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ORIGINAL

Decision No. 77448

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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| Application of<br>SOUTHWEST GAS CORPORATION<br>for Authority to Increase Natural Gas Rates in San Bernardino County, California. | Application No. 51529<br>(Filed December 5, 1969)<br>First Amendment<br>(Filed April 27, 1970)<br>Second Amendment<br>(Filed May 5, 1970) |

Lawrence V. Robertson, Jr., for applicant.
Rev. Norman A. Head, for First Congregational Church; Steven V. Glovitsky and Howard A. Triepke, in propria personae, protestants.
Major William B. Wirin, for GSA, U.S. Government; J. Gordon Roper, for independent group; Evelyn F. Dodrill, Mrs. David B. Stern, Eugene R. Nay, and Mr. Rose, in propria personae, interested parties.
Sergius M. Boikan, Counsel, Erwin Davidson and John J. Gibbons, for the Commission staff.

## O P I N I O N

Southwest Gas Corporation (Southwest), with headquarters in Las Vegas, Nevada, and extensive natural gas distribution operations at Lake Tahoe and otherwise in the States of Nevada and Arizona, seeks authority to increase its rates for natural gas service in its Southern California district operations at Big Bear Lake and in and in the vicinity of Victorville and Barstow in San Bernardino County. The requested increase, based on Southwest's estimates for the fiscal year 1970 to produce a 9 percent rate of return on its estimated depreciated rate base of $9,613,900 (not including, as proposed in the Second Amendment, the effects of increased costs of gas purchased from its supplier, Pacific Gas and Electric Company (PG&E), which became effective April 16 and May 18, 1970) after considering, as proposed in the First Amendment, the effects of the 7 percent general wage increase on an annual basis granted to employees in April, 1970, would amount to $921,700, or 22.6 percent.[1] The effect of this latest PG&E increase, authorized by Decision No. 77102, dated April 14, 1970, would increase Southwest's over-all requested increase to 24.7 percent.

Public hearings were held before Examiner Warner on January 6, 7 and 8 at Big Bear Lake, Victorville and Barstow, respectively; on May 12, 13 and 14 at Victorville; and on May 18, 1970, in Los Angeles. Notices of both the original hearings and adjourned hearings were published and mailed to all Southern California district's customers and newspaper publicity was disseminated by the Commission regarding the impact of the application. The public response was minimal and consisted of the above-shown interested parties and protestants and one letter from a vacation-period resident and cabin owner at Big Bear Lake.

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1/ Commission staff engineers, in their report on their investigation of the application, based on the original application and the First Amendment, only, Exhibit 28, estimated the proposed increase would amount to $929,900, and after considering all their estimated operating expenses, including taxes and depreciation, net revenues of $4,022,300 would result. They determined that when such net revenues were related to their estimated depreciated rate base of $9,038,800, the rates applied for through the First Amendment would produce a rate of return of 11.34 percent. According to their estimates, the proposed rates represented a 22.6 percent over-all increase, also.

The protestant at Barstow, who also testified again at Victorville, based his protest on what he considered to be the inflationary aspects of the granting of the application, in whole.

Applicant's witnesses were its president, its Southern California division manager, its vice president and controller, its general sales manager, its rate engineer, and a financial consultant.[2/] The witness for the U.S. Government was the director of the Utilities Division of the U.S. Navy Department, 12th Naval District, who requested the establishment of a separate tariff for service to the two military installations, George Air Force Base at Victorville and the Barstow Marine Base at Barstow, applicant's sales to which were alleged to represent 20 percent of the annual therm sales and 11 percent of applicant's gross revenues in Southern California. The Commission staff witnesses were two engineers, and one accounting and one financial expert. Most witnesses submitted prepared testimony which are part of this record as numbered exhibits. The record comprises Exhibits lettered A and B, and supplements and revisions to Exhibit A, Appendices I, II, III and IV, and numbered Exhibits 1 through 34, including Exhibits 8-A, 9-A, 10-A, 23-A, 28-A, 29-A and 32-A, and excluding Exhibits 3, 3-A, 4, 4-A, 5, 6, 7 and 28-A, which were withdrawn, and 34, which was rejected.

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2/ George E. Phelps, co-organizer of the Chicago-based investment firm of Duff and Phelps, Inc., who left that firm in 1940.

Permission was granted to argue by the filing of briefs if request for such filing were made on or before May 20, 1970; the parties elected not to argue or file briefs and the matter stood submitted on May 19, 1970. It is now ready for decision.

Exhibit 1 is a booklet containing the remarks of William M. Laub, president and chief executive officer and a director of Southwest, before the New York Society of Security Analysts, Inc., on December 17, 1969, outlining Southwest's operating and financial history and discussing its potential growth and earnings.

According to its annual report to its stockholders, Exhibit 26,[3/] applicant, throughout its company-wide operations, was furnishing natural gas service to 81,934 customers at the end of its fiscal year, September 30, 1969. It had 399 employees; operating revenues for its fiscal year 1969 of $33,222,000; utility plant of $88,853,000, with a related depreciation reserve of $15,295,000; its earnings per share of common stock were $1.18; and the dividend paid was $1.00 per share. For comparison, the number of customers as of September 30, 1960, was 36,794, the number of employees, 222; operating revenues were $7,289,000; utility plant was $13,755,000, with a related depreciation reserve of $2,592,000;

3/ The chairman of Southwest's board of directors, P. P. Stathas, is also chairman and chief executive officer of Duff and Phelps, Inc. Other Southwest directors are Edward M. Berol, attorney of San Francisco, and J. H. Gray, Jr., investor of Barstow, both, including directors Stathas and Laub, members of Southwest's executive committee, and Clark L. Guild, Jr., attorney of Reno, J. K. Koeneman, investor of Barstow, C. H. McCrea, vice president, secretary, and general counsel of Las Vegas, and Arthur Rohman, investor of Los Angeles.

earnings per common share were 46 cents; and the dividend rate was 30 cents. The largest increments in utility plant occurred in the fiscal years ended September 30, 1963, 1964 and 1965, with the additions of in excess of $11,000,000, $12,000,000 and $13,000,000 of utility plant primarily through acquisitions (including service to the City of Las Vegas and environs). Exhibit 29, a staff study of cost of money and rate of return, shows, on a pro forma basis, total of debt capital of $55,100,000 as of September 30, 1970, including $8,000,000 of 9-1/8 percent first mortgage bonds issued April 1, 1970; preferred stock of $7,000,000; and common stock outstanding of 2,449,000 shares, with a total book value of $23,075,000 consisting of year-end par value of common stock, outstanding year-end paid-in capital, and year-end retained earnings, less capital stock discount and expense, all as of September 30, 1969. This exhibit shows that long-term debt on the pro forma basis as of September 30, 1970, would be 57.68 percent; bank loans, 4.33 percent; preferred stock, 8.66 percent; and common equity, 29.33 percent of total capital. Applicant's financial consultant calculated that the 9 percent rate of return requested in the application would yield the 15.5 percent on common equity, which he concluded Southwest Gas Corporation must realize to maintain a healthy financial condition. The staff financial expert recommended a rate of return ranging between 7.75 percent and 8 percent on a Commission staff estimated rate base for the test fiscal year 1970, which would yield between 11.32 percent and 12.04 percent on assumed common equity.

Chapter 2 of Exhibit A, applicant's report on its operations for the 12 months ended September 30, 1969, and estimated for the 12 months ending September 30, 1970, shows an estimated average total of customers in its Southern California districts of 21,523 for 1969 and 22,306 for the estimated year 1970. These estimates are broken down to show 7,931 in Barstow; 9,361 in Victorville; and 4,231 in Big Bear for the year 1969, which will increase to 8,133, 9,648 and 4,525, respectively, for the average year 1970, estimated. The resultant growth estimates are a total of 783 broken down as follows: Barstow 202, Victorville 287, and Big Bear 294. The staff over-all estimate, as set forth in Exhibit 28, was a growth of 1,073 customers during the average year 1970. The record shows that all three of applicant's Southern California division service areas are in the midst of residential, commercial, and military growth and expansion, of a permanent and economically desirable nature and magnitude.

Applicant purchases its gas supplies from several connections to PG&E's main transmission line which traverses the section of the Upper Mojave Desert from Needles to San Francisco.4/

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4/ PG&E serves the Kaiser Permanente cement plant in the Lucerne Valley through an offshoot of its main transmission line, and Southwest's Big Bear distribution pipeline connects to, and is served from, this line from which Southwest also serves all other customers in Lucerne Valley. The Apple Valley and Hesperia areas, adjacent to Victorville, are also served by applicant. However, the two large industrial American Cement Company and Southwestern Portland Cement Company plants out of Victorville and Southern California Edison Company's Coolwater steam electric generating plant east of Barstow are served by PG&E.

The contract under which such purchases are made expires in September, 1970, and Southwest has given notice of intention to cancel it in order to negotiate a more favorable rate for Southwest's customers, if possible.5/

Southwest's present rates were first established on September 22, 1959, in Decision No. 59032 when a rate of return of 7 percent was found to be reasonable. Since that time, offset increases of $35,400 in January 1961, $32,714 in June 1969 and $46,059 in March 1970 have been placed into effect; refunds to San Bernardino County service area customers, as a consequence of reductions experienced in cost of gas purchased, were made in November 1963 of $79,357.14, in March and April 1964, $217,037.47; in April 1965, $13,394.25; in June 1965, $5,389.73; in August 1967, $19,816.40; and in January and February 1970, $115,365.29, totalling $450,360.28. Decreases in San Bernardino County service area rates were effected in January 1963, March 1964, July 1964, and September 1967, three of which said rate decreases were designed to pass on decreases in costs of purchased gas, and the fourth to reflect a reduction in Federal income tax return.

The record shows in Exhibit 27 that on any basis of applicant's operations with respect to annual normal therm customer usage, the latest energy costs are, and would be, lower if such energy were obtained from applicant than from the use of propane or electricity and applicant's costs approximated the

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5/ None of the earnings estimates considered herein reflect any possible contract change.

costs of Southern California Gas Company's customers in the high desert area of Twentynine Palms, Joshua Tree, Yucca Valley and Morongo Valley, and at Lake Arrowhead and Wrightwood.6/

As shown in Exhibit 27, under present rates the typical residential customer in the Victorville area using 1,172.79 therms annually is billed $141.54. Such bill would be $176.37 under the proposed rates in the First Amendment plus the offset effect of the Second Amendment, and will be billed $157.84 under the authorized rates; in the Big Bear area, the typical residential customer using 915.01 therms annually is billed $133.59, which would increase to $165.97 under the proposed rates, and will be billed $148.91 under the authorized rates; and in the Barstow area, the typical residential customer using 1,094.48 therms annually is billed $134.30 under the present rates, would be billed $167.38 under the proposed rates, and will be billed $149.75 under the authorized rates.

Accounting and financial data are set forth in Chapter 2 of Exhibit 28 which, among other things, shows that due to Southwest's rapid growth in plant investment, together with changes in operations and expansion of territory, applicant's accounting and reporting requirements have been necessarily affected. The introduction and expansion of electronic data processing might have been complicated except for able accounting administration, and the staff accounting and bookkeeping examination disclose little reason for criticism of applicant's basic books of account.

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6/ Although the comparisons with Southern California Gas Company's energy costs in its service areas similar to applicant's are shown in Exhibit 27 to be slightly lower than applicant's present or proposed rates, Southern California's costs are the subject of a pending application by the latter to increase such rates.

However, principal exceptions totalling a $577,535 reduction in plant accounts were taken by the staff relating to delay in terminating interest during construction and to capitalization policies relating to salesmen expenses, marketing expenses, and administrative expenses. The total reduction also includes a Federal Power Commission adjustment of $49,190. The staff has recommended that interest during construction should be terminated as soon as work is completed; interest during construction should not be charged to blanket work orders or small construction orders; all labor and materials utilized in the promotion and sales of gas service should be included in operating expense; and administrative and general expense should be charged to plant on an incremental cost basis, allocating to plant only those expenses which have been incurred specifically for construction activity. All of these recommendations are pursuant to the provisions of the Uniform System of Accounts prescribed for natural gas companies (Class A, B, C and D) by the Federal Power Commission, effective September 1, 1968, and adopted and prescribed by this Commission.

The change in the method of determining the amounts to be included in Account 922, Administrative Expenses Transferred-Credit, pursuant to the staff recommendation regarding the utilization of the incremental cost basis for making such expense credits, will result in a reduction of the dollar amounts of this expense credit account in, so far, indeterminate amounts. Based on an internal study, the company proposes to credit 30.60 percent of administrative and general expenses for its fiscal year 1970. Based on an Arthur Andersen & Co., Certified Public Accountants, study, 49.53 percent was credited in 1965; 46.78 percent in 1966; 44.99 percent in 1967; 43.42 percent in 1968; and 36.23 percent in 1969. The company's accounts are kept on a fiscal year, ending September 30, basis.

The following tabulation compares the earnings data (through the First Amendment) submitted by the applicant in revised Exhibit A and by staff engineers in Exhibit 28:

Summary of Earnings
(Southern California Districts)

| Item | Fiscal Year 1970 Estimated | | | |
|---|---|---|---|---|
| | Present Rates | | Proposed Rates | |
| | Per Co. Ex. A. Rev. | Per PUC Ex. 28 | Per Co. Ex. A. Rev. | Per PUC Ex. 28 |
| Oper. Revenues | $4,081,200 | $4,117,200 | $5,002,900 | $5,047,100 |
| Oper.&Maint. Exp. | 2,868,000 (b) | 2,807,500 (b) | 2,872,700 (b) | 2,811,700 (b) |
| Adm. & Gen. Exp. | 198,300 (b) | 154,000 (b) | 198,300 (b) | 154,000 (b) |
| Depreciation | 342,000 | 311,600 | 342,000 | 311,600 |
| Taxes | 401,900 (a) | 377,000 (a) | 724,800 (a) | 745,000 (a) |
| Subtotal | 3,810,200 | 3,650,100 | 4,137,800 | 4,022,300 |
| Net Revenues | 271,000 | 467,100 | 865,100 | 1,024,800 |
| Rate Base | 9,613,900 | 9,038,800 | 9,613,900 | 9,038,800 |
| Rate of Return | 2.82% | 5.17% | 9.00% | 11.34% |

(a) Excludes payroll taxes.

(b) Includes payroll taxes.

Analysis of the preceding tabulation shows an insignificant difference in revenue estimates.

The principal differences in operation and maintenance expense estimates are in Transmission Expenses, Account 850, Operation, Supervision and Engineering, to which the utility had estimated charges of $14,200, whereas the staff estimated no charges since it was the staff engineer's opinion that none of applicant's utility plant could be classified as "transmission"; advertising expenses were estimated by the utility as a charge to Account 913 in the amount of $28,800, whereas the staff estimated such advertising expense charges to be $4,400 on a normal reasonable basis; the staff estimates reflect the 7 percent wage increase effective April 1, 1970, for the remaining six months of the fiscal year, whereas the utility reflected the wage increase on a pro forma basis for the full year; payroll taxes are included by the staff in the category of "taxes other than income" rather than in operating and maintenance expenses; and other differences in operation and maintenance expense estimates are attributable to the fact that the staff estimates are based on later available recorded data than those of the applicant.

The principal differences in administrative and general expense estimates are attributable to the fact that (a) the staff utilized a five-year average of Account 922, Administrative Expenses Transferred-Credit, percentages to arrive at a 45.19 percentage charge resulting in a credit of $44,400 versus the utility's estimate based on a 30.60 percentage which resulted in its estimated credit of $30,700, thus causing the utility's administrative and expense estimate to exceed that of the staff by $13,700; and (b) the fact that the utility estimated the total charges to Account 928, Regulatory Commission Expenses (principally relating to the instant proceeding) of $120,000, whereas the staff estimated such expenses to be $30,000, both amounts to be amortized over a five-year period.

The principal difference in the estimates of depreciated rate base of $575,100 are caused by the accounting adjustments to utility plant developed by the staff accountant heretofore discussed.

The rate of return recommended by the staff financial expert in the range of 7.75 percent to 8 percent on the original cost rate base developed by the staff engineers was based on the financial data contained in Exhibit 29 and on the nine factors contained in his answers to Questions 35 and 36 on pages 10, 11, 12 and 13 of Exhibit 29-A. The items which influenced the staff witnesses' judgment positively included: (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; and (6) the effects of continued inflation. Those items which he considered negatively included: (7) competition as compared to a captive market; (8) essentiality of the product to the public; and (9) average earnings records. He enlarged upon his reasoning for considering each of these items, positively or negatively, in his answer to Question 36. As noted hereinbefore, the financial consultant for Southwest based his recommendation of a 9 percent rate of return on his opinions of applicant's financial requirements in the light of present and foreseeable financial market conditions after considering applicant's past rapid growth, its high percentage of debt capital structure with attendant greater risk to common equity holders and many other expert financial determinations such as price earnings ratios, times interest earned, and the like.

Cross-examination of one of the staff engineers developed the fact that due to the application of the free footage provisions of the main extension rule, the staff-estimated rate base should properly be increased by $65,000 to $9,103,800.

The Commission finds:

1. The rates of return for the fiscal year 1970 estimated by the staff and the utility of 5.17 percent and 2.82 percent, respectively, as shown in Exhibits A, Revised, and 28, which would be produced by the present rates, subject to the estimates of operating expenses, including taxes and depreciation, and the estimated depreciated rate bases, all for the fiscal test year 1970, are deficient and applicant is in need of financial relief.

2. The rates of return, which would be produced by the rates proposed by the utility through the application's First Amendment, as shown in Exhibit A Revised and in Exhibit 28, are excessive.

3. The estimates of operation and maintenance expenses, administrative and general and miscellaneous expenses, taxes, depreciation, and rate base, submitted by the staff, are reasonable, subject to a $65,000 increase in the staff rate base estimate.

4. The maximum range of rate of return recommended by the staff of 8 percent on the staff rate base for the test year 1970, which would yield approximately 12 percent on common equity, and the nine factors considered by the staff witness supporting his recommended range of rate of return, are reasonable.

5. Lacking a cost study, there is no basis to establish a separate military tariff at this time.

6. The staff recommendation that applicant should be directed to institute a reporting procedure for all complaints, whether major or minor, so that the general office will be informed, and those recommendations regarding accounting and bookkeeping practices, all contained in Chapter 11 of Exhibit 28, are reasonable.

7. The increases in rates and charges authorized herein are justified; the rates and charges authorized herein are reasonable; and present rates and charges, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable.

We conclude that the application, together with its First and Second Amendments, should be granted in part and denied in part, and Southwest should be authorized to file schedules of rates containing equal, across-the-board percentage increases which will produce the rate of return hereinbefore found to be reasonable. The authorized rates will produce revenues representing an increase over present rates in the amount of $468,300, or 11.4 percent, but $540,300 and 53.6 percent less than requested in the application as amended.

No recommendation was offered by the staff as to disposition on the books of account of the $577,535 reduction in plant accounts. The $49,190 Federal Power Commission adjustment is part of a larger amount assignable to other districts of applicant, which is being amortized over a 15-year period. After giving appropriate recognition to the accumulated depreciation, applicant should be directed to transfer the balance of the $577,535 plant adjustment to Account 186, Miscellaneous Deferred Debits, and to dispose of it over a reasonable period by charges to a non-operating expense account (Account 425, Miscellaneous Amortization).

We further conclude that the United State Government's request for a separate military tariff should be denied. Finally, applicant should be directed to carry out the staff recommendations heretofore found to be reasonable.

## O R D E R

IT IS ORDERED that:

1. Application No. 51529, as amended, of Southwest Gas Corporation is granted in part and denied in part, and applicant is authorized to file, after the effective date of this order, the revised schedules of rates as set forth in Appendix A attached hereto. Said rates shall be effective four days after the date of filing and shall apply only to service rendered on and after said effective date. Such filing shall comply with General Order No. 96-A.

2.a. Applicant is also authorized to file with this Commission such revised tariff schedules with changes in rates, charges and conditions as result through applicant's accomplishing, by filings under an advice letter procedure, tracking increases to offset the effect of Pacific Gas and Electric Company Schedule G-62 rate increase filings between May 18, 1970 and December 31, 1970, as a result of increases under FPC Docket No. 70-11.

b. The advice letter procedure to be made available to applicant for this purpose must conform to the following requirements:

(1) Compliance with General Order No. 96-A, except Section VI, Procedure in Filing Increased Rates.

(2) Advice letter filings not to be made more frequently than at 15-day intervals.

(3) Notice period for each advice letter filing not to be less than 15 days. (If any filing is technically defective, a new filing should be made and be subject to a new notice period of not less than 15 days.)

(4) Advice letter filings to be served on all appearances in this proceeding except applicant and the Commission staff.

c. Revised rates made effective under this advice letter procedure must conform to the following requirements:

(1) Adjustments are to be consistent with Appendix A hereof and are to be distributed to rate schedules serving the various customer classes in accordance with the rate spread adopted herein.

(2) Revised rates resulting from such adjustments are to become effective for service on and after the date the change in Pacific Gas and Electric Company's rate becomes effective or 15 days after filing, whichever is later.

3. In the event applicant places such rate increases in effect,

a. Applicant's plan for determining refunds shall be consistent with the pertinent tariff provision authorized herein, shall be submitted to this Commission prior to making any refunds, and specific Commission approval shall be obtained of the plan at that time.

b. If rates to Pacific Gas and Electric Company are ordered reduced as a result of reductions under Federal Power Commission Dockets Nos. RP69-20, 70-4, and 70-11, applicant shall file its proposed plan, for rate reductions consistent with the pertinent tariff provision authorized herein, for final determination and authorization by this Commission.

4. The request of the United States Government for the establishment of a separate military tariff is denied.

5.a. Applicant shall carry out the staff recommendations contained in Chapter 11 of Exhibit 28.

b. After giving appropriate recognition to the accumulated depreciation, applicant shall transfer the balance of the $577,535 plant adjustment to Account 186, Miscellaneous Deferred Debits, and shall dispose of it over a period of fifteen years by charges to a nonoperating expense account. (Account 425, Miscellaneous Amortization.)

6. In all other respects, the application and the application as amended are denied.

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

Dated at San Francisco, California, this 30th day of JUNE, 1970.

William Symons Jr.
President

[signatures]
Commissioners

APPENDIX A
Page 1 of 2

| | | Per Meter Per Month | | | |
|---|---|---|---|---|---|
| | | Schedule No. G-1 | | Schedule No. G-2 | |
| | | Rate A | Rate H | Rate A | Rate H |
| First | 2 therms or less | | | | |
| | October-May, Inclusive | $3.072 | $4.131 | $3.350 | $4.521 |
| | June-September, Inclusive | 3.072 | 507 | 3.350 | .563 |
| Next | 30 therms, per therm | .11449 | .13745 | .12931 | .15529 |
| Next | 72 therms, per therm | .10389 | .11582 | .11727 | .13076 |
| Next | 414 therms, per therm | .09531 | .10166 | .10757 | .11471 |
| Next | 518 therms, per therm | .09107 | .09308 | .10278 | .10512 |
| Next | 2,073 therms, per therm | .08438 | .08750 | .09520 | .09876 |
| Next | 7,256 therms, per therm | .07658 | .08271 | .08639 | .09330 |
| Next | 41,464 therms, per therm | .06877 | .07156 | .07758 | .08070 |
| Over | 51,829 therms, per therm | | | | |
| | November-April, Inclusive | .06353 | .06610 | .07167 | .07457 |
| | May-October, Inclusive | .05350 | .05561 | .05996 | .06230 |

| | | Schedule No. G-45 | Schedule No. G-46 |
|---|---|---|---|
| First | 1,037 therms, per therm | $0.07646 | $0.08683 |
| Next | 3,110 therms, per therm | .07111 | .08070 |
| Over | 4,147 therms, per therm | .06576 | .07468 |

| | | Schedule No. G-50 | Schedule No. G-51 |
|---|---|---|---|
| First | 10,930 therms, per therm | $0.05645 | $0.06392 |
| Next | 98,370 therms, per therm | .05444 | .06169 |
| Next | 109,300 therms, per therm | .05244 | .05935 |
| Next | 327,900 therms, per therm | .04932 | .05578 |
| Over | 546,500 therms, per therm | .04775 | .05400 |

| | Per Lamp Per Month |
|---|---|
| | Schedule No. G-15 |
| 1.99 cu. ft./hr. or less | $1.30 |
| 2.00-2.49 cu. ft./hr. | 1.61 |
| 2.50-2.99 cu. ft./hr. | 1.73 |
| 3.00-3.99 cu. ft./hr. | 2.02 |
| 4.00-4.99 cu. ft./hr. | 2.20 |
| 5.00-7.49 cu. ft./hr. | 2.91 |

APPENDIX A
Page 2 of 2

Preliminary Statement

Delete the text of the present portion of the Preliminary Statement under "7. Offset Charge and Related Refunds and Reductions in San Bernardino County", and insert thereunder the following:

7. OFFSET CHARGE AND RELATED REFUNDS
AND REDUCTIONS IN SAN BERNARDINO COUNTY

The initial two blocks of Schedules Nos. G-1 and G-2 include an offset charge of 0.9¢. The six blocks of Schedule No. G-15 include offset charges, respectively, of 4¢, 7¢, 9¢, 11¢, 13¢ and 20¢. The remaining blocks of Schedules Nos. G-1 and G-2, and all blocks of Schedules Nos. G-45 and G-46, include an offset charge of 0.429¢ per therm. In addition, all blocks of Schedules Nos. G-50 and G-51 include an offset charge of 0.324¢ per therm. The foregoing charges were authorized by D-75785, D-76964 and D-_*_.

The company will refund to its customers any refund received from Pacific pursuant to an order of the Commission.

If the cost of gas from Pacific is reduced, the company will reduce its offset charges by an amount equal to any such rate reduction.

* Insert number of decision herein.