Decision No. 42677

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of CALIFORNIA-PACIFIC UTILITIES COMPANY, a corporation, for an order authorizing it to increase rates charged for propane - butane - air gas in the cities of Yreka and Dunsmuir and vicinity.

ORIGINAL

Application No. 29859

Orrick, Dahlquist, Neff and Herrington
by George H. Johnston for applicant.

O P I N I O N

California-Pacific Utilities Company, by the above-entitled application filed on November 30, 1948, seeks authority to establish an increased schedule of rates for public utility gas service in cities of Yreka and Dunsmuir. The propane-butane-air gas systems serving these cities and vicinity constitute the applicant's entire Shasta Division. This corporation operates other public utility gas, water, telephone, or electric properties at scattered points in the States of California, Oregon, Nevada, Idaho, and Wyoming, deriving approximately 3% of its total annual revenue from these gas sales. Because of recent increases in cost of liquefied petroleum gas, transportation, labor, material and supplies, applicant claims that an out-of-pocket loss is being sustained each month in this division and that this loss constitutes a burden on its other divisions. Immediate relief in the form of higher rates as proposed in Exhibit D attached to the application is requested.

A public hearing was held before Examiner Edwards at Yreka on March 16, 1949. Two witnesses for the utility, Mr. C. E. Bramble, Vice President and Treasurer, and Mr. E. K. Albert, Vice President and Chief Engineer, testified at the hearing in support of the application.

The Commission's staff also presented the results of its investigation as to the effect the proposed rates would have on revenues and rate of return. Four customers came forward at the hearing to protest the proposed rate increase.

Applicant's physical properties in this division consist of two separate propane-butane-air gas systems each comprised of storage vessels, mixers, distribution mains, services, meters and regulators. At Dunsmuir the utility plant consists of two 15,000-gallon butane and one 30,000-gallon propane storage tanks; five gas-air machines capable of delivering 25,000 cubic feet per hour of gas; 5,100 feet of four-inch, 55,000 feet of three-inch and 40,000 feet of two-inch black iron wrapped pipe; 550 services; and 450 meters. At Yreka the utility plant consists of two 15,000-gallon butane and one 30,000-gallon propane storage tanks; five gas air machines capable of delivering 35,000 cubic feet per hour of gas; 2,500 feet of four-inch, 3,800 feet of three-inch and 44,000 feet of two-inch pipe; 600 services; and 500 meters. The utility's 1949 construction budget provides for another 30,000-gallon propane storage tank to be installed in Yreka in June of this year.

Applicant's witnesses testified that their major item of expense, liquefied petroleum gas, has undergone a large advance in price at the refinery since the lifting of O.P.A. price controls in June of 1946. From a base of 2-1/4 cents per gallon, five separate increases have moved the price to 7.8 cents for propane and 8.3 cents for butane. Applicant was protected by a long-term contract at the O.P.A. ceiling price until June 10, 1948, but since that time has been forced to pay the regular quoted refinery prices. In addition, the cost of transporting the gas from the refinery to Dunsmuir and Yreka has increased 32% since 1946. The record in this proceeding indicates that the delivered cost to the utility for liquefied petroleum gas accounts for 67% of the total expenses incurred in the rendition of gas service. Moreover, the other costs, such as operation labor, material and supplies have increased substantially during the past three years while the rates charged by the applicant and its predecessor for gas service delivered to the customer's meter in the ShastaDivision have remained at their present level since March 1, 1940. Applicant's present rates do not contain a protective escalator clause that adjusts the rates in proportion to an increase or decrease in the quoted price of the liquefied petroleum gas.

The utility is asking that the various block rates in its schedules be increased between seven and 7½ cents per therm (100,000 Btu) and that an escalator clause be established based on a delivered cost for liquefied petroleum gas of 11.2 cents per therm. A comparison of the utility's present and proposed base rate follows:

	Rates		Increase	
RATE A - General Service	Present	Proposed	Amount	Per Cent
First 2 therms or less	$1.00	$1.00	$ -	- %
Next 6 therms, per therm	.30	.375	0.075	25.0
Next 17 therms, per therm	.18	.255	.075	41.6
Next 30 therms, per therm	.145	.22	.075	51.7
Next 110 therms, per therm	.125	.20	.075	60.0
Next 135 therms, per therm	.105	.175	.07	66.7
Over 300 therms, per therm	.09	.16	.07	77.8
RATE B				
Minimum Charge	3.00	3.00	-	-
First 25 therms, per therm	.18	.255	.075	41.6
Next 30 therms, per therm	.145	.220	.075	51.7
Next 110 therms, per therm	.125	.20	.075	51.7
Next 135 therms, per therm	.105	.175	.07	66.7
Over 300 therms, per therm	.09	.16	.07	77.8

On February 11, 1949 the fifth increase occurred in the price of butane and propane in the amount of one cent per gallon at the refinery. This raised the cost of gas to 12.2 cents per therm delivered, so the effective proposed rates would be one cent per therm higher than the base proposed rates set forth above.

In order to determine the effect of applicant's proposed rates on the revenues and expenses, Mr. J. E. Spelce, Associate Engineer in the Gas Division of the Commission's staff, prepared a study of 1947, 1948 and 1949 operations, adjusting the 1948 results to the proposed effective rates and current delivered gas costs and estimating the 1949 results. Associate Engineer R. W. Beardslee of the Valuation Division, made a study of the fixed capital in service and prepared rate bases for the purpose of determining the probable change in rate of return. The results of their studies were presented as exhibits and may be briefly summarized from Exhibit No. 20 as follows:

SUMMARY OF EARNINGS - SHASTA DIVISION
YEARS 1947, 1948, AND 1949 ESTIMATED

Item	1947 Recorded	1948 Recorded	1948 Proposed* Rates	1949 Estimated Presently Effec.Rates	1949 Estimated Proposed Rates
	(1)	(2)	(3)	(4)	(5)
Operating Revenues	$ 86,784.86	$116,527.86	$176,738.00	$119,593.00	$182,076.00
Operating Expenses					
Production Expenses	54,272.59	90,279.50	118,537.00	126,025.00	126,025.00
Distribution Expenses	4,099.16	7,525.22	7,525.00	7,921.00	7,921.00
Cust.Actg.&Coll.Exp's.	8,613.39	10,248.72	10,249.00	11,925.00	11,925.00
Sales Promotion Exp's.	701.34	1,046.96	1,047.00	1,294.00	1,294.00
Admin.& General Exp's.	9,245.47	9,567.44	9,568.00	10,838.00	10,838.00
Uncollectible Accts.	172.29	233.95	234.00	246.00	246.00
Subtotal	77,104.24	118,901.79	147,160.00	158,249.00	158,249.00
Taxes	6,575.56	2,985.00	11,255.00	(16,903.00)	8,622.00
Depreciation Expense	2,309.37	2,618.82	2,656.00	3,263.00	3,263.00
Total Operating Exp's.	85,989.17	124,505.61	161,071.00	144,609.00	170,134.00
Net Revenue	795.69	(7,977.75)	15,667.00	(25,016.00)	11,942.00
Rate Base	250,600.00	290,900.00	291,308.00#	317,300.00	316,481.00#
Rate of Return	0.32%	(2.74)%	5.38%	(7.88)%	3.77%

(Red Figure)

* Expenses adjusted to 1949 delivered gas cost.
# Reflects recalculated working cash.

The utility's proposed rates, based on the 1948 adjusted figures or the 1949 estimate, do not yield an excessive rate of return and from an earnings standpoint appear reasonable. However, the proposed rates contain large increases for the customers who use more than a small quantity each month and the percentage increase is not uniform with the quantity of consumption and may leave the utility in a vulnerable competitive position. It proposes such a large increase in the cost of house heating that it will probably lose considerable business. Four customers present at the hearing testified that they could not afford to heat their houses on the proposed rate levels and would burn oil, coal, or wood instead.

Three of those customers also had other reasons to complain of the utility's proposed rate levels. Mr. A. G. Feustel objected to the seven to 7½-cent increase block by block and said that under the proposed fuel clause these rates should go up only four cents based on the relative increase in price of liquefied petroleum gas delivered. Mr. C. S. James thought the utility should have varying rates as between Dunsmuir and Yreka to reflect the difference in delivered cost of liquefied petroleum gas and the variation in cost to serve as shown by the Commission staff's analysis for the two areas. Mr. John Gardner told of the seasonal nature of income in the community, it being very low when the lumber mills are shut down in the wintertime, and therefore suggested a lower rate in the wintertime and higher rate in the summertime. He took the position that the present rates are already too high and suggested that it might be due to over-extension of the distribution system and installation of many idle services in advance of the need.

Mr. Bramble answered these complaints by stating that the utility does not wish to price itself out of the market and hopes that shortly costs will drop so that the proposed rate can be reduced. The Commission, in giving due weight to the complainants' contentions, and to Mr. Bramble's position, finds that the proposed increase of seven to 7½ cents in the last three blocks is too great to maintain a competitive position and that applicant's proposal gives an unbalanced percentage increase to the various sizes of users on Schedule B. The rates proposed by applicant in Schedules A and B are so nearly the same that the Commission sees no reason for having two rates in the future and believes that the Schedule B customers should be given the advantage of a lower minimum. At the same time, the Commission believes that the minimum users under the A subdivision of the schedule should carry a portion of the increase in costs, and that the new minimum should be $1.50 per month. In part to offset this increase, one more therm will be allowed in the minimum charge.

It likewise appears desirable to have a single rate for the two communities served in the Shasta Division because the delivered cost of gas is only slightly higher in Yreka and further, the company indicated its proposal to install storage facilities in Yreka that could be utilized as a common source of gas for the two areas served. Furthermore, the small additional cost of gas delivered to Yreka would be offset by the more favorable density characteristics in that community. Accordingly, a rate schedule is provided by the order herein which will grant the applicant the approximate amount of relief requested, but will redistribute the burden to meet the objections of the customers, in so far as practicable.

One customer stated that in view of the fact that the applicant had purchased this gas system at considerably less than the original cost figure used by the Commission's staff as a basis to start compiling the rate base, he felt that there should be an adjustment to reflect this situation. The Commission has reviewed this matter and thinks that further detailed consideration is unnecessary. The rates that are herein ordered will yield the operator a return of approximately 4%. If weight be given to only the operator's investment, the result in turn would not show an unreasonably high rate of return. Applicant's proposed rates would have increased 1949 estimated revenues by $62,483, but the single schedule provided herein will increase revenue only by an estimated $60,607.

The following tabulation presents billings for typical monthly consumptions based upon the currently effective rates, upon rates proposed by applicant, and upon the rates set forth in the order following. The percentage increases of the proposed billings over present billings are also shown.

Usage Therms per Month	Present Bill	Company's Proposal Amount	Company's Proposal Per Cent Increase	C.P.U.C. Rates Amount	C.P.U.C. Rates Per Cent Increase
Rate A					
2	$ 1.00	$ 1.00	- %	$ 1.50	50.0%
3	1.30	1.39	6.9	1.50	15.4
5	1.90	2.16	13.7	2.16	13.7
10	3.16	3.84	21.5	3.73	18.0
25	5.86	7.82	33.4	7.48	27.6
Rate B					
3	3.00	3.00	-	1.50	(50.0)
5	3.00	3.00	-	2.16	(28.0)
10	3.00	3.00	-	3.73	24.3
25	4.50	6.63	47.3	7.48	66.2
100	14.48	22.98	58.7	22.33	54.2
250	31.53	52.35	66.0	49.13	55.8

(Decrease)

The schedule provided herein will contain an escalator clause of the type proposed by the applicant. Such a clause provides for automatic correction for price fluctuation of a major expense item that will promptly work to the customer's advantage in case the market price drops or to keep revenues in balance with costs in case prices continue to rise.

O R D E R

California-Pacific Utilities Company having applied to this Commission for an order authorizing increases in rates, a public hearing having been held and the matter having been submitted for decision,

IT IS HEREBY FOUND AS A FACT that the increases in rates authorized herein are justified; therefore

IT IS HEREBY ORDERED that applicant is authorized to file in quadruplicate with this Commission, after the effective date of this order, in conformity with the Commission's General Order No. 96, the schedule of rates shown in Exhibit A attached hereto and, after not less than five (5) days' notice to the Commission and to the public, Schedule 4-G

GENERAL SERVICE

APPLICABILITY

Available, upon application, to any domestic or general service customer for propane-butane-air gas of an average heating value of 1,000 Btu per cubic foot.

TERRITORY

Applicable to the territory now being served by the Company in and contiguous to the towns of Dunsmuir and Yreka in Siskiyou County.

RATES

	Per Meter Per Month Base Rates	Effective Rates
First 3 therms,* or less	$1.50	$1.50
Next 6 therms	.32	.33
Next 16 therms	.24	.25
Next 30 therms	.20	.21
Next 110 therms	.18	.19
Next 135 therms	.16	.17
Over 300 therms	.15	.16

*The word "therm" means one hundred thousand British thermal units (100,000 Btu).

The above effective rates are based on the following fuel clause and an average cost of liquefied petroleum gas of 12.2¢ per hundred thousand Btu delivered to Yreka and Dunsmuir.

Minimum Charge:

The minimum charge shall be $1.50 per meter per month.

SPECIAL CONDITIONS

For gas used in excess of three therms per month, the rates in effect at any time vary with the average cost of liquefied petroleum gas delivered to the plants generating gas served under this schedule and shall be determined from the above base rates by adding to or deducting therefrom, respectively, 1.0¢ per therm for each .9¢ that such cost of liquefied petroleum gas is above or below 11.2¢ per hundred thousand British thermal units, the change in rate to be to the nearest .5¢.

When a change in the cost of liquefied petroleum gas occurs, the Company shall submit to the Public Utilities Commission of the State of California, within a period of 15 days, an advice letter and appropriate tariff schedules setting forth the new effective rates and an affidavit of such change in the cost of the liquefied petroleum gas as has occurred. The new rate shall be effective on all regular meter readings taken on and after the 30th day following such change in the cost of liquefied petroleum gas.

to make said rates effective on all bills and charges for services rendered during billing periods ending on and after May 1, 1949.

The effective date of this order shall be twenty (20) days from and after the date hereof.

Dated at San Francisco, California this 5th day of April, 1949.

R. E. Mitchell

Justus F. Craemer

Kenneth Potter

Harold P. Huls

Commissioners.