

ORIGINAL

Decision No. 47991

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) Application No. 33699
gas rates under Section 454 of the)
Public Utilities Code.)

(A list of appearances and witnesses
is appended hereto as Attachment 1.)

OPINION AND ORDER

Southern Counties Gas Company of California, operating a public utility gas system in the southern portion of the State of California, filed the above-entitled application on August 29, 1952, seeking an annual increase in gas rates because of a pending increase in the cost of out-of-state gas to become effective January 1, 1953. After due notice a public hearing was held on this application on November 19, 1952 before Commissioner Harold P. Huls and Examiner M. W. Edwards at Los Angeles. At the hearing applicant amended the application to conform to proof adduced during the hearing and now requests an increase of \$1,120,000 from retail sales based on the 1952 level of out-of-state gas purchases.

Applicant's Position

Applicant estimates that during the year 1953 48.8% of its gas supply will be obtained from out-of-state sources. Such out-of-state gas is purchased from the El Paso Natural Gas Company at rates which are subject to regulation by the Federal Power Commission. The El Paso Company filed increased rates to become effective August 1, 1952 (Docket G-2018). The Federal Power Commission suspended the rate filing but applicant anticipates

that such higher rates will become effective January 1, 1953, under bond, pursuant to the provisions of Section 4(e) of the Natural Gas Act. In case the Federal Power Commission at some later date determines that the rates filed by the El Paso Company are higher than warranted, a refund may be ordered.

As compared to the currently effective rates for gas purchased from El Paso Natural Gas Company by applicant, the demand charge will be increased from \$1.48 to \$1.62 per Mcf of daily maximum demand, or 9.5%, and the commodity charge from 12 cents to 16 cents per Mcf, or 33.3%. At 100% load factor the composite rate increase is 4.46 cents per Mcf at the contract pressure base of 14.9 psi and at a pressure base of 14.73 psi the equivalent increase is 4.41 cents per Mcf, or 26.5%. Based upon the 1952 level of gas purchases, applicant's cost of gas would be increased by \$1,648,000 per year.

Applicant proposes to assess \$528,000 of this cost increase against the San Diego Gas & Electric Company based on the Moreno line deliveries through the mechanics of a filing with the Federal Power Commission. The remainder, \$1,120,000, applicant proposes to recover from its retail customers by means of an offset rate increase of 1.650 cents per Mcf against all gas used by such retail customers. Applicant's position in this proceeding is that it is seeking only to recover promptly the increased costs of out-of-state gas and no additional earnings but is depending upon another rate case under Application No. 33341 to obtain an improvement in its earning position.

Nature of Evidence

Evidence was offered by applicant and one of the interested parties. In addition, the Commission's staff and representatives of certain of the interested parties, as set forth

in the list of appearances, made oral statements and cross-examined the witnesses. The exhibits presented by the company showed the gas prices, supply requirements, development of an offset rate, development of a refund formula, application of the refund formula (in case refunds are ordered), and current level of earnings. Also the effect of a revised rate as of January 1, 1953 on a large wholesale contract with the Pacific Gas and Electric Company, due to expire September 30, 1952, was shown. A representative for the California Manufacturers Association presented an exhibit containing an analysis of the applicant's proposed surcharges and its determination of surcharges for regular interruptible customers, excluding demand costs.

Earnings Position

Applicant presented Exhibit No. 5-A for the purpose of showing that the current rate of earnings is substantially below the rate allowed by the Commission in the last rate proceeding, Decision No. 46680, Application No. 31161, dated January 22, 1952. Using the methods normally followed by the Commission's staff, the exhibit showed a rate of return on a depreciated rate base of 5.72% for the normalized pro forma year ended August 31, 1951 and 5.41% for the normalized pro forma year ended August 31, 1952. In preparing this exhibit the applicant did not concur in the procedure followed and claimed that the rates of return would be materially lower on its basis of presentation.

Counsel for the City of Los Angeles did not cross-examine on Exhibit No. 5-A, but stated that in so doing he did not imply acceptance of the exhibit as correctly reflecting the operating results of this utility nor did he concede that the figures or results are correct. He especially disagreed with

the declining trend of earnings shown on the exhibit. However, in view of the nature of the proceeding he did not believe it necessary to cross-examine on this type of evidence.

Rate Offset Proposal

Applicant shows its methods of development of an offset rate to recover the El Paso increase of 4.41 cents per Mcf in Table 3 of Exhibit No. 2-A as follows:

1. El Paso purchases (1952)	37,383,000 Mcf
2. Less Moreno line deliveries to San Diego Gas & Electric Company	<u>11,985,000 Mcf</u>
3. Net El Paso purchases	25,398,000 Mcf
4. Total increase to be recovered from retail customers 25,398,000 Mcf at 4.41 cents	\$1,120,000
5. Estimated 1953 retail sales	67,864,000 Mcf
6. Offset rate \$1,120,000/67,864,000	1.650¢ per Mcf

The estimated sales of 67,864,000 Mcf in 1953 exclude wholesale deliveries to San Diego through both the Moreno and Huntington Beach pipe lines.

Applicant's proposal of a uniform offset rate to all classes was opposed by the California Manufacturers Association. The representative of the association presented Exhibit No. 7-A in substantiation of an offset rate for regular interruptible service of 1.249 cents per Mcf instead of 1.650 cents. Such lower rate is predicated on the assumption that none of the demand charge should be assessed against the interruptible class.

Counsel for the City of Los Angeles opposed the showing by the California Manufacturers Association. He took the position that the formula proposed by the association grossly discriminated against the firm customers. His reasoning was that the increased cost of gas is primarily due to the increase in the field cost of gas, that is, the commodity cost, and that it is obviously unfair to burden the firm customers with the demand surcharge in addition

to a commodity surcharge and yet levy only a commodity surcharge against interruptible industrial customers. Counsel contended that, where the Texas pipe line is operated at almost 100% capacity, large quantities of out-of-state gas are used by the interruptible class.

It appears to the Commission that under such conditions the interruptible service creates a part of the demand for out-of-state gas and that there are not any off-peak periods in the Texas line deliveries when the interruptible class could take out-of-state gas without creating some demand.

Pacific Gas and Electric Contract

During the first few years of the contract period for taking of out-of-state gas the applicant improved its ability to carry out its commitments by selling large blocks of in-state gas to Pacific Gas and Electric Company. The contract with Pacific Gas and Electric Company expires September 30, 1953 and applicant does not intend to renew it. Applicant proposes to amend the Pacific Gas and Electric Company contract starting January 1, 1953 in such manner as to reduce the priority and quantity of gas available to Pacific if the rate for such gas is not increased. The effect of this amendment will be to make more gas available to the interruptible customers of applicant. Such amendment is being authorized by a separate decision, being the first supplemental order under Application No. 28652.

The California Manufacturers Association stated that the applicant will realize a net gain on the sales transferred from Pacific Gas and Electric Company to regular interruptible customers and can recover its loss on such sales without a surcharge. The applicant contended that such increase is small and will be more than offset by the cost of the increased volume of out-of-state gas

taken in 1953 compared to the 1952 purchases on which its cost increases are based. Furthermore, some of the transferred gas will be sold to steam-electric customers at rates which are lower than the regular industrial interruptible rates.

Counsel for the City of Los Angeles stated that the interruptible customers should make up the full loss that may be due to the proposed modification of the Pacific Gas and Electric Company contract. It was his impression that the end result produced by the company's proposal would be reasonable, equitable and practical.

Refund Plan

In the event that a refund is ordered at some time in the future by the Federal Power Commission, applicant presented in Exhibit No. 2-A a refund formula. The intent of the plan proposed is that the applicant will refund all amounts collected from customers over and above the final rate increase per Mcf allowed by the Federal Power Commission to El Paso Natural Gas Company applied to the 1952 purchase volumes, excluding interstate sales to San Diego Gas & Electric Company over the Moreno line. Applicant proposes that the amounts refunded to customers will reflect the length of the offset rate collection period, interest received and refund costs. The period during which the refund is calculated is the same as that over which increased costs of El Paso gas shall be collected. In other words, the period shall commence with the effective date of increased rates established by the Commission in compensation for the El Paso increase, and the termination date shall be as determined from the order of the Federal Power Commission in the El Paso rate proceeding.

The formula is developed in Part IV of Exhibit No. 2-A and an illustrative example is shown on Table 4. For purpose of illustration, applicant assumed a 1 cent per Mcf refund from El Paso and determined that the unit refund per Mcf of retail sales would be as follows:

6 months ending June, 1953	0.26¢ per Mcf
12 months ending December, 1953	0.30¢ per Mcf
18 months ending June, 1954	0.36¢ per Mcf

If the refund is more or less than 1 cent per Mcf from the El Paso Company, the retail refund in California also would vary. When applied to a typical general service domestic customer, the above refund rates would amount to \$0.12, \$0.22, and \$0.39 for the three periods, respectively. Under such assumption the net increase to the general service domestic customer after the refund would be \$0.62, \$0.95 and \$1.36, respectively, for the three periods.

One of applicant's witnesses, the manager of the customer department, stated that in his opinion the least expensive method of collecting the offset rate and paying refunds is the one which bases the offset charge and refunds on a flat unit rate related to the volume of gas used. Such a method would permit applicant to use its existing records to maintain the information for each individual customer and only one calculation would be required regardless of the period covered. He proposed to add the offset charge uniformly to all customers regardless of the rate schedule and regardless of the rate block. If the total usage billed at rates which include the offset charge results in an amount greater than the minimum, then the customer would be charged for actual usage. No refunds would be made on gas billed under the minimum charge because no offset charge would be applied to such billings.

Applicant proposed to file revised preliminary statements to rules and regulations to place the public on notice that a flat price per Mcf has been added to all retail rate schedules. However, the Commission will require that all tariffs be refiled. Proper notice will be placed on the bill rendered to customers during the first month after the effective date of the rate increase. On closed accounts when refunds amount to less than 12 cents, it proposes that no refunds be made and that any refunds equal to 13 cents but not over 25 cents be made in the amount of 25 cents. It proposes to refund on an active account by credits against future usage. On closed accounts it proposes to prepare a check less deductions for any unpaid closing bills. Any balance created by applicant's inability to deliver checks and by checks uncashed after one year, applicant proposes to refund to all active general service customers by an appropriate unit discount applied to one month's bill or by such other procedure as the Commission may order.

Applicant's refunding plan in general appears reasonable except for its proposal to adjust for the cost of making the refund. It may be that the Federal Power Commission will require the El Paso Company to bear applicant's cost of refunding to its retail customers. Such difference as exists between the cost of making the refunds and the allowance provided by the Federal Power Commission may be taken out of the balance created by applicant's inability to deliver checks and uncashed checks.

Conclusion

After reviewing all of the evidence of record and the statements by the interested parties, it is our opinion that applicant's present earnings are not sufficient to absorb the increase in cost of out-of-state gas without a corresponding offset rate increase in California and that an order should be issued

in general authorizing applicant's proposal. The proposed plan for treatment of the offset rate and refunds should not deduct the cost of making refunds from the amount to be refunded but rather from the unrefundable balance.

In our opinion the interruptible rates after the full surcharge authorized herein will not be in excess of a level that will move the gas in competition with other forms of fuel, principally fuel oil. Inasmuch as the applicant may realize some small gain from the transfer of the sales from Pacific Gas and Electric Company to the interruptible customers, the proposed offset rate of 1.65 cents per Mcf will be rounded down to 1.6 cents. The estimates upon which the 1.65-cent rate is computed involved many variables and it is our conclusion that the rate of 1.6 cents is reasonably accurate and consistent with the probable accuracy of the estimates.

O R D E R

Southern Counties Gas Company of California having applied to this Commission for an order authorizing increases in rates and charges for natural gas service, public hearings having been held, the matter having been submitted and being ready for decision,

IT IS HEREBY FOUND AS A FACT that the increases in rates and charges authorized herein are justified and that present rates in so far as they differ from those herein prescribed for the future are unjust and unreasonable; therefore,

IT IS ORDERED as follows:

1. Applicant is authorized and directed to file in quadruplicate with this Commission after the effective date of this order, in conformity with General Order No. 96, a revised preliminary statement as proposed by applicant and revised schedules of rates which include a cost of gas offset rate increase of 1.6 cents per Mcf in all retail schedules, exclusive of sales to San Diego Gas & Electric Company and to Pacific Gas and Electric Company, and, after not less than five (5) days' notice to this Commission and to the public, to make said rates effective for service rendered on and after January 1, 1953.
2. Applicant shall keep records of sales to customers during the effective period of this cost of gas offset rate to be able to determine readily the total offset charge and the total refund that may be due, if any, to each customer.
3. Applicant shall determine refunds by the formula contained in Exhibit No. 2-A, except that the cost of refunding shall not be deducted in determining the amount of the refund. Any unrecovered portion of the applicant's cost of making refunds which the El Paso Natural Gas Company does not pay as a result of the Federal Power Commission's refunding order shall be taken from any balance created by applicant's inability to deliver checks and by checks uncashed after one year.
4. After determination, refunds shall be made in the manner proposed by applicant in this proceeding.
5. Upon the final decision in this matter by the Federal Power Commission, applicant shall file a supplemental application herein containing its proposed permanent rate offset plan for final determination and authorization by this Commission.

6. Applicant shall not effect any offset rate charges prior to the date increases may become effective in its cost of out-of-state gas.

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

Dated at San Francisco, California, this 2nd day of December, 1952.

A. J. [Signature]
President.

Justin J. [Signature]

Harold P. [Signature]

[Signature]

[Signature]

Commissioners.

ATTACHMENT 1

LIST OF APPEARANCES

For Applicant: Frederick G. Dutton and Milford Springer.

Interested Parties: City of Los Angeles, by Roger Arnebergh, T. M. Chubb and Robert Russell; City of Pasadena, by Clarence A. Winder; California Manufacturers Association, by George D. Rives of Brobeck, Phleger and Harrison; Southern California Edison Company, by Bruce Renwick, J. F. Davenport, W. H. Seaman and R. J. Cahall; California Farm Bureau Federation, by J. J. Deuel; 11th Naval District, Legal Office, by Commander J. M. Beauchamp, Jr.; Secretary of the Army and Federal Executive Agencies, Sixth Army Area, by O. G. Cook; San Diego Gas and Electric Company, by Sherman Chickering of Chickering and Gregory; Exchange Orange Products Company, by W. D. MacKay.

Other Appearances: Walter B. Wessells and Boris H. Lakusta, for the Commission's staff.

LIST OF WITNESSES

Evidence was presented on behalf of applicant by: Arthur F. Bridge (general statement), R. M. Bauer (gas supply, requirements, sales), W. J. Herrman (development of offset rate and refund formula), George S. Coates (refund plan), George T. Kelly (earnings study).

✓ Evidence was presented on behalf of the California Manufacturers Association by Homer R. Ross.