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Decision No. 45296

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

(AMENDED TITLE) In the matter of the application of PACIFIC GAS AND ELECTRIC COMPANY for an order of the Public Utilities Commission of the State of California authorizing it to withdraw and cancel all of its filed and effective rate schedules applicable to natural gas service and its Rule and Regulation No. 15 (Gas Main Extensions), and to file and make effective in lieu thereof the natural gas rate schedules, and revised Rule and Regulation attached to and made a part hereof.	AMENDED APPLICATION NO. 31466

Robert H. Gerdes and Ralph W. DuVal, for applicant; Dion R. Holm and Paul Beck, for City of San Francisco; Ross Miller, Fred C. Hutchison, and Robert T. Anderson, for City of Berkeley; C. L. Ozias, for City of Fresno; John W. Collier and Loren W. East, for City of Oakland; Edson Abel, for California Farm Bureau Federation; Carl Froerer and S. B. Whitney, for City of Alameda; Brobeck, Phleger & Harrison, by George D. Rives, for California Manufacturers Association; Everett Glenn, by Anthony J. Scalora, for City of Sacramento; W. D. MacKay, for Danish Creamery Association, Fresno; Bill L. Dozier, for City of Stockton; W. G. Elliott, for City of Vallejo; F. W. Denniston of Department of the Army, for Department of Defense and all executive agencies of the United States Government; J. F. Coakley and D. I. Wendell, for County of Alameda; Thomas K. Perry, for City of Carmel-by-the-Sea; J. K. Steele, for City of Bakersfield; W. D. MacKay and L. H. Stewart, for Crystal Cream and Butter Company, Sacramento, and Butte Tallow Company, Chico.

INTERIM OPINION

Pacific Gas and Electric Company, a California corporation and applicant in this proceeding, by the above-numbered application filed on June 7, 1950, sought authority to increase its natural gas rates and charges in the year 1951 by an estimated $15,553,800. On September 27, 1950, applicant filed an amended application requesting this amount be increased to $18,158,000 by reason of the increase in federal income tax rate made subsequent to the original filing date.

It also requested permission to revise its Rule and Regulation No. 15 so as to reduce free gas main extension allowances to new customers which, it alleges, appear too liberal under today's increased costs.

Thirteen days of public hearings were held before Commissioner Hulс and Examiner Edwards during October, November, and December, 1950, on the application amending the original application filed June 7, 1950. During these hearings, applicant's case was completed and cross-examination of applicant's witnesses undertaken by the parties. At the close of the hearing on October 20, 1950, counsel for the City of San Francisco made a motion to dismiss the application which, after due consideration, was denied on November 20. Thereafter the hearings continued.

Interim Request

At the close of the hearing on November 22, applicant made a motion asking for interim rate relief starting January 1, 1951, pending the final outcome of the proceeding, without specifying any definite amount. The hearing will be resumed later for receipt of evidence to be offered by the interested parties and the Commission staff.

A major factor in applicant's argument in support of an interim grant of rate increase is the annual cost associated with the new Milpitas-Topock transmission line presently transporting Texas gas into Northern California. The total cost of this transmission line is estimated to be $63,321,000. A portion of this line from Milpitas to Llanada was completed in 1949 at a cost of $7,546,706. The record shows that on December 26, 1950, the section of line from Llanada to Topock was to be completed and in use at a cost of $44,104,034. By September 1, 1951, applicant estimates that compressors and associated facilities and structures will be completed at an additional cost of $11,670,260. Without the addition of these compressor facilities, the line will deliver 150,000,000 cubic feet per day. By January 1, 1952, the compressors will bring the capacity up to 400,000,000 cubic feet per day. The addition of such a large block of capital to the rate base within one year, without a fully compensating increase in revenue, is a large factor in lowering the rate of return from the company's estimate of 5.14% in 1950 to 2.93% in 1951.

There are also certain known increases in unit operating expenses which applicant claims will contribute to this lowering of return. The contract cost of gas obtained from California producers is estimated to increase from an average price in 1950 of 15.663 cents per Mcf to 20.295 cents per Mcf. Unit wage rates have been increased by 4% (3%, September, 1950, and 1%, January, 1951). Ad valorem taxes are expected to increase from $5,454,000 in 1950 to $7,063,000 in 1951. The federal income tax rate has increased from 42% in 1950 to 47% beginning January 1, 1951. While applicant estimates that revenue in 1951 at present rate levels will increase by $9,303,000, it estimates that expenses before income taxes and return will be higher by $16,154,000 compared to the average year basis for 1950.

Position of Protestants

The City of San Francisco opposed the proposal for an interim increase on the grounds that within the past 12 months the applicant was granted a $4,000,000 increase in gas rates and an $8,800,000 increase in electric rates, and that there has not been a fair trial of the effect of these increases on the income of the company. Also, the City could see no reason why the utility has to pay a $2 dividend on $25 par stock in order to maintain its credit standing. The utility, it claims, has no acute need for ready cash, as the bulk of the improvements has been paid for. It claimed the gas department had only 18% of the company's capital and therefore questioned the propriety of the gas department's being required to raise 90 cents of the company's common stock dividend.

The City of Oakland joined with San Francisco in opposing the interim increase proposal, referring to the increase in the company's earnings since the last two rate increases were granted. The County of Alameda also joined with San Francisco in protesting the granting of any interim increase for the reasons set forth by San Francisco's representative.

The United States Government, which appeared in the proceeding as a consumer of gas supplied by the applicant, also objected to the granting of the interim increase as requested. It took the position that a rate of return of 2.93% in 1951 would be unduly low but that inasmuch as the low return was the end product of a series of computations based solely on the judgment of the company's own witnesses, its accuracy is highly speculative. It contended that such a large part of the increased gas sales will be to the Electric Department for steam-electric generation that, at the rates proposed by the company, there is in effect an understatement of gas revenues. It argued that insufficient actual experience is available in estimating the costs of Texas gas delivered at Milpitas to learn the full effects of the new line on operations of both the gas and electric departments of the company. It was the view of the government that an examination must be made of the actual operating results of both departments before projecting estimates into the future.

The California Manufacturers Association pointed out that the interim request for increase is submitted on the basis of the company's own showing and evidence and that, with a limited amount of cross-examination, it must be judged in that light. It maintained that the company's functional cost analysis shows that firm industrial schedules are now charged too much by some $428,000 for 1951 and the general service customers too little by about $2,500,000 for a full 6% return. Likewise, the interruptible industrial rates for 1951 would produce $1,955,000 more than the company's cost of providing that service. Since the close of the last case, it claims the interruptible rates have been increased by escalation resulting from an increase in the price of fuel oil in the neighborhood of $2,400,000 based on tariff filings on an annual basis. The association contends that there is no basis for interim increases in firm and interruptible industrial rates.

The California Farm Bureau Federation opposed the proposed interim increase until a study is made by the staff of the Commission. A consumer's representative also opposed the interim request on the basis of an incomplete record to date and asserted that as a result of the cost analysis presented by the company, some very drastic revision of relative rate levels is in order, since the opposing interests have not had an opportunity to present their side of the picture.

Company's Position

Counsel for applicant answering the opposition to the proposed interim increase stated that to delay some relief beyond the first of January, 1951, will result in confiscatory rates while the various protestants are asking for more time to analyze the company's request. He pointed out that the company started the proceeding seven months before the end of 1950 and if conditions had been such that the Commission could have completed the hearings and rendered a final order before the end of 1950, no interim request would be necessary. Counsel stated that the very large increase in capital investment in a single year, because of the construction of the Texas-California pipe line, is a very unusual situation; that the company would not be seeking relief if its operations were continuing along normal lines, but that the customers are insisting that they have adequate supplies of gas and that Texas gas, even after it has been transported some 1,600 miles, is cheaper than providing manufactured gas to augment lessened local supplies in order to meet increasing demands.

To cut the dividend on common stock, counsel stated, is one way to ruin the credit of the applicant and impair its ability to keep up with the growth of the State of California. For the last 15 or more years, the dividend on common stock has been maintained at $2 a share. The applicant believes that it is entitled to a fair and reasonable return on its gas department business. It contends that 6% is a fair rate of return and an additional $18,000,000 in gross revenue is needed, but it is not asking for $18,000,000 on the interim basis. For the interim period, it asks the Commission to allow an amount which would be fair, just, and reasonable under the circumstances.

Earnings of Pacific Gas and Electric Company's Gas Department

The company's showing of its experienced and estimated results of operation, as shown in Exhibit No. 2, for the years 1949, 1950, and 1951, may be summarized as follows:

	Year 1949*	Estimated Average Year 1950	Estimated Average Year 1951 Present Rates	Estimated Average Year 1951 Proposed Rates
Operating Revenues	$70,876,000	$ 77,917,000	$ 87,220,000	$105,495,000
Operating Expenses	50,631,000	52,414,000	65,996,000	66,128,000
Taxes	7,426,000	9,590,000	7,614,000	16,178,000
Depreciation	2,718,000	3,200,000	4,446,000	4,446,000
Total Expenses	60,775,000	65,204,000	78,056,000	86,752,000
Net for Return	10,101,000	12,713,000	9,164,000	18,743,000
Cost of Plant plus Working Capital	207,668,000	247,140,000	312,340,000	312,340,000
Rate of Return	4.86%	5.14%	2.93%	6.00%

* Reflects authorized increase in gas rates only for service rendered during billing periods ending on and after November 28, 1949.

In the above tabulation, the year 1950 results were based on six months' actual results and six months' estimated results. Later 1950 figures, based on nine months' actual results and three months' estimated, were testified to on November 20, 1950, and show an increase in net revenue of $25,000 and a change in rate of return by only .01 of one per cent to 5.15% in 1950 compared with the above figure. Both 1950 and 1951 estimates were based on average temperature and precipitation during the years, and on cost of fuel oil based on the posted price of $1.60 per barrel, tank car, and $1.55 per barrel, pipe line delivery at Richmond.

General service revenues, which comprise approximately 64% of the total, are estimated by applicant to increase by 5% in 1951 over the 1950 average level; firm industrial by 24%;

interruptible industrial by 12%; and interdepartmental by 58%. The total revenue estimate of $87,220,000 represents a 12% increase over the 1950 average year figure of $77,917,000. This rate of increase is 2% greater than the 10% growth in revenue shown in 1950 over 1949, and largely results from the heavy increase estimated in sales to steam-electric generating plants. The Commission's staff in cross-examination of the company's witness on revenues brought out the fact that the 5% growth trend for general service would result in approximately $1,000,000 less revenue in this class than if the same rate of growth shown in 1950 over 1949 had been assumed. The company's witness pointed out that after deducting the cost of gas to serve this higher rate of growth plus income tax on the extra revenue, the net revenue increase would amount to approximately $200,000.

The estimate of operating expenses for 1951 conforms to the quantity of gas estimated to be sold for the year. The principal item of expense is the cost of natural gas purchased in the amount of $47,820,000, which represents 72% of the total expense estimate, exclusive of taxes and depreciation, of $65,996,000 for 1951. The price of gas has been sharply upward since 1945, when the average cost was 8.608 cents per Mcf. In 1950, the estimated unit cost of all gas including Texas gas is 16.598 cents, and for 1951 is 19.404 cents. Applicant stated that its cost of gas in 1951 from California sources will be $6,100,000 more than if the 1950 prices were effective in 1951. The primary reason for this increase is that the available local supplies are insufficient to meet steadily increasing requirements.

So long as California gas supplies were adequate or more than adequate to meet all requirements, the company was able to obtain firm purchase contracts for natural gas on a favorable basis. Over the past few years, as these contracts have expired, the various producers have demanded increased prices. In 1951, the total cost of gas is estimated to be approximately $11,800,000 greater than in 1950, or a total increase of over 32% in this item.

Expenses other than the cost of gas, covering such items as transmission, distribution, maintenance and operation, customer accounting, sales promotion, and general are estimated to increase by 10.8% from $16,401,000 in 1950 to $18,176,000 in 1951. This increase, amounting to $1,775,000, includes $541,000 new expense in connection with the Topock-Milpitas transmission line. Total expenses, including depreciation and taxes, are estimated to increase by 20% in 1951 compared to 1950.

Rate Base

The rate base on which applicant seeks a fair return is listed as "cost of plant plus working capital" in its Exhibit No. 8 and is comprised of production, transmission, distribution, general plant, prorated common utility plant, and miscellaneous items, such as acquisition adjustment, intangible plant, materials and supplies, and working cash capital, less consumers' advances, contributions in aid of construction, motor vehicle depreciation, and one-half of cost of standby gas plants. Applicant's estimated rate bases for the Gas Department may be summarized as follows:

	Million Dollars		Increase	
	Year 1950	Year 1951	Amount	Ratio
Average Operative Plant	223.9	289.3	65.4	29%
Common Utility - Gas Pro Rata	12.9	13.7	.8	6
Intangible Plant	.3	.3	-	-
Material and Supplies	2.8	2.9	.1	4
Working Cash Capital	11.0	10.3	(.7)	(6)
Acquisition Adjustment - Gas Pro Rata	2.7	2.5	(.2)	(7)
Deductions:				
Consumers' Advances	(.5)	(.6)	(.1)	(20)
Contributions in Aid of Constr.	(.2)	(.2)	-	-
Motor Vehicle Depreciation	(.2)	(.2)	-	-
Standby Gas Plants (One-half Cost)	(5.6)	(5.7)	(.1)	(2)
Total	247.1	312.3	65.2	26

(Red Figure)

Of the increase for 1951 over 1950, $44.1 millions are accounted for by the section of transmission line from Llanada to Topock. This amount represents 67.5% of the $65.2 millions increase in total rate base shown for the year.

For the purpose of this interim decision, we believe that it is not necessary to consider in detail the various elements that applicant has claimed in its rate base which will be fully considered in the final opinion and order. Here, we are concerned primarily with the large increase in rate base of 26% in one year and the effect thereof. In considering this greatly augmented rate base in relation to the estimated growth in revenue of 12% and increase in expenses of 20%, it is apparent that some interim increase is necessary to enable applicant properly to meet its requirements and to continue to attract the capital necessary to finance the cost of equipment to serve the public.

Interim Rates

As this order deals entirely with interim rates, the applicant's proposed rates will be discussed in detail in the subsequent opinion and order determining permanent rates. The applicant is being authorized to increase the general service, firm industrial, gas engine and resale rates and charges by 11.5%, which will yield additional revenues of about $7,000,000 per year. Such increase in gross revenue based on the record to date, should provide net operating revenues which will result in a return of approximately 4.2% on the company's rate base of $312,340,000 for the purpose of interim rates. Based on the record to date, no increases are authorized in interruptible industrial and interdepartmental rates. The interruptible industrial schedules contain fuel oil escalator clauses, and the posted price of fuel oil was recently increased from $1.60 per barrel to $1.80; the applicant has filed the appropriately revised interruptible rates to be effective January 17, 1951. The increase in revenue authorized herein is in addition to the additional revenue realized as a result of said change in price of fuel oil. Inasmuch as interdepartmental charges are influenced by the price of fuel oil under the price formula being used by the company, no change is being made for the interim period in the rate paid for gas for steam-electric plant usage.

In awarding this interim increase, we have kept in mind the necessity for stabilizing prices during the existing emergency consistent with the economic needs of this applicant under today's inflated costs of material and labor. In this order, we are allowing only the minimum amount in the range of increase which we believe is warranted by the record herein.

At this time and until all interested parties have had ample opportunity to analyze the company's proposal, we will not authorize a change in Rule and Regulation No. 15 covering free allowance for gas main extensions but will defer determination of this issue.

Although the company's direct presentation has been completed, neither the other parties nor the Commission's staff as yet has presented evidence, their participation being only to the extent of cross-examination of company's witnesses.

From the facts recited herein, however, the Commission is of the opinion and finds that the applicant is in immediate need of interim relief, and accordingly such relief will be authorized.

INTERIM ORDER

Pacific Gas and Electric Company having applied to this Commission for an order authorizing certain increases in rates and charges, and for a grant of interim relief pending final determination of the proceeding, public hearings having been held and argument heard on the motion for interim rate increases, and it appearing to this Commission that certain increases are warranted on an interim basis,

IT IS HEREBY FOUND AS A FACT that the increases in rates and charges authorized herein are justified. To the extent and in so far as the present rates differ from those authorized in this decision, the present rates are unjust and unreasonable; therefore,

IT IS ORDERED as follows:

1. Applicant is authorized and directed to file in quadruplicate with this Commission, after the effective date of this order, in conformity with General Order No. 96, schedules containing existing General Natural Gas Service, Firm Industrial, and Gas Engine rates and charges modified to the extent of including a clause reading: "SURCHARGE: 11.5% in addition to the above charges", and, after not less than five (5) days' notice to the Commission and the public, to make such rates effective for service rendered on and after February 18, 1951.

2. Applicant is authorized and directed to surcharge by 11.5% bills for resale service rendered under its special contract with the City of Palo Alto on and after February 18, 1951.

IT IS FURTHER ORDERED that Application No. 31466 is continued to permit the holding of such further hearing and receipt of such additional evidence as may be deemed appropriate before final determination of said application is made.

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

Dated at San Francisco, California, this 23rd day of January, 1951.

R. E. Mitchell

Justus F. Craemer

Harold P. Huls

Kenneth Potter

Commissioners.