

ORIGINALDecision No. 56187

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

| | | |
|---------------------------------------|---|-----------------------|
| In the Matter of the Application of |) | |
| SOUTHERN CALIFORNIA GAS COMPANY for |) | Application No. 38787 |
| a general increase in gas rates under |) | (Second Supplemental) |
| 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 6, 1957, Southern California Gas Company seeks an increase in gas rates by approximately \$1,919,400 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 one witness 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 witness 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, in 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 \$398,000 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 in 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 this second supplemental application.

Based on the estimated 1958 gas purchases from Supply Company of 38,950,900 Mcf, applicant states the increase in cost of gas amounts to \$2,363,500 and that under the cost reallocation agreement with Southern Counties Gas Company of California^{2/} wherein the cost of gas purchased by the two companies is adjusted so that the

^{1/} Decided by Decision No. 55642.

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

same average price is borne by each, this cost figure is decreased to \$1,964,000. The portion of the cost increase applicable to retail sales after adjustment for wholesale sales to Long Beach is \$1,896,600, as shown in Exhibit S-5. Applicant also states that it must pay local franchise fees based upon gross revenues collected within the areas levying such fees which requires an additional increase of \$22,800. Reflecting this adjustment, the total offset increase to offset is computed at \$1,919,400.

Rate Spread Proposals

Applicant proposes that this cost 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 Schedule G-60 for resale gas to Long Beach. Applicant recognized that the Commission may desire some other method for spreading the rate increase, such as a uniform 0.97 percent 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 percent of the total increase authorized by Decision No. 55903 is in the fixed charge and only 24 percent 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 1.01 cents per Mcf to firm service and 0.14 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 Riverside Cement Company took the position that the cement plants under Schedule No. G-54 do not obtain very much of the gas purchased from the Supply Company as their supply is mostly interrupted during the months when the applicant purchases gas

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from the Supply Company and therefore should not be assessed the proposed uniform increase of 0.6 cents per Mcf.

The Monolith Portland Cement Company seconded the positions taken by the California Manufacturers Association and the Riverside Cement Company, and stated that rates must be made on evidence and it challenged the evidence that supports a spread on a straight Mcf basis.

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 application 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. 55642, issued October 1, 1957.

By Decision No. 55642 the Commission established a rate base for applicant of \$351,683,000 for the test year 1957, and found applicant's annual revenues for the test year would be \$169,938,000 and its operating expenses for the test year would be \$152,730,000 after

taxes of \$22,094,000. Such computations established a rate of return of only 4.89 percent. The Commission, in allowing a rate increase under Decision No. 55642, 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 \$18,240,000 in revenue which the Commission found should enable applicant to earn a rate of return of 6.75 percent in the immediate future. Such rate of return of 6.75 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. 55642, 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. 55642, supra, as hereinbefore referred to. We find that, percentagewise, the increases hereinafter authorized amount to 0.97 percent, which will, at the most, enable applicant to earn the rate of return found reasonable in Decision No. 55642, 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 conclusions 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 one-tenth cent per Mcf in our order, such as would occur if a percentage spread were authorized as shown in applicant's Exhibit No. 6. 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> |
| Firm Service | 0.8c | 163,612,700 | \$1,308,902 |
| Gas Engine | 0.5 | 3,064,000 | 15,320 |
| Interruptible Industrial | 0.4 | 69,020,100 | 276,080 |
| Steam and Cement Plant | 0.4 | 83,611,700 | 334,447 |
| Total | | 319,308,500 | \$1,934,749 |

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 California Gas Company 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:

1. 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-7 by 0.08¢ per 100 cu. ft.
- b. Increase the base rates of Schedule No. G-45 by 0.5¢ per Mcf.
- c. Increase the base rates of Schedules Nos. G-50, G-52, and G-53 by 0.4¢ per Mcf.
- d. Increase the base and effective rates of Schedule No. G-54 by 0.4¢ per Mcf.

and on not less than three days' notice to this 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 W. Brown

W. J. [unclear]

B. Hardy

C. J. [unclear]

 Commissioners

APPENDIX A

LIST OF APPEARANCES ON
SECOND SUPPLEMENTAL APPLICATION

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

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, 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.

Protestant: Lauren M. Wright, for Riverside Cement Company.

For Commission Staff: Louis Mendonsa.

LIST OF WITNESSES

Evidence was presented on behalf of applicant by: W. J. Herrman.

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