

Decision No. 42865

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

LeRoy M. Edwards and Milford Springer for Southern Counties Gas Company of California; Roger Arnebergh, Assistant City Attorney of the City of Los Angeles; K. Charles Bean and T. M. Chubb, for the Board of Public Utilities and Transportation of the City of Los Angeles; J. J. Duvel and Edson Abel, for the California Farm Bureau Federation; Brobeck, Phleger and Harrison, by George D. Rives, and George Kinsman for California Manufacturers Association; E. M. Hope and Major John W. Rood, for United States Department of Army; A. B. Starr for the Eleventh United States Naval District; Chickering and Gregory by Sherman Chickering, for San Diego Gas and Electric Company; and W. D. MacKay and L. H. Stewart for E. C. Fogal.

OPINION ON FOURTH SUPPLEMENTAL ORDER

Southern Counties Gas Company of California^{1/} on November 3, 1949 filed a petition in this proceeding seeking (1) the establishment of certain minimum interruptible industrial gas rates, and (2) reinstatement and revision of the Automatic Rate Adjustment Plan established by previous order herein.

Evidence and arguments respecting the petition were received at a hearing in Los Angeles on January 9, 1950 before Commissioner Huls and Examiner O'Brien. The presentation at that hearing was restricted, by direction of the Commission, to the issues raised by that portion of the petition seeking revision of the Automatic Rate Adjustment Plan.

^{1/} Hereinafter referred to as Southern Counties.

History of Case 4716

This proceeding was initiated on February 29, 1944 by an order of investigation on the Commission's own motion, inquiring into the reasonableness of the rates of Southern Counties. Hearings on the original order were held on January 7, 8 and 9, 1944. On June 27, 1944, the Commission issued an order directing Southern Counties to show cause why an interim reduction in rates should not be made effective. Such reduction contemplated disallowance of federal war taxes as operating expenses in determining reasonable rates. The order was issued concurrently with an order in Case 4731, an investigation into the matter of federal war taxes paid by all utilities subject to the Commission's jurisdiction. On July 17, 1944, twenty-one such utilities filed a petition asking leave to intervene in this proceeding as interested parties and for a continuance of the hearings until a date subsequent to hearings on the same issue under the general investigation, Case 4731. In a hearing on July 27 the petition in intervention was granted but the petition for continuance was denied, and hearings thereafter were continued on July 27 and 28 and August 3, 4, 16, 17 and 22, 1944.

Following the filing of briefs, the Commission issued its Decision No. 37521 (45 CRC 537), dated December 4, 1944, in which the gross revenues of Southern Counties Gas Company were ordered reduced by \$750,000 annually. Such reduction was largely achieved by applying a discount to the regularly filed tariffs, for meter readings taken on and after December 15, 1944. Discounts of 7½% for general service in all districts except Harbor District, and for all firm industrial and military tariffs in all districts, 10% for general service in Harbor District, and 5.8% for wholesale service, exclusive of surplus service supplied to San Diego Gas and Electric Company, were established. The discounts were not applicable to minimum charges. These discounts were

to be effective for 12 months as war emergency discounts, and the undiscounted tariffs were to be effective thereafter.

By Decision No. 38501, entered December 10, 1945, the discounts were extended with the consent of Southern Counties, until March 14, 1946 and were further extended to March 31, 1946 by Decision No. 38730, dated February 26, 1946. The proceeding was reopened for further hearing by an order of the Commission dated February 26, 1946 and a further hearing was held on March 13, 1946. At this hearing a plan for periodic adjustment of the discounts was presented by the Commission's staff. This plan was proposed as a stop-gap measure to recognize the uncertainties in prospective revenues and expenses then confronting Southern Counties. It likewise gave recognition to the utility's objections to filing new and lower tariff schedules. Southern Counties expressed a favorable attitude toward some automatic plan but did not believe the plan proposed by the staff fully met the company's needs. Representatives of the City of Los Angeles and the California Farm Bureau Federation indicated acquiescence in a trial of the proposed plan. As a consequence the Commission, by Decision No. 38786 (46 CRC 384), dated March 26, 1946, established the Automatic Rate Adjustment Plan. Under the plan the Commission's staff was to review the revenues and expenses of Southern Counties quarterly. To the extent the net revenues, adjusted for temperature and rate discounts, departed from a level of net revenues established by formula, appropriate increases or decreases would be made in the discount percentages. The plan as ordered by the Commission contemplated that it would be in effect for one year.

On May 7, 1946, by Decision No. 38944 (46 CRC 451), the Commission authorized exclusion of customers, receiving service under the utility's "B" rates of its general service schedules, from participation in further increases in discounts. Such customers used gas

exclusively for heating purposes, not for cooking or water heating, and consequently were considered to have poor load characteristics. The plan as authorized by Decision No. 38786 was extended by Decision No. 39939 (47 Cal. PUC 118) to March 31, 1948 and by Decision No. 41342 (47 Cal. PUC 822) to March 31, 1949, the discounts being subject to adjustments for the results of operation under the plan for the final 12-month period.

On January 26, 1949, Southern Counties filed a petition wherein it proposed substantial modifications of the basic rate levels of its filed tariffs which it believed would result in more harmonious rate relationships. While the proposed changes would have resulted in substantial over-all increases in gross revenues, and both increases and decreases in billings to individual customers, Southern Counties pointed out that the change in revenue would be absorbed by the operation of the Automatic Rate Adjustment Plan. Hearings on that petition were held on March 9 and 10, 1949, and the issues taken under submission. On June 28, 1949, by Decision No. 43083 (48 Cal. PUC 792), the Commission authorized the extension of the Rate Adjustment Plan to March 31, 1950.

Petition of November 3, 1949

The Automatic Rate Adjustment Plan which Southern Counties seeks to have reinstated provided for quarterly adjustments in rates through the medium of discounts applicable to filed tariffs, which discounts were to be adjusted in accordance with a formula contained in the plan. The annual renewal of the plan by the Commission during the period of increasing net earnings, and resulting increasing discounts, assured customers of reductions in gas rates at quarterly intervals. Had such extension not been authorized, the discount resulting from the quarterly review of the period ending March 31 of each of the several years would have been permanently effective thereafter until changed

by further order of the Commission. By the same token, extension of the plan during the period when net earnings have been shrinking, and resulting discounts declining, provided convenient means for Southern Counties to obtain increases in revenues at quarterly intervals while the plan was in operation.

The plan, as initially established, provided for termination in the following language:

"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."

The analysis of operations for the 12-month period ended September 30, 1949 indicated that the then effective discounts should be reduced by four percentage points, which was greater than the then effective discount, and the plan consequently terminated with the filing of tariff schedules, without discount, effective November 15, 1949.

Need to Continue Plan

Southern Counties recognizes that the automatic plan has terminated but urges re-establishment of the plan by Commission order as a ready means of maintaining its earning position at a satisfactory level pending the application for and establishment of compensatory rates for the future. It attributes the decline in its earning position to general increases in cost of operation both in fixed charges and in operating expenses and to heavy losses of revenue from sales of interruptible gas service because of the decline in the posted price of competitive fuel oil to which the interruptible rates are geared.

Its testimony shows that the average investment per meter has increased from \$166 in January 1945 to \$207 in July 1949, and an estimated \$228 per meter in 1950. If the substantial investment in Texas pipe line facilities is eliminated, the incremental investment per

added customer since January 1945 is stated to be \$269. The increase in labor costs is illustrated by the comparison of the average annual hourly pay of \$1.26 in 1945 contrasted to the current annual average hourly pay of \$1.79, or a 42% increase. The change in wage rates is estimated to approximate an annual increase in labor expenses of about \$2,000,000 per year. The cost of purchased gas constitutes almost 60% of total operating expenses, exclusive of taxes and depreciation. For the year ended July 1945 purchased gas cost approximately \$5,000,000 at an average cost of 12.7¢ per Mcf. For 1949 purchased gas cost \$11,600,000, at an average rate of 16.55¢ per Mcf. This change in the cost of gas reflects an increase in annual operating expenses of about 2½ million dollars because of changes in price level. The decline in the posted price of fuel oil during the year 1949 did not produce a decrease in the cost of purchased gas because of the absence of escalator clauses in Southern Counties' gas purchase contracts. The fourth major factor affecting Southern Counties' earning position was the sharp reduction in the rates at which interruptible gas service was sold. These tariffs, which contain a provision whereby the rates are changed when changes in the posted price of fuel oil occur, were reduced throughout 1949 in accordance with the tariff provisions as the posted price of oil declined from \$2 to its current level of \$1.30 per barrel. The annual loss in revenue is estimated at \$1,839,000.

Position of Parties

The City of Los Angeles, through its Board of Public Utilities and Transportation, indicated that if the Commission saw fit to grant an increase in rates it believed the re-establishment of the Automatic Rate Adjustment Plan would be much less objectionable than the establishment of interim rate increases in any other manner. The California Farm Bureau Federation likewise suggested that the re-establishment of the automatic plan would be more acceptable to its

membership than an interim increase in filed tariff rates. The federal government, particularly representatives of the military establishments, stated that they were not convinced that Southern Counties had made a sufficient showing for relief as requested and suggested that the plan not be re-established. The Commission's staff likewise reiterated the position it took in March of 1949, at which time it urged the Commission to discontinue the plan.

Earning Position

The record shows that for the 12 months ended November 30, 1949 the recorded net income for return was \$3,322,082 and when related to the mean rate base of \$64,081,206, Southern Counties' rate of return is approximately 5.2%. If adjusted for average temperature conditions the return drops to 4.9%, it increases to 5.7% if revenues are adjusted to zero discount, and if further adjusted to reflect a posted price of fuel oil of \$1.30 for the 12-month period, the return is approximately 4.8%.

Southern Counties is a wholly-owned subsidiary of Pacific Lighting Corporation. The record shows that Southern Counties purchased in 1949 almost 45% of its gas from Pacific Lighting Corporation. Exhibits showing the earning position of Pacific Lighting, previously introduced in the record in Application No. 30299, have been made a part of the record in this proceeding. Application No. 30299 is a proceeding in which Southern California Gas Company, also a subsidiary of Pacific Lighting Corporation, is seeking authority to increase gas rates. In Decision No. 43675, dated January 5, 1950, Southern California Gas Company was granted authority to make interim increases in rates. In authorizing such increases, however, the Commission indicated that the cost of gas acquired from Pacific Lighting Corporation should be reduced 2.51¢ per Mcf in determining the rate levels to which Southern California Gas Company was entitled on an interim basis.

If a similar further adjustment is made to the results of operation of Southern Counties for the year ended November 30, 1949, shown above, a return of almost 5 $\frac{1}{2}$ % is indicated.

In view of the earning level which Decision No. 43675 considered necessary on an interim basis for Southern California Gas Company; in view of the adjustments to expenses implicit in that decision; in view of the intimate relationship between Southern California Gas Company and Southern Counties Gas Company of California as subsidiaries of Pacific Lighting Corporation; and in view of the recent earning experience of Southern Counties, the Commission believes that the Automatic Rate Adjustment Plan should not be re-established. Southern Counties has had ample opportunity to file an application for an increase in rates in the normal manner for many months and its contention that the only avenue of rate relief available to it is in the restoration of the automatic plan, we believe, is unsound. Other matters now pending before the Commission as a result of petitions filed by Southern Counties in this proceeding are such as to be the proper subject matter for an application for adjustments in tariff rates filed in the manner contemplated in General Order No. 96, the Commission's Rules of Procedure, and Section No. 63 of the Public Utilities Act. In view of the testimony of the president of Southern Counties that it contemplates the filing of an application for a change in rates in the near future, the Commission will not take action on other matters pending in this proceeding except upon further petition by Southern Counties.

FOURTH SUPPLEMENTAL ORDER

The Commission having considered the petition of Southern Counties Gas Company of California filed November 3, 1949 in so far as that petition related to the re-establishment of the Automatic Rate

Adjustment Plan established by Decision No. 38786, as extended, having received evidence, both oral and documentary, respecting the issues raised by that petition, and being advised of the position of the several interested parties,

IT IS HEREBY FOUND AS A FACT that the Automatic Rate Adjustment Plan established by Decision No. 38786 terminated under its provisions on November 15, 1949 by the filing of rates, with discounts eliminated, effective on said date, that since that date the plan has had no further force or effect, and that the current earning position of Southern Counties Gas Company of California, when adjusted as outlined in the foregoing opinion, is not such as to persuade the Commission to depart from its traditional method of rate making by authorizing an Automatic Rate Adjustment Plan which would permit rates to rise above published filed tariff rates; therefore,

IT IS HEREBY ORDERED that the petition of Southern Counties Gas Company of California filed November 3, 1949, in so far as it seeks a re-establishment of the Automatic Rate Adjustment Plan hereinbefore referred to, be and it is hereby denied.

The effective date of this order is twenty (20) days from the date hereof.

Dated at San Francisco, California, this 28th day of February, 1950.

[Signature]
Justin J. Craven
[Signature]
Harold P. Hula
[Signature]
Commissioners