

ORIGINAL

Decision No. 55001

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 SAN DIEGO GAS & ELECTRIC COMPANY, a)
 corporation, for authorization to) Application No. 39566
 increase its present rates for)
 natural gas service by an offset)
 charge.)

(Appearances and Witnesses
 are listed as Appendix A)

I N T E R I M . O P I N I O N

Applicant's Request

San Diego Gas & Electric Company, an operating public utility engaged in the business of purchasing, transmitting, distributing and selling gas in the County of San Diego,¹ filed the above-entitled application on November 18, 1957 seeking an increase in gas rates by approximately \$727,500 to offset the annual increase in the cost of gas starting January 1, 1958 because of increased out-of-state gas costs to applicant's supplier, the Southern Counties Gas Company of California.

Public Hearing

After due notice, public hearing on this application was held before Commissioner C. Lyn Fox and Examiner Manley W. Edwards on November 29, 1957, in Los Angeles. Two exhibits in addition to Exhibits A through L attached to the application, and testimony by two witnesses were offered in support of the application; however,

¹ Applicant also manufactures, purchases, transmits, distributes and sells electricity in the counties of San Diego and Orange, and to a limited extent manufactures and sells high and low pressure steam in the City of San Diego.

Exhibit No. 2 was not received in evidence.² Counsel for the Commission staff and the interested parties cross-examined the witnesses and some presented closing statements for the purpose of developing a full record to aid the Commission in deciding this matter. The matter was submitted at the close of the day's hearing and now is ready for decision.

Applicant's Position

Applicant states this increase is for the purpose of compensating it for the unreimbursed increased cost of natural gas and additional franchise payments on gross sales of gas to be purchased commencing January 1, 1958, and thereafter, from Southern Counties Gas Company of California under a revised tariff schedule being placed into effect on January 1, 1958. Applicant estimated that it will purchase 33,352,000 Mcf of gas in 1958; the increase at 2.15 cents per Mcf computes to \$717,068. Applicant's position is that the increase in cost of gas will have an adverse effect upon the earnings of its gas department unless a contingent offset increase be authorized.

Earning Position

Applicant estimates that for the average year 1957 it will earn a rate of return of 4.64 per cent in its gas department and that for 1958 its rate of return will drop to 4.13 per cent and will drop farther to 3.53 per cent unless this increased cost of gas is offset. The offset proposed will bring the indicated rate of return for 1958

² Exhibit No. 2 was prepared by applicant at the request of the Commission staff for the purpose of showing that, if the "flow-through" method of computing earnings with accelerated depreciation were used, the earnings with the proposed offset rate would not be above a fair level. Such exhibit was not received on objection from Counsel for the City of National City.

back up to 4.13 per cent. Applicant's 1958 estimates, in more detail as set forth in Exhibit J, follow:

Item	Estimated Year 1958		
	With Present Rates	Adjustments for Present and Offset Rates	With Increased Gas Cost and Offset Rates
<u>Operating Revenues</u>			
Firm Sales	\$17,187,900	\$416,500	\$17,604,400
Interruptible Indl. Sales	977,800	68,800	1,046,600
Miscellaneous Revenues	198,600	-	198,600
Total Revenue	18,364,300	485,300	18,849,600
<u>Operating Expenses</u>			
Purchased Gas Cost	10,549,200	717,100	11,266,300
Other Production Expenses	37,800	-	37,800
Joint Expense (Credit)	(2,764,900)	(245,500)	(3,010,400)
Total Production Expense	7,822,100	471,600	8,293,700
Transmission Expense	152,900	3,000	155,900
Distribution Expense	2,332,400	-	2,332,400
Cust. Acctg. & Col. Exp.	1,050,700	-	1,050,700
Sales Promotion Exp.	272,400	-	272,400
Adm. & General Exp.	1,329,500	9,700	1,339,200
Depreciation & Amortization	1,627,100	-	1,627,100
Taxes Other than Income	1,303,800	-	1,303,800
Taxes State & Federal Income	947,000	500	947,500
Total Operating Expenses	16,837,900	484,800	17,322,700
Net Operating Revenues	1,526,400	500	1,526,900
Depreciated Rate Base	36,996,200	-	36,996,200
Rate of Return	4.13%	-	4.13%

(Red Figure)

Applicant's Exhibit L, attached to the application, shows that its earnings in all departments (gas, steam heat and electric) are estimated to result in a 5.14 per cent rate of return for 1957 and 4.98 per cent for 1958 under present rates and cost of gas. The expected increase in cost of gas will lower this 1958 over-all return to 4.80 per cent and the offset rate increase proposed will bring this estimated 1958 rate of return back up to 4.92 per cent. Applicant contends that the rates of return for its gas department and for the company as a whole are below a reasonable level and that

therefore the offset increase is fully justified. In fact, applicant's gas department earnings are so low in its opinion that it plans to seek a further increase in gas rates and mentions that it will file as early as practicable, an appropriate new application. Inasmuch as some time may be required for the Commission to process and act on such new application, applicant requests authority to place into effect its herein proposed offset rates pending decision on the new application.

Proposed Offset Rates

Applicant proposes that an offset rate increase of 2.26 cents per Mcf, or 0.226 cents per hundred cubic feet, be made in each base rate of its filed tariffs applicable to service to regular customers, and 2.15 cents per Mcf for gas fuel to its steam and electric departments. It estimates that the 2.26 cents per Mcf charge will increase revenues by \$485,300 in 1958 from regular customers, and the 2.15 cents per Mcf, by \$242,200 from steam and electric generation. Thus applicant's total offset revenue is estimated at \$727,500. This is some \$10,000 greater than the increased cost of gas. This difference will cover the increased franchise payments.

The reason for the slightly higher offset charge per Mcf to regular customers than to its steam plants is that the franchise fees and added company-use fuel and losses are mainly incurred in serving the distribution system customer.

Applicant's Exhibit No. 1 is a copy of a proposed new rate schedule, Schedule No. G-54, for interruptible natural gas service to utility steam-electric generating plants which it will place in effect on January 1, 1958 under the filing procedure of General Order No. 96. Applicant requests authority to add the 2.15 cents per Mcf offset charge to this proposed new Schedule No. G-54.

Refund Plan

Applicant plans to refund to its customers all or part of the offset charges, dependent upon receipt of refunds from Southern Counties Gas Company of California. In making refunds to customers, applicant proposes to deduct the cost of refunding. In order to keep the cost of refunding down to a reasonable figure for the residential customers, it proposes a uniform payment to each active domestic customer, rather than a refund based on the customer's total usage during the offset collection period. However, for the commercial and industrial customers it proposes a refund in proportion to the various individual consumptions during the offset collection period.

The plan contemplates that the total offset refund to customers first will be divided between the residential, commercial, industrial and interruptible classes and between schedules within those classes, in proportion to the respective volumes of sales during the offset collection period covered by the refund, prior to the simplified distribution procedure previously mentioned; and that the refund to company plants be distributed as a retroactive unit cost adjustment in the price of gas fuel. More details of applicant's proposed refund plan are set forth in Exhibit I attached to the application.

Annual Reviews

Applicant mentions that Southern Counties Gas Company of California has proposed an annual review and revision of its offset charges resulting from the increases in the rates of El Paso Natural Gas Company under Docket No. G-12948, filed with the Federal Power Commission. Therefore, applicant proposes and seeks authorization to make effective, concurrently with the effective date or dates of revision of Southern Counties offset charges, revisions in its offset charges in proportionate ratio thereto and make permanent such

pro rata of offset charges as Southern Counties may be permitted permanently to include in its regular rates at some later time.

Positions and Statements
of Interested Parties

The City of San Diego did not take a position as to whether or not the offset rate increase is justified. It mentioned that there was not sufficient time to explore the total picture with respect to rate of return but considers this as a piecemeal procedure in view of the applicant's prospective new rate case.

The City of National City stated that at first blush the offset appears reasonable but urged that a uniform 2.15 cents per Mcf increase be adopted rather than 2.26 cents per Mcf to the domestic, commercial and industrial customers. National City also took the position that there should have been a more complete showing and the granting of this offset might mean that applicant could obtain offset relief in the future for an item so small as a wage increase.

The California Manufacturers Association stated that the offset rate should reflect the form of the added costs, that is, if the added costs are in cents per Mcf the offset should follow the same form. However, it pointed out that, in the Southern Counties offset case, Application No. 38211, First Supplemental, it advocated a percentage form of offset increase and, if the Commission adopts such a percentage distribution method, the same method should be used in San Diego.

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.³ 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 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 11, 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 application the Commission finds and concludes that applicant's proposal is reasonable, and, in general, should be authorized. How-

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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, Intervenor, No. 13666.

ever, the Commission disagrees with applicant's proposal to deduct the cost of making refunds from any amount made available for refunds by Southern Counties. Also, the proposal to make a uniform distribution to domestic customers does not appear reasonable if the average refund exceeds 50 cents. We will require amendment of applicant's refund plan to the extent indicated and at the time the amount of any refund may be known, the Commission may find reason for further change in the refund plan.

With regard to the question of rate spread, we have considered the alternatives to the uniform spread per Mcf proposed for the domestic, commercial and industrial customers and the slightly lower uniform charge per Mcf to steam plants, and have reached the conclusion that the applicant's proposal is preferable to the alternatives.

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 the applicant, are for the future unjust and unreasonable.

I N T E R I M O R D E R

The above-entitled application having been filed, a public hearing having been held, the matter having been submitted and now being ready for decision; 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's supplier charges for gas sold and delivered to it 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 follow:

- a. Increase the base rates for service under Schedules G-1 through G-51 by 2.26 cents per Mcf or 0.226 cents per 100 cubic feet as set forth in Exhibit H attached to the application,
- b. Increase proposed new Schedule No. G-54 by 2.15 cents per Mcf, and
- c. Insert the contingent offset charge clause set forth in Exhibit H in the schedules being increased,

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 rates of Southern Counties Gas Company of California, 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 shall revise its proposed refund plan in the manner hereinabove discussed and shall seek specific Commission approval of such revised plan before actually making any refunds.

- c. Upon final determination of the rates of Southern Counties Gas Company of California under Application No. 38211, First Supplemental, 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 Southern Counties Gas Company of California and the amount of any balance created by applicant's inability to deliver 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 period setting forth:
 - 1. The increase in revenues realized under the offset rates authorized herein segregated by firm, interruptible and steam plant classes of service, and
 - 2. The increase in cost of gas above the rate level in effect immediately prior to the date on which the proposed increased rates of Southern Counties Gas Company of California become effective.
- f. Annual reviews of this offset rate may be made as proposed by applicant.

The effective date of this order shall be ^{Twenty}~~thirteen~~ days after the date hereof. *John*

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

Carl E. [Signature]
President

[Signature]
[Signature]
[Signature]
Commissioners

APPENDIX A

List of Appearances

For Applicant: Chickering & Gregory by Sherman Chickering and
C. Hayden Ames.

Interested Parties: Frederick B. Holoboff, for City of San Diego;
Robert O. Curran, for City of National City; J. J. Deuel, for
California Farm Bureau Federation; Brobeck, Phleger & Harrison
by Robert N. Lowry, for California Manufacturers Association;
and W. M. Laub and C. H. McCrea, for Southwest Gas Corporation.

Commission Staff: W. R. Roche and L. W. Mendonsa.

List of Witnesses

Evidence was presented on behalf of applicant by H. G. Dillin and
L. R. Knerr.