

Decision No. 9133

EXHIBIT

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application)
of Southern California Gas Company)
for an increase in and a general)
adjustment of its rates and charges)
for gas to be sold and distributed) Application No. 6338
by it within the City of Los Angeles)
and various incorporated and unin-)
corporated territories, in the)
vicinity of Los Angeles.)

Jared How)
Paul Fussell) for Applicant

Jess Stephens)
H.Z. Osborne, Jr.) for City of Los Angeles

Le Roy M. Edwards, for Southern Counties
Gas Company of California

F. L. Perry, for Cities of Redondo Beach
and Manhattan Beach.

BRUNDIGE and ROWELL, Commissioners:

O P I N I O N

Southern California Gas Company, Applicant herein, asks authority to increase its rates and charges for the several classes of gas service rendered by it to its various domestic and industrial consumers in the City of Los Angeles and vicinity. Applicant alleges that its rates were first fixed by this Commission by Decision No. 4559, (Opinions and Orders of the Railroad Commission of the State of California,

Vol. 13, Page 742), consideration then being given to the fact that Applicant was in active competition with Los Angeles Gas and Electric Corporation and that it could not conduct its business successfully if higher rates were charged by it than by its competitor in the same territory, and because of this situation the Railroad Commission established the same rates as were at that time fixed for the Los Angeles Gas and Electric Corporation; that the Railroad Commission subsequently by its Decision No. 6138 again prescribed for Applicant increased rates upon a competitive basis. It is further alleged that this Commission by Decision No. 4559 tentatively found a value of Applicant's investment lower than Applicant believes reasonable; that the cost of money for financing improvements to its system has increased materially; and that Applicant is informed that Los Angeles Gas and Electric Corporation has applied to the Railroad Commission for authority to increase its gas rates.

Applicant therefore prays that the Commission fix like rates for it as may be granted its competitor, and that the Commission establish a fair rate base predicated upon its investment.

A hearing was held in Los Angeles on April 27, 1921, at which time Applicant requested that the rates at present in effect in its Redondo Division and in the town of Newhall, and also rates for wholesale service to other distributing utilities be permitted to remain unchanged. The matter was thereupon submitted and is now ready for decision. Evidence was presented in this proceeding in the form of exhibits and testimony relative to Applicant's financial operations by its Assistant Auditor, Mr. L. W. E. Jolliffe, and additional evidence regarding service conditions by Mr. C. D. Bell, Superintendent of

Distribution. It was stipulated that the proceeding be submitted with the understanding that Applicant furnish to the Commission, and copies to the City of Los Angeles, data relative to recent capital expenditures and such other information as the Commission's engineers might require for their investigation; and that records in Application No. 1853 and all other records of the Commission and annual reports of Applicant be considered in evidence, and further, that thirty days be allowed within which time the City of Los Angeles might submit briefs or exhibits.

The City of Los Angeles, as well as Applicant in its petition, requested that the Commission make a valuation of the company's properties. Testimony of interested parties was to the effect that, because of time required for making such a valuation, and the resulting delay in the fixing of the rates, it would for the present be satisfactory if the Railroad Commission would sufficiently investigate Applicant's operations whereby its costs of service, in comparison with similar costs of the Los Angeles Gas and Electric Corporation, might be determined, and if Applicant's costs were found to be the greater, a valuation might at this time be omitted.

Applicant is engaged in supplying natural gas and mixed gas to domestic and industrial consumers in a minor portion of Los Angeles City and adjacent towns and unincorporated territory principally north, west and south of the City. An artificial gas generating plant is operated in Los Angeles and gas manufactured there is mixed with the natural gas received from the Midway and Orange County fields. In addition about a million cubic feet daily of natural gas is obtained from the Salk Lake

field and is distributed unmixed in a limited part of applicant's system previously acquired from the Economic Gas Company. Much natural gas which is a surplus over and above the domestic requirements is sold for industrial purposes principally during the summer. Gas is also sold in wholesale to Southern Counties Gas Company of California for re-distribution in the latter's Santa Monica Bay and Long Beach Districts. The rates for wholesale service and the rates applicable to the Redondo Division and to the town of Newhall are not involved by this proceeding.

Service Conditions:

Gas service conditions on applicant's system have at times during the past winter been unsatisfactory, as has been the case with other gas utilities in the Los Angeles district, due to the enormously heavy demands for gas. The situation has been closely observed by the Commission's gas engineers, one of whom has been stationed in Los Angeles throughout the winter season. The requirements of industrial consumers purchasing natural gas from applicant for manufacturing purposes were carefully investigated, and only the most essential were permitted to obtain a supply in very restricted amounts. In view of the extreme fluctuations between the summer and winter requirements of domestic consumers and the resulting difficulties in rendering adequate service, it is necessary to maintain strict supervision over the distribution of natural gas in this district.

Due to heavy loads and the limited capacity of its distribution lines and compressor equipment, applicant has resorted to the practice of increasing the gas pressure and supply to domestic consumers in Los Angeles and Glendale by

the introduction of natural gas into lines normally supplying mixed gas, which is the approved class of service rendered to these districts. Testimony of applicant's consumers and evidence before this Commission indicates that the gas quality fluctuates over a wide range and that the service is seriously impaired by this injection of natural gas into the mixed gas lines. This use of natural gas for the purpose of pressure boosting and for increasing the general supply of gas to communities which are normally supplied with mixed gas results in unsatisfactory service, and if increased to any great extent will tend to deplete the general supply of natural gas available for the production of a standard quality of mixed gas required by the greater number of domestic consumers located in the Los Angeles district. In view of the unsatisfactory conditions resulting from natural gas pressure boosting and the continuing encroachment upon the natural gas supply of the district by this practice, the Commission must conclude that it should be discontinued. Unless the necessary measures are taken to overcome the fluctuations of gas quality, the rates hereinafter established must be reduced as may be found proper for such variable quality of service.

Standard Gas Quality:

The present standard in the City of Los Angeles for quality of mixed gas distributed there is 815 B.T.U. per cubic foot. The natural gas supplied on the Economic Division of applicant's system is of somewhat lower heating value, being about 770 B.T.U. per cubic foot as shown by applicant's annual report. Natural gas of about 1000 B.T.U. or more, from the eastern and northern oil fields is supplied to domestic con-

sumers in the outlying territory. However, the large portion of applicant's domestic business is the service of mixed gas to consumers in Los Angeles City and adjacent districts.

Evidence before this Commission, and the results of a thorough investigation of operating conditions, both of applicant and its competitor, Los Angeles Gas and Electric Corporation, indicates that it is not practicable or possible to maintain constant within reasonable limits during the winter periods, the present standard for gas quality of 815 B.T.U. per cubic foot. After careful study of this matter it has been found that a standard of 750 B.T.U. per cubic foot monthly average, with a maximum permissible fluctuation of 35 B.T.U. above or below, except during times of emergency, is proper for Los Angeles Gas and Electric Corporation and will therefore be established for applicant herein.

Operating Statistics, Revenues and Expenses:

Because of change of gas quality and the difficult service conditions in the Los Angeles City District we are of the opinion that applicant should devote considerable more attention to the maintenance of its distribution facilities directly involved in the rendering of service, and the proper adjustment of consumers' appliances, in order that satisfactory and efficient service be rendered. This work will require the employment of a crew of service men, with necessary equipment, who may respond promptly, especially during the winter, to complaints demanding the adjustment of stoves, heaters, furnaces and other gas appliances as well as service lines.

Applicant's system supplies a widely scattered group of communities, part of the business being in active competi-

tion with the Los Angeles Gas and Electric Corporation, a much larger utility. Because of this competition and the higher cost of serving scattered districts, applicant has been unable to earn as profitable a rate of return upon its domestic business under equal rates, as has been enjoyed by Los Angeles Gas and Electric Corporation.

Table No. 1 sets forth revised operating statistics of Southern California Gas Company for the year 1920, including domestic, wholesale and industrial operations, together with an estimate of operations for the year ending April 30, 1922, under present rates and quality of gas, based largely on applicant's Exhibit No. 2. Modifications have been made in some of applicant's figures presented in this tabulation, that they may agree with this Commission's method of considering certain of these items.

TABLE NO. 1

SOUTHERN CALIFORNIA GAS COMPANY

SUMMARY OF OPERATING STATISTICS, REVENUE AND EXPENSES

FOR YEAR 1920 AND ESTIMATE FOR YEAR ENDING APRIL 30, 1922.

BASED UPON PRESENT RATES

LOS ANGELES DISTRICT

	<u>1920</u>	<u>1921-22</u>
Quality of Gas B.T.U.	815	815
Mean Active Consumers	42,450	49,673
Domestic Gas Sales M.cu.ft.	2,325,595	2,803,500
Industrial Gas Sales M.cu.ft.	2,140,482	2,919,500
Wholesale Gas Sales M.cu.ft.	2,593,598	2,889,000
<u>Revenue</u>		
Domestic Gas Sales	\$1,657,861	\$1,928,485
Industrial Gas Sales	571,729	911,850
Wholesale	546,252	622,719
By Products	9,997	
Miscellaneous	25,421	25,000
Deductions for Refunds	-3,126	-3,000
<u>Total Revenue</u>	<u>\$2,808,133</u>	<u>\$3,485,054</u>
<u>Expenses</u>		
Production	\$1,530,578	\$2,038,138
Distribution	213,522	374,715
Commercial	138,115	178,151
General	139,457	155,758
By Product	9,654	
Taxes*	188,866	220,105
Uncollectible Bills	6,696	7,714
<u>Total Operating Expenses</u>	<u>\$2,026,888</u>	<u>\$2,974,581</u>
<u>Depreciation</u>	<u>\$ 124,744</u>	<u>\$ 177,453</u>
<u>Total Operating Charges</u>	<u>\$2,151,632</u>	<u>\$3,152,034</u>
<u>Net for Return</u>	<u>\$ 656,501</u>	<u>\$ 333,020</u>
<u>Rate Base (Applicant's Estimate)</u>	<u>\$6,183,400</u>	<u>\$8,169,244</u>
<u>Percent of Return</u>	10.6%	4.07%

*Estimated amount chargeable to Los Angeles District.

It is to be noted that a material part of applicant's revenue is derived from the sale of industrial and wholesale gas. This business is purely incidental to applicant's domestic gas operations which must be acknowledged as being the principal enterprise in which applicant is engaged. The industrial business has always been subject to discontinuance or reduction in favor of the domestic requirements which are continually increasing, and it cannot therefore be considered as a permanent and reliable source of income. The major portion of the industrial sales are made in the summer period when it is possible to utilize the then existing surplus natural gas and excess capacity of pipe-lines for the distribution of industrial gas. In the winter, the tremendous increase of the domestic load, demands practically all of the available natural gas and the line capacity. Investigation shows that the net revenue which applicant would derive from domestic gas sales only, would show a very low rate of return, substantially less than that earned by its competitor, the Los Angeles Gas and Electric Corporation. In view of this fact it appears reasonable to grant applicant's prayer that it be allowed similar rates as are this day being established for Los Angeles Gas and Electric Corporation for similar service.

Applicant has in the past computed depreciation upon its operative property on a 4 percent sinking fund basis. After a consideration of applicant's present operating conditions and its financial situation we are of the opinion that hereafter the depreciation to be included in operating charges should be calculated on a 6 percent sinking fund basis.

The market price of oil, used in gas manufacture, has since the submission of this application, been reduced from \$2.00 per barrel to \$1.75 per barrel, and it is not improbable that further changes of price, either up or down, may be experienced in the near future. In view of this condition it appears proper that measures be taken to protect both the utility and its consumers in the event of further material changes of oil prices. Under methods heretofore followed by the Commission the delay resulting from the necessity of holding formal hearings has in a number of cases caused serious losses of earnings to gas companies. It is desirable to establish a procedure whereby changes in gas rates, with changes in oil prices, may be made without the delay consequent to formal proceedings. A study of the Public Utilities Act, relative to the matter, indicates such procedure to be in accordance with the Act. From an investigation of the costs to applicant of "mixed gas" as served by it, it has been determined that a change of 10 cents per barrel in the price of oil, would result in a change in operating costs of approximately 1 cent per thousand cubic feet of "mixed gas" produced. Because of the fact that it has a special arrangement for the purchase of oil, dependent upon the production of its own wells, applicant does not usually pay the same price for oil as is paid by Los Angeles Gas and Electric Corporation. Inasmuch as the latter company is subject to similar changes as applicant, in operating costs with changes of oil prices, and further, that the rates hereinafter established are based upon competitive conditions and are similar to those being fixed for the Los Angeles Company, we are of the opinion that appli-

cant's rates for "mixed gas" should also be increased or decreased by the amount of 1 cent per thousand cubic feet for corresponding changes of 10 cents per barrel in the price of oil as paid by Los Angeles Gas and Electric Corporation, as hereinafter provided in the accompanying order.

Rates:

The rates now in effect in the City of Los Angeles for the service of 815 B.T.U. mixed gas are as follows:

First	5,000	cu.ft.	per	meter	per	month	..	75¢	per	M	cu.ft.
Next	5,000	"	"	"	"	"	..	70¢	"	"	"
"	15,000	"	"	"	"	"	..	65¢	"	"	"
"	25,000	"	"	"	"	"	..	60¢	"	"	"
All over	50,000	"	"	"	"	"	..	55¢	"	"	"

Rates for mixed gas in Districts Nos. 2 and 3 are slightly higher in the upper blocks and lower in large blocks. The minimum charges are 35 cents per meter per month where four or more meters are set at the same location on one service line, or 50 cents per meter per month where only one meter is set on the service line. These minimum charges are now far inadequate to properly provide for expenses directly chargeable as consumer costs. Consideration of conditions existing in the districts served by applicant indicate that these charges should be increased, making them more commensurate with the actual expenses involved in the service and similar charges in effect on the systems of other utilities. These minimum charges will therefore be increased as set forth in the accompanying rate schedules.

We submit the following form of Order:

O R D E R

Southern California Gas Company having applied to the Railroad Commission for an order granting authority to increase its rates and charges for gas supplied to its consumers, a public hearing having been held and the matter having been submitted and being now ready for decision,

The Railroad Commission hereby finds as a fact that the rates now charged by Southern California Gas Company as set forth in Schedules A-1, A-4, A-5, A-6 and A-8, insofar as they differ from the rates herein fixed, are not just and reasonable rates, and that the rates herein established are just and reasonable rates for gas sold for domestic, commercial and industrial service as hereinafter provided for in the accompanying schedules.

Basing its order upon the foregoing findings of fact and other findings of fact contained in the Opinion which precedes this Order,

IT IS HEREBY ORDERED that Southern California Gas Company be, and is hereby authorized to modify its present Schedules Nos. A-1, A-4, A-5 and A-6, and to charge and collect the following rates for gas as set forth in the accompanying schedules for domestic, commercial and industrial purposes, in the several districts, which rates shall be effective for all regular meter readings taken on and after the first day of August, 1921.

IT IS HEREBY FURTHER ORDERED that Schedule No. A-8 be discontinued, and that District No. 4 be modified to include consumers now served under Schedule A-8, effective for meter readings taken on and after August 1st, 1921.

SCHEDULE NO. A-1.

LOS ANGELES DIVISION.

GENERAL SERVICE - Mixed Gas.

Applicable to the service of 750 B.T.U. gas for domestic and commercial lighting, heating and cooking.

TERRITORY.

Applicable to District Nos. 1 and 1-A.

RATES.

First	5000	cu.ft.	per	meter	per	month...	75¢	per	M	cu.ft.
Next	15000	"	"	"	"	"	...70¢	"	"	"
Next	30000	"	"	"	"	"	...65¢	"	"	"
All over	50000	"	"	"	"	"	...60¢	"	"	"

The above rates are subject to increase or decrease on the basis of 1 cent per 1000 cubic feet for each 10 cents increase or decrease, respectively, in the cost of oil as may from time to time be authorized on the system of the Los Angeles Gas and Electric Corporation, subject to the approval of the Railroad Commission of the State of California. Change to be to the nearest one cent.

MINIMUM CHARGE.

(1) For flats and apartments where four or more meters are served from one service in one location 70 cents per meter per month.

(2) All service other than under (1), 80 cents per meter per month.

SCHEDULE NO. A-4

LOS ANGELES DIVISION.

GENERAL SERVICE - Mixed Gas.

Applicable to the service of 750 B.T.U. gas for Domestic and Commercial Lighting, Heating and Cooking service.

TERRITORY.

Applicable to District No. 2 which includes the following territory: City of Glendale.

RATE.

First	5,000	cu.ft.	per	meter	per	month...	80¢	per	M	cu.ft.
Next	15,000	"	"	"	"	"	...70¢	"	"	"
Next	30,000	"	"	"	"	"	...65¢	"	"	"
All over	50,000	"	"	"	"	"	...60¢	"	"	"

The above rates are subject to increase or decrease on the basis of 1 cent per 1000 cubic feet for each 10 cents increase or decrease, respectively, in the cost of oil as may from time to time be authorized on the system of the Los Angeles Gas and Electric Corporation, subject to the approval of the Railroad Commission of the State of California. Change to be to the nearest one cent.

MINIMUM CHARGE.

- (1) For flats and apartments where four or more meters are served on one service in one location, 70 cents per meter per month.
- (2) All service other than under (1), 80 cents per meter per month.

SCHEDULE NO. A-5

GENERAL SERVICE - Mixed Gas.

Applicable to the service of 750 B.T.U. gas for domestic and commercial lighting, heating and cooking service.

TERRITORY.

Applicable to District No. 3 which includes the following territory:

- (a) City of Eagle Rock,
- (b) City of Beverly Hills,
- (c) That portion of the City of Los Angeles not included in District No. 1.
- (d) All incorporated and unincorporated territory served by the Southern California Gas Company not included in District No. 2.

RATE.

First	5,000	cu.ft.	per	meter	per	month...	85¢	per	M	cu.ft.
Next	15,000	"	"	"	"	"	75¢	"	"	"
Next	30,000	"	"	"	"	"	65¢	"	"	"
All over	50,000	"	"	"	"	"	60¢	"	"	"

The above rates are subject to increase or decrease on the basis of 1 cent per 1000 cubic feet for each 10 cents increase or decrease, respectively, in the cost of oil as may from time to time be authorized on the system of the Los Angeles Gas and Electric Corporation, subject to the approval of the Railroad Commission of the State of California. Change to be to the nearest one cent.

MINIMUM CHARGE.

- (1) For flats and apartments where four or more meters are served on one service in one location, 70 cents per meter per month.
- (2) All service other than under (1), 80 cents per meter per month.

SCHEDULE NO. A-6

LOS ANGELES DIVISION.

GENERAL SERVICE - Natural Gas.

Applicable to Domestic and Commercial service for Lighting, Heating and Cooking.

TERRITORY.

Applicable to District No. 4.

RATE.

First	5,000	cu.ft.	per	meter	per	month.	.85¢	per	M	cu.ft.
Next	10,000	"	"	"	"	"	.75¢	"	"	"
Next	35,000	"	"	"	"	"	.65¢	"	"	"
All over	50,000	"	"	"	"	"	.60¢	"	"	"

MINIMUM CHARGE.

(1) For flats and apartments where four or more meters are served on one service in one location, 70 cents per meter per month.

(2) All service other than under (1), 80 cents per meter per month.

CLASS "A" INDUSTRIAL SERVICE "LIMITED"

INDUSTRIAL SERVICE.

Applicable to industrial service of natural gas on existing mains having a delivery capacity in excess of the present requirements of consumers now served under domestic and commercial schedules. For purposes where gas fuel is essential to continued operation, such as metal working processes, glass manufacture, special tile manufacture and the preparation of food products, etc.

TERRITORY.

Applicable to all districts served by Southern California Gas Company.

RATE.

Readiness to serve charge	\$15.00 per meter per month.
Plus, consumption charge	40¢ per 1000 cubic feet.

SPECIAL CONDITIONS.

Service under this schedule will be granted only subject to the approval of the Railroad Commission of the State of California.

IT IS HEREBY FURTHER ORDERED that Southern California Gas Company be authorized to reduce the heating value standard of mixed gas served to 750 B.T.U. per cubic foot monthly average with a maximum variation of 35 B.T.U. per cubic foot above or below this average effective on and after July 1, 1921.

IT IS HEREBY FURTHER ORDERED that in case of a reduction in the price of oil, Southern California Gas Company shall file within ten days thereafter, an affidavit setting forth the new price of oil paid, and shall thereafter, upon supplemental order of this Commission in this proceeding, charge the reduced rates as determined under the schedules herein set forth.

IT IS HEREBY FURTHER ORDERED that, should at any time an increase in price of oil occur, Applicant may, after filing affidavit of such increase and receiving a supplemental order from this Commission so authorizing, charge the increase in rates as determined under the schedules herein set forth.

IT IS HEREBY FURTHER ORDERED that Southern California Gas Company shall file with the Commission on or before August 1st, 1921 the schedules of rates and charges herein set forth.

The foregoing opinion and order are hereby approved and ordered filed as the opinion and order of the Railroad Commission of the State of California.

