



Public Hearing

After due notice, two days of public hearing on this application were held before Examiner Manley W. Edwards on May 20, 1958, in Eureka and on May 26, 1958, in San Francisco, California. Applicant presented three exhibits (Exhibits Nos. 8, 9 and 10), and testimony by two witnesses in support of its supplemental application. Counsel for the California Manufacturers Association and the Commission staff, represented by utilities engineers, cross-examined applicant's witnesses for the purpose of developing a full record to aid the Commission in deciding this matter. In addition, two exhibits and testimony were presented on behalf of the Foremost Dairies Inc. and Golden State Company regarding their plant at Loleta and its competitive situation. No opposition to the proposed increase was voiced by the general public at the hearing in Eureka; however, after the hearing communications were received from the city protesting the proposed 19 percent increase in general service revenues, the effect of the proposed increase on the city's own bill, and the desire that the Eureka rate levels for industries be comparable to other areas in the state in order to promote industrial growth. The matter was submitted for the Commission's consideration at the close of the second day of hearing subject to a late-filed exhibit (Exhibit No. 13) on June 5, 1958, and now is ready for decision.

Reason for this Supplemental Application

Applicant is increasing its gas system investment substantially in the Humboldt area in order to bring in an additional supply of natural gas from its integrated natural gas system in the upper Sacramento Valley. Applicant refers to the fact that when authority to construct some 173 miles of new gas main for this purpose was granted by Decision No. 54772, dated April 2, 1957, the

Commission stated that some increase in rates may be required. At the hearings in February and March 1957 applicant suggested that a 21 percent increase in rates might be necessary, but, in view of the fact that there would be considerable length of time between the date of starting and completing the project, applicant was then of the opinion that economic conditions might change sufficiently to warrant a higher or lower ratio of increase. In substantiation of need for an increase in rates at this time of 15.2 percent on the average, applicant submitted an estimated future earning statement under proposed rates showing a rate of return, after a 2½-year-load building period, of only 3.45 percent. Such level of return is approximately one half of the rate of return applicant requested in its system-wide rate case under Application No. 38668, Second Supplemental, being decided concurrently with this application.

Plant Investment

Applicant's investment to serve the Eureka area will approximately triple upon completion of the new gas line (now scheduled for the end of July 1958). The added gas supply will enable applicant to extend out and serve new areas in the next year or two to help improve its earning position. The line from the Sacramento Valley is routed sufficiently close to Red Bluff that applicant found it economically feasible to extend natural gas to Red Bluff to replace the propane-air system. Applicant's estimate of capital investment as of December 31, 1960 is:

Humboldt Division and Red Bluff Service Areas -  
Estimated Capital (Depreciated)

Intangible Plant	\$ 7,000
Tangible Plant	
Existing Service Areas	4,790,000
New Service Areas	2,475,000
Transmission - Perkins Lake to Eureka	10,881,000
Common Utility Plant	402,000
Customer Advance and Contributions	(122,000)
Working Capital	
Materials and Supplies	83,000
Working Cash	284,000
Total Capital (Depreciated)	<u>\$18,800,000</u>

Customers

Applicant's estimate of customers to be served as of December 31, 1960, may be summarized as follows:

Domestic Customers	
Humboldt Division	
Existing Service Area	16,338
New Service Areas	3,726
Red Bluff Area	1,700
Commercial and Industrial Customers	
Humboldt Division	
Existing Service Area	1,670
New Service Areas	151
Red Bluff Area	175
Interruptible Customers	28
Humboldt Bay Steam Plant	1
Total Customers	<u>23,789</u>

Sales

Applicant's estimate of sales of gas, based on 950 Btu per cubic foot heating value, for the period July 1, 1960, to June 30, 1961, in Humboldt and Red Bluff areas is:

Domestic	2,365,100 Mcf
Commercial and Industrial	858,800
Interruptible	1,729,800
Humboldt Bay Steam Plant	4,288,000
Total Sales	<u>9,241,700</u>

Earning Position

The applicant's estimated annual earning position after an approximate three-year-load building period is:

Humboldt Division and Red Bluff Service Areas  
Estimated Rate of Return Assuming Customer  
Potential as of December 31, 1960

Revenue (Proposed Rates)

Domestic (Schedule G-7)	\$2,213,500
Commercial and Industrial (Schedule G-7)	633,900
Interruptible (Schedule G-51)	830,700
Humboldt Bay Steam Plant	1,363,600
Total Revenue	<u>5,041,700</u>

Expenses

Cost of Gas	2,411,200
Maintenance and Operation	338,000
Customer Acctg. and Coll.; Sales Promotion	159,200
Depreciation, 2% Sinking Fund - Annuity	432,700
- Interest	41,400
Soc. Sec. Pensions, Admin. & General	150,900
Property Taxes	529,800
Ins., Inj. and Damages	35,900
Income Taxes	293,100
Total	<u>4,392,200</u>
Net Revenue	649,500
Rate Base (Capital Depreciated)	18,800,000
Rate of Return	3.45%

Applicant did not present an exhibit showing its estimated return for the year 1958 (assuming the new line in operation for a full year) but stated its studies show a return of only 3.12 percent derived as follows:

Customers, number of	17,080
Sales	4,564,000 Mcf
Purchased Gas	4,781,000 Mcf
Revenue Proposed Rates	\$ 2,957,000
Expenses, including income taxes	\$ 2,460,700
Net Revenue	\$ 496,300
Rate Base (Depreciated)	\$15,928,000
Rate of Return	3.12%

General Service Rates

The major portion of applicant's sales in the area now are rendered under the general service classification. Applicant's

present and proposed rates and those being authorized for the City of Eureka are:

		<u>Schedule No. G-7 Rate Comparison</u>			
		<u>Present</u>	<u>Proposed Rates</u>		<u>Author-</u>
		<u>Rates</u>	<u>1100 Btu</u>	<u>950 Btu</u>	<u>ized</u>
		<u>1100Btu</u>	<u>1100 Btu</u>	<u>950 Btu</u>	<u>Rates</u>
					<u>950 Btu</u>
First	200 cu.ft.or less per Mo.	\$ 1.10	\$1.35292	\$1.35292	\$1.35
Next	2,300 cu.ft.,per 100 cu.ft.	10.50¢	12.736¢	11.02¢	7.98¢
Next	17,500 cu.ft.,per 100 cu.ft.	6.52¢	8.226¢	7.12¢	7.37¢
Next	80,000 cu.ft.,per 100 cu.ft.	6.30¢	7.976¢	6.90¢	6.81¢
Next	4,900,000 cu.ft.,per 100 cu.ft.	6.07¢	7.706¢	6.67¢	6.72¢
	All excess cubic ft., per 100 cu.ft.	6.07¢	7.706¢	6.67¢	6.47¢

Presently, the gas being served in Eureka has a heat content of 1050 Btu per cubic foot. Where the added gas is brought in from the upper Sacramento Valley and mixed with the local Tompkins Hill gas, the new heat content will be 950 Btu per cubic foot. The rate levels under the company's tariffs are adjusted for change in heat content so that the customer obtains the same number of heat units per dollar regardless of the specific heat content of the gas.

Also, applicant proposes that the rates contain a contingent offset charge based upon the price of its out-of-state gas purchased from El Paso Natural Gas Company as follows:

- (1) An offset charge of 6.3 percent
- (2) An offset charge of 0.356 cents per 100 cu. ft.
- (3) An offset charge of 0.196 cents per 100 cu. ft.

Under this proposal the rates are subject to possible refund in the event of a future reduction in the cost of gas purchased from El Paso Natural Gas Company by Federal Power Commission order.

Industrial Rates for Firm Service

Applicant does not propose the establishment of a separate industrial rate, such as Schedule G-40 on its main system, for the Humboldt area, but proposes that such business be served under the general service Schedule G-7. The California Manufacturers

Association was opposed to this proposal and took the position that industrial customers should have the advantage of an industrial service schedule upon integration of the system. The applicant's position on this subject is that there is no present need for a separate industrial schedule.

Interruptible Industrial Rates

Applicant is proposing an interruptible rate, Schedule No. G-51, that is considerably higher than Schedule No. G-50 that applies to interruptible service over most of the present integrated system. Also it is proposing a different type of fuel oil price escalator clause with a 7 to 1 ratio compared to 6 to 1 and 12 to 1 ratios in the present fuel price clause. The California Manufacturers Association took the position that the proposed G-51 rate should be no higher than Schedule No. G-50. The Association pointed out that the applicant is proposing a system-wide schedule for the interruptible gas that it will use in its Humboldt Bay steam-electric plant and that cost to serve is of little difference between steam-electric plant interruptible gas and industrial interruptible gas. Also, the association disagreed with applicant's proposal to change the present form of escalator clause and stated that it is an attempt to charge all the traffic will bear against the interruptible customer.

The representative for the Foremost Dairies Inc. expressed the view that the interruptible rate should be at the same level as in the San Joaquin Valley. He pointed out that their dairy products manufacturing plant in Loleta competes with products made by plants in the San Joaquin Valley and at other points on the applicant's integrated system that enjoy the advantages of the Schedule No G-50 rate levels.

The applicant's general position is that to make the project financially sound increases in rates above the present system-wide rates are necessary, that the interruptible service will be of more value in this area because of lesser expected curtailment during abnormally cold days (when firm load customers usually take all available gas) than over the remainder of its system, and that the higher cost of fuel oil delivered in the area compared to its cost in San Francisco warrants a higher competitive price level for interruptible gas. Also applicant states that the level of its proposed interruptible rate must be kept competitive with the cost of fuel oil and the present form of escalator clause would not accomplish that result for oil prices over \$2.00 per barrel.

Steam-Electric Plant Rates

Applicant proposes that the commodity rate for interruptible gas to its Humboldt Bay Steam plant should be at the same level as that in the San Francisco Bay Area. In addition, a facility charge of \$12,900 a year is proposed. This would be accomplished by revising existing Schedule No. G-55 so as to make it applicable in the Humboldt Division and by increasing the facility charge provided in the schedule by \$12,900 per year. Applicant's witness testified that fuel oil now used in the Eureka Bay Steam plant costs about 22 cents per barrel more than oil delivered in the San Francisco Bay area.

Findings and Conclusions

After considering the evidence of record, the Commission finds and concludes that some increases in rates for gas service, both firm and interruptible, are warranted in the Humboldt Division on system integration so as not to burden rates over the remainder of the system, and that similar rate levels should be made available



to service to the Red Bluff area, even if it results in some reduction from the level of the rates (G-6.1 and G-50.1) now being used temporarily in Red Bluff. This action follows past Commission practice of initially establishing higher rates in new areas where system costs per customer and per unit of commodity are above system average, and gradually reducing the rates as the number of customers and business grow to a point that warrants system-wide levels. At this time the rates must not be set at a level so high that they will not be competitive with other forms of fuel from a convenience and price standpoint, and they should be at such level as will enable the applicant to carry on customary promotional and load-building activities and thus increase sales.

The Commission has carefully considered the views of the City of Eureka, the California Manufacturers Association, the Foremost Dairies and the Golden State Company. In fixing the new rates all of the rate increases proposed by applicant will be set at lesser levels, except those to its own steam electric plant. Furthermore, the Commission in recognizing the official position of the City of Eureka and the views of the California Manufacturers Association will require applicant to file a schedule for firm industrial rates at a level below the new general service schedule.

Based upon the findings and conclusions and the premises stated above the following comparative rate levels will be authorized:

1. The general service rates should be set somewhat lower than those proposed by applicant in the outer blocks with increases in the range of 20 cents per Mcf above Schedule G-4 levels on the main system.
2. A firm industrial rate, Schedule No. G-40.1, while not proposed by applicant, should be made available at about six cents per Mcf above the system-wide Schedule No. G-40.

3. An interruptible industrial rate, Schedule No. G-51, is not warranted at as high a level as proposed by applicant and should be set at a level about four cents per Mcf above Schedule No. G-50, and the proposed fuel clause should be deleted as we have done in Schedule No. G-50 by concurrent decision.
4. A separate steam-electric plant rate, Schedule No. G-55.1, while not proposed by applicant, should be provided and set at a level about four cents per Mcf above Schedule No. G-55, and the proposed fuel clause should be deleted as we have done in Schedule No. G-55 by concurrent decision.

The resulting increases by classes for the estimated test year 1958 follow:

	<u>Sales Mcf</u>	<u>Revenue at Pres. Rates</u>	<u>Rate Increase</u>	<u>Increase Ratio</u>	<u>Av. Rev. Per Mcf after Increase</u>
General Service					
Eureka	2,675,000	\$1,895,000	\$280,000	14.8%	\$0.81
Red Bluff	38,000	47,000	(9,000)	(19.1)	1.00
Firm Industrial	(New)	(New)	(New)	-	-
Interruptible Industrial					
Eureka	494,000	167,000	32,000	19.2	.40
Red Bluff	138,000	68,000	(9,000)	(13.2)	.43
Steam Plant	<u>1,219,000</u>	<u>389,000</u>	<u>64,000</u>	<u>16.5</u>	<u>.37</u>
Total Increase	4,564,000	2,566,000	358,000	14.0	.64

(Decrease)

The Commission finds that the increases in rates and charges authorized herein are reasonable and justified, and that existing rates, in so far as they differ from the rates herein prescribed, are for the future unjust and unreasonable after the upper Sacramento Valley gas is available, and that an order should be issued increasing the rates in the manner set forth in Appendix A herein.





ORDER ON SECOND SUPPLEMENTAL APPLICATION

The above-entitled second supplemental application having been filed, a public hearing having been held, the Commission having found substantial increases in rates justified; therefore,

IT IS ORDERED that applicant is authorized to file in quadruplicate with this Commission on or after the effective date of this order, in conformity with General Order No. 96, tariff schedules with changes in rates, charges, rules and conditions as set forth in Appendix A attached hereto and, on not less than two days' notice to this Commission and to the public, to make said tariff schedules effective for service on and after the date additional gas service becomes available from the upper Sacramento Valley but in no event prior to August 1, 1958.

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

Dated at San Francisco, California, this 9<sup>th</sup> day of July, 1958.

  
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President  
  
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Commissioners

APPENDIX A  
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The authorized new tariffs and changes to presently effective tariffs are set forth in this appendix:

1. Schedule No. G-6.1
  - a. Delete the following:
    - G- (800 Btu)  
Shasta Division supplied from main 177 north of Corning Field.
2. Schedule No. G-7
  - a. Revise as set forth in Exhibit B attached to Application No. 38638 - Second Supplemental, with rates as follows:

		<u>Per Meter Per Month</u>	
		Base Rates	Effective Rates
		1100 Btu	D 950 Btu
First	200 cu.ft. or less	\$1.35	\$1.35
Next	2,300 cu.ft., per 100 cu.ft.	9.22¢	7.98¢
Next	17,500 cu.ft., per 100 cu.ft.	8.52	7.37
Next	80,000 cu.ft., per 100 cu.ft.	7.87	6.81
Next	4,900,000 cu.ft., per 100 cu.ft.	7.77	6.72
Over	5,000,000 cu.ft., per 100 cu.ft.	7.48	6.47

3. Schedule No. G-50.1
  - a. Delete the following:
    - G- (800 Btu)  
All territory in Shasta Division supplied from main 177 north of Corning Field.
4. Schedule No. G-51
  - a. Revise as set forth in Exhibit B attached to Application No. 38638 - Second Supplemental, with changes to rates and special conditions as follows:

Rates:

		<u>Per Meter Per Month</u>		
		Offset Charges	Base Rates	Effective Rates
		1100 Btu	1100 Btu	D 950 Btu
First	1,000 Mcf, per Mcf	4.71¢	53.7¢	46.5¢
Next	2,000 Mcf, per Mcf	4.71	49.4	42.7
Next	3,000 Mcf, per Mcf	4.71	47.5	41.1
Next	4,000 Mcf, per Mcf	4.71	46.0	39.8
Over	10,000 Mcf, per Mcf	4.71	44.7	38.7

Delete all references to fuel oil prices.

Special Conditions:

Delete Special Conditions 1 and 2.

APPENDIX A  
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5. Schedule No. G-40.1
- a. File a new Schedule G-40.1, Firm Industrial Natural Gas Service.
- b. Territory:  
D- (950 Btu)  
Humboldt Division  
Portion of Shasta Division supplied from main 177 north of Corning Field.
- c. Rates:  
Commodity Charge

		Per Meter Per Month	
		Base Rates	Effective Rates
			D
		1100 Btu	950 Btu
First	100 Mcf, per Mcf	61.5¢	53.2¢
Next	900 Mcf, per Mcf	58.8	50.9
Next	2,000 Mcf, per Mcf	57.7	49.9
Over	3,000 Mcf, per Mcf	56.5	48.9

Applicability  
Contingent Offset Charges  
Minimum Charge  
Special Conditions

} Same as Schedule No. G-40

6. Schedule No. G-55.1
- a. File a new Schedule G-55.1, Steam Electric Generating Plant - Interruptible Natural Gas Service.
- b. Territory:  
D- (950 Btu)  
Humboldt Division
- c. Rates:  
Facility Charge  
An annual charge of \$12,900 payable in 12 equal monthly payments.  
Commodity Charge  
To be added to the Facility Charge:

	Base Rate	Effective Rate.
	1100 Btu	D 950 Btu
For all gas deliveries, per Mcf	39.6¢	34.3¢

The above effective rates are based on the average monthly heating value as set forth in Rule No. 2(c).

Applicability  
Contingent Offset Charges  
Special Conditions

} Same as authorized in  
A-38668 - Second Supplemental

APPENDIX B

LIST OF APPEARANCES

For Applicant: F. T. Searls, John C. Morrissey and John S. Cooper.

Interested Parties: Brobeck, Phleger & Harrison by George D. Rives and Robert N. Lowry, for California Manufacturers Association; Louie H. Wolters, for Foremost Dairies, Inc., dba Golden State Co., Ltd.; Bert Buzzini, for California Farm Bureau Federation; R. F. Denbo, for Humboldt County Board of Trade and Eureka Chamber of Commerce.

Commission Staff: M. J. Kimball, R. T. Perry and Kenneth J. Kindblad.

LIST OF WITNESSES

Evidence was presented on behalf of the applicant by: John G. Smith, Ivan C. Odom, S. A. Haavik, Rudolph Jenny, R. W. Joyce, and Dan P. Speir.

Evidence was presented on behalf of the interested parties by Louie H. Wolters.