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ORIGINAL

Decision No. [illegible]

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation of natural gas and electric extension rules of California-Oregon Power Company, California-Pacific Utilities Company, California Electric Power Company, Pacific Gas and Electric Company, San Diego Gas & Electric Company, Sierra Pacific Power Company, Southern California Edison Company, Southern California Gas Company, Southern Counties Gas Company of California, and Southwest Gas Corporation.

Case No. 5945

(Appearances are listed in Appendix A)

INTERIM OPINION AND ORDER

Purpose of Investigation

In view of changing economic conditions and rapid growth and expansion of the State, the Commission instituted the above-entitled investigation for the purpose of determining the need for uniform principles in extension rules, and appraising the fundamental considerations underlying the present rules, their propriety and reasonableness.

Public Hearing

At the first day of hearing on this investigation on February 11, 1958, before Commissioner Ray E. Untereiner and Examiner M. W. Edwards, in Los Angeles, the Southern California Edison Company requested that an interim order be issued directing that Southern California Gas Company and Southern Counties Gas Company of California cease demanding an additional advance of $55 per home where a subdivider-builder installs an electric range in a new home. Such request was joined in, in part, on behalf of a group of subdivider-

builders on the basis that there is no provision in the present extension rule tariffs of these gas companies for exaction of a $55 charge where a gas range is not installed.

Three additional days of public hearing were held upon this request on March 27 and 28 and April 11, 1958, in Los Angeles. Oral arguments were presented on April 11, 1958, and brief summary statements were filed by certain parties on or before April 21, 1958. The matter is now ready for decision.

Edison's Position

Edison's position is that the practice is inequitable in that it penalizes the builder who prefers to install an electric range or kitchen rather than a gas range or kitchen in his new homes. Edison further contends that, as applied by the gas companies, the rule denies free choice by the builder and home owner as to the type of fuel to be used for cooking purposes.

Position of Gas Companies

The gas companies take the position that their rates are based on the presumption of three uses of gas by the average home owner; that is, for space and water heating, and cooking; and that the free footage allowances in their present extension rules are predicated on such three uses. Where the subdivider-builder predetermines the type of cooking fuel to be used by providing built-in ranges, and some fuel other than gas is used for cooking, the gas companies assess the $55 charge, which is in principle only a reduction in the free footage allowance, to offset the reduction in revenue under what they might expect if gas were used for cooking. The charge is assessed only where ten or more houses or housing units

are involved. The gas companies rely on Section (6) of Rule and Regulation No. 20 and Section (b-3) of Rule and Regulation No. 21 of Southern California Gas Company and Section (E) of Rule and Regulation No. 20 and Section (b-2) of Rule and Regulation No. 21 of Southern Counties Gas Company as their authority for exacting this charge. They state that the use of a flat $55 average figure saves time and is more convenient and equitable to both the builder and themselves than the more accurate but costly and time-consuming method of preparing a separate rate of return study on each tract. As an interim measure, nonetheless, in the event that the $55 charge be found to be unreasonable, the gas companies suggest that, in lieu thereof, they make rate of return studies on each tract and collect advances from the subdivider-builder where the costs of the extension and services exceed the free allowances.

Position of Commission Staff

The Commission Staff adopted a neutral position with regard to this request. It made several suggestions, however, as to substitute procedures that might be adopted on an interim basis in lieu of the $55 charge should the Commission find that such charge should be discontinued prior to the time revised rules become effective. One suggestion was to determine that these subdivisions and housing developments should be dealt with under Paragraph 5 of the rules rather than Paragraph 6, allowing 120 feet of free extension for a 2-use customer and 150 feet of free extension for a 3-use customer. Another suggestion was to have the gas companies extend services and mains on the basis of 2-1/2 times the estimated annual revenue. The staff also suggested that the Commission could adopt some interim footage allowances less complicated than the allowances in the proposed rules under Applications No. 37604 and No. 37605.

Position of California Farm Bureau Federation

The California Farm Bureau Federation takes the position that the extension of gas service to rural areas is of importance to farm bureau members, that there are many defects in the present rules, that there is no authorization in the rules for the $55 charge, that a reasonable rule is one that balances the interests of the utility, the present customers and new applicants, that some special charge is probably justified under the circumstances here involved, and that the Commission should not shift a burden from one group of customers to another group by ordering that the $55 charge be discontinued until the proper amount and form of a charge to take its place is determined.

Position of Subdivider-Builder Interests

The subdivider-builder interests take the position that the $55 charge is improper, that the charge has not had official Commission approval, that the gas companies use it as a competitive weapon to force the use of gas cooking appliances, that it impairs freedom of choice by the customer as to the type of fuel selected for cooking purposes, that it is imposed by the gas companies for their own convenience to enable them to avoid making a rate of return analysis on each tract, that the gas companies are not complying with their tariffs now on file with the Commission, and that an order should be issued directing the gas companies to cease collecting the $55 charge.

Discussion

The gas company witnesses testified that the extension rules are predicated on the assumption that gas will be used for cooking, as well as for space and water heating. They assert that approximately 90% of their customers use gas for cooking. Where the

companies are deprived of the cooking load by the installation of electric ranges, the revenues to be expected from an extension may not justify the free footage provided under the present rules. In the case of the individual residence, or of housing developments of less than ten units, they have, under their existing extension rules, been willing to take this risk, feeling that they had a reasonable opportunity, by salesmanship, to persuade the home owner to cook with gas. In the case of larger housing developments, however, they contend that the subdivider-builder makes the choice; and that they may be called upon to extend into a subdivision in which built-in electric ranges are standard and they have virtually no chance of acquiring the cooking load and its attendant revenue. One subdivider-builder testified that 85% of the families which purchase new tract homes prefer electric ranges. There is evidence that buyers are strongly inclined to order either gas or electric ranges, depending on which is shown in the model homes. It is the position of the gas companies that $55 is a reasonable average additional charge, for each subdivision home from which they will receive no revenue from cooking gas, to help defray the cost of the extension.

Extension rules predicated on three uses of gas may be too liberal when applied to the 2-use customer; and in that event would adversely affect the utility's other customers. This is true when the extension is made to a single customer or a small subdivision, as well as when it is made to the larger housing developments to which the gas companies have applied the $55 charge. Correction of such inequities as may exist in the rules as applied to individual and small subdivision extensions will be considered in the final order in these proceedings. At this time, only the facts with respect to

the application of the $55 charge in the larger subdivisions and housing developments are fully before the Commission.

Large subdivisions with built-in kitchen ranges and ovens have come into being only during the period since the second war. No specific reference is made to them in the gas company rules. However, they logically fall within the provisions of Sections (6), (b-3), (E) and (b-2) of the several rules. Under such sections an additional advance to help defray the costs of an extension is appropriate when the customers contemplate two rather than three uses of gas.

The $55 charge here under attack may, to this extent, be justified by the gas companies under their existing rules. There is some evidence, however, that such flat charge, uniformly applied, has been used as a competitive weapon to discourage the installation of electric ranges; and also that it results in certain inequities in practice. It has been applied regardless of the cost of an extension or the rate of return to be expected on the required investment. For purposes of this Interim Order we hereby authorize the gas companies to continue to apply their section (6), (b-3), (E) and (b-2) rules to subdivisions and multiple-housing developments, of ten or more units, so as to require additional advances for extensions where, and to the extent that, two rather than three uses of gas are contemplated. We shall require, however, that such additional advances be based on considerations of cost and estimated revenue and rate of return for each such subdivision, tract, or multiple housing development.

Findings and Conclusions.

After considering the evidence of record the Commission finds and concludes that: (1) a reasonable interpretation of the rules of Southern California Gas Company and Southern Counties Gas Company of California justifies a reduced free main extension allowance to subdividers and developers of multiple housing tracts of ten or more units for the extension of gas mains and services where, and to the extent that, two, rather than three, uses of gas are contemplated; (2) the imposition of a flat $55 charge for each residence where only two uses of gas are contemplated is, however, inequitable; (3) the proper advance for construction should, in every instance, be computed by means of a rate of return study in which the net cost of the extensions to the utility after deducting the advance when related to the estimated annual revenue therefrom, yields the average rate of return earned by the utility on its investment to serve other residential consumers; (4) where the actual number of gas and non-gas ranges to be installed cannot be predicted with reasonable accuracy, the required advance should be calculated on the assumption that 50% of the ranges will be gas burning; (5) adjustment between the utility and the subdivider-builder for differences between estimated and actual installation of gas and other ranges should be made promptly as actual data becomes available; (6) advances collected after the effective date of this order for tracts or subdivisions now in the process of development should be calculated on the basis herein set forth; (7) advances in tracts now in process of development where a $55 charge for two-use gas customers has previously been assessed shall, when adjusted for actual gas appliances, be adjusted according to the charge found proper by the rate of return study or the $55 charge, whichever is the lesser amount.

The Commission further finds that the increases and/or decreases in rates, rules and charges authorized herein are justified and that the present rates, rules and charges insofar as they differ from those herein prescribed for the future are unjust and unreasonable.

INTERIM ORDER

Motions having been made for interim relief, public hearings having been held and the matter having been submitted for purposes of ruling on the motions and the matter now being ready for decision,

IT IS HEREBY ORDERED:

1. That Southern California Gas Company and Southern Counties Gas Company of California shall cease and desist after the effective date of this order from collecting a $55.00 advance charge for each two-use gas home from subdivider-builders or tract developers in tracts of 10 or more homes.

2. That Southern California Gas Company and Southern Counties Gas Company of California after the effective date of this order shall determine the amount of the advances for construction to be obtained from subdivider-builders or tract developers in tracts of 10 or more homes under applicable sections of their Rules and Regulations 20 and 21 governing main and service extensions by means of a rate of return study in accordance with the foregoing finding.

3. That said gas companies, within thirty days after the effective date of this order, shall file with the Commission as part of their rules Nos. 20 and 21 in accordance with General Order No. 96 and furnish copies to all appearances of record in this proceeding, a schedule setting forth the detailed method by which they will determine the rate of return, showing the average annual estimated

revenues to be used, the average annual estimated costs, the net revenues, the rate of return to be applied to residential business, the method of estimating gas usage, and other factors necessary to the development of a rate of return analysis for determining advances for main and service extensions into multiple housing tract developments of 10 or more homes;

4. That within fifteen days after receipt of the foregoing schedule detailing the method of calculation, any appearance of record may file an exception thereto with copies to all appearances in which case the Commission may consider a further order implementing this decision.

5. That said gas companies after the effective date of this order when adjusting the amount of advances for gas appliances actually installed as provided for in rules Nos. 20 and 21 of their tariffs, where a $55.00 charge for a two-use gas customer has previously been assessed, shall make such adjustment on the basis of a rate of return study or the $55.00 charge for each two-use gas customer, whichever is the lesser amount.

IT IS HEREBY FURTHER ORDERED that in all other respects the motions of the Southern California Edison Company and the subdivider-developer interests for interim relief are denied.

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

Dated at San Francisco, California, this 6th day of MAY, 1958.

[signature] President

[signature]

[signature]

Commissioners

Peter E. Mitchell

Commissioner C. Lyn Fox, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

LIST OF APPEARANCES

Respondents: T. J. Reynolds, H. P. Letton, Jr., and Reginald L. Vaughan, for Southern California Gas Company; Milford Springer and Reginald L. Vaughan, for Southern Counties Gas Company of California; Brobeck, Phleger & Harrison by Robert N. Lowry, for California Oregon Power Company; Rollin E. Woodbury and C. Robert Simpson, for Southern California Edison Company; F. T. Searls and John Carroll Morrissey by John Caroll Morrissey, for Pacific Gas and Electric Company; Chickering & Gregory by C. Hayden Ames, and Frank R. Porath, for San Diego Gas & Electric Company; C. H. McCrea, for Southwest Gas Corporation; W. W. Miller, for California Electric Power Co.

Interested Parties: Harold Gold, Reuben Lozner and Gerald Jones, for Department of Defense and other executive agencies of the United States Government; William W. Eyers, for California Manufacturers Association; J. J. Deuel, for California Farm Bureau Federation; Wyman C. Knapp of Gordon, Knapp, Gill and Hibbert, for J. I. Gillespie, Inc., Basin Builders Corporation, Venice; Sycamore Land Co. Inc., Los Angeles; George Alexander Co., Los Angeles; The Capri, Fullerton; Tietz Construction Co., Garden Grove; Joe Engle and Abe Vickter, No. Hollywood; Weiss Construction Corpn., Los Angeles; Inland Empire Builders, Inc., Riverside; Craign Development Corp., Tustin; Triangle Subdivisions, Sherman Oaks; G & K Construction Co., Sherman Oaks; C & M Homes, Azusa, California; Meeker Development Company, Arcadia; H. Cedric Roberts & Sons, Anaheim; Henry C. Cox, Garden Grove; Claremont Highlands, Inc., Claremont; Surety Development Company, Van Nuys; Julian Weinstock Construction Co., Inc., Sherman Oaks; Morley Construction Company, Los Angeles; Gangi & Gangi, Glendale; Burt Huff, Santa Ana; Yoder & Greenwald, Tustin; Homer Toberman, Hollywood; Tamarack Construction Corpn., Van Nuys; The Sturtevant Corporation, Santa Ana; Moss Building Corp., Beverly Hills; Dike & Colegrove, Inc., Costa Mesa; Lomita Square Corporation, Pasadena; Murray-Sanders Co., Santa Ana; Marjan Development Co., Anaheim.

Commission Staff: Mary Moran Pajalich, James S. Eddy, Clarence Unnevehr, and Louis W. Mendonsa.