

ORIGINAL

Decision No. 76655

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

Application No. 50779  
(Filed December 27, 1968)

(Appearances are listed in Appendix A)

Pacific Gas and Electric Company (PG&E) seeks authority to increase its rates for gas service in two phases: (I) an offset increase to reflect increases in the cost of gas purchased from the El Paso Natural Gas Company (El Paso) and the federal income tax surcharge, and (II) an increase in gas rates which would bring the rate of return of its gas department to not less than 7.50 percent. Pacific also requests authorization to set aside in a reserve the excess of a reduction in El Paso's rates effective October 1, 1968<sup>1/</sup> to the time El Paso's rates first become effective in FPC Docket No. RP 69-6 over Pacific's increased operating expenses resulting from the 10% federal income tax surcharge applicable to the gas department during the same period, such reserve to be refunded to customers in such manner and with such interest as the Commission may order.

Six days of hearing were held on Phase I of this application. PG&E, in the interest of expediting the proceeding, reduced its initial request for a rate increase of \$13,738,000 to \$6,797,000,

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<sup>1/</sup> El Paso reduced its charges on October 1, 1963, as a result of the FPC decision relating to gas produced in the Permian Basin Area, FPC Docket No. AR 61-1.

the amount required to produce a rate of return of not more than 6.25 percent, the return found fair and reasonable in PG&E's last major gas rate increase application.<sup>2/</sup> Decision No. 75460, dated March 18, 1969, authorized increased rates and charges amounting to \$6,797,000 annually to offset part of the increased cost of El Paso gas and the 10 percent surcharge on federal income taxes.

On April 18, 1969, prior to the commencement of hearings on Phase II of the proceeding, PG&E amended its initial application and made certain changes in its Phase II rate proposal, increasing the amount applicable to its gas-fired steam-electric plants by \$1,907,000 and, correspondingly, reducing the proposed increase applicable to its general service and resale customers below those initially proposed.

#### Public Hearing

Hearings on Phase II began May 12, 1969, after notice thereof was mailed to all of PG&E's gas customers, a total of thirty-three days of public hearings being held over a period of 23 weeks on this phase of the proceeding, during which time all parties and the general public were given an opportunity to present testimony and evidence.

A second notice was mailed to each of PG&E's gas customers advising them of hearings on August 13 and 14, 1969, at which time the general public was invited, specifically, to present testimony and evidence. On these two dates, as well as on other occasions, the general public did appear and present testimony and evidence. In total, 27 witnesses besides those sponsored by PG&E and the staff testified. Additionally, several others made statements which, at the makers' option, were not made under oath.

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<sup>2/</sup> Decision No. 61713, Application No. 42225, March 21, 1961, 58 Cal. PUC 570, 580.

PG&E, through witnesses, presented testimony and exhibits in support of its amended Phase II request. Parties to the proceeding who sponsored evidence included: the Commission's staff, California Ammonia Company, the California Manufacturers Association, the Berkeley Coalition, Consumers Cooperative of Berkeley and the Association of California Consumers, the American Taxpayers Union of California, Inc., Unit No. 3. Other groups, not parties, that presented evidence included the Urban Concerns Council, Oakland Economic Development Council, and El Club Tejano. Additionally, several individuals testified, some under oath, and some, at their option, without being sworn. Other parties to the proceeding, who did not offer their own testimony or exhibits, but who did cross-examine witnesses included: The United States Government, the City of San Francisco, the California Labor Federation of the AFL-CIO, and Mr. William M. Bennett, a ratepayer from Kentfield.

On October 16, 1969, Phase II of this proceeding was submitted for decision, subject to the filing of opening briefs on November 7 and reply briefs on November 17.

Because of the limited issues herein, the petition for a proposed report filed July 17, 1969, will not be granted.

#### Applicant's Proposal

Under the amended Phase II proposal the annual effect of the proposed rate increase on gross operating revenues for the test year 1969 was \$26,273,000. Because of the updating of estimates and various other reasons the total annual increase in gross operating revenues requested by PG&E at the time of submission of Phase II was \$21,328,000, or a 4.59 percent increase above present total revenue. Because PG&E proposes a decrease in the steam-

electric rate, the net impact on other classes at the time of submission was \$23,034,000; PG&E proposes to spread the rate increase above present rates, among the various classes of natural gas service as follows:

	<u>Additional Revenue Per Year</u>	<u>Percent Increase</u>
General Service	\$18,924,000	8.02%
Firm Industrial Service	1,363,000	12.35
Interruptible	2,427,000	2.11
Resale Service	278,000	6.76
Interdepartmental, excluding steam-electric	41,000	4.65
Interdepartmental, steam-electric	<u>(1,706,000)</u>	<u>(2.05)</u>
Total	\$21,327,000	

#### Resolution of Issues

As the hearings progressed and as PG&E and the staff updated their presentations the matters at issue between the parties diminished significantly. Toward the end of September, PG&E submitted Exhibit 96 which showed that the differences between the applicant and the staff's Exhibit 46, which had been introduced in July, had been reduced to eight. These differences, as measured by the gas department's rate of return at present rates, amounted to .61 of a percentage point. The differences between PG&E and staff were: (1) estimated revenues; (2) cost of gas; (3) sales expense; (4) treatment of the year 1969 wage increase; (5) treatment of the investment tax credit; (6) working cash allowance; (7) the amount of so-called excess gas available from El Paso under its Rate Schedule G-X-2; and (8) assumed volumes of 1969 PG&E sales to Pacific Lighting.

The staff, in Exhibit 106, further updated its estimates to show the differences that existed approximately two weeks after PG&E's updated showing in Exhibit 96. This revised staff showing

reduced the number of differences still further. In this showing the staff accepted PG&E's contention that G-X-2 excess gas purchases from El Paso would not exceed the amount estimated by PG&E. Resolution of this problem also eliminated the issue regarding sales to Pacific Lighting. The differences between PG&E and the staff were thus reduced to six.

On the final day of hearing, PG&E presented a results of operations study, Exhibit 112, in which further changes were made in applicant's showing. By this presentation PG&E stated it was willing, in the interests of expediting a decision and because the differences were relatively minor, to waive certain of the differences still existing in Phase II of the proceedings. PG&E thereby accepted for purposes of submission of Phase II, without agreeing to the underlying theories, all of the staff's estimates of sales and operating expenses shown in its Exhibit 106 except for the staff treatment of the 1969 wage increase. Thus, the difference between PG&E and the staff in the estimates of test year expenses other than income taxes was reduced to \$1,524,000 out of a total expense of more than \$400 million. The difference in the gas department's rate of return at present rates was reduced to .09 of a percentage point. The following tabulation compares the summaries of earnings for gas operations at present and proposed rates and shows the effect of the wage issue.

## SUMMARY OF EARNINGS

ESTIMATED YEAR 1969  
(000 OMITTED)

Item	Present Rates		PG&E Proposed Phase II	Adopted
	Staff	PG&E	Rates	Rates
<u>Gross Operating Revenues</u>				
General Service	\$236,069	\$236,069	\$254,993	\$248,222
Firm Industrial	11,034	11,034	12,397	11,300
Resale-Regular	4,111	4,111	4,389	4,232
Pacific Lighting	13,510	13,510	13,510	13,510
Interruptible	115,088	115,088	117,515	117,480
Interdepartmental-				
Steam Electric	83,203	83,203	81,497	84,401
All Other	882	882	923	905
L.P.G.	215	215	216	217
Other Gas Revenue	326	326	326	326
Total Operating Revenues	464,438	464,438	485,766	480,593
<u>Operating Expenses</u>				
Cost of Gas	282,750	282,750	282,750	282,750
Provision for Wage Increase	1,524	3,048	3,048	1,524
Sales Expense	3,300	3,300	3,300	3,300
Other Expenses Excluding				
Taxes Based on Income	119,177	119,177	119,386	119,329
Subtotal	406,751	408,275	408,484	406,903
Taxes Based on Income	7,146	6,291	18,140	16,125
Total Operating Expenses	413,897	414,566	426,624	423,028
Net for Return	50,541	49,872	59,142	57,565
Rate Base	788,558	788,558	788,558	788,558
Rate of Return	6.41%	6.32%	7.50%	7.30%

Issues

The issues to be considered herein are:

1. What is a fair and reasonable rate of return?
2. Should the effect of mid-year increases in wage rates be included in the test year summary of earnings at estimated actual increases in expenses or at estimated annual increases in expenses?
3. What is a reasonable rate-making allowance for sales, including promotion and advertising expenses?

4. Is it fair and reasonable that PG&E include in its expenses to be recovered from rates an amount to compensate it for the 10% federal income tax surcharge?

5. What is the original cost to PG&E of the McDonald Island Storage Facility?

6. What is a fair and reasonable spread of the authorized revenue increase among the various classes of service?

7. Should PG&E be permitted to retain part of the gas price refund obtained from El Paso as an offset to the 10% federal income tax surcharge?

Rate of Return

Two witnesses submitted studies in depth consisting of testimony and exhibits on the subject of rate of return. Applicant's witness advocated a rate of return of 7.5% on its gas department rate base based upon a calculated composite cost of capital for the company for the year 1969. Such computation follows:

	<u>Ratio</u>	<u>Rate</u>	<u>Total</u>
Long-term debt	53.9%	4.56%	2.46%
Preferred stock	9.5	5.30	0.50
Common equity	<u>36.6</u>	12.50	<u>4.58</u>
Total	<u>100.0%</u>		<u>7.54%</u>

Applicant supported its position as to the requested earnings on common equity by showing operating results for the year 1967 for the 15 largest combination utilities operating outside California and for the 50 largest electric and combination utilities. For the 15 largest combination companies the exhibit shows that they realized a return on average common equity of 13.5% and that the times interest earned before federal income taxes averaged 5.1 times. For the 50 largest electric and combination utilities the return earned on average common equity was 13.2% and the times interest earned before federal income taxes was 5.2 times.

It was the opinion of applicant's witness that PG&E should realize a return on average common stock equity in the range of 12.5% to 13%, that a return in that range would be generally comparable to that recently being earned, on the average, by other utilities with similar characteristics and risks, and would provide reasonable protection in the form of interest coverage on PG&E's debt securities.

The staff financial witness recommended, as reasonable, a rate of return within the range of 6.95% - 7.25% for applicant's gas department. Such rates of return would produce earnings on common equity in the range of 11.00% to 11.75%. His computations were based on the use of the same capitalization ratios as applicant's with a minor variation in the imbedded cost of debt capital (4.56% v. 4.53%). The staff witness presented studies showing the operating performance of PG&E and the eight largest combination gas and electric utilities and the nine largest gas utilities for the five-year period 1963-1967. Such studies showed that the combination companies had a return on average total capital of 6.93% and return on average common equity of 12.01%. Like returns for the gas utilities were 7.43% and 12.03%, respectively.

The staff witness also testified that in arriving at his opinion as to a reasonable rate of return he gave consideration first to the earnings of the eight largest combination gas and electric companies and the nine largest gas companies because there were elements of comparability between such companies and PG&E. In addition, he stressed the need to exercise informed judgment in considering the needs, circumstances and risks peculiar to the utility in question. The factors he considered, some of which are positive, would cause him to recommend a higher rate of return, and some negative, which would cause a lower rate of return recommendation. The factors include -

Positive Factors:

1. The company's capital structure
2. The growth potential in the company's service area



3. The trend toward higher debt cost
4. The company's continuing need for large amounts of external financing
5. The company's downward trend in interest coverage
6. The effects of continued inflation

Negative Factors:

7. The size of the company
8. Competition as compared to a captive market
9. Essentiality of the product to the public
10. The general trend toward increasing internal financing
11. The upward trend of earnings over the years included in the study

The testimony is well summarized and argued by the parties in their briefs, to which reference is made.

The staff concludes that a rate of return as high as 6.95% and an 11% return on equity would be reasonable and a generous increase which would enable PG&E to continue to enjoy high profits and would result in a \$9,800,000 annual revenue increase.

Southwest Gas Corporation urges that a 6.25% rate of return is totally inadequate under prevailing circumstances.

The California Labor Federation, ALF-CIO (Federation)<sup>3/</sup> recommends a rate of return of 6.85% with a 10.7 percent return on equity, arguing that the present inflationary economic climate is about to end.

The Legal Aid Society of Santa Clara County argued that Pacific's existing rate of return, 6.98% on total company rate base, exceeds that which is reasonable and just and that the rate increase should be denied.

The Association of California Consumers and Consumers Cooperative of Berkeley, Inc. (Co-op) proposes that a rate of return of 6.75% is reasonable and sufficient to continue PG&E's sound financial position and assure a fair rate of return.

The City and County of San Francisco (City) recommends a rate of return of 6.91% with a 10.82% return on equity.

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<sup>3/</sup> The Western Conference of Teamsters concurs with Federation's brief.

In previous rate decisions the Commission has stated that a reasonable rate of return cannot be determined through the use of a formula or by the application of mathematical ratios. Rather, it requires the exercise of informed judgment, taking into consideration numerous factors concerning the utility's operations especially those regarding its service, financing practices, future requirements for funds, and probable cost of future financing.

The record in this proceeding shows that applicant has utilized all forms of financing to meet its capital requirements. It has resorted to the use of debt and preferred stock financing to the extent it deems prudent and in so doing has maintained capitalization ratios comparable to those of other large power companies. It has been and will continue to be faced with the necessity of raising sizeable sums of money from external sources to finance its construction program. In this regard the record shows that in the five-year period 1965 through 1969 applicant raised approximately \$680,000,000 through the issuance of debt securities including \$160,000,000 in the year 1969. It can be expected that external financing of this or an even greater magnitude will continue in the near future.

A review of applicant's financing reveals that the interest cost of the debt securities it has issued has progressively increased and that its latest issue of \$80,000,000 of first mortgage bonds in November, 1969 was at an interest cost to it of 8.941%. This issue of debt securities, together with a like issue in April at a cost of 7.58% caused the imbedded cost of debt capital to increase from 4.26% at December 31, 1968 to approximately 4.60% at the present time - an increase of .34%.

The Commission must weigh these factors in arriving at an adequate rate of return for the applicant if it is to continue to render the service its customers require and be able to obtain the funds necessary for future construction requirements. In addition the Commission must always provide the lowest reasonable rates which are consistent with the interests of the public and the utility.

The staff's recommendation of a range in rate of return from 6.95% to 7.25% was based upon factors including a five-year study of other gas and combination companies, whereas applicant's studies were limited to the operating results of other companies for the single year 1967.

The five-year study will, in our opinion, tend to level out abnormalities which may occur in a single year, and should be more representative of the level of earnings which utilities are in fact realizing. Considering this and all of the factors mentioned in the staff's showing, and the constantly increasing cost of debt capital, it is apparent that the Commission must authorize the upper limit of the staff's recommendation. Adjusting 7.25% with the added cost associated with applicant's debt issue of November, 1969, we find that a rate of return of 7.3% is reasonable.

We find that the applicant should be authorized rates which will produce a rate of return of 7.30% on the gas department rate base adopted in this proceeding. Such a rate of return should offer applicant an opportunity to earn 11.80% on that portion of its common equity capital which might reasonably be allocated to its gas department operations. We hereby find that a rate of return of 7.3% is fair and reasonable for the purposes of this proceeding.

#### Wage Increase

In June, 1969, PG&E granted its employees a wage increase of 6-1/2% effective July 1, 1969. This salary increase will increase actual expenses in 1969 by \$1,524,000, to which both PG&E and the staff agree. For rate-making purposes the staff added

\$1,524,000 to PG&E's test year salary and wage expenses. PG&E seeks end of year or an annualized amount of \$3,048,000, twice the amount of the actual increase. PG&E's figure assumes the increase was in effect January 1, 1969, instead of July 1, 1969.

PG&E contends that this large, identifiable item of expense should be treated on the same basis as are (1) the wholesale gas rates of El Paso and (2) the federal income tax bond interest expense deduction, namely, at the latest known, and reasonably expected to prevail, level. The staff argues that if one expense increase is annualized, then all increases in revenue, expenses, and rate base should also be annualized, that one expense should not be considered without also considering effects of all other items comprising revenues and expenses, and that when trying to determine which expenses PG&E might reasonably have incurred in 1969, expenses that have not been incurred should not be included.

El Paso gas costs have been annualized by the staff since these are subject to refunding provisions. Both PG&E and the staff annualized bond interest costs in their rate of return calculation. The staff maintains that for consistency it annualized bond interest expenses for tax purposes. Other staff estimates of costs are based on known rates, not end of year rates annualized. The staff argues that no reason exists to treat the wage increase in any different manner and relies on Decision No. 75873, dated July 1, 1969.

Having adopted average year revenues and expenses for all other factors of the summary of operations, except the cost of gas for the reasons indicated above, it appears more logical and consistent to use average year wage costs, and therefore we accept the staff position.

Sales Expense

Advertising expenditures are accounted for as part of PG&E's sales expenses or within the separate category of institutional advertising. PG&E sought \$3,972,000 for test year 1969 sales expense. The staff, based upon an analysis of PG&E's activities and the sales expenditures of other utilities, allowed \$3,300,000 for sales expenses, which amounts to \$1.51 per customer per year. PG&E now accepts the staff figures on this issue "for purposes of submission of this phase without agreeing as to the underlying theories."

The record indicates that most of the sales expense is related to customer service activities and only about \$.60 per customer per year of the staff adjusted expenses relate to sales promotion.

The staff also found \$90,000 a reasonable expenditure for institutional advertising.

Federation recommended that PG&E be allowed \$2,100,000 which is about equal to the sales expense of the San Diego Gas & Electric Company, or \$1.00 per customer per year.

Co-op argues that no justification has been shown for PG&E's 40% increase in sales expenses in five years and that no more than \$350,000 should be allowed as advertising expenses if the Commission wishes to deny Co-op's basic position that advertising is not a justifiable cost for a monopoly utility that requires reimbursement and that stockholders should assume the cost of advertising.

The Commission is aware that there is some public dissatisfaction with PG&E's position that since consumers benefit from PG&E's advertising and other promotional activities that expenses for these items should be allowed for rate-making purposes.

In Decision No. 50258, Pac. Tel. Co., 53 CPUC 275, 279 (1954), the Commission discussed the reasonableness of advertising expense, and found that an expenditure "of no greater magnitude than three quarters of 1 percent of [Pacific's] revenue . . . is not excessive considering the results achieved. It is obvious that should the amount be disallowed in its entirety, such action would not obviate the need for a rate increase, as some protestants appeared to believe."

In Decision No. 56652, Pac. Tel. Co., 56 CPUC 277, 297 (1958), the Commission affirmed this view.

The staff recommendation is equivalent to about 0.71% of revenues. The record indicates that most of the sales expense is related to customer service activities and only about 0.3% of revenues are included in the staff adjusted expenses relating to sales promotion. Therefore, we accept the staff estimates as reasonable for the purposes of this proceeding.

Surcharge

The Revenue and Expenditure Control Act of 1968 provided for an increase in taxes by the application of a 10% surcharge to Federal income taxes. The question of whether PG&E should pass on the surcharge enacted by the Federal Government a little over a year ago has been raised by various protestants to this proceeding. PG&E and the staff argue that taxes are a proper expense to be taken into account for rate-making purposes, that the utility's rates should allow it to recover "all taxes which would be payable if a fair return were earned", <sup>4/</sup> that the surcharge is a tax on PG&E's intrastate utility operations which is properly recoverable by PG&E, and that the Commission should continue its policy of treating the surcharge as a special item. ✓

Protestants argue that the surcharge is not an ordinary tax and therefore should not be recovered as a business expense as are all routine, recurring, federal, state, and local taxes. They believe it is a special, or extraordinary tax, adopted for a particular purpose and should be borne by applicant. Federation urges that Presidential and Congressional intent be reflected and the federal surtax not be passed on to PG&E's ratepayer. The Legal Aid Society and Consumers argue that no justification has been shown that a double tax burden should be borne by PG&E's customers. ✓ City maintains that the surcharge is a temporary tax, not permanent, as in the Galveston case, and that the stockholders should pay for this out of their earnings the same as the customers must pay their tax surcharge from their earnings.

After a review of the arguments, the Commission is of the view that its tax surcharge policy does reflect the Presidential and

4/ Galveston Electric Company v. Galveston, 253 U.S. 383, 399 (1922). ✓

Congressional intent and is consistent with Treasury Secretary Henry Fowler's press conference statement on August 1, 1968 when he said:

"If a utility does request a rate increase on the basis of the tax surcharge, naturally we would expect the regulatory commission to follow its usual procedure of a study and a public hearing, at which the utility and other interested parties could present evidence to enable the commission to determine whether in view of all the facts, including but not limited to the surcharge, the rate of return is inadequate or confiscatory and a rate increase is justified. While the tax surcharge is a factor the commissions might consider, it does not automatically entitle the utility to higher rates. I am pleased to note that several commissions (South Carolina and Florida, as examples) are now handling requests for increases based on the surcharge in this normal careful manner.

"If after consideration of all factors, a regulatory commission authorizes a rate increase as a result of the surcharge, it should be limited to the duration of the surcharge. If the surcharge ends as scheduled on June 30, 1969, this increase in utility rates should be ended then."

In any event it is the Commission and not the Treasury Secretary or Congress who determine proper rate-making procedures in California. We adopt the procedure and tariff provision recommended by our staff and include the federal income tax surcharge as a reasonable operating expense.

McDonald Island Gas Storage Facility

Decision No. 58706, dated July 7, 1959, Application No. 41083, granted PG&E a certificate of public convenience and necessity to construct, operate, and use an underground gas storage project at McDonald Island located approximately 10 miles northwest of Stockton. The decision authorized the recording on PG&E's books of the acquisition of McDonald Island properties from PG&E's wholly owned affiliate, Natural Gas Corp. and required PG&E to file a copy of journal entries used to record the transfer of the properties. The decision stated:

"...Further, in view of the evidence, the Commission concludes that applicant should be authorized to record the transfer of the McDonald Island properties in the manner and substantially in the amounts



proposed herein. Also, in view of the evidence, the Commission concludes that the action taken herein shall not be construed to be a finding of the value of the properties to be transferred or acquired by the applicant."

Staff Exhibit 74 in this proceeding sets forth the history of the acquisition of the McDonald Island facility and the accounting therefor in detail. A simplified statement of this complex transaction is that the McDonald Island facility was acquired in 1958 by PG&E from the Standard Oil Company of California (Standard) by exchanging for it most of the interests of PG&E's wholly owned subsidiary, Natural Gas Corporation of California (Natural), in the Rio Vista gas field. Natural was acquired by PG&E in 1954 as one result of an involved series of mergers and stock exchanges between PG&E, PG&E's subsidiary Pacific Public Service Company (PPSC) and Coast Counties Gas & Electric Company and its subsidiaries (Coast). The acquisition of Coast stock by PPSC was not subject to review by this Commission, nor were the negotiations and conditions of the acquisition disclosed to the Commission.

Exhibit 74 sets forth that Natural's net book cost for its properties at the Rio Vista gas field which were transferred to Standard is \$294,716.98. The then present market value of the properties at Rio Vista transferred to Standard was determined by PG&E to be \$7,391,597. Of this amount, \$6,813,231 was designated by PG&E as the then present market value of the McDonald Island Gas Storage Facility and distributed to PG&E's utility plant accounts.

It appears that the issue of what is the original cost of the facility to PG&E, the one who first devoted it to public service, has never been fully presented to or considered by the Commission.

The evidence presented in PG&E's certificate Application No. 41033 or in PG&E's last major rate case, Application No. 42225, does not disclose the original cost to PG&E of the McDonald Island Gas Facility. PG&E now has had two opportunities to make this disclosure and has failed to do so. Unless PG&E justifies at the time of the next general gas rate case the amounts to be included in rate base for the McDonald Island facility, the Commission must consider if the amounts recorded on the books of Natural fairly represent the cost to PG&E of properties transferred to Standard in exchange for the McDonald Island gas facilities and if applicant's rate base should be adjusted by \$6,518,514, or some lesser figure, with related adjustments to depreciation and tax allowances. ✓

#### Rate Spread

Consideration of the problems of allocating the total revenues authorized to the various classes of customers follows:

#### General Service

The amount of increase recommended by PG&E and staff for the general service classification, which includes domestic customers, is in essence the difference between the increase in the gross revenue requirement and the amount of increases proposed for all other classes of service. Although approximately 50% of PG&E's total gas revenues is derived from this general service customer, over 80 percent of the total increase in revenues would be collected under the proposals of PG&E and the staff from this class. ✓

Federation recommends that whatever rate increase is authorized be spread equally among all customer groups. City supports the staff rate spread proposal.

Firm Industrial

PG&E proposes for firm industrial service the largest percentage increase in rates. These rates would be increased over present rates 12.4% overall, and up to 25% for the smaller customers.

Considering that the average revenue paid by this class is high compared with allocated costs and that PG&E's present rates produce less revenue per decatherm than those in southern California, the staff recommends a less-than-average increase, through improved tariff design, amounting to .89% exclusive of the surcharge tax increase.

California Manufacturers Association (CMA) argues that the staff proposed increase should be considered a ceiling even if a larger increase should be authorized since the existing rate for this service exceeds allocated cost even at a 7.5% rate of return.

PG&E argues that the interrelationship between firm and interruptible rate schedules would be distorted and require downward adjustment in the interruptible schedules applicable to the smaller interruptible customers if CMA's views were adopted.

Resale

PG&E proposes for resale service a 6.76% increase and the staff recommends an increase of 1.46% exclusive of surtax.

The City of Palo Alto urges that PG&E not be permitted to earn a greater rate of return from property allocated to service of the City of Palo Alto than from other customers. Palo Alto argues

that in view of the minimal costs involved in serving the city the rate spread proposed by the staff is considerably more suitable and realistic, and will result in fairer treatment to Palo Alto's predominantly residential and small commercial customers, than the spread proposed by PG&E.

Southwest Gas Corporation urges that the residential and small commercial customers, which it serves in San Bernardino County, should receive substantially the same treatment in terms of rate of return which they are required to pay on PG&E's facilities properly allocated to them, as PG&E's own residential and small commercial customers.

Interruptible

PG&E proposes for interruptible service, except steam-electric, a 2.11% increase over present revenues and the staff proposes a 0.75% increase. Of the total increase in gross revenues PG&E would obtain 11.4% from the interruptible class of customers and the staff would obtain 8.2%. PG&E would obtain from this class approximately three times the amount of revenue which the staff assumes for the purpose of rate design at 7.1% rate of return.

PG&E proposes to increase rates for the first 100,000 therms of usage per month on interruptible schedules G-50, G-51 and G-53 and for the first 200,000 therms per month on interruptible schedules G-56 and G-57. The maximum proposed increase is \$250 per month. For very large interruptible customers, such an increase is negligible as a percent of total billing. For smaller customers the increase over present rates ranges up to 12.7% for a customer using more than the minimum billing amount.

PG&E maintains it has sought to obtain as much of the increase as practicable from interruptible customers and that interruptible rates should not be raised so high as to risk the loss of additional interruptible customers as such a loss would be detrimental to PG&E's other customers.

The staff proposal is dependent upon the total revenue increase found reasonable. With a \$10,502,000 total increase the staff would increase interruptible rates by \$862,000 or .75%. This amount is increased at higher revenue requirements. The staff maintains that the present average revenue paid by this class is relatively high and that only a nominal increase should be made. The staff applied an average increase of 1.03¢ per decatherm to rate blocks for usage under 100,000 therms per month in Schedules G-50, G-51 and G-53 and under 200,000 therms per month in Schedules G-56 and G-57. The staff increase, exclusive of surcharge tax increase, amounts to a .63% increase. Although the staff-proposed increase would affect all interruptible users, large users would be affected to a lesser extent than small users. The staff contends that existing rates and proposed rates are not at the value of service and that competition from non-utility gas and fuel oil is nominal.

CMA objects to the staff proposal that the additional revenue increase now required for Federal income tax surcharge be imposed initially on usages for which no such increase was imposed in Phase I until all customer classes bear the surcharge equally. In the decision on Phase I of this proceeding none of the revenue increase related to the Federal income tax surcharge was imposed on interruptible usages in excess of 100,000 therms per month on Schedules G-50, G-51 and G-53 and 200,000 therms on Schedules G-56 and G-57. The

result of the staff-proposed treatment of the tax surcharge is an increase in rates for larger interruptible customers greater than the maximum \$250 per month proposed by PG&E, even though the total system revenue increase proposed by the staff is only 40% of that sought by PG&E. CMA submits: (1) The magnitude of the proposed increases upon interruptible customers using less than 100,000 therms per month is unreasonable and unduly discriminatory in relation to the increases proposed for other customers, when considered in the light of the rates effective prior to March 23, 1969; (2) interruptible rates have reached the limit of the value of such service, and rates for larger interruptible customers higher than those proposed by PG&E would be excessive; (3) if allocated costs of serving interruptible customers as compared with others were to control, no increase whatever for interruptible service would be justified.

#### Steam Electric

PG&E would reduce by \$1,706,000, or 2.05%, the amount of interdepartmental revenue obtained from the use of gas as fuel in steam-electric generating plants. The staff would increase steam-electric revenues .18%, exclusive of surcharge tax, to reflect an increase in the rate of return on facilities devoted exclusively to this service. PG&E's proposed rates to its steam-electric plants are based primarily on the rate that exists for the Southern California Edison Company.

PG&E argues that if the steam-electric gas rate were greater than that proposed by it, the resulting increase in the cost of electric generation in northern California would adversely affect PG&E's ability to establish electric rates which would be competitive with those in southern California. Furthermore, sales by PG&E to other members of the California Power Pool are adversely affected to the

detriment of all the electric consumers in California when the steam-electric rate in northern California is out of line with that applicable in southern California to Southern California Edison Company. The sales under the Power Pool agreement are based on the concept that the most economic generating facility should be utilized to supply California electric customers. If rates for gas service to generating plants do not reflect the comparability of the costs of gas within the two areas, generation from other than the most efficient plant may result to the detriment of the electric consumers in the State. Additionally, PG&E maintains that its proposal for the steam-electric rates would reestablish the relationship between the rates that existed in the two areas in the early 1960s.

The staff argues that the proposal to set PG&E's steam-electric rate at the same level as Pacific Lighting does not recognize PG&E's higher cost of service and the greater curtailment of service to Edison than the limited interruption of gas deliveries to PG&E's electric department. The staff maintains that the steam-electric rate reduction would merely further increase PG&E's total earnings at the expense of its gas customers since PG&E does not propose to reduce its electric rates by the amount of the proposed reduction and any reduction in steam-electric rates would require further increases to PG&E's other gas customers.

#### Coalinga Nose

PG&E proposes no increase in the rate for excess gas sold to the Coalinga Nose producers for oil field repressurization. The staff proposes an increase of about 4%, or \$60,000, a year. Since the producers have the right to terminate the purchase of excess gas after April 1, 1971, PG&E fears that any increase in rates may create the

risk of termination of this portion of the contract. The remaining portions of the contract, beneficial to customers, are not subject to termination. The staff gives little weight to this argument. We accept the staff position.

### Zoning

The staff, with minor exceptions, essentially accepts the PG&E zoning proposal for general service customers which would decrease the number of basic zones from 6 to 5. Except for the staff recommendations that the American River and Roseville Rate Areas remain in Zone 3 rather than be transferred to Zone 2 as a part of the new Sacramento Rate Area, PG&E accepts the staff's proposed rate zone assignment of existing rate areas.

### Adopted Rates

The following table compares by major classes of service the revenues under present and rates herein authorized:

Comparison of Revenues  
Present and Authorized Rates  
Year 1969 Estimated

<u>Class</u>	<u>Revenues</u>			<u>% Increase</u>
	<u>Present Rates</u>	<u>Authorized Increase (000 Omitted)</u>	<u>Authorized Rates</u>	
General Service	\$236,069	\$12,153	\$248,222	5.15%
Firm Industrial	11,034	266	11,300	2.41
Resale -				
Firm	3,928	119	4,047	3.03
Interruptible	183	2	185	1.09
Total Resale	4,111	121	4,232	2.94
Interruptible	115,088	2,392	117,480	2.08
Interdepartmental				
Steam-Electric Plants	83,203	1,198	84,401	1.44
Steam Sales	640	9	649	1.41
Other Operations	82	5	87	6.10
Construction	160	9	169	5.62
Total Interdepart- mental	84,085	1,221	85,306	1.45
Subtotal Natural Gas	450,387	16,153	466,540	3.59
LPG	215	2	217	0.93
Subtotal Gas Sales	450,602	16,155	466,757	3.59
Sales to Pacific Lighting	13,510	-	13,510	-
Other Gas Dept. Revenues	326	-	326	-
Total	\$464,438	\$16,155	\$480,593	3.48%



Included in the authorized revenue of \$480,593,000 is \$3,080,000, or 0.66%, for the recovery of the Federal income tax surcharge at the current 10% rate.

El Paso Refund

October-March Refund

On October 1, 1968, El Paso reduced its gas price to PG&E by .72¢ per Mcf. This reduction was in effect until March 7, 1969. Between October 1, 1968 and March 7, 1969, PG&E's cost of gas was reduced by \$1,241,231 which includes 7% interest to March 7, 1969. PG&E has returned similar reductions to the ratepayer in the form of refunds and reductions. PG&E proposed to refund this amount to the consumer but seeks to offset part of its El Paso reduction by the amount of the tax surcharge between October, 1968 and March, 1969. The PG&E proposal was described by PG&E's counsel in his opening statement:

" . . . . What has been proposed is a plan whereby the company is willing to go back to October 1 for the purpose of computing refunds to customers of the October 1, '68 El Paso decrease, but at the same time recognizing the offsetting effect of the tax surcharge back to the identical date.

"The proposed treatment is consistent with that being sought in the Pacific Lighting Companies' pending proceedings which are currently nearing conclusion in Los Angeles."

The staff agrees that the El Paso reduction must be refunded to PG&E's customers but sees no justification for PG&E's proposed surcharge offset. The Pacific Lighting request to offset El Paso rate reduction with the tax surcharge was rejected by the Commission in Decision No. 75803, dated June 17, 1969. The Commission concluded "that the request of applicants to utilize Permian gas cost reductions to offset partially Surtax prior to March 7, 1969 should be denied."

PG&E contends its earnings were too low in the October 1968-March 1969 period and allowance of the surcharge will bring the earnings to a more reasonable level.

The staff proposes that a refund of \$989,943 (\$1,241,231, less \$251,288 to offset the increased cost of gas from March 7 to March 22) plus interest at a rate of 7% be returned to PG&E's customers.

#### June 3, 1969 Refund

Pursuant to a FPC order, dated June 3, 1969 PG&E received a refund of \$148,823 from El Paso. This refund was due to reductions between March 7, 1969 and April 30, 1969. PG&E proposed to refund \$106,178, the amount attributable to March 23 - April 30, 1969. PG&E would offset the refund attributable to the March 7-22 period prior to Phase I rate relief.

The staff takes the position that the entire June 3, 1969, refund of \$148,823 should be returned to the ratepayer. The staff argues that the above proposed offset of \$251,288 will compensate PG&E for the March 7-22 gas rate increases. This offset would obviate PG&E's request that \$42,645 be offset from the June 3, 1969 refund.

It is the position of City and Federation that any refund amounts resulting from lower cost of gas from El Paso Natural Gas Company to PG&E should be passed on to the customer, in total, including interest earned on the principal amount.

#### Cost of Gas

In its application PG&E has included, as part of its cost of out of state gas, the rates currently being paid to El Paso pursuant to Federal Power Commission (FPC) Dockets Nos. RP69-6 and RP69-20. These dockets are currently under review by the FPC.

El Paso's rates therein may be reduced and refunds may be ordered. To the extent that the FPC denies the rate increases requested by PG&E's out of state suppliers, PG&E's cost of gas will be lower than estimated.

Findings and Conclusions

The Commission finds that:

1. For test year purposes, the use of the year 1969, as adjusted, is reasonable and should be adopted to determine the fairness and reasonableness of the rates and charges to be authorized.
2. The gross operating revenues computation for PG&E's gas department, at present rates, of \$464,438,000 is reasonable for test year purposes.
3. The cost of gas estimate of \$282,750,000 for PG&E's gas department is reasonable for test year purposes.
4. The operating expenses estimate at present rates for other than (a) the cost of gas, (b) taxes based on income, and (c) the 1969 wage increase, at present rates, of \$122,477,000 for PG&E's gas department is reasonable for test year purposes.
5. The 1969 wage increase estimate of \$1,524,000 for PG&E's gas department is reasonable for test year purposes.
6. The sales expense estimate of \$3,300,000 for PG&E's gas department, including sales promotion and advertising, is not unreasonable for test year purposes in this proceeding.
7. It is reasonable to include the federal income tax surcharge as a component of taxes based on income, and thus as an operating expense for test year purposes. The tariffs hereinafter authorized and set forth in Appendix B on the basis of the 10% surcharge should be modified and filed on the basis of the 5% surcharge since that change in the Federal Income Tax has been enacted.
8. The taxes based on income estimate of \$7,146,000 for PG&E's gas department, at present rates, is reasonable for test year purposes.

9. The total operating expenses computation of \$413,897,000 for PG&E's gas department, at present rates, is reasonable for test year purposes.

10. The net for return computation of \$50,541,000 for PG&E's gas department, at present rates, is reasonable and should be adopted for test year purposes.

11. The rate base estimate of \$788,558,000 for PG&E's gas department is reasonable for test year purposes in this proceeding.

12. The rate structure proposed by the staff is fair and reasonable and should be authorized in this proceeding.

13. It is reasonable to refund to PG&E's customers the El Paso gas cost reductions to PG&E between October 1, 1968 and March 7, 1969, which totalled \$1,241,231, including 7% interest to March 7, 1969, reduced by the amount set forth in Finding No. 15.

14. PG&E's proposed offset of \$889,000 for its Federal income tax surcharge between October 1, 1968 and March 7, 1969, is not warranted.

15. It is fair and reasonable that PG&E be allowed to retain \$251,288 of the \$1,241,231 El Paso reduction to offset El Paso price increases between March 7 and March 22, 1969 to the extent necessary to increase PG&E earnings up to a 6.25% rate of return for that period.

16. It is reasonable that PG&E refund to its customers, without offset the refund of \$148,823 from El Paso pursuant to the June 3, 1969 order of the Federal Power Commission.

17. It is reasonable that PG&E is not to reduce its rates or make any refund as a result of the El Paso reduction between May 1, 1969 and July 5, 1969, totalled \$116,917, subsequent increases more than offsetting this temporary reduction.

18. It is reasonable that PG&E should flow through to its customers any future refunds that it may receive from El Paso and that PG&E should reduce its rates commensurate with the reduction in price of out of state gas to reflect such reductions.

19. The estimates, previously indicated as adopted and discussed herein, of operating revenues, operating expenses and rate base for the test year 1969, reasonably indicate the probable results of applicant's operations for the near future.

20. A rate of return of 7.30% will provide PG&E an 11.80% return on common equity. ✓

21. A 7.30% rate of return is adopted as fair and reasonable.

22. The amount paid for residential use of 100 therms each month for gas service presently varies from \$7.16 to \$9.12 because of differences in basic zone rates. Under PG&E's application the bills for the residential user under the lowest zoned rate would be \$8.11, an increase of 13.27%. The staff proposed rates would result in a comparable bill of \$7.61, an increase of 6.28%. Under rates authorized herein the comparable bill will be \$7.69, an increase of 7.40%.

The Commission concludes that:

1. The application herein of PG&E should be granted to the extent set forth in the preceding findings and in the following order and in all other respects should be denied.

2. The increases in rates and charges authorized herein are justified.

3. The rates and charges authorized herein are just, fair, and reasonable and present rates and charges insofar as they differ therefrom are for the future unjust, unfair, and unreasonable.

4. All motions consistent with these findings and conclusions should be granted and those inconsistent therewith should be denied.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, Pacific Gas and Electric Company is authorized to file revised tariff sheets, with rates, charges and conditions modified, as set forth in Appendix B attached hereto. Such filing shall comply with General Order No. 96-A. The effective date of the revised rate schedule shall be four days after the date of filing. The revised rate schedules shall apply only to service rendered on and after the effective date thereof.
2. Applicant's request to apply Permian gas cost reductions to offset Federal income tax surcharge prior to March 7, 1969, is denied.
3. Applicant's request to apply a portion of a \$148,823 refund received from El Paso Natural Gas Company to offset rate increases in FPC Docket No. RP69-6 is denied.
4. Applicant is authorized to retain not more than \$251,288, the portion of Permian gas cost reductions which were accumulated through March 7, 1969, the extent necessary to offset the increase in cost of gas supplies purchased from El Paso Natural Gas Company and provide a level of earnings not in excess of 6.25% within the period March 7, 1969 - March 22, 1969, resulting from the rate increase in FPC Docket No. RP69-6.
5. Applicant is authorized to retain the reduction in the cost of gas purchased from El Paso Natural Gas Company for the period May 1, 1969 to July 5, 1969 as a partial offset to increases in the cost of gas purchased from El Paso Natural Gas Company for the period July 5, 1969 to the effective date of this order.

6. Within thirty days after the effective date of this order applicant shall file with the Commission a proposed plan for refunding to its customers gas cost reductions resulting from:

- a. Reductions in the cost of Permian gas of \$989,943 for the period October 1, 1968 to March 7, 1969, remaining after offsetting increase in gas costs as authorized in paragraph 4 of this order.
- b. Refunds of \$148,823 received from El Paso Natural Gas Company as a result of reductions in the cost of gas between the period March 7, 1969 and April 30, 1969.

Refund shall include interest computed at the rate of 7% per annum.

7. Applicant shall place in a reserve the refund amounts under paragraph 6 of this order, with interest continuing at the rate of 7% per annum, for distribution to customers as the Commission may subsequently direct.

8. If rates are ordered reduced under FPC Dockets Nos. RP69-6 and RP69-20, applicant shall file its proposed permanent rate plan reflecting the reductions found reasonable in Finding 18 herein. The proposed rates will be subject to review and authorization by this Commission. If refunds are ordered in said dockets, such refunds shall be flowed through to applicant's customers.

9. All motions consistent with the findings and conclusions set forth above in this decision are granted, and those inconsistent therewith are denied.

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

Dated at San Francisco, California, this  
6th day of JANUARY, 1970.

William J. Lyons, Jr.  
President

J. P. Williams

Thomas J. Williams

Vernon L. Sturgeon  
Commissioners

*I will file a dissent.  
Augusta*



APPENDIX A

List of Appearances

For Applicant: F. T. Searls, John C. Morrissey and John S. Cooper, for Pacific Gas and Electric Company.

Protestants: William M. Bennett as consumer spokesman; Bruce Brickwood Hutchings, for himself and 15 Roseville residents; McCarthy, Johnson & Miller, by P. H. McCarthy, Jr., for State Building and Construction Trades Council of California, AFL-CIO; Charles H. McCrea, for Southwest Gas Corporation; Orville I. Wright, for himself; and Diamantes D. Katsikaris, for American Taxpayers Union of California, Inc., Unit (3); and Jack Hendrickson, representing Diamantes D. Katsikaris, for American Taxpayers Association.

Interested Parties: Robert T. Anderson, City Attorney, and Robert P. Berkman, Assistant City Attorney, for City of Berkeley; J. A. Hildebrand, City Attorney, by Robert Keith Booth, Jr., Assistant City Attorney, for City of Palo Alto; Chickering & Gregory by Edward P. Nelsen, for San Diego Gas & Electric Company; John H. Colteaux, for California Farmer Consumer Committee; Brobeck, Phleger & Harrison by Gordon E. Davis and Robert N. Lowry, for California Manufacturers Association; Richard A. Elbrecht, for Legal Aid Society of Santa Clara County; A. E. Engel, for California Rural Electric Cooperative; Colonel Thomas D. Farrell and 1st Lieutenant David W. Jefferson, for the United States Government; Lionel E. Goff, Jr., for Pacific Lighting System - Southern California; Sheldon Greene and Robert Gnaizda, for low income users; Mrs. Mary Gullberg, for Association of California Consumers, Inc., and Consumers Cooperative of Berkeley, Inc.; Roy W. Hanson, for City of San Jose; W. L. Knecht and Ralph Hubbard, for the California Farm Bureau Federation; Alvin Landis, for County of Yuba; Thomas C. Lynch, Attorney General of the State of California, by Donald B. Day, Deputy Attorney General, for the State of California; Douglas J. Maloney, for County of Marin; Mrs. Grace McDonald, for California Farmer Consumer Information Committee; Thomas M. O'Connor, City Attorney, by William C. Taylor, Deputy City Attorney, and Robert Laughead, for the City and County of San Francisco; Michael R. Peevey, for California Labor Federation, AFL-CIO; Verne H. Pynn, Assistant City Attorney, for City of Concord; David W. Salmon, for Western Conference of Teamsters; John R. Stokes, for City of Arcata; Mrs. Jean L. Walker, for Consumers Cooperative Society of Palo Alto, Inc.; Michael S. Zola, for San Francisco Neighborhood Legal Assistance Foundation; Henry J. Faltz, County Counsel, for County of Santa Cruz; Captain Ford M. Robbins, for the United States Government; P. Dennis Keenan, for Pacific Lighting Service and Supply Company; Jennifer Cross Gans, for Berkeley Consumers Coop Association of California Consumers; Cruz Reynoso, for California Rural Legal Assistance; James H. Lindley, for California Ammonia Company; and Overton, Lyman & Prince by Donald H. Ford, for Southwestern Portland Cement Company.

Commission staff: Leonard L. Snaider, Counsel, substituting for David R. Larrouy, Colin Garrity and Kenji Tomita.

APPENDIX B  
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RATES - PACIFIC GAS AND ELECTRIC COMPANY

Applicant's rates, charges and conditions are changed to the level or extent set forth in this appendix.

Preliminary Statement

Delete the text of the present Preliminary Statement under "7-Offset Charge and Related Refunds and Reductions", and insert thereunder the following:

(a) Federal Income Tax Surcharge

Until the 10% federal surcharge to federal income tax is removed, filed rates herein include a charge of .66%<sup>a</sup> for such surcharge. At such time as this surcharge is effectively suspended or terminated, in whole or in part, and not replaced by a substitute tax based on income, the above percentage shall be eliminated or reduced to the extent of the reduction in the tax.

(b) Contingent Offset Charges Related to FPC Dockets Nos. RP69-6 and RP 69-20

The rates herein include an offset charge of 1.93¢ per decatherm (1.48¢ per decatherm for RP69-6 and .45¢ per decatherm for RP69-20) related to increased cost of gas purchased from El Paso Natural Gas Company. To the extent that the FPC orders reduction in the rates for gas purchased from El Paso Gas Company, the offsets will be reduced related to the amount of such reduction in cost of gas purchased from this source.

(c) Refund of Contingent Offset Increases Related to FPC Dockets Nos. RP69-6 and RP69-20

The company will refund to its customers any refund received from El Paso pursuant to an order of the Federal Power Commission in Dockets Nos. RP69-6 and RP69-20.

GENERAL NATURAL GAS SERVICE - BASIC ZONES\*

	Per Meter Per Month				
	G-1	G-2	G-3	G-4	G-5
<u>RATES</u>					
Commodity Charge:					
First 2 therms or less	\$1.25	\$1.35	\$1.45	\$1.60	\$1.85
Next 23 therms, per therm	6.84¢	7.18¢	7.57¢	7.98¢	8.70¢
Next 175 therms, per therm	6.49	6.74	6.95	7.16	7.59
Next 800 therms, per therm	6.22	6.29	6.33	6.39	6.50
Next 49,000 therms, per therm	6.12	6.13	6.15	6.16	6.19
Over 50,000 therms, per therm	5.90	5.90	5.90	5.90	5.90
Minimum Charge:	\$1.25	\$1.35	\$1.45	\$1.60	\$1.85

\* Schedules Nos. G-6 and G-8 deleted

a/ Excludes therms used in gas energized air conditioning equipment. Equivalent amount expressed in Lamp Rate in Schedule G-30 and Demand Charge in Schedules G-60, G-61 and G-62.

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GENERAL NATURAL GAS SERVICE - BASIC ZONES (Continued)

TERRITORY

Zone	Sched.	Rate Areas			
1	G-1	San Francisco			
2	G-2	East Bay <sup>1/</sup>	Peninsula-San Jose <sup>2/</sup>		Sacramento <sup>3/</sup>
3	G-3	American River	Fresno	Novato	Santa Rosa
		Antioch- <sup>4/</sup>	Livermore	Oakley	Sonoma
		Pittsburg	Lodi	Old River	Stockton
		Bakersfield	Madera	Oroville- <sup>6/</sup>	Taft
		Brentwood	Manteca	Thermalito	Tracy
		Carmel	Marin	Petaluma	Turlock
		Chico	Marysville-	Port Chicago	Vacaville
		Contra Costa <sup>5/</sup>	Yuba City	Roseville	Vallejo
		Davis	Merced	Salinas	Watsonville
		Edison	Modesto	San Ramon	Woodland
		Fairfield-	Monterey	Village	
		Suisun	Napa	Santa Cruz	
4	G-4	Atwater	Fairfield	Livingston	Ridgecrest
		Auburn	Gardens	Lockeford	Rio Del Mar
		Avenal	Fellows	Loomis	Rio Vista
		Arbuckle	Felton	Los Banos	Ripon
		Bayview Park	Firebaugh	Mather Field	Riverbank
		Ben Lomond	Folsom	Heights	Rocklin
		Benicia	Fowler	Maricopa	Rohnert Park-
		Biggs	Galt	Marina	Cotati
		Bolsa Knolls	Gilroy	Mendota	Saint Helena
		Boron	Gonzales	Morada	Salida
		Boulder Creek	Greenfield	Morgan Hill	San Joaquin
		Calistoga	Gridley	Napa Junction	San Juan Bautista
		Carmel River	Gustine	Newman	Sanger
		Castroville	Healdsburg	North Bayview	Sebastopol
		Chowchilla	Hollister	Park	Selma
		Colusa	Hughson	North Pleasanton	Soledad
		Corning	Isleton	Oakdale	Sutter
		Delhi	Kerman	Oakmont	Trona
		Denair	Kettleman City	Orland	Wheatland
		Dixon	Keyes	Patterson	Williams
		Dos Palos	King City	Pioneer Point	Willows
		Durham	La Selva Beach	Planada	Winters
		East Red Bluff <sup>7/</sup>	Larkfield	Pleasanton	Winton
		Easton	Lathrop	Pleasanton	Yountville
		Elk Grove	Lincoln	Meadows	
		Escalon	Live Oak	Red Bluff <sup>7/</sup>	
5	G-5	All territory not provided for in other General Natural Gas Service rate schedules.			
<sup>1/</sup>		Encompasses present East Bay, El Sobrante (South) and Fremont Rate Areas			
<sup>2/</sup>		" " Peninsula-San Jose, North Peninsula and Milpitas Rate Area			
<sup>3/</sup>		" " Sacramento, North Sacramento and West Sacramento Rate Area			
<sup>4/</sup>		" " Antioch-Pittsburg and Ambrose Rate Areas			
<sup>5/</sup>		" " Contra Costa and El Sobrante (North) Rate Areas			
<sup>6/</sup>		" " Oroville and Thermalito Rate Areas			
<sup>7/</sup>		Present Red Bluff Rate Area and East Red Bluff to be one Rate Area			

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GENERAL NATURAL GAS SERVICE - SUBZONES

<u>RATES</u>	<u>Per Meter Per Month</u>			
	<u>G-7</u>	<u>G-11</u>	<u>G-12</u>	<u>G-13</u>
Commodity Charge:				
First 2 therms or less	\$1.65	\$2.05	\$2.40	\$2.70
Next 23 therms, per therm	9.20¢	10.32¢	11.01¢	12.93¢
Next 175 therms, per therm	8.64	9.31	9.74	11.00
Next 800 therms, per therm	8.05	8.39	8.63	9.67
Next 49,000 therms, per therm	7.87	8.12	8.31	9.49
Over 50,000 therms, per therm	7.46	7.46	7.46	8.59
Minimum Charge:	\$1.65	\$2.05	\$2.40	\$2.70

TERRITORY

<u>Zone</u>	<u>Sched.</u>	<u>Rate Areas</u>			
7	G-7	Arcata	Fortuna	Humboldt	Eureka
11	G-11	Huron	Las Lomas		
12	G-12	Cushenbury Springs	Linden	Sonoma-Mendocino <sup>8/</sup>	
		Ione <sup>9/</sup>	Shasta <sup>10/</sup>	Upper Carmel Valley	
13	G-13	Blackpoint	Kenwood	Paradise	Maxwell
		Fall River	Grass Valley-		
		Mills	Nevada City (NG)		

PUBLIC OUTDOOR LIGHTING NATURAL GAS SERVICERATES

	<u>Per Group of Lights Per Month</u>
First 10 lights or less	<u>G-30</u> \$15.00
For each additional gas light	1.50
For each cubic foot per hour of total rates capacity for the group in excess of either 1.5 cubic foot per hour per light or 15.0 cubic feet per hour for the group, whichever is greater	.42

FIRM INDUSTRIAL NATURAL GAS SERVICE

<u>RATES</u>	<u>Per Meter Per Month</u>	
	<u>G-40</u>	<u>G-41</u>
Commodity Charge:		
First 1,000 therms, per therm	5.97¢	6.45¢
Next 9,000 therms, per therm	5.70	6.17
Next 20,000 therms, per therm	5.58	6.06
Over 30,000 therms, per therm	5.43	5.93
Minimum Charge:	\$40.00	\$40.00
Except that when the use of gas is seasoned or intermittent, the minimum charge may, at the option of the customer, be made accumulative over a 12-month period in which case the minimum charge shall be \$1,200 per year cumulative in monthly installments of \$100.00.		

- <sup>8/</sup> Encompasses present Sonoma-Mendocino and Ukiah Rate Areas  
<sup>9/</sup> Includes Jackson, Martell, and Sutter Creek  
<sup>10/</sup> Excludes Antelope Valley from present Shasta Rate Area

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TERRITORYScheduleArea

G-40

The entire territory served natural gas by the company as follows, except in -  
 Portion of Coast Valleys Division within Upper Carmel Valley Rate Area.  
 Portion of Colgate Division supplied from the Maxwell gas main extension.  
 Portion of De Sabla Division supplied from the Paradise gas main extension.  
 Humboldt Division  
 Portion of North Bay Division within the Kenwood and Sonoma-Mendocino 8/ Rate Areas.  
 Portions of Shasta Division supplied from the gas main extension to Fall River Mills and McArthur, and in Shasta Rate Area. 10/  
 Portions of Stockton Division within Ione 9/ and Linden Rate Areas.  
 Portions of Colgate and Drum Divisions supplied from the gas main extension to Grass Valley and Nevada City.

G-41

Within the Rate Areas of:

Arcata	Ione 9/	Shasta 10/
Eureka	Kenwood	Sonoma-Mendocino 8/
Fortuna	Maxwell	Upper Carmel Valley
Humboldt	Paradise	

GAS ENGINE AGRICULTURAL NATURAL GAS SERVICERATESPer Meter Per YearG-45

Commodity Charge:

First 140 therms per hp, per therm

5.87¢

Next 140 therms per hp, per therm

4.98

Over 280 therms per hp, per therm

4.46

INTERMITTIBLE NATURAL GAS SERVICERATES

Schedule No. G-50

Per Meter Per MonthG-50

Commodity Charge:

First 10,000 therms, per therm

5.585¢

Next 20,000 therms, per therm

5.195

Next 30,000 therms, per therm

5.034

Next 40,000 therms, per therm

4.886

Over 100,000 therms, per therm

3.740

Minimum Charge:

\$90.00 per meter per month, accumulative annually.

8/ Encompasses present Sonoma-Mendocino and Ukiah Rate Areas

9/ Includes Jackson, Martell, and Sutter Creek

10/ Excludes Antelope Valley from present Shasta Rate Area

APPENDIX B  
Page 5 of 6INTERRUPTIBLE NATURAL GAS SERVICE (continued)TERRITORY

Schedule No. G-50 offered in the entire territory served natural gas by the Company as follows, except in -

Humboldt Division

Portions of Shasta Division supplied from the gas main extension to Fall River Mills and McArthur, and in Shasta Rate Area.

Portion of Stockton Division within Linden Rate Area.

Portions of Colgate and Drum Divisions supplied from the gas main extension to Grass Valley and Nevada City, Nevada County.

SPECIAL CONTRACT

Coalinga Nose Producers

Dated June 3, 1968

Paragraph 2(b)

RATES

Excess Gas

33.60¢ per Mcf  
(Includes compressing and  
transporting of gas)

RATES

Schedule No. G-51

Per Meter Per Month

G-51

Commodity Charge:

First 10,000 therms, per therm

5.934¢

Next 20,000 therms, per therm

5.544

Next 30,000 therms, per therm

5.374

Next 40,000 therms, per therm

5.234

Next 900,000 therms, per therm

4.092

Over 1,000,000 therms, per therm

3.740

Minimum Charge:

\$110.00 per meter per month, accumulative annually.

TERRITORY

Schedule No. G-51 offered: -

Within the Rate Areas of

Arcata

Eureka

Fortuna

Humboldt

Shasta 10/

Within that portion of Shasta Division supplied from gas main extension to Fall River Mills and McArthur.

Within that portion of Colgate and Drum Divisions supplied from the gas main extension to Grass Valley and Nevada City, Nevada County.

RATES

Schedule No. G-53

Per Meter Per Month

G-53

Commodity Charge:

First 10,000 therms, per therm

5.584¢

Next 20,000 therms, per therm

5.194

Next 30,000 therms, per therm

5.034

Next 40,000 therms, per therm

4.884

Next 1,900,000 therms, per therm

3.740

Next 13,000,000 therms, per therm

3.287

Over 15,000,000 therms, per therm

3.196

10/ Excludes Antelope Valley from present Shasta Rate Area

APPENDIX B  
Page 6 of 6

INTERRUPTIBLE NATURAL GAS SERVICE (continued)

TERRITORY

Schedule No. G-53 offered within the entire territory served natural gas by the Company.

STEAM ELECTRIC GENERATING PLANT - INTERRUPTIBLE NATURAL GAS SERVICE

RATES

Commodity Charge:

For all gas deliveries, per therm

Facility charge: Deleted

Per Month	
G-55	G-55.1
3.207¢	3.632¢

INTERRUPTIBLE NATURAL GAS SERVICE - LARGE USERS

RATES

Commodity Charge:

First 200,000 therms, per therm

Over 200,000 therms, per therm

Per Meter Per Month	
G-56	G-57
4.476¢	4.476¢
3.09¢	3.09¢

RESALE NATURAL GAS SERVICE

RATES

Demand Charge:

Based on the maximum billing month consumption, per Mcf

Per Month	
G-60	G-61
9.129¢	9.129¢

Schedule No. G-62

RATES

Demand Charge:

Based on maximum billing month consumption:

Per Mcf of firm service in maximum month

Per Mcf of interruptible service in maximum month

Per Month

8.078¢  
2.545

COMMISSIONER A. W. GATOV, Dissenting:

I dissent.

The majority opinion in this matter appears to have been written in unseemly haste because it contains little substantive consideration of the issues posed, is replete with bald conclusions, and is devoid of meaningful analysis of the issues presented.

The shortcomings of the majority opinion are best illustrated in the rate of return section. The Hearing Examiner who heard the case, but whose draft decision was ignored, recommended a rate of return of not to exceed 7.05 percent. As to the position of the Commission's staff, the decision itself states that "The Staff concludes that a rate of return as high as 6.95 percent and an 11.0 percent return on equity would be reasonable and a generous increase which would enable PG&E to continue to enjoy high profits . . . ." The majority, nevertheless, has come up with a highly inflationary and exceedingly generous 7.3 percent as reasonable.

Under a rate of return found reasonable nine years ago, the company has been able to increase its dividends substantially. For example, whereas the declared dividend per common share was \$1.10 in 1964, it was \$1.50 in 1969.

Granted a rate of return cannot always be determined by a precise mathematical formula and that judgment factors must be applied, the Commission must, nevertheless, base its judgment on relevant criteria. The majority opinion here gives little basis upon which it reached its conclusions. The decision is predicated on fiat rather than justification.


One of the few factors discussed by the majority was PG&E's latest bond issue which, incidentally, was issued after this record



was closed. Taking this into account, the resulting return on equity is at the upper end of the range recommended by the staff witness (6.95% to 7.25%). Notwithstanding that the Bond Market has turned downward, a rate of return beyond the upper range recommended by the staff witness is justified by the flat statement about "the constantly increasing cost of debt capital". The opinion does not critically analyze the staff rate of return testimony or the extensive figures in staff rate of return Exhibit No. 48. In support of their respective positions, the staff, as well as the company, presented numerous figures on comparable earnings, coverage ratios, returns allowed other gas and electric utility companies, and economic conditions. The staff additionally emphasized the need for the Commission to look to the consumer interest and to minimize rate increases in this inflationary period. None of these factors is discussed by the majority.

The majority should not be afraid to explain the basis of its opinion, if it can. The public and all parties, including the applicant, are entitled to know the Commission's reasoning in reaching this conclusion. A critical analysis of the evidence will encourage all parties in future cases to present evidence which the Commission considers relevant and will result in quality decisions.

The opinion which the majority has reached in its rush to judgment is deficient and not in keeping with the high standards which the public has every right to expect of us.

  
\_\_\_\_\_  
Commissioner

Dated at San Francisco, California,  
January 6, 1970.