

ORIGINAL

Decision No. 47361

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)
under Section 63 (a) of the Public)
Utilities Act authorizing applicant)
to increase its electric rates and)
charges in the manner and to the)
extent herein stated.)

Application No. 32589

SECOND INTERIM OPINION AND ORDER

At the public hearing on June 18, 1952, on the above-entitled application, a memorandum of understanding relative to depreciation practice of the Pacific Gas and Electric Company, Electric Department, was received in evidence as Exhibit No. 90. A copy thereof is attached to this order as Exhibit A. This proposed agreement between the Commission's staff and the company on the matter therein specified was 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 electric rate increase request by approximately \$4,000,000.

Counsel for applicant requested that the Commission act promptly to approve this agreement in order that the revised depreciation rates and method may be applied to the books of the company retroactive to January 1, 1952.

Counsel for the Commission's staff communicated with all appearances ^{1/} in this proceeding and received no objection to the

1/ Refer to letter filed as Exhibit No. 91 in this proceeding and the canvass of parties in attendance at hearing on May 22, 1952.

adoption of the understanding relative to depreciation practices. The Commission's staff in its analysis of the electric operations of the applicant had used the resulting lower depreciation allowances in determining the company's earnings and the staff counsel joined in the company's request for an early decision on the subject.

After considering the proposed agreement, the Commission finds the same to be in the public interest and approves it, therefore;

IT IS HEREBY ORDERED that Pacific Gas and Electric Company is authorized and directed to carry out the terms and provisions of: "Memorandum of Understanding Relative to Depreciation Practice, Pacific Gas and Electric Company, Electric Department", received in evidence as Exhibit No. 90 in this proceeding, a copy of which is attached hereto as Exhibit A.

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

Dated at San Francisco, California, this 30th day of June, 1952.

[Signature]
President.

[Signature]

[Signature]

[Signature]

Commissioners.

Commissioner Justus E. Craemer - being necessarily absent, did not participate in the disposition of this proceeding.

EXHIBIT A
Page 1 of 6

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

1. Following consideration of the history and present basis of depreciation accrual for Pacific Gas and Electric Company's Electric Department, the within agreement was reached between representatives of the staff of the California Public Utilities Commission and the Pacific Gas and Electric Company, as to calculation of depreciation annuity for Electric Department properties, beginning January 1, 1952, all subject to formal approval of the Commission:
2. As of December 31, 1951, the book depreciation reserve for the Electric Department is \$205,955,706.85.
3. The depreciation reserve as of December 31, 1951, specified in Paragraph 2 herein will come under the "remaining life" 4% sinking fund accrual method. Under this plan, beginning as of January 1, 1952, 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 Electric Department Operating Revenue Deductions in the Commission's present Electric Classification of Accounts, even though the 4% sinking fund accrual method adopted herein be changed.
5. The total depreciation accrual for each year, for the Pacific Company's Electric Department will include: (a) interest at 4% on the balance in the depreciation reserve, mentioned in Paragraph 2 herein, as of December 31 of the next preceding year; and (b) annuities of each amount that, coupled with said interest accruals, the sum of the future interest and annuity accruals plus the then balance in said depreciation reserve 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 electric rate proceeding (Application No. 32589), the annuity for the year 1952 computed as indicated in this paragraph will be considered to be in compliance herewith and accordingly it is stipulated that the remaining life 4% sinking fund depreciation annuity of \$11,922,778, on capital closed to primary plant accounts as of December 31, 1950, (and as shown in detail by attachment hereto) is reasonable, and properly to be used as a base for calculation of the annuity for the year 1952. To this figure there will be added appropriate annuity amounts for: (1) plant additions for the year 1951 and average for 1952, and (2) pro rata of common utility plant applicable to the Electric Department.

EXHIBIT A
Page 2 of 6

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

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

Dated at San Francisco on May 21, 1952.
Attachment.

PACIFIC GAS AND ELECTRIC COMPANY
ELECTRIC DEPARTMENT

CALCULATION OF 4% REMAINING LIFE ANNUITY ON CAPITAL
AS OF DECEMBER 31, 1950

Sheet 1 of 4

Co.No.	CPUC No.	Account Item	Depreciable Plant 12/31/50 (1)	Depreciation Reserve 12/31/50 (2)	Net Balance (3)=(1)-(2)	Equivalent Remaining Life Expectancy (4)	Remaining Life Annuity Rate (5)	Remaining Life Accrual (6)=(3)x(5)
PRODUCTION PLANT								
STEAM PRODUCTION:								
51	311	Structures & Improvements	\$ 16,097,912	\$ 1,458,970	\$ 14,638,942	34	0.014315	\$ 209,556
52	312	Boiler Plant Equipment	60,834,322	9,988,957	50,845,365	19	.036139	1,837,501
53	313	Engines & Engine Driven Generators)	59,065,261	14,233,855	44,831,406	20	.033582	1,505,528
54	314	Turbo-Generator Units)						
55	315	Accessory Elec. Equip.)						
56	316	Misc. Power Plant Equip.	2,253,886	617,098	1,636,788	15	.049941	81,743
		Total Steam Production Plant	\$138,251,381	\$26,298,880	\$111,952,501			\$3,634,328
HYDRAULIC PRODUCTION:								
75	320	Land & Land Rights	\$ 8,311	\$ 1,087	\$ 7,224	23	.027309	\$ 197
76	321	Structures & Improvements	21,448,108	3,170,677	18,277,431	31	.016855	308,066
77	322	Dams & Reservoirs	57,862,255	3,860,773	54,001,482	51	.006259	337,995
78	322	Waterways	114,531,271	7,831,310	106,699,961	47	.007522	802,597
79	322	Forebays	5,300,400	520,000	4,780,400	48	.007181	34,328
80	322	Penstocks	24,381,162	4,709,417	19,671,745	27	.021239	417,808
81	322	Tailraces	2,687,848	217,909	2,469,939	40	.010523	25,991
82	323	Waterwheels, Turbines & Generators)	42,014,629	9,010,735	33,003,894	22	.029199	963,681
83	324	Accessory Elec. Equip.)						
84	325	Misc. Power Plant Equip.	985,391	472,863	512,528	9	.094493	48,430
85	326	Roads, Railroads & Bridges	4,920,003	454,209	4,465,794	34	.014315	63,928
		Total Hydro Production Plant	\$274,139,378	\$30,248,980	\$243,890,398			\$3,003,021

EXHIBIT A
Page 3 of 6

PACIFIC GAS AND ELECTRIC COMPANY
ELECTRIC DEPARTMENT
CALCULATION OF 4% REMAINING LIFE ANNUITY ON CAPITAL
AS OF DECEMBER 31, 1950
(Continued)

Sheet 2 of 4

Co.No.	CPUC No.	Account Item	Depreciable Plant 12/31/50 (1)	Depreciation Reserve 12/31/50 (2)	Net Balance (3)=(1)-(2)	Equivalent Remaining Life Expectancy (4)	Remaining Life Annuity Rate (5)	Remaining Life Accrual (6)=(3)x(5)
INTERNAL COMBUSTION ENGINE:								
91	331	Structures & Improvements	\$ 21,375	\$ 2,339	\$ 19,036	34	.014315	\$ 272
92	332	Fuel Holders, Producers & Accessories	1,332	680	652	5	.184627	120
93	333	Internal Comb. Engines	61,393	34,030	27,363	7	.126610	3,464
94	334	Generators	24,211	13,120	11,091	7	.126610	1,404
95	335	Accessory Elec. Equip.	10,828	1,509	9,319	7	.126610	1,180
96	336	Misc. Power Plant Equip.	7,040	3,491	3,549	3	.320349	1,137
Total Internal Comb. Engine Plant			126,179	55,169	71,010			7,577
Total Depreciable Production Plant			412,516,938	56,603,029	355,913,909			6,644,926
TRANSMISSION PLANT:								
102	342	Structures & Improvements	4,755,540	1,295,061	3,460,479	21	0.031280	108,244
103	343	Station Equipment	51,722,784	10,634,460	41,088,324	26	.022567	927,240
104	343	Power Plant Step Up Trans.	19,181,053	3,724,364	15,456,689	26	.022567	348,811
105	344	Towers and Fixtures	29,736,316	3,295,008	26,441,308	36	.012887	340,749
106	345	Poles and Fixtures	10,177,024	3,538,770	6,638,254	21	.031280	207,645
107	346	O.H. Cond. & Dev.-Tower	25,408,733	3,475,979	21,932,754	23	.027309	598,962
108	346	O.H. Cond. & Dev.-Pole	13,604,079	4,979,654	8,624,425	19	.036139	311,678
109	347	U.G. Conduit	1,406,253	109,981	1,296,272	23	.027309	35,400
110	348	U.G. Cond. & Dev.	1,530,739	163,550	1,367,189	23	.027309	37,337
112	349	Roads and Trails	1,576,545	501,263	1,075,282	20	.033582	36,110
Total Transmission Plant			\$159,099,066	\$31,718,090	\$127,380,976			\$2,952,176

EXHIBIT A
Page 4 of 6

PACIFIC GAS AND ELECTRIC COMPANY
ELECTRIC DEPARTMENT

CALCULATION OF 4% REMAINING LIFE ANNUITY ON CAPITAL
AS OF DECEMBER 31, 1950
(Continued)

Sheet 3 of 4

Co. No.	CPUC No.	Account Item	Depreciable Plant 12/31/50 (1)	Depreciation Reserve 12/31/50 (2)	Net Balance (3)=(1)-(2)	Equivalent Remaining Life Expectancy (4)	Remaining Life Annuity Rate (5)	Remaining Life Accrual (6)=(3)x(5)
DISTRIBUTION PLANT:								
201	351	Structures & Improvements	\$ 8,789,280	\$ 3,057,723	\$ 5,731,557	18	.038993	\$ 223,491
202	352	Station Equipment	61,491,340	18,446,199	43,045,141	21	.031280	1,346,452
203	353	Storage Battery Equip.	-	-	-	-	-	-
204	354	Poles, Towers & Fixtures	69,542,707	22,359,342	47,183,365	15	.049941	2,356,384
205	355	O.H. Cond. & Devices	57,909,403	20,241,696	37,667,707	17	.042199	1,589,540
206	356	U.G. Conduit	13,364,566	2,797,886	10,566,680	24	.025587	270,370
207	357	U.C. Cond. & Devices	17,262,404	4,698,107	12,564,297	19	.036139	454,061
208	357	Submarine Cables	893,152	409,895	483,257	7	.126610	61,185
209	358	Line Transformers	73,284,292	14,089,675	59,194,617	20	.033582	1,987,874
210	359	Services - O.H.	13,229,276	2,998,841	10,230,435	17	.042199	431,714
211	359	Services - U.G.	4,391,512	1,918,256	2,473,256	13	.060144	148,752
212	360	Meters	24,764,728	6,669,165	18,095,563	19	.036139	653,956
213	361	Install. on Cust. Premises	555,213	272,042	283,171	8	.108528	30,732
214	362	Leased Prop. on Cust. Premises	5,702	174	5,528	14	.054669	302
215	363	St. Ltg. & Sig. Sys. - O.H. Cond.	1,735,807	367,286	1,368,521	17	.042199	57,750
216	363	St. Ltg. & Sig. Sys. - Cond. & Cable	1,478,644	625,984	852,660	9	.094493	80,570
217	363	St. Ltg. & Sig. Sys. - Lamps & Equip.	4,918,780	1,723,889	3,194,891	17	.042199	134,821
218	363	St. Ltg. & Sig. Sys. - Electrol.	857,094	349,583	507,511	14	.054669	27,745
219	363	St. Ltg. & Sig. Sys. - Substa. Equip.	193,712	83,395	110,317	13	.060144	6,635
Total Distribution Plant			\$354,667,612	\$101,109,138	\$253,558,474			\$9,862,334

EXHIBIT A
Page 5 of 6

2-32009

PACIFIC GAS AND ELECTRIC COMPANY
ELECTRIC DEPARTMENT

CALCULATION OF 4% REMAINING LIFE ANNUITY ON CAPITAL
AS OF DECEMBER 31, 1950

Sheet 4 of 4

Co. No.	CPUC No.	Account Item	Depreciable Plant 12/31/50 (1)	Depreciation Reserve 12/31/50 (2)	Net Balance (3)=(1)-(2)	Equivalent Remaining Life Expectancy (4)	Remaining Life Annuity Rate (5)	Remaining Life Accrual (6)=(3)x(5)
GENERAL:								
254	371	Structures & Impr.-Office	375	\$ 11	\$ 364	29	0.018880	7
257	371	" " -Misc.	22,955	3,735	19,220	22	.029199	561
258	372	Office Furniture & Fixtures	9,235	2,703	6,532	12	.066552	435
259	375	Shop Equipment	1,110	185	925	15	.049941	46
260	376	Laboratory Equipment	189,603	26,959	162,644	16	.045820	7,452
261	377	Tools & Work Equipment	902,298	172,815	729,483	14	.054669	39,880
262	379	Miscellaneous Equipment	12,049	2,970	9,079	13	.060144	546
Total General Plant			\$1,137,625	\$ 209,378	928,247			\$ 48,927
TOTAL DEPRECIABLE ELECTRIC PLANT			\$927,421,241	\$18,639,635	\$737,781,606			\$19,508,363
							Less 4% Interest on Reserve	<u>7,585,585</u>
TOTAL 4% SINKING FUND ANNUITY								\$11,922,778

Page 6 of 6

EXHIBIT A