

Decision No. 41020

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

UNION SUGAR COMPANY, a corporation, et al.,
Complainants,

vs.

SOUTHERN COUNTIES GAS COMPANY OF
CALIFORNIA, a corporation,

Defendant.

Case No. 4890
(Amended)

ORIGINAL

Francis L. Cross and Roland Tognazzini, for the
Complainants.
Milford Springer, for the Defendant.
W. D. MacKay, for Faulstick Brothers Brick Works.

O P I N I O N

Complainants, Union Sugar Company, et al., petition the Public Utilities Commission of the State of California to require the Southern Counties Gas Company of California, Defendant, to furnish gas service to the Union Sugar Company's Betteravia Plant at rates lower than presently charged under Defendant's rate Schedule No. S-D. (1) No reparations are involved.

A public hearing in the matter was held September 19, 1947, in Santa Maria before Examiner Wehe, at which time Complainants presented

(1)

Schedule No. S-D
Optional Rate for Surplus Industrial Service

<u>Effective Rates</u>	<u>As of 5/1/47</u> <u>Fuel Oil \$1.50</u>	<u>As of 12/3/47</u> <u>Fuel Oil \$1.75</u>	<u>Maximum</u> <u>Rates</u>
<u>Rate Y (11/1 to 3/31, incl.)</u>			
First 700,000 cu.ft., per Mcf.	\$.30167	\$.34333	\$.35
Next 9,300,000 " " " "	.23667	.27833	.285
Over 10,000,000 " " " "	.23167	.27333	.28
<u>Rate Z (4/1 to 10/31, incl.)</u>			
First 700,000 cu.ft., per Mcf.	\$.30167	\$.34333	\$.35
Next 4,300,000 " " " "	.23667	.27833	.285
Over 5,000,000 " " " "	.22167	.26333	.27

their case and Defendant Utility replied. The matter was submitted on oral argument for decision.

Complainant Union Sugar Company's Position

The Union Sugar Company presented testimony showing that it was one of the state's larger producers of beet sugar and that its plant had been in operation at Betteravia since 1897; that fuel costs were next in importance to the costs of beets and labor in its total cost of production; and, it was further contended, that in locating the plant at Betteravia consideration unquestionably was given to the nearby oil and gas fields. The following tabulation sets forth the annual purchases and amounts paid for gas from 1944 through 1946, with the first eight months of 1947, along with an estimate for the year 1947, together with the average rate for these periods (the charges for the period 1944 to April 1947 were based on special contract rates):

	<u>Annual Purchases</u>	<u>Amount Paid for Gas</u>	<u>Average Rate Per MCF</u>
1944	493,252 MCF	\$ 63,628.96	\$.1290
1945	606,508	79,440.25	.1310
1946	665,607	109,073.55	.1639
1947 (through August)	515,905	119,833.70	.2323
1947 (Estimated Year)	1,100,000	272,050.88	.2473

The increasing use of gas results from a change in the company's operations, inasmuch as the beet sugar campaign period has been lengthened. In 1944 the campaign ran from early August for a period of 118 days, while the present period commenced May 1 for an estimated run of between 210 and 215 days. The longer sugar campaign was attributed to the fact that the company is now receiving the beet harvest from the Imperial Valley, which starts in the spring, as well as its own local supply, starting in the late summer. It was indicated that hereafter this procedure is expected to be the regular plan of operation.

The Complainant's position in urging different and lower rates

than are available under the regular S-D tariff may be summarized as follows:

1. That increase in volume of use has occurred and largely in the off-peak season, making its load more desirable.
2. That the Complainant's plant is favorably located in reference to the gas supply from the Santa Maria Gas Field, which is but ten miles distant.
3. That there is a wastage of gas to air in the Santa Maria Fields, making gas a surplus commodity in the Santa Maria area and hence worth less than in other sections of the state where the situation is different.
4. That the increase in the cost of gas under the S-D tariff, resulting from the operation of the fuel oil escalator clause, should not be applied in an area where gas is being produced in plentiful quantity.

Defendant Utility's Position

The Southern Counties Gas Company presented evidence showing that by making the S-D tariff available in its Northern District on April 13, 1947, it replaced the higher rate tariff 6-D-0 for similar service, thus providing a uniform interruptible rate throughout its system. Extensive exhibits and testimony were presented showing the billing on the present S-D and 6-D-0 tariffs, as well as comparisons of billings and the average rate paid by sugar companies operating under rates as charged by other gas companies in the state. The latter comparison showed the rate under the S-D schedule to be the lowest and most favorable. Comparisons were also made as to the equivalent cost of burning fuel oil, which the Union Sugar Company's plant is equipped to do. This comparison shows that the gas at present prices would be lower by a very material amount.

Defendant Utility also reviewed the basic theory underlying the

development of rates for gas sold on a surplus or interruptible basis, pointing out that competitive fuel prices have been the controlling factor rather than the cost of service.

Discussion

Many of the issues arising in this complaint are fundamental and involve broad principles relating to rate form. If changes were made in the rate applicable to this Complainant, such a change would necessarily affect all distributors of interruptible gas service and their customers in the state.

Complainants in their presentation and argument apparently did not fully understand the distinction between gas services in which the utility has the obligation to render on a continuous basis and that which is sold subject to discontinuance. The former is commonly spoken of as "firm" service and the latter as "surplus" or "interruptible" service.

In fixing general service and other "firm" rates, the cost-to-serve element unquestionably is an important factor in such determination, along with many other considerations. However, it should be observed that the cost-to-serve element in rates necessarily reflects average conditions and within that average there usually is a considerable spread between minimum and maximum cost conditions. A large number of rates of considerable complexity would be required to reflect actual cost conditions, resulting on the one hand in low charges to some and on the other in extremely high charges to others.

Such sharp variations in rate structure would make for a retardation in the development of many of the areas of the state. Firm rates, to the extent deemed practical, do reflect varying cost elements through geographical zoning.

The situation presented by the instant complaint does not involve a firm rate for gas service but a charge for industrial gas service that is sold on an interruptible basis in competition with other fuels. A review of this Commission's decisions will show that

the rates charged for such interruptible service have been looked upon somewhat differently than gas which the utility is required to be in a position to serve continuously.

It has been the history of the so-called surplus gas sales that such gas service has been at rates somewhat less than those for fuel oil, the other competitive fuel, and that any earnings on such gas service above the out-of-pocket costs have been applied to reduce the cost of supplying the firm service. (2)

The escalator provision in the gas tariffs while probably being far from ideal nevertheless has been found to offer the most practical means so far of coordinating the price movements in the two fuels. (3)

Gas from this field and others is utilized by utilities and such wastage as has occurred has not resulted in a cheaper purchase

(2) References:

- Application of Los Angeles Gas and Electric Corporation for fixing a classification of gas rates--D. 4558, 13 CRC 724.
- Application of Southern Counties Gas Company for increase in industrial rates--D. 8680, 19 CRC 421.
- Application of Santa Maria Gas Company for authority to establish minimum rates--D. 11028, 22 CRC 317.
- Investigation on Commission's own motion as to surplus natural gas service on Southern Counties Gas Company, et al.--C. 4138, D. 29287, 40 CRC 897.
- Investigation on Commission's own motion into natural gas service embracing all gas companies--C. 4591, D. 34797, 43 CRC 841.

(3) In a complaint in Case No. 4138, et al., against Defendant Utility and other southern California gas companies as to the functioning of the escalator clause in surplus industrial gas tariffs, the Commission, in conclusion, stated in part as follows:

- "1. A properly constructed fuel oil clause whereby rates automatically go up or down with the price of fuel oil * * * is justifiable. (a) As to the lower bracket schedules, the justification is clear. The industrialists using such schedules are usually equipped to burn gas or oil. Cost is the impelling reason for selection. (b) The justification is not so clear as to the higher bracket schedules. As to these, the use of such a clause finds partial justification in the fact that the cost of gas in the field is influenced by the price of oil. Competitive fuels do have some influence on the use or non-use of surplus gas. * * *."

price to the utility for the gas from this source. In other words, the price paid for gas delivered into the utility's transmission facilities from the Santa Maria Fields compares favorably with purchases from other fields by this Defendant Utility, as well as other gas companies in Southern California.

In reference to the wastage of gas, however, this Commission has expressed itself many times as being much concerned over any such practice and is of the opinion that both the producers and the purchasing utilities should take every step that is economically feasible to stop such wastage.

In the instant case, it is of record that the blow gas results from the necessity of a high rate of oil production and because there are not available the necessary purification, compression, and transmission facilities to handle that gas which is wasted. It may be observed, too, that this is one of the few fields in the state where the gas carries a comparatively high sulphur content and thus additional costs are involved in purification before the gas can be accepted in the utility pipe lines for distribution to its customers. A witness for the Defendant Utility stated that studies were made by both his company and the producers in 1945 to see what could be done to reduce the gas wastage and, as a result, some additional facilities were installed, reducing the blow but, due to the expected short period of gas wastage, the full necessary capital expenditures could not be justified to conserve all the gas. It was further his view that within a year the wastage of gas would practically cease.

From the record in this case, the Commission must conclude that the presently effective S-D rate, under which the Union Sugar Company takes service, is not unreasonable: first, due to its rate form, it automatically recognizes improved characteristics of use through reductions in the rate; second, it provides a non-discriminatory rate, since all industrial customers who choose may have the advantage of the rate throughout the company's system; third, it provides an industrial

gas rate lower than enjoyed by any of plaintiff's competitors who receive gas from other utilities; and, fourth, it provides a substantially lower fuel cost than can be realized through the use of the next lowest-priced competitive fuel, that of oil.

In view of the facts obtaining, the petition of Complainants must be denied.

O R D E R

Public hearing having been held in the matter of the complaint of Union Sugar Company, et al., for rates lower than available under rate Schedule S-D of the Southern Counties Gas Company of California, the matter having been submitted, the Commission being fully advised and it being found that the gas rates under Schedule S-D under the circumstances obtaining are not unreasonable,

IT IS HEREBY ORDERED that the complaint of the Union Sugar Company, et al., is hereby denied.

The effective date of this order shall be twenty (20) days from the date of service hereof.

Dated at San Francisco, California, this 12th day of December, 1947.

Harold P. Kule
Justin F. Galloway
Wm. H. Wallace
A. E. Anderson
Commissioners