

ORIGINALDecision No. 54831

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Joint Application of SOUTHERN CALIFORNIA GAS COMPANY and SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA for an order authorizing them to file and place in effect, in accordance with General Order 96 and Section 454 of the Public Utilities Code, a new rate schedule applicable to utility steam electric generating plants and cement plant customers.

Application No. 38527

(List of Appearances and Witnesses are set forth in Exhibit A)

O P I N I O NApplicants' Request

Southern California Gas Company and Southern Counties Gas Company of California jointly filed the above-entitled application on October 24, 1956, requesting the Commission to issue an order:

1. Authorizing applicants to file and place in effect their proposed rate Schedule No. G-54, as contained in Exhibits A and B attached to the application;
2. Authorizing applicants, as of the effective date of rate Schedule No. G-54, to withdraw their existing rate Schedule No. G-55;
3. Authorizing applicants, as of the effective date of rate Schedule No. G-54, to revise their existing rate Schedules G-50 (both applicants) and G-51 and G-53 (applicant So. Calif.), to make such rate schedule inapplicable to utility steam electric generating stations and cement plants; and
4. Granting such other or different authorization as the Commission may deem to be appropriate.

Public Hearing

After due notice three days of public hearing were held on this application^{1/} on January 2, 1957 and February 4 and 5, 1957, before Commissioner Matthew J. Dooley and Examiner Manley W. Edwards in Los Angeles. Applicants presented 12 exhibits and testimony by four witnesses in support of their request. The California Electric Power Company presented two exhibits and testimony in opposition to the applicants' proposal and the San Diego Gas & Electric Company presented testimony in opposition to the applicants' proposal. The City of Los Angeles presented one exhibit setting forth a requested amendment of the contract provisions for service under the proposed Schedule No. G-54. The Commission's staff and other parties cross-examined the applicants' witnesses. Concurrent closing statements were filed on or before March 15, 1957, and the matter is now ready for decision.

Reason for Application

Applicants allege that one of the main objectives of the proposed rate schedule is to provide additional incentives and protection to the applicants to augment their gas supplies to a greater extent than would otherwise be feasible. The applicants' practice in recent years has been to acquire additional gas supplies for several years in the future in advance of anticipated firm need. Necessarily, these additional supplies are contracted for on the basis of substantial increments rather widely spaced,

^{1/} The application herein was consolidated with Application No. 38575 for hearing, but not necessarily for decision. Application No. 38575 is the joint application of Southern California Gas Company and Southern Counties Gas Company of California for an order of the Commission authorizing applicants to carry out the terms of a written gas exchange agreement entered into between applicants and Southern California Edison Company and El Paso Natural Gas Company.

and in the years in which they first become effective, the gas in excess of the firm requirement is made available to the interruptible customers. As time goes on the firm load grows and the amounts available to interruptible customers become less until the next increment of supply comes in. Applicants represent that this process in the past generally has been satisfactory to the interruptible customer, especially as long as there was an adequate supply of fuel oil available at reasonable prices.

A witness for the applicants testified that the energy supply situation in Southern California has changed considerably during the past few years from a position of relative over supply, at reduced prices, to a position where fuel oil has at times become very difficult to buy, except at advanced prices. Large utility and cement plant customers, who formerly were satisfied to buy gas under interruptible schedules, with possible heavy curtailments, have expressed desires to the applicants to be served at higher priorities. Part of this demand has been stimulated by smog conditions in the Los Angeles Basin, with a consequent urge to substitute natural gas for fuel oil. Applicants state that natural gas prices have been advancing due to gradual absorption of the existing low cost sources of supply and due to competitive acquisitions by eastern markets, and as a result, any material increments of supply now must be acquired from more distant fields and deeper and more expensive wells.

Applicants represent that the proposed Schedule G-54 would provide for long-term contracts that would obligate the larger interruptible customers to take gas and relate their gas entitlement to such obligations, provide a fair and equitable allocation of gas to all eligible customers, and provide an assured market that will enable the applicants to cover their indicated firm requirements 10 to 15 years in advance rather than, say, five years.

Proposed Rate Level

The proposed rate will be applicable to all existing retail utility steam-electric generating stations and cement plants, except in the Imperial Division. The base rate is proposed to be the same as the charge per Mcf for the last block of the effective G-53 rate, but not less than the higher of (a) the average rate paid for out-of-state gas during the three months preceding each billing period, or (b) the initial base rate for each contract. The minimum base rate shall in no event be less than 28.5 cents. The applicable rate for the six winter months of November through April will be the base rate. In the summer months, May through October, the applicable rate will be 2-1/2 cents above the base rate for the first 10 Mcf per month of the contract volumetric rate, 1/2 cent below the base rate for the second 10 Mcf per month of the contract volumetric rate, and 3-1/2 cents below the base rate for the third 10 Mcf per month of the contract volumetric rate. All excess gas over the contract volume will be at the base rate less 1 cent. Applicants state that the general purpose of this variable summer rate is to provide an automatic incentive to customers to take a maximum amount of gas at times when large quantities of gas are available.

Term and Volume Requirements

The proposed schedule provides that each customer may contract to take gas for a term of one to five years on an annual average daily volumetric rate of not less than 60 percent of its gross fuel requirement^{2/} or not less than 75 percent of its net fuel requirement^{2/} if said net requirement exceeds 60,000 Mcf per day. This distinction in the proposed schedule is made because applicants do not believe it is practical for them to supply the total gross

^{2/} "Gross fuel requirement" is the annual daily average amount of gas that a customer would burn in a normal year in all its plants located in the applicable service areas of applicants if it had no sources of fuel of any kind other than the applicants.

"Net fuel requirement" is the gross fuel requirement less the customer's fuel supply from sources other than the applicants.

fuel requirement of the very large customers. Applicants propose that to the extent that gas is available after all contract volumes have been supplied, it may be taken on an excess basis by any customer.

Priority Situation

When firm customers need most of the available gas, the interruptible customers are curtailed on a price-rotation basis. Those customers paying the lowest price have the lowest priority and are the first ones interrupted. Those paying the same relative rate levels are placed in a block and rotated when curtailment does not cover the complete block. In this proposed schedule, applicants specify an "A" block priority for Schedule G-54 customers which are curtailed with customers having the lowest priority on the G-53 schedule. Two lower priority categories are also specified: "S1" curtailed immediately prior to the "A", and "S2" curtailed immediately prior to the "S1".

Applicants maintain that it is proper that customers entering into long-term contracts should have preference in the priority of service. In order to implement this preference, without at the same time substantially reducing the amount of gas served to present G-53 customers who will qualify for the proposed G-54 rate, applicants propose that the first 4,000 Mcf per day of the contract volume for each customer be included as at present in the "A" block, and customers signing five-year contracts will have 50 percent of this remaining contract volume also in the "A" block. Customers who do not extend the contract term each year and those who sign shorter term contracts will have a lesser portion of their remaining contract volume in the "A" block. These percentages are set forth below:

<u>Remaining Contract Term</u>	<u>"A" Priority</u>
5 Years	50 Percent
4 Years	30 Percent
3 Years	15 Percent
2 Years	5 Percent
1 Year	0 Percent

Applicants further state that since the requirements of present "A" priority customers not qualifying for the G-54 rate amount to less than 30 percent of the requirements of customers qualifying for G-54 which are potentially allocable to "A" priority, it is apparent that some reasonable limitation respecting requirements allocable to "A" priority is necessary. If no such limitation were made G-54 customers would constitute such a large part of "A" priority that deliveries to the large number of smaller customers would be unreasonably curtailed. In order to avoid this situation, the total of all apportionments of the contract volumetric rates to the "A" priority is limited to 15 percent of the then effective maximum contracted daily demand contained in the applicants' service agreements for the purchase of out-of-state gas.

Estimates of Gas Availability

In Exhibits Nos. 3, 4, 9, and 15 applicants show the estimated effect of introduction of Schedule G-54 on the available gas supply to the large interruptible customers (steam plants and cement plants). In Exhibit 15 applicants show the estimated annual effect as on deliveries to interruptible customers for the years 1959, 1960, and 1961 with two basic alternates as to supply: (1) present rate schedules remain in effect and out-of-state gas purchases are geared to substantially a 100 percent load factor, and (2) proposed Schedule G-54 is effective and out-of-state gas purchases are increased to a point where inability to sell the gas in summer months reduces the load factor to approximately 95 percent.

The estimates set forth on Exhibit 15 indicate that the Edison Company and the Department of Water and Power of the City of Los Angeles have their position with respect to gas supply materially improved in the years 1960 and 1961. The following summary indicates that their position will be improved from about 35 percent of satisfaction of requirements under present schedules to about 95 percent under Schedule G-54. Further, applicants represent that the relative delivery rate for all other customers would not only be fully maintained but slightly improved.

Summary of Allocation of Gas Available for
Sale to Interruptible Customers - Percent Requirement
(Data from Exhibits Nos. 9 and 15)

Item	Under Present Schedules				With Schedule G-54 Effective			
	1957	1959	1960	1961	1957	1959	1960	1961
So. Cal. Edison	28	29	36	34	42	52	96	93
Dept. Water & Power	27	31	38	36	29	52	94	93
Calif. Elec. Power	78	93	95	93	44	55	96	93
Burbank, City of	78	92	95	93	42	55	95	93
Glendale, City of	75	90	94	92	46	60	94	92
Pasadena, City of	77	92	95	92	37	56	94	92
Calif. Portland Cement	78	93	95	93	45	56	97	93
Monolith Cement	78	92	95	93	42	54	96	94
Riverside Cement	78	92	95	94	45	55	97	94
Subtotal	38	43	49	47	38	53	96	93
San Diego Gas & Elec. Steam Plant	45	50	52	46	45	61	76	78
Long Beach Steam Plant	87	81	98	100	87	82	100	100
Other "A" Block Customers	78	90	96	93	79	91	99	98
"B" - "E" Blocks	96	99	99	99	96	99	100	100
Total	56	59	63	61	56	66	95	94

Applicants state that the principal reason for the smaller increases in the delivery percentages shown for San Diego Gas & Electric Company steam plant, as compared with other G-54 customers, results from the fact that its steam plant potential is expressed as a gross amount unaffected by its firm requirement or by the contract volumetric limit, even though during the winter months San Diego can take very little gas for its steam plants because at that time its firm load absorbs almost all the contract volume.

If San Diego's steam plant entitlement were shown as a net figure after deducting firm requirements and regular interruptible deliveries, as is done for Long Beach steam plant, applicants represent that its deliveries would be equal to substantially 100 percent of such entitlement.

Position of California Manufacturers Association

The California Manufacturers Association stated its interest in this proceeding lies in the preservation to the regular interruptible industrial customers of applicants, and of San Diego Gas & Electric Company which is served at wholesale by Southern Counties Gas Company of California, of their existing relative participation in the total supply of gas available to applicants and San Diego for interruptible service. Most industrial customers are served on the G-50 schedules of applicants and a corresponding schedule of San Diego. A large amount of interruptible gas is also delivered under Schedule G-53 of Southern California Gas Company.

The Association relies on the showing in Exhibit No. 15 that the purchase commitments to be made by G-54 customers will enable applicants to increase the total gas supply in Southern California, and on this basis has no objection to the authorization of the proposed Schedule G-54. However, the Association reserves the right to take such action as may appear necessary or desirable in the event that actual experience fails to support the estimates made by applicants respecting the effect of such schedule on the supply of gas available to non-G-54 interruptible customers.

Position of San Diego Gas & Electric Company

San Diego Gas & Electric takes the position that if deliveries of steam plant gas under Schedule G-54 are to be made in the manner testified to by one of the applicants' witnesses, then the application should be denied in that it will arbitrarily and capriciously deny to and take away from San Diego the contract

rights it has enjoyed for a period of more than 24 years. However, if the order granting the application is to be conditioned upon deliveries of steam plant gas in the manner recommended by San Diego's witness, then San Diego will not object to the granting of this application.

San Diego points out that it is faced with the same problem of economies inherent in the gas business as are the applicants herein. In purchasing a supply to meet extreme winter peaks created by the firm customers, San Diego represents it is paying demand and facility charges and operating additional transmission facilities of its own geared to these demands. In order to operate at a load factor sufficiently high to maintain a relatively moderate average rate, gas must be sold during the warmer months on an interruptible basis. With a rather limited industrial demand for gas in its territory (less than 100 customers) San Diego states that it must rely on interruptible deliveries to its own steam-electric generating plants to maintain a reasonable load factor.

San Diego reasons that because it pays a demand charge for gas supplied to it related to a contract demand of 120,000 Mcfd, plus a facility charge, it considers that it is entitled to a priority for steam plant gas over Edison and the Department of Water and Power of the City of Los Angeles.

Position of California Electric Power Company

The California Electric Power Company in general opposed the proposed Schedule G-54, contending that the amount of gas available to it would be less than it has been receiving under rate Schedule G-53 and would increase its fuel cost in the amount of \$880,000 by virtue of the fact that it would be required to purchase additional quantities of high priced fuel oil. It stated that this would have an adverse effect on its rate of return in the amount

of 0.43 percent under adjusted or normalized operating conditions for 1957. If Schedule G-54 is authorized, it suggested that it be instituted on a graduated basis over a five-year period.

Position of Southern California Edison Company

Edison takes the position that the new Schedule G-54 being proposed is a very substantial improvement over the existing schedules relating to gas service for steam-electric generation using gas fuel, in that it would relieve or partially alleviate many of the asserted inequitable conditions which have resulted from the application of the existing schedules of the applicants and which caused the filing of the complaints involved in Cases Nos. 5724 and 5725 before the Commission. Edison referred to the showings by California Electric Power Company and by the San Diego Gas & Electric Company, which indicated that there would be a difference between the amount of gas which they would get under proposed Schedule G-54 and the amount of gas which they have been getting in the past, but indicated that in view of the changed conditions of availability and use of fuels in California, the status quo does not provide a fair and equitable allocation of gas among the largest users of gas. Edison stated that if San Diego is really interested in a fair pro rata sharing for steam-electric generation of the interruptible gas available for that purpose the most logical solution would be for it to file in its system a schedule similar to proposed Schedule G-54 with corresponding priorities, so that curtailment of interruptible gas provided by the California gas utilities and utilized in the generation of electric energy would be fairly equated throughout Southern California.

Position of the City of Los Angeles

The City of Los Angeles stated that a one-year contract would be so disadvantageous to its Department of Water and Power that a five-year contract is the only practical one. Therefore, it states that the contracts may be considered as being contracts for an initial term of five years, to run in perpetuity, subject to complete termination on four years' notice. The City also stated that there is a grave question as to the propriety, if not the legality, of a public agency, such as the Department, committing itself and its customers under a long-term contract for gas at a rate or rates to be determined in the future without ceiling or limitation because the element of certainty of price, which is ordinarily deemed essential in a public contract, is almost wholly lacking.

The City takes the position that if the proposed rates were increased in the future so disproportionately to the cost of other fuel as to place an undue burden upon the customers of the Department, the propriety of having made such a contract might well be questioned. Accordingly, the City represents that a customer should have the right to terminate its contracts in the event of a substantial increase in the rates in said schedules and proposed, by Exhibit No. 14, a right to terminate in the event of an increase in rates of 40 percent or more, or if any increase in rates results in too great a disparity with the comparable market price of fuel oil.

The City of Los Angeles was in agreement with the staff's recommendation that the rates in the proposed Schedule G-54 should be on a term basis.

Suggestion of Commission Staff

The Commission staff stated no position for or against proposed Schedule G-54, but suggested that, if approved, the rate should be on term basis.

Position of Applicant

The applicants state that they devoted many months of careful study in preparing proposed rate Schedule G-54 for steam electric generating plants and cement plants. They represent that the rate is economically sound; that it provides the necessary mechanics for making a workable reapportionment of gas possible; that the resulting distribution of the available gas among their customers is fair and equitable; and that it will afford adequate incentives and protection to warrant them to augment the total gas supplies in Southern California.

With regard to the objection lodged by San Diego, applicants state that it desires more steam plant gas than the present resale contract allows. San Diego would like to have sufficient steam plant gas to build its load factor to 86 percent, whereas under the proposed Schedule G-54 it will receive 45 percent of its steam electric plant requirements with a resulting system load factor of 72 percent. Applicants represent that San Diego's position is unreasonable when comparison is made with the 58 percent system load factor experienced by the applicants.

With regard to the effect of the proposed G-54 Schedule on California Electric Power Company, applicants state that any rate change of the sort proposed will necessarily affect individual customers to a greater or lesser degree. Applicants point out that to the extent that the differential between the price of fuel oil and the cost of gas is narrowed (whether by a reduction in fuel oil prices or an increase in gas rates, or both), the impact on

California Electric of the proposed new schedule will be lessened. The important point, they state, is that the new schedule results in a fair and equitable apportionment of gas among all customers.

Applicants contend that there are practical objections to the therm rate. They state that several G-54 customers will be taking gas at different locations and from different companies. Within small limits, the heat content of such deliveries will be different at each location and these differences will be changing frequently. The applicants are proposing to revise the Btu adjustment for Schedule G-54 to reflect Btu adjustments of 2.25 percent for each 25 Btu step above or below 1100 Btu whenever the Btu heat content of gas in an area has averaged at least 15 Btu more or less than the currently effective step during the preceding 12-month period.

Applicants are concerned that the adoption of therm rates would require an increase in number of measuring stations which would increase costs of operation and billing. Difficulty in handling curtailments, pricing and calculation of minimum bills is forecast by applicants.

Findings and Conclusions

After considering the record in this matter, the Commission concludes that the proposed Schedule G-54 should warrant the applicants in anticipating firm needs further in the future and procuring more gas than without Schedule G-54; that it will provide for a more equitable distribution of gas between the various steam electric plants and cement plants than under present schedules; and that the rate changes are nominal. Accordingly, we find that proposed Schedule No. G-54 is in the public interest and it will be authorized.

While San Diego may receive a lesser quantity of steam plant gas than under present schedules, it does not appear that the lessened quantity will upset the economic position of San Diego in the gas business, and at worst its load factor of operation would still be 72 percent which is considerably higher than the load factor of operation of applicants at 58 percent. Furthermore, San Diego's present contract with Southern Counties provides that availability of gas for use in San Diego's steam electric plants at deliveries above the level of 95,000 Mcf per day shall be subject to apportionment under the operation of any uniform rate schedule for steam electric plant use by all customers of the applicants. Since Schedule G-54 will be such a uniform schedule, we find the applicants' position to be fair and reasonable.

With regard to the California Electric Power situation, although the estimated effect on rate of return looms sizeable (Exhibit No. 12 shows the effect would be to drop the rate of return from 5.95 percent to 5.52 percent on the basis of a normalized year 1957), less than one half of this decline would be effected in 1957 because the schedule will not be effective for the full year 1957 and the period of heavy curtailment in the first part of the year 1957 is past. Looking to the future, in 1960 and beyond, California Electric Power may well benefit from G-54 compared to present schedules.

The City of Los Angeles did not desire to enter into a long-term contract and be bound as to future rate levels set by this Commission without the protective amendment it suggested as to cancellation of the contract on a sharp increase in the cost of gas or a decline in cost of fuel oil. These contracts are subject to Commission jurisdiction and if the rate level appears unfair, the City can bring a complaint case before the Commission and

receive appropriate consideration without the insertion of its amendment.

The Cities of Pasadena, Glendale and Burbank and the cement plants did not protest, present evidence, nor file any closing statements in opposition to the proposed schedules. The record indicates that these customers may experience some reduction in available gas for the next year or so but in the long run should gain.

In view of the objections raised by the applicants to the introduction of therm rates in connection with proposed Schedule G-54, the Commission will not require such a change to be made at this time. The proposal of applicants to reduce the size of the steps for which a Btu adjustment will be made from 50 Btu to 25 Btu appears desirable. However, there is not sufficient information in the record in this proceeding to evaluate the effect of the applicants' proposed plan for heating value adjustments on the system operations. Applicants are presently before the Commission in rate proceedings and the matter of equitable heating value adjustments will be fully explored in those proceedings. In the interim, the present heating value provisions contained in applicants' rules will be applicable to the proposed Schedule G-54.

The question of the amount of the contingent offset charges to be included in the base rates of the schedules set forth in Exhibits Nos. 1 and 2 was raised by the staff. It appears to the Commission that the offset charges presently applicable to the customers of each applicant who will take service under proposed Schedule G-54 should be continued substantially unchanged and the order will so provide.

The Commission finds that the increases in rates and charges authorized herein are reasonable; that present rates, in so far as they differ from those herein prescribed, for the future

are unjust and unreasonable; and that an order should be issued authorizing the proposed Schedule G-54.

O R D E R

Southern California Gas Company and Southern Counties Gas Company of California jointly having applied to the Commission for authority to issue proposed Schedule No. G-54 for utility steam electric generating plants and cement plant customers, public hearing thereon having been held, and the matter having been submitted for decision; therefore,

IT IS HEREBY ORDERED as follows:

1. Each applicant is authorized to file in quadruplicate with this Commission, after the effective date of this order, in conformity with General Order No. 96, and to make said filing effective upon five days' notice to the Commission and the public, a Schedule No. G-54, substantially as set forth in Exhibits Nos. 1 and 2 herein, except that the contingent offset charge for customers transferred from Schedule G-53 shall be 2.6 cents per Mcf, and the contingent offset charges for customers transferred from Southern California Gas Company Schedule No. G-55, shall be 2.54 cents per Mcf and from Southern Counties Gas Company Schedule No. G-55, 1.04 cents per Mcf.
2. As a part of the tariff filing authorized in Ordering Paragraph 1, applicants are authorized to withdraw as of the effective date of Schedule G-54, their existing rate schedules No. G-55 (both applicants); and revise their existing rate schedules Nos. G-50 (both applicants), and No. G-51 and No. G-53 (Applicant Southern California Gas Company), in such manner as to make such revised

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schedules inapplicable to retail utility steam
electric generating stations and cement plants.

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

Dated at San Francisco, California, this 10th day
of April, 1957.

F. E. Mitchell
President
Raul C. Tuckerman
Montgomery Dole
R. Hardy
E. Lyn Fox
Commissioners

APPENDIX A

LIST OF APPEARANCES

Applicants: Milford Springer and J. R. Rensch for Southern Counties Gas Company of California. T. J. Reynolds and Harry P. Letton, Jr. for Southern California Gas Company.

Interested Parties: Bruce Renwick, Harry W. Sturges, Jr. and Rollin E. Woodbury for Southern California Edison Company; F. T. Searls and John C. Morrissey for Pacific Gas and Electric Company; Joseph T. Enright and Norman Elliott, and Waldo A. Gillette for Monolith Portland Cement Company; Donald J. Carman for California Electric Power Company; Roger Arnebergh, Alan G. Campbell and A. L. Driscoll for City of Los Angeles; Brobeck, Phleger & Harrison, by George D. Rives for California Manufacturers Association; Chickering and Gregory by W. B. Pattee for San Diego Gas & Electric Company; O'Melveny & Myers, by Lauren H. Wright for Riverside Cement Company; Wallace K. Downey for California Portland Cement Co.; Bert Buzzini and J. J. Deuel for California Farm Bureau Federation; A. L. Capon, N. W. Sagek, Archie L. Walters for City of Burbank; John H. Lautin and Howard Gulick for City of Glendale; Vincent W. Heublein and T. M. Goodrich for City of Pasadena; W. D. Mackay (Commercial Utility Service) for Challenge Cream & Butter Assn. and The Exchange Orange Products Co.; Henry E. Jordan for City of Long Beach; Draper W. Phillips for U. S. Department of Justice.

Commission Staff: Harold J. McCarthy and Marshall J. Kimball.

LIST OF WITNESSES

Evidence was presented on behalf of the applicants by: W. M. Jacobs, Walter J. Herrman, Cecil Dunn, and Grove Lawrence.

Evidence was presented on behalf of the interested parties by: Willis T. Johnson, for California Electric Power Company and Lewis R. Knerr and H. G. Dillin, for San Diego Gas & Electric Company.