

ORIGINALDecision No. 61713

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 PACIFIC GAS AND ELECTRIC COMPANY)
 for authority, among other things,)
 to increase its rates and charges)
 for gas service. }

Application No. 42225

(Appearances are listed in Appendix B)

O P I N I O NOriginal Request

On May 6, 1960, Pacific Gas and Electric Company^{1/} filed the above-entitled application requesting authorization to increase gas rates by a total annual amount of \$26,615,000, as follows:

1. Effective August 25, 1960, to increase gas rates by \$9,810,000, subject to refund, as an interim offset to the annual increase which El Paso Natural Gas Company (El Paso) commenced charging applicant on that date, pursuant to the higher rates which El Paso filed with the Federal Power Commission (FPC) under Docket No. RP60-3.
2. Effective at the earliest possible date, to increase its charges for gas, under a general rate proposal, by an additional \$16,805,000 to permit applicant to realize 6.80% return on its gas operations.

Interim Relief

Following four days of public hearing devoted to the El Paso offset portion of this application, the Commission, on

^{1/} Pacific Gas and Electric Company, a California corporation, is engaged principally in the business of furnishing electric and gas service in northern and central California. Applicant also distributes and sells water in a number of communities and provides steam heat service in parts of San Francisco and Oakland. As of December 31, 1959, applicant served 1,628,269 gas customers located in 33 counties, 159 cities and 130 other communities.

August 18, 1960, issued Decision No. 60537 authorizing interim rate relief. Based on the evidence adduced prior to taking applicant's motion for an interim offset increase under submission, the Commission denied applicant's specific request to increase firm rates by 3.6¢ per Mcf and interruptible rates by 0.5¢ per Mcf. Instead, the Commission granted interim authorization to applicant to recover the increase in El Paso charges by increasing its base rates for all classes of natural gas service by a uniform offset of 1.864¢ per Mcf, effective August 25, 1960. The interim offset rates are now in effect.

Amended Request

On September 19, 1960, applicant amended its request on the record to: (1) reflect the effect of its election to use liberalized depreciation for income tax purposes during the test year 1961; (2) reflect the effect of the depreciation changes authorized by Commission Resolution U-938, dated August 30, 1960;^{2/} and (3) provide that any refund of the latest El Paso increase for gas used on or after the effective date of the rates authorized by this decision, be made entirely to the firm classes of customers.

The amendment reduces the total annual amount of the increase requested by \$3,800,000, from \$26,615,000 to \$22,815,000, or from 9.1% to 7.3% of test year gas service revenues at rates effective prior to August 25, 1960. Because the net result of the changes in applicant's depreciation practices is to reduce its revenue requirement by \$3,800,000, the amendment has no effect on the rate of return sought herein by applicant.

^{2/} The changes authorized by Resolution U-938 provide for: (1) the change of applicant's book depreciation accrual method from 2% sinking fund to straight-line remaining life effective January 1, 1961; (2) the concurrent establishment of a single straight-line remaining life depreciation rate for each depreciable plant account; (3) the extinguishment of the investment in standby gas production plants; and (4) the accrual of income taxes for the balance of the year 1960 on the basis of straight-line depreciation deductions, and the transfer, as of December 31, 1960, of the liberalized depreciation tax reserve to the book depreciation reserve.

Further Hearings

Seventeen additional days of public hearing relating to applicant's general rate proposal were held at San Francisco before Commissioner Theodore M. Jenner and Examiner James F. Haley during the period August 15 to October 21, 1960. The matter was submitted subject to the receipt of opening briefs on November 28, 1960, and reply briefs on December 12, 1960.

Applicant's Position

Applicant states that, in addition to repeated increases in the cost of gas supplied by El Paso, other costs have risen despite its continued efforts to keep them down. Applicant represents that it has improved the efficiency of its gas operations, but that these improvements have not been sufficient to offset the higher expenses incurred for labor, materials, services and taxes.

It is applicant's contention that the costs of its gas operations have been affected markedly by investment in new facilities and in replacement of existing facilities at unit costs substantially above those prevailing in the past. Applicant further contends that the cost of money has increased since the Commission authorized a rate of return of 6.52% for its gas department in Decision No. 56967, issued July 9, 1958 in Application No. 38668, applicant's last general gas rate proceeding. Applicant recites that its earnings have been far below this authorized rate of return; that its earnings on the depreciated rate base of its gas department for the years 1959 and 1960 were, in each instance, less than 6%; and that, at present rates, the outlook for the future is no better. It is applicant's position that it is entitled to and reasonably requires a level of rates which will produce a rate of return of 6.8% on its gas operations.

Record on Applicant's General Rate Proposal

Evidence was presented by the applicant, the Department of Defense and other executive agencies of the United States Government,

the Commission staff, the City and County of San Francisco,^{3/} California Farm Research and Legislative Committee, California Manufacturers Association, Southwest Gas Corporation, Campbell Soup Company, Permanente Cement Company, California Portland Cement Company, Riverside Cement Company and Southwestern Portland Cement Company. Applicant and the Commission staff offered evidence relating to all phases of applicant's gas operations and the results of such operations. The presentations of other parties to the proceeding pertained primarily to rate spread and rate of return.

The record on applicant's general rate proposal shows that there are two principal issues to be resolved by this opinion and order. These issues are: (1) what amount of gas service revenues has applicant demonstrated that it reasonably requires; and (2) how shall such revenues be spread among the several classes of customers.

Applicant's Earnings

The rates of return estimated by applicant and by the Commission staff for the test year 1961 are as follows:

<u>Rate Level</u>	<u>Rate of Return</u>	
	<u>Applicant</u> (Exh. No. 29)	<u>Staff</u> (Exh. No. 54)
At Rates Effective Prior to 8/25/60	4.77%	Not Shown
At Interim Rates Effective 8/25/60	Not Shown	5.87%
At Applicant's Proposed Rates	6.80	7.04

^{3/} The position of the City and County of San Francisco in this proceeding was concurred in by the following public and private appearances: Consumer Counsel, State of California; Counties of Alameda, Kern, Marin and Merced; Cities of Bakersfield, El Cerrito, Gonzales, Milpitas; Morgan Hill, Mountain View, Palo Alto, Redwood City, Sacramento, Santa Clara and Sunnyvale; California Farm Research and Legislative Committee; and Northern California Citizenship Council United Automobile Workers, AFL-CIO.

The tabulation below compares the estimates of the results of applicant's operations for the test year 1961 as presented by the applicant and the staff. The results shown reflect applicant's revised rate proposal, liberalized depreciation for income tax purposes and straight-line depreciation for book purposes.

RESULTS OF OPERATIONS - GAS DEPARTMENT
FOR TEST YEAR 1961 AT PROPOSED RATES

	<u>Applicant</u> <u>(Exh. No. 29)</u>	<u>CPUC Staff</u> <u>(Exh. No. 54)</u>	<u>Adopted</u> <u>Results</u>
Operating Revenues			
Firm Natural Gas Service:			
General Service	\$184,840,000	\$186,190,000	\$184,840,000
Firm Ind. & Gas Engine	9,576,000	9,576,000	9,576,000
Resale	2,736,000	2,736,000	2,736,000
Total Firm Nat. Gas	197,152,000	198,502,000	197,152,000
Interruptible Natural Gas	67,353,000	67,347,000	67,353,000
Interdepartmental Nat. Gas	50,336,000	50,141,000	50,336,000
Propane Gas	345,000	345,000	345,000
Other Gas Revenues	364,000	364,000	364,000
Total Operating Rev.	315,600,000	316,699,000	315,600,000
Operating Expenses and Taxes			
Production Expenses	182,540,000	183,089,000	182,540,000
Transmission Expenses	3,654,000	3,766,000	3,766,000
Distribution Expenses	13,669,000	14,085,000	14,085,000
Cust. Acctg. & Coll. Exp.	9,188,000	9,431,000	9,429,000
Sales Promotion Expense	1,970,000	2,025,000	2,025,000
Adm. & General Expense	9,405,000	9,470,000	9,463,000
Provision for Wage Increase	1,251,000	-	-
Depreciation Expense	17,832,000	17,823,000	17,823,000
Taxes Other Than Income	18,520,000	17,594,000	17,594,000
Income Taxes	23,229,000	24,596,000	24,300,000
Total Expenses & Tax	281,318,000	281,879,000	281,025,000
Net Operating Revenues	34,282,000	34,820,000	34,575,000
Rate Base	504,138,000	494,459,000	494,459,000
Rate of Return	6.80%	7.04%	6.99%

The above estimates of gas department results of operations for the test year are extremely close, except as to five items where there are differences of significant magnitude between applicant and staff. These items of difference are: (1) operating revenues and corollary production expenses; (2) administrative and general expenses; (3) ad valorem taxes; (4) deduction from rate base of funds

generated by the use of accelerated amortization for tax purposes; and (5) working cash allowance.

Revenues

The largest difference between the figures of applicant and staff lies in the estimates of operating revenues. This difference is mainly related to revenues from the general service class of customer, the estimates of revenues derived from other classes being in substantial agreement. Applicant estimated that the general service class would produce operating revenues of \$134,840,000 for the test year at the proposed rates. The staff estimated that this class of customer, which consists primarily of domestic users, would produce \$136,190,000 for the same period. The difference of \$1,350,000 is attributable to divergent estimates of the average gas consumption per customer, as applicant and staff agree upon the number of such customers.

Applicant estimated the average use per general service customer for the test year 1961 to be 128.3 Mcf, while the staff estimated the use to be 130 Mcf, a difference per customer of 1.2 Mcf per year. These usages were developed in two steps: first, the actual sales for recent years were adjusted to normal or average temperature conditions, and then the adjusted sales were trended into the test period. Applicant and staff differed in each of these steps. While we prefer the staff's method of adjusting to normal temperature conditions, we are of the view that applicant's trended result more nearly reflects the conditions which may obtain in the first year after this order becomes effective. Accordingly, we adopt for purposes of this decision, applicant's figure of \$315,600,000 for operating revenues at proposed rates for the test year 1961.

Operating Expenses

Applicant's estimate of production expenses for the test year is \$122,540,000; the staff's estimate is \$123,029,000.

Production expenses consist almost entirely of the cost of gas purchased, and the difference of \$549,000 reflects the higher gas sales upon which the staff's estimate of operating revenue is based. We adopt for production expenses, for purposes of this proceeding, the amount of \$182,540,000, which is compatible with the operating revenues hereinbefore adopted for the test year.

In view of the fact that such a substantial portion of its operating expenses is the cost of out-of-state purchases of gas, applicant is hereby placed on continuing notice that this Commission expects and will require it in each and every showing for changes in rates resulting from changes in costs of purchased gas to demonstrate the exercise of all reasonable efforts to protect its rights and interests in maintaining such costs at their lowest reasonable level.

In transmission, distribution, customers' accounting and collecting, and sales promotion expenses, the differences between estimates result mainly from the staff's allocation of the effects of the 1960 wage increase among these several categories of operating expenses, whereas applicant did not allocate the wage increase. Instead, applicant included an over-all lump sum adjustment of \$1,251,000 in its results of operation estimate. We adopt the following amounts, which include the effects of the 1960 wage increase, as reasonable for test period purposes: transmission expenses, \$3,766,000; distribution expenses, \$14,035,000; customers' accounting and collecting expenses, \$9,429,000; and sales promotion expenses, \$2,025,000.

At first glance, the staff's estimate of \$9,470,000 for administrative and general expenses appears to exceed applicant's estimate of \$9,405,000. However, if the effect of the 1960 wage increase were to be removed from the staff's estimate to make it comparable to applicant's figure, it would be seen that the staff's

estimate of administrative and general expenses is actually some \$300,000 lower than applicant's. This difference is largely attributable to the amount of common expenses allocated to gas operations. Among the causes of this difference are the following: the staff estimated injuries and damages expense on the basis of the number of employees, whereas applicant based its estimate on number of customers; in the computation of employee group life insurance expense, the staff related premium refunds to the year in which the premium was paid, whereas applicant related such refunds to the year following payment of premium; and in estimating miscellaneous general expense, the staff excluded certain dues, donations and contributions in accordance with usual Commission practice in this regard. We find the staff's estimate to be more reasonable than applicant's, and we adopt for test period purposes for administrative and general expenses at proposed rates the amount of \$9,463,000, which represents the staff's figure adjusted for the lower franchise requirements related to adopted revenues.

Both applicant and staff computed depreciation expense according to the straight-line remaining life method pursuant to Commission Resolution No. U-928. The difference between the two depreciation estimates is only \$9,000, which is not a significant amount in this proceeding. We adopt the amount of \$17,823,000 as reasonable for depreciation expense for the test period.

Taxes

Applicant's estimate of taxes other than income is substantially higher than the staff's. The difference amounts to \$926,000 and lies principally in the item of ad valorem taxes. Applicant, in estimating ad valorem taxes for the test period, used directly trended assessment ratios and tax rates, whereas the staff used the latest known tax rates and assessment ratios. The

Commission is of the opinion that the simple trending of the ad valorem tax factors of previous years does not produce reliable estimates for test period purposes. The use of the latest available assessment ratios and tax rates has been the uniformly applied practice of this Commission and has proven to be the most reasonable method of estimating future ad valorem taxes. We therefore find the staff estimate of \$17,594,000 to be reasonable for taxes other than income during the test period.

During the pendency of this proceeding, applicant announced its intention to continue to elect to use liberalized depreciation for income tax purposes. Both applicant and staff used this method of depreciation in computing their respective estimates of income taxes, and both normalized the income tax effects of accelerated amortization. The amount of \$1,307,000 by which the staff's figure for income taxes exceeds the applicant's reflects the higher operating revenues and lower operating expenses estimated by the staff.

Based on the revenues and expenses adopted herein, we compute and find reasonable the amount of \$24,300,000 for income taxes at proposed rates for the test year 1961. The income taxes adopted and used herein are computed in conformity with Decision No. 59926, dated April 12, 1960, which specifies the treatment to be accorded liberalized tax depreciation for rate-making purposes.

Rate Base

The following tabulation compares the development of weighted average depreciated rate bases for the test year 1961

as presented by the applicant and the staff:

	<u>Applicant</u>	<u>Staff</u>	<u>Adopted</u>
Gas Plant:			
Weighted Average Plant	\$672,670,000	\$672,670,000	\$672,670,000
Deduction for Depr.	172,183,000	171,981,000	171,981,000
Net Gas Plant	500,487,000	500,689,000	500,689,000
Adjustments:			
Contrib. in Aid of Constr.	(10,984,000)	(10,984,000)	(10,984,000)
Customers Adv. for Constr.	(3,116,000)	(3,116,000)	(3,116,000)
Accumulated Income Taxes - Accelerated Amortization	-	(4,545,000)	(4,545,000)
Total Adjustments	(14,100,000)	(18,645,000)	(18,645,000)
Working Capital:			
Materials and Supplies	2,438,000	2,438,000	2,438,000
Gas in Storage	828,000	828,000	828,000
Working Cash Allowance	14,485,000	9,149,000	9,149,000
Total Working Capital	17,751,000	12,415,000	12,415,000
Total Weighted Average Rate Base	504,138,000	494,459,000	494,459,000

(Red Figure)

Both applicant and staff estimated total weighted average gas plant in the amount of \$672,670,000, which we find to be reasonable and adopt. Consistent with the depreciation expenses hereinbefore found reasonable, we adopt the staff's deduction for depreciation in the amount of \$171,981,000. There is no difference between the two estimates for contributions in aid of construction, nor between the two estimates for customers' advances for construction. We adopt, for test year purposes, the amount of \$10,984,000 for contributions in aid of construction and the amount of \$3,116,000, for customers' advances for construction.

The staff has adjusted rate base by deducting accumulated deferred income taxes resulting from the use of accelerated amortization. Applicant has not made a corresponding adjustment. The staff's adjustment is different in form but consistent in theory with the treatment accorded such deferred taxes in recent Commission decisions

wherein interest on the accumulated balance was deducted from income taxes rather than directly deducting such balance from rate base. We find the staff's adjustment to be reasonable and proper, and the adopted rate base will reflect a deduction of \$4,545,000 in recognition of the availability to and the use by the applicant of the funds generated through the use of accelerated amortization for income tax purposes.

There is no difference between the estimates of the staff and applicant for materials and supplies and gas in storage. We adopt the amount of \$2,438,000 for materials and supplies and \$828,000 for gas in storage.

Working Cash Allowance

The allowance for working cash included by applicant in its rate base amounts to \$14,485,000, while that included by the staff is \$9,149,000, the difference being \$5,336,000. Both the applicant and staff developed working cash allowance by the same general procedure of determining gross working cash requirement as indicated by analysis of certain balance sheet accounts and then deducting from such gross requirement amounts not supplied by stockholders. Applicant and staff arrived at gross requirements which are substantially the same, determining \$14,152,000 and \$14,230,000, respectively, as the gross working cash requirement. They parted ways, however, on the deduction from gross requirement of amounts not supplied by stockholders. The difference between the amount of the working cash allowance ultimately determined by each is contained in one component of such deduction, namely, the average amount of cash available as a result of applicant's payment of its expenses lagging behind the collection of such expenses in the form of revenues from its ratepayers. Applicant, in determining the dollar effect of this payment lag, has improperly used its revenues with respect to

collections rather than its expenses. Applicant seeks thereby to increase its revenue requirement by the compounding process of obtaining a return upon the return portion of its revenues. The staff, on the other hand, has properly determined such lag by relating both payments and collections to expenses.

Another factor contributing to the greater working cash allowance claimed by applicant is its failure to treat bond interest as an item of expense. In our opinion, applicant's treatment of bond interest is improper. For purposes of determining working cash allowance, bondholders, unlike stockholders, are a class of creditors. The sole justification for including a working cash allowance in the rate base is to provide the stockholders a return upon that portion of their invested capital which is necessary in the utility's operations and upon which they would not otherwise receive a return.

In estimating working cash allowance, the staff normalized the income tax effects of accelerated amortization. Applicant contends that, since the staff deducted the income tax reserve for accelerated amortization from rate base, it should not include the accrual to such reserve in the income taxes used in the determination of working cash. The staff's treatment of accelerated amortization for working cash purposes is in harmony with its computation of test year income taxes and is, therefore, appropriate. Applicant's position here is at odds with its own computation of test year income taxes, in which it normalized the effects of accelerated amortization.

We find the staff's figure for working cash allowance and the method by which it was determined to be reasonable and proper. We adopt the amount of \$9,149,000 for working cash allowance for the test year 1961.

Summary of Adopted Results

The following tabulation summarizes the adopted results of operation of applicant's gas department for the test year 1961 at the several rate levels under consideration herein:

SUMMARY OF ADOPTED RESULTS
TEST YEAR 1961

	Adopted Amounts			
	At Rates Effective Prior to 8/25/60	At Inter- in Rates Effective 8/25/60	At Applicant's Proposed Rates	At Authorized Rates
Revenues	\$292,785,000	\$302,596,000	\$315,600,000	\$307,415,000
Expenses & Taxes	268,467,000	273,857,000	281,025,000	276,511,000
Net Revenues	24,318,000	28,739,000	34,575,000	30,904,000
Depr. Rate Base	494,459,000	494,459,000	494,459,000	494,459,000
Rate of Return	4.92%	5.81%	6.99%	6.25%

Rate of Return

Applicant seeks a rate of return of 6.8% on the depreciated rate base of its gas department for the test year 1961. Its financial witness, in testifying in support of this rate of return asserted that applicant should earn not less than 12.5% on that portion of its common stock equity associated with the gas department. He presented evidence showing that in 1959 eleven selected major straight natural gas companies earned from 9.9% to 17.7% on common stock equity and 13.2% on the average.

The fallacy in applicant's position is that it bases its comparisons on results of operation of straight natural gas companies and considers its own gas department as standing alone. The facts are that applicant is a combination electric and gas utility; it finances as such a combination utility and not by departments, and its operations and management are closely integrated. We find it

reasonable to consider applicant as a combination utility in arriving at the rate of return allowable in this proceeding.

The record clearly shows that, in general, combination utilities have been earning on their common stock equity substantially less than the 12.5% claimed as reasonable by applicant's witness. Exhibit No. 59, introduced by the Commission staff, shows an average range of earnings on common stock equity of combination companies, for the five-year period 1955 through 1959, of 7.9% to 13.8%, with the average and median being approximately 10.5%. The exhibit further shows average earnings on total capital of 5.3% to 7.4%, with the average and median being approximately 6%. It is significant to note from the exhibit that, on the average for the five-year period, Pacific Gas and Electric Company earned 9.5% on its year-end common stock equity and 5.5% on its year-end total capital and, during the same period, increased the book value of its common shares from \$32.89 to \$39.82 and its annual dividends from \$2.20 to \$2.60.

Upon a full review of the record, we find and conclude that a rate of return of 6.25% applied to the adopted rate base of \$494,459,000 for the test year 1961 is fair and reasonable for applicant's gas operations. Such a return, when considered with costs of bond money of 3.37% and preferred stock money of 5.30%, should produce an adequate and reasonable return on the common stock equity attributable to applicant's gas department.

The adopted test year results show that the presently effective interim rates would yield applicant 5.81%, or less than a fair rate of return on the operations of its gas department. Applicant is clearly entitled to rate relief over and above the \$9,810,000 El Paso offset authorized by Decision No. 60587. We find, however, that authorization of the full amount of the additional increase of more than \$13,000,000 requested by applicant in its general rate proposal would produce a rate of return well in excess of that

hereinabove found fair and reasonable. We will authorize applicant to increase its gas rates by the amount of \$4,819,000 over the interim levels established by Decision No. 60587, which amount will yield applicant a 6.25% rate of return on the test year basis.

Applicant's General Rate Proposal

Applicant's amended general rate proposal is set forth in Exhibit No. 29. The following tabulation, using adopted gas sales, shows the effect which applicant's proposal would have on the several classes of customers:

SUMMARY OF REQUESTED INCREASES
TEST YEAR 1961

Class of Service	Adopted Sales 1000 Mcf	Adopted Revenue At Rates Effective 8/25/60	Requested Increase			Average Revenue Per Mcf After Increase
			Amount	Per-cent	Per Mcf	
Firm:						
General	219,398	\$168,862,000	\$15,978,000	9.46%	7.28c	84.25c
Industrial & Gas Engine	15,141	8,782,000	794,000	9.04	5.24	63.25
Resale	5,049	2,523,000	213,000	8.44	4.22	54.19
Total Firm	239,588	180,167,000	16,985,000	9.43	7.09	82.29
Interrupt. Indust.	162,293	69,503,000	(2,155,000)	(3.10)	(1.33)	41.50
Interdepartmental	139,569	52,223,000	(1,837,000)	(3.52)	(1.32)	36.10
Total Natural Gas	541,450	301,892,000	12,993,000	4.30	2.40	58.16
Liquid Propane	136	334,000	11,000	3.29	8.09	253.62
Total Gas Sales	541,586	302,232,000	13,004,000	4.30	2.40	58.21

(Decrease)

Applicant's proposed tariff changes as presently before the Commission would:

- (1) Increase rates to the firm classes of natural gas customers by an average of 7.09c per Mcf. This would amount to \$16,985,000, or 9.43%, on the adopted test year basis.

(2) Reduce rates to the interruptible classes of natural gas customers by 1.364¢ per Mcf. On the test year basis, this would amount to a reduction of \$3,992,000, or 3.28% of revenues at present offset rates.

(3) Increase liquid propane rates by an average of 8.09¢ per Mcf. On the test year basis, this would amount to \$11,000, or an increase of 3.29% over presently effective rates.

(4) Remove from the conditions of service of its schedules G-55 and G-55.1, under which applicant's steam-electric plants are served, the clause which excepts the steam-electric plants from interruption "during periods of existing or threatened emergencies".

(5) Consolidate, adjust and clarify, as set forth in Exhibits Nos. 24 and 38, the rate zones of applicant's rate areas, particularly in the Bay Area, to accord with changes in customer densities and other factors.

The specific details of the rate changes proposed by applicant may be summarized as follows:

The initial block of each general service schedule would be increased by about 49¢ per customer per month after zone changes. Applicant represents that the present initial block charges fall far short of covering the fixed costs of serving a customer, exclusive of any cost for gas. The second block would be increased by approximately 6.7¢ per Mcf, the third block by 3.2¢ per Mcf, and subsequent blocks by lesser amounts down to 1.3¢ per Mcf in the terminal block of each general service schedule. Included in the proposed general service schedules is an increase from 1.864¢ per Mcf to 4.236¢ per Mcf in the amount applicant desires to be considered as the offset charge to general service customers related to the El Paso increase of August 25, 1960.

Applicant states that its proposed increases to firm industrial customers over the rates of August 25, 1960, are designed to obtain approximately the same over-all percentage as from the increase in general service rates. According to applicant, the initial and intermediate blocks have been designed so as not to exceed the level of rates proposed for general service schedules with the balance of the increase which would be obtained from this coming from a proposed increase of 3.3¢ per Mcf in the terminal block. As in the case of the general service class, applicant requests that the offset charge included in its proposed firm industrial rates be considered as 4.236¢ per Mcf rather than the present 1.864¢ per Mcf.

For the resale schedules, applicant states that the proposed increase is approximately equal to the percentage increase proposed for firm service overall. According to applicant about half the percentage increase is assignable to the demand component and half to the commodity portion. For firm resale service, applicant proposes that, as in the other firm schedules, there be an increase from 1.864¢ per Mcf to 4.236¢ per Mcf in the amount to be considered as an offset to the El Paso increase of August 25, 1960. For the interruptible portion of resale service, applicant proposes that rates be reduced by eliminating the 1.864¢ per Mcf offset charge of August 25, 1960, and increased by a general increase in the base rates of 0.5¢ per Mcf.

Applicant proposes to eliminate the August 25, 1960 offset charge of 1.864¢ per Mcf from all interruptible schedules by a general increase in the base rates of 0.5¢ per Mcf. It is applicant's intention thereby to obtain a reduction in the rates for interruptible service to the rate levels originally proposed in the application but at the same time to eliminate the interruptible customers from

participation in any otherwise applicable El Paso refund related to gas used subsequent to the effective date of the rates authorized by this decision. The proposed revision of the offset charge provisions of the firm schedules from 1.364¢ per Mcf to 4.236¢ per Mcf would thus increase the amount of firm service revenues which would be subject to refund. Under applicant's refund proposal, the amount of revenue subject to refund to firm customers would be the total amount subject to refund to all classes of customer under the August 25, 1960 offset charges, less any refund due interruptibles as a result of gas usage between August 25, 1960 and the effective date of the rates authorized herein.

Equivalent Cost of Fuel Oil

Applicant's asserted reason for proposing to decrease interruptible rates to 1.364¢ per Mcf below the interim rate levels established by Decision No. 60587 is that such rates are, it alleges, higher than the equivalent cost of fuel oil. Applicant represents that since 1958, when its gas rates were last determined, the cost of fuel oil has declined, resulting in a loss of interruptible sales. Applicant states that during the one-year period preceding establishment of present interim rates, it had lost, as a result of competitive fuel oil prices, interruptible sales amounting to over \$3,000,000 on an annual basis. Applicant concludes that it will lose a much greater volume of its interruptible sales if the present interim rates for such sales are made permanent by this decision. It is applicant's contention that the loss of interruptible sales will ultimately result in rates for firm service being substantially higher than they would otherwise be.

According to applicant, many of its interruptible customers switching to fuel oil would find it economical and prudent to sign long-term fuel oil contracts, and some of these customers would

obtain, as others have already, a favorable pricing arrangement whereby the price of oil would escalate downward as well as upward in relation to rates for interruptible gas service. Applicant contends that, even at rates lower than it now proposes, it could not expect to entice lost customers back to gas, and that customers who switch to fuel oil will be lost for one to ten years, producing a prolonged adverse effect on its revenues which could only be corrected by raising rates for firm service.

Applicant introduced Exhibit No. 10 and presented testimony to show that the posted price of fuel oil has declined considerably since 1958. Applicant states that the generally prevailing actual price of fuel is substantially below the posted price.

During the hearings held subsequent to issuance of the interim order herein, 15 witnesses for industrial users of fuel testified that, in view of the price at which fuel oil is available to them, present rates for interruptible gas service exceed the value of such service on an energy basis, and that the use of fuel oil in all or part of the operations of their companies can be shown to be cheaper than the use of natural gas. The California Manufacturers Association (CMA), which produced most of these industrial witnesses, takes the position that applicant's proposed interruptible rate levels meet in substantial measure the competition of fuel oil, but that rates higher than proposed by applicant exceed the value of service and will result in the loss of interruptible business to the detriment of the utility and its customers alike. With respect to withholding any refund to interruptible customers, however, CMA takes the position that applicant's proposal is unreasonable, unlawful and discriminatory.

Five of applicant's desert customers,^{4/} whose plants in the Mojave Desert near the Topock-Milpitas transmission line are

^{4/} American Potash & Chemical Corporation; California Portland Cement Company; Riverside Cement Company, Division of American Cement Corporation; Southwestern Portland Cement Company; and U. S. Borax & Chemical Corporation.

served large volumes of gas on an interruptible basis, jointly take the position that, from a value of service concept, the record furnishes no justification for any increase in interruptible industrial rates at transmission level above those prevailing prior to the August 25, 1960 interim order. The desert customers concur in the view of CMA that interruptible service confers large benefits on the firm classes and that it would be improper to risk the loss of substantial interruptible business by increasing interruptible rates, which, they allege, were already failing to meet the competition of alternate fuels before such rates were increased by the interim order herein.

Despite the great amount of testimony on value of service, the record is devoid of definitive evidence either as to present actual prices of fuel oil or as to authoritative predictions of future prices. The testimony on this subject was characterized by a general unwillingness of the witnesses, ostensibly for business reasons, to disclose the dollars-and-cents prices and the real terms on which they could purchase fuel oil. While the record clearly establishes that natural gas and fuel oil are in strong competition for the California industrial market, it fails to bear out the allegations of applicant and its industrial customers that present interim rate levels are pricing gas out of that market.

Costs by Classes of Service

In support of its proposal to decrease interruptible rates below present interim levels, applicant introduced, as Exhibits No. 9 and No. 40, a cost of service study purporting to show the costs it incurs in serving its various classes of natural gas customers. Applicant's study is based on the premise that to serve its firm customers only would require substantially the same plant facilities and over-all investment as are required to serve both the

firm and interruptible load. On this basis, applicant's "cost incurrence" study assigns interruptible customers less than three percent of the total fixed costs of the gas department. The study alleges that at proposed rates the firm classes of customers would produce revenues which would fail by more than \$30,000,000 to meet the cost of providing them service plus a 6.8% return, and that the interruptible classes would be making up this \$30,000,000 deficiency by paying rates which would yield this amount over and above the cost of rendering interruptible service.

The Commission staff introduced as Exhibit No. 55 a study which allocates the costs of providing gas service according to the use that is made of the system by each class. It is the staff's contention that use is the best gauge for determining how costs should be allocated to the several classes of customers who benefit from the existence and functioning of the jointly used facilities of a gas utility system.

The following tabulation shows the rates of return, which according to the staff's study would be realized in the test year from the several broad classes of natural gas service:

<u>Class of Natural Gas Service</u>	<u>Rate of Return Test Year 1961</u>	
	<u>At 8/25/60 Rates</u>	<u>At Applicant's Proposed Rates</u>
Firm and Resale	5.43%	7.44%
Interruptible Industrial	8.13	6.71
Steam Electric	6.59	4.45
Transport	1.51	1.51
Total Natural Gas System	5.89	7.06

CMA takes the position that applicant's study is the proper type of cost study for the Commission to consider in determining rate levels. A witness for CMA testified that the staff study is not

limited to a study of costs but that it includes non-cost elements such as "benefits" and costs of standby facilities installed by and at the expense of interruptible customers. CMA contends that the study does not measure class cost responsibility and is, therefore, valueless to the Commission as an aid in ratemaking.

The desert customers contend that both applicant's and staff's cost studies show that interruptible industrial service at transmission level yields applicant far in excess of the rate of return requested for applicant's gas department as a whole. The desert customers take the position that they are and should be treated as a separate class of service by reason of physical location and cost of service.

We do not regard applicant's cost of service study to be a reasonable guide in the spread of rates among classes of service. The study arrives at a final answer which is quite the same as its beginning assumption, namely, that the cost of serving gas to the interruptible and steam-electric classes is incremental to the cost of serving the firm. In assigning facility costs almost exclusively to the firm classes, applicant ignores the hard fact that well over 50% of its volume of gas sales is made to the interruptible and steam-electric classes. In our opinion, the staff's cost allocation study, which gives a significant weighting to the actual use made of the system, provides a better guide to the Commission in the spread of rates among classes of service.

Spread of Authorized Rates

The Commission has carefully weighed all of the considerations pertinent to the spread of rates, including value of service, costs by classes of service, the rates now and heretofore in effect, the elimination of discrimination among classes and zones, and the general effect of rates upon the growth and development of applicant's

gas sales. We find it reasonable to spread the additional revenue increase of \$4,819,000 authorized herein among applicant's firm classes of service, as specified in Appendix A hereto. However, no showing has been made which would justify the Commission in requiring the firm classes to shoulder the additional burden of \$3,992,000 which applicant proposes to shift on to them from the interruptible classes. Accordingly, the interim rates for all interruptible classes of service established by Decision No. 60587 shall remain in effect. If, after surveying its market, however, applicant concludes that it may further improve its earnings by reducing its rates to its interruptible classes of customers, it will be permitted to file such interruptible rates as, in the exercise of its best business judgment, will stimulate gas sales, provided that in no instance shall applicant file a rate which is less than $\frac{1}{2}$ ¢ per Mcf higher than the corresponding rate which was in effect prior to August 25, 1960.

General Service

Applicant proposes extensive changes in general service rate areas and zones, as detailed in Exhibits Nos. 24 and 38. The rezoning proposal will result in treating communities adjacent to one another, and generally served from the same source of gas supply, as regional or metropolitan areas without regard to municipal or county lines. The effect of the proposed changes on customers assigned to lower rate zones will be to decrease the rate levels which would otherwise apply. None of the proposed changes assigns customers to higher rate zones.

We find applicant's rate zone and rate area boundary revisions to be reasonable and such revisions will be authorized.

Applicant's present descriptions of rate areas as on file with the Commission are by city limits as of certain dates with

revisions indicated by annexation numbers or by metes and bounds descriptions. While such descriptions accurately define rate areas, they pose difficulties in determining the locations of individual customers with respect to rate area boundaries. The order herein will provide that applicant shall file appropriate maps delineating each of its rate areas.

Applicant's present and proposed general service rate levels and those authorized herein are as follows:

RATE SCHEDULES (1100 B.T.U. Basis)							
Blocking	G-1	G-2	G-3	G-4	G-5	G-6	G-7

PRESENT INTERIM RATES

First 200 cu.ft. or less	\$0.964	\$1.064	\$1.164	\$1.264	\$1.364	\$1.514	\$1.364
Per 100 cu.ft.:							
Next 2,300 cu.ft.	6.66¢	6.95¢	7.38¢	7.90¢	8.47¢	9.17¢	9.9014¢
Next 17,500 cu.ft.	6.41	6.65	6.90	7.20	7.53	7.88	9.2014
Next 80,000 cu.ft.	6.32	6.37	6.45	6.55	6.63	6.72	8.5514
Next 4,900,000 cu.ft.	6.27	6.30	6.37	6.44	6.51	6.58	8.4514
Over 5,000,000 cu.ft.	6.15	6.15	6.15	6.15	6.15	6.15	8.1614

APPLICANT'S PROPOSED RATES

First 200 cu.ft. or less	\$1.40	\$1.60	\$1.70	\$1.80	\$1.90	\$2.05	\$1.90
Per 100 cu.ft.:							
Next 2,300 cu.ft.	7.33¢	7.62¢	8.05¢	8.57¢	9.14¢	9.84¢	10.57¢
Next 17,500 cu.ft.	6.73	6.97	7.22	7.52	7.85	8.20	9.52
Next 80,000 cu.ft.	6.63	6.63	6.63	6.72	6.80	6.89	8.72
Next 4,900,000 cu.ft.	6.60	6.60	6.60	6.61	6.68	6.75	8.61
Over 5,000,000 cu.ft.	6.33	6.33	6.33	6.33	6.33	6.33	8.33

AUTHORIZED RATES

First 200 cu.ft. or less	\$1.165	\$1.265	\$1.365	\$1.465	\$1.565	\$1.715	\$1.565
Per 100 cu.ft.:							
Next 2,300 cu.ft.	6.86¢	7.15¢	7.58¢	8.10¢	8.67¢	9.37¢	10.10¢
Next 17,500 cu.ft.	6.54	6.78	7.03	7.33	7.66	8.01	9.33
Next 80,000 cu.ft.	6.43	6.48	6.56	6.66	6.74	6.83	8.66
Next 4,900,000 cu.ft.	6.32	6.35	6.42	6.49	6.56	6.63	8.50
Over 5,000,000 cu.ft.	6.20	6.20	6.20	6.20	6.20	6.20	8.21

Applicant also has general service rates for certain areas which are subzones of the 7-zone rate plan for the system. Increases essentially proportional to those listed above are authorized for these subzones.

The offset charge for the August 25, 1960 El Paso increase included in the general service rates authorized herein is 1.864¢ per Mcf.

Firm Industrial and Gas Engine Service

The increases authorized for the firm industrial and gas engine classes of service amount to 2.72%, or an average increase of 1.58¢ per Mcf from the present average level of 58.00 cents to 59.58 cents per Mcf.

The offset charge included in authorized rates for firm industrial and gas engine service is 1.864 cents per Mcf.

Resale Service

Applicant renders resale firm service to the cities of Palo Alto and Coalinga under Schedules G-60 and G-61, respectively. The increases being authorized under these resale schedules amount to 2.59% or an average increase of 1.32¢ per Mcf from the present average level of 50.97¢ per Mcf to 52.29¢ per Mcf.

Under Schedule G-62, applicant renders both firm and interruptible resale service to two gas distributing utilities located near its Topock-Milpitas transmission line in the "desert" area. The record shows that a further increase in this schedule would place an undue burden on the customers of the purchasing utilities. Therefore, the order herein will provide for no increase in Schedule G-62 rates. The interruptible portion of resale service under this schedule is included in the option being afforded to applicant to elect lower interruptible rates than those otherwise specified herein.

The offset charge included in authorized rates for firm sales under resale service is 1.864¢ per Mcf. The offset charge included in rates for interruptible sales under resale service is to be determined on the same basis as specified hereinafter for interruptible industrial service.

Interruptible Industrial Service

The offset included in the rates now in effect for regular interruptible sales is 1.864¢ per Mcf. The order herein will provide that, if applicant elects to exercise the option extended to it to file lower interruptible rates, the offset included in the lower rates and any refund related to sales made at such lower rates shall be reduced accordingly. This contemplates that, after determining the available amount per Mcf of refund on the basis of all gas sales, the refund on interruptible sales made at the lower rates shall be reduced by the amount of the optional reduction in rates.

Interdepartmental Service

The option to file lower interruptible rates does not extend to interdepartmental gas service. We find that the presently effective rates for interdepartmental gas sales are at the minimum level consistent with the rate spread considerations hereinbefore discussed. The offset charge included in such rates is 1.864¢ per Mcf.

We have given consideration to applicant's proposal to remove from the conditions of the schedules under which its steam-electric plants are served the clause which excepts such plants from interruption "during periods of existing or threatened emergency". We find that the removal of this clause would not be in the public interest. Said proposal will not be authorized.

Propane Service

Applicant proposes an increase of \$11,000 or 3.29% in its rate schedules for propane gas service. In view of the fact that the interim order in this application did not provide for any increase in the rates for propane service, the proposed increase in propane rates is, in our opinion, reasonable and will be authorized.

No offset charge is included in the authorized rates for propane service.

Summary of Authorized Increases

The table below summarizes by classes of gas customers, the effects of the authorized rate increases specified in Appendix A to this decision:

SUMMARY OF AUTHORIZED INCREASES
TEST YEAR 1961

<u>Class of Service</u>	<u>Adopted Sales 1000 Mcf</u>	<u>Adopted Revenue At Rates Effective 8/25/60</u>	<u>Authorized Increase Amount</u>	<u>Per- cent</u>	<u>Per Mcf</u>	<u>Average Revenue Per Mcf After Increase</u>
Firm:						
General	219,398	\$163,862,000	\$4,531,000	2.63%	2.07c	79.03c
Industrial & Gas Engine	15,141	8,782,000	239,000	2.72	1.52	59.52
Resale	5,049	2,523,000	38,000	1.51	.75	50.72
Total Firm	239,588	180,167,000	4,808,000	2.67	2.01	77.21
Interrupt. Indust.	162,293	69,503,000	None	-	None	42.83
Interdepartmental	139,569	52,223,000	None	-	None	37.42
Total Natural Gas	541,450	301,898,000	4,808,000	1.59	.89	56.65
Liquid Propane	136	334,000	11,000	3.29	8.09	253.62
Total Gas Sales	541,586	302,232,000	4,819,000	1.59	.89	56.69

Findings and Conclusions

The Commission has carefully weighed and considered all the evidence of record. We find that, on the test year basis, the rates

authorized herein will produce a gross revenue increase of \$4,319,000 and will yield applicant a rate of return of 6.25% on the operations of its gas department. We further find that the changes in rates and charges authorized herein are justified, that the rates and charges authorized herein are reasonable, and that the present rates and charges, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable.

The Commission has given consideration to all points raised and to all motions made although each may not have been specifically treated herein. The Commission now rules that all motions not heretofore acted upon and which are consistent with the findings and conclusions of this opinion and order are granted, and those which are not consistent therewith are denied.

O R D E R

Pacific Gas and Electric Company having applied to this Commission for an order authorizing increased rates and charges for gas service, public hearing having been held, the matter having been submitted and now being ready for decision; therefore,

IT IS ORDERED that:

1. On or after the effective date of this order, applicant is authorized to file the following in quadruplicate with this Commission in conformity with the provisions of General Order No. 96:

(a) Revised tariff schedules with changes in rates, charges and conditions as set forth in Appendix A attached hereto and, on not less than five days' notice to the public and to the Commission to make said rates effective for all service rendered on and after April 16, 1961. ✓

(b) Revised or new schedules of interruptible rates as, in the exercise of applicant's best business judgment, will stimulate gas sales, provided that in no instance shall applicant file a rate under this authorization which is higher than presently effective rates or which is less than $\frac{1}{2}$ ¢ per Mcf higher than the corresponding rate which was in effect prior to August 25, 1960. Such revised or new schedules of rates shall be filed using the form shown under Paragraph IIc of Appendix A and shall become effective on ten days' notice to the public and to the Commission. This option to file lower interruptible rates does not extend to interdepartmental sales and must be exercised on or before June 30, 1961. On interruptible sales, the basis for any refund related to the August 25, 1960 increase shall be 1.864¢ per Mcf, except that, where applicant has exercised the option herein extended to it to file lower rates, the refund to each customer on sales made at said lower rates shall be reduced by the amount which the charges related to such sales are lower than the charges which would have been made at the corresponding rates now in effect.

2. Applicant shall continue to show in its tariffs the amounts of offset charges, and their respective effective dates, included in the rates which may be subject to refund upon final determination of the several El Paso Natural Gas Company increases reflected in such offset charges.

3. The provisions of ordering paragraph 2 of Decision No. 60587 pertaining to records, reports, submission of a refund plan, and statement of offset charges in applicant's tariff shall continue in full force and effect.

4. When final determination has been made with respect to any of the several El Paso Natural Gas Company increases reflected

in the offset charges incorporated in its gas rates, applicant shall file a supplemental application containing its proposed rate plan to reflect such final determination for authorization by this Commission.

5. Applicant is authorized to revise its rate zones and areas as proposed herein. Applicant shall file revised rate area descriptions incorporating the authorized revisions and maps of a sufficiently large scale to clearly delineate each of its rate areas.

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

Dated at San Francisco, California, this
21st day of March, 1961.

Arthur D. Reago
President

John L. Bickel

George H. Fowler

Fredrick B. Holcomb
Commissioners

I concur that the amount of increase granted is justified but dissent to the manner in which working cost is treated and to the rate spread.

E. L. Fox

APPENDIX A
Page 1 of 4

The presently effective rates and conditions are changed as set forth in this appendix.

I - Preliminary Statement

- a. Withdraw and cancel the following schedules, and transfer the customers and territories to the new schedules as indicated in the tabulation below.

<u>Schedules to be Canceled</u>	<u>Customers and Territories to be Transferred to</u>
G-24	G-23
G-25	G-22
G-27	G-26

- b. Renumber and retitl the following schedules as indicated below:

<u>Schedule No.</u>		<u>Title of Class of Service</u>
<u>Present</u>	<u>Authorized</u>	
G-81	G-42	Firm Industrial Natural Gas Service
G-91	G-58	Interruptible Natural Gas Service
G-93	G-59	Interruptible Natural Gas Service
G-58	G-81	General Service - Propane Gas
G-59	G-82	General Service - Propane Gas

- c. Withdraw and cancel Schedule No. G-6.4 and transfer customers and territory to Schedule No. G-6.1.
- d. Transfer customers and territory in Stockton Division supplied from 6-inch main east of Root Road from Schedule No. G-6.3 to Schedule No. G-6.1.
- e. Revise Schedules Nos. G-40, G-45, G-50 and G-53 so that the specific exclusions for each schedule will be:

Humboldt Division,
Portions of Colgate and Drum Division supplied from the four-inch gas main extending from Main 123 to Loomis,
Portions of Shasta Division supplied from Main 177 north of Corning Field,
Portions of Stockton Division supplied from the transmission main between Lodi Gas Field and Las Vinas, and from the six-inch gas main extending east on Linden Road from a point 800 feet east of White Lane to Linden, and,
Portion of San Jose Division in the San Lorenzo Valley Service Area.
Territory supplied on Schedules G-42, G-58 and G-59

- f. Revise territorial descriptions of proposed Schedules Nos. G-42, G-58 and G-59 so that these schedules for firm industrial service and interruptible service will be generally applicable throughout the entire territory served by former Coast Counties Gas and Electric Company, except the San Lorenzo Valley Service Area.

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- g. Add the following special condition to Schedule No. G-45, Gas Engine Agricultural Natural Gas Service:

"This schedule is applicable only to those customers and pumping plants which were being served hereunder on"

- * Insert here the effective date of the schedule authorized by the C.P.U.C. decision to be rendered hereunder.

II - Base Rates

- a. Change the General Natural Gas Service base rates per meter per month to the following:

Rates	Per Meter Per Month			
	Schedule	Schedule	Schedules	Schedules
	No.	No.	Nos.	Nos.
	G-1	G-2	G-3 & G-21	G-4 & G-22
	1100 Btu	1100 Btu	1100 Btu	1100 Btu

Commodity Charge:

First	200 cu. ft. or less	\$1.165	\$1.265	\$1.365	\$1.465
Next	2,300 cu. ft., per 100 cu. ft.	6.86¢	7.15¢	7.58¢	8.10¢
Next	17,500 cu. ft., per 100 cu. ft.	6.54	6.78	7.03	7.33
Next	80,000 cu. ft., per 100 cu. ft.	6.43	6.48	6.56	6.66
Next	4,900,000 cu. ft., per 100 cu. ft.	6.32	6.35	6.42	6.49
Over	5,000,000 cu. ft., per 100 cu. ft.	6.20	6.20	6.20	6.20

Rates	Per Meter Per Month			
	Schedules	Schedule	Schedules	Schedule
	Nos.	No.	Nos.	No.
	G-5 & G-23	G-5.1	G-6 & G-26	G-6.1
	1100 Btu	1100 Btu	1100 Btu	1100 Btu

Commodity Charge:

First	200 cu. ft., or less	\$1.565	\$1.815	\$1.715	\$2.315
Next	2,300 cu. ft., per 100 cu. ft.	8.67¢	11.23¢	9.37¢	11.95¢
Next	17,500 cu. ft., per 100 cu. ft.	7.66	10.12	8.01	10.59
Next	80,000 cu. ft., per 100 cu. ft.	6.74	9.08	6.83	9.35
Next	4,900,000 cu. ft., per 100 cu. ft.	6.56	8.81	6.63	9.01
Over	5,000,000 cu. ft., per 100 cu. ft.	6.20	8.08	6.20	8.08

Rates	Per Meter Per Month		
	Schedule	Schedule	Schedule
	No.	No.	No.
	G-6.2	G-6.3	G-7
	1100 Btu	1100 Btu	1100 Btu

Commodity Charge:

First	200 cu. ft. or less	\$1.715	\$2.615	\$1.565
Next	2,300 cu. ft., per 100 cu. ft.	9.37¢	14.03¢	10.10¢
Next	17,500 cu. ft., per 100 cu. ft.	8.01	11.83	9.33
Next	80,000 cu. ft., per 100 cu. ft.	6.83	10.35	8.66
Next	4,900,000 cu. ft., per 100 cu. ft.	6.63	10.18	8.50
Over	5,000,000 cu. ft., per 100 cu. ft.	6.20	9.22	8.21

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- b. Change the base rates of the firm industrial and gas engine agricultural natural gas service to the following:

Firm Industrial Natural Gas Service				Gas Engine Agricultural Natural Gas Service			
			: Per Meter Per Month				: Per Meter
			: Schedules: Schedule				: Per Month
			: Nos. : No.				: Schedule
			: G-40 & G-42: G-40.1				: No. G-45
Rates			: 1100 Btu 1100 Btu	Rates			: 1100 Btu

Commodity Charge:

First	100 Mcf, per Mcf	64.1¢	70.1¢
Next	900 Mcf, per Mcf	61.1	67.1
Next	2,000 Mcf, per Mcf	60.0	66.0
Over	3,000 Mcf, per Mcf	58.8	64.8

Commodity Charge:

First	14 Mcf, per Mcf	63.7¢
Next	14 Mcf, per Mcf	54.5
Over	28 Mcf, per Mcf	48.9

- c. Form to be used in revising interruptible natural gas service schedules if the option to reduce rates is exercised:

:	:	:	Adjusted	: Offset	:
:	Base	: Optional	: Base	: Charges	:
:	Rates	: Adjustment*	: Rates	:	: Effective Rates
:		: 1100 Btu		:	: A : B : C : etc.

Commodity Charge:

- * The optional adjustment shall not exceed 1.364¢/Mcf. Offset charges for El Paso, Docket RP 60-3 shall comprise 1.864¢/Mcf less the amount of the optional adjustment.

- d. Change the base rates for resale natural gas service (1100 Btu) as follows:

Schedules Nos. G-60 and G-61

Rates:

Demand Charge:	Per Month
Based on the Maximum Billing Month Consumption, per Mcf	8.25¢
Commodity Charge:	Base Rate
To be added to the Demand Charge:	
For all gas deliveries, per Mcf	38.3¢

- e. Change the general service propane gas base rates to the following:

Schedule No. G-81

Rate:

		Per Meter Per Month
First	300 cu. ft. or less	\$1.75
Next	1,200 cu. ft., per 100 cu. ft.	30.0¢
Next	1,000 cu. ft., per 100 cu. ft.	25.0
Next	7,500 cu. ft., per 100 cu. ft.	18.0
All over	10,000 cu. ft., per 100 cu. ft.	15.0

Schedule No. G-82

Rate:

		Per Meter Per Month
First	200 cu. ft., or less	\$1.75
Next	800 cu. ft., per 100 cu. ft.	44.0¢
Next	700 cu. ft., per 100 cu. ft.	37.0
Next	4,800 cu. ft., per 100 cu. ft.	26.0
All over	6,500 cu. ft., per 100 cu. ft.	22.0

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III-Revise the rate areas and rate zones as detailed in Exhibits Nos. 24 and 38, and file maps delineating rate areas. Modify index of rate areas to eliminate reference to incorporated area, show map references and remove metes and bounds descriptions.

IV-Revise and refile table of contents.

APPENDIX B

LIST OF APPEARANCES

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

For Protestants: O'Melveny & Myers, by Lauren M. Wright, for Riverside Cement Company, Division of American Cement Corporation; Overton, Lyman and Prince, by Donald H. Ford, for Southwestern Portland Cement Company; J. J. Deuel and William Knecht, for California Farm Bureau Federation; Grace McDonald, for California Farm Research & Legislative Committee and Northern California Citizenship Council, United Automobile Workers - AFL-CIO; C. H. McCrea and John L. Holleran, for Southwest Gas Corporation; Robley E. Morgan and Edwin J. Moore, for City of Santa Clara; Robert J. Cooney, for City of El Cerrito.

For Interested Parties: John P. Vetromile, for California-Pacific Utilities Company; L. M. Windle, for Richfield Oil Corporation; Kenneth M. Robinson, for Permanente Cement Company and Kaiser Aluminum and Chemical Corporation; Wallace K. Downey, for California Portland Cement Company; Coleman & McDonald, by Robert L. Starkey, for United States Borax & Chemical Corporation; Gibson, Dunn & Crutcher, by Richard L. Wells, for American Potash & Chemical Corporation; Richard Edsall, for California Electric Power Company; Pillsbury, Madison & Sutro, by Francis N. Marshall and James B. Atkin, for Standard Oil Company of California; Brobeck, Phleger & Harrison, by Robert N. Lowry and John E. Sparks, for California Manufacturers Association; Rowland & Paras, by Gilford G. Rowland, for Campbell Soup Company; Charles McCrory, for Pacific States Steel Corporation; Harold Gold, Reuben Lozner and Gerald Jones, for Department of Defense and other executive agencies of the United States Government; Helen Nelson, Consumer Counsel for State of California; Robert Paul Hamilton and Kenneth J. Hedstrom, for California Department of Water Resources; Dion R. Holm, Orville I. Wright and Robert R. Laughhead, for City and County of San Francisco; J. F. Coakley, by John A. Lewis, for County of Alameda; Roy Gargano, by Orville I. Wright, for County of Kern; Everett M. Glenn, for City of Sacramento; Robert T. Anderson and Robert P. Berkman, for City of Berkeley; John R. Stokes, for City of Arcata; John R. Johnson, for City of Menlo Park; Robert E. Michalski, for City of Palo Alto; Donald C. Atkinson for City of San Jose; Haskell M. Goodman, by Orville I. Wright, for City of Milpitas; Kenneth W. Hoagland, by Orville I. Wright, for City of Bakersfield; Robert J. Costello, by Orville I. Wright, for City of Redwood City; Frank Gillio, by Orville I. Wright, for City of Sunnyvale; Rodney R. Atchison, by Orville I. Wright, for City of Mountain View; Ernest Rusconi, by Orville I. Wright, for City of Morgan Hill.

For Commission Staff: Harold J. McCarthy, John Gillanders and Kenji Tomita.