NB

Decision No. 50741

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of PACIFIC LIGHTING GAS SUPPLY COMPANY for a General Increase in Gas Rates under Section 454 of the Public Utilities Code.)	Application No. 35129

(Appearances and list of witnesses are set forth in Appendix B.)

O P I N I O N

In this application, filed February 3, 1954, Pacific Lighting Gas Supply Company seeks authority to increase rates for wholesale natural gas service which it supplies to the Southern California Gas Company and Southern Counties Gas Company of California, hereinafter referred to as Southern California and Southern Counties respectively.

Public Hearings

After due notice, three days of public hearing were held on this application before Commissioner Kenneth Potter and Examiner M. W. Edwards at Los Angeles, California, on June 10, and 11, 1954 and July 7, 1954. The matter was submitted for decision upon the receipt of statements from the various interested parties by July 17, 1954.

Applicant's Operations

Pacific Lighting Gas Supply Company is a subsidiary of Pacific Lighting Corporation and is engaged principally in the business of selling natural gas at wholesale to Southern California and Southern Counties, for resale. The Pacific Lighting Corporation is a holding company owning all of the outstanding capital stock of the applicant as well as all of the common capital stock (81% voting control) of Southern California and all of the outstanding capital stock of Southern Counties. Applicant was incorporated under the laws of the State of California on October 14, 1952 and on January 1, 1953 acquired the assets and assumed the liabilities of Pacific Lighting Gas Supply Company, a Nevada Corporation pursuant to authorization in Application No. 33905, Decision No. 48088. Applicant's properties are located in the counties of Fresno, Kings, Kern, Santa Barbara, Ventura, Orange and Los Angeles. It owns no property outside of the State of California.

Applicant owns and operates a natural gas pipeline system, compressor stations, underground natural gas storage fields, and other properties useful in its business. Its two major transmission pipelines are:

1. A 15-inch line, 43.93 miles in length, from the Ventura Oil Field to a point in Los Angeles County (Calabasas Station) where deliveries are made to Southern California, and

2. A 26-inch line, 178.31 miles in length, which extends from the Kettleman Hills Oil Field to Glendale where deliveries are made to Southern California and Southern Counties.

Altogether nine separate compressor stations are operated with a total installed capacity of 36,923 compressor horsepower. These stations are operated by internal combustion engines using natural gas as a fuel. The underground storage fields are La Goleta Gas Storage Reservoir, located in Santa Barbara County 7½ miles west of the City of Santa Barbara, and East Whittier Storage Field, located approximately 18 miles east of the City of Los Angeles.

Applicant stores large volumes of natural gas in these underground natural gas reservoirs in the summer months when there is an excess of gas available above the firm market requirements.

During the winter months this gas can be withdrawn at a high rate and assist the two customers in meeting their peak load demands.

Applicant's Position

Applicant claims it is experiencing a decline in net revenue principally because of an increase in the cost of purchased gas, a decrease in volume of gas to be sold in 1954 and an increase in wage rates. The producers in California are not subject to regulation by the Commission and the utilities rely upon contracts or other arrangements for obtaining the necessary local supply of gas.

Natural gas is obtained from approximately 50 producers operating in various fields in the previously mentioned counties. The gas is purchased under written contracts of various terms, the majority ranging from 1 to 7 years. Applicant states that the gas prices under these contracts are fixed by negotiation and are not necessarily related to the price of oil. Most of the contracts provide for graduated prices. Among the contracts now in effect are some which provide for higher prices to be paid for natural gas called for and delivered in emergencies. Exhibit No. 1 shows the following trend of normal purchases prior to storage injection, withdrawal and company use:

Item	Area: San Joaquin Valley	Coastal	Los Angeles Basin	Total
Normal Purchases, Mcf				
Year 1953, Recorded	39,067,530	31,664,831	28,148,848	98,881,209
Year 1954, Estimated	33,952,000	32,603,350	24,361,120	90,916,470
Year 1955, Estimated	24,583,894	36,129,244	24,955,434	85,668,572
Average Rate per Mcf				
Year 1953, Recorded	Not Shown			16.05¢
Year 1954, Estimated				17.19¢
Year 1955, Estimated				18.13¢
Total Cost				
Year 1953, Recorded	Not Shown			$15,872,735
Year 1954, Estimated				15,632,073
Year 1955, Estimated				15,532,857

The natural gas purchased is compressed whenever necessary and is transported from the various sources and delivered to the two customers, except for gas which is stored for future deliveries or consumed in applicant's own operations.

A general wage increase made effective March 28, 1954 accounts for approximately $37,000 and $49,000 of the increases in total payroll for estimated years 1954 and 1955, respectively, over the payroll for 1953.

Applicant stated in its application that its rate of return, calculated on a depreciated rate base, will decline from 5.64% in 1953 to 3.14% for 1954 based on a pro forma calculation. For the year 1955 applicant foresees a rate of return of 1.31% and for 1956 a return of 0.27%. It alleges that a fair rate of return is 6.9% on a depreciated rate base and states that such a rate of return is necessary to assure confidence in the financial integrity of the enterprise so as to maintain its credit and attract capital. Applicant states that in the absence of rate relief it will incur a deficiency in its gross revenue of $2,162,677 in 1954 and $3,412,293 in 1955.

Present and Proposed Rates

From January 1, 1951 to December 31, 1952 applicant's predecessor billed Southern California and Southern Counties for natural gas under the terms of agreements entered into as of January 1, 1951. Applicant filed tariffs effective January 1, 1953, which incorporated the terms of those agreements and has been rendering the bills thereunder to date. In general, the present rates provide for the applicant to bill a fixed charge of $3,200,000 annually, of which 69%, or $2,208,000, is to Southern California, and 31%, or $992,000, is to Southern Counties, plus a commodity charge to each of 19 cents per Mcf for gas purchased.

The proposed rates provide that the fixed charge of $3,200,000 will be billed 60%, or $1,920,000, to Southern California; and 40%, or $1,280,000, to Southern Counties. The commodity rate is proposed to be 23.14 cents per Mcf for the first 70,000,000 Mcf of the combined total of gas purchased by both affiliates and 21 cents per Mcf for purchases in excess of that amount, annually.

A comparison of the present and proposed billings follows:

ESTIMATED 1955 SALES OF GAS

Item	Estimated 1955 Sales of Gas					
	Present Rates			Proposed Rates		
	Mcf	Rate	Amount	Mcf	Rate	Amount
Southern California						
Fixed Charge			$ 2,208,000			$ 1,920,000
Commodity Chg.				43,190,000	23.14¢	9,994,166
	52,680,356	19¢	10,009,268	9,490,356	21.00¢	1,992,975
Totals	52,680,356	23.2¢	12,217,268	52,680,356	26.4¢	13,907,141
Proposed increase over present rates						1,689,873
Southern Counties						
Fixed Charge			$ 992,000			$ 1,280,000
Commodity Chg.				26,810,000	23.14	6,203,834
	32,701,096	19¢	6,213,208	5,891,096	21.00¢	1,237,130
Totals	32,701,096	22.0¢	7,205,208	32,701,096	26.7¢	8,720,964
Proposed increase over present rates						1,515,756
Both Companies Combined						
Fixed Charge			$ 3,200,000			$ 3,200,000
Commodity Chg.				70,000,000	23.14¢	16,198,000
	85,381,452	19¢	16,222,476	15,381,452	21.00¢	3,230,105
Totals	85,381,452	22.8¢	19,422,476	85,381,452	26.5¢	22,628,105
Proposed increase over present rates						3,205,629

The above estimate of sales to each affiliate was based on their estimates of gas to be purchased from the applicant. It should be noted that applicant supplies only 27% of the gas requirements of the two affiliates, each purchasing additional gas from out-of-state sources and other in-state sources.

Earning Position

Applicant's principal source of revenue is from the sale of gas to Southern California and Southern Counties for resale. In addition to revenue from the sale of gas to these affiliated companies, applicant receives revenue from exchange deliveries to oil producers as an incident to gas purchase contracts, from compression services and from other minor items. Such additional revenue is classified as miscellaneous. Applicant's expenses of operation consist of (1) cost of gas sold, (2) transmission operation and maintenance including operation and maintenance of transmission pipelines, storage facilities, compressor stations and related facilities, (3) administrative and general expenses, (4) depreciation, and (5) taxes including social security, unemployment, ad valorem and income. Applicant predicated its rate base upon the fixed capital in service at the beginning of the year plus weighted average net additions, weighted average noninterest bearing construction work in progress, working cash, gas in storage, and materials and supplies, less a deduction for depreciation.

The earning position as shown by applicant is set forth in Exhibit No. 1 and may be summarized as follows:

EARNINGS RESULTS

Item	Earnings Results 1953 Recorded	 1954 Estimated	 1955 Estimated
Operating Revenue:			
Gas Sales	$21,818,067	$19,962,437	$19,422,476
Miscellaneous			
Exchange	610,460	600,000	600,000
Compression	5,796	6,000	6,000
Other	17,054	15,000	15,000
Total Revenue	22,451,377	20,583,437	20,043,476
Operating Expenses:			
Cost of Gas Sold	15,558,267	15,083,783	15,414,286
Transmission Operation	1,688,701	1,634,257	1,604,710
Transmission Maintenance	526,447	531,775	597,670
Administrative & General	694,624	701,688	720,694
Depreciation	624,719	675,900	718,500
Taxes, Other Than Income	448,352	557,100	586,100
Taxes, State Corp. Franchise	144,976	48,962	6,303
Taxes, Federal Income	1,412,608	546,797	65,596
Total Exps.,Dep. & Taxes	21,098,694	19,780,262	19,713,859
Net Revenue	1,352,683	803,175	329,617
Rate Base (Depreciated)	24,434,590	25,649,949	26,405,135
Rate of Return	5.54%	3.13%	1.25%

In the above summary a 52% rate for federal income taxes was in effect for 1953 but for 1954 and 1955 the income tax was computed at a 47% rate. The 47% rate was in effect at the time that Exhibit No. 1 was presented. Since that time the Congress has extended the former tax rate of 52% until April 1, 1955. This higher tax rate for 1954 and the first 3 months of 1955 will be given consideration in our analysis of this matter.

The new Internal Revenue Code of 1954 contained optional provisions for depreciation accounting methods in computing income tax and prior to the close of the hearings applicant was requested to submit a statement of position in this matter. Applicant's position is set forth in late-filed Exhibit No. 9, dated August 23, 1954. Applicant states that accelerated depreciation for some industries, such as utilities, neither eliminates nor reduces income taxes, but if elected, and allowed, merely defers tax liabilities. It is the present decision of applicant's management to continue using the same depreciation accrual method which it used in 1953, the first year of its operation. This is the straight-line remaining life method, wherein the remaining lives of gas producing fields bear considerable weight.

With further reference to taxes, staff counsel requested a statement by applicant regarding dividend relief. Applicant's reply was that there is no additional relief provided in the new code in connection with dividends received by corporations, except as to provisions governing the filing of consolidated returns which permit greater use of such returns and eliminate more of the double taxation on earnings of subsidiaries. Applicant's conclusion after discussing this subject is that if, after review of the regulations, the final decision is to file a consolidated return for 1954 and subsequent years, it could expect an allocated tax decrease for the year 1955 of a moderate amount. An illustrative computation for 1953 using a consolidated return basis indicated a tax saving for applicant of about $10,000. In addition to future changes in income taxes it should be noted that about $100,000 of the increase in other taxes is due to an expected increase in the ad valorem taxes on applicant's property.

Rate of Return

Applicant's request for a rate of return as high as 6.9% is based on its conclusion that the specialized service rendered is subject to greater potential risks than the more diversified operations of companies that have integrated transmission and distribution systems or that are engaged in the retail distribution of gas and who would continue in business with manufactured gas when natural gas is insufficient. In the application it listed the rates of return allowed 13 natural gas companies in the United States in 1953 and in the latter part of 1952 by both State Commissions and the Federal Power Commission. Such return when related to a net investment rate base ranges from 5.85 to 7.57%, an average of 6.44% for all 13 utilities. Included in this list of natural gas companies are both Southern California Gas Company at 5.85% and Southern Counties Gas Company of California at 5.95%. Applicant contends that its over-all rate of return requirement is at least ½% greater than this average rate of return of 6.44%.

On July 7, 1954 applicant supplemented this list of 13 utilities by 5 more and set forth the results on Exhibit No. 2A. For the 18 utilities the average rate of return shown was 6.57%.

Applicant's capital structure consists entirely of capital stock of a par value of $25 per share. Presently outstanding are 874,133 shares of common stock with an aggregate par value of $21,853,325. One of applicant's witnesses expressed the view that the applicant company could not secure bond money at this time. He gave as his reasons the fact that the applicant is a company that exists to meet peaking requirements, rather than a basic supply company, and that it does not have long-term sales contracts nor long-term gas purchase contracts, like the transcontinental pipeline companies.

Position of California Manufacturers Association

The California Manufacturers Association took the position that the two basic issues involved in this case, namely: (1) the amount of revenues required by applicant to provide it with a fair return upon its investment in property dedicated to the public use, and (2) the manner in which the rates are to be charged and spread between the two customers, should be separately considered and determined. With regard to the first issue the Association was not opposed to this applicant receiving a fair rate of return as determined by the Commission having in mind the nature of its business. The Association was primarily concerned with the second issue, or the manner in which applicant proposes to assess its needed rate increase. The Association took exception to the proposal to obtain all of the required increase by increasing only the commodity charge portion of the rate and not the fixed charge portion of the rate. The Association's witness urged that the fixed charge should be about doubled in order to closely follow his cost study analysis.[1/] In substantiation of its position the Association introduced Exhibits Nos. 5, 6 and 7 in this proceeding.

The Association's witness who prepared Exhibit No. 5 entitled it: Cost of Service Study on Pacific Lighting Gas Supply Company, Estimated Year 1955. His conclusions are that the total fixed costs are $6,351,752 of which $3,706,049, or 58.3%, is incurred for Southern California and $2,645,703, or 41.7%, for Southern Counties, and that the total commodity costs are $16,628,153 of which $10,072,980, or 60.6%, is incurred for Southern California and $6,252,559, or 37.6%, for Southern Counties and $302,614, or 1.8%, for Exchange Services.

In Exhibit No. 7 the Association's witness compared the billing under the proposed rates to compensate for revenue deficiency

1/ Transcript, page 366.

and the estimated costs of service. This cost showing may be compared with applicant's estimated revenue as follows:

Item	Total Distributing Companies	Southern California Gas Company	Southern Counties Gas Co.
Fixed Items			
Estimated Costs	$ 6,351,752	$ 3,706,049	$2,645,703
Service Charge	3,200,000	1,920,000	1,280,000
Deficiency of Service Charge	3,151,752	1,786,049	1,365,703
Commodity Items			
Estimated Costs	16,325,539	10,072,980	6,252,559
Commodity Revenue	19,428,105	11,987,141	7,440,964
Excess of Revenue	3,102,566	1,914,161	1,188,405
Total of Fixed and Commodity Items			
Estimated Costs	22,677,291	13,779,029	8,898,262
Service Chg.& Commodity Rev.	22,628,105	13,907,141	8,720,964
Excess of Costs	49,186	(128,112)	177,298

(Red Figure)

The above computation does not include the revenue from exchange service estimated at $600,000 compared to an estimated cost of $302,614.

Computations somewhat similar to that above are contained in Exhibit No. 6, except that the rate of return was computed at 6% and 6.5% instead of 6.9% and using present rate levels instead of proposed rate levels. At 6% return an over-all deficiency of $2,787,690 was shown and at 6.5% return an over-all deficiency of $3,047,205 was shown.

Position of City of Los Angeles

The City of Los Angeles, as a customer of each of the two distributing companies, and as a representative of its citizens who depend wholly upon these companies for their gas requirements, took part in this proceeding on the grounds that any decision on the applicant will affect the services rendered by the distributing companies and the level of their rates. The city was opposed to inclusion of $500,000 in the rate base for working cash, questioned the level of pipeline maintenance and compressor maintenance costs, and contended that the rate of return should be no higher than 5.9% and that the cost-of-service study and exhibits offered by the California Manufacturers Association are irrelevant.

With regard to working cash the city maintains that the ratepayers should not be required to pay a return on capital which is not reasonably and necessarily invested to serve the ratepayers and that the applicant's request for a specific allowance of $500,000 is not borne out by its computations.

With regard to the level of transmission maintenance expenses the city states that applicant's cost of $1,390 per mile compares with an average cost of $330 per mile for three large transmission pipeline companies. Applicant's explanation for this difference is that its pipes are old, the principal transmission facilities having been installed as far back as 1930, and that the figure of $330 per mile is for relatively new pipelines. Maintenance costs tend to increase with age as the necessity for reconditioning and other maintenance work appears.

The city computed a cost of $8.93 per horsepower for compressor station equipment maintenance and compared this amount with figures as low as $1.96 per horsepower for other large pipeline companies. Applicant's principal reasons for this difference were age of units and size of units. Many of applicant's units are in the 165 to 180-horsepower range and normally would show a higher unit cost than, for example, a modern 1,000-horsepower compressor unit.

With regard to rate of return the city contends that the applicant has no independent existence and the return allowed should be at a rate no higher than allowed its affiliate utilities, an arithmetical average of 5.9%. It also contended that applicant's

Exhibit No. 2 on rate of return has little evidentiary value and that the Commission should give consideration to a hypothetical capital structure which included some debt rather than all common stock. The city introduced Exhibit No. 8 to show that applicant's proposed rates would yield 8.96% earnings on its common stock under the present capital structure with a 6.9% rate of return, and with a capital structure of 50% debt applicant could earn 11.01% on its common stock with a rate of return of 5.9%.

In so far as cost of service is concerned, the city argued that cost to serve is not an appropriate issue in this proceeding because the applicant serves only two customers, and that the only possible basis for considering cost of service here is for its effect in fixing the rates of the two distributors as between firm and interruptible services. The city states that cost of service is obviously one of the many factors to be considered when it comes time finally again to review the rates of the applicant's customers. It further states that cost studies may be helpful but are by no means controlling or conclusive, particularly where based on the assumption that all fixed costs should be allocated to the demand component.

Commission Staff Analysis

The staff did not submit any exhibits or offer any testimony in this proceeding because, in general, the applicant had prepared its study in accordance with staff practice. The applicant submitted its preliminary draft to the staff for study and review. The staff visited the applicant's offices and examined its records and basic estimating procedures. Applicant claims it made all suggested adjustments, except for working cash, in preparing its final exhibit, such adjustments representing approximately $200,000 reduction in gross revenue deficiency compared to the preliminary draft.

The staff was represented by an attorney and an engineer who actively participated in the cross-examination of witnesses. The staff's position was that the applicant's presentation reflects acceptance for this proceeding of the staff's views on all controversial items except the requirement for working cash in the rate base and the item of rate of return to be decided by the Commission.

Exchange Services

A customer's representative was concerned over the fact that applicant delivers large quantities of gas for use by refineries at rates established by the utility. He contended that higher rates should be paid for exchange service and that the matter should be further investigated by the Commission through a special hearing. Applicant's position is that exchange service is incident to purchase of gas from producers. The evidence shows[2/] that in negotiating with producers, as a condition of gas purchase, the requirement is made that applicant deliver, at a price, a quantity of gas for consumption in the producer's operations at some point other than where the gas is produced. This exchange service is on a curtailable basis and applicant avers that this service is furnished as a part consideration of the purchase of gas and is not done under any circumstances except under contracts which include the purchase of gas.

2/ Transcript, page 139.

Conclusions - General

After considering the evidence of record in the case and statements by the applicant, the staff and interested parties, it is concluded that:

1. Applicant's estimate of expenses for the test year 1955 are reasonable for rate-making purposes except that a 52% federal income tax rate should be used in lieu of 47% with proper safeguard to the public as noted below.

2. Applicant's rate base should be reduced by $500,000, the proposed working cash allowance, after giving weight to the availability of income tax accruals when revenues are increased to yield a reasonable rate of return.

3. A fair rate of return to be allowed for the purposes of this decision is 6% for the estimated year 1955.

4. Cost of service is only one important item to consider in making rates or in the spread of rates.

5. Exchange gas is now being handled on a reasonable basis and does not require further investigation by the Commission at this time.

On the basis of the above conclusions the following revenues, expenses and rate base are adopted as reasonable for 1955:

Revenues (Present Rates)	$20,043,476
Expenses (With 52% federal income tax)	19,721,423
Net Revenues	322,053
Rate Base (Depreciated)	25,905,135
Rate of Return (Present Rates)	1.24%

Conclusion on Increase in Revenue

When a rate of return of 6% is applied to a depreciated rate base of $25,905,135, which we hereby find to be reasonable for rate-making purposes, a net revenue figure of $1,554,308 results. Compared with an adopted net revenue of $322,053 for the test year under present rates an increase in net revenue of $1,232,255 is warranted. Under the present federal income tax rate of 52% a net-to-gross multiplier of 2.173 is indicated, which is equivalent to an increase in gross operating revenues of $2,678,000. Such increase will be authorized and is estimated to result from the rate changes to be authorized by the order herein.

Conclusion on Rate Spread

In revising the rates to produce such increased revenues, in our opinion, both the fixed charge and the commodity rates should be increased. An increase in the total annual fixed charge to $3,750,000 will be authorized to be divided 59% to Southern California and 41% to Southern Counties. The commodity rate will be authorized to be increased from 19 cents per Mcf to 21.5 cents per Mcf.3/

Conclusion on Federal Income Tax Rate

In computing federal income taxes on a 52% basis we are mindful that the legal rate, as now specified for 1955, is 52% for the first 3 months and 47% for the last 9 months. Applicant expects that the 52% rate will be made effective for the entire year 1955 and asked that the computations be made on a 52% basis subject to refund to its customers of any over collection if the final effective rate for 1955 does not equal 52%.4/ Instead of providing for refunds, the method herein adopted will provide for rates that would be applicable on a 47% federal income tax basis. Inasmuch as both Southern California and Southern Counties are before us at this time for rate increases, to protect the consuming public consideration will be given to similar provisions in the decisions on these two companies.

3/ Based on total estimated sales of 85,381,452 Mcf in 1955 the combined fixed and commodity charge will be equivalent to an average composite rate of 25.9¢ per Mcf.

4/ Transcript, page 316.

If applicant files a consolidated tax return, or in any way under the new revenue code substantially reduces its tax liability below that computed herein, it shall promptly notify the Commission.

Finding

After considering all of the evidence of record it is found that a fair and reasonable rate of return for the future is 6% and it is our finding and conclusion that an order should be issued increasing the rates of applicant in the over-all amount of $2,678,000 by authorizing an increase in the fixed charge to $3,750,000 annually and in the commodity rate to 21.5 cents per Mcf. Unless otherwise ordered by the Commission the commodity rate will be reduced to 21.2 cents per Mcf effective April 1, 1955.

O R D E R

The Pacific Lighting Gas Supply Company having applied to this Commission for an order authorizing increases in rates and charges for 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 and charges, in so far as they differ from those herein prescribed, for the future are unjust and unreasonable; therefore,

IT IS HEREBY ORDERED as follows:

1. Applicant is authorized to file in quadruplicate with this Commission after the effective date of this order, in conformity with the Commission's General Order No. 96, revised tariff schedules as set forth in Appendix A attached hereto, and, after not less than five days' notice to this Commission and to the public, to make said revised tariff schedules effective for service furnished on and after December 1, 1954.

2. Applicant shall refile its Rule and Regulation No. 3, Contracts, to be consistent with Special Condition 2 of the authorized tariffs.

3. Applicant shall revise its proposed service contracts (Exhibits Nos. 3 and 4) to be consistent with the rates herein authorized and file copies of the forms of such contracts in conformance with the Commission's General Order No. 96.

4. Unless otherwise ordered applicant shall, prior to April 1, 1955, refile its tariff schedules to be effective April 1, 1955 revising the commodity rate to 21.2 cents per Mcf.

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

Dated ~~at~~ San Francisco, California, this 2d day of November, 1954.

Peter E. Mitchell
President

Justus F. Craemer

Kenneth Potter

Verne Scoggins

Ray E. Untereiner
Commissioners

A-35129 MS

APPENDIX A

Schedule No. 1

WHOLESALE NATURAL GAS SERVICE

APPLICABILITY

This rate schedule is available only for the sale of gas at wholesale from Pacific Lighting Gas Supply Company (hereinafter referred to as "Seller") to Southern California Gas Company (hereinafter referred to as "Buyer"), for resale by the Buyer.

TERRITORY

The principal points of delivery for gas to be delivered by Seller shall be at the following points:

(A) Glendale (Doran Street)
(B) Castaic Crossover
(C) Willow Street
(D) Dominguez Field
(E) Calabasas
(F) Goleta Gas Storage Field
(G) Ten Sections Field
(H) Buena Vista Junction
(I) Mile 13.5 Junction
(J) Kettleman Hills
(K) Mile 2.2 Crossover
(L) At such other points as may be mutually agreed upon from time to time.

RATES

Effective Rates

Monthly Fixed Charge	\$184,500
Commodity Charge, for all gas other than as provided in subparagraphs (a) and (b) hereof, per Mcf	21.5¢

(a) To the extent that Buyer and Southern Counties Gas Company of California fail to take 70 billion cubic feet of gas from Seller during any one contract year, Buyer will pay Seller for Buyer's share of the deficiency at the effective commodity charge rate, but not for any quantity in excess of 45 billion cubic feet.

(b) For emergency or call gas which Seller purchases at Buyer's request at a price of 21¢ per Mcf or more, Buyer shall pay such cost, plus 10% thereof.

SPECIAL CONDITIONS

1. Buyer shall not be obligated to accept any gas delivered hereunder with less than a heating value of 950 Btu per cubic foot saturated.

2. Buyer shall enter into a contract with Seller covering the purchase and sale of natural gas hereunder. The period of time to be covered by the contract shall be for an initial three-year period subject to annual renewal thereafter.

Schedule No. 1

WHOLESALE NATURAL GAS SERVICE

SPECIAL CONDITIONS--Contd.

3. Obligation of Buyer to Take Gas.

(a) Within the limitation of the total quantity of natural gas available for sale by Seller through existing facilities and new facilities which may be completed in the future, Buyer agrees to buy a minimum of 45 billion cubic feet of natural gas during the first year of the contract and a like amount for each succeeding contract year that the contract will be in effect; provided that Seller shall not be obligated to withdraw gas from Goleta Gas Storage Field when the control well surface pressure shall be less than 1440 pounds per square inch gauge, nor shall Seller be obliged to withdraw gas from East Whittier Gas Storage Field when the control well surface pressure shall be less than 500 pounds per square inch gauge.

(b) Buyer shall have the right to purchase 60% of the excess quantity of natural gas available for sale over the obligation specified in 3(a) above, and the obligation specified in the concurrent contract of Southern Counties Gas Company of California with the concurrent right of Southern Counties Gas Company of California to purchase 40% of such excess gas.

(c) If at any time Seller shall fail to tender, when requested by Buyer, for at least five days during any calendar month of the winter period, November to March, inclusive, an average daily quantity of 360 million cubic feet of gas, and when such deficiency in tender is not attributable to the depletion of storage gas or is not attributable either directly or indirectly to the Buyer, or is not excused by force majeure, Buyer shall have the right, at its option, to reduce the monthly fixed charge thereafter to such proportion of $184,500 as the average daily quantity of gas actually tendered during the said period of at least five days bears to 360 million cubic feet.

4. The monthly fixed charge and the commodity charge shall remain in effect after the first year of the contract and until either Buyer or Seller shall have requested the other by at least 30 days' notice in writing to renegotiate the said monthly fixed charge or the commodity charge.

Schedule No. 2

WHOLESALE NATURAL GAS SERVICE

APPLICABILITY

This rate schedule is available only for the sale of gas at wholesale from Pacific Lighting Gas Supply Company (hereinafter referred to as "Seller") to Southern Counties Gas Company of California (hereinafter referred to as "Buyer"), for resale by the Buyer.

TERRITORY

The principal points of delivery for gas to be delivered by Seller shall be at the following points:

(A) Huntington Beach Field
(B) Seal Beach
(C) Bolsa and Goldenwest
(D) Santa Fe Springs
(E) Brea Field
(F) Dominguez Field
(G) Willow Street
(H) Salt Works
(I) Terminal Island
(J) Santa Clara Avenue and State Highway
(K) Somis
(L) Goleta Gas Storage Field
(M) Glendale (Doran Street)
(N) Calabasas
(O) Kettleman Hills
(P) At such other points as may be mutually agreed upon from time to time.

RATES

Effective Rates

Monthly Fixed Charge:............	$128,000
Commodity Charge for all gas other than as provided in subparagraphs (a) and (b) hereof, per Mcf.....	21.5¢

(a) To the extent that Buyer and Southern California Gas Company fail to take 70 billion cubic feet of gas from Seller during any one contract year, Buyer will pay Seller for Buyer's share of the deficiency at the effective commodity charge rate, but not for any quantity in excess of 25 billion cubic feet.

(b) For emergency or call gas which Seller purchases at Buyer's request at a price of 21 cents per Mcf or more, Buyer shall pay such cost, plus 10% thereof.

SPECIAL CONDITIONS

1. Buyer shall not be obligated to accept any gas delivered hereunder with less than a heating value of 950 Btu per cubic foot saturated.

2. Buyer shall enter into a contract with Seller covering the purchase and sale of natural gas hereunder. The period of time to be covered by the contract shall be for an initial three-year period subject to annual renewal thereafter.

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Schedule No. 2

WHOLESALE NATURAL GAS SERVICE

SPECIAL CONDITIONS--Contd.

3. Obligation of Buyer to Take Gas.

(a) Within the limitation of the total quantity of natural gas available for sale by Seller through existing facilities and new facilities which may be completed in the future, Buyer agrees to buy a minimum of 25 billion cubic feet of natural gas during the first year of the contract and a like amount for each succeeding contract year that the contract will be in effect; provided that Seller shall not be obligated to withdraw gas from Goleta Gas Storage Field when the control well surface pressure shall be less than 1440 pounds per square inch gauge, nor shall Seller be obliged to withdraw gas from the East Whittier Gas Storage Field when the control well surface pressure shall be less than 500 pounds per square inch gauge.

(b) Buyer shall have the right to purchase 40% of the excess quantity of natural gas available for sale over the obligation specified in 3(a) above, and the obligation specified in the concurrent contract of Southern California Gas Company and the concurrent right of Southern California Gas Company to purchase 60% of such excess gas.

(c) If at any time Seller shall fail to tender, when requested by Buyer, for at least five days during any calendar month of the winter period, November to March, inclusive, an average daily quantity of 240 million cubic feet of gas, and when such deficiency in tender is not attributable to the depletion of storage gas or is not attributable either directly or indirectly to the Buyer, or is not excused by force majeure, Buyer shall have the right, at its option, to reduce the monthly fixed charge thereafter to such proportion of $128,000 as the average daily quantity of gas actually tendered during the said period of at least five days bears to 240 million cubic feet.

4. The monthly fixed charge and the commodity charge shall remain in effect after the first year of the contract and until Buyer or Seller shall have requested the other by at least 30 days' notice in writing to renegotiate the said monthly fixed charge or the commodity charge.

APPENDIX B

LIST OF APPEARANCES

For Applicant: Oscar C. Sattinger.

Interested Parties: City of Los Angeles, by Roger Arnebergh, Alan G. Campbell, T. M. Chubb and R. W. Russell; 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 and Rollin E. Woodbury; The Exchange Orange Products Company, by W. D. MacKay of Commercial Utility Service; Monolith Portland Cement Company, by Norman Elliott of Enright & Elliott.

For the Commission staff: Boris H. Lakusta and Charles W. Mors.

LIST OF WITNESSES

Evidence was presented on behalf of applicant by Robert A. Hornby (Rate of Return, Financial Risks), C. E. Pearman (Introduction, History, Balance Sheet, Income, Earned Surplus, Clearing Accounts, Operating Revenues, Administrative and General Expense Taxes, Depreciation, Rate Base, Summary of Earnings, Conclusion); Raymond W. Todd (Present Operations, Cost of Gas, Transmission Expense).

Evidence was presented on behalf of the Interested Parties by: Homer R. Ross (Cost Study, Revenue and Cost Comparisons); Melvin E. Gainder (Estimated Results of Operation and Earnings on Common Stock.)