

ORIGINALDecision No. 57656

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 PACIFIC GAS AND ELECTRIC COMPANY, a
 corporation, for an order granting
 to applicant, among other things,
 authorization to increase its rates
 and charges for steam sales in the
 City and County of San Francisco.
 (Steam)

Application No. 40125

(Appearances and Witnesses are listed
 in Appendix B)

O P I N I O NApplicant's Request

Pacific Gas and Electric Company, engaged to a limited extent in the manufacture, distribution and sale of steam in a limited portion of the business district of the City of San Francisco,^{1/} filed the above entitled application on May 28, 1958, requesting an increase in annual revenues from steam sales in San Francisco of \$262,400, or 57 percent, based on the estimated 1958 revenues of \$457,900 at present rates.

During the processing of this application two important events occurred which affected the applicant's position. The first was a 35 cents per barrel reduction in the price of fuel oil which, under the present fuel oil price escalator clause lowered the estimated revenue by \$21,600 on an annual basis. The second was a sizeable increase in valuation for ad valorem tax purposes. Applicant

^{1/} Applicant's primary business is furnishing electric and gas service in Northern and Central California. During the 12 months ended September 30, 1957, applicant's gross revenue was derived 65.4 percent from the sale of electric energy, 34.1 percent from the sale of gas, 0.4 percent from the sale of water and 0.1 percent from the sale of steam.

corrected its exhibits to show the effect of these two items but did not ask for rates higher than proposed in the original application. Now applicant requests an increase of \$318,200, or 73 percent, over the effective rates based on a posted oil price of \$2.20 per barrel on the basis of its Exhibit No. 9.

Public Hearing

After due notice public hearing upon this application was held before Examiner Manley W. Edwards on a consolidated record with Application No. 40126 on August 4 and 5, and October 6 and 7, 1958, in San Francisco. Applicant introduced nine exhibits and testimony by six witnesses in support of its steam rate request. The Commission staff made an independent study of applicant's operations, presented two exhibits and testimony by two witnesses, and cross-examined applicant's witnesses for the purpose of developing a complete record to aid the Commission in deciding this rate increase request. The representative for the City and County of San Francisco also cross-examined the applicant's as well as the staff's witnesses. The matter was submitted for Commission consideration at the close of the fourth day of hearing and now is ready for decision.

Applicant's Operations

Steam heat service is rendered in a limited portion of downtown San Francisco, as shown by Exhibit A attached to the application. Steam is supplied to approximately 494 customers from a dual pressure network of thermally insulated underground pipelines which provide steam primarily for space heating and water heating. This system is supplied with steam from two steam generating plants, Stations "S" and "T", having a combined net send-out capacity of 235,000 pounds of steam per hour at 125 pound per square inch pressure. The boilers in these two plants normally are fired by

natural gas which is provided under applicant's gas schedule No. G-50. Standby fuel oil is maintained at both stations "S" and "T".

The steam is distributed through a network system of approximately 80,000 feet of main which includes both a high and low pressure system. Steam is supplied from the high pressure system at a pressure of 125 p.s.i.g., or less, depending on the load and distance from the source of production. The low pressure system is supplied from the high pressure system through six reducing valves. The pressure on the low pressure system is between 5 and 10 p.s.i.g. About 40 percent of the customers are served from the low pressure system.

New service installations and distribution system maintenance work are done by the applicant's gas department on a job cost basis. Production plant equipment maintenance is done by the electric department on a job cost basis. Applicant states that this arrangement was initiated several years ago to reduce over-all costs by eliminating the necessity for maintaining a separate maintenance organization for the steam sales system.

Applicant's Position

Applicant represents that the revenues under its present steam rates do not accord it a fair and reasonable return on the properties which will be used or useful in connection with the furnishing and supplying of steam service to its customers in the future. During the past few years applicant states that its steam business has been running in the red.

Applicant's studies show the following earnings trend for its San Francisco steam sales as reflected by its rate of return from this business:

Rate of Return

Year 1957 Recorded	(15.65%)
Year 1957 Adjusted (present rates)	(18.04%)
Year 1958 Estimated (present rates)	(22.22%)
Year 1958 Estimated (proposed rates)	4.28%

(Red Figure)

For the estimated year 1958 under present rates applicant estimated that the revenues will amount to only 64 percent of operating expenses.

The studies by the staff showed a somewhat similar low earning position in 1957 and 1958 under present rates. When the staff computed the results under the proposed rates it determined a rate of return of 4.80 percent for 1958.

Earnings Comparisons for 1958

A more detailed comparison of the revenues, expenses, rate base and rate of return computed by the applicant and by the staff for the year 1958 under both present and proposed rates is set forth in the tabulation following:

SUMMARY OF EARNINGS. ESTIMATED YEAR 1958

	<u>Present Rates</u>		<u>Proposed Rates</u>	
	<u>Applicant</u>	<u>Staff</u>	<u>Applicant</u>	<u>Staff</u>
Operating Revenues	\$ 436,300	\$ 434,680	\$ 754,500	\$ 749,370
<u>Operating Expenses</u>				
Production Expenses	428,930	418,720	428,930	418,720
Distribution Expenses	101,720	92,110	101,720	92,110
Customers' Acct. & Coll.	-	4,500	-	4,500
Admin. & General	33,570	33,380	33,570	33,380
Uncollectibles	920	600	1,580	1,000
Taxes, Other Than Income	91,758	90,937	91,758	90,937
Income Taxes	-	(143,008)	19,717	26,454
Depreciation	29,116	29,009	29,116	29,009
Total Operating Expenses	\$ 686,014	\$ 526,248	\$ 706,391	\$ 696,110
Net Revenue	\$ (249,714)	\$ (91,568)	\$ 48,109	\$ 53,260
Rate Base (depreciated)	\$1,123,767	\$1,108,740	\$1,123,767	\$1,108,740
Rate of Return	(22.22)%	(8.26)%	4.28%	4.80%

(Red Figure)

The principal difference between the staff's computations and those of the applicant at present rates is in the items of taxes. The applicant showed zero expense for income taxes under present rates, while the staff showed the income tax as a red figure because the low earnings in this department reduce the income taxes of the other departments when the applicant's gas, electric, water and steam heat departments are considered on a company-wide basis for income tax purposes. It should be pointed out that both the applicant and the staff used straight line depreciation for the purpose of computing federal income tax. The staff also computed applicant's rate of return using accelerated depreciation for federal income tax deduction purposes and estimated that it would have the effect of increasing the rate of return to 5.58 percent.

Rate of Return

Our conclusion is that the level of revenues computed on the basis of the proposed rates is fully justified. Such conclusion will require a very sharp increase in rates (about 75 percent); however, in order that the customers may have time to adjust their budgets and operations to such higher rates the increase will be provided in two steps; approximately one-half now and the remainder one year from now.

Rule Changes

By Exhibit No. 7 the applicant presented a new set of rules to govern the conditions under which steam service will be rendered. Applicant's reason for revising its rules is that the old rules were

filed in 1920 and now are somewhat archaic. However, on reviewing the proposed rules the applicant found that such revised rules did not permit a customer's credit rating, as a result of using gas and electric service, to be considered. Certain amendments to Exhibit No. 7 were made at the hearing on October 6, 1958. Applicant's final revisions to its rules appear reasonable and will be authorized.

Rate Changes

Applicant's present steam rates contain a fuel clause which provides for an increase of 3 cents per 1,000 pounds of steam for each 10-cent increase in the posted price of fuel oil above 80 cents per barrel. Applicant desires to change from a fuel oil clause to a gas cost clause because now steam is produced primarily by gas fuel under interruptible gas schedules. Applicant's present and proposed rates follow:

	<u>Present Rates</u>	<u>Base Rates</u>	<u>Effective Rates</u>
First	20,000 pounds, per 1,000 lbs.	\$1.19	\$1.61
Next	60,000 pounds, per 1,000 lbs.	.79	1.21
Next	150,000 pounds, per 1,000 lbs.	.59	1.01
Next	170,000 pounds, per 1,000 lbs.	.44	.86
All Over	400,000 pounds, per 1,000 lbs.	.34	.76

Minimum Charge - \$7.50 per month per meter.

	<u>Proposed Rates</u>	<u>Base Rates</u>	<u>Effective Rates</u>
First	20,000 pounds, per 1,000 lbs.	\$2.57	\$2.60
Next	80,000 pounds, per 1,000 lbs.	2.04	2.07
Next	150,000 pounds, per 1,000 lbs.	1.74	1.77
Next	250,000 pounds, per 1,000 lbs.	1.54	1.57
All Over	500,000 pounds, per 1,000 lbs.	1.39	1.42

Minimum Charge - \$12.00 per month per meter.

The effective rates under applicant's present schedules are predicated upon a posted fuel oil price of \$2.20 per barrel, which requires a 42 cents per 1,000 pounds increase over the base rates. If it is assumed that there are 1,250 Btu of heat units in a pound of

steam, the present effective terminal rate of 76 cents provides one million Btu of heat units for approximately 60 cents. Fuel oil at \$2.20 per barrel provides one million Btu for approximately 35 cents.

In proposing the level of its new rates applicant states it compared steam rate levels in cities like Akron, Ohio; Birmingham, Alabama; Cleveland, Ohio; Pittsburg, Pennsylvania; Portland, Oregon; Salt Lake City, Utah and Tacoma, Washington, and found them generally in line. It also stated that the proposed rates would be cheaper for typical large customers than for such customers to install boilers, convert to gas and stand the fuel, operation and maintenance expenses involved.

Applicant justified the need for a gas fuel escalator clause in its new rates from the cost of production standpoint. Fuel is the major expense item in production and distribution of steam, accounting for some 40 percent of the total cost. Since the level of the gas rate is under control of the Commission, the applicant argued that its proposed clause would not mean that the Commission is surrendering its jurisdiction to some outside agency to control the level of steam rates as at present.

The effective terminal rate under applicant's proposed schedule provides one million Btu of heat for \$1.14, approximately. Customers can buy gas under schedule G-50 for approximately 50 cents per Mcf. Assuming 1,100 Btu per cubic foot of gas, a cost of approximately 45 cents per million Btu results. Thus, we find that applicant's present steam rates are practically double the cost of competitive fuel oil and the proposed rates are more than double the cost of competitive gas fuel, considering fuel cost only.

We have considered the request of the applicant for establishment of a gas fuel clause in its new rates to replace the

present fuel oil price clause. The Commission does not look with favor on automatic cost adjustment clauses. Fuel clauses in rates may have their proper place in certain schedules where it is essential that competitive conditions be met. We do not at this time find sufficient evidence to indicate that the rates must carry a fuel clause in order to hold the load and meet the competition of gas fuel.

The representative for the City and County of San Francisco took the position that the present rates are low, that no major rate change, other than fuel clause adjustments, has been made since 1920, and that the increase should be spread over three steps so that the full impact of the increases would not be felt at one time.

Findings and Conclusions

After considering the evidence of record the Commission finds and concludes:

- (1) That applicant's present steam rate schedules are considerably below a reasonable level in light of present-day costs of fuel, labor, materials and supplies, and money.
- (2) That it would not be consistent with the public interest to permit inclusion in applicant's new steam rate schedule of a gas fuel price escalator clause.
- (3) That the applicant has requested too great an increase to be accomplished in a single step and it should be effected in two steps, with a one-year interval between steps, to provide time for the customers to adjust their budgets and operations to the higher rates.
- (4) That revisions in certain of applicant's tariff terms, special conditions and rules are reasonable and should be authorized.
- (5) That the increases in rates and charges authorized herein are justified.
- (6) That the present rates, insofar as they differ from those herein prescribed, for the future are unjust and unreasonable.
- (7) That an order should be issued revising the rates, terms, conditions and rules to the extent and in the manner provided by Appendix A hereof.

O R D E R

Pacific Gas and Electric Company having applied for an increase in steam rates in the City and County of San Francisco, public hearing thereon having been held, the matter having been submitted, the Commission being fully informed and having found increases in rates in two steps as being justified; therefore,

IT IS ORDERED that applicant is authorized to file in quadruplicate with the Commission, 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 shown in Appendix A attached hereto, and, upon not less than ^{two}~~five~~ days' notice to the Commission and to the public, to make said rates effective for service rendered on and after January 1, 1959.

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

Dated at San Francisco, California, this 2nd day of December, 1958.

[Signature]
President

[Signature]

[Signature]

[Signature]

Commissioners

Commissioner Theodoro H. Jenner, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

Changes in applicant's presently effective rates, rules and conditions are authorized as set forth in this appendix.

1. Schedule S-1, General Service

- (a) Revise the rate schedule to conform with Exhibit D of Amendment to Application No. 40125, except as follows:

- (1) Revise the rate section to the following:

<u>RATES</u>		Effective Rates Until <u>Jan. 1, 1960</u>	Effective Rates <u>Jan. 1, 1960</u>
First	20,000 pounds, per 1,000 lbs.	\$2.05	\$2.60
Next	80,000 pounds, per 1,000 lbs.	1.64	2.07
Next	150,000 pounds, per 1,000 lbs.	1.39	1.77
Next	250,000 pounds, per 1,000 lbs.	1.22	1.57
All over	500,000 pounds, per 1,000 lbs.	1.09	1.42

- (2) Delete all of Section C, Fuel Clause under Special Conditions.

- (b) After January 1, 1960 applicant is authorized to refile the schedule to delete effective rates until January 1, 1960.

2. File an appropriate title page similar in form and content to that presently filed with the gas tariff sheets.

3. File a preliminary statement as proposed in Exhibit No. 7.

4. Rules

- (a) Remove "and regulations" wherever it appears.
- (b) Refile Rules Nos. 2, 3, 4, 8, 9, 12, 13, 14, 15, 16, 17 and 18 as proposed in Exhibit No. 7.
- (c) Combine the text of the present Rules Nos. 7 and 8 and file as Rule No. 7.
- (d) Refile the present Rule No. 11 as Rule No. 10.
- (e) Refile the present Rule No. 9 as Rule No. 11 and add Section (I) from Exhibit 7 Rule No. 11 and renumber as Section (E).
- (f) Change "Railroad Commission" to "Public Utilities Commission".

APPENDIX B

LIST OF APPEARANCES

FOR APPLICANT: F. T. Searls, John C. Morrissey, and
John S. Cooper, by John C. Morrissey
and John S. Cooper.

FOR INTERESTED
PARTY: Dion R. Holm and Robert Laughead, by
Robert Laughead, for City and County
of San Francisco.

FOR THE COMMISSION
STAFF: C. W. Shawler, G. B. Weck and W. R. Roche,
by G. B. Weck and W. R. Roche.

LIST OF WITNESSES

Evidence was presented on behalf of the applicant by:

Edwin G. Gothberg, Roy Davis, J. C. Russell,
William Fairchild, Don E. Nielsen, and
Edward C. Ritchie.

Evidence was presented on behalf of the Commission staff by:

Victor M. Martin, and Bruno A. Davis.