

ORIGINAL

Decision No. 47789

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Suspension and)
Investigation on the Commission's)
Own Motion of Proposed Schedule)
No. G-30, Interruptible Natural Gas)
Service, Filed by Southwest Gas)
Corporation, Ltd. under Advice)
Letter No. 28.)

Case No. 5399

William J. Cusack and William M. Laub, attorneys,
for Southwest Gas Corporation, Ltd., respondent;
Howard L. Minister, for 11th Naval District and
Marine Corps, an interested party; Homer R. Ross,
for California Manufacturers Association, an
interested party; and, Carl E. Crenshaw, for the
Commission staff.

C O P I N I O N

Southwest Gas Corporation, Ltd., on July 25, 1952 filed under its Advice No. 28 an original tariff designated Schedule No. G-30, Interruptible Natural Gas Service, to establish a class of service not presently being rendered by it. Because of the novel cost of gas escalator clause contained under the special conditions of this schedule, possible inequitable curtailment policies in the administration of this interruptible service with respect to the retail customers of the resale gas supplier of this utility, which supplier is also a gas utility under this Commission's jurisdiction, and the resale rate requirement imposed upon this utility by the Federal Power Commission, in so far as this requirement might provide service for some of the same customers contemplated to be served under Schedule No. G-30, it appeared appropriate to suspend the filing and set the matter for public hearing in order to afford interested parties an opportunity to present their views.

The Commission, therefore, on August 11, 1952 issued its order suspending the effective date of the filing and instituting an investigation into the propriety and reasonableness of said Schedule No. G-30. A public hearing was held before Examiner Watters in Los Angeles on August 28, 1952 after notification by registered mail to respondent and interested parties.

Considerable testimony was placed in the record through respondent's witness, Harold G. Laub, President, Southwest Gas Corporation, Ltd., tracing step by step the history and present status of the resale rate ordered filed by the Federal Power Commission. This utility was authorized to be supplied natural gas to meet its requirements "for the communities and military installations now supplied by it" by the Pacific Gas and Electric Company in FPC order dated July 14, 1950 under Docket No. G-1067, et al. Following this, Southwest was issued a certificate of public convenience and necessity under FPC order dated July 17, 1951 in Docket No. G-1664, authorizing it to construct and operate certain facilities for the transportation of natural gas from Pacific's out-of-state pipe line to the distribution systems in and near Barstow and Victorville, the George Air Force Base and the United States Marine Corps installation near Nebo. This same order instructed Southwest to file a resale rate. Such a rate was filed with the FPC on July 6, 1951 pursuant to telegraphic request of the FPC dated June 15, 1951 preliminary to issuance of the certificate of July 17, 1951 referred to above. Subsequently, at Southwest's request under letter dated February 4, 1952, the Federal Power Commission advised Southwest by letter of February 26, 1952 that the resale rate filing of July 6, 1951 was being considered withdrawn. In this same letter FPC advised Southwest to file in the future such a resale rate, satisfactory to that commission, at least 30 days prior to the commencement of any sale for resale.

Respondent's witness stated that his company did not anticipate the sale of gas for resale. In his opinion, by FPC's action with respect to withdrawal of the previously filed resale tariff, Southwest was at this time not obligated to sell gas for resale purposes to anyone.

The tariff schedule and service agreement filed with the Federal Power Commission by Pacific under which service was first rendered to Southwest contained certain restrictions affecting Southwest's customers relative to classes of service and daily delivery volumes which could be served. The presently effective FPC tariff schedule and service agreement no longer contain such restrictions except for a statement referring to the 25,000 cubic feet per day customer limitation rule filed by Southwest with this Commission (Rule and Regulation No. 31). It was the witness' contention that under Pacific's effective FPC tariffs Southwest was under no purchase obligation which would preclude it from filing an interruptible type rate with this Commission. Furthermore, in support of this contention, the witness pointed out that respondent had gone to considerable lengths to have the initial restrictions removed from Pacific's FPC tariffs in order that Southwest could be in a position to offer any and all classes of service which would improve its purchase load factor. No explanation was offered, however, as to why Southwest had been willing to file with this Commission its more restrictive Rule and Regulation No. 31, whereby the 25,000 cubic feet per day customer limitation was made applicable to all service rather than just to firm service, at the time of removal of the subject FPC tariff restrictions. Although closely related to service under Schedule No. G-30, respondent's Rule and Regulation No. 31 is not an issue to be decided in this proceeding.

In support of the interruptible natural gas service filing now suspended by this proceeding, Schedule No. G-30, respondent presented testimony outlining the advantages to it of this class of service, a description of the proposed schedule, estimated customer, Mcf sales and revenue data to be derived therefrom, the cost of rendering the service to each potential customer, the form of annual contract to be offered as a condition of service, and the utility's curtailment policy with respect thereto and to its supplier, Pacific Gas and Electric Company.

Southwest has pending before the Federal Power Commission a protest as to the level of the 33 cents per Mcf rate it pays Pacific based on the 40% load factor assumption used in the development of that rate. It contends that had a 90% load factor been assumed, the rate would have been approximately 26 cents per Mcf. It is therefore anxious to establish an interruptible market as a means of obtaining a high load factor with which it believes it can either (1) support a rate reduction or (2) forestall the passing on to it and its customers any or all of the increase which Pacific may receive from El Paso Natural Gas Company, Pacific's out-of-state supplier, in FPC Docket No. 2018.

The form of rate schedule initially filed was asked to be revised by respondent to change one word in Special Conditions "1", the cost of gas escalator clause, and to correct an error. This revised schedule was introduced as Exhibit No. 12. Except for the escalator provision, the form of schedule is generally not unlike

the interruptible schedules on file by other gas utilities offering this class of service. The rates proposed therein are as follows:

RATES

Commodity Charge

	Per Customer per Month	
	Base Rates	Effective Rates
First 1,000 Mcf, per Mcf	41.0¢	41.0¢
Next 9,000 Mcf, per Mcf	40.0	40.0
Next 20,000 Mcf, per Mcf	39.0	39.0
Over 30,000 Mcf, per Mcf	38.0	38.0

The above effective rates are based on the average monthly heating value per cubic foot indicated and as set forth in Rule and Regulation No. 2(a), and a cost to the utility of natural gas supplied by its wholesale supplier of 33.0¢ per Mcf, as set forth in Federal Power Commission Gas Tariff, Original Volume No. 1 of Pacific Gas and Electric Company, as amended, filed with the Federal Power Commission.

The cost of gas escalator clause, according to respondent's witness, is particularly applicable because of the relatively small differential between the cost of gas and the rates proposed. Based on an estimated average revenue of 40 cents per Mcf from this class of service, this differential is but 7 cents per Mcf out of which the cost of unaccounted for gas, that is, gas lost through leakage and metering inaccuracies, must be absorbed as well as all costs incident to rendering the service. All expenses, excluding a return on capital invested, were estimated to be about 4 cents per Mcf for interruptible service. It was thus pointed out by the witness that the 4.75 cents per Mcf increase filed by El Paso and applicable to Pacific, if passed on to this utility, would cause Southwest to sell gas under the proposed schedule at a loss pending relief from this Commission if such an escalator clause was not provided.

It was further alleged that as low a rate as was proposed could not have been filed if it had not been so geared to the cost of gas. In so doing, respondent's witness called attention to the fact that the entire cost of gas to this company is a regulated commodity subject to approval by the Federal Power Commission and is therefore different from the cost of gas of other utilities under this Commission's jurisdiction, except for the Needles area of California-Pacific Utilities Company. This latter company, it was brought out, provides for a substantially greater spread between rates charged for interruptible service in Needles and its cost of gas, somewhere within the range of 35 cents upward to almost \$1, depending upon customer usages. Similarly, although to a lesser extent, the Antelope Valley District rates of Southern California Gas Company provide a greater differential than Southwest's proposal. Antelope Valley is supplied from Pacific's out-of-state pipe line through an exchange agreement with Southern California Gas Company which latter utility estimates its cost of gas for this operation at around 27 cents per Mcf.

This clause will be included only because of the unique situation existing as to this particular schedule and is not to be considered as a precedent for other cases.

It was evident that the proposed wording of the cost of gas escalator clause as contained in Special Conditions "1" was not entirely satisfactory to respondent. Its witness stated that there would be no objection to this clause being reworded so long as the original intent was retained. It was requested by respondent, however, that a revised clause not provide for refunds to its interruptible customers by reason of any refunds which may be made to Southwest as the result of reduced rates finally being set for its supplier by the Federal Power Commission under its rate increase suspension procedures. It was claimed that making such refunds would place an undue hardship upon a utility as small as Southwest. From the testimony presented, it does not appear that such refunds would

create any particular hardship. Presumably, such refunds to Southwest would be based upon a specific rate per Mcf related to specific monthly purchase volumes. Inasmuch as respondent's proposed escalator clause increases and decreases the rates in each block of Schedule No. G-30 by an amount per Mcf identical with changes in the rate it pays for gas, the amount of the refund to each customer would be quite simple to compute. With but four customers initially taking service under the interruptible schedule, and with a potential of but two more in the next five years or so, no unduly burdensome problem can be foreseen. Therefore, a suitable refund provision is included in the Special Conditions "1" being ordered herein.

The reference in the proposed rate relative to the heating value of the gas has no significance not already stated in its Rule and Regulation No. 2(a). Therefore, this portion of the rates should be eliminated.

Respondent's Exhibit No. 11, which supersedes similar data submitted with its advice filing, indicates that the proposed rates will yield additional gross annual revenues of \$44,000 from the four customers to take service initially and \$70,000 when the two additional customers are included sometime in the future. Corresponding expenses of \$41,000 and \$64,000 will provide estimated annual net revenues of \$3,000 and \$6,000 from the four and six customers, respectively.

No capital expenditures for mains and services will be necessary to be made by respondent in order to serve the initial four customers. However, an expenditure of \$30,848 for this purpose was made in the form of an advance for construction by

the Lockhart Ranch to respondent to cover the cost of a main extension now constructed preparatory to rendering service to this customer. Respondent's witness indicated that it has not been decided whether or not Southwest would eventually pay for and assume ownership of this main. Expenses incident to the operation and maintenance of this main, including depreciation and ad valorem taxes, are included in respondent's expense estimate. But \$300 in capital expenditures for mains and services will be required to serve the additional two prospective customers.

The form of contract being contemplated in connection with Special Conditions "5" of the proposed tariff was offered for information. Respondent's witness indicated that its content had not been finally decided upon but an appropriate contract form would be filed by advice letter prior to rendering service under the proposed interruptible schedule.

The curtailment policy to be applied to the proposed interruptible service was outlined. Respondent maintained the position that the contractual obligation with its supplier permitted it to demand up to the following daily volumes for its utility operation:

<u>During Calendar Year</u>	<u>Maximum Daily Contract Quantity (Cubic Feet)*</u>
1952	3,500,000
1953	5,000,000
1954 and thereafter	7,000,000

* Quantities include deliveries to both Victorville and Barstow service areas.

These volumes, according to the witness, were initially requested before the Federal Power Commission for the purpose of eventually making large interruptible sales, such as are now contemplated, to better the system load factor and to make the most economical use of the utility facilities. From the point of supply, curtailment would therefore only be required if Southwest's daily demands exceeded the above contractual purchase volumes. Curtailment to meet inadequate transmission or distribution line capacity might also be required from time to time. Curtailment from both causes would be administered to require complete shut-off of interruptible customers if warranted or, if the excessive system demand did not require complete shut-off, the remaining supply would be distributed in as equitable a manner as operations would permit. Although a modified rotation curtailment method was desired, the exact details had not yet been worked out.

Under the foregoing policy, no recognition would be given to the effect it might have upon the customers of the supplier, Pacific Gas and Electric Company. The witness was not at all averse, however, to having Southwest's interruptible customers equitably integrated with Pacific's for the purpose of curtailment should this Commission desire such a procedure in the interest of uniformity of customer treatment through the state or the two utility systems. In working out such an intercompany curtailment plan or agreement, respondent's witness expressed a desire that such be done with the advice of this Commission's staff.

No one objected to the service to be rendered by Schedule No. G-30, nor to the level of rates or conditions of service proposed therein. The California Manufacturers Association went on record by specifically stating that it had no objection to a gas utility protecting itself through a cost of gas escalator clause, such as respondent proposed.

O R D E R

Southwest Gas Corporation, Ltd., having submitted its ✓ Schedule No. G-30 by its Advice Letter No. 28, this Commission having on its own motion suspended the effective date of said schedule, a public hearing having been held, the matter having been submitted and now being ready for decision,

IT IS HEREBY FOUND AS A FACT that the provisions of said Schedule No. G-30 are unjust and unreasonable to the extent that they differ from those in Exhibit A attached to and made a part of this order, and it is further found that the provisions of the schedule as set forth in Exhibit A attached hereto are just and reasonable,

IT IS HEREBY ORDERED:

1. That the suspension of Tariff Sheets Nos. 93-G to 95-G, inclusive, covering Schedule No. G-30, Interruptible Natural Gas Service, be and it is hereby made permanent.
2. That Southwest Gas Corporation, Ltd., within ten (10) days from and after the effective date of this order shall file, to be made effective on not less than five (5)

days' notice, the Schedule No. G-30, Interruptible Natural Gas Service, set forth in Exhibit A attached hereto.

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

Dated at San Francisco, California, this 1st day of October, 1952.

A. T. [Signature]
President.
Justice F. [Signature]
Harold P. [Signature]
[Signature]
Commissioners.

EXHIBIT A
Page 1 of 3

Schedule No. C-30

INTERRUPTIBLE NATURAL GAS SERVICE

APPLICABILITY

Applicable, subject to interruptions in supply, as provided in special conditions below, to natural gas service to commercial or industrial customers, where such customers are located near existing mains having a delivery capacity and supply in excess of the then existing requirements of firm customers.

TERRITORY

Within the incorporated limits of Barstow, in the community of Victorville, and in the adjacent territory of San Bernardino County.

RATES

Commodity Charge:	Per Customer per Month	
	Base Rates	Effective Rates
First 1,000 Mcf, per Mcf	41.0¢	41.0¢
Next 9,000-Mcf, per Mcf	40.0	40.0
Next 20,000 Mcf, per Mcf	39.0	39.0
Over 30,000 Mcf, per Mcf	38.0	38.0

The above effective rates are based on a cost to this utility of natural gas supplied by its wholesale supplier of 33.0¢ per Mcf, as set forth in Federal Power Commission Gas Tariff, Original Volume No. 1 of Pacific Gas and Electric Company, as amended, filed with the Federal Power Commission.

Minimum Charge:

\$100 per month, accumulative annually.

SPECIAL CONDITIONS

1. No change in the effective rates under this schedule will occur unless the cost of natural gas purchased by this utility shall be below or above 33.0¢ per Mcf. Whenever the cost of gas shall vary from 33.0¢ per Mcf, the effective rates shall change accordingly by an identical amount and no such change will occur unless and until a change in said cost of gas shall have been properly filed and made effective by the Federal Power Commission.

EXHIBIT A
Page 2 of 3

Schedule No. G-30

INTERRUPTIBLE NATURAL GAS SERVICESPECIAL CONDITIONS (Cont'd)

When a change in the cost of gas occurs, this Company shall submit to the California Public Utilities Commission, within a period of fifteen (15) days, an advice letter and appropriate tariff sheets setting forth the new effective rates, and accompanied by an affidavit of such change in the cost of gas. The new rates shall be effective on all regular meter readings taken on or after the thirtieth (30th) day following such change in the cost of gas, upon authorization by the California Public Utilities Commission.

Any rate under which this Company shall buy its gas which is made effective by the Federal Power Commission under the provision of Section 4 (c) of the Natural Gas Act shall be the basis of determining the effective rates under this schedule; provided, that when the finally determined rate under this procedure is approved and made effective by the Federal Power Commission, that rate shall be the basis of determining the effective rates under this schedule retroactively to the effective date thereof. Refunds shall be made by this Company to anyone billed for service rendered under this schedule by the amount of the difference in monthly billings computed under each such set of rates as may have been in effect for the same period, such refunds to be made within thirty (30) days following the effective date of the finally determined effective rates under this schedule due to the aforesaid Federal Power Commission procedure.

2. Service under this schedule is subject to discontinuance without notice in case of an actual or threatened shortage of natural gas, whether due to insufficient supply or to inadequate transmission or delivery capacity facilities of either this Company or its wholesale supplier. This Company will not be liable for damages occasioned by interruption or discontinuance of service supplied under this schedule.

3. In the event that it is necessary to discontinue service under this schedule, the commodity charge and the minimum charge will be prorated on the basis of the ratio of the number of days on which service was available to the number of days in the billing period. For this purpose service will be considered available if curtailed by the Company less than eight (8) hours in any particular day.

4. No customer shall be entitled to service hereunder for new or additional equipment unless adequate standby equipment and fuel shall have been first provided therefor, said standby facilities to be ready at all times for immediate operation in the event that the supply of gas hereunder shall be partially or totally curtailed.

5. A contract covering the fuel requirements of the customer during the operation of his plant or establishment, for a period of at least one (1) year,

EXHIBIT A
Page 3 of 3

Schedule No. G-30

INTERRUPTIBLE NATURAL GAS SERVICE

SPECIAL CONDITIONS (Cont'd)

will be required as a condition precedent to service under this schedule, and shall continue in force and effect thereafter from year to year until either the Company or the customer shall give the other thirty (30) days' written notice of a desire to terminate the same, whereupon at the expiration of said thirty (30) days it shall cease and terminate. If the customer permanently ceases operations, such contract shall not thereafter continue in force. If the effective rates hereunder are increased by operation of the escalator clause, the customer may at his option and for this reason alone, terminate such contract at any time within thirty (30) days from the date of any such increase by giving notice as aforesaid.