ET

Decision No. 55642

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHERN CALIFORNIA GAS COMPANY for a general increase in gas rates under Section 454 of the Public Utilities Code.

Application No. 38787
Amended

(Appearances and witnesses are listed in Appendix B.)

O P I N I O N

Applicant's Request

Southern California Gas Company, engaged in the purchase, distribution and sale of natural gas in the central and southern portions of the State of California, filed the above-entitled application on February 1, 1957, and filed an amendment thereto on July 5, 1957, requesting an order of the Commission authorizing establishment of the proposed rates set forth in Exhibit B attached to the first amended application. Such proposed rates are estimated to produce additional gross annual revenues in the amount of $19,987,000 or an increase of 11.26 percent on its test year 1957 revenue of $177,575,000 at present rates.

Public Hearing

After due notice, 10 days of public hearing were held on this application during the period March 20, 1957 to July 18, 1957, before Commissioner C. Lyn Fox and Examiner Manley W. Edwards in Los Angeles, California. Applicant presented 52 exhibits and testimony by 12 witnesses in support of its application. 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 this matter. The protestants and interested parties presented 19 exhibits and testimony by 8 witnesses. These parties also cross-examined applicant's witnesses. Closing statements were filed on July 31, 1957, and the matter is now ready for decision.

Present Operations

Applicant is a subsidiary of Pacific Lighting Corporation and the area served by applicant includes 170 cities and communities with an estimated population of about 5,400,000 persons. On December 31, 1956, applicant had in its service area 1,603,317 connected meters to serve natural gas to domestic, commercial, industrial and gas engine customers. Such meters were served by more than 32,400 miles of gas mains and gas services. In addition to these gas mains, services and meters, applicant owns and operates transmission lines, compressor plants, gas holders and an underground gas storage reservoir in the Playa del Rey oil and gas field.

Applicant obtains its supply of gas by purchase from California producers, from the Pacific Lighting Gas Supply Company and from the El Paso Natural Gas Company. Applicant and Southern Counties Gas Company of California own and operate, as tenants in common, approximately 527 miles of transmission pipeline (principally 30 inches in diameter), compressor stations at Blythe, Cactus City and Desert Center, California, and other related equipment, known as the "Texas Pipeline System", which takes gas from the El Paso Natural Gas Company near Blythe on the California-Arizona border. In addition, applicant and Southern Counties Gas Company of California are presently constructing a new pipeline and related facilities from Topock, near the California border, to Newhall (known as the "Needles Pipeline") in order to transmit increased receipts of out-of-state gas.

Applicant's Position

Applicant represents that a general rate increase is necessary in order to meet substantial additional costs which confront it and to adequately compensate existing security holders, avoid impairment of its credit position, and be able to sell new securities on favorable terms to finance necessary plant additions so as to maintain adequate service to both old and new customers. Applicant lists major construction projects such as the new Needles pipeline and the installation of additional facilities in the Playa del Rey Storage Reservoir, and the installation of mains and services for new customers at costs substantially above existing system average costs, as one cause of this request; another is increasing cost of California gas; and still another is an increase in wage rates and tax rates since gas rates were last fixed in 1954 and 1955.

Test Year Operating Results

Applicant presented estimates of earnings and expenses on both an "estimated year 1957" and a "test year 1957" basis, but predicated its increase request on the test year 1957 results. The principal difference between its two 1957 figures is that the test year includes the effect of a full year's operation for the following facilities which will be placed in operation during the year 1957:

Needles pipeline and compressor station facilities
Additional facilities and development at the
  Playa del Rey gas storage reservoir
Operating headquarters at Rivera, Los Angeles County
Division headquarters at Downey, California

and the increased gas supply based on the out-of-state volumes as of January 1, 1958 being available for the full year 1957.

The Commission staff also studied applicant's 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 pipeline and for the other items mentioned by applicant.

The applicant's estimated test year revenues under present rate levels are $6,034,000 higher 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 will not be in effect until January 1, 1958. 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 applicant's and staff's estimates of revenue and expenses are set forth on Table 1; also shown on

Table 1 are the operating results adopted by the Commission for the purpose of determining the lawful increase to be authorized.

TABLE I

SUMMARY OF EARNINGS FOR 1957
SOUTHERN CALIFORNIA GAS COMPANY

Item	Applicant's Test Year 1957 Exh. No. 59	Staff's Estimated Year 1957 Exh. No. 66	Adopted 1957 Test Year Results
Operating Revenues			
General and Commercial	$115,356,000	$120,329,000	$117,607,000
Firm Industrial	9,294,000	9,215,000	9,215,000
Gas Engine	1,257,000	1,237,000	1,237,000
Regular Interruptible	22,093,000	20,809,000	21,173,000
Steam Elec. and Cement Plant	24,792,000	15,515,000	16,077,000
Resale	2,457,000	1,775,000	1,968,000
Other Gas Revenue	2,326,000	2,661,000	2,661,000
Total Revenue	$177,575,000	$171,541,000	$169,938,000
Operating Expenses			
Production	$ 84,219,000	$ 75,917,900	$ 76,558,000
Transmission	4,591,000	4,492,600	4,493,000
Distribution	17,616,000	16,740,600	17,320,000
Customers' Acctg. and Coll.	8,624,000	8,741,400	8,713,000
Sales Promotion	4,751,000	4,724,900	4,725,000
Administrative and General	10,133,000	9,958,200	9,939,000
Wage Adjust. to 4/1/57 Level	1,447,000	*	
Depreciation	9,233,000	8,898,600	8,888,000
Taxes Other than Income	12,886,000	11,994,800	11,995,000
Income Taxes (St.Line Depr.)	8,179,000	11,589,300	10,099,000
Total Operating Exps.	$161,679,000	$153,058,300	$152,730,000
Net Revenue	15,896,000	18,482,700	17,208,000
Rate Base	369,833,000	352,419,000	351,683,000
Rate of Return	4.30%	5.24%	4.89%

* Wage adjustment is included in the staff's figures.

General Service Revenue

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 86.9 Mcf per meter and the staff's on 91.262 Mcf. Studies made by the City of Los Angeles indicate 91.4 Mcf per meter. 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 20 and 10 year average degree day differences could drop somewhat, resulting in a reduced use of gas. Applicant points out that for the 12 months ended May 31, 1957, the actual usage has declined to 85.2 Mcf per customer. This most recent figure is lower than any of the average year estimates because of the warm year.

We have considered the elements that go into an 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 more accurate--certainly each method contains some elements of judgment. For the purpose of this decision an average year usage of 89.0 Mcf per customer for 1957 sales to general service customers will be adopted coupled with applicant's estimate of general service customers. This will result in a increase in the applicant's estimated annual general service revenue by $2,251,000, or to $117,607,000.

Firm Industrial and Gas Engine Revenue

Applicant took no particular exception to the staff's estimates of firm industrial and gas engine sales and they will be adopted as reasonable.

Regular Interruptible, and Steam Electric and Cement Plant Sales

Also, applicant took no particular exception to the staff's estimated sales to regular interruptible, steam electric and cement plants. But when the firm usage for general and commercial is reduced, more gas is made available to these classes. We compute and adopt an amount of $21,173,000 ($364,000 higher than the staff's estimate) for regular interruptible sales and increase the staff's estimate for steam electric and cement plant sales by $562,000.

Resale and Other Gas Revenue

The staff's resale estimate will be increased by $193,000, to $1,968,000. The applicant's request to reduce the Other Gas Revenues by $205,000 for events that are not expected to start until 1958 does not appear proper to the Commission and we will adopt the staff's figure of $2,661,000 as reasonable.

Unaccounted-for Gas

Applicant represents that the staff's estimate of unaccounted-for gas is about one-half million Mcf low. The staff based its allowance on an extension of the downward trend into 1957 of the past 14 years when unaccounted-for gas is expressed as a percentage of gas sales. The staff represents that the applicant arrived at its higher figure merely by averaging five years' absolute Mcf values, taking no account of the variation in the volumes of gas handled during this period. The staff expects the percentage of unaccounted-for gas to decreases in the future with the step-up proposed by applicant in its leakage mitigation program. The staff's estimate of unaccounted-for gas for 1957 will be adopted as reasonable.

Operating Expenses

The applicant's test year operating expenses were $8,621,000 greater than the staff's. 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 fact the applicant took exception to the staff's purchased gas costs, distribution expenses, customers' accounting expenses, sales department expenses, administrative and general expenses and ad valorem taxes. The applicant's and staff's estimates of expenses are shown on Table 1.

Production Expenses

The staff annualized the increased cost of gas purchased from the Pacific Lighting Gas Supply Company, as the applicant did. The applicant points out that the staff did not similarly annualize the comparable increased cost of gas purchases from California producers, which it figures is approximately $640,000. We will increase the staff's estimate of production expenses by this amount and adopt a figure of $76,558,000 as reasonable.

Distribution Expenses

The applicant's estimate of distribution expenses is $875,000 higher than the staff's. Applicant states that about $246,000 of this difference results from lower judgment estimates by the staff, which apparently reflected its original estimate contained in Exhibit No. 3, and did not take into account subsequent known changes reflected in Exhibit No. 38; that $199,000 represents the annualization of expense effects of programs started in the test year principally for (a) cast iron bell and spigot joint maintenance, (b) leakage surveys and (c) related repairs; that $135,000 represents an average level of expenditures for programs, principally main replacement requirements, that will continue to expand for several years; and that the balance reflects new and expanded programs for 1958 and continuing thereafter, for which there is no provision in the year 1958. Applicant's request for higher allowances appears reasonable for those items started in 1957, but for the items expected to start in years 1958 and beyond, in the Commission's opinion it is unreasonable to adjust for such items. Such items obviously would fit into a 1958 estimate--here we are dealing with 1957. The staff's figure will be augmented by $580,000. A total figure of $17,320,000, which is $296,000 less than that estimated by applicant, will be adopted for distribution expenses.

Customer Accounting Expenses

The applicant's customer accounting expense estimate is some $117,000 lower than the staff's because the wage increase was not shown in the applicant's figure; however, applicant states that the staff's estimate is $40,000 low due to the use by the staff of a ratio of 0.435 percent of related revenues for uncollectible expense while it used 0.475 percent; that for the 12 months ended April 1957 the actual ratio was 0.439 percent; that the 12 months ended ratio has risen every month except 2 out of the last 12 months; and that an extrapolation of this trend would result in a year-end figure of 0.481 percent. The staff estimated a future lower ratio of uncollectible on the assumption that there will be increased meter deposits in establishing credit.

With a lower number of general service customers we will lower the staff's allowance by $28,000 and adopt an amount of $8,713,000 as reasonable.

Sales Promotion Expenses

Representatives of the Appliance Profession Association appeared as protestants and were primarily interested in the new customer sales of appliances by the applicant and its related costs of doing this business in relationship to the present level of rates. One appliance dealer indicated that the applicant was in direct competition with the established appliance sales dealers. Applicant's reply was that since 1942 it has not engaged in direct retail merchandising of new appliances for the utility's account, and, furthermore, such sales as are made by it are in a few limited categories and, in total amount, constitute an insignificant portion of the total sales.

These representatives challenged the applicant's policy with respect to the servicing of gas appliances. Applicant states that if it were to follow the practice of referring customer complaints and requests for service to individual service agencies, it would result in considerable customer dissatisfaction and would entail some risk of accident in case service were not provided promptly.

A witness for the Commission's staff reviewed the applicant's activity in the servicing and sale of appliances and concluded that the applicant's policy was reasonable and did not constitute a burden upon customers. Some three years ago we considered this matter and determined that applicant's policy was in the public interest. We see no reason to require a change in applicant's program, but suggest that the Commission be notified by letter should any appliance dealer find instances of the applicant going beyond its stated policy. We desire that the applicant cooperate fully with all dealers to attain safety, prompt service and customer satisfaction in the use of gas consuming appliances.

The staff's sales promotion expense is $26,100 below applicant's. This difference primarily is due to the fact that the applicant increased the 1957 test year expense for the establishment of the new Southeast Division. Applicant states that the creation of this new division is a nonrevenue producing expense.

The record indicates that this new division will not really become effective until 1958. The Commission considers the inclusion of an expense, starting essentially in 1958, is improper for a 1957 estimate. We will adopt the staff's estimate of $4,725,000 as reasonable for sales promotion expense for 1957.

Administrative and General Expense

A part of the difference between the applicant's and staff's estimate of administrative and general expense is due to an added $113,000 of franchise requirement related to the extra sales under applicant's test year basis of reflecting full annualization of sales incident to added out-of-state gas supply available only in the latter part of 1957. Another part is due to the customary deletion of such dues, charitable donations and other expenditures as should be carried by the stockholders. In general the staff's estimate appears adequate but it will be adjusted downward by $19,000 for lesser franchise requirements resulting from the fact that the revenues adopted herein are lower than the staff's estimate.

Wage Increase

Applicant granted a wage increase as of April 1, 1957, but did not segregate the same by its various accounting classifications, showing a lump sum total of $1,447,000. The staff's estimate, which was prepared later than the applicant's estimate, had this wage increase broken down and included in the various accounts. The proper adjustment already appears in the staff's figure and since we have basically adopted the staff's estimates, such adjustment is in the adopted figures.

Depreciation

There is virtually no difference between the two depreciation estimates, except that arising from the applicant's addition for annualization of new out-of-state facilities. We will decrease the staff's figure by $11,000 because of the lesser plant needed to serve the smaller number of customers.

Taxes - Other Than Income

A large part of the difference shown for ad valorem taxes was due to the annualization by applicant of the Needles pipeline. Applicant represents that the staff is $392,000 low on this item because it used the latest known tax rate of $6.8251. Applicant used an estimated trended tax rate of $7.05. The Commission has generally adopted a policy of not speculating as to future tax rates. We will adopt the staff's estimate of approximately $11,995,000 as reasonable.

Income Taxes

The wide difference shown in income taxes arises from the effect of the difference in 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 question of the treatment to be authorized for both accounting and rate-making purposes is now pending before the Commission in Applications Nos. 38372 and 38382 of Southern California Edison Company.

If the Commission authorizes the normalization of income taxes, as requested by the applicant, the earnings would be unaffected. On the other hand, if the Commission does not authorize normalization and uses the "flow through" method, the applicant has stated that it will not elect to take accelerated depreciation. Thus accelerated depreciation is not an issue in this instance. Pending decision on this question the straight-line tax depreciation method will be used and the adopted income tax figures are adjusted to account for the difference in net revenue shown. Should applicant avail itself of accelerated depreciation prior to Commission determination of the pending cases requesting normalization of income taxes and the creation of a deferred tax reserve, the Commission will promptly move to adjust the rates hereinafter authorized as the circumstances require.

Rate Base

The applicant's estimated rate base for 1957 in the amount of $369,833,000 is some $17 million greater than the staff's, owing mainly to the fact that the applicant assumed that the Needles line would be in service for a full year where the staff weighted it in for the last few months only. Also the staff used an average year depreciation reserve when deducting to determine the depreciated rate base rather than the beginning of year reserve as the applicant did. The components of the applicant's and staff's rate bases are set forth below:

WEIGHTED AVERAGE DEPRECIATED

RATE BASE

Item	Applicant Exh. No.3 & 38	Staff Exh. No. 66
Total Weighted Average Gas Plant	$447,565,000	$434,529,000
Deduction for Depreciation	76,498,000	80,588,000
Weighted Average Net Gas Plant	371,067,000	353,941,000
Modifications to Gas Plant		
Contributions in Aid of Construction	(4,284,000)	(4,284,000)
Adjustment to Contributions	-	(396,000)
Customers' Advances for Constr.	(3,092,000)	(3,092,000)
Test Year Adjustment	(108,000)	-
Total Modifications	$ (7,484,000)	(7,772,000)
Working Capital		
Material and Supplies	$ 4,250,000	$ 4,250,000
Working Cash	2,000,000	2,000,000
Total Working Capital	$ 6,250,000	$ 6,250,000
Weighted Average Depreciated Rate Base	$369,833,000	$352,419,000

(Red Figure)

The staff's rate base appears reasonable; however, when allowance is made for 4,271 fewer general service customers than estimated by the staff thus reducing plant requirements, we compute a rate base of $351,683,000, and adopt the same as reasonable.

Adopted Operating Results

Table 1, supra, demonstrates the difference 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 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 to give a fair and reasonable approximation of the test year under present rates are shown on Table 1, and in summary form are:

Operating Revenues	$169,938,000
Operating Expenses	152,730,000
Net Revenue	17,208,000
Rate Base (Depreciated)	351,683,000
Rate of Return	4.89%

Rate of Return

It is applicant's contention that rates should be prescribed to produce net earnings of $24,964,000, based on the test year 1957. This is an amount which would be equivalent to a return of 6.75 percent on the depreciated rate base claimed by applicant of $369,833,000.

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 is important. By Exhibit No. 4 it showed that for the year 1955, thirteen natural gas distributing companies, which it considered comparable, earned 13.4 percent 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 percent on book value. Compared to these figures it represents that Pacific Lighting Corporation earned 9.2 percent 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 1954. It states its latest bond sale was at a 5.1 percent interest rate compared to an average historical cost of debt capital of 3.12 percent in 1954.

The City of Los Angeles contends that only such modest increase in applicant's previously authorized 6 percent rate of return should be allowed as may be compelled by increased interest rates.

Trend of Rate of Return

The applicant represents that it will experience a down-trend in rate of return between 1956 and 1957 of about one-half percent and the summary of earnings in staff Exhibit No. 66 shows a decrease of 0.24 percent in rate of return for this period. The staff states that annualizing of revenue, expense or rate base items in 1957 as done by the applicant would, of course, increase the difference between the 1956 and 1957 rates of return, but contends that 0.24 percent is a fair measure of the trend in rate of return.

Conclusion on Rate of Return

In considering the question of rate of return the Commission has considered its former finding of 6 percent as a fair rate of return in Decision No. 50742 dated November 3, 1954. 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 Counties Gas Company of California, 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 0.50 percent. We will therefore set the rates at a level which would have shown a rate of return of 7.25 percent on the adopted results for the test year 1957 as shown on Table 1, and which should enable applicant to earn a 6.75 percent 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 $8,291,000 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 of approximately $18,240,000 will be required and will be provided by the order herein. This increase is approximately $1,747,000 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 one important factor is the cost of rendering the service. Cost studies were placed in the record by a consulting engineer witness for the applicant and by 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 give weight to the evidence of record.

Rate Zoning

A customer's representative, who did not testify, filed a brief recommending extensive zoning revisions for cities and areas. His proposal would represent a considerable change and is different than that prescribed by the Commission. His plan does not appear to us to be any improvement over the present six-zone plan with the revisions proposed by applicant as shown in its Exhibit No. 56 in this proceeding. The representative would use city lines and population as zoning guides, which ignores the important factors 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 a lower rate level. We will authorize the zoning changes proposed by applicant.

Rate Adjustment for Heating Value

Applicant has proposed a revised heating value clause which the staff opposes because (1) the use of a 12-month moving average heating value as the basis of adjustment would completely nullify the intent of the heating value adjustment, which is to have the rate follow, as closely as reasonable, the fluctuations in heating value of gas served from time to time, and (2) the change in firm rates is not fully proportional to the change in heating value.

The staff proposed a new form of heating adjustment or amendment of the existing clause, to change the present 2 percent and 3 percent rate adjustments per 50 BTU step in heating value above or below 1,100 BTU, to a fully proportional rate change of 4.5 percent.

Applicant opposed the new form of adjustment proposed by the staff because it would increase the frequency of rate adjustments and would require a further rate increase of $1,900,000 a year to "keep whole". With regard to the alternate suggestion by the staff, applicant estimated the revenue impact would be a decrease of $84,000 per year. After considering this matter the Commission will adopt the staff's suggestion to increase the rate change per 50 BTU step to 4½ percent from the present 2 percent and 3 percent levels.

Fuel Oil Clause

Applicant proposes that the fuel oil escalator clause contained in the present interruptible schedules be eliminated because such clause has not operated to maintain any consistent relationship between interruptible gas rates and fuel oil prices during recent years with an escalation ceiling of $1.55 per barrel of oil. Currently, the price of fuel oil is nearly double the ceiling price, being $2.90 per barrel. The California Manufacturers Association stated that applicant's proposal to eliminate the fuel oil escalator clause is sound and should be approved.

The price of oil now is so high that if we were to raise the interruptible rates up to a full competitive level they generally would be above the firm rates. Accordingly, we will eliminate the fuel oil escalator clause.

Rate Adjustments

The following rate adjustments are being authorized:

a. General Service Schedules - Adopt applicant's proposed Firm Natural Gas Service Schedules.

b. Withdraw Schedules G-20, G-22, G-23, G-40 and G-42 and transfer customers to the applicable Firm Natural Gas Service Schedules as proposed by applicant.

c. Gas Engine Schedule - In view of the higher rate of return shown for this class, and while the Commission does not rely solely on cost studies for an indication as to how rate increases should be spread, we will set the authorized increase at about 90 percent of applicant's proposed increase and adopt the proposed change to winter-summer rates.

d. Interruptible Industrial Service - Applicant's proposed increase of 4.2 cents per Mcf in Schedules G-50 and G-52 will be limited to 3.7 cents per Mcf and proposed increase of 3.5 cents per Mcf in Schedules G-53 and G-54 will be limited to 3.2 cents per Mcf. These changes give weight to the cost studies placed in the record by the applicant and the California Manufacturers Association although the Commission questions that the interruptible costs include a proper "rental allowance" for use of the firm services' transmission and distribution system. Withdraw Schedule G-51 as proposed and transfer customers to G-50.

e. Antelope Valley Rates - With the rapid growth in the Antelope Valley, applicant's proposal to make Schedules G-6, G-45, G-50 and G-53 applicable therein will be authorized.

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.

Meter Turn-On and Turn-Off Costs

In order to assign some portion of the turn-on and turn-off costs to the particular customers who cause such expenses, applicant proposes at the end of the first year of operation under the new rates to increase the then effective charge for the first 200 cubic feet by 20 cents per month to all customers and at the same time credit 25 cents per month to those customers who have received continuous service at the same address during the prior 12 months. Applicant estimates that approximately 80 percent of its customers remain at the same address year after year and therefore do not cause a turn-on expense during a billing year.

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 but stated it would adversely affect customer relations. While the staff believed its proposal to be preferable, it raised no objection to the acceptance of applicant's proposal on an experimental basis.

We will authorize applicant's proposed turn-on and turn-off charges and credits. The Commission sees advantage to the staff's proposed account opening charges and will require the applicant also to give further study to this matter. The over-all revenue effect of applicant's proposal is negligible as the increases about offset the decreases.

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 1000 Mcf	Revenue At Present Rates	Increase Amount	Increase Ratio	Avg. Rev. per Mcf After Increase
General Service	131,535	$112,288,000	$12,846,000	11.4%	95.1¢
Commercial Service	9,083	5,319,000	178,000	3.3	60.5
Firm Indust. Service	18,529	9,215,000	996,000	10.8	55.1
Total Firm Service	159,147	126,822,000	14,020,000	11.1	88.5
Gas Engine Service	2,963	1,237,000	87,000	7.0	44.7
Interruptible:					
Regular	64,484	21,173,000	2,304,000	10.9	36.4
Schedule G-54	57,153	16,077,000	1,829,000	11.4	31.3
Resale	5,535	1,968,000	-	-	-
Other Gas Revenue	-	2,661,000	-	-	-
Totals	289,282	$169,938,000	$18,240,000		

In the above table no increase is shown for resale service (which covers the sale of gas to City of Long Beach), as this sale is on a contract basis of recent making.

Findings and Conclusions

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 $18,240,000 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 California Gas Company 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, 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 November 1, 1957.

2. After two years' experience with the new rates, applicant shall prepare and promptly file a report on the desirability and feasibility of the account opening charge as proposed by the staff herein.

3. Coincident with the making effective of the rates provided by Section 1 hereof applicant shall withdraw and cancel the following rate schedules: G-20, G-22, G-23, G-40, G-42 and G-51, and transfer the customers to the applicable revised tariff schedules.

4. Zoning changes may be made as proposed by applicant.

5. Applicant is authorized to increase the then effective charge on November 1, 1958 for the first 200 cubic feet in Schedules G-1 through G-7 by 20¢ per meter per month to all customers and at the same time credit 25¢ per meter per month after November 1, 1958, and monthly thereafter to those customers who have received continuous service during the prior twelve-month period at the same address. Provisions for these changes shall be made in appropriate tariff form and filed with this Commission in accordance with General Order No. 96 and, after not less than

five days' notice to this Commission and to the public, such filing shall be effective on November 1, 1958.

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

Dated at San Francisco, California, this 1st day of OCTOBER, 1957.

President

Commissioners

APPENDIX A
(Page 1 of 2)

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

1. General Natural Gas Service Schedules G-1 through G-7
   Replace with Firm Natural Gas Service Schedules G-1 through G-7 as set forth in Exhibit 60.

2. Commercial Natural Gas Service Schedules G-20, G-22 and G-23
   Withdraw and cancel. Transfer customers to applicable revised Firm Natural Gas schedules.

3. Firm Industrial Natural Gas Service Schedules G-40 and G-42
   Withdraw and cancel. Transfer customers to applicable revised Firm Natural Gas schedules.

4. Gas Engine Natural Gas Service Schedule G-45
   Change to form set forth in Exhibit 60 and increase base rates to the following:

	Base Rate, 1100 Btu	
	November to April, Incl.	May to October, Incl.
First 25 Mcf, per Mcf	60.7¢	54.7¢
Next 175 Mcf, per Mcf	52.7¢	46.7¢
Next 800 Mcf, per Mcf	46.7¢	40.7¢
Over 1000 Mcf, per Mcf	45.2¢	39.2¢

5. Interruptible Natural Gas Service Schedules G-50, G-51, G-52 and G-53
   Withdraw Schedule G-51 and transfer customers to Schedule G-50.
   Increase base rates as follows:

   G-50 - 3.7¢ per Mcf
   G-52 - 3.7¢ per Mcf
   G-53 - 3.2¢ per Mcf

   Revise minimum charges as shown in Exhibit 60.
   Change Applicability, Territory and Rate sections of Schedules G-50, G-52, and G-53 to the form set forth in Exhibit 60.
   Delete Special Conditions 1, 2 and 3 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
   Increase rate for service to Monolith Portland Cement Company to 32.2¢ per Mcf.
   Delete Fuel Oil, Heating Value Adjustment, and Rate Adjustment sections under "Special Conditions".
   Add new section: Effective Rates
   The effective rates are based on the average heating value per cubic foot indicated and as set forth in Rule and Regulation No. 2(i).

7. Rate Adjustment for Heating Value
   Revise Section (i) 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

APPENDIX A

7. Rate Adjustment for Heating Value (Continued)
   by an adjustment in all base rates (except for the fixed and/or the minimum charge portion of the Firm Natural Gas Service rates) of 4½% 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.

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

9. <u>Description of Rate Areas</u>
   Revise the descriptions of rate areas to substantially agree with the maps of proposed rate areas shown in Exhibit No. 56.

APPENDIX B

APPEARANCES

For Applicant: T. J. Reynolds and Harry P. Letton, Jr.

Interested Parties: Roger Arnebergh, City Attorney, by Alan G. Campbell, and T. M. Chubb, for the City of Los Angeles; Wahlfred Jacobson, City Attorney, by Leslie E. Still and Henry E. Jordan, for City of Long Beach; Henry McClernan and John H. Lauten for City of Glendale; N. W. Sager, Lynn McArthur and Archie L. Walters, for City of Burbank; Brobeck, Phleger & Harrison and George D. Rives by Robert N. Lowry, for California Manufacturers Association; Joseph T. Enright and Norman Elliott of Enright & Elliott by Norman Elliott and Waldo A. Gillette, for Monolith Portland Cement Company; Wallace K. Downey, for California Portland Cement Company; W. D. MacKay, Commercial Utility Service, for Challenge Cream and Butter Association; Bert Buzzini for California Farm Bureau Federation; Clarence A. Winder and Frank L. Kostlan, for the City of Pasadena.

Protestants: Van C. Foster, Roy M. Rick and Sandy Sapin, for Appliance Profession Association; Carl J. Ellis, for City of Lakewood; Edward T. LeClair, for La Mirada Home Owners Association; Morris Witkow, in propria persona; O'Melveny and Myers by Lawrence W. Wright, for Riverside Cement Company.

For the Commission Staff: W. R. Roche, Mary M. Pajalich, Edward F. Walsh, C. T. Coffey and Theodore Stein.

WITNESSES

Evidence was presented on behalf of the applicant by: J. H. Jensen, Keith Kelsey, A. B. Cates, H. W. Collister, R. M. Bauer, S. A. Bradfield, R. I. Snyder, L. E. Green, F. M. Foster, Walter F. Stanley, Walter J. Herrman, Roy A. Wehe.

Evidence was presented on behalf of the interested parties and protestants by: Morris Witkow, Edward T. Le Clair, Van C. Foster, William J. McCann, Roy M. Rick, Manuel Kroman, Robert F. Escudero, Edwin Fleischmann.

Evidence was presented on behalf of the Commission staff by: William W. Eyers, Robert O. Randall, Richard T. Perry, Robert R. Laughead, Donald B. Steger.