

ORIGINAL

Decision No. 5667

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 ceiling from the fuel)
oil escalator clause in certain of)
its interruptible gas rate tariff)
schedules.)

Application No. 38668
Second Amendment

(Appearances and Witnesses are listed in Appendix B.)

O P I N I O N

Original Request

Pacific Gas and Electric Company, engaged principally in the business of furnishing public utility electric and gas service in Northern and Central California,¹ filed the above-entitled original application on December 17, 1956, seeking an increase in interruptible gas rates designed to produce about \$15,000,000 additional annual revenue with the posted price of fuel oil at \$2.95 per barrel. After 16 days of public hearing, the Commission, on September 24, 1957, issued its first interim opinion and order herein, Decision No. 55614, authorizing increases in certain interruptible gas rates estimated to yield applicant an increased revenue of \$5,670,000 based on estimated 1957 volumes of sales.

In Decision No. 55614 we found and concluded that applicant was entitled to a substantial increase in revenues, but stated:

".... 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

¹ 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.

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."

Applicant's election as to its further course of action is contained in the second amendment hereto; however, prior to the time of filing the second amendment, applicant had filed a first amendment.

First Amendment

On October 18, 1957, applicant filed a first amendment to the above-entitled application, seeking an additional increase in gas rates (to all classes of customers) of approximately \$9,400,000 to offset the annual increase in cost of out-of-state gas starting January 1, 1958. After one day of public hearing on the first amendment the Commission, on December 17, 1957, by Decision No. 55998, authorized offset increases of 1.96 cents per Mcf in the base rates for all classes of service which the El Paso Natural Gas Company caused to go into effect on January 1, 1958.

Request by Second Amendment

By the second amendment to the said application, which applicant filed on November 13, 1957, increases in the base and effective rates (except for Humboldt Division) sufficient to produce additional increased revenues of approximately \$18,008,000 per year at the 1958 level of business, or by 7.7 per cent, is requested. Applicant also requests authorization to withdraw and cancel Schedules G-21, G-22, G-23, G-24, G-26, G-27, G-52, G-81, G-82, G-84, G-91, G-92, and G-93, and to file and make effective the changes to tariff schedules and rules as set forth in Exhibit Z to the second amendment.

Public Hearing on Second Amendment

After due notice, 18 days of public hearing were held on this second amendment during the period January 2, 1958 to March 21, 1958, inclusive, before Commissioner Ray E. Untereiner and Examiner Manley W. Edwards. All days of hearing were held in San Francisco

except for one day, February 4, 1958, which was held in San Bernardino. During this period 88 exhibits (Exhibits Nos. 61-148) were presented in addition to the 60 exhibits that were presented on the original application and the first amendment. Opening and reply briefs have been filed (the last one on April 15, 1958) and the matter now is ready for decision.

Rehearing on Decision No. 55614

Concurrently, during the period January 2, 1958 to March 21, 1958, rehearing was held upon our first order herein, Decision No. 55614, on request of the United States Government. By a petition for rehearing filed on October 11, 1957, the Government requested that the Commission, among other things, suspend the effectiveness of the increase in interruptible base rates as authorized by the first interim order. The principal ground urged by the Government was that the record at that stage failed to support any rate increase. On November 19, 1957 the Commission granted the Government's petition without suspending the rates ordered by Decision No. 55614. One of the Government's reasons for the rehearing was that the Commission should have before it a fully developed record on all rate-making factors before making a determination that the applicant is entitled to a rate increase for any class of service. By reason of the Government's action, the initial application is being reconsidered and the second amendment decided herein.

Applicant's Operations

Applicant operates an extensive gas transmission system and a number of gas distribution systems located in 33 counties, 155 cities and about 130 other communities in Central and Northern California. As of August 31, 1957, a total of 1,483,697 customers were served with gas for residential, commercial and industrial purposes or for resale or for Government use.

The applicant's natural gas supply comes from three sources: (1) California oil fields in which the residue gas is a by-product of oil production, (2) California dry gas fields, and (3) out-of-state gas from El Paso Natural Gas Company. During 1957 nearly three-quarters of applicant's gas supply was obtained from the El Paso Company. The out-of-state gas is purchased at the state border at Topock, near the City of Needles, and transported over a 34-inch transmission line to a terminus at Milpitas, near the San Francisco-Oakland area. Applicant states that it is continually looking for other sources of gas that might be found within economical transmission distance and now is taking active steps to have gas brought from the Province of Alberta in Canada.

Applicant's entire transmission system, with minor exceptions, is interconnected and the supplies of gas are pooled. The gas is used to supply two principal classes of service, namely, firm and interruptible.

Firm service provides customers with a continuous supply of gas. Applicant undertakes to provide adequate facilities and gas, but generally limits such service to customers requiring 25,000 cubic feet or less per day.

Customers who use large quantities of gas and who do not qualify for firm service may take interruptible service. Others who wish may take service under an interruptible rate schedule. Customers taking interruptible service are subject to interruption in the event applicant finds it necessary to curtail deliveries to such customers in order to supply the needs of firm service customers; otherwise, they are not restricted in the quantity of gas they can take from available capacity. The steam-electric plants of applicant's Electric Department also receive service under an interruptible rate schedule. Curtailment of the steam-electric plants is

accomplished before that of the other interruptible customers, except in emergency situations. The applicant supplied an average of 1,207 interruptible customers in 1956.

Gas is served in the Mojave Desert part of Kern and San Bernardino Counties to seven large interruptible customers,² to two gas distributing utilities and about 1,100 firm service customers from the Topock-Milpitas pipeline. The applicant derived about 34 per cent of its gross revenues from gas operations during the 12 months ended September 30, 1957.

Currently applicant is building a pipeline from Corning to Eureka that will, during the year 1958, bring the Humboldt Division in as part of the integrated gas system.

Applicant's Position

Applicant takes the position that our first interim order herein was almost \$9,500,000 below the amount deemed necessary to produce a rate of return of 6.00 per cent, which rate the Commission last found fair and reasonable; that since December, 1956, when it filed the original application herein, price levels for labor, materials, services, taxes and other expenses have continued to increase. Also, applicant points out that the 6.00 per cent rate of return for the Gas Department was established by Decision No. 46268 on October 2, 1951, and that since that time there has been a marked increase in the cost of money. Applicant represents that now a rate of return of 6.8 per cent is necessary to enable it to attract, on

² The seven large interruptible customers sometimes referred to as "desert customers" hereinafter, are: American Potash and Chemical Corporation; West End Chemical Corporation; Permanente Cement Company at Cushenbury; California Portland Cement Company; Riverside Cement Company; Southwestern Portland Cement Company; and U. S. Borax and Chemical Company.

favorable terms, new capital needed to maintain and expand service to meet the demands for natural gas in the territory it serves. Applicant states that gas must be sought at greater distances to supply the growing energy requirements in California and the success of the project to tap the vast sources of gas in the Province of Alberta in Canada rests primarily on its credit standing.

Applicant represents that at present rate levels its Gas Department would earn a rate of return of 4.91 per cent for 1958. Its Exhibit No. 65, presented on January 2, 1958, shows the following earnings trend for the years 1956, 1957 and as estimated for 1958:

	<u>Rate of Return</u>
Year 1956 Recorded	5.40%
Year 1956 Adjusted to Average Year Conditions	5.73
Year 1957 Recorded at Early 1957 Rate Levels	4.61
Year 1957 Adjusted to Average Year Conditions and at Early 1957 Rate Levels	4.79
Year 1957 Adjusted at Rates Effective 10-15-57	5.00
Year 1958 Estimated at Present Rate Levels	4.91

The 4.91 per cent rate of return was computed on the basis of \$2.95 posted price for fuel oil. After Exhibit No. 65 was prepared, the posted price of fuel oil dropped to \$2.75 per barrel and upon the request of the Commission staff, applicant presented Exhibit No. 70 which shows that the rate of return for 1958 at present rate levels would increase to 5.15 per cent. A 20-cent reduction in the posted price of fuel oil has a marked effect on applicant's cost of gas because of escalator clauses in its California gas purchase contracts but has no effect on revenues because it is outside the operation of the \$2 ceiling in the escalator clause of the rate schedules.

By applicant's brief the Commission is informed, outside of the main record in these proceedings, that on April 14, 1958, the Standard Oil Company of California reduced its posted price of bunker fuel oil from \$2.75 to \$2.55. Applicant did not show the

effect of this additional 20-cent drop in the price of fuel oil in its closing brief filed on April 15, 1958, but took the position that the long-term trend of fuel oil price is expected to be upward and that it is only fair and reasonable that the Commission base its conclusion upon prices reasonably to be expected for the future rather than upon prices temporarily reduced by the existence of a surplus of fuel oil.

Applicant presented in Exhibit No. 83 some calculations showing the effect on the estimated 1958 rates of return with fuel oil prices at various steps between \$2 and \$3.20 per barrel. By interpolation on this exhibit for a \$2.55 price of oil, we find that applicant's estimated rate of return would be 5.39 per cent under present rate levels with \$2.55 oil for the full year.

Earnings Comparisons for 1958

In addition to the detailed studies applicant made of its 1958 earning position, the Commission staff prepared an independent detailed analysis for 1958 for the purpose of developing a full record to assist the Commission in deciding this request. The staff's study was based on a posted price of fuel oil of \$2.75 and may be compared with the applicant's equivalent study as shown on Table 1. Also shown on Table 1 are the adopted operating results which the Commission will use for the purpose of testing the validity of applicant's request.

It should be noted that the adopted results reflect a \$2.55 posted fuel oil price in so far as gas costs escalate with such posted price. Such action is in accord with the Commission practice of using the latest known prices whenever reasonable. While applicant suggests using a higher level of fuel oil price for the future based on past trends, the record shows that fuel oil stocks on hand are at such a high level on the Pacific Coast that it would be unreasonable to assume the prices will climb

SUMMARY OF EARNINGS FOR 1958
GAS DEPARTMENT OF PACIFIC GAS AND ELECTRIC CO.
 (At Rates Effective 10/15/57)

	Applicant Exh. No. 70 With \$2.75 Oil	Staff Exhs. Nos. 90 & 100 With \$2.75 Oil	Adopted 1958 Test Year Results With \$2.55 Oil
<u>OPERATING REVENUES</u>			
General Service	\$125,315,000	\$124,811,000	\$124,811,000
Firm Industrial and Gas Engine	7,152,000	7,152,000	7,152,000
Resale	2,198,000	2,198,000	2,198,000
Interruptible - Desert Customers	10,657,000	10,657,000	10,657,000
Other Interruptible	47,343,000	47,356,000	47,356,000
Interdept. Sales - Mostly Steam Electric Plants	38,942,000	39,027,000	39,027,000
Liquefied Petroleum Gas	241,000	241,000	241,000
Other Gas Revenues	310,000	310,000	310,000
Total Operating Revenues	<u>\$232,158,000</u>	<u>\$231,752,000</u>	<u>\$231,752,000</u>
<u>OPERATING EXPENSES</u>			
Production			
Natural Gas Purchase	135,386,000	135,267,000	132,952,000
Liquefied Petroleum Gas Purchased	358,000	358,000	358,000
Oil for Oil Gas Purchased	38,000	38,000	35,000
Maintenance and Other Production Exp.	223,000	223,000	223,000
Transmission	3,135,000	3,135,000	3,135,000
Distribution	11,885,000	11,789,000	11,789,000
Customers' Accounting and Collecting	7,922,000	7,750,000	7,845,000
Sales Promotion	1,480,000	1,473,000	1,473,000
Administration and General	7,288,000	7,207,000	7,207,000
Taxes			
Ad Valorem	13,660,000	13,315,000	13,315,000
Social Security	581,000	526,000	526,000
State Corporation Franchise	1,027,000	1,056,000	1,146,000
Federal Income	12,542,000	12,911,000	14,021,000
Amort. of Prior Yrs. Inc. Tax Deficit	116,000	116,000	116,000
Depreciation (2% Sink. Fund Method)	13,715,000	13,618,000	13,618,000
Total Operating Expenses	<u>\$209,356,000</u>	<u>\$208,782,000</u>	<u>\$207,759,000</u>
NET REVENUE	22,802,000	22,970,000	23,993,000
RATE BASE (Depreciated)	442,086,000	436,136,000	438,081,000
RATE OF RETURN	5.16%	5.27%	5.48%

back up above \$2.95 per barrel before the end of the year, so as to average \$2.95 for the year.

Also, it should be pointed out that the figures used assume the new Corning-Eureka main to be in operation in May, 1958, and do not allow for a full adjusted year on this new main. Applicant prefers the adjusted approach to this matter, but admits that the total effect upon the over-all computations is not great. As the increased revenues to be produced by the new plant largely offset the depressing effect of the increased investment on rate of return, we see no point in complicating the study with a separate adjusted computation. On a growing system many items of new plant are being brought into the rate base at various times during the year and the customary method is to weight them in at the time they go into operation. The Corning-Eureka main does not appear to affect operating results sufficiently to justify the special treatment requested by applicant.

Revenues

The staff's estimate for total operating revenues at rates effective October 15, 1957, is \$406,000 below applicant's. This difference in revenue results from a lower staff estimate of the number of general service customers, which is reflected in smaller total sales to such customers. The decrease in sales to general service customers results in availability of more gas to the interruptible customers and steam-electric plants, and the staff's estimate shows a small increase in revenue from these classes. The actual results for December, 1957 and January, 1958, fell below the applicant's original estimate. Applicant states that since the time its original estimates were prepared there has been a gradual but definite, dropping off in the number of customers, or usage per customer, or both. Applicant admits its original estimate was too optimistic and expects still lower revenues from all classes of service. Under the circumstances the Commission will adopt the lower revenue estimate of the staff as reasonable.

Expenses

The staff's total estimate of operating expenses is only \$574,000 or 0.27 per cent below applicant's. Despite this comparatively small difference, the applicant commented on the differences in the following items: total gas purchased (production expense), meter and main maintenance (distribution expenses), supervision and customers' billing and accounting (customers' accounting and collecting expenses), various administrative and general expenses, ad valorem and social security taxes and income taxes.

Production Expenses

Both the applicant and the staff made substantially the same estimates of total gas purchased, except that the staff's estimate reflected slightly lower sales. Since applicant's sales estimate is too optimistic it appears reasonable to use the lower staff estimate of quantity of purchased gas. When this is computed out on the basis of a \$2.55 posted price for fuel oil (allowing for the effect of escalator clauses in applicant's purchase contracts for California gas) we derive and will adopt as reasonable a purchased gas figure of \$132,952,000. Also, there will be a corresponding but small, adjustment in the cost of oil for oil plant gas of \$3,000.

Transmission Expenses

There was no difference in the transmission expense estimates and we will adopt as reasonable the figure of \$3,135,000.

Distribution Expenses

The staff's distribution expenses is \$96,000 lower than the applicant's due principally to its assuming that about 500 fewer leak clamps would be installed in an average year than the applicant assumed, and its estimate of 185,200, some 6,400 less than applicant's estimate of the number of meters to be repaired. The staff pointed out that the applicant's estimate contained a backlog of 6,000

carry-over meters. The staff's view is that the 6,000 backlog meters represent a deferred expense and should not be added because such an adjustment does not give an average or normal year. While the applicant disagreed with the staff's analysis, we have reviewed this matter and consider the staff's analysis to be reasonable. We will adopt as reasonable the amount of \$11,789,000 for distribution expenses.

Customers' Accounting and Collecting Expenses

The staff's customer accounting and collecting expenses are \$172,000 lower than the applicant's owing to: (1) the amount of expense and length of period used for prorating the expense associated with the new Electronic Data Processing Equipment (EDP) installation; (2) the percentage used in allocating the installation cost between the gas and electric departments; (3) the lower unit cost per average customer, excluding EDP; (4) the lower number of average customers estimated by the staff; and (5) lower estimate of supervision cost with EDP. The main difference here which the applicant contests is \$95,000 of abnormal costs in 1958 because it desires to amortize these abnormal costs over a shorter period of time than the staff allowed. Applicant estimates it will recover these abnormal costs out of the savings from the economies of operation of EDP in four years. The staff assumed five years. The applicant's position appears reasonable and we will adopt an amount of \$7,845,000 as reasonable for customers' accounting and collecting expenses.

Sales Promotion Expenses

The staff's sales promotion expenses are \$7,000 lower than applicant's. Applicant did not contest, particularly, the staff's estimate and it will be adopted as reasonable.

Administrative and General Expenses

The total net difference between the applicant's estimate of administrative and general expenses and the staff's is \$81,000, or a little over 1 per cent. Applicant's higher estimate for salaries of general officers and executives arose out of salary increases and a difference in the credit for time spent on the Canadian gas project. Also, part of the difference results from the staff's exclusion, in full or in part, of dues, donations, institutional advertising and miscellaneous in accordance with past Commission practice. While the applicant contends that its allowances are proper, in our opinion the staff's allowance is appropriate for rate-making purposes and we will adopt it as reasonable.

Taxes

The staff's estimate of ad valorem taxes is \$345,000 lower than applicant's. This results from the fact that the applicant used trended tax rates in estimating the 1958-59 fiscal year taxes, whereas the staff used the last known tax rate. The applicant took exception to the staff's method and pointed out that the trend of average tax rates has been upward, as follows:

<u>Year</u>	<u>Amount</u>
1952-53	\$5.85
1953-54	6.20
1954-55	6.39
1955-56	6.28
1956-57	6.48
1957-58	6.76

For 1958-59 the applicant assumed a \$7 average rate.

In resolving this matter there are two things to consider: (1) that there may be an upward reassessment of all property other than utility in the tax base with a consequent material lowering in the tax rate, and (2) that the tax rate does not increase every year as evidenced by the 1955-56 dip. Under the circumstances, we find

that the staff's assumption is proper and we will adopt as reasonable the staff's estimate of ad valorem taxes in the amount of \$13,315,000.

The difference in social security tax estimates is attributable to the utilization of more up-to-date data by the staff which showed that the applicant had overaccrued its taxes for 1957. In view of this showing, applicant did not contest the lower estimate by the staff and an amount of \$526,000 will be adopted as reasonable for social security taxes.

Income Taxes

State corporation franchise tax and federal income tax amounts vary depending on the level of net income. In the adopted 1958 test year results, these amounts have been computed on the basis of a 4 per cent level for the State corporation franchise tax and a 52 per cent level for the federal income tax, assuming straight-line tax depreciation accounting.

Applicant requests authority to calculate taxes for rate-making purposes on the basis of straight-line tax depreciation accounting, but to file its federal tax returns on the basis of accelerated depreciation as permitted by Section 167 of the Internal Revenue Code, and to accumulate the difference in a restricted surplus for the payment of deferred taxes.

The question of whether to permit "normalization" of taxes and the accumulation of a reserve for deferred taxes is before the Commission for decision in Applications Nos. 38372 and 38382 of Southern California Edison Company, and such treatment will not be authorized by this decision with respect to the acceleration permitted by Section 167. We did, however, in Decision No. 55703 on Edison's Application No. 38382, authorize normalization with respect to the accelerated amortization permitted by Section 168 of the

Revenue Code, for reasons set forth in that decision. For the purposes of this decision only, pending final decision by this Commission on the treatment to be accorded accelerated amortization for rate-making purposes, the accruals for rate-making purposes herein will be determined after crediting interest at the adopted rate of return on the average reserve for income taxes.

With respect to accelerated depreciation, applicant shall notify this Commission within thirty days after the effective date hereof as to its election for the calendar year 1958 tax return under Section 167 and thereafter by January 1 of each year until a final decision of this Commission; and the Commission will promptly

move to adjust the rates herein authorized in such manner as may be found appropriate.

Both the staff and the applicant allowed for an amount of \$116,000 to cover prior years' income tax deficiency. We will adopt the amount of \$116,000 as reasonable for this item. This stems from operation of an agreement by which applicant is made whole in certain respects as to actual tax payments when deficiency assessments are made. Such an agreement is proper on an actual tax basis, but would have to be reconsidered in any future decision dealing with "normalization" of taxes.

Depreciation

Depreciation is presently being accrued by the applicant on the 2 per cent sinking fund remaining-life method. For rate purposes, both the applicant and the staff used this method, with the lives and

rates determined by the last annual review. The staff's depreciation allowance is \$97,000 lower than applicant's, due principally to a lower plant investment resulting from a smaller estimate of new customers. We will adopt the staff's estimate of \$13,618,000 as reasonable for depreciation for the test year 1958.

Rate Base

The staff's rate base is \$5,950,000 or 1.3 per cent lower than applicant's. The major differences are to be found in weighted average net gas plant and the working cash allowance. The applicant's and staff's rate bases are summarized and shown on Table 2. Also shown on Table 2 are the amounts being adopted by the Commission as reasonable for the test year 1958.

The difference of \$2,198,000 in weighted average net gas plant estimates comes from revisions in project amounts, changes in operative dates, and the difference in new customers. Applicant states the lower estimate of the staff is based on later information not available at the time its estimate was prepared, and that the staff's estimate appears to be reasonable as of the time made. Accordingly, we will adopt the amount of \$569,348,000 as reasonable for weighted average net gas plant for the 1958 test year.

The working cash allowance included by the applicant in its rate base was \$14,005,000, while that included by the staff was \$10,250,000 -- a difference of \$3,755,000. Both the applicant and the staff developed their working cash allowances by using essentially the same general procedures of determining the gross working cash required on the average for efficient and economical operation of the utility and then deducting therefrom the average amounts which had not been supplied by investors. The difference arose principally from two items: (1) Applicant in its development used 1956 recorded amounts, while the staff used 1957 data. (2) Applicant urged that

SUMMARY OF RATE BASE FOR 1958
Gas Department of Pacific Gas and Electric Company

<u>Item</u>	<u>Applicant Exhibits Nos. 65 & 70</u>	<u>Staff Exhibit No. 109</u>	<u>Adopted 1958 Test Year Base</u>
<u>Plant as of 7-31-57</u>			
Intangible	\$ 660,000	\$ 660,000	\$ 660,000
Production	10,628,000	10,628,000	10,628,000
Local Storage	19,088,000	19,088,000	19,088,000
Transmission	162,146,000	162,146,000	162,146,000
Distribution	263,353,000	263,353,000	263,353,000
General	1,802,000	1,802,000	1,802,000
Total Gas Dept. Plant	<u>457,677,000</u>	<u>\$457,677,000</u>	<u>\$457,677,000</u>
Wt. Avg. Net Additions	77,914,000	75,716,000	75,716,000
6/7 Interest in Standard Pacific Gas Lines, Inc. Common Utility Plant	9,404,000	9,404,000	9,404,000
Allocated	<u>26,551,000</u>	<u>26,551,000</u>	<u>26,551,000</u>
Total Wt. Avg. Util. Plant	<u>571,546,000</u>	<u>569,348,000</u>	<u>569,348,000</u>
Deduction for Depreciation	135,768,000	135,765,000	135,765,000
Wt. Avg. Net Gas Plant	435,778,000	433,583,000	433,583,000
<u>Modifications to Gas Plant</u>			
Contributions in Aid of Construction	8,114,000	8,114,000	8,114,000
Customer's Advances for Construction	<u>2,334,000</u>	<u>2,334,000</u>	<u>2,334,000</u>
Total Modifications	<u>10,448,000</u>	<u>10,448,000</u>	<u>10,448,000</u>
Materials and Supplies	2,751,000	2,751,000	2,751,000
Working-Cash Allowance	14,005,000	10,250,000	12,195,000 ✓
Weighted Average Depreciated Rate Base	442,086,000	436,136,000	438,081,000 ✓

monies ultimately to be used for payment of dividends, bond interest or retained earnings should not be deducted from the gross requirement, while the staff in effect made a deduction for bond interest. We are of the opinion that the position of the utility is reasonable, except for the item of bond interest. Accepting in part the applicant's figure, therefore, but making the adjustment indicated for bond interest, we adopt as reasonable the amount of \$12,195,000 for the working cash allowance.

The depreciated rate base which the Commission adopts and finds reasonable for applicant's gas department for the 1958 test year is \$438,081,000.

Rate of Return

It is applicant's contention that rates should be prescribed to produce earnings to yield an average 6.8 per cent rate of return on the basis of the estimated test year 1958 for its gas department. In arriving at its proposed 6.8 per cent rate of return applicant takes into account the annual cost of bond and preferred stock monies and an allowance for equity capital of 12.5 per cent.³ Such allowance is predicated on an analysis, as set forth in applicant's Exhibit No. 69, of 17 major combination gas and electric utility operating companies which showed an average of 13 per cent earned on average common stock equity for the year 1956, 12 per cent on 16 major straight electric operating utilities, and 14.2 per cent on 11 major straight natural gas utilities.

<u>Item</u>	<u>Ratio</u>	<u>Rate</u>	<u>Weighted Total</u>
Bonds	48.5%	3.42%	1.66%
Preferred Stock	18.1	5.34	.97
Common Stock Equity	33.4	12.50	4.18
Totals	100.0		6.81

The Department of Defense and other executive agencies of the United States Government challenged the utilities that applicant selected for earnings comparison purposes, labeling them "hand selected", and pointed out that the California utilities were left out of the lists. The Government produced testimony by an expert witness who had made an analysis of the costs of capital to applicant and found it sharply lower than computed by applicant. He took the imbedded cost of debt as 3.20 per cent; cost of preferred stock 5.34 per cent, and cost of equity, 7.65 per cent; and developed an over-all cost of capital, based on applicant's average capital structure, of 5.01 per cent. (The 7.65 per cent cost of equity was based on a study of the market price of applicant's common stock over several years when a dividend price ratio of 5.45 per cent prevailed, with a 75 per cent pay-out ratio and an allowance for corporate costs and costs of financing).

The Government's witness recognized that the applicant utility is financed on an integrated, company-wide basis, not by departments, and that with lesser investment risk for the electric department stated the cost of capital should be two tenths of 1 per cent below the capital costs of 5.01 per cent for the company as a whole or 4.8 per cent, approximately; and that with greater risks for the gas department, stated it should be six tenths of 1 per cent above the 5.01 per cent or 5.6 per cent cost of capital for the gas department. The existing rate of return of 6 per cent as authorized by the Commission in 1951 is thoroughly adequate to permit the applicant to satisfactorily finance its operations in his opinion. ✓

In its closing brief the staff presented some analysis of the rate of return question. The staff states that applicant's percentages show it has included tax deferrals of \$25,802,117 as part of common stock equity money and that it thus seeks a return of 12.5 per ✓

cent on this substantial amount of interest-free money; that applicant has not considered certain discounts on securities, amounting to \$8,526,976, in arriving at its common stock equity money; and that in determining its cost of borrowed money it has resurrected certain items of expense applicable to bonds no longer outstanding, including duplicate charges and unamortized debt discount and expense on refunded issues. The staff computes that these items would lower the weighted total computed by the applicant from 6.8 to 6.5 per cent. The staff also showed that this percentage would vary depending upon the earnings on common stock equity.

The Government pointed at the record of continuing investor confidence in the applicant's securities in spite of applicant's claims that it has not earned the 6 per cent rate of return presently authorized, and predicted an easing of interest rates which, in all likelihood the Government states, will lower the applicant's capital costs.

The Government based such easing of interest rates upon a reduction in the Federal Reserve Bank of New York discount rates of $3\frac{1}{2}$ per cent on August 23, 1957, in successive steps to $2\frac{1}{2}$ per cent on March 7, 1958. In its reply brief the applicant stated: "despite the recent decline in the discount rates, they are still well in excess of 1.75 per cent which was the discount rate of 1950 through 1952, the time the Commission authorized a 6 per cent rate of return for the gas department". The Commission is informed, although it is not of record in these proceedings, that on April 17, 1958, two days after applicant made that statement, the discount rate was lowered to 1.75 per cent.

We have given careful consideration to the government's position. It is predicated, however, on past performance of applicant's securities in the market. We cannot speculate as to the future

attitude of investors. And we are faced with the fact that applicant marketed two high-cost issues of bonds in 1957 (4.59 and 5.03 per cent) and its imbedded cost of bond money now is higher than it was in 1951. Likewise, the applicant's representations that it must have higher earnings to make its stock as attractive to the investor as stocks of many other large utility systems from all over the United States are entitled to serious consideration. It is apparent that the Commission must use its best judgment of future conditions and adopt a rate of return that gives weight to these factors as well as to the lawful interests of the ratepayers generally.

Upon a careful consideration of the evidence before us, we are of the opinion and find that a rate of return of 6.52 per cent is fair and reasonable for applicant's gas department for the estimated year 1958. When a rate of return of 6.52 per cent is applied to the depreciated rate base of \$438,081,000 hereinbefore found reasonable, an over-all increase in annual gross revenue of \$9,500,000 is found to be required. This increase is approximately 52 per cent of the additional increase sought by applicant in this second amendment.

Applicant's Rate Proposal

Applicant proposes to increase its rates for gas service to all classes and in all areas, except in its Humboldt Division to obtain about \$18,008,000 additional revenue. Applicant states that by a separate application increases in rates are being proposed for service in the Humboldt Division amounting to \$324,000.⁴ Thus,

⁴ Applicant later amended the request in Humboldt Division asking that the offset increase approved by Decision No. 55998 also be applied in Humboldt Division. The total increase requested for this Division is now \$399,000.

under the proposed rates, revenues would be increased \$18,332,000 as follow:

Class	Proposed Revenue Increase	
	Amount	Ratio ⁵
General Service	\$12,368,000	9.87%
Firm Industrial and Gas Engine	987,000	13.80
Resale	274,000	12.47
Interruptible Customers		
Excluding Desert Customers	3,194,000	6.73
Desert Customers	1,177,000	11.04
Total Interruptible ..	4,371,000	7.52
Interdepartmental	318,000	0.81
Propane	14,000	5.81
Total	18,332,000	7.88

Applicant's proposed rates for firm service include a 2.3 cents per Mcf increase in base rates to account for increases in the cost of California gas plus a percentage increase of 6.8 per cent; and for interruptible service do not alter the existing \$2 ceiling on the fuel escalator clause but instead increase the base rates primarily in relation to the value of service as measured by the cost of fuel oil and, in the case of the desert customers, by the rates of the Southern California Gas Company for interruptible service in adjacent areas.

Applicant also proposes to:

1. Withdraw and cancel all of the so-called "Coast Counties' schedules".
2. Transfer the Salinas-King City customers from Schedules G-5.1 and G-6.1 to system-wide Schedules G-5 and G-6.
3. Eliminate the differential presently existing in the General Service schedules between customers in the incorporated territories listed in the index of cities and customers in the Special Rate Areas.
4. Revise the Btu adjustment clause to provide for a 4.5 per cent increase or decrease in effective rates from base rates for each 50 Btu step above or below a base of 1,100 Btu in lieu of the present Btu clause.

⁵ Ratios of proposed revenue increases shown here are those determined prior to the offset increase approved by Decision No. 55998.

5. Serve under Schedule G-56 the American Potash and Chemical Corporation and West End Chemical Corporation now receiving service pursuant to special contract rates.
6. Close Schedule G-45 to new customers and cancel the schedule at the end of two years, at which time those customers remaining on the schedule would be transferred to the applicable General Service schedule.
7. Make certain revisions to, and deletions in, the Preliminary Statement and the Gas Rules because of the proposed changes in rates and to eliminate different rules for different portions of its service area.

Rate Spread

In view of the fact that the increase which we will authorize is less than applicant's proposed additional increases, we will reduce applicant's proposed increases in practically all schedules, except for steam-electric generation where, in our opinion, applicant did not seek sufficient increase.

The proposal to merge the Coast Counties schedules is a desirable objective on a long-range basis. However, we do not find it desirable at this time because of the different offset rates that have been applied to Coast Counties schedules compared with the applicant's regular schedules, and possible complications in case of refund of these offsets at some future time. Furthermore, some of the increases that might result appeared too large to warrant complete merging at this time, but increases authorized herein have been designed looking toward ultimate unification.

Since gas now is being produced near King City, the proposal to reduce the rates of Salinas-King City customers to general system-wide levels will be authorized.

The unincorporated differential will be eliminated for certain city and fringe customers and applicant will be required to zone its system by built-up and rural rate areas.

Applicant's proposed revision of the Btu adjustment clause will maintain the rate more nearly in step with the heating value than the present clause and result essentially in "therm" rates. For many customers presently served with lower heating value gas this will mean a lesser proportionate increase than for those now receiving 1,100 Btu gas. It will be authorized.

While the number of customers is now small on the gas engine schedule termination of this schedule at this time does not appear to be justified.

Applicant's other proposals (Items 5 and 7 mentioned previously) appear reasonable and will be authorized.

The Independent Refiners Association of California desired that one rate be applied to all customers. If this were done, it was contended, special and interruptible rates would be unnecessary and the market for heavy fuel oil in California would improve to the economic benefit of the oil industry and related transportation industries (trucking and railroads) and the public generally. There are reasons for having more than one rate schedule for a utility system. One is the sharp differences in load factor between the domestic, commercial and industrial classes. Another is the unit cost difference for different types of customer usages. The offering of off-peak service (interruptible service) at rates differing from the rates to the firm classes provides, in the Commission's opinion, more public benefits than the proposal of the Refiners Association.

Fuel Clause

The present fuel oil price clause in the interruptible schedules operates between the limits of \$1 and \$2 per barrel of oil. With the price of fuel oil in the range of \$2.55 to \$2.95 so far

during the year 1958, it is apparent that the fuel oil clause has been ineffective to the extent of 55 to 95 cents per barrel of fuel oil. Applicant's proposed interruptible rates do not alter the existing \$2 ceiling on the fuel escalator clause but instead call for a raise in the base rates as predicated on a \$1.50 price for oil. The California Manufacturers Association and several protestant customers took the position that the escalator clauses in applicant's interruptible schedules serve no useful purpose and should be eliminated. The Government opposes all fuel oil escalator provisions in utility rate schedules and contends that any increase in rates, if justified on the basis of the evidence in the proceeding, should be obtained in a fair and equitable manner by the establishment of just and reasonable rates for all classes of customers, taking into consideration all pertinent rate-making factors and not through the operation of automatic escalator provisions.

The Commission has adopted the general policy of eliminating automatic fuel clauses. Since October, 1955, the posted price of fuel oil has been above \$2 per barrel; thus, the fuel clause has failed in its purpose of maintaining the interruptible gas rates at a level strictly competitive with the price of fuel oil. Furthermore, applicant's fuel clause is really only a competitive clause between \$1.20 and \$1.80 because the escalation ratio changes to one half of a competitive ratio between \$1 and \$1.20, and between \$1.80 and \$2. Therefore, in effect, applicant's present clause is partly a "cost clause" which we have not approved in other instances of recent date. We are of the opinion and so find that the existing fuel oil clause is not consistent with the public interest and should be deleted from applicant's tariff schedules which are being changed in this order.

General Service

A representative who appeared on behalf of 198 applicants for natural gas service from the Black Point Area of Marin County and on behalf of certain present natural gas customers who are members of the Black Point-Indian Valley-Downtown Property Owners Association of Novato, opposed the proposed rate increase charging (1) that the applicant has not exercised reasonable care and prudence to avoid unreasonable charges against rate payers; (2) that the field investigation for an extension of service to Black Point contains a 30 per cent under estimate of anticipated revenue; and (3) that the Commission should investigate the extracurricular activities of applicant's Novato personnel to determine if they are contrary to the public interest and to the financial welfare of the applicant. The Commission has carefully considered the position taken by this representative and the several witnesses he presented, but does not find reason for denial of applicant's requested increase. If applicant were permitted in the future to extend service on an uneconomic basis rates would have to be much higher. While one uneconomic extension would not particularly call for a further rate increase system-wide, if this condition were permitted for many extensions the effect would be considerable. The Commission is now investigating gas and electric extension rules under Case No. 5945 and matters such as this more properly should be brought to the Commission's attention under that case.

A councilman from the City of Emeryville made a personal appearance to protest any further rate increase on behalf of the people of Emeryville. Our adopted operating expenses contain less ✓

than requested by the applicant and, in our opinion, reasonably meet the protest of the councilman from Emeryville. Such adjustment, however, is not sufficient in itself to offset the need for some increase in the general service rate.

Applicant's present and proposed general service rate levels and those being authorized herein are (all amounts include the offset authorized by Decision No. 55998):

	Schedule No.					
Blockings	G-1	G-2	G-3	G-4	G-5	G-6

PRESENT RATES
(1100 Btu)

First 200 cu.ft. or less						
Cities	\$0.86	\$0.91	\$0.97	\$1.02	\$1.13	\$1.45
Special Rate Areas	1.07	1.13	1.18	1.23	1.34	
Next 2,300 cu.ft. per 100 cu.ft.	5.78¢	6.04¢	6.44¢	6.92¢	7.45¢	8.09¢
Next 17,500 cu.ft. per 100 cu.ft.	5.53	5.74	5.96	6.22	6.51	6.80
Next 80,000 cu.ft. per 100 cu.ft.	5.44	5.44	5.56	5.69	5.80	5.92
Next 4,900,000 cu.ft. per 100 cu.ft.	5.39	5.39	5.50	5.62	5.74	5.86
Over 5,000,000 cu.ft. per 100 cu.ft.	5.27	5.27	5.27	5.27	5.27	5.27

APPLICANT'S PROPOSED RATES

First 200 cu.ft. or less	\$0.95	\$1.05	\$1.15	\$1.25	\$1.35	\$1.50
Next 2,300 cu.ft. per 100 cu.ft.	6.26¢	6.59¢	7.02¢	7.63¢	8.19¢	8.88¢
Next 17,500 cu.ft. per 100 cu.ft.	6.14	6.37	6.60	6.88	7.19	7.50
Next 80,000 cu.ft. per 100 cu.ft.	6.05	6.05	6.05	6.05	6.05	6.05
Next 4,900,000 cu.ft. per 100 cu.ft.	5.99	5.99	5.99	5.99	5.99	5.99
Over 5,000,000 cu.ft. per 100 cu.ft.	5.87	5.87	5.87	5.87	5.87	5.87

AUTHORIZED RATES

First 200 cu.ft. or less	\$0.95	\$1.05	\$1.15	\$1.25	\$1.35	\$1.50
Next 2,300 cu.ft. per 100 cu.ft.	5.98¢	6.27¢	6.70¢	7.22¢	7.79¢	8.49¢
Next 17,500 cu.ft. per 100 cu.ft.	5.73	5.97	6.22	6.52	6.85	7.20
Next 80,000 cu.ft. per 100 cu.ft.	5.64	5.69	5.77	5.87	5.95	6.04
Next 4,900,000 cu.ft. per 100 cu.ft.	5.59	5.62	5.69	5.76	5.83	5.90
Over 5,000,000 cu.ft. per 100 cu.ft.	5.47	5.47	5.47	5.47	5.47	5.47

It should be noted that applicant also has general service rates for certain areas, which are subzones under the basic 6-zone plan for the interconnected system, numbered as follow: G-5.1, G-6.1, G-6.2, G-6.3 and G-6.4. These schedules are being retained and increases essentially proportional to those listed above are being authorized.

The applicant also has a general service schedule, Schedule No. G-7, which applies in the Humboldt Division. Such schedule is not being increased by this decision but is before the Commission in a separate application covering the Humboldt Division.

Schedules Nos. G-21 through G-27, inclusive, which cover the former "Coast Counties" territory, are being increased but generally not to as great an extent as would result from combining these schedules with the G-1 to G-6 group as proposed by applicant.

Firm Industrial and Gas Engine Rates

Applicant's proposal to increase the firm service rates by 2.3 cents per Mcf, plus 6.8 per cent by blocks, results in a considerably higher percentage increase to the firm industrial and gas engine classes than to the other firm classes of customers. In light of the evidence, applicant's proposed increase amounting to 13.8 per cent overall to these classes will be reduced back to 7.4 per cent.

Interruptible Rates, Excluding Desert Customers

By our first interim order herein, Decision No. 55614, increases were authorized in all of applicant's interruptible schedules except Schedule G-56 which applies to the "Desert customers". The increase authorized was \$5,670,000. Of this total, \$1,280,000 is subject to refund in connection with offset increases to reflect increases in cost of out-of-state gas. The remaining \$4,390,100 represented an increase of approximately 2.7 cents per Mcf on the average on interruptible service. Applicant now proposes further increases in the interruptible rates, exclusive of the Desert customers of \$3,194,000.

The California Manufacturers Association opposed the applicant's proposal to further increase interruptible rates on the grounds: (1) that the rates are above the costs to provide the service, (2) that the proposed interruptible rates are higher than those charged by other major California gas utilities, and (3) that, since the posted price of fuel oil has declined since present levels of interruptible rates were established, further increases in such rates cannot be justified on the basis of value of service considerations. The U. S. Government also opposed increases in interruptible rates on the basis that applicant did not prepare a cost-of-service study showing the costs by the various classes of service.

We have carefully considered the positions taken by the California Manufacturers Association, the U. S. Government and other parties and have arrived at the conclusion that some further increase in interruptible rates is warranted, but not nearly to the extent proposed by applicant. The revised heat content clause has the effect of lowering the revenue by some \$460,000 from this class. Generally, a further increase of 3.4 cents per Mcf as proposed by applicant for the initial use block is being authorized but we are tapering the amount of the increase by blocks down to 1.1 cents per Mcf in Schedule G-50 and 1.2 cents per Mcf in Schedule G-53 for the larger use blocks.

In the interest of simplicity we find it possible to combine Schedules G-50, G-52 and G-54. These schedules presently are at the same rate levels except that Schedule G-52 has a higher minimum charge. Applicant's proposal to merge the "Coast Counties" schedules is subject to the same difficulty regarding offset provisions previously discussed but in the interest of simplicity combining of Schedules G-91 and G-92 at rates comparable to Schedule G-50 will be authorized. Applicant's proposal to merge Schedule G-93 with

Schedule G-53 would have resulted in a decrease of some \$59,000 except for the effect of the higher minimum charge on the G-53 schedule. While we are generally authorizing comparable rates between these two schedules we do not find it advisable to lower the level of the rate for the higher use block in the G-93 schedule at this time.

Of the \$3,194,000 requested increase for these classes of service the increases authorized herein grant an estimated \$1,360,000.

Interruptible Rates, Desert Customers

Applicant proposed increasing the interruptible rates to the Desert customers, Schedule No. G-56, by 3.4 cents per Mcf in all blocks down to the 10,000 Mcf block, by 6.9 cents per Mcf in the 10,000 Mcf block and by 3.4 cents per Mcf in the terminal block rate. Such proposed increase was vigorously opposed by the Desert customers by representing that they are served under special contracts, that their location is separated from Northern and Central California, that costs to serve are less in the Desert area than for the average interruptible customer because of their closer location to source of supply of Texas gas, that lower rates for interruptible gas prevail on adjacent utility systems in Southern California, and that the cost of competitive fuel oil, often obtainable at spot prices below posted prices in Southern California, does not justify any increase. Also, they referred to the fact that in the first interim order herein no increase was granted on the basis of applicant's request to exempt the Desert customers for reasons of competition from the Southern Gas Companies and availability of distress fuel oil.

The County of San Bernardino also opposed increases in gas rates in San Bernardino County, of which the Desert area is a part, for the purpose of resisting the imposition of any discriminatory, inequitable, and industry-stifling gas rates upon a

county which is so actively engaged in competition with the balance of Southern California for new industry. The county mentioned that the air pollution problem of San Bernardino County, and its program of prevention is entitled to special treatment as was the County of Los Angeles in the Southern California Gas Company rate case.

After considering the evidence the Commission is of the opinion that the terminal rate to the Desert customers should continue to reflect some differential compared to applicant's Schedules Nos. G-50 and G-53. Currently, this differential is 6.4 cents per Mcf below the G-50 terminal rate level and 2.3 cents below the G-53 terminal rate level. These differentials will be decreased to 5.3 and 1.3 cents, respectively.

The American Potash and Chemical Corporation and the West End Chemical Company represent that their contracts provide rates that are not subject to change in this proceeding because of special and unique provisions in their contracts. Applicant asks that Schedule G-56 rates be placed in these contracts. An examination of these contracts, Exhibits Nos. 122 and 125, shows that both contain the Commission jurisdiction clause, paragraph 21, and the increase being prescribed herein by substituting Schedule G-56 rates is pursuant to such jurisdiction which, in the Commission's opinion, is paramount to the conditions on which these two customers rest their representations as to no change.

Applicant's original requested increase of approximately \$15,000,000 from the interruptible classes by this second amendment is lowered to approximately \$10,400,000 (\$5,670,000 by Decision No. 55614 plus \$4,699,000 requested in second amendment). Our action herein lowers the total increase to the interruptible classes, including steam plants and Desert customers, to approximately \$8,250,000, slightly more than one half of applicant's original request.

Resale Service

Applicant now serves four utility system customers that resell gas to the domestic, commercial and industrial customers in their respective service areas. Two of them, the City of Palo Alto on Schedule No. G-60 and the City of Coalinga on Schedule No. G-99, are billed on the basis of a demand charge of 8 cents per Mcf on the maximum billing month consumption, plus a commodity charge of 27.7 cents per Mcf. The other two, California-Pacific Utilities Company at Needles on Schedule No. G-63 and Southwest Gas Corporation at Barstow and Victorville on Schedule No. G-64, are billed on a flat rate of 40.62 cents per Mcf. Applicant proposes raising the 8.0 cent demand rate to 8.5 cents, the commodity rate of 27.7 cents to 31.9 cents and the commodity rate of 40.62 cents to 45.71 cents.

The Southwest Gas Corporation took the position that the applicant's resale rates to it, both present and proposed, are unjust and discriminatory in that the rate of return sought by applicant as well as the present rate of return being earned by applicant for this service are excessive and unreasonable. Such position is based on cost analyses made by Southwest's witness in Exhibits Nos. 140, 141 and 142 which indicate rates of return varying from 9.67 to 62.29 per cent, depending upon assumptions and methods used.

Applicant's reply to these analyses was that the basic premises upon which Southwest's cost studies are prepared are faulty in that the average interruptible demand of 1,800 Mcf per day represents 25 per cent of Southwest's purchases and that in calculating costs the studies omit 25 per cent of the fixed charges, yet include all purchases. Such "costs", the applicant represents, are not comparable with those of other resale customers taking only firm

service. Applicant did not prepare a cost study by classes of service to support its position with regard to Southwest's rates.

Looking to the future a demand and commodity form of rate appears appropriate for resale service. While this type of rate has not heretofore been used for Southwest and California-Pacific, it will be placed in effect in this order.

Steam-Electric Generating Plant -
Interruptible Natural Gas Service Rates

In the original application, applicant proposed that the steam-electric commodity rates be raised by 5 cents per Mcf from 29.6 to 34.6 cents. By Decision No. 55614 the commodity rate was raised from 29.6 to 33.1 cents, or by 11.8 per cent, and the facility charge was left unchanged. By this second amendment applicant proposes a further increase in the commodity rate of approximately 0.3 cent per Mcf for steam-electric plant gas. In the Commission's opinion the full additional increase of 0.3 cent is warranted as well as another 0.2 cent to bring the approximate increase up to 0.5 cent per Mcf. The facility charge will be retained at the present level of \$419,280. A revision of tariff conditions relating to emergency deviations from interruptible curtailment priorities is also provided.

Propane or LPG Service

Applicant proposes an increase of \$14,000, or 5.81 per cent, in its LPG (Liquefied Petroleum Gas) Service. LPG or propane gas, under Schedule G-58, is supplied to domestic and commercial customers in Redding, Red Bluff, Nevada City and Grass Valley areas where natural gas is not available. Since applicant prepared its proposal, natural gas has been made available in Red Bluff and service in

Redding has been changed to a higher heat content under Schedule G-59. In our opinion, an increase should be authorized for this service in the estimated annual amount of approximately \$10,150, or 4.0 per cent, on the average.

Summary of Rate Changes

On the following table there are shown the increases authorized by the order herein based on the estimated 1958 sales of gas adopted herein:

Item	Sales (1,000 Mcf)	Revenue at Present Rates (\$1,000)	Rate Increase (\$1,000)	Ratio	Revenue per Mcf after Increase
General Service	189,259	\$127,587	\$6,140	4.8	70.7¢
Firm Industrial and Gas Engine	15,572	7,427	550	7.4	51.2
Resale	5,627	2,307	130	5.6	43.3
Interruptible					
Exclud. Desert Cust.	124,939	50,342	1,380	2.7	41.4
Desert Customers	33,743	11,299	730	6.5	35.6
Interdepartmental Steam-Electric	116,611	40,912	560	1.4	35.6
Liquefied Petrol. Gas	116	248	10	4.0	222.4
Total	485,867	240,122	9,500	4.0	51.4

In the above table the increases shown pertain only to the second amendment and are additional to the increases granted by Decision No. 55614. The following table shows the increases and amounts granted by Decision No. 55614 separately and combined with the increases to interruptible customers authorized herein:

Item	Increases				
	By Dec. 55614		Decision 55614 Plus Authorized Increase		¢/Mcf
	(\$1,000)	%	(\$1,000)	%	
Interruptible					
Excluding Desert Customers	2,150	5.0	3,530	7.7	2.9
Desert Customers	-	-	730	6.5	2.2
Interdepartmental Steam-Electric	3,520	11.5	4,080	12.9	3.9
Total	5,670		8,340		

Petition of the Attorney General

On July 1, 1958 a petition was filed by Edmund G. Brown, Attorney General for the State of California, requesting leave to intervene in these proceedings, and to set aside submission. The purpose of said petition was to enable the said Attorney General to present evidence and argument in opposition to applicant's request for normalization of its federal tax expense with respect to accelerated depreciation.

Inasmuch as the decision herein does not grant applicant's request in this respect, no useful purpose would be served by the granting of the petition of the Attorney General, and it will be denied.

Problems relating to both accelerated depreciation and accelerated amortization have been before the Commission in several rate applications and decisions therein have been held in abeyance. The Commission, for sometime, has contemplated issuing an order of investigation on its own motion more thoroughly to explore the complex issues arising out of Sections 167 and 168 of the Internal Revenue Code of 1954, authorizing accelerated depreciation and, on proper certification, accelerated amortization for income tax purposes. Such an order is being issued concurrently with this decision.

Findings and Conclusions

It is a matter of record in this proceeding that costs have risen since the present level of firm rates (exclusive of out-of-state gas cost offset increases) were set back in 1951. While the staff's study has accounted fully for the growth in sales and customers since 1951, and which our adopted operating results fully reflect, the growth in revenue has not been sufficient to offset the increasing costs of operation and the higher cost of money. This conclusion is reached after allowing for the fact that increases in the cost of out-of-state gas have been fully offset.

Applicant has proposed certain changes in zoning, rules and regulations which appear reasonable and will be authorized by the order herein except for consolidation of "Coast Counties" schedules and merging into applicant's regular schedules.

With regard to the rehearing on our Decision No. 55614, it is our finding and conclusion that the results reached in that decision should be reaffirmed and we find no reason to decrease the increases in interruptible rates authorized therein.

On May 22, 1958 the Southwestern Portland Cement Company, Riverside Cement Company, American Potash and Chemical Corporation, West End Chemical Company, and California Portland Cement Company filed a petition requesting the Commission to set aside the submission of the above-entitled matter and reopen it for the limited purpose of taking additional evidence with respect to the present posted price and actual market price of fuel oil prevailing in Southern California, which are available to petitioners. On May 29, 1958 the applicant filed its reply to the petition. The Commission has considered the petition of the five Desert customers and the reply of the applicant and it does not appear that additional information on the fluctuating spot price of fuel oil in addition to that which is already in the record would be of assistance. Therefore, the petition will be denied.

Based on the evidence of record, we find that the applicant is not currently earning a reasonable rate of return and higher rates are warranted, but generally not as high, on the average, as requested by applicant in this second amendment. Accordingly, the Commission finds that the rates and charges authorized herein are justified; that the existing rates, in so far as they differ therefrom for the future are unjust and unreasonable; and that an order should be issued authorizing the increased rates as set forth in Appendix A herein.

With regard to the Desert customers, whose rates are now specified in special contracts, we find as a fact:

(a) That the present rates charged to customers under the following contracts are below a reasonable level:

	<u>Contract Date</u>
1. American Potash and Chemical Corporation	4-11-55
2. West End Chemical Corporation	4-11-55
3. Permanente Cement Company	12-28-55
4. California Portland Cement Company	4-28-55
5. Riverside Cement Company	6-13-56
6. Southwestern Portland Cement Company ..	6-13-56
7. U. S. Borax and Chemical Company	4-20-56

(b) That these customers receive gas from an integrated system and rates more than approximately 1 cent per Mcf below rates on the remainder of applicant's integrated system for a similar class of service constitute unreasonable prejudice to and unreasonable discrimination against customers of applicant outside of the Desert area contrary to law and the public interest.

(c) That for applicant to continue to charge rates depressed more than approximately 1 cent per Mcf would have a direct tendency to disable applicant in the full performance of its public duty.

(d) That present rates create an unreasonable burden on applicant's other customers contrary to the public interest and such burden should be removed in order that the public interest be protected.

Pursuant to the foregoing findings of fact we conclude that these contracts should be modified by providing rates in accordance with Schedule No. G-56 provided in Appendix A herein in order to remedy a situation of prejudice and discrimination. It is our clear duty to prevent applicant from complying with the terms of a contract in the future which, in our opinion, will be in conflict with the public interest and contrary to law unless the present rate levels prescribed by said contracts are increased as hereinafter provided.

O R D E R

The Pacific Gas and Electric Company having applied to this Commission for an order authorizing increases in rates and charges for gas service, public hearing on the second amendment and rehearing on Decision No. 55614 having been held, the Commission having found that increases in rates and charges are necessary, the matters having been submitted and being ready for decision; therefore,

IT IS ORDERED as follows:

1. Decision No. 55614, dated September 24, 1957, be and it is reaffirmed.

2. 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 August 1, 1958.

3. Applicant is authorized and directed to increase rates applicable to the Desert customers by modifying the following contracts to provide for rates and charges at the current level of Schedule No. G-56 as authorized from time to time by this Commission:

	<u>Contract Date</u>
a. American Potash and Chemical Corporation	4-11-55
b. West End Chemical Corporation	4-11-55
c. Permanente Cement Company	12-28-55
d. California Portland Cement Company	4-28-55
e. Riverside Cement Company	6-13-56
f. Southwestern Portland Cement Company ..	6-13-56
g. U. S. Borax and Chemical Company	4-20-56

4. Applicant shall revise its zoning method to eliminate city boundary lines as the principal zone line and substitute lines where built-up areas stop.

5. Applicant shall review annually its zoned rate territorial limits, and annually file such revisions thereto as may be appropriate. Such filings shall be submitted to the Commission for review in proposed form not less than thirty days prior to making the filing.

6. Applicant shall apply the appropriate new and increased rates under the new tariff schedules to each of its special contracts.

7. The petitions of the Attorney General and of Southwest Portland Cement Company, Riverside Cement Company, American Potash and Chemical Corporation, West End Chemical Company, and California Portland Cement Company to set aside submission and reopen the proceeding are denied.

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

Dated at San Francisco, California, this 9th day of July, 1958.

[Signature]
 President

[Signature]

[Signature]

[Signature]

Commissioners

APPENDIX A
Page 1 of 7

The presently effective tariffs are changed as set forth in this appendix.

1. Preliminary Statement:

a. Revise Section No. 1 - Territory served by the Company as set forth in Exhibit Z, Section A of A-38668, Second Amendment.

b. Revise Section No. 2 - Description of Service to the following:

"The rates specified in these schedules apply only to the use of such gas as is regularly furnished by the Company in the locality in which the premises to be served are situated, the gas supplied to be of the heating value and pressure as stated in Rule No. 2 and heating value as specified in the applicable tariff."

c. Revise Section No. 5(b) - Discounts to the following:

"Rates hereinafter listed are net rates and are not subject to discount, except as provided in Schedule No. G-10."

2. General Service Natural Gas Schedules:

a. Revise base rates per meter per month to the following:

		<u>G-1</u> 1100 Btu	<u>G-2</u> 1100 Btu	<u>G-3</u> 1100 Btu
First	200 cu.ft. or less	\$0.95	\$ 1.05	\$ 1.15
Next	2,300 cu.ft., per 100 cu.ft.	5.98¢	6.27¢	6.70¢
Next	17,500 cu.ft., per 100 cu.ft.	5.73	5.97	6.22
Next	80,000 cu.ft., per 100 cu.ft.	5.64	5.69	5.77
Next	4,900,000 cu.ft., per 100 cu.ft.	5.59	5.62	5.69
Over	5,000,000 cu.ft., per 100 cu.ft.	5.47	5.47	5.47

		<u>G-4</u> 1100 Btu	<u>G-5</u> 1100 Btu	<u>G-5.1</u> 1100 Btu
First	200 cu.ft. or less	\$1.25	\$ 1.35	\$ 1.60
Next	2,300 cu.ft., per 100 cu.ft.	7.22¢	7.79¢	10.35¢
Next	17,500 cu.ft., per 100 cu.ft.	6.52	6.85	9.31
Next	80,000 cu.ft., per 100 cu.ft.	5.87	5.95	8.29
Next	4,900,000 cu.ft., per 100 cu.ft.	5.76	5.83	8.08
Over	5,000,000 cu.ft., per 100 cu.ft.	5.47	5.47	7.35

		<u>G-6,G-6.2</u> 1100 Btu	<u>G-6.1,G-6.4</u> 1100 Btu	<u>G-6.3</u> 1100 Btu
First	200 cu.ft. or less	\$1.50	\$ 2.10	\$ 2.40
Next	2,300 cu.ft., per 100 cu.ft.	8.49¢	11.07¢	13.15¢
Next	17,500 cu.ft., per 100 cu.ft.	7.20	9.78	11.02
Next	80,000 cu.ft., per 100 cu.ft.	6.04	8.56	9.56
Next	4,900,000 cu.ft., per 100 cu.ft.	5.90	8.28	9.45
Over	5,000,000 cu.ft., per 100 cu.ft.	5.47	7.35	8.49

APPENDIX A
Page 2 of 7

		<u>G-21</u> <u>1100 Btu</u>	<u>G-22</u> <u>1100 Btu</u>	<u>G-26, G-27</u> <u>1100 Btu</u>
First	200 cu.ft. or less:	\$1.15	\$1.15	\$1.50
Next	2,200 cu.ft., per 100 cu.ft.	7.13¢	7.57¢	8.49¢
Next	7,600 cu.ft., per 100 cu.ft.	6.22	6.52	7.20
Next	90,000 cu.ft., per 100 cu.ft.	5.80	5.87	6.20
Next	900,000 cu.ft., per 100 cu.ft.	5.69	5.76	5.90
Next	9,000,000 cu.ft., per 100 cu.ft.	5.58	5.60	5.70
Over	10,000,000 cu.ft., per 100 cu.ft.	5.47	5.47	5.47

		<u>G-23</u> <u>1100 Btu</u>	<u>G-24</u> <u>1100 Btu</u>	<u>G-25</u> <u>1100 Btu</u>
First	400 cu.ft. or less	\$1.35	\$1.35	\$1.35
Next	2,600 cu.ft., per 100 cu.ft.	7.79¢	7.05¢	6.54¢
Next	27,000 cu.ft., per 100 cu.ft.	6.50	6.30	5.86
Over	30,000 cu.ft., per 100 cu.ft.	5.47	5.47	5.47

- b. Revise applicability provisions of Schedules Nos. G-21, G-22, G-23, G-24, G-25, G-26, G-27 to conform with applicability provision of Schedule No. G-1.
- c. Revise territory provisions to the following example, where applicable:
- "Territory:
A - (1100 Btu)
Within the Rate Area of:
San Francisco
- Rate Areas are specified in Index of Rate Areas."
- d. Under territory provision of Schedule No. G-5.1, transfer Gonzales, Greenfield, King City and Soledad to Schedule No. G-5.
- e. Under territory provision of Schedule No. G-6.1, transfer territory in Coast Valleys Division supplied from the Salinas-King City 8-inch gas main to Schedule No. G-6.
- f. Schedule No. G-6.3 - Delete Special Conditions Nos. 2 and 3.
- g. Delete terms "incorporated" and "unincorporated" from territory provisions.
3. Firm Industrial and Dehydrator Natural Gas Schedules:
- a. Under territory provision exceptions of Schedule No. G-40, delete "The service area of former Coast Counties Gas and Electric Company" and add "Territory provided for in Schedule No. G-81". Combine territory of Schedule No. G-41 with Schedule No. G-40. Withdraw and cancel Schedule No. G-41.
- b. Withdraw and cancel Schedules Nos. G-82 and G-84 and transfer customers to Schedule No. G-81. Include territory provisions of Schedules Nos. G-82 and G-84 in Schedule No. G-81.
- c. Revise applicability provision of Schedule No. G-81 to conform with applicability provision of Schedule No. G-40.

APPENDIX A
Page 3 of 7

- d. Under territory provision of Schedule No. G-81, delete "Service area of former Coast Counties Gas and Electric Company as follows:".
- e. Revise base rates per meter per month for Schedules Nos. G-40 and G-81 to the following:

		<u>1100 Btu</u>	
		<u>G-40</u>	<u>G-81</u>
First	100 Mcf, per Mcf	55.5¢	55.5¢
Next	900 Mcf, per Mcf	52.8	52.8
Next	2,000 Mcf, per Mcf	51.7	51.7
Over	3,000 Mcf, per Mcf	50.5	49.6

- f. Under rate provisions of Schedule No. G-81 delete present minimum charge provision and add minimum charge provision of presently effective Schedule No. G-40.
 - g. Delete Special Conditions 1, 2 and 3 of Schedule No. G-81.
4. Gas Engine Agricultural Natural Gas Service - Schedule No. G-45:
- a. Revise base rates per meter per year to the following:

		<u>1100 Btu</u>
First	14 Mcf per hp, per Mcf	55.4¢
Next	14 Mcf per hp, per Mcf	46.2
Over	28 Mcf per hp, per Mcf	40.6

5. Interruptible Natural Gas Service:

- a. Under territory provision exceptions of Schedule No. G-50, delete "The service area of former Coast Counties Gas and Electric Company" and add "Territory provided for in Schedule No. G-91". Combine territory provisions of presently effective Schedules Nos. G-52 and G-54 with Schedule No. G-50.
- b. Withdraw and cancel Schedules Nos. G-52, G-54 and transfer customers to Schedule No. G-50. Withdraw and cancel Schedule No. G-92 and transfer customers to and combine territory provisions with Schedule No. G-91.
- c. Revise applicability provisions of Schedule No. G-93 to conform with applicability provision of Schedule No. G-53. Under territory provision exceptions of Schedule No. G-53, delete the "service area of former Coast Counties Gas and Electric Company" and add "Territory provided for in Schedule No. G-93."
- d. Delete Special Conditions 1 and 2 of Schedules Nos. G-50, G-50.1, G-53, G-55, G-56 and all Special Conditions of Schedules Nos. G-91 and G-93. Add Special Conditions 3, 4 and 5 of presently effective Schedule No. G-50 to Schedules Nos. G-91 and G-93 and add Special Conditions 4 and 5 of presently effective Schedule No. G-50 to Schedule No. G-56.

APPENDIX A
Page 4 of 7

e. Revise base rates per meter per month to the following:

	<u>G-50,G-91</u> <u>1100 Btu</u>	<u>G-50.1</u> <u>1100 Btu</u>	<u>G-53</u> <u>1100 Btu</u>	<u>G-93</u> <u>1100 Btu</u>	<u>G-56</u> <u>1100 Btu</u>
First 1,000 Mcf, per Mcf	49.7¢	65.7¢	49.7¢	49.7¢	49.7¢
Next 2,000 Mcf, per Mcf	45.4	59.8	45.4	45.4	45.4
Next 3,000 Mcf, per Mcf	43.7	55.1	43.7	43.7	43.7
Next 4,000 Mcf, per Mcf	42.2	51.9	42.2	42.2	42.2
Next 10,000 Mcf, per Mcf	-	-	-	-	40.7
Next 190,000 Mcf, per Mcf	-	-	40.7	40.7	-
Over 10,000 Mcf, per Mcf	40.7	50.1	-	-	-
Over 20,000 Mcf, per Mcf	-	-	-	-	35.4
Over 200,000 Mcf, per Mcf	-	-	36.7	39.0	-

G-55
1100 Btu

For all gas deliveries, per Mcf 35.6¢

- f. Minimum charge - Schedule No. G-91
\$80 per meter per month, accumulative annually.
- g. Minimum charge - Schedule No. G-93
\$70,000 per meter per month, accumulative annually.
- h. Under Rates of all Schedules, delete references to fuel oil prices.
- i. Change Special Condition 3 of Schedule No. G-55 to the following:

"Service under this schedule is subject to discontinuance without notice in case the Company has an insufficient quantity of natural gas from all sources available to it to supply with natural gas all its other gas customers, except that during periods of existing or threatened emergencies the Company may serve steam-electric generating plants with priority over other interruptible gas customers. If said emergency arises, the curtailment of interruptible gas customers shall be held to a minimum and California Public Utilities Commission shall be immediately notified of the circumstances causing the emergency."

6. Wholesale and Resale Natural Gas Schedules:

- a. Schedule No. G-60 - Change title to Resale Natural Gas Service. Change "at wholesale from Pacific Gas and Electric Company" to "for resale" under Applicability. Change commodity charge base and effective rates to 30.6¢ per Mcf. Change 900 to 967 in Special Condition 2. Delete Special Condition 4.
- b. Schedule No. G-99 - Renumber as Schedule No. G-61 and change title to Resale Natural Gas Service. Change "at wholesale" to "for resale" under Applicability. Change commodity charge base and effective rates to 30.6¢ per Mcf. Change "6.3 per cent" to "0.9 cents per Mcf" under Contingent Offset Charges."
- c. Schedules Nos. G-63 and G-64 - Withdraw and cancel and replace with Schedule No. G-62 as follows:

APPENDIX A
Page 5 of 7

"Schedule No. G-62

RESALE NATURAL GAS SERVICE

Applicability:

Applicable only to California-Pacific Utilities Company and Southwest Gas Corporation for the purchase of natural gas for resale.

Territory:

California-Pacific Utilities Company: The point of delivery for gas shall be at the existing point of delivery from Pacific Gas and Electric Company's Topock Compressor Station located approximately 700 feet east of the center line of Section 8, Township 7 North, Range 24 East, San Bernardino Base Line and Meridian.

Southwest Gas Corporation: The points of delivery for gas to be delivered shall be at metering stations located at Valves No. 151.06 (Barstow Tap), No. 170.62 (Victorville a Tap), and No. 140.91 (Daggett Tap) on Main 300, Valve No. 27.26 (Lucerne Valley Tap) on Main 313, Tap Valve No. 27.46 (Victorville B Tap) and Station No. 4 + 00 (Hinkley Tap) on Main 314, and such other metering stations as may be established from time to time.

Rates:

Demand Charge:

Based on maximum billing month consumption:	<u>Per Month</u>
Per Mcf of Firm Service in Maximum Month	4.5¢
Per Mcf of Interruptible Service in Maximum Month	2.3¢

Commodity Charge:

To be added to Demand Charge:

	<u>Base Rate</u>	<u>Effective Rate</u>
	<u>1100 Btu</u>	<u>1100 Btu</u>
For all gas deliveries, per Mcf	34.8¢	34.8¢

Contingent Offset Charge:

The above rate includes the following offset charges which, in accordance with Decisions Nos. 51360 and 55998 of the California Public Utilities Commission, are contingent upon the price of gas purchased from El Paso Natural Gas Company:

- (1) An offset charge of 6.3 per cent.
- (2) An offset charge of 3.56 cents per Mcf.
- (3) An offset charge of 1.96 cents per Mcf.

The above rate is subject to possible refund in accordance with said Decisions in the event of a reduction in the cost of gas purchased from El Paso Natural Gas Company.

Special Conditions:

- I. The maximum billing month for each resale customer shall be the current month or that month in the preceding 11 months in which the maximum charge occurs using the above demand charges.

APPENDIX A
Page 6 of 7

2. All gas deliveries of the Company under this schedule not included in bills for interruptible service to customers of resale customers shall be considered as deliveries under firm service.

3. Interruptible service is subject to discontinuance without notice in case of an actual or threatened shortage of natural gas, whether due to insufficient supply in the fields or to inadequate transmission or delivery capacity or facilities. The company will not be liable for damages occasioned by interruption or discontinuance of service supplied under this schedule.

4. Resale customers under this schedule shall provide in their rules provisions comparable to those contained in Rule No. 19 and shall not deliver in excess of 25,000 cu. ft. of gas per day to any firm customer unless another fuel cannot readily be used without undue hardship.

5. Gas service supplied hereunder shall be in accordance with a contract on file with the Public Utilities Commission of the State of California as part of the Company's effective tariff schedules."

7. General Service Propane Gas.

a. Schedule No. G-58 - Increase base rates of initial and second blocks 30.0¢ and 1.0¢, respectively.

b. Schedule No. G-59 - Increase base rates of initial and second blocks 30.0¢ and 2.0¢, respectively.

8. Rules.

a. Revise titles "Rule and Regulation No." to "Rule No." and change Railroad Commission to Public Utilities Commission.

b. Rule No. 7, Deposits:

Delete all of Section (A), Amount of Deposit, and substitute the following:

"(A) Amount of Deposit:

The amount of deposit required to establish or re-establish credit is twice the estimated average monthly bill, but in no case may the amount of deposit be less than \$5."

c. Revise Rules Nos. 2, 12, 15 and 16 as set forth in Exhibit Z, Section C of Application No. 38668, Second Amendment.

d. Withdraw and cancel Rule No. 20.

9. a. Cancel and withdraw presently effective Index of Cities and Index Description of Special Rate Areas. Combine and refile present Index of Cities and Index-Description of Special Rate Areas in accordance with the following:

APPENDIX A
Page 7 of 7

INDEX OF RATE AREAS

General natural gas service to rate areas will be in accordance with the provisions of the schedules listed below. Rate areas generally comprise incorporated areas and built-up territory as more fully set out in the following list of Rate Areas.

Rate Area (Typical Examples)	Sched- ule No.	Incorpo- rated Area As Of	Rate Area Includes			
			Areas Annexed by Ordinance or Resolution No.	Area Delineated By Map Sheet No.	Territory Per Legal Descrip- tion No.	
Alisal		(See Salinas Rate Area)				
Atwater	G-5	1-30-56	0-135, 136	-	-	
Bayshore		(See San Francisco Rate Area)				
Cupertino	G-5	-	-	4231-G	-	
Daly City		(See San Francisco Rate Area)				
Hughson	G-5	-	-	-	54	
Lodi	G-4	11-22-56	0-590, 591, 592, and Woods School Annex	-	-	
Salinas	G-4	9-30-57	-	-	1, 37	
San Francisco	G-1	9-30-57	-	-	3	
Daly City		12-27-56	0-441	-	57	

- b. In first paragraph under Description of Special Rate Areas, delete first sentence and change "Index of Cities" to "Index of Rate Areas" in second sentence.

APPENDIX B
Page 1 of 2

LIST OF APPEARANCES
(Second Amendment)

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

Protestants: Gibson, Dunn & Crutcher, by Richard L. Wells, appearing on behalf of American Potash and Chemical Corporation and West End Chemical Corporation; Kenneth M. Robinson, for Permanente Cement Company and Kaiser Aluminum and Chemical Corporation; Wallace K. Downey, for California Portland Cement Company; O'Melveny & Myers by Lauren M. Wright, for Riverside Cement Company, Division of American Cement Corporation; Leland F. Reaves, for City of San Pablo; Alexander R. Tobin, for County of San Bernardino; Brobeck, Phleger & Harrison by George D. Rives and Robert N. Lowry, for California Manufacturers Association, California and Hawaiian Sugar Refining Corporation, Ltd., Continental Can Company, Inc., (Hazel-Atlas Glass Division), Fibreboard Paper Products Corporation, Gladding, McBean & Company, Holly Sugar Company, Hunt Foods and Industries, Inc., (Glass Containers Corporation and United Can & Glass Company Divisions), Kaiser Aluminum & Chemical Corporation, Kraftile Company, Owens-Illinois Glass Company, Permanente Cement Company, Philadelphia Quartz Company of California, Spreckels Sugar Company and Swift and Company; Overton, Lyman & Prince, by Donald H. Ford, for Southwestern Portland Cement Company; Wm. A. Stuthers, Jr., for City of Pleasanton; G. A. Olsen, for Independent Refiners Association of California, Inc.; and Paul Brindel, for Black Point-Indian Valley Downtown Property Owners' Association.

Interested Parties: J. J. Deuel and Bert Buzzini, for California Farm Bureau Federation; Harold Gold and Reuben Lozner, for Department of Defense and other Executive Agencies of the U. S. Government; Berol and Silver, by Bruce Geernaert, and William Laub, for Southwest Gas Corporation; J. F. Coakley, D. A., Alameda County, by William S. Coit, Deputy D. A., for Board of Supervisors, Alameda County; Robert E. Michalski and Harold May, for City of Palo Alto; Fred C. Hutchinson and Robert T. Anderson, for City of Berkeley; Edward A. Goggin, for John W. Collier, City Attorney and for City of Oakland; Dion R. Holm, and Paul L. Beck, for City and County of San Francisco; Sherrill D. Luke, for City of Richmond; Myron A. Johnson, Jr., for City of Hayward; W. D. MacKay, for Challenge Cream and Butter Association; Leland F. Reaves, for City of San Pablo; Robert A. Boon, for City of Roseville.

Commission staff: Cyril M. Saroyan, Marshall J. Kimball and Richard T. Perry.

LIST OF WITNESSES

Evidence was presented on behalf of the applicant by: John F. Roberts, L. W. Coughlan, Robert E. Palmer, L. N. Knapp, J. F. Brennan, H. Z. Frank, J. C. Russell, Roy Davis, E. J. Lage, H. H. Blasdale, D. L. Bell, James S. Moulton, P. C. Miller, K. C. Christensen, Dexter Stoner, Lee C. Wise, Rudolph Jenny.

APPENDIX B
Page 2 of 2

Evidence was presented on behalf of the protestants and interested parties by: Paul Brindell, Harry D. Patton, David Allen, Mrs. Kathryn Willey, French Jacks, Edna Nolan, Alfred J. Lacost, Westley Brake, Arthur B. Gross, George W. Oakes, John H. Fairweather, John L. Holleran, Robert S. Goodman, George R. Bean, Saul Nelson, James K. MacIntosh, Roger S. Erickson, Edwin Fleischmann, W. W. Eyers, John M. Kinard, Felix S. McGinnis, Jr., Robert B. Coons, Robert G. Patterson, Harry L. Masser, Roy A. Wehe, H. G. Butler, J. L. Sanders, W. M. Laub, G. A. Olsen, Wallace Downey.

Evidence was presented on behalf of the Commission staff by:
Sam E. Winegar, Bruno A. Davis, Ed. F. Catey, Robert C. Moeck,
Kenneth J. Kindblad.