

Decision No. 36672

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Suspension and Investigation on the Commission's own motion of certain electric and steam schedules of SAN DIEGO GAS AND ELECTRIC COMPANY.

Case No. 4681

Chickering & Gregory, by Frederick M. Fisk,
for San Diego Gas and Electric Company.

Leroy A. Wright, for the Office of Price
Administration.

Walter W. Cooper, City Manager, for the City of
San Diego.

CLARK, COMMISSIONER:

O P I N I O N

San Diego Gas and Electric Company filed three supplemental electric service tariff sheets and one supplemental steam service tariff sheet to become effective thirty days after April 6, 1943, the date filed. Thereafter, the Commission issued an order suspending the effective date of such sheets until June 5, and subsequently has extended the suspension period until December 5. A public hearing was held at San Diego on May 20. Briefs have been received, and the matter is now ready for decision.

The suspended tariff sheets are supplements to the utility's existing electric schedules P-2, P-7, and P-9, and to its steam Schedule No. 2. Each of these schedules contains an automatic rate adjustment clause which has previously been authorized by this Commission and has been effective for many years past. The clause provides for an automatic adjustment of the rate either upward or downward, dependent upon the fuel cost to the utility for use in its steam electric generating plants. Said fuel clause in each of the tariffs

affected is of two parts, one dealing with rate adjustments when fuel oil is used as a fuel, and the other when gas is a fuel. The effective rates used for customers' billings vary from month to month in accordance with the character of fuels actually used. It is of record that on April 1, 1943, the price of fuel oil of the character used by the utility was increased 25¢ per barrel by permission of the Office of Price Administration, that price of oil up to that period was 90¢ per barrel, and that of gas 12½¢ per thousand cubic feet. The price of gas to the utility has remained unchanged and at the level established in 1940. (1) As a consequence of such increased cost for fuel oil to be paid by the utility, it filed the supplemental rate sheet setting forth the new higher oil cost level with the appropriate adjustment in the rates predicated on fuel oil use with no change in the rates for electric energy and steam produced under gas operations. The basic rate tariff in each instance was not refilled and remains unchanged.

Under the tariff provisions, and as previously authorized by this Commission, the rates resulting from the filing of the supplemental tariff sheets would have automatically become effective if this Commission had not made this order of investigation and suspension.

The tariffs involved are special optional schedules applicable to 23 large industrial and government users of electric energy and to 15 downtown office building customers supplied steam for heating purposes. Thus, a total of 38 customers are affected out of more than 200,000 customers supplied by the company. These customers, however, are comparatively large users of utility service and, accordingly, enjoy low rates that become available through the lower blocks of the tariffs. It should likewise be observed that the two electric tariffs upon which some 95% of the increases in gross revenue will

(1) This utility likewise renders gas service and certain gas tariff schedules provide for automatic adjustments in rates dependent upon the purchase price of natural gas to the utility. As of April 1, 1943, the Southern Counties Gas Company who wholesales to this utility did not increase its rates and, accordingly, no increase was made by the San Diego Company to its retail customers.

occur are optional and the customers have elected to take such optional service because of the lower rates obtainable with full knowledge and agreement that said rates will vary with the actual costs of fuel. No general service tariffs carry fuel clauses and, accordingly, no general service customer is involved.

The special tariffs in question are:

<u>No.</u>	<u>Name</u>	<u>No. of Customers</u>	<u>Increase</u>	<u>Est. Annual Increase</u>
P-2	Wholesale Electric Power Service	14	1 mill per Kwhr	\$ 27,824
P-7	Resale Power & Lighting Service	-	1 mill per Kwhr	(No Service)
P-9	Large Industrial & Military Service	9	8/10 mill per Kwhr	56,202
S-2	Steam Service	<u>15</u>	\$0.07 per 1000 lbs.	<u>3,785</u>
	Total	38		\$ 87,811

At the public hearing no appearances were made for the customers receiving service under the special tariffs in question. Likewise, no testimony was submitted opposing the increase that will result through the operation of the fuel clauses in said tariffs. However, at the request of the representative of the Office of Price Administration permission was given to file briefs and such has been done for both the Office of Price Administration and the utility. The brief on behalf of the Price Administrator requests that this Commission's order on suspension be made permanent and so deny any increase in rates under the automatic fuel adjustment clauses. Such position is taken, it is stated, in order to carry out the President's price stabilization program and to retard the action of inflation.

It was further the position of the Price Administrator that the proposed rate increases were general increases within the meaning of the stabilization act; that a utility should not be permitted to pass on an increased cost of operation if its earning position is sufficient to absorb such increased cost and, finally, that the earning position of this utility is sufficient to absorb the increased cost of operating resulting from the increased price of fuel oil without increasing its customer rates.

This Commission believes that it is fully cognizant of the need and necessity of maintaining present price levels in order that the terrific economic burdens of war may be kept under control and at a minimum level. In this respect, this Commission has gone further than merely maintaining utility rates on the San Diego System at present levels, inasmuch as only this spring rate reductions were worked out which are reducing the utility bills in that area by approximately \$262,900 annually. It is further the position of this Commission that it will continue this policy of bringing about rate reductions whenever earnings, character, or quality of service justify such action.

In this case, however, a few large users of utility service have secured a lower than average rate in part because it was believed sound engineering economics to gear the low commodity rates to the actual costs of steam and electric generation. It is believed obvious that in absence of an automatic fuel clause the rates that could be made available under such tariffs would have been different and higher for the reason that such rates would have anticipated the average of probable fuel costs. Likewise, it is a fact that the energy portion of the rate (electric rates are of the demand energy form) is closely attuned to the incremental costs of steam generation and, if such energy rates are not permitted to be increased, then these large customers will be paying less than full costs of the service, which costs then must be borne by the general customers. If this is permitted, then discrimination between consumer classes will result, and likewise, it will defer the day when further rate reductions may be made to the large mass of users. This thought was expressed by the City Manager of San Diego, Mr. Walter W. Cooper, and was the basis of the City's position that the large power users should pay the rate that they contracted to pay, in order that general service customers may not be unnecessarily burdened by the increased costs of production.

While the general and somewhat sketchy information submitted by the utility shows that the probable earnings will be under 6%⁽²⁾ for the current year, no attempt was made to pursue this phase thoroughly. An investigation such as this is not viewed as a rate proceeding, and, accordingly, it seems unnecessary that the Commission at this time review and pass upon the many factors that must necessarily be considered in determining the reasonableness of utility earnings and the rates being charged its consumers. This seems especially so now, first, by reason that the schedules under suspension affect an exceedingly small portion of the utility's service and the changes in rates which are to take place result from past contractual authorized obligations; secondly, the Commission has but recently completed a review of the utility's earnings on a systemwide basis with the results heretofore noted. The facts are that through the application of the increased rates an estimated gross revenue of \$14,007,300 will be increased by approximately \$87,800,⁽³⁾ less than 7/10 of 1%. To offset such increase in gross revenue the utility will pay an increase in its production costs, because of the 25¢ per barrel increase in the

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- (2) In the brief of the Price Administrator a rate of return of 7.6% is developed by what appears to be an erroneous treatment of the annual depreciation provisions. In this respect, the brief refers to an annual allowance of \$1,585,000 (not a part of the record) and assumes that such is adequate and reflected in the net used in developing the 7.6% return. As a matter of fact, \$1,585,000 is not reflected in the net for return but a lesser amount. Such lesser amount is limited to a sinking fund annuity without interest and is the proper amount for the depreciation allowance for an undepreciated rate base that was used in developing the 5 3/4% return submitted by the utility. If a depreciated rate base is used by deducting the depreciation reserve as done by the O.P.A. then such depreciation annuity allowance must be augmented by the interest on the depreciation reserve. If this is done, the rate of return computation developed by O.P.A. of 7.6% will be reduced to approximately 5.7%.
- (3) In addition, the utility will receive an additional \$43,400 increase from 4 special contracts not included herein.

cost of fuel oil, of approximately \$244,000.⁽⁴⁾ Thus, even with the operation of the fuel oil clause there will be a substantial reduction in net revenue after taxes. Under the circumstances, the Commission is of the opinion that the suspension should be removed from the supplemental rate sheets filed in order that these few large users of service may pay their proper share of the costs and the rates initially contracted for and thus maintain a reasonable relationship between billings of the different consumer classes. The resulting increases to the few customers are small and less for the power users than reductions received this current year.

It should be understood that this rate adjustment is not made in order to increase the net earnings or the rate of return of the utility. It is made to maintain a proper and fair relation between the different classes of consumers. If through this action or because of other reasons the earning position of this utility should become so favorable that a rate of return greater than warranted will be produced then all parties may be assured that this Commission will take appropriate action to fix fair and reasonable rates. In view of these conditions it is my conclusion that public interest would not be served by further continuance of the suspension of these filed supplemental tariff sheets and the following form of order is recommended.

O R D E R

The Commission having on its own motion issued an order suspending the effective date of certain tariff sheets filed April 6, 1943, by San Diego

(4) Reference is made in the brief of the Office of Price Administration of the "highly commendable recent action of the Pacific Gas and Electric Company, which, with the proper approval of this Commission, suspended the application of its fuel clause under very similar conditions." While the action of the company named may be looked upon as "very commendable," yet the conditions are different. The Pacific Gas and Electric Company produces two-thirds to three-quarters of its electrical requirements from energy developed from water power plants, while the San Diego Company has no hydro-electric production. Likewise, the Pacific Gas and Electric Company has available larger quantities of gas and, accordingly, much lesser percentage of fuel oil is used in its steam electric plants than the San Diego Company. The differences are further shown by the fact that both utilities had about the same estimated increase in fuel oil costs, although Pacific Gas and Electric Company has electric sales and gross revenue which are in excess of ten times that of the San Diego Company.

Gas and Electric Company, namely Revised C.R.C. Sheet Nos. 750-E, 751-E, 752-E, and Revised C.R.C. Sheet No. 80-H, a public hearing having been held, the matter being under submission, and the Commission concluding that said tariff sheets with accompanying rates are not unreasonable or otherwise unlawful; therefore,

IT IS ORDERED that the suspension of the effective date of said tariff sheets be and is hereby vacated.

IT IS FURTHER ORDERED that said tariff sheets shall be made effective with meter readings on and after October 15, 1943.

The foregoing Opinion and Order are hereby approved and filed as the Opinion and Order of the Railroad Commission of the State of California.

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

Dated at San Francisco, California, this 21st day of October, 1943.

Francis A. Havenner
[Signature]
Justice J. Casper
Richard K. [Signature]
[Signature]
(Commissioners)