

ORIGINALDecision No. 56186

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
SOUTHERN COUNTIES GAS COMPANY OF)	Application No. 38211
CALIFORNIA for a general increase)	(Second Supplemental)
in gas rates under Section 454 of)	
the Public Utilities Code.)	

(Appearances and witnesses
are listed in Appendix A)

OPINION ON
SECOND SUPPLEMENTAL APPLICATION

Applicant's Request

By the above-entitled second supplemental application, filed December 9, 1957, Southern Counties Gas Company of California seeks an increase in gas rates by approximately \$903,400 to offset the annual increase in cost of gas resulting from increased rates to be charged by Pacific Lighting Gas Supply Company starting January 1, 1958.

Public Hearing

Public hearing on this second supplemental application was held before Examiner Manley W. Edwards on December 19, 1957 in Los Angeles. Two exhibits and testimony by two witnesses were offered in support of the supplemental application. Counsel for the protestant and interested parties, as well as the representative of the Commission's staff, cross-examined the witnesses 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 refers to Decision No. 55903 dated December 5, 1957, Application No. 38957 wherein, pursuant to Commission authorization, the monthly charge for gas purchased from Pacific Lighting Gas Supply Company will be increased from \$233,500 to \$250,200 and the commodity charge from 26.5 to 27.5 cents per Mcf, starting January 1, 1958. Applicant pointed out in its main rate proceeding^{1/} that Pacific Lighting Gas Supply Company had filed for a substantial increase and asked that any increase authorized to the Supply Company be added to the increase that may be authorized therein. The Commission's reply was:

"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."

Applicant's general position is that the increase awarded to the Supply Company is too great for it to absorb out of present earnings; therefore, it seeks the offset increase proposed in its second supplemental application.

Based on the estimated 1958 gas purchases from Supply Company of 29,140,400 Mcf, applicant states the increase in cost of gas amounts to \$491,804 and that under the cost reallocation agreement with Southern California Gas Company,^{2/} wherein the cost of gas purchased by the two companies is adjusted so that the same average price is borne by each, this cost figure is increased to \$891,340.

^{1/} Decided by Decisions Nos. 55579 and 55589.

^{2/} Authorized by the Commission in Decision No. 50718.

Applicant also states that it must pay local franchise fees based on gross revenues collected within the areas levying such fees which require an additional increase of \$12,060. Reflecting this adjustment, the total increase to offset is computed at \$903,400.

Rate Spread Proposals

Applicant proposes that this increase be recovered by adding 0.6 cents per Mcf or 0.06 cents per 100 cubic feet to the base rates of its rate schedules, except for the 40 cents per Mcf charge for excess gas to San Diego. Applicant recognizes that the Commission may desire some other method for spreading the rate increase, such as a uniform 1.08 per cent increase, but states that it will accept any reasonable method, prompt decision being of more importance than the precise spreading method so long as the total increase in cost of gas plus related franchise fees is recovered.

The California Manufacturers Association disagreed with a uniform commodity increase of 0.6 cents per Mcf and pointed out that 76 per cent of the total increase authorized by Decision No. 55903 is in the fixed charge and only 24 per cent in the commodity portion of the total increase in the cost of gas. The Association contends that the service rendered by the Supply Company is a low-load-factor peaking service and that a uniform charge would be unfair to the high-load-factor firm industrial and interruptible customers, that the costs will not be incurred in the same amount per Mcf for all classes, and that an increase of 0.9225 cents per Mcf to firm service and 0.1435 cents per Mcf to interruptible service would be more equitable, or that in no event should the increase to the interruptible and industrial classes exceed that which would result from a straight percentage increase.

The City of Los Angeles took the position that there is no evidence in the record tending to prove that the applicant's rate of return, if it should absorb the Pacific Lighting increase, would fall below a zone of reasonableness. If the Commission finds an increase is warranted, the city contends that a uniform per Mcf increase is the most reasonable method of distributing the increase and pointed out that interruptible customers benefit from Pacific Lighting gas and storage.

The Department of the Navy of the United States as a customer of the applicant stated that an offset increase of six mills per Mcf is discriminatory, that the cost of service for each class should be considered and that the method urged by the California Manufacturers Association is the logical method if the Commission determines an increase is necessary.

The San Diego Gas & Electric Company, which obtains its total supply of gas from the applicant, stated that in the past it has preferred a cost of service basis of making rates and if the Commission decides to accept the method advocated by the California Manufacturers Association, San Diego would not object to a demand and commodity basis for spreading the increase.

The California Farm Bureau Federation pointed out that while the Commission does not rely solely on cost studies in making class rates and that there is no statute that classes an offset rate as being different from a regular rate increase, nevertheless the cost of service studies in the main applications should be given some weight in spreading this increase.

The Challenge Cream and Butter Association objected to a spread of this increase on a uniform cents per Mcf basis as being discriminatory and recommended the spreading method suggested by the California Manufacturers Association.

Findings and Conclusions

The instant second supplemental application has reference exclusively to the increased cost of gas purchased by applicant from Pacific Lighting Gas Supply Company effective as of January 1, 1958. The record in this instant proceeding shows that payment by applicant for the increased cost of gas will increase its expenses of operation and in our opinion will decrease its rate of return below that found just and reasonable by Decision No. 55579, issued September 17, 1957.

By Decision No. 55579, supra, the Commission established a rate base for applicant of \$137,663,000 for the test year 1957, and found applicant's annual revenues for the test year would be \$66,982,000 and its operating expenses for the test year would be \$60,114,000 after taxes of \$8,202,000. Such computations established a rate of return of only 4.99 percent. The Commission, in allowing a rate increase under Decision No. 55579, supra, gave weight to the depressing effect on the rate of return of a new pipeline to transport out-of-state gas, and authorized an increase of \$6,500,000 in revenue which the Commission found should enable applicant to earn a rate of return of 6.5 percent in the immediate future. Such a rate of return of 6.5 percent was found in said decision to be fair and reasonable for the future.

The record established in the hearing of the original application, as a result of which Decision No. 55579, supra, was issued, was full and complete; applicant and other interested parties were given full opportunity for the presentation of direct evidence and cross-examination of contra-evidence, and said last-mentioned decision was the result of extensive consideration by the Commission.

The only issue to be determined by this decision is whether the increased costs to applicant of purchased gas should be absorbed by applicant without offsetting rate increases, or whether such offsetting rate increases should be authorized. We find and conclude that the increased costs are too great for applicant to absorb without an offsetting rate increase. This action conforms to the position taken by this Commission in Decision No. 55579, supra, as hereinbefore referred to. We find that, percentagewise, the increases hereinafter authorized amount to 1.08 percent, which will, at the most, enable applicant to earn the rate of return found reasonable in Decision No. 55579, supra. We, also, find that such authorized increases are justified and reasonable. Therefore, we find the contentions of the City of Los Angeles are not well founded.

With regard to the contentions of several parties regarding the spreading of the rate increase on the basis of cost of service, it is the Commission's finding and conclusion that some weight should be given to the cost element and that a uniform spread of 0.6 cents per Mcf is not equitable to all classes. Furthermore, there is the question of unequal rounding by the applicant if the rate is carried out beyond the 1/10 cent per Mcf in our order, such as would occur if a percentage spread were authorized as shown in applicant's Exhibit No. 8. The rate spread which we shall authorize herein

essentially follows the existing spread of rates now employed by applicant by the authority of this Commission.

The following rate increases will be authorized:

<u>Class of Service</u>	<u>Authorized Increase per Mcf</u>	<u>Estimated</u>	
		<u>1958 Sales Mcf</u>	<u>1958 Revenue Increase</u>
General Service	0.8c	63,946,800	\$511,574
Gas Engine	0.5	1,032,000	5,160
Firm Industrial	0.6	4,267,000	25,602
Interruptible Industrial	0.4	20,796,100	83,184
Steam Plant	0.4	25,004,000	100,016
San Diego Gas & Electric Co.	0.5	35,099,400	175,497
Total		150,145,300	901,033

The Commission finds and concludes that the increases in rates and charges authorized herein are justified, and that present rates, in so far as they differ from those herein prescribed, for the future are unjust and unreasonable.

O R D E R

The Southern Counties Gas Company of California having applied by a second supplemental application to this Commission for increases in gas rates to offset increases in cost of gas purchased from Pacific Lighting Gas Supply Company, a public hearing having been held, the matter having been submitted and now being ready for decision; therefore,

IT IS ORDERED as follows:

Applicant is authorized to file, in quadruplicate with this Commission, in conformity with General Order No. 96, revised schedules of rates which include the following increases:

- a. Increase the base rates of Schedules Nos. G-1 through G-26 by 0.08¢ per 100 cu.ft.
- b. Increase the base rates of Schedules Nos. G-40 and G-41 by 0.6¢ per Mcf.
- c. Increase the base rates of Schedule No. G-45 by 0.5¢ per Mcf.
- d. Increase the base rates of Schedule No. G-50 by 0.4¢ per Mcf.
- e. Increase the base and effective rates of Schedule No. G-54 by 0.4¢ per Mcf.
- f. Increase the following commodity rates of Schedule No. G-60:
 - 1. Deliveries up to contract demand, 0.5¢ per Mcf.
 - 2. Off-peak excess deliveries, 0.5¢ per Mcf.

and on not less than three days' notice to the Commission and to the public to make said rates effective for service rendered on and after March 1, 1958.

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

Dated at San Francisco, California, this 31st day of January, 1958.

President
Raymond L. ...

W. H. ...

C. L. Fox

Commissioners

APPENDIX A

LIST OF APPEARANCES

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

Interested Parties: J. R. Elliott, for Pacific Lighting Gas Supply Company; Alan G. Campbell and Manuel Kroman, for City of Los Angeles; Chickering and Gregory by Sherman Chickering, for San Diego Gas & Electric Company; Harold Gold, Rueben Lozner and Stuart R. Foutz by Stuart R. Foutz, for Department of the Navy of the United States of America; Rollin E. Woodbury by J. F. Nail, for Southern California Edison Company; Bert Buzzini, for California Farm Bureau Federation; Enright & Elliott by Norman Elliott and Joseph Enright, for Monolith Portland Cement Company; Henry E. Jordan, for City of Long Beach; Brobeck, Phleger & Harrison by George D. Rives, for California Manufacturers Association; W. D. MacKay (Commercial Utility Service), for Challenge Cream and Butter Association.

For Commission Staff: Louis Mendonsa.

LIST OF WITNESSES

Evidence was presented on behalf of applicant by: W. J. Herrman and Cecil L. Dunn.

Evidence was presented on behalf of the interested parties by: Norman Elliott.