

**ORIGINAL**Decision No. 55614

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 PACIFIC GAS AND ELECTRIC COMPANY for )  
 authority, among other things, to )  
 remove the \$2.00 ceiling from the ) Application No. 38668  
 fuel oil escalator clause in certain )  
 of its interruptible gas rate tariff )  
 schedules. )  
 (Gas)

(Appearances and Witnesses are listed in Appendix A)

INTERIM OPINIONApplicant's Request

Pacific Gas and Electric Company, engaged principally in the business of furnishing public utility electric and gas service in Northern and Central California, <sup>1/</sup> filed the above-entitled application on December 17, 1956, requesting that the Commission make and issue its decision and order:

1. Authorizing it, among other things, to remove the \$2.00 ceiling from the fuel oil escalator clause in its Schedules G-50, G-50.1, G-51, G-52, G-53, G-54, G-55, G-91, G-92, and G-93, by:
  - a. withdrawing and cancelling the presently filed and effective tariff sheets containing said schedules; and
  - b. filing and making effective the proposed tariff sheets attached to the application as Exhibit G.
2. Declaring and finding that the removal of said ceiling is just and reasonable and that to the extent that said removal will result in an increase in charges to its interruptible customers that such increase is justifiable.
3. Granting such further or different relief as to the Commission may appear proper.

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<sup>1/</sup> Applicant also distributes and sells water in a number of cities and towns and certain rural areas, and produces and sells steam heat in certain parts of the cities of San Francisco and Oakland.

At the time applicant filed this application the posted price of fuel oil was \$2.60 per barrel and applicant estimated that lifting the \$2.00 ceiling would result in an annual increase to interruptible service of about \$10,771,000, or about 13 per cent. By the time this matter was submitted for decision (June 20, 1957) the posted price of fuel oil was \$2.95 per barrel, and the requested action would cause an increase of about \$15,000,000 to interruptible customers.

Present Status of Proceeding

Sixteen days of public hearing have been held on this request before Commissioner Ray E. Untereiner and Examiner Manley W. Edwards. Fifty-eight exhibits have been received and briefs have been filed. The applicant has computed its earnings at present rates which show a rate of return of 4.09 per cent for the year 1957 and states that the proposed increase will bring the gas department's earnings up to about the 6 per cent rate of return which was authorized by the Commission in Decision No. 46268, dated October 2, 1951. The Commission's staff has made an earnings study and has calculated the applicant's rate of return under present rates as 4.33 per cent for the estimated year 1957 assuming straight-line depreciation for income tax purposes.

The protestants have made an extensive showing and, in general, while not opposing applicant's claim that it needs a rate increase, take the position that its proposal to impose the entire burden of its recent cost increases upon its interruptible customers is patently unjust, unreasonable and discriminatory. They point out that the cost increases which bring about applicant's need for rate increases have been incurred by applicant in respect of service to all classes of its customers and not exclusively for service to its interruptible customers, and they represent that the present

interruptible rates are already considerably above the full cost of service and the present firm rates are below the full cost of service.

Findings and Conclusions

In our opinion, applicant is entitled to a substantial increase in revenues. It is our conclusion and finding, however, that interruptible customers should not bear all of the increase as proposed by applicant. In this order we will withhold conclusion as to the increases that should be placed on classes of service other than interruptible, pending the filing of an amendment to the application indicating applicant's election as to its further course in view of the decision herein.

We will not authorize raising the ceiling on the fuel oil escalation clause at this time. Were effective interruptible rates increased by this means, on the basis of present base rates many interruptible billings would be determined by limiting firm rates. This would not provide the best form of rate, as an inferior service, one subject to interruptions would be paying at a firm rate level. By this interim order, however, we are not deciding on the merits or advisability of keeping escalator clauses in the applicant's rates in the future, but will decide the question of escalation in the final order.

The last general increase in applicant's rates was made pursuant to Decision No. 51360, wherein an offset increase in the base rates for firm service of 3.56¢/Mcf and an interruptible base rate offset increase averaging 1.55¢/Mcf were authorized. The two increases were not equal because the price of competitive fuel oil at that time did not allow a greater increase to interruptible rates. For the purpose of this interim order, an increase in interruptible base rates, so that the increase by both this order and Decision No. 51360 is 3.56¢/Mcf, appears justified for those interruptible

schedules applicant has sought to have increased, other than Schedule No. G-51. The offset rates, subject to refund applicable to all blocks of interruptible schedules affected by this order, will be changed to 1.55¢/Mcf, in addition to offset rates authorized by Decisions 50744 and 48484. No change in Schedule G-51 will be authorized herein.

It is estimated the above-mentioned rate increases will yield applicant an increased revenue of \$5,670,000, based on estimated 1957 volumes, an amount we find justified and reasonable for the purpose of this interim order. Included in the \$5,670,000 is \$1,280,000, subject to refund, an amount authorized by Decision No. 51360 but not reflected in the rates filed by applicant pursuant to that decision.

Applicant proposed to transfer customers presently served from the Salinas-Kings City eight-inch gas main in the Coast Valleys Division from Schedule No. G-50.1 to Schedule No. G-50. We are of the opinion that such change is warranted and the order will so provide. The Commission finds that the increases in rates and charges authorized herein are justified and that present rates, insofar as they differ therefrom, for the future are unjust and unreasonable; therefore,

IT IS HEREBY ORDERED as follows:

1. Applicant is authorized to file in quadruplicate with this Commission after the effective date of this order, in conformity with General Order No. 96, revised Interruptible Schedules in accordance with the following paragraphs (a), (b), (c), and (d), and after not less than one day's notice to this Commission and to the public, to make said tariff schedules effective for service furnished on and after October 15, 1957.
  - a. Change the presently effective offset charges included in the base rates of Interruptible Schedules Nos. G-50, G-50.1, G-52, G-53, G-54, G-91, G-92 and G-93 from those filed pursuant to Decision No. 51360 to an offset charge of 1.55 cents per Mcf subject to refund, in the base rates of each block of those schedules and

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include an additional offset charge of 1.55 cents per Mcf, subject to refund, in the base rate of Interruptible Schedule No. G-55.

- b. Increase the base rates by 2.01 cents per Mcf in each block of Interruptible Schedules Nos. G-50, G-50.1, G-52, G-53, G-54, G-55, G-91, G-92 and G-93, with such increase not subject to refund.
  - c. Revise the effective rates in those schedules changed in (a) and (b) above in accordance with Gas Rule and Regulation No. 2.
  - d. Revise Schedules Nos. G-50 and G-50.1 to transfer the territory in the Coast Valleys Division supplied from the Salinas-Kings City eight-inch gas main, presently served under Schedule No. G-50.1, to Schedule No. G-50.
2. Applicant shall file a revision of the refund plan authorized by Decision No. 51360 acceptable to this Commission, within ninety days after filing the revised schedules authorized herein. The revised refund plan to be submitted is to reflect the appropriate treatment of offset rates authorized by this order beginning with the effective date of said rates and provide for the applicant to submit to the Commission for its review a results of operation study for its Electric Department adjusted to reflect any amounts of refund made to the Electric Department.
  3. The motion to dismiss made on May 27, 1957 on behalf of the California Manufacturers Association, supported by U. S. Navy and other administrative agencies of the government, and extensively argued on the record, has been carefully considered at some length by the Commission. It is hereby now denied.

4. Final decision on this matter shall be held in abeyance pending the filing by applicant of an amendment to application herein.

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

Dated at Los Angeles, California, this 24<sup>th</sup> day of SEPTEMBER, 1937.

[Signature]  
President  
[Signature]  
[Signature]  
K. Hardy  
[Signature]  
Commissioners

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LIST OF APPEARANCES

For Applicant: F. T. Searls and John C. Morrissey for Pacific Gas and Electric Company.

Protestants: Brobeck, Phleger & Harrison, by George D. Rives, for California Manufacturers Association, American Smelting and Refining Company, California and Hawaiian Sugar Refining Corp., Columbia-Geneva Steel Division (U. S. Steel Corporation), Fibreboard Paper Products Corp., Gladding McBean and Company, Hunt Food, Inc., and subsidiaries, Glass Container and United Can and Glass Company, Kaiser Aluminum and Chemical Corporation, Kraftile Company, Permanente Cement Company, Philadelphia Quartz Company of California, Spreckels Sugar Company, Basic Vegetable Products, Inc., Owens-Illinois Glass Company, Holly Sugar Company, Swift and Company, and Continental Can Company (Hazel-Atlas Glass Division); Kenneth M. Robinson for Permanente Cement Company and Kaiser Aluminum and Chemical Corporation; Gordon R. Daley for City of King and City of Greenfield; John W. Hutton for League of Southern Monterey County Cities and City of Soledad; Saul M. Weingarten for City of Gonzales.

Interested Parties: Wallace K. Downey for California Portland Cement Company; O'Melveny & Myers, by Lauren M. Wright, for Riverside Cement Company; Roger Arnebergh, Robert W. Russell and T. M. Chubb for City of Los Angeles; Harold Gold and Reuben Lozner for United States Government; E. D. Lemon for United States Borax and Chemical Corporation; Pillsbury, Madison and Sutro, by Noel Dyer, for Hercules Powder Company; J. J. Deuel and Bert Buzzini for California Farm Bureau Federation; Gibson, Dunn and Crutcher, by Richard L. Wells, for American Potash and Chemical Corporation and West End Chemical Corporation; W. D. MacKay for Challenge Cream and Butter Association; Donald H. Ford for Southwestern Portland Cement Company; Dion R. Holm and Paul L. Beck for City and County of San Francisco; J. Donald McCormack for Paul Griem, Glass Containers, Inc., and United Can and Glass Corp.; F. L. Treanor for Caterpillar Tractor Co.

Commission Staff: J. T. Phelps, Charles W. Mors, and Marshall J. Kimball.

LIST OF WITNESSES

Evidence was presented on behalf of the applicant by: J. S. Moulton (Introduction, Gas Operations, Cost of Gas, Summary of Earnings and Conclusion), Harold Z. Frank (Operating Revenue), Rudolph Jenny (Operating Revenue, Customer Distribution, Usage, and Revenue Characteristics-Interruptible and Firm Industrial Customers), Roy Davis (Production and Transmission Operating Expenses), E. J. Lage (Production, Transmission and Distribution Maintenance Expenses, Rate Base, Fixed Capital), H. H. Blasdale (Distribution Operation, Customers' Accounting and Collecting and Sales Promotion Expenses, and Taxes), F. J. Carr (Taxes), J. F. Brennan

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(Depreciation and Amortization, and Depreciation Reserve);  
L. N. Knapp (Fixed Capital) K. C. Christensen (Rate Base Working  
Cash), T. R. Salm (Customers' Accounting and Collecting, and Ad-  
ministration and General Expenses, and Taxes), R. T. Petersen  
(Curtailement of Interruptible Customers), J. H. Gumz (Commercial  
and Industrial Sales), W. R. Joyce (Tariffs, Rates and Rules)  
J. C. Russell, Jr. (Interruptible Revenues), I. W. Collins  
(Steam Generation and Electrical Operations), C. P. Smith  
(Curtailement of Mare Island Navy Yard for Years 1947 through  
1956).

Evidence presented on behalf of the protestants and interested parties  
by: Edwin Fleischmann, Byron D. White, John G. Howell, W. Seitz,  
Paul D. Griem, L. R. Alt, Joseph F. Knight, Peter S. Haas for The  
California Manufacturers Association; Saul Nelson and Oliver O.  
Rands for the United States Government.

Evidence was presented on behalf of the Commission staff by: E. F.  
Catey (Introduction, History, Present Operations, Administrative  
and General Expenses, Taxes, and Summary of Earnings), C. V.  
Shawler (Financial Statements), P. L. Boneysteele (Gas Plant,  
Depreciation Reserve and Expenses, Rate Base), K. J. Kindblad  
(Operating Revenues, Production, Transmission, Distribution,  
Customers' Accounting and Collecting, Sales Promotion Expenses,  
and Customer Distribution, Usage, Rates and Services).