

Decision No. 46501

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of  
PACIFIC GAS AND ELECTRIC COMPANY  
for an order 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.

Application No. 31466  
(First Supplemental)

OPINION ON FIRST SUPPLEMENTAL APPLICATION

In the Commission's Decision No. 46268, dated October 2, 1951, in the above-numbered application, the possibility of an increase in the cost of out-of-state gas, effective November 1, 1951, was noted and applicant was granted authority to seek, by supplemental application, increases in its rates to cover such an increase in its cost of gas, when it should become effective.

On October 24, 1951, applicant filed the above-entitled First Supplemental Application seeking increases in rates for the purpose of compensating it for increased costs in connection with the purchase of natural gas from the El Paso Natural Gas Company, and from the Southern California Gas Company and the Southern Counties Gas Company of California, effective November 1, 1951, together with revised rate schedules to cover such increases.

A public hearing was held on the First Supplemental Application on November 23, 1951, before Commissioner Harold P. Huls and Examiner M. W. Edwards to consider the increased costs and the company's proposed method of spreading those increased costs among its various classes of service.

A Memorandum of Understanding Regarding Income Tax Depreciation Allowances of Pacific Gas and Electric Company was also introduced as Exhibit No. 65 by the staff of the Commission for consideration in connection with the disposition of tax refunds.

On April 30, 1951, the El Paso Natural Gas Company filed an application with the Federal Power Commission seeking an increase in rates for natural gas delivered to Pacific Gas and Electric Company. The proposed rates would increase the demand charge from \$1.00 to \$1.60 per Mcf of billing demand with no increase in commodity charge. The Federal Power Commission suspended the rate filing and during the latter part of October, El Paso Natural Gas Company filed with the Federal Power Commission a revised rate increasing the commodity charge by one cent per Mcf with no increase in the demand charge. On November 1, 1951 the Federal Power Commission issued its order accepting same for filing to be effective on this date. The effect of this increase on applicant's cost of gas for the estimated year 1952 is \$1,387,750 in contrast to the \$3,000,000 increase originally sought by the El Paso Company. In addition to the gas purchased from the El Paso Natural Gas Company, the Pacific Gas and Electric Company purchases natural gas from the Southern California Gas Company and the Southern Counties Gas Company of California based upon a contract wherein the rate is 5 or 6 cents per Mcf higher than the cost of Texas gas to the southern companies. The southern companies are also subject to a one-cent per Mcf increase in the cost of gas purchased from the El Paso Natural Gas Company, effective November 1, 1951. Applicant estimates that in 1952 it will purchase 16,620,000 Mcf from these companies, and a one-cent increase in rate is equivalent to an additional cost of \$166,200. Thus the applicant is faced with an estimated increase of \$1,553,950 in 1952 for cost of gas purchased.

The company proposes to increase the rates for natural gas service to firm gas customers by .9 cents per Mcf and to interruptible

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gas customers, including its steam-electric department, by .2 cents per Mcf. <sup>1/</sup> Under applicant's proposed plan of spreading the increase in cost, it estimated that for the year 1952 revenue from firm sales would increase \$1,251,765 and revenue from all interruptible sales \$282,120, or a total increase of \$1,533,885, which is approximately \$20,000 less than the estimated increase in cost of purchased gas.

At the hearing, counsel for California Manufacturers Association pointed out that since June, 1950 the cost of gas to the interruptible customers exceeded percentage-wise the increase received by any other class of customers, and also concurred that a portion of the overall increase cited was due to the operation of the escalator clause. Counsel indicated that the cost of service study, previously introduced in this proceeding as Exhibit No. 32, showed that the interruptible class of customer received service under rates which produced revenues in excess of \$1,000,000 above the cost of rendering such service. It was the Association's position that no further increase in rates for interruptible gas service should be authorized.

The representatives of the City of San Francisco and the City of Oakland took the view that all classes of customers should bear some part of the added cost and did not oppose the proposed spread suggested by the applicant.

Counsel for applicant did not concur with the position taken by the California Manufacturers Association because of the implication that the Commission had prescribed rates a given percentage above those in effect in 1950, whereas the fact is that a substantial part of the increase during that period was due to

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<sup>1/</sup> Exclusive of firm gas customers in the Humboldt Division and the first 200 cu. ft. block in the General Natural Gas Service rate schedules. Also exclusive of gas customers receiving service on General Natural Gas Service Schedules G-5.1 and G-6.1 and Interruptible Natural Gas Service Schedule G-50.1 applicable to service supplied from the Salinas-King City 8-inch gas main.

changes in the fuel oil price. Counsel took the position that applicant's suggested spread of this added cost of gas is reasonable, even though the interruptible customers are paying more than the so-called allocated cost, which cost, he stated, has never been fully determined.

The problem of gearing the price of interruptible gas to that for fuel oil so that the gas may be sold on a competitive basis is one that suggests a lower allocation of increase to the interruptible class than to the firm class. After reviewing this matter we are of the opinion that the company's proposed spread is equitable and it will be authorized.

Relative to the matter of federal income tax refunds, the Commission stated, in Decision No. 46268, that the amounts and dates of any possible refunds were unknown and the matter was therefore left open for future disposition. The decision provided "When applicant receives any refund of income taxes covering the years 1943, 1944, and 1945, it shall promptly advise the Commission and parties hereto as to the total amount of the refund, the amount assignable to gas department operations and its suggested disposition of such refunds". As a result of this order, the company on October 17, 1951 addressed a letter to the Commission advising of federal income tax refunds received in January and July, 1951, and stating its proposed disposition of such refunds. Subsequent to the receipt of such letter, conferences and discussions were held between representatives of applicant, appearances of record in this first supplemental application, and members of the Commission staff in order to arrive at an understanding as to the disposition of the refunds. As a result of these discussions, a Memorandum of Understanding regarding income tax depreciation allowances of Pacific Gas and Electric Company was introduced in evidence in this proceeding as Exhibit No. 65, copy of which is attached hereto.

Applicant's taxes accrued account, after crediting to it the federal income tax refunds received this year, includes \$4,176,930.19 estimated to be applicable to the years 1946 to 1950, inclusive, plus \$726,912.48 which applicant has applied toward the retroactive liability for 1951 federal income taxes resulting from the recent increase in tax rates. The Memorandum of Understanding provides for the disposition of any excess or deficiency in the provision for income taxes, attributable to a difference between anticipated and actual allowances for depreciation, at the time the depreciation rates recommended by the engineer revenue agent, as a result of his impending depreciation study, become known. In substance, the memorandum provides that any such excess shall be credited to the plant acquisition adjustment account and thus serve to reduce future annual charges to expense for amortization, while any deficiency shall be taken into consideration in fixing rates over the ensuing five-year period.

Conclusion

After reviewing all of the evidence brought before us in this matter, it is our conclusion that an order should be issued immediately authorizing increased rates in accordance with the findings herein. Applicant will be authorized to refile its rate tariffs in accordance with its proposal contained in Exhibit No. 64 and in view of the fact that more than 30 days have elapsed since the rate increases contemplated under Decision No. 46268 became effective, the applicant may make the increases herein authorized effective upon one day's notice after the effective date hereof, for service rendered on and after December 17, 1951. Applicant also will be authorized to carry out the understanding regarding income tax refunds in so far as the gas department is concerned.

O R D E R

Pacific Gas and Electric Company having applied to this Commission for an order authorizing an increase in natural gas rates and charges, public hearings having been held, the matter having been submitted for decision,

IT IS HEREBY FOUND AS A FACT that the increases in rates and charges authorized herein are justified and that present rates in so far as they differ from those herein prescribed for the future, are unjust and unreasonable; therefore,

IT IS HEREBY ORDERED that:

1. Applicant is authorized to file in quadruplicate with this Commission after the effective date of this order, in conformity with the Commission's General Order No. 96, revised tariff schedules as set forth in Exhibit No. 64 in this proceeding and on not less than one (1) day's notice to the Commission and to the public, to make said tariff rates effective for service rendered on and after December 11, 1951.
2. Pacific Gas and Electric Company, Gas Department, is authorized and directed to carry out the terms and

provisions of "Memorandum of Understanding Regarding Income Tax Depreciation Allowance of Pacific Gas and Electric Company" identified as Exhibit No. 65 in this proceeding, a copy of which is attached hereto as Exhibit A.

The effective date of this order shall be five (5) days from the date hereof.

Dated at San Francisco, California, this 4th day of December, 1951.

A. E. Dunning  
President.  
Justus F. Lacey  
Harold K. Hule  
James H. Potter  
Edna E. Mitchell  
Commissioners.

## EXHIBIT A

Memorandum of Understanding Regarding Income Tax  
Depreciation Allowances of Pacific Gas and Electric Company.

Pacific Gas and Electric Company's taxes accrued account includes \$4,176,930.19 estimated to be applicable to the years 1946 to 1950, inclusive, plus \$726,912.48 which the company has applied toward the retroactive liability for 1951 income taxes resulting from the recent increase in tax rate from 47% to 50-3/4%.

The Bureau of Internal Revenue has indicated to the company its intention of making a study of depreciation requirements in the very near future, and company representatives stated they hope to have the Engineer Revenue Agent's recommendations by about next March.

A conference of company and Commission staff representatives was held on the afternoon of November 20, 1951, at which the following agreement was reached regarding treatment of income tax depreciation.

1. As soon as the recommendations of the Engineer Revenue Agent as to depreciation allowances for the years 1946 to 1950, inclusive, are known, any portion of the \$4,176,930.19 not needed to cover federal income and state corporation franchise tax deficiencies for those years due to depreciation, will be credited to the plant acquisition adjustment account and thus serve to reduce future annual charges to expense for amortization of such acquisition adjustment.

2. Likewise, any excess income tax accruals for years subsequent to 1950, resulting from accruing on the basis of a lower depreciation allowance than that subsequently recommended by the Engineer Revenue Agent for those years in his impending depreciation study mentioned above, will also be credited to the plant acquisition adjustment account.

3. In order to eliminate controversy over income tax depreciation allowance in the pending electric rate proceeding (Application No. 32589), both the company and Commission staff will adopt depreciation allowances reflecting an assumed 5% overall reduction from that computed at the depreciation rates last fixed by the Bureau of Internal Revenue in 1943, and the company will adjust its book income tax accruals for 1951 and appropriate subsequent years to this basis, until the recommendations of the Engineer Revenue Agent as to depreciation rates shall have been made and the same placed in effect by the company.

4. If, prior to issuance of the Commission's final decision in Application No. 32589, new depreciation rates are recommended by the Engineer Revenue Agent, depreciation based upon such rates shall be used by the Commission in calculating income taxes for purposes of fixing electric rates in the pending proceeding.

5. If the depreciation rates recommended by the Engineer Revenue Agent result in deficiency assessments for the years 1946 to 1950 greater than \$4,176,930.19 and/or tax requirements for 1951 and appropriate subsequent years greater than the company's accruals, such difference due to depreciation rates shall be amortized by means of additional income tax allowances over the succeeding five-year period for rate fixing purposes.

6. If the balance in the acquisition adjustment account should be reduced to the point where the amounts to be credited to such account in paragraphs 1 and 2 exceed such balance, any excess shall be subject to disposition by the Commission.