

Decision No. 46702

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
SOUTHERN CALIFORNIA GAS COMPANY, a)
corporation, under Section 50(b) of)
the Public Utilities Act of the State)
of California, for a certificate that)
public convenience and necessity re-)
quire the exercise of the rights and)
privileges granted by Ordinance No.)
1847 (New Series) of the County of)
Los Angeles.)

Application No. 32679,
(As Amended)

T. J. Reynolds and Harry P. Letton, Jr., for applicant; W. D. MacKay, amicus curiae; J. J. Deuel, California Farm Bureau Federation; Val A. Lawson, for Lancaster Chamber of Commerce and Palmdale Chamber of Commerce; Sanford A. Waugh and Langford J. Courtney, for Lancaster Chamber of Commerce; George Hummel, for Rosamond Chamber of Commerce; D. F. Marshall, for U. S. Air Forces; H. L. Dold, interested party.

FIRST SUPPLEMENTAL OPINION

In this amended application Southern California Gas Company, in addition to matters previously authorized by this Commission's Decision No. 46450, dated November 20, 1951, asks that this Commission accept for filing and make effective upon less than statutory 30 days' notice, certain rate schedules for natural gas service in the communities of Lancaster, Palmdale, Mojave, and Rosamond.

Public hearings on this matter were held in Los Angeles on November 30, 1951, and in Lancaster on December 27, 1951, by Commissioner Huls and Examiner Crenshaw.

Applicant has constructed a pipe line approximately 38 miles in length extending into the Antelope Valley of Southern California and connected with the Pacific Gas and Electric Company's

so-called Topock-Milpitas 34-inch natural gas line near Mojave, California. The purpose of this pipe line is to render natural gas service to the communities of Lancaster, Palmdale, Mojave, and Rosamond, for which a certificate was authorized by Decision No. 46450. At the present time applicant does not have a distribution gas system in the community of Rosamond, but expects to install such a system in the very near future.

In the past, applicant has been rendering liquefied petroleum gas service in the communities of Lancaster, Palmdale, and Mojave. In December, 1951, the liquefied petroleum gas service was converted to natural gas. Therefore it is now necessary to establish rates for natural gas service.

Applicant has presented in its application and at the hearings, proposed rates for this natural gas service. The rates as proposed by applicant are for domestic, commercial, firm industrial, and interruptible gas service. The domestic and commercial rates as proposed by applicant are stated to result in a reduction of approximately 15% below the liquefied petroleum gas rates and approximately 10% above the present rates filed with this Commission by applicant for its Imperial Division. The proposed firm industrial schedule is approximately 10% above the presently filed schedule for the Imperial Division of applicant. The interruptible schedule presented at the hearing in this matter is the same as for the Imperial Division now on file with this Commission.

In the amended application, applicant submitted only two schedules, one for general service to residential, commercial, and industrial customers, designated as G-9, and one for commercial natural gas service designated as G-21 applicable to commercial or industrial customers, exclusive of multiple dwellings or

housing projects where gas is supplied through a master meter. These two rates are identical with those filed by applicant in its Application No. 32675 for an increase in gas rates now pending before this Commission, which it proposes to place in effect for the Antelope Valley District of the Northern Division and the Imperial Division if the increase in rates as requested is granted.

At the hearing on November 30 applicant presented its Exhibit No. 10 setting forth other proposed schedules of rates for the consideration of this Commission, applicable to residential, commercial, and industrial service. The rates set forth in this exhibit for general service, and designated as G-8, consist of two types of rates, one being the present Imperial Division rate which has been increased 10%; the other being the present liquefied petroleum gas rate decreased 15%. The commercial rate is the same as that proposed in the amended application and is designated as G-21.

The proposed firm industrial and the interruptible rates were substantially the same as referred to above; that is, the firm industrial schedule is the presently filed Imperial Division rate increased 10%, and the interruptible schedule is the identical rate now filed for the Imperial Division.

In Exhibit No. 9, introduced in evidence by applicant, it was estimated that the first year of operation would yield a rate of return of 1.76%, the third year would yield a return of 4.89%, and, the fifth year 5.45%. This exhibit was compiled prior to the introduction of the firm industrial and interruptible rates, therefore revenue and expenses pertaining to such service have not been included.

The following tabulation sets forth the estimated amounts upon which the above per cent returns were derived:

	Estimated Amounts by Year of Operation		
	First Year	Third Year	Fifth Year
<u>Direct Investment (Average for Year)</u>			
Land	\$10,000	\$ 20,000	\$ 20,000
Structures	12,500	25,000	25,000
Mains	568,492	691,632	737,232
Services	158,158	492,825	602,452
Meters and Regulators	47,252	139,434	169,630
Total Direct Investment	<u>796,402</u>	<u>1,368,891</u>	<u>1,554,314</u>
<u>Annual Revenues</u>			
General Service	152,600	483,000	596,800
Commercial	16,900	46,080	49,770
Total Revenues	<u>169,500</u>	<u>529,080</u>	<u>646,570</u>
<u>Annual Expenses</u>			
Cost of Gas and Compression	39,968	126,611	154,904
Other Operating Expenses	74,902	211,252	253,429
Amortization of Properties Not Retained*	4,414	4,414	4,414
Amortization of Cost of Conversion to Natural Gas*	<u>4,826</u>	<u>4,826</u>	<u>4,826</u>
Subtotal	124,110	347,103	417,573
Taxes and Depreciation	<u>30,072</u>	<u>108,836</u>	<u>136,489</u>
Total Expenses	154,182	455,939	554,062
Annual Return	15,318	73,141	92,508
<u>Rate of Return</u>			
Upon Following Rate Base	1.76%	4.89%	5.45%
<u>Rate Base</u>			
Including Pro rata of General and Intangible Capital	\$869,671	\$1,494,829	\$1,697,312

* Amortized over five-year period.

In the above tabulation under the caption of Annual Expenses applicant has included annual charges totaling \$9,240 to amortize over a five-year period the liquefied petroleum gas properties not being retained for natural gas operations and to reimburse it for the cost of conversion to natural gas service in the Antelope Valley.

In Exhibit No. 9 applicant also presented an estimated rate of return for the year ending October 31, 1951, for Antelope Valley under present liquefied petroleum gas operations, which shows a rate of return of 1.17%.

The following tabulation shows how the rate of return was determined:

ESTIMATED ANNUAL RETURN AND RATE OF RETURN
FOR YEAR ENDING OCTOBER 31, 1951

(For Antelope Valley Under Present
Liquefied Petroleum Gas Operation)

	<u>Amount</u>
<u>Direct Investment (Average for Year)</u>	
Land	\$ 3,341.00
Structures	45,386.00
Mains	174,657.00
Services	-125,062.00
Meters and Regulators	37,893.00
Total Direct Investment	<u>386,339.00</u>
<u>Annual Revenues</u>	
Schedule G-58M	
Schedule G-58S	
Total Revenue	160,089.00
<u>Annual Expenses</u>	
Cost of Gas	85,552.00
Other Operating Expenses	53,766.00
Subtotal	<u>139,318.00</u>
Taxes and Depreciation	15,823.00
Total Expenses	<u>155,141.00</u>
Annual Return	4,948.00
<u>Rate of Return</u>	
Upon Following Rate Base	1.17%
<u>Rate Base</u>	
Including Pro rata of General and Intangible Capital	\$421,882.00

As stated previously, applicant's estimate for the first, third, and fifth years of operations under natural gas service, as set forth in Exhibit No. 9, did not reflect the supplying of firm industrial and interruptible gas service. However, at the hearing, after the introduction of firm industrial and interruptible rate schedules by applicant, it was brought out

that there would be an increase in revenue and expenses due to the rendition of this additional service but estimates therefor were limited to the first year of operation as the third and fifth years of operations were considered by applicant to be too speculative in this regard to offer estimates thereon at this time. An estimate of the probable effect upon applicant's operation for the first year would be as follows:

The revenues, assuming "probable" additional industrial business, would increase from \$169,500 to \$188,100. Assuming both "probable and potential" business, the revenue was estimated to increase to \$204,900. The corresponding annual expenses for the probable business would increase from \$154,182 to \$166,844 and on the assumption of probable and potential business the expenses would increase to \$179,939. This would leave a net return comparable to the \$15,318, as shown in Exhibit No. 9, which would be increased to \$21,256, for probable business and to \$24,961 for probable and potential industrial business. The rate of return of 1.76%, as shown in Exhibit No. 9, would then become 2.44% for probable business and 2.87% for probable and potential business.

It will be noted from the preceding tables that applicant has estimated a return for its natural gas operations during the first year which is slightly in excess of the return which it estimated for its liquefied petroleum gas operations for the year ending October 31, 1951.

During cross-examination certain discrepancies and inconsistencies were developed in applicant's estimates involving some major items, such as the computation of the cost of

property to be abandoned and amortized, cost of gas, and several overhead costs applied to operating expenses.

According to the record certain liquefied petroleum gas properties were to be abandoned and amortized. This is set forth on page 8 of applicant's Exhibit No. 9 showing an amount of \$45,386 for buildings and equipment which are to be abandoned, and is exclusive of \$3,341 representing the original cost of the land upon which these buildings and equipment are located. After deducting book depreciation reserve and salvage value, the amount to be amortized, excluding land, is \$19,649. This is to be amortized over a five-year period at 4%, representing a charge to annual operating expenses of \$4,414. Witness for applicant testified that the land was not to be amortized but was to be sold as nonoperative property, which value was estimated to be approximately \$18,000, resulting in a net gain to applicant of approximately \$15,000. Since the liquefied petroleum gas equipment is located on this land, it should be, in our opinion, credited to the amount to be amortized, thereby substantially offsetting the net amount of \$19,649.

It is further a matter of record that some of the equipment used in the liquefied petroleum gas operations of applicant in the communities of Lancaster, Palmdale, and Mojave had been transferred from liquefied petroleum gas service areas which were previously converted to natural gas. In transferring this equipment, it was stated that the company transferred the book costs and the related book depreciation reserve. Therefore, the operations of these former liquefied petroleum gas areas did not carry any amortization cost of this equipment. It therefore appears that had this equipment been transferred on the basis of adjusted costs, the communities in Antelope Valley District would not necessarily be assigned the entire amortization costs therefor.

In determining the cost of gas, as shown in applicant's Exhibit No. 9, the system average field cost of gas of 18.33 cents per Mcf was taken from Exhibit No. 8, Table 3, of Application No. 32675 now pending before this Commission. It should be pointed out that the cost of 18.33 cents per Mcf includes gas purchases from California producers and out-of-state sources, as well as from the Pacific Lighting Gas Supply Company. The purchases from the latter source are shown to be primarily market deliveries and represent approximately 27% of the total of such purchases.

Q The compression charge of 5.6 cents per Mcf, as provided in the exchange agreement between applicant and the Pacific Gas and Electric Company, as set forth in ^{the} letter in Exhibit No. 6 and copy of contract in Exhibit No. 6-A, appears to be excessive. According to the record, this compression charge is to cover the cost of boosting the pressure of the gas being exchanged by applicant in the Kettleman Field by Pacific Gas and Electric Company to a pressure sufficient to enter the so-called Topock-Milpitas line at the outlet of the latter company's compressor station. It would appear reasonable to assume that the exchange gas to be returned by applicant to Pacific Gas and Electric Company should enter at the inlet pressure of the compression plant rather than the outlet pressure, since it is necessary that Pacific Gas and Electric Company boost the pressure in its Texas line at this location. In computing the compression charge of 5.6 cents per Mcf, the record shows that a phantom line was considered. However, it was brought out that this line would never be built. Under the circumstances it is our opinion that the phantom line should not have been considered in developing the compression cost.

Applicant has requested this Commission to approve the exchange agreement between it and the Pacific Gas and Electric Company for gas which applicant receives in order to supply the communities of Lancaster, Palmdale, Mojave and Rosamond. The record shows that this contract has been submitted and approved by the Federal Power Commission.

In view of the uncertainties recited above in the development of the [average cost of gas which is a composite cost of gas purchased from out-of-state sources, the Pacific Lighting Gas Supply Company, and from California Producers, and in the development of the] compression cost of 5.6 cents per Mcf, this Commission cannot accept this cost in its entirety for the fixing of rates for gas service. However, the agreement carries a provision in Paragraph 2, in applicant's Exhibit No. 6-A which permits the compression charge of 5.6 cents per Mcf to be reviewed at any time at the request of either party but not more often than once in every calendar year. The exchange agreement, as set forth in Exhibit No. 6-A, will be approved by this Commission but its approval is not to be construed as considering the 5.6 cents per Mcf compression cost as being reasonable for rate-fixing purposes. Further, this Commission's approval of the exchange agreement is contingent upon both applicant's and Pacific Gas and Electric Company's executing and filing an amendment to the agreement incorporating this Commission's jurisdictional clause, as required by General Order No. 96.

Applicant, in developing a system transmission delivery cost in Exhibit No. 9 amounting to 10.4 cents per Mcf, used the system firm gas deliveries. Had the total system deliveries been used, including interruptible industrial gas, a cost of 6 cents per Mcf would be obtained.

In allocating overhead and general expenses to small portions of applicant's system, as in the case now before us, such percentages as are used in the development of these costs appear to be excessive.

In view of the uncertainties and inconsistencies appearing in the record in this matter, it is our conclusion that applicant would receive an estimated return in excess of the return which it submitted in the record. After review of this record, it appears that applicant's present rates, [on file and now charged for gas service in the] Imperial Division, are reasonable rates to be applied to the Antelope Valley District of the Northern Division. In Application No. 32675 in its Exhibits Nos. 17 and 18, applicant seeks the same rate increases in both the Antelope Valley District and Imperial Division. [This is a matter for decision in Application No. 32675.]

As previously referred to in this opinion, applicant began rendering natural gas service in December, 1951, in order that adequate capacity would be available for its customers in the Antelope Valley area during the extreme cold weather months. Therefore, in order that billings may be rendered for this service as soon as possible, it has been requested that this order become effective at the earliest possible date. Accordingly, the decision will become effective five (5) days after the date hereof, and the rates, rules and regulations shall be made effective upon one (1) day's notice to the Commission and the public, as specified and prescribed in the order following.

O R D E R

Southern California Gas Company having applied to this Commission for an order authorizing rates and charges for natural gas service in Antelope Valley and for approval of an exchange agreement between it and the Pacific Gas and Electric Company, a public hearing having been held, the matter having been submitted and now being ready for decision,

authorizing
IT IS HEREBY FOUND AS A FACT that the rates and charges herein for natural gas service are justified; therefore,

IT IS HEREBY ORDERED that applicant is authorized to file in quadruplicate with this Commission after the effective date of this order, in conformity with General Order No. 96, the schedules of rates now on file with this Commission and applicable to the Imperial Division which are to be made effective for natural gas service in Antelope Valley, which are designated as follows:

- G-8 General Natural Gas Service,
Revised Cal. PUC Sheets Nos. 5942-G and 5943-G.
- G-22 Commercial Natural Gas Service,
Revised Cal. PUC Sheets Nos. 5946-G and 5947-G.
- G-42 Firm Industrial Natural Gas Service,
Revised Cal. PUC Sheets Nos. 5954-G and 5955-G.
- G-52 Interruptible Natural Gas Service,
Revised Cal. PUC Sheets Nos. 6047-G,
6048-G, 5969-G and 5970-G.

and, after not less than one (1) day's notice to this Commission and to the public, to make said rates effective for natural gas service rendered on and after February 5, 1952.

IT IS HEREBY FURTHER ORDERED that Southern California Gas Company be authorized to withdraw its rates, rules and regulations pertaining to liquefied petroleum gas applicable to Palmdale, Lancaster, and Mojave, and territory adjacent thereto,

after such service has been converted to natural gas and to advise this Commission by letter as to the dates when the different communities were changed over to natural gas service.

IT IS HEREBY FURTHER ORDERED that applicant is authorized to execute the gas exchange agreement between it and Pacific Gas and Electric Company, dated December 1, 1951, incorporated in this record as Exhibit No. 6-A for natural gas service to Antelope Valley subject to the conditions recited in the opinion and contingent upon both parties thereto executing and filing an amendment to the exchange agreement whereby the Commission's jurisdictional clause, as required by General Order No. 96, is made a part of the agreement.

The effective date of this order shall be five (5) days after the date hereof.

Dated at Los Angeles, California, this 29th day of January, 1952.

A. J. Anderson
President.

Justus F. Caswell

Harold J. Hule

Wesley D. Potter

Paul E. Whitcomb
Commissioners.