

ORIGINALDecision No. 58791

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,)
 among other things, authority to)
 increase certain of its rates and)
 charges for natural gas to offset an)
 increase in the cost of gas purchased)
 from the El Paso Natural Gas Company.)

Application No. 40926

(Gas)

(Appearances and Witnesses are
 listed in Appendix A)

I N T E R I M O P I N I O NApplicant's Request

Pacific Gas and Electric Company^{1/} filed the above-entitled application on March 13, 1959, and requests authority to increase gas rates by approximately \$12,976,000 to offset the annual increase in cost of out-of-state gas starting August 1, 1959. Such an increase will result from the increase which the El Paso Natural Gas Company will charge applicant pursuant to new rates filed with the Federal Power Commission (FPC) under Docket No. G-17929. Applicant specifically requests:

1. Authority to file and make effective as of August 1, 1959, the proposed offset rates and charges for natural gas as set forth and contained in Exhibit F attached to the application, subject to a refund plan to be approved by the Commission;

2. Concurrently with the filing and making effective of the proposed rates, to withdraw and cancel all of its then filed and effective schedules to which said offset increases apply;

1/ Hereinafter referred to as applicant, is an operating public utility corporation engaged principally in the business of furnishing electric and gas service in central and northern California and also distributes and sells water in a number of cities and towns and rural areas, and produces and sells steam in certain parts of the cities of San Francisco and Oakland. Gas was served to 1,566,236 customers as of December 31, 1958.

3. A declaration and finding that the proposed increases are justified and that the existing rates insofar as they differ from the proposed rates, are for the future unjust and unreasonable.

The proposed annual increase of \$12,976,000 represents 5.01 percent of the test year (12 months ending July 31, 1960) revenue from gas rates of \$258,641,000 at present rate levels, as estimated by applicant. ✓✓✓

Public Hearing

After due notice, twelve days of public hearing were held on this application before Commissioner Matthew J. Dooley and/or Examiner Manley W. Edwards during the period April 13, 1959 through June 30, 1959 in San Francisco. Applicant presented 17 exhibits and testimony by 16 witnesses in support of its request. Testimony and/or exhibits were presented on behalf of the City of San Francisco, the California Manufacturers Association, the United States Government, the "Desert Customers"^{2/} and the Southwest Gas Corporation. In addition letters were received from several customers urging that the Commission not grant the application. The Commission staff cross-examined applicant's witnesses, presented 7 exhibits and testimony by 4 witnesses for the purpose of developing a full record to aid the Commission in deciding this request. The matter was submitted for Commission consideration at the close of oral argument on June 30, 1959 and now is ready for decision.

Applicant's Position

Applicant states that on August 1, 1959, El Paso will raise its price for gas by 3.6 cents per Mcf which, on the basis of estimated purchases for the test year 1959-60, will result in a total gas cost increase of \$12,888,000 as shown by Exhibit D to the application. Applicant takes the position that to reimburse it for said added cost of gas and for an estimated collateral increase of \$83,000 in annual

^{2/} The "Desert Customers" are as follows: Riverside Cement Company, Division of American Cement Corporation; California Portland Cement Company; Southwestern Portland Cement Company; American Potash and Chemical Corporation; West End Chemical Company; Permanente Cement Company at Cushenbury; and U.S. Borax and Chemical Company.

franchise payments, gas rates to be charged and collected on and after August 1, 1959, should produce additional revenue equal to approximately \$12,976,000 for the test year 1959-60, because such increase in cost is too great for it to absorb out of present earnings.

Earning Position

Applicant presented summaries of its earning position for the calendar year 1958 on a recorded and on an adjusted basis (to give effect to average conditions of temperature and precipitation and to abnormal items on an average basis), for the calendar year 1959 on an estimated average basis, and for the year ending July 31, 1960 on an estimated average basis at then effective or present gas rate levels. Also applicant showed the effect of the proposed rates for the test year 1959-60. Such earnings are shown by Exhibit No. 3 and are as follows:

	<u>Rate of Return</u>
Calendar Year 1958 Recorded at then Effective Rates	4.73%
Calendar Year 1958 Adjusted at Present Rates	6.19%
Estimated Year 1959 at Present Rates	
1. Gas price prior to 8/1/59	5.89%
2. Gas price of 8/1/59	4.63%
Estimated Year Ending July 31, 1960 at	
1. Present Rates	4.66%
2. Proposed Rates	5.87%

In addition to the earnings studies and forecasts prepared by the applicant, the Commission staff prepared an analysis and estimate of the results of applicant's gas operations for the test year ending July 31, 1960. The staff's results are contained in Exhibit No. 19 and may be summarized as follows:

	<u>Rate of Return</u>
Estimated Year Ending July 31, 1960	
1. At Present Rates:	
a. With Straight-Line Tax Depreciation	4.98%
b. With Accelerated Tax Depreciation	5.38%
2. At Proposed Rates:	
a. With Straight-Line Tax Depreciation	6.22%
b. With Accelerated Tax Depreciation	6.62%

The staff's computation of earnings using accelerated tax depreciation was under the assumption that the "flow-through" method would be used which method passes the immediate benefits on to the rate payer. The Commission has not determined, as yet, what rate treatment should be accorded to accelerated depreciation.^{3/} The results of the applicant's and the staff's studies for the test year 1959-60 using present rates, the higher cost of out-of-state gas, and straight-line tax depreciation accounting are summarized and compared on Table 1. In comparing the two estimates it should be pointed out that the applicant included \$1,177,000 in its estimate of administration and general expenses as a provision for a general wage increase which the staff did not, based on past Commission policy of using the latest known wage level. Also the staff did not include certain dues and donations and expenditures for political purposes, did not trend upward the ad valorem tax rate, and derived a lower rate base than applicant principally because of a computation showing lower working cash capital requirements than that computed by applicant.

As to the over-all earnings position of the Pacific Gas and Electric Company as a whole, applicant's Exhibit No. 2 shows that for the year 1958 a return of 5.60 percent was earned, segregated as follows:

	<u>1958 Rate of Return</u>
Electric Department	5.93%
Gas Department	4.73
Water Department	<u>0.74</u>
Steam Sales Department	<u>(24.36)</u>
All Operating Departments	<u>5.60%</u>

(Red Figure)

^{3/} The question of what rate treatment should be accorded to accelerated depreciation options for income tax purposes is being studied by the Commission under Case No. 6148, but has not been decided as yet. Following decision thereon the Commission will promptly move to make any rate adjustment that may appear warranted.

TABLE 1

SUMMARY OF EARNINGS FOR 12 MONTHS ENDING JULY 31, 1960
GAS DEPARTMENT OF PACIFIC GAS AND ELECTRIC COMPANY
(At Present Rate Levels and Increased Cost of Gas)

	<u>Applicant's Estimate</u>	<u>Staff's Estimate</u>
Operating Revenues:		
<u>Firm Natural Gas</u>		
General Service	\$144,844,000	\$144,844,000
Firm Industrial and Gas Engine	7,391,000	7,408,000
Resale	2,178,000	2,178,000
Total Firm Natural Gas	<u>154,413,000</u>	<u>154,430,000</u>
Interruptible Natural Gas Service	61,571,000	60,494,000
<u>Interdepartmental Natural Gas</u>		
Steam Electric Plants	41,473,000	41,473,000
Steam Sales Plants	464,000	464,000
Other Operations	43,000	43,000
Construction	89,000	89,000
Total Interdepartmental	<u>42,069,000</u>	<u>42,069,000</u>
Total Natural Gas	258,053,000	256,993,000
Liquefied Petroleum Gas	284,000	284,000
Other Gas Revenues	304,000	304,000
Total Gas Department	<u>258,641,000</u>	<u>257,581,000</u>
Operating Expenses:		
Cost of Gas	\$154,540,000	\$153,619,000
Production Expenses	385,000	385,000
Transmission Expenses	3,312,000	3,301,000
Distribution Expenses	12,616,000	12,519,000
Cust. Acctg. & Collecting Exp.	8,396,000	8,394,000
Sales Promotion Expenses	1,682,000	1,682,000
Admin. & General Expenses	9,908,000	8,536,000
Taxes - Other than Income	16,483,000	16,135,000
Taxes - Income (St.-Line Tax Depr.)	13,077,000	13,691,000
Taxes - Amort. of Prior Year's Tax Deficiency	116,000	116,000
Depreciation	<u>15,355,000</u>	<u>15,310,000</u>
Total Operating Expenses	\$235,870,000	\$233,688,000
Net Revenues	\$ 22,771,000	\$ 23,893,000
Rate Base (Depreciated)	\$488,378,000	\$479,389,000
Rate of Return	4.66%	4.98%

Rate of Return

Applicant states that with the proposed offset rates in effect the rate of return for the test year 1959-60 of 5.87 percent on a depreciated rate base will be well below the 6.52 percent rate of return which was authorized for its gas department by this Commission in Decision No. 56967 dated July 9, 1958. Applicant now represents that the rate of return required to recover its embedded cost of bonds and preferred stock and to produce 12.5 percent on common stock equity is 6.95 percent. Applicant's financial witness testified that the Gas Department should be allowed a rate of return of not less than 6.8 percent, but that its principal concern at this time is to obtain an offset increase promptly by the time the new El Paso rates become effective and to leave for later consideration a proceeding or proceedings to restore the Gas Department to what in his judgment would constitute a fair and reasonable rate of return for that department.

In support of a 12.5 percent return on equity, applicant's financial witness referred to Exhibit No. 69, in Application No. 38668, where he showed that eleven large straight natural gas companies in the United States, with revenues of at least \$30,000,000 per annum and common stock equity in the range of 30 to 50 percent, earned 14.2 percent on average common stock equity in 1956 and, currently, the latest information shows a slight reduction to 13.3 percent. Furthermore, he testified that the embedded cost of bond money for applicant has increased from 3.42 percent as of September 30, 1957 to 3.51 percent as of December 31, 1958, but that the embedded cost of preferred stock money, namely 5.34 percent, has not changed since 1957.

The Commission staff, by Exhibit No. 17, also placed into the record certain information with regard to the earnings of other large utility companies in the United States. Table No. 1 therein shows that for eleven gas and electric utilities with revenues in

excess of \$65,000,000 annually, with more than 15 percent derived from gas, and with common stock equity ratios between 33 and 40 percent in 1958, there was earned 10.2 percent on common stock equity on the average. Table No. 2 therein shows that for eleven electric utilities with revenues in excess of \$60,000,000 annually, with less than 16 percent derived from gas, and with common stock equity ratios between 30 and 40 percent in 1958, there was earned 11.3 percent on common stock equity on the average. Table No. 3 therein shows that for nine gas distribution companies with revenues in excess of \$50,000,000 annually, and with common stock equity ratios between 34 and 44 percent in 1958, there was earned 11.8 percent on common stock equity on the average. The staff's exhibit confirms the downtrend in the earnings on common stock testified to by applicant's witness since 1956, and, moreover, does not indicate earnings as high as 12.5 percent on common stock equity are necessary to enable applicant to compete on a reasonable basis with these other companies in the nation's capital markets for funds.

That the cost of bond money has increased since the middle of the year 1958, when the Commission allowed applicant a 6.52 percent rate of return, is not decisive of the issue of rate of return. The Commission does not rely solely on financial requirements in determining the level of such return. The lawful interests of both consumer and investor must control the rate of return. While the rates of return flowing from the results of operation presented by the applicant and as adjusted by the staff, based on the proposed rates, do not exceed the rate of return heretofore found reasonable for this applicant, we do not consider such rates of return confiscatory. If the proposed increase of \$12,976,000 is applied to the staff's rate base and operating results, as set forth

on Table 1 herein, which we hereby adopt as reasonable, it does not indicate a rate of return that exceeds 6.52 percent. We find and conclude that the total offset increase of \$12,976,000 for the estimated 12 months ending July 31, 1960, is fully justified. We now turn to applicant's proposed spread of the increase.

Rate Spread

To compensate for the 3.6 cents per Mcf increase in the cost of out-of-state gas starting August 1, 1959, applicant proposes that the base rates in all of its firm rate schedules be increased by 4.95 cents per Mcf (or 0.495 cents per 100 cubic feet) and that only the first 10,000 Mcf per month of the regular interruptible schedules be increased by 4.95 cents per Mcf, with no increase beyond the first 10,000 Mcf in the interruptible schedules and none in the steam-electric plant rate. Applicant represents that the present prices of competitive fuel are such that increases in the interruptible rates beyond the first 10,000 Mcf per month would cause loss of both ~~present and~~ prospective business;

Among the several factors considered by the Commission in the spreading of rates are: (1) the cost to render the service, and (2) the value of the service.

Cost of Service

Applicant, at the request of the staff, prepared and presented a study of the costs it incurs in serving each of the classes of service. Such study is presented by Exhibit No. 14 and indicates that the costs incurred in serving the General Service, Gas Engine, Firm Industrial and Resale classes is greater than the revenue from such classes, and that the opposite condition obtains with respect to Interruptible Industrial and Steam Electric Plant classes. Such study is predicated on the peak responsibility theory and utilizes the

abnormal peak day or system design peak capacity to segregate the demand costs or fixed charges as between the several classes of service.

The Commission staff introduced a cost study by Exhibits Nos. 20, 20-A and 30 that indicates the General Service, Firm Industrial, Resale, and Interruptible Industrial Service at Distribution Level classes show rates of return above system average, and that Gas Engine, Steam-Electric Plant, and Interruptible Industrial Service at Transmission Level classes show rates of return below system average. The staff's study was predicated on the use that each class made of the system facilities and, essentially, spread the facility costs among the classes on a noncoincident basis in ratio to the maximum monthly sales to each class. Several parties contended that the staff's method was improper because it did not give consideration to the fact that the interruptible classes do not have demand rights and are largely off-peak services.

Value of Service

Applicant presented Exhibit No. 12 for the purpose of showing the present close relationship between its present and proposed rates for interruptible industrial gas service as compared with the equivalent prices of fuel oil, and that loss of customers has occurred. Also it introduced Exhibit No. 13 as proof of the fact that one large interruptible customer, Fibreboard Paper Products Corporation at Antioch, has terminated its contract to buy gas and is switching to fuel oil. According to applicant's witness, Fibreboard is switching over to fuel oil because it has been offered a contract to purchase fuel oil at a price that will continually be below the price of gas for an equivalent number of heat units.

The California Manufacturers Association presented Exhibit No. 27 for the purpose of showing that the plants of Foremost Dairies at Atwater, Hughson, Newman, Los Banos and Loleta now enjoy gas rates that are 2.26 cents to 6.93 cents per Mcf cheaper than the equivalent delivered price of oil, but that applicant's proposed increase of 4.95 cents per Mcf for only the first 10,000 Mcf in the interruptible schedules has the effect of making fuel oil cheaper for two of these five plants.

The Association also presented testimony by the production manager of the Philadelphia Quartz Company of California, with a plant in Berkeley, to show that fuel oil now can be purchased at a delivered price of \$2.25 per barrel and that gas now costs 43 cents per Mcf on the average which is equivalent to an oil price of \$2.58 per barrel. (There is additional cost to heat and pump oil when that fuel is being used which the witness estimated at 10 cents per barrel.) His position was that any increase upward in the price of gas or downward in the price of oil would cause management to request a change from gas fuel to oil fuel.

The "Desert Customers" presented testimony by seven witnesses for the purpose of showing that the posted price of fuel oil at Richmond is \$2.15 per barrel for barge delivery and \$2.20 per barrel for tank car delivery; that the posted price is simply a reference point because in times of scarcity there are bonuses added to the posted price and in times of over supply there are discounts; that the oil situation in California currently shows a general surplus condition with prices soft and that in the Southern California area, where the desert companies buy their oil, discounts are higher and the market is softer; that a sizable quantity of fuel oil currently could be purchased for \$1.65 to \$1.70 per barrel for delivery over

the next 12 months and that the delivered cost of such oil would be less than \$2.00 per barrel in the Mojave Desert area.

Rate Spread Position

The City and County of San Francisco took the position that the "use" method of determining class costs to serve submitted by the Commission staff is as relevant as the "peak responsibility" method used by the applicant; that approximately 70 percent of applicant's gas supply is purchased from El Paso and therefore a uniform increase of 2.67 cents per Mcf is all that is necessary to offset the 3.6 cents increase; that this is an offset rate proceeding, a circumstance which calls for a uniform increase, except that value of service consideration may dictate a lesser increase to the interruptible class temporarily; and that the danger of loss of interruptible customers is a risk of the business that properly should be assigned to the stockholders.

The United States Government joined with San Francisco in urging that the staff's cost study be used; that the applicant has shown consideration by not seeking to improve its rate of return from 5.87 percent to 6.52 percent, but that a uniform increase of only 2.67 cents per Mcf across the board should apply; that the applicant's proposed spread of 4.95 cents per Mcf would cause unequal percentage increases to large military users of 9 percent compared to less than 6 percent for domestic or small commercial users; and that for a large installation like Fort Ord a special rate should be available with more steps and lower rates in the higher usage blocks than under the present general service rate. The United States Government presented three exhibits (Nos. 22, 23, and 24) in support of its position and showed that the applicant's proposed spread would increase its billing some \$88,800 more per year than a uniform spread to all classes of 2.67 cents per Mcf, notwithstanding the fact that it does make use of some interruptible service in those blocks that would receive no increase under applicant's proposal.

The Southwest Gas Corporation, which purchases resale gas from the applicant in the Desert area, presented Exhibits Nos. 25 and 26 for the purpose of showing that the average increase in cost of gas to applicant will be 2.6 cents but that applicant proposes to increase its rate for such gas by 4.9 cents per Mcf. Southwest took the position that since it can receive gas only from the transmission line bringing in El Paso gas, the cost of gas to applicant is but 37.57 cents at its resale point (including transmission cost of 7 cents per Mcf) in comparison to its present rate of 41.86 cents per Mcf on the average; that applicant's resale rates should be increased by only one-half cent per Mcf in the demand portion of the rate, that Southwest, too, has interruptible customers which are competitive with fuel oil and might be lost if the rates are increased to the extent proposed by applicant; and that a resale customer should be treated differently than other firm customers because the majority of such customers also are served by applicant with electricity, whereas Southwest is competing with electricity.

The California Manufacturers Association took no issue with regard to applicant's proposed spread of the rate increase pointing out that it is compelled by the economic conditions prevailing which, on the one hand, indicate that for large industrial users the price of competitive fuels precludes applicant from securing additional revenue from all classes on a straight cents per Mcf basis and, on the other hand, the applicant's cost of service study shows that the general service classes are producing revenues substantially below costs. The Association characterized the staff's cost of service study as a pricing study, reflecting the views as to what portion of costs per customer classes should bear rather than what portion of system costs the classes cause the applicant to incur and represented that the applicant designs its system solely in accordance with the maximum demands of the firm customers on the system abnormal peak day;

that the interruptible customers do not cause the applicant to incur any abnormal peak day capacity expenses and that if the interruptible classes were entitled to demand and receive gas at all times, the costs which are affected by the customers' rate of taking gas would be substantially increased; that the staff's study inflates the costs assigned to interruptible services, reduces the costs assigned to the general service so as to justify a complete reversal of applicant's entire rate proposal; and that the staff's study cannot be given significant weight without a complete reversal of the applicant's rate proposal.

The "Desert Customers" also challenged the staff's cost study stating that in it an interruptible customer is being treated in the same class as a firm customer with one additional penalty--that it must maintain standby oil burning equipment--and, since the interruptible customer is not being given credit for that additional expense, it is costing the applicant money. The "Desert Customers" took the position that the value of the service in the Desert area does not warrant any increase in interruptible rates to large customers; that they probably would tolerate the increase in the first 10,000 Mcf proposed by applicant which to them is comparatively small; that no purchases of fuel oil are going at prices as high as the posted price; that for every dollar of interruptible sales lost applicant will lose 30 cents of support to the firm classes that ultimately will have to be made up by the firm classes; that disastrous results will occur if the Commission overlooks the recommendations of applicant's management to recognize and to meet the competition of other forms of fuel; that the "Desert Customers" under their contracts are "captive customers" only for a comparatively short time in the future; and that any increase greater than proposed will cause loss of these large loads starting in December 1959 when

the first contract can be terminated. These customers made a motion that if the Commission should direct or suggest any further increase in the Schedule No. G-56 rate, they be released from any obligation to take gas or the applicant be required to release them from their contracts; and if the Commission should place any credence in the staff's cost study, it could and should find that the G-56 contracts of applicant and the "Desert Customers" are not in the best interest of the public and order them terminated forthwith.

The California Farm Bureau Federation did not oppose the request of the applicant, stating that in view of the economic facts of life, it cannot quarrel with the offset rate increase allocations of the applicant. With regard to testimony by the industrial witnesses, the Farm Bureau recognized that it is most convincing with regard to the price of fuel oil and its relationship to gas service, but suggested that their approach is a natural approach; that the Commission must not be too easily impressed into assessing all increases against firm and domestic service; that the dilemma is not solved by granting the applicant a hunting license with regard to higher increases from interruptible customers; and that the applicant needs the legal support in its bargaining to hold or improve interruptible income that a clearly defined allocation made by a body such as this Commission would provide.

Counsel for the Commission staff pointed out that applicant's rate proposal is designed to reduce to the minimum the possibility that many customers would convert from gas to oil, but that a substantial shift may well result in creating a demand and increasing the price of oil to a point where it would be either equal to gas or possibly exceed the price of gas, with the result that oil-converted customers could conceivably cut back to gas, which would have important effects on the applicant's revenues and rate of return. With a uniform increase in the commodity cost of

gas, the staff would expect a uniform increase to be proposed for each class. When applicant proposed a nonuniform spread of the requested increase the need for cost of service studies arose. However, the staff points out that cost of service is only one factor in making rates and listed other factors, such as: discouragement of abuse and waste, public requirements, understanding of the rates of applicant and understanding relationship between blocks, the ability to pay, the type of area served, encouragement of growth and maximum use, the history of the rates, competition, and value of service.

Refund Plan

Applicant proposes to refund, on a cents per Mcf basis, in a manner consistent with its revised plan authorized by Decision Nos. 51360 and 55998, any amount collected by reason of the contingent offset charges herein proposed in excess of the amount of increase in cost of El Paso gas to be determined by the Federal Power Commission under Docket No. G-17929. In brief, the plan contemplates refunds based on the usage by customers during the offset collection period, including interest, but excluding the cost of making the refunds. However, if the amount per average domestic customer is less than \$1.00, applicant ~~proposes a~~ ^{proposes a} simplified plan of basing the refund on the customer's usage during the monthly billing periods ending in the month in which the refund is credited.

Findings and Conclusions

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

1. Applicant's present earning position, after fully accounting for growth in customers, sales and revenues, is at such a level that it is not reasonable to ask the applicant to absorb any of the increased cost of out-of-state gas.

2. Increases should be authorized only on an interim basis and subject to refund pending a final decision by the Federal Power Commission on the increased rates filed by El Paso Natural Gas

Company under Docket No. G-17929.

3. The applicant's proposal of a non-uniform spread of a uniform commodity cost of gas increase has given rise to the need to consider cost of service studies prepared under different methods of allocation and assumptions, as well as the value of the service, competition, historical rate relationships and practical factors in providing for a spread of the increase. In determining cost to serve the interruptible classes, it would appear reasonable to allow certain off-peak credit, sufficient to cover the customer's cost of providing standby fuel supply, but not so great as to allow such classes practically free use of the system capacity or nearly complete freedom from demand or facility allocations.

4. While this rate proceeding is listed only as an offset proceeding, the amount of money involved is so large that there was need in the public interest to take time to consider in detail the earnings level, rate of return, and other factors usually considered in a major rate case. Accordingly, the rates will become effective on less than the usual twenty-five days' waiting period, so as to make the offset rates effective at the time El Paso starts assessing the higher cost of gas.

5. Since these rates will be in effect for only an interim period and are subject to refund of any overcharge pending final Federal Power Commission action on El Paso's increased rates for gas, applicant's proposed rate increases and rate spread appear realistic, practical and reasonable in the circumstances, except for certain resale rates.

6. The request of Southwest Gas Corporation for an increase in the demand charge rather than the commodity charge as proposed by applicant appears reasonable except that the suggested increase

of $\frac{1}{2}$ cent per Mcf demand is too small and a 2.8 cent increase in this component at Southwest's present load factor of operation should yield approximately the same increase. This will have the effect of bringing the various resale schedules more in harmony. This same treatment will be accorded to resale service to the California-Pacific Utilities Company at Needles, but a straight commodity increase of 4.95 cents per Mcf will be authorized for resale to City of Coalinga and City of Palo Alto.

7. Gas for most purposes is a superior fuel, but in certain instances where heat units only are considered, the authorized increases for only the first 10,000 Mcf for interruptible customers are designed by applicant at this time to minimize the loss of the interruptible business.

8. The motion of the "Desert Customers" to be released from their long-term gas contracts should be denied.

9. An order should be issued granting the applicant's requests on an interim basis, except as to resale service, Schedule No. G-62.

10. The rates and charges authorized herein are justified and ~~existing~~ rates, insofar as they differ therefrom for the future, are unjust and unreasonable.

The increases being authorized, segregated by classes of service, under applicant's estimates of sales for 1959-60 are:

<u>Class of Service</u>	<u>Sales Mcf</u>	<u>Revenue at Present Rates</u>	<u>Revenue Increase Amount</u>	<u>Ratio</u>
General Service	205,980,000	\$144,844,000	\$ 9,745,000	6.7%
Firm Industrial and Gas Engine	14,424,000	7,391,000	694,000	9.4
Resale	<u>5,010,000</u>	<u>2,178,000</u>	<u>245,000</u>	<u>11.2</u>
Total Firm Service	225,414,000	154,413,000	10,684,000	6.9
Interruptible Service	155,059,000	61,571,000	2,213,000	3.6
Interdepartmental Natural Gas:				
Steam Electric Plants	116,814,000	41,473,000	-	-
Steam Sales Plants	1,107,000	464,000	17,000	3.7
Other Operations	71,000	43,000	3,000	7.0
Company Use - Constr.	<u>218,000</u>	<u>89,000</u>	<u>10,000</u>	<u>11.2</u>
Total Interdept.	118,210,000	42,069,000	30,000	0.1
Total Natural Gas	498,683,000	258,053,000	12,927,000	5.0
Liquefied Pet. Gas	106,000	284,000	-	-
Other Gas Revenues	<u>-</u>	<u>304,000</u>	<u>-</u>	<u>-</u>
Total Gas Department	498,789,000	\$258,641,000	\$12,927,000	5.0%

The Commission again calls to the attention of the applicant its duty to vigorously resist all proceedings before the Federal Power Commission which involve gas rates affecting California, to the end that the interests of the customers of the California utilities will be fully protected.

The Commission is also gravely concerned that the instant increase, all of which occurs in the commodity component at the state line, dollarwise is assigned more to the firm user because of the showing at this time of potential loss of interruptible load had uniform amounts of increase in cents per Mcf been placed in the interruptible classifications. Applicant is placed on notice that this is an interim decision and a redistribution can be considered should changed conditions, including competitive fuel costs, warrant such treatment pending final decision by the Federal Power Commission. Applicant should also intensively survey and consider additional underground storage facilities or other means of serving its customers, in the light of the trend of increasing source cost of gas, and the apparent inability to fully pass such increases on to large interruptible customers, at least at the present time.

INTERIM ORDER

Pacific Gas and Electric Company having requested offset increases because of increases in the cost of out-of-state gas, public hearing having been held, the Commission having found that interim increases in rates and charges are justified, the matter having been submitted and now being ready for decision; therefore,

IT IS ORDERED as follows:

1. If the Federal Power Commission allows El Paso Natural Gas Company to increase its rates for natural gas to applicant by 3.6 cents per Mcf effective August 1, 1959, then applicant hereby is authorized to file, in quadruplicate, with this Commission, in conformity with General Order No. 96, revised schedules with changes in rates, terms and conditions in such schedules as set forth in Exhibit F of Application No. 40926 and after not less than one day's notice to this Commission and to the public, to make said revised rates effective for service rendered on and after the date the increased El Paso rates, lawfully, go into effect except as to Schedule No. G-62 which should be increased only in the firm service demand charge by 2.8 cents per Mcf in lieu of the proposed 4.95 cent commodity increase.

2. In the event that applicant places such rate increases in effect:

- a. Applicant shall keep such records of sales to customers during the effective period of this cost of gas offset rate as will enable it to determine readily the total offset charge and the total refund, if any, that may be due each customer.
- b. Applicant's plan for determining refunds shall be submitted to this Commission prior to making any refunds, and specific Commission approval shall be obtained of the plan at that time.

- c. When the final decision by the Federal Power Commission in Docket No. G-17929 shall have become final, applicant shall file a supplemental application herein containing its proposed permanent rate plan for final determination and authorization by this Commission.
- d. Upon final determination of the actual cost of refunding not recovered from El Paso and the amount of any balance created by applicant's inability to deliver checks and by checks uncashed after one year, applicant shall file a plan acceptable to the Commission for the equitable disposition of the resultant net balance.
- e. Applicant shall file with the Commission monthly reports within sixty days following the close of each monthly period setting forth:
 - (1) The increase in revenues realized under the offset rates authorized herein, segregated by firm and interruptible classes of service and
 - (2) The increase in cost of out-of-state gas above the rate level in effect immediately prior to the date on which the proposed El Paso rates go into effect.
- f. Applicant shall continue to show in its tariffs the amounts of offset charges included in the several rates that may be subject to refund, and should revise the statement to include the dates from which such offset amounts are effective.

3. The motion of the "Desert Customers" to be released from their long-term gas contracts if increases are authorized is denied.

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

Dated at San Francisco, California, this 21st.
day of July, 1959.

[Signature]
President
[Signature]
[Signature]
Theodore Jenner

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Commissioners
Commissioner Ed. Lynn Fox, being
necessarily absent, did not participate
in the disposition of this proceeding.

APPENDIX A

LIST OF APPEARANCES

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

Protestants: O'Melveney & Myers by Lauren M. Wright, for Riverside Cement Company, Division of American Cement Corporation; Gibson Dunn & Crutcher by Richard L. Wells, for American Potash and Chemical Corporation and West End Chemical Company; C. H. McCrea, for Southwest Gas Corporation.

Interested Parties: Dion R. Holm, Orville I. Wright and Robert R. Laughead, for City and County of San Francisco; Brobeck, Phleger & Harrison by Robert N. Lowry, for California Manufacturers Association; William L. Knecht, for California Farm Bureau Federation; Overton, Lyman and Prince by Donald H. Ford, for Southwestern Portland Cement Company; Enright, Elliott & Betz by Norman Elliott, and Waldo A. Gillette, for Monolith Portland Cement Company; Wallace K. Downey, for California Portland Cement Company; Chickering & Gregory by Sherman Chickering, C. Hayden Ames, Angus G. MacDonell and H. G. Dillin, for San Diego Gas & Electric Company; Frederick M. Cunningham, for City of Oakland; R. E. Frey, for Harvey O. Banks, Director of Department of Water Resources, State of California; James P. O'Drain, for City of Richmond; Saul M. Weingarten on behalf of the Cities of Seaside and Gonzales; O. G. Cook, for Sixth U. S. Army; J. C. Kinney and Laurence E. Masoner, Office of the Judge Advocate General, Department of the Army, for the Secretary of the Army for the Executive Agencies of the U. S.; Willis T. Johnson, for California Electric Power Company.

Commission Staff: William Roche, R. Perry and T. L. Deal.

LIST OF WITNESSES

Evidence was presented on behalf of the applicant by: John F. Roberts, Jr., L. W. Coughlan, R. E. Palmer, L. N. Knapp, Don E. Nielsen, Harold Z. Frank, J. C. Russell, Jr., Roy Davis, E. J. Lage, Herbert H. Blasdale, D. L. Bell, N. H. Neel, James S. Moulton, Paul G. Miller, K. C. Christensen, E. G. Gothberg.

Evidence was presented on behalf of the protestants and interested parties by: Henry T. Elkington, John L. Holleran, Felix S. McGinnis, L. H. Wolters, Archie V. Frasers, Peter S. Hass, Joseph F. Knight, Robert G. Patterson, David C. Honey, Robert B. Coons, Carl H. Mandler.

Evidence was presented on behalf of the Commission staff by: Russell J. Leonard, Robert C. Moeck, Robert Paul Hamilton, George C. Young.