

Decision No. 55579**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) Application No. 38211
 in gas rates under Section 454 of)
 the Public Utilities Code.)

(Appearances and witnesses
 are listed in Appendix B)

O P I N I O NApplicant's Request

Southern Counties Gas Company of California, a California corporation, engaged as a public utility in the business of purchasing, distributing and selling gas in the southern portion of the State of California, filed the above-entitled application on June 29, 1956, and amended the application on September 22, 1956, February 6, 1957, and April 19, 1957,^{1/} requesting an increase in rates designed to produce additional annual gross revenue of \$7,112,000 or a 10.4 per cent increase for the year on its estimated 1957 revenue of \$68,017,000 under present rate levels. Applicant's latest proposed rates are set forth in Exhibit No. 50 in this proceeding.

Public Hearings

After due notice, 13 days of public hearings were held upon this application, as amended, before Commissioner Rex Hardy and Examiner Manley W. Edwards in Los Angeles during the period November 14, 1956 to April 26, 1957. Applicant presented 39 exhibits

^{1/} The last amendment was based on a motion to conform to proof; such motion is granted.

and testimony by 12 witnesses in support of its application. The San Diego Gas & Electric Company, which obtains its total supply of gas from the applicant, presented one exhibit and testimony by one witness. The Commission staff made an independent study of applicant's operations, presented six exhibits and testimony by five witnesses, and cross-examined applicant's witnesses for the purpose of developing a full record to aid the Commission in deciding the matter.

Other parties to the proceeding cross-examined the witnesses and certain ones presented exhibits and testimony as follows:

City of Los Angeles, 5 exhibits by one witness,
City of Ontario, 1 exhibit by one witness,
California Manufacturers Association, 7 exhibits
by one witness.

Also, opposition to applicant's proposal was expressed by public witnesses from various sections of applicant's service area including a petition on behalf of some customers in the San Pedro area.

Previous Interim Orders

Following the first day of hearing on this application the Commission issued its first interim order, Decision No. 54233, dated December 11, 1956, authorizing an interim increase in the rate for resale gas service to the San Diego Gas & Electric Company designed to produce an annual increase in revenue of \$715,000 to the applicant. San Diego was eager to obtain an additional volume of gas and was willing to pay a higher price for it, recognizing that there has been some recent increase in the applicant's cost of gas. The effect of the interim increase was to raise the average price of gas to San Diego from 27.75 cents per Mcf to 29.85 cents per Mcf. Such increase was granted only during the interim period until the main

rate case could be completed and decided. A still greater increase from San Diego is sought by applicant and will be disposed of by the order herein.

On April 16, 1957, the Commission issued its second interim order, Decision No. 54852, denying a motion by applicant to continue in effect its higher winter rates after May 1, 1957, when lower summer rates took effect.

Applicant's Operations

Applicant is a subsidiary of Pacific Lighting Corporation and serves customers within six counties on or near the coast of southern California, in an area extending from Paso Robles, on the north, to the southern end of Orange County on the south. As of September 30, 1956, applicant served 579,912 active and supplemental meters, of which 578,107 were on general service schedules. The service area comprises approximately 1,200 square miles and as of January 1, 1956, contained an estimated population of 1,850,000.

Applicant has no production facilities of its own. It purchases natural gas under contracts and filed tariff schedules from Pacific Lighting Gas Supply Company and El Paso Natural Gas Company. Natural gas also is purchased directly from various independent producers in California. As of September 30, 1956, applicant owned and operated 422 miles of transmission main. It also owned a 25 per cent interest in and joined in the operation of an additional 477 miles of transmission main (being principally the 30-inch Texas Line) with Southern California Gas Company. Also, there are seven compressor stations having an aggregate of 47,350 brake horsepower, of which some 30,980 horsepower is owned jointly with Southern California Gas Company.

As of September 30, 1956, the distribution system totaled 6,359 miles of main, and there were 74 storage holders in operation

of an aggregate capacity of 26,430,300 cubic feet. The heating value of the natural gas served ranges approximately from 950 to 1,150 Btu per cubic foot.

Applicant's Position

Applicant contends that its revenues^s have not kept pace with the costs of doing business and that it did not earn the return authorized by the Commission for the years 1955 and 1956.^{2/} Applicant asserted the following causes as justification for its request for increased gas rates: *Jim*

1. Plant growth at higher than historical unit investment costs per customer;
2. Increased unit costs for gas purchased from California producers and from Pacific Lighting Gas Supply Company;
3. Major expenditures for long distance pipelines to obtain additional out-of-state gas;
4. Higher wages paid to employees; and
5. Increased property taxes.

Applicant represents that an increase is necessary despite economies which it has accomplished through intensive analysis of management practices and working procedures, and elimination of duplications and processes not essential to rendering prompt, safe and efficient service. As an example of this procedure, the trend of employees for full-time positions has dropped from 4.3 regular employees per 1,000 meters at the beginning of 1954, to 3.3 at the end of 1956. Applicant's position is that gas rates to be reasonable must produce sufficient revenue to cover operating expenses, depreciation, taxes and the cost of servicing debt and stockholders' equity. Applicant selected the

Jim 2/ Hereinafter discussed.

estimated-adjusted year 1957 as its test year for determining the level of the requested increase in revenues.

Test Year Operating Results

Applicant states that the 1957 "adjusted" year considers normalized temperatures, as does the 1957 "estimated", but differs basically in the assumption that additional volumes of out-of-state gas will be available as of January 1, 1957, and the proposed steam electric generating Rate Schedule G-54 will also be in effect January 1, 1957, instead of July 1, 1957.

The Commission's staff also analyzed applicant's estimated and adjusted earnings and prepared an estimate for 1957 operations, but did not similarly adjust its estimate to show the full year effect of the new Needles-Newhall pipeline.

The applicant's estimated test year revenues under present rate levels were \$975,000 greater than the staff's estimate, owing principally to the fact that applicant adjusted its entire year 1957 estimate for conditions with reference to gas supply that should be in effect for the last few months of the period. This added out-of-state gas would, according to applicant, increase sales to interruptible customers. The staff did not similarly adjust its test year estimate, but instead allowed for this increased availability of gas during only the portion of the year it estimated the additional gas would be available. The two estimates of 1957 revenue are shown on Table 1. Also shown on Table 1 are the two estimates of expenses, net revenue, rate base and rate of return. The levels of revenues, expenses and rate base being adopted for the purpose of determining the increase to be authorized, likewise, are shown on Table 1.

Table 1 follows.

TABLE 1

SUMMARY OF EARNINGS FOR 1957
SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA

<u>Item</u>	<u>Applicant's Year 1957 Adjusted Exh. No. 7&8</u>	<u>Staff's Year 1957 Estimated Exh. No. 21</u>	<u>Adopted 1957 Test Year Results</u>
Operating Revenues:			
General Service	\$45,490,000	\$46,530,000	\$46,069,000
Gas Engine	382,000	386,000	386,000
Firm Industrial	1,797,000	1,857,000	1,797,000
Interruptible Industrial	5,848,000	5,844,000	5,931,000
Steam Electric Plants	4,371,000	2,871,000	2,991,000
Resale (S.D.G. & E. Co.)	10,129,000	9,551,000	9,589,000
Other Gas Revenue	216,000	219,000	219,000
Total	<u>\$68,233,000</u>	<u>\$67,258,000</u>	<u>\$66,982,000</u>
Operating Expenses:			
Production	34,610,000	33,079,000	33,176,000
Transmission	2,076,000	1,994,900	1,995,000
Distribution	4,224,000	4,072,800	4,168,000
Cost Accounting & Collecting	3,585,000	3,487,000	3,527,000
Sales Promotion	2,161,000	2,125,700	2,126,000
Administration & General	3,607,000	3,462,200	3,459,000
Taxes, Other than Income	4,604,000	4,230,000	4,230,000
Income Taxes	3,505,000	4,243,900	3,972,000
Depreciation	3,392,000	3,231,000	3,231,000
Total Operating Expenses	<u>\$61,764,000</u>	<u>\$59,926,500</u>	<u>\$59,884,000</u>
Net for Return (Before Adjmts.)	6,469,000	7,331,500	7,098,000
*Less Adjustments:			
Wage Increases and Related Items	230,000	230,000	230,000
Insurance Increase	70,000	-	-
Net for Return	6,169,000	7,101,500	6,868,000
Rate Base (Depreciated)	144,641,000	137,663,000	137,663,000
Rate of Return	4.27%	5.16%	4.99%

*The staff's Exhibit No. 21 and applicant's Exhibit No. 8 did not show these adjustments because they were presented too late in the hearing to be included therein; however, the effect of these adjustments is included in the rates of return shown.

Revenue Adjustments

Gas sales to the general service class are temperature sensitive and in estimating future sales, average or normal temperatures are assumed. Applicant's general service estimate for 1957 is based on 94.5 Mcf per meter and the staff's on 98 Mcf. Studies made by the City of Los Angeles uphold the staff's estimate. The staff based its estimate on the latest 10 year average temperature, whereas the applicant used the latest 20 year average temperature.

The City of Los Angeles contended that the applicant's reliance on a 20-year average temperature base in this proceeding is self-serving and without persuasion. However, if the experience for the remainder of 1957 remains the same as for the first few months of the year, it appears that the most recent 10 and 20 year average temperature base could drop somewhat. Applicant's Exhibit No. 45 shows the 12 months ended January 1957 sales at 93.7 Mcf per meter. This actual figure, ^{is} being lower than any of the average year estimates, *98m* because of the warm year.

We have considered the elements that go into the estimate of general service use and are of the opinion that at this time no definite conclusions can be reached as to which method presented in this hearing is correct - certainly each method contains some elements of judgment. For the purpose of this decision an average year usage of 96.8 Mcf per customer for 1957 sales to general service customers will be adopted as reasonable. This will result in a decrease in the staff's general service revenue to approximately \$46,069,000.

Applicant represents that the staff over-estimated firm industrial revenues by predicting an increase in the future use per customer, whereas the use per customer has levelled off during the past year and a half. We will adopt the applicant's lower estimate of firm industrial revenue, which will shift an extra 140,000 Mcf of gas to the interruptible classes. Also, the decrease in Mcf sales to the

general service class will shift extra gas to such interruptible classes. This extra gas will increase the staff's interruptible industrial revenue by \$87,000, its steam electric revenues by \$120,000, and its resale revenues by \$38,000, all as shown in Table 1. The test year total estimated revenue is \$66,982,000 as shown on Table 1, which we adopt as reasonable.

Unaccounted-For Gas

Applicant represents that the difference between its and the staff's estimates of unaccounted-for gas has an effect of approximately \$50,000 on its net revenue requirement. The applicant assumed an unaccounted-for ratio of 2.39 per cent of purchases whereas the staff used 2.1 per cent based on the trend for several years back. In view of the fact the the unaccounted-for gas reached 3.0 per cent of purchases for the 12 months ending March 1957, we will make an allowance of \$97,000 for additional purchased gas in the operating expense estimates.

Operating Expenses

The applicant's test year operating expenses were \$1,837,500 greater than those of the staff. The effect of adjusting the test year backward for the added gas supply available in the last few months of the period, was the primary reason responsible for this large difference. Despite this condition, the applicant took exception to the staff's estimates of six accounts in the customer service, customer accounting and collecting, and administrative and general categories. The applicant contended that the staff's estimates are almost uniformly lower than its comparable estimates, but recognized that in those cases where expenses are a function of the number of customers, the lower staff estimates result, in part, from the staff's lower meter forecast. The two expense estimates are set forth on Table 1.

Production Expenses

The staff's estimate of production expenses will be augmented by \$97,000 to allow for more unaccounted-for gas as hereinbefore shown to make a total of \$33,176,000 for production expenses.

Distribution Expenses

Applicant's estimate of distribution expenses for 1957 was some \$151,000 higher than the staff's estimate. A substantial part of this difference is accounted for in Account No. 769, Services on Customers' Premises. Applicant's contention was that the staff had forecast a decrease in the number of requests for service completed per 1,000 mean active meters from 630 for the year 1956, to 570 for the year 1957 (Exhibit No. 44). The applicant assumed that the 1957 requests would be at the same level as in 1956 or 630 per 1,000 meters. The staff's position was that 1956 was an abnormal year, and that the number of requests showed a decline from about 645 for 12 months ending June 30, 1956, to 630 for the 12 months ending December 31, 1956, (Exhibit No. 52), and in effect assumed this down trend would continue into 1957.

We have carefully considered applicant's position on this matter and are of the opinion that it should be given some weight. We will adjust upward the staff's estimate by \$79,000.

Also, the applicant contends that the staff's forecast of an increase of \$22,000 over 1956 actual expenses in the item of customer service supervision expense does not adequately provide for the six new persons whose salaries would be charged to this account. Applicant also contends that there were certain accounting charges in 1956 that were not properly reflected by the staff's estimate. The staff's estimate will be augmented by \$16,200 to cover in part these items.

As a result of these two changes we will adopt \$4,168,888 for distribution expenses which is \$56,000 below the applicant's estimate.

Customer Accounting Expenses

A customer addressed a letter to the Commission suggesting that if the applicant would adopt bi-monthly billing the saving might be sufficient to negate the need for an increase in rates. One of applicant's witnesses indicated the saving from bi-monthly billing might be between \$500,000 and \$600,000 per year, but such saving would be less than one-tenth of the requested increase. The witness gave several reasons against a switching to bi-monthly billing. He stated that there is more seasonal swing in gas bills than in other types of utility services, and the adoption of bi-monthly billing would be reason for a large increase in the number of high bill complaints during the winter months. Furthermore, this witness stated many persons work on a monthly budget and prefer to be billed monthly, and the adoption of bi-monthly billing would result in an increase in uncollectible bills. The Commission accepts applicant's position and will not require the adoption of bi-monthly billing.

The exception taken by the applicant to the staff's estimate of the level of customer accounting expenses was due to a lower estimate of uncollectible accounts. Applicant estimated this item at \$296,000, whereas the staff estimated \$228,000. Applicant states that the net write-off assumed by the staff is actually \$7,000 lower than the actual net write-off for 1956 of \$235,000. The staff's lower estimate was based on an adjustment for abnormally high write-offs in June 1956. Applicant explained that the high June write-offs were due to a change-over to mechanized accounting; otherwise service of the write-offs placed on the books in June would have taken place in

earlier months. We will augment the staff's estimate of customer accounting by \$40,000, and adopt the sum of \$3,527,000 for this item, which is \$58,000 below the applicant's estimates.

Sales Promotion Expenses

The staff's sales promotion estimate is some \$35,000 lower than the applicant's estimate and in the Commission's opinion is adequate. The principal difference in the administrative and general accounts is in the items of insurance and injuries and damages expenses.

Insurance and
Injuries and Damages Expenses

Applicant estimated its 1957 insurance expense (account No. 798) at \$157,000, and its injuries and damages expense (account No. 799) at \$152,000. The staff's estimates for these two items are \$33,300 and \$102,900 respectively. Applicant forecast^T a sizable in- *an*crease in these items between 1956 and 1957 because of growth in risks due to more employees and more plant in service. The applicant also desired to build up its insurance and injuries and damages reserve by an amount equal to \$4.17 multiplied by the number of new customers each year.

The staff's 1957 allowance was arrived at by determining the average, per meter, of the expense charges for the past five years and multiplying the estimated meter total for 1957 by this average unit amount. Applicant represents that this method is in error, as the continuing increase in annual charges to these accounts arises partly from causes other than the increase of exposure due to increased plant, employees, and automobiles; that the rise in costs is due also to the continuing increase in values applicable to property damaged as a result of operations; and that the staff's approach does not in any way provide for extraordinary loss. Applicant contends these are basic errors in the staff's theory that no allowance should be made in the operating expense estimate for increasing the insurance, injuries and damages reserve.

Applicant represented that the ratepayer gets a bargain because it is able to self-insure at a cost much lower than outside insurance premiums, and contended that if its risks were covered by casualty underwriters, premiums would have to be sufficient to cover not only the insurer's administrative and profit charges but also the reserve costs. In any insurance operation interest on the reserve is an important element in reducing costs, but applicant has not credited interest on its reserves.

The Commission notes that the balance sheet of applicant shows the Insurance and Injuries and Damages Reserves total \$1,427,000 as of September 30, 1956. Assuming that applicant invests the monies that are represented by these reserves in plant and is thus earning on such plant at the system level rate of return, it should be able to increase these reserves considerably. After considering this matter we will adopt the staff's allowances as reasonable and find no reason for an additional expense allowance to build up the reserve.

Near the close of the hearing the applicant revised its insurance estimate upward by \$70,000. The staff did not so revise its estimates and we do not find this last-minute request of the applicant is reasonable. It is not reasonable for the applicant to try to build up reserves to cover every conceivable catastrophe. The risk of catastrophic loss, above reasonable insurance protection or reasonable reserves, is a risk of business, and the basic returns include reasonable compensation for undertaking such risks.

Taxes, Other Than Income

The lower estimate of taxes, other than income, by the staff is due to the fact that the staff uses the latest actual tax rates and does not speculate on future tax rate increases. Applicant's

estimate was predicated on an average tax rate 3 per cent higher than the actual tax rate for 1956. On the basis that the staff gives effect to past trends on estimating future revenues and departmental operating expenses, the applicant contends that the staff should not ignore an experienced upward trend in tax rates in making its ad valorem tax computations. Increases in assessed values due to more plant in service are allowed by the staff.

The staff's position has been that if the Commission were to assume future tax rate increases and wage increases, prior to their actual happening, it would be an open invitation for taxing bodies and labor unions to make unreasonable demands, thereby nullifying utility management's bargaining powers. We adopt the staff's position on these items.

Income Taxes

The difference shown in income taxes is due to the effect of different net revenue figures on which income tax is predicated. Both tax figures are based on the straight-line method of tax depreciation accounting. The staff introduced alternate figures using accelerated depreciation with the "flow-through" method of passing on reduced tax payments to the benefit of the ratepayer.

The Commission is advised that applicant's parent, Pacific Lighting Corporation, filed for tax refunds for 1954 and 1955 on the basis of accelerated depreciation, and obtained an extension of time to September 13, 1957, within which to file its return for 1956 operations, including its election of accelerated depreciation for that taxable year. However, the establishment of public utility rates requires estimates of future revenues and future expenses of operation including taxes, and the determination of a just and reasonable return to the utility. Therefore, in deciding this matter, the Commission must estimate the proper tax-factor in the rate structure of applicant, and this must be estimated for the future.

Applicant's treasurer-controller testified that applicant would not elect to take accelerated depreciation if the Commission should adopt the "flow-through" method as shown by the staff for the reason that the normal benefits resulting from accelerated depreciation would not then be available to applicant. The Commission now has under submission Applications Nos. 38372 and 38382 filed by the Southern California Edison Company, under which this Commission was asked to authorize the use of accelerated depreciation and the normalization of income taxes under the straight-line method, placing the difference between the higher taxes under the straight-line method and the lower taxes under the accelerated method into a deferred tax reserve.

In view of the aforementioned testimony, the Commission cannot find that the question of allowing accelerated depreciation is an issue in this case. The Commission is, therefore, justified in assuming and does hereby assume that applicant will, for the year 1957 and subsequent years, make its income tax return using straight-line depreciation as a deduction, and will pay its income taxes on that basis. The income taxes as estimated by the staff on the straight-line depreciation method will be adopted, after adjustment thereof for the revised and adopted net revenue. Should applicant avail itself of accelerated depreciation prior to Commission determination of and decision in relation to the pending cases ^{INvolVING} ~~authorizing~~ normalization of income taxes and the creation of a deferred tax reserve, ^{it shall promptly notify the Commission} ~~the Commission~~ ^{which} ~~mission~~ will promptly move to adjust the rates hereinafter authorized as the circumstances require.

Plm
Plm
Plm

Rate Base

The applicant's estimated rate base for 1957 in the amount of \$144,641,000 is some \$7 million greater than that of the staff, owing to the fact that the applicant assumed that the following major additions were in service at the beginning of the test year: Del Amo line extension, Northern Division supply reinforcement, Brea Canyon supply reinforcement, and Needles pipeline and compressor plant.

The staff's rate base contained these major additions as they were expected to be placed in service during the year. A comparison of the applicant's and staff's rate bases follows:

<u>ITEM</u>	<u>Applicant-1957 Adjusted for Major Additions</u>	<u>Staff 1957 Estimate</u>
Total Weighted Average utility plant Modifications	\$173,023,000	\$165,879,000
Contributions in aid of construction	(2,097,000)	(2,097,000)
Customers Advances for construction	(1,904,000)	(1,800,000)
Depreciation Reserve for Motor Vehicles & Work Eq.	(1,430,000)	---
	<u>(5,431,000)</u>	<u>(3,897,000)</u>
Working Capital		
Materials and Supplies	1,450,000	
Working Cash	500,000	
Total Working Capital	<u>1,950,000</u>	<u>1,950,000</u>
Total Before Deduction for Depreciation	169,542,000	163,932,000
Deduction for Depreciation	<u>24,901,000</u>	<u>26,269,000</u>
Weighted Average Depreciated Rate Base (Red figure)	\$144,641,000	\$137,663,000

We adopt as reasonable the staff's estimate of rate base.

Adopted Operating Results

Table 1, supra, demonstrates the differences between the respective estimates of applicant and of the Commission staff. There is no doubt that there exists: (a) a present national inflationary trend and (b) a constant and extraordinary increase in the population of the State. These two factors result in a constantly increasing cost of new plant, maintenance of plant and expenses of operation. Both of the estimates have allowed for the effect of increasing revenues but these have not been sufficient to offset fully the cost increases.

The adopted operating results, which we find fair and reasonable, are shown on Table 1, and in summary form are:

Operating Revenues	\$ 66,982,000	
Operating Expenses	59,884,000	60,114,000 <i>GM</i>
Net Revenue	6,868,000	
Rate Base (Depreciated)	137,663,000	
Rate of Return	4.99%	

It will be noted that we are allowing for the increase in wages which became effective on April 1, 1957, during the course of this proceeding, by showing on Table 1 an adjustment to net for return of \$230,000 in the manner proposed by the applicant. *GM*

Rate of Return

It is applicant's contention that rates should be prescribed to produce earnings of \$9,402,000, based on the average year 1957. This is an amount which would be equivalent to a return of 6.5% on applicant's depreciated rate base of \$144,641,000.

In arriving at the estimated required earnings, applicant takes into account the annual cost of bond and preferred stock monies, and an allowance for equity capital based upon comparisons with other enterprises representing corresponding investment risks. Applicant represents that since the Pacific Lighting Corporation is the medium through which it obtains common stock money, comparisons of Pacific Lighting Corporation's rate of earnings, dividends, market price-book value ratios, and market performance with other major natural gas distributing companies and California utilities are important. By Exhibit No. 12 it showed that for the year 1955, thirteen natural gas distributing companies, which it considered comparable, earned 13.4 per cent on common stock book value, which,

it states, is synonymous with total common stock equity investment; and that four California electric or combination utilities earned 9.4 per cent on book value. Compared to these figures it represents that Pacific Lighting Corporation earned 9.2 per cent on book value of common stock.

Applicant also introduced testimony to show that the cost of its bond money has increased greatly since the Commission prescribed its rates in December 1954. It states its bonds have an A rating "Moody's", and a \$15,000,000 issue was sold in March 1957, at a cost of 4.6 per cent; that its bond issue prior to the latest one was also \$15,000,000 in 1954 and the cost was 3.2 per cent.

The City of Los Angeles contends that only such modest increase in applicant's existing six per cent rate of return should be allowed as may be compelled by increased interest rates.

Trend of Rate of Return

Applicant represents that following the Commission's decision ^{3/} in 1954 when a 6.00 per cent rate of return was authorized it earned 5.60 per cent in 1955 and 5.58 per cent in 1956. For the test year 1957 it estimates that this return at its present rates, will drop to 4.27 per cent (Table 1).

Applicant states that it will experience a down trend in rate of return between 1956 and 1957 of about $\frac{1}{2}$ per cent; however, the summary of earnings in staff Exhibit No. 21 shows a slight increase in rate of return for this period. The staff states this indicated trend results in part from the increase in interest rates in 1957, and that it has adjusted the 1956 estimate to put it on a comparable basis in this respect, and the resulting rates of return indicate an annual decline in rate of return of 0.15 per cent using straight-line tax depreciation.

^{3/} Decision No. 50902, issued December 28, 1954, in Application No. 35742.

Conclusion on Rate of Return

In considering the question of rate of return the Commission has considered its former finding of 6 per cent as a fair rate of return in Decision No. 50902, supra. The Commission, in that decision, recited a number of elements which were considered. Among them was the cost of money which has increased substantially since the date of that decision. The applicant is faced with a continuing construction program of substantial proportions to meet the needs and lawful demands of its customers which this Commission requires applicant to meet. Facilities must be provided in time ahead of the need therefor and by applicant's own direct financing, or indirectly through financing of Pacific Lighting Corporation. Analysis of applicant's earnings over the past several years discloses a definite and constant decline in its rate of return to the point that applicant seldom, if ever, has been able to earn the rate of return heretofore found by this Commission to be fair and reasonable.

As of the month of August, 1957, applicant, with Southern California Gas Company, has completed and put into operation new pipeline facilities needed to transport the additional out-of-state gas supply. These new facilities and other major improvements represent a large expenditure of new capital with a resultant depressing effect upon rate of return unless recognition is given to the actualities. These new facilities will be in operation during the full first year after the rates authorized by this decision are in effect, and, without establishing any precedent, the Commission is of the opinion that the effect on rate of return of the new pipeline and other facilities heretofore constructed, and placed in operation during the test year 1957 should, in equity and justice, be considered. This can be done by recognizing and allowing for a substantial down trend in the rate of return, which we estimate to be 0.63 per cent. We will therefore set the rates at a level which would have shown a rate of return of 7.13 per cent on the adopted results for the test

year 1957 as shown on Table 1, and which should enable applicant to earn a 6.5 per cent rate of return in the immediate future. Such rate of return we find fair and reasonable for the future.

The net annual earnings herein found reasonable are \$2,941,000 in excess of those calculated to accrue under present rates. To achieve such net increase at present income tax rates an over-all annual increase in gross revenues approximately of \$6,500,000 will be required and will be provided by the order herein. This increase is approximately \$612,000 less than requested by applicant.

Rate Spread

Having decided upon a revenue increase figure, the next problem is to spread this increase amongst the various classes in some reasonable fashion. Many factors influence the level of rates and several were enumerated in Decision No. 48833, issued July 14, 1953, in Application No. 33341, a former major rate case of this applicant. One important factor is the cost of rendering the service, and studies were placed in the record on this subject by a consulting engineer witness for the applicant and a different consulting engineer witness for the California Manufacturers Association. Other factors, such as value of service and historical rate trends, are important. The authorized increase is at such a level as to leave little room for rate revisions very much different than those proposed by applicant. In some schedules it may be necessary to make slightly greater or lesser increases than proposed by applicant in order to conform to the evidence of record.

Rate Zoning

The representative of the City of Ontario presented Exhibit No. 32, wherein he proposed a new rate zoning plan for general

service domestic and commercial customers. Presently the rates for general service are set up in six basic zones covering the following general areas:

- Zone No. 1 - Santa Monica Bay Division
- Zone No. 2 - San Gabriel Valley Division
- Zone No. 3 - Harbor Division, La Habra, Orange County Division - Incorporated Cities, City of Santa Barbara
- Zone No. 4 - Orange County Division - N.W. Portion, Eastern Division, Ventura County Division - S. & E. Portions
- Zone No. 5 - Laguna Beach, Ventura County Division - West Portion, Santa Barbara County Division, Santa Maria and San Luis Obispo
- Zone No. 6 - Orange County Division - S.E. Portion, Northern Division, Malibu, Eastern Division - Riverside County, Moorpark.

The present zoning scheme is more or less based upon areas and does not in every instance segregate the incorporated cities from the unincorporated built-up and rural territory.

The applicant desired to stay with the six-zone plan now in effect, but to make certain revisions in boundaries as shown in Exhibit No. 42 because of growth and changes in the service area.

Our conclusion on the rate zoning proposed by the City of Ontario is that its plan is a different scheme than the area plan which the Commission has prescribed in applicant's territory and we do not see that ^{its} ~~his~~ proposal is any improvement. The use of city lines and population as the zoning guides ignores the important factor of density and development that is taking place in unincorporated territory in much of applicant's service area. The Commission does not consider city boundaries as, necessarily, constituting zone boundaries which call for lower rate level. We will authorize the changes proposed by the applicant except for the lower zone classification for the Eastern Division. Ghm

Rate Adjustment for Heating Value

The staff by Exhibit No. 34 proposed a Btu adjustment clause of 2.25 per cent per 25 Btu step to keep the rate in line with the heating value of the gas. In this way the customer's dollar

will buy the same relative number of heat units regardless of changes in the heat content of the gas. Applicant's present schedules contain rate provisions which reflect Btu adjustments of 3 per cent for general and commercial service, and 2 per cent for all other classes for each 50 Btu step above 1000 Btu, and $4\frac{1}{2}$ per cent for each 50 Btu step below 1000 Btu in each instance.

In lieu of the staff's proposal the applicant proposes to change its present heating adjustment clause to reflect Btu adjustments of 1.5 per cent for firm service and 2.25 per cent for interruptible service 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. These adjustments would be equivalent to three per cent and $4\frac{1}{2}$ per cent, respectively, if applied to present 50 Btu steps. The applicant's proposal would avoid the frequent Btu changes due to seasonal swings and temporary random movements and would more accurately recognize the importance of heat content to interruptible customers to meet competitive fuel costs. The applicant's proposal is objectionable because the 12-month period is too long and is a backward step from the present 2-month period. Since using a 25 Btu step with the 2-month provision might cause excessive filings, we will retain the present clause, but will change the adjustment from 2 per cent and 3 per cent to $4\frac{1}{2}$ per cent to more equitably reflect the effect of heat content changes.

Interruptible Rate - Fuel Clause

Applicant recommends that the fuel oil escalator clause be deleted in the revised Schedule G-50. The present price level of fuel oil of nearly \$3.00 per barrel renders the fuel clause inoperative because it contains a \$1.55 ceiling.

The California Manufacturers Association supported the applicant's proposal to eliminate the fuel oil escalator clause. It stated the record shows that applicant's interruptible rates have not escalated since July, 1950; that during that time, the price of fuel oil has changed several times, going from \$1.55 to \$2.70 per barrel; and that during these seven years, changes in applicant's interruptible rates and changes in the price of fuel oil have moved independently of each other.

The comparative price of oil now is so high that if we should authorize the interruptible rates at a full competitive level they generally would be above the firm industrial rates. Accordingly, we will eliminate the fuel oil escalator clause.

Rate Adjustments

The following rate adjustments are being authorized:

- a. General Service Schedules - summer and winter rates will be merged as proposed, except that a zone differential in initial charge will be continued and set at approximately the levels proposed by applicant.
- b. Military Service - one mill less increase per Mcf than proposed.
- c. Multiple Dwelling - one mill less increase per Mcf than proposed.
- d. Firm Industrial Service - one cent per Mcf less increase than proposed.
- e. Gas Engine - in view of the higher rate of return shown for this class as pointed out by the California Farm Bureau Federation and while the Commission does not rely solely on cost studies for indication as to how rate increases should be spread, we are inclined to give weight to the argument of counsel for the Farm Bureau and set the proposed increase at about 3.8 cents per Mcf rather than 5.0 cents as proposed.
- f. Interruptible Services - applicant's position is to increase revenues from interruptible classes in an amount it judges prudent in light of competitive conditions. The California Manufacturers Association points out that the proposed increase to the interruptible class is 12.6 per cent whereas the total system proposed increase is only 10.4 per cent and for the general services is

11.2 per cent on the average. The Association's position is that the present levels of interruptible rates, as well as firm industrial rates, are above the corresponding cost of service and that applicant has failed to show any other rate-making factors which justify the proposed increases in these rates. Applicant's cost study also shows the interruptible rate as providing a return above system average although the Commission questions that the interruptible costs include a proper "rental component" for use of the firm services' transmission and distribution system. We will authorize a 3.2 cent per Mcf increase in this service compared to a requested 4.2 cent per Mcf increase.

- g. Resale Rate to San Diego - San Diego Gas & Electric Company takes the position that it is willing to pay a fair and reasonable price for the natural gas it receives and will receive from the applicant. An interim increase already has been placed in San Diego's rate ~~estimated~~ ^{now compared} at \$758,000 annually. In the final request, ~~by applicant~~ ^{by} San Diego represents that the total increase will be \$1,194,000 or 12.74 per cent. If the applicant had used the excess demand basis of allocating demand costs, San Diego represents that the resulting rate of return would be 15.04 per cent under the final proposed rates rather than the 5.81 per cent shown in the cost study.

The cost study presented by California Manufacturers Association indicated that the proposed rates for San Diego would yield slightly more than full cost. Also San Diego states that the Association's study fails to recognize the demand cost savings to applicant's system resulting from the steady hourly demand by San Diego made possible by San Diego's storage facilities.

San Diego represents that revisions of present Schedule G-60 and service agreement should not be adopted until applicant and San Diego have had opportunity to negotiate changes of terms and conditions. The Commission desires that the rate schedule and service agreement be simplified. In an attempt to reduce "surplusage" San Diego states that the proposed schedule and agreement were prepared unilaterally by the applicant without consultation with or advice to San Diego. San Diego states that the applicant has eliminated provisions vital in reflecting the understanding between the parties and has added others completely unnecessary, and if adopted by the Commission would constitute substantial abridgement of stated contractual rights.

The Commission is aware of the fact that in the 24 years that applicant and San Diego have dealt with each other they have done so amicably, for the most part, to the advantage of the customers of both companies and the public interest. San Diego will be given an opportunity to negotiate the points of interest vital to it. As to the level of the rate schedule, after considering the points raised by San Diego it is the Commission's conclusion that the interim level of rate should be further increased by

raising the demand charge by 25 cents per Mcf day. The parties will be allowed 90 days to complete their negotiations as to conditions of service and file a satisfactory, simplified resale schedule and agreement for the Commission's approval.

Customer Deposits

The applicant stated that the fund made up of the present \$2.50 deposits is inadequate to offer any protection against uncollectible bills, and that it is not taking \$2.50 deposits as it costs more to administer and account for the fund than the gain in revenue warrants. Also the present rule calls for 6 per cent interest on deposits and applicant desires to reduce this figure to 5 per cent. Applicant requests that the deposit be increased to \$5.00 as shown in proposed Rule and Regulation No. 7, which is set forth in Exhibit No. 20.

The staff suggested inauguration of an account opening charge so that those persons who open accounts often will pay for the extra accounting and meter reading costs they create. The staff pointed out that such a system is now used by San Diego Gas & Electric Company and also by the telephone companies. Applicant admitted that the adoption of an account opening charge would result in additional revenue of about \$500,000 per year but stated it would adversely affect customer relations.

We will authorize applicant's proposed revisions in Rule and Regulation No. 7, except that the 6 per cent interest rate shall be retained. The Commission sees advantages to the staff's proposed account opening charges and will require the applicant to give further study to this matter.

Prospective Supply Company Increase

Applicant points out that Pacific Lighting Gas Supply Company has filed for a substantial increase and asks that any increase authorized to the Supply Company be added to the increase

that may be authorized herein. It is not customary for the Commission to put conditions in its orders providing for any subsequent increase on the happening of a certain event. Applicant has had experience with offset rate cases and has obtained prompt decision on such matters. Such action is available to applicant if the Commission grants any increase to Pacific Lighting Gas Supply Company.

Summary of Rate Changes

The following table shows the increase authorized by the order herein, based on the estimated sales as adopted for the test year 1957:

SUMMARY OF INCREASES

Item	Sales 1,000 Mcf	Revenue At Pres. Rates	Increase		Avg. Rev. Per Mcf After Increase
			Amount	Ratio	
General Service	59,497	\$46,069,000	\$4,288,000	9.3%	84.6¢
Gas Engine	1,014	386,000	37,000	9.6	41.7
Firm Industrial	3,868	1,797,000	189,000	10.5	51.3
Interruptible Indl.	18,577	5,931,000	562,000	9.5	35.0
Steam Electric Pts.	10,694	2,991,000	349,000	11.7	30.7
Resale (S.D.G.&E.Co.)	31,656	9,589,000	1,025,000	11.2/3	33.7
Other Gas Rev.		219,000	1,037,000		
Total	125,506	\$66,982,000	\$6,500,000	9.7%	-

The increase shown in the above tabulation for Resale Service to San Diego Gas & Electric Company includes the interim rate increase.

Findings and Conclusions

~~In prescribing rates, it is the duty of this Commission to anticipate rates that will provide such additional gross revenue, "not only for operating expenses but also for the capital costs of the business," including service on debt and dividends on the equity stock. (Federal Power Commission vs. Hope Natural Gas Company, 320 U.S. 590, 603, 88 L. Ed. 333, 345.) In speaking of the rate of return to be allowed a public utility, the Supreme Court of the United States in said case said:~~

~~"That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital."~~

~~The Supreme Court again in relation to the rate of return to be allowed a public utility, said:~~

~~"It is manifest that just compensation for a utility, requiring for efficient public service skillful and prudent management as well as use of the plant, and whose rates are subject to public regulation, is more than current interest on mere investment. Sound business management requires that after paying all expenses of operation, setting aside the necessary sums for depreciation, payment of interest and reasonable dividends, there should still remain something to be passed to the surplus account; and a rate of return which does not admit of that being done is not sufficient to assure confidence in the financial soundness of the utility to maintain its credit and enable it to raise money necessary for the proper discharge of its public duties."~~

Q

~~(United Railways & Electric Co. v. West
280 U.S. 234-74 L. Ed. page 390, pages 409, 410)~~

The increase in rates to be authorized herein will, in the considered judgment of the Commission, provide such additional gross revenue as should enable applicant to meet its expenses of operation, and afford it the opportunity to earn a fair and just return upon its depreciated rate base hereinbefore found reasonable. No advantage is to be gained for either the ratepayers of applicant or the general economy of the State of California by restricting applicant to so low a return as to hamper it in the attraction of capital funds needed to meet its extraordinary obligations arising out of the rapid expansion of its facilities, which are necessary in order to meet the demands for service of a growing number of customers. Rates are made for the future, and in our opinion the increase in rates authorized by the order which follows meets the tests of reasonable rate making, applicable to the public utility and to its ratepayers. By what we have said herein, we are not to be understood as holding that regulation guarantees or assures that a public utility will earn net revenues.

After carefully considering all factors pertinent to these proceedings, it is our finding and conclusion that an order should be issued increasing the rates in the over-all amount of \$6,500,000 in

the manner hereinbefore outlined, and to the extent set forth in Appendix A following the order herein. Accordingly, the Commission finds and concludes that the increases in rates and charges authorized herein are justified, and that the existing rates, insofar as they differ therefrom, are for the future unjust and unreasonable.

O R D E R

The Southern Counties Gas Company of California having applied to this Commission for an order authorizing increases in gas rates, public hearing having been held, the matter having been submitted and being ready for decision; therefore

IT IS 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 tariff schedules with changes in rates, terms and conditions, and rules 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 rates effective for service rendered on and after October 15, 1957.
2. Applicant shall give further study to the staff's proposed account opening charge. After considering the results of such charges by San Diego Gas & Electric Company and the results of connection charges by The Pacific Telephone and Telegraph Company, applicant shall prepare a report of the expected results of such a charge on its system, its advantages and disadvantages. Such report shall be prepared and filed within 360 days after the effective date of this order.
3. Applicant shall enter into negotiations with San Diego Gas & Electric Company for the purpose of designing a simplified but mutually satisfactory form of resale tariff and service agreement, providing for existing rates and mutually satisfactory service conditions, and file four copies of said revised resale schedule, in conformity with General Order No. 96, within ninety days after the effective date of this order.
4. Pending compliance with ordering paragraph 3 above, the written contract authorized in ordering paragraph 2 of Decision No. 54233 shall remain in full force and effect.

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Om 5. 4. Applicant is authorized to revise its zoning of general service rates in the manner proposed herein, except that the Eastern Division shall not be lowered from Zone 4 to Zone 3.
Om

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

Dated at San Francisco, California, this 17th day of September, 1957.

John E. [Signature]
President
Raulo [Signature]
William [Signature]
R. Hardy
E. Lynn Fox
Commissioners

APPENDIX A

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

To give effect to the commodity change, commodity change and change in rates, deliveries authorized by Board No. 54203

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

Merge summer and winter rates as proposed. Change charges for the first 200 cu.ft. or less to:

	<u>G-1</u>	<u>G-2</u>	<u>G-3</u>	<u>G-4</u>	<u>G-5</u>	<u>G-5.1</u>	<u>G-6</u>	<u>G-6.1</u>	<u>G-6.2</u>
"M"	\$1.6882	\$1.7082	\$1.7282	\$1.7482	\$1.7682	\$1.7682	\$1.7882	\$1.8382	\$1.8382
"H"	3.0882	3.1282	3.1682	3.2082	3.2482	3.2482	3.2882	3.3882	3.3882

Increase commodity block rates to rates as shown in Exhibit 50
 Include in Schedule G-3 the western section of Orange County Division and change boundaries of rate areas 2, 11 and 16 as set forth in Exhibit 42.

2. Military Natural Gas Service Schedules G-20, G-21

Multiple Dwelling Natural Gas Service Schedules G-25, G-26

Increase base rates 2.2¢ per Mcf.

3. Firm Industrial Natural Gas Service Schedules G-40, G-41

Increase base rates 5.0¢ per Mcf.

4. Gas Engine Natural Gas Service Schedule G-45

Increase base rates 3.8¢ per Mcf.

5. Interruptible Natural Gas Service Schedule G-50

Increase base rates 3.2¢ per Mcf.

Under "RATES", delete "are established for a posted price of fuel oil of \$1.55 per barrel and"

Delete Special Condition 1 and renumber remaining conditions.

6. Utility Steam Electric Generating Station and Cement Plant

Retail Natural Gas Service Schedule G-54

Increase base and effective rates 3.2¢ per Mcf.

Under "SPECIAL CONDITIONS", delete Fuel Oil section.

Delete all other references to fuel oil clause.

7. Wholesale Natural Gas Service Schedule G-60

Increase monthly demand charge ~~\$0.25~~ per Mcf of contract daily maximum demand. *(to \$1.25)*

8. Rate Adjustment for Heating Value

Revise Section (k) of Rule and Regulation No. 2 as follows:

Change the last two sentences of the second paragraph to read:

"When the actual variation exceeds 35 Btu for two consecutive calendar months, the effective rates will be changed by increasing or decreasing the rates to conform to a new average heating value, adjusted in steps of 50 Btu from the base of 1100 Btu, which is the nearest the average of that experienced during the two months which occasioned the change and the changed rates will become effective fifteen (15) days thereafter. The effective rates will be determined by an adjustment in all base rates (except for the fixed and/or the minimum charge portion of the general service and space heating service rates) of 4 1/2% for each 50 Btu step above or below the base of 1100 Btu computed to the nearest 0.01¢ per 100 cubic feet or 0.1¢ per 1000 cubic feet (Mcf)."

Change table following the second paragraph in accordance with the above provision.

9. Revise the effective rates in those schedules changed in (1), (2), (3), (4), and (5) above in accordance with revised Rule and Regulation No. 2.

10. Deposits and Interest on Deposits

Increase amount of deposits to \$5.00 in Rule and Regulation No. 7.

APPENDIX B

LIST OF APPEARANCES

For Applicant: Milford Springer and J. R. Rensch.

Interested Parties: Chickering & Gregory by Sherman Chickering and C. Hayden Ames, for San Diego Gas & Electric Company; Bruce Renwick, Rollin E. Woodbury, Harry W. Sturges, Jr., and John R. Bury, for Southern California Edison Company; Alan G. Campbell, T. M. Chubb, R. W. Russell and P. A. Erickson, for City of Los Angeles; Wahlfred Jacobsen by Leslie E. Still and Henry E. Jordan, for City of Long Beach; Wendell R. Thompson, for City of Pasadena; Frederick B. Holoboff, for City of San Diego; Robert G. Cockins and Robert D. Ogle, for City of Santa Monica; James Don Keller, for County of San Diego; J. J. Deuel and Bert Buzzini, for California Farm Bureau Federation; Brobeck, Phleger & Harrison by George D. Rives, for California Manufacturers Association; W. D. MacKay of Commercial Utility Service, for The Exchange Orange Products Company and City of Ontario; O'Melveny & Myers by Lauren M. Wright, for Riverside Cement Company.

Protestant: James Torolf appearing on behalf of petitioners in protest against increase of gas rates.

For the Commission staff: Martin Porter, Harold J. McCarthy, Theodore Stein and Carol T. Coffey.

LIST OF WITNESSES

Evidence was presented on behalf of the applicant by: Guy W. Wadsworth, Cecil L. Dunn, James S. McBride, J. C. Millen, Jay Davis, Jr., George S. Coates, Frank M. Seitz, Jerold Q. Abel, Roy A. Wehe, John H. Jensen, M. J. Reis and Herbert A. Greenwood.

Evidence was presented on behalf of the interested parties and protestants by: H. G. Dillin, Jonas Torolf, William L. Wood, Manuel Kroman, W. D. MacKay, and Edwin Fleischmann.

Evidence was presented on behalf of the Commission staff by: Donald Steger, Albert L. Gielegem, Wm. W. Eyers, Kenneth J. Kindblad and Robert Hamilton.