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ORIGINAL

Decision No. 85181

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of CALIFORNIA-PACIFIC UTILITIES COMPANY, a California corporation, for authority to increase its rates for electric service in its Needles District.	Application No. 54664 (Filed February 15, 1974)
In the Matter of the Application of CALIFORNIA-PACIFIC UTILITIES COMPANY, a California corporation, for authority to increase its rates for gas service in its Needles District.	Application No. 54665 (Filed February 15, 1974)

James F. Crafts, Jr., Attorney at Law, for California-Pacific Utilities Company, applicant.
George G. Grover, Attorney at Law, and William Joseph Hanks, City Attorney, for the City of Needles, interested party.
Peter Arth, Jr., Attorney at Law, Han L. Ong, and K. K. Chew, for the Commission staff.

FINAL OPINION

We previously entered two interim decisions in these consolidated applications. The first, Decision No. 83549 dated October 8, 1974, was for the purpose of eliminating a negative return situation caused by the fact that the rates prior to that decision had been in effect for over twenty years and were inadequate to pay for rising costs. We also determined that an interim return on rate base of 8.35 percent was appropriate.

The second interim decision was made necessary by rising costs of purchased power and purchased gas (Decision No. 84765 dated August 5, 1975 modified by Decision No. 84793 dated August 12, 1975). We again set interim rate levels and ordered purchased gas and purchased power adjustment clauses into effect.

In this final decision we will consider issues relative to final rate relief, including rate of return, revenues and expenses for the test year, rate base, rate design, and service complaints.

The rate relief requested versus that granted may be summarized as follows:

California-Pacific Utilities Company - Needles District
Rate Relief - Applications Nos. 54464 and 54465

	Electric	Gas
Original Application Requested	$272,200	$182,200
First Interim (D.83549)	106,900	139,100
Second Petition for Interim Relief Requested	341,124	43,394
Second Interim (D.84765)	265,720	43,220
Granted in This Decision	44,140	11,910

Not all the figures in the table are directly comparable because while the company's original request was based entirely on test year estimates, its second petition for interim relief was based in part, and considered by us in part, upon recorded 1974 information.

Background Information

Applicant is a California corporation with its principal office in San Francisco. It owns and operates public utility systems in various parts of California, Oregon, Nevada, Utah, and Arizona.

Applicant's Needles District serves the town of Needles and immediate vicinity; the service area includes 1,721 customers based on 1974 recorded information. This district produces none of its own gas or electricity. Its electric department purchases power from Nevada Power Company and from the U.S. Bureau of Reclamation; the gas department buys its gas from Pacific Gas and Electric Company.

Hearings were held in Needles on August 13, 14, and 15, 1974. In addition to the testimony from the company and the Commission staff, members of the public appeared, and the city of Needles presented the testimony of its city manager.

Rate of Return

Both the company and the staff made the customary detailed studies concerning rate of return.

The company's financial witness, Kevin O'Connor, proposed a 9.3 percent rate of return on rate base which he stated would produce a return on common equity in the range of 12.5 to 13.5 percent.

The staff witness, Mr. Leonard, recommended a range for rate of return on rate base of from 8.65 percent to 8.90 percent, which he stated would produce a return on equity, based upon the company's capital structure, of from 11.26 percent to 11.96 percent.

With due respect to the completeness of the presentations by both witnesses, we believe that because of the lapse of time between the hearings and this decision, it is appropriate to consider, along with such testimony, recent Commission action in fixing rates of return under current economic conditions for this company and companies of similar capital structure. Failure to follow this approach may result in an assigned return based upon obsolescent data.

Based upon the same capital structure that is present in the proceeding now before us, we recently allowed this company a 9.04 return on rate base calculated to produce a return on equity of 12.35 percent. In two other recent decisions we have allowed some companies with similar capital structures returns on rate base which produce even slightly higher returns on equity. Our four most recent decisions concerning rates of return for gas or electric utilities of comparable size[1/] are illustrated in the following table:

1/ That is, excluding Pacific Gas and Electric Company which, in Decision No. 84902 dated September 16, 1975, was awarded a return on rate base of 8.55 percent producing a return on common equity of 12 percent.

Rates of Return and Related Allowances for Common Stock Equity
Granted in Recent Decisions of This Commission

Name of Utility	Application No.	Decision No. (date)	Common Equity Ratio	Rate of Return	Return on Common Equity
Sierra Pacific Power	54154	83869 (12/17/74)	31.60	8.84%	13.00%
California-Pacific Utilities (South Tahoe Div.)	54803	84006 (1/21/75)	35.69	9.04%	12.35%
Southwest Gas	54807	84603 (7/1/75)	34.16	9.20%	12.79%
Pacific Power & Light	54651	84234 (3/25/75)	34.80	8.40%	12.20%

It should be noted that Southwest Gas Company has a slightly greater risk factor since it is purely a gas utility with no electric or telephone properties.

There is no significant change in the capital requirements or capital structure of California-Pacific since our decision in the South Tahoe application. It is, therefore, reasonable to award applicant, for its Needles District, a 9.04 percent return on rate base to produce a 12.35 percent return on common equity. With this return, the Needles District will produce its fair share of the return necessary to solve any coverage problems which still remain.[2] Regarding coverage and overall company-wide return, it should be remembered that most of applicant's properties are located outside of California.

2/ See discussion in our first interim decision in this proceeding (Decision No. 83549 dated October 8, 1974).

Taxes (Tax Liability for Prior Years)

An issue common to both the gas and electric departments is whether the inclusion of an Internal Revenue Service adjustment to the company's taxable income for prior years is reasonable. The IRS disputed the company's method for expensing construction overhead from 1965 to 1969 and determined that this resulted in an understatement of taxable income (the company, while not agreeing with the IRS, made a settlement regarding the amount due). The company witness testified that because of this, the amount of the settlement is being amortized over ten years (through 1977) to recover the deficiency for this change in treatment of administrative and general expenses.

The staff and the city of Needles are of the opinion that we should exclude this sum in setting rates because the years in which the tax would have been due, if paid on time, are outside the test period. The company's position is that since the IRS specifically approved the former method of calculation for these expenses through 1964, the sum should be treated as an extraordinary expense, and as properly amortized over the ten-year period selected (the company does not seek recovery of the total of the amount which was due but only that portion of it which the company attributes to the test year under the ten-year amortization).

This issue was raised previously in this company's application for its Lassen Division (Decision No. 82711, dated April 9, 1974, Application No. 53884). We see no reason to reverse our position in this proceeding. The staff's position that this item should be disallowed is adopted.

Method of Accruing Depreciation

Another issue common to both departments is a staff recommendation that the company accrue its depreciation on a monthly basis for plant added during the year. We are convinced from the testimony of company witness Markey that this recommendation is premature because, as yet, the company does not have the computer capability to do this on an economical basis, and, therefore, the advantage of such an accrual system is outweighed by the cost to the ratepayer.

Electric Department

By the conclusion of the proceeding, the staff estimates of electric department results were generally accepted except for (1) the company's assumption that there would be a 15 percent reduction in kwhr consumption resulting from energy conservation programs, and (2) differences in plant-in-service and depreciation expense and reserve concerning certain accounts.

The table on the following page summarizes company-staff differences for the test period and indicates adopted results.

California-Pacific Utilities Company
Needles District, Electric Department

SUMMARY OF EARNINGS

Test Year 1974

Item	Original[1/] Company Estimates	Original[1/] Staff Estimates	Company Estimates at Prop. Rates	Staff Estimates at Prop. Rates	First Interim Relief	Second Interim Relief	Adopted
Operating Revenue	$ 687,700	$ 788,400	$ 959,900	$1,095,800	$ 895,300	$1,161,020	$1,205,160
Operating Expenses							
Purchased Power	376,800	446,500	376,800	446,500	446,500	706,260	706,260
Transmission	3,600	3,600	3,600	3,600	3,600	3,600	3,600
Distribution	48,000	48,000	48,000	48,000	48,000	48,000	48,000
Customer Accounts	28,800	28,400	29,800	29,200	28,700	29,360	29,470
Sales	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Administrative & General	49,900	45,700	49,900	45,700	45,700	45,700	45,700
Total Operating Expenses	509,100	574,200	510,100	575,000	574,500	834,920	835,030
Depreciation	90,200	65,500	90,200	65,500	65,500	65,500	65,500
Taxes							
Other Taxes	82,200	74,100	87,600	80,200	76,200	81,500	82,400
State Franchise	-	(700)	17,200	26,400	8,700	8,700	12,540
Federal Income	-	(16,100)	67,600	115,100	29,600	29,600	48,220
Total Taxes	82,200	57,300	172,400	221,700	114,500	119,800	143,160
Total Revenue Deductions	681,500	697,000	772,700	862,200	754,500	1,020,220	1,044,850
Net Revenue	6,200	91,400	187,200	233,600	140,800	140,800	161,470
Rate Base	2,012,600	1,779,000	2,012,600	1,779,000	1,779,000	1,779,000	1,785,250
Rate of Return	0.31%	5.14%	9.30%	13.13%	7.91%[2/]	7.91%[2/]	9.04%

(Inverse Item)

1/ Based on rates in effect at the time of filing of Application No. 54464.

2/ Interim rate of return found reasonable in first interim decision.

Revenues. The company estimate of electric revenues originally contained an assumed 15 percent reduction in kwhr consumption as a result of energy conservation measures. The staff took the position that in spite of the company's efforts, no conservation had been achieved. At the hearing, the company agreed that there appeared to be no material reduction in demand and that, therefore, there was no issue regarding conservation.

Recorded information filed with us shows, however, that while there was no reduction in consumption on a per customer basis, the staff overestimated the number of customers. The following table illustrates this:

California-Pacific Utilities Company
Needles District Electric Department Consumption - 1974

	Average No. of Customers	Total Kwhr	Kwhr per Avg. Customers
Company estimate	1,699	36,628,900	21,559
Staff estimate	2,135	43,414,900	20,335
Recorded	1,721	41,156,270	23,914

While we must use recorded data with care since no party has had the opportunity to point out any possible abnormality in it for trending purposes, we believe we should adopt the recorded total kwhr figure and the recorded average number of customers for 1974. There is nothing which suggests that these figures are abnormal, and while the company conceded that its conservation efforts were unsuccessful, the staff estimate was based upon a substantial overestimate of average customers for the test period.

Additions to Electric Plant. Several additions to the electric plant for the test year were disputed by the staff. The company originally included a new office building valued at $325,000 but later agreed that it should not be part of the rate base for test year 1974. The company still seeks to include a 7,500 kva transformer worth $60,000. The company's position is that it is actually needed for test year 1974 and was ordered in the spring of 1974, but that delivery has been delayed, the delivery delay being no fault of the company. The company witness mentioned certain additional commercial properties of recent origin and stated that the new transformer is essential to assure adequate service to these properties. The staff argues that this Commission, and other commissions as well, have taken the firm position that such property should only be added to the rate base when it is on the line and the uncontroverted evidence is that the transformer would not be installed during the test period.

We agree that it would be a departure from well-established precedent to include the transformer, and this precedent is more than a technicality. It is rooted in the common-sense idea that the ratepayer should not be burdened with paying for equipment which is not yet of any value to him. Manufacturing and delivery delays have been more of a problem than usual during the last few years. Departure from the principle of requiring that additions be placed on the line during the test period would, under present conditions, cause aggravated problems in determining rate base.

Additional Work Orders. During the hearings, the company introduced Exhibit 24 which, inter alia, showed a company expense of $25,000 in approved work orders not included in the preparation of the 1974 construction budget, but which were authorized and charged against the contingent budget of the general office account. In response to a staff request for more detail, the company furnished a late-filed exhibit (No. 26) giving some of the detail on the items involved.

The staff believes this amount should be disallowed for failure to present proper supporting evidence. Exhibit 26 is a single sheet of paper listing the work order numbers and amounts expended. The items range from installation of Needles street lighting improvements ($6,604) to purchase of replacement tools ($171).

We agree that eleventh-hour additions to showings by applicants should be discouraged for the protection of the ratepayers; however, a 100 percent disallowance is too strong a remedy in this instance. The items listed are prima facie legitimate expenses, although it is true that the Commission and the staff should have been presented with more timely and detailed information for proper analysis. We will allow 50 percent of the total for these items, on a weighted average basis.

Depreciation Reserve and Expense. Considerable testimony was devoted to depreciation expense in the Needles electric department accounts 364 (poles), 365 (overhead conductors), 368 (line transformers), and 369 (services). The company witness stated that depreciation lives in these accounts were shortened because of the results of a computer study, using the "simulated plant record method" (Tr. 279). Transformers, for example, had their lives shortened from 35 to 22 years by virtue of this method.

In its analysis, the staff rejected these proposed rates in favor of Commission-approved depreciation rates. The staff witness was of the opinion that the new method failed to program the consequences of transfer of equipment in these accounts between the Needles District and other districts; the company witness disputed this contention.

Regardless of whether plant transfers are adequately reflected, we believe we should reject the company's new method at this time, without prejudice to the company to pursue it in the future. It is unclear whether a depreciation study concerning only a few accounts should be superimposed upon previous general depreciation studies found reasonable by the Commission, and we believe that, on this record, we have inadequate information to adopt the proposed depreciation rates.

Gas Department

By the end of the proceeding the issues remaining as to the gas department were (1) whether the company's estimated 1974 operation and maintenance expenses should be adjusted for certain abnormal or nonrecurring expenses, and (2) whether the company's proposed method for estimating operating revenues should be adopted. The table on the following page summarizes company-staff differences for the gas department for the test period and indicates adopted results.

The company included a revised estimate of rate base (Exh. 25, page 4) which simply makes minor corrections to staff estimates based on the company's 1974 approved budget. This estimate of rate base is reasonable and will be adopted.

California-Pacific Utilities Company
Needles District, Gas Department

SUMMARY OF EARNINGS

Test Year 1974

Item	Original Company Estimates 1/	Original Staff Estimates 1/	Company Estimates at Prop. Rates	Staff Estimates at Prop. Rates	First Interim Relief	Second Interim Relief	Adopted
Operating Revenue	$ 165,800	$ 187,000	$ 348,000	$ 392,600	$ 326,100	$ 369,320	$ 381,230
Operating Expenses							
Purchased Gas	82,000	95,400	82,000	95,400	95,400	137,590	137,590
Distribution	42,500	38,000	42,500	38,000	38,000	38,000	38,000
Customer	20,300	19,600	21,200	20,400	20,200	20,370	20,420
Sales	800	800	800	800	800	800	800
A&G Expense	24,600	22,400	24,600	22,400	22,400	22,400	22,400
Total Operating Expense	170,200	176,200	171,100	177,000	176,800	219,160	219,210
Depreciation	34,200	31,500	34,200	31,500	31,500	31,500	31,500
Taxes							
Other Taxes	37,800	36,300	41,400	40,500	39,100	39,960	40,210
State Franchise	-	(8,100)	6,000	10,000	4,100	4,100	5,180
Federal Income	-	(42,400)	26,400	45,200	16,900	16,900	22,130
Total Taxes	37,800	(14,200)	73,800	95,700	60,100	60,960	67,520
Total Revenue Deduction	242,200	193,500	279,100	304,200	268,400	311,620	318,600
Net Revenue	(76,400)	(6,500)	68,900	88,400	57,700	57,700	63,000
Rate Base	741,200	691,400	741,200	691,400	691,400	691,400	696,900
Rate of Return	(10.31)%	(0.94)%	9.30%	12.79%	8.35% 2/	8.35% 2/	9.04%

(Inverse Item)

1/ Based on rates in effect at the time of filing of Application No. 54465.

2/ Interim rate of return found reasonable in first interim decision.

<u>Operation and Maintenance Expenses</u>. The company and the staff used similar trending methods of estimating operation and maintenance expenses for most accounts, but for certain accounts (measuring stations, meters, other expense, and mains) the staff deemed certain expenses as abnormal and therefore rejected the trending method regarding these accounts.

We believe the staff's estimates of gas department operation and maintenance expenses should be adopted. We have reviewed in detail the testimony of Mr. Vetromile, the company witness, and agree with the staff that considerable confusion exists regarding these accounts and estimating methods generally. It is unclear in certain instances whether the company figures were based on a trend or on an estimate, or a combination of trending and estimating.

There is equal confusion regarding certain wage increase estimates injected by the company witness on redirect examination, apparently to offset any estimating inaccuracies. Wages and salaries are not broken out separately for the gas department accounts but are included in them (Exh. 3, Table 6A). It is thus unclear whether some of the estimated wage increases mentioned on redirect examination were already included in the company estimates. The wage increases mentioned by the witness were stated in percentages, and no dollar-and-cent development of these new wage increase estimates was furnished, although the company was invited to do so by the examiner (Tr. 183-4).

<u>Operating Revenues</u>. The dispute between the company and the staff concerning gas department operating revenues concerned (1) the number of commercial customers and (2) the weather normalization method.

During the proceeding, company witness Ambrose accepted the staff's estimate of commercial customers and gas consumption. The staff's estimate contains more recent data, and it is thus reasonable to adopt the staff's customer (and usage per customer) figures in deriving commercial sales estimates.

The company made a detailed presentation in an effort to convince this Commission to adopt a method of weather normalization recently used by the State of New York Public Service Commission.

The company's position is that 31 years of recorded weather data for Needles is not a sufficient statistical sample to determine the number of degree days with precision and that the statistical weather sample can only show that the "true normal year" falls within a range which can be determined by an "accepted mathematical formula".

The staff disagreed with the use of a range of normal or average degree days and used a long-term average of recorded data. According to the staff, weather patterns in Needles are so different than in New York that, whatever value the proposed method may have in New York, it is inappropriate to use it in the Needles climate.

We believe the staff is correct in its assessment. Exhibits 27 and 28 compare weather patterns in New York as compared to Needles. The distribution of degree days depicted in Exhibit 28 shows that the New York method is not suitable to the Needles vicinity. We believe that while it would be better to have a longer period of recorded information, 31 recorded years is an adequate sample, given the comparative regularity of the Needles climate.

The staff's estimates of sales and revenues for the gas department are adopted.

Rate Design - General Considerations

The company's position regarding both its gas and electric departments is that rate increases awarded in this proceeding should be based primarily on a uniform percentage increase in each rate block, so that the bill of each customer will be increased by the same percentage.

The staff's position is that any increase should be essentially spread to the ratepayers on a cents-per-unit basis to assure fair distribution of the increase. This means that the large volume consumer would receive a higher percentage increase than the smaller consumer. There would still be a sufficient differential in rates, in the staff's opinion, to reflect cost of service considerations. The city of Needles supports the staff's basic position, although it urges some modifications regarding specific rate blocks.

The company concedes that if rate increases were needed primarily because of increases in the cost of purchased power and gas, the staff method would be consistent with Commission policy, but the company argues that the increases are made necessary by a combination of factors, such as cost of capital, and labor and materials, as well as increased costs of energy.

Because of the company-staff disagreement on this point, the examiner ordered the company to furnish an exhibit (No. 23) showing, for various years from 1960 to 1973, the percent of purchased power costs and purchased gas costs to total operation and maintenance expenses. For the electric department, there was an increase from 68.34 percent for 1956 to 74.44 percent for 1973, but for gas, the percentages fluctuated, showing no clear trend, and for 1973 the percentage was actually lower (46.48 percent) than for 1956 (50.44 percent).

The company argues that the staff rate design would produce large electric bills during the summer months (when air conditioning must be used heavily due to the very hot climate) and large gas bills in the winter, at least for space heating.3/

We agree with the staff's position that the increase should be spread with the continuing increases in the cost of purchased energy in mind, but believe that, to further conservation, the blocking must be changed to narrow the difference between the cost of the first and the final units of gas or electricity. While in the electric department there has only been a slight increase in the percent of purchased power cost to total operations and maintenance expenses, and while for the gas department (at least based on Exh. 23) the trend is unclear, it is certain that with continual and increasing

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3/ Based upon Larkin et al. v California-Pacific Utilities Co. (1964) 63 CPUC 131, the company argues that staff rate designs of the sort proposed here have not proved successful. In Larkin, the Commission found that a rate design made by the staff, and adopted by the Commission in a previous rate increase case, should be modified to spread less of the charges to the large user. This case (involving water rates) is not comparable. Most of the large users were not commercial or industrial customers but retired people who used substantial quantities of water for gardening. More importantly, this was a case in which there was plenty of water, and it was the Commission's objective to increase consumption by the large users in order to increase the company revenues.

shortages of natural gas and other fuels, these percentages will now increase, especially for a district such as this, which produces none of its own power or gas. In addition, by Decision No. 82881 (May 15, 1974) we ordered each electric utility to proceed with a program to reduce electric sales by ten percent from normal usage to achieve energy conservation. As mentioned above, the recorded information for 1974 shows that no reduction for that period was made. We believe the adopted rate design will encourage at least some degree of energy conservation. Such conservation is especially essential regarding consumption of gas under present conditions.

For the electric department, it is therefore reasonable to increase the service and minimum charges by approximately 40 percent (which was originally proposed by the company and accepted by the staff) and to then deduct the additional revenues that will be realized from these increases in service or minimum charges from the dollar amounts apportioned to each schedule. Apportionment of the remaining dollar amounts will generally follow the uniform cents-per-kilowatt-hour spread suggested by the staff, but with the blocking narrowed as indicated below.

For the gas department, the staff's estimates of revenues and sales will be applied to the gas rate design discussed below.

In adopting the electric and gas rate designs in this proceeding, we recognize the implications of the conservation-oriented rate structure which was adopted in Pacific Gas and Electric Company (1975) __ CPUC ___, Decision No. 84902, Applications Nos. 54279, 54280, and 54281, and the passage of Assembly Bill 167, the Energy Lifeline Act. We realize that it is legally possible for us to adopt a rate structure which would include a lifeline rate ahead of the effective date of this Act (January 1, 1976), but we believe it would be unwise to exercise our discretion in this direction here, because (1) the record was not developed regarding these considerations, and since the service area has a desert climate with heavy use of air conditioning by almost all users, we must make sure that we have considered all factors peculiar to this area before adopting such a rate design;4/ and (2) it is uncertain whether, for the Needles District, there is sufficient commercial and industrial service to adopt some of the formulae for designing rates which we found appropriate for PG&E.5/ In future proceedings, we will, however, expect the company and the staff to analyze rate structure problems with our PG&E decision and Assembly Bill 167 in mind and to present us with rate design alternatives which reflect, as much as is reasonable, these developments. We believe our rate design for gas and electric rates in these applications favors smaller users as much as is appropriate on the record which was developed here.

4/ One prominent factor is that the hot climate results in heavy air conditioning use by even the smallest users. Thus in 1973 (a more normal climatic year than 1974) 83.4 percent of the residential electric usage was in the tail block (over 200 kwhr). This means we must take great care to avoid setting tail block rates which would be excessive when the actual consumption pattern for a climate such as this is considered.

5/ The entire Needles service area consists of less than 2,000 customers and is primarily residential. The commercial customers would have to be characterized as basically "small business". The PG&E proceeding was statewide and not confined to one district, and involved a utility distributing electric energy in 47 central and northern California counties, including many large metropolitan and industrial areas, and also distributing, under resale schedules, power to other smaller utilities. Its gas department includes several large metropolitan and industrial areas. (See Decision No. 84902, mimeo. pp. 7-12, for a description of PG&E's electric and gas systems.)

Electric Department Rate Design Problems

We now turn to specific problems relating to certain energy blocks or schedules in the electric department. Except as indicated in the staff's electric rate design exhibit (No. 7), the staff did not take exception to the company's recommended rate blocks. While adhering in principle to the basic design suggested, we wish, however, to adopt rates which will narrow as much as is reasonable the rate for the first and last blocks (see discussion on previous page and Footnote 4). The following table shows the original, present, and adopted rates:

California-Pacific Utilities Company
Needles Division Electric Rates

Rate Block	Original Rates 1/	Present Rates 2/	Adopted Rates	Revenue 3/
	Domestic Service (Schedule D-112)			
Service Charge	$0.75	$0.75	$1.04	$ 17,750
First 40 Kwhr (per Kwhr)	4.3¢	5.1917¢	5.020¢	33,890
Next 60 Kwhr	3.2	4.0917	3.920	37,670
Next 100 Kwhr	2.4	3.2917	3.534	54,640
Over 200 Kwhr	1.2	2.0917	2.340	374,220
			Total Revenue	$518,170
	Commercial Service (Schedule A-122)			
Service Charge	$0.75	$0.75	$1.10	$ 4,150
First 50 Kwhr (per Kwhr)	4.7¢	5.5917¢	5.854¢	10,060
Next 150 Kwhr	4.2	5.0917	5.354	25,940
Next 200 Kwhr	3.8	4.6917	4.954	29,960
Next 600 Kwhr	3.2	4.0917	4.354	62,530
Next 1,000 Kwhr	2.2	3.0917	3.354	60,440
Over 2,000 Kwhr	1.3	2.1917	2.460	273,660
			Total Revenue	$466,740

1/ At the time of filing of these applications.

2/ Including interim relief.

3/ Based on adopted results.

The original rates contained a cost differential of 72.1 percent from the first to the final block for domestic service, and 72.3 percent from the first to the final block for commercial service. These differentials have been narrowed to 53.4 percent and 58.0 percent, respectively. There is a small reduction in the first two residential blocks.

The above schedules include most of the electric customers, and comprise, based on adopted results, 81.6 percent of the total electric revenues. The remaining schedules set forth in Appendix A consist of outdoor lighting, street lighting, general power (which is on a demand or connected load basis), and agricultural service.6/ These schedules will also have similar reductions in the cost differentials from the first to the final blocks.

The remaining issues concerning electric rates concern specific blocking or cancellation of schedules.

The staff opposes the company's request to add an additional block from 200 to 500 kwhr per month. We agree that such a block has the potential for stimulating additional consumption and that it should not be added at this time.

6/ This schedule is also on a demand basis, and consists of one customer who makes minimal usage of it. It is closed to new customers.

We also agree with the staff that the final two rate blocks of Schedule P-132 should be canceled on the basis that the return from them at present is marginal and that further increases in purchased power expense will make them noncompensatory.

We agree with the company that Schedule P-2-N may be canceled. It has caused administrative difficulties and necessitates two meters for residential service. It is obsolescent since it applies only to small three-phase motor air-conditioning equipment which has virtually disappeared from use. Needles City Manager Horeth expressed concern, in his testimony, that the proposed elimination would result in the residential customers under it being transferred to a commercial rate. Counsel for the company stated that the wording of the proposed tariff would be changed to make it clear that, where residential service is involved, the customer will be transferred to the residential rate. The remainder of the staff recommendations regarding electric department schedules, including the retention of letter designations for various rate schedules (Exh. 7, Section B, paragraphs 10(d) and (e), and Section C), is reasonable and will be adopted.

Gas Department Rate Design Considerations

Regarding gas department rate blocks, the major difference of opinion has to do with the company's proposal to create two schedules from the existing General Service Schedule G-220 to provide a difference in rates between residential and commercial customers. A new Schedule 210, for residential users, would retain the existing block structure of G-220, while Commercial Schedule G-220 would be restructured with additional blocks. The staff is opposed to the additional blocks on the ground that the large commercial customers would receive lower rates than small residential customers, and that, therefore, in an era of rapid natural gas price increases, such a rate schedule would not be oriented toward achieving conservation.

In its brief, the city of Needles analyzes this problem and disagrees that such a result would obtain from adoption of the company proposal. The City points out (brief, p. 13):

> "In one respect, the City does agree with the Company so far as gas rates are concerned. The Company proposes to break the present Schedule G-220 into two schedules, G-220 for commercial and G-210 for residential. The Staff has taken the position that the new G-220 would provide the large commercial customers with lower rates than the small residential customers. (See Exhibit 9, page 2-1, Para. 2; and testimony of Mr. Copeland.) An examination of the Company's rate proposal, however, would seem to indicate that G-210, at <u>any</u> given usage, would be lower than G-220. (See Exhibit D to the Application [gas], comparing page 1 of that Exhibit D with page 2 thereof.) Of course, the actual rates there proposed will not be authorized, but it does seem clear that the Company's proposal in principle would favor residential users. If the same relationship between G-210 and G-220 which appears in the application is maintained in the Commission's decision, but at a lower level, then residential customers would be the beneficiaries."

After analyzing the company's application, we agree in principle with the City's observations, and we will allow the company to establish separate residential (G-210) and commercial (G-220) gas schedules, but the company's blocking is unsatisfactory. In our recent <u>Pacific Gas and Electric Company</u> decision, supra, we generally adopted rate spreads designed to lessen the difference between the amount paid by a consumer for the first unit of gas or electricity, and the last unit, in order to discourage volume usage in an era of energy shortages and rising prices for natural gas and other fuel.

The company's proposal for its G-210 (residential) schedule would establish a decreasing charge from the first block to the final block so that the therms purchased in the final block (over 175 therms) would cost 11¢ less than the first 25 therms. Similarly, in the G-220 schedule, there would be a spread of 13-1/2¢ from the initial block (the first 50 therms) to the tail block (over 800 therms). The blocking we adopt, which is set out in the following table, will create a spread of 2¢ from the initial to the final residential block, and 3-1/2¢ from the initial to the final commercial block.

California-Pacific Utilities Company - Needles Division
Adopted Gas Rate Design

Residential (Schedule G-210)

Block Ending 1/	Present Rates 2/	Adopted Rates	Revenue 3/
4 therms	$2.54108	$2.540	$ 30,541
25 "	0.31777	0.280	52,609
75 "	0.28777	0.270	54,431
175 "	0.26777	0.265	25,266
Over 175 "	0.25777	0.260	11,467
		Total Revenue	$174,314

Commercial (Schedule G-220)

Existing Blocking Ending	Present Rates 2/	Adopted Block Ending	Adopted Rates	Revenue 3/
4 therms	2.54108	4 therms	$3.00	$ 4,716
25 "	0.31777	50 "	0.30157	16,211
75 "	0.28777	200 "	0.29157	34,781
175 "	0.26777	450 "	0.28157	35,036
Over 175 "	0.25777	800 "	0.27157	32,822
		Over 800 "	0.26657	83,388
			Total Revenue	$207,044

1/ The blocking adopted is the same as the existing G-220A schedule.

2/ Based on present G-220A schedule, including interim relief.

3/ Based on adopted results. The revenue calculation for the initial block is based on staff estimate of number of bills.

The rate spread above will result in a small reduction in annual revenue requirement from residential customers (about $11,000, based on adopted results) which is reflected, as can be seen from the above table, by a small rate reduction in the first four rate blocks. This revenue requirement has been shifted to the commercial schedule.

The company's original proposal contained "A" and "B" rate schedules in both the commercial and residential designs. In each case the "B" rate was to apply from April through November, and only to customers receiving gas air conditioning or gas swimming pool heating in conjunction with space heating. At the hearing it was shown that gas air conditioning and gas swimming pool heating are used by only a very small number of customers, and that it is unlikely that any would be added in the future. In such a situation, the lower rates offered by the "B" schedules unduly discriminate in favor of this small number of customers and they will not be authorized.

The remaining staff recommendations as to gas rates (Exh. 9, Chapter 2, paragraphs 1 and 4) are reasonable and are adopted.

Public Witness Testimony

Certain public witnesses and also the city of Needles expressed concern over the cost of purchased power and purchased gas generally. In its brief, the City takes the position that the company failed to justify its arrangements for such purchases. For example, applicant does not participate directly in the Mojave Steam

Plant, but, instead, purchases power from the owners. Also, the company does not purchase gas directly from pipelines in the area but rather from PG&E.

While we believe that we should, in the future, more closely scrutinize the company's planning and its future agreements for the Needles District, no downward adjustment in rate levels should be made on the ground that the company's purchased power or purchased gas arrangements are imprudent. It is unclear (as the City concedes) whether the company could in fact purchase gas or electricity for this district any cheaper by any other combination of arrangements. To penalize the company at this point would be hindsight. The company's basic arrangements for purchasing gas and power are of long standing, antedating the recent period of price rises due to fuel shortages and other energy problems of recent origin.

The City also complained of the alleged high cost of gas to the Needles District on the basis that its proximity to major pipelines should result in lower prices. Since the 1940's we have followed a policy of setting gas resale rates based on the average systemwide cost of gas to PG&E. We cannot change such a major policy in a proceeding involving one district of one company without prejudicing the rights of other parties. The proper place for the City's arguments on this subject is a proceeding encompassing the rates of the supplier.

One individual customer testified to a long history of voltage fluctuations which had caused her considerable problems. The examiner ordered a late-filed exhibit which would show what steps the company had taken to correct the situation. This exhibit (No. 20) shows that the company discovered the transformer bank serving this customer was overloaded. The company therefore transferred this customer and six others to a new transformer bank. We are convinced that adequate remedial action was taken.

Findings

1. Applicant is in need of additional revenues for its Needles District, but the proposed rates set forth in the application are excessive.

2. A rate of return on the adopted rate base of 9.04 percent and a return on common equity of 12.35 percent are reasonable.

3. It is not reasonable to include, for either the gas or electric department, amortization of tax liability for previous years apportioned to the Needles District.

4. The existing Commission-approved methods of determining depreciation are reasonable. The company shall not be required at this time to accrue depreciation on a monthly basis.

5. The 1974 recorded figures for total kilowatt-hours, average number of customers for the electric department, and kilowatt-hours per average customers are adopted.

6. The staff's estimate for electric plant additions are reasonable, with the addition of $12,500 of the new work orders, on a weighted average basis.

7. The company's revised Needles gas department rate base estimate (Exh. 25, p. 4) is reasonable and is adopted.

8. The staff's estimates of Needles gas department operations and maintenance expense are reasonable and are adopted.

9. The staff's estimate of commercial gas customers for the test period is reasonable and is adopted.

10. The staff's estimates and methods of determining gas department operating revenues for the Needles District are reasonable and are adopted.

11. It is reasonable, for both the gas and electric departments, to design rates which will recognize continual increases in the cost of purchased energy and the necessity for energy conservation, and which will narrow the differential between the cost of the first and final units of gas or electricity.

12. Electric Schedule P-2-N should be canceled. The company should file a revised tariff making it clear that residential customers on the P-2-N schedule may be transferred to the appropriate residential rate and not a commercial rate.

13. Present gas Schedule G-220 should be severed into two schedules, G-220 (commercial) and G-210 (residential) as more fully set forth in the opinion section of this decision.

14. The remaining staff recommendations for gas department rate design are reasonable and are adopted.

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

Conclusion

The application should be granted to the extent set forth in the following order.

A. 54664, A. 54665 bw

FINAL ORDER

IT IS ORDERED that California-Pacific Utilities Company is authorized to file, for its Needles Division, on or after the effective date of this order, revised electric rate schedules attached to this order as Appendix A, and revised gas schedules attached to this order as Appendix B. Such filings shall comply with General Order No. 96-A. The effective date of the revised schedules shall be the date of filing. The revised schedules shall apply only to service rendered on and after their effective date.

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

Dated at San Francisco, California, this 25th day of NOVEMBER, 1975.

I will concur in part and dissent in part
William Symons Jr

President

William Symons Jr

Commissioners

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.

RATES—CALIFORNIA-PACIFIC UTILITIES COMPANY

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

SCHEDULE NO. D-2

Revise number of Schedule from D-2 to D-112.

Revise Needles Division to read Needles District.

RATES

		Per Meter Per Month
Service Charge:		$1.04
Energy Charge (to be added to the Service Charge):		
First	40 kwhr, per kwhr	5.020¢
Next	60 kwhr, per kwhr	3.920
Next	100 kwhr, per kwhr	3.534
Over	200 kwhr, per kwhr	2.339

Minimum Charge: The service charge constitutes the monthly minimum charge.

PURCHASED POWER ADJUSTMENT

All service under this schedule will be subject to the Purchased Power Adjustment described in the Preliminary Statement. The adjustment amount shall be the product of the total kilowatt-hours for which the bill is rendered times the adjustment amount per kilowatt-hour.

SPECIAL CONDITIONS

Delete Special Condition No. 2.

SCHEDULE NO. A-2

Revise number of schedule from A-2 to A-122.
Revise Needles Division to read Needles District.

APPLICABILITY

Applicable to single-phase and polyphase service.

RATES

	Per Meter Per Month
Single-Phase Service:	
Service Charge:	$1.10
Energy Charge (to be added to the Service Charge):	
First 50 kwhr, per kwhr	5.854¢
Next 150 kwhr, per kwhr	5.354
Next 200 kwhr, per kwhr	4.954
Next 600 kwhr, per kwhr	4.354
Next 1,000 kwhr, per kwhr	3.354
Over 2,000 kwhr, per kwhr	2.459
Minimum Charge: $1.10	
Polyphase Service:	
Service Charge:	2.10

Energy Charge (to be added to the service charge at the same rate per kwhr as for single-phase service).

Minimum Charge: $2.10 per month, but not less than $1.50 per month per horsepower of polyphase connected motor load. The amount by which the minimum charge exceeds the $2.10 service charge will entitle the customer to an equivalent amount of energy at the quantity rates.

SCHEDULE NO. A-2 (Continued)

PURCHASED POWER ADJUSTMENT

All service under this schedule, including service rendered under the minimum charge, will be subject to the Purchased Power Adjustment described in the Preliminary Statement. The adjustment amount shall be the product of the total kilowatt-hours for which the bill is rendered times the adjustment amount per kilowatt-hour.

SPECIAL CONDITIONS

Delete existing Special Conditions and insert the following:

Voltage: Service on this schedule will be supplied at the secondary voltage available. Where polyphase power is to be combined with single-phase, a 4-wire service will be supplied, either 120-240 volt or 120-208 volt, whichever is available.

SCHEDULE NO. P-1-N

Revise number of Schedule from P-1-N to P-132.
Add: Needles District under Schedule No. P-132.
Revise Title of Schedule to read: GENERAL POWER SERVICE

APPLICABILITY

Applicable to alternating current energy used in motors, heating and cooking devices, and rectifiers for battery charging.

TERRITORY

The community of Needles and adjacent territory, San Bernardino County.

RATES

Energy Charge:

Horsepower of Connected Load	Per Meter Per Month Per Kwhr: First 50 Kwhr per hp	Next 50 Kwhr per hp	Next 150 Kwhr per hp	Over 250 Kwhr per hp
2 - 9.99	6.084¢	4.224¢	3.284¢	2.634¢
10 - 24.99	5.234	3.754	2.824	2.364
25 - 49.99	4.774	3.664	2.734	2.264
50 - 99.99	4.314	3.474	2.634	2.264
100 - 149.99	3.854	3.374	2.544	2.214
150 - 199.99	3.614	2.914	2.364	2.124
200 and over	3.534	2.544	2.284	2.044

Delete the load blocks from 500 - 799.99 hp, and from 800 hp and over.

Minimum Charge: $2.00 per horsepower of connected load per month, but not less than $4.00 per month.

SCHEDULE NO. P-1-N (Continued)

PURCHASED POWER ADJUSTMENT

All service under this schedule, including service rendered under the minimum charge, will be subject to the Purchased Power Adjustment described in the Preliminary Statement. The adjustment amount shall be the product of the total kilowatt-hours for which the bill is rendered times the adjustment amount per kilowatt-hour.

SPECIAL CONDITIONS

Conform to those shown on pages 4, 5, and 6 of 13 of Exhibit D to Application No. 54664.

Those customers who are now taking out of season power for air-conditioning purposes under this schedule are to be transferred to Schedule No. D-112 or to Schedule No. A-122, whichever is appropriate.

SCHEDULE P-2-N

This schedule is cancelled as of the effective date of the order in this decision. Those customers now taking service under this schedule are to be transferred to Schedule No. D-112 or to Schedule No. A-122, whichever is appropriate.

SCHEDULE NO. PA-N

Revise number of schedule from PA-N to P-134.

Add Needles District under Schedule Number.

TERRITORY

The community of Needles and adjacent territory, San Bernardino County.

RATES

	Minimum Charge	Energy Charge (Cents per kwhr)		
Horsepower of Connected Load	$ per hp Per Year	First 1,000 kwhr per hp per Year	Next 1,000 kwhr per hp per Year	Over 2,000 kwhr per hp per Year
2 - 4.99	$17.75	5.354¢	3.254¢	2.754¢
5 - 14.99	15.99	4.754	3.054	2.654
15 - 49.99	14.20	4.254	2.854	2.554
50 and Over	12.43	4.154	2.754	2.354

PURCHASED POWER ADJUSTMENT

All service under this schedule, including service rendered under the minimum charge, will be subject to the Purchased Power Adjustment described in the Preliminary Statement. The adjustment amount shall be the product of the total kilowatt-hours for which the bill is rendered times the adjustment amount per kilowatt-hour.

SPECIAL CONDITIONS

Conform to those shown on pages 7 and 8 of 13 of Exhibit D to Application No. 54664.

SCHEDULE NO. OL-1

Revise number of schedule from OL-1 to OL-152. Add Needles District under schedule number.

RATES

	Per Lamp Per Month
Overhead Service	
7,000 Lumen, Mercury-Vapor Lamp	$4.85
20,000 Lumen, Mercury-Vapor Lamp	8.25

Additional Charge: An added charge of $1.50 per month shall be made for each pole required in excess of the number of luminaires installed.

Underground Service	
7,000 Lumen, Mercury-Vapor Lamp	$5.35
20,000 Lumen, Mercury-Vapor Lamp	8.75

Additional Charge: An installation charge of $.25/ft. shall be made for each foot of service in excess of 150 ft. per lamp.

The customer will provide trenching and backfill, including all costs for paving, conduit, and other related expenses where applicable.

PURCHASED POWER ADJUSTMENT

All service under this schedule will be subject to the Purchased Power Adjustment described in the Preliminary Statement.

SCHEDULE NO. LS-2

Revise number of Schedule from LS-2 to LS-158.

Revise Needles Division to read Needles District.

RATES

	Rate Per Lamp Per Month All Night Service
Mounted on Wood Poles	
Incandescent Lamps	
1,000 Lumens	$1.87
2,500 Lumens	3.07
4,000 Lumens	3.99
6,000 Lumens	4.92
Mercury-Vapor Lamps	
7,000 Lumens	$5.25
11,000 Lumens	6.58
20,000 Lumens	8.20
Mounted on Metal Poles	
The above rate for lamps on wood poles PLUS	$2.00

PURCHASED POWER ADJUSTMENT

All service under this schedule will be subject to the Purchased Power Adjustment described in the Preliminary Statement.

SCHEDULE NO. LS-3

Revise number of Schedule from LS-3 to LS-159.

Revise Needles Division to read Needles District.

RATES

	Rate per Lamp per Month All Night Service
Mercury Vapor Lamps	
20,000 Lumens	$4.94
35,000 Lumens	8.20

PURCHASED POWER ADJUSTMENT

All service under this schedule will be subject to the Purchased Power Adjustment described in the Preliminary Statement.

A.54664, A.54665 ST APPENDIX B

Applicants gas rates, charges and conditions are changed to the level or extent set forth in this appendix.

Schedule G-210

Residential Natural Gas Service

Applicability

Available upon application, to any residential customer for space heating cooking, water heating, airconditioning, swimming pool heating or other miscellaneous small usage.

Territory

Applicable to the territory of the Needles division.

Rates

Commodity Charge	Per Meter Per Month
First 4 therms or less	$2.54
Next 21 therms per therm	.280
Next 50 therms per therm	.270
Next 100 therms per therm	.265
Over 175 therms per therm	.260

Minimum charge

Per meter per month	$2.54

Schedule G-220

Commercial Natural Gas Service

Applicability

Available upon application to any customer not eligible for service under Schedule G-220.

Territory

Applicable to the territory of the Needles Division.

Rates

Commodity Charge	Per Meter Per Month
First 4 therms or less	$3.00
Next 46 therms per therm	.30157
Next 150 therms per therm	.29157
Next 250 therms per therm	.28157
Next 350 therms per therm	.27157
Over 800 therms per therm	.26657

Minimum charge

Per meter per month	$3.00

NOTE: Cancel existing Schedules G-221 and G-240.

#24

A. 54664)
A. 54665) D. 85181

COMMISSIONER WILLIAM SYMONS, JR., CONCURRING IN PART and DISSENTING IN PART

Because the costs of providing gas and electric service to the customers in the Needles District have increased, California Pacific Utilities Company is properly authorized the additional revenues found reasonable.

However, I disagree with decision as to the way increased charges are levied on each customer to raise this revenue. I would adopt the staff's approach of spreading the increase on a uniform cost per therm basis. This means a larger percentage increase to the large volume user as opposed to the smaller user; yet it still maintains a sufficient differential in rates to reflect the fact that it costs more per unit to serve the smaller user.

Commodity cost is not the only operating expense that goes into providing gas and electric service. The thirteen year study introduced into evidence shows for electricity, 26%, and for gas, 54% of the operating costs in 1973 were for other than commodity costs. In setting rates, a simplistic comparison of low-usage average cost per therm with high usage average cost per therm is not the test of equity. It neglects to consider that in reality, costs other than commodity costs, are heavier per therm for low usage. Forgetting to charge adequately to recover a fair share for these costs creates a subsidy. Not only do I believe this wrong but increasing subsidization is no logical way to encourage conservation.

San Francisco, California
November 25, 1975

William Symons Jr.
WILLIAM SYMONS, JR.
Commissioner