

Exhibit "G" of its amended application to all classes of gas customers located within its service area in the counties of Contra Costa, Santa Cruz, Santa Clara, San Benito, Monterey, Kern, Fresno, Kings, and Merced.

Nine days of public hearings were held before Commissioner Huls and Examiner Edwards during January and February, 1951, on the amended application. 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 January 25, 1951, applicant made a motion asking for interim rate relief pending the final outcome of the proceeding. This motion was submitted for decision on February 21, 1951, following oral argument. The hearings will be resumed later for receipt of evidence to be offered by the interested parties and the Commission's staff.

Interim Request

For the interim period the utility asks for an immediate grant of such portion of the requested increase as the Commission thinks is just and proper. It claims the cost of gas in 1951 will increase by about \$1,500,000 per year over the cost at prior prevailing prices. Federal income tax rates were increased in September, 1950, by 4 percentage points and again in January, 1951, by 5 percentage points. Labor costs were increased approximately 4% starting October 1, 1950. With a substantial increase of 112% in unit cost of labor and 90% in materials since before World War II, the company claims that under rates currently in effect, revenues for new customers do not produce sufficient additional income to yield an adequate return on the company's investment required to serve them.

Partially offsetting these increased costs are increases in revenues due to growth of the company, as well as increased consumption per customer. Depreciation expense has been revised in accordance with Decision No. 45138 of this Commission resulting in a reduction in the annuity allowable as an expense for the gas department as compared with the amount which would have been obtained under previous 5% sinking fund accrual methods followed by the company. After reflecting these favorable changes, as well as those that are unfavorable, applicant forecasts that the rate of return in 1951 will drop to 0.93%* on its gas department rate base compared to 6.74% in 1950. It requests an increase in rates sufficient to bring its future return up to 6.25% which it claims is necessary to attract the capital to finance its construction program necessitated by growth in its service area.

Applicant's Exhibit No. 28A shows its results of operation on a temperature adjusted basis for the year 1950, and Exhibit No. 1 shows the estimated results for the year 1951 under present rates on a normal temperature basis and \$1.80 fuel oil price. These results are summarized below:

	Gas Dept.	Electric Dept.	Water Dept.	Total All Departments
<u>YEAR 1950 (Temperature Adjusted Basis Ex. 28-A)</u>				
Operating Revenues	\$ 9,507,300	\$ 3,819,602	\$ 65,746	\$13,392,648
Operating Expenses	7,704,008	2,364,935	51,835	10,120,778
Depreciation Annuity	156,175	163,494	1,640	321,309
Taxes	727,533	611,921	3,142	1,342,596
Total Expenses	8,587,716	3,140,350	56,617	11,784,683
Net Revenue	919,584	679,252	9,129	1,607,965
Rate Base	13,640,822	11,324,244	203,625	25,168,691
Rate of Return	6.74%	6.00%	4.48%	6.39%
<u>ESTIMATED YEAR 1951 (Ex. 1)</u>				
Operating Revenues	9,555,735	4,042,900	71,980	13,670,665
Operating Expenses	9,083,531	2,490,700	42,320	11,616,551
Depreciation Annuity	178,743	190,981	2,041	371,765
Taxes	151,344	659,119	10,144	820,607
Total Expenses	9,413,618	3,340,800	54,505	12,808,923
Net Revenue	142,167	702,100	17,475	861,742
Rate Base	15,241,341	12,889,201	275,290	28,405,832
Rate of Return	0.93%*	5.45%	6.35%	3.03%*

* These figures were predicated on an estimated 45% federal income tax rate. Subsequently the rate was set at 47% which changes the 0.93% rate of return figure to 0.99% and the 3.03% figure to 3.02%.

Coast Counties Gas and Electric Company is affiliated with the following group of companies through a holding company, Pacific Public Service Company:

1. Coast Natural Gas Company
2. Coast Industrial Gas Company
3. Standard Pacific Gas Line, Inc. (5/14 interest)
4. Natural Gas Corporation of California
5. Gas Lines, Inc.
6. Arrowhead and Puritas Waters, Inc.

The Standard Oil Company of California is in turn interested in the operation of these properties, being the largest stockholder of Pacific Public Service Company.

The applicant obtains gas for distribution by purchase from the Coast Natural Gas Company. Coast Industrial Gas Company and Standard Pacific Gas Line, Incorporated, are involved in the transportation of the gas for the Coast Natural Gas Company. The Natural Gas Corporation of California, owning natural gas fee lands, mineral rights, and leases in certain natural gas fields in the State of California, together with producing wells, sells its production to Coast Natural Gas Company. Applicant claimed that only the first three companies enumerated provide service directly or indirectly to applicant and did not present evidence on the last three. The Natural Gas Corporation and Standard Oil Company provide approximately one-half of the gas requirements of the applicant but no analyses of their costs of operation and capital were presented.

Position of Protestants

The United States Government, which appeared in the proceeding as a consumer of gas supplied by applicant, objected to the granting of an interim increase on the grounds that the earnings for the 12 months ended December 31, 1950 showed a return of 6.74%, which is in excess of that allowed to other

gas utilities in recent hearings; that gas is purchased from affiliates, produced by affiliates, and transported by affiliates; and that the capital structure of the producing company, the Natural Gas Corporation of California, was not completely analyzed. Counsel for the government took the position that, under *Smith v. Illinois Bell Telephone Company*, 282 U.S. 132, an inquiry into the operations of the affiliates is most pertinent and, in the absence of a full disclosure of the operations of all of the affiliated companies, the applicant has not completed its case. In conclusion, counsel suggested that the Commission deny the request for an interim increase because the applicant did not show that rates to date are confiscatory and, in the absence of a full disclosure of the corporate and rate structure of all affiliated companies, the applicant did not make a prima facie case.

The California Manufacturers Association took the position that the record in the proceeding did not justify any interim increase in the industrial rates. A consumer's representative fully agreed with the position taken by the government and the association and in addition stated that the information on the cost of gas was insufficient in that the price the affiliate was paying to producers in the various fields was not shown.

The California Farm Bureau Federation urged the Commission to deny the motion for an interim increase because interim rate increases are generally undesirable, particularly when followed by a final increase, which creates misunderstanding amongst rate payers, and because the substantial increase in operating costs is very largely due to the similar increase in revenue of its affiliate company. While the Farm Bureau does not contend that there is anything illegal about the revised

contract for purchase of gas between the affiliates, it does result in the transfer of a very substantial sum of money; therefore, it contends that the Commission should have all of the facts that can be made available on which to determine what increase, if any, should be granted as a result of this particular transaction.

Review and Conclusion

During the course of the hearings, the cross-examination indicated that the utility's estimate of residential and commercial sales shown in Exhibit No. 12 was low by approximately 2 Mcf per customer per year in the Contra Costa region. Applicant's estimate of growth of new customers in 1951 in the Contra Costa region was set at 3,000 in contrast to a growth of 5,470 shown in applicant's monthly reports for 1950. Early reports of growth in 1951 show a substantially higher rate of growth than estimated. Based on the company's estimate of use per customer and number of customers, and even with the possibility of material restrictions lowering the growth rate in the latter part of 1951, it is apparent that for the purposes of this interim order applicant's revenue estimate must be considered too low.

The representative of the Farm Bureau questioned the estimated increase in the unaccounted-for gas from 249,700 Mcf in 1950 to 416,250 in 1951. Applicant's witness explained that this condition was caused by the unusually cold season at the end of the year and that a carry-over resulted with reference to sales shown by customer's meters. Applicant's figure for unaccounted-for gas in 1949 was 407,827 Mcf. Without attempting herein to determine a reasonable average allowance, we believe that the recent actual experience should be considered in relation

to an interim rate request pending full consideration of the issues.

In addition to these adjustments, it appears that the quantity of gas that will be available to meet customers' requirements may be considerably greater in 1951 than estimated by applicant. Exhibit No. 15 shows that 31,225,307 Mcf of gas were purchased in 1950 compared to 27,407,350 Mcf estimated by the company for 1951. Applicant's monthly reports show that in the first three months of 1951 applicant purchased 1,073,000 Mcf or 14.7% more than the company's estimate. The total gas purchased in these three months was 441,000 Mcf or 5.6% greater than in the first three months of 1950.

Applicant is supplied with natural gas at wholesale by an affiliated company, Coast Natural Gas Company. A new contract was entered into January 1, 1951, embodying increased wholesale rates. The amount Coast Counties has estimated it would pay Coast Natural in 1951 is \$7,527,560 as compared with an actual payment of \$6,241,944 in 1950, although the quantity of purchase is estimated by applicant to be lower in 1951 than in 1950. In order to make a proper comparison of the 1950 payments with the estimated 1951 payments, it is necessary to reflect the escalation features of the contract to present posted fuel oil prices, which will materially reduce the difference indicated above. As previously mentioned, the actual purchases in the first three months of 1951 have shown an increase over 1950; it should be noted that this item of cost is more than twice all other costs of applicant's gas department as shown by the first column of Table 4, in Exhibit No. 30.

Thus, the importance of the reasonableness of this contract rate is apparent. Applicant's Exhibit No. 16 presents

certain data as to the costs involved. From this exhibit, we find that several affiliated companies are involved in delivering the gas from the field to the applicant's pipe line system. In other words, all of the gas which is purchased by applicant is handled by intermediate affiliated companies.

In applicant's showing, these affiliated companies, which have not submitted themselves to this Commission's jurisdiction, are grouped under the terminology of Pacific Public Service - Coast Natural Gas System. Although the contractual relationship of Coast Counties is with the Coast Natural Gas Company, the latter utilizes, in addition to its own, facilities of Standard Pacific Gas Line, Inc., Coast Industrial Gas Company and the parent company, Pacific Public Service Company.

In addition, the salaries and expenses of substantially all of the principal officers of the Coast Counties Gas and Electric Company do not appear on its books and records, but are recorded on the books of the parent company and prorated to Coast Counties and to other companies.

A review of applicant's Exhibit No. 16 indicates that substantial differences of opinion may exist as to the reasonableness of these costs after the books and records of these affiliated companies have been analyzed. Applicant's officers have participated in the development of the gas purchase agreements which have yielded the affiliated companies much higher rates of return than enjoyed by applicant. This situation arising from these affiliated relationships has not been subjected to a thorough investigation by the Commission and tested by the standards provided and required by law. It is necessary that the Commission give substantial weight to this fact in determining this request for interim relief.

In order that our analysis of this matter may be carried forward to a conclusion at an early date we believe that the applicant should make arrangements for the books and records of its parent company and its affiliates to be opened to designated representatives of the Commission's staff.

Considered in the light of the possible increased net revenues over those estimated by the company, and also the high earnings of applicant's affiliates, the Commission cannot consider the present situation an emergency justifying interim rates pending the completion of the showings in the main proceeding and the establishment of definitive rates. We view an interim rate increase as an emergency measure, applicable only in the instance where the minimum financial obligations of the utility cannot be met prior to the establishment of definitive rates. In conclusion, we find that applicant's showing does not justify the granting of its motion for interim rate relief at this time.

O R D E R

Coast Counties 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 the Commission having considered said motion and having found, as recited in the

foregoing opinion, that applicant has failed to make a case justifying the grant of interim relief at this time, and good cause appearing,

IT IS ORDERED that said motion for interim rate increase be and it is hereby denied.

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

Dated at Los Angeles, California, this 8th day of May, 1951.

A. T. [Signature]
Justus J. [Signature]
Harold P. [Signature]
[Signature]
[Signature]
Commissioners.