

ORIGINAL

Decision No. 57658

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 of Oakland.)
 (Steam)

Application No. 40126

(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 Oakland,^{1/} filed the above-entitled application on May 28, 1958 requesting an increase in annual revenues from steam sales in Oakland of \$113,400, or 66 per cent, based on the estimated 1958 revenues of \$172,800 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 \$15,700 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 per cent from the sale of electric energy, 34.1 per cent from the sale of gas, 0.4 per cent from the sale of water and 0.1 per cent 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 \$130,400, or 83 per cent, over the effective rates based on a posted oil price of \$2.20 per barrel on the basis of its Exhibit No. 8.

Public Hearing

After due notice public hearing on this application was held before Examiner Manley W. Edwards on a consolidated record with Application No. 40125 on August 4 and 5, and October 6 and 7, 1958 in San Francisco. Applicant introduced eight 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 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 Oakland as shown by Exhibit A attached to the application. Steam is supplied to approximately 184 customers from an underground system of thermally insulated steam mains, consisting of approximately 30,000 feet of pipe, ranging in size from 1½ to 10 inches in diameter. Steam is supplied from the distribution system at a pressure of 125 pounds per square inch or less, depending on the heating load and distance from the source of production. This system is supplied with steam from six boilers, set in pairs, located at the applicant's Oakland Power Plant, having a combined maximum send-out capability of approximately 190,000 pounds of steam per hour. The boilers normally are

fired by natural gas which is provided under the applicant's gas Schedule No. G-50. A supplementary supply of fuel oil also is located on the power plant premises.

The Oakland Steam Sales System production facilities are maintained by the applicant's electric department on a job-cost basis. New service installations and maintenance work in the distribution system are done by the applicant's gas department on a job-cost basis. Applicant states that utilization of its other departments for those functions reduces the over-all costs by eliminating the need for maintaining a separate maintenance organization for the Oakland 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 steam sales as reflected by its rate of return from this business:

<u>Year</u>	<u>Rate of Return (Per Cent)</u>
1957 Recorded	(22.71)%
1957 Adjusted (present rates)	(30.11)
1958 Estimated (present rates)	(41.26)
1958 Estimated (proposed rates)	3.78

(Red Figure)

For the estimated year 1958 under present rates applicant estimates that the revenues will amount to only 59 per cent 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 4.72 per cent 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 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	\$157,100	\$161,330	\$287,500	\$291,100
Operating Expenses				
Production Expenses	174,950	172,750	174,950	172,750
Distribution Expenses	26,770	23,560	26,770	23,560
Customers' Acctg. & Colg.	-	1,500	-	1,500
Adm. and General	17,200	17,173	17,200	17,173
Uncollectibles	320	280	590	400
Taxes, other than Income	31,061	32,471	31,061	32,471
Income Taxes	-	(57,704)	10,245	12,204
Depreciation	16,611	18,202	16,611	18,202
Total Oper. Expense	<u>266,912</u>	<u>208,232</u>	<u>277,427</u>	<u>278,260</u>
Net Revenue	(109,812)	(46,902)	10,073	12,840
Rate Base (Depreciated)	266,132	271,800	266,132	271,800
Rate of Return	(41.26)%	(17.26)%	3.78%	4.72%

(Red Figure)

The principal difference between the staff's computations and those of the applicant at present rates is in the item 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 5.11 per cent.

Rate of Return

Our conclusion is that the level of revenues computed on the basis of the proposed rates is fully justified. Such conclusions will require a very sharp increase in rates (about 85 per cent); 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. *dele*

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 provide 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>		
First	20,000 pounds, per 1,000 lbs.	\$2.70	\$2.74
Next	80,000 pounds, per 1,000 lbs.	2.14	2.18
Next	150,000 pounds, per 1,000 lbs.	1.84	1.88
Next	250,000 pounds, per 1,000 lbs.	1.64	1.68
Over	500,000 pounds, per 1,000 lbs.	1.49	1.53

Minimum Charge \$12.00 per month per meter.

The effective rates under applicant's present schedules are predicated on 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; Pittsburgh, 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 45 per cent 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 \$1.22, 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.

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 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, in so far 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 herein.

O R D E R

Pacific Gas and Electric Company having applied for an increase in steam rates in the City of Oakland, 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 this Commission, after the effective date of this order, in conformity with General Order No. 96, the schedule of rates shown

in Appendix A attached hereto, and, on 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

Theodore H. Jenner, Commissioner....., 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.

Schedule S-2, General Service

1. Revise the rate schedule to conform with Exhibit D of Amendment to Application No. 40126, except as follows:

a. 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 pounds	\$2.17	\$2.74
Next 80,000 pounds, per 1,000 pounds	1.67	2.18
Next 150,000 pounds, per 1,000 pounds	1.43	1.88
Next 250,000 pounds, per 1,000 pounds	1.27	1.68
Over 500,000 pounds, per 1,000 pounds	1.14	1.53

b. Delete all of Section C, Fuel Clause under Special Conditions.

2. After January 1, 1960 applicant is authorized to refile the schedule to delete effective rates until January 1, 1960.

3. Rules applicable to steam service in San Francisco will be made equally applicable in Oakland.

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.

Interested Party: Dion R. Holm and Robert Laughead, by Robert
Laughead, for City and County of San Francisco.

Commission Staff: C. W. Shawler, G. B. Weck and W. R. Roche, by
G. B. Weck and William 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.