Decision No. 46680

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA for a general increase in retail and wholesale gas rates under Section 63(a) of the Public Utilities Act.	Application No. 31161
In the matter of the investigation on the Commission's own motion to determine the reasonableness, adequacy, sufficiency and lawfulness of the rates, tolls, charges and certain other subjects and matters, as reflected by the order of investigation herein, of SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA.	Case No. 5260

A list of appearances in the proceedings and witnesses is attached to this decision as Appendix A.

O P I N I O N

Southern Counties Gas Company of California[1] on March 27, 1950, filed the above application seeking an increase of $2,906,000 in gross annual revenues through general systemwide changes in its rates for gas service. The application, which withdrew petitions for revision of firm and interruptible rates filed January 24 and November 2, 1949, then pending in Case No. 4716, sought revisions of all filed tariffs as well as amendments to the rate provisions of special agreements with San Diego Gas and Electric Company, Southern California Edison Company, and the Department of Water and Power of the City of Los Angeles.

1/ Hereinafter called Southern Counties.

On January 4, 1951, the Commission, on its own motion,. instituted an investigation into the rates and practices of Southern Counties to insure that no limitation would be placed upon the scope of its orders herein. That investigation was consolidated with the rate application for hearing.

Hearings in these proceedings, requiring 16 days, commenced on May 31, 1950 and concluded March 23, 1951 before Commissioner Harold P. Huls and Examiner Robert P. O'Brien. The matter was submitted upon the filing of concurrent opening briefs due May 4, 1951 and concurrent reply briefs due June 1, 1951.

On January 16, 1951, the Commission issued its Decision No. 45248 herein, which halted the upward escalation of interruptible gas rates at a level harmonious with that theretofore prescribed for Southern California Gas Company.

On January 30, 1951, the Commission, by Decision No. 45320, authorized and directed Southern Counties to carry out the provisions of a "Memorandum of Understanding Relative Depreciation Practices", introduced as Exhibit No. 12B, an agreement with which all parties concurred.

Before discussing the matters at issue in these proceedings, it should be stated that Southern Counties' rates and earnings were a matter of almost continuous investigation from 1944 until February of 1950. In Case No. 4716, initiated as a proceeding looking towards a reduction of Southern Counties' gas rates, the Commission, upon expiration of a temporary rate reduction, authorized the establishment of an Automatic Rate Adjustment Plan. Under that plan, Southern Counties' filed tariffs were adjusted, by application of discounts, in consonance with the level of earnings which it experienced from time to time.

Applicant's final request, upon submission of the present proceedings, is for a general increase in its gas rates sufficient to produce additional annual gross revenues of $3,390,000. It bases that request upon its contention that present rates, based upon 1950 volume of business but reflecting levels of wages, taxes, and other specific costs which at submission of the proceeding on June 1, 1951 appeared to be applicable for the future, would produce a rate of return of 4.785% upon an historical cost undepreciated rate base of $78,676,108, predicated on a 47% Federal income tax rate. It contends that a minimum of 6.35% return on the same rate base is currently required, (a) to assure confidence in the financial integrity of the company, considering its risks and uncertainties in dealing in an exhaustible and competitive natural gas resource, and (b) to attract the unusually large amounts of new money on an economical basis.

The City of Los Angeles, which took an active part in these proceedings, urges the Commission to deny Southern Counties an increase in rates and to give serious consideration to the City's motion for a reduction in rates. It also urges that, in any spread of rate adjustments, there exists no valid justification for establishing rates in the Harbor Division higher than those fixed for the West Los Angeles area. The City bases its principal arguments against increases in rates on its conclusion that Southern Counties is entitled to not more than a 5% rate of return on an historical cost undepreciated rate base as estimated by the Commission's staff. Such return, it contends, would permit the payment of a 6% dividend on the selling price of common stock and leave more than $1,000,000 annually for addition to earned surplus. The City further urges the Commission to disallow for rate-making purposes charges for natural gas purchased from the affiliated Pacific Lighting Gas Supply Company[2] any higher than those necessary to provide the affiliate with the same level of earnings accorded to Southern Counties.

The Secretary of the Army, representing all the executive agencies of the federal government, suggests that the Commission deny the application, that it disallow in expenses a cost of gas delivered by Supply Company in excess of 19.068 cents per Mcf, that it limit Southern Counties' rate of return to not more than 6%, that it find Pacific Lighting Corporation[3] and Supply Company to be public utilities and that in any event any increase granted be excluded from application in the Northern Division.

The California Manufacturers' Association urges the Commission to find that applicant's proposed firm industrial rates are above a reasonable level and that applicant's proposed interruptible rates, in so far as they would produce a decrease in its revenues from such class of service, are fully supported by the record. It concludes that the Commission, if it finds that any increases are justified, should find that those increases should be made in classes other than firm industrial or interruptible gas service.

A number of commercial customers, as a group, urge that special consideration be given in fixing rates to the fact that field supplies of natural gas in the Northern Division exceed the requirements of Northern Division sales and that costs associated with obtaining other sources of gas should be excluded in fixing Northern Division rates. They also urge that the public interest requires the Commission to force a merger of Southern Counties, Southern California Gas Company[4], and Supply Company.

2/ Hereinafter referred to as Supply Company.
3/ Hereinafter referred to as Pacific Lighting.
4/ Hereinafter referred to as Southern Cal.

I. Evidence on Financing of Properties and Required Rate of Return.

Applicant urges that it be allowed a return of 6.35% applied to an undepreciated rate base of $78,676,108 for the test year 1950. On this basis, as shown in its opening brief, it claims that additional gross revenues are required in the amount of $3,390,333, based on a 47% Federal income tax rate and including $368,200 for uncompensated fixed charges. It requests the Commission to grant additional revenue increases to compensate for any subsequent increase in the Federal income tax rate. According to its calculation, the total net revenue necessary to yield a return of 6.35% for the test year under review is $4,995,933.

In financing the cost of its properties, applicant has retained earnings from operation and has employed funds realized through the issue and sale of bonds to the public and through the issue and sale of shares of common stock at par to Pacific Lighting. Its capital structure as of September 30, 1950, is set forth in Exhibit 28 filed by the Commission's staff, as follows:

Bonds	Amount		Per Cent
First Mtg. bonds 3 % series due 1971	$10,069,000		
First Mtg. bonds 3 % series due 1972	900,000		
First Mtg. bonds 3 % series due 1977	6,000,000		
First Mtg. bonds 3½% series due 1978	7,000,000		
Total Bonds		$23,969,000	46.74%
Equity Capital			
Common Stock	22,000,000		
Surplus	5,308,567	27,308,567	53.26
Total		51,277,567	100.00

During 1951 applicant issued $12,000,000 of 3½% bonds, due 1981, bringing its bond ratio up to approximately 52%.

Exhibit No. 28 contains, among other things, a reference to applicant's financial history, including a statement of its earnings and dividends from the inception of its operation. It appears from this exhibit that during the nine calendar years from 1941 to 1949, inclusive, and during the 12 months ended

September 30, 1950, its earnings on its equity capital and its dividends on common stock, based on the average number of shares outstanding during each year, have been as follows:

Year	Per Cent Earnings on Equity Capital	Dividend Rate Per Share	Dividend Rate Per Cent
1941	9.98%	$ 9.19	9.19%
1942	10.37	10.30	10.30
1943	11.69	10.80	10.80
1944	10.09	13.20	13.20
1945	10.42	12.20	12.20
1946	13.92	11.60	11.60
1947	11.89	7.50	7.50
1948	10.33	8.00	8.00
1949	8.23	7.96	7.96
1950#	10.08	8.47	8.47

Twelve months ended September 30, 1950.

A witness for applicant estimated the cost of money represented by the outstanding bonds at 3.32%, including in his calculation certain amortization charges relating to refunded issues, whereas a member of the Commission's staff estimated the average cost of such money at 3.02%, including in his calculation only charges incurred at the time of issue of the bonds presently outstanding.

As to the equity capital, there was considerable difference of opinion as to the weight to be accorded to it. In arriving at the composite cost of capital, applicant urges that a return of 12% should be considered on the common stock equity. In support of this percentage it refers to comparative figures applicable to other utilities, as set forth in its Exhibit No. 14. The exhibit shows, among other things, that for 154 natural gas operating companies the earnings on the common stock equity during the years 1947 and 1948 averaged 12.25%, and that for the natural gas companies reporting to the Federal Power Commission during these two years the average net income amounted to 11.75% of the common stock equity. The exhibit further shows that for nine selected natural gas companies, listed by name, the average earnings on the book cost of equity capital during the years 1947 to 1949 amounted to 12.9%. On the basis of these figures, applicant concludes that in its case an allowance of 12% is reasonable. The exhibit shows that for other natural gas companies the earnings on the book cost of equity capital during 1949 ranged from a low of 6.5% to a high of 28.4%

The exhibit also contains a volume of data showing comparisons of earnings per share, market prices, trends of bond yields and income-price ratios, earnings related to offering prices and book value of common stocks of other gas and electric utilities, comparisons of postwar earnings and dividend yields on paid-in capital of applicant and other companies.

The witness called on behalf of the City of Los Angeles calculated a composite cost of money, as of June 30, 1950, at 4.80%, including in his calculation, however, an allowance of 6.84% on the total equity capital which was developed by assuming a 6% yield on the par value of applicant's stock with a 67% pay-out ratio, the resultant amount representing 9% for the par value of the stock and 6.84% for the total equity capital. The City contends that a yield of 6% on the selling or market price of a utility's stock such as applicant's, is adequate and that the return it urges would be ample to enable applicant to pay a dividend of 6% on the selling price of its stock, which has been par, and to carry more than $1,000,000 annually to earned surplus. The City's representative relates the rate of return thus calculated primarily on a yield basis with an undepreciated historical cost rate base and agreed that he was "using the current yardstick of dividend yield on the market price of utilities reported in the Public Utilities Fortnightly".

It is our conclusion, after analyzing the various estimates, that applicant in its evaluation of the subject of fair return has not given adequate consideration to a number of factors relating to its operations and practices. It appears that sufficient weight has not been given to the fact that applicant's common stock has not been sold in the open market. Its proposal to resurrect costs already charged off to surplus as a portion of the annual cost of bond money in our opinion is inappropriate. Further, it is noted that the amount of the increase in revenues requested by it, that is, $3,390,000, when related to the revenues and expenses found reasonable in this decision, if realized, would produce a return of 7.8% on a depreciated rate base of $58,010,000, after allowing for excess profits tax.

On the other hand, the City's proposal, in our opinion, gives undue weight to experienced yields on common stocks of other utilities. The City's common stock cost is based upon a 6% dividend yield on common stock with an assumed pay-out ratio of two-thirds of net earnings and while consideration, of course, must be given to the factors underlying the City's presentation, it appears that the results obtained by it and the nature of the treatment used are those which would be more nearly applicable to a rate base predicated upon the value of plant determined by present price and wage levels rather than on an historical cost basis.

In reviewing the record it clearly appears that one of the problems facing applicant is the continuing need for capital from external sources to enable it to proceed with its construction program to meet demands of its customers for additional service, and it is obvious that it can provide such additional capital only if it has earnings sufficient to cover the carrying cost of its securities.

After giving consideration to all factors relating to the cost of money and rate of return as presented in this record, and having in mind recent changes in prevailing economic conditions, we conclude that applicant should be authorized to charge such rates as should yield a return during the next 12 months of approximately 5.8% applied to a depreciated rate base, which return we find reasonable.

II. Evidence on Earning Position.

Evidence on the earning position of Southern Counties was presented by applicant and by the Commission staff. The various components will be considered separately, the estimates will be compared, and conclusions reached will be indicated.

<u>Rate Base</u>

Southern Counties contends that its pro forma 1950 undepreciated rate base should be in the amount of $78,676,108, whereas the staff exhibits indicate that the rate base should be

$74,485,400 on an undepreciated basis and $57,621,000 on a depreciated basis. The following table shows the comparative components of the respective estimates:

Item	1950 Pro Forma Company	1950 Pro Forma Staff
Fixed Capital		
Plant January 1	$70,057,145	$70,057,100
Weighted Avg. A's & B's	5,912,578	5,921,700
Constr. Wk. in Prog.	89,500	27,000
Total Wgt'd. Avg. Plant	76,059,223	76,005,800
Adjustments		
Contrib. in Aid of Constr.		(1,296,700)
Consumers Advances for Constr.	(625,500)	(626,100)
Motor Vehicle Deprec.	(1,063,075)	(1,065,600)
Intangibles		(142,600)
Present Value of Lands	690,045	
Total Adjustments	(998,530)	(3,131,000)
Working Capital		
Materials & Supplies	1,615,415	860,600
Working Cash	2,000,000	750,000
Total Working Capital	3,615,415	1,610,600
Total Rate Base	78,676,108	74,485,400
Less Deprec. Reserve		16,864,000
Depreciated Rate Base		57,621,400

(Red Figure)

A review of this table shows that the principal items of difference are in the adjustments to the fixed capital figures. Southern Counties, in making its adjustments, did not deduct the amount of money shown on the balance sheet as contributions in aid of construction, and it added to the rate base an amount representing the increment difference between the historical cost and estimated present value of lands. As a result of the depreciation agreement, certain intangible capital items were to be written off the balance sheet. The staff has reflected this agreement and shows the deduction in the rate base of approximately $143,000 for this item.

With respect to the item of contributions in aid of construction, applicant's witness on cost of money and rate of return indicated that, in computing his proposed rate of return, the capital represented by contributions made by customers towards the construction of plant should be reflected in the composite cost of money at zero interest rate. That treatment is consistent with the proposal to include the amount in the rate base. The results obtained by that method of treatment would not differ from the customary Commission procedure of deducting the amount from rate base and not reflecting the zero interest cost of that money in computing the rate of return.

As this rate base is being developed on an historical cost basis, the same method of treatment would be applicable to the increment increase representing the present value excess over historical cost in the allowance for lands. Were this item of $690,000 to be included in rate base, it would be necessary to make an adjustment to the cost of money reflecting zero interest on this increment. For this purpose, it appears more appropriate to treat it in the customary manner and to make no increase in the rate base for this present market value of land adjustment.

In view of the agreement on depreciation, there seems to be no reason why the adjustment to intangible capital of $142,600 should not be made.

The next principal item of difference in the rate base is the company's claim of $1,615,415 for materials and supplies. The staff estimated that this allowance should be $860,600. Southern Counties' figure is based upon the average balance in the materials and supplies account for the year 1950 on an estimated weighted average basis. It contends that this balance is reasonable, since it represents approximately 82.3% of charges to fixed capital through inventory for that year. In 1940, the mean average balance in materials and supplies of $653,000 represented 146% of charges to fixed capital through inventory.

Southern Counties contends that its extensive system from Paso Robles to the San Diego County line and eastward to the California boundary requires 17 regional warehouses instead of one central warehouse. It also points out that it is the operating agency for the jointly owned Texas pipe line, a part of which capacity is used to deliver gas from El Paso Natural Gas Company to Southern Cal. It contends that those operations require a stock of emergency repair materials considerably higher than would otherwise be the case. The company asserts that, since this Texas pipe-line division was put into operation during 1947-48, the historical record of materials and supplies prior to that time of necessity must be adjusted to reflect this very substantial increase in requirements for stocks of materials and supplies. Southern Counties insists that the $1,600,000 allowance for materials and supplies, in its opinion, is a minimum and that the decreased balance in inventory as of the end of 1950 should be immediately expanded to the $1,600,000 level if the company is to be able to serve its customers adequately and to meet the demands of an expanding war industry.

Southern Counties points to its experience in 1950, when the average inventory balance was just over $1,600,000, in spite of which the company experienced an acute shortage of small diameter pipe, which forced the abandonment of its maintenance program during the last quarter of the year. In an effort to cut down on the amount of materials and supplies on hand, it had reduced its delivery schedules to a minimum for the second and third quarters and was unable to alter the delivery schedules to meet the sudden reversal in the downward trend of requirements which resulted from the Korean war activities.

In its analysis, the staff has reviewed the charges to and disbursements from materials and supplies accounts for the period from 1945 through September 30, 1950. Its findings are that, throughout this period, the charges in general have been greater than the disbursements, with the result that the balance in materials and supplies has grown from just under $500,000 on December 31, 1944 to a high point at December 31, 1948 of almost $2,500,000. Since that time, the balance has declined to less than $1,500,000 as of September 30, 1950. In determining the allowance which it suggests for this item in rate base, the staff has reviewed the monthly disbursements from materials and supplies and, based upon an assumed allowance of 90 days' supply for the year 1949, 90 days' supply for the first half of 1950, and 120 days' supply for the second half of 1950, has computed an allowance for the estimated year 1950 of $860,600.

In considering the respective estimates submitted in this proceeding, the Commission is of the opinion that the allowance for materials and supplies should reflect an appropriate amount in rate base consistent with the level of materials and supplies which prudent operation of the utility requires be held on hand to meet the operating exigencies from time to time. It is the Commission's opinion that the staff approach to an analysis of the requirements for materials and supplies which has been suggested in this proceeding is a step in the right direction. It seems reasonable to expect that, in determining the amount of inventory which must be carried in stock, the utility of necessity must investigate the requirements for use, the volumes which may be necessary to meet operating, maintenance, or construction programs as they may exist from time to time, the production and delivery schedules from suppliers, and the cost of piecemeal versus bulk purchases before a final conclusion can be reached.

The amount of inventory which is necessary for prudent operation and protection from contingencies which may arise, however, is not a subject which can be determined arithmetically from past experience. It is a subject upon which mature judgment must be exercised, predicated upon an analysis of past physical facts. The record is deficient with respect to the level of inventory required for the operations confronting Southern Counties for the near future. Based upon an analysis of the record herein, it is the Commission's conclusion that an allowance of $1,000,000 should be included in rate base for materials and supplies.

The final item of substantial difference between the staff estimate and the company estimate is the $1,250,000 difference in the working cash allowance. Southern Counties' claim for an allowance of $2,000,000 for working cash is predicated upon the average daily bank balances maintained during the calendar year 1949 with 70 commercial banks throughout the territory, amounting to $1,573,000. For the first three months of 1950, the balances averaged about $1,500,000. Southern Counties contends that this basic amount of working cash capital would have to be increased substantially if it were not for the advantage of the open-account arrangement with Pacific Lighting, which makes available to Southern Counties large amounts of cash upon call. It contends that gas purchased from Pacific Lighting during the calendar year 1949 averaged about $515,000 a month, and that, were it not for the open account, Southern Counties would be required to hold approximately $500,000 in the bank for working cash capital to cover this item alone. Southern Counties also points out that one average month's cost of purchased gas plus two average months' other operating expenses, exclusive of depreciation and taxes, approximates $2,185,000. Both considerations, in its opinion, justify not less than $2,000,000 for a working cash allowance in rate base.

In making its estimates of working cash allowance, the Commission's staff obtained a summary of those balance sheet items for the year 1949 which, in the staff's opinion, are indicative of the company's gross working cash requirement. From that information, the staff computed a gross working cash requirement of about $2,000,000. Based on an analysis of the Southern Counties' experience, the staff then estimated the excess of lag in payment of expenses and taxes over the lag in collection of revenues, and evaluated the net lag in terms of dollars available for meeting the working cash requirement. On the basis of these computations, the staff concluded that an allowance of $750,000 would be reasonable to maintain Southern Counties' cash position in a satisfactory condition to enable it to carry on its normal business functions. As the Commission held in the Southern Cal. decision, this type of analysis is extremely helpful in evaluating the proposals made by the several parties for a working cash allowance. The staff appears to agree with Southern Counties that a gross requirement of $2,000,000 is approximately the amount of working cash needed for customary cash requirements. It should be noted that Southern Counties made no adjustment to that gross working cash requirement to reflect the collection of or accrual of taxes well in advance of payment thereof. In reviewing the staff computations, it is apparent that the Commission must base its judgment for future requirements upon the record, and need not be bound by the arithmetical results of a computation such as submitted by the staff in Exhibit No. 28. In view of the substantial changes in the outlook for the future, the Commission is of the opinion that, in this case, a reasonable allowance for working cash purposes is $1,000,000.

If the staff estimate of rate base for the pro forma year 1950 is adjusted in accordance with the foregoing discussion, Southern Counties' rate base for the purpose of these proceedings can be taken to be $74,874,000 on an undepreciated basis. By deducting the depreciation reserve of $16,864,000, a depreciated rate base for the pro forma year 1950 of $58,010,000 is determined, which we hereby adopt.

Operating Revenues

A summary comparison of the recorded 1950 operating revenues, the recorded operating revenues for the 12 months ending May 31, 1951, which are a part of this record by stipulation, and the pro forma adjusted operating revenues as estimated by the company and by the Commission's staff are shown in detail by principal classes of revenue in the following tabulation:

Item	Recorded 1950 Exh. 53	Recorded 12 Months End. 5/31/51	Pro Forma Company Exh. 53	Pro Forma CPUC Staff Exh. 31A
Operating Revenues				
General Service	$17,773,353	$18,256,093	$17,813,801	$17,935,654
Gas Engine	283,858	310,029	287,548	282,932
Firm Industrial	618,865	643,239	641,763	620,738
Standby	6,245	5,533	6,245	-
Inter.Indust.Regular	2,749,889	3,069,136	3,018,730	2,894,800
" Steam Plants	1,664,373	1,919,214	1,625,891	1,839,234
Wholesale, PG&E	1,473,164)	5,778,854	1,592,167	1,597,715
" , SDG&E	3,987,918)		4,354,710	4,295,005
Exchange	185,946	210,912	185,946	185,000
Miscellaneous	539,158	547,131	539,158	552,500
Total	29,282,769	30,740,141	30,065,959	30,203,578

From this table, it can be seen that the recorded revenues of $29,283,000 are adjusted upward in the pro forma estimates to $30,066,000 by the company and $30,204,000 in the staff estimate. The experience in the 12 months ending May 31, 1951 also indicates an increase in revenue occuring after the end of the year 1950.

As shown in applicant's Exhibit No. 53, the company increased the recorded 1950 revenues from industrial accounts by $371,000 to reflect an assumed fuel oil price of $1.55 a barrel. The revenues from general service sales are normalized to average temperature conditions, the change in the volume of sales to general service customers being absorbed by adjustments of sales to industrial interruptible customers and to wholesale customers. The net effect of the temperature adjustment is to raise revenues approximately $42,000. An additional $403,000 of revenue is added to the recorded revenues to represent the full year effect of changes in rates to Pacific Gas and Electric Company and San Diego Gas and Electric Company for wholesale service.

In addition to the temperature adjustment made by the staff, the staff's revenues are adjusted to reflect the 1951 rates applicable to sales to San Diego Gas and Electric Company and the effect on the sales to Pacific Gas and Electric Company of the October 1, 1950 El Paso Natural Gas Company rates.

The principal point of controversy between the staff estimates and those of the applicant is related to the normalization of sales to reflect average temperature conditions. The staff's 1950 pro forma estimate, as shown in Exhibit No. 31A, is predicated upon six months' actual recorded figures, with an extrapolation for the third quarter and a forecast for the fourth quarter of 1950. The staff's temperature adjustment reflected the use of its recently developed parabolic method of correlation of sales, which was set forth in considerable detail in

Exhibit No. 33. The company's engineers made their estimates on the basis of nine months' recorded figures initially, using the straight-line correlation method heretofore in rather general use in such studies. In Exhibit No. 49, the company introduced evidence purporting to show that, based upon the recorded sales for the whole year 1950, applying the staff's method of temperature adjustment to the last three months' actual sales and adding the staff's adjusted figures for the first nine months, the estimated unit consumption per domestic customer would be at a level somewhat below the estimate used by the company in its studies and also below the estimate underlying the staff's results set forth in Exhibit No. 31A.

During the course of the proceeding, a number of variations in basic statistics caused by United States Weather Bureau changes in the method of recording and reporting temperature data were discussed by engineers of both the company's staff and the Commission's staff. The effect of these changes was to establish a number of possible combinations of data which could be used as the basis for the temperature adjustments.

It will be observed, however, that the total operating revenue presented by the company and estimated by the staff, differed by only $137,619. For the purpose of this proceeding, a revenue estimate of $30,204,000 for the test period will be used as an appropriate level of the company's operating revenues under present rates.

Operating Expenses

The company's estimate of the 1950 operating expenses on a pro forma basis, excluding depreciation interest, totals $26,491,132 as compared with the staff estimate of $25,738,129.

The several items making up the composite totals are set forth in the following table, together with the corresponding recorded amounts for 1950 and the 12 months ended May 31, 1951:

Operating Expenses	Recorded 1950	Recorded 12 Months End. 5/31/51	1950 Pro Forma Company Exh. 53	1950 Pro Forma CPUC Staff Exh. 31A
Production				
Cost of Gas	$12,409,709	$13,365,269	$13,788,268	$13,140,345
Other	(36,748)		(55,825)	(41,190)
Maintenance	315	170	315	200
Transmission				
Operation	543,857	576,469	543,857	560,084
Maintenance	150,339	138,534	150,339	165,630
Distribution				
Operation	652,348	1,451,664	652,348	696,230
Customers' Service	874,772		1,123,500	918,760
Maintenance	984,094	1,001,389	1,062,844	989,380
Customer Acctg. & Coll.	1,454,605	1,596,265	1,454,605	1,462,151
Uncollectibles	38,464		38,464	38,600
Sales Department	765,801	827,714	1,031,000	751,700
General				
Operation	1,300,280	1,735,182	1,300,280	1,203,000
Franchise Requ.	390,618		392,361	391,842
Maintenance	65,178	68,919	65,178	61,000
Taxes				
Ad Valorem	1,547,483	1,767,067	1,547,483	1,550,000
Pay Roll	196,495	200,040	220,000	207,000
State Franchise	124,195		158,721	216,987
Federal Income	2,415,773	2,800,242	1,974,594	2,515,410
Depreciation				
Annuity	601,000	409,373	601,000	601,000
Interest		553,335		
Pay Increases			441,800	310,000
Total Expense	24,478,578	26,491,632	26,491,132	25,738,129

(Red Figure)

From this compilation, it can be seen that a relatively few items account for the major portion of the difference between the two estimates.

Cost of Gas

Under production expenses, the difference results primarily from the treatment of the prices to be paid by Southern Counties for gas received from others. In the company's estimate, the increase in price of gas purchased from Supply Company, effective January 1, 1951, has been included, in the amount of approximately $715,000. The purchase agreement became effective subsequent to the time the staff made its estimate of cost. The staff considered the earlier testimony of Southern Counties, indicating a probable increase in the cost of gas of approximately 1½ cents per Mcf because of increases in Supply Company's expenses, of insufficient weight to justify the inclusion of that potential increase in expense in its estimate. The treatment of these Supply Company charges is subsequently discussed herein.

The other major factor in the cost of gas is the price paid by Southern Counties to El Paso Natural Gas Company for gas delivered at Blythe. El Paso Natural Gas Company, in Docket No. G-1380, filed with the Federal Power Commission on March 16, 1950, an increase in its natural gas rates to Southern Counties of one cent per Mcf. This increase was suspended by the Federal Power Commission on April 21, 1950, and, under the rules of the Commission, became effective under a bond on October 1, 1950. Both the staff's and Southern Counties' estimates reflected the rates provided for in the October 1, 1950 rate increase. El Paso filed for a second increase in rates to be charged Southern Counties and Southern Cal. on April 30, 1951, under Docket No. G-1696, and the Federal Power Commission suspended this filing on May 29, 1951. This increase approximated 2.2 cents per Mcf, and would have become effective on November 1, 1951, under bond had El Paso so requested.

This Commission may take notice, however, of an order of the Federal Power Commission dated October 30, 1951, in Docket Nos. G-1380 and G-1696. That order terminated both proceedings and authorized El Paso to make permanent the

October 1, 1950 rate and removed the requirement for possible repayment under bond. The order also approved the refiling of the second proposed increase, limiting that increase to one cent per Mcf effective November 1, 1951. Predicated upon the volume of natural gas purchased from El Paso by Southern Counties during the year 1950 and the increase of one cent per Mcf, that order will result in additional gross costs to Southern Counties of about $340,000 on an annual basis. As Southern Counties has an application on file with the Federal Power Commission (Docket No. G-1802) to pass on a proportionate amount of the increase to San Diego Gas and Electric Company, the net cost to Southern Counties remains undetermined at this time.

Cost of Gas Purchased from Pacific Lighting Gas Supply Company

Southern Counties contends that the increased price being charged by Supply Company under a new contract dated January 1, 1951 is reasonable and should be allowed in full as an operating expense. It takes that position because, in its opinion, the value of the gas to Southern Counties justifies the price, because the cost of service to Supply Company justifies the price and produces earnings to Supply Company no higher than the service and risks involved require, and because the new price of gas bears a reasonable relationship to past prices and to prices at which it could be sold to third parties in the open market.

Southern Counties asserts that, since 72% of its gas requirements are obtained from nonaffiliated sources at prices which under comparable conditions would be higher than those paid to Supply Company, the prices paid to the nonaffiliated sources constitute a sound measure of the reasonableness of the prices paid to the affiliate.

This evidence shows that in negotiating the provisions of the 1951 contract, which for 1950 actual purchases would increase billing to Southern Counties by $715,024 over the 1950 level of expenses, a demand and commodity type of rate was substituted for the former single part commodity type rate. The evidence further shows that gas is supplied to Southern Counties by El Paso under minimum charges applicable to purchases at not less than 91% load factor. The wet gas obtained directly from field producers in California likewise generally is received at high load factor but at the discretion of the producer. Southern Counties consequently imposes upon Supply Company almost exclusively the burden of supplying its peak requirements. Since the load factor of Southern Counties' demands on Supply Company has been declining for several years, the renegotiation of the contract and the introduction of the two-part rate react somewhat more unfavorably on Southern Counties than on its sister affiliate Southern Cal. Southern Counties also produced testimony to show that the cost of supplying the peaking service received from Supply Company by a number of alternate means would cost from 24.5 cents to 32.4 cents per Mcf. Such costs are to be compared to the average price of 23 cents which Supply Company would obtain under the 1951 contract from Southern Counties and Southern Cal.

In analyzing the cost of service to Supply Company, Southern Counties contends that the 23 cents per Mcf price is justified because the out-of-pocket costs of operation plus a 6% return on estimated market value, the application of an operating income-gross revenue ratio of 8½%, and an application of the Missouri plan formula all result in an approximate cost of about 23 cents per Mcf. The estimated pro forma 1950 operating results of Supply Company, based upon 12 months' actual recorded operations, a 52% Federal income tax rate, 5% sinking fund depreciation annuity and an undepreciated rate base, and the rates contained in the 1951 contract, would yield a return of 6.68%. Southern Counties' evidence in this regard also suggests the propriety of further augmenting the rate base, and thus decreasing the apparent rate of return, by including lands and gas in storage at present-day costs and making some increases in capital overhead costs and working cash allowance.

In support of its contention that Supply Company is entitled to a relatively higher rate of earnings because of unusual services performed and risks assumed, Southern Counties produced witnesses who described the circumstances which prompted the organization of the operations to which Supply Company has succeeded. As an outgrowth of a proceeding to establish jurisdiction instituted by this Commission against various oil companies, the Industrial Fuel Supply Company was organized in 1919 as a vehicle by which gas could be obtained from the oil companies and delivered to the utility companies. This mechanism assertedly overcame the reluctance of many oil producers to dispose of their gas production to regulated utilities. Testimony indicates that Supply Company is handicapped by the fact that oil producers have no obligation to sell gas except that which they do not wish to use for their own purposes. As a result, the continuity of the capital invested in facilities to take gas from many sources depends in large measure upon management determinations of the field producing agencies. The testimony likewise laid substantial emphasis upon the risks associated with the development of the underground gas storage reservoir at La Goleta.

The City of Los Angeles urges the Commission to exercise its power to disallow the rates provided in the 1951 contract between Southern Counties and Supply Company. It directs attention to the staff studies of Supply Company's operations for the year 1950 recorded, with pro forma adjustments to a current level of expenses including and excluding the increase in charges to Southern Counties. The results of those studies, adjusted to reflect the present 52% Federal income tax, are set forth later herein. The City suggests that the Commission adopt the principle that an affiliated company, for rate-making purposes, should not be allowed to charge an operating company rates which would yield a higher rate of return than that which is allowed to the operating company. Under that theory, it points out, not only should no increase be allowed, but an actual reduction should be made in the 1950 level of rates.

The 1950 results of operation of Supply Company as recorded, as adjusted by Southern Counties on a 5% sinking fund basis, and as adjusted by the Commission staff to a pro forma basis -- both straight-line and 5% sinking fund remaining life -- are compared in the following tabulation:

Results of Operation of Pacific Lighting Gas Supply Company

Item	Applicant Exhibit 80: 1950 Recorded	Applicant Exhibit 80: 1950 Adjusted	CPUC Staff Exhibit 71: 1950 Recorded	CPUC Staff Exhibit 71: Pro Forma 1950 Straight Line	CPUC Staff Exhibit 71: Pro Forma 1950 5% Sinking Fund
Total Revenues	$17,323,005	$18,938,905	$17,323,005	$18,938,905	$18,938,905
Expenses					
Cost of Gas Sold	10,690,426	12,188,109	10,989,897	12,188,109	12,188,109
Operating Expenses	1,202,022	1,245,347	1,202,022	1,245,347	1,245,347
Maintenance Expenses	480,053	660,950	471,422	652,761	652,761
Gen.& Admin. Expenses	596,039	567,308	546,896	575,498	575,498
Depreciation	651,032	532,940	651,032	651,032	(90,742)[a]
Taxes: Ad Valorem	329,587	329,587)			
Local Franchise	41,498	41,498)	396,174	396,174	396,174
Pay Roll	25,089	24,588)			
State Franchise	27,137	130,549	123,952	130,529	130,529
Federal Income	1,590,018	1,629,255	1,249,441	1,466,871	1,466,871
Total Expenses	15,632,901	17,350,131	15,630,836	17,306,321	16,564,547
Net Revenue	1,690,104	1,588,774	1,692,169	1,632,584	2,374,358
Rate Base		23,770,198	12,562,000	12,562,000	24,155,000
Rate of Return		6.68%	13.47%	13.00%	9.83%

(Red Figure)

a. Remaining life 5% S. F. Annuity.

The 1950 adjusted and pro forma revenues in the above table reflect the 1951 contract rates for gas. The adjusted results (second column) reflect a 52% Federal income tax rate while the pro forma results (fourth and fifth columns) reflect a 47% tax rate. The difference of $785,584 between the staff estimate of net revenue under 1950 pro forma assumptions (fifth column) and the 1950 adjusted net revenue of Southern Counties is due almost entirely to the $623,682 difference in estimated depreciation expense and the difference in income tax rate.

In view of this evidence, the Commission must answer three questions:

1. For the purpose of fixing rates, should the allowable expense for gas purchased by Southern Counties from Supply Company be no more than enough to produce the same rate of return on Supply Company's rate base as that allowed Southern Counties?

2. In estimating the rate of return which a given level of rates will produce for Supply Company, shall depreciation expense be determined by the historical bookkeeping entries for remaining life depreciation accruals or by re-estimates made on a total life or a remaining life basis?

3. Shall weight be given to the value of service as measured by the cost of providing equivalent service from alternate sources?

Using the 1950 contract rates and the 47% Federal income tax rate, the staff obtained rates of return of 6.45% straight-line and 6.43% on a 5% sinking fund remaining life basis for the Supply Company. Adjusting the above results to reflect the present 52% Federal income tax yields the following rates of return:

	Straight Line	5% Sinking Fund
Using gas price per 1951 contract	11.75%	9.18%
Using gas price for 1950 contract	5.82	6.10

The development of the rate bases used on the Results of Operation Table of Supply Company is shown in the following table:

Development of Rate Bases

	Applicant Exh. 8G 1950 Adjusted	CPUC Staff Exh. 63 Year 1950
Fixed Capital		
Jan. 1 Plant Accts.		$22,264,428
Avg. Monthly Bal.	$22,733,381	
C.W.I.P.	27,025	46,716
Weighted Avg. A's & B's		424,337
Total Avg. Fixed Cap.	22,760,406	22,735,481
Adjustments		
Fixed Capital Donated	(28,325)	(29,000)
Nonoperative Property	(273,981)	(297,700)
Motor Veh. Deprec.	(156,261)	-
Total Adjustments	(458,567)	(326,700)
Working Capital		
Materials & Supplies	610,893	621,493
Gas in Storage	747,466	1,014,406
Working Cash	110,000	110,000
Avg. Undeprec. Rate Base	23,770,198	24,154,680
Further Adjustments		
Additional Working Cash	412,268	
Pres. Cost Storage Gas	3,462,922	
Pres. Val. Lands	232,449	
Uncap. Overheads	454,859	
Avg. Adj. Undeprec. Rate Base	28,332,696	
Avg. Retirement Reserve		11,592,673
Avg. Deprec. Rate Base		12,562,000

(Red Figure)

On cross-examination, the staff has made clear the extremely high degree of integration which exists between the operations of Southern Counties, Southern Cal., and Supply Company, and the common operating plan pursued. The two operating affiliates participate jointly in the costs of operation of the Texas pipe line, with Southern Counties' crews actually performing the physical operating duties. The transmission lines of all three companies are so integrated as to move gas supplies of any one of the three each for itself or for one of the others. It is interesting to note that, while the underground storage reservoir at La Goleta constitutes a large portion of Supply Company's operations, Supply Company does not own or operate any transmission lines connecting its field sources of gas to this storage reservoir. Gas movements into and out of the reservoir are accomplished through transmission facilities of one or both of the affiliated operating companies. The evidence also shows that the specific details of operation of Supply Company are identical to those performed by the operating affiliates. It is difficult to distinguish, from a practical standpoint, any major characteristic of operations performed by Supply Company which are not or could not be performed by the operating affiliates. In the light of the foregoing facts, it appears reasonable to limit the rate of return to be accorded to investment in facilities performing service with such identity to the same level as that allowed to Southern Counties.

The operations conducted by Supply Company have been carried on by its parent, Pacific Lighting, for some years prior to organization of Supply Company in the same manner as at present and the Commission has informally reviewed the earnings from time to time. The book reserve for depreciation has been accrued over the years largely by the straight-line remaining life method. This method will be used in testing the reasonableness of Supply Company's charges for gas utilizing a depreciated rate base.

With respect to the tests of reasonableness applied to the 1951 contract prices, much of the testimony is predicated upon costs to produce the same service by alternate means. If the operations of Supply Company were an integral part of Southern Counties' operations, the reasonable costs incurred by

Supply Company would be recognized in establishing rates. As these are affiliated companies, and as many of the hypothetical tests are only remote possibilities so far as actual operations are concerned, the Commission is of the opinion that in fixing the costs of purchased gas obtained from Supply Company, predominant weight should be given to the earning level determined by analysis of the results of Supply Company's operations.

In view of the foregoing discussion and in disposing of these proceedings, the Commission finds that the cost of gas acquired from Supply Company and to be allowed in Southern Counties' expenses for rate-making purposes is that price which, when reflected in Supply Company's revenues, would produce 5.8% rate of return on Supply Company's depreciated historical cost rate base for the pro forma year 1950, allowing straight-line remaining life depreciation expense.

Since this figure is very close to the revenue flowing from old contract rates effective up to December 31, 1950, and since the Commission heretofore has found that Southern Counties' affiliates, Southern Cal. and Pacific Lighting, have met the burden of proving the reasonableness of the price paid under the contract then effective as to Southern Cal. (Decision No. 44741 in Application No. 30299, dated August 29, 1950), we shall adopt the old contract rates as being reasonable for the purposes of this proceeding.

Other Operating Expenses

An item of substantial difference between the pro forma estimates is meter repair expense. The record shows that the Commission's staff estimated the level of meter repair expense for the year 1950 by including the actual recorded expense for the first portion of the year, and adding to that the anticipated level of expense for the remainder of the year. The record also shows that Southern Counties, because of the change in periodic meter testing from a 7-year basis to a 10-year basis, experienced a low point in the volume of meter turnover through the repair shops in 1950. By actual count of the meters in service and giving recognition to those already put through the shops in prior years, the company presented estimates substantially above those reflected by the staff of the number of meters which of necessity will be processed through the repair department during future years. Since the pro forma estimate for a test period within which to test the level of earnings anticipates a normal level of activity, it is apparent that the staff figure should be adjusted upward sufficiently to reflect the future level of repairs to meters rather than the low point experienced during 1950.

Another item of substantial difference between the estimates of Southern Counties and of the staff is expenses associated with customers' service activities. In this category, the principal items are the cost of removal and reinstallation of meters on customers' services because of the mandatory meter change program, the number of turn-on and turn-off orders, and the number of customer requests for service to appliances. As we have just indicated, apparently the number of meter changes is susceptible of fairly accurate computation, based upon the number of meters in service and the length of the service cycle. With respect to the latter item, it is apparent that the staff was estimating the actual experience to be anticipated for the year 1950, and had made no adjustment to reflect an average or normal level of such activity. While we do not subscribe to applicant's proposal that the volume of work must be predicated upon the anticipated future level of those demands, it is apparent to the Commission that the staff estimate for distribution expenses should be increased in the amount of $122,630 in order to reflect a more nearly average or normal level of customer service operation.

A third item of other operating expenses in controversy between the staff and Southern Counties is the estimate of sales department expense. The staff and Southern Counties differed by almost $280,000 in the estimates of pro forma sales department expense for the year 1950. Southern Counties contends that 1950 was an abnormally low year because of the stringency in earnings experienced by the company during that period and the consequent necessity to reduce expenses, a large portion of which reduction was made in the sales department.

Southern Counties contended that the test of its pro forma expense for sales promotion activities was the comparison between the 1950 estimate and prior years. Its testimony indicated that the pro forma expense was 3.4% of revenue, as compared to a 1940 figure of 4.4%. Also, the 1950 pro forma estimate contemplated 3.9 employees in the sales department per 10,000 meters, whereas the 1949 figure was 4.5 and the 1940 figure 4.7. The third test of the pro forma figures urged by the company is the cost per meter. Its exhibit on this subject shows that the cost per meter in 1940 was approximately $2.30, declining to a low of about $1.15 in 1943 and climbing steadily from that point to an estimated 1950 pro forma expense of $3. Southern Counties contends, however, that, if these costs are adjusted to eliminate the inflation which has taken place since 1940, the adjusted cost per meter in the pro forma estimate is just over $1.50, which it contends is sufficiently below the 1940 level to indicate an increase in efficiency in this type of operation.

The record indicates that the staff, as it did in the customer service expenses, made an estimate for the year 1950 based upon the recorded figures for the year in so far as they were available, and a forecast of the level of expense which would be incurred at the level of activity undertaken and under way during 1950. There is no indication that the staff made any adjustments to obtain a normal or average level of activity for this class of expense. Under the circumstances, therefore, in order to obtain a valid pro forma test level of expense, it will be necessary to adjust the staff estimate upward from $751,700 to $875,000.

The pro forma adjustments for the expense effect of the 13% general wage increase granted by applicant differ only because information regarding the magnitude of the wage increase became available progressively as the estimates were prepared. The adjustment included in the latest exhibit offered by the company did not provide for the supplemental adjustment of an additional 3% allowed by the Wage Stabilization Board Regulation No. 8, revised as of August 23, 1951. The total general wage increase, granted in parts as of December 1, 1950, April 1, 1951, and August 27, 1951, results in the pro forma adjustment of $592,000 to reflect the present general wage level on a full year basis.

Taxes

The differences between the company and the Commission staff as to taxes other than on income are very small. We shall adopt an amount of $1,770,000 for such taxes for the pro forma year 1950. A possible controversy with respect to income taxes, stemming from the fact that such taxes are not finally determined for several years, was avoided by the adoption of a tax agreement (Exhibit No. 42) under which any excess or deficiency found to exist in the company's provision for taxes, upon final determination, will be adjusted through future tax accruals. None of the parties to the proceeding objected to the adoption of this tax agreement.

Depreciation

The matter of depreciation was considered in Decision No. 45320, an interim opinion and order in the present proceedings dated January 30, 1951. In that decision Southern Counties was authorized and directed to carry out the terms of a memorandum of understanding relative to depreciation practices, agreed to by the various parties, which provided for certain adjustments to the depreciation reserve and adoption of the 4% sinking fund remaining life basis of depreciation, effective as of January 1, 1950.

Summary of Recorded and Pro Forma Operating Results

The recorded operating results for 1950 and the 12 months ended May 31, 1951, and the pro forma operating results for 1950 as estimated by applicant and the Commission staff, and the amounts adopted for the purposes of this decision are summarized in the following tabulation:

Summary of Recorded and Pro Forma Operating Results

Item	Year 1950 Recorded	12 Mos. Ended May 31, 1951 Recorded	Year 1950 Pro Forma Estimates: Company Exh. 53	CPUC Staff Exh. 30	Adopted for Decision
OPERATING REVENUES	$29,282,769	$30,740,141	$30,065,959	$30,203,578	$30,204,000
OPERATING EXPENSES					
Production	12,373,276	13,365,439	13,732,758	13,099,355	13,099,000
Transmission	694,196	715,002	694,196	725,714	726,000
Distribution	2,511,214	2,453,053	2,838,692	2,604,370	2,727,000
Cust.Actg.&Collecting	1,493,068	1,596,265	1,493,069	1,500,751	1,501,000
Sales Promotion	765,801	827,714	1,031,000	751,700	875,000
Admin. & General	1,756,076	1,804,101	1,757,819	1,655,842	1,656,000
Adjustment for Wage Incr.	-	-	441,800	310,000	592,000
Taxes	4,283,946	4,767,349	3,900,798[h]	4,489,397[i]	4,398,000[h]
Depreciation (4% S.F.R.L.)	1,276,000	962,708	601,000[a]	1,276,000[b]	1,276,000[b]
Total Operating Expenses	25,153,577	26,491,631	26,491,132	26,413,129	26,850,000
NET REVENUE	4,129,192	4,248,510	3,574,827	3,790,449[c]	3,354,000
RATE BASE	58,010,000[ef]	61,900,000[eg]	78,676,108[d]	57,621,000[e]	58,010,000[e]
RATE OF RETURN	7.12%	6.86%	4.54%	6.58%[c]	5.78%

a. Annuity only - excludes $675,000 interest on depreciation reserve.
b. Annuity and interest.
c. Exh.30 also shows results by the sinking fund method as follows:
   Net revenue $ 4,465,449
   Undepreciated rate base 74,485,000
   Rate of return 6.00%
d. Undepreciated
e. Depreciated
f. Rate base adopted for decision
g. Approximate.
h. Includes Federal income taxes at 52% rate.
i. Includes Federal income taxes at 47% rate.

The recorded earnings for the 12 months ended May 31, 1951, amounting to about 6.9% of necessity would be subject to various accounting and rate-making adjustments.

Summary and Conclusions

A review of the preceding analysis of the record, based on the pro forma year 1950, shows that the present level of rates yields the 5.8% fair return on the rate base as previously determined, and that the company's actual earnings for the latest recorded 12-month period were somewhat in excess of a fair return. Applicant requested special consideration of higher unit costs of providing plant to serve additional customers. These costs, however, it appears, were offset by increased gross and net revenues in 1950 as shown in Exhibit No. 29. Accordingly, both the application of the company for an increase in rates and the motion of the City of Los Angeles for a reduction in rates will be denied. Additionally, it should be pointed out that applicant, during the pendency of this proceeding, has obtained increases in rates and charges by reason of increases in interruptible and certain firm schedules because of the operation of escalator provisions as a result of increases in the price of fuel oil and increases in rates and charges to the San Diego Gas and Electric Company. The pro forma test year basis, as previously set forth, includes the effect of the recently enacted 52% Federal income tax rate and the effect of the increases in charges for out-of-state gas, effective October 1, 1950.

The Commission takes notice of the fact that a further increase in the price for out-of-state gas became effective on November 1, 1951, and further that applicant has filed with the Federal Power Commission to increase its rates and charges for such gas sold to San Diego Gas and Electric Company. This latter filing, to the best of the Commission's knowledge, has not been acted upon by the Federal Power Commission.

new paragraph

It is the intent of this Commission to afford applicant all reasonable opportunity to be compensated for the future in connection with said increases in charges for out-of-state gas. Should applicant request the opportunity to present additional evidence as to the effect of the increased cost of out-of-state gas, it appears to the Commission that, because of the time which has elapsed since this proceeding was submitted, applicant should be given an opportunity to supplement the record in this proceeding by its recorded and adjusted operating results for the calendar year 1951. The Order herein will authorize applicant, if it so elects, to file a supplemental application covering the additional evidence set forth above.

O R D E R

Southern Counties Gas Company of California having applied for a general system increase in its natural gas rates, hearings having been held, evidence having been introduced, and the matter having been submitted for decision, the Commission hereby finds as a fact that based upon the record herein applicant's request for increases in rates is not justified; therefore,

IT IS HEREBY ORDERED that the application of Southern Counties Gas Company of California for an order authorizing increases in rates and charges for natural gas service be and it is hereby denied, provided, however, that this order is not prejudicial to applicant's right to file a supplemental petition herein, amplifying the record with respect to the effect on earnings of the increase in wholesale charges paid by applicant to El Paso Natural Gas Company, pursuant to the Federal Power Commission's order effective

Insert November 1, 1951, and to introduce evidence respecting applicant's recorded and adjusted operating results for the calendar year 1951, and the disposition of applicant's pending application for authority to increase its wholesale charges to San Diego Gas and Electric Company for natural gas service now pending before the Federal Power Commission.

IT IS HEREBY FURTHER ORDERED that the motion of the City of Los Angeles for a reduction in rates and charges made herein be denied.

Dated at San Francisco, California, this 22nd day of January, 1952.

President.

Harold P. Huls

Commissioners.

Commissioner Kenneth Potter, being necessarily absent, did not participate in the disposition of this proceeding.

A-31161
C-5260

APPENDIX A
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LIST OF APPEARANCES

LeRoy M. Edwards, Milford Springer, and Oscar Sattinger, for applicant; Roger Arnebergh, K. Charles Bean, T. M. Chubb, for City of Los Angeles; J. J. Deuel and Edson Abel, for California Farm Bureau Federation; Royal M. Sorensen, for City of Santa Monica; Brobeck, Phleger and Harrison, by George D. Rives and George Kinsman, for California Manufacturers Association; Chickering and Gregory, by Sherman Chickering, for San Diego Gas and Electric Company; W. D. MacKay, for E. C. Fogal of Oxnard and Huntington Beach; George Parker, for Public Housing Administration and Housing Authorities of the cities of Los Angeles, Upland, Oxnard, Paso Robles and San Luis Obispo; Secretary of the Army, by John W. Rood and E. M. Hope, for executive agencies of the federal government; A. B. Starr, for 11th Naval District; Jean L. Vincenz, for County of San Diego; Charles B. Kraugh, for International Chemical Workers' Union; E. F. McNaughton, Freyman Coleman and Everett C. McKeage, for Commission's staff.

LIST OF WITNESSES

Evidence was presented on behalf of applicant by: Joseph Sodoma (historical review of operations, summary of rate base, meter density and sales data, results of operations), W. C. Mosteller (fixed capital, trends in construction costs, meter growth, map of principal gas mains and service area), J. A. Petrie (market value of lands), H. G. Lawrence (materials and supplies), R. M. Bauer (natural gas production and supply and cost of gas), R. P. Work (gas sales and revenues, depreciation, uncompensated fixed charges, cost of service, rate schedules, test year definition), F. A. Hough (production, transmission and distribution expenses, meter removals), J. Davis (customer service and sales promotion expenses), W. C. Barks (gas sales, revenues, production expenses other than purchases, customers' accounting and collecting expenses), G. T. Kelly (administrative and general expenses, taxes, financial statement, capital structure, financial requirements, and cost of nonequity funds, intercompany transactions), A. B. Allyne (estimates of delivered cost of gas), R. A. Wehe (results of operations of Supply Company* and Southern Counties), A. F. Bridge (depreciation agreement, gas purchase agreement, cost of service and revenue of Supply Company), W. J. Herrman (fair rate of return, cost and value of service from Supply Company), D. C. Ellswood (interruptible revenue), C. E. Pearman (results of operations of Supply Company), G. W. Wadsworth, (wage increase agreement), L. M. Edwards (history of predecessors to Supply Company), R. A. Hornby (risks of Supply Company), R. W. Todd (pipe-line maintenance of Supply Company).

Evidence was presented on behalf of other parties by: K. C. Bean (cost of money and fair rate of return) for City of Los Angeles, Edwin Fleischmann (industrial rates) for California Manufacturers Association, C. H. Mandler (comparative costs at certain army installations), and H. L. Minister (summary of Navy gas purchases) for 11th Naval District.

* Pacific Lighting Gas Supply Company.

APPENDIX A
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LIST OF WITNESSES
(Continued)

Evidence was presented on behalf of Commission staff by: Charles W. Mors (history and present operations, working cash capital, income taxes, summary of earnings of Southern Counties and Supply Company, test year definition), T. C. Stein (financial and accounting statements), F. F. Watters (revenues, sales, customers, natural gas purchases, adjustment for temperature), G. C. Young (production, transmission and distribution expenses), K. J. Kindblad (customers' accounting and collecting and sales promotion expenses), S. C. Warner (administrative and general expenses and taxes), G. L. Way (rate base), M. W. Edwards (customer distribution and usage), J. J. Doran (review of regulatory decisions), L. E. Cooper (depreciation and maintenance expenses of Supply Company).