporated areas formerly served under Schedule G-12 unincorporated.

The program as presented at the hearing likewise provided for certain changes in those tariffs known as Commercial Building Heating Service schedules. Such proposed changes were limited essentially to an equalization as between heating values in the San Francisco and East Bay areas, inasmuch as the rate level is already considered low for the character of use made of the gas.

The present GE-1 schedule is to be split and the portion relating to the 1050 B.t.u. gas in the East Bay area is to be accorded a 2 per cent reduction.

There are also other less important changes to be made in order to bring about better uniformity. (c)

The surplus gas rate schedules are not proposed to be adjusted at this time. The record shows those schedules have been closed to new customers, and the Commission takes judicial notice of the pendency of a state-wide investigation of surplus schedules now nearing completion.

The staff proposes to apply the rule for adjustment of natural gas rates because of changes in heating value, as proposed in Exhibit No. 16, to all general service, firm industrial and commercial building heating schedules, in the amounts of 4%, 3% and 2% respectively for each 50 B.t.u. change in base. The evidence shows these adjustments to be reasonable and fair to both the company and the customer, and they give consideration to the additional quantities of gas necessary to be purchased when lower-heat gas is supplied. No change is provided in the length of the blocks since the minor refinement of accuracy does not justify the complications of providing the tariff provisions for it.

The Interim Order of the Commission established a tariff provision permitting a maximum variation of 35 B.t.u., either way, from the specified average heating value. When the actual variation in the monthly average exceeds

(c) Present Schedule GE-1A is to be refiled and designated GE-3A; present Schedule GE-2 is to be refiled and the cities of Hayward, Livermore and Pleasanton are to be removed and incorporated in Schedule GE-1A and Patterson and Newman are to be transferred to present Schedule GE-2A.

35 B.t.u. for two consecutive months, the Company must file a revised schedule at the new base, either 50 B.t.u. higher or 50 B.t.u. lower, making the effective rates per cubic foot either higher or lower.

The Company presented a request, supported by testimony of W. G. Vincent, Vice President and Executive Engineer, that this range be broadened from 35 B.t.u. to 50 B.t.u., thus effectively widening the range of tolerance from 70 B.t.u. to 100 B.t.u. It was urged that the Company has now a range of 100 B.t.u. in all of the area not affected by the Interim Order, and that the proposal would be a restriction compared to its present operations.

All interested parties, including representatives of all cities and counties in the Company's service area, were notified of the hearing. No protest was entered toward making of the general plan effective. W. D. MacKay, representing certain customers of the Company in Richmond, asked that Richmond be accorded a lower-rate classification by reason of the increased population due to war industries, but was not able to convincingly demonstrate that the change was justified by the facts.

After a consideration of the record, I am of the opinion that the Commission should adopt the reclassification plan as developed and presented in evidence by its engineers, subject to certain minor modifications and should order the Company to make it effective on meter readings taken on and after February 15, 1943. In this order, it should be specifically understood the consolidation of proceedings herein in no way changes the Commission's former rate-fixing policy of considering the San Joaquin Area operations separately from the Northern California Area as described in Exhibits No. 1 and No. 12.

In respect to the Company's request that a variation of 50 B.t.u. either way from the base, or a total of 100 B.t.u. range, compared with the variation of 35 B.t.u. recommended by the staff, be permitted, it appears that to do so might provide such a wide range as to defeat the effective operation of the adjustment of such rates by the tariff provision proposed. It further appears that the proposed provisions of Exhibit No. 16 afford in reality a less restrictive procedure, even though the limit or range is 70 B.t.u., than

the present provision of a range of 100 B.t.u., since the latter is an absolute requirement of service, and may not be changed except through formal application to the Commission, while the former makes provision for a simple procedure for tariff changes, in harmony with changes in the heating value of the gas supplied.

I recommend the following form of Order. In so doing, I desire to state that I believe a commendable advancement has been made through this proceeding in the fundamentals of construction of natural gas rate schedules, including the establishment of a tariff provision for adjusting rates when sources and heating value of gas change, together with the fundamental reclassification by cities and areas as submitted herein.

O R D E R

A public hearing having been held in the above proceedings and the matters having been submitted for decision and the Commission being fully advised in the premises;

IT IS HEREBY FOUND AS A FACT that the rates now being charged by the Pacific Gas and Electric Company for its natural gas service, in so far as they differ from the rates herein established, are unjust and unreasonable rates and that the rates, special conditions and that portion of Rule and Regulation No. 2 herein ordered are just and reasonable rates, special conditions, and rules and regulations for gas service to be charged and applied by Pacific Gas and Electric Company and, basing this order upon the foregoing finding of fact and upon the factual findings contained in the foregoing opinion,

IT IS HEREBY ORDERED, as follows:

(1) That Pacific Gas and Electric Company shall file, on or before January 15, 1943, and to become effective with meter readings taken on and after February 15, 1943,

(a) "General Service Natural Gas Schedules" designated as G-1; G-2A; G-3; G-3A; G-3.1A; G-4; G-4A; G-4.1; G-4.1A; G-4.2B; G-5; G-5.1;

G-5.1A; G-5.1C; G-5.2B; G-6; G-6A; G-6.1; G-6.1A; G-6.1C; and G-6.2B, which shall replace and cancel the present General Service Natural Gas Schedules G-1; G-1A; G-2; G-2A; G-3; G-4; G-5; G-6; G-6A; G-7; G-7A; G-8; G-9; G-10; G-12; G-15; G-16; and G-17. The herein referred to schedules that are to be filed shall incorporate the proposed effective rates in accordance with Exhibits 13, 14 and 17 and with the exceptions set forth in the opinion preceding the order for schedules G-4.2B; G-5.1C; G-6.1C and G-3.1A. The aforesaid schedules shall likewise have incorporated the corresponding base rates and other necessary delineations in reference to the special conditions covering rate adjustments for changes in the posted price of fuel oil; the heating value of the natural gas served; and the character of service.

- (b) "Firm Industrial Gas Service Schedules" designated as G-40 and G-40A, which shall replace and cancel the present Schedules G-40 and G-41. The herein referred to schedules that are to be filed shall be in accordance with the outline set forth in the opinion preceding this order.
- (c) "Commercial Building Heating Service Schedules" designated GE-1, GE-1A, GE-2, GE-2A and GE-3A, which shall replace and cancel present Schedules GE-1, GE-1A, GE-2 and GE-2A. The herein referred to schedules that are to be filed shall be in accordance with the outline set forth in the opinion preceding this order.
- (d) Rule and Regulation No. 2 as now worded with an added section entitled "Rate Adjustment for Heating Value" with requirements as set forth in Exhibit No. 16.

- (2) That Pacific Gas and Electric Company shall charge and collect at the schedule of rates ordered filed herein for all the gas service rendered thereunder and effective with meter readings taken on and after February 15, 1943.

For all other purposes the effective date of this order shall be thirty (30) 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 29th day of December, 1942.

Justus J. Craven
Ray W. Ripley
H. B. Baker
Francis D. Starnes
Richard H. Chase
Commissioners.