

**ORIGINAL**

Decision No. 56000

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 First Supplemental
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(Appearances and witnesses  
are listed as Appendix B)

INTERIM OPINION AND ORDER ON  
FIRST SUPPLEMENTAL APPLICATION

Southern California Gas Company, engaged as a public utility in the business of purchasing, distributing and selling gas in central and southern portions of the State of California, filed the above-entitled supplemental application on September 27, 1957, seeking an increase in gas rates by approximately \$6,858,095 to offset the annual increase in the cost of out-of-state gas starting January 1, 1958.

Public Hearing

After due notice, public hearing on this First Supplemental Application was held before Commissioners Rex Hardy, C. Lyn Fox and Ray E. Untereiner and Examiner Manley W. Edwards on a consolidated record with First Supplemental Application No. 38211 of Southern Counties Gas Company of California on November 12, 1957, in San Francisco. Four exhibits and testimony by three witnesses were offered in support of these first supplemental applications. Counsel for the Commission staff and the interested parties cross-examined the witnesses and made closing statements for the purpose of developing a full record to aid the Commission in deciding this matter.

Counsel for applicant moved to amend the application to conform to proof adduced at the hearing. Such motion is granted. The matter was submitted at the close of the day's hearing and now is ready for decision.

Present Status of El Paso  
Rates for Purchased Gas

Applicant's present gas rates, authorized by Decision No. 55642, in Application No. 38787, to become effective November 1, 1957, include the contingent offset charges related to the increased cost of gas purchased from El Paso Natural Gas Company, hereinafter referred to as El Paso, associated with rates filed by El Paso in Federal Power Commission Dockets Nos. G-2018 and G-4769. Applicant represents that Docket No. G-2018 has been settled and refunds from El Paso associated therewith have been received by it, and that corresponding appropriate refunds have been made by applicant to its customers pursuant to Decision No. 54077 of this Commission. At this time the Federal Power Commission has completed hearings on Docket No. G-4769, but has not rendered its decision in this matter. This situation is reflected in our Decision No. 55642 which contained offset rates as an offset to such increase in El Paso rates.

Further El Paso Increases

On June 28, 1957, El Paso filed a further application for increased rates (F.P.C. Docket No. G-12948). Under the suspension procedures of the Federal Power Commission (Section 4(e) of the Natural Gas Act), the new rates will become effective January 1, 1958, subject to review by the Federal Power Commission and to final adjustment and refund as determined by that Commission after hearing. Applicant states that it and Southern Counties Gas Company of California, on September 13, 1957, filed a joint petition to intervene and participate in the hearings to be held in Docket No. G-12948.

The further increase filed for by El Paso is 20 cents per Mcf of daily demand on a monthly basis and 2 cents per Mcf of commodity at 14.9 psia pressure base. Or stated another way, the demand rate will be increased from \$2 to \$2.20 per Mcf day and the commodity charge from 18 to 20 cents per Mcf. Such increases when related to a pressure base of 14.73 psia will be 19.77 cents per Mcf-day of demand and 1.98 cents per Mcf of commodity.

Applicant's computation of cost increase is set forth in Exhibit B attached to the application and may be summarized in the manner following:

a.	Increase in demand charge (both Southern Gas Companies): 1,051,650 Mcf per day at 20¢ x 12 mos. ...	\$ 2,523,960
b.	Increase in commodity charge: 383,899,500 Mcf at 2¢ .....	7,677,990
	Total El Paso Increase .....	<u>10,201,950</u>
c.	Portion of increase to applicant: 70% of \$10,201,950 .....	7,141,365
d.	Impact of cost reallocation agreement with Southern Counties Gas Company of California .....	(124,149)
	Total increase to applicant .....	<u>7,017,216</u>

Determination of Offset Billing Charge

Applicant must pay local franchise fees based upon gross revenues collected within the areas levying such fees, and any increase in rates to meet these increases in gas costs should include an appropriate franchise fee allowance of \$81,611. Before computing an offset charge on its regular sales, applicant deducts \$240,732 as applicable to resale sales to City of Long Beach under a special contract, leaving \$6,858,095 as the amount to recover from regular sales. On the basis of estimated 1958 sales of 319,308,500 Mcf, exclusive of Long Beach, the resulting offset charge is computed at 2.15 cents per Mcf.

Applicant proposes that a uniform 2.15 cents per Mcf be applied to all classes of service, exclusive of resale, in addition

to the present offset charges under Docket No. G-4769 and states that, in view of the fact that Docket No. G-2018 has been settled and appropriate refunds made of a portion of that increase, the remaining amount of increase under Docket No. G-2018 be incorporated permanently in the base rates, effective January 1, 1958. Applicant's proposed total offset charges by classes after January 1, 1958 follow:

<u>Rate Schedule</u>	<u>Present Offset Charge</u>	<u>Remaining G-2018 Offset to Permanent Rates</u>	<u>Add G-12948 Offset Charge</u>	<u>Resulting Offset Charges Eff. 1-1-58</u>
<u>Firm Service</u>				
Schedules G-1, -2, -3, -4, -5, -6, -7, -20, -22, -23, -40, -42, -45 .....	5.07¢	2.0 ¢	2.15¢	5.22¢
<u>Interruptible Service</u>				
Schedules G-50, -51:				
First 6 usage blocks .....	3.9	2.0	2.15	4.05
Terminal block .....	3.4	2.0	2.15	3.55
Schedule G-52:				
All usage .....	3.9	2.0	2.15	4.05
Schedule G-53:				
First 2 usage blocks .....	3.9	2.0	2.15	4.05
Next 3 usage blocks .....	3.1	2.0	2.15	3.25
Terminal block .....	2.6	2.0	2.15	2.75
Schedule G-54:				
a. Former G-53 customers, all usage	2.6	2.0	2.15	2.75
b. Former G-55 customers, all usage	2.54	0.57	2.15	4.12

Applicant mentions that a considerable period of time might elapse before Docket No. G-12948 will be adjudicated and El Paso rates finalized, whereupon it could experience substantial over or under collections during the interim. The reason this could occur is that the offset collections are based upon total sales, whereas increased gas costs are applicable only to purchases from El Paso; the relationship between these two items might change considerably in a year or two. Applicant represents that both it and its customers can be protected from the possible serious effects of such situation by an annual review of the level of the offset rate and by filing with the Commission, not later than November 1 of each year, an appropriate offset rate for the following calendar year based upon

estimated volumes of gas purchases from El Paso and of its gas sales for such following year.

Refund Plan

Applicant plans to refund to its customers the difference between the offset revenues collected and the net increase in the cost of El Paso Gas, finally allowed during the offset rate collection period, adjusted for local franchise requirements, as illustrated by Exhibit C in its application. The general details of applicant's refund plan are:

1. The total amount refundable shall first be assigned to the various classes of customers in proportion to the Mcf sales to each class during the offset rate collection period.
2. Individual customer refunds to all classes of service, other than general service customers using less than 100 Mcf per month, shall be predicated upon each customer's individual consumption during the offset rate collection period.
3. If the average refund to the smaller general service customers using less than 100 Mcf per month exceeds 50 cents, refunds shall be proportioned to each customer's usage in the May or November billing cycles, next following the date of the refund from El Paso.
4. If the average refund to each of these smaller general service customers is 50¢ or less, a uniform amount per such active customer shall be refunded.

Position and Statements of Interested Parties and Others

The City of Los Angeles stated that it is improper permanently to fold in any offset in the base rates prior to final determination of the Federal Power Commission on these offset increases. The City desired the same type of refund plan for the two utilities and pointed to the 50-cent level for uniform refunds proposed by applicant in contrast to the \$1 level proposed by the Southern Counties Gas Company of California. With regard to the spread of the increase, the City favored a uniform increase per Mcf, stating that

this is entirely a cost of gas increase, rather than a percentage spread based on class revenues.

The California Manufactureres Association pointed out that this is an increase in a two-part rate (demand and commodity) and it represents that a uniform spread per Mcf would overcharge the interruptible customer which it contends does not have demand privileges. The Association would prefer a uniform percentage increase to all blocks.

The Monolith and Riverside Cement Companies preferred that the increase be made in proportion to the increases by classes recently made in the main rate decisions herein. They stated that they have no demand rights, are subject to frequent interruptions and that more than 1 cent per Mcf would be unfair to the interruptible classes.

Effect of the "Memphis" Decision

As pointed out in our Interim Order No. 55902, issued December 5, 1957, the applicability of the procedures provided for in Sections 4(d) and 4(e) of the Natural Gas Act to El Paso's petition in F.P.C. Docket No. G-12948 has been made questionable by a recent decision in the United States Court of Appeals for the District of Columbia Circuit.<sup>1</sup> It appears to this Commission that the applicant herein is in substantially the same position with respect to El Paso Natural Gas Company as that of the petitioners in the "Memphis" case with respect to their supplier, and has substantially the same legal rights as those petitioners. Our Interim Decision No. 55902 was issued to require this and similar California applicants to diligently

<sup>1</sup> Memphis Light, Gas and Water Division; City of Memphis, Tennessee, and Mississippi Valley Gas Company, Petitioners, v. Federal Power Commission, Respondent, United Gas Pipeline Company, Texas Gas Transmission Corporation, and Southern Natural Gas Company, Intervenors, No. 13666.

pursue such rights as they may have before the Federal Power Commission and the courts, and to file with this Commission verified statements of the action taken pursuant to such interim decision.

Applicant has filed a verified report dated December 7, 1957, and it is apparent from that report that applicant has complied with the requirements of Interim Opinion No. 55902, has taken such initial steps as are available to it, and intends in good faith to pursue its legal remedies, as required by such interim decision, to final determination. We will condition applicant's authority to increase its rates in the manner provided by the order herein.

#### Findings and Conclusions

After considering the facts set forth in the application and reviewing the exhibits submitted by the applicant in support of this supplemental application, the Commission finds and concludes that applicant's proposal is reasonable and, in general, should be authorized. However, applicant's request to fold in the offset charges in connection with Dockets Nos. G-2018 and G-4769 will not be authorized. The offset resulting from the Federal Power Commission Docket No. G-2018 has been disposed of for the calendar year 1953 by Federal Power Commission order. The Federal Power Commission also found that there was no refund due in this docket for the year 1954 and the first 3½ months of 1955. The Commission, however, did not fix rates so that the offset in this proceeding continues in effect. For this reason the offset should be shown on the tariff sheets.

With regard to the question of rate spread we have considered the alternative to a uniform spread per Mcf but have reached the conclusion that applicant's proposal is preferable to the proposed alternatives. Applicant's proposal to review the reasonableness of the offset charge of 2.15 cents per Mcf annually and filing

revised offset rates for the following calendar year will be authorized.

Applicant seeks approval of its refund plan in principle. In general, it appears reasonable; however, this Commission, after decision of the Federal Power Commission in Docket No. G-12948, may find reason for change in the refund plan, so we will not at this time give the applicant's proposal our unqualified endorsement.

The Commission finds and concludes that the increases in rates and charges authorized herein are justified, and that the existing rates, in so far as they differ from the rates being filed by applicant, are for the future unjust and unreasonable.

The Commission having considered the request of applicant, public hearing having been held, and being of the opinion that the first supplemental application should be granted subject to the revisions hereinabove mentioned; therefore,

IT IS ORDERED as follows:

1. If the Federal Power Commission grants the motion filed by El Paso Natural Gas Company on or about November 19, 1957, requesting that an order be entered by the Federal Power Commission putting into effect the change of rate, charge, classification, or service, set forth in, among others, rate Schedules G and G-X, and if thereafter El Paso Natural Gas Company assesses to applicant charges for gas sold and delivered to applicant computed by use of the rates specified in Schedules G and G-X of El Paso Natural Gas Company, then applicant is hereby authorized to file, in quadruplicate, with this Commission, in conformity with General Order No. 96, revised schedules with changes in rates, terms and conditions as set forth in Appendix A attached hereto and after not less than one day's notice to this Commission and to the public, to make said revised rates effective for service rendered on and after the date the increased El Paso rates, lawfully, go into effect.



2. In the event that applicant places such rate increases in effect:

a. Applicant shall keep such records of sales to customers during the effective period of this cost of gas offset rate as will enable it to determine readily the total offset charge and the total refund, if any, that may be due each customer.

b. Applicant's plan, incorporating the changes discussed in the opinion herein, for determining refunds shall be submitted to this Commission prior to making any refunds, and specific Commission approval shall be obtained of the plan at that time.

c. Upon the final decision by the Federal Power Commission in Docket No. G-12948, applicant shall file a supplemental application herein containing its proposed permanent rate plan for final determination and authorization by this Commission.

d. Upon final determination of the actual cost of refunding not recovered from El Paso and the amount of any balance created by applicant's inability to deliver checks and by checks uncashed after one year, applicant shall file a plan acceptable to the Commission for the equitable disposition of the resultant net balance.

e. Applicant shall file with the Commission monthly reports within sixty days following the close of each such period setting forth:

1. The increase in revenues realized under the offset rates authorized herein segregated by firm and interruptible classes of service, and
2. The increase in cost of out-of-state gas above the rate level in effect immediately prior to January 1, 1958.

f. Annual reviews of this offset rate may be made as proposed by applicant.

The effective date of this order shall be ~~thirteen~~<sup>twenty</sup> days *after* after the date hereof.

Dated at San Francisco, California, this 17<sup>th</sup> day of December, 1957.

*John E. Mitchell*  
President

*Michael D. Polley*

*R. Hardy*

*E. Linton*  
Commissioners

APPENDIX A

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The presently effective base and effective rates may be changed as set forth in this appendix.

1. The contingent offset clause in Schedules Nos. G-1, G-2, G-3, G-4, G-5, G-6, and G-7 changed to the following:

Contingent Offset Charges:

The above base rates include the following offset charges which, in accordance with Decisions Nos. 47992, 50742, 51359 and of the California Public Utilities Commission, are contingent upon the price of gas purchased from El Paso Natural Gas Company:

- a. An offset charge of .2 cent per 100 cubic feet.
- b. An offset charge of .307 cent per 100 cubic feet.
- c. An offset charge of .215 cent per 100 cubic feet.

The effective rates are computed in accordance with Rule 2(i) from the base rates and are subject to possible refund in accordance with said decisions in the event of a reduction in the cost of gas purchased from El Paso Natural Gas Company.

2. The contingent offset clause in Schedule No. G-45 changed to the following:

Contingent Offset Charges:

The above base rates include the following offset charges which, in accordance with Decisions Nos. 47992, 50742, 51359 and of the California Public Utilities Commission are contingent upon the price of gas purchased from El Paso Natural Gas Company.

- a. An offset charge of 2 cents per Mcf.
- b. An offset charge of 3.07 cents per Mcf.
- c. An offset charge of 2.15 cents per Mcf.

The effective rates are computed in accordance with Rule 2(i) from the base rates and are subject to possible refund in accordance with said Decisions in the event of a reduction in the cost of gas purchased from El Paso Natural Gas Company.

3. The contingent offset clause in Schedule No. G-50 changed to the following:

Contingent Offset Charges:

The above base rates include the following offset charges which, in accordance with Decisions Nos. 47992, 50742, 51359 and of the California Public Utilities Commission, are contingent upon the price of gas purchased from El Paso Natural Gas Company:

- a. An offset charge of 2 cents per Mcf.
- b. An offset charge of 1.9 cents per Mcf for the first 20,000 Mcf, and 1.4 cents per Mcf for over 20,000 Mcf.
- c. An offset charge of 2.15 cents per Mcf.

The effective rates are computed in accordance with Rule 2(i) from the base rates and are subject to possible refund in accordance with said decisions in the event of a reduction in the cost of gas purchased from El Paso Natural Gas Company.

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4. The contingent offset clause in Schedule No. G-52 changed to the following:

Contingent Offset Charges:

The above base rates include the following offset charges which, in accordance with Decisions Nos. 47992, 50742, 51359 and of the California Public Utilities Commission, are contingent upon the price of gas purchased from El Paso Natural Gas Company:

- a. An offset charge of 2 cents per Mcf.
- b. An offset charge of 1.9 cents per Mcf.
- c. An offset charge of 2.15 cents per Mcf.

The effective rates are computed in accordance with Rule 2(i) from the base rates and are subject to possible refund in accordance with said decisions in the event of a reduction in the cost of gas purchased from El Paso Natural Gas Company.

5. The contingent offset clause in Schedule No. G-53 changed to the following:

Contingent Offset Charges:

The above base rates include the following offset charges which, in accordance with Decisions Nos. 47992, 50742, 51359, and of the California Public Utilities Commission, are contingent upon the price of gas purchased from El Paso Natural Gas Company:

- a. An offset charge of 2 cents per Mcf.
- b. An offset charge of 1.9 cents per Mcf for the first 1,000 Mcf, 1.1 cents per Mcf for the next 19,000 Mcf, and 0.6 cent per Mcf for over 20,000 Mcf.
- c. An offset charge of 2.15 cents per Mcf.

The effective rates are computed in accordance with Rule 2(i) from the base rates and are subject to possible refund in accordance with said decisions in the event of a reduction in the cost of gas purchased from El Paso Natural Gas Company.

6. The contingent offset clause in Schedule No. G-54 changed to the following:

Contingent Offset Charges:

The above base rates include the following offset charges which, in accordance with Decisions Nos. 50742, 51359, 54831, and of the California Public Utilities Commission, are contingent upon the price of gas purchased from El Paso Natural Gas Company.

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A. Former C-53 Customers:

- a. An offset charge of 2 cents per Mcf.
- b. An offset charge of .6 cent per Mcf.
- c. An offset charge of 2.15 cents per Mcf.

B. Former C-55 Customers:

- a. An offset charge of 2.54 cents per Mcf.
- b. An offset charge of 2.15 cents per Mcf.

The offset charges are subject to possible refund in accordance with said decisions in the event of a reduction in the cost of gas purchased from El Paso Natural Gas Company.

APPENDIX B

LIST OF APPEARANCES

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

Interested Parties: Alan G. Campbell and Robert W. Russell, for City of Los Angeles; O'Melveny & Myers by Lauren M. Wright, for Riverside Cement Company; Norman Elliott & Joseph T. Enright and Waldo A. Gillette, for Monolith Portland Cement Company; Bruce Renwick, H. W. Sturges, Jr., and R. E. Woodbury by J. F. Nail, for Southern California Edison Company; Richard L. Wells, of Gibson Dunn & Crutcher, for American Potash and Chemical Company and West End Chemical Company; Chickering & Gregory by C. Hayden Ames, for San Diego Gas & Electric Company; Brobeck, Phleger & Harrison by Gordon E. Davis, for California Manufacturers Association; Overton, Lyman & Prince by Donald H. Ford, for Southwestern Portland Cement Company.

Commission Staff: Harold McCarthy and C. T. Coffey.

LIST OF WITNESSES

Evidence was presented on behalf of the applicant by W. J. Herrman and J. H. Jensen.