NB

Decision No. 53040

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. 37553

O. C. Sattinger and J. R. Elliott, for applicant; Monolith Portland Cement Company by Norman Elliott, Joseph T. Enright and Waldo H. Gillette; Southern California Edison Company by Bruce Renwick, R. E. Woodbury, H. W. Sturges and C. W. Wiley; California Manufacturing Association by George D. Rives of Brobeck, Phleger & Harrison; California Farm Bureau Federation by Bert Buzzini; Challenge Cream and Butter Association by W. D. MacKay; and City of Los Angeles by Roger Arnebergh, T. M. Chubb, R. W. Russell and Claude E. Hilker, interested parties; Boris Lakusta, Charles W. Mors, William W. Eyers and Theodore Stein, for the Commission staff.

INTERIM OPINION

By the above-entitled application, filed December 5, 1955, Pacific Lighting Gas Supply Company, applicant herein, seeks authority to increase rates for resale natural gas service which it supplies to the Southern California Gas Company and Southern Counties Gas Company of California to yield additional gross revenue of $4,488,000,, approximately an 18 per cent increase, at the 1955 level of business. On March 12, 1956, applicant filed a petition for immediate interim rate relief, seeking a total of $2,361,000 annually, pending decision on the main application.

Public Hearing

After due notice, two days of public hearing were held on this interim petition before Commissioner Ray E. Untereiner and Examiner M. W. Edwards at Los Angeles, California, on March 28 and 30, 1956, the matter being submitted for decision on the latter date.

Applicant's Position

Applicant represents that its rate of return will drop to 2.12 per cent for the 12 months ending April 30, 1957, at its present level of rates; and that the proposed increase of $2,361,000 is necessary to restore this rate of return to 5.88 per cent. The major items responsible for this indicated decrease in rate of return are the increased cost of gas, a smaller volume of gas to sell to its customers, partly due to injection of gas into a new underground storage reservoir at Montebello, and the added capital and operating cost of the Montebello Gas Storage Project.

The interim request is considerably below the final amount sought, owing to a lesser rate of return (5.88 per cent in contrast to 6.9 per cent) and elimination of matters that might be controversial, such as working cash capital and an estimated 1957 wage increase. Applicant does not concede that these eliminations are justified, but excluded them to avoid controversy and expedite the granting of interim rate relief.

Rates - Present and Proposed

The present rate for service to the Southern California Gas Company consists of a monthly fixed charge of $184,500 and a commodity charge of 21.5 cents per Mcf. Applicant proposes that the monthly fixed charge be raised to $233,500 and the commodity charge to 23.5 cents per Mcf.

The present rate for service to the Southern Counties Gas Company of California consists of a monthly fixed charge of $128,000 and a commodity charge of 21.5 cents per Mcf. Applicant proposes that the monthly fixed charge be raised to $162,000 and the commodity charge to 23.5 cents per Mcf.

Earnings Position

The tabulation below is a summary of earnings as forecast by the applicant for the 12 months ending April 30, 1957, and for the calendar year 1957 under applicant's present and proposed interim rates.

Item	12-Months Ending 4-30-57 Present Rates	12-Months Ending 4-30-57 Proposed Rates	Calendar Year 1957 Present Rates	Calendar Year 1957 Proposed Rates
Operating Revenue	$21,500,000	$24,072,000	$19,243,000	$21,604,000
Operating Expenses				
Cost of Gas	15,857,000	15,857,000	13,982,000	13,982,000
Transmission Expenses	2,194,000	2,194,000	2,117,000	2,117,000
Administrative and General	816,000	819,000	822,000	825,000
Depreciation	712,000	712,000	728,000	728,000
Taxes	1,252,000	2,637,000	1,078,000	2,349,000
Total Expenses	20,831,000	22,219,000	18,727,000	20,001,000
Net Operating Revenue	669,000	1,853,000	516,000	1,603,000
Depreciated Rate Base	31,505,000	31,505,000	34,554,000	34,554,200
Rate of Return	2.12%	5.88%	1.49%	4.64%

The above computations were made on the assumption that the proposed interim rates would become effective May 1, 1956. In addition to the above earnings forecasts, applicant estimated that in 1956, under present rates, it will earn a 2.94 per cent rate of return. Applicant's Exhibit No. 2 shows that for the year 1955 it earned a 5.64 per cent rate of return on a depreciated rate base of $25,881,126.

Cost of Gas

Applicant states that the major item occasioning the low rate of return is the increased cost of gas in 1956 and 1957 compared to 1955. The average cost of gas in 1955 was 18.28 cents per Mcf and for 1956 it estimates the average cost will be 20.13 cents and for 1957 will be 21.12 cents. The City of Los Angeles questioned the applicant's estimates of increased cost of gas because nearly one half of the total volume estimated to be purchased in 1957 is not yet covered by firm contracts. Applicant's reply to this statement was that many proposals have not been accepted by the oil producers because they desire a higher rate than the supply company is offering for the gas. Applicant's estimates of increased cost were based on firm contracts which have been accepted by the producers and on the proposals made by the applicant.

Montebello Underground Storage Project

By Decision No. 52219, Application No. 37325, dated November 14, 1955, this Commission authorized the applicant to develop an underground gas storage project, including a compressor plant and facilities, in the Eighth Zone of the West Montebello Oil Field, at an estimated total cost of $10,399,000. The major items of cost are $3,559,000 for the compressor plant, dehydration station and pipeline facilities, and $5,063,000 for 26 billion cubic feet of cushion gas. The City of Los Angeles questioned the propriety of applicant's request that its customers pay increased charges during 1956 and 1957 in order to defray costs associated with the Montebello project when it is anticipated that applicant's customers will not be supplied with storage cycle gas withdrawn from the Montebello reservoir until the winter of 1958-59 or later.

Applicant's proposed method of accounting for this new investment in storage plant is to place the compressor plant and associated equipment in the rate base in August 1956 when the compressor plant is to become operative and to place the cost of cushion gas into the rate base monthly as it is injected. The record indicates that shortly after the applicant starts injecting cushion gas in the reservoir some gas could be withdrawn in an emergency. Therefore, before the end of 1956 some of the benefits of this new underground storage project could be realized. Despite this fact the City of Los Angeles contends that the applicant has placed its present and proposed investment in Montebello facilities into the rate base prematurely.

Financial Condition

The City of Los Angeles contends that the applicant is now in an apparently sound financial condition with no question of pending insolvency, having consistently contributed to surplus after payment of dividends in recent years. The City of Los Angeles objected to the granting of an interim rate increase, except when a real emergency is shown to exist for the company, and stated that it failed to see from the record where it has been clearly established that an emergency exists or will exist during this calendar year either for itself or for its parent company through which all of applicant's financing is obtained.

In normal situations the Commission would agree with the position taken by the City of Los Angeles as to the need for an emergency situation before interim relief is granted; however, in this case, the reason the Commission consented to the hearing of an application for interim relief was because the current work load on the Commission staff would cause a delay of three to four months beyond normal in the processing of the original application. In granting this early hearing it was the Commission's view that the public could not be damaged by any interim rate increase that might be given inasmuch as the staff studies would be completed before any part of this increase could be passed on to the consuming public by the two distributing companies.

The California Manufacturers Association did not oppose the granting of interim relief in this case because there would be a full showing in the record and adjustment would be made to eliminate the effect of any interim rates which could be shown on later proof were not necessary, before the distributing company rates are revised, and because it recognized the desire of this company to stand on its own feet with a reasonable record of earnings.

Rate Spread

The California Manufacturers Association's principal concern, with regard to interim rates, is that they should not in any way establish a precedent for the permanent rates to be fixed. It contends that in the final rates there should be a materially different spread between the fixed charge and the commodity charge from that which has been proposed by the applicant. Consequently, the applicant and all appearances entered into a stipulation that any spread of rates, in any interim order, shall not be deemed to be a precedent and that in the hearing on the original application the applicant will not rely on the interim rate spread.

Findings and Conclusions

When the Montebello Gas Storage Project was authorized the Commission realized that the project was of such size that it would result in an increase in the cost of operation to applicant, but foresaw substantial advantages from the project in meeting indicated firm peak deficiencies. Applicant predicated the proposed increases in the fixed charges of the resale schedules on the basis of the added return, taxes and depreciation expense associated with this new underground storage project, but inasmuch as these increased expenses will not become a charge to operating expenses until later in the year, we find no reason for awarding an interim increase in the fixed charge portion of the resale rates prior to the time the compressor plant becomes operative. While we could revise applicant's proposed accounting method and withhold placing this project in rate base until the reservoir is charged and ready for full cyclical operation, applicant would be entitled to add interest during construction after the compressor plant is completed and all during the period while the cushion gas is being injected. Under this method the total capital in rate base would be greater than under applicant's plan of stopping interest during construction as soon as the compressor plant is completed. In the long run the applicant's method should prove less costly to the consuming public. The fact that the fixed charge component of the rates is increased does not necessarily mean that the rates to the public will have to be increased because the growth in the customers' firm load revenue may more than offset the proposed increase in fixed charge. The increase in cost of gas is another matter, however, and the evidence indicates that this item is the one of major concern to the applicant. Based on the evidence of record we conclude that applicant should be authorized to increase its resale commodity rates by 2 cents per Mcf as proposed on an interim basis. It is anticipated that the staff will have completed its investigation and a decision on the original application will have been made before any of this increase will be permitted to be passed on to the consuming public in the form of increased gas rates by the applicant's two customers.

Because of the peculiar circumstances existing at this time we find sufficient financial emergency exists to warrant the issuance of an interim order increasing applicant's resale rates. The Commission finds that the increases in rates and charges authorized herein are justified and that existing rates, in so far as they differ from those herein prescribed, for the future will be unjust and unreasonable.

INTERIM ORDER

The Pacific Lighting Gas Supply Company having petitioned this Commission for interim rate relief, public hearing having been held, the matter having been submitted and being ready for decision; 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 General Order No. 96, revised rates substantially as set forth in Exhibit C attached to the petition for interim rate relief as revised at the hearing except that the monthly fixed charges shall

not be increased prior to the date the Montebello Compressor Plant becomes operative, and, upon not less than one day's notice to the Commission and to the customers, to make the increased commodity rates effective for service furnished on and after June 1, 1956, and, upon not less than five days' notice to the Commission and to the customers, to make the increased fixed charges effective for service furnished on and after the date the Montebello Compressor Plant becomes operative.

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

Dated at San Francisco, California, this 8th day of May, 1956.

Peter E. Mitchell
President

Justus F. Craemer

Rex Hardy

Commissioners