ORIGINAL

Decision No. 88822 MAY 16 1978

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 gas service in its Needles District.)	Application No. 56890 (Filed November 24, 1976)

Orrick, Herrington, Rowley & Sutcliffe, by Robert J. Gloistein, Attorney at Law, for applicant.
Mary Carlos, Attorney at Law, and Vladislav A. Bevc, P. E., for the Commission staff.

OPINION

By this application, California-Pacific Utilities Company (Cal-Pac) seeks to increase gas rates in its Needles District to produce additional annual gross revenues of $132,544 for an average increase of 37.35 percent. Cal-Pac seeks a rate of return of 10.76 percent on rate base and 16.0 percent return on common equity.

Public hearings were held in Needles on May 25, 26, and 27, 1977. Six public witnesses gave testimony in opposition to the proposed rate increase and the mayor made a statement for the city of Needles, as a Cal-Pac gas customer, also protesting the proposed increase. There were no complaints about service.

During the hearings the disputed issues between Cal-Pac and the staff, apart from a drastic restructuring of rates advocated by the staff, were narrowed to:

(1) Fair rate of return;

(2) Estimates of revenues and related purchased gas expense; and

(3) Tax normalization.

Two late-filed exhibits, one relating to a reconnection charge and the other resolving key rate design issues, were sponsored jointly by the staff and Cal-Pac. With this submission the evidentiary record was considered complete on July 18, 1977, and concurrent briefs became due August 8, 1977. The briefs have been filed and the matter stands ready for decision.

Rate of Return

In this proceeding an appropriate overall rate of return depends on the fixing of a fair and reasonable return to be allowed for the common equity component of capital. There is no issue with respect to the test year capital ratios or the costs of debt and preferred stock, Cal-Pac having accepted the staff estimates, which are: 50.12 percent - long-term debt, 11.49 percent - preferred stock, and 38.39 percent - common stock equity as the capital structure; and 7.01 percent and 9.48 percent as the effective cost rates for long-term debt and preferred stock, respectively. Cal-Pac recommends a 16 percent rate for the common equity capital component; the staff recommends 12.24 percent.

Cal-Pac's rate of return expert testified that in developing his opinion of a fair rate of return on common equity, he relied on three tests, derived from Supreme Court decisions, in general use. The tests compare Cal-Pac's earnings with the earnings of comparable companies with comparable risk, give consideration to whether the rate of return is sufficiently high to enable Cal-Pac to continue to attract capital needed to supply the utility service it is obligated to supply, and give consideration to whether the rate of return is sufficient to allow Cal-Pac to maintain its financial integrity.

For the comparable earnings test he selected 40 utility companies closest in size to Cal-Pac as measured by revenues and capital. He determined that the weighted rate of return earned on common equity by the 40 utility companies was 10.9 percent in 1974 and 11.6 percent in 1975. In comparison, Cal-Pac earned 8.4 percent in 1974 and 8.0 percent in 1975.

Moreover, the majority of those companies were, according to this witness, experiencing a less than adequate rate of return as evidenced by their generally being unable to earn their authorized rates of return and their constantly seeking rate relief. It was his opinion that such depressed earnings had exacerbated a decline in utility stock market price to book value ratio with Cal-Pac being particularly hard hit. Compared to the weighted average for the group of 40 companies in 1974 and 1975, Cal-Pac's market price to book value ratio was 52 percent versus 68 percent and 67 percent versus 82 percent, respectively.

In analyzing the relationship between the book value and market value of utility common stocks since 1960, this witness concluded that 1968 was a transition year, since which time market price discount from book value for all utilities has steadily increased. He contends that this has occurred because the allowed earnings of utilities have failed to keep pace with inflation and the returns demanded in the marketplace for senior securities. That failure to keep pace has had to result in the reduction of the quality of the debt and preferred stock of utility companies.

According to his testimony, an inability to raise common equity capital except on terms detrimental to present stockholders and a reduction of the quality of the debt and preferred stock of utility companies are both indicative that earnings levels have been inadequate for utility companies to maintain their financial integrity and to attract capital on relatively favorable terms.

This witness concluded from his study (Exhibit 3, Chapter 16) that an 11.5 percent rate of return on common equity was fair and reasonable in the transition year of 1968 and that today a fair and reasonable return on common equity would be in the range of 15 percent to 16 percent. An increment of this size is required, he claimed, to offset higher levels of inflation as reflected in a three percentage point increase in bond rates and to offset higher risks today associated with utility common stock investments.

The staff rate of return expert, on the basis of his study (Exhibit 12), proffers 9.3 percent, with a return on common equity of 12.24 percent, as being in his judgment the fair rate of return applicable to the rate base to be determined for Cal-Pac's Needles District Gas Department. The allowance of 12.24 percent for common stock equity is computed from Cal-Pac's capital structure and produces an approximate after tax interest coverage of 2.65 times and a combined coverage of 2.02 times debt interest and preferred stock dividends.

This witness enumerated some of the factors he considered: (1) Trends in interest rates; (2) capital structure and sources of financing capital requirements; (3) interest and dividend coverage for senior securities; (4) comparison of Cal-Pac's earnings with earnings of other utilities; (5) growth in plant, revenues, net income, and book value of common stock equity; (6) diversity of Cal-Pac's utility operations and territories served; and (7) equitable treatment of consumers served as well as investors in Cal-Pac's securities. He concluded that his recommended rate of return is reasonable because it provides for servicing of the applicant's fixed charges and allows earnings for common stock equity that should result in moderate increases in retained earnings after payment of dividends.

As has been stated in numerous previous decisions, the determination of a reasonable return on common equity is largely a matter of judgment. In this proceeding the two studies on rate of return have led to widely divergent recommendations. That divergence appears to be related, in part at least, to each expert's assessment of the effectiveness of rate relief because of delays, to the reception accorded Cal-Pac's recent issues of securities, and to Cal-Pac's 1977 and 1978 requirements for external financing.

Cal-Pac asserted that the 16 percent rate of return on common equity it seeks is needed, in part, to offset delays in obtaining rate relief during which earnings continue to erode and to provide as well some cushion for economic downturns. Cal-Pac's witness testified:

> ". . . Because of the length of time it takes for a utility company to recognize and document the need for a rate increase and to prepare an application for a rate increase, and for the regulatory authority's staff to prepare their exhibits in response, and for a decision to be reached by the regulatory authority, the utility company is going to experience a period of depressed earnings before it is authorized to increase its rates..."

In contrast, the staff witness has stressed that Cal-Pac's earnings rose from $1.76 per share in 1975 to $2.46 per share in 1976. He attributed this improvement in large measure to rate relief which was beginning to show up in earnings. In regard to earnings growth since 1972 he conceded, however, that two issues of common stock which sold below book value, taken together with a modest increase in dividends, have eliminated any growth in book value per share since that year.

With respect to Cal-Pac's ability to meet its financing requirements in 1977 and 1978, the staff in its brief summarizes the situation as follows:

> "Applicant has recently issued mortgage notes in the amount of $6,500,000 which were placed privately and which sold with no particular problems. This action cleared out the company's short-term debt and brought its times interest coverage to the pre-tax coverage limit of 2.5 times.
>
> "Applicant has also sold $5,400,000 worth of common stock early in 1977 at approximately 73 percent of book value.
>
> "Applicant has stated in testimony that it would rely on short-term borrowings until the end of 1978, though ideally the company would issue additional long-term debt early in 1978."

Given this financial picture, the staff sees no reason why a rate of return of 9.3 percent would not be adequate.

In our considered judgment a 9.3 percent rate of return as recommended by the staff is the fair rate of return for Cal-Pac. It appears to strike a reasonable balance between the ratepayers' short-term interests in the lowest rates and their longer term interest in ensuring that Cal-Pac can obtain the financing necessary to maintain good service. It also generally comports with the rates of return recently allowed by this Commission both in regard to return on equity for similarly leveraged utilities and to the higher rate of return, on a comparable risk basis, to which a utility which flows through its tax savings is entitled. The 9.3 percent rate of return provides a computed allowance of 12.24 percent for common equity; interest coverage after income taxes is 2.65 times; and combined coverage for interest and preferred stock dividends is 2.02 times.

Cal-Pac, like the other gas utilities we regulate, faces the uncertainty of sales and supply levels affected by conservation and gas availability. The supply adjustment mechanism proceeding (Case No. 10261) is presently under our consideration and is the appropriate vehicle to consider this general problem of revenue swings due to sales and supply level variations.

On March 26, 1978 Cal-Pac incorporated a balancing account procedure as part of the purchased gas adjustment. The balancing account, authorized in Commission Resolution No. 2199, will enhance Cal-Pac's ability to fully recover purchased gas costs.

Summary of Earnings

Cal-Pac's witnesses and witnesses for the Commission staff have analyzed and estimated Cal-Pac's operational results. At the start of the hearings Cal-Pac represented that, after a review of the staff showing, which was based on later data, it was prepared to agree with many of the staff's estimates. As the hearings progressed, additional points of difference in their respective estimates were resolved with the result that in the summary of earnings tabulated below only the estimates of revenues and the related effects on purchased gas expense, franchise fees, and income taxes were left to be resolved.

Table 1

California-Pacific Utilities Company

Summary of Earnings

At Present Rates[1/]

(Test Year 1977)

Item	Cal-Pac (a)	Staff (b)
Operating Revenues		
Residential	$170,200	$180,005
Commercial	184,500	203,471
Miscellaneous	200	372
Total Operating Revenues	$354,900	$383,848
Operating Expenses		
Purchased Gas	$167,100	$177,540
Distribution	48,000	48,000
Customer Accounts	22,078	22,075
Sales	1,570	1,570
Administrative and General	53,987	54,566
Subtotal	292,735	303,751
Depreciation	32,481	32,481
Taxes Other Than Income	39,647	39,647
State Corp. Franchise Tax	(4,779)	(3,162)
Federal Income Tax	(29,035)	(21,184)
Total Operating Expenses	$331,049	$351,533
Net Operating Revenues	$ 23,851	$ 32,315
Rate Base	$749,364	$749,364
Rate of Return	3.2%	4.3%

(Red Figure)

1/ Rates in effect on January 1, 1977. The rates then included PGA tracking increases of $.04356 per therm applicable to nonlifeline quantities.

The above staff estimate of $383,848 for total operating revenues exceeds Cal-Pac's estimate by $28,948. The build-up of their respective estimates differs in the number of customers and use per customer in both the residential and commercial categories, with the staff estimate being higher in each facet as shown below:

	Average No. of Customers	Sales Therms	Revenues
Residential			
Staff	1,040	533,520	$180,005
Cal-Pac	1,009	504,000	170,200
Difference	31	29,520	$ 9,805
Commercial			
Staff	124	585,280	$203,471
Cal-Pac	119	534,000	184,500
Difference	5	51,280	$ 18,971
Total Residential & Commercial			
Staff	1,164	1,118,800	$383,476
Cal-Pac	1,128	1,038,000	354,700
Difference	36	80,800	$ 28,776

An unusual characteristic of the Needles District is the inordinately large downward swing in the number of customers served from winter to summer. These swings have been depicted graphically in Exhibit 14. From that exhibit, in which the number of residential customers each month and the average number of residential customers for the 12 previous months are plotted for the years 1971-1976 and for January-April 1977, we have taken the following data:

	1974	1975	1976	1977
No. of Residential Customers				
High	1,044	1,045	1,050	1,068
Low	955	949	949	NA
Annual Average	999	1,003	1,000	NA
Average for 12 Months ended April	993	1,001	1,003	1,004
Staff Estimate	-	-	-	1,040
Cal-Pac Estimate	-	-	-	1,009

Forecasting the average number of customers for the test year is made more difficult by the swings. Nonetheless, the pattern formed by the above data and the fact that the average number of residential customers for the 12-month period ended April 1977 was 1,004 are reasonably indicative. The staff estimate, which was influenced by a spurt in building activity, thus clearly appears to exceed the attainable for the test year. In contrast, Cal-Pac's estimate appears, by the same comparison, to reasonably represent the attainable and should be adopted for the test year.

In Exhibit 15 a similar graph was provided depicting the number of commercial customers served. After evaluating that data it is our view that Cal-Pac's estimate also more nearly represents for this customer category what is attainable in the test year. Accordingly, an average of 119 commercial customers is adopted for 1977.

In developing an estimate of gas sales to residential customers Cal-Pac's witness reviewed the historical pattern of such sales. It was his assessment that recorded data through August 1976 shows a downward trend in use per customer which was in response to sharp increases in rates to offset large increases in purchased gas costs which occurred in 1974 and thereafter. This trend over only a 2½-year period is not long enough, in his opinion, to ascertain the relative influences of price-induced conservation and temperature sensitivity on use per customer.

Accordingly, he relied on a judgmental determination (based upon the pattern of gas sales, number of customers, and degree-days for 1974, 1975, and 12 months ended August 1976) of 504,000 therms as his estimate of test year 1977 residential sales. It equates to 500 therms per residential customer.

The staff witness, in contrast, used the five-year period 1972-1976 for a correlation between degree-days and usage which yielded an adjusted use per residential customer of 513 therms with a correlation coefficient of 89.6 percent. The method used inherently constrains the adjusted use per customer to remain constant for each year in the five-year period. Because of the good correlation, it was deemed by the staff witness to be representative of the test year. The product of 513 therms times 1,040 residential customers is 533,520 therms, which was the staff estimate of residential sales for 1977.

In rebuttal, Cal-Pac's witness prepared correlations between degree-days and usage for the three-year period 1974-1976, the four-year period 1973-1976, and the five-year period 1972-1976, in which adjusted use per residential customer of 495 therms with a correlation coefficient of 99.5 percent, 506 therms with a correlation coefficient of 94.5 percent, and 516 therms with a correlation coefficient of 88.9 percent, respectively, were obtained. The Cal-Pac witness contended that if conservation was not affecting use there would not be a decline in adjusted use as the span of years is shortened by eliminating the earlier years. The staff witness countered this contention by asserting that anything less than a five-year period as a basis for this type of adjustment is statistically unreliable.

We are persuaded by a careful consideration of the evidence that there has in fact been a recent downward trend in use per customer after adjustment for temperature. In addition, there is the prospective application of inverted rates, which are intended to reinforce conservation efforts. Both are indicative of Cal-Pac's estimate of residential sales being more representative than the staff's estimate for use in the test year. Accordingly, residential sales of 504,000 therms are adopted for test year 1977.

With respect to commercial sales, Cal-Pac contended these sales are sufficiently influenced by temperature to require that factor be taken into account in estimating such sales. The staff maintained that the opposite is true. The following array of data taken from Exhibit 16 depicts use per commercial customer and degree-days (adjusted to better synchronize with billings) for years 1972 through 1976:

Year	Therms Per Customer	Degree-Days
1972	5,170	1,442
1973	4,881	1,724
1974	4,198	1,241
1975	4,972	1,628
1976	4,380	1,104

30-year Average Degree-days = 1,374

The commercial category of customers is made up of stores, restaurants, motels, other commercial establishments, and master-metered, multi-family residential premises. There are no industrial gas customers in Needles. Cal-Pac has estimated test year commercial sales of 534,000 therms which equate to 4,487 therms per customer on the basis of serving an average of 119 customers. In contrast, the average annual use per customer of 4,720 therms during the five-year period 1972-1976 was used without adjustment by the staff as the estimated usage for the test year.

As we see it, commercial sales are temperature-sensitive but less so than residential sales. Also, forecasting commercial sales inherently is subject to more error because of a wide variation of usage within the customer mix and a very small customer base. Although Cal-Pac's estimate thus is far from infallible, we are persuaded that it is reasonably representative of the test year, especially with the impending elimination of decreasing block rates, which makes a higher estimate than Cal-Pac's less credible. Accordingly, commercial sales of 534,000 therms are adopted for the test year.

At the outset of this discussion of operating results the divergent estimates of gas usage were pointed to as the unresolved issue accounting for the different results obtained by Cal-Pac and the staff in Table 1. With Cal-Pac's estimates of customer growth and gas usage having been adopted hereinabove, it necessarily follows that we adopt the operating results set forth in Column (a) of Table 1.

Normalization Issue

Although tax normalization is not reflected in Table 1, Cal-Pac proposes to defer for book and ratemaking purposes the additional reduction in federal income taxes resulting from the increase in investment tax credit from 4 percent to 10 percent and to take this additional credit into income over the life of the related assets. In connection with accelerated depreciation for federal income taxes, Cal-Pac proposes to increase its income tax expense for book and ratemaking purposes by introducing a provision for taxes deferred to future years. The various components of this provision for deferred taxes are:

(a) The difference between tax depreciation under accelerated method used prior to 1971 and Guide Line Class Life System tax depreciation;

(b) The difference between accelerated depreciation and straight-line depreciation for 1977 plant additions; and

(c) The difference between expensing currently for tax purposes the cost of removing utility property beginning with the year 1971 and not doing so.

Cal-Pac's proposed investment tax credit adjustment applicable to the excess over 4 percent and the components of the provision for deferred taxes require, according to Cal-Pac's estimates, gross revenue increases of $4,730 and $5,520, respectively, for a total gross revenue increase of $10,250.

It is a long-standing policy of this Commission to flow through tax benefits. We are not persuaded that a departure from policy is warranted. Accordingly, accelerated depreciation on property acquired since January 1, 1965 and on estimated additions for the year 1977 has been used on computing California franchise and federal income taxes for the test year. That tax depreciation also reflects the Class Life Asset Depreciation Range and Guide Line Class Life Systems and, for the federal tax computation, the election to expense currently for tax purposes the cost of removing utility property beginning with the year 1971. An investment tax credit at the rate of 10 percent was applied in computing federal income taxes for the test year.

Conservation

The conservation efforts of Cal-Pac were commented upon by the staff in Exhibit 11, as follows:

"A. The utility has little conservation program in Needles at present. The advertisements in the local weekly newspaper and on local radio were discontinued in January 1977. The last year's local weekly newspaper advertisements were mainly directed towards reducing repair calls and conserve natural gas.

"B. The company claims to be working on a program which will promote conservation of natural gas through home insulation and intends to sell home insulations at both Needles and Weaverville, California, before the end of this year. The company has so far been unable to locate a suitable contractor for either Weaverville or Needles.

"C. The utility has been unable to produce data showing a drop in sales due to conservation efforts on their part. The company plans to implement gas furnace pilot light shut-off and relight program this summer. The effectiveness of the program cannot be evaluated until the next year. It is therefore not possible to gauge its effects on sales at the present time."1/

In view of the declining supply of natural gas, Cal-Pac will be expected to aggressively pursue conservation programs and will be required to report annually to the Commission on the progress of its programs. The effect of those programs on gas sales and revenues should be recognized in ratemaking as soon as Cal-Pac clearly demonstrates that such effects are taking place.

1/ This program was reportedly carried out in an effective manner during the summer of 1977, although reported results of energy savings are not yet available.

Applying a rate of return of 9.3 percent to the $749,364 rate base indicates a need for $69,691 in net operating revenues, or $45,840 more than the net revenues of $23,851 produced, as shown in Column (a) of Table 1, at present rates. Under test year income tax rates and franchise fees and an allowance of .504 percent for uncollectibles, the net-to-gross multiplier is 2.167. When that factor is applied to the deficiency in net revenues of $45,840, required additional gross revenues of $99,335 result, which is a 28.0 percent increase over test year gross revenues of $354,900 at present rates.

Rate Design

In Exhibit 13 the staff proposed a drastic restructuring of Cal-Pac's gas rates for the Needles District. Emphasis was placed by the staff on "three-tier inverted rates intended to promote conservation while providing reasonable rates for basic or lifeline usage." Also, the service charge was to be separated from the commodity charge in order to change from the present minimum charge rate form to a service charge rate form.

At the time of the late May hearings on this matter, a decision was impending on PG&E's Applications Nos. 57124 and 57138, a consolidated proceeding in which the staff also proposed multi-tier inverted rates. In light of Exhibit 13's not being ready in advance of the late May hearings, Cal-Pac's needing time to evaluate the comprehensive rate restructuring urged by the staff, and the impending decision on the PG&E applications, cross-examination on rate design of the staff witness was deferred and provision was made for receiving an appropriate late-filed exhibit (Exhibit 19) should further hearing not be required.

Decision No. 87585 issued July 12, 1977 in the PG&E applications. Concerning the restructuring of the gas rates, we said in that decision: ". . . The inverted rates adopted for residential users encourage conservation in that if gas is conserved it would have been the last increments of usage priced at the highest level. Thus, a conservation incentive is built into our gas rate design. We are not adopting such inverted rates for firm nonresidential users...because it would penalize the larger operations..." Shortly after Decision No. 87585, Cal-Pac and the staff reached agreement on rate design concepts as reflected in Exhibit 19, which was then late-filed.

In Exhibit 19 three-tier inverted rates for residential customers, a uniform rate for commercial users, and a customer or service charge are the basic rate designs used. The lifeline quantity determines the extent of the first tier. For that tier the January 1, 1976 lifeline rate of $0.3203 per therm applies. The third tier or top usage block and commercial usage are to receive equal increases over lifeline rates and the second tier is assigned one-half of that increase per therm. PGA increases are added to the rates for nonlifeline use.

The foregoing concepts and methodology were used to develop the rates schedules prescribed in Appendix A to this decision. The new schedules prescribed are summarized as follows:

	Residential Schedule G-210	Residential Schedule GS-210*
Summer and/or Basic		
	Per Month	Per Month
Service Charge	$1.50	$2.00
Commodity Charge:		
First 26 therms, per therm........	.3203	.3203
Next 30 therms, per therm........	.4556	.4556
Over 56 therms, per therm........	.5291	.5291
Winter with Space Heating		
Service Charge	$1.50	$2.00
Commodity Charge:		
First 81 therms, per therm........	.3203	.3203
Next 39 therms, per therm.....	.4556	.4556
Over 120 therms, per therm.....	.5291	.5291

*A 10% discount for lifeline use applies.

	Residential Schedule GM-210
Summer and/or Basic	
	Per Month
Service Charge	$2.00
Commodity Charge:	
First 21 therms, per therm........	.3203
Next 24 therms, per therm.....	.4556
Over 45 therms, per therm.....	.5291

Residential
Schedule GM-210
Winter with Space Heating

	Per Month
Service Charge	$2.00
Commodity Charge:	
First 54 therms, per therm	.3203
Next 26 therms, per therm	.4556
Over 80 therms, per therm	.5291

Commercial
Schedule G-220

Service Charge	$2.00
Commodity Charge, per therm	.5291

PGA tracking increases of $.0618 per therm in effect through December 31, 1977 have been incorporated into the above base rates. The above rates, plus a connection charge to be taken up next, are designed to yield $464,342, which meets the $99,335 required gross revenue increase determined hereinabove and represents a 27.2 percent increase over annual revenues at presently effective rates (i.e., rates in effect through December 31, 1977).

Connection Charge

According to late-filed Exhibit 18, presently about 400 requests are received from Needles customers to be disconnected for the warm weather and then reconnected for the cold weather. To the extent seasonal occupancy is reflected in these requests, customers with multi-uses for gas could be involved. The requests, however, are predominantly from customers who use gas only for space heating. This practice allows such customers to avoid the present minimum charge of $2.63 per month and adds, according to Exhibit 18, to Cal-Pac's operating expenses about $15 for each customer disconnected and reconnected.

Cal-Pac has proposed, with staff concurrence, that a reconnection charge of $12.50 be instituted. A charge lower than the cost incurred was selected by Cal-Pac in order to encourage customers to continue disconnecting and thereby avoid a service charge of $1.50 per month in the case of residential customers, and in so doing conserve pilot light gas. An incentive along these lines is compatible with the objective of a trial pilot light shut-off and relight service which was, as brought out earlier in this opinion, to be implemented during the summer of 1977.

The difficulty in administering a reconnection charge is that it would be necessary to determine whether or not a request for service was a reconnection by a former customer at the same place. In contrast, if a connection charge instead of a reconnection charge is instituted, it would not only apply but be cost responsive in either event. A connection charge, approximating about one-half the cost estimated by Cal-Pac, appears suitable and will be authorized. It should be incorporated into each gas rate schedule as a special condition which reads: "An applicant for service shall pay an $8 connection charge."

Findings

1. Cal-Pac is in need of additional gas revenues for its Needles District but the rates requested would produce an excessive rate of return.

2. The operating results set forth in Table 1, Column (a) of the preceding opinion reasonably represent the Needles District Gas Department revenues, expenses, rate base, and rate of return for test year 1977 at present rates (i.e., rates in effect on January 1, 1977).

3. The computation of state and federal income taxes should reflect full flow-through of accelerated depreciation; the computation of federal income tax also should reflect full flow-through of the investment credit.

4. A fair rate of return for Cal-Pac is 9.3 percent. It yields a computed return on common equity, which comprises 38.4 percent of Cal-Pac's total capitalization, of 12.24 percent. Interest coverage after income taxes is 2.65 times. Combined coverage for interest and preferred stock dividends is 2.02 times.

5. Apart from PGA rate increases which occurred after January 1, 1977, a gross revenue deficiency of $99,335 exists at rates in effect on January 1, 1977 in relation to a 9.3 percent rate of return.

6. The rates and charges prescribed in Appendix A attached to this decision are designed to yield revenues of $464,342, an increase of $99,335 (27.2 percent) over 1977 revenues at presently effective rates. Existing PGA increases of $.0618 per therm have been incorporated into the base rates for nonlifeline use.

7. a. The rates and charges prescribed in Appendix A attached to this decision are reasonable.

b. A three-tier inverted rate design, in which the first tier is for the lifeline quantity to which the January 1, 1976 lifeline rate of $0.3203 per therm applies, is prescribed.

c. A uniform rate is prescribed for commercial customers.

d. An $8 connection charge is prescribed.

8. Cal-Pac should report the progress of its conservation programs to the Commission. With reference to the gas furnace

pilot light shut-off and relight program, Cal-Pac should provide an assessment of the program's effectiveness this past summer, its future prospects, and the need for a tariff provision for this service.

9. The increases in rates and charges authorized by this decision are justified and are reasonable, and the present rates and charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.

Conclusion

The Commission concludes that the application should be granted to the extent set forth in the order which follows.

O R D E R

IT IS ORDERED that:

1. California-Pacific Utilities Company (Cal-Pac) is authorized to file for its Needles District gas operation revised rate schedules as set forth in Appendix A hereto on or after the effective date of this order. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be four days after the date of filing. The revised schedules shall apply only to service rendered on or after the effective date thereof.

2. Cal-Pac shall file three copies of a written report on its conservation programs in conformity with Finding 8 of this decision on or before August 1, 1978. Thereafter, such reports shall be filed each year on or before March 31 for three more years. Cal-Pac is placed on notice that the Commission will monitor its conservation efforts and will evaluate the utility's vigor and

imagination in implementing and expanding its energy conservation programs when deciding upon a fair rate of return in future rate cases.

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

Dated at San Francisco, California, this 16th day of MAY, 1978.

Robert Batinovich
President
William Symons, Jr.
Vernon L. Sturgeon
Richard D. Gravelle
Claire T. Dedrick
Commissioners

California-Pacific Utilities Company
Needles District

Purchased Gas Adjustment

Needles District

Effective for service rendered in Needles the purchased gas adjustments are:

	Adjustment Per Therm to	
	Lifeline Sales	All Other Sales
Purchased Gas Adjustment	$0.00000	$0.00000
Balancing Account	.00000	.00000
Net Purchased Gas Adjustment	.00000	.00000

California-Pacific Utilities Company
Needles District

Residential

Schedule G-210

APPLICABILITY

Applicable for natural gas service to single-family customers classified in Rule No. 20 as Priority P1.

RATES

	Per Month
Service Charge	$1.50
Commodity Charge	
Summer and/or Basic	
First 26 therms, per therm	$0.3203
Next 30 therms, per therm	.4556
Over 56 therms, per therm	.5291
Winter with Space Heating	
First 81 therms, per therm	$0.3203
Next 39 therms, per therm	.4556
Over 120 therms, per therm	.5291

SPECIAL CONDITIONS

Connection Charge

An applicant for service shall pay an $8 connection charge.

Lifeline Quantities

		Lifeline Quantity Per Month (Therms)	
Code	Type of Service	November 1 through April 30	May 1 through October 31
(B)	Basic residential use only	26	26
(S)	Basic residential use and permanently installed natural gas space heating	81	26
(W)	Nonlifeline	0	0

California-Pacific Utilities Company
Needles District

Residential

Schedule GM-210

APPLICABILITY

Applicable for natural gas service to residential multi-family customers classified in Rule No. 20 as Priority P1 supplied through one meter on a single premises.

RATES

	Per Month
Service Charge	$2.00
Commodity Charge	
Summer and/or Basic	
First 21 therms, per therm	$0.3203
Next 24 therms, per therm	.4556
Over 45 therms, per therm	.5291
Winter with Space Heating	
First 54 therms, per therm	$0.3203
Next 26 therms, per therm	.4556
Over 80 therms, per therm	.5291

SPECIAL CONDITION

Connection Charge

An applicant for service shall pay an $8 connection charge.

Lifeline Quantities

Code	Type of Service	Lifeline Quantity Per Month (Therms) November 1 through April 30	May 1 through October 31
(B)	Basic residential only	21	21
(S)	Basic residential and permanently installed natural gas space heating	54	21
(P)	Total lifeline quantity per above except that not all units qualify for same type		
(N)	Nonlifeline	0	0

California-Pacific Utilities Company
Needles District

Residential

Schedule GS-210

APPLICABILITY

Applicable for natural gas service to residential multi-family customers classified under Rule No. 20 as Priority P1 supplied through a master meter with all the individual family units submetered.

RATES

	Per Month
Service Charge	$2.00
Commodity Charge	
Summer and/or Basic	
First 26 therms, per therm	$0.2883
Next 30 therms, per therm	.4556
Over 56 therms, per therm	.5291
Winter with Space Heating	
First 81 therms, per therm	$0.2883
Next 39 therms, per therm	.4556
Over 120 therms, per therm	.5291

SPECIAL CONDITIONS

Connection Charge

An applicant for service shall pay an $8 connection charge.

Lifeline Quantities

Code	Type of Service	Lifeline Quantity Per Month (Therms) November 1 through April 30	May 1 through October 31
(B)	Basic residential use only	26	26
(S)	Basic residential use and permanently installed natural gas space heating	81	26
(P)	Total lifeline units per above except that not all units qualify for same type		
(N)	Nonlifeline	0	0

California-Pacific Utilities Company
Needles District

Commercial

Schedule G-220

APPLICABILITY

Applicable for natural gas service to uses classified in Rule No. 20 as Priority P1 and not eligible for residential service.

RATES

	Per Month
Service Charge	$2.00
Commodity Charge, per therm	$0.5291

SPECIAL CONDITIONS

Connection Charge

An applicant for service shall pay an $8 connection charge.