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Frc. Mittelstaedt

ORIGINAL

Decision No. 44741

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHERN CALIFORNIA GAS COMPANY for a general increase in gas rates under Section 63(a) of the Public Utilities Act.	Application No. 30299

T. J. Reynolds, Milford Springer and W. W. Clary, for applicant; Roger Arnebergh, K. Charles Bean and T. M. Chubb, for City of Los Angeles; H. Burton Noble, for City of Pasadena; H. R. Griffin, for City of San Bernardino; Archie L. Walters, for City of Burbank; Emmet A. Tompkins, for City of Alhambra; Woodward M. Taylor, for City of San Marino; John H. Lauten and Henry McClernan, for City of Glendale; Roger Arnebergh and Clarence Winder, for cities of Beverly Hills, Burbank, El Segundo, Gardena, Glendale, Inglewood, Manhattan Beach, Monterey Park, Pasadena, San Fernando, San Marino, South Gate, and South Pasadena; J. J. Deuel and Edson Abel, for California Farm Bureau Federation; Brobeck, Phleger and Harrison, by George D. Rives, and George Kinsman, for California Manufacturers Association; C. J. Lewis and Paul Hormuth, for Utility Workers Union of America, C.I.O.; A. B. Starr, for 11th Naval District; George A. Parker, for Public Housing Administration, for Housing Authority, City of Los Angeles, and for Housing Authority, County of San Bernardino; W. D. MacKay and L. H. Stewart, for Torrance Brass Foundry.

O P I N I O N

In this proceeding Southern California Gas Company (applicant) requests authority to increase rates charged by it for natural gas service.

Public hearings on the application were held in Los Angeles before Commissioner Huls and Examiner O'Brien. The hearings required 16 days, commencing in October 1949 and concluding in May of 1950.

Applicant, the Commission staff, and other interested parties[1] presented 44 witnesses[2] who introduced 259 exhibits and whose testimony covered 2,032 pages of transcript.

Proposed Rate Increases

The initial application herein was filed on May 29, 1949. No definitive new rates were proposed, but the applicant alleged need for additional annual gross revenues of about $9,700,000.

On October 10, 1949 a set of proposed rate schedules was filed with the first amended application. Assertedly because of reductions in the price of fuel oil, with the attendant reductions in gas revenues, loss of customers to competitive fuel oil, and selection by industrial customers of lower optional interruptible tariffs because of increased availability of gas, applicant proposed rates which, if granted, would have resulted in increases in gross revenues estimated at about $16,700,000. Such income was predicated upon a requested net return of about 6½% of the company's estimated invested capital rate base.

On October 28, 1949 applicant filed a supplemental application requesting emergency and interim rate relief. This latter request was taken under submission at the conclusion of the December hearings, and an increase in rates effective February 1, 1950 was authorized on January 5, 1950 by an interim order, Decision No. 43675. The rates

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1/ Evidence was also introduced by witnesses for the Board of Public Utilities and Transportation of the City of Los Angeles, for the cities of Beverly Hills, Burbank, El Segundo, Gardena, Glendale, Inglewood, Manhattan Beach, Monterey Park, Pasadena, San Fernando, San Marino, South Gate and South Pasadena, for the California Manufacturers Association, for the United States Public Housing Administration, and for certain industrial customers.

2/ A list of witnesses and the subjects on which they presented evidence is appended to the decision.

therein prescribed were estimated to produce an increase in gross revenue on an annual basis of about $5,700,000 at the 1949 level of business.

Further evidence bearing upon the ultimate establishment of final definitive rate schedules presented by applicant, the Commission staff, and the several parties to the proceeding was introduced during April and May, 1950, and the matter was taken under submission following the final hearing on May 5, subject to the filing of written arguments in the form of concurrent opening and reply briefs, the latter being due on June 5, 1950.

On the concluding day of the hearings applicant filed a final revised summary of revenues, expenses and earnings, based upon its estimate of revenues and expenses for the year 1950 on a normalized basis, which estimate suggested a need for an increase in gross revenues of about $11,800,000 on an annual basis in order to provide applicant with a net revenue level of 6½% on its rate base.

This exhibit indicated that the proposed revenue level did not include any effect that might flow from a pending rate increase application filed by El Paso Natural Gas Company, a supplier of gas, with the Federal Power Commission.

<u>Scope of Operations</u>

Applicant serves natural gas to more than one million customers in southern California. Its service area embraces parts of Fresno, Tulare, Kern, Los Angeles, San Bernardino, Riverside and Imperial counties.

Southern California Gas Company is the successor in interest to many predecessor companies, the largest of which was Los Angeles Gas and Electric Corporation. The gas operations of the latter were merged with those of applicant in 1937, thus combining into a single company two of the principal subsidiaries of Pacific Lighting Corporation. The earliest predecessor was the Los Angeles Gas Company, which began gas service in Los Angeles in 1867. All of applicant's common stock is owned by Pacific Lighting Corporation.3/

Gas is obtained by direct purchase from operators in California oil and gas fields, by purchase from Pacific Lighting at various delivery points on the latter's natural gas transmission system, either by direct interconnection of its own facilities or through facilities owned by Southern Counties Gas Company of California, another subsidiary of Pacific Lighting, and by purchase from El Paso Natural Gas Company, which delivers gas from the mid-continent fields of Texas and New Mexico at the California state line into facilities jointly owned by applicant and Southern Counties Gas Company.

Applicant's transmission system as of January 1, 1949 consisted of 1,185 miles of mains ranging in size from 4-inch to 30-inch diameter and operating at pressures from 60 pounds to 800 pounds, and nine transmission compressor stations having an aggregate capacity of about 63,000 hp. The distribution system at the same date totaled more than 10,325 miles of various sized mains. Gas services numbered 880,090 and supplied 1,071,500 total meters. Line pressures are reduced through individual house type gas regulators set to maintain the standard pressure of eight inches of water column for domestic use. Applicant operates 106.5 million cubic feet of low-pressure gas storage holders and 4.07 million cubic feet of high-pressure holders, and its Texas pipe line capacity was designed to provide approximately

3/ In March, 1950, Pacific Lighting Corporation organized a wholly-owned subsidiary, Pacific Lighting Gas Supply Company, to which the former transferred all of its natural gas procurement, storage and delivery facilities and operations. Hereinafter the term Pacific Lighting will be used as referring to either organization in so far as natural gas pipe line operations are concerned.

50 million cubic feet of storage capacity while maintaining its required line flow delivery rate. Applicant also operates an underground storage project in the Playa del Rey field on the coast southwest of Los Angeles. This field has an estimated storage capacity of about two billion cubic feet and operates at a maximum pressure of 1,400 pounds per square inch. Additional peak deliverability and seasonal storage is available to applicant by reason of its contracts with Pacific Lighting which operates the La Goleta underground storage reservoir in Santa Barbara County. This field structure has an annual working capacity of approximately ten billion cubic feet and a maximum pressure of about 1,850 pounds.

Applicant does not serve manufactured gas in its service area but operates small butane-air distribution systems in the Antelope Valley, serving the communities of Mojave, Lancaster, and Palmdale. In 1949 applicant used almost 170 million Mcf of natural gas and about 96,000 Mcf of butane-air gas to serve its customer requirements. About 60% of the natural gas was sold to customers on a firm basis and 34% to industrial customers and other utilities, subject to shut-off whenever the demands of firm customers so require. Of the sales to firm customers, almost 90% was required by the general service customers, both domestic and commercial, and 11% was used by firm industrial customers. Less than 2% of the sales was required for sales to gas engine customers primarily for agricultural pumping uses. Almost 42% of the gas required for 1949 operations was obtained from Texas pipe line supplies. Applicant obtained 26% from California sources available to it, and the remainder, or 32%, from Pacific Lighting.

I - EVIDENCE ON EARNING POSITION

Applicant, the Commission staff, and the fourteen protestant cities all presented evidence on revenues and expenses under assumed average or "normal" conditions for the calendar year 1950. Applicant initially estimated the latter part of 1949 and all of 1950 in its studies, and revised the estimates from time to time as changes in circumstances warranted. The cities' and Commission staff's estimates were presented during the latter part of the proceeding and were predicated upon actual results, including the first few months of 1950. Generally speaking, the estimates attempted to reflect a forecast based upon continuation of general business conditions at approximately the level experienced during the early months of 1950 and on the basis of assumed temperature conditions equivalent to the average experienced in the past decade. Tariff schedules in effect prior to the interim increases authorized February 1, 1950 contained fuel oil price adjustment or "escalator" clauses, whereby the gas rates fluctuated with the posted price of heavy industrial fuel oil. The forecast of revenues to be derived from such rates was predicated upon the assumption that the posted price of heavy industrial fuel oil in tank car lots f.o.b. refineries in the Los Angeles area would continue throughout 1950 at $1.30 per barrel. Exhibit No. 137, prepared jointly by representatives of the applicant, the fourteen cities, and the Commission staff, tabulates in comparative form the respective estimates of 1950 revenues and expenses. The several estimates in this exhibit, modified to reflect revisions in applicant's estimates as presented in its opening brief, are shown in the following tabulation:

Item	1949 Recorded	1950 Estimate: Applicant	Cal. P.U.C. Staff	Protestant Cities
OPERATING REVENUES				
Sales of Gas	$75,921,157	$75,117,800	$74,923,138	$76,075,100
Other Revenues	1,021,865	1,005,100	1,124,400	1,158,100
Total Oper. Rev.	$76,943,022	$76,122,900	$76,047,538	$77,233,200
OPERATING EXPENSES				
Production	$28,446,455	$29,087,750	$28,290,534	$28,292,800
Transmission	2,603,720	3,351,830	3,071,800	2,732,500
Distribution	10,767,994	11,678,330	11,313,500	11,405,000
Cust. Acctg. & Coll.	4,658,845	4,930,020	4,968,600	4,960,000
Sales Promotion	2,385,756	2,809,370	2,597,200	2,407,000
Admin. & General	5,094,564	5,366,300	5,223,000	5,127,900[a]
Subtotal (excl. production)	$25,510,879	$28,135,850	$27,174,100	$26,632,400
Total	$53,957,334	$57,223,600	$55,464,634	$54,925,200
Taxes	$ 9,265,082	$ 8,113,200	$ 8,707,000	(Not)
Depreciation[(b)]	3,306,187	1,688,000	1,688,000	(estimated)
Total Oper. Exp.	$66,528,603	$67,024,800	$65,859,634	
NET REVENUE[(b)]	$10,414,419	$ 9,098,100	$10,187,904	

(a) An estimate of local franchise taxes ($851,400) has been added to permit comparison with applicant's and staff's estimates.

(b) Exclusive of 4% interest on sinking fund depreciation reserve.

Revenues

The record shows that from 1940 to 1948 applicant's revenues have increased from $34,500,000 to $73,100,000. As shown in the foregoing table, the 1949 result indicated a further increase to more than $76,900,000. The highest and lowest estimates of revenue for 1950 differ by about 1½ million dollars, or approximately 1.6%. The difference results primarily from the respective estimates of general service natural gas sales and interruptible industrial sales. The general service revenue estimates are predicated upon analyses of historical statistics adjusted to reflect their estimated correlation with temperature fluctuations, and a determination from such studies of the trend of general service use per customer. The total sales and revenue result from the trend of customer growth and the unit revenue yield for the tariff schedules and the selected use per customer.

Applicant's temperature adjustments were based on a statistical analysis using data from 1932 to the present time in a linear multiple correlation computation whereby an annual or 12-month period, single temperature adjustment coefficient was applied to total degree day deviations from a 10-year average and total unit sales for the same 12-month period. The Commission staff's temperature adjustments were based on the curvilinear relationship that was found to occur between monthly sales and corresponding monthly temperatures. In this method only one 12-month period was considered at a time. Temperature coefficients developed from this relationship for each of the months in the period analyzed were applied to corresponding monthly degree day deviations from a 10-year average and corresponding monthly unit sales. The use of this latter method produces somewhat different results than the straight-line method, using identical data.

The cities' engineers studied the correlation between experienced unit customer consumptions in years when average temperatures approximated the long-time average. A judgment extrapolation of the experienced unit customer usage in such average temperature years formed the basis for the assumed average unit consumption for the estimate. We need not here discuss extensively the merits of the several temperature correction methods. It appears that the introduction of the results of using the three different approaches defines rather sharply the probable range of anticipated general service revenue. The estimates vary from $55,500,000 to $57,100,000, corresponding to sales of 85.8 million Mcf and 88.7 million Mcf, respectively. For the purpose of this proceeding the Commission will adopt a general service natural gas revenue estimate of $56,000,000, produced by an average of 1,140,000 customers to whom 86.8 million Mcf would be delivered if average temperature conditions prevail.

The cities' representatives reviewed and accepted applicant's estimate of firm industrial revenues. The staff estimate of firm industrial revenues was $4,220,000, as compared to applicant's estimate of $4,158,000. An analysis of the estimate of customers, use per customer, and revenue per Mcf indicates relatively little difference in the respective results. For this proceeding a 1950 firm industrial revenue of $4,200,000, corresponding to sales of 11,150,000 Mcf, will be adopted.

In the estimates presented herein the parties were in agreement that demand for interruptible gas would exceed the supplies available for such service. After taking care of firm customers, company use and gas unaccounted for, the remaining supply is available for sale to industrial and wholesale customers on an interruptible basis. The staff computed the amount available for purchase by applicant for all requirements to be approximately 178 million Mcf. The company's estimate of the total gas available was 183.2 million Mcf. The derivation of the gas available to Southern California Gas Company is predicated upon estimates of availability of California oilwell and dry gas to not only Southern California Gas Company, but its affiliate, Southern Counties Gas Company, and its parent, Pacific Lighting, in California, upon the availability of gas in underground storage and upon gas available from El Paso Natural Gas Company from its Texas pipe line. Both applicant's and the Commission staff's estimates are based upon analyses of maximum daily rates of availability from the various gas sources, demand frequency curves of the various consumer groups, and assumed allocation of supplies between the several utility operators in California. For the purpose of this proceeding the 1950 estimated volume of natural gas available to meet applicant's requirements is estimated to be 180 million Mcf.

After satisfying the relatively minor demands for gas engine service and the wholesale contract demands of Pacific Gas and Electric Company, the balance available for sale in 1950 to interruptible industrial customers, including sales to steam-electric generating plants on a dump basis, is estimated to be 47.4 million Mcf, from which it is anticipated applicant would receive approximately $10,000,000 of revenue at the assumed level of $1.30 per barrel for the posted price of fuel oil.

Based upon the evidence of record, we will adopt $76,380,000 as total operating revenues for the purpose of this decision.

Cost of Purchased Gas

In the summary of estimated expenses heretofore presented, the cost of purchased gas was the largest single item set forth in the tabulation. The record shows that cost of gas purchased by Southern California Gas Company has increased from $9,140,000 in 1940 to $26,032,000 in 1948, with a recorded figure of $28,446,000 for 1949, and for 1950 the cost is estimated by the several parties to fall between $28,290,000 and $29,088,000. Both applicant's and the Commission staff's figures indicated that the 1950 gas purchases would average 15.97¢ per Mcf. Both estimates give full effect to the price of 21-2/3¢ per Mcf established by the contract between Southern California Gas Company and Pacific Lighting for gas delivered by the latter in 1950. Applicant's and the staff's estimates differed slightly in unit costs applicable to other purchases from California producers and to purchases from the Texas pipe line. Neither estimate reflected the increase in cost of gas of 1-3/4¢ per Mcf, equivalent to an increase of about $1,766,700 annually, which El Paso Natural Gas Company is seeking before the Federal Power Commission. Under normal procedure the proposed rate increase will become effective on October 1, 1950, under a bond for refunds, pending a final decision. Adopting the average unit cost reflected by both estimates, exclusive of this requested increase, and applying the average unit cost to the volume of gas estimated to be available for 1950 operations results in a gas purchase expense estimate of $28,800,000. Relatively minor differences occur in the estimates for other items in production expenses, such as the cost of butane, the cost of odorization, and the cost of gas used for company operations. If the price of butane is adjusted to reflect a cost of 5.7¢ per gallon, weight given to the trend in cost of odorization, and the volume of gas estimated for company use adjusted to a total consistent with the assumed gas availability, a production expense estimate of $29,157,000 is obtained.

Gas Purchases from Pacific Lighting

As indicated above, the cost of gas acquired by applicant from its parent, Pacific Lighting, is predicated upon the rates set forth in a contract between the parties. Because of this corporate affiliation, the price charged by the parent to its subsidiary for gas delivered was of primary interest to all parties to the proceeding. In its interim Decision No. 43675 the Commission, after reviewing revenues and expenses of Pacific Lighting for the year 1948, concluded that Pacific Lighting's net was in excess of a fair return, and in establishing interim rates disallowed 2½¢ per Mcf of gas estimated to be supplied by Pacific Lighting, as being in excess of a reasonable cost for said gas, the affiliate relationship being considered.

Pacific Lighting acquires gas in California oil fields under contracts of purchase, transmits the gas to various points on the transmission system of itself or its subsidiaries, and either delivers the gas to one of the subsidiaries for resale, stores it in a depleted gas field at Goleta, Santa Barbara County, or delivers certain quantities of gas on an exchange basis to oil field producers at refineries or other points of use. In this proceeding, the Commission staff with the cooperation of Pacific Lighting examined the latter's books and records for the purpose of preparing a report on the results of current operations. The staff's report covered the recorded years 1948 and 1949. The staff's estimate of operations for the year 1950, exclusive of Pacific Lighting's operations as an investment or financial organization, are incorporated in this record in Exhibit No. 118.

The staff summarized its results using estimated revenues and expenses predicated upon the trend of recent reported figures, with depreciation expense estimated in conformity with the company's practice and use of the straight-line remaining life method. That method spreads the difference between the recorded depreciable original cost of property and the accumulated depreciation provisions to date over the property's estimated future service life in equal annual amounts. The staff related the resultant net revenue to a rate base comprising the estimated historical cost of plant, adjusted for donations, nonoperative property, and working capital, less the book retirement reserve. On this basis the staff figures show an estimated rate of return of 7.82% for the year 1950, a substantial decline from the actual return of 16.3% for 1948, upon which the Commission based the adjustment used in determining the interim rates. In Exhibit No. 136, applicant recomputed the results by substituting estimated depreciation expense on the 5% sinking fund basis and relating the resultant net revenue to the staff's rate base before the deduction for depreciation, which produced an estimated rate of return of 4.63%. The principal elements of these estimates are summarized in the following table.

Pacific Lighting
Results of Gas Supply and Pipe Line Operation
Estimated 1950

	Staff Exh. 118	Applicant Exh. 136
Revenues	$14,731,270	$14,731,270
Expenses		
Operations	12,012,097	12,012,097
Taxes	1,011,800	1,011,800
Depreciation	705,000[a]	575,687[b]
Total	$13,728,897	$13,599,584
Net Revenue	1,002,373	1,131,686
Rate Base	12,811,000[a]	24,467,686[b]
Rate of Return	7.82%	4.63%

a Straight-line expense with a depreciated base.
b Five per cent sinking fund annuity and an undepreciated base.

Applicant's exhibit as an alternate added to the rate base increased amounts for working cash, present value of gas in Goleta storage, present value of lands, and for uncapitalized overheads applicable to early-day installations. These increases reduced applicant's estimate of the rate of return to 4.05%. None of applicant's calculations gave effect to the remaining life basis of depreciation expense.

In addition to the evidence applicant presented on the current earnings of Pacific Lighting, it presented extensive testimony showing that the price paid to Pacific Lighting was lower than the costs of obtaining similar service from alternative methods.

Thus, since rendering our interim decision herein, evidence has been brought into this record which has materially altered the factual situation existing at the time of rendering said interim decision as applied both to Pacific Lighting's earnings and to the reasonableness of the price paid by applicant to Pacific Lighting for gas purchased by the former from the latter. Upon the evidence now of record we hereby find that applicant and Pacific Lighting have met the burden of proving the reasonableness of the price paid by applicant for said gas within the rule laid down by the cases of Dayton Power and Light Company vs. Public Utilities Commission, 292 U.S. 290, 295, 307-308, 78 L. ed. 1267, 1273, 1279 and Smith vs. Illinois Bell Telephone Company, 282 U.S. 133, 152-153, 156-157, 75 L. ed. 255, 265, 267-268.

A representative of Torrance Brass Foundry and certain commercial customers made a motion requesting the Public Utilities Commission to "exercise its jurisdiction under Section 2, Paragraph 7, of the Public Utilities Act to control the operations of the pipe line facilities of the Pacific Gas Supply Company (Pacific Lighting Gas Supply Company)," to which applicant objected on the ground that the motion was not in order. Without passing upon the merit of the objective sought by this motion, it is sufficient to say that the relief sought thereby appropriately could not be granted in this proceeding. Due process would require notice and hearing to Pacific Lighting in an appropriate proceeding. The motion is denied.

Other Operating Expenses

The comparative summary of estimated 1950 expenses, other than production expense, taxes, and depreciation, shows a spread from about $26,600,000, the sum of the cities' estimate, to about $28,100,000, applicant's estimate. The Commission staff estimate falls between these two extremes, totaling about $27,200,000. Examination of the individual estimates and the respective historical unit costs reveals a persistent upward trend in these expenses. Because of the difficult earning position in which applicant found itself during the latter part of 1949, many expenses were sharply curtailed. Some of the expense savings involved assumption by applicant of calculated risks where activities relating to survey of gas leakage and distribution system replacements were restricted. Some savings arose from abandonment of promotional new business activity and other administrative or operating procedures. An examination of the various estimates for the several accounts, and particularly of the trend and recent level of unit expenses, together with the number of customers and volume of sales hereinbefore considered reasonable, leads the Commission to believe and we hereby find that the total of such other expenses, for the purpose of this proceeding, approximates $27,400,000, details of which are set forth as follows:

Class of Expense	Amount
Transmission	$ 3,200,000
Distribution	11,400,000
Cust. Acctg. & Collecting	4,950,000
Sales Promotion	2,600,000
Administrative & General	5,250,000
Total	$27,400,000

Depreciation

In its interim Decision No. 43675, the Commission raised a question as to the propriety of the charges made by applicant on its books for depreciation provisions and the sufficiency of applicant's reserve for depreciation. Applicant was ordered in that decision to undertake a study of its depreciation practices, accrual rates, and theoretical reserve. That study was completed and the report thereon introduced in evidence in Exhibits Nos. 130 and 131.

Because of the important bearing of annual depreciation expense on earning position, and the complicated issues involved, parties to the proceeding joined in conferences which ultimately resulted in a "Memorandum of Understanding Relative to Depreciation Practices", which was submitted as Exhibit No. 132[4/] for consideration and approval of the Commission.

4/ A copy of this agreement is attached to this decision as Exhibit B.

The agreement, which pertains solely to Southern California Gas Company and is not to be considered a precedent in relation to other utilities, was reached after considering (1) the company's estimates of depreciation reserve requirements on 5% and 4% sinking fund methods and on the straight-line method, and general information of the Commission staff as to the basis and method of such estimates, (2) the history of the reserve, (3) the earning history and its relationship to depreciation accruals, and (4) possible constructive purposes to which depreciation reserve excesses could be transferred. In addition, over-all equity considerations including the consumers', the company, and the public interest, entered heavily into the agreement, coupled with the willingness of the company to set up a staff for the purpose of annual computations of accruals on the remaining life basis, and its willingness to a showing by the staff of the Commission of a rate of return on a modified sinking fund rate base as well as the undepreciated rate base in rate cases.

The depreciation reserve studies were made as of December 31, 1948 and are shown herein as brought up to December 31, 1949, by accruals under each method, less net retirements for the year 1949. The Aliso gas-manufacturing plant is considered nonoperative and, therefore, figures are shown separately on a pro forma basis as though the plant had actually been retired on the books. All figures pertain to Depreciation Reserve for General Plant, and exclude Automobile and Other Reserves which are accrued through clearing accounts:

	As of December 31, 1949
Depreciation Reserve - per books	$79,960,000
- assuming Aliso retired	76,018,000±
Reserve Requirement (Company Consultants)	
5% Sinking Fund Method	35,000,000±
4% Sinking Fund Method	40,000,000±
Straight-line Method	61,000,000±

An agreement was reached to adopt a remaining life 4% sinking fund accrual method based on the balance in reserve after adjusting the book reserve of December 31, 1949, by (a) write-off of the

Aliso manufacturing plant, (b) an adjustment of book accruals for the year 1949 to the basis of accruals herein adopted, resulting in a transfer to surplus of $3,000,000, and (c) transfer of $12,000,000 from the depreciation reserve for general plant for specific purposes as shown in detail in the memorandum of understanding (Exhibit B). Item (c) embraced generally the write-off of intangible capital and preferred stock discount, and establishment or enlargement of reserves for estimated past federal income tax deficiencies, plant acquisition adjustments and insurance for abnormal casualties.

Under this plan, the adjusted balance of $61,018,000 of the depreciation reserve for general plant, will come under a plan of "remaining life" accrual, wherein, by annual reviews by the company, the depreciation accrual to be charged to expense will be determined by the gross depreciable plant per books less the then existing depreciation reserve, related to the estimated remaining life of the property and estimated gross salvage, less cost of removal. Under this plan, no further adjustments through surplus for either deficient or excessive depreciation reserve balances will be made in the future, even though the accrual method adopted herein be changed. The method adopted is the 4% sinking fund method.

Interest at 4% will be accrued and charged to expense each year on the book balance in the depreciation reserve for general plant. The total depreciation charge to expense will also include an annuity of such amount that, coupled with the interest charge, the total accrual would ultimately provide for the future depreciation of the then existing gross depreciable plant, less the then existing depreciation reserve.

Under the agreement, the company will establish a continuing staff review of depreciation charges with the duty of presenting recommendations for new basic lives each year.

The agreement includes a stipulation that a remaining life 4% sinking fund depreciation annuity of $1,688,000 is reasonable for the year 1950 and that with interest of $2,441,000 a total charge of $4,129,000 for depreciation is reasonable for 1950 for the purpose of this rate proceeding.

We believe the position taken by applicant, the staff and all parties hereto in working out a solution to this complex and difficult problem is commendable. The record shows that all parties to the proceeding joined in acceptance of the agreement. We find that the proposed agreement, including the immediate transfer to surplus of $3,000,000 representing the difference between the charge to expense for 1949 and the accrual had the new basis of depreciation been made effective for 1949, as well as the transfer of $12,000,000 of the reserve to establish certain other reserves and dispose of the certain assets items of the balance sheet in the manner shown on Exhibit B attached hereto is in the public interest and will be recognized in the order herein.

When using an undepreciated rate base, the adoption of a 4% interest rate in the application of the sinking fund formula will result in a substantial reduction in the required annual rate of return.

Taxes

Applicant's estimate of 1950 taxes was $8,113,200, as compared to the staff's estimate of $8,707,000. An analysis of the tax estimates by type of tax indicates that, except for taxes based upon income, the two estimates are substantially identical. The estimates of taxes based upon income, of course, are affected by the level of the expense and revenue estimates, and are predicated upon a federal income tax rate of 38% and a state corporation franchise tax rate of 4%. Using these same tax rates, and making adjustment for the changes in revenues and expenses heretofore discussed, a tax estimate for 1950 of $8,402,000 is adopted for the purposes of this proceeding.

Because certain items entering into the computation of taxes are not finally determined until some time after the close of the accounting period, the amounts of taxes accrued are necessarily estimates. In the interest of avoiding controversy over such items in this proceeding, an agreement was reached between applicant and the staff and stipulated to by all parties (Exhibit 165) which provides that any difference between tax accruals and tax payments for a given year will be adjusted through future tax accruals. As a result of this agreement the differences in the tax estimates, except those attributable to differences in the estimates of revenues and expenses, have been largely eliminated.

Rate Base

Estimates of rate base were introduced by the applicant and the Commission staff. Applicant's rate base of approximately $252,000,000 is about 9½ million dollars higher than the rate base estimated by the Commission staff. Of this difference, $1,279,000 represents a write-off of a portion of the intangible capital in accordance with the depreciation agreement (Exhibit B attached hereto), thus eliminating this amount of intangible capital from the balance sheet and from the rate base of applicant. The estimates are in substantial agreement with respect to other items of fixed capital except for variations in the method of weighting current capital additions. Both estimates are in agreement in eliminating the total of advances for construction, depreciation on motor vehicles and work equipment, and nonoperative production plant. The Commission staff has likewise deducted $3,148,000, representing the average credit balance in the account "Contributions in Aid of Construction." The total in this account, arising largely through operation of main extension rules, represents funds obtained by applicant at no cost to it. Applicant, in its adjustments, increased its rate base by $1,552,000 to represent the excess of the present market value of operative lands over the cost at which those same parcels are recorded on the company's books. This incremental difference between cost and market value likewise has cost applicant nothing. We hold, therefore, that the preferable treatment for the purpose of this proceeding is to deduct "Contributions in Aid of Construction" and include lands at original cost in the rate base adopted.

Applicant estimated an addition to rate base for the materials and supplies on hand for the year in the amount of $2,651,000, while the staff, using a somewhat different method of estimating, proposed an addition of $2,732,000. The amounts used for working cash were $7,000,000 and $3,000,000, the staff's being the lower of the two. Applicant's working cash estimate, made by its vice president and controller, represents that official's estimate of the funds necessary to take care of cash requirements between the date of expenditures and the date of receipt of cash from customers, to supply current funds for construction purposes, and to leave sufficient cash on hand to provide against hazards due to the ordinary fluctuations of the business and maintain the company's financial standing. It was his testimony that applicant operates on rather low cash balances compared with other major utilities, and that the balances which had been maintained during the latest fiscal year were about equivalent to two months' operating expenses plus one month's cost of purchased gas.

The staff presented an estimate of working cash based upon an analysis of the 1949 experience in the receipt of revenues and payment of expenses, together with the average additional working cash requirements indicated by balance sheet accounts. That study showed an average number of days' lag in the collecting of revenues of 38.55 and an average number of days' lag in the payment of expenses of 61.01. The excess in the lag of payment of expenses over the lag in collection of revenues, when evaluated on the 1949 level of expenses, indicated that the company had on the average, approximately \$3,900,000 in funds available for working cash purposes. The total average 1949 cash requirements, according to this study, amounted to almost \$7,100,000, resulting in an indicated need for additional working cash capital of \$3,200,000. For the year 1950, the staff estimated the amount to be \$3,000,000, the decrease being due to a greater lag in making payments to Pacific Lighting for purchased gas than in 1949. Cross-examination brought out the fact that under the method of computation proposed by the staff, any change in the timing or method of payment of expenses, or any change in the requirement for meeting its expense obligations, such as a change in income tax collection dates, would necessitate recomputation of the working cash requirements. While the staff's analytical approach is a further step in evaluating the annual cost requirements for utility operations, we believe the computations should not be accepted as the precise answer, but as a further tool to assist the Commission in adopting an amount which, in its judgment, is appropriate for working cash capital purposes. The working cash requirement suggested by applicant has neglected to reflect in the computations the credit for average taxes on hand accrued ahead of payment. Based upon evidence herein, it is the Commission's judgment that allowance for working capital, including materials and supplies, of about \$6,200,000 is proper in this proceeding for the 1950 rate base. The total undepreciated rate base under those conditions is \$243,000,000; the total depreciated rate base after deducting the adjusted depreciation reserve, as set forth in Exhibit B hereof, is $181,982,000. In determining the rate of return, hereinafter found, we have given consideration to both the undepreciated and depreciated bases.

Summary of Adjusted Earnings

A summary of earnings for the year 1950, set up in accordance with the foregoing review, which is hereby adopted for the purpose of this decision, is as follows:

	Undepreciated Base	Depreciated Base
Operating Revenues*	$ 76,380,000	$ 76,380,000
Operating Expenses	56,557,000	56,557,000
Depreciation	1,688,000	4,129,000
Taxes	8,402,000	8,402,000
Net Revenue	9,733,000	7,292,000
Rate Base	243,000,000	181,982,000
Rate of Return	4.01%	4.01%

* Does not include increase resulting from interim rates.

In the right-hand column of the above table, the depreciated rate base comprises the undepreciated base of $243,000,000 less the adjusted depreciation reserve of $61,018,000, and the depreciation expense of $4,129,000 includes 4% interest on the $61,018,000.

II - EVIDENCE ON FINANCING OF PROPERTIES AND RATE OF RETURN

Applicant requests that it be allowed a return of 6.25% on its claimed undepreciated rate base for the year 1950 of $251,993,900. The cities urge that a return of 5%, presumably related to the undeprecaited rate base of $242,463,000 suggested by the Commission staff, is adequate and that no further increases in rates are warranted.

Bonds, Stock and Surplus

Generally speaking, applicant has financed the cost of its properties through the issue of bonds and preferred and common stock and through the use of earnings from operations. As of July 1, 1950, it reports the following.

Bonds		
1st 3-1/4's, due 1970	$ 29,664,000	
1st 2-7/8's, due 1977	11,905,000	
1st 3-1/4's, due 1978	40,000,000	
	$ 81,569,000	47.2%
Preferred Stock		
6% cumulative	$ 2,711,550	
6% cumulative, Series A	19,575,800	
	$ 22,287,350	12.9%
Equity Capital		
Common Stock - 2,100,000 shares	$ 52,500,000	
Premium on Common Stock	2,400,000	
Earned Surplus - Estimated	13,900,000	
	$ 68,800,000	39.9%
Total	$172,656,350	100.0%

All of the outstanding bonds have been sold since the latter part of 1940, some for the purpose of refunding higher interest bearing issues formerly outstanding and others for the purpose of financing the cost of plant. As to those transactions involving the refunding of bonds, the record shows that the discounts, expenses and call premiums pertaining to the refunded issues were written from the books at or before the time for payment of such bonds.

The issues of preferred stock were made over a period of years, commencing in 1911 and continuing to 1937.

As to common stock, the record shows that all of the outstanding shares are held by Pacific Lighting. Some of the shares were issued at premiums aggregating $10,400,000, of which amount $8,000,000 subsequently was used to write from the books certain items of intangible capital and discount on preferred stock, leaving a remainder of $2,400,000 now standing on the balance sheet. Exhibit No. 116, introduced by a member of the Commission's staff, shows for the 10-year period from 1940 to 1949, inclusive, the earnings on the outstanding shares of common stock and the dividends paid, as follows:

Year	Earnings Per Share	Dividend Rate Per Share	Dividend Rate Per Cent
1940	$2.52	$2.70	10.80
1941	2.62	2.65	10.60
1942	3.02	2.65	10.60
1943	2.67	2.60	10.40
1944	2.75	3.00	12.00
1945	2.30	2.25	9.00
1946	3.87	2.75	11.00
1947	4.11	2.40	9.60
1948	3.59	2.40	9.60
1949	2.01[a]	2.10	8.40

a The indicated 1949 earnings per share would be $3.64 if the $3,000,000 depreciation adjustment is reflected in net earnings.

The record indicates that it is applicant's plan to resume the annual $2.40 dividend in 1950.

Over its operating life, after payment of dividends, applicant has accumulated a surplus as of May 1, 1950, of $14,588,000. Exhibit No. 116 shows, among other things, that this balance was built up in part with transfers aggregating $1,648,072, representing excess accruals in reserves, primarily those for income taxes. As set forth in the memorandum of understanding relative to depreciation practices, Exhibit B attached hereto, the sum of $3,000,000 representing the difference between accruals computed on the old basis and on the new, for 1949, also will be transferred to surplus.

In addition to the bonds, stock and surplus, applicant has financed its capital requirements, in part, with moneys represented by its depreciation reserve, which aggregated $81,443,930 as of December 31, 1949.

Cost of Money

In Exhibit No. 41-A, applicant estimates the cost of money represented by bonds, preferred stock and the depreciation reserve as adjusted, as of June 30, 1950, as follows:

	Cost on Annual Basis	
	Rate	Amount
Bonds	3.25%	$2,624,225
Preferred Stock	6.20%	1,337,241
Depreciation Reserve	4.00%	2,499,300
Total		$6,460,766

The weighted average rate applicable to these three sources of funds is approximately 3.90%.

An analysis of the exhibit shows that in arriving at the rate and amount assigned to the long-term debt, applicant reinstated and took into consideration the amounts pertaining to refunded bond issues which heretofore have been written from the company's books and no longer reflect annual charges against its income. These amounts thus reinstated in Exhibit No. 41-A aggregate $1,936,153, and the annual charges included in the exhibit applicable to such items amount to $151,133. In arriving at the rate assigned to the preferred stock, applicant took into its calculation certain items of discount aggregating $704,817 not presently on its books, having been written off prior to 1931.

Eliminating those items which have been reinstated in the exhibit would reduce the average weighted cost to approximately 3.78% and the cost on an annual basis to $6,251,333, an amount which would represent the actual charges currently to be made in servicing the outstanding bonds and preferred stock and in providing $2,441,000 interest on the depreciation reserve as adjusted.

Equity Capital

As stated, at present applicant has outstanding 2,100,000 shares of common stock of the aggregate par value of $52,500,000. In presenting Exhibit No. 47 on December 5, 1949, it anticipated the issue during the early part of 1950 of $20,000,000 of bonds and about October 1, 1950 of $5,000,000 of common stock to meet its 1950 construction program and to pay short-term loans.

Subsequently, applicant actually issued and sold $25,000,000 of bonds which would indicate that it might not have occasion to issue additional shares of common stock in 1950. However, the record does show that applicant is faced with the necessity of making substantial expenditures for additional plant in 1951, and succeeding years, and it is clear that some portion of its estimated expenditure should be represented by equity capital.

Applicant urges that it should have a basic earning capacity of from $3.50 to $3.75 per share of common stock which would be equivalent to approximately 11% of its total equity capital.5/ It presented a considerable volume of factual data showing, among other things, earnings on equity capital of other companies elsewhere in the United States, yields and market prices of stocks of such other companies, earnings-price ratios, capital structure and related matters.6/

5/ One of applicant's witnesses testified that earnings of from $3.50 to $3.75 a share would justify a market valuation of the common stock of $40 a share which, in turn, would warrant annual dividends of $2.40 a share, being at the rate of 6% of the assumed $40 market price.

6/ Exhibit 40 shows earnings on equity capital of ten gas distribution companies ranging from 4.90% to 18.51%; of seven gas transmission companies ranging from 12.34% to 23.87%; and of 19 electric or electric and gas companies ranging from 5.84% to 19.55%. Exhibit 140 shows earnings on equity capital of 17 gas distribution companies ranging from 7.6% to 76.7% and Exhibit 141 shows composite earnings for 1948 of companies reporting to the Federal Power Commission of 10.3% of their equity capital.

Applicant developed testimony concerning the risks and uncertainties attached to its business and, in its opening brief, asserted that a higher rate of earnings is required on its common stock equity than is required by a combination gas and electric company such as Pacific Gas and Electric Company.[7]

The cities contend that it has been applicant's practice to sell its shares of common stock to its parent corporation at \$25 a share; that a return of 6% on the equity capital, or \$1.50 a share, is adequate, and that rates should not be fixed to enable applicant to pay dividends at the rate of \$2.40 a share. The cities conclude that the over-all cost of money, including equity capital at 6%, would be approximately 4½% and that a return of 5% would be ample.

A careful review has been made of the testimony and exhibits placed in this record. The data concerning earnings and return of other utilities, including those in California as well as elsewhere, are helpful in the over-all consideration of the proceeding. However, such data serve but as a general indication and it is necessary and proper to give weight to the particular circumstances surrounding the operation, financing and accounting of this particular utility in reaching a determination in this matter.

Revenue Requirements

The conclusions reached by applicant appear to be predicated on the continuance of a \$2.40 dividend for the common stock. The proposition advanced by one of its witnesses that earnings at the

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7/ However, it should be noted that its first witness on rate of return, in answer to a question concerning the risks of Pacific Gas and Electric Company, stated that he was not there to testify on that company and its second witness in asserting that natural gas companies required higher earnings than electric companies or combination companies stated that he had made no detailed study of California natural gas companies.

level requested of from $3.50 to $3.75 a share would justify a market valuation of $40 a share which would warrant an annual dividend of $2.40 or a 6% yield to investors is not persuasive. The facts are that applicant's common stock is not on the market. It is not available to the public and it has been applicant's practice to sell its common stock at par, that is, $25 a share, to its stockholders. During the course of this hearing it sold $6,420,000 of stock at par. The Commission, at that time, in authorizing the issue, placed applicant upon notice that it would not regard the dividends paid on the common stock as determining or fixing the rate of return the company should be allowed to earn or as representing the cost of money obtained through the issue of stock.

Applicant has had an impressive financial history. Up to the close of 1949 it had earned and paid out as dividends on common stock more than $67,000,000 and in addition had accumulated reserves for depreciation and other purposes in excess of $86,000,000 and had accumulated a surplus of approximately $11,000,000. During the last ten years it has had average earnings on its common stock of approximately $3 a share and has paid annual dividends in the neighborhood of $2.55 a share, or slightly in excess of 10% of the par value. It has been applicant's practice to set up what appear to be ample reserves for such risks as uncollectible accounts, casualties, injuries and damages, and tax litigation.[8] In addition, as a part of the proposed adjustment of the reserve for depreciation, the additional sum of $3,363,000 will be set up in the reserve for

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8/ At the close of 1949 applicant reported:

Reserve for uncollectible bills	$ 49,015.73
Reserve for insurance	1,353,843.98
Injuries and damages reserve	1,120,549.38
Reserve for contingencies	2,400,290.35

contingencies, $3,200,000 will be set aside to absorb acquisition adjustment which may be included in plant accounts and $2,564,000 will be transferred to the reserve for insurance.

A return as requested by applicant would produce net revenues of $15,749,618, an amount sufficient to meet the costs on an annual basis aggregating $6,251,333, applicable to its bonds, preferred stock and reserves, and to leave $9,498,285 for common stock and surplus, which would be equivalent to approximately $4.50 a share on 2,100,000 shares of common stock. The cities' suggested rate of return would produce $12,150,000. It is apparent that applicant's request is not warranted upon the basis of the record developed in this proceeding.

As stated earlier in this opinion, the net revenues for 1950, excluding the effect of the interim rates, should approximate $9,733,000 before deducting interest at 4% on the adjusted depreciation reserve. The annual increase in net revenues resulting from the interim rates is estimated at $3,617,000, the two figures thus producing a total of $13,350,000 representing the estimated net revenues, normalized by temperature corrections, on an annual basis for the year 1950. This amount is equivalent to a return of 5.49% on an undepreciated rate base of $243,000,000 and would be equivalent to a return of 5.99% on a depreciated rate base of $181,982,000.

It is concluded that the return from the interim level of rates, using either of these bases, is fair and reasonable and we hereby so find. Tested against the financial requirements on an annual basis it should be sufficient to service the outstanding securities and the depreciation reserve, to permit the payment of reasonable dividends and to provide for imminent federal income tax increases and for something in addition for surplus.

III - RATE CHANGES

Analysis of Cost of Service

In support of certain proposals as to rate level and form, applicant, California Manufacturers Association and the Commission staff introduced considerable evidence concerning the estimated cost to applicant of providing various classes of service. Applicant, in Exhibit No. 70-A, presented in summary form the results of a study made by its engineers of the cost to it, including a 6½% return on invested capital, of providing firm service to industrial and gas engine customers, exclusive of the cost of purchased gas. The California Manufacturers Association, after reviewing the working papers supporting applicant's Exhibit No. 70-A, made studies using the same methods employed by applicant but based upon estimated 1950 costs. The detailed computations and results of its estimate of cost of service, including return and cost of purchased gas, were presented in a number of exhibits. Applicant likewise introduced in detail the results of a cost-of-service estimate prepared by a firm of management consultants. The Commission staff introduced limited results of a cost-to-serve estimate made by its engineers in connection with the development of the proposed rate revisions.

The witnesses were in general agreement that costs to be allocated should include cost of gas purchased, maintenance and operating expenses, taxes, depreciation, and a proper return on invested capital. Witnesses were likewise in agreement that such cost could be allocated appropriately to three elements: the demand cost associated with the rate of use of the commodity; the commodity cost associated with the volume of use; and customer costs, or those which vary with the number of customers served. A review of the details of the computations indicates that the assumptions upon which cost allocations to the three elements of service are made, however, must of necessity be based largely on broad judgments. Such assumptions, in turn, are influenced by the objectives for which the studies are prepared. As a consequence, the results of such studies must be accepted in the light of the underlying assumptions and can be used as aids to final judgment rather than as definitive measures of absolute quantities.

The studies made by applicant's engineers and consultants had as a primary objective the derivation of cost to supply firm service. They also sought to determine the cost relationship between firm customers responsible for winter peak demand, separating those whose annual use of service is relatively uniform throughout the year on the one hand, and those whose annual requirements are confined primarily to the winter heating season on the other. In both studies, the costs allocated to nonfirm or interruptible service can be looked upon as minimum or incremental capital and expense costs. Since California Manufacturers Association adopted the method used by applicant's engineers, the same conclusion applies to its studies. The Commission staff study was primarily directed towards development of cost variations. It attempted to show differentials in cost of service to customers having seasonal load characteristics and differential cost of serving residential and small commercial customers in areas of different density.

The estimated costs of interruptible service in all studies are influenced to a large degree by the conclusion that little or no demand costs should be allocated to such service. This conclusion is predicated on the fact that interruptible service is subject to discontinuance when the demands of firm customers on applicant's gas sources so require. The studies assume that such interruptible customers create none of the winter peak demands, the magnitude of which establish the level of system demand costs. However, in considering these cost figures, some additional reasonable component of system demand costs should be given consideration.

The following table summarizes the demand and commodity cost components and the estimated customer cost for the several classes of service shown in the respective exhibits.

Allocated Cost of Service

		Domestic	Com-mercial	Gas Engine	Industrial Firm	Industrial Inter-ruptible
Staff - Exh. 164						
Demand	Per Mcf	16.2¢	12.3¢	4.3¢	9.6¢	
Commodity	"	23.7¢	23.7¢	23.7¢	23.7¢	
Total Demand & Comm.	"	39.9¢	36.0¢	28.0¢	33.3¢	
Customer Cost per year		$24.60(1)				
Applicant - Exh. 164A						
Demand	Per Mcf	18.26¢				
Commodity	"	17.45¢				
Total Demand & Comm.	"	35.71¢				
Customer Cost per year		$31.76				
Calif. Mfr. Assoc. - Exh. 157-158						
Demand	Per Mcf	11.73¢	11.73¢	3.28¢	7.43¢	-
Commodity	"	22.99¢	22.99¢	22.99¢	22.99¢	18.10¢
Total Demand & Comm.	"	34.72¢	34.72¢	26.27¢	30.42¢	18.10¢
Customer Cost per year		$38.17	$38.17	$476.02	$202.04	$761.64

(1) Average for all customers.

Neither the staff nor applicant computed the costs allocable to interruptible service. On the assumption that such customers have no demand component, the commodity cost shown in Exhibits Nos. 164 and 164-A might be taken as one measure of the cost of interruptible service. In the California Manufacturers Association's studies, however, the commodity costs of interruptible service are shown at a lower level than commodity costs applicable to other service through segregation of purchased gas costs.

These cost-of-service studies are very helpful to the Commission and have been carefully considered in the establishment of the rates herein.

<u>Rate Zoning - General Service</u>

The basic classification of "General Service" schedules into six zones for general application, as established in the interim order herein, is found to be practicable and reasonable and is continued in this order, both as to basic structure and as to rate levels.

In establishing the new rates as set up in Exhibit A herein, some detail changes are made. One of the changes includes the reclassification of territory substantially in the manner as shown by Exhibit No. 164. This was possible as a result of the survey of communities made by the utility pursuant to the suggestion of the Commission in the interim order and will result in a much more equitable assignment of territories under the basic six-zone classification. The Imperial Division is continued on two supplemental zone classifications.

<u>Space Heating Rate</u>

The space heating rate as provided in the interim order is continued in principle as to the "General Service" schedules but is modified to result in more harmonious relationships as developed through the cost-of-service analyses. In order that these relationships may be more equitably applied to the basic zone rates, the space heating rate is included as a separate rate for each zone on the same tariff sheet as the basic zone rate. A more detailed provision for the determination of "space heating only" customers is provided. Likewise, the minimum charge is being established in these rates on a six-months' basis instead of an eight-months' basis as in the interim rates. This treatment of the space heating rate for the "General Service" customers, together with revision of the commercial rates, will permit the withdrawal of the separate space heating schedules (G-15, G-16 and G-17) included in the interim rates.

Commercial Rates

The commercial rates as prescribed in Schedules G-20, G-21, and G-22 are continued with certain changes in the over-all rate levels to place them more in harmony with the cost-of-service studies. However, as the company has indicated, it has found no practical method of determining the large commercial customers whose primary use of gas is for space heating only and, as indicated, its suggestion is the establishment of winter and summer rates. The order will provide for the commercial rates on such basis. Schedule G-21 has been consolidated with Schedule G-20. Schedule G-23 is applicable to federally aided housing projects, as well as other customers as specified. Representatives of these housing projects presented evidence respecting rates applicable to such service. In the revision of Schedule G-23 herein adopted, the monthly minimum charge has been reduced to $135 and separate summer and winter rates have been established. The level of these rates will moderately increase the annual bills of customers whose winter use exceeds the summer use in recognition of the results of the cost allocation studies.

Gas Engine Rates

Schedules G-45 and G-46 are continued. However, with a very low rate in the San Joaquin Valley it is necessary that some increase be made in the rate for the last two blocks in Schedule G-46.

The testimony indicates that there has been some demand for gas for the operation of wind machines or other uses for the heating of orchards in the critically cold periods of the year. Inasmuch as such applications of natural gas if allowed to develop in any quantity would create a severe demand during the period of peak demands on the gas company from its basic residential and commercial users, our conclusion is that applicant should submit a rule prohibiting such connections.

Firm Industrial Rates

The firm industrial rate G-40 as prescribed in the interim order is continued on a seasonal basis, but is revised to a block form of rate. From a consideration of the cost-of-service studies, certain revisions in the charges are being prescribed in the new rates. Both increases and decreases to various customers may be involved, but the effect on revenues will be a moderate reduction from the interim rate level. Schedule G-42 has been established for firm industrial service in Imperial Division.

Relationship of Gas Rates and Fuel Oil Prices

For many years applicant's tariffs have contained a provision whereby the base or stated rate in some of its tariffs would be adjusted upward or downward in accordance with changes in the posted price of heavy industrial fuel oil. In Decision No. 43368 (49 Cal. P.U.C. 107), rendered in Pacific Gas and Electric Company's Application No. 29777, on October 4, 1949, the Commission discussed the history of fuel oil escalator clauses in gas tariffs. In the early days of gas utility operation the price of heavy industrial fuel oil was a substantial element in the cost of manufacturing gas, and fluctuations in that price directly affected the utility's overall operating costs. With the expansion of the service of natural gas, the sale of such gas to large volume industrial customers was found to be sensitive to the relationship between the gas rate and the price of heavy industrial fuel oil, which was an alternative and directly competitive source of energy for the customers. The use of an escalator clause which varied with the posted price of heavy industrial fuel oil was found to be an effective mechanism for maintaining natural gas prices at a satisfactorily competitive level in the fuel market. The principle of reflecting fluctuations in the market price of fuel oil in retail natural gas sales by the utilities was carried into agreements between the utilities and field producers in the contracts under which gas was purchased. In northern California the practice continues to apply to most field purchase contracts. In the contracts under which applicant and other southern California utilities purchase gas from California field sources, the practice of incorporating such escalator clauses has been largely abandoned. Applicant has, however, obligated itself to purchase mid-continent gas from El Paso Natural Gas Company at the extremely high annual load factor of 91%. Since its firm customers, primarily the residential customers, create high winter heating peak demands but have relatively small summer requirements, applicant is compelled to dispose of large volumes of gas during the summer period in order to meet its El Paso Natural Gas Company contract obligations. As long as the price of gas is competitive with the price of fuel oil, demands for such gas on an interruptible basis are sufficient to absorb the contract minimum requirements. When the price of fuel oil, because of distressed market conditions and oversupply, is below the equivalent price of gas, as it was during the latter part of 1949 and early part of 1950, applicant experiences some losses of demand.

In Decision No. 43675, establishing increased rates on an interim basis herein, this Commission removed all escalator clauses in the prescribed tariffs and indicated that it desired the parties to address themselves to the propriety of retaining or excluding such clauses in future tariffs. The decision said:

> "Pending the final opinion, the above (interruptible industrial) rates will be prescribed without a fuel oil clause, and the parties will be accorded full opportunity to express their views on this subject before the fixing of final rates."

Applicant has proposed rate tariffs containing escalator clauses. Applicant urges the Commission to maintain its unbroken line of decisions involving the principle of escalation of industrial gas rates with industrial fuel oil. Its vice president and general manager, in support of the recommendation that escalation be retained, testified that:

> "It appears reasonable that within some moderate range of oil prices interruptible gas rates should be able to compete with oil, as they inevitably must on a declining oil market, without repetitive filings to effect the result. On a rising oil market, likewise it seems only reasonable that the utility and its firm customers should be able to recoup within some reasonable price range the lessened revenue resulting from previsouly declining oil prices without the necessity for full rate proceedings involving considerable expense and unavoidable delay."

California Manufacturers Association vigorously opposes the escalation provisions proposed by applicant. It sets forth its position as follows:

> "...that no escalation should be allowed which would increase industrial rates above the level necessary to provide reasonable earnings to the company on industrial service. Since the pre-interim rates provide such reasonable earnings, no increases therein should be permitted without the formal rate proceedings required by law. If the company feels impelled to reduce any of its industrial rates below such level in order to be able to dispose of gas (and we assume it would do so only when it would derive a net benefit therefrom) we have no objection to automatic upward adjustment of the rates so reduced back to, but not above, the reasonable level from which they were reduced."

We do not disagree with the California Manufacturers Association's proposal that any escalation, if permitted, should be downward from the rates which would yield reasonable earnings. Taken as a whole, applicant's position appears to contain the same general premise. Applicant's other firm customers are entitled to expect that as much as possible of the reasonable cost of service will be derived from interruptible sales. Throughout the proceeding herein the market price of heavy industrial fuel oil was posted at $1.30, and the record shows that large quantities of such fuel were being sold in the Los Angeles area at substantial discounts from that posted price. If stable economic conditions could be anticipated for a considerable future period, an interruptible industrial rate level not subject to fluctuation could be established. The Commission, however, takes judicial notice of the fact that on June 29 and thereafter the posted price of heavy industrial fuel oil has begun to rise. As of the date hereof, the increase is 25¢, to a posted price of $1.55.

<u>Curtailment Priority Policy</u>

Applicant is enforcing the shut-off provisions of its interruptible tariffs, and has curtailed service to its interruptible industrial customers inversely in the order of magnitude of the average rate paid by the customer. The rates which it had in effect prior to the present interim rates, and the rates which it proposed, contained optional tariffs at higher rate levels, which were available to customers at their election. The selection of these higher rate levels resulted in higher average rates paid and potentially improved preference curtailment priority. It is applicant's contention that such rate treatment is nondiscriminatory because such optional rates are available to all customers, and that it is advantageous to the customer to whom gas as a fuel has a greater value and for which the customer can afford to pay a higher rate. Applicant urges that the optional rate treatment be preserved and the price priority program be continued. California Manufacturers Association urges that a single nonblocked, nonoptional rate be prescribed for interruptible service, and that curtailment be based upon a plan of rotation which in effect would give each customer his proportionate share of the available interruptible gas supplies. In opposing the optional plan, California Manufacturers Association argues that the gas is taken away from customers who are not in a position to afford to elect the higher priced options and is given to those customers who do so elect and that no greater supply of gas is created, but applicant's revenues are enhanced appreciably.

The Commission believes that the use of rates which permit competitive bidding between customers for advantages in the supplies of natural gas are improper and should not be permitted in applicant's tariffs. Obviously, if market conditions are such as to induce all of applicant's customers to select the highest priced option, or to select the lowest priced option, under the curtailment policy in effect, each would receive the same relative amounts of gas but at substantially different unit costs. The Commission recognizes that a price spread is necessary properly to price interruptible gas sales to serve the several classes in which customers can qualify for such service. The most effective method of approximating appropriate average price levels is to establish a block type interruptible rate. It also seems clear that under the theories upon which the marketing of interruptible gas becomes desirable, recognition must be given to the fact that availability and price are interrelated. Curtailment on the basis of average price paid, therefore, appears to have considerable justification. The block type of interruptible rate prescribed will not produce sharp distinctions between the average rate levels paid by the various customers. It will be necessary, therefore, to classify such customers on the basis of their load and use characteristics into general price level groups and assign curtailment duration classifications to each of such groups. A system of curtailment by rotation, reflecting the relative level of such price groups, can then be established and put into effect. Such a program will combine the best elements of the straight rotation and the straight price curtailment programs to the maximum advantage of applicant's customers. In the order herein applicant will be expected to develop such a curtailment program and to acquaint each of its interruptible industrial customers with the general principles thereof prior to the coming curtailment season.

Interruptible Industrial Rates

Consistent with what has already been said, the basic interruptible schedules G-50, G-51 and G-52 are continued with certain revisions. Certain territorial transfers have been made to Schedule G-50 to include Midway Division and the major portion of Eastern Division. Schedule G-51 now will include San Joaquin Division and a portion of the Eastern Division, while Schedule G-52 is established as a blocked rate for the Imperial Division.

Schedule G-53, "Limited Interruptible Natural Gas Service", is continued in effect, with expanded territorial provisions to be consistent with Schedule G-50, but with the specific rates modified to form a blocked rate for this service.

The rates established in these schedules are considered reasonable as basic rates in view of all the testimony in the proceeding. If, however, the price of oil should decline from its present level, the applicant should have the right to meet the competitive price. To this end, escalation between stated limits below the basic rates established herein is provided in the schedules. Furthermore, the tariffs will provide that this Commission may take any revisory action that may be deemed necessary in the public interest upon the eventuality of escalation pursuant to a change in fuel oil price.

Contracts

With the rate changes authorized herein, applicant should supply all service on a filed tariff basis and, to the extent contracts presently exist differing from the provisions of these tariffs, applicant should bring such contract services into harmony with these schedules as soon as practicable. A new schedule filing appears desirable to accomplish this purpose in respect to the service rendered large steam-electric generating plants. The applicant should file a report by November 1, 1950 as to all contracts outstanding as of that date with provisions not in harmony with the tariffs prescribed herein, and the steps proposed to harmonize such contract or tariff provisions.

O R D E R

Southern California Gas Company having applied to this Commission for an order authorizing increases in rates and charges for natural gas service, public hearings having been held, oral and documentary evidence having been received, written briefs having been filed, the matter having been submitted and now being ready for decision,

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

IT IS HEREBY ORDERED that Southern California Gas Company is authorized and directed as follows:

1. To file in quadruplicate with this Commission after the effective date of this order, in conformity with General Order No. 96, the schedules of rates set out in Exhibit A attached hereto and, after not less than five (5) days' notice to this Commission and to the public, to make said rates effective for service rendered on and after October 1, 1950.
2. To revise the Description of Special Rate Areas and Rate Area Maps of its tariff schedules in conformity with the territorial provisions of the rate schedules herein prescribed.
3. To submit to this Commission for its approval, after the effective date of this order, proposed journal entries to place in effect the accounting entries

pursuant to the memorandum of understanding respecting depreciation, received in this proceeding as Exhibit No. 132, and attached hereto as Exhibit B.

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

Dated at San Francisco, California, this 29th day of August, 1950.

R. E. Mittelstaedt

Justus F. Craemer

Harold P. Huls

Kenneth Potter

Commissioners.

CERTIFIED AS A TRUE COPY

Secretary, Public Utilities Commission
of the State of California.

LIST OF WITNESSES

Evidence was presented on behalf of applicant by F. S. Wade (policies of operation), H. L. Masser (earnings, corporate history, rates, fixed capital, materials and supplies, customers, sales, depreciation), G. L. Schmutz (land values), E. N. Simmons (working cash, general and miscellaneous expense, taxes, financial statement, balance sheet, cost of money), W. H. Geis (fuel oil situation), W. M. Jacobs (industrial sales, new business expense), R. M. Bauer (natural gas requirements and supply), Wm. Moeller, Jr. (production and transmission expense), R. A. Wehe (P.L.* Corp. pipe line and gas supply operations), J. A. Petrie (P.L. Corp. land values), E. K. Parks (La Goleta gas field), R. E. Davis (underground gas storage), F. L. McElroy (rate of earnings), F. M. Banks (customer service expense, customer department expense), H. S. King (depreciation), A. B. Allyne (costs of peak and seasonal gases), W. J. Herrman (earnings of utilities, cost of service).

Evidence was presented on behalf of other parties by George Kinsman (rates and costs of service, industrial sales) and Edwin Fleischmann (sales and revenues, cost of service) for California Manufacturers Association, George A. Parker (public housing projects) and Charles J. Soyster (rates for public housing projects) for Public Housing Administration, J. J. Deuel (gas engine rates) California Farm Bureau Federation, Robert Hickcox (gas engine rates) Etiwanda Water Company., K. Charles Bean (revenues, expenses, rate base, rate of return, common stock earnings), R. W. Russell (domestic and commercial meters), and T. M. Chubb (business activity, domestic and commercial

* Pacific Lighting Corporation.

customers, sales and revenues, operating expenses) for City of Los Angeles, C. A. Winder (cost of money, dividend payments) for 13 major cities of L.A. County, exclusive of the City of L.A., W. D. MacKay (rates) for Commercial Utility Service.

Evidence was presented on behalf of the Commission's staff by Chesley G. Ferguson (fixed capital and rate base), Charles W. Mors (summary of earnings, historical data, map of gas lines and fields, working cash), Lloyd E. Cooper (revenue, sales, customers, operating expenses), Theodore Stein (financial statements), H. R. Ross (operating revenues, P.L. revenues), Kenneth J. Kindblad (customer accounting and collecting and sales promotion expenses), John J. Doran, Jr. (administrative and general expenses), John F. Donovan (balance sheet, income statement, clearing accounts), George C. Young (transmission expenses, P.L. production and transmission expenses), Stewart Weber (P.L. administrative and general expenses), R. W. Beardslee (P.L. fixed capital), Elmer L. Gates (P.L. depreciation expense), Frank F. Watters (distribution expenses), Stewart C. Warner (taxes), G. B. Weck (gas plant), M. W. Edwards (customer distribution, usage, and rates).

Schedule No. G-1

GENERAL NATURAL GAS SERVICE

APPLICABILITY

Applicable to natural gas service to residential, commercial, industrial, or other customers.

TERRITORY
A-(1100 Btu)

Within the incorporated city limits of: Los Angeles City Rate Areas - (8) Atwater, (53) Central, (67) Morningside Park, (28) Beverly Hills, (54) Culver City, (68) Graham, (69) Watts, (71) Huntington Park, and (73)Vernon.

Within the built-up unincorporated areas of: (27) Soldiers Home, (31) West Hollywood, (33) Gilmore Island, (55) Windsor Hills, (56) West Baldwin Hills, (57) Ladera Park, (66) Budlong, (70) Walnut Park, (72) North Huntington Park, and (74) Vernon County Islands. Rate areas are specified under the reference numbers in Description of Special Rate Areas.

RATES

Commodity Charge:	Per Meter Per Month Base and Effective Rates 1100 Btu	
	"M"	"H"
First 200 cu. ft. or less:		
Winter months, November-April............	$0.90	$1.75
Summer months, May-October...............	0.90	0.16*
Next 2,800 cu. ft., per 100 cu. ft.......	6.0¢	8.0¢
Next 7,000 cu. ft., per 100 cu. ft.......	5.4¢	7.0¢
Over 10,000 cu. ft., per 100 cu. ft.......	5.2¢	6.5¢

* The monthly summer rate for first 200 cu. ft. is 8.0 cents per 100 cu. ft. Except for closing bills, summer usage will be accumulated to 1,000 cu. ft., before billing. Such accumulated usage as is not billed by the end of the summer will be added to the first winter period consumption and billed at the regular winter rate.

The above effective rates are based on the average monthly heating value per cubic foot indicated and as set forth in Rule and Regulation No. 2(1).

Minimum Charge:

Rate "M" - $0.90 per meter per month.
Rate "H" - Winter months, November-April: $1.75 per meter per month.
Rate "H" - Summer months, May-October: No minimum charge.

(continued)

Schedule No. G-1

GENERAL NATURAL GAS SERVICE
(continued)

SPECIAL CONDITIONS

1. Rate "H" will apply to customers where use is primarily for space heating for human comfort where such customers are found to be using gas primarily for space heating, as determined by survey or under the presumption that such customers use less than 1,000 cu. ft. per month during each of any two of the regular billing periods ending in August, September, or October.

2. Rate "M" will apply to all other customers.

3. If the owner, lessee or operator of apartments or multiple dwellings served by four or more meters billed separately under Rate "M" of this schedule, obligates himself to pay all bills for gas service furnished thereto, then the monthly minimum charge shall be $0.90 multiplied by 50% of the number of such meters installed, but in no event less than $2.70. No bill shall be rendered for gas delivered through any such meter until and unless at least 200 cubic feet of gas has been so delivered after commencement of service or since the last billing date, as the case may be. The company shall not be required, under the provisions of this paragraph, to turn off or turn on meters when individual family dwellings are vacated or reoccupied.

4. For purpose of computing charges, the months named in the rates above are the regular monthly meter reading periods ending in each named month.

Schedule No. G-2

GENERAL NATURAL GAS SERVICE

APPLICABILITY

Applicable to natural gas service to residential, commercial, industrial or other customers.

TERRITORY
A-(1100 Btu)

Within the incorporated city limits of: Los Angeles City Rate Areas - (15) North Hollywood - East of Wash, (17) North Hollywood - West of Wash, (18) Van Nuys, (35) Mt. Washington, (36) Highland Park - Eagle Rock, (37) Lincoln Park - El Sereno, (61) Westchester, (113) South Los Angeles City Strip, North of Rosecrans Avenue, (7) Glendale, (11) Burbank, (38) South Pasadena, (39) Pasadena, (43) San Marino, (45) San Gabriel, (48) Alhambra, (50) Monterey Park, (51) Montebello, (58) Inglewood, (64) Hawthorne, (76) Maywood, (77) Bell, (80) South Gate, (81) Lynwood, and (100) Compton.

Within the built up unincorporated areas of: (9) and (10) Glendale County Islands, (41) East Pasadena County Island, (42) Chapman Woods, (44) Temple City, E. San Gabriel, (46) Wilmar-Garvey, (47) Alhambra Airport, (49) Midwick County Island, (52) Belvedere Gardens - City Terrace, (59) Inglewood Cemetery, (60) Inglewood County Island, (63) East Hawthorne, North of Rosecrans Avenue, (65) Lennox, (75) Baudini, (78) Bell Gardens, (79) Cudahy, (82) (95) (96) (97) Compton Areas, (98) South Lynwood, (99) Compton County Island, (101) Willowbrook, (102) Willowbrook, West, (103) Broadway Village Area and (114) Athens. Rate areas are specified under the reference numbers in Description of Special Rate Areas.

RATES

Commodity Charge:	Per Meter Per Month Base and Effective Rates 1100 Btu "M"	"H"
First 200 cu. ft. or less:		
Winter Months, November-April	$0.90	$1.75
Summer Months, May-October...............	0.90	0.16*
Next 2,800 cu. ft., per 100 cu. ft........	6.1¢	8.1¢
Next 7,000 cu. ft., per 100 cu. ft........	5.6¢	7.2¢
Over 10,000 cu. ft., per 100 cu. ft........	5.2¢	6.5¢

* The monthly summer rate for first 200 cu. ft. is 8.1 cents per 100 cu. ft. Except for closing bills, summer usage will be accumulated to 1,000 cu. ft. before billing. Such accumulated usage as is not billed by the end of the summer will be added to the first winter period consumption and billed at the regular winter rate.

The above effective rates are based on the average monthly heating value per cubic foot indicated and as set forth in Rule and Regulation No. 2(i).

Minimum Charge:

Rate "M" - $0.90 per meter per month.
Rate "H" - Winter months, November-April: $1.75 per meter per month.
Rate "H" - Summer months, May-October: No minimum charge.

(Continued)

Schedule No. G-2

GENERAL NATURAL GAS SERVICE
(Continued)

SPECIAL CONDITIONS

1. Rate "H" will apply to customers where use is primarily for space heating for human comfort where such customers are found to be using gas primarily for space heating, as determined by survey or under the presumption that such customers use less than 1,000 cu. ft. per month during each of any two of the regular billing periods ending in August, September, or October.

2. Rate "M" will apply to all other customers.

3. If the owner, lessee or operator of apartments or multiple dwellings served by four or more meters billed separately under Rate "M" of this schedule, obligates himself to pay all bills for gas service furnished thereto, then the monthly minimum charge shall be \$0.90 multiplied by 50% of the number of such meters installed, but in no event less than \$2.70. No bill shall be rendered for gas delivered through any such meter until and unless at least 200 cubic feet of gas has been so delivered after commencement of service or since the last billing date, as the case may be. The company shall not be required, under the provisions of this paragraph, to turn off or turn on meters when individual family dwellings are vacated or reoccupied.

4. For purpose of computing charges, the months named in the rates above are the regular monthly meter reading periods ending in each named month.

Schedule No. G-3

GENERAL NATURAL GAS SERVICE

APPLICABILITY

Applicable to natural gas service to residential, commercial, industrial or other customers.

TERRITORY
A-(1100 Btu)

Within the incorporated city limits of: Los Angeles City Rate Areas - (12) Sunland-Tujunga, (13) Hansen Dam Area, (14) Sun Valley, (19) Sepulveda, (20) Pacoima, (22) San Fernando Valley, (23) Canoga Park, (24) Reseda, (25) Studio City, Sherman Oaks, Encina, (26) Bel-Air, (32) West Hollywood Hills, (34) East Hollywood Hills, (108) North Wilmington, (113) South Los Angeles City Strip - South of Rosecrans Avenue; (21) San Fernando; (106) Long Beach (Limited Portion), (115) Gardena, (117) Torrance, (119) Redondo Beach, (120) El Segundo, (122) Manhattan Beach, (123) Hermosa Beach, and (311) San Bernardino.

Within the built-up unincorporated areas of: (5) La Crescenta-Montrose, (6) La Canada-Flintridge, (16) Universal City, (29) North Beverly Hills, (30) Doheny Estate, (40) Altadena and East, (62) West Hawthorne, (63) East Hawthorne - South of Rosecrans Avenue, (83) Downey, (84) Rivera, (90) South Lakewood, west of San Gabriel River, (91) Lakewood, (92) Mayfair, (93) Bellflower, (94) Paramount-Clearwater-Hollydale, (104) West Compton, (105) Lincoln Village, (107) North Wilmington, (109) East Torrance, (110) Davidson City, (111) West Davidson City, (112) Del Amo, (116) Gardena County Island, (118) Lawndale, (121) El Porto Beach, (124) El Nido, (125) Torrance County Island, (126) Redondo County Island, and (129) Lomita. Rate areas are specified under the reference numbers in Description of Special Rate Areas.

RATES

Commodity Charge:

	Per Meter Per Month Base and Effective Rates 1100 Btu "M"	 "H"
First 200 cu. ft. or less:		
Winter Months, November-April..........	$0.95	$1.80
Summer Months, May-October.............	0.95	0.17*
Next 2,800 cu. ft., per 100 cu. ft.	6.4¢	8.4¢
Next 7,000 cu. ft., per 100 cu. ft.	5.8¢	7.4¢
Over 10,000 cu. ft., per 100 cu. ft.	5.2¢	6.5¢

* The monthly summer rate for first 200 cu. ft. is 8.4 cents per 100 cu. ft. Except for closing bills, summer usage will be accumulated to 1,000 cu. ft. before billing. Such accumulated usage as is not billed by the end of the summer will be added to the first winter period consumption and billed at the regular winter rate.

The above effective rates are based on the average monthly heating value per cubic foot indicated and as set forth in Rule and Regulation No. 2(i).

Minimum Charge:

Rate "M" - $0.95 per meter per month.
Rate "H" - Winter months, November-April: $1.80 per meter per month.
Rate "H" - Summer months, May-October: No minimum charge.

(Continued)

Schedule No. G-3

GENERAL NATURAL GAS SERVICE
(Continued)

SPECIAL CONDITIONS

1. Rate "H" will apply to customers where use is primarily for space heating for human comfort where such customers are found to be using gas primarily for space heating, as determined by survey or under the presumption that such customers use less than 1,000 cu. ft. per month during each of any two of the regular billing periods ending in August, September, or October.

2. Rate "M" will apply to all other customers.

3. If the owner, lessee or operator of apartments or multiple dwellings served by four or more meters billed separately under Rate "M" of this schedule, obligates himself to pay all bills for gas service furnished thereto, then the monthly minimum charge shall be $0.95 multiplied by 50% of the number of such meters installed, but in no event less than $2.85. No bill shall be rendered for gas delivered through any such meter until and unless at least 200 cubic feet of gas has been so delivered after commencement of service or since the last billing date, as the case may be. The company shall not be required, under the provisions of this paragraph, to turn off or turn on meters when individual family dwellings are vacated or reoccupied.

4. For purpose of computing charges, the months named in the rates above are the regular monthly meter reading periods ending in each named month.

Schedule No. G-4

GENERAL NATURAL GAS SERVICE

APPLICABILITY

Applicable to natural gas service to residential, commercial, industrial or other customers.

TERRITORY
A-(1100 Btu)

Within the incorporated city limits of: (127) Palos Verdes, (308) Colton, (318) Corona, (323) Riverside, (328) Redlands, (406) Lindsay, (407) Exeter, (413) Visalia, (432) Hanford, and (437) Tulare.

Within the built-up unincorporated area of: (1) Calabasas - Chatsworth Area, (2) Chatsworth Area, (3) Newhall - Castaic - Saugus, (4) Kagel Canyon, (85) Santa Fe Springs, (87) Norwalk, (88) Artesia, (89) South Artesia, (128) Rolling Hills, (86) East Norwalk, and (90) South Lakewood, east of San Gabriel River.

B-(1050 Btu)

Within the incorporated city limits of: (404) Porterville, (418) Dinuba, and (422) Reedley. Rate areas are specified under the reference numbers in Description of Special Rate Areas.

RATES

Commodity Charge:

	Per Meter Per Month			
	Base and Effective Rates 1100 Btu		Effective Rates 1050 Btu	
	"M"	"H"	"M"	"H"
First 200 cu. ft. or less				
Winter months, November-April..........	$1.00	$1.85	$1.00	$1.85
Summer months, May-October.............	1.00	0.17*	1.00	0.17*
Next 2,800 cu. ft., per 100 cu. ft......	6.5¢	8.5¢	6.3¢	8.25¢
Next 7,000 cu. ft., per 100 cu. ft......	6.0¢	7.6¢	5.82¢	7.37¢
Over 10,000 cu. ft., per 100 cu. ft......	5.2¢	6.5¢	5.04¢	6.30¢

* The monthly summer rate for first 200 cu. ft. is 8.5 cents per 100 cu. ft. Except for closing bills, summer usage will be accumulated to 1,000 cu. ft. before billing. Such accumulated usage as is not billed by the end of the summer will be added to the first winter period consumption and billed at the regular winter rate.

The above effective rates are based on the average monthly heating value per cubic foot indicated and as set forth in Rule and Regulation No. 2(i).

Minimum Charge:

Rate "M" - $1.00 per meter per month.
Rate "H" - Winter months, November-April: $1.85 per meter per month.
Rate "H" - Summer months, May-October: No minimum charge.

(Continued)

Schedule No. G-4

GENERAL NATURAL GAS SERVICE
(Continued)

SPECIAL CONDITIONS

1. Rate "H" will apply to customers where use is primarily for space heating for human comfort where such customers are found to be using gas primarily for space heating, as determined by survey or under the presumption that such customers use less than 1,000 cu. ft. per month during each of any two of the regular billing periods ending in August, September, or October.

2. Rate "M" will apply to all other customers.

3. If the owner, lessee or operator of apartments or multiple dwellings served by four or more meters billed separately under Rate "M" of this schedule, obligates himself to pay all bills for gas service furnished thereto, then the monthly minimum charge shall be $1.00 multiplied by 50% of the number of such meters installed, but in no event less than $3.00. No bill shall be rendered for gas delivered through any such meter until and unless at least 200 cubic feet of gas has been so delivered after commencement of service or since the last billing date, as the case may be. The company shall not be required, under the provisions of this paragraph, to turn off or turn on meters when individual family dwellings are vacated or reoccupied.

4. For purpose of computing charges, the months named in the rates above are the regular monthly meter reading periods ending in each named month.

Schedule No. G-5

GENERAL NATURAL GAS SERVICE

APPLICABILITY

Applicable to natural gas service to residential, commercial, industrial, or other customers.

TERRITORY
A-(1100 Btu)

Within the incorporated city limits of: (301) Rialto, (320) Elsinore, (326) Perris, (331) Hemet, (332) San Jacinto, (333) Beaumont, (334) Banning, (336) Palm Springs, (338) Indio, (339) Coachella, (340) Blythe, (350) Upland (Limited Portion), (415) Woodlake, (428) Lemoore, (434) Corcoran, (503) Wasco, (505) Shafter, (510) Bakersfield (Limited Portion), and (514) Tehachapi.

Within the built-up unincorporated areas of: (306) Loma Linda, (309) Highland-Del Rosa-Patton, (310) Muscoy, (312) North San Bernardino, (314) West Riverside, (319) Home Gardens, (408) Farmersville, (410) North Visalia, (436) East Tulare, (511) Highland Park, (512) Lamont, and (513) Arvin.

B-(1050 Btu)

Within the incorporated city limits of: (417) Orange Cove, (423) Parlier, and (425) Kingsburg.

Within the built-up unincorporated areas of: (401) East Porterville, (402) South Porterville, (403) West Porterville, (416) Orosi-Cutler, and (427) Riverdale.

C-(1000 Btu)

Within the incorporated city limits of: (501) Delano.

Within the built-up unincorporated areas of: (502) McFarland.

Rate areas are specified under the reference numbers in Description of Special Rate Areas.

(continued)

Schedule No. G-5

GENERAL NATURAL GAS SERVICE
(continued)

RATES

Commodity Charge:

	Per Meter Per Month					
	Base and Effective Rate		Effective Rates			
	1100 Btu		1050 Btu		1000 Btu	
	"M"	"H"	"M"	"H"	"M"	"H"
First 200 cu. ft. or less:						
Winter months, November-April........	$1.05	$1.90	$1.05	$1.90	$1.05	$1.90
Summer months, May-October...........	1.05	0.17*	1.05	0.17*	1.05	0.17*
Next 2,800 cu. ft., per 100 cu. ft....	6.6¢	8.6¢	6.4¢	8.34¢	6.2¢	8.08¢
Next 7,000 cu. ft., per 100 cu. ft....	6.2¢	7.8¢	6.01¢	7.57¢	5.83¢	7.33¢
Over 10,000 cu. ft., per 100 cu. ft....	5.2¢	6.5¢	5.04¢	6.30¢	4.89¢	6.11¢

* The monthly summer rate for first 200 cu. ft. is 8.6 cents per 100 cu. ft. Except for closing bills, summer usage will be accumulated to 1,000 cu. ft. before billing. Such accumulated usage as is not billed by the end of the summer will be added to the first winter period consumption and billed at regular winter rate.

The above effective rates are based on the average monthly heating value per cubic foot indicated and as set forth in Rule and Regulation No. 2(1).

Minimum Charge:

Rate "M" - $1.05 per meter per month.
Rate "H" - Winter months, November-April: $1.90 per meter per month.
Rate "H" - Summer months, May-October: No minimum charge.

SPECIAL CONDITIONS

1. Rate "H" will apply to customers where use is primarily for space heating for human comfort where such customers are found to be using gas primarily for space heating, as determined by survey or under the presumption that such customers use less than 1,000 cu. ft. per month during each of any two of the regular billing periods ending in August, September, or October.

2. Rate "M" will apply to all other customers.

3. If the owner, lessee or operator of apartments or multiple dwellings served by four or more meters billed separately under Rate "M" of this schedule, obligates himself to pay all bills for gas service furnished thereto, then the monthly minimum charge shall be $1.05 multiplied by 50% of the number of such meters installed, but in no event less than $3.15. No bill shall be rendered for gas delivered through any such meter until and unless at least 200 cubic feet of gas has been so delivered after commencement of service or since the last billing date, as the case may be. The company shall not be required, under the provisions of this paragraph, to turn off or turn on meters when individual family dwellings are vacated or reoccupied.

4. For purpose of computing charges, the months named in the rates above are the regular monthly meter reading periods ending in each named month.

Schedule No. G-6

GENERAL NATURAL GAS SERVICE

APPLICABILITY

Applicable to natural gas service to residential, commercial, industrial, or other customers.

TERRITORY
A-(1100 Btu)

All unincorporated territory not provided for in other rate schedules as follows:

A-(1100 Btu)

Within the Eastern Division and the unincorporated portion of Midway Division, Arvin-Tehachapi area, Shafter-Wasco area, and McKittrick area; area adjacent to and served from the Greeley-Ten Section Line, and Oil Center, Oildale, Rosedale, Saco, and Strand areas; and San Joaquin Valley Division, Hanford, Visalia, Tulare area, described under Special Rate Areas (450), (451), (452), and (550).

B-(1050 Btu)

That unincorporated portion of San Joaquin Valley Division, Dinuba, Parlier, Porterville areas, described under Special Rate Area (551).

C-(1000 Btu)

That unincorporated portion of Midway Division, McFarland, Derby Acres, Fellows-Taft areas, and San Joaquin Valley Division, Pixley, Tipton areas, described under Special Rate Areas (454) and (552).

D-(800 Btu)

That unincorporated portion of Midway Division in Maricopa area described under Special Rate Area (455).

Rate areas are specified under the reference numbers in Description of Special Rate Areas.

(continued)

Schedule No. G-6

GENERAL NATURAL GAS SERVICE
(continued)

RATES

	Per Meter Per Month			
Commodity Charge:	Base and Effective Rates	Effective Rates		
Multiple Use Schedules "M"	1100 Btu	1050 Btu	1000 Btu	800 Btu
First 200 cu. ft. or less..........	$1.10	$1.10	$1.10	$1.10
Next 2,800 cu. ft., per 100 cu.ft...	6.7¢	6.5¢	6.3¢	5.49¢
Next 7,000 cu. ft., per 100 cu.ft...	6.4¢	6.21¢	6.02¢	5.25¢
Over 10,000 cu. ft., per 100 cu.ft...	5.2¢	5.04¢	4.88¢	4.26¢
Heating Schedules "H"				
First 200 cu. ft. or less:				
Winter months, November-April..........	$1.95	$1.95	$1.95	$1.95
Summer months, May-October............	0.17*	0.17*	0.17*	0.17*
Next 2,800 cu. ft., per 100 cu.ft....	8.7¢	8.44¢	8.18¢	7.13¢
Next 7,000 cu. ft., per 100 cu.ft....	8.0¢	7.76¢	7.52¢	6.56¢
Over 10,000 cu. ft., per 100 cu.ft....	6.5¢	6.30¢	6.11¢	5.33¢

* The monthly summer rate for first 200 cu. ft. is 8.7 cents per 100 cu. ft. Except for closing bills, summer usage will be accumulated to 1,000 cu. ft. before billing. Such accumulated usage as is not billed by the end of the summer will be added to the first winter period consumption and billed at the regular winter rate.

The above effective rates are based on the average monthly heating value per cubic foot indicated and as set forth in Rule and Regulation No. 2(i).

Minimum Charge:

Rate "M" - $1.10 per meter per month.
Rate "H" - Winter months, November-April: $1.95 per meter per month.
Rate "H" - Summer months, May-October: No minimum charge.

SPECIAL CONDITIONS

1. Rate "H" will apply to customers where use is primarily for space heating for human comfort where such customers are found to be using gas primarily for space heating, as determined by survey or under the presumption that such customers use less than 1,000 cu. ft. per month during each of any two of the regular billing periods ending in August, September, or October.

2. Rate "M" will apply to all other customers.

3. If the owner, lessee or operator of apartments or multiple dwellings served by four or more meters billed separately under Rate "M" of this schedule, obligates himself to pay all bills for gas service furnished thereto, then the monthly minimum charge shall be $1.10 multiplied by 50% of the number of such meters installed, but in no event less than $3.30. No bill shall be rendered for gas delivered through any such meter until and unless at least 200 cubic feet of gas has been so delivered after commencement of service or since the last billing date, as the case may be. The company shall not be required, under the provisions of this paragraph, to turn off or turn on meters when individual family dwellings are vacated or reoccupied.

4. For purpose of computing charges, the months named in the rates above are the regular monthly meter reading periods ending in each named month.

Schedule No. G-7

GENERAL NATURAL GAS SERVICE

APPLICABILITY

Applicable to natural gas service to residential, commercial, industrial or other customers.

TERRITORY
A-(1100 Btu)

Within the incorporated city limits of: (601) Brawley, (602) Calexico, (603) Calipatria, (604) El Centro, (605) Holtville, (606) Imperial, and (607) Westmoreland. Rate areas are specified under the reference numbers in Description of Special Rate Areas.

RATES

Commodity Charge:	Per Meter Per Month Base and Effective Rates 1100 Btu		
	"M"	"S"	"H"
First 200 cu. ft. or less:			
Winter Months, November-April	$1.20	$1.20	$2.05
Summer Months, May-October	1.20	1.20	0.24*
Next 2,800 cu. ft., per 100 cu. ft.	9.8¢	11.8¢	12.0¢
Next 7,000 cu. ft., per 100 cu. ft.	8.3¢	9.8¢	10.0¢
Over 10,000 cu. ft., per 100 cu. ft.	6.5¢	6.5¢	6.5¢

* The monthly summer rate for first 200 cu. ft. is 12.0 cents per 100 cu. ft. Except for closing bills, summer usage will be accumulated to 1,000 cu. ft. before billing. Such accumulated usage as is not billed by the end of the summer will be added to the first winter period consumption and billed at the regular winter rate.

The above effective rates are based on the average monthly heating value per cubic foot indicated and as set forth in Rule and Regulation No. 2(i).

Minimum Charge:

Rate "M" - $1.20 per meter per month.
Rate "S" - 1.20 per meter per month.
Rate "H" - Winter months, November-April: $2.05 per meter per month.
Rate "H" - Summer months, May-October: No minimum charge.

(continued)

Schedule No. G-7

GENERAL NATURAL GAS SERVICE
(continued)

SPECIAL CONDITIONS

1. Rate "M" will apply to customers where gas is regularly used as the principal fuel (except uses in minor appliances) for both cooking and water heating, including or excluding the use of gas for other fuel requirements.

2. Rate "H" will apply to customers where use is primarily for space heating for human comfort where such customers are found to be using gas primarily for space heating, as determined by survey or under the presumption that such customers use less than 1,000 cu. ft. per month during each of any two of the regular billing periods ending in August, September, or October.

3. Rate "S" will apply to all other customers.

4. If the owner, lessee or operator of apartments or multiple dwellings served by four or more meters billed separately under Rate "M" of this schedule, obligates himself to pay all bills for gas service furnished thereto, then the monthly minimum charge shall be $1.20 multiplied by 50% of the number of such meters installed, but in no event less than $3.60. No bill shall be rendered for gas delivered through any such meter until and unless at least 200 cubic feet of gas has been so delivered after commencement of service or since the last billing date, as the case may be. The company shall not be required, under the provisions of this paragraph, to turn off or turn on meters when individual family dwellings are vacated or reoccupied.

5. For purpose of computing charges, the months named in the rates above are the regular monthly meter reading periods ending in each named month.

Schedule No. G-8

GENERAL NATURAL GAS SERVICE

APPLICABILITY

Applicable to natural gas service to residential, commercial, industrial or other customers.

TERRITORY

All unincorporated territory not provided for in other rate schedules as follows:

A-(1100 Btu)

Within the Imperial Division.

RATES

Commodity Charge:

	Per Meter Per Month Base and Effective Rates 1100 Btu		
	"M"	"S"	"H"
First 200 cu. ft. or less:			
Winter Months, November-April..........	$1.25	$1.25	$2.30
Summer Months, May-October............	1.25	1.25	0.24*
Next 2,800 cu. ft., per 100 cu. ft.	10.0¢	12.0¢	12.2¢
Next 7,000 cu. ft., per 100 cu. ft.	8.5¢	10.0¢	10.2¢
Over 10,000 cu. ft., per 100 cu. ft.	6.5¢	6.5¢	6.5¢

* The monthly summer rate for first 200 cu. ft. is 12.2 cents per 100 cu. ft. Except for closing bills, summer usage will be accumulated to 1,000 cu. ft. before billing. Such accumulated usage as is not billed by the end of the summer will be added to the first winter period consumption and billed at the regular winter rate.

The above effective rates are based on the average monthly heating value per cubic foot indicated and as set forth in Rule and Regulation No. 2(i).

Minimum Charge:

Rate "M" - $1.25 per meter per month.
Rate "S" - $1.25 per meter per month.
Rate "H" - Winter months, November-April: $2.30 per meter per month.
Rate "H" - Summer months, May-October: No minimum charge.

(Continued)

Schedule No. G-8

GENERAL NATURAL GAS SERVICE
(Continued)

SPECIAL CONDITIONS

1. Rate "M" will apply to customers where gas is regularly used as the principal fuel (except uses in minor appliances) for both cooking and water heating, including or excluding the use of gas for other fuel requirements.

2. Rate "H" will apply to customers where use is primarily for space heating for human comfort where such customers are found to be using gas primarily for space heating, as determined by survey or under the presumption that such customers use less than 1,000 cu. ft. per month during each of any two of the regular billing periods ending in August, September, or October.

3. Rate "S" will apply to all other customers.

4. If the owner, lessee or operator of apartments or multiple dwellings served by four or more meters billed separately under Rate "M" of this schedule, obligates himself to pay all bills for gas service furnished thereto, then the monthly minimum charge shall be $1.25 multiplied by 50% of the number of such meters installed, but in no event less than $3.75. No bill shall be rendered for gas delivered through any such meter until and unless at least 200 cubic feet of gas has been so delivered after commencement of service or since the last billing date, as the case may be. The company shall not be required, under the provisions of this paragraph, to turn off or turn on meters when individual family dwellings are vacated or reoccupied.

5. For purpose of computing charges, the months named in the rates above are the regular monthly meter reading periods ending in each named month.

Schedule No. G-20

COMMERCIAL NATURAL GAS SERVICE

APPLICABILITY

Applicable to natural gas service to commercial or industrial customers, exclusive of residential service or service to multiple dwellings or housing projects where gas is supplied through a master meter.

TERRITORY

The entire territory served natural gas by the company, except Imperial Division, as follows:

A-(1100 Btu)

Central, Northern, Southern, and Eastern Divisions; and the incorporated cities of Corcoran, Exeter, Hanford, Lemoore, Lindsay, Shafter, Tehachapi, Tulare, Visalia, Wasco and Woodlake, and the unincorporated areas of Midway and San Joaquin Valley Divisions described under Special Rate Areas (450), (451), (452), and (550).

B-(1050 Btu)

Within the incorporated cities of Dinuba, Kingsburg, Orange Cove, Parlier, Porterville and Reedley in Midway and San Joaquin Valley Divisions, and the unincorporated area of San Joaquin Valley Division described under Special Rate Area (551).

C-(1000 Btu)

Within the incorporated city of Delano, and the unincorporated areas of Midway and San Joaquin Valley Divisions described under Special Rate Areas (454) and (552).

D-(800 Btu)

Within the unincorporated area of Midway Division described under Special Rate Area (455).

RATES

Commodity Charge:	Per Meter Per Month			
	Base and Effective Rates	Effective Rates		
Six Winter Months-November to April, inclusive	1100 Btu	1050 Btu	1000 Btu	800 Btu
First 30 Mcf, per Mcf.........	55.0¢	53.4¢	51.7¢	45.1¢
Next 70 Mcf, per Mcf.........	52.0¢	50.4¢	48.9¢	42.6¢
Next 200 Mcf, per Mcf.........	50.0¢	48.5¢	47.0¢	41.0¢
Next 700 Mcf, per Mcf.........	45.0¢	43.7¢	42.3¢	36.9¢
Over 1,000 Mcf, per Mcf.........	43.0¢	41.7¢	40.4¢	35.3¢
Six Summer Months-May to October, inclusive				
First 30 Mcf, per Mcf.........	55.0¢	53.4¢	51.7¢	45.1¢
Next 70 Mcf, per Mcf.........	48.0¢	46.6¢	45.1¢	39.4¢
Next 200 Mcf, per Mcf.........	40.0¢	38.8¢	37.6¢	32.8¢
Next 700 Mcf, per Mcf.........	35.0¢	34.0¢	32.9¢	28.7¢
Over 1,000 Mcf, per Mcf.........	33.0¢	32.0¢	31.0¢	27.1¢

The above effective rates are based on the average monthly heating value per cubic foot indicated and as set forth in Rule and Regulation No. 2(i).

Minimum Charge:

Per meter per month - $16.50, except for use in public schools from June to September, inclusive - $1.50 per meter per month.

(Continued)

Schedule No. G-20

COMMERCIAL NATURAL GAS SERVICE
(Continued)

SPECIAL CONDITIONS

1. All gas delivered hereunder shall be separately metered and separately billed to each premises served hereunder. If, however, two or more meters are required to supply service hereunder to a single public institution or motion picture studio enterprise located on contiguous parcels of land divided only by public streets, alleys or highways, then the monthly consumption registered by such meters shall be combined for the purpose of billing hereunder.

2. A contract covering the fuel requirements of the customer, for a period of at least one (1) year, will be required as a condition precedent to service under this schedule, and shall continue in force and effect from year to year thereafter until either the company or the customer shall give the other a written notice of a desire to terminate same at least thirty (30) days prior to the expiration of any such year, whereupon at the end of said year it shall cease and determine. If the customer permanently ceases operations, such contract shall not thereafter continue in force.

Schedule No. G-22

COMMERCIAL NATURAL GAS SERVICE

APPLICABILITY

Applicable to natural gas service to commercial or industrial customers, exclusive of service to multiple dwellings or housing projects where gas is supplied through a master meter.

TERRITORY
A-(1100 Btu)

Within the Imperial Division.

RATES

Commodity Charge:

	Per Meter Per Month Base and Effective Rates 1100 Btu
Six Winter Months - November to April, inclusive.	
First 30 Mcf, per Mcf	75.0¢
Next 70 Mcf, per Mcf	60.0¢
Next 200 Mcf, per Mcf	58.0¢
Next 700 Mcf, per Mcf	55.0¢
Over 1,000 Mcf, per Mcf	53.0¢
Six Summer Months - May to October, inclusive.	
First 30 Mcf, per Mcf	65.0¢
Next 70 Mcf, per Mcf	52.0¢
Next 200 Mcf, per Mcf	50.0¢
Next 700 Mcf, per Mcf	45.0¢
Over 1,000 Mcf, per Mcf	43.0¢

The above effective rates are based on the average monthly heating value per cubic foot indicated and as set forth in Rule and Regulation No. 2(i).

Minimum Charge:

Per meter per month - $19.50, except for uses in public schools from June to September, inclusive - $1.50 per meter per month.

SPECIAL CONDITIONS

1. All gas delivered hereunder shall be separately metered and separately billed to each premises served hereunder. If, however, two or more meters are required to supply service hereunder to a single public institution or motion picture studio enterprise located on contiguous parcels of land divided only by public streets, alleys or highways, then the monthly consumption registered by such meters shall be combined for the purpose of billing hereunder.

2. A contract covering the fuel requirements of the customer, for a period of at least one (1) year, will be required as a condition precedent to service under this schedule, and shall continue in force and effect from year to year thereafter until either the Company or the customer shall give the other a written notice of a desire to terminate same at least thirty (30) days prior to the expiration of any such year, whereupon at the end of said year it shall cease and determine. If the customer permanently ceases operations, such contract shall not thereafter continue in force.

Schedule No. G-23

COMMERCIAL NATURAL GAS SERVICE

APPLICABILITY

Applicable to natural gas service limited to multiple dwellings, housing projects, public and quasi-public institutions, schools or military camps and establishments, for gas used for any one or all purposes.

TERRITORY

The entire territory served natural gas by the company, as follows:

A-(1100 Btu)

Within Central, Northern, Southern, Eastern, and Imperial Divisions; and the incorporated cities of Corcoran, Exeter, Hanford, Lemoore, Lindsay, Shafter, Tehachapi, Tulare, Visalia, Wasco, and Woodlake, and the unincorporated areas of Midway and San Joaquin Valley Divisions, described under Special Rate Areas (450), (451) (452), and (550).

B-(1050 Btu)

Within the incorporated cities of Dinuba, Kingsburg, Orange Cove, Parlier, Porterville, and Reedley, and the unincorporated areas of Midway and San Joaquin Valley Divisions, described under Special Rate Areas (453) and (551).

C-(1000 Btu)

Within the incorporated city of Delano, and the unincorporated areas of Midway and San Joaquin Valley Divisions, described under Special Rate Areas (454) and (552).

D-(800 Btu)

Within the unincorporated area of Midway Division, described under Special Rate Area (455).

(continued)

Schedule No. G-23

COMMERCIAL NATURAL GAS SERVICE
(continued)

RATES

Commodity Charge

	Per Meter Per Month			
	Base and Effective Rates	Effective Rates		
	1100 Btu	1050 Btu	1000 Btu	800 Btu
Six winter months - November to April, inclusive				
First 300 Mcf, per Mcf.............	45.0¢	43.7¢	42.3¢	36.9¢
Next 700 Mcf, per Mcf.............	44.0¢	42.7¢	41.4¢	36.1¢
Over 1,000 Mcf, per Mcf.............	43.0¢	41.7¢	40.4¢	35.3¢
Six summer months - May to October, inclusive				
First 300 Mcf, per Mcf.............	45.0¢	43.7¢	42.3¢	36.9¢
Next 700 Mcf, per Mcf.............	34.0¢	33.0¢	32.0¢	27.9¢
Over 1,000 Mcf, per Mcf.............	33.0¢	32.0¢	31.0¢	27.1¢

The above effective rates are based on the average monthly heating value per cubic foot indicated and as set forth in Rule and Regulation No. 2 (i).

Minimum Charge

Per meter per month....................................$135.00

SPECIAL CONDITIONS

1. Service hereunder will be supplied through one single or master meter installation for a project located on a single premises or on contiguous parcels of land divided only by public streets, alleys or highways. If such single or master meter installation will in the judgment of the Company result in excessive duplication of Company's pipe line facilities or will not provide adequate service or will not satisfy the Company's operating convenience, the Company will install, when mutually satisfactory, two or more single or master meters. In such event, the monthly consumption registered by such meter installations shall be combined for purposes of billing. The foregoing shall not apply where, in the judgment of the Company, the operation of such project has been transferred to another project for the purpose of obtaining combined meter readings.

2. A contract covering the fuel requirements of the customer, for a period of at least one (1) year, will be required as a condition precedent to service under this schedule, and shall continue in force and effect from year to year thereafter until either the Company or the customer shall give the other a written notice of a desire to terminate same at least thirty (30) days prior to the expiration of any such year, whereupon at the end of said year it shall cease and determine. If the customer permanently ceases operations, such contract shall not thereafter continue in force.

Schedule No. G-40

FIRM INDUSTRIAL NATURAL GAS SERVICE

APPLICABILITY

Applicable to natural gas service to industrial customers; exclusive of residential or commercial service or service to multiple family dwellings on master meter.

TERRITORY

The entire territory served natural gas by the Company, except Imperial Division, as follows:

A-(1100 Btu)

Central, Northern, Southern, and Eastern Divisions; and the incorporated cities of Corcoran, Exeter, Hanford, Lemoore, Lindsay, Shafter, Tehachapi, Tulare, Visalia, Wasco and Woodlake, and the unincorporated areas of Midway and San Joaquin Valley Divisions described under Special Rate Areas (450), (451), (452), and (550).

B-(1050 Btu)

Within the incorporated cities of Dinuba, Kingsburg, Orange Cove, Parlier, Porterville and Reedley in the Midway and San Joaquin Valley Divisions, and the unincorporated areas of Midway and San Joaquin Valley Divisions described under Special Rate Areas (453) and (551).

C-(1000 Btu)

Within the incorporated city of Delano, and the unincorporated areas of Midway and San Joaquin Valley Divisions described under Special Rate Areas (454) and (552).

D-(800 Btu)

Within the unincorporated area of Midway Division described under Special Rate Area (455).

(continued)

AA

Schedule No. G-40

FIRM INDUSTRIAL NATURAL GAS SERVICE
(Continued)

RATES

	Per Meter Per Month			
	Base and Effective Rates	Effective Rates		
	1100 Btu	1050 Btu	1000 Btu	800 Btu
Commodity Charge:				
Six Winter Months - November to April, inclusive.				
First 100 Mcf, per Mcf	50.0¢	49.0¢	48.0¢	44.0¢
Next 200 Mcf, per Mcf	45.0	44.1	43.2	39.6
Next 700 Mcf, per Mcf	43.0	42.1	41.3	37.8
Over 1,000 Mcf, per Mcf	41.0	40.2	39.4	36.1
Six Summer Months - May to October, inclusive.				
First 100 Mcf, per Mcf	40.0	39.2	38.4	35.2
Next 200 Mcf, per Mcf	35.0	34.3	33.6	30.8
Next 700 Mcf, per Mcf	33.0	32.3	31.7	29.0
Over 1,000 Mcf, per Mcf	31.0	30.4	29.8	27.3

The above effective rates are based on the average monthly heating value per cubic foot indicated and as set forth in Rule and Regulation No. 2 (i).

Minimum Charge:
Per meter, per month $30.00

To be made cumulative only when total billing exceeds $360 per meter at any time during the contract year.

SPECIAL CONDITIONS

(Identical with present G-40)

Schedule No. G-42

FIRM INDUSTRIAL NATURAL GAS SERVICE

APPLICABILITY

Applicable to natural gas service to industrial customers; exclusive of residential or commercial service or service to multiple family dwellings on master meter.

TERRITORY

A-(1100 Btu)

Within the Imperial Division

RATES

	Per Meter Per Month Base and Effective Rates 1100 Btu
Commodity Charge:	
Six Winter Months - November to April, inclusive.	
First 100 Mcf, per Mcf	55.0¢
Next 200 Mcf, per Mcf	50.0
Next 700 Mcf, per Mcf	48.0
Over 1,000 Mcf, per Mcf	46.0
Six Summer Months - May to October, inclusive.	
First 100 Mcf, per Mcf	45.0
Next 200 Mcf, per Mcf	40.0
Next 700 Mcf, per Mcf	38.0
Over 1,000 Mcf, per Mcf	36.0

The above effective rates are based on the average monthly heating value per cubic foot indicated and as set forth in Rule and Regulation No. 2(i).

Minimum Charge:	
Per meter, per month	$30.00

To be made cumulative only when total billing exceeds $360 per meter at any time during the contract year.

SPECIAL CONDITIONS

(Identical with present G-40.)

Schedule No. G-45

GAS ENGINE NATURAL GAS SERVICE

APPLICABILITY

Applicable to natural gas service to internal combustion engines.

TERRITORY
A-(1100 Btu)

Within the Central, Northern, Southern and Eastern Divisions.

RATES

Commodity Charge:

	Per Meter Per Month Base and Effective Rates 1100 Btu
First 25 Mcf, per Mcf	46.0¢
Next 75 Mcf, per Mcf	34.0¢
Next 200 Mcf, per Mcf	28.0¢
Over 300 Mcf, per Mcf	22.5¢

The above effective rates are based on the average monthly heating value per cubic foot indicated and as set forth in Rule and Regulation No. 2(i).

Minimum Charge:

Per meter per month - $5.00; to be made cumulative only when the total billing exceeds $60.00 per meter at any time during the contract year.

SPECIAL CONDITION

A contract covering the fuel requirements of the customer for a period of at least one (1) year, will be required as a condition precedent to service under this schedule, and shall continue in force and effect from year to year thereafter until either the company or the customer shall give the other a written notice of a desire to terminate same at least thirty (30) days prior to the expiration of any such year, whereupon at the end of said year it shall cease and determine. If the customer permanently ceases operations, such contract shall not thereafter continue in force.

Schedule No. G-46

GAS ENGINE NATURAL GAS SERVICE

APPLICABILITY

Applicable to natural gas service to internal combustion engines.

TERRITORY

A-(1100 Btu)

Within portions of the Midway and San Joaquin Valley Divisions comprised of the incorporated cities of Corcoran, Exeter, Hanford, Lemoore, Lindsay, Shafter, Tehachapi, Tulare, Visalia, Wasco and Woodlake and the unincorporated areas described under Special Rate Areas (450), (451), (452), and (550).

B-(1050 Btu)

Within the incorporated cities of Dinuba, Kingsburg, Orange Cove, Parlier, Porterville, and Reedley, and the unincorporated areas of San Joaquin Valley Division described under Special Rate Area (551).

C-(1000 Btu)

Within the incorporated city of Delano, and the unincorporated areas of the Midway and San Joaquin Valley Divisions described under Special Rate Areas (454) and (552).

D-(800 Btu)

Within the unincorporated area of the Midway Division described under Special Rate Area (455).

RATES

Commodity Charge:

	Per Meter Per Month			
	Base and Effective Rates	Effective Rates		
	1100 Btu	1050 Btu	1000 Btu	800 Btu
First 25 Mcf, per Mcf.............	42.9¢	42.0¢	41.2¢	37.8¢
Next 75 Mcf, per Mcf.............	24.5¢	24.0¢	23.5¢	21.6¢
Next 200 Mcf, per Mcf.............	24.0¢	23.5¢	23.0¢	21.1¢
Over 300 Mcf, per Mcf.............	23.0¢	22.5¢	22.1¢	20.2¢

The above effective rates are based on the average monthly heating value per cubic foot indicated and as set forth in Rule and Regulation No. 2(1).

Minimum Charge:

Per meter per month - $5.00; to be made cumulative only when the total billing exceeds $60.00 per meter at any time during the contract year.

SPECIAL CONDITION

A contract covering the fuel requirements of the customer for a period of at least one (1) year, will be required as a condition precedent to service under this schedule, and shall continue in force and effect from year to year thereafter until either the company or the customer shall give the other a written notice of a desire to terminate same at least thirty (30) days prior to the expiration of any such year, whereupon at the end of said year it shall cease and determine. If the customer permanently ceases operations, such contract shall not thereafter continue in force.

Schedule No. G-50

INTERRUPTIBLE NATURAL GAS SERVICE

APPLICABILITY

Applicable, subject to interruptions in supply, to natural gas service to commercial or industrial customers, where such customers are located near existing mains having a delivery capacity and supply in excess of the then existing requirements of firm customers.

TERRITORY

A-(1100 Btu)

Within the Central, Northern, and Southern Divisions, and that portion of the Eastern Division lying west of a north-south line at the east boundary line of Townships 2, 3, 4, and 5 South, Range 1 East, S. B. B. and M., exclusive of the San Bernardino Mountain Area of the Eastern Division.

Within the incorporated cities of Shafter, Tehachapi and Wasco, and the unincorporated areas of Midway Division described under Special Rate Areas (450), (451) and (452).

C-(1000 Btu)

Within the incorporated city of Delano and the unincorporated areas of Midway Division described under Special Rate Area (454).

D-(800 Btu)

Within the unincorporated area of Midway Division described under Special Rate Area (455).

RATES

Commodity Charge:	Base Rates	Per Meter Per Month Effective Rates 1100 Btu	1000 Btu	800 Btu
First 200 Mcf, per Mcf......	34.0¢	34.0¢	32.6¢	29.9¢
Next 800 Mcf, per Mcf......	28.0	28.0	26.9	24.6
Next 2,000 Mcf, per Mcf......	27.0	27.0	25.9	23.8
Next 3,000 Mcf, per Mcf......	26.0	26.0	25.0	22.9
Next 4,000 Mcf, per Mcf......	25.0	25.0	24.0	22.0
Next 10,000 Mcf, per Mcf......	24.0	24.0	23.0	21.1
Over 20,000 Mcf, per Mcf......	23.5	23.5	22.6	20.7

The base rates are established for a posted price of fuel oil of $1.55 per barrel and are predicated on an average monthly heating value of 1100 Btu per cubic foot (dry basis).

The effective rates are established in accordance with the provisions of Special Conditions (1) (2) and/(3) below and are based on the current price of fuel oil of $1.55 per barrel and the average monthly heating value per cubic foot as indicated above.

Minimum Charge:

Per Meter Per Month $50.00

To be made cumulative only when total billing exceeds $600 per meter at any time during the contract year.

EXHIBIT A

SPECIAL CONDITIONS

(1) Whenever and as long as the posted price of fuel oil in tank car lots shall be below one dollar and fifty-five cents ($1.55) and above one dollar and sixteen cents ($1.16) per barrel both inclusive, then the effective rates per thousand cubic feet for all natural gas delivered under this schedule shall be at the base rates set forth above, less one-sixth cent (1/6¢) for each one cent (1¢) by which the price of fuel oil shall be below one dollar and fifty-five cents ($1.55) per barrel, the computation to be carried to the nearest 0.1¢. The posted price means the price in tank car lots of Bunker fuel oil with a viscosity specification of 165 seconds or over, Saybolt Furol at 122° F., as quoted to customers generally, either by the Standard Oil Company of California at El Segundo (El Segundo Refinery) or by the General Petroleum Corporation of California at Torrance (Torrance Refinery) or by the Union Oil Company of California at Wilmington (Wilmington Refinery), Los Angeles County, California, whichever posted price is the lowest.

When a change in the price of fuel oil occurs, the Company shall submit to the California Public Utilities Commission, within a period of fifteen (15) days, an Advice Letter and appropriate tariff schedules setting forth the new effective rates and accompanied by an affidavit of such change in the price of fuel oil. The new gas rates shall be effective beginning with the bill based on the first regular monthly meter reading for billing purposes which is taken on and after the 30th day following such change in the price of fuel oil, subject, however, to any revisory action that may be deemed necessary in the public interest by the California Public Utilities Commission in the exercise of its jurisdiction pursuant to the provisions of law and the rules and regulations of said Commission.

(2) In addition to the adjustments to the base rates that may be made in accordance with Special Condition (1) said base rates shall be adjusted further to reflect variations in the heating value of natural gas served as prescribed in Rule and Regulation Number 2 (i) contained in these tariff schedules.

(3) In the event the adjustments to the base rates made in accordance with Special Conditions (1) and (2) above are due to become effective within fifteen (15) days of each other, then the two shall be combined and the later date of the two effective dates shall govern.

(4) Service under this schedule is subject to discontinuance without notice in case the Company has an insufficient quantity of natural gas produced directly from oil wells and/or purchased from El Paso Natural Gas Company to satisfy its requirements of gas for underground storage and to supply with natural gas (a) customers under all its general, commercial, firm industrial and gas engine schedules, (b) customers under special contracts other than those for interruptible industrial service, (c) other public utilities and (d) customers under interruptible industrial schedules and special contracts for interruptible industrial service carrying the same or higher rates, and if the supplying of such gas under this schedule shall in the opinion of the Company, jeopardize or threaten the supply to any of said customers or said public utilities, then the Company shall have the right, without notice, to discontinue such gas supplied under this schedule in whole or in part until it again has an amount of such gas sufficient to supply all of said customers and said public utilities in addition to supplying the gas provided under this schedule.

(5) Except upon an application made to the Public Utilities Commission and approval first obtained:

(a) No customer (except as to a plant on an interruptible gas rate during all or a portion of the year ending December 16, 1941), applying for gas service hereunder subsequent to December 16, 1941, shall be entitled to such gas service, unless such customer shall have adequate standby fuel, equipment, and qualified attendance ready at all times to effect immediate change-over from gas to other fuel in the event that the supply of gas hereunder shall be discontinued.

(b) No existing customer using gas hereunder subsequent to December 16, 1941, shall be permitted to increase usage of gas hereunder for additional equipment (except as to equipment on an interruptible gas rate during all or a portion of the year ending December 16, 1941) unless such customer shall have adequate standby fuel, equipment, and qualified attendance ready at all times to effect immediate change-over from gas to other fuel in the event that the supply of gas hereunder shall be discontinued.

(6) Service may be supplied under this schedule at the option of the Company for short term operations that are started and completed during the "off peak" demand season (May 1st to October 1st) without the provisions for standby fuel and equipment as required in Special Condition (5).

(7) A contract covering the fuel requirements of the customer during the operation of his plant, for a period of at least one (1) year, will be required as a condition precedent to service under this schedule, except as otherwise provided in special conditions, and shall continue in force and effect thereafter until either the Company or the customer shall give the other thirty (30) days written notice of a desire to terminate same, whereupon at the expiration of said thirty (30) days it shall cease and determine. If the customer permanently ceases operations, such contract shall not thereafter continue in force.

Schedule No. G-51

INTERRUPTIBLE NATURAL GAS SERVICE

APPLICABILITY

Applicable, subject to interruptions in supply, to natural gas service to commercial or industrial customers, where such customers are located near existing mains having a delivery capacity and supply in excess of the then existing requirements of firm customers.

TERRITORY

A-(1100 Btu)

That portion of Eastern Division lying east of a north-south line at the east boundary line of Townships 2, 3, 4 and 5 South, Range 1 East, S. B. B. and M., and the San Bernardino Mountain Area of the Eastern Division.

Within the incorporated cities of Corcoran, Exeter, Hanford, Lemoore, Lindsay, Tulare, Visalia and Woodlake, and the unincorporated area of San Joaquin Valley Division described under Special Rate Area (550).

B-(1050 Btu)

Within the incorporated cities of Dinuba, Kingsburg, Orange Cove, Parlier, Porterville, and Reedley, and the unincorporated area of San Joaquin Valley Division described under Special Rate Area (551).

C-(1000 Btu)

Within the unincorporated area of San Joaquin Valley Division described under Special Rate Area (552).

RATES

Commodity Charge:

	Per Meter Per Month		
	Base Rates	Effective Rates 1050 Btu	Effective Rates 1000 Btu
First 200 Mcf, per Mcf	35.0¢	34.3¢	33.6¢
Next 800 Mcf, per Mcf	29.0	28.4	27.8
Next 2,000 Mcf, per Mcf	28.0	27.4	26.9
Next 3,000 Mcf, per Mcf	27.0	26.5	25.9
Next 4,000 Mcf, per Mcf	26.0	25.5	25.0
Next 10,000 Mcf, per Mcf	25.0	24.5	24.0
Over 20,000 Mcf, per Mcf	24.5	24.0	23.5

The base rates are established for a posted price of fuel oil of $1.55 per barrel and are predicated on an average monthly heating value of 1100 Btu per cubic foot (dry basis).

The effective rates are established in accordance with the provisions of Special Conditions (1), (2) and (3) below and are based on the current price of fuel oil of $1.55 per barrel and the average monthly heating value per cubic foot as indicated above.

Minimum Charge:

Per Meter Per Month $50.00

To be made cumulative only when total billing exceeds $600.00 per meter at any time during the contract year.

SPECIAL CONDITIONS

(1) Whenever and as long as the posted price of fuel oil in tank car lots shall be below one dollar and fifty-five cents ($1.55) and above one dollar and sixteen cents ($1.16) per barrel both inclusive, then the effective rates per thousand cubic feet for all natural gas delivered under this schedule shall be at the base rates set forth above, less one-sixth cent (1/6¢) for each one cent (1¢) by which the price of fuel oil shall be below one dollar and fifty-five cents ($1.55) per barrel, the computation to be carried to the nearest 0.1¢. The posted price means the price in tank car lots of Bunker fuel oil with a viscosity specification of 165 seconds or over, Saybolt Furol at 122° F., as quoted to customers generally, either by the Standard Oil Company of California at El Segundo (El Segundo Refinery) or by the General Petroleum Corporation of California at Torrance (Torrance Refinery) or by the Union Oil Company of California at Wilmington (Wilmington Refinery), Los Angeles County, California, whichever posted price is the lowest.

When a change in the price of fuel oil occurs, the Company shall submit to the California Public Utilities Commission, within a period of fifteen (15) days, an Advice Letter and appropriate tariff schedules setting forth the new effective rates and accompanied by an affidavit of such change in the price of fuel oil. The new gas rates shall be effective beginning with the bill based on the first regular monthly meter reading for billing purposes which is taken on and after the 30th day following such change in the price of fuel oil, subject, however, to any revisory action that may be deemed necessary in the public interest by the California Public Utilities Commission in the exercise of its jurisdiction pursuant to the provisions of law and the rules and regulations of said Commission.

(2) In addition to the adjustments to the base rates that may be made in accordance with Special Condition (1) said base rates shall be adjusted further to reflect variations in the heating value of natural gas served as prescribed in Rule and Regulation Number 2 (i) contained in these tariff schedules.

(3) In the event the adjustments to the base rates made in accordance with Special Conditions (1) and (2) above are due to become effective within fifteen (15) days of each other, then the two shall be combined and the later date of the two effective dates shall govern.

(4) Service under this schedule is subject to discontinuance without notice in case the Company has an insufficient quantity of natural gas produced directly from oil wells and/or purchased from El Paso Natural Gas Company to satisfy its requirements of gas for underground storage and to supply with natural gas (a) customers under all its general, commercial, firm industrial and gas engine schedules, (b) customers under special contracts other than those for interruptible industrial service, (c) other public utilities and (d) customers under interruptible industrial schedules and special contracts for interruptible industrial service carrying the same or higher rates, and if the supplying of such gas under this schedule shall in the opinion of the Company jeopardize or threaten the supply to any of said customers or said public utilities, then the Company shall have the right, without notice, to discontinue such gas supplied under this schedule in whole or in part until it again has an amount of such gas sufficient to supply all of said customers and said public utilities in addition to supplying the gas provided under this schedule.

(5) Except upon an application made to the Public Utilities Commission and approval first obtained:

(a) No customer (except as to a plant on an interruptible gas rate during all or a portion of the year ending December 16, 1941), applying for gas service hereunder subsequent to December 16, 1941, shall be entitled to such gas service, unless such customer shall have adequate standby fuel,.

equipment, and qualified attendance ready at all times to effect immediate change-over from gas to other fuel in the event that the supply of gas hereunder shall be discontinued.

(b) No existing customer using gas hereunder subsequent to December 16, 1941, shall be permitted to increase usage of gas hereunder for additional equipment (except as to equipment on an interruptible gas rate during all or a portion of the year ending December 16, 1941) unless such customer shall have adequate standby fuel, equipment, and qualified attendance ready at all times to effect immediate change-over from gas to other fuel in the event that the supply of gas hereunder shall be discontinued.

(6) Service may be supplied under this schedule at the option of the Company for short term operations that are started and completed during the "off peak" demand season (May 1st to October 1st) without the provisions for standby fuel and equipment as required in Special Condition (5).

(7) A contract covering the fuel requirements of the customer during the operation of his plant, for a period of at least one (1) year, will be required as a condition precedent to service under this schedule, except as otherwise provided in special conditions, and shall continue in force and effect thereafter until either the Company or the customer shall give the other thirty (30) days written notice of a desire to terminate same, whereupon at the expiration of said thirty (30) days it shall cease and determine. If the customer permanently ceases operations, such contract shall not thereafter continue in force.

Schedule No. G-52

INTERRUPTIBLE NATURAL GAS SERVICE

APPLICABILITY

Applicable, subject to interruptions in supply, to natural gas service to commercial or industrial customers, where such customers are located near existing mains having a delivery capacity and supply in excess of the then existing requirements of firm customers:

TERRITORY
A-(1100 Btu)

Within the Imperial Division.

RATES

Commodity Charge:

	Per Meter Per Month Base Rates	Per Meter Per Month Effective Rates 1100 Btu
First 200 Mcf, per Mcf	39.0¢	39.0¢
Next 800 Mcf, per Mcf	35.0	35.0
Next 2,000 Mcf, per Mcf	34.0	34.0
Next 3,000 Mcf, per Mcf	33.5	33.5
Next 4,000 Mcf, per Mcf	33.0	33.0
Next 10,000 Mcf, per Mcf	32.5	32.5
Over 20,000 Mcf, per Mcf	32.0	32.0

The base rates are established for a posted price of fuel oil of $1.55 per barrel and are predicated on an average monthly heating value of 1100 Btu per cubic foot (dry basis).

The effective rates are established in accordance with the provisions of Special Conditions (1), (2) and (3) below and are based on the current price of fuel oil of $1.55 per barrel and the average monthly heating value per cubic foot as indicated above.

Minimum Charge:

Per Meter Per Month $50.00

To be made cumulative only when total billing exceeds $600.00 per meter at any time during the contract year.

SPECIAL CONDITIONS

(1) Whenever and as long as the posted price of fuel oil in tank car lots shall be below one dollar and fifty-five cents ($1.55) and above one dollar and sixteen cents ($1.16) per barrel both inclusive, then the effective rates per thousand cubic feet for all natural gas delivered under this schedule shall be at the base rates set forth above, less one-sixth cent (1/6¢) for each one cent (1¢) by which the price of fuel oil shall be below one dollar and fifty-five cents ($1.55) per barrel, the computation to be carried to the nearest 0.1¢. The posted price means the price in tank car lots of Bunker fuel oil with a viscosity specification of 165 seconds or over, Saybolt Furol at 122° F., as quoted to customers generally, either by the Standard Oil Company of California at El Segundo (El Segundo Refinery) or by the General Petroleum Corporation of California at Torrance (Torrance Refinery) or by the Union Oil Company of California at Wilmington (Wilmington Refinery), Los Angeles County, California, whichever posted price is the lowest.

EXHIBIT A

When a change in the price of fuel oil occurs, the Company shall submit to the California Public Utilities Commission, within a period of fifteen (15) days, an Advice Letter and appropriate tariff schedules setting forth the new effective rates and accompanied by an affidavit of such change in the price of fuel oil. The new gas rates shall be effective beginning with the bill based on the first regular monthly meter reading for billing purposes which is taken on and after the 30th day following such change in the price of fuel oil, subject, however, to any revisory action that may be deemed necessary in the public interest by the California Public Utilities Commission in the exercise of its jurisdiction pursuant to the provisions of law and the rules and regulations of said Commission.

(2) In addition to the adjustments to the base rates that may be made in accordance with Special Condition (1) said base rates shall be adjusted further to reflect variations in the heating value of natural gas served as prescribed in Rule and Regulation No. 2 (i) contained in these tariff schedules.

(3) In the event the adjustments to the base rates made in accordance with Special Conditions (1) and (2) above are due to become effective within fifteen (15) days of each other, then the two shall be combined and the later date of the two effective dates shall govern.

(4) Service under this schedule is subject to discontinuance without notice in case the Company has an insufficient quantity of natural gas produced directly from oil wells and/or purchased from El Paso Natural Gas Company to satisfy its requirements of gas for underground storage and to supply with natural gas (a) customers under all its general, commercial, firm industrial and gas engine schedules, (b) customers under special contracts other than those for interruptible industrial service, (c) other public utilities and (d) customers under interruptible industrial schedules and special contracts for interruptible industrial service carrying the same or higher rates, and if the supplying of such gas under this schedule shall in the opinion of the Company jeopardize or threaten the supply to any of said customers or said public utilities, then the Company shall have the right, without notice, to discontinue such gas supplied under this schedule in whole or in part until it again has an amount of such gas sufficient to supply all of said customers and said public utilities in addition to supplying the gas provided under this schedule.

(5) Except upon an application made to the Public Utilities Commission and approval first obtained:

(a) No customer (except as to a plant on an interruptible gas rate during all or a portion of the year ending December 16, 1941), applying for gas service hereunder subsequent to December 16, 1941, shall be entitled to such gas service, unless such customer shall have adequate standby fuel, equipment, and qualified attendance ready at all times to effect immediate changeover from gas to other fuel in the event that the supply of gas hereunder shall be discontinued.

(b) No existing customer using gas hereunder subsequent to December 16, 1941, shall be permitted to increase usage of gas hereunder for additional equipment (except as to equipment on an interruptible gas rate during all or a portion of the year ending December 16, 1941) unless such customer shall have adequate standby fuel, equipment, and qualified attendance ready at all times to effect immediate change-over from gas to other fuel in the event that the supply of gas hereunder shall be discontinued.

(6) Service may be supplied under this schedule at the option of the Company for short term operations that are started and completed during the "off peak" demand season (May 1st to October 1st) without the provisions for standby fuel and equipment as required in Special Condition (5).

(7) A contract covering the fuel requirements of the customer during the operation of his plant, for a period of at least one (1) year, will be required as a condition precedent to service under this schedule, except as otherwise provided in special conditions, and shall continue in force and effect thereafter until either the Company or the customer shall give the other thirty (30) days written notice of a desire to terminate same, whereupon at the expiration of said thirty (30) days it shall cease and determine. If the customer permanently ceases operations, such contract shall not thereafter continue in force.

A 30299 wc

Schedule No. G-53

LIMITED INTERRUPTIBLE NATURAL GAS SERVICE

APPLICABILITY

Applicable, subject to interruptions in supply, to natural gas service to commercial or industrial customers for gas used only in stationary central steam boilers, petroleum oil stills and heaters, smelters and cement kilns, where such customers are located near existing mains having a delivery capacity and supply in excess of the then existing requirements of firm customers.

TERRITORY
A-1100 Btu

Within the Central, Northern, and Southern Divisions and that portion of the Eastern Division lying west of a north-south line at the east boundary line of Townships 2, 3, 4 and 5 South, Range 1 East, S. B. B. and M., exclusive of the San Bernardino Mountain area of the Eastern Division.

Within the incorporated cities of Shafter, Tehachapi, and Wasco, and the unincorporated areas of Midway Division described under Special Rates Areas (450), (451) and (452).

RATES

Commodity Charge:

	Per Meter Per Month Base Rates	Effective Rates 1100 Btu
First 200 Mcf, per Mcf	34.0¢	34.0¢
Next 800 Mcf, per Mcf	28.0	28.0
Next 4,000 Mcf, per Mcf	24.0	24.0
Next 5,000 Mcf, per Mcf	22.5	22.5
Next 10,000 Mcf, per Mcf	22.2	22.2
Over 20,000 Mcf, per Mcf	22.0	22.0

The base rates are established for a posted price of fuel oil of $1.55 per barrel and are predicated on an average monthly heating value of 1100 Btu per cubic foot (dry basis).

The effective rates are established in accordance with the provisions of Special Conditions (1),(2) and (3) below and are based on the current price of fuel oil of $1.55 per barrel and the average monthly heating value per cubic foot as indicated above.

Minimum Charge:

Per Meter Per Month $50.00

To be made cumulative only when total billing exceeds $600.00 per meter at any time during the contract year.

SPECIAL CONDITIONS

(1) Whenever and as long as the posted price of fuel oil in tank car lots shall be below one dollar and fifty-five cents ($1.55) and above one dollar and sixteen cents ($1.16) per barrel both inclusive, then the effective rates per thousand cubic feet for all natural gas delivered under this schedule shall be

at the base rates set forth above, less one-sixth cent (1/6¢) for each one cent (1¢) by which the price of fuel oil shall be below one dollar and fifty-five cents ($1.55) per barrel, the computation to be carried to the nearest 0.1¢. The posted price means the price in tank car lots of Bunker fuel oil with a viscosity specification of 165 seconds or over, Saybolt Furol at 122° F., as quoted to customers generally, either by the Standard Oil Company of California at El Segundo (El Segundo Refinery) or by the General Petroleum Corporation of California at Torrance (Torrance Refinery) or by the Union Oil Company of California at Wilmington (Wilmington Refinery), Los Angeles County, California, whichever posted price is the lowest.

When a change in the price of fuel oil occurs, the Company shall submit to the California Public Utilities Commission, within a period of fifteen (15) days, an Advice Letter and appropriate tariff schedules setting forth the new effective rates and accompanied by an affidavit of such change in the price of fuel oil. The new gas rates shall be effective beginning with the bill based on the first regular monthly meter reading for billing purposes which is taken on and after the 30th day following such change in the price of fuel oil, subject, however, to any revisory action that may be deemed necessary in the public interest by the California Public Utilities Commission in the exercise of its jurisdiction pursuant to the provisions of law and the rules and regulations of said Commission.

(2) In addition to the adjustments to the base rates that may be made in accordance with Special Condition (1) said base rates shall be adjusted further to reflect variations in the heating value of natural gas served as prescribed in Rule and Regulation No. 2 (i) contained in these tariff schedules.

(3) In the event the adjustments to the base rates made in accordance with Special Conditions (1) and (2) above are due to become effective within fifteen (15) days of each other, then the two shall be combined and the later date of the two effective dates shall govern.

(4) Service under this schedule is subject to discontinuance without notice in case the Company has an insufficient quantity of natural gas produced directly from oil wells and/or purchased from El Paso Natural Gas Company to satisfy its requirements of gas for underground storage and to supply with natural gas (a) customers under all its general, commercial, firm industrial and gas engine schedules, (b) customers under special contracts other than those for interruptible industrial service, (c) other public utilities and (d) customers under interruptible industrial schedules and special contracts for interruptible industrial service carrying the same or higher rates, and if the supplying of such gas under this schedule shall in the opinion of the Company jeopardize or threaten the supply to any of said customers or said public utilities, then the Company shall have the right, without notice, to discontinue such gas supplied under this schedule in whole or in part until it again has an amount of such gas sufficient to supply all of said customers and said public utilities in addition to supplying the gas provided under this schedule.

(5) Except upon an application made to the Public Utilities Commission and approval first obtained:

(a) No customer (except as to a plant on an interruptible gas rate during all or a portion of the year ending December 16, 1941), applying for gas service hereunder subsequent to December 16, 1941, shall be entitled to such gas service, unless such customer shall have adequate standby fuel, equipment, and qualified attendance ready at all times to effect immediate change-over from gas to other fuel in the event that the supply of gas hereunder shall be discontinued.

(b) No existing customer using gas hereunder subsequent to December 16, 1941, shall be permitted to increase usage of gas hereunder for additional equipment (except as to equipment on an interruptible gas rate during all or a portion of the year ending December 16, 1941) unless such customer shall have adequate standby fuel, equipment, and qualified attendance ready at all times to effect immediate change-over from gas to other fuel in the event that the supply of gas hereunder shall be discontinued.

(6) Service may be supplied under this schedule at the option of the Company for short term operations that are started and completed during the "off peak" demand season (May 1st to October 1st) without the provisions for standby fuel and equipment as required in Special Condition (5).

(7) A contract covering the fuel requirements of the customer during the operation of his plant, for a period of at least one (1) year, will be required as a condition precedent to service under this schedule, except as otherwise provided in special conditions, and shall continue in force and effect thereafter until either the Company or the customer shall give the other thirty (30) days written notice of a desire to terminate same, whereupon at the expiration of said thirty (30) days it shall cease and determine. If the customer permanently ceases operations, such contract shall not thereafter continue in force.

Application No. 30299
Exhibit No. 132
Witness: Banks
Date: 5-3-50

MEMORANDUM OF UNDERSTANDING
RELATIVE DEPRECIATION PRACTICES

SOUTHERN CALIFORNIA GAS COMPANY

Following consideration of all aspects of the depreciation situation of the Southern California Gas Company as of December 31, 1949, an agreement was reached, subject to approval of the California Public Utilities Commission, which pertains solely to Southern California Gas Company and is not to be considered a precedent in relation to other utilities, which is set forth herein.

The aspects of the situation considered were (1) the company's estimates of depreciation reserve requirements on 5% and 4% sinking fund methods and on the straight-line method, and general information of the Commission staff as to the basis and method of such estimates, (2) the history of the reserve, (3) the earning history and its relationship to depreciation accruals, and (4) possible constructive purposes to which depreciation reserve excesses could be transferred. In addition, over-all equity considerations including consumers', company and public interest, entered heavily into the agreement, coupled with the willingness of the company to set up a staff for the purpose of annual computations of accruals on the remaining life basis, and its willingness to a showing by the staff of the Commission of a rate of return on a modified sinking fund rate base as well as the undepreciated rate base in rate cases.

The depreciation reserve studies were made as of December 31, 1948 and are shown herein as brought up to December, 1949 by accruals under each method, less net retirements for the year 1949. The Aliso gas-manufacturing plant is considered nonoperative and, therefore, figures are shown separately on a pro forma basis as though the plant had actually been retired on the books. All figures pertain to Depreciation Reserve for General Plant, and exclude Automobile and Other Reserves which are accrued through clearing accounts:

As of December 31, 1949

Depreciation Reserve - per books	$79,960,000
- assuming Aliso retired	76,018,000±
Reserve Requirement (Company Consultants)	
5% Sinking Fund Method	35,000,000±
4% Sinking Fund Method	40,000,000±
Straight-Line Method	61,000,000±

An agreement was reached to adopt a remaining life 4% sinking fund accrual method based on the balance in reserve after adjusting the book reserve of December 31, 1949 by (a) write-off of the Aliso manufacturing plant, (b) an adjustment of book accruals for the year 1949 to the basis of accruals herein adopted, resulting in a transfer to surplus of $3,000,000, and (c) transfer of 12 million dollars from the depreciation reserve for general plant as follows:

1. Write off Preferred Stock Discount presently on books $1,589,000
2. Set up Contingency Reserve in respect to estimated tax accrual deficiency years 1945-1949 with the understanding that any difference, upon actual determination, will be disposed of through surplus 3,363,000
3. Write off intangible capital except franchise costs (partly included in C.P.U.C. rate base) 1,279,000
4. Set up subdivision of Reserve for Depreciation to write off of acquisition adjustment (presently included in C.P.U.C. rate base but of undetermined amount), to be determined under the accounting classification of January 1, 1949, with the understanding that any difference, upon actual determination, will be disposed of through surplus 3,200,000
5. Transfer remaining balance of the $12,000,000 to the present Reserve for Insurance, with the understanding that the company will discontinue the accruals to increase said reserve, presently being charged to expense, but will charge to expense all insurance premiums and accruals to maintain the reserve

at approximately its new level (until such time in the future as conditions may change) and with the understanding that balances in this reserve will be specifically reserved and used for insurance reserve purposes 2,569,000

Total $12,000,000

Under this plan, the adjusted balance of $61,018,000 of the depreciation reserve for general plant will come under a plan of "remaining life" accrual, wherein, by annual reviews by the company, the depreciation accrual to be charged to expense will be determined by the gross depreciable plant per books less the then existing depreciation reserve related to the estimated remaining life of the property and estimated gross salvage, less cost of removal. Under this plan, no further adjustments through surplus for either deficient or excessive depreciation reserve balances will be made in the future, even though the accrual method adopted herein be changed. The method adopted is the 4% sinking fund method.

Interest at 4% will be accrued and charged to expense each year on the book balance in the depreciation reserve for general plant. The total depreciation charge to expense will also include an annuity of such amount that, coupled with the interest charge, the total accrual would ultimately provide for the future depreciation of the then existing gross depreciable plant, less the then existing depreciation reserve.

It is further understood that the company will set up a continuing staff review of depreciation charges within its organization. The staff will have the duty of presenting by December 1 each year recommendations for proposed basic depreciation rates for the ensuing year for management approval and Commission review. This staff will also make the adjustments necessary as to composite rates for December accounts of each current year, based on the basic lives approved the preceding year, with the objective that the accrual for the year will be properly weighted as to the actual plant changes during the year.

The Commission staff has been reviewing the detail of the company consultants' reserve requirement studies and has accepted such studies as information for the purposes of this agreement. In order to expedite the completion of the rate case now pending, it is stipulated that a remaining life 4% sinking fund depreciation annuity of $1,688,000 is reasonable for the year 1950 and that interest will be $2,441,000, with a total provision of $4,129,000 for depreciation expense for 1950. For future years, however, the parties are free to make such representations as to remaining lives and net salvage as they feel proper after further investigation. It is also understood that this memorandum does not purport to cover the detail mechanics of computing the annuities for the future, which will be the subject of further conferences.

May 3, 1950.

Reserve - December 31, 1949		$79,960,000
Deprec. Expense, 1949 Actual	$6,901,000	
Actuarial 4% Requirement	3,901,000	
Difference - charge reserve - credit surplus	3,000,000	
Aliso Street Retirement	3,942,000	
Total Charges to Reserve, Jan. 1950		6,942,000
Adjusted Balance - January 1950		$73,018,000
Reserve Requirement 4% S.F. Basis		40,000,000
Excess in Reserve		$33,018,000
Transfer from Depreciation Reserve		12,000,000
Balance of Excess to Remain in Reserve		$21,018,000
Reserve after Adjustments		$61,018,000
Disposition of Transfer from Depreciation Reserve		
Write-off of Pfd. Stock Disc.	$1,589,000	
Write-off of Intangible Capital	1,279,000	
Reserve for write-off due to future acquisition adjustments*	3,200,000	
Transfer to Tax Reserves*	3,363,000	
Balance to Insurance Reserves*	2,569,000	
		$12,000,000
Est. Deprec. Expense 1950		
Int. - 4% on $61,018,000		2,441,000
4% Sinking Fund Annuity Total Life Basis	3,028,000	
Less - Annual rent of 25-year annuity created by excess retained in reserve - 6.4% of $21,018,000	1,340,000	
Net Remaining Life 4% Sinking Fund Annuity	1,688,000	1,688,000
Depreciation Requirement for 1950		$ 4,129,000

* These reserves shall be non-interest bearing.