

Decision No. 38786

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, Southern Counties Gas Company; J. J. Deuel and Edson Abel, for the California Farm Bureau Federation; W. B. Mackay and L. E. Stewart, for C. B. Gentry; Roger Arnebergh, Assistant City Attorney of the City of Los Angeles; K. Charles Bean for the Board of Public Utilities and Transportation of the City of Los Angeles, for the City of Los Angeles; and M. Tellofson, City Attorney for the City of Culver City.

ANDERSON, HULS, COMMISSIONERS:

O P I N I O N

This is a proceeding originally instituted under date of February 29, 1944, on the Commission's own motion into the reasonableness of the earnings and rates of the Southern Counties Gas Company of California. An interim order (Decision No. 37521), was issued December 4, 1944, which established, among other things, certain discount rates to remain in effect for a period of twelve months ending with meter readings taken on December 14, 1945, unless otherwise ordered. The period of said discount rates has been extended by appropriate Commission orders to March 31, 1946. ⁽¹⁾ Under date of February 26, 1946, the Commission issued its order reopening the case and setting it down for hearing at Los Angeles under date of

(1)

First Supplemental Decision No. 38501 extended the discount rates to March 14, 1946, and Second Supplemental Decision No. 38730 to March 31, 1946.

March 13, 1946. Said hearing was held and the matter submitted on that date for decision in a manner hereinafter set forth.

At the March 13 hearing evidence was submitted by the Staff of the Commission covering the recorded and adjusted (for temperature), earnings of the Southern Counties Gas Company, for the years 1944 and 1945, as well as estimates as to the probable sales and revenues from the general service customers and certain other classes during 1946. In addition, 1945 expenses were correspondingly adjusted for changes in gas sales, and for probable increases in payroll, purchased gas, and other anticipated costs. Balance sheet, profit and loss statements, and cost of bond money studies were also introduced by the Staff. In addition, there was placed in evidence by the Commission Staff a proposed rate adjustment plan whereby the presently effective discount rates would be increased or lowered according to changes in the earnings of the utility, based upon specified standards of performance. The issue before us at this time is whether a rate adjustment plan similar to that introduced shall be adopted or rejected, and the evidence adduced by the Staff, other than the plan itself, here is considered only for the purpose of determining the feasibility of the proposed plan. The case was conditionally submitted on this point, i.e., the matter would be considered submitted for decision if the Commission were to adopt a rate adjustment plan; otherwise, if it rejected such a plan, the case again would be set down for further hearing.

Based upon the Rate Adjustment Plan, submitted as an exhibit (No. 19), and also upon the testimony of the Commission's Gas Engineer, Lloyd Cooper, the more salient features of the plan, stripped of its many details, may be set down as follows:

1. The rate discounts established by Decision No. 37521 shall increase or decrease as the resulting test net revenues at quarter-year intervals covering 12 month periods ending

March 31, June 30, September 30 and December 31 differ from a reference or criterion net revenue.

(a) The first \$50,000 of difference between criterion and test net revenues shall not be considered in determining rate adjustments.

(b) For the next \$100,000 of difference, 80% shall form the basis of adjusting the discount rates upward or downward, and 90% for any excess over \$150,000. The discount rates in each instance shall be adjusted to the nearest $\frac{1}{2}$ %.

2a. The extent to which the rate discounts may be increased is limited only by the amount that test net revenue exceeds criterion net revenue.

2b. The extent to which the rate discounts may be decreased may not exceed the extent of the rate discounts, and when said discounts shall be reduced to zero, all discounts shall be discontinued and the adjustment plan shall be deemed to have come to an end.

3. Growth in plant as reflected principally in net additions and betterments is given recognition by allowing a 6% return on such plant increases for the future. This increase in net is additive to a reference net revenue predicated on an earning level or rate of earnings established in Decision No. 37521.

It is clear from the wording of the plan itself, as well as from statements made at the hearing, that the plan has not been devised and offered as a means to adjust the rate discounts over a long term of years, but rather as a means of equitably meeting the somewhat changing conditions that are now present during the reconversion from a war to a peacetime economy. The testimony and exhibits heretofore referred to in reference to the probable earning position of the defendant utility indicates that the wartime trend is upwards in earnings and that if the rate adjustment plan were adopted, further increases in the rate discounts might be expected.

Defendant utility's Vice President and General Manager, Arthur Bridge, testified to the effect that while he was in favor of a rate adjustment plan, the one proposed had some shortcomings. He pointed out that his company expected further increased costs disproportionate to the increase in revenues to be received in the

next few years. He particularly referred to the rising trend in gas costs, calling attention to his company's increased obligation and expense starting the middle of 1947, when out-of-state gas purchases were expected to commence. He recognized that during the neartime future, earnings would probably increase and advocated that any adjustment plan should embody a reserve. Such reserve, he stated, would siphon off currently expected excess earnings and make the same available during periods of decline, thus giving greater stability both to his company earnings and to the discount rates.⁽²⁾ It was likewise his view that any rate adjustment plan should remain in effect for a period at least long enough to include one year of operations with out-of-state gas.

The Commission witness stated the purpose was to use the plan as a stop-gap to fill in the immediate period, rather than to establish and set up a new system of firm rates at this time. The adoption of the plan will not preclude either the utility, its customers, or the Commission, by appropriate proceeding, to have the plan set aside.

Counsel for the City of Los Angeles and Board of Public Utilities and Transportation of the City of Los Angeles, as well as J. J. Deuel of the California Farm Bureau Federation, are on record as expressing a willingness to give the plan a trial. Likewise, Mr. F. S. Wade, President of defendant utility, while urging a different plan, stated that if the Commission decided upon the proposed plan his company would accept it.

It is our conclusion that the plan is sufficiently adequate to accomplish its purpose of bridging over the immediate future period with fair results to both the utility and the customers it serves.

(2)

The witness had other objections to the plan, such as the restriction whereby rate increases were limited to the cancelling out of the rate discounts.

Attached to and made a part of this opinion and the order that follows this opinion, is a statement setting forth the Rate Adjustment Plan that has heretofore been discussed in general terms and is the plan that is to be adopted for rate adjustments of the Southern Counties Gas Company of California beginning with the 12 months' period ending March 31, 1946.

The presently effective rate discounts, as provided by Decision No. 38730, are now, and for the immediate future will be, just and reasonable, and should remain in effect until such time as the results of operation for a given period of time, as provided for in the rate adjustment plan above referred to, justify and require changes in such rate discounts to the extent set forth in said rate adjustment plan.

Because the rate adjustment plan will require a review of the company's operations at quarterly intervals, and some time necessarily will elapse before the amount of the adjustment to the discounts, if any, can be determined and appropriate rate supplements filed and made effective, it will be provided in the order to follow that the company, whenever it is called upon under the rate adjustment plan to revise this schedule of rate discounts, is to submit them for filing in accordance with the procedure set forth in General Order No. 96, to become effective not more than forty-five days after the termination of the quarterly test periods as set forth in the rate adjustment plan.

The following form of order is recommended:

O R D E R

A public hearing having been held, the Commission being advised, and the matter having been submitted under the conditions

heretofore stated for decision, and good cause appearing, therefore,

The Railroad Commission of the State of California hereby finds that the Rate Adjustment Plan, attached hereto and made a part of this order as Exhibit "A", shall be adopted as a means of adjusting the rate discounts set forth in Decision No. 38730, for the period in which said plan is in effect and as further provided in this order.

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 the Southern Counties Gas Company of California shall:

1. File, before March 31, 1946, an amended schedule of temporary discounts which shall be the same as the discounts set forth in the Commission's Decision No. 38730 and to indicate thereon that said discounts will be applicable to all meter readings of designated schedules after March 31, 1946, and remain in effect thereafter until such time as, upon application of the aforesaid Rate Adjustment Plan, a revised schedule of discounts is filed and made effective.

2. Upon the termination of each test period as set forth in said Rate Adjustment Plan, namely, the 12-month periods ending March 31, June 30, September 30, and December 31, and so long as said plan remains in effect, submit to the Commission for filing, a schedule of revised discounts, if any, as may be required to carry out the provisions of said Rate Adjustment Plan, and to make any such filed amendment of discount rates effective forty-five days after the termination of the preceding 3-month review period.

The effective date of this order shall be the date hereof.

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.

Dated at San Francisco, California, this 26th day of March, 1946.

L. Harold Anderson
Justice J. A. Quinn
Thomas W. Brown
Grant Powell
Harold T. Hill
Commissioners.

EXHIBIT "A"

RATE ADJUSTMENT PLAN

SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA

RATE ADJUSTMENT PLAN
SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA

DEFINITIONS

Test Periods

12-month periods ending March 31, June 30, September 30, and December 31.

Criterion Net Revenue

An amount equivalent to \$2,350,000 plus 6% on the net operative additions to capital. Net operative additions to capital means the net increase in average fixed capital in service and average materials and supplies for the test year as compared to the averages of said operative items for the calendar year 1945.

Test Operating Revenues

Operating revenues as recorded on the Company's books for the test period in question, except that -

(a) General Service revenue shall be adjusted to reflect the average temperatures for the ten-year period ended December 31, 1945, in accordance with a formula to be agreed upon.

(b) All revenues shall be further adjusted to reflect for the full period the rates effective as of the end of the test period.

Test Expenses

Test expenses for purposes hereof shall include all operating expenses, taxes, depreciation annuity and uncollectibles.

(a) Operating expenses, depreciation, uncollectibles, and taxes other than those based on net income shall be as recorded on the Company's books, subject to review, except that cost of purchased gas and gross receipts taxes shall be adjusted to reflect the temperature correction of revenue referred to under definition of "Test Operating Revenues" above, and gross receipts taxes shall also be adjusted to reflect the adjustment to current rates referred to under definition of "Test Operating Revenues" above.

(b) The income tax net income to be used in computing income taxes for the test period shall reflect the adjustments of book revenues and expenses prescribed above under definitions of "Test Operating Revenues" and "Test Expenses."

If more than one income tax rate prevails during any given test period, then income taxes for such period shall be determined as follows: Calculate the tax for each tax rate as though such rate were effective throughout the entire test period. Multiply

the resultant tax so computed for each tax rate by the percentage duration of the test year during which such tax rate prevailed. Add the fractional year taxes so computed, to obtain the income taxes for test expenses.

Test Net Revenue

Test period operating revenues minus test period expenses, as hereinbefore defined.

Net Revenue Deficiency

The amount by which the criterion net revenue exceeds test net revenue for any given test period.

Net Revenue Excess

The amount by which test net revenue exceeds criterion net revenue for any given test period.

PROCEDURE

1. At quarter-year intervals beginning with the 12 months ending March 31, 1946, test net revenue shall be computed and compared with corresponding criterion net revenue.

2a. The rate discounts ⁽¹⁾ as established by Decision No. 37521 shall remain effective after March 31, 1946, until test net revenue, as defined, shall increase or decline to a point such that the net revenue excess, or net revenue deficiency for a given test period exceeds \$50,000 by an amount sufficient to justify a change of $\frac{1}{2}\%$ ⁽²⁾ in the discounts, whereupon such discount rates shall, as

(1) The rate discounts established by Decision No. 37521 and now effective are:

	<u>To Billing Beyond Minimum</u>	<u>Total Billing Firm Sales</u>
<u>General Service</u>		
Harbor District	10.0%	
All Other Districts	7.5%	
<u>Firm Industrial and Military Service</u>		
All Districts	7.5%	
<u>Wholesale Service-Exclusive of Surplus</u>		
San Diego Gas & Electric Co.		5.8%

(2) The rate discounts are stated in Decision No. 37521 to be equivalent to an annual reduction in gross revenue of \$718,000 and under the present effective tax rate this gross amount is equal to approximately \$425,000 in net revenue. A $\frac{1}{2}$ of 1% change within the meaning of paragraphs 2a, 2b and 3 of the Rate Adjustment Plan shall be understood to mean \$28,000. Adjusted to "the nearest $\frac{1}{2}\%$ shall be interpreted to mean any amount equal to or greater than $\frac{1}{2}\%$ shall be taken as $\frac{1}{2}\%$ and any amount less than $\frac{1}{2}\%$ shall be taken as zero per cent -- within the first $\frac{1}{2}\%$ band or any multiple thereof.

soon as practicable thereafter, be ratably ⁽³⁾ increased or decreased as hereinafter provided. However, in case of net revenue deficiency, the maximum decrease shall not exceed the limits of the presently effective discount rates hereafter referred to. The calculation of the gross revenue effect in rate discounts for a given change in net revenue shall be based upon the Federal and State income tax rates prevailing as of the date the revised discount rates are made effective.

2b. The basis of adjusting the aforesaid discount in gas rates shall be further as follows:

(1) The first \$50,000 of difference between criterion and test net revenues shall not be considered in determining rate adjustments.

(2) For the next \$100,000 of difference, 80% shall form the basis of adjusting the discount rates upward or downward, and 90% for any excess over \$150,000. The discount rates shall, in each instance be adjusted to the nearest $\frac{1}{2}$ %⁽²⁾.

3. If, following an increase or a reduction of the discounts as hereinbefore provided in (2) above, the net revenue excess or the net revenue deficiency for any subsequent test period shall be less than the amount required to justify a $\frac{1}{2}$ % change in discount, no further adjustment in the revised discounts shall be made; however, if in any subsequent test period, the net revenue excess or the net revenue deficiency shall exceed such minimum amount, then there shall be made another revision of the then prevailing rate discounts upward or downward as provided in paragraph 2.

4. If and when, as a result of adjustments made as hereinbefore prescribed to correct deficiencies in net revenue, the discounts established by Decision No. 37521 and applicable to General, Firm Industrial, and Wholesale Service of this Company shall have been reduced to zero per cent, all discounts established by Decision No. 37521 shall be discontinued and the Rate Adjustment Plan shall be deemed to have ended.

5. It is the intent that this automatic rate adjustment plan of adjusting net revenue by automatic variation in the rate discount shall be given a one-year trial and that the rate discounts effective during the last quarter of the trial year or in the quarter in which the plan terminates, shall remain in effect until changed in a manner provided under the statute.

(2)

See note on page 2.

(3)

The phrase "ratably increased or decreased" shall be understood to mean a proportionate allocation as between the rate discounts, and in the process the assignment shall be first made to the $7\frac{1}{2}$ % discounts to the nearest $\frac{1}{2}$ %, and to the nearest 1/10% as to the remaining discounts.