

Decision No. 50718

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 SOUTHERN CALIFORNIA GAS COMPANY and )  
 SOUTHERN COUNTIES GAS COMPANY of ) Application No. 35690  
 CALIFORNIA for authorization to carry )  
 out the terms of an agreement reallocat- )  
 ing gas supply and transmission costs. )

(A list of the appearances and witnesses is attached hereto  
 as Appendix A)

O P I N I O N

Southern California Gas Company and Southern Counties Gas Company of California by the above-entitled application filed August 10, 1954, request authorization from this Commission to carry out the terms of their gas supply and transmission cost reallocation agreement, dated August 4, 1954, to become effective January 1, 1955. The proposed agreement contemplates that costs incurred by each applicant for all purchased gas, and for all jointly used transmission facilities, will be accumulated, and the totals of such costs will be divided between them in proportion to their respective annual volumetric gas receipts. A copy of said agreement, attached to the application and marked Exhibit No. 1, is proposed to replace the agreement dated May 21, 1945, expiring December 31, 1954.

Public Hearings

Public hearings were held on this application before Commissioner Kenneth Potter and Examiner M. W. Edwards on August 20 and September 1, 1954, at Los Angeles, California. This matter was consolidated for hearing but not for decision with Application No. 34975 of the Southern California Gas Company for an increase in gas rates.

Joint Facilities

Applicants own, as tenants in common, a pipeline system between the Los Angeles area and the eastern border of California, known as the Texas Pipeline System, together with certain trunk transmission facilities in the Los Angeles area. Southern California Gas Company owns 75% and Southern Counties Gas Company of California owns 25% of these joint facilities. The Texas Pipeline System is used to transport out-of-state gas purchased from El Paso Natural Gas Company. In addition, each applicant owns certain facilities such as transmission pipelines, above-ground storage facilities, underground pipe-type gas storage holders and their associated facilities such as compressors, an underground storage field and related facilities from which both derive a benefit either directly or indirectly.

Southern Counties Gas Company of California operates the section of the Texas Pipeline System east of Santa Fe Springs and Southern California Gas Company operates the section west of Santa Fe Springs. Each applicant operates the additional facilities, referred to above, which it owns, and which either are jointly used or result in joint benefits, but the costs do not necessarily divide in proportion to the annual volumetric gas purchases of each.

Position of Applicants

Due in part to the faster growth of Southern Counties Gas Company of California in recent years since 1945, applicants claim that the ownership of jointly used gas supply facilities is no longer proportional to the actual demands of the two companies. Applicants also claim the same is true with respect to gas purchases, especially as influenced by the 75%-25% contracts with El Paso Natural Gas Company. They state that maintenance of such contract terms in turn distorts the relative purchases from the Pacific Lighting Gas Supply Company and that this distortion has been aggravated due to

increasing out-of-state volumes at unit costs substantially higher than the incremental costs of California gas.

Applicants contend that correction of this situation has not been feasible heretofore because such correction necessitated either transfers of property and contract rights, or involvement of Federal Power Commission regulation with respect to facilities or gas supplies deemed to be of interstate character. With the passage of the Hinshaw Bill, concentrating gas regulatory jurisdiction in the California Public Utilities Commission it is now feasible to correct this situation. Applicants state that an equitable cost allocation has been in effect since 1945 with respect to their coastal supply facilities handling only intrastate gas. Applicants now desire to extend this present joint facilities agreement for coastal lines to include all gas costs and jointly-used gas supply facilities in the form of an agreement as proposed in this application.

Applicants state that in 1946 their load relationship was approximately 75%-25%, but as of today it is more nearly 70%-30%. Based on the estimated 1954 combined purchases of 375,000,000 Mcf and using the present rate for gas purchased from Pacific Lighting Gas Supply Company, the applicants estimate that the reallocation agreement would reduce Southern California Gas Company's gas purchase costs by about \$282,000 and would increase Southern Counties Gas Company of California's costs by an equivalent amount. Using for Pacific Lighting Gas Supply Company gas the rate proposed in Application No. 35129, Southern California's gas purchase costs would be increased by an estimated \$468,000 in 1954 and \$266,000 in 1955 and Southern Counties' costs would be reduced by like amounts. The reallocation of costs related to transmission and storage facilities encompassed by the agreement, including the 6% return

on the undepreciated investment in such facilities, as proposed by applicants, would decrease Southern California's costs by approximately \$1,000,000 per year and increase Southern Counties' costs by the same amount. Thus, for the year 1955, using proposed Pacific Lighting Gas Supply rates, the net effect of the agreement is to reduce Southern California's costs by approximately \$700,000 and to increase Southern Counties' costs by the same amount.

#### Statistical Relationships

Applicants' Exhibit No. 3 shows several statistical relationships between the two utilities which may be summarized as follows:

	<u>1947 Ratios</u>		<u>1953 Ratios</u>	
	<u>So. Cal.</u>	<u>So. Cos.</u>	<u>So. Cal.</u>	<u>So. Cos.</u>
1. Annual volume of natural gas purchases for resale and company use	76.20%	23.80%	71.34%	28.66%
2. Annual volume of sales, all classes	75.51	24.49	71.15	28.85
3. Peak day send-out, firm demand	75.94	24.06	72.52	27.48
4. Year end customers, active meters, all classes	77.96	22.04	75.06	24.94
5. Annual volume of firm sales, including San Diego Gas & Elec.Co.	74.11	25.89	70.48	29.52
6. Annual volume of firm sales, excluding San Diego Gas & Elec. Co.	79.18	20.82	75.91	24.09

Each of the above items verifies the trend claimed by applicants; that is, greater proportionate growth by the Southern Counties system. The applicants' proposal is to use the actual volume relationships as the bases for allocation.

At the request of counsel for the California Manufacturers Association, applicants supplied the following data on the relationship of estimated system design peak:

July 1954 Estimates of Design Leak Relationship

<u>Winter Season</u>	<u>Southern California</u>	<u>Southern Counties</u>
1954-55	70.1%	29.9%
1955-56	70.2	29.8
1956-57	70.0	30.0
1957-58	69.6	30.4

because of a variation in design peak estimates made from time to time, applicants' witness did not consider the design peak a practical way of making the segregation when volumetric facts and figures are available.

Commission Staff Analysis

The Commission staff made an investigation of applicants' proposal and counsel for the staff indicated substantial agreement with the position taken by the applicants as to the fairness of the allocation.<sup>1/</sup> However, the staff representative stated that such agreement should not be interpreted as indicating that 6% on an un-depreciated rate base constitutes a reasonable rate of return. A staff engineer investigated the reasons for including certain facilities in the agreement and leaving out others. Based on the explanations given by one of applicants' witnesses as to the jointly used equipment and such singly used equipment of one company as would benefit the other by substitution or otherwise, the staff engineer found no reason to take exception to the method of deciding which facilities to include and which to exclude.<sup>2/</sup> In response to an inquiry by the staff, the applicants stated their intention of filing with the Commission at the end of each year a statement setting forth the facilities covered by the reallocation agreement and the final reallocations of costs between the two companies for that year.

Position of California Manufacturers Association

The California Manufacturers Association took the position that the allocation method used by applicants is not proper as we

<sup>1/</sup> Transcript page 899.  
<sup>2/</sup> Transcript page 1014.

are dealing with allocation of cost. It suggested using the system design peak and the annual Mcf for allocating the joint costs.<sup>3/</sup> It pointed out, however, that under the particular operating conditions existing at the present time, the results on the Association's basis would be approximately the same as on the basis proposed by applicants. Counsel for the Association suggested that the Commission take this fact into account in considering the proposal.

The Association also requested that the two applicants keep their records in such a way that at any time a determination can be made as to the amount of capital in each plant account which is included in the arrangement for each company, and the amount of operating expenses in each one of the operating expense accounts that apply to the joint operation agreement. Applicants agreed that the record will be kept essentially in the form requested by the Association.<sup>4/</sup>

#### Conclusions

After considering the evidence of record in this matter and statements by the applicants, the staff and the interested parties, it is concluded that:

1. Applicants' proposal to reallocate certain joint and other costs between them should be permitted to be undertaken.
2. Applicants should keep adequate records so that at any time the expenses, capital items and fixed charges entering into the reallocation may be determined.
3. Applicants' proposal, while meeting with certain objections, appears to provide a practical and reasonable solution to this problem at this time on the basis of annual volumetric gas purchases.

---

<sup>3/</sup> Transcript page 1017.

<sup>4/</sup> Transcript page 1011.

4. The agreement provides for continuing jurisdiction by the Commission, in that the agreement at all times shall be subject to change or modification by this Commission in the exercise of its jurisdiction.

5. The proposed term of 3 years from January 1, 1955 to January 1, 1958 is reasonable.

Finding

It is our finding and conclusion that an order should be issued authorizing the proposed agreement; that the resulting increase in annual gas purchase and supply costs to Southern Counties Gas Company of California is reasonable; and that the offsetting decrease in annual gas purchase and supply costs to Southern California Gas Company is reasonable.

O R D E R

The above-entitled application having been considered, a public hearing having been held, the matter having been submitted and now being ready for decision,

IT IS ORDERED that applicants be and they are hereby authorized to carry out the terms and conditions of the written agreement, dated August 4, 1954, between Southern California Gas Company and Southern Counties Gas Company of California, effective January 1, 1955.

IT IS HEREBY FURTHER ORDERED that applicants shall:

1. File with the Commission within thirty days after the effective date of this order, two certified copies of the agreement as executed, together with a statement of the date on which the agreement is deemed to become effective.

- 2. File with the Commission within 90 days following the close of each calendar year, a statement of the facilities included under the reallocation agreement as of the end of the year and the book cost thereof, together with a statement of cost reallocations between the two parties for such calendar year.
- 3. Notify this Commission of the date of termination of said contract within thirty days after said date of termination.

The effective date of this order shall be twenty days after the date hereof.

Dated at Los Angeles, California, this 26<sup>th</sup> day of OCTOBER, 1954.

Peter E. Mitchell  
PRESIDENT

Justus J. Craemer

Fremont Patton

Gene Proggins

Paul Luterman  
COMMISSIONERS



APPENDIX A

LIST OF APPEARANCES

For Applicants: Southern California Gas Company by T. J. Reynolds,  
Milford Springer, H. P. Letton, Jr.; Southern Counties Gas  
Company of California by Milford Springer.

Interested Parties: City of Los Angeles by Roger Arnebergh,  
Alan G. Campbell, T. M. Chubb and Robert W. Russell;  
Monolith Portland Cement Company by Normal Elliott of  
Enright & Elliott and Waldo A. Gillette; California  
Manufacturers Association by George D. Rives of Brobeck,  
Phleger & Harrison; California Farm Bureau Federation by  
J. J. Deuel; Southern California Edison Company by Bruce  
Renwick, Rollin E. Woodbury and John Bary; California  
Electric Power Company by John R. Lautz; Department of  
Water & Power, City of Los Angeles, by John E. Girard;  
City of Glendale by Henry McClernan and John H. Lauton;  
City of Burbank by Archie L. Walters; Challenge Cream and  
Butter Association, Exchange Orange Products Company and  
Lindsay Ripe Olive Company, by W. D. MacKay; City of  
Pasadena by Clarence A. Winder and Frank L. Kostlan;  
City of Riverside by Albert H. Ford; City of Long Beach  
by Henry E. Jordan.

Protestants: California Institute of Social Welfare by George  
McLain; Appliance Profession Association of California by  
Van C. Foster.

For the Commission Staff: Luthor W. Gulick, Charles W. Mors and  
Theodore Stein.

LIST OF WITNESSES

Evidence was presented on behalf of the applicants by Walter J.  
Herrman, and Grove Lawrence.

Evidence was presented on behalf of the Commission Staff by Paul W.  
Avery.