

ORIGINALDecision No. 42560

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of COAST COUNTIES GAS AND ELECTRIC)
COMPANY, a corporation, for author-) Application No. 34392
ity to increase rates applicable to)
gas service furnished within the)
State of California.)

For Applicant: W. E. Johns and Pillsbury, Madison
and Sutro by Noel Dyer.
For Interested Parties: Brobeck, Phleger and
Harrison by George D. Rives and Robert N.
Lowry, for California Manufacturers
Association; Eldon N. Dye, for California
Farm Bureau Federation.
For Commission Staff: Harold J. McCarthy, John
F. Donovan and Charles W. Mors.

O P I N I O N

Coast Counties Gas and Electric Company, a California corporation operating gas, electric and water systems in central and northern California, by this application, filed May 26, 1953 and as amended August 24, September 11 and December 9, 1953, seeks an order of this Commission authorizing an increase in rates for gas service in order to provide additional gross revenues in the approximate amount of \$800,000 annually based upon the level of business for the 12 months ended June 30, 1953.

A public hearing in the matter was held before Commissioner Craemer and Examiner Emerson on December 22, 1953 in San Francisco. No person appeared in protest to applicant's rate increase proposal. The matter was submitted upon receipt of two late-filed exhibits on December 24, 1953.

Applicant's Position and Request

Applicant was before this Commission in 1951 seeking gas rate increases and, by Decision No. 45926 in Application No. 31614, was authorized to file new rates designed to produce a rate of return of 6.8 per cent on a depreciated rate base of \$13,815,157 for a past test period.

In the 26 months following issuance of the aforesaid decision, applicant's investment in gas properties has increased by approximately 24 per cent. During the same period applicant's operating expenses also have increased materially, labor costs alone having increased by over 10 per cent. In addition, federal taxes on income have increased over 10 per cent during the same period. According to its books, the rate of return realized in the first 12 months following the test period used in the last rate proceeding amounted only to 5.53 per cent. It now estimates that, if present rates are continued, gas operations during the year 1954 would produce no more than a 4.19 per cent rate of return. It claims such rates of return are below a reasonable level and inadequate to attract capital to the enterprise.

In the interest of expeditious processing of this rate matter, so that needed rate relief might be obtained promptly on a basis compatible with that employed by the Commission in the 1951 rate case, applicant reduced its original requested gross revenue increase from \$1,125,700 to \$800,000 per annum based upon operating results adjusted to current conditions applied to a test period of 12 months ended June 30, 1953. In addition, the company attempted, following conferences with the Commission staff and interested parties, to follow methods used by the Commission staff in presenting evidence in proceedings of this nature. Applicant alleges that its present rate proposal will barely be adequate to meet its public

obligations and requests that such showing and the methods employed therein be accepted without prejudice to applicant's position in any future rate proceeding.

In essence, applicant seeks no more than to be returned to the earning position intended to result from this Commission's Decision No. 45926.

Applicant's specific rate proposals, as contained in the original application and in the third amendment thereto, based on adjusted operations, are summarized as follows:

Schedules	Original Proposal ^a		Amended Proposal ^b	
	Gross Increase		Gross Increase	
	Amount	Per Cent	Amount	Per Cent
General Service	\$ 535,700	9.44%	\$ 466,654	7.97%
Firm Industrial	150,400	16.66	92,884	8.80
Dehydrator	3,800	14.50	2,844	9.72
Interruptible (excl. refs.)	} 429,200	6.98	(197,851	3.85
Interruptible (refineries)			(34,359	3.71
Resale (Coalinga)	} 6,600	9.51	(5,349	7.87
Wholesale (P.G.& E.)			(99	3.58
Total	1,125,700	8.78	800,000	6.12

a. Based on 12 months ended 12-31-52

b. Based on 12 months ended 6-30-53

Nature of Evidence

Applicant's showing consisted of the placing in evidence of six exhibits and the testimony of three witnesses. Exhibits of major import had previously been distributed to interested parties. The Manufacturers Association and the Farm Bureau made no affirmative presentations but, with the Commission staff, participated in the cross-examination of witnesses. The staff, by its counsel, stated that it was of the opinion that the company had followed the basis adopted by the Commission in the prior gas rate proceeding, with certain relatively minor exceptions, and that it believed that the results set forth in applicant's exhibit concerning results of

operations were reasonable for the purpose of this proceeding. The staff also indicated that it had made an examination of applicant's books and records for the purpose of verifying the recorded and underlying figures on which applicant based its showing.

Calculations developing the net for return were made for six periods, five of which contain adjustments designed to eliminate the effect of abnormalities and nonrecurring items and to reflect recent changes in levels of revenues and costs exclusive of those attributable to growth. No adjustments were made for the sixth period, the calendar year 1954, except as to those ordinarily made in the course of estimating or forecasting future results of operations. Depreciated rate bases were developed for the same periods and include \$500,000 as a provision for working cash capital, an amount identical with that developed by the staff in the rate base which it calculated for use in the prior proceeding. The results of these calculations respecting results of operations under present rates are summarized as follows:

PRESENT RATES

Results of Operations

<u>Twelve Months Ended:</u>	<u>Gas Department</u>	<u>Total Company</u>
December 31, 1951		
Net for Return	\$ 768,968	\$ 1,391,700
Rate Base	14,849,464	24,162,620
Rate of Return	5.18%	5.76%
June 30, 1952		
Net for Return	\$ 789,283	\$ 1,400,754
Rate Base	15,745,632	25,760,603
Rate of Return	5.01%	5.44%
December 31, 1952		
Net for Return	\$ 779,198	\$ 1,399,174
Rate Base	16,650,014	27,336,582
Rate of Return	4.68%	5.12%
June 30, 1953		
Net for Return	\$ 820,126	\$ 1,453,741
Rate Base	17,435,090	28,695,470
Rate of Return	4.70%	5.07%

<u>Twelve Months Ended:</u>	<u>Gas Department</u>	<u>Total Company</u>
December 31, 1953a		
Net for Return	\$ 818,373	\$ 1,457,739
Rate Base	18,309,985	30,074,641
Rate of Return	4.47%	4.85%
December 31, 1954 (Est.)		
Net for Return	\$ 823,699	\$ 1,451,983
Rate Base	19,670,751	32,456,766
Rate of Return	4.19%	4.47%

a. Last six months estimated.

The downward trend in rate of return, apparent in the above tabulation, has been averaged at 0.34 per cent per year by applicant in making a comparison with its forecast of 1954 operations. The company estimates that its proposed tariff schedules would produce increased revenues of \$868,940 during the calendar year 1954. Such an increase would produce a rate of return of 6.19 per cent for 1954 operations assuming a continuation of the same downward trend, or 6.21 per cent based upon company estimates. While applicant does not agree that either of such rates of return would constitute a fair rate of return, it accepts them for the purposes of this proceeding without prejudice to its position in any future rate proceeding.

Included in applicant's presentation herein was a cost of service study (Exhibit No. 2) showing cost of gas service by classes of customers for the adjusted year 1952. Such study occasioned considerable cross-examination. It was used by applicant as an over-all guide in determining the spread of the company's proposed rates but it was not supported by applicant as representing a controlling factor in the construction of such rates. The study found favor in the opinion of counsel for the Manufacturers Association and he urged that the results of such study be given considerable weight, particularly as to the influence such results might have upon any rate increase for customers served under firm-industrial and interruptible schedules.

During the hearing, by cross-examination, the representative of the Farm Bureau brought to the attention of the Commission the reluctance, if not refusal, of applicant to extend gas service into certain sections of its certificated area. In this connection we are constrained to point out that applicant's regularly filed rules and regulations are as binding upon applicant as they are upon applicant's patrons. The extension of gas mains is a matter of rule and prospective customers are entitled to receive prompt, factual and accurate information as to the details respecting establishment of service. They must be accorded an equal and impartial application of applicant's filed rule. As the rule itself clearly states, recourse to this Commission for special ruling is always available should it appear to either party that the application of the rule in a particular instance may be inequitable. If such recourse is not taken deviation from the provisions of the rule may not lawfully be made. Aside from the above fundamentals, the increased revenues resulting from the increased rates hereinafter authorized may be helpful to prospective customers in now qualifying for the installation of those extensions hitherto thought to be uneconomic by the company.

Conclusions

We find that applicant is in need of and entitled to increased revenues in the total amount sought. However, in view of the evidence and particularly that with respect to cost of service, its spread of revenue requirements between classes of customers appears to contain certain inequities.

Cost of service studies can provide valuable information. The study presented in this proceeding, however, has certain infirmities. In particular it was predicated on an "abnormal" or "design" peak day and took no cognizance of actual or experienced

peak-day demands. In addition, with respect to its treatment of interruptible-industrial customers, it gave no weight to the actual curtailment of service rendered such customers. In this latter respect the record discloses that total system curtailment to interruptible customers, excluding refineries, was 102,572 mcf (0.66 per cent) of their total usage of 15,653,911 mcf during 1952 and only 193 mcf (.0012 per cent) to the latest available date (December 21) in 1953 out of total sales estimated at 16,651,084 mcf. From the practical standpoint these customers have received the equivalent of firm service for the past 21 months. Such situation is not reflected in applicant's cost of service study. In the light of the evidence respecting the service actually rendered, we conclude that applicant's proposed rates for interruptible service would produce a disproportionate relationship between this class and other classes of service. The rates hereinafter authorized are intended more equitably to spread revenue requirements amongst applicant's customers.

Applicant's presentation has been predicated on a continuing aggregate federal income tax of 52 per cent. Such rate, under present law, will be reduced to 47 per cent on April 1, 1954. That such reduction will actually occur is seriously questioned by applicant. However, to insure that applicant's customers will not be required to provide more than the amount of taxes properly chargeable to operating expenses, applicant has entered into a written understanding (contained in Exhibit No. 1 in this proceeding) by which it agrees to adjust its rate schedules to reflect the effect of any change in income taxes. Such written understanding is reasonable and will be approved.

Authorized Rates

The rates hereinafter authorized are designed to produce increases in gross revenues by the amounts and percentages shown in the following tabulation, based upon the level of business in the 12-month period ended June 30, 1953:

AUTHORIZED RATES

<u>Schedules</u>	<u>Gross Increase</u>	
	<u>Amount</u>	<u>Per Cent</u>
General Service	\$466,700	7.97%
Firm Industrial	59,300	5.62
Dehydrator	2,800	9.72
Interruptible (excl. refineries)	225,600	4.39
Interruptible (refineries)	40,200	4.34
Resale (Coalinga)	5,300	7.87
Wholesale (P.G.& E. - curtailed)	100	4.34
Total	<u>800,000</u>	<u>6.12</u>

It will be noted in this tabulation that firm-industrial rates are intended to produce a lesser amount than that proposed by applicant. Interruptible-industrial rates are increased by an equivalent amount. The effect of such rearrangement is to increase interruptible rates by 0.2 cents per mcf in the "excess" block above the company's proposal for the Contra Costa area and to lower applicant's proposal for firm industrial rates by approximately 1.0 cent per mcf in all blocks.

With respect to the rate schedule applicable to resale service furnished the City of Coalinga we shall authorize the inclusion in said schedule of an appropriate Btu adjustment clause as agreed upon by applicant in the course of this proceeding. The affected rule and regulation will likewise be appropriately modified.

Clarification of the applicability clause in Schedules Nos. G-51, G-52, G-53, G-54 and G-55 will be authorized so as to remove therefrom any ambiguity respecting the intent to apply such schedules to service from existing mains having a delivery capacity in excess of the then existing requirements of customers not served under said schedules.

O R D E R

Coast Counties Gas and Electric Company having applied to the Commission for an order authorizing increases in gas rates and charges, public hearing having been held, the matter having been submitted and now being ready for decision,

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

IT IS ORDERED AS FOLLOWS:

1. Applicant is authorized to file in quadruplicate with this Commission, after the effective date of this order and in conformity with the provisions of General Order No. 96, the schedules of rates at the increased charges set forth in Exhibit No. 3 in this proceeding as specifically approved or modified by Appendix A attached to this order and, after not less than five days' notice to the public and to this Commission to make said rates effective for service rendered on and after February 8, 1954.
2. The memorandum of understanding regarding federal income taxes contained in Exhibit No. 1 in this proceeding is hereby approved and applicant is directed to govern itself in accordance with the terms thereof.
3. Applicant shall file in quadruplicate with this Commission, after the effective date of this order and in conformity with General Order No. 96, its present Rule and Regulation No. 2C as modified by Appendix B attached to this order, said modified rule and regulation to be made effective February 8, 1954.

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

Dated at South San Francisco, California, this 18th day of January, 1954.

[Signature] President
James J. Caldwell
[Signature]
[Signature]
[Signature] Commissioners

APPENDIX A
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The proposed tariffs set forth in Exhibit No. 3 of this proceeding are specifically approved or modified as follows:

1. General Natural Gas Service Schedules

Schedules Nos. G-1, G-2, G-3, G-4, G-5, G-6.1, G-6.2 and G-6.3 are approved as proposed.

2. Resale Natural Gas Service Schedule

Schedule No. G-7 is approved as proposed, with the following modifications:

Renumber and retitle schedule as G-61, Wholesale Natural Gas Service.

APPLICABILITY

Applicable only to the City of Coalinga for the purchase of natural gas at wholesale from Coast Counties Gas and Electric Company.

TERRITORY

A- (1100 Btu) The principal point of delivery for gas to be delivered by Seller shall be at the existing meter station located at...

RATES

Commodity Charge:	Per Meter per Month	
	Base Rates	Effective Rates
	Fuel Oil	A
	\$.90 per Bbl	1100 Btu
	1100 Btu	
First 3,000 Mcf, per Mcf....	25.0¢	35.0¢
Over 3,000 Mcf, per Mcf....	20.4¢	30.4¢

The above effective rates are based on the average monthly heating value per cubic foot indicated and as set forth in Rule and Regulation No. 2C and a market price of fuel oil (effective February 16, 1953) of \$1.90 per barrel, as set forth in Special Condition 1 below.

3. Dehydrator Service Schedule

Schedule No. G-42-D is approved as proposed, with the following modification:

Schedule to be renumbered G-44 and retitled to read, "Dehydrator Natural Gas Service".

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4.

Firm Industrial Gas Service Schedules

Schedules Nos. G-41, G-42, and G-43 are approved as proposed, with the following modifications:

All schedules to be retitled to read, "Firm Industrial Natural Gas Service".

Schedule No. G-41

RATES

Commodity Charge:	Per Meter per Month	
	Base Rates	Effective Rates
	1100 Btu	B 1050 Btu
First 100 Mcf, per Mcf.....	52.2¢	51.2¢
Next 900 Mcf, per Mcf.....	38.9¢	38.1¢
Over 1,000 Mcf, per Mcf.....	35.6¢	34.9¢

Schedule No. G-42

RATES

Commodity Charge:	Per Meter per Month	
	Base Rates	Effective Rates
	1100 Btu	A 1100 Btu
First 100 Mcf, per Mcf.....	52.9¢	52.9¢
Next 900 Mcf, per Mcf.....	39.8¢	39.8¢
Over 1,000 Mcf, per Mcf.....	37.6¢	37.6¢

Schedule No. G-43

RATES

Commodity Charge:	Per Meter per Month		
	Base Rates	Effective Rates	
	1100 Btu	A 1100 Btu	D 950 Btu
	1100 Btu	1100 Btu	950 Btu
First 100 Mcf, per Mcf.....	52.9¢	52.9¢	49.7¢
Next 900 Mcf, per Mcf.....	39.8¢	39.8¢	37.4¢
Over 1,000 Mcf, per Mcf.....	37.4¢	37.6¢	35.3¢
	<i>23.7¢</i>	37.6¢	

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5. Interruptible Natural Gas Service Schedules

Schedules Nos. G-51, G-52, G-53, G-54 and G-55 are approved as proposed, with the following modifications:

Under "Applicability" of all schedules, the first sentence shall be replaced by the following:

"Available subject to interruption as provided below, to customers located along existing mains having a delivery capacity in excess of the then existing requirements of customers other than those served under interruptible schedules, for natural gas, used for the following purposes where operation can be readily continued on other fuels in case of shutoff of gas supply:"

Schedule No. G-51

RATES

Commodity Charge:	Per Meter per Month	
	Base Rates	Effective Rates
	Fuel Oil \$1.50 per Bbl. 1100 Btu	B 1050 Btu
First 50 Mcf, per Mcf...	50.3¢	55.1¢
Next 200 Mcf, per Mcf...	39.2¢	44.2¢
Next 750 Mcf, per Mcf...	34.1¢	39.2¢
Next 1,000 Mcf, per Mcf...	32.8¢	37.9¢
Over 2,000 Mcf, per Mcf...	25.9¢	31.2¢

Schedule No. G-52

RATES

Commodity Charge:	Per Meter per Month	
	Base Rates	Effective Rates
	Fuel Oil \$1.50 per Bbl. 1100 Btu	A 1100 Btu
First 50 Mcf, per Mcf...	52.0¢	57.8¢
Next 200 Mcf, per Mcf...	40.5¢	46.3¢
Next 750 Mcf, per Mcf...	35.3¢	41.1¢
Next 1,000 Mcf, per Mcf...	33.8¢	39.6¢
Over 2,000 Mcf, per Mcf...	26.6¢	32.4¢

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Schedule No. G-53

RATES

Commodity Charge:	Per Meter per Month	
	Base Rates	Effective Rates
	Fuel Oil \$1.50 per Bbl. 1100 Btu	A 1100 Btu
First 50 Mcf, per Mcf...	52.0¢	57.8¢
Next 200 Mcf, per Mcf...	40.5¢	46.3¢
Next 750 Mcf, per Mcf...	35.3¢	41.1¢
Next 1,000 Mcf, per Mcf...	33.8¢	39.6¢
Over 2,000 Mcf, per Mcf...	26.6¢	32.4¢

Schedule No. G-54

RATES

Commodity Charge	Per Meter per Month		
	Base Rates	Effective Rates	
	Fuel Oil \$1.50 per Bbl. 1100 Btu	A 1100 Btu	B 1050 Btu
First 50 Mcf, per Mcf...	52.0¢	57.8¢	56.8¢
Next 200 Mcf, per Mcf...	40.5¢	46.3¢	45.5¢
Next 750 Mcf, per Mcf...	35.3¢	41.1¢	40.4¢
Next 1,000 Mcf, per Mcf...	33.8¢	39.6¢	38.9¢
Over 2,000 Mcf, per Mcf...	26.6¢	32.4¢	31.9¢

Schedule No. G-55

RATES

Commodity Charge:	Per Meter per Month	
	Base Rates	Effective Rates
	Fuel Oil \$1.50 per Bbl. 1100 Btu	D 950 Btu
First 50 Mcf, per Mcf...	52.0¢	54.7¢
Next 200 Mcf, per Mcf...	40.5¢	43.9¢
Next 750 Mcf, per Mcf...	35.3¢	39.0¢
Next 1,000 Mcf, per Mcf...	33.8¢	37.6¢
Over 2,000 Mcf, per Mcf...	26.6¢	30.8¢

6. Intermittent Natural Gas Service - Wholesale Schedule

Schedule No. G-60 is approved as proposed, with the following modification:

RATES

Curtailed Gas 31.2¢

APPENDIX B

Rule and Regulation No. 2C, "Rate Adjustment For Heating Value", shall be modified to include the following adjustment provisions:

Wholesale Natural Gas Service
Schedule 2% per 50 B.T.U. step.

General Service Schedules shall be retitled to read,
"General Natural Gas Service Schedules".