

Decision No. 43972**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 PACIFIC GAS AND ELECTRIC COMPANY for
 an order or orders of the Public
 Utilities Commission of the State of
 California (1) authorizing applicant,
 on an interim basis, to immediately
 increase its electric rates and
 charges; and, (2) prescribing and
 establishing increased definitive
 electric rates and charges to be
 collected by applicant.

Application No. 30717

Pacific Gas and Electric Company by Robert H. Gerdes
 and Ralph W. DuVal; City of San Francisco by Dion R.
Holm, City Attorney, and Paul L. Beck, Chief Valuation
 and Rate Engineer; City of Oakland by John W. Collier;
 City Attorney, Archer Bowden, Assistant City Attorney,
 and Loren W. East, Public Utilities Engineer; City of
 Berkeley by Fred C. Hutchison, City Attorney, and
Robert T. Anderson, Assistant City Attorney; City of
 Richmond by Thomas M. Carlson, City Attorney, and
Frederick Bold, Jr., Assistant City Attorney; City of
 Redding by Daniel S. Carlton, City Attorney, and
E. E. Dick, Superintendent, Electrical Department;
 City of Roseville by L. DeWitt Spark, City Attorney,
 and Harold T. Johnson, Mayor; San Francisco Council of
 Women Shoppers by Mrs. Betty Hirschfelder; California
 Manufacturers Association by George Kinsman; California
 Farm Bureau Federation by Edson Abel and J. J. Deuel;
 Sacramento Municipal Utility District by Stephen W.
Downey and Martin McDonough; California Farm Research
 and Legislative Committee by Helga Weigert, Secretary;
 Crown By-Products Company by W. D. Mackay and L. H.
Stewart; Riverbank Grange by Joe Dieu, Master;
 United States Government, General Services Administra-
 tion (all departments, including Departments of Army
 and Navy) by F. W. Denniston, John J. Kirby and
James K. MacIntosh; C.I.O. Council by Philip Eden;
 Bay Point Light and Power Company by W. S. Van Winkle;
 Coast Counties Gas and Electric Company by J. K. Horton
 and W. E. Johns; Irrigation Districts Association of
 California by Robert Durbrow.

O P I N I O N

Pacific Gas and Electric Company, hereinafter referred to as
 Pacific, filed this application on October 19, 1949, and filed its
 amended application on November 5, 1949. The application is for

authority to increase by 6% all of its electric rates and charges except those now being applied to certain contract customers, as hereinafter explained. Pacific estimated that the proposed rate increases, when related to expected sales for the full calendar year 1950, would augment its gross revenue for the year by \$8,820,000.

Hearings were held on this application before Commissioner Rowell and Examiner Edwards for 12 days, beginning on December 16, 1949, and concluding on February 10, 1950, when the matter was orally argued and submitted for decision.

Testimony and exhibits with respect to the present and prospective earning position of Pacific in its electric operations were presented through 12 witnesses for the utility and eight witnesses from the Commission staff. A number of intervening parties participated extensively in the examination of witnesses. Testimony was presented by only two of such intervening parties, while certain others filed written statements of their interest and position.

Pacific supplies electric service in the greater part of northern and central California, and also renders a natural gas service within much of the same area. Its water and steam utility services are of relatively minor significance. At the end of 1949, it had approximately 1,270,000 electric customers, their total electric consumption for the year being over 10 billion kilowatt hours. During the three years 1947-1949, inclusive, it added about 145,000 customers and increased its sales by about 2.7 billion kilowatt hours. During the same period, its classified electric plant investment has increased by approximately \$223,000,000.

In justification for the requested rate increase, Pacific presented evidence showing higher operating expenses incurred each year since 1939, and pointed to the gradual increase in the ratio of its total operating expenses to the gross revenues received. Such

operating ratio was shown to be 56.1% in 1939; 71.1% in 1946; and 74.8% in 1949. Pacific declared that although total net revenue has substantially increased during this 10-year period, the rate of return realized on plant investment has gradually diminished.

Illustrative of the increasing expenses of operation, Pacific stated that the average wage paid per employee is now approximately 95% greater than in 1939. During the same period, the costs of various materials have risen from 25% to 200%. The unit cost of gas consumed has increased 98%, and the cost of fuel oil remains above the 1939 level. Both income taxes and ad valorem taxes are at considerably higher rates. Similar increases in the cost of labor and materials have added greatly to the cost of the large plant additions made in recent years. However, the total classified investment in plant today in amount of \$88 per one thousand kilowatt hours of energy supplied is 20% less than in 1939.

With respect to the level of the rates which Pacific now seeks to establish, it was shown that the 6% increase proposed will not equal the rate reductions that have been made since 1939, and that average billings at the rates proposed will generally remain somewhat below those then applicable. Pacific referred also to substantial rate reductions made effective at various times subsequent to the last general rate increases authorized by the Commission following the first world war. Such rate reductions were said to have totaled more than \$25,000,000 on annual bases at the time of such reductions. Pacific declared that the amount of the rate increase now proposed, as well as the form of the rate increase on a flat percentage basis, is fully justified in that the total amount of additional revenue sought will not presently afford it a fair and reasonable rate of return, but only the minimum amount required to maintain the confidence of investors and enable it to raise the new capital necessary to

complete the large construction program^{1/} now under way. It referred to certain operating economies that might be realized if normal rainfall conditions should prevail and as full utilization of its new generating plants becomes possible. Counsel expressed the thought that with the realization of operating economies and the prompt granting by the Commission of the proposed rates, the necessity of the company's seeking additional rate increases may be avoided. It was said that the increase now sought will produce only the minimum amount immediately required to retain the confidence of investors in its securities.

Rate Base and Earnings

The following tables will serve to summarize the exhibits introduced by both Pacific and the Commission staff to reflect Pacific's current earning position in its electric department. The staff's exhibit did not show actual earnings for 1947 and 1948, nor did it show estimated 1950 earnings with the application of the increased rates proposed. Pacific's "anticipated" year 1949 is so labeled because the actual results for the full year were not known at the time the exhibit was prepared, but in other respects it is comparable to the staff's recorded results for that year. The respective designations of "average" and "adjusted" results for 1949 are likewise on a comparable basis, both being intended to reflect the revenues and expenses that would have been recorded had normal rainfall and temperature conditions prevailed and had current wage scales and fuel prices been applicable during the whole year.

^{1/} This covers system expenditures from 1946 to 1951, inclusive, of \$800,000,000, of which some \$300,000,000 is planned during 1950 and 1951.

PACIFIC'S EXHIBIT NO. 2

Item	Year 1949		Year 1950			
	Year 1947	Year 1948	Anticipated Average	Present Proposed Rates		
(Thousand Dollars)						
Operating Revenue	127,933	136,445	151,141	148,326	156,830	165,650
Expenses						
Excl. Taxes & Dep.	57,906	66,220	72,717	65,888	66,957	66,957
Taxes	27,412	27,388	29,918	31,503	34,679	38,352
Depreciation	9,543	8,857	10,438	10,438	11,802	11,802
Total Expenses	94,861	102,465	113,073	107,829	113,438	117,111
Net for Return	33,072	33,980	38,068	40,497	43,392	48,539
Cost of Prop. & Work. Capital	705,859	790,707	906,737	906,737	1,037,307	1,037,307
Rate of Return	4.69%	4.30%	4.20%	4.47%	4.18%	4.68%

STAFF'S EXHIBIT NO. 29A

Item	Year 1949		Year 1950
	Recorded	Adjusted	Present Rates
(Thousand Dollars)			
Operating Revenues	150,751	148,334	156,370
Expenses			
Excl. Taxes and Depreciation	72,348	66,429	64,734
Depreciation Annuity	10,405	10,254	11,918
Taxes	28,579	30,736	35,044
Total Expenses	111,332	107,419	111,696
Net Revenue	39,419	40,915	44,674
Rate Base (Excl. 3 Steam Plants)	860,110	860,110	992,980
Rate of Return (Excl. 3 Steam ")	4.58%	4.76%	4.50%
Rate Base (Incl. 3 Steam Plants)	863,775	863,775	996,645
Rate of Return (Incl. 3 Steam ")	4.56%	4.74%	4.48%

The rate base urged by Pacific in the amount above shown was said to have been developed in the manner heretofore employed by the Commission staff. The difference in the total rate bases arrived at by each is found primarily in three items. First, as shown in the table, the staff's exhibit both included and excluded the investment in three steam generating plants which have been written out of plant accounts through charges to the depreciation reserve but which are continued in operation, it being testified by the staff's witness that perhaps some recognition should be given to their usefulness in service. Pacific included in its base one-half the cost of such plants. For the purposes of this decision, we adopt the staff's rate base, which does not include these steam plants.

The second major difference in the 1950 rate base arises from Pacific's claimed allowance of \$21,681,000 for working cash capital, while the staff estimate was \$4,500,000. The third item, amounting to \$21,556,000, represents a part of Pacific's acquisition cost of certain acquired properties in excess of their actual or estimated original cost, this amount being included in the rate base claimed by Pacific but wholly excluded by the staff.

A difference of \$1,282,000 is revealed in the net operating revenue estimated by Pacific and the staff for the year 1950 with present rates continued in effect. This difference stems largely from divergent approaches taken in estimating the quantities of hydro plant and steam plant production and the relative use of oil and gas fuels, resulting in a considerable difference in estimates of the cost of fuel oil and natural gas required. It is Pacific's expectation that it will be able to negotiate contracts for adequate oil supplies at

somewhat lower prices than those used in making its estimate of expenses. On the other hand, the evidence indicates that some other expense items may exceed those assumed when its exhibit was prepared.

In comparing the maximum and minimum rates of return shown under the present tariffs, it will be observed that the staff's estimate of net revenue for 1950 will yield a return of 4.50% upon the lower of the two rate bases suggested, as contrasted with Pacific's estimated return of 4.18% on the higher rate base it presented. Although the staff's exhibit does not show estimated results with the application of the 6% rate increase proposed, such results can readily be computed. Gross revenue would thereby be increased to about \$165,108,000, and net revenue after adjustment for taxes would amount to approximately \$49,748,000. Thus, with the application of the rates requested for the full year of 1950, the staff's estimate of sales would yield a return of 5.01% upon the lower rate base shown, whereas Pacific's estimated return on its rate base is 4.68%.

Viewing the application for increased rates in the light of such estimates of expected results, it is evident that an increase in the over-all amount requested is fully justified. It may fairly be said that none of the intervening parties has challenged Pacific's need for additional revenue in the amount sought. The burden of their evidence and argument related primarily to the propriety of spreading such total rate increase among the various customer classes or groups in the manner proposed, although no uniformity of approach to this problem was manifested.

The testimony presented by Pacific in justification of its proposal to apply a 6% increase to all charges except those applicable to certain contract customers will now be considered.

Form of Rate Increase Proposed

The rate schedules submitted by Pacific with its amended application reflect a 6% increase in each of its presently filed schedules. With respect to those contract customers who now receive service under rates or conditions deviating from those contained in filed schedules, Pacific requests authority to apply a corresponding increase on all such contract customers with the exception of 19 customers which would be exempted from any rate increase. The following table showing the expected increased revenue to be obtained by customer classes will reveal the relatively minor volume of sales affected by the proposed exemptions.

ESTIMATE OF INCREASED REVENUES BY CLASSES

Class of Service	Rate Levels		Increase	
	Present	Proposed	Amount	Ratio
Domestic	\$46,936,000	\$49,752,000	\$2,816,000	6.0%
Commercial and Industrial	74,128,000	78,513,000	4,385,000	5.9
Agricultural	20,974,000	22,232,000	1,258,000	6.0
Street Lighting	1,925,000	2,041,000	116,000	6.0
Resale	7,938,000	8,078,000	140,000	1.8
Railway	397,000	421,000	24,000	6.0
Interdepartmental	460,000	487,000	27,000	5.9

Customers exempted from increases fall mainly under the heading of "resale" customers, the resulting percentage increase in charges for resale customers as a group being only 1.8%, as shown in the above computation. The resale contract customers to be exempted, as listed in Pacific's application, are the cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Santa Clara and Ukiah, and also Plumas Sierra Rural Electric Cooperative, Sacramento Municipal Utility District, Turlock Irrigation District, Yosemite National Park and the contract for the handling of Hetch Hetchy power for the City of San Francisco. At the hearing, Pacific asked that resale service to the Sierra Pacific Power Company also be made

exempt from any rate increase, in that it was also a contract customer under similar circumstances to those just referred to. The total increase for the resale group as shown in the above table is \$54,000 less than originally estimated by Pacific because of the added exemption of Sierra Pacific Power Company. Pacific's original estimate of total gross revenue increase in the amount of \$8,820,000 is correspondingly reduced to \$8,766,000.

In justification of the proposed exemption of the 16 resale customers, Pacific states that contracts with each have had the formal approval of the Commission; that the making of such special contracts was compelled largely by competitive conditions; that the contract rates are sufficiently compensatory to meet all direct costs of service; and that the retention of such customers for a term of years is of benefit to the utility and its customers as a whole. The City of Roseville, which now is served under the filed schedule rate, expressed the opinion that it is entitled to exemption from the 6% increase. Pacific stated that a contract similar to those executed with the exempted cities had been offered to the City of Roseville but had not been accepted, although said offer still remains open.

Pacific would also exempt from rate increases three industrial contract customers whose service is classified in the above table under the heading of "Commercial and Industrial" service. Although a 6% increase to these customers would amount to \$63,120 annually, the resulting percentage rate increase to the commercial and industrial class as a whole is 5.9%. The three special contracts referred to are with the Tidewater Associated Oil Company, Shell Oil Company, and Union Oil Company, and cover Pacific's rights and obligations in the operation of steam power plants in conjunction with the refinery operations of these oil companies. They provide for the exchange of refinery fuels in payment for steam and electricity supplied. The contracts have been approved by the Commission, and Pacific represented

that the existing contract arrangements should be continued. The application of the 6% increase to the electricity delivered to the oil refineries would change present contract terms and conditions. This could result in an offsetting change of refinery fuel charges with no net revenue increase to Pacific.

Interdepartmental electric revenues likewise would be increased by 6%, the slight percentage difference indicated being due merely to the rounding out of estimates to the nearest thousand dollars.

The over-all effect of Pacific's proposal not to apply higher rates to the 19 special contract customers just described is that, on expected 1950 sales, the actual gross revenue increase would be approximately \$400,000 less than would be realized were a 6% increase uniformly applied to all electric sales. This sum is about 4.5% of the total additional revenue being sought. Had Pacific sought a 6% increase in all electric rates and charges without such exemptions, the estimated rate of return for the year 1950, as indicated by the staff's showing adjusted for the higher rates, would be changed from 5.01% to 5.03%.

Customer Representations

Written statements were received from several parties who opposed the granting of any rate increase, some expressing the opinion that applicant is not in need of additional revenue, and others representing that they are unable to bear any increase in living costs. A witness appearing to testify on behalf of certain irrigation districts which utilize power for the pumping of water, expressed his objection to any change in the rates applicable to such districts, stating that farm income is now declining and that costs of operation should not be raised.

Other parties appearing on behalf of municipalities or particular customer groups participated extensively throughout the hearings and concluded with oral arguments reflecting their position.

None argued that the record does not support the granting of additional revenue to Pacific, but rather that rate increases should not be made on the percentage basis proposed. The thought which appears to underlie such contentions is that Pacific's present rate structure does not fairly spread the cost of service among the various classes of electric customers, and that a percentage increase in those rates will perpetuate or further distort alleged inconsistencies in the present rate classifications. As those who advanced such views spoke for rather diverse customer groups, it is obvious that each would prefer a spread of rates which will place such customers comparatively in a more favorable position than at present. Because of the importance of the issue raised, it seems necessary to summarize the representations made by each.

The United States Government, through its General Services Administration, objected to an increase in rates applicable to government installations whose monthly demand equals 500 kw or more. It moved to exclude those services from the proposed increases pending determination of its petition for rehearing of a prior Commission order denying special rates to government installations. By order of the Commission in its Decision No. 43949, dated March 14, 1950, said petition for rehearing was denied. The Government also asked that a cost of service study be made.

The California Manufacturers Association sought to avoid the full increase proposed in certain large industrial use schedules, claiming that past rate reductions have gone predominantly to the smaller domestic and commercial customers, and that customers receiving service on schedules subject to fuel oil price adjustments have actually suffered increased charges in recent years.

A rate advisor to a number of individual consumers criticized the existing rate zone plan, citing examples of claimed rate discrepancies between zones as well as between classes of service.

The cities of San Francisco and Oakland took the position that Pacific's earnings in these cities are on a higher level than elsewhere, causing these urban centers to carry the load for less remunerative areas. To explain the basis of their contention, figures were cited to show that the average domestic revenue received by Pacific per kilowatt hour supplied within the San Francisco-East Bay zone exceeds that received from rural territory and also from the system as a whole. Such conclusions were sharply challenged by the representative of the California Farm Bureau Federation, who pointed out that average rates per kilowatt hour by areas or customer classes have little significance unless considered along with the quantity of power used and other pertinent customer use factors.

To undertake the making of a so-called cost of service study which would be of any possible value to the Commission in assigning total utility costs to the various customer groups, such study would necessarily call for an analysis among other things of the customer use, load factor, diversity factor, and service voltage level. The record herein does not contain such data, and it would be a considerable undertaking to assemble the requisite information. However, it might be observed that the record does contain data showing average customer use as well as average revenue per kilowatt hour in urban versus rural territory. Considering these factors, the conclusion might just as logically be reached that rural customers are paying at least their full share of total costs. For example, when the fact that Pacific's average revenue from domestic service sales in Zone 1, which encompasses the bay cities, was 2.66 cents per kwhr in both 1947 and 1948, while in rural Zone 6 it was 2.40 cents in 1947 and dropped to 2.34 cents in 1948, was cited, it must not be overlooked that average sales per customer in Zone 1 actually declined from 96.2 kwhr to 95.8 kwhr, while in Zone 6 average customer use was not only greatly

in excess of the urban use, but it increased from 213.2 kwhr to 223.2 kwhr in these two years. Other rate comparisons were urged upon us as indicating an unbalance in the existing rate structure, but because of the variation of the demand, energy and per customer components of the various schedules, such incomplete comparisons are equally inconclusive.

It was also argued by counsel for the City of Oakland that the high cost of plant additions since the war has not been balanced by corresponding increases in sales and average revenue per kwhr sold. It might be inferred therefrom that the large plant investment recently made is considered not to be of as great benefit to urban customers as others. The facts of record do not bear out any such inference. It is true that the necessity for the restoration of adequate margins between production capacity and customer demands has occasioned a large postwar increase in production plant capital. The record shows that production plant capital has not increased at a materially higher rate than transmission and distribution capital. Certainly, these postwar additions to production, transmission and distribution plant, made for the purpose of restoring depleted margins, are necessary to the rendition of adequate service in both urban and rural territory. Furthermore, the total plant capital per thousand kwhr sales is today about 20% below prewar. Counsel's citation and comparison of reduced incremental average revenue by customer classes does not indicate undue variation between classes or territories when consideration is given to differences in customer use and characteristics. Such variations obviously will appear when comparing incremental earnings during a time when plant capital is rapidly increasing.

We are not persuaded that there is merit to the contention of the California Manufacturers Association that the full increase should not be applied to those power schedules designated as P-5, P-15 and P-30. While it is true, as contended, that the rates under these

schedules have not been reduced in recent years, customers who have remained on these schedules have done so at their own election, as these schedules have been optional with other available schedules. We believe that any rate increase now authorized should apply to the three power schedules mentioned, as well as to the alternative schedules. There does not appear to be any practicable way of effecting the full percentage increase in schedules containing a fuel clause without changing the fuel oil adjustment factor contained in such schedules in the manner proposed by Pacific.

The Commission is convinced that the evidence presented in this proceeding clearly justifies the granting of increased revenue to Pacific in the total amount sought. We are equally convinced that none of the exceptions taken by the parties to Pacific's proposed spread of that total increase on a percentage basis is sufficiently tangible to justify us in attempting to spread the increase in any other manner. Pacific's rate structure has been developed over the years under the scrutiny of the Commission. The rate structure covers many types of services and has various territorial applications. Nothing in the record justifies the conclusion that Pacific's existing rate schedules, if increased uniformly on the percentage basis proposed, will so alter the existing relationship between rate levels as to result in prejudicial charges in any one customer class.

In authorizing Pacific to exempt certain resale customers from rate increases, we recognize the right of a utility to meet competition. In approving such special contract rates in the past, we indicated that, if the revenue therefrom should fall below the cost of service, the loss would not be permitted to burden the other classes of customers. Pacific's witness stated that in his opinion the serving of these customers at the contract rates will not impose any burden on other customers, and that the contract rates are more than sufficient

to meet the out-of-pocket costs including depreciation and return on facilities used exclusively for this service. There is no evidence in the record to the contrary. Even were a full 6% increase applied to all within the resale class, the difference in rate of return to Pacific would be negligible and could not bring the rate of return above a fair level on either the staff's or the company's basis of estimate for 1950.

With regard to the list of deviation and special contract customers contained in Pacific's Exhibit No. 4A, on which increases of 6% are requested, such increases should be authorized and will be directed. Pacific should put these customers on filed schedules or seek authority to apply special rates. Pacific should also undertake a review of all special contract customers listed, for the purpose of determining whether schedules may not be devised and filed to fit the various service conditions encountered.

The suggestion was made by the staff that a study be made by the utility of its electric department depreciation reserve requirement, such a study now being under way in connection with its gas department capital. The Commission is of the opinion that this should be done.

The Commission concludes and finds that the rate increases prayed for by Pacific are justified and should be authorized, and that the treatment accorded the 19 special contract customers is justified and does not constitute a burden upon the other customers of applicant. All motions made for exemption from rate increases or delay of the application pending cost studies are denied.

O R D E R

Pacific Gas and Electric Company having applied to this Commission for an order authorizing certain increases in rates and

charges, public hearings having been held, the matter having been submitted for decision, and the Commission being fully advised in the premises,

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

IT IS HEREBY ORDERED as follows:

1. Applicant is authorized and directed to file the schedule of rates shown in Exhibit "J" attached to its amendment to application on or after the effective date hereof, and, after not less than five (5) days' notice to the Commission and the public, to make said rates effective for service rendered on and after April 15, 1950; said filing to be by advice letter in quadruplicate and in conformity with the Commission's General Order No. 96.
2. Applicant is authorized to continue in effect without change the rates set forth in contracts heretofore executed and described in Exhibit "K" as amended, attached to the amendment to the application; and also continue in effect the rates set forth in the contract made with Sierra Pacific Power Company heretofore authorized by the Commission in its Decision No. 41537.
3. Applicant is authorized and directed to increase by 6% the rates for service to all special contract and deviation customers listed in Pacific's Exhibit No. 4A for service rendered on and after April 15, 1950, and directed to place any customers receiving free service upon filed schedules.

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

Dated at San Francisco, California, this 21st day of March, 1950.

A. E. Johnson
Justus F. Grewen
Frank J. Sullivan
Harold P. Hill
Herbert W. Jotter
Commissioners.