

ORIGINAL

Decision No: 59632

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
SOUTHWEST GAS CORPORATION for a
general increase in gas rates under
Section 454 of the Public Utilities
Code.

Application No. 40743
(Amended)

(Appearances and Witnesses are listed in Appendix B)

INTERIM OPINION

Applicant's Request

Southwest Gas Corporation,^{1/} a public utility,
engaged in the distribution of natural gas for general use in
San Bernardino County, filed the above-entitled application on
January 12, 1959, and filed a first amendment thereto on May 4, 1959,
requesting an increase in annual gas revenues of approximately
\$351,000 or 23.8 percent of the test year (12 months ending
September 30, 1959) revenue of \$1,472,724 under present rates as
estimated by applicant for its California operations. Some \$88,000
of the requested increase is due to new offset rates authorized for
applicant's gas supplier, Pacific Gas and Electric Company, starting
August 1, 1959, to offset the increased cost of out-of-state gas
being placed into effect by the El Paso Natural Gas Company pursuant
to Federal Power Commission authorization. Applicant's proposed
rates, including a 5 cent per Mcf charge to offset the increased

1/ Hereinafter referred to as applicant, owns and operates properties
in three states: California, Arizona and Nevada, with its
principal office in the City of Las Vegas, County of Clark, State
of Nevada. Applicant is a corporation duly organized and validly
existing under the laws of the State of California. As the
Arizona and Nevada properties were acquired their names were
changed to Southwest Gas Corporation and its Articles of Incorporation
were amended.

cost of gas effective August 1, 1959, are set forth in Exhibit A attached to the First Amendment to Application No. 40743.

Public Hearing

After due notice, eight days of public hearing were held upon this application, as amended, before Examiner Manley W. Edwards during the period March 11, 1959 to June 26, 1959. The first two days of hearing were held in Barstow on March 11 and 12, and the third day of hearing was held in Victorville on April 22. All subsequent days of hearing were held in San Francisco.

Applicant introduced 14 exhibits and testimony by five witnesses in support of its request. Testimony and/or exhibits were presented on behalf of the Department of Defense and other Executive Agencies of the United States Government and the Yermo School District. Also, the Commission staff introduced four exhibits and testimony by four witnesses and cross-examined the applicant's witnesses for the purpose of developing a full record to aid the Commission in deciding applicant's request. Opening, reply, and closing briefs have been filed (the last one on July 27, 1959), the matter has been submitted for Commission consideration and now is ready for decision. Inasmuch as the increased cost of out-of-state gas is subject to final Federal Power Commission determination under Docket G-17929, we will issue only an interim decision at this time and make the portion of the increases represented by the increased cost of gas subject to refund pending final Federal Power Commission decision under Docket G-17929.

Applicant's Operations

Applicant is engaged in the business of purchasing and distributing natural gas to domestic, commercial, industrial, military, and agricultural customers in parts of Arizona, Nevada and

California. In Arizona the applicant serves natural gas to approximately 12,000 customers in Gila, Pinal and Greenlee counties. In Nevada the applicant serves approximately 11,600 customers in the cities of Las Vegas and North Las Vegas, and surrounding areas of Clark County. In California the applicant serves approximately 9,200 customers in San Bernardino County, mainly in the Mojave River Valley. Included in the California area are the communities of Barstow, Victorville, Apple Valley, Adelanto, Daggett, Helendale, Hesperia, Lenwood, Hinkley, Harper Lake, Yermo, Oro Grande and Lucerne Valley.

Military installations account for a sizable portion of applicant's California load and include George Air Force Base near Victorville, and United States Marine Corps installations at Nebo and Yermo. Economic activities in the area, in addition to the military installations, include cement manufacturing, tourist and resort business, construction, railroad repair and maintenance shops, and retail trade. While the applicant does not serve the kiln loads at two large cement plants located in its service area and at one adjacent thereto, it does benefit from these activities. Applicant purchases all of its natural gas in California from Pacific Gas and Electric Company on a requirement contract.

Applicant's Position

Applicant represents that its earnings in California under its present rates have declined sharply and have become unreasonably low. It lists rapid growth, which requires major plant additions constructed at constantly increasing cost levels, and increasing cost of gas and expenses as reasons for its need for increased rates at this time. The magnitude of this growth may be illustrated by the fact that in 1951-1952 at the time the applicant converted from liquefied petroleum gas to natural gas it had approximately 3,400

customers in its California service area, and total gas plant in service of approximately \$700,000. By September 30, 1959, applicant estimates that it will have more than 10,600 customers in its California service area and gas plant in service in excess of \$3,888,000. Thus, the number of meters has tripled in less than eight years while gas plant in service has increased more than 5-1/2 times.

During the period 1954-1958 the constantly increasing cost levels are illustrated by the average cost of utility plant, as follows:

| | | | |
|------|---|----------|--------------|
| 1954 | - | \$199.37 | per customer |
| 1955 | - | 202.05 | " " |
| 1956 | - | 245.15 | " " |
| 1957 | - | 297.82 | " " |
| 1958 | - | 339.76 | " " |

Applicant states that construction costs and wage rates are still on an upward trend which will unquestionably increase its capital expenditures and operating costs over those provided for in this application; that extreme growth under such conditions of increasing costs becomes a serious financial burden, especially to a regulated utility which cannot readily adjust its selling prices to meet its higher expenses; and that substantial rate increases are now required to rebuild earnings and to regain investor confidence in its securities if it is going to be able to raise the new public capital needed to continue with its construction program.

Earning Position

Applicant presented summaries of its earning position for the fiscal year ended September 30, 1958 as recorded and as adjusted to a normal temperature basis and for the estimated fiscal year ending September 30, 1959 at present and proposed rates. Such earnings are expressed as a rate of return on capital invested in plant

(rate base) and are shown by Exhibit No. 1, as follows:

| | Rate of Return | |
|---|-----------------|-----------------|
| | Complete System | California Only |
| Year Ended 9/30/58 - Recorded | 6.84% | 4.11% |
| Year Ended 9/30/58 - Adjusted | 6.97% | 4.28% |
| Year Ended 9/30/59 - Estimated - Present Rates | 6.59% | 3.92% |
| Year Ended 9/30/59 - Estimated - Proposed Rates | 7.81% | 7.53% |

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 in California for the test year ending September 30, 1959. The staff's results are contained in Exhibits Nos. 14 and 16 and may be summarized as follows:

| <u>Estimated Year Ending September 30, 1959</u> | Rate of Return | |
|---|----------------|----------------|
| | Exhibit No. 14 | Exhibit No. 16 |
| 1. At Present Rates: | | |
| a. With Straight-Line Tax Depreciation | 4.21% | 4.49% |
| b. With Accelerated Tax Depreciation | 5.36% | 5.61% |
| 2. At Proposed Rates: | | |
| a. With Straight-Line Tax Depreciation | 7.97% | 8.39% |
| b. With Accelerated Tax Depreciation | 9.11% | 9.51% |

The staff's computation of earnings using accelerated tax depreciation was under the assumption that the "flow-through" method would be used.^{2/} In Exhibit No. 14 the staff showed the customary rate-making adjustments, but under Exhibit No. 16 there were extra adjustments shown to rate base because of applicant's purchases from a company that the staff labels as "associated company" when such company is brought down to a 7 percent earning level. The results of the applicant's studies and the staff's studies for the test year ending September 30, 1959, using present rates and straight-line tax

^{2/} 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.

depreciation accounting, are summarized and compared on Table I. Also shown on Table I are the adopted operating results which the Commission will use for the purpose of testing the validity of applicant's request.

TABLE I

SUMMARY OF EARNINGS FOR 12 MONTHS ENDED 9/30/59
SOUTHWEST GAS CORPORATION - CALIFORNIA DIVISION
(AT PRESENT RATE LEVELS - EFFECTIVE 12/20/58)

| <u>Item</u> | <u>Applicant's Estimate</u> | <u>Staff's Estimate</u> | <u>Adopted Test Year Results</u> |
|----------------------------------|---------------------------------|-----------------------------|--|
| <u>OPERATING REVENUES</u> | | | |
| General Service | \$1,041,770 | \$1,018,114 | \$1,018,114 |
| Commercial Service | 143,754 | 135,390 | 135,390 |
| Gas Engine Service | 30,731 | 13,887 | 13,887 |
| Firm Service - Military | 141,515 | 127,493 | 127,493 |
| Interruptible Service - Military | 78,375 | 80,824 | 80,824 |
| Interruptible Service - Other | 32,436 | 30,654 | 30,654 |
| Net Added Unbilled Revenue | 4,143 | -- | -- |
| Total Operating Revenues | \$1,472,724 | \$1,406,362 | \$1,406,362 |
| <u>OPERATING EXPENSES</u> | | | |
| Production | \$ 744,796 | \$ 720,500 | \$ 793,100 (1) |
| Distribution | 104,772 | 103,990 | 103,990 |
| Customer Acctg. and Collecting | 91,196 | 89,050 | 89,050 |
| Sales Promotion | 34,814 | 41,280 | 41,280 |
| Administrative and General | 97,648 | 96,600 | 96,600 |
| Depreciation | 122,244 | 94,500 | 110,000 |
| Taxes | 147,571 | 122,600 | 73,400 (2) |
| "Associated Company" Adjust. | -- | (3,210) | -- |
| Wage Increase | -- | -- | 15,000 |
| Total Operating Expenses | \$1,343,041 | \$1,265,310 | \$1,322,420 |
| NET REVENUE | \$ 129,683 | \$ 141,052 | \$ 83,942 |
| RATE BASE (Depreciated) | \$3,305,764 | \$3,145,400 | \$3,253,107 |
| RATE OF RETURN | 3.92% | 4.48% | 2.58% |

(1) Including August 1959 offset increase in cost of gas in amount of \$72,600 subject to refund.

(2) Includes California State Franchise Tax at 1960 rate and offset by 7% interest on the "deferred" income tax reserve.

(Red Figure)

Operating Revenues

The staff's estimate of revenues for the test year is \$66,362 (or 4.5 percent) less than applicant's estimate. This difference is partly due to the fact that the staff's estimates reflect four months' recorded data which show a smaller rate of growth of new customers than estimated by the applicant, and partly due to the fact that the staff adjusted its gas sales for variations in temperature on a consistent basis for each month of the test year to reflect the average of the previous ten-year temperatures, whereas the applicant made adjustment on a two-district basis and normalized only three years of experience for the high-usage winter months. Applicant admits its estimate was perhaps optimistic with regard to new customers. Under the circumstances, the Commission will adopt, as reasonable, the staff's revenue estimate.

Production Expenses

The staff's estimate of production expenses is lower than applicant's estimate because of the lesser quantity of sales reflected in its lower revenue estimate. Neither the applicant nor the staff allowed for the increase in cost of out-of-state gas starting August 1, 1959. On July 21, 1959, the Commission issued its decision in Application No. 40926 authorizing Pacific Gas and Electric Company to make offset increases in its rates generally in the amount of 4.95 cents per Mcf, but with reference to the resale service under Schedule No. G-62 an increase of 2.8 cents was authorized in the demand charge and no increase in the commodity charge. The effect of this offset increase, when applied to the volumes of purchases estimated by the staff, is to increase its estimate of production expense from \$720,500 to \$793,100, which latter figure we find reasonable and adopt for the purposes of this decision.

Distribution Expense

The staff's distribution expense estimate is \$782 or 0.7 percent lower than the applicant's estimate. This difference results primarily from the staff's lower estimate of customer growth. Accordingly, we find reasonable and adopt the staff's estimate of distribution expense in the amount of \$103,990.

Customer Accounting and Collecting Expense

The staff's estimate of customer accounting and collecting expense is \$2,146 or 2.4 percent lower than the applicant's estimate because of its lower customer estimate. We find reasonable and adopt the staff's estimate of customer accounting and collecting expense in the amount of \$89,050.

Sales Promotion Expense

The staff's estimate of sales promotion expense exceeds the applicant's estimate by \$6,466, or 18.6 percent. This difference results from the staff's charging all of the salesmen's salaries to expense as provided for in Account 786 of the Uniform System of Accounts for Gas Utilities, whereas the applicant has capitalized 75 percent of the salesmen's salaries. Certain of the present functions of these salesmen are to perform work usually handled by construction detail men in larger utilities. One of applicant's witnesses stated: "We are devoting more time to sales effort promotion this year, and one of these areas we are trying to attract in gas air conditioning." Since these salesmen are concentrating on such sales promotion efforts, it would not be reasonable to charge 75 percent of their salaries to capital accounts.

Sales promotion expenses are recognized as legitimate expense of a utility. The addition of air conditioning load improves the over-all utility load factor to the benefit of all customers. No

evidence was introduced into the record suggesting that the level of this activity was too high. It would seem appropriate that those in applicant's work force designated as salesmen should devote primary attention to sales efforts and that if construction detail work is required this might be handled more efficiently by assigning this work to other personnel. Accordingly, we find and adopt the staff's estimate as reasonable in the amount of \$41,280.

Administrative and General Expense

The staff's administrative and general expense estimate is \$1,048 or 1.1 percent lower than the applicant's estimate. The difference here is within the range of reasonable estimating and, therefore, we find reasonable and adopt the staff's estimate in the amount of \$96,600 for 1959 administrative and general expenses. In the staff's estimate there is an allowance of \$23,900 covering officers' salaries, which is an approximate 27.6 percent allocation to California of the total company's salaries of general officers and executives in the amount of \$86,800. This allocation percentage figure was derived by use of a "Four-Factor" method which takes into account: (1) the cost of gas; (2) gross plant; (3) average number of employees, and (4) average number of customers in California compared to the company as a whole. This method allocates 34.1 percent to Nevada operations and 38.3 percent to Arizona operations.

By using the cost of gas as one of the factors in the allocation formula, weight is given to the fact that there are large revenue-producing customers in Nevada to the end that California's large number of small residential customers is not carrying more than its fair share of general and administrative expenses. After considering this matter, the Commission is of the opinion that the administrative and general costs per customer for the California

customers is lower than if the California operations were being conducted as a separate utility corporation and, therefore, we find the "Four Factor" allocation formula reasonable.

Depreciation

The staff's depreciation expense is \$27,744 or 22.7 percent lower than the applicant's estimate. This results from the use by the staff of various estimated remaining lives by plant accounts, a composite of which results in a rate of 2.6 percent, equivalent to 38 years remaining life on the average. The applicant used straight-line depreciation rates for tangible gas plant in California varying from 3 to 6 percent, except for transportation equipment, on which 16 percent is used. The staff states that its rate of 2.6 percent meets the depreciation objective of recovering the original cost of fixed capital (less estimated net salvage) over the useful life of the property by means of an equitable plan of charges to operating expenses or clearing accounts. The staff contends that the applicant's composite rate of 3.3 percent (30-year life) does not meet that objective.

Applicant contends that factors other than the physical condition of the property should be taken into consideration in arriving at rates for depreciation; that provisions in the bond indenture require a 4 percent depreciation allowance in computing the bond renewal and replacement obligation; that the staff did not make a physical examination in determining remaining useful life; that for other reasons such as the arid, sparsely populated area served, relative size of the company and its stature in the financial community, the use of a 3.3 percent rate is more reasonable than what is characterized as the "office-statistical-study" of the theoretical asset lives used by the staff.

Applicant is a relatively new utility with comparatively little depreciation experience. In view of this it is more realistic to adopt a rate of 3 percent (33-year life) for rate-making purposes. Accordingly, we find reasonable and adopt an amount of \$110,000 for 1959 depreciation expense for the California division.

Taxes

The staff's estimate of tax expense is \$24,971 or 16.9 percent lower than applicant's estimate. Applicant objects to the staff's lower tax allowance mainly on the basis that it used a higher depreciation figure in computing income tax deductions than it did in computing rate of return. The staff proceeded on the basis that, traditionally, federal income taxes on an estimated as-paid basis have been allowed by the Commission as an expense of operation. Seldom does the depreciation expense allowed by the Commission for rate-fixing purposes equal the amount allowed by the United States Government on income tax returns. In this decision the higher depreciation amount being allowed by the Commission for rate-fixing purposes largely eliminates applicant's objection. However, because of the greater cost-of-gas being allowed in the adopted column and the wage increase which increases the tax deductions, on recomputation the resulting tax expense is even lower than shown by the staff. We adopt and find reasonable an amount of \$73,400 for the 1959 test year.

"Associated Company" Adjustment

One of the staff's engineering witnesses shows, by Exhibit No. 16, an adjustment to operating expenses for rate-making purposes which he ascribes to dealings with the Desert Pipeline Construction Company. He states the belief that under the broad definition of

"associated companies and control",^{3/} Desert Pipeline Construction Company is an "associated company" because of the three owners of the construction company; one is an officer of the applicant and the other two have substantial positions. The staff's adjustment is predicated on reasonable salaries for the owners based on the work done and on holding the earnings of the construction company down to a 7 percent rate of return on the business it performs for the applicant.

Applicant objects to the staff's adjustment and its characterization of Desert Pipeline Construction Company as an "associated company" because counsel for applicant's underwriters, in submitting its opinion, dated February 25, 1958, in connection with applicant's Securities & Exchange Commission registration statement, determined on the identical set of facts and construing an almost identical definition of affiliated companies (Rule 405, General Instructions under the Securities Act of 1933) that in effect there were no "associated companies". Staff counsel points out that the Commission's definition of "associated companies" is very broad and

^{3/} The Uniform System of Accounts for Gas Corporations defines "associated companies and control" as:

"5. A. 'Associated companies' means companies or persons that, directly or indirectly through one or more intermediaries, control or are controlled by, or are under common control with, the accounting company.

B. 'Control' means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a company, whether such power is exercised through one or more intermediary companies, or alone, or in conjunction with, or pursuant to an agreement, and whether such power is established through a majority or minority ownership or voting of securities, common directors, officers, or stockholders, voting trusts, holding trusts, associated companies, contract or any other direct or indirect means."

that a careful reading of Rule 405 will show that the definition of affiliated companies is considerably narrower in scope.

We have carefully considered the issue of the relationship between applicant and the so-called construction company raised by the staff of the Commission. Based upon the special facts and circumstances of this case, we resolve the equities flowing from such facts and circumstances against the position of the staff on said issue. However, applicant is placed upon notice that its conduct and that of its officials, as applied to said relationship, is frowned upon by regulatory authority and such conduct should not be continued. In subsequent proceedings affecting applicant, this issue will be scrutinized with a view to ascertaining if applicant is continuing such practice.

Wage Increase

In its closing brief, applicant pointed out that it has agreed with its employees to increases in wage and salary rates, to become effective August 15, 1959, which will cost in excess of \$20,000 annually in California; that it could not heretofore bring this matter to the Commission's attention because its commitment did not become firm until July 24, 1959 and it should be considered in establishing fair and reasonable rates for the future. The Commission views the applicant's request as reasonable; however, since some of that increase will apply to construction work, normally capitalized, an allowance of only \$15,000 will be added in the operating expenses.

Rate Base

The staff's estimate of rate base is \$160,364, or 4.8 percent below applicant's estimate, principally because of rate-

making adjustments. The applicant's and the staff's rate base estimates, as well as that being adopted by the Commission, are shown on Table II. Applicant took exception to certain of the rate-making adjustments proposed by the staff which are decided below.

Capitalized Gas

The staff points out that there were certain line failures in 1957 and 1958 which caused the applicant to suffer losses in gas; that the applicant capitalized the excess loss in order to show only a nominal line loss; and that it does not consider this a proper capital charge and removed the amount of \$33,400 from plant for rate-making purposes. Applicant alleges that gas used for testing, purging and packing is a proper capital charge; that the staff made no allowance for any gas so used; that the years of 1957 and 1958 were years of growth during which large-size major pipelines were installed; and that its allowance for capitalized gas is proper. The staff also points out that there was no breakdown in amounts showing what amounted to line pack and what amounted to line loss; that it would cost less than \$300 to pack and purge the new line; that the bulk of the amount was due to line loss; hence it deducted the entire amount. We find that the staff's action here is reasonable; it will be adopted by the Commission and an adjustment of \$33,400 for capitalized gas will be made.

Common Utility Adjustment

The staff shows an \$11,000 adjustment, classified as common utility adjustment, as the California portion of \$45,300 for merger costs paid to Eastmen Dillon, Union Securities and Co. and L. H. Bell and Associates for merger of an Arizona utility with

TABLE II

SUMMARY OF RATE BASE FOR 12 MONTHS ENDING 9/30/59
CALIFORNIA DIVISION OF SOUTHWEST GAS CORPORATION

| <u>Item</u> | <u>Applicant's Estimate</u> | <u>Staff's Estimate</u> | <u>Adopted Test-Year Results</u> |
|---|---------------------------------|-----------------------------|--|
| <u>Plant as of 12/30/58</u> | | | |
| Intangible Plant: | | | |
| Franchises and Consents | \$ 916 | \$ 916 | \$ 916 |
| Misc. Intangible Plant | 8,094 | 8,094 | 8,094 |
| Total Intangible Plant | 9,010 | 9,010 | 9,010 |
| Distribution Plant: | | | |
| Land and Land Rights | 1,296 | 1,296 | 1,296 |
| Structures and Improvements | 4,463 | 4,463 | 4,463 |
| Mains | 2,187,016 | 2,187,016 | 2,176,373 |
| Pumping and Regulating | 31,648 | 31,648 | 31,648 |
| Services | 639,659 | 639,659 | 639,659 |
| Meters and Regulators | 307,621 | 307,621 | 307,621 |
| Meter & Reg. Installation | 32,642 | 32,642 | 32,642 |
| Total Distribution Plant | 3,204,345 | 3,204,345 | 3,193,702 |
| General Plant: | | | |
| Land and Land Rights | 13,855 | 13,855 | 13,855 |
| Structures and Improvements | 70,296 | 70,296 | 70,296 |
| Office Furniture and Fixtures | 34,874 | 34,874 | 34,874 |
| Transportation Equipment | 42,041 | 42,041 | 42,041 |
| Shop Equipment | 5,261 | 5,261 | 5,261 |
| Tool and Work Equipment | 7,649 | 7,649 | 7,649 |
| Miscellaneous Equipment | 5,243 | 5,243 | 5,243 |
| Total General Plant | 179,219 | 179,219 | 179,219 |
| Total Plant as of 12/30/58 | 3,392,574 | 3,392,574 | 3,381,931 |
| California Portion of | | | |
| Common Utility Plant | 43,658 | 35,100 | 35,100 |
| Weighted Average Additions - 1959 | 243,594 | 254,926 | 254,926 |
| Modifications: | | | |
| Capitalized Gas | - | (33,400) | (33,400) |
| Barstow Office Rollback | 80,400 | 80,400 | 80,400 |
| Common Utility Adjustment | - | (11,000) | (11,000) |
| Advances for Construction | (64,568) | (63,400) | (63,400) |
| Contributions in Aid of Construc. | (88,664) | (120,300) | (88,845) |
| Weighted Average Material & Supplies | 61,101 | 53,600 | 61,101 |
| Working Cash Allowance | 71,344 | 110,000 | 71,344 |
| Total Undepreciated Rate Base | 3,739,439 | 3,698,500 | 3,688,157 |
| Deduction for Depreciation | (433,675) | (427,300) | (435,050) |
| "Associated Company" Adjustment | - | (125,800) | - |
| Weighted Average Depreciated Rate Base | 3,305,764 | 3,145,400 | 3,253,107 |

(Red Figure)

the applicant utility. In the Commission's opinion the staff has acted properly for rate-making purposes in excluding the \$11,000 allocation. We find reasonable and adopt the \$11,000 adjustment proposed by the staff.

Contributions in Aid of Construction and
Lockhart Ranch Line

The company has in its plant accounts the sum of \$31,455 representing the cost of a 4-inch line known as the Lockhart Ranch Line. Applicant originally expected that this money would be contributed to it but because of circumstances allegedly beyond its control, it did not receive the contribution and financed the cost with its own funds. The staff considered this matter as a contribution and reduced the rate base accordingly.

Applicant disagrees with the staff's position and points out that the peculiar circumstances surrounding the investment and subsequent loss of the end-of-line sale, due in part to refusal of applicant's gas supplier to permit the sale, resulted in complete failure of receipt of the expected contribution from the customer. Applicant's position is that the investment in the line should more properly be termed a "poor investment" for which it should not be penalized, unless the Commission were prepared to reward it for every "good investment" that it might make. Applicant states that a portion of the line currently is in use serving several customers and the cost of an equivalent 2-inch line necessary to serve the existing customers now being served from the Lockhart Line is \$20,812.

In the Commission's opinion it is not reasonable to adjust for the entire cost, and since currently the line is in use, the rate-making adjustment will be limited to the difference between the cost of the 2-inch and 4-inch lines, or \$10,643. Accordingly,

we will adjust downward the investment in mains by \$10,643 and find reasonable and adopt an amount of \$88,845 as the modification for contributions in aid of construction.

Materials and Supplies and
Working Cash Capital

The staff's estimated materials and supplies is \$7,501, or 12.3 percent below applicant's estimate, whereas the staff's estimate of working cash capital is \$38,656, or 54.2 percent greater than applicant's in that the staff has allocated the total system materials and supplies on the basis of the ratio of California average gross plant to total system average gross plant. Applicant represents this method is improper because it considers that materials and supplies are tied directly with construction and not gross plant.

Applicant's working cash allowance is predicated principally on one-eighth of cash operating expenses, whereas the staff used a judgment amount of one month's purchased gas and two months' other operating expenses, excluding taxes and depreciation. This working cash requirement is a judgment amount. After considering these items we find reasonable and adopt the applicant's estimates of \$61,101 for materials and supplies, and \$71,344 for working cash allowance.

Deduction for Depreciation

The staff's deduction for depreciation is only \$6,375, or 1.5 percent lower than applicant's estimate. Consistent with our allowance of a 1959 depreciation expense in the amount of \$15,500 greater than the staff's, we will augment the staff's depreciation reserve figure by \$7,750 for the average year effect of such increase. Accordingly, we find reasonable and adopt a figure of \$435,050 for the test year deduction for depreciation.

"Associated Company" Adjustment to Rate Base

In accordance with previous discussion herein, the Commission will not adjust the rate base as to "associated company" operations for the purposes of this interim order.

Adopted Rate Base

The staff's rate base items, other than those main controversial ones which we have just decided, we find to be reasonable and they will be adopted. Accordingly, the Commission's adopted rate base for the test year (12 months ending September 30, 1959) which we find to be reasonable is \$3,253,107 or 1.6 percent below applicant's rate base.

Rate of Return

Applicant states that although it owns and operates properties in three states, it is a single corporate entity, and it has financed its operations on an over-all company basis, not separately by states. However, certain issues of securities and series of bonds pertaining to properties and operations outside of California should be excluded from any consideration of the earnings requirements or cost of money of the California properties and operations. Thus, applicant derived a pro forma capital structure for the California system as if it were a separate entity, as follows:

| | Capital Structure | |
|----------------------|--------------------|---------------|
| | Amount | Ratio |
| Total Debt Capital | \$1,997,000 | 60.4% |
| Common Stock Equity | 1,203,000 | 36.4 |
| Deferred Tax Reserve | 106,000 | 3.2 |
| | <u>\$3,306,000</u> | <u>100.0%</u> |

Applicant computes its cost of debt capital at 5.35 percent and states that its requested rate of return of 7.53 percent produces an earning on common equity of 11.81 percent after assuming zero

earning requirement on the deferred tax reserve; that such equity earning of 11.81 percent is lower than the 12.5 percent rate of return requested by applicant's supplier, Pacific Gas and Electric Company, Gas Department, in Application No. 38668, 2nd Amendment.

Applicant points out that there are other considerations affecting the return requirements, one of which is the imbedded cost of debt capital; that its cost of debt capital of 5.35 percent is generally higher than that shown by companies of greater size, stability and financial maturity, but that the costs of borrowed money are in line with costs incurred by other utilities at the times of issue; and that its imbedded cost of debt capital is nearly two percentage points higher than for Pacific Gas and Electric Company and about 1.65 percentage points higher than for Southern California Gas Company.

The United States Government, a substantial user of applicant's gas service, represents that the requested 7.53 percent rate of return on a depreciated rate base is very much higher than that allowed any like utility company in the State of California, and submits that such a rate of return is patently excessive, far exceeding the fair and reasonable rate of return which should be allowed by the Commission to this utility.

In considering the position of applicant with regard to rate of return we should point out that the cost of money is not decisive of the issue of rate of return and that the Commission does not rely solely on financial requirements in determining the level of such return. Applicant's higher cost of debt capital compared to other large utilities shows the need for a return higher than granted to Pacific Gas and Electric Company; however, the lawful interests of the consumer as well as the investor must control the rate of return.

Upon a careful consideration of the evidence before us, we are of the opinion and find that a rate of return of 7.0 percent is reasonable for applicant for the test year, 12 months ending September 30, 1959. When a rate of return of 7.0 percent is applied to the depreciated rate base of \$3,253,107, hereinbefore found reasonable, an over-all increase in annual gross revenue of \$317,500 is found to be required. This increase is approximately 90 percent of the increase in gas rates requested by applicant, based on its estimate of revenues for the test year.

Rate Spread

Applicant states that it has never had a general rate increase in its California natural gas rates other than two offset increases to compensate in part for four rate increases in its cost of gas purchased from Pacific Gas and Electric Company since its rates were set in 1951 by the Commission in Decision No. 47780. At the time of that decision, applicant was paying 33 cents per Mcf for all gas purchased. Now its average cost of gas is approximately 46 cents per Mcf. As to offset increases, applicant states that it is collecting an increase of 2.02 cents per Mcf placed in effect February 10, 1958; and 1.57 cents per Mcf placed in effect December 20, 1958; and now an offset of 5.0 cents per Mcf should be authorized because of the increase in cost of gas starting August 1, 1959. These three offsets would total 8.59 cents per Mcf against a cost of gas increase of approximately 13 cents per Mcf in the 8-year period.

Applicant is now seeking a total over-all increase of approximately 23.8 percent, including the August 1st offset proposal, and suggests rate increases by classes approximately as follows:

| <u>Class of Service</u> | <u>Percent Increase</u> |
|-------------------------|-------------------------|
| General Service | 20 |
| Commercial | 25 |
| Military - Firm | 31 |
| Gas Engine | 17 |
| Interruptible | 27 |

As a matter of simplification of rate structure, applicant proposes to consolidate all of its firm natural gas rates, excepting only rates for gas engine service, in its Schedule No. G-1, General Natural Gas Service. The proposed Schedule No. G-1 would supersede present Schedule G-1 and present Schedules G-20, Large Commercial Natural Gas Service, and G-50 and G-50.1, Firm Natural Gas to Armed Forces.

General Service

Applicant's present general service rate, Schedule No. G-1, has an initial charge of \$1.50718 for the first 200 cubic feet for the purposes of cooking, water heating and space heating under Rate A, and an initial charge of \$2.00718 under Rate H which applies where use is only for space heating for human comfort. Applicant proposes that these initial charges be raised to \$2.66 under Rate A and \$3.51 under Rate H in the winter months, and \$2.66 under Rate A and \$0.41 under Rate H in the summer months. This is a substantial increase for the very low-use customer in the range of 75 percent, but represents a smaller percentage increase for the customers who use more gas than the minimum. In support of this sharp increase applicant presented Exhibit No. 5, which is a cost of service study that showed a unit customer cost of approximately \$6.00 per month exclusive of any demand or commodity costs to serve the average general service customer.

Applicant's proposed block rate increases beyond the first 200 cubic feet per month are about 1.5 cents or less per 100 cubic

feet, depending upon the size of the customer and for the very large customers the proposed rates are lower than the present G-1 terminal rate of 7.359 cents per 100 cubic feet. This primarily is due to the request to place the commercial and military customers on this one rate which necessitates larger blocks at lower rates to hold increase to such customers to a reasonable level.

In the Commission's opinion applicant's proposed consolidation of Schedules G-20, G-50 and G-50.1 with Schedule No. G-1 is reasonable, but some change in the blocking and rate levels will be made. The applicant's present and proposed general service rates and the rates being authorized by this decision follow:

Schedule No. G-1, Present, Proposed and Authorized Rates

| <u>Present Rates</u> | <u>Base Rates per Meter per Month</u> | |
|---|---|---------------|
| | <u>Rate A</u> | <u>Rate H</u> |
| First 200 cu.ft. or less | \$1.05718 | \$2.00718 |
| Next 2,800 cu.ft., per 100 cu.ft. | 10.159¢ | 12.159¢ |
| Next 7,000 cu.ft., per 100 cu.ft. | 9.159¢ | 10.359¢ |
| Over 10,000 cu.ft., per 100 cu.ft. | 7.359¢ | 7.859¢ |
| <u>Applicant's Proposed Rates</u> | | |
| First 200 cu.ft. or less: | | |
| October - May, inclusive | \$2.66 | \$3.51 |
| June - September, inclusive | \$2.66 | \$0.41 |
| Next 2,800 cu.ft., per 100 cu.ft. | 11.0¢ | 13.0¢ |
| Next 7,000 cu.ft., per 100 cu.ft. | 9.5¢ | 10.5¢ |
| Next 40,000 cu.ft., per 100 cu.ft. | 9.0¢ | 9.5¢ |
| Next 50,000 cu.ft., per 100 cu.ft. | 8.9¢ | 8.9¢ |
| Next 200,000 cu.ft., per 100 cu.ft. | 8.8¢ | 8.8¢ |
| Next 700,000 cu.ft., per 100 cu.ft. | 8.7¢ | 8.7¢ |
| Next 1,000,000 cu.ft., per 100 cu.ft. | 8.5¢ | 8.5¢ |
| Next 48,000,000 cu.ft., per 100 cu.ft. | 6.7¢ | 6.7¢ |
| Over 50,000,000 cu.ft., per 100 cu.ft.: | | |
| November - April, inclusive | 6.0¢ | 6.0¢ |
| May - October, inclusive | 5.0¢ | 5.0¢ |
| <u>Authorized Rates</u> | | |
| First 200 cu.ft. or less: | | |
| October - May, inclusive | \$2.60 | \$3.50 |
| June - September, inclusive | \$2.60 | \$0.40 |
| Next 2,800 cu.ft., per 100 cu.ft. | 10.8¢ | 13.0¢ |
| Next 7,000 cu.ft., per 100 cu.ft. | 9.4¢ | 10.5¢ |
| Next 40,000 cu.ft., per 100 cu.ft. | 8.9¢ | 9.5¢ |
| Next 50,000 cu.ft., per 100 cu.ft. | 8.5¢ | 8.7¢ |
| Next 200,000 cu.ft., per 100 cu.ft. | 8.0¢ | 8.3¢ |
| Next 700,000 cu.ft., per 100 cu.ft. | 7.4¢ | 8.0¢ |
| Next 4,000,000 cu.ft., per 100 cu.ft. | 7.0¢ | 7.0¢ |
| Over 5,000,000 cu.ft., per 100 cu.ft.: | | |
| November - April, inclusive | 6.0¢ | 6.0¢ |
| May - October, inclusive | 5.0¢ | 5.0¢ |

Large Commercial Service

Applicant's present large commercial rate, Schedule No. G-20, has an initial block of 50,000 cubic feet at 7.859 cents per 100 cubic feet and a terminal block rate of 6.859 cents per 100 cubic feet for all usage beyond 50,000 cubic feet per month. The average monthly usage of customers on this schedule is about 280,000 cubic feet. On the new authorized G-1 schedule this business will fall primarily in the 8.9 cents, 8.5 cents and 8.0 cents blocks after going through the higher rate blocks. This schedule now carries a minimum charge of \$37.50 per month which applicant proposes to raise to \$40.00 per month, for usage over 50,000 cubic feet per month but not more than 400,000 cubic feet per month, on transfer to Schedule G-1. Public schools on G-20 now enjoy a winter minimum charge of \$18.75 and a summer minimum of \$2.50. Applicant proposes raising the winter minimum for schools to the same level as the regular large commercial customer and the summer minimum to only \$2.66.

Military Firm Service

Applicant proposes consolidation of the present military firm rates, Schedules Nos. G-50 and G-50.1 into the proposed G-1 schedule on the basis that it saw no reason why the military customers should be entitled to a preferential or separate rate schedule, representing that their load characteristics are the same as any other large firm general service customer.

This move is opposed by the Government which contends that this proposal is unsound, unjust and unreasonable; disregards the applicant's historic rate pattern; and that the characteristics of the service to the military agencies establish that such agencies are a separate class of customer, different from any other class.

The Commission has carefully considered the position of the Government with respect to the applicant's proposal and is of the opinion that if the blocking and rate levels in Schedule G-1 are set so as to limit the over-all increase to the firm military load to about a 19 percent increase, in lieu of the 31 percent increase proposed by applicant, the Government's objections will be mitigated to a large extent. We will prescribe an increase in accordance with this view in Schedule No. G-1.

Gas Engine Service

Applicant's proposed increase of approximately 17 percent to the Schedule No. G-45 customer is the lowest increase proposed for any class of service. Applicant states the reason for this is that original Schedule No. G-45, initially effective on August 30, 1959, has felt the effect of increased costs for a shorter period of time than other rate schedules and that it is important to keep the level of this rate as low as possible because of the off-peak nature of the sales under this schedule. The Commission is in general agreement with the applicant's position regarding this class of service, but is of the opinion that the applicant's proposed increases are greater than necessary and the increase to this class of business will be held to approximately 13 percent.

Interruptible Service

Applicant presently renders interruptible gas service under Schedule No. G-30 and proposes to change the numbering to G-50 merely to conform with the numbering practice adopted by other gas utilities in California. Applicant states it has been somewhat restricted in establishing an attractive interruptible rate in view of its cost of gas from Pacific Gas and Electric Company. Applicant's proposed increases by blocks are about 27 percent in the first four blocks down to about 3 percent in the fifth block, which is a new block of over 50,000 Mcf per month.

The Government also opposes the sharp increase proposed by the applicant in this interruptible service schedule and represents that, in evaluating the justness and reasonableness of the increase, the Commission should take into consideration the historic differential between the average cost of wholesale gas to the applicant and the average revenue per Mcf received from interruptible sales; and that the differential under the proposed rates is considerably greater than at any time since the inception of the interruptible schedule in 1952.

The Commission is in general agreement with the position taken by the Government regarding interruptible rates and will hold this increase to about 5.8 percent.

Escalator Clause

Applicant proposes an escalator clause in its Schedules G-1, G-45 and G-50 which provide for changes in rates geared to a commodity cost of purchased gas of 39.7 cents per Mcf. For commodity costs of gas below or above 39.7 cents per Mcf the commodity rates in the various schedules would be lowered or increased upon 15 days advice letter filing and notice. The Government opposes the insertion of an escalator clause in applicant's rates because such a clause singles out only one element of the utility's cost in changing rate levels without consideration being given to all of the rate-making factors upon which rates should be based. The Commission agrees with the position of the Government regarding escalator clauses and will not allow any escalator clauses in the new rates for applicant.

Service Establishment Charge

Applicant proposes a new schedule, Schedule No. G-91, SERVICE ESTABLISHMENT CHARGE, which provides for a \$4.00 service

establishment charge for all firm service customers, except gas engines. Such schedule is designed to assess some portion of the turn-on and turn-off costs to those customers who cause such expense by moving frequently or disconnecting service for part of the year. Such charges are in addition to any charges under the applicable schedules and applicant proposes to make it each time an account is opened, including turn-ons, reconnections of gas service, or changes of name which require meter reading. Applicant's request will, in effect, provide a fairer distribution of costs, appears reasonable, and will be authorized.

Service Matters

No customers appeared at any of the hearings to complain about the quality of service being rendered by applicant; however, the staff made the following recommendations:

- a. Consider installing district meters to assist in detecting and locating leaks.
- b. Keep records on degree days.
- c. Keep a record of company-use gas.
- d. Consider ways of obtaining data which might be used for spreading rates to the general service class of customer.
- e. For its California Division determine the accruals for depreciation by dividing the original cost of plant less estimated future net salvage less depreciation reserve by the estimated remaining life of the plant; and review the accruals when major changes in plant composition occur or for each plant account at intervals of not more than four years. Results of these reviews shall be submitted to this Commission.

The staff's recommendations appear to the Commission to be reasonable and should be adopted by the applicant.

In addition to the staff's recommendations, the Commission desires and will direct that applicant review the customer density

in its service area looking toward the establishment of zone rates which will segregate the dense built-up load from the sparsely settled rural load.

Findings and Conclusions

After considering the evidence of record and the positions taken by the various parties the Commission finds and concludes:

1. Costs have risen since rates were established in 1951. Increases in cost of gas have been only partially offset during the period 1951 to 1959.
2. After fully accounting for growth in sales, customers and revenues since the present basic level of rates was established, our adopted operating results and adjusted rate base indicate the applicant will not earn a fair or reasonable rate of return unless substantial increases are authorized.
3. The rates and charges authorized herein are justified.
4. That the existing rates, insofar as they differ from those herein authorized, for the future are unjust and unreasonable.
5. That a new class of service, Schedule No. G-91, SERVICE ESTABLISHMENT CHARGE, should be authorized.
6. That only an interim order should be issued authorizing the increase in rates, charges and tariff revisions, as provided by the order and Appendix A herein, pending final Federal Power Commission action on El Paso Natural Gas Company's increased rates for gas which are being passed on to applicant by applicant's supplier, Pacific Gas and Electric Company.
7. That since a part of the increased costs on which these increased rates are predicated result from offset

increases in cost of gas, which applicant heretofore has not passed on to its customers, applicant should be required to file revised statements of offset charges showing the effective dates that such offset charge was passed on to its customers subject to refund if any refund is required by the Federal Power Commission.

The increases being authorized, segregated by classes of service, under the Commission's adopted level of sales for 12 months ending September 30, 1959 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 | 980,266 | \$1,018,114 | \$219,600 | 21.6% |
| Commercial Service | 207,559 | 135,390 | 35,700 | 26.4 |
| Gas Engine Service | 24,110 | 13,887 | 1,800 | 13.0 |
| Firm Service-Military | 242,368 | 127,493 | 24,200 | 19.0 |
| Interruptible Service: | | | | |
| Military | 163,217 | 80,824 | 4,700 | 5.8 |
| Other | 63,622 | 30,654 | 3,900 | 12.7 |
| Service Establish. Chg. | -- | (None) | 27,600 | (New Svc.) |
| Total | 1,681,142 | \$1,406,362 | \$317,500 | 22.6% |

INTERIM ORDER

Southwest Gas Corporation having requested increases in rates including offset increases because of increases in cost of gas resulting from increases in the cost of out-of-state gas, public hearings having been held, the Commission having found that increases in rates and charges are justified, the matter having been submitted and now being ready for decision; therefore,

IT IS ORDERED that:

1. Applicant is authorized to file in quadruplicate with this Commission after the effective date of this order, in conformity with General Order No. 96, revised tariff schedules with changes in rates,

terms, forms, conditions and rules as set forth in Appendix A attached hereto, and upon not less than five days' notice to this Commission and to the public to make said tariff schedules effective for service rendered on and after October 19, 1959.

2. Applicant's increase is in part caused by offset increases in cost of gas; therefore:

- (a) Applicant shall keep such records of sales to customers during the effective period of these cost of gas offset rates 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 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 applicant's supplier 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 offset rates went 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, shall revise the statement to include the dates from which such offset amounts are effective, and augment it to show any offset increases being placed into effect on the effective date of the new rates filed under ordering paragraph 1 hereof.

3. Applicant shall study its territory and file a report within six months after the effective date hereof suggesting zoning criteria as between built-up and rural area, after giving due weight to the zoning system in applicant's service area applicable to electric service furnished by California Electric Power Company.

4. At the time of making effective the rates authorized by ordering paragraph 1 hereof, applicant shall cancel the superseded schedules and transfer the customers to the appropriate new schedule or schedules.

5. Applicant shall determine the accruals to the depreciation reserve for each primary plant account by dividing the original cost of the utility plant, less estimated future net salvage, less depreciation reserve by the estimated remaining life of the surviving plant of the account. Applicant shall make its first review and submit the results of the review to this Commission within ninety days after the effective date of this order, said review to be applicable to the calendar year beginning January 1, 1959. Thereafter, applicant shall review for each plant account the accruals when major changes in utility plant composition occur and at intervals of not more than three years. The results of these reviews

shall be submitted to this Commission by June 1 of each review year on a form similar to that used in Table 16-A in Exhibit 14 in this proceeding.

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

Dated at San Francisco, California, this 22nd day of September, 1959.

Everett R. Ray
President
John E. Mitchell
Matthew L. Lee
E. J. Fox
Theodore H. Jensen
Commissioners

APPENDIX A
(Page 1 of 2)

1. Withdraw and cancel presently effective tariff schedules G-1, G-20, G-30, G-45, G-50, G-50.1.

2. File new tariff schedules G-1, G-45, G-50, G-91 as set forth in Exhibit A of A-40743 (First Amendment) and modified as follows:

a. Schedule No. G-1

(1) RATES

Commodity Charge:

| | | Offset | Base and Effective Rates | |
|-------|----------------------------------|----------|--------------------------|--------|
| | | Charges | Per Meter Per Month | |
| | | 1100 Btu | 1100 Btu | |
| | | | Rate A | Rate H |
| First | 200 cu.ft. or less | 2.533¢ | | |
| | October - May, inclusive | | \$2.60 | \$3.50 |
| | June - September, inclusive | | 2.60 | .40 |
| Next | 2,800 cu.ft., per 100 cu.ft. | 1.268¢ | .108 | .130 |
| Next | 7,000 cu.ft., per 100 cu.ft. | 1.268¢ | .094 | .105 |
| Next | 40,000 cu.ft., per 100 cu.ft. | 1.268¢ | .089 | .095 |
| Next | 50,000 cu.ft., per 100 cu.ft. | 1.268¢ | .085 | .087 |
| Next | 200,000 cu.ft., per 100 cu.ft. | 1.268¢ | .080 | .083 |
| Next | 700,000 cu.ft., per 100 cu.ft. | 1.268¢ | .074 | .080 |
| Next | 4,000,000 cu.ft., per 100 cu.ft. | 1.268¢ | .070 | .070 |
| Over | 5,000,000 cu.ft., per 100 cu.ft. | 1.268¢ | | |
| | November - April, inclusive | | .060 | .060 |
| | May - October, inclusive | | .050 | .050 |

(2) Delete Special Condition 2.

(3) Insert dates under contingent offset charge clauses.

b. Schedule No. G-45

(1) RATES

Commodity Charge:

| | | Offset Charges | Base and Effective Rates | |
|-------|------------------|-------------------|--------------------------|-----------------|
| | | | Per Meter Per Month | |
| | | <u>1100 Btu</u> | <u>1100 Btu</u> | <u>1100 Btu</u> |
| First | 100 Mcf, per Mcf | 12.68¢ | 70.0¢ | 70.0¢ |
| Next | 300 Mcf, per Mcf | 12.68¢ | 65.0¢ | 65.0¢ |
| Over | 400 Mcf, per Mcf | 12.68¢ | 60.0¢ | 60.0¢ |

(2) Delete Special Condition 2.

(3) Insert dates under contingent offset charge clauses.

c. Schedule No. G-50

APPENDIX A
(Page 2 of 2)

(1) RATES

Commodity Charge:

| | Offset Charges 1100 Btu | <u>Base and Effective Rates</u> | |
|--------------------------|-------------------------------|-----------------------------------|--|
| | | <u>Per Meter</u> | <u>Per Month</u> |
| | | <u>Base Rates</u> 1100 Btu | <u>Effective Rates</u> 1100 Btu |
| First 1,000 Mcf, per Mcf | 12.68¢ | 55.0¢ | 55.0¢ |
| Next 9,000 Mcf, per Mcf | 12.68¢ | 53.0¢ | 53.0¢ |
| Next 10,000 Mcf, per Mcf | 12.68¢ | 51.0¢ | 51.0¢ |
| Next 30,000 Mcf, per Mcf | 12.68¢ | 48.0¢ | 48.0¢ |
| Over 50,000 Mcf, per Mcf | 12.68¢ | 46.5¢ | 46.5¢ |

- (2) Delete Special Condition 1.
- (3) Insert dates under contingent offset charge clauses.
- (4) Delete last sentence of Special Condition 5.

d. Schedule No. G-91.

- (1) Delete Rules section.

3. Refile Preliminary Statement, Rules 1, 2, 11 and 19 with changes as proposed in Exhibit F of A. 40743 and refile title page and service area maps. Delete definition of fixed charge of Rule 1.

4. Refile all "Rules and Regulations" as "Rules".

APPENDIX B

LIST OF APPEARANCES

For Applicant: C. H. McCrea.

Interested Parties: Harold Gold, Clyde F. Carroll, by C. F. Carroll and P. Gerald Jones for Department of Defense and other Executive Agencies of the United States Government; Robert D. Chamberlain, for Yermo School District; William W. Evers, for California Manufacturers Association; Lt. Col. Arthur W. Fred, for HQ 831st Air Base Gp., George AFB, California, U. S. Air Force; W. D. MacKay (Commercial Utility Service, for Montecito Mfg. Co. (Mission Linen Supply Service)).

Protestant: Donald H. Ford, of Overton Lyman & Prince, for Southwestern Portland Cement Company.

Commission Staff: Cyril M. Saroyan and Jean B. Balcomb.

LIST OF WITNESSES

Evidence was presented on behalf of the applicant by: William M. Laub, John L. Holleran, J. L. Sanders, Eugene H. Sallee, H. G. Laub.

Evidence was presented on behalf of the interested parties and protestants by: Robert D. Chamberlain, Lt. Col. Warner J. Van Buren, Lt. Col. Arthur W. Fred, Addison F. Black, Robert G. Rogo.

Evidence was presented on behalf of the Commission staff by: G. C. Doran, Richard R. Entwistle, Robert P. Hamilton, Harold H. Heidrick.