ET

Decision No. 50902

ORIGINAL

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 gas rates under Section 454 of the Public Utilities Code.) Application No. 35742

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

O P I N I O N

Southern Counties Gas Company of California, operating a public utility gas system in the southerly portion of the state, filed the above-entitled application on August 27, 1954 and amended the same on October 27, 1954, seeking thereby an increase in annual gas revenue of at least $3,949,000 because of increases in cost of gas, wages, taxes and other items.

Public Hearing

After due notice, six days of public hearing were held on this application before Commissioner Kenneth Potter and Examiner M. W. Edwards at Los Angeles during the period October 13 to 29, 1954. The matter was submitted subject to the filing of written statements by November 22, 1954. They were duly received and have been considered.

Applicant's Operations

Southern Counties Gas Company of California is a public utility engaged in purchasing, transporting, distributing and selling natural gas at retail to domestic, commercial, gas engine and interruptible customers located in portions of the Counties of Los Angeles, Orange, Riverside, San Bernardino, San Luis Obispo, Santa Barbara and Ventura, and at wholesale to the San Diego Gas & Electric Company. The San Diego Gas & Electric Company receives deliveries from applicant of interstate gas through the Moreno Pipeline branch of the Texas to Los Angeles Pipeline and intrastate gas through the Huntington Beach Pipeline. As of June 30, 1954 applicant served 472,813 active and supplemental meters of which 471,274 were for domestic and commercial service. The service area comprises 162 cities and communities with an estimated population of 1,600,000. Applicant is a subsidiary of Pacific Lighting Corporation, which company owns all of applicant's outstanding common stock.

Applicant's Position

Applicant by this proceeding seeks to obtain promptly a limited revenue increase (approximately 8 per cent overall) sufficient to place the applicant in position to earn 6.25 per cent return during the test year 1955. Applicant refers to its last major rate case, Application No. 33341, Decision No. 48833, dated July 14, 1953, and states that its present need for major rate relief is the consequence of certain specific additional costs and losses of revenue experienced since that decision which it enumerated briefly as follows:

1. Increased cost of gas purchased from California producers and the Pacific Lighting Gas Supply Company
2. Higher ad valorem taxes
3. An increase in the annual depreciation annuity
4. An increase in purchased gas and transmission costs resulting from the new agreement with the Southern California Gas Company for a more equitable allocation of such costs1/

1/ While the hearing was in progress the Commission authorized the reallocation agreement by Decision No. 50718, Application No. 35690, dated October 26, 1954, to be effective January 1, 1955. The effect of this reallocation is to increase Southern Counties cost by approximately $760,000.

5. Continued additions and replacements of facilities at costs per customer substantially in excess of the average original cost of plant in service, and

6. Loss of miscellaneous revenues from exchange gas service

Applicant states that it does not contend for its conception of a fair rate of return at this time, but requests a return limited to 6.25 per cent in order to expedite the disposition of this matter. It refers to the decline in rate of return recognized by the Commission in Decision No. 48833 wherein the Commission allowed for the future a rate of return of 5.95 per cent plus a margin of 0.5 per cent to allow for such decline. Applicant suggested also that it would be in the public interest to provide for a decline in return for a period of at least two years in order to reduce the need for repeated requests for rate relief. In the instant case, however, applicant would be content if the Commission applied the 6.25 per cent rate to a future test period without any additional allowance for decline in rate of return because of adding plant at unit costs above the system average, provided the new rates are effective as of the start of the test period.

Proposed Rate Increases

In Exhibit No. 5 applicant stated the objectives of its proposed rates as follows:

1. To produce additional annual gross revenue of $3,949,000

2. To give greater recognition to the fixed costs of serving General Service customers

3. To reflect the increased cost of gas in the rates for other classes of service to the extent to which competitive conditions permit

4. To revise the wholesale rate to San Diego Gas & Electric Company to reflect the changing load conditions of this service

With regard to the various classes of customers applicant proposed the following increases:

Class of Service	Proposed Increase Unit	Amount	Ratio
General Service			
First 200 cu.ft. per month or less ..	.25¢ per bill	$1,547,000	
Over 200 cu.ft. per month	2.9¢ per Mcf	1,299,000	
Total		2,846,000	8.7%
Gas Engine	2.3¢ per Mcf	22,000	6.6
Firm Industrial	2.4¢ per Mcf	67,000	5.6
Interruptible Industrial	1.7¢ per Mcf	257,000	5.7
Steam-Electric Plant	None*	-	-
San Diego Gas & Electric Company	2.4¢ per Mcf	762,000	9.9
		3,954,000	8.0

* As a result of the increase proposed in Schedule No. G-50 the base rate for steam-electric service will increase from 25 cents per Mcf to 26.7 cents per Mcf, but the effect of the contract ceiling will prevent any increase to this class as a result of the change in the base rate.

The proposed retail increases are in addition to the 1.6 cents per Mcf offset charge presently collected because of an increase in the El Paso Natural Gas Company rates subject to final determination and possible refund order by the Federal Power Commission. If the Federal Power Commission does not fix the final El Paso rate before the effective date of this decision, applicant states it will continue the retail offset rate of 1.6 cents subject to refund until final El Paso rates are fixed by the Federal Power Commission as authorized by our former Decision No. 47991.

With respect to the possible refund on the Moreno Pipeline wholesale rate, applicant expects that, after the El Paso Natural Gas Company's final rates are fixed, the Federal Power Commission will set the final rates which the applicant will charge the San Diego Company for Moreno Pipeline deliveries from January 1, 1953 to March 27, 1954. This rate was increased on January 1, 1953 to yield an additional $495,000 annually (Docket No. G-2297) to offset the increased cost of El Paso gas. On March 27, 1954 jurisdiction over the Moreno Line sales was transferred to the California Public Utilities Commission by the 1954 Hinshaw Amendment to the Natural Gas Act.

While the above tabulation shows 2.4 cents per Mcf increase to San Diego this is a resultant increase due to the new proposed rate form. In Exhibit No. 4 the applicant set forth the following principles on which it designed the new rate for sales to San Diego Gas & Electric Company:

1. Provision for an increase in both peaking and nonpeaking gas deliveries

2. A rate structure that is predicated essentially on cost to serve, but at the same time gives consideration to value-of-service factors based on arms-length bargaining.

The proposed wholesale base rate is set forth in Exhibit No. 9 and provides for combined deliveries over both pipelines. It is in effect a four-part rate as follows:

1. Facility charge - annual	$559,500
2. Demand charge for contract demand of 95,000 Mcf per day:	
Annual base rate per Mcf per year	$17.22
3. Standby charge - annual	$150,000
4. Commodity charges:	
a. Basic rate per Mcf	16.00¢
b. Steam plant gas premium per Mcf	1.00¢
c. Off-peak excess per Mcf	27.00¢
d. Peaking excess per Mcf	35.00¢

Applicant asks that the Commission find the above rate for sales to San Diego fair and reasonable.

Earning Position

Applicant's Exhibits Nos. 1 and 1A show the following trend of earnings expressed as a rate of return on a depreciated rate base:

Rate of Return Summary

Year 1952, Recorded	5.61%
Year 1953, Recorded	5.04
Year 1953, Pro Forma (52% Income Tax Rate)....	4.54
Year 1954, Estimated	5.74
Year 1954, Pro Forma (52% Income Tax Rate)....	4.50
Year 1955, Estimated (52% Income Tax Rate)....	4.58
Year 1955, Pro Forma (52% Income Tax Rate)....	4.57
Year 1955, Estimated (47% Income Tax Rate)....	4.81
Year 1955, Pro Forma (47% Income Tax Rate)....	4.80

Applicant claims that the pro forma rates of return as set forth above show the results on a stable gas system with fixed gas supply and gas costs and constant wage rates. For years 1953 and 1954 the pro forma earnings are on the basis of a 52 per cent federal income tax rate, while the earnings for both 47 per cent and 52 per cent rates are shown for 1955. The present Federal tax law provides for a 52 per cent rate until April 1, 1955 and a 47 per cent tax rate thereafter.

The Commission staff analyzed applicant's exhibits and, after making adjustments for a greater number of active meters (but less total connected meters) and minor adjustments for franchise requirements and ad valorem taxes, by Exhibit No. 11 computed rates of return 0.02 per cent higher and 0.10 per cent higher than applicant for 1954 and 1955 pro forma years, respectively, with 52 per cent federal income tax rate. Applicant's and the staff's studies for 1955 may be summarized as follows:

Earnings Results for Estimated Pro Forma Year 1955

Item	Applicant's Exh. No.1A 47% Federal Income Tax	Applicant's Exh. No.1A 52% Federal Income Tax	Staff's Exh.No.11 52% F.I.T.
Operating Revenue			
Gas Sales Revenue	$49,728,000	$49,728,000	$49,813,000
Other Gas Revenue	568,000	568,000	568,000
Total	50,296,000	50,296,000	50,381,000
Operating Expenses			
Production	24,742,000	24,742,000	24,742,000
Transmission	962,000	962,000	962,000
Distribution	3,597,000	3,597,000	3,595,000
Customers' Acctg. and Coll.	2,913,000	2,913,000	2,902,000
Sales Promotion	1,533,000	1,533,000	1,533,000
Admin. and General	2,556,000	2,556,000	2,548,000
Gas Supply Cost Reallo. Adj.	700,000	700,000	700,000
Added Week Vacation Allowance	17,000	17,000	17,000
Subtotal	37,020,000	37,020,000	36,999,000
Taxes	5,618,000	5,863,000	5,923,000
Depreciation Annuity and Int.	2,527,000	2,527,000	2,513,000
Total	45,165,000	45,410,000	45,435,000
Net Revenue	5,131,000	4,886,000	4,946,000
Rate Base, Depreciated	106,846,000	106,846,000	105,940,000
Rate of Return	4.80%	4.57%	4.67%

The main difference between the staff and the applicant was due to a variation in the estimated active meters and total connected meters for 1955. The applicant's and the staff's estimates for these items are:

Year 1955	Applicant's Estimate	Staff's Estimate	Difference
Mean Connected Meters	540,061	535,614	(4,447)
Mean Active Meters	517,186	519,553	2,367*

( ) Applicant's estimate exceeds staff's.
* Due to a minor error the staff's estimate was based on 2,392 difference.

The applicant introduced Exhibit No. 15 for the purpose of showing that the ratio of inactive to total connected meters has exhibited a yearly increasing trend since the end of World War II in 1945 and for 1955 would be approximately 4.2 per cent. The staff assumed a ratio of inactive to total connected meters of 3.0 per cent. Testimony indicated a greater number of houses to be constructed than assumed by either the applicant or the staff and a greater percentage of vacancies than assumed by the staff.

After considering the testimony and evidence on this point it is our conclusion that the mean ratio of inactive to connected meters should be assumed at 3.8 per cent for 1955. The applicant's estimate of 540,061 connected meters appears the more realistic. By applying an inactive meter ratio of 3.8 per cent to this estimate an active meter figure of 519,539 results. This figure is so close to the staff's estimate of 519,553 active meters that a reasonable solution to this difference of viewpoints is to use the staff's estimate of revenues and expenses for 1955 but, because rate base includes connected meters, to use essentially the applicant's rate base and related depreciation expense.

Federal Income Tax

Applicant requested that the rates be established for the full year 1955 on the basis of a 52 per cent rate for federal income tax purposes despite the fact that the present law provides for the tax rate to drop to 47 per cent on April 1, 1955. In making this request applicant referred to the fact that Congress has established the precedent of revising tax rates retroactively. If rates charged to customers are reduced as of April 1, 1955 to reflect a 47 per cent tax rate and Congress later establishes a rate higher than 47 per cent retroactive to that date, applicant claims that it will not be able to recoup its full tax expense for the interim period between April 1, 1955 and the date of final determination.

Applicant stated it does not desire to realize a profit on its income tax nor to be burdened with a loss. It desires to recoup only the taxes it will be required to pay and to this end submitted Exhibit No. 7 as an agreement to refund any over collections of federal income taxes. It proposes to adjust future gas rates immediately following any final determination of the income tax rate by Congress, the adjustment to be applied ratably on an Mcf basis to all retail gas rates, except rates to steam-electric plants. It proposes that refunds be made during the final quarter of 1955 by means of a ratable discount per Mcf to the adjusted retail rates, excluding rates to steam-electric plants, of any excess income tax charges during the interim period. However, there is no bill before Congress at the present time to continue the 52 per cent income tax rate beyond March 31, 1955.

The Commission takes official notice of the fact that, under the Internal Revenue Code of 1954, the federal normal income tax rate will decrease five percentage points, effective April 1, 1955. The order herein will provide that applicant file tariff schedules, effective April 1, 1955, reflecting the indicated reduction in tax rate. The applicant may, however, file a supplemental application not later than March 1, 1955 requesting that the reduction in rates not be put into effect on April 1 and that the higher level of rates be continued, subject to refund under a plan similar to that proposed by applicant in Exhibit 7.

Rate of Return

Applicant's request for a rate of return of 6.25 per cent was predicated on a study of the rates of return allowed to natural gas distribution companies in 31 recent regulatory decisions in the United States as set forth in Exhibit No. 3. Such study showed an average nominal rate of return of 6.06 per cent which the applicant recomputed on an average depreciated original cost basis as 6.82 per cent. Applicant considered that many of these utilities are comparable to it with respect to revenue distribution and capital structure and as a composite are attended by equivalent or lesser risks and uncertainties generally.

Table 2 of Exhibit No. 3 showed the following summary of factors of comparability:

Item	Test Group Range	Test Group Average	Applicant
Relative Distri. of Gas Sales Revs.:			
Residential and Commercial	43%-97%	70%	60%
Industrial	0 -50	23	24
Other	0 -24	7	16
Annual Increment in Gross Plant During Postwar Period	2%-13%	8%	13%
Capital Ratios:			
Debt Including Other Capital	28%-66%	48%	50%
Preferred Stock	0 -22	8	-
Common Stock Equity	24 -72	44	50

Applicant contended that such deviations between it and the composite average above shown as do exist would require a higher than average return allowance but it assertedly reduced its request to 6.25 per cent in its desire to avoid controversy and to expedite rate relief.

While the companies included in the exhibit may be comparable in some respects, there are differences in the capitalization ratios, size, territory served, and need for additional capital. Furthermore, in fixing the rate of return the Commission must give consideration to certain intangible factors not susceptible of equivalent statistical comparison, such as: comparative rate levels, financial policies, public relations, type of management, reasonable construction requirements, prevailing interest rates and other economic conditions, trend of rate of return, past financing success and future outlook for the utility. In its closing statement the City of Los Angeles took exception to the applicant's exhibit because it included few decisions in the last few months of declining money costs. The city stated that since July 1953 there has been a reported decline in bond yields and that reported yields from gas utility common stocks have followed a similar pattern. Los Angeles took the position that the Commission should adhere to the established rate of return of 5.95 per cent with such allowance for slippage or attrition as may seem to the Commission to be required.

Upon a careful consideration of the evidence before us we are of the opinion that applicant's revenues, based on the estimated year 1955, should be increased to provide a return of 6 per cent on a depreciated historical cost rate base. We find such a return to be fair and reasonable. In our opinion it is a return which under present-day conditions should permit applicant to maintain its credit and attract the capital required to finance the expansion of facilities reasonably necessary to render adequate service to present and prospective customers and fully perform its public duty.

Adopted Operating Results

In addition to the changes in applicant's revenues and expenses because of the assumption of a greater number of active meters in 1955, there is a decrease of $173,000 in production expenses to reflect the lower cost of Pacific Lighting gas based on Decision No. 50741 and an increased cost of $60,000 more than the $700,000 increase estimated for gas costs and jointly used facilities, based on Decision No. 50742. The following tabulation shows the operating results which we adopt as reasonable for an assumed 52 per cent tax rate for full year 1955 compared with the applicant's and the staff's results.

Item	Commission Adopted Oper. Results	Applicant Exh. No. 1A	Staff Exh. No.11
Operating Revenues	$ 50,381,000	$ 50,296,000	$ 50,381,000
Operating Expenses			
Production	24,569,000	24,742,000	24,742,000
Transmission	962,000	962,000	962,000
Distribution	3,595,000	3,597,000	3,595,000
Customers' Acctg. and Coll.	2,902,000	2,913,000	2,902,000
Sales Promotion	1,533,000	1,533,000	1,533,000
Admin. and General	2,548,000	2,556,000	2,548,000
Gas Sup. Cost Reallocation	760,000	700,000	700,000
Added Week Vacation	17,000	17,000	17,000
Subtotal	36,886,000	37,020,000	36,999,000
Taxes	5,977,000	5,863,000	5,923,000
Depreciation Annuity and Int.	2,527,000	2,527,000	2,513,000
Total	45,390,000	45,410,000	45,435,000
Net Revenues	4,991,000	4,886,000	4,946,000
Rate Base (Depreciated)	106,846,000	106,846,000	105,940,000
Rate of Return	4.67%	4.57%	4.67%

Revenue Increase

When a rate of return of 6 per cent is applied to a depreciated rate base of $106,846,000 for the test year 1955 a net revenue figure of $6,411,000 results. Compared with the adopted net revenue of $4,991,000 for the test year an increase in net revenue of $1,420,000 is warranted. Under a 52 per cent federal income tax a net-to-gross multiplier of 2.204 is indicated which requires an increase in gross operating revenues of $3,130,000. Such increase will be authorized and is estimated to result from the rate changes to be authorized by the order herein.

Cost of Service

One of the many factors considered by the Commission in the prescription of rates is cost of service. Applicant and the California Manufacturers Association presented cost-of-service studies in this record. These studies were similar in many respects to those presented in Application No. 34975 of the Southern California Gas Company. These studies also were similar in many respects to those submitted in this applicant's former rate case under Application No. 33341. In order to expedite the direct testimony and cross-examination of witnesses on cost of service, applicant submitted Exhibit No. 13 containing copy of reporter's transcript of testimony by Roy A. Wehe, Melvin E. Gainder, Homer R. Ross and Grove Lawrence in Application No. 34975. All parties present at the October 29, 1954 hearing stipulated to its applicability in the instant application.

Applicant's cost study, Exhibit No. 10, expresses the results in terms of rate of return utilizing revenues derived from the present and proposed rates. Two sets of allocations have been developed: Case A provides for no demand allocation to the interruptible service classes while Case B provides for 5 per cent demand allocation to the interruptible industrial service and 1 per cent to steam-electric plants as a separate service. The results of the study may be summarized as follows:

Results of Applicant's Cost-to-Serve Study

Classification	Present Rates Return Case A	Present Rates Return Case B	Present Rates Avg.Rev. per Mcf	Proposed Rates Return Case A	Proposed Rates Return Case B	Proposed Rates Avg.Rev. per Mcf
General Service	3.73%	3.92%	70.8¢	4.91%	5.12%	77.0¢
Gas Engine	5.96	5.99	34.6	7.52	7.57	36.9
Firm Industrial	7.65	8.06	43.0	8.96	9.36	45.4
Interruptible Indust.	13.87	7.98	29.6	16.40	9.82	31.3
Interruptible Steam Pt.	40.24	36.21	25.5	40.24	36.29	25.5
Wholesale to San Diego	3.00	2.97	24.3	6.14	6.09	26.7
System as a Whole	4.43	4.43	45.2	5.85	5.85	48.8

The above figures are based on the forecast year 1955 using an undepreciated rate base with sinking fund depreciation annuity. On this basis the over-all system return is some 0.4 per cent lower than when using a depreciated rate base with the proposed rates.

The Association's study, Exhibit No. 14, also was prepared on the basis of the forecast year 1955 assuming a 6.25 per cent rate of return. The results of the study may be compared with the estimated revenue from present rate levels as follows:

Results of Association's Cost-of-Service Study

Classification	Cost per Mcf	Rev. per Mcf Pres. Rates
General Service	84.70¢	70.82¢
Gas Engine	30.49	34.60
Firm Industrial	37.93	43.04
Regular Interruptible	19.83	29.58
Steam-Electric Interruptible	18.96	25.47
Wholesale to San Diego Gas & Elec. Co.	26.28	24.29

While the Association disagreed with the allocation methods and philosophies that applicant used in making its cost study, the results of both studies are informative to the Commission and have aided in the determination of revenue increases authorized for the various classes of service.

The City of Los Angeles disagreed with the cost study prepared by the California Manufacturers Association and stated that a cost study which determines only purported "incurred costs" cannot accurately portray actual customer class-cost responsibilities. It stated that the information contained in Exhibit No. 10, Case B, provides a much more dependable basis for valid conclusions where a portion of the demand component of cost is allocated to interruptible industrial service. However, the City took the position that the rates fixed for the applicant's interruptible industrial services should be determined after consideration of all relevant factors including the cost of competitive fuels in the free market.

Rate Spread - General

Applicant's proposed increases and the manner of spreading the increases have previously been outlined under the heading "Proposed Rate Increase". It should be noted that applicant proposes increases to all classes, except steam-electric plants, with the largest increases percentagewise to the General Service and Wholesale to San Diego classes.

In its closing statement the California Manufacturers Association opposed any increase to the firm industrial and interruptible industrial services at this time and stated: "It is clear that the rate increase is required solely by reason of the low earnings on general service and San Diego wholesale."2/ The Association realizes, however, that the Commission takes into account other factors than cost of service in fixing rates and enumerated two such factors, rate history and value of service.3/

2/ Page 21 of closing statement on behalf of California Manufacturers Association.
3/ Page 4 of closing statement on behalf of California Manuracturers Association.

The City of Los Angeles had a different view regarding interruptible rates and took the position that such rates should be determined after consideration of all relevant factors including the cost of competitive fuels in the free market.

A customer's representative suggested revising the rate-zoning scheme and lowering the rates in Ontario and in the Santa Maria area and adjacent territory in the Northern Division, and establishing a separate commercial rate and a lower interruptible industrial rate similar to Schedule G-53 of the Southern California Gas Company.

Rate Spread - San Diego

The present rates for wholesale service to San Diego Gas & Electric Company are separately shown for the Huntington Beach line and the Moreno line. These rates are:

Item	Moreno Pipeline	Huntington Beach Pipeline	Combined
Annual Facility Charge	$411,432	$658,000	$1,069,432
Commodity Charge per Mcf	21.35¢	17.5¢	20.12¢*
Annual Operation Cost	$262,000#	-	$ 262,000#

* This is a combined rate weighted in ratio of 70 for Moreno and 33 for Huntington Beach.

\# This is the 1953 level of reasonable and necessary seller's costs incurred in operation of Moreno line.

Applicant's proposed San Diego rate has already been stated. The San Diego Gas & Electric Company is in general concurrence with the proposal, but asks that the Commission consider the proposal in light of the over-all revenue requirements of applicant as determined by the Commission.

It will be noted that the applicant's proposal would reduce the facility charge by about one half, but establish a sizeable demand charge as well as a standby charge, while the commodity charge would be reduced from 20.12 cents to less than

17 cents per Mcf. A more simple type of rate than proposed by applicant will be established with the objective of the wholesale service to San Diego contributing equitably to the over-all requirements of applicant. A facility charge of $552,000 will be authorized but on a monthly basis. This charge covers the carrying charges of pipelines, compressors and other equipment installed specifically for the San Diego service, including a 6 per cent return on depreciated cost, and can be revised from time to time as additions or retirements of such facilities are made and as depreciation accumulates. The rate will include a monthly demand charge of $1.00 per Mcf of contract daily maximum demand. A single commodity charge will be authorized for the basic quantity of 95,000 Mcf daily without a premium for steam-plant gas. The rate of 27 cents per Mcf proposed by applicant for off-peak deliveries in excess of 95,000 Mcf daily will be reduced to 26.5 cents per Mcf. Since applicant proposes to supply gas over 95,000 Mcf per day for meeting San Diego firm peaks on a "best efforts" basis, no large element of fixed costs seems to be involved. For this reason a specific standby charge will not be included in the rate. However, the companies should continue negotiations looking toward the furnishing of San Diego with amounts in excess of 95,000 Mcf per day on a firm parity basis under the regular provisions of the tariffs.

In Exhibit No. 9 applicant proposes a two-year term of service contract but San Diego Gas & Electric Company in its closing statement seeks a term not to exceed ten years as to the basic agreement and two years as to any excess deliveries. A ten-year term of contract appears longer than necessary and a revision to a term of five years will be authorized for the basic service from the effective date of the rates prescribed herein, with a two-year term for any excess deliveries.

Rate Spread - Findings

After considering the proposals and suggestions by the applicant, the Association, the City and the customers' representative we find that:

1. The present rate area arrangement, prescribed by the Commission as recently as July 14, 1953, is reasonable and applicant has been ordered to keep the rate area plan up to date by reviewing annually and suggesting revisions by May 1 of each year

2. The local gas available in the Northern Division is insufficient to meet the full winter peaks and the rates reflect the higher investment and distribution operating and maintenance costs per meter compared with other divisions of the system

3. The General Service rate is now blocked in such manner as to give a reasonable rate to the commercial or larger type of user

4. There is not sufficient justification on this record to require the company to provide rate treatment similar to the G-53 type of interruptible rate schedule of Southern California Gas Company. Furthermore, such rate treatment would reduce revenues by an estimated $83,000 per year.

5. Applicant's proposal to spread increases to all classes (except steam-electric) with a greater percentage increase to the General Service class and wholesale to San Diego should be revised as indicated below:

Class of Service	Applicant's Proposed Increase	Authorized Increase 52% Tax Basis	Authorized Increase 47% Tax Basis
General Service			
First 200 cu.ft. per mo. per bill	25.0¢	25.0¢	15.0¢
Over 200 cu.ft. per mo. per Mcf	2.9	2.2	1.9
Gas Engine - per Mcf	2.3	1.0	0.7
Firm Industrial - per Mcf	2.4	1.0	0.7
Interruptible Industrial - per Mcf	1.7	1.4	1.1
San Diego G.& E.Co. - Equiv. per Mcf	2.4	1.2	0.9

The indicated increase to San Diego Gas & Electric Company is an equivalent figure resulting from a change in the fixed charge, demand charge, and commodity charge.

Rate Increase Summary

The percentage increase, by classes, requested by applicant and the corresponding percentage increases being authorized for the year 1955 under 52 per cent and 47 per cent federal income tax rates are:

Classification	Applicant's Request	Authorized 52% Tax	47% Tax
General Service	8.7%	7.7%	5.4%
Gas Engine Service	6.6	3.0	2.1
Firm Industrial Service	5.6	2.3	1.7
Interruptible Industrial	5.7	4.8	3.7
San Diego Gas & Elec. Co.- Wholesale	9.9	4.9	3.9
Company-Wide	8.0	6.3	4.6

El Paso Rate Changes

In the application, applicant requested that the 1.6-cent contingent offset rate being charged to retail customers because of increased cost of out-of-state gas be continued until the effective date of new rates under this order. Applicant's reason for making this request was that the Federal Power Commission might decide the final increase to be allowed El Paso Natural Gas Company before the new rates became effective and in the event that a refund were ordered by the Federal Power Commission, applicant seeks to avoid the confusion resulting from a rate decrease immediately followed by a gas rate increase. It proposed to make appropriate refunds covering the period January 1, 1953 to the date of the final decision in the retail offset rate case, Application No. 33699.

It is the Commission's understanding that a decision was issued by the Federal Power Commission on November 26, 1954, but that a rehearing has been granted. This order will continue the 1.6-cent offset charge for retail customers and the refund and final offset rate determination will be completed under Application No. 33699 and an appropriate offset charge for San Diego is provided for in the new schedule.

Finding

After considering the record herein it is found that 6 per cent is a fair and reasonable rate of return for the future. It is concluded that an order should be issued increasing the rates of applicant in the over-all amount of approximately $3,130,000 for the test year 1955, based on a 52 per cent federal income tax rate. Based on a 47 per cent federal income tax level the over-all amount of the authorized increase approximates $2,250,000.

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 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 with changes in rates and charges as set forth in Appendix A attached hereto, and on not less than five days' notice to this Commission and to the public, to make said tariff schedules effective for service furnished on and after January 22, 1955.

2. If the tax liability of the applicant is reduced in any manner under the Internal Revenue Code of 1954 by using a basis differing from that used by the applicant in this proceeding, applicant shall promptly notify the Commission.

3. Unless otherwise ordered, applicant shall, prior to April 1, 1955, refile its tariff schedules to be effective April 1, 1955 revising its base rates as follows: (a) General Service Schedules - reduce the initial charges 10 cents for the first 200 cubic feet or less and reduce the basic commodity charges 0.03 cents per 100 cubic feet; (b) Gas Engine Service, Firm Industrial Service, and Interruptible Service Schedules - reduce the basic commodity charges 0.3 cents per Mcf; San Diego wholesale rate - reduce the facility charge $2,000 per month and reduce the demand charge 5 cents per Mcf per month.

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

Dated at San Francisco, California, this 28th day of December, 1954.

Peter E. Mitchell
President

Justus F. Craemer

Kenneth Potter

Ray E. Untereiner

Commissioners

Commissioner Verne Scoggins, being necessarily absent, did not participate in the disposition of this proceeding.

The presently effective rates, charges and conditions are changed as set forth in this appendix.

1. General Natural Gas Service Schedules G-1 to G-6.2

   (a) Increase initial charges for first 200 cubic feet or less of winter and summer "M" rate, and winter "H" rate by $0.25 per month.

   (b) Increase base rates 0.22¢ per 100 cubic feet for commodity charges in excess of 200 cubic feet.

   (c) Revise first sentence of clause pertaining to summer billing of "heating only" customers as follows:

   "The rate per 100 cubic feet for the first 200 cubic feet under the summer "H" rate is the same as the rate per 100 cubic feet for the next 1,800 cubic feet."

   (d) Effective rates computed from the base rates authorized shall be increased to include the 0.16¢ per 100 cubic feet contingent offset charge.

   (e) Revise contingent offset charge clause as follows:

   The above effective rates include an offset charge of 0.16¢ per 100 cubic feet related to the volume of gas used. This offset charge is contingent upon the price of gas purchased from El Paso Natural Gas Company and is subject to possible refund.

2. Military Natural Gas Service Schedules G-20, G-21
   Multiple Dwelling Natural Gas Service Schedules G-25, G-26

   (a) Increase base rates 2.2¢ per Mcf for all commodity charges.

   (b) Effective rates computed from the base rates authorized shall be increased to include the 1.6¢ per Mcf contingent offset charge.

   (c) Revise contingent offset charge clause as follows:

   The above effective rates include an offset charge of 1.6¢ per Mcf related to the volume of gas used. This offset charge is contingent upon the price of gas purchased from El Paso Natural Gas Company and is subject to possible refund.

3. Firm Industrial Natural Gas Service Schedule G-40, G-41
   Gas Engine Natural Gas Service Schedule G-45

   (a) Increase base rates 1.0¢ per Mcf for all commodity charges.

   (b) Effective rates computed from the base rates authorized shall be increased to include the 1.6¢ per Mcf contingent offset charge.

(c) Revise contingent offset charge clause as follows:

The above effective rates include an offset charge of 1.6¢ per Mcf related to the volume of gas used. This offset charge is contingent upon the price of gas purchased from El Paso Natural Gas Company and is subject to possible refund.

4. Interruptible Natural Gas Service Schedule G-50

(a) Increase base rates 1.4¢ per Mcf for all commodity charges.

(b) Effective rates computed from the base rates authorized shall be increased to include the 1.6¢ per Mcf contingent offset charge.

(c) Revise contingent offset charge clause as follows:

The above effective rates include an offset charge of 1.6¢ per Mcf related to the volume of gas used. This offset charge is contingent upon the price of gas purchased from El Paso Natural Gas Company and is subject to possible refund.

5. Steam-Electric Generating Plant - Surplus Natural Gas Service Schedule G-55

(a) Revise base and effective rates consistent with authorized increases in Schedule No. G-50.

(b) Effective rates computed from the base rates authorized shall be increased to include the 1.6¢ per Mcf contingent offset charge.

(c) Revise contingent offset charge as follows:

The above effective rates include an offset charge of 1.6¢ per Mcf related to the volume of gas used, except where the amount of such offset charge included would be limited by the maximum rate. This offset charge is contingent upon the price of gas purchased from El Paso Natural Gas Company and is subject to possible refund.

6. Wholesale Natural Gas Service Schedules G-60, G-61, G-62

(a) Present Schedules G-60, G-61 and G-62 are canceled and replaced by new Schedule G-60, as follows:

Schedule G-60

WHOLESALE NATURAL GAS SERVICE

APPLICABILITY

This rate schedule is available only to San Diego Gas & Electric Company (hereinafter called "Buyer") for the purchase of natural gas at wholesale from Southern Counties Gas Company of California (hereinafter called "Seller").

Schedule G-60—Continued

WHOLESALE NATURAL GAS SERVICE

APPLICABILITY--Contd.

This rate schedule shall apply to all deliveries of natural gas through both the Moreno-Rainbow Pipeline and the Huntington Beach Pipeline to Buyer for resale, unaccounted-for and fuel uses.

TERRITORY

The principal points of delivery for gas to be delivered by Seller over the Huntington Beach Pipeline shall be the following points in San Diego County: (a) Rose Canyon, (b) Seven Points, (c) Oceanside, (d) Encinitas, and (e) Hedionda. Secondary points of delivery may be established at points in San Diego County as mutually agreed upon and as provided in the contract for service. The point of delivery over the Moreno-Rainbow Pipeline shall be the end of Seller's Pipeline at the San Diego County Line near Rainbow.

CONTRACT DEMAND

The daily contract demand is 95,000 Mcf in any one day of 24 hours beginning at 6:00 a.m.

RATES

1. Deliveries up to Contract Demand of 95,000 Mcf per Day

1.1 Monthly Facility Charge $46,000

The facility charge shown above is based on Seller's cost of operation of the Moreno-Rainbow and Huntington Beach Pipeline facilities devoted exclusively to deliveries to Buyer as of the effective date of this schedule. The facility charge shown above may be revised from time to time, subject to the approval of the California Public Utilities Commission as a result of changes in the depreciated cost of the facilities or in the cost of operation thereof, or at such time as there is a change in the physical facilities.

1.2 Monthly Demand Charge:

Per Mcf of Contract Daily Maximum Demand $1.00

1.3 Commodity Charge:

Per Mcf of Monthly Delivery .... 20.15¢

The commodity charge includes an offset charge of 2.80¢ per Mcf based on the increase in charges to Southern Counties Gas Company of California and Southern California Gas Company by El Paso Natural Gas Company, which went into effect January 1, 1953, subject to final determination by the Federal Power Commission, and is subject to possible refund.

Schedule G-60--Continued

WHOLESALE NATURAL GAS SERVICE

RATES--Contd.

2. Excess Deliveries

2.1 Off-Peak Excess Deliveries - 26.5¢ per Mcf

2.11 Upon request of Buyer and subject to adequate notice, Seller will within the limits of existing sources of supply and facilities provide gas in excess of 95,000 Mcf up to a maximum of 20,000 Mcf on any day to the extent such excess gas can be made available without requiring the curtailment of deliveries to its customers or the customers of Southern California Gas Company paying an average rate of 26.5¢ per Mcf or more.

2.12 Upon request of Seller, Buyer will, subject to adequate notice, take gas in excess of 95,000 Mcf up to a maximum of 20,000 Mcf on any day to the extent Buyer can sell such gas to its retail customers at a rate above 26.5¢ per Mcf, or can use such gas in any of its plants at or below the equivalent cost of fuel oil, giving consideration to existing contractual minimums governing the purchase of oil.

2.2 Excess Gas for Firm Peaks - 35¢ per Mcf

Upon request of Buyer, subject to adequate notice and after all Buyer's interruptible customers and its steam-electric generating plants shall have been curtailed, Seller will supply gas at a price of 35 cents per Mcf on an emergency basis to help meet firm peak requirements in excess of 95,000 Mcf up to a maximum of 20,000 Mcf on any day, provided:

2.21 That such excess gas is available to Seller from existing sources of supply, and their existing facilities, and that delivery can be made without the curtailment of its firm customers and firm customers of Southern California Gas Company. To obtain this excess gas, Seller agrees to have gas taken from underground storage and to request emergency gas from its suppliers to the extent it has the right to demand such emergency gas.

SPECIAL CONDITIONS

1. Heat Content

The heating value of the natural gas delivered hereunder shall not be less than 950 Btu per cubic foot, saturated. Buyer may refuse to accept gas of any lower heat content than 950 Btu per cubic foot.

Schedule G-60--Continued

WHOLESALE NATURAL GAS SERVICE

SPECIAL CONDITIONS--Contd.

2. Limitation of Gas for Firm Service

2.1 Firm Retail Requirements

The term "firm retail requirements", as used herein, is defined as the sum of the coincident gas sendouts for:

2.11 Demands of domestic, commercial, firm exchange and firm industrial customers

2.12 Unaccounted-for gas, and

2.13 Non-interruptible company use

2.2 Basis for Firm Parity in Event of Shortage of Gas Supply

In the event of any deficiency in the natural gas supply available to satisfy the firm retail requirements of Seller and its affiliate, Southern California Gas Company, plus their firm wholesale obligations, if any, to public utilities other than Buyer, plus Buyer's firm retail requirements, Seller shall be relieved of its obligation to deliver to Buyer the daily contract demand of 95,000 Mcf and in any such event Buyer shall be entitled to share, up to combined capacity of Seller's Huntington Beach and Moreno-Rainbow Pipelines but not exceeding 95,000 Mcf per day, during the continuance of such deficiency, on the basis of firm parity (as hereinafter defined) in the then available natural gas supply deliverable to the Los Angeles Basin Market of Seller and Seller's affiliate considered together.

2.21 The term "firm parity", for the purposes of this contract is defined as follows: A ratio, using statistics for the next preceding calendar year, in which the numerator is Buyer's annual firm retail requirements, and the denominator is the sum of the annual firm retail requirements of Buyer, and of Seller and Seller's affiliate for the Los Angeles Basin Market, plus annual firm wholesale sales, if any, in Los Angeles Basin by the latter to public utilities other than Buyer.

2.22 The term "Los Angeles Basin Market", means the service territory of Seller and its affiliate, exclusive of the Ventura, Santa Barbara and Northern Divisions of Seller, and the San Joaquin Valley and Midway Divisions, including Ventura transmission, of Seller's affiliate.

2.23 Firm parity as defined above is limited to Seller's obligation to Buyer up to the amount of the daily contract demand and does not relate to deliveries in excess of that amount.

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Schedule G-60—Continued

WHOLESALE NATURAL GAS SERVICE

SPECIAL CONDITIONS—Contd.

3. Contract

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 five years as to the basic agreement, and for two years as to any excess deliveries, the latter being subject to continuation from year to year thereafter by mutual consent. The term of the contract shall begin on the effective date of the rates set forth in this schedule.

7. Forms

(a) File copies of the form of contract required by Schedule G-60 in tariff form.

APPENDIX B

LIST OF APPEARANCES

For Applicant: Southern Counties Gas Company of California by Mildred Springer and Frederick G. Dutton.

Interested Parties: City of Los Angeles by Roger Arnebergh, Alan Campbell Herbert Cameron, T. M. Chubb and Robert W. Russell; California Manufacturers Association by George D. Rives and Robert N. Lowry of Brobeck, Phleger & Harrison; San Diego Gas & Electric Company by Sherman Chickering of Chickering & Gregory; Southern California Edison Company by Bruce Renwick and Rollin E. Woodbury; California Farm Bureau Federation by J. J. Deuel; City of Long Beach by Henry E. Jordan; City of Ontario and The Exchange Orange Products Company by W. D. MacKay.

For the Commission Staff: Boris Lakusta, Charles W. Mors and Theodore Stein.

LIST OF WITNESSES

Evidence was presented on behalf of the applicant by: Guy Wadsworth (opening statement); Cecil L. Dunn (introduction, history, present operations, operating revenues, gross revenue deficiency, customer distribution, usage and rates, and proposed rates); Jerold Q. Abel (balance sheet, income statement, clearing accounts, administrative and general expenses, taxes, gas plant, depreciation reserve and expense, rate base and summary of earnings); Roy M. Bauer (production expenses); James A. Millen (transmission expenses); Jay Davis, Jr. (distribution expenses); George S. Coates (customer service expenses, customers' accounting and collecting expenses); Frank N. Seitz (sales promotion expenses); W. J. Herrman (the fair rate of return); Roy A. Wehe (wholesale natural gas rate and cost to serve San Diego Gas & Electric Company - year 1955, cost of service).

Evidence was presented on behalf of interested parties by: Homer R. Ross and W. D. MacKay.

Evidence was presented on behalf of the Commission staff by: William W. Eyers (revenues and expenses); G. B. Weck (rate base and depreciation adjustments); Ed F. Catey (administrative and general expense, tax adjustments and results of operation).