

ORIGINAL

Decision No. 59429

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
PACIFIC LIGHTING GAS SUPPLY COMPANY  
for a General Increase in Gas Rates  
under Section 454 of the Public  
Utilities Code.

Application No. 41277

O. C. Sattinger, J. R. Elliott and R. D. Twomey, for  
applicant.  
Milford Springer and Robert M. Olson, Jr., for Southern  
Counties Gas Company; T. J. Reynolds and H. P. Letton,  
for Southern California Gas Company; Chickering and  
Gregory, by Sherman Chickering and C. Hayden Ames and  
Frank Porath and H. C. Dillin, for San Diego Gas and  
Electric Company; Rollin E. Woodbury, Harry W. Sturges  
and J. F. Nail, by J. F. Nail, for Southern California  
Edison Company; T. M. Chubb, Jack O. Sanders and  
Robert W. Russell, for Department of Public Utilities  
and Transportation, City of Los Angeles; O'Melveny  
and Myers, by Lauren M. Wright, for Riverside Cement  
Company, Division of American Cement Corporation;  
Brobeck, Phleger and Harrison, by Robert M. Lowry and  
William W. Evers, for California Manufacturers Associ-  
ation; William L. Knecht, for California Farm Bureau  
Federation; Henry E. Jordan, for the City of Long  
Beach; Enright, Elliott and Betz, by Norman Elliott  
and Joseph T. Enright and Waldo A. Gillette, for  
Monolith Portland Cement Company; W. D. McKay, for  
Challenge Cream and Butter Association; Henry F.  
Lippett II, for Southern California Gas Company and  
Southern Counties Gas Company; interested parties.  
Franklin G. Campbell, Richard Perry, and Richard R.  
Entwistle, for the Commission staff.

INTERIM OPINION

By the above-entitled application, filed July 2, 1959,  
Pacific Lighting Gas Supply Company seeks authority to increase rates  
for resale natural gas service which it supplies to the Southern  
California Gas Company and Southern Counties Gas Company of Cali-  
fornia. The application as it was initially filed, requested a rate  
of return of 7 percent and to obtain such a return an additional

gross revenue of \$3,859,000. In its initial application, the applicant pointed out that it was not including therein any data concerning the effects that two matters involving the applicant would have on the estimated results of operations for the test year 1960. The first such matter was the increased cost of gas resulting from the entering into by the applicant of long-term contracts for the procurement of gas. The second was the substantial construction project, termed by the applicant as the Transwestern project, to be entered into by the applicant to transport out-of-state natural gas from the California-Arizona border at a point near Needles to Newberry, California. The reason given by the applicant for not including such data in the original application is that the effect of these two matters could not be determined at the time such application was filed.

A public hearing was held on August 19, 1959 at Los Angeles before Commissioner Peter E. Mitchell and Examiner William L. Cole. At that time the applicant presented its evidence. The matter was then continued in order to allow the Commission staff and other appearances an opportunity to prepare their evidence.

Subsequent to the first day of hearing, the applicant, on September 25, 1959, filed a first amendment to the application wherein it included data showing the effects on the estimated results of operation of the long-term contract it had entered into. As a result of including this data, the applicant by its amended application is requesting an increase in rates to yield additional gross revenue totaling \$4,686,000.

Further public hearings were held at Los Angeles on October 7, 8 and 9, 1959 before Examiner Cole. At these hearings, the applicant presented further evidence relative to the amendment

to its application, the staff presented its study of the applicant's estimated results of operation for the test year 1960, and all other parties were accorded the opportunity to present whatever relevant evidence they desired the Commission to consider concerning the application. The applicant's witnesses were cross-examined extensively by the various parties who entered appearances. At the end of the hearing on October 9, 1959, the applicant made two motions.

The first motion was that further hearings in this matter be continued to a date to be set in 1960. The applicant stated that its reason for this request is to allow the applicant to bring in data concerning the Transwestern project and to bring in data concerning additional storage projects contemplated by the applicant. This motion was granted.

The second motion was for interim rate relief pending final disposition of the application. This motion was taken under submission. All parties were accorded the opportunity of filing written memoranda on the motion for interim rate relief by October 30, 1959. These memoranda have been filed with the Commission.

This interim decision will deal solely with the applicant's motion for interim rate relief.

#### Applicant's Motion

As previously indicated, both the applicant and the staff presented extensive studies as to the applicant's estimated results of operations for the test year 1960 and the witnesses for both were subjected to extensive cross-examination with respect to those studies. The staff studies showed a lower estimate for average rate base of the applicant and a higher estimate for net revenue when compared with the applicant's studies.

In making its motion for interim rate relief, the applicant has accepted the staff's estimates and has based its motion on these estimates with certain adjustments which the staff or other appearances have not challenged. Likewise, the applicant in its motion for interim relief is asking for additional revenue to yield a rate of return of 6.5 percent rather than the 7 percent requested in the application itself. The rate of 6.5 percent was held by the Commission to be reasonable for this applicant in Decision No. 57598 in Application No. 40079, which is the most recent decision granting applicant a rate increase.

The applicant alleges that by using the estimates of the staff with the adjustments previously mentioned, the applicant must receive additional gross revenue in the amount of \$3,570,000 in order to receive the 6.5 percent rate of return heretofore found reasonable by the Commission.

The applicant points out in its memorandum that by excluding all controversial matters in its motion for interim relief, the applicant does not intend to abandon its position with respect to such matters in the final disposition of the application.

#### Adjustments

The adjustments made by the applicant to the staff's estimates in its motion involve adjustments to both the staff's estimate of net revenue and the staff's estimate of average depreciated rate base. All of these adjustments involve material which was introduced for the first time by the applicant in its amendment to the application or at the hearings in October. Since both of these events occurred after the staff had completed its study of the applicant's operations, these adjustments were not included in the staff's

study. As previously indicated these adjustments have not been challenged by the staff,

The adjustments made to the staff's estimate of net operating revenue all involve reductions. The first is a reduction of \$710,000 caused by the increased cost of gas due to the long-term contracts entered into by the applicant and the renegotiation of certain other gas purchase contracts.

The second adjustment is a reduction of \$49,000 caused by writing off one-fifth of the cost of gas lost at the La Goleta Gas Storage Field. This loss was occasioned by a gas leak at an abandoned well at this field. This leak has now been reduced to a negligible amount. Applicant plans to amortize the loss over a five-year period.

The next two adjustments result because of sums expended by the applicant subsequent to the filing of the initial application, for drilling operations at the La Goleta Gas Storage Field, including the drilling of an additional well and the abandonment of an existing well. This has caused additional depreciation expense resulting in a reduction of \$1,000 to net revenue and additional ad valorem taxes which results in a reduction of \$5,000 to net revenue.

The next adjustment is a reduction of \$39,000 caused by a higher estimate of ad valorem taxes resulting from the fact adduced at the hearings in October that a new higher ad valorem tax rate had been announced.

The final adjustment to the staff's estimate of net revenue is a reduction of \$27,000 caused by the 4 percent increase in employee salaries effective April 1, 1960 as announced by the applicant.

The two adjustments made to the staff's estimate of the applicant's weighted average rate base for the year 1960 both result because of the additional drilling operations and well abandonment at the La Goleta Gas Storage Field. These improvements resulted in an increase in the weighted average rate base of \$410,000 and a reduction of \$37,000 which figure represents the increased depreciation reserve for 1960 because of these improvements.

Present and Proposed Rates

The present rate for service to the Southern California Gas Company consists of a monthly fixed charge of \$567,000 and a commodity charge of 28.7 cents per Mcf. Applicant proposes in its motion for interim relief that the monthly fixed charge be raised to \$579,000 and the commodity charge to 33.4 cents per Mcf.

The present rate for service to the Southern Counties Gas Company of California consists of a monthly fixed charge of \$327,000 and a commodity charge of 28.7 cents per Mcf. Applicant proposes in its motion for interim relief that the monthly fixed charge be raised to \$353,500 and the commodity charge to 33.4 cents per Mcf.

Earnings Position

The tabulation below is a summary of earnings as forecast by the staff for the year 1960 under the applicant's present rates after the adjustments previously discussed are made. Also included in this tabulation is a summary of earnings for the year 1960 under the rates proposed by the applicant in its motion for interim rate relief:

<u>Item</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
Operating Revenue	\$31,108,000	\$34,676,000
Cost of Gas	18,234,000	18,234,000
Transmission Expenses	3,738,000	3,738,000
Administrative & General Expenses	1,436,000	1,441,000
Depreciation Expenses	1,402,000	1,402,000
Taxes	3,951,000	5,898,000
1/5 of Loss at La Goleta	<u>108,000</u>	<u>108,000</u>
Total Expenses	\$28,869,000	\$30,821,000
Net Operating Revenue	\$ 2,239,000	\$ 3,855,000
Depreciated Rate Base	\$59,314,000	\$59,314,000
Rate of Return	3.77%	6.5%

Long-Term Contracts

As previously indicated, the first amendment to the application included the effects on the applicant's estimated results of operation for the year 1960 caused by the execution by applicant of long-term contracts for the purchase of gas. These long-term contracts increased the estimated cost of gas to the applicant by \$1,279,773. The record shows that at the time of the October hearings in this matter about 52½ percent of the gas that the applicant estimates to purchase in 1960 is covered by executed long-term contracts. An additional 11 percent is covered by offered long-term contracts.

The long-term contracts have been the subject of a prior Commission decision. This decision, which is Decision No. 58677 issued June 29, 1959, resulted from an application by this applicant requesting, among other things, that the Commission find that the price provisions of such contracts represent the lowest reasonable prices for which the applicant's needs for an adequate supply of California source gas can be satisfied. The Commission in that

decision found that, at the time that decision was issued, it would not be in the public interest for it to pass upon the reasonableness or the consistency with the public interest of these contracts.

As set forth in that decision, the following are the pricing provisions of the long-term contracts:

July 1, 1959 through December 31, 1959	- 25 cents per Mcf
January 1, 1960 through December 31, 1960	- 27 cents per Mcf
January 1, 1961 through December 31, 1961	- 29 cents per Mcf
January 1, 1962 through December 31, 1969	- the border price*
January 1, 1970 and thereafter .....	- the border price (subject to certain discounts of roughly 3 cents per Mcf if oil company gives ten-year termination notice)

\*The weighted average rate of out-of-state gas purchased by applicant, the Southern California Gas Company and the Southern Counties Gas Company of California at the state border between California and either Nevada or Arizona, assuming 100% load factor, derived from the rates that are in effect January 1st of each year of the term hereof in accordance with tariff schedules filed with the Federal Power Commission.

Under the terms of these contracts, the producer is obligated to tender to the applicant for sale all so-called primary gas of the producer which, with certain exceptions, is the natural gas the producer has for sale for at least ten years from the date gas is first purchased under the contract but in no event for a period expiring before January 1, 1980.

The question of the reasonableness of the pricing provisions of these contracts as they relate to the test year 1960 of necessity comes into issue in passing upon the applicant's motion. The Commission staff at the October hearings stated that inasmuch as the effect of the long-term contracts was not brought into issue until the filing of the amendment to the application, the staff did not have time to make the required study of the over-all effect of the contracts but that the staff sees no reason to challenge, in these



proceedings, for rate making purposes, the effect of the long-term contracts for the test year 1960. The staff stated, however, that by not challenging, at this time, the effect of the contracts for the year 1960, it was not intending to convey the idea that such contracts are approved by silence nor that the applicant will not be expected to sustain its full burden of proof that such long-term contracts are in the public interest. None of the other parties which filed memoranda on the motion challenged the reasonableness of the long-term contracts as they affect the estimated results of operations for the test year 1960. The City of Los Angeles did indicate its concern over the provision in these contracts whereby after 1961 the price paid is tied by formula to the weighted average border price of out-of-state gas. The City in its memorandum urged that, pending further study and investigation of this matter, the Commission make no definitive finding at this time that such basis for fixing the cost of locally produced gas is in the public interest or is proper for rate fixing purposes.

After thorough consideration of the record with respect to these contracts, it is the Commission's opinion, and it so finds and concludes, that the pricing provisions of these contracts for the year 1960 are not unreasonable or adverse to the public interest. In making this finding, however, the Commission wishes to emphasize that it is not passing upon the reasonableness of any of the other pricing provisions in these contracts.

#### Interim Relief

As previously indicated, a day of hearing was held in August, at which time the applicant made its showing; a continuance was granted to October for the purpose of allowing the staff and

other appearances to prepare their respective showings; and three days of hearing were held in October at which time the applicant's witnesses were cross-examined, the staff's presentation was made, and the presentation of other interested parties was made. On the last day of hearing in October, the applicant made its motion for interim relief. Also, as has been previously indicated, the reason given by applicant for making its motion for interim relief at this time rather than submitting the application is that information concerning the Transwestern project and additional underground storage projects which will substantially affect the applicant's financial condition in 1960 was not then obtainable, but that rate relief is needed by the applicant for the calendar year 1960. It can be seen that the factual situation in this matter is far different than the factual situation relative to the normal motion for interim rate relief which is generally made after the applicant has presented his showing but before cross-examination and prior to any but a limited showing by the Commission staff. In such situations where the Commission is requested to grant a rate increase based solely upon the applicant's own showing, it has stated that it views an interim increase as an emergency measure applicable only in the instance where the minimum financial obligations of the utility cannot be met prior to the establishment of definitive rates. However, where, as here, the motion for interim relief comes after the applicant's position has been subjected to the scrutiny of cross-examination and to an independent study by the Commission staff, the need for a showing of an emergency condition would appear to be less important. Notwithstanding this, however, it is the Commission's opinion that the uncontradicted showing, based upon all of the information available at this time, that the applicant will realize

a rate of return of only approximately 3.77 percent during 1960 at its present rates is sufficient evidence that an emergency condition will exist in 1960.

The City of Los Angeles in its memorandum objected to the granting of the applicant's motion. The City did not challenge the fact that the increased rates requested by the applicant in its motion would result in a rate of return of 6.5 percent if such rates were allowed to continue in effect for the entire year 1960. Rather, the City maintains that the interim rates will remain in effect only during the early part of 1960 inasmuch as the applicant will be ready to present its further showing in January and the Commission will come out with its final decision in 1960 at which time the final rates would go into effect. The City points out that the history of applicant's operations indicates that substantially more sales of gas are made by the applicant during the early part of the year and for that reason the applicant's return during the early part of the year exceeds its return for the whole year. The City maintains that any adjustments in rates that may be required in 1960 can be made when the final decision is issued. It would seem to be the City's position that if it is determined when the final decision is issued that the rates proposed by this motion should have been assessed in the early part of 1960, the rates for the latter part of 1960 could be raised that much higher to compensate for the loss of revenue at the beginning of the year. Such a procedure would, in effect, constitute a retroactive rate increase. The Commission cannot accept this type of procedure. The yearly period of time has been and now is the proper period with which to most accurately determine the results of this applicant's operations. Based upon the estimated results of

operations for such a yearly period, to wit, the calendar year 1960, it is the Commission's opinion that this motion for interim relief should be granted.

Rate Spread

As previously pointed out, for the purposes of this motion, the applicant suggests raising the commodity charge from 28.7 cents to 33.4 cents per Mcf and the additional monthly charges from \$567,000 to \$579,000 for Southern California Gas Company and from \$327,000 to \$353,500 for Southern Counties Gas Company of California. In its memorandum on the motion, the applicant stated that it is willing that any spread of rates in this interim order shall not be deemed to be a precedent on the spreading of rates in the final order.

Applicant's tariffs contain a provision that it will procure emergency gas for its resale customers bottomed on a minimum rate which has historically been kept at the same level as the commodity rate. Applicant did not move to change this minimum rate. Sales of emergency gas to the extent that they may be made are so small as not to affect the revenue estimate presented above. To preserve the historical rate pattern this minimum condition for emergency gas will be included with the rates authorized herein.

The California Manufacturers Association took the position that, although none of the rates here involved apply to gas service provided directly to its members, such rates become an important part of the total cost of gas to the Southern California Gas Company and Southern Counties Gas Company of California which are reflected in their rates to its members. It is the position of the Association that the applicant's interim rates should be governed by the same criteria as permanent rates in regard to rate spread. In its

memorandum, the Association suggests that if the applicant's motion is granted, the proper form of rate be a commodity rate at 29.6 cents per Mcf and the additional monthly charges of \$709,200 to Southern California Gas Company and \$432,750 to Southern Counties Gas Company of California.

This represents a substantial change in the form of rate between the commodity rate and monthly charges, and after consideration the Commission concludes such change should not be made in this interim order.

For the purposes of the interim rate increase authorized herein, the Commission finds as reasonable a rate spread resulting in a monthly charge of \$579,000 for Southern California Gas Company, and \$353,500 for Southern Counties Gas Company of California, a commodity rate of 33.4 cents per Mcf and a rate of not less than 33.4 cents per Mcf for emergency gas.

#### Findings and Conclusions

After considering all of the evidence of record relating to the motion in question, the Commission finds and concludes that an interim order should be issued authorizing increased interim rates in the over-all amount of approximately \$3,570,000 in the manner hereinabove set forth. Because of the peculiar circumstances existing at this time the Commission finds and concludes that sufficient financial emergency exists to warrant the issuance of an interim order increasing applicant's resale rates. Accordingly, the Commission finds and concludes that the interim increases in rates and charges authorized herein are justified and that the existing rates, insofar as they differ therefrom, are for the future unjust and unreasonable.

INTERIM ORDER

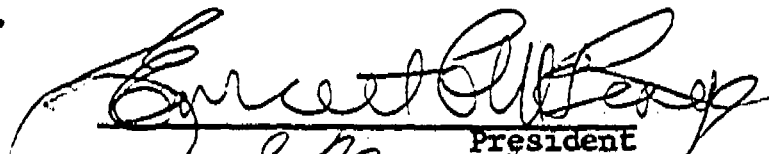
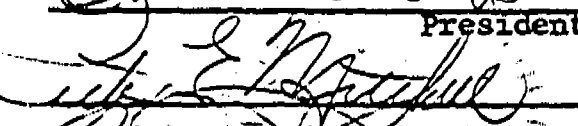

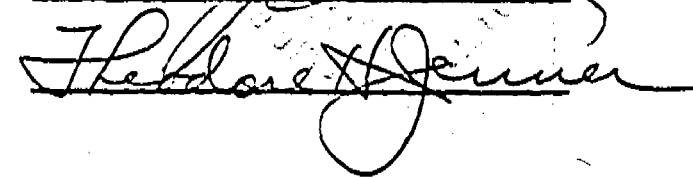
The Pacific Lighting Gas Supply Company having made a motion of this Commission at public hearing for interim rate relief, the motion having been submitted and being ready for decision; therefore,

IT IS HEREBY ORDERED as follows:

Applicant is authorized to file in quadruplicate with this Commission, on or after the effective date of this order, in conformity with General Order No. 96, the revised rates hereinabove found reasonable in the interim opinion, and to make said rates effective upon not less than one day's notice to the Commission and to the public.

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

Dated at San Francisco, California, this 21st day of December, 1959.

  
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President  
  
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Commissioners

Commissioner C. Lyn Fox, being necessarily absent, did not participate in the disposition of this proceeding.