

Decision No. 37521

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

In the matter of the investigation upon
the Commission's own motion into the
reasonableness of the rates, etc., of
SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA
covering gas service.

Case No. 4716

Edward R. Young, for Southern Counties Gas Company of California.
Ray L. Chesebro, City Attorney, Stanley M. Lanham, Chief Engineer of
the Department of Public Utilities, and Gilmore Tillman, Assistant
City Attorney, for the City of Los Angeles.
Gilmore Tillman, for Public Utility Franchise Committee of the League
of California Municipalities.
J. J. Deuel, for the California Farm Bureau Federation.
L. H. Stewart and W. D. Mackay, for E. C. Fogal, Oxnard, California.
M. Tellefson, City Attorney, for the City of Culver City.
Frank Orr, City Attorney, for the City of Ventura.
Bart F. Wade, Attorney, for Asbury Rapid Transit System and
Asbury Transportation Company.
O'Melveny & Myers, by Harry L. Dunn and W. W. Clary, Attorneys, for
Associated Telephone Company, Southern California Water Company and
Ventura County Railroad Company.
Daniel P. Bryant, Attorney, for Bekins Van Lines, Inc.
Henry W. Coil, Attorney, for California Electric Power Company
and Interstate Telegraph Company.
Gerald Kepple, Attorney, for Consolidated Telephone Company.
O. A. Schulenberg, Attorney, for Long Beach Motor Bus Company.
Reginald L. Vaughn, Attorney, for Vallejo Electric Light and Power
Company, Federal Ice & Cold Storage Company, Fresno Consumers
Ice Company, Merchants Ice and Cold Storage Company, National
Ice and Cold Storage Co. of California, Security Warehouse and
Cold Storage Company, Terminal Refrigerating Company, Union Ice
& Storage Company, Distributors Warehouse Company, Haslett
Warehouse Company, San Francisco Warehouse Company, South End
Warehouse Company, Coast Line Truck Service, Inc., Gibson Lines,
Interurban Express Corporation and Kellogg Express and Draying Co.
Max Eddy Utt, Attorney, for Los Angeles Railway Corporation.
Arlo D. Poe, Attorney, for Los Angeles Warehousemen's Association
and Motor Truck Association of Southern California.
Musick, Burell & Pinney, Attorneys, by Howard Burell, for
Lyon Van Lines, Inc.
J. C. Gibson, Attorney, for Metropolitan Warehouse Company and
Westland Warehouses, Inc.
E. E. Bennett, Attorney, for Overland Terminal Warehouse Company.
Hugh Gordon, Attorney, for Pacific Freight Lines.
H. J. Bischoff, Attorney, for Southern California Freight Lines.
David G. Shearer, Executive Vice President, for The Trucking
Industry, Inc.
Frank Karr, Attorney, for Union Terminal Warehouse.
Gibson, Dunn & Crutcher, by Woodward M. Taylor, Attorney for
Wilmington Transportation Company.

Harold Quinton, Vice President, for Southern California Edison Company, Ltd.
Carl I. Wheat, Attorney, for Southern California Gas Company.
Don L. Campbell, Attorney, for Asbury Rapid Transit System.
C. L. Suffield, for California Association of Public School Business Officials.
Mayor Will C. Seccombe, for the City of San Bernardino.
Frank V. Rhodes, Secretary, for California Independent Telephone Association.
T. J. Reynolds, Vice President and General Counsel, for Southern California Gas Company.
H. T. Short, for Bekins Van Lines.
E. W. Cunningham, for Southern California Edison Company Ltd.
T. Fenton Knight, for Postwar Rehabilitation Committee of the California State Legislature.
Paul L. Beck, Chief Valuation and Rate Engineer, for the City of San Francisco.
Chickering & Gregory, by F. M. Fick, for San Diego Gas and Electric Company.
Harold P. Huls, City Attorney, by H. Burton Noble, Assistant City Attorney, for the City of Pasadena.
Walter W. Cooper, City Manager, and Jean F. DuPaul, City Attorney, for the City of San Diego.
R. W. DuVal, Attorney, for Pacific Gas and Electric Company.

HAVENNER, COMMISSIONER:

OPINION ON ORDER TO SHOW CAUSE

The Proceedings.

On February 29, 1944, the Commission, on its own motion, instituted an investigation into the reasonableness of the rates, charges, rules regulations, classifications, contracts and practices of Southern Counties Gas Company of California.

Hearings were held on this matter on June 7, 8 and 9, 1944 in Los Angeles, at which time there was presented by the staff of the Commission certain exhibits and testimony relating to Respondent Utility's operating revenues, expenses, rate base and general financial condition for the 12-month period ending June 30, 1943, the calendar year 1943, and the trend of certain operating revenues and expenses for the 12-month period ending April, 1944.

On June 27, 1944, the Commission issued an Order in the case directing the company to show cause why interim rates for gas should not be made effective, corresponding to a gross revenue reduction that would result

by the elimination in whole, or in part, from operating expenses of federal war taxes.⁽¹⁾ The date set for Respondent Utility to answer the Order to Show Cause was Thursday, July 27, 1944, in the Commission's courtroom at the State Building in Los Angeles.

Concurrently with the issuance of the Order to Show Cause in Case No. 4716, the Commission on its own motion instituted a general state-wide investigation, under Case No. 4731, to inquire into the effect of federal war taxes upon the revenues and operating expenses of public utilities.

Following the institution of the general investigation and prior to the July 27 date, 41 public utilities, all of whom were parties to the general investigation, filed with the Commission a petition for intervention and for continuance of the Order to Show Cause in Case No. 4716 until such time as the Commission had concluded its general investigation in Case No. 4731.

At the opening of the show cause order hearing on July 27, the request of the utilities seeking intervention was granted, but their request for continuance was denied. At the same time Respondent Utility's request for a continuance was likewise denied. In denying the requests for continuance it was indicated that it was not my intention to recommend to the Commission the issuance of an interim rate order relating to the treatment of war taxes before the holding of hearings in the general investigation in Case No. 4731.⁽²⁾ & ⁽³⁾

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- (1) For the purpose of this proceeding, federal war taxes shall be construed to be all federal excess profits taxes and other federal income taxes, which are at rates in excess of the highest rates prevailing under the Internal Revenue Laws applicable to the years 1936 to 1939, inclusive.
 - (2) Public hearings were held both in the cities of Los Angeles and San Francisco on August 10, 11, 18, 21, September 11, 12 and 27, 1944, and the matter was submitted on the last named dates for decision on briefs to be filed.
 - (3) By stipulation, certain portions of the record in Case No. 4731 are to be considered included in this case; namely, statements, testimony, questions and answers given by Messrs. Tarleau, Bozell, Clary, Quinton and Tillman.

The Scope and Nature of Respondent Utility's Gas Business

The Southern Counties Gas Company of California is a wholly controlled subsidiary of the Pacific Lighting Corporation. Pacific Lighting Corporation likewise controls Southern California Gas Company. The management and control of the two gas utilities are closely coordinated. The respondent gas company is much the smaller of the two distributing utilities and serves approximately 229,000 customers in about 125 cities, towns, and communities in the counties of Los Angeles, Orange, San Bernardino, Ventura, Santa Barbara, and San Luis Obispo. Among the cities receiving gas service are Los Angeles, Santa Ana, Santa Monica, Santa Barbara, Whittier, Arcadia, Pomona, Ontario, Santa Maria, and San Luis Obispo. Butane gas service, on a small scale, is also rendered in 5 communities.

The territory served by the Company in the northern part of Santa Barbara County and in San Luis Obispo County was, prior to November 1, 1941, served by the Santa Maria Gas Company. The operations of the two companies were merged as of that date. This territory now constitutes the northern operating district of the Southern Counties Gas Company.

A mixture of artificial and natural gas (mixed gas) was served in the Santa Barbara area from 1923 to 1928. Mixed gas likewise was served in the Santa Monica Bay District from 1916 to 1927. Since July 1928, natural gas has been served throughout the system.

At the end of 1943, the Company had in operation on its system approximately 3,764 miles of gas mains. The aggregate rated capacity of all types of storage holders in operation in December of 1943 was approximately 29½ million cubic feet.

Gas service is rendered by the Company under what may be called 5 major classifications. These are as follows:

- General Service
- Commercial and Firm Industrial Service
- Surplus Industrial Service
- Gas Engine Service
- Other Rate Schedules.

At the present time general service of natural gas and butane is rendered under 9-rate schedules. These schedules are of the block type of rate and carry monthly minimum charges per meter. Several of these schedules contain fuel oil clauses whereby some of the block rates are contingent upon the posted price of fuel oil. A limited portion of the service is sold under special contracts.

In order to show the relative importance of the several classes of service as to revenue and the quantity of gas sold, the following data are presented:

Class of Service	12 Months Ending June 30, 1943			
	Revenue		M.c.f. Sales	
	Amount	Per Cent	Amount	Per Cent
Total Domestic	\$ 9,110,857.27	73.55%	\$13,297,947	42.51%
Commercial	280,481.93	2.26	809,066	2.59
Total Surplus Industrial	1,503,657.72	12.14	10,689,541	34.18
Gas Engine	236,920.26	1.91	719,189	2.30
Wholesale	1,256,589.34	10.14	5,762,249	18.12
Total	\$12,388,506.52	100.00%	\$31,277,992	100.00%

The last general rate reduction, and this did not cover the Company's entire system, amounted to approximately \$300,000 and became effective January 15, 1941. The level of Respondent's gas rates is about the same as other rates charged for similar service in Southern California. Such rates, however, for firm service are higher than in the San Francisco Bay area.

The record shows that this Utility has enjoyed a good earning position for a long period of years. It is conservatively financed, its interest obligations being limited to low interest bearing bonds, and interest for its depreciation reserve requirements. The balance of its net earnings are available for common stock dividends and surplus. ⁽⁴⁾

The Record in the Initial Proceeding

The Commission's staff, through its engineers and accountants, submitted on June 7, 8 and 9, three exhibits dealing with the results of operations of Respondent Gas Company. Exhibit No. 1 sets forth in considerable

(4) Three per cent bonds outstanding \$12,610,000; 6 per cent sinking fund depreciation reserve as of January 1, 1943, \$11,232,718; \$11,000,000 common stock outstanding; and unappropriated surplus as of December 31, 1943, \$1,952,009.

detail and in summary form the actual recorded figures for the year 1942, the 12-month period ending June 30, 1943, and adjusted figures for the latter year.⁽⁵⁾

Exhibit No. 2 is a summary tabulation of the recorded and adjusted results of operations for the year 1943. Exhibit No. 6 presents a trend of operating revenues and certain expenses by months for the 12-month period ending April, 1944. Such trend, exclusive of taxes, indicates that revenue and earnings are still increasing. In summary form the operating revenues, expenses, net revenue, rate base and rates of return as set forth in Exhibit No. 2 follow:

	Year 1943	
	Recorded	Adjusted
<u>Operating Revenues</u>		
Revenue from Sale of Gas	\$12,882,404.50	\$12,847,069.38
Miscellaneous Revenues	260,809.43	260,809.43
Total Operating Revenues	<u>13,143,213.93</u>	<u>13,107,878.81</u>
<u>Operating Expenses</u>		
Operating Expenses (Incl. Uncollectibles)	7,511,463.01	7,489,580.14
Taxes:		
Excess Profits Tax	540,000.00	932,785.00
Federal Normal Income and Surtax	928,000.00	768,000.00
All Other Taxes	1,049,012.32	1,053,877.00
Total Taxes	<u>2,517,012.32</u>	<u>2,754,662.00</u>
Depreciation Expense:		
6% Sinking Fund Basis	580,264.00	580,264.00
6% Modified Sinking Fund Basis	<u>1,254,227.00</u>	<u>1,254,227.00</u>
Total Operating Expenses:		
6% Sinking Fund Basis	10,608,739.33	10,824,506.14
6% Modified Sinking Fund Basis	<u>11,282,702.33</u>	<u>11,498,469.14</u>
Net Revenue:		
6% Sinking Fund Basis	\$ 2,534,474.60	\$ 2,283,372.67
6% Modified Sinking Fund Basis	\$ 1,860,511.60	\$ 1,609,409.67
<u>Rate Base</u>		
Undepreciated	\$36,684,000.00	\$36,684,000.00
Depreciated	\$24,914,000.00	\$24,914,000.00
<u>Rate of Return</u>		
6% Sinking Fund Basis	6.91%	6.22%
6% Modified Sinking Fund Basis ⁽⁶⁾	7.47%	6.46%

(5) Exhibit No. 1 is divided into the following chapters and subjects:

I - Introduction	XIII - New Business Expenses
II - History	XIII - General and Miscellaneous Expenses
III - Present Operations	XIV - Taxes
IV - Balance Sheet	XV - Clearing Accounts
V - Income Statement	XVI - Fixed Capital
VI - Depreciation Reserve	XVII - Present Value of Lands
VII - Operating Revenues	XVIII - Rate Base
VIII - Production Expenses	XIX - Accrued Depreciation
IX - Transmission Expenses	XX - Depreciation Annuity
X - Distribution Expenses	XXI - Summary of Earnings
XI - Commercial Expenses and Uncollectible Bills	XXII - Customer Analysis and Use of Gas

The Commission staff members who jointly presented and testified to these exhibits are Roy A. Wehe, Assistant Director, C.T. Mess, Valuation Engineer, W.B. Wessells, Research Engineer, Lloyd E. Cooper, Gas Engineer, T. Stein, of the Department of Finance and Accounts, P.E. Dufour, E.P. McJuliffe, S. Weber and G. B. Weck, engineers in the Public Utilities Department of the Commission.

(6) Through oversight a partial duplication occurred in deductions in developing the depreciated rate base. Accordingly, the rates of return set forth in Exhibit No. 2 under the modified sinking fund basis become 7.35% and 6.36% respectively in lieu of those set forth above.

Additional Record in the Order to Show Cause.

On the return date of the Order to Show Cause (beginning on July 27 and continuing on July 28, August 3, 4, 16, 17 and 22), the Respondent Utility, through witnesses and argument, made answer. The case on the Order to Show Cause was submitted at the date of the last hearing on August 22 on briefs to be filed concurrently by the City of Los Angeles and Respondent Utility within fifteen days after the last hearing in the general tax Case No. 4731. Case No. 4731 was concluded on September 27, 1944, and accordingly briefs in this matter were due on October 12. However, Respondent Utility requested that it be given until October 25 and such request was granted to it and to the City of Los Angeles. The briefs were filed on October 25, 1944.

Respondent Utility, through its Consulting Engineer Loren W. East, offered rebuttal testimony and, in addition, introduced certain exhibits dealing with federal tax matters. The rebuttal testimony of Mr. East went essentially to the estimates of miscellaneous revenue and rate base presented by the Commission's staff. In reference to revenues, Mr. East pointed out that under miscellaneous revenues of some two hundred sixty thousand odd dollars, set forth in Exhibit No. 2, approximately \$108,000 was secured from past transactions relating to earned carrying charges on the financing of customer appliances and such monies were of a non-recurring nature and should be excluded in any consideration of the Utility's future earnings. The Utility, in presenting its views as to rate bases, used the ones presented by the Commission's engineers in Exhibits Nos. 1 and 2 (on the basis of historical undepreciated cost) with certain upward adjustments for working cash capital, donations in aid of construction and other items. (7)

(7) Respondent Utility's historical undepreciated rate base was higher than the Commission's staff's estimate by the following:

Work in Progress	\$ 9,248.71
Working Cash Capital	898,200.35
Donations in Aid of Construction	1,148,737.85
Customers' Advances for Construction	107,450.01
Total	<u>\$2,163,636.92</u>

It is the position of Respondent that all taxes paid, including the excess profit tax, are properly chargeable to gas operations and, further, there is no direct comparison between "taxable income" and "net operating income" as the latter is used by regulatory authorities in rate proceedings such as this. Mr. East, in his analysis of the Federal Revenue Acts, pointed out that it was a mistake to assume that excess profit tax liabilities arose solely from additional revenues from the sale of gas. In support of this view he pointed out several items, among which may be noted:

The penalty suffered tax-wise by Respondent on account of refinancing subsequent to the base period because of a lowering of the interest rate;

The allowance of only 95 per cent of the base period net taxable income for the excess profit credit; and

The disallowance of fixed capital additions since the base period other than those considered as equity capital (practically all new capital has been other than equity capital).

In addition the Respondent Utility, through its Vice President and General Manager, A. F. Bridge, and other witnesses, presented evidence and testimony dealing with the future earnings of this Utility and the general economic outlook for Southern California. (8) Mr. Bridge reviewed his company's operating position with particular emphasis on the uncertainties of the reconversion and postwar period, when war industries now being supplied might revert to civilian operations or cease to be users of gas service. He was of the opinion that while present expenses reflected high overtime wage rates yet, because actual man hours worked were less than in normal times, his company probably would be faced with increased pay roll charges as men returned from service and conditions became more normal as to working time. Mr. Bridge was quite pessimistic as to future earnings of his company and expressed a fear that unfavorable postwar conditions might cause the rate of return to fall below 3 per cent.

(8) Mr. J. H. Johnson, Coordinator for the Citizens' Manpower Committee for Los Angeles, and Dr. D. F. Pegrum, Professor of Economics at the University of California at Los Angeles, presented statistics and general opinion testimony as to labor and economic conditions now and in the postwar period.

Roy A. Wehe, of the Commission's staff, presented evidence and testified as to the inherent stability of the utility industry, pointing to past records following World War I and in the depression period following the 1929 business crash. While he recognized that the reconversion period would present many trying problems, Wehe said he believed Southern California was forming the base for a large industrial expansion in which the Respondent Utility would fully share.

Evidence was presented by the staffs not only of the Respondent Utility and the Commission but likewise by the City of Los Angeles indicating the rates of return that would result on the basis of 1943 income if the gross revenue were reduced sufficiently so that no excess profit tax liability would be incurred. Indicative of these estimates the following figures are pertinent:

	C.R.C. Basis		Company Basis
	Recorded	Adjusted	Adjusted
Operating Revenue	\$13,143,213.93	\$13,107,878.81	\$12,999,473
Operating Expenses Other than Federal Income Taxes	9,140,739.33	9,123,721.14	9,118,617
Federal Income Taxes:			
Normal Tax at 19%	568,000.00	583,602.00	563,974
Balance Normal Tax & Surtax	360,000.00	184,398.00	162,706
Excess Profits Tax	540,000.00	932,785.00	932,785
Total Federal Income Taxes	1,468,000.00	1,700,785.00	1,659,465
Net Revenue Before Excess Profits Tax	\$3,074,474.60	\$3,216,157.67	\$3,154,176
Rate Base	\$36,684,000.00	\$36,684,000.00	\$38,847,000
Rate of Return Before Excess Profits Tax	8.38%	8.77%	8.12%
Reduction in Gross Required to Remove Excess Profits Tax Liability	\$1,068,000.00	\$1,210,000.00	\$1,210,000
Rate of Return if Excess Profits Tax Liability Eliminated	6.56%	5.63%	5.16%

The City, through the Chief Engineer of its Department of Public Utilities, Stanley M. Lanham, presented, in addition, exhibits and testimony relating to the City's request for an adjustment in the minimum charge in the Santa Monica area, as well as lower commodity rates in the Harbor District. Such adjustments, in the opinion of Mr. Lanham, should be made ahead of any general discount reduction, if the latter should be used by the Commission in distributing any rate reductions.

Modifications Due to Changes in Depreciation

At the close of the last hearing it was stipulated by the parties of interest that if the respective staffs of the Respondent Utility and of the Commission could get together and agree upon a new schedule of lives that would have the effect of reducing the annual depreciation expense burden as measured by the 5 and 6 per cent sinking fund annuities, then such schedules of lives would be deemed a part of the record.

A depreciation schedule of lives was worked out and agreed upon by each of the respective staffs named and it is hereby designated as Exhibit No. 18. This schedule of lives and the attachment thereto show the following depreciation annuities predicated upon the average 1943 capital: (9)

	5 Per Cent Sinking Fund	6 Per Cent Sinking Fund
Exhibit No. 2	\$671,944	\$580,264
Exhibit No. 18	\$572,897	-

(9) In setting forth the schedule of lives, Exhibit No. 18, in part, states:

"It should be understood that the revised lives set forth in Exhibit A are not the result of an exhaustive analysis of the company's experience, and further investigation may indicate the need for revision. It should be particularly noted that uncertainties relative to available supply render it particularly difficult to assign a life to the San Diego transmission line at this time and the life of 30 years shown in the transmission account is viewed as high unless the present available gas supply to Southern California is augmented in the future."

Discussion of Evidence and Conclusions.

As this is an interim opinion and order, a final pronouncement on all of the differences that have developed will not be made. Some discussion of the issues and differences, however, is believed necessary.

In reference to working cash capital, it would be incorrect to infer that, in the Commission staff's development of the rate base, this item was excluded. As a matter of fact, as Exhibit No. 1 and the testimony clearly show, full allowance for the gross working cash requirement was made on the same basis that the Commission has long employed.

This allowance corresponds to Respondent Utility's own estimate of its requirements. However, Respondent Utility did not recognize the actual amounts available for working cash which resulted from tax accruals ahead of payments. These actual amounts were materially in excess of the Utility's gross working cash requirements as developed by the staffs of both Respondent and the Commission.

A sharp difference also arose in the development of the rate base with respect to the treatment of donations in aid of construction and customers' advances for construction. Without going into any extended discussion at this time, it may be observed that the greater portion of the "donations," as a matter of fact, were advances made by applicants for service under the Utility's filed extension rules and which advances in full did not qualify for refund within the time specified. Later these unrefunded advances were transferred to the donations account. Respondent Utility contended that on many of these extensions, gas sales have increased so that the extensions no longer constitute a burden to other users of gas service. Respondent claimed that it was entitled to a return on all such extensions.

It would appear that if earnings have increased on this class of extensions there is additional reason for excluding them from the rate base. Otherwise, consumers of gas service would be required to pay a return on capital amounts advanced by themselves.

The miscellaneous revenue item of approximately \$108,000, that arose from carrying charges on the financing of customers' appliances, appears to me to be an item that logically may be excluded from earnings, as the record shows that in all probability it will not be present in the future.

There is a somewhat similar item arising from an unused excess profit credit adjustment in 1943, carried over from the previous year, of approximately \$400,000, due to refinancing. The exclusion of this excess profit credit has the effect of increasing the federal income tax payment by approximately \$164,000, which results in a corresponding reduction in net revenue.

While it is considered proper to normalize revenues and expenses from year to year for such recurring matters as temperature, wages, etc., if non-recurring items, like those noted above, are always excluded from revenues then the result will be unfavorable to the rate payers.

It is my view, based upon the evidence of record, that the Respondent Utility's rates for gas service should be reduced so as to result in a gross revenue reduction of not less than \$750,000 on an annual basis. Such a reduction, in my opinion, will leave the utility in a strong earning position and enable it to meet all of its financial obligations. (10) A larger reduction might be justified by the Company's current earnings, but inasmuch as this is an interim order and the future presents numerous uncertainties, the reduction will be limited to the amount stated above. As will be developed later, the manner in which it is to be applied will result in a minimum of risk to the owner's interests. While it is my opinion that rate of return figures should not be given too much weight at this time, the following net revenues and percentage returns (11) on the Commission staff's

(10) Net Revenue Available for Financial Requirements		\$2,135,175
3% Bonds - \$12,610,000		\$378,300
5% Depreciation Reserve - \$11,232,718		<u>561,636</u>
		939,936
Balance left for Common Stock and Surplus		<u>\$1,195,239</u>
Common Stock Outstanding	\$11,000,000	
Unappropriated Surplus	<u>1,952,009</u>	
	\$12,952,009	
Rate of earning on Common Stock and Surplus		9.2%

(11) Such rates of return reflect a provision for depreciation on the 5 per cent sinking fund basis and with lives in accordance with Exhibit No. 18. The rates of return are predicated on the rate base figures in Exhibits Nos. 1 and 2 introduced by the Commission's staff.

basis will result after excluding \$108,000 in miscellaneous revenue and providing for the \$750,000 reduction:

Basis	Without Allowance		With Allowance	
	Net Revenue	Rate of Return	Net Revenue	Rate of Return
Undepreciated Rate Base	\$2,135,175	5.82%	\$2,271,630	6.19%
Depreciated Rate Base	\$1,573,539	6.22%	\$1,709,994	6.76%

An analysis of the \$750,000 reduction shows that the Utility's net revenue will be reduced somewhat less than \$136,000 and the balance represents a saving in tax payments. This does not mean, however, that there is a dollar of this reduction that the consumers of gas service are not entitled to receive. Very substantial portions of the excess profit tax paid come from other sources than additional revenues from gas sales. For example, the saving in bond interest, which has materially increased excess profit tax payments, is clearly a saving which should rightfully be shared with the Utility's consumers. Any reduction in tax payments because of rate changes, resulting from such savings, is merely a distribution of part of the excess earnings to the users of service, who are entitled to this relief. In this opinion and order, however, the resulting rates of return and earnings are such that, irrespective of the effect upon taxes, the reduction is fully warranted.

Form of Rate Reduction.

The position taken by the representatives of the City of Los Angeles, in urging special treatment in the Santa Monica and Harbor District areas, is not without merit. Conditions in reference to customer density and use have changed since the last rate adjustment. At the present time General Service Schedule 3-A provides for a payment of 90 cents for the first 300 cubic feet of gas in the Santa Monica area. In view of the changed conditions, as well as the minimum charges in other divisions of the Utility's system and

adjoining areas, a reduction of 5 cents in the minimum, to 85 cents, is believed warranted. (12) Such a reduction is estimated to bring about a saving to the rate payers of approximately \$32,000 a year.

Under more normal conditions the balance, or \$718,000, would be apportioned to the different service areas and basic changes would be made in the rate structures. Evidence of record indicates the desirability of some form of discount or dividend as a means of bringing about the reduction. A discount applied to existing firm rates, beyond the minimum charge, appears to be a simple and practical means of bringing this about. (13) In view of the uncertain period ahead, the \$718,000, in the form of discounts, will be limited to a twelve months' period, after which period the discounts will automatically cease unless the Commission otherwise orders, and the undiscounted rates will again become the lawful rates to be charged. On the basis of the record, a uniform distribution of the reduction to the classes of service participating appears to be justified except for the Harbor District. In this latter area a higher percentage discount is warranted. Such discount rates are as follows:

		Applicable (14)	
		To Billing Beyond Minimum	Total Billing Firm Sales
<u>General Service:</u>			
Harbor District		10.0%	
All Other Districts		7.5%	
<u>Firm Industrial Service and Military Service:</u>			
All Districts		7.5%	
<u>Wholesale Service - Exclusive of Surplus:</u>			
San Diego Gas and Electric Company			5.8%

(12) It was urged by the City of Los Angeles that a 10-cent reduction be made in part because the adjoining area in central Los Angeles, served by the Southern California Gas Company (Schedule D-1A) has an 80-cent charge for 300 cubic feet of gas.

(13) Such discounts should be applied to firm gas service of the following classes: general service, including butane service, firm industrial and military. No discount is to be applied to sales rendered under gas engine, oil field, surplus industrial and special industrial.

(14) The greater percentage reduction assigned to the retail services as compared to the San Diego wholesale does not mean that such retail service, other than the Harbor District, is receiving a larger allocation of the reduction, inasmuch as the San Diego percentage is to be applied to the total revenue from firm deliveries while the higher retail discount rate is to be applied to the retail revenues reduced by the revenues received from the minimums.

Future Hearings.

As this is an interim order, the case is to remain open for further hearings to be set at dates to be determined. The Commission may, after such hearings and upon further order, continue or change the discounts at the end of the twelve months' period.

The following form of interim order is recommended:

O R D E R

Public hearings having been held and a show cause order having been issued to determine why interim rates should not be established, the Commission being advised, the matter having been submitted on the Order to Show Cause;

The Railroad Commission of the State of California hereby finds as a fact that the gross revenues of the Southern Counties Gas Company of California should be reduced not less than \$750,000, which amount is found reasonable, and such reduction is hereby ordered on an annual basis; and further finds that on and after the effective date the rates now charged for gas service that differ from the rates herein ordered are unreasonable, and the rates and modifications herein ordered are reasonable.

Basing this order upon the foregoing findings of fact and upon the facts in the opinion preceding this order;

IT IS HEREBY FURTHER ORDERED that for meter readings taken on and after December 15, 1944, the Southern Counties Gas Company of California shall apply to its presently effective gas rate tariffs, hereinafter specified, the following war emergency discounts to be in force and in effect for a period of twelve (12) months and ending with meter readings taken on December 14, 1945, and thereafter the regularly filed rates of this utility without said discounts shall be the lawfully effective rates until altered or changed in a manner provided by law:

1. To all general service tariffs in all districts except Harbor District; to all firm industrial and military tariffs in all districts there shall be applied a 7.5 per cent discount on that portion of the bill in excess of the minimum charge;

2. To all general service in Harbor District, on that portion of the bill in excess of the minimum charge, a 10.0 per cent discount; and
3. To the wholesale gas service, exclusive of surplus, that is supplied to the San Diego Gas and Electric Company a 5.8 per cent discount.

IT IS HEREBY FURTHER ORDERED that for the Santa Monica District, in addition to the discount under (1) above, the present minimum charge of 90 cents for the first 300 cubic feet of gas per meter per month of the general service tariff shall be reduced to 85 cents.

IT IS HEREBY FURTHER ORDERED that beginning with January 1, 1945, the depreciation accruals shall be calculated on a sinking fund basis and the rate of interest reduced from 6 per cent to 5 per cent per annum.

Except as otherwise provided, the effective date of this order shall be fifteen (15) days from the date hereof.

The foregoing interim opinion and order are hereby approved and ordered filed as the interim opinion and order of the Railroad Commission of the State of California in Case No. 4716.

Dated at San Francisco, California, this 4th day of December, 1944.

Richard L. Baker

Francis D. Havens
Emilio Carr

Commissioners.

Case No. 4716

Commissioner Rowell Dissenting.

I cannot concur. It is impossible to say whether some reduction in respondent's rates may be justified, for the decision does not contain an adequate statement of those facts essential to a determination of what may constitute just and reasonable rates today or for the future. To possess any degree of administrative finality, a decision of the Commission should evidence a full and fair consideration of all the substantial issues presented and sufficiently reveal the basis upon which its conclusions are reached. If it does not do so, I cannot join therein.

Two things do quite clearly appear from the decision itself. The first is that the Commission is here proceeding to translate into a rate reduction a large part of the income taxes which the company is now paying to the Federal government. The propriety of such action was the subject of the Commission's special inquiry in Case 4731, and after the fullest hearings in that proceeding there was not offered one iota of testimony leading to the conclusion that the application of such a rate making policy in this State would be justified either by good economics or good morals. The second thing clearly revealed is that the Commission acknowledges a very uncertain period ahead for this utility, and so it makes its rate reduction order in the form of a war emergency discount for one year only. Although such a limited term rate may be declared reasonable under certain conditions, how the Commission in this case can legally arrive at the conclusion now that a return to the present rates would be justified exactly one year hence when this discount rate is to cease, I do not know.

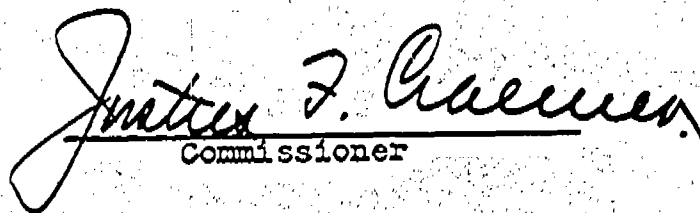

Commissioner.

CASE No. 4716

Commissioner CRAEMER, dissenting:

I cannot concur in the majority opinion and order. This I do of necessity since I have not been afforded the opportunity of a full discussion of the underlying facts in support of the majority opinion and order as drafted, at a duly called meeting of the Commission.

I agree fully with Commissioner Rowell's views regarding the treatment of taxes.


Commissioner