

ORIGINAL

Decision No. 50744

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 Commission)
authorizing applicant to increase)
its present rates and charges for)
natural gas service in the manner)
and to the extent herein set forth.)

Application No. 35256

(Appearances and list of witnesses
are set forth in Appendix B)

O P I N I O N

Pacific Gas and Electric Company, a California corporation, operating public utility electric and gas systems and relatively minor water and steam heat systems in northern and central California, filed the above-entitled application on March 18, 1954 seeking an increase in gas rates by approximately \$7,250,000 annually because of an increase in the cost of out-of-state gas.

Public Hearings

After due notice, four days of public hearing were held on this application before Commissioner Kenneth Potter and Examiner M. W. Edwards at San Francisco, California, on August 25, 26, 27 and 30, 1954. The matter was submitted upon the receipt of briefs of the City of Palo Alto by September 10, 1954 and of the applicant by September 15, 1954.

Applicant's Position

Applicant seeks, by this proceeding, to obtain a revenue increase to offset in major part, although not in whole, the increased cost of gas to be purchased from El Paso

Natural Gas Company in 1954. El Paso increased its resale gas rates on January 1, 1953 under bond. Applicant did not immediately apply, as several other utilities did,^{1/} for authority to increase its natural gas rates to the extent necessary to offset the increased cost of gas. Applicant states that it hoped and expected that increased sales of gas to its customers and a reversal in the long continuous rising trend of material prices, taxes, salaries, and wages would enable it to overcome, in major part, said increase in the cost of purchased out-of-state gas. Applicant further states that its hopes and expectations were not realized and that, as a result, in 1953 it absorbed out of earnings approximately \$5,340,000 of additional cost for purchased gas with consequent material reduction in its Gas Department's rate of return.

In the event that the Federal Power Commission orders El Paso to make refunds, applicant proposes to make refunds to its customers in accordance with a plan contained in Exhibit No. 7 in this proceeding.

Nature of Evidence

Evidence was offered by applicant, the Commission staff and one of the interested parties. Counsel for the staff and counsel for certain interested parties made statements and cross-examined the witnesses. The City of Palo Alto challenged applicant's proposed spread of the rate increase on the basis that the present

^{1/} Coast Counties Gas and Electric Company Application No. 34107, Decision No. 48484. Southern California Gas Company Application No. 33700, Decision No. 47992, December 2, 1952. Southern Counties Gas Company of California Application No. 33699, Decision No. 47991, December 2, 1952.

rate to Palo Alto is unjust and inequitable.^{2/} The Presiding Commissioner ruled that in an offset rate proceeding of this nature such issue is not proper but should be raised in an appropriate proceeding in which the City of Palo Alto could present its case.^{3/} Counsel for the city took exception to the ruling of the Presiding Commissioner, suggested an interim decision as far as the general case is concerned, and suggested that the Palo Alto matter be held in abeyance until the city had time to present its case.^{4/} Palo Alto filed its brief on this matter on September 10, 1954 and the applicant filed its reply brief on September 13, 1954.

Earnings Position

Applicant's earnings position in its Gas Department is shown in Exhibits Nos. 5 and 8. After adjusting for average temperature and precipitation conditions, applicant's earnings position for its Gas Department may be summarized as follows:

Applicant's Summary of Earnings - Estimated Year 1954

<u>Item</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
<u>Operating Revenue</u>		
Sales of Gas	\$142,366,000	\$149,393,000
Other Revenue	334,000	334,000
Total Operating Revenue	<u>142,700,000</u>	<u>149,727,000</u>
<u>Operating Expenses</u>		
Production	76,650,000	76,650,000
Transmission	2,412,000	2,412,000
Distribution	9,187,000	9,187,000
Customer Accounting	5,626,000	5,626,000
Sales Promotion	930,000	930,000
Administrative and General	4,879,000	4,921,000
Adjustment for Wage Increase	530,000	530,000
Subtotal	<u>100,214,000</u>	<u>100,256,000</u>
Taxes	18,663,000	22,429,000
Depreciation Annuity and Interest	8,360,000	8,360,000
Amort. of Plant Acquis. Adjustment	104,000	104,000
Total Operating Expenses	<u>127,341,000</u>	<u>131,149,000</u>
Net Revenue	15,359,000	18,578,000
Depreciated Rate Base	315,622,000	315,622,000
Rate of Return	4.87%	5.89%

^{2/} Transcript page 276, line 19.

^{3/} Transcript page 279, lines 7, et seq.

^{4/} Transcript page 410, lines 2, et seq.

The above revenue under proposed rates does not include \$46,000 of estimated revenue resulting from a minor revision in applicant's proposed rates as set forth in Exhibit No. 6. The effect of this revision on rate of return is less than one one-hundredth of one per cent.

For the purpose of showing its over-all system earnings, including the electric, water and steam-heat operations, applicant submitted Exhibits Nos. 9 and 9A. These exhibits show the earnings position under both the present and proposed gas rate levels and may be summarized as follows:

All Operating Departments - Estimated Average Year 1954

<u>Item</u>	<u>With Gas Dept. at Present Rates</u>	<u>With Gas Dept. at Proposed Rates</u>
Gross Operating Revenues	\$ 407,397,000	\$ 414,424,000
Expenses (Incl. Taxes and Depr.)	331,620,000	335,682,000
Net for Return	75,777,000	78,742,000
Rate Base (Depreciated)	1,502,527,000	1,502,527,000
Rate of Return	5.04%	5.24%

In the above two computations applicant assumed average year conditions of temperature and precipitation and stated that for estimates on departments other than gas it used prices for oil and gas, wage levels, pension plan provisions, and tax rates comparable with those used in the estimates for the Gas Department.

Rate Increase Proposals

Applicant's rate proposal as finally revised is to increase the firm service classes, except those in the Humboldt Division and in Coast Counties Gas and Electric Company territory,^{5/} by 6.32 per cent, rounding the initial charges to the nearest one cent and the block rates to the nearest one one-hundredth cent; to increase the interruptible rates by 1.2 cents per Mcf; and to increase the steam-electric plant rates by 0.7 cents per Mcf.

^{5/} The Humboldt Division is served by local gas supplies and is not interconnected in such a way as to receive any out-of-state gas. Customers formerly served by Coast Counties Gas and Electric Company already have had their rates increased for the higher costs of out-of-state gas.

The California Manufacturers Association was concerned over applicant's proposed spread of the increase pointing out that the increased billing was predominantly in the demand category, 62 per cent of the increase in the billing of gas from El Paso Natural Gas Company being demand and 38 per cent commodity. Its witness introduced Exhibit No. 12 and on the basis of its proposal that none of the demand costs be assigned to interruptible service, suggested an increase of 0.85 cents per Mcf to cover the increased commodity costs. The Association's witness suggested that the demand cost increase be spread among the firm classes on their relative demand responsibility or amount contemplated to be served on a design peak day. Then he suggested that any manner which the Commission deemed proper for the expression of this demand cost in rates, either in Mcf charges or additional fixed or minimum charges, would be appropriate.

Counsel for the City of Oakland on cross-examination of applicant's witness^{6/} brought out the fact that applicant's proposal would increase the minimum charge by 6.32 per cent and that the minimum charge includes certain costs which are not affected by the increase in cost of gas. Counsel further brought out the fact that with a straight cents per Mcf increase the larger user would pay a greater increase, around 9 per cent, and the smaller user a lesser increase, with a minimum user having less than a 1 per cent increase.

The City of Palo Alto, while in general opposing any increase without further hearing, had its rate consultant cross-examine applicant's witness on rates from the standpoint of how the increased cost of gas should be equitably distributed among the applicant's customers. The consultant's view on this particular

^{6/} Transcript page 401, lines 3, et seq.

point^{7/} was: assuming the underlying rates as exist are reasonable, the logical allocation would be on the basis of commodity, or assessed on an equal percentage basis.

Discussion of Rate Spread Proposals

The increased cost of gas if uniformly spread among all users, except those exempted, on a commodity basis would be about 2.2 cents per Mcf and on a uniform percentage price basis about 5.1 per cent. If an increase of 2.2 cents per Mcf were to be added to the interruptible services (including steam-electric plant interruptible sales) the applicant contended that the resulting price of gas on a heat unit basis would exceed the competitive cost of fuel oil. The applicant's position was that increases of 0.7 cents per Mcf to the steam-electric plants represent the excess of the average cost of gas over the present commodity rate to these plants and 1.2 cents per Mcf to the regular interruptible customers was the maximum that it could recommend and still maintain a competitive position. On the other hand, if a uniform price increase basis of 5.1 per cent were to be added it would be greater than applicant recommended for the interruptible classes.^{8/}

With applicant's proposed increase of 0.7 cents to steam-electric plant sales and 1.2 cents to regular interruptible sales, the remaining services have to be increased by greater amounts in order to yield the requested revenue increase.

^{7/} Transcript page 342, lines 17-22 inclusive.

^{8/} Under applicant's proposal 0.7 cents for steam-electric plants is equivalent to 2.47 per cent increase and 1.2 cents for regular interruptible is equivalent to 3.62 per cent increase.

In the other three similar offset rate increase cases, involving the Southern California Gas Company, the Southern Counties Gas Company of California, and the Coast Counties Gas and Electric Company, the increase was spread on a uniform Mcf commodity basis of 2.4 cents, 1.6 cents, and 0.9 cents, respectively, to all classes. Applicant's main objections to a uniform spread of the increase on a commodity basis were: (1) it would adversely affect the interruptible and interdepartmental sales, (2) it would result in inequitable treatment as between customers due to a wide difference in Btu content of gas delivered in the several areas of the system and (3) it would complicate the refund plan. Applicant's witness stated that applicant developed and presented what it thought was the most equitable plan. The staff generally concurred in applicant's plan in this instance.

The California Manufacturers Association took the position that in an offset proceeding such as this no factors other than cost are appropriate for consideration unless they serve as a limiting factor or ceiling in the imposition of cost responsibilities of the various classes and that other factors in addition to cost are appropriate when the proceeding is sufficiently general in scope so that a thorough analysis and investigation of these other factors can be included. In the Association's opinion this proceeding does not represent a general proceeding.

Refund Plan

Applicant's refund plan is set forth in Exhibit No. 7. Its purpose is to return to customers any increase collected from them in excess of the increase finally determined to be due El Paso Natural Gas Company during the period in which the proposed rates are in effect. Applicant proposes that the total amount to be refunded will be the total amount of offset increase charged the customers less applicant's out-of-pocket increased costs of purchased gas for the offset period.

Applicant proposes that if the average amount to be refunded is less than \$0.25 per customer then the refund shall be based on the recorded revenue from each such customer for the last full monthly billing period in the offset period. If the average amount of refund is \$0.25 or more, individual customer refunds will be made on the basis of charges made during the offset period. ✓
Wherever practical, refunds will be made by credit to the customer's account. Refunds on closed accounts will be made by check mailed to the last known address. However, where the refund on a closed account is less than 13 cents no refund will be made and where the refund on a closed account is less than 25 cents but is 13 cents or over, a refund of 25 cents will be made.

The plan proposed in Exhibit No. 7, applicant states, is designed to keep costs of refunding as low as possible by using simplified methods where the refund to individual general service customers is so small that the loss in accuracy will mean very small departures from the results achieved by more elaborate methods which would involve disproportionate expense in calculating the refunds. Applicant's witness testified that none of the costs incurred in making the refund will be deducted in determining the total amount to be refunded to its customers.

Commission Staff Analysis

The staff made a thorough check of the applicant's exhibits and as to those points where the company did not concur in the staff's views, the staff presented independent testimony in the record. However, these differences were largely offsetting. The results of the staff's investigation are set forth in Exhibit No. 11 and indicate a rate of return of 5.87 per cent for the estimated

year 1954 under applicant's proposed rates. This rate of return is within 0.02 per cent of that computed by the applicant, heretofore summarized.

Findings

After considering the record in the case we find that: ←

1. Applicant's revenues after an offset rate increase to the extent proposed in this application will not result in unreasonably high earnings for the Gas Department, such earnings being below the 6.0 per cent rate of return last authorized by this Commission in Decision No. 46268, dated October 2, 1951, under Application No. 31466 when computed under a 52 per cent federal income tax basis.
2. The offset rate increase proposed herein will not result in unreasonably high earnings for the company as a whole on a consolidated basis.
3. The Commission takes official notice that the federal tax laws provide that the income tax rate of 52 per cent will be reduced to 47 per cent on April 1, 1955. To insure that applicant's customers will not be required to provide more than the amount of taxes properly chargeable to operating expenses, rates to become effective April 1, 1955 on a 47 per cent federal income tax basis will be provided herein.
4. Applicant's proposal as set forth in the application and in Exhibit No.6 is a reasonable proposal for distribution of the increase among the various classes of customers, and is the most equitable of the several proposals presented, considering the facts of this particular proceeding. —
5. An order should be issued increasing the rates of applicant to the full extent proposed up to April 1, 1955. In order that applicant's —

earnings may not exceed 6 per cent thereafter, unless otherwise ordered applicant will be required to reduce the authorized increase by approximately \$1,500,000 if a 47 per cent federal income tax rate becomes effective on that date.

With regard to the suggestion of the City of Palo Alto that an interim decision be issued as far as the general aspects of the application are concerned in order that Palo Alto may have time to present its case, in view of the limited scope of this case we find this suggestion inappropriate for this proceeding. The Presiding Commissioner has already ruled that this is not a proper proceeding to test the justness and equitableness of present rates heretofore fixed by this Commission, and pointed out that the City in an appropriate proceeding may present its position to the Commission. The City of Palo Alto at any time may initiate such a proceeding, therefore the ruling of the Presiding Commissioner is affirmed. The request of the City of Palo Alto in its brief that it be permitted to present its evidence in support of a decrease in the existing rates in the course of this hearing is denied. It should be pointed out that the increase being authorized, computed on a percentage of revenue basis, results in a lesser increase per Mcf for the firm load of Palo Alto than for the firm load of the general service customers of the applicant and is less than if a uniform increase per Mcf were spread to all customers.

This appears an opportune time for the Commission to require certain changes regarding applicant's gas rate zoning practice. In the last electric rate increase proceeding of applicant (Decision No. 47832, 52 CPUC 111) the Commission stated that city limits are

not the sole criterion to be used in establishing electric rate zones. Similarly, in connection with gas rate areas, the city limits should not be the sole criterion and gas rate areas should be established taking into account density and other pertinent factors. The applicant should take the initiative in applying criteria to properly establish and revise gas rate area boundaries so as to classify customers in the future at appropriate rate levels.

O R D E R

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

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

IT IS HEREBY ORDERED as follows:

1. Applicant is authorized and directed to file in quadruplicate with this Commission after the effective date of this order, in conformity with General Order No. 96, revised schedules of rates as specified in Appendix A attached hereto, and, after not less than five days' notice to this Commission and the public to make said rates effective for service rendered on and after December 1, 1954.
2. Applicant shall keep such records of sales to customers during the effective period of this cost-of-gas offset rate as will enable it to determine readily the total offset charge and the total refund that may be due, if any, to each customer.
3. Applicant shall determine refunds by the method contained in Exhibit 7. After determination, refunds shall be made in the manner proposed by applicant in this proceeding.
4. Unless otherwise ordered, applicant shall prior to April 1, 1955 refile the necessary tariff schedules to be effective April 1, 1955 reducing the offset

percentage for firm service from 6.3 per cent to 4.6 per cent.

- 5. Upon final decision in the El Paso Natural Gas Company matter by the Federal Power Commission, applicant shall file a supplemental application herein containing its proposed permanent rate offset plan for final determination and authorization by this Commission.
- 6. If the tax liability of the applicant is reduced in any manner under the Internal Revenue Code of 1954 by using a basis differing from that used by the applicant in this proceeding, applicant shall promptly notify the Commission.

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

Dated at San Francisco, California, this 4th day of November, 1954.

John E. Mitchell
President

Justus J. Adams

Thomas H. Dutton

Gene Higgins

Ray G. Winters
Commissioners

APPENDIX A

The presently effective rates, charges and conditions are changed as set forth in this appendix.

1. Increase rates to those set forth in Exhibit J attached to the application as revised by data in Exhibit No. 6, in this proceeding, and as revised by changes in territory served and in heating value of natural gas served in specific areas during the period from the date of filing of the application herein to December 1, 1954.
2. Include appropriate clauses in the rate sections of its schedules setting forth the applicable percentage or cents per Mcf contingent offset charge and Decision No. as follows:

In General Service, Firm Industrial, Gas Engine, Wholesale Schedules:

Contingent Offset Charge:

The above rates include an offset charge of 6.3 per cent in accordance with Decision No. 50724 of the California Public Utilities Commission, which charge is subject to possible refund.

In Interruptible Schedules:

Contingent Offset Charge:

The above base rates include an offset charge of 1.2 cents* per Mcf in accordance with Decision No. 50724 of the California Public Utilities Commission, which charge is subject to possible refund.

* For Schedule No. G-55, the offset charge is 0.7 cents.

3. No changes in the presently effective rates in the Humboldt Division are authorized.
4. Presently effective Schedules G-63 and G-64 shall not be combined into Schedule G-63 as proposed in Exhibit J attached to the application.
5. The territory clause referring to incorporated city limits shall be modified to read as follows: "Within the incorporated city limits as they existed on the dates shown in the Index of Cities of ..."
Applicant shall file in its tariff schedules an Index of Cities setting forth the incorporated cities or towns being served gas by it and showing the designated dates of the corporate limits of such cities or towns.
6. No changes in numbering of schedules, applicability, territory, or special conditions shall be made in the tariff schedules except as required to be consistent with changes authorized herein.

APPENDIX B

LIST OF APPEARANCES

For Applicant: Robert H. Gerdes, R. W. DuVal and F. T. Searls.

Protestants: City of Richmond by Thomas M. Carlson, W. E. Thompson, Grant G. Calhoun and John T. Garvey; City of Palo Alto by Robert E. Michalski and John Bauer.

Interested Parties: City and County of San Francisco by Dion R. Holm, Paul Beck and Thomas A. Toomey, Jr.; City of Oakland by John W. Collier; California Manufacturers Association by Robert N. Lowry of Brobeck, Phlegor and Harrison; California Farm Bureau Federation by Edson Abel; City of Stockton by William Biddick, Jr.

For the Commission Staff: Boris H. Lakusta, Charles W. Mors, and John Donovan.

LIST OF WITNESSES

Evidence was presented on behalf of the applicant by: E. W. Hodges (financial statements, allocation of general expenses and taxes, administrative and general expenses, taxes), L. N. Knapp (allocation of common utility plant and materials and supplies, fixed capital, materials and supplies), J. F. Brennan (depreciation expense - common utility plant, depreciation and amortization), J. S. Moulton (introduction, gas operations, cost of gas, summary of earnings, conclusions, results of system operations), J. W. Ellis (summary of operating revenue at present rates, customers, sales, revenues), J. F. Roberts (revenues at proposed rates, revised rates, plan for refund), Roy Davis (production and transmission operation expenses), S. B. Barton (production, transmission and distribution maintenance expenses, rate base, fixed capital), H. H. Blasdale (distribution expenses, customers' accounting and collecting expenses, sales promotion expenses, income taxes), F. J. Carr (ad valorem taxes), K. C. Christensen (working cash), C. W. Delvey (customer distribution, usage, density, and average rates).

Evidence was presented on behalf of California Manufacturers Association by H. R. Ross.

Evidence was presented on behalf of the Commission staff by: R. L. Davis (rate base), William W. Evers (Gas Department revenues), George C. Doran (administrative and general expense adjustments), Stewart Weber (summary of earnings).