

ORIGINAL

Decision No. 58113

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of }  
SOUTHERN COUNTIES GAS COMPANY OF }  
CALIFORNIA, for an increase in gas }  
rates under Section 454 of the }  
Public Utilities Code to offset the }  
rate increase granted to applicant's }  
supplier, PACIFIC LIGHTING GAS SUP- }  
PLY COMPANY, by Decision No. 57598. }

Application No. 40642

(Appearances and Witnesses  
are listed in Appendix A)

O P I N I O N

Applicant's Request

By the above-entitled application, filed December 4, 1958, Southern Counties Gas Company of California requests authority to increase gas rates by approximately \$1,228,688 to offset the annual increase in cost of gas resulting from increased rates being charged by Pacific Lighting Gas Supply Company starting January 1, 1959, pursuant to Decision No. 57598 of this Commission. This increase represents a little less than 1.3 per cent of the applicant's estimated 1959 revenue from sales of gas of \$96,342,000.

Public Hearing

After due notice, public hearing was held on this application before Examiner Manley W. Edwards on January 8 and 9, 1959, at Los Angeles. This matter was consolidated for hearing purposes with Application No. 40647 by Southern California Gas Company. Applicant presented five exhibits and testimony by two witnesses in support of its request. The City of Los Angeles presented one exhibit and testimony by one witness in support of its position that

the request should be denied. The Southern California Edison Company presented one exhibit and testimony by one witness in support of its position that no increase should be assessed to the interruptible steam-electric plant customers. The Commission staff cross-examined applicant's witnesses, presented one exhibit and testimony by two witnesses for the purpose of developing a full record to aid the Commission in deciding this request. The matter was submitted at the close of the second day of hearing and now is ready for decision.

Applicant's Position

Applicant refers to Decision No. 57598, Application No. 40079, dated November 10, 1958, wherein, pursuant to Commission authorization, the monthly charge for gas purchased from Pacific Lighting Gas Supply Company was authorized to be increased from \$250,200 to \$327,000 and the commodity charge from 27.5 to 28.7 cents per Mcf, starting January 1, 1959. Applicant's general position is that the increase awarded to the Supply Company is too great for it to absorb out of the present earnings; therefore it seeks the offset increase proposed in this application.

Based on the estimated 1959 gas purchases from Supply Company of 22,165,000 Mcf, applicant states the increase in cost of gas amounts to \$1,187,580 and that under the cost reallocation agreement with Southern California Gas Company,<sup>1</sup> 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 \$1,216,706. Applicant also states that it must pay local franchise fees based on gross revenues collected within the areas levying such fees which

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<sup>1</sup> Authorized by the Commission in Decision No. 50718.

require an additional increase of \$16,400. Reflecting this adjustment, the total increase is \$1,233,106. Applicant proposes to offset \$1,228,688, or 99.6 per cent, of this total increase.

Earning Position

Applicant presented summaries of its earning position for the 12 months ended October 31, 1958, on a recorded basis and on an adjusted basis, and for the year 1959, as estimated under proposed rate levels in Exhibits Nos. 9 and 10. The rates of return shown by Exhibits Nos. 9 and 10 are:

	<u>Rate of Return</u>
12 Months Ended October 31, 1958, Recorded	5.87%
12 Months Ended October 31, 1958, Adjusted	5.97
Estimated Year 1959 .....	6.14 ✓

Although no exhibit was presented by applicant as to its earnings under present rates and the increased cost of gas, applicant, in direct testimony, presented an estimate of rate of return for 1959 under present rates at 5.84 per cent. ✓

The principal adjustments made to the recorded figures for the 12 months ended October 31, 1958, are for average temperature conditions and higher wages on a full year basis. The year 1958 was warmer than normal which reduced revenues from space heating sales.

Applicant's 1959 estimate in more detail with proposed rates is summarized below:

<u>Item</u>	<u>Year 1959 Estimated</u>
Operating Revenues:	
General Service	\$ 60,799,000
Gas Engine	493,000
Firm Industrial	2,459,000
Interruptible Industrial	7,850,000
Steam Plant	9,042,000
San Diego Gas & Electric Company	15,699,000
Miscellaneous Revenue	238,000
Total Revenue	96,580,000
Operating Expenses:	
Cost of Gas (after reallocation)	\$ 49,508,000
Other Production	(485,000)
Transmission	3,236,000
Distribution	2,012,000
Customer Service	2,997,000
Customers Accounting and Collecting	4,208,000
Sales Promotion	2,714,000
Administration and General	4,745,000
Depreciation	4,588,000
Taxes, other than Income	5,898,000*
Income Taxes	6,988,000
Total Expenses	86,409,000
Net Revenue	10,171,000
Depreciated Rate Base	165,639,000
Rate of Return	6.14%

(Red Figure)

The Commission staff reviewed the summaries of earnings and work papers of the applicant, but indicated that the additional revenue sought by the applicant would not bring its earnings above the 6.5 per cent rate of return found to be fair and reasonable in Decision No. 55579, dated September 17, 1957, the last general rate case of this applicant. Accordingly, the staff did not prepare and present any adjusted earnings exhibit regarding this applicant, but confined its showing to the operating results of the Southern California Gas Company in the consolidated hearing.

\* In computing ad valorem taxes the applicant allowed for an uptrend in 1959. It is not the policy of this Commission to allow an estimated uptrend in ad valorem taxes; however, even without such allowance the rate of return will not be above the level found fair and reasonable in Decision No. 55579.

Rate of Return

The City of Los Angeles introduced Exhibit No. 15 for the purpose of showing that the cost of capital had declined since October 1, 1957, which is the approximate time that the Commission allowed the applicant a rate of return of 6.5 per cent. This exhibit showed that the prime interest rate in Los Angeles currently is 4.0 per cent in contrast to a 4.5 per cent rate in 1957, that the bond yield on AA gas and Electric Bond Issues also was about one half per cent lower, that preferred stock yields were about 0.3 per cent lower, and that the yield on Pacific Lighting Corporation common stock had dropped from 5.8 to 4.5 per cent in this period. ✓

In rebuttal to this exhibit the Southern California Gas Company introduced Exhibit No. 17 for the purpose of showing that the present-day reasonable cost of capital to it is 6.96 per cent, that 13 major natural gas distributing companies over the United States showed average earnings of 12.4 per cent on the book value of their common stock in 1958 while Pacific Lighting Corporation showed only 8.6 per cent on the book value of its common stock, and that if additional bonds were sold at the present-day yield of 4.0 per cent its cost of capital would increase because such yield is higher than the average cost of its present bonds. Applicant's general position is that the utility must be in a strong financial condition to attract capital to finance the plant additions so as to maintain adequate service to its constantly growing load and number of customers.

The City of Los Angeles opposed any increase on the basis that too much time has elapsed since the last major rate case (approximately 14 months) to consider an offset rate increase, that the effect of the increased cost of gas is to reduce the applicant's rate of return by only 0.3 per cent, that the decrease in cost of new capital since late 1957 should be considered, and the possible savings to customers from use of accelerated depreciation<sup>2</sup> should be considered.

Rate Spread Proposal

Applicant proposes that this increase be recovered by adding 0.126 cents per Ccf (1.26 cents per Mcf) in the base rates of each block of all retail firm schedules, 0.20 cents per Mcf in the base rates of the retail regular interruptible Schedule No. G-50, and 0.67 cents per Mcf in the commodity charges for regular deliveries under wholesale rate Schedule No. G-60; or such other or additional authorization as the Commission may deem appropriate.

The California Farm Bureau Federation opposed a uniform increase per Mcf for gas engine service and seemed to prefer a percentage spread. Because the average rate to gas engine service is less than to domestic and commercial service, a percentage spread basis is less burdensome. We find reasonableness in the position taken by the Farm Bureau because gas engine service is largely an off-peak service and not all of the increased cost of gas is in the commodity charge. Applicant's proposed increase of 1.26 cents per Mcf for gas engine service is too great and it will be reduced to one half of this amount or 0.63 cents per Mcf.

<sup>2</sup> The question of what rate treatment should be accorded to accelerated depreciation options for income tax purposes is being studied by the Commission under Case No. 6148, but has not been decided as yet.

The California Manufacturers Association did not oppose the request of the applicant. Of major concern to the Manufacturers Association is the level of the interruptible rate. The applicant proposed an increase of only 0.20 cents per Mcf to this class of service because of the competition level of the price of fuel oil. Currently, the posted price of fuel oil is \$2.15 in the Los Angeles area; and "spot" prices are reported as low as \$1.50 per barrel, equivalent to gas at 25 cents per Mcf. While sales taxes and delivery costs increase these oil prices somewhat, the lowest base rate for interruptible natural gas service is, by comparison, 34.25 cents per Mcf. With fuel oil inventories now close to their all-time high and with natural gas in ample supply, there appears little prospect of an early increase in fuel oil prices. Thus, an increase in the price of natural gas for regular interruptible uses must be limited at this time.

The Southern California Edison Company was opposed to any increase in the rate for interruptible gas service to steam-electric plants because of the competitive level of the price of fuel oil and also because of past cost studies which indicated that this class of service was showing a return above system average return. Applicant proposed no increase in Schedule No. G-54 under which this service is rendered and none will be authorized at this time.

Counsel for the Riverside Cement Company, Division of American Cement Corporation, likewise was opposed to any increase for interruptible gas to cement plants for the reasons cited by the Edison Company. No increase was proposed for such service and none will be authorized.

A customer's representative expressed concern over the fact that no zoning changes were proposed by the applicant in its

rate spread suggestion, and that one utility would propose a small increase in interruptible service and the other utility propose no increase. This representative pointed out that the utility probably could save money by switching over to bimonthly billing in view of the recent increase in postage rates, that the investing public thinks highly of the operating results of the applicant as reflected in the price of the parent company's (Pacific Lighting Corporation) stock, and that the full extent of the impact of accelerated depreciation on applicant's earnings should be considered by the Commission. He asked that the interested parties be supplied with an examiner's report in this matter before final Commission decision.

The San Diego Gas & Electric Company was opposed to the proposed increase of 0.67 cents per Mcf because it expects to obtain some six million more Mcf of steam plant gas than used by applicant in its computation. In its opinion a more reasonable offset figure is 0.58 cents per Mcf. Since a variation in volume of steam plant gas would cause a variation in offset revenues, San Diego made an alternative recommendation that 16 cents per Mcf be added to the demand charge, which would result in an annual increase of \$262,400 based on 135,000 Mcf daily demand for the first 10 months of 1959, and 145,000 Mcf for the last two months. Since complete evidence supporting a change in the demand charge portion of Schedule No. G-60 was not included in the record, we will authorize applicant's request but limit the increase in the commodity charge portion of the schedule to 0.58 cents per Mcf.

#### Findings and Conclusions

While both applicant and staff considered the rate of return under the assumption that Transwestern gas would be available late in 1959, authorization of such gas is pending before the Federal Power Commission and, therefore, its availability by such



time is in the realm of speculation. The Commission has disregarded this condition and has based its finding on the known factors included in the present sources of gas supply with NO Transwestern gas assumed as available in 1959.

After considering the evidence of record and the statements of position presented by the interested parties, the Commission finds and concludes:

1. That the instant application has reference solely to the increased cost of gas purchased by applicant from Pacific Lighting Gas Supply Company effective January 1, 1959; it is simply an offset proceeding and not a major rate case; and represents an approximate increase of less than 1.3 per cent on the average.

2. That matters such as revisions in rate zones, billing practices, and level of authorized rate of return are too complicated for a limited proceeding such as this one; applicant is not seeking to increase the rate of return of 6.5 per cent authorized by Decision No. 55579. As a matter of fact the recorded rate of return earned was only 5.87 per cent.

3. That the case is too limited and not sufficiently broad or complicated to warrant an examiner's report with the extra time that might be required for filing of exceptions and replies before final Commission decision.

4. That the Commission staff has reviewed the applicant's work papers and after considering the normal staff adjustments in detail did not determine that the applicant's earnings would go above the rate of return as determined by the Commission as reasonable in a major rate case. Applicant needs this increase to help maintain its financial position so as to continue to render adequate service.

5. That the questions raised by certain parties regarding the effect of accelerated tax depreciation is not an appropriate issue to be considered in this limited proceeding.

6. 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.

Authorized Rate Increase

The following rate increases will be authorized:

Class of Service	Authorized: Per Mcf	Estimated	
		1959 Sales Mcf	1959 Revenue Increase
General Service	1.26¢	67,649,100	\$ 852,379
Gas Engine	0.63	1,100,500	6,933
Firm Industrial	1.26	4,410,700	55,575
Regular Retail Interruptible	0.20	22,467,200	44,934
Retail Interruptible, Schedule No. G-54	0.00	27,374,500	0
San Diego Gas & Electric Company Wholesale, Schedule No. G-60	0.58	45,280,300	261,953
Total	0.73¢	168,282,300	\$1,221,774

ORDER

Southern Counties Gas Company of California having applied 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 and the Commission being of the opinion that applicant's request substantially should be granted, the matter having been submitted and now being ready for decision; therefore,

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, G-2, G-3, G-4, G-5, G-5.1, G-6, G-6.1, G-6.2, G-20, G-21, G-25, G-26, G-40, G-41 by 0.126 cents per 100 cu.ft. or 1.26 cents per Mcf.

- b. Increase the base rates of Schedule No. G-45 by 0.63 cents per Mcf.
- c. Increase the base rates of Schedule No. G-50 by 0.20 cents per Mcf.
- d. Increase the commodity charge of Schedule No. G-60 by 0.58 cents per Mcf,

and on not less than five days' notice to the Commission and to the public, to make said rates effective for service rendered on and after April 6, 1959.

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

Dated at San Francisco, California, this 10<sup>th</sup> day of March, 1959.

[Signature]  
President

[Signature]

[Signature]

[Signature]  
Commissioners

Appendix A

LIST OF APPEARANCES  
(Consolidated Hearing)

For Applicants: Milford Springer and Robert M. Olson, Jr., for Southern Counties Gas Company of California; T. J. Renolds, Harry P. Letton, Jr., and H. F. Lippet, II, for Southern California Gas Company.

Interested Parties: Alan Campbell, for the City of Los Angeles; Robert W. Russell and Manuel Kroman, for Department of Public Utilities and Transportation of the City of Los Angeles; Rollin E. Woodbury, Harry W. Sturges, Jr., John Bury, by Rollin E. Woodbury, for Southern California Edison Company; Chickering & Gregory, by C. Hayden Ames, for San Diego Gas & Electric Company; O'Melveny & Myers, by Lauren M. Wright, for Riverside Cement Company, Division of American Cement Corporation; William L. Knecht, for California Farm Bureau Federation; Henry E. Jordan, for Bureau of Franchises and Public Utilities, City of Long Beach; Brobeck, Phleger & Harrison, by Gordon E. Davis, for California Manufacturers Association; W. D. MacKay, Commercial Utility Service, for Challenge Cream and Butter Association.

Commission staff: G. B. Weck and William C. Bricca.

LIST OF WITNESSES

Evidence was presented on behalf of the applicants by: Charles W. Mors, Jerrold Q. Abel, Cecil L. Dunn and John E. Jensen.

Evidence was presented on behalf of the interested parties by: C. L. Ashley, Lewis R. Knezz and Manuel Kroman.

Evidence was presented on behalf of the Commission staff by: Robert P. Hamilton and George C. Doran.