

Decision No. 45759**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 Extension), 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.

Application No. 31466  
 (Amended)

THIRD INTERIM OPINION AND ORDER

At the public hearing on May 17, 1951, on the above-entitled application, memoranda of understanding relative to depreciation practices using "remaining life" method and to amortization of acquisition adjustment account of the Pacific Gas and Electric Company were received in evidence as Exhibits Nos. 40 and 41 in this proceeding and copies thereof are attached to this order as Exhibits A and B, respectively. These proposed agreements between the Commission's staff and the company on the matters therein specified were submitted to the Commission for consideration and approval. The net effect of these understandings after income tax adjustments, if approved by the Commission, is to reduce applicant's requested gas rate increase by approximately \$1,900,000 annually.

Counsel for applicant requested that the Commission act promptly either to approve or to reject these documents rather than to wait until final disposition of this case. This determination is necessary in order that the Commission's staff be prepared to

present its study at the next scheduled public hearings starting June 13, 1951, at 10 a.m. in the State Building, San Francisco.

After considering the proposed agreements, the Commission finds the same to be in the public interest and that they meet with its approval; therefore,

IT IS HEREBY ORDERED that Pacific Gas and Electric Company is authorized and directed to carry out the terms and provisions of:

1. "Memorandum of Understanding Relative to Depreciation Practices, Pacific Gas and Electric Company, Gas Department," identified as Exhibit No. 40 in this proceeding, a copy of which is attached hereto as Exhibit A.
2. "Memorandum of Understanding Relative to Amortization of Acquisition Adjustment Account of the Pacific Gas and Electric Company in Rate Proceedings," identified as Exhibit No. 41 in this proceeding, a copy of which is attached hereto as Exhibit B.

The effective date of this order shall be fifteen (15) days after the date hereof.

Dated at San Francisco, California, this 29<sup>th</sup> day of May, 1951.

R. J. Indurana  
Justus J. Craven  
Harold P. Hula  
Lawrence H. Potter  
John L. McCall  
Commissioners.

MEMORANDUM OF UNDERSTANDING  
RELATIVE TO DEPRECIATION PRACTICES  
PACIFIC GAS AND ELECTRIC COMPANY  
GAS DEPARTMENT

Following consideration of the history and present basis of depreciation accruals for Pacific Gas and Electric Company's Gas Department, as well as its one-half interest in Standard Pacific Gas Lines, Inc., the within agreement was reached between representatives of the staff of the California Public Utilities Commission and the company, all subject to formal approval of the Commission.

1. All depreciation reserves, estimates and figures herein are intended to, and do, exclude:

- (a) Automobile and other Reserves which are accrued through clearing accounts.
- (b) Reserve for Gas Stand-by Production Plants.
- (c) Common Utility Plant Reserve.
- (d) Reserves of the Electric, Steam Heat and Water Departments.
- (e) Nonutility Properties.

2. As of December 31, 1950, the book depreciation reserve for the company's Gas Department was \$58,636,624.65, and for its one-half interest in Standard Pacific Gas Line, Inc., a subsidiary record will be established with a balance of \$3,171,408 as of that date.

3. The depreciation reserves as of December 31, 1950, shown in item 2 hereof, will come under a plan of "remaining life" 5% sinking fund accrual method. Under this plan, by means of periodic reviews by the company, the annual depreciation accrual will be determined by the gross depreciable plant per books less the then existing depreciation reserve related to the estimated equivalent remaining life of said depreciable plant and estimated gross salvage, less cost of removal.

4. Under the foregoing plan no adjustments for either deficient or excessive depreciation reserve balances will be made in the future through Surplus, or any account not classed as Gas Department Operating Revenue

Deductions in the Commission's present Gas Classification of Accounts, even though the 5% sinking fund accrual method adopted herein be changed.

5. The total depreciation accrual for each year, for the Pacific Company's Gas Department and for its 1/2 interest in Standard Pacific Gas Lines, Inc., respectively, will include: (a) interest at 5% on the balances in the respective depreciation reserves, mentioned in item 2 herein, as of December 31 of the next preceding year; and (b) annuities of such amount that, coupled with said interest accruals, the sum of the future interest and annuity accruals plus the then balances in said respective depreciation reserves will provide for the future depreciation of the then existing gross depreciable plant in accordance with its then estimated remaining life expectancy.

6. Company will maintain within its organization a staff which will have the duty of (a) presenting by December 1 each year recommendations for proposed basic depreciation rates for the ensuing year for Management approval and Commission review and (b) making 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 actual plant changes during the year.

7. To expedite completion of the pending Gas Rate Case (Application No. 311466), it is stipulated that the following remaining life 5% sinking fund depreciation annuities on capital closed to primary plant accounts as of December 31, 1950, are reasonable and properly to be used for the year 1951:

- (a) For the company's Gas Department ..... \$2,965,191
- (b) For the company's 1/2 interest in  
Standard Pacific Gas Lines, Inc. .... (67,338)

(Red Figure)

To the above figures there will be added appropriate annuities on Gas Department (1) average operative additions for the year 1951 and (2) pro rata of common utility plant.

For future years, however, the parties are free to make such representations as to remaining life expectancy and net salvage as they feel proper after further investigation.

8. This memorandum does not purport to cover the detail mechanics of computing annuities for the future, which will be the subject of further conferences.

9. The foregoing basis of providing for depreciation will also be applied in principle with respect to other departments of the company.

Dated at San Francisco on May 16, 1951.

Attachment.

PACIFIC GAS AND ELECTRIC COMPANY  
AND 1/2 OF  
STANDARD PACIFIC GAS LINE, INC.

SUMMARY OF 5% REMAINING LIFE ANNUITY  
BASED ON PLANT CLOSED TO PRIMARY ACCOUNTS AS OF 12-31-50.

Pacific Gas and Electric Company

5% Remaining Life Accrual on Plant as of 12-31-49, excl. Topock Line (See attached sheets)	\$3,904,319
Less Interest on Depreciation Reserve, 5% on \$54,189,674 - 12-31-49	<u>(2,709,484)</u>
5% Remaining Life Annuity as of 12-31-49	1,194,835
Annuity on Net Additions for Year 1950, 5% S.F., including Topock Line	1,770,356
Total 5% Remaining Life Annuity on Pacific Gas and Electric Company Plant as of 12-31-50	2,965,191

(Pro rata of Common Excluded)

Standard Pacific Gas Line, Inc.

5% Remaining Life Annuity - 12-31-50	<u>(67,338)</u>
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(Red Figure)

PACIFIC GAS AND ELECTRIC COMPANY  
GAS DEPARTMENT

CALCULATION OF 5% REMAINING LIFE ANNUITY ON CAPITAL  
AS OF DECEMBER 31, 1949

Item	Depreciable Plant Dec. 31, 1949	Depreciation Reserve Dec. 31, 1949	Net Col. (1) - Col. (2)	Remaining Life Expect- ancy	Remaining Life Annuity Rate	Remaining Life Accrual (3) = (5)
	(1)	(2)	(3)	(4)	(5)	(6)
<b>PRODUCTION PLANT - ACTIVE PLANTS</b>						
1002-(312) Structures & Improvements	\$ 20,515	\$ 4,459	\$ 16,056	18.0	0.03555	\$ 571
1003-(342.3) Storage Equipment Other	87,689	20,652	67,037	24.0	.02247	1,506
1004-(313) Boiler Plant Equipment	9,393	9,393	0	10.0	.07950	-
1005-(314) Other Power Equipment )						
1006-(319) Petroleum Gas Equipment )	2 29,162	52,894	176,268	18.0	.03555	5,266
1008-(323) Purification Equipment )						
1009-(325) Other Production Equipment	3,204	756	2,448	6.0	.11702	300
Total Non-Landed-Active Plants	349,963	88,154	261,809			8,703
<b>TRANSMISSION PLANT, EXCL. TOPOCK &amp; STANPAC</b>						
1101-(351.1))						
1102-(351.2)) Land and Land Rights	924,771	343,373	581,398	18.0	0.03555	20,669
1103-(352) Structures and Improvements	643,249	499,682	143,567	17.0	.03870	5,555
1105-(353) Mains	30,788,399	14,432,751	16,355,648	17.0	.03870	632,964
1106-(354.1) Compressor Station Equipment	892,728	655,350	237,378	12.5	.05949	14,122
1107-(354.1) Odorizing Equipment	242,628	140,801	101,827	17.0	.03870	3,941
1108-(354.2) Measuring & Regulating Equip.	1,709,738	189,237	1,520,501	16.5	.04044	51,489
1109-(354.3) Roads and Trails	21,029	18,612	2,417	18.0	.03555	86
1110-(354.4) Other Transmission Equipment	144,334	65,736	48,598	15.0	.04634	2,253
Total Transmission Plant	35,336,876	16,345,542	18,991,334			741,080

PACIFIC GAS AND ELECTRIC COMPANY  
GAS DEPARTMENT

CALCULATION OF 5% REMAINING LIFE ANNUITY ON CAPITAL  
AS OF DECEMBER 31, 1949

(CONTINUED)

Item	Depreciable Plant Dec. 31, 1949 (1)	Depreciation Reserve Dec. 31, 1949 (2)	Net Col. (1) - Col. (2) (3)	Remaining Life Expect- ancy (4)	Remaining Life Annuity Rate (5)	Remaining Life Accrual (3) = (5) (6)
<b>DISTRIBUTION PLANT</b>						
1202-(358) Structures & Improvements	\$ 851,369	\$ 650,809	\$ 200,560	12.0	0.06283	\$ 12,501
1203-(342.2) Distribution Storage Equip.	8,952,937	2,396,560	6,556,377	24.0	.02247	147,322
1204-(359) Mains	64,305,227	17,767,643	46,537,584	18.5	.03411	1,587,397
1205-(360.1) Compressor Station Equip.	3,915,177	2,136,153	1,779,024	10.0	.07950	141,432
1206-(360.2) Measuring & Regulating Equip.	1,030,221	152,949	877,272	13.5	.05362	47,039
1207-(361) Services	31,987,720	8,764,143	23,223,577	20.5	.02910	675,806
1208-(362) Meters	16,936,821	4,828,580	12,108,241	19.5	.03147	381,046
1209-(362) House Regulators	3,896,279	617,292	3,279,007	17.0	.03870	126,898
1210-(366) Other Prop. on Cust. Prem.	35,366	29,152	6,214	2.0	.48780	3,031
1212-(368) Other Distrib. System Equip.	889,192	385,999	503,193	13.0	.05646	28,410
Total Distribution Plant	132,800,329	37,729,280	95,071,049			3,150,982
<b>GENERAL PLANT</b>						
1241-(371) Structures & Improvements	39,091	11,184	27,907	18.0	0.03555	992
1242-(372) Office Furniture & Equip.	17,459	4,758	12,701	13.0	.05646	717
1243-(375) Shop Equipment	1,467	630	837	11.0	.07039	59
1244-(376) Laborator Equipment	37,590	8,649	28,941	17.0	.03870	1,120
1245-(377) Tools and Work Equipment	29,141	1,798	27,343	23.0	.02414	663
1246-(379) Miscellaneous Equipment	255	3	252	24.0	.02247	6
Total General Plant	125,003	27,022	97,981			3,551
TOTAL (Excl. Topock & Stanpac)	168,612,171	54,189,998	114,422,173			3,904,319



MEMORANDUM OF UNDERSTANDING  
RELATIVE TO AMORTIZATION OF  
ACQUISITION ADJUSTMENT ACCOUNT OF THE  
PACIFIC GAS AND ELECTRIC COMPANY IN RATE PROCEEDINGS

Supplementing understanding reached between representatives of the staff of the California Public Utilities Commission and the Pacific Gas and Electric Company relative to depreciation practices of the company for its Gas Department, as evidenced by "Memorandum of Understanding" dated May 16, 1951, the within agreement was reached by said representatives in respect to the allowances to be made in rate proceedings of the annual accrual to the company's Reserve for Amortization of Utility Plant Acquisition Adjustments, all subject to formal approval of the Commission.

1. In conformity with the provisions of the order of the Commission in Decision No. 43826 dated February 14, 1950 (49 C.P.U.C.386) the company will amortize over a period of fifteen (15) years beginning January 1, 1950 the sum of \$15,530,948.77, being the balance remaining in the Utility Plant Acquisition Adjustment Account as of December 31, 1949 following the reclassification of the company's entire plant and property account as of that date in accordance with the provisions of the Commission's Uniform Systems of Accounts for electrical and gas corporations effective January 1, 1938 and January 1, 1949 respectively.

2. Of the annual amount of \$1,035,396.60, being one-fifteenth of said sum of \$15,530,948.77 charged to Account 537 - Miscellaneous Amortization and credited to the Reserve for Amortization of Utility Plant Acquisition Adjustment, 10% of \$1,035,396.60 or \$103,539.66 will be recognized and allowed as an annual operating revenue deduction of the Gas Department and the remaining 90% or \$931,856.94 as an annual operating revenue deduction of the Electric Department in any proceeding before the Commission involving the fixing or adjusting of the rates of said respective departments.

3. In consideration of the allowance of the annual amortization of the Utility Plant Acquisition Adjustment Account as an operating

EXHIBIT B  
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revenue deduction of the gas and electric departments in rate proceedings, as provided for in Paragraph 2 hereof, the Company waives claim to the inclusion of any part of its investment of \$15,530,948.77 in the Utility Plant Acquisition Adjustment Account as a part of its rate bases in any proceeding before the Commission involving the fixing or adjusting of the rates of said respective departments.

Dated at San Francisco on May 16, 1951.