

Decision No. 60614**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 SOUTHERN COUNTIES GAS COMPANY OF )  
 CALIFORNIA for a general increase )  
 in gas rates under Section 454 of )  
 the Public Utilities Code. )

Application No. 41859  
 (Amended)

(Appearances are listed in Appendix B)

O P I N I O NApplicant's Request

Southern Counties Gas Company of California<sup>1/</sup>, by the above-entitled application filed on January 15, 1960, as amended on March 11, 1960, and as further amended at the hearing on June 14, 1960, requests authority to increase gas rates so as to yield additional annual gross revenue of \$14,447,000 related to a test year ending June 30, 1961. The original application requests that a general rate increase of at least \$10,913,000 of additional annual gross revenue be authorized, \$1,177,000 of which was sought as an immediate interim increase to offset an increase in cost of gas purchased from Pacific Lighting Gas Supply Company beginning January 12, 1960<sup>2/</sup> and the balance, or \$9,736,000 was requested to be made effective concurrently with the initial receipt of Transwestern gas anticipated during August 1960.

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1/ Southern Counties Gas Company of California, applicant herein is engaged in the business of purchasing, distributing and selling natural gas at retail and wholesale as a public utility to more than 700,000 customers in southern California. San Diego Gas & Electric Company is applicant's only wholesale customer.

2/ By Decision No. 59982, dated April 19, 1960, applicant's request for an immediate interim offset increase of \$1,177,000 was denied.

The first amendment, filed on March 11, 1960, requests authority to increase gas rates by an additional \$3,730,000 to offset the annual increase in cost of out-of-state gas scheduled to begin August 25, 1960. This latter increase applicant alleges will result from the increase which the El Paso Natural Gas Company will charge applicant pursuant to new rates filed with the Federal Power Commission (FPC) under Docket No. RP 60-3.

Because of changes in estimated deliveries to San Diego Gas & Electric Company in the test year and by reason of certain other changes in costs as revealed in Exhibit 54, applicant further amended its request at the hearing on June 14, 1960 to increase rates by \$14,447,000. Of the total, \$3,619,000 is stated to be applicable to the August 1960 El Paso offset rate increase and \$10,828,000 is requested as a general rate increase. The rates which applicant seeks to have made effective are contained in Exhibit 56.

Applicant also requests:

- (1) Authority concurrently to incorporate permanently into its base rates the offset charges related to FPC Docket Nos. G-2016, G-2018, G-4769, G-12948, and G-17929.
- (2) Authority to file annually any appropriate adjustment to the offset rate because a long period of time may elapse before FPC Docket No. RP 60-3 is adjudicated and permanent rates fixed, when otherwise substantial over-collections or under-collections might result.
- (3) Approval of the proposed method of calculating the amount available for refund and the proposed method of distributing such refund.

The requested over-all annual increase of \$14,447,000 represents 12.1 percent of the test year (12 months ending June 30, 1961) revenue of \$119,118,000 at present rate levels, as estimated by applicant. Under applicant's request the average general service customer's bill would be increased by about \$1 a month. A rate of return of 6.75 percent is sought, compared with the Commission's last finding of 6.50 percent to be fair and reasonable for this utility.

### Public Hearing

After due notice, 15 days of public hearing were held on this application, as amended, before Commissioner Peter E. Mitchell and/or Examiner William W. Dunlop during the period March 14 to June 14, 1960. All days of hearing were held in Los Angeles except one day, June 10, 1960, which was held in San Francisco.

The record is extensive. It contains more than 70 exhibits and in excess of 2,400 pages of transcript. Twenty-nine witnesses appeared and presented sworn testimony. The matter was submitted at the conclusion of the hearing on June 14, 1960, subject to the filing of concurrent closing briefs by July 5, 1960. Thereafter, by order of the Commission, submission was set aside for the receipt, as an exhibit, of a statement filed by applicant upon request relating to recent Federal income tax refunds. A stipulation having been filed on July 14, 1960, transcript pages 2215-2239 and 2245-2278 in Application No. 41860 are considered part of the record in this proceeding. The matter now is ready for decision.

### Applicant's Position

Applicant represents that a general review of its operations and earnings has not been made since the Commission's 1957 decision in Application No. 38211. Since 1957, according to applicant, numerous changes affecting its business have taken place including: (1) increases in the cost of gas purchased from Pacific Lighting Gas Supply Company and from California producers, (2) major expenditures for transmission facilities to transport additional supplies of out-of-state gas, (3) increased property taxes, (4) higher wages to employees, (5) increased cost of money, (6) substantial growth in applicant's service area necessitating continuous investment in new plant at unit costs substantially above the past average, (7) changes in the character of the market for gas for interruptible industrial fuel, and (8) changes in the character of certain rate areas of applicant.

It is claimed by applicant that an increase in its gas rates is imperative despite economies which it has accomplished through intensive analysis of management practices and working procedures with a view to eliminating duplications and procedures not essential to rendering prompt, safe, and efficient service. Applicant cites as an example of operating economies a reduction in the ratio of its regular employees per 1,000 active meters from 3.9 at the end of 1954 to less than 2.9 at the end of 1959. Applicant further represents that it cannot absorb any part of the 1960 El Paso rate increase without a serious reduction in its earnings.

#### Earning Position

Applicant presented summaries of its earning position for the 12 months ended September 30, 1959, on a recorded basis and on an adjusted basis, and for the test year ending June 30, 1961 at present rates and at its proposed rates. The Commission staff also analyzed applicant's estimated and adjusted earnings and presented an estimate for the test year ending June 30, 1961 operations. These rates of return are:

<u>Period</u>	<u>Rate of Return On Depreciated Rate Base</u>	
	<u>Applicant</u>	<u>CPUC Staff</u>
12 Months Ended Sept. 30, 1959, Recorded	5.06%	Not Shown
12 Months Ended Sept. 30, 1959, Adjusted	5.92	Not Shown
Year Ending June 30, 1961, Estimated:		
At Present Rates	3.44	4.25%
At Company Proposed Rates	6.75	7.71

The two estimates of revenues, expenses, net revenue, rate base and rate of return for the test year ending June 30, 1961 at present rates are compared on Table 1. Also shown on Table 1 are the levels of revenues, expenses and rate base being adopted at present rate levels, and which we find to be reasonable for the purpose of

testing the need for increases in applicant's rates.

TABLE 1.

SUMMARY OF EARNINGS FOR  
ESTIMATED YEAR ENDING JUNE 30, 1961 AT PRESENT RATES

SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA

<u>Item</u>	<u>Applicant</u> <u>Ex. 53 &amp; 55</u>	<u>CPUC</u> <u>Staff</u> <u>Ex. 30 &amp; 62</u>	<u>Adopted</u> <u>Operating</u> <u>Results At</u> <u>Present Rates</u>
Operating Revenues			
General Service	\$ 71,650,000	\$ 73,127,000	\$ 72,697,000
Gas Engine	506,000	506,000	506,000
Firm Industrial	3,026,000	3,026,000	3,026,000
Interruptible Industrial	10,253,000	10,253,000	10,272,000
Steam Plant	12,820,000	12,651,000	12,642,000
San Diego Gas & Elec. Co.	20,374,000	20,305,000	20,323,000
Other Gas Revenue	489,000	504,000	500,000
Total Revenue	\$119,118,000	\$120,372,000	\$119,966,000
Operating Expenses			
Production	\$ 75,212,000	\$ 75,693,000	\$ 75,055,000
Transmission	3,745,000	3,698,000	3,698,000
Distribution	5,976,000	5,883,000	5,923,000
Customer Acctg. & Coll.	4,727,000	4,685,000	4,700,000
Sales Promotion	3,267,000	2,400,000	3,150,000
Administration & General	5,206,000	5,003,000	5,073,000
Depx. (Annuity and Int.)	5,552,000	5,283,000	5,283,000
Taxes, Other Than Income	6,719,000	6,178,000	6,200,000
Income Taxes	2,065,000	3,520,000	3,242,000
Total Expenses	\$112,469,000	\$112,343,000	\$112,324,000
Net Revenue	\$ 6,649,000	\$ 8,029,000	\$ 7,642,000
Rate Base Depreciated	\$193,340,000	\$188,776,000	\$189,019,000
Rate of Return	3.44%	4.25%	4.04%

Operating Revenues

The staff's estimate of operating revenues at present rates exceeds applicant's estimate by \$1,254,000, or by about one percent. This difference results from the staff's estimate of a higher gas use per general service customer than estimated in the test year by applicant. The staff developed a use of 104.3 Mcf per meter for general service customers compared with applicant's estimate of 101.6 Mcf per meter. In Exhibit 45 the City of Los Angeles developed a

use per general service meter of 103.9 Mcf but at the same time estimated 2,969 fewer meters than the applicant and the staff used.

Based upon this record, we find a use of 103.5 Mcf per average general service meter, applicant's estimate of the number of meters, and total revenues at present rates of \$119,966,000 to be reasonable for the test year ending June 30, 1961.

Production Expenses

Production expenses of applicant consist mainly of costs of natural gas purchased from California producers, Pacific Lighting Gas Supply Company and El Paso Natural Gas Company. Applicant's and the staff's estimates of production expenses are compared in more detail as follows:

	<u>Applicant</u>	<u>CPUC Staff</u>
Cost of Gas		
California Producers	\$ 2,524,000	\$ Not
Pacific Lighting Gas Supply Co.	27,883,000	Shown
El Paso Natural Gas Co.	46,408,000	Seperately
Gas Purchase Cost Reallocation	(1,128,000)	
Subtotal Cost of Gas	\$75,687,000	\$76,060,000
Other Production Expenses	(475,000)	(367,000)
Total Production Expenses	\$75,212,000	\$75,693,000

(Red Figure)

Both of the above estimates reflect the increased cost of El Paso gas to become effective on August 25, 1960 in connection with FPC Docket RP 60-3 and the increased rates sought by Pacific Lighting Gas Supply Company in Application No. 41277.

The main differences between the estimates result from the staff's estimate of a 2.7 Mcf higher usage per general service meter and the staff's pricing of California gas, for the full test year, at rates in effect on January 1, 1960. Applicant, on the other hand, priced its California gas in accordance with the terms of its contracts with producers. Some of these contracts provide for an automatic price increase to become effective January 1, 1961.

With respect to the cost of California gas, this record reveals that applicant recently negotiated new long-term contracts with California producers; that such new long-term contracts superseded then existing contracts that would not have expired until 1966; that the superseded contracts contained lower gas prices than are set forth in the new long-term contracts; that under the pricing provisions of said long-term contracts the price to be paid for California gas in 1962 is the average border price paid by the Pacific Lighting group for out-of-state gas; that applicant's stated purpose in entering into the long-term contracts was to assure future supplies of California gas; and that no effort was made by applicant to renegotiate the prior contracts other than on a long-term basis. The staff used the currently effective contract price of California gas without reflecting 1961 contract increases claiming that there was no need for applicant to supersede the prior lower priced contracts with the new long-term higher priced contracts, particularly in view of the offer made by Transwestern Pipeline Company in Exhibit 49 to sell an additional 150 million cubic feet of gas per day on a firm basis to Pacific Lighting Gas Supply Company.

We have previously found a use of 103.5 Mcf per average general service meter to be reasonable for the test year. With respect to purchases from California producers, we are of the view that the increases in costs of gas as reflected by applicant in the test year are reasonable. However, our action herein should not be construed as a finding of reasonableness for rate fixing purposes of the pricing provisions contained in applicant's gas purchase contracts, except for the test year ending June 30, 1961. The burden of proof of reasonableness of the cost of gas rests upon applicant and is a continuing responsibility.

Pursuant to Decision No. 60428, dated July 26, 1960 in Application No. 41277, Pacific Lighting Gas Supply Company has advised this Commission that the Federal Power Commission has fixed a rate of 42.0 cents per Mcf at 100 percent load factor for Transwestern gas rather than 42.25 cents reflected in said Decision No. 60428 and also reflected by applicant and the staff in their estimates of production expense. By the terms of said Decision No. 60428, Pacific Lighting is required to reduce its rates to applicant accordingly.

The adopted production expenses of \$75,055,000, which we find to be reasonable, reflect the above-indicated usage and pricing of California gas. They also include the increased rates fixed by this Commission in Application No. 41277 for gas purchased from Pacific Lighting Gas Supply Company but modified to reflect Transwestern Gas at 42.0 cents per Mcf at 100 percent load factor, and the increased cost of El Paso gas to become effective on August 25, 1960 subject to possible refund in connection with FPC Docket RP 60-3. Should the FPC ultimately fix a rate for Transwestern gas sold to Pacific Lighting Gas Supply Company lower than 42.0 cents per Mcf or fix a lower rate for El Paso gas under Docket RP 60-3, applicant will be required to reduce its rates accordingly, and to make appropriate refunds.

#### Transmission Expenses

The difference of \$47,000, or about 1.3 percent, in the estimates of transmission expenses results primarily from the use by the staff of a 35-year average service life for the Newberry-Placentia pipeline compared with a shorter service life (18 years) used by applicant. We find the staff's estimate of \$3,698,000 to be reasonable.

#### Distribution Expenses

The staff's estimate of distribution expenses is lower than applicant's estimate by \$93,000, or by about 1.6 percent. This



difference is accounted for, in part, by the staff's estimate of work to be contracted to outside engineering firms during the test year. Based on the record, we find distribution expenses of \$5,923,000 to be reasonable for the test year.

#### Customers' Accounting and Collecting

The staff's estimate for customers' accounting and collecting expenses was \$42,000, or 0.9 percent, less than applicant's estimate. Both the applicant and the staff computed the allowance for uncollectibles by applying a percentage factor of 0.5 percent to the estimated general service revenues for the test year. Such uncollectible factor appears reasonable. We find an amount of \$4,700,000 to be reasonable at present rates for customers' accounting and collecting expenses in the test year.

#### Sales Promotion

The staff's estimate of sales promotion expenses for rate making purposes is lower than applicant's estimate by \$867,000 or by about 27 percent. A comparison of the two estimates for the test year with the actual sales promotion expenses for the years 1958 and 1959 are set forth in the tabulation following:

				: Estimated Test Year :	
				: Ending June 30, 1961 :	
: Ac.		: Year	: Year	: Applicant :	: CPUC Staff :
: No.	Account	: 1958	: 1959	: Ex. 2	: Ex. 30
785	Supervision	\$ 462,235	\$ 535,573	\$ 573,000	\$ 488,000
786	Salaries & Comms.	671,069	723,381	821,000	681,000
787.1	Demonstration	206,846	215,200	235,000	118,000
787.2	Advertising	487,681	540,525	683,000	379,000
787.3	Misc. Sales Exps.	546,582	933,071	898,000	677,000
788	Rents	42,535	44,638	30,000	30,000
789	Merch., Jobbing and Contract Work	27,089	125,567	27,000	27,000
Total Sales Promotion Expenses		\$2,444,037	\$3,117,955	\$3,267,000	\$2,400,000

The Uniform System of Accounts for Gas Corporations prescribed by this Commission sets forth the several sales promotion expense accounts, including advertising, and the types of expenses that fall within each such account. Therefore, it should be clearly understood that sales promotion expenses, including advertising, may be legitimate allowable expenses of a public utility. The issue raised in this proceeding is whether applicant has sustained its burden of proof as to reasonableness of amount to be borne by the ratepayer.

Advertising by public utilities frequently has been opposed by customer witnesses in rate proceedings, but the Commission always has recognized the value of advertising and sales promotion by utilities. We consistently have allowed reasonable amounts for such purposes. It might further be pointed out that the Commission has, on at least four occasions, considered that ratepayers would benefit if the company spent additional money on advertising.<sup>3/</sup> In several of these instances bus companies were ordered to expand their advertising and promotional activities beyond the amounts they had estimated were necessary, and additional funds were allowed in rate making for attempts to bolster patronage.

A fundamental principle involving public utilities and their regulation by governmental authority is that the burden rests heavily upon a utility to prove that it is entitled to rate relief and not upon the Commission, the Commission staff, or any interested party, or protestant to prove the contrary. In this proceeding the burden is upon applicant to establish all necessary facts which would justify the requested increase in rates. A public utility is created for

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<sup>3/</sup> Sacramento City Lines, 53 CPUC 241;  
Stockton City Lines, 53 CPUC 355;  
San Jose City Lines, 53 CPUC 624;  
Pacific Greyhound Lines, 53 CPUC 634.

public purposes and performs a function of the State. It acquires the status of a quasi trustee (Smyth vs. Ames, 169 U.S. 466, 544; Western Canal Co. vs. R.R. Comm., 216 Cal. 639, 647).

Applicant states the purpose of its sales promotion activities is to attain the full economic utilization of its facilities by (1) obtaining new gas customers, (2) retaining present customers, (3) encouraging the increased use of gas, and (4) developing and promoting new uses of gas which will result in a well-balanced load. Other reasons shown in this record for sales promotion activities include: (1) to maintain and secure improvement in load factor, (2) to maintain applicant's competitive position with the electric utilities, (3) to maintain and improve applicant's public relations, (4) to educate the public in better use of gas, (5) to compete generally for the consumer's dollar, and (6) to lower the cost of financing through making the applicant better known to the investors and security holders.

An associate professor of marketing from the University of Pennsylvania testified as one of applicant's witnesses that in his opinion ratios of sales promotion or advertising expense to total operating revenue or total operating expense are the most valid yardsticks for comparison. He presented as part of Exhibit 70 comparisons of sales promotion expenses of 14 large gas distributing companies including applicant for the period 1947 to 1958 showing that applicant's sales promotion expenditures during that period were not higher than the highest companies and not lower than the lowest companies and concluded therefrom that applicant's proposed expenditures were reasonable. He acknowledged, however, that he had spent but two days on the sales promotion expenses of applicant and Southern California Gas Company, and that he had not analyzed in detail either applicant's

sales promotion program or estimated expenses for the test year. For the year 1958, the last shown on Exhibit 70, the following relationships are obtained:

	Sales Promotion Expenses As a Percent Of	
	<u>Operating Revenue</u>	<u>Operating Expenses</u>
Low Companies	0.8%	1.0%
High Companies	3.9	6.5
Average - Combined Gas & Elec. Cos.	1.6	2.3
Average - Straight Gas Companies <sup>4/</sup>	2.2	3.2
Southern California Gas Company	2.6	3.7
Southern Counties Gas Company	3.0	4.1

We note in passing that if applicant, in 1958, had spent for sales promotion the average 2.2 percent of operating revenue for straight gas companies shown in applicant's Exhibit 70, applicant's sales promotion expenses in 1958 would have been reduced by about \$650,000. Similarly, if an average 2.2 percent figure is applied to applicant's estimated revenues of \$133,565,000 at its proposed rates for the test year, an amount of \$2,938,000 is obtained which is \$329,000 less than the sales promotion expenses estimated by applicant in the test year.

The evidence reveals applicant has no commitments or firm contracts for any sales promotion expenditures in the test year, except that which applicant has with its present employees and about \$46,000 for a national television program; applicant has no understanding or commitments with any newspaper or radio station to spend any amount of money in the test year for advertising; and, further, applicant has no understanding with any dealer, manufacturer, or other such groups that in the test year applicant will spend any specific amount of money for sales promotion activities designed to stimulate,

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<sup>4/</sup> Both Southern California Gas Company and Southern Counties Gas Company are included in this average, and the average excluding these two companies would be lower.

for example, gas appliance sales. Applicant's witness considers there is flexibility in both the amount of money to be spent and the sales promotion activities to be undertaken in the test year and further considers that applicant is not bound to spend the amount of money budgeted for particular sales promotional activities. It is further revealed by the testimony that applicant's original estimate of sales promotion expenses for the year 1959 exceeded its actual expenditures for that year by some \$160,000 and that for the first four months of 1960 applicant's actual expenses for sales promotion were \$63,000 below its estimate.

Applicant represents that its sales promotion activities benefit the ratepayer in at least two ways: first, the new customers benefit from the services provided by its sales personnel; and second, a program effectively directed to increase the year-round and off-peak loads will improve the utilization of facilities and the annual load factor. According to applicant, the resulting improved use of gas facilities means more favorable rates for all customers. However, applicant produced no dollar measure of the additional revenue realized from its sales promotion activities.

The staff analyzed applicant's estimates in considerable detail recognizing the competitive situation which exists in applicant's service area with the electric utilities. Adjustments to applicant's estimates were made by the staff for rate making purposes, as shown in detail in Exhibit 74 for the following general reasons: (1) to arrest the constantly increasing divergence in sales promotion costs in applicant's service area as compared with other areas in California; (2) to remove part of the burden of constantly expanding costs of sales promotion, which contribute only diminishing returns to the applicant and to the ratepayer; and (3) to decrease those certain expenses which have little value to the ratepayer and which, according to the staff, normally should be paid by parties other than the applicant, such as real estate developers, builders, appliance dealers, manufacturers of appliances and salesmen.

In Exhibit 31 the staff showed a number of comparisons of sales promotion expenses for the larger gas and electric utilities operating in California, including a comparison of sales promotion expenses per average customer as follows:

	Sales Promotion Expenses per Customer		
	Estimated Year		
	Actual Year 1959	Ending June 30, 1961 Applicant	Staff
San Diego Gas & Elec. Co. - Gas Dept.	\$0.98		
Pacific Gas & Elec. Co. - Gas Dept.	1.09		
Southern California Gas Co.	3.58	\$3.92	\$2.98
Southern Counties Gas Co.	4.50	4.31	3.16
Southern Calif. Edison Co. - Electric	2.40		

The above figures reflect a competitive situation in the service area of Southern California Gas Company and of Southern Counties Gas Company. In these circumstances there is not substantial comparability among the utilities.

The staff did not attempt to determine what the company should spend in total for sales promotional efforts, but did present what it considered to be a reasonable amount to be assessed against the ratepayers in the test year. In making its estimate, the staff segregated applicant's estimate into three groups of expenses. The first group the staff found to be justified in full for rate making purposes and did not adjust. The second group the staff adjusted for rate making purposes on a judgment basis, giving consideration to the special factors involved. The third group of expenses the staff adjusted downward by 50 percent for rate making purposes on the basis that such expenses were of a type that should normally be paid for by third parties, such as dealers, manufacturers, real estate developers, and various other groups, and because such third parties obtain direct benefits from such sales promotional activities of applicant.

The following general complaints have been made by certain appliance dealers relative to some of the sales promotional activities of gas utilities in southern California: (1) house call service rendered to the ratepayer is excessive and detrimental to dealers in appliances and is used in part as a tool to further sales promotion activities; (2) lists of prospects for buying of new appliances and

sales contracts for new appliances are supplied by applicant to favored dealers; (3) appliance dealers are unable to supply the large mass market created by housing tract developments due to the applicant's efforts to direct these sales to manufacturers; (4) applicant engages in direct sales of appliances and thus provides an unfair competition to the dealers; and (5) applicant, at the expense of the ratepayer, is performing dealer operations by working with the manufacturers to display appliances in company offices.

The staff in its investigation of these matters recommended: (1) for safety and continuity of service applicant's present house call program of meter, piping and pilot light inspection should be continued; (2) applicant should either discontinue the preparation of appliance prospect lists or make such lists available equally to all gas appliance dealers; (3) the direct sales of appliances to architects, builders, and for apartment house uses by applicant should be discontinued; and (4) applicant should obtain its display of appliances at the manufacturers' expense and any future appliances purchased by applicant, for display purposes, should not be considered as part of materials and supplies or other plant for rate making purposes. The staff's first and third recommendations are sound and should be placed into effect by applicant. The staff's second recommendation should be modified to provide that either the preparation of appliance prospect lists should be discontinued or such lists should be made available equally to all those appliance dealers who sell gas appliances only. With respect to the staff's fourth recommendation, appliances for display purposes will be considered in connection with the reasonable rate making allowance for sales promotion expenses and not as part of materials and supplies or other plant.

Certain of applicant's sales promotion practices and activities, as revealed by this record, while appropriate for other types of business appear inappropriate in a public utility operation. Applicant, as a public utility, has been granted an extraordinary privilege and occupies a privileged position. It is performing a function of

the State. In this connection applicant is reminded of its obligation under Section 453 of the Public Utilities Code which provides, in part:

"No public utility shall, as to rates, charges, service, facilities, or in any other respect, make or grant any preference or advantage to any corporation or person or subject any corporation or person to any prejudice or disadvantage."

The Commission has previously expressed its concern because of the competition between the straight gas utilities and the straight electric utilities, particularly as the cost of sales promotion affects the ratepayer.<sup>5/</sup>

Based upon a most thorough and careful consideration of the entire record we find \$3,150,000 to be a reasonable allowance for sales promotion activities in the testyear to be borne by the ratepayer. Such amount is well within the range of applicant's own Exhibit 70 and exceeds applicant's actual expenditures for 1959. Our action herein is not to be construed as limiting the amount applicant may spend for sales promotion in the test year or in any other period. Such determination is for the applicant to make. Our determination herein relates solely to the reasonable allowance of sales promotion expenses to be included in gas rates of this applicant to be borne by its ratepayers.

#### Administrative and General Expenses

The staff's estimate of administrative and general expenses is \$203,000 or about 4 percent lower than the applicant's estimate. Principal differences between the two estimates are in Ac. 798, Insurance, and in Ac. 801, Miscellaneous General Expenses. Applicant's estimate of Ac. 798, Insurance, reflects an amount equivalent to the highest annual cost incurred during any one of the five preceding years plus an additional amount to provide for added exposure incident to growth. The staff's estimate, on the other hand, was based upon a

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<sup>5/</sup> Decision No. 59011, dated September 15, 1959, Case No. 5945.



projection of actual costs incurred with consideration given to the applicant's anticipated practice of self-insurance programming.

With respect to Ac. 801, Miscellaneous General Expenses, the staff's estimate excludes certain amounts which it considered were abnormal, or were unreasonable amounts of dues and donations that should be borne by others than the ratepayers.

It is the Commission's practice in arriving at expenses to be allowed for rate making purposes to exclude dues to social clubs, expenditures for political purposes, and, in part, donations to charitable organizations. Thus, such expenditures, to the extent made above the amounts allowed for rate fixing purposes, come out of the stockholders' portion of the earnings and are not a burden on the ratepayer.

We find reasonable and adopt for the test year an amount of \$5,073,000 for administrative and general expenses at present rates.

Depreciation (Annuity and Interest)

Depreciation annuity and interest as estimated by the staff is lower by \$269,000, or by about 5 percent, than applicant's estimate. Three major items of difference are involved. First, the staff estimated a somewhat lower depreciable plant than did applicant; second, the staff used a depletion-annuity rate for the Texas pipeline facilities that reflected additional volumes of Texas gas which became available in January 1960, whereas applicant did not reflect such item in its computation; and third, the staff used a 35-year average service life for the Newberry-Placentia pipeline facilities compared with a shorter (18-year) average service life used by applicant.

Based upon the evidence in this proceeding we find that the staff's estimate of depreciation annuity and interest amounting to \$5,283,000 is reasonable and it is adopted for the test year.

Taxes Other Than Income

Taxes other than income, consisting of ad valorem and Social Security payroll taxes, as estimated by the staff, are \$541,000, or about 8 percent, lower than applicant's estimate. This difference applies principally to the estimates of ad valorem taxes.

Applicant's estimate of ad valorem taxes for the test year was based upon one half of the estimated ad valorem taxes for the years 1960 and 1961. The 1960 estimate was computed by using an average tax rate 3 percent above the 1959 average tax rate as developed by a trend for the last five years and an estimated assessed value for 1960 based upon the latest indication from the State Board of Equalization. Applicant's 1961 ad valorem tax estimate was computed by using an average tax rate 3 percent above the estimated 1960 average tax rate and an estimated assessed value based upon a five-year average ratio of plant investment to assessed values.

The staff's estimate of ad valorem taxes reflects the latest known assessment ratios, ad valorem tax rates, and the staff's estimate of plant additions.

This record reveals that applicant originally estimated ad valorem taxes for the test year in the amount of \$6,650,000 in Exhibit 2, and subsequently revised this estimate downward by \$300,000 in Exhibit 53 to reflect a lower estimate of assessed value of applicant's property based on later data from the State Board of Equalization. The staff reduced its original estimate of \$6,148,000 downward by \$342,000 to reflect a lower assessment ratio than originally used based on later information from the State Board of Equalization. Changes made in the estimates of ad valorem taxes in the magnitude indicated above during the course of the hearings in this matter cast considerable doubt on the validity of estimating ad valorem taxes by trending methods urged by applicant. Applicant itself uses the latest known tax rates in computing its estimate of Social Security

taxes, State corporation franchise tax and Federal income tax, but advocates a trending method in computing its estimate of ad valorem taxes. This record is not convincing that the Commission should abandon its uniformly applied practice of using the latest known ad valorem tax rates and assessment ratios in developing reasonable ad valorem tax allowances in a test year for rate fixing purposes.

Based upon the entire record we find taxes other than income of \$6,200,000 to be reasonable for the test year ending June 30, 1961.

#### Income Taxes

Applicant has calculated and paid its income taxes on a straight-line depreciation basis in all years, but filed a claim for income tax refund for the years 1954 and 1955 based upon liberalized depreciation for those two years. The record reveals that applicant recently received a tax refund based on liberalized depreciation for the years 1954 and 1955 in the total amount of \$344,344.09 of which \$67,040.16 represents interest and \$277,103.93 represents the net amount of all tax items. The record further shows that applicant does not intend to claim liberalized depreciation in the future.

In conformity with Decision No. 59926, dated April 12, 1960, specifying the treatment of liberalized tax depreciation for rate making purposes, the Federal income taxes herein are computed on an "as paid" basis in our adopted results. Credited thereto is the portion of the tax refund applicable to the test year, amounting to approximately \$10,000.

After giving effect to the variation in the expenses being adopted herein, including depreciation for tax purposes reflecting the adopted 35-year life for the Newberry-Placentia pipeline, we compute and adopt an income tax amount of \$3,242,000 as reasonable for the test year ending June 30, 1961 at applicant's present rates.

Such computation reflects a 5.5 percent State income tax rate and a 52 percent Federal income tax rate. Should applicant elect, for income tax purposes, to use a life shorter than 35 years for the Newberry-Placentia pipeline, applicant will be required to advise this Commission in writing so that such appropriate adjustments in rates as are found to be justified may be made.

### Rate Base

The components of the weighted average depreciated rate base for the test year ending June 30, 1961 as developed by the applicant and by the staff are compared below:

#### WEIGHTED AVERAGE DEPRECIATED RATE BASE TEST YEAR ENDING JUNE 30, 1961 ESTIMATED

	<u>Applicant</u>	<u>Staff</u>	<u>Adopted</u>
Gas Plant:			
Plant in Service-Beg. of Year	\$224,917,000	\$222,752,000	
Weighted Avg. Net Additions	7,472,000	7,037,000	
Noninterest Bearing Const. Work in Progress	400,000	400,000	
Total Wtd. Avg. Gas Plant	\$232,789,000	\$230,189,000	\$230,189,000
Deduction for Depr.	35,336,000	35,289,000	35,289,000
Net Gas Plant	\$197,453,000	\$194,900,000	\$194,900,000
Modifications:			
Contributions in Aid of Const.	(3,293,000)	(3,293,000)	(3,293,000)
Customers' Advances for Const.	(2,555,000)	(2,555,000)	(2,555,000)
Depr. Resv. for Motor Vehicles and Work Equipment	(1,986,000)	(1,986,000)	(1,986,000)
Total Modifications	\$ (7,834,000)	\$ (7,834,000)	\$ (7,834,000)
Materials and Supplies	2,021,000	1,710,000	1,710,000
Working Cash Allowance	1,700,000	-	500,000
Adjustment for Liberalized Depr.	-	-	(257,000)
Weighted Avg. Depr. Rate Base	\$193,340,000	\$188,776,000	\$189,019,000

(Red Figure)

The staff's estimate of weighted average gas plant is \$2,600,000 or one percent lower than applicant's estimate. The staff used December 31, 1959, recorded gas plant as the base of its estimate, whereas the applicant used a nine months actual and three months estimated December 31, 1959, base year. In addition the staff used a later estimated plant budget reflecting certain changes not included in the applicant's original budget estimate. Applicant claims that

the staff's estimate of weighted average gas plant should be increased by \$2,600,000 since it claims that the staff erroneously estimated that interest bearing construction work in progress of approximately that amount would carry on through the test year. Applicant estimates \$440,000 of interest bearing construction work in progress as of June 30, 1960 and as of June 30, 1961 compared with \$3,054,601 as of December 31, 1957, \$2,631,986 as of December 31, 1958, and \$4,010,645 as of December 31, 1959. Weighted average gas plant of \$230,189,000 as estimated by the staff appears reasonable for the test year and is adopted.

There is no appreciable difference in the estimated amount of the depreciation reserve. We find the staff's estimate of \$35,289,000 to be reasonable for this item.

The staff and the applicant are in agreement as to estimates for contributions in aid of construction, customers' advances for construction, and depreciation reserve for motor vehicles and work equipment. These estimates appear reasonable and are adopted.

With respect to materials and supplies, the staff's estimate is \$311,000 or 15 percent lower than applicant's estimate. Applicant obtained its estimate of materials and supplies included in its rate base by applying a factor of 80 percent to its estimate of the weighted average investment in its account for materials and supplies in the test year. It derived the 80 percent factor from Decision No. 48833 issued July 14, 1953 wherein the Commission at that time allowed in applicant's rate base an amount for materials and supplies which applicant asserts approximated 80 percent of the weighted average investment in materials and supplies recorded on its books for the test year ended August 31, 1952. The evidence is not convincing that an 80 percent ratio thus developed by applicant from a prior proceeding is equally applicable to its estimated amounts in this proceeding.

The staff in arriving at its estimate of materials and supplies analyzed the stocks of materials issued by classes, reviewed the availability of materials, delivery time from vendors, the emergency nature of certain classes and the company's standard practices on ordering and issuing materials. The staff did not include in its estimate any investment in appliances, other than appliance parts. The staff witness considered that appliances were part of applicant's sales promotional costs, the expenses for which are incurred in the year in which appliances are bought and, accordingly, the ratepayer should not be required to pay a return on applicant's investment in appliances.

An allowance in rate base of \$1,710,000 for materials and supplies in the test year we find to be reasonable based on the evidence of record.

Applicant has included an allowance of \$1,700,000 for working cash in the rate base, whereas the staff concluded that no additional allowance was needed for working cash to compensate investors for capital which they have supplied to enable applicant to operate efficiently and economically and for which they would not otherwise be compensated. This Commission in Decision No. 48833 dated July 14, 1953 in Application No. 33341 allowed this applicant \$500,000 for working cash in rate base. Such amount has been allowed in all decisions on this applicant subsequent thereto. Upon review of the record we find an allowance of \$500,000 to be reasonable and we adopt such amount for the purpose of this decision.

A deduction of \$257,000 to rate base is made in recognition of the income tax refund arising from liberalized depreciation claimed by applicant for the years 1954 and 1955.

We find reasonable and will adopt a rate base for the test year ending June 30, 1961 of \$189,019,000 as shown in the preceding tabulation.

Rate of Return

Applicant represents that its tariff charges must be so fixed as to yield revenues sufficient to cover the costs of operating expenses, maintenance, depreciation, taxes on income, and a fair rate of return on its investment that is used and useful in supplying services to the public. In this proceeding, applicant seeks a rate of return of 6.75 percent on its depreciated rate base.

Applicant asserts that its fair earnings requirement can be tested as to adequacy by its ability to maintain the financial integrity of the company, preserve its credit standing, enable it to raise the necessary new funds on terms which will not dilute or violate the rights of either the old or new owners, and that the return to the owners should be commensurate with the return on other investments having corresponding risks.

Applicant derived an average capital structure for the test year as follows:

	Estimated Test Year Average Capital Structure	
	Amount	Percent
Bonds	\$ 80,678,000	43.1
Short-term Loans	8,343,000	4.4
Common Stock Equity	98,373,000	52.5
	<u>\$187,394,000</u>	<u>100.0%</u>

Applicant computes its cost of debt capital at 3.96 percent after allowing 5.25 percent on its proposed 1960 bond issue<sup>6/</sup> of \$20,000,000. Interest on short-term loans applicant computes at 5 percent and shows that under these assumptions its requested rate of return of 6.75 percent on its depreciated rate base will produce an earning on common equity of about 9.6 percent. Applicant compared this resulting earning on common stock equity with the experience of a group of 13 major natural gas companies and with another group of 13 operating natural gas utilities for the period 1954 through 1958 and

<sup>6/</sup> Applicant's 1960 bond issue was sold on July 25, 1960 on a 4.643% basis as compared with applicant's estimate of 5.25%.

concluded therefrom that the 6.75 percent requested rate of return was a minimum requirement. A vice president of Reis & Chandler, Inc., one of applicant's witnesses on rate of return, based on his studies of applicant's Exhibits 3 and 4 and other data including his analysis of 56 gas distributing companies also concluded that the 6.75 percent rate of return requested was a minimum requirement.

The City of Los Angeles in Exhibit 46 presented various financial data with respect to applicant and the so-called comparable gas companies relied upon by applicant in its Exhibits 3 and 4. Los Angeles made certain alternate calculations and showed that a 6.75 percent rate of return applied to a rate base of \$193,340,000 would yield earnings of 9.92 percent on common equity which after allowing 7.8 percent for dividends on common stock would produce \$3,111,000 for earned surplus at a 67.19 percent payout on common stock. A witness for Los Angeles concluded that (1) so-called comparable companies relied upon by applicant are not sufficiently comparable to serve as a basis for fixing applicant's earnings; (2) the use of thirteen or any other number of so-called comparable companies as used by applicant in Exhibits 3 and 4 will result in varying conclusions as to earnings requirements' and (3) results based solely upon comparative earning statistics are the end product of an over-simplification of a complex problem and are not sufficient to indicate the proper level of earnings in this proceeding. He urged that all relevant factors be considered.

In its closing brief the California Farm Bureau Federation took the position that a 6.5 percent rate of return would be appropriate. The City of Los Angeles in its brief urges that the need for



and equity of a rate of return higher than 6.5 percent has not been established by the record in this proceeding. The City of San Diego states that an over-all rate of return on the order of 6.5 percent would be more consistent with reasonableness than applicant's request. In its brief the Department of Defense and Other Executive Agencies of the United States urges that the requested rate of return is excessive and that a rate of return of 6.5 percent is at the upper limit of the range of reasonableness for this applicant.

In considering the position of applicant and other parties with respect to rate of return we should point out that the cost of money is not decisive of the issue of rate of return and that the Commission does not rely solely on financial requirements in determining the level of such return. The lawful interests of the consumer as well as the investor must control the rate of return.

Upon a careful consideration of the evidence before us, we are of the opinion and find that a rate of return of 6.6 percent is reasonable for applicant for the test year, 12 months ending June 30, 1961. When a rate of return of 6.6 percent is applied to the depreciated rate base of \$189,019,000 hereinbefore found reasonable, an over-all increase in annual gross revenue of approximately \$10,825,000 is found to be required.

#### Spread of Rates Among Classes

A major issue in this proceeding is the spread of rates among the various classes of customers, particularly as between firm and interruptible service. In this connection five cost allocation studies reflecting various hypotheses and philosophies were introduced. These include: applicant's Exhibit 5 ("Share the Savings"); Southern California Edison Company's Exhibit 23 (Exhibit 5 adjusted to reflect cost of gas allocated by the so-called "Wehe Method"); the staff's Exhibit 32 (costs distributed according to use made of the system); California Manufacturers Association's Exhibit 34

("cost incurrence" study); and San Diego Gas & Electric Company's Exhibit 41 (cost of gas at trunk transmission outlets). The results of these studies vary widely.

Applicant's cost study rests, in part, upon a calculation of the cost of two hypothetical independent systems designed to serve the firm and the interruptible classes separately. The costs developed by applicant in its study closely approximate its proposed rate spread to classes.

The California Manufacturers Association (CMA) "cost incurrence" study constitutes essentially an incremental cost study, and allocates to interruptible retail customers less than one percent of the total fixed costs of applicant determined by system capacity. This study alleges that present rates of retail interruptible customers produce \$5,110,000 of revenues in excess of cost as determined by CMA and that present rates of general service customers fail to cover cost by \$18,414,000, or by 20 percent.

Studies of Edison and San Diego were based, in part, upon applicant's hypothetical study with certain modifications. Edison, on the basis of its study, proposed lower than present rates for steam-electric generating service. San Diego's study showed that rates proposed by applicant for wholesale service to San Diego would produce higher than system-average returns.

The staff's study distributes costs according to the use that is made of the system by each class, the facility component being allocated to each of the customer classes on the basis of the maximum monthly usage, giving consideration to the level (transmission or distribution) from which each class receives service. The staff study shows higher than system-average rates of return for the general service and firm industrial classes, with deficiencies in earnings indicated for the interruptible, gas engine and wholesale classes.

We do not agree with the theoretical assignment of little or no demand costs to the interruptible service as advocated by some of the parties in view of applicant's actual operations, gas procurement policies, gas sales, and relatively small curtailment of interruptible service. Less than 40 percent of the gas estimated to be sold in the test year is for applicant's general service customers. In our opinion both capacity and usage are significant elements in respect to the capital outlay for a pipeline system and need to be given significant weight in determining cost of jointly used facilities.

Cost, however, is but one of the important elements in rate fixing. In Exhibit 6 applicant shows that energy costs of gas at proposed rates are well below the costs of alternate energy sources for typical residential and restaurant uses. For firm industrial processing customers, Exhibit 6 shows that gas has a price advantage over electricity, but when oil competes, the advantage is decreased and in some cases reversed. Applicant asserts that gas recently has been more expensive than the heavier grades of fuel oil used by large industrial customers and steam-electric generating station customers, but that in the last few months a firming of the going price of fuel oil has taken place. However, applicant states that its proposed rates reflect in part the limits imposed by competitive fuel oil prices in the interruptible classes and urges that this Commission should not prescribe interruptible rates any higher than applicant proposes because of the competitive fuel situation.

The record herein shows that the proposed level of interruptible rates might result in some customers discontinuing this service in favor of other competitive fuels. The rates authorized herein have been developed after considering all of the factors inherent in rate spread including cost of service, value of service, and history of rates.

Existing Offset Rates

Several offset rate increases occasioned by the increase in cost to applicant of out-of-state gas purchased from El Paso Natural Gas Company involving proceedings before the Federal Power Commission which have not been completely adjudicated are subject to possible refund. Final determination of refunds in each instance is dependent upon final action by the FPC or a court in any appeal thereon. Among the FPC proceedings involved in possible refunds to applicant's California gas customers are the following: FPC Docket G-2018, G-4769, G-12948 and G-17929.

Present and Requested Gas Rates

Applicant requests increases in gas rates as set forth in Exhibit 56 which it estimates will produce \$14,449,000 of additional annual revenues, or an average of 7.2 cents per Mcf, based upon its

estimate of gas sales in the test year ending June 30, 1961 segregated to classes of service as follows:

REQUESTED REVENUE INCREASE  
TEST YEAR ENDING JUNE 30, 1961

Class of Service	Applicant's Estimate of Sales		Requested Revenue Increase			
	1,000 Mcf	Percent	Before El Paso 1960 Offset	1960 El Paso Offset	Total Amount	Percent
Gen. Service	77,468.5	38.8%	\$ 6,933,000	\$2,378,000	\$ 9,311,000	64.4%
Gas Engine	1,076.4	.5	49,000	18,000	67,000	.5
Firm Ind.	5,228.5	2.6	293,000	69,000	362,000	2.5
Inter. Ind.	25,524.1	12.8	992,000	127,000	1,119,000	7.7
Steam Plant	36,158.6	18.1	868,000	181,000	1,049,000	7.3
San Diego Gas & Elec.	54,385.6	27.2	1,695,000	846,000	2,541,000	17.6
Total	199,841.7	100.0	10,830,000	3,619,000	14,449,000	100.0

Applicant claims that 70 percent of the total increase requested is attributable to higher prices that must be paid for gas purchased from suppliers, a cost beyond management's control.

El Paso 1960 Offset Rates

Effective August 25, 1960 rates of El Paso Natural Gas Company for out-of-state gas purchased by applicant again will increase, subject to possible refund upon final action by the Federal Power Commission, as follows:

	<u>Old Rate</u>	<u>New Rate</u>	<u>Increase</u>
Monthly Demand Charge per Mcf of contracted daily demand at 14.73 psia	\$2.1749	\$2.7483	\$0.5734
Commodity charge per Mcf at 14.73 psia	.23331	.23963	.00632

To compensate for such increase in the cost of El Paso Gas and related franchise fees and uncollectibles, applicant proposes offset rates by classes of service as follows subject to possible refund:

	<u>Offset Rate</u> <u>Cents Per Mcf</u>	
	<u>Requested</u>	<u>Authorized</u>
General Service		
First 100 Mcf/Month/Meter, all schedules	3.25c	1.78c
Over 100 Mcf/Month/Meter, all schedules	.50	1.78
Gas Engine Service		
Winter-December through March	3.20	1.78
Summer-April through November	1.20	1.78
Firm Industrial Service		
First 100 Mcf/Month/Meter	3.25	1.78
Over 100 Mcf/Month/Meter	.50	1.78
Regular Interruptible Service	.50	1.78
Retail, Steam Electric Interruptible	.50	1.78
Wholesale Service		
Monthly Demand Charge per Mcf of		
Daily Contract Demand	40.00	-
Commodity Charge	.07	1.78

Rather than provide a higher offset increase for the first 100 Mcf for general and other firm service schedules we will authorize an average increase for all blocks. With respect to the interruptible class, applicant's proposed offset increases in the interruptible class are below the increase in El Paso's commodity charge. In our judgment the interruptible class should bear the full increase in commodity costs and in addition a reasonable portion of the increase in demand costs of applicant's operations as well. The order herein will so provide.

Applicant proposes to avoid possible over-or-under collection of offsetting revenue from its customers pending the final adjudication by FPC of El Paso's 1960 rate increase by reviewing annually the level of the offset rate, and when appropriate to file with the Commission not later than June 1 of each year a revised offset rate for the following fiscal year ended July 31 based upon estimated volumes of gas purchases from El Paso and of applicant's total volume of gas sales for that fiscal year.

In the event that the final rates of El Paso as determined by the FPC are less than those effective August 25, 1960, applicant proposes a plan to refund any overcharges to its gas customers. An

example of the operation of applicant's refund plan is contained in Exhibit 16.

General Service (Schedules G-1 through G-26)

Applicant proposes that \$9,311,000 or 64.4 percent of its requested increase be obtained from general service customers (Schedules G-1 through G-26) who, according to applicant's estimate, will require approximately 39 percent of the total gas sales in the test year. This is an average increase of about 13 percent or 12 cents per 1,000 cubic feet of gas estimated to be sold to this class of service.

A reduction in the number of general service schedules from nine to seven is proposed. We find this proposal to be reasonable. Increases in minimum charges to \$2.26 in proposed Schedules G-1 through G-5 and to \$2.51 in proposed Schedules G-6 and G-7 are requested.

The City of Los Angeles showed in Exhibit No. 44 that since 1950 the increase percentage-wise for the minimum use customer has been nearly three times as great as for the larger use customer and urged that consideration be given to avoiding a disproportionate increase in the billing to the small home users as compared with the larger commercial customers served under the general service schedules. We find considerable merit in the position of the City of Los Angeles and have given due consideration to the level of minimum charges in the rates authorized by the order herein.

With respect to Schedule G-15, Street and Outdoor Lighting, applicant proposes increases in the monthly rate for lighting only service (Rate "X") and also proposes to reduce the monthly minimum charge under the "X" rate to equal the charge for five lamps of the maximum size installed instead of ten.

Changes in Schedules G-20 and G-21, Military Service proposed by applicant include an increase in the minimum charge per meter

per month from \$200 to \$250 and an increase in the commodity block rates. The Department of Defense and other executive agencies of the United States Government urged that Schedule G-21 be eliminated and that Schedule G-20 be made available to military installations on a system-wide basis. The Government contends that Schedule G-21, now in effect for service at Vandenburg Air Force Base and Camp San Luis Obispo was originally justified by a set of circumstances which no longer exist and for this reason such schedule should be eliminated. A condition of service under Schedule G-21 places a restriction on the volume of gas which can be used for space heating. Deletion of such condition in Schedule G-21, according to the Government, will make it identical with Schedule G-20 which is now offered to Fort McArthur, San Pedro and which applicant proposes to offer to the U. S. Naval Station at Long Beach.

Applicant takes the position there is no reason for extending the scope of the military service schedules at this time and further indicates that where special conditions warrant, as at Vandenburg, applicant is negotiating special contract arrangements with the customer which will be submitted to this Commission when agreements have been reached.

We find merit in the Government's position on Schedules G-20 and G-21 and will require that Schedule G-20 be made applicable system-wide and that Schedule G-21 be canceled.

Schedules G-25 and G-26, Multiple Dwelling Service, are proposed by applicant to be revised to increase minimum charges per meter per month from \$200 to \$250 and to increase commodity block rates.

In view of the evidence we will authorize increases in rates in the general service schedules estimated to yield additional annual revenues of \$6,075,000 based on sales herein adopted for the test year. Of that amount \$1,407,000 relates to the El Paso offset.



A comparison of present, requested and authorized rates for multiple use under Schedule G-1 follows:

		Multiple Use Rate - Schedule G-1		
		<u>Present</u>	<u>Requested</u>	<u>Authorized</u>
First	200 cu. ft. or less ....	\$1.80382	\$2.26032	\$ 1.8745
Next	1,800 cu. ft./100 cu. ft.	.07641	.0841	.0841
Next	28,000 cu. ft./100 cu. ft.	.06851	.0758	.0758
Next	70,000 cu. ft./100 cu. ft.	.06501	.0721	.0721
Over	100,000 cu. ft./100 cu. ft.	.06381	.0680	.0680

A typical increase for an average household using 8,000 cubic feet of gas a month would be 65 cents.

Gas Engine Service (Schedule G-45)

Applicant proposes that \$67,000 of additional annual revenues be obtained from gas engine service by an increase in all commodity block rates and by an increase in the minimum charge on the "X" rate from \$6.00 to \$10.00 per meter per month. No change in the "Z" rate minimum charge of \$100 is proposed.

The California Farm Bureau Federation in its closing brief contends that the historical pattern of the relationship of gas engine service to other firm service is distorted by applicant's proposal to round the charge from four figures to three and from the magnitude of the proposed increase in the minimum charge.

Upon consideration of the evidence we will authorize increases in rates for gas engine service by the order herein to yield \$50,000 of additional annual test year revenues of which \$19,000 is applicable to the El Paso offset.

Firm Industrial (Schedules G-40 and G-41)

Additional annual test year revenues of \$362,000 are proposed by applicant to be obtained from increases in rates to firm industrial customers. While no increases in minimum charges are proposed for this class, applicant proposes an increase in all effective commodity block rates. In view of the evidence we will authorize

increases in firm industrial rates to yield \$300,000 of additional annual revenues in the test year of which \$93,000 is applicable to the El Paso offset.

Interruptible Industrial Service (Schedule G-50)

Applicant proposes that \$1,119,000 or 7.7 percent of its requested increase be obtained from regular interruptible industrial customers who, according to applicant's estimates will use 12.8 percent of the total gas sold in the test year. This is an average increase of 4.4 cents per 1,000 cubic feet of gas estimated to be sold to this service class. Specific increases in the commodity block rates are proposed in addition to an increase in the minimum charge from \$50 per meter per month to \$100.

The California Manufacturers Association in its brief takes the position that present regular interruptible rates are already at a maximum reasonable level and that in no event should the general rate increase for regular interruptible customers exceed, on a percentage basis, the increase prescribed for general service and firm industrial customers.

The City of Los Angeles, on the other hand, urges that rates for interruptible service be fixed no lower than as applied for by applicant.

Based on this record we find that total increases in rates for interruptible service should be authorized approximately at the level requested by applicant. The rates to be authorized by the order herein in our judgment will produce \$1,100,000 of additional annual test year revenues of which \$456,000 applies to the El Paso offset.

Steam-Electric Generation Service (Schedule G-54)

An annual increase of \$1,049,000 is sought by applicant in its rates for Schedule G-54 customers. Such increase is 7.3 percent of applicant's total request. According to applicant's estimate, G-54 customers will use 18.1 percent of the total gas sales in the test year. Since applicant and its affiliate, Southern California Gas

Company, have large G-54 steam-electric generating customers in common, applicant requests that the identical G-54 rate schedule be prescribed for both gas utilities.

The proposed form of Schedule G-54 is contained in Exhibit 20 with the requested rates set forth in Exhibit 56.

Southern California Edison Company proposed three schedules, G-100, G-200 and, G-300, in Exhibit 26 as applicable to steam-electric generation service and urged that such schedules be prescribed in lieu of applicant's proposed Schedule G-54. Applicant opposed Edison's proposed schedules on the grounds that they were not practicable or compensatory, that they would reduce gas revenues from steam-electric customers and would require much higher rates from all firm gas customers.

The Department of Water and Power of the City of Los Angeles takes the position that applicant's present rates for service to steam-electric generating plants are substantially above "incurred" cost of rendering the service and also above the present going price of competitive fuel; that further increases in steam plant rates should be severely limited, if, indeed, they should be permitted at all; that if any increase is authorized the present form of Schedule G-54 should be left unchanged and a flat percentage increase applied to all blocks of the rate.

On this record we find an increase in Schedule G-54 rates to yield additional annual revenues in an amount of \$1,000,000 to be reasonable. The order herein will authorize increases in rates to produce such amount of which \$636,000 is applicable to the El Paso offset.

Wholesale Service to San Diego Gas & Electric Co. (Schedule G-60)

Applicant proposes increases in wholesale Schedule G-60 rates to yield \$2,541,000 of additional annual revenues in the test year. In Exhibit 8 applicant shows its final proposed rates.

San Diego Gas & Electric Company in its closing brief takes the position that applicant's rate proposal for San Diego is, at best, a ceiling which if exceeded would result in discrimination against San Diego and its customers. Likewise the City of San Diego in its brief points out that increases to San Diego Gas & Electric Company have been greater percentage-wise than the increases in the retail rates of applicant and urges that non-discriminatory rates be fixed in view of the possible rate impact action in this proceeding may have on the ultimate consumers in San Diego.

On this record we find an increase in Schedule G-60 rates to yield approximately \$2,300,000 of additional annual revenues in the test year to be reasonable. Of that amount \$967,000 is applicable to the El Paso offset.

#### Air Conditioning Service

In Exhibit 56 applicant also proposes to substitute a special rate for the air conditioning discount clause currently embodied in its general service, military and multiple dwelling schedules, and to provide special rates for air conditioning in conjunction with industrial schedules, both firm and interruptible. This proposal appears reasonable and will be authorized.

#### Rate Zone REvisions

In addition to the proposed basic changes in rates to be charged, applicant also proposes certain rate zone and rate area boundary revisions. In its closing brief applicant expressed a desire to withdraw its proposal to consolidate rate areas 17 and 18.1. We find applicant's rate zone and rate area boundary revisions to be reasonable including the continued segregation of rate areas 17 and 18.1.

Findings and Conclusions

In the considered judgment of the Commission, the increases in rates to be authorized by the order herein will provide such additional gross revenues as should enable applicant to meet its reasonable expenses of operation and afford it the opportunity to earn a fair and just return on its depreciated rate base hereinbefore found reasonable.

This record reveals applicant incurs a number of expenses which are directly controllable at the discretion of management. Over-all efficiency of operations is a prime responsibility of management. It is incumbent upon applicant continually to seek ways of reducing its costs of operations consistent with its public utility service responsibilities.

After carefully considering all factors pertinent to this proceeding, it is our finding and conclusion that an order should be issued authorizing increases in rates in the over-all amount of approximately \$10,825,000 in the manner hereinbefore outlined, and to the extent set forth in Appendix A following the order herein. Accordingly, we find that the increases in rates and charges authorized herein are justified, and that the existing rates, in so far as they differ therefrom, are for the future unjust and unreasonable.

We find that applicant should take immediate steps to place into effect the staff's first, second as modified hereinabove, and third recommendations with respect to certain of applicant's sales promotion activities as enumerated in the foregoing opinion.

The Commission again calls to the attention of applicant its duty to vigorously resist all proceedings before the Federal Power Commission which involve gas rates affecting California, to the end that the interests of the customers of this utility will be fully protected. Applicant also should intensively survey and consider

additional underground storage facilities or other means of serving its customers, in the light of the trend of increasing source cost of gas, and applicant's expressed concern over the loss of interruptible sales.

The following tabulation shows the increases being authorized by the order herein, based on the Commission's adopted level of sales for the test year ending June 30, 1961.

# SUMMARY OF INCREASES BEING AUTHORIZED

	Adopted	Adopted	Increase		Avg. Rev.	
	Sales	Revenue			Per Mcf.	
	1,000	At Present	Per-		After	
	Mcf.	Rates	Amount	cent	Mcf.	Increase
General Service	78,944.1	\$ 72,697,000	\$ 6,075,000	8.4%	7.7%	99.8%
Gas Engine	1,076.4	506,000	50,000	9.9	4.6	51.7
Firm Ind.	5,228.5	3,026,000	300,000	9.9	5.7	63.6
Interrupt. Ind.	25,567.5	10,272,000	1,100,000	10.7	4.3	44.5
Steam Plant	35,662.6	12,642,000	1,000,000	7.9	2.8	38.3
San Diego Gas & Elect. Co.	54,218.2	20,323,000	2,300,000	11.3	4.2	41.7
Other Gas Rev.	-	500,000	-	-	-	-
Total	200,697.3	\$119,966,000	\$ 10,825,000	9.0	5.4	65.2

# ORDER

Southern Counties Gas Company of California having applied to this Commission for an order authorizing increases in gas rates, public hearing having been held, the matter having been submitted and being ready for decision; therefore,

IT IS ORDERED as follows:

(1) 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, revised tariff schedules with changes in rates, terms and conditions as set forth in Appendix A attached hereto and, on not less than five days' notice to this Commission and to the public, to make said rates effective for service rendered on and

after August 25, 1960, except that the El Paso offset increase in rates shall not be made effective prior to the date the increased El Paso rates, lawfully, are allowed to go into effect by the Federal Power Commission.

(2) In the event that applicant places such offset rates into effect:

- a. Applicant shall keep 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's plan for determining refunds shall be submitted to this Commission prior to making any refunds, and specific Commission approval shall be obtained of the plant at that time.
- c. When the decision of the Federal Power Commission in Docket No. RP 60-3 shall have become final, applicant shall file an application 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 by El Paso and the amount of any balance created by applicant's inability to deliver checks and by 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 monthly period, setting forth:

- (1) The increase in revenues realized under the offset rates authorized herein, segregated by firm and interruptible classes of service, and
- (2) The increase in cost of out-of-state gas above the rate level in effect immediately prior to the date on which the proposed El Paso rates go into effect.

f. When appropriate, applicant may file annually revised unit offset charges subject to Commission approval.

g. Applicant shall continue to show in its tariffs the amounts of offset charges included in the several rates that may be subject to refund.

(3) If the Federal Power Commission ultimately fixes a rate for Transwestern gas lower than 42.0 cents per Mcf applicant shall promptly advise this Commission in writing, reduce its rates accordingly and make appropriate refunds after approval of this Commission.

(4) Applicant is authorized to revise its rate zones and rate area boundaries as proposed herein, except that rate areas 17 and 18.1 shall not be consolidated.

(5) Applicant shall take immediate steps to place into effect the staff's first three recommendations with respect to those specific aspects of its sales promotional activities enumerated in the foregoing opinion and as set forth on Page 5, Paragraph 18 of Exhibit 31, except that the second recommendation shall be modified as indicated in the foregoing opinion. Complete compliance shall be accomplished no later than 120 days after the effective date of this order. Applicant shall file with this Commission written reports of progress detailing steps taken to place into effect such staff recommendations at 30-day intervals after the effective date of this order until full compliance has been accomplished no later than 120 days after the effective date of this order.



(6) Applicant shall notify this Commission in writing should it elect, for income tax purposes, to use a life shorter than 35 years for the Newberry-Placentia pipeline. Such notice shall be made within twenty days of such election.

(7) Applicant is relieved of filing the study of the Moreno pipeline to serve San Diego ordered by Decision No. 58322, dated April 28, 1959 and Decision No. 57087, dated August 5, 1958.

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

Dated at San Francisco, California, this  
23rd day of August, 1960.

[Signature]  
President

[Signature]  
Secretary for the Commission  
Commissioner

Commissioners

Peter L. Mitchell  
Commissioner Theodore H. Jenner - being  
necessarily absent, did not participate  
in the disposition of this proceeding.

Concurring Opinion in Application No. 41859.

I concur reluctantly in this decision for the reason that, under conditions presently existing, were I to dissent applicant would be penalized unjustly, because of immediate and substantial increases in costs over which neither applicant nor this Commission has control. There are many parts of this decision of which I vigorously disapprove but my comments in this instance will be confined to one, namely, the prolonged and not too lucid dissertation concerning applicant's proposed expenditures for advertising and promotion and the staff section which prepared and presented the evidence upon which said dissertation was based. I particularly disapprove of the final statement in this section of the opinion which reads:

"Our action herein is not to be construed as limiting the amount applicant may spend for sales promotion in the test year or in any other period. Such determination is for the applicant to make. Our determination herein relates solely to the reasonable allowance of sales promotion expenses to be included in gas rates of this applicant to be borne by its ratepayers."

In my studied opinion this statement, while factual, is misleading and therefore improper. Applicant is a completely regulated enterprise. Every expenditure proposed by applicant must be approved or revised by this Commission for ratemaking purposes. This fact applies with equal force to administrative and general expenses (to name only one additional category) which is the next subject discussed in the opinion, and which the Commission reduces without admonishing applicant that it still can spend more than

is allowed for ratemaking purposes, should applicant desire. It is a well-established fact that expense allowances granted by this Commission for ratemaking purposes usually become the limits of expenditures made by a utility; otherwise their earnings are grossly depleted and they court financial difficulties.

The most serious aspect of this case, however, in my opinion, is that the staff presentation and recommendations concerning advertising and promotion expenditures were prepared and made by a representative of the Utilities (Engineering) Division of the Commission and not by the Finance and Accounts Division which comprises men well versed and experienced in financial matters. This willingness, even determination, of the engineers to invade areas other than engineering activities appears to be symptomatic with this Commission. We have had engineers testifying as "experts" on virtually all phases of finance, including rates of return, upon tax matters and now upon advertising and promotion programs of utilities under the jurisdiction of this Commission.

The engineer witness in this instance, under cross examination, admitted that he had had little or no experience involving the subject upon which he was testifying as an "expert". Although his qualifications were limited to the engineering field, this staff "expert" testified that he personally had delved into the accounts and financial transactions of applicant pertaining to promotion and advertising, had compared them with similar expenditures of other utilities, and had drawn his conclusions and based his recommendations upon his own evaluation of the data thus ascertained.

Not content to leave bad enough alone, staff attorney in his brief pursued the subject in an extremely intemperate and improper manner. This brief, in my opinion, attempted by innuendo, to besmirch applicant, accused hundreds of newspapers of the State of California of attempting to coerce the Commission and intimated that newspaper opposition to the staff's recommendation was for pecuniary reasons rather than because of honest disapproval of the invasion by staff engineers of fields beyond the legitimate sphere of engineers.

The interest of the people of California would have been served much better had (1) staff engineers confined their activities to bona fide engineering features of this case and left the financial aspects of the proceeding to the well qualified financial and tax experts of the Commission, and (2) staff counsel confined his arguments to fact and refrained from innuendo, designed to cast doubt on the good faith and integrity of applicant and the newspapers of California.



C. LYN FOX  
Commissioner

APPENDIX A  
Page 1 of 7

The presently effective tariffs are changed as set forth in this appendix.

1. General Natural Gas Service Schedules G-1 Through G-7

Transfer customers in territory served under present Schedules G-5.1 and G-6.1 to Schedule G-6. Withdraw and cancel Schedules G-5.1 and G-6.1. Renumber Schedule G-6.2 as Schedule G-7. Change and file base rates for firm natural gas service Schedules G-1 through G-7 as follows:

		<u>G-1</u> 1100 Btu	<u>G-2</u> 1100 Btu	<u>G-3</u> 1100 Btu	<u>G-4</u> 1100 Btu
<u>Multiple Use</u>					
First	200 cu. ft. or less	\$1.8745	\$1.8945	\$1.9145	\$1.9345
Next	1,800 cu. ft./100 cu.ft.	.0841	.0852	.0862	.0884
Next	28,000 cu. ft./100 cu.ft.	.0758	.0778	.0796	.0819
Next	70,000 cu. ft./100 cu.ft.	.0721	.0721	.0721	.0721
Over	100,000 cu. ft./100 cu.ft.	.0680	.0680	.0680	.0680
<u>Heating Only</u>					
First	200 cu. ft. or less	\$3.3452*	\$3.3852*	\$3.4252*	\$3.4652*
Next	1,800 cu. ft./100 cu.ft.	.1053	.1064	.1074	.1095
Next	28,000 cu. ft./100 cu.ft.	.0758	.0778	.0796	.0819
Next	70,000 cu. ft./100 cu.ft.	.0721	.0721	.0721	.0721
Over	100,000 cu. ft./100 cu.ft.	.0680	.0680	.0680	.0680
		<u>G-5</u> 1100 Btu	<u>G-6</u> 1100 Btu	<u>G-7</u> 1100 Btu	
<u>Multiple Use</u>					
First	200 cu. ft. or less	\$1.9545	\$1.9745	\$2.0245	
Next	1,800 cu. ft./100 cu.ft.	.0905	.1032	.1293	
Next	28,000 cu. ft./100 cu.ft.	.0834	.0846	.0994	
Next	70,000 cu. ft./100 cu.ft.	.0721	.0731	.0746	
Over	100,000 cu. ft./100 cu.ft.	.0680	.0681	.0706	
<u>Heating Only</u>					
First	200 cu. ft. or less	\$3.5052*	\$3.5452*	\$3.6452*	
Next	1,800 cu. ft./100 cu.ft.	.1117	.1082	.1399	
Next	28,000 cu. ft./100 cu.ft.	.0834	.0846	.0994	
Next	70,000 cu. ft./100 cu.ft.	.0721	.0731	.0746	
Over	100,000 cu. ft./100 cu.ft.	.0680	.0681	.0706	

\* Minimum charge applicable November through April only. For the months May through October the rate per 100 cu.ft. for the first 200 cu.ft. is the same as the rate per 100 cu.ft. for the next 1,800 cu.ft. Except for closing bills, May-October usage will be accumulated to 1,000 cu.ft. before billing.

Contingent Offset Charge Clause:

The above base rates include the following offset charges which, in accordance with Decisions Nos. 47991, 51361, 55999, 58793, and \_\_\_\_\_, of the California Public Utilities Commission, are contingent upon the price of gas purchased from El Paso Natural Gas Company;

- An offset charge of 0.095 cent per 100 cubic feet, effective 4-15-55.
- An offset charge of .277 cent per 100 cubic feet, effective 5-10-55.
- An offset charge of .188 cent per 100 cubic feet, effective 1-1-58.
- An offset charge of .317 cent per 100 cubic feet on first 100,000 cubic feet and .211 cent per 100 cubic feet for excess over 100,000 cubic feet, effective 8-1-59.
- An offset charge of .178 cent per 100 cubic feet, effective 8-25-60.

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2. Renumber Schedule G-15 as G-30  
Street and Outdoor Lighting Natural Gas Service Schedule G-30, "X" Rate only.  
Increase charges and change Minimum charge provisions as set forth below:

<u>Hourly Lamp Rating in Cu. Ft.</u>	<u>Charge per Lamp Per Month</u>
1.99 cu. ft./hr. or less	\$1.06
2.00 - 2.49 cu. ft./hr.	1.32
2.50 - 2.99 cu. ft./hr.	1.43
3.00 - 3.99 cu. ft./hr.	1.59
4.00 - 4.99 cu. ft./hr.	1.85
5.00 - 7.49 cu. ft./hr.	2.12

Minimum Charge

A minimum charge per month equal to the charge for five lamps of the maximum size installed will be made to customers taking service under the "X" rate.

3. Military Natural Gas Service Schedules G-20 and G-21 and Multiple Dwelling Natural Gas Service Schedules G-25 and G-26  
Transfer territory and customers from Schedule G-21 to Schedule G-20.  
Withdraw and cancel Schedule G-21. Change base rates for Schedules G-20, G-25 and G-26 as follows:

	<u>Military Service G-20</u> 1100 Btu
	¢
Winter* Rate - First 100 Mcf, per Mcf	72.31
- Over 100 Mcf, per Mcf	68.31
Summer# Rate - First 100 Mcf, per Mcf	59.61
- Over 100 Mcf, per Mcf	55.61

Contingent Offset Charge Clause:

The above base rates include the following offset charges which, in accordance with Decisions Nos. 47991, 51361, 55999, 58793, and \_\_\_\_\_ of the California Public Utilities Commission are contingent upon the price of gas purchased from El Paso Natural Gas Company:

- A. An offset charge of 0.95 cents per Mcf, effective 4-15-55.
- B. An offset charge of 2.77 cents per Mcf, effective 5-10-55.
- C. An offset charge of 1.88 cents per Mcf, effective 1-1-58.
- D. An offset charge of 3.17 cents per Mcf on the first 100 Mcf and 2.11 cents per Mcf for excess over 100 Mcf, effective 8-1-59.
- E. An offset charge of 1.72 cents per Mcf, effective 8-25-60.

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	Multiple Dwelling Service	
	G-25 1100 Btu ¢	G-26 1100 Btu ¢
Rate "X"		
Winter* - First 100 Mcf, per Mcf	72.31	75.51
Over 100 Mcf, per Mcf	68.31	71.41
Summer# - First 100 Mcf, per Mcf	59.61	61.71
- Over 100 Mcf, per Mcf	55.71	57.81
Rate "Y"		
Winter* - First 100 Mcf, per Mcf	70.21	73.31
- Over 100 Mcf, per Mcf	66.11	69.31
Summer# - First 100 Mcf, per Mcf	57.51	59.61
- Over 100 Mcf, Per Mcf	53.71	55.71

\* Winter Months: November through April.

# Summer Months: May through October.

Contingent Offset Charge Clause:

The above base rates include the following offset charges which, in accordance with Decisions Nos. 47991, 51361, 55999, 58793, and \_\_\_\_\_ of the California Public Utilities Commission, are contingent upon the price of gas purchased from El Paso Natural Gas Company:

- An offset charge of 0.95 cents per Mcf, effective 4-15-55.
- An offset charge of 2.77 cents per Mcf, effective 5-10-55.
- An offset charge of 1.88 cents per Mcf, effective 1-1-58.
- An offset charge of 3.17 cents per Mcf on the first 100 Mcf and 2.11 cents per Mcf for excess over 100 Mcf, effective 8-1-59.
- An offset charge of 1.78 cents per Mcf, effective 8-25-60.

4. Firm Industrial Natural Gas Service Schedules G-40 and G-41  
Increase base rates for Schedules G-40 and G-41 as follows:

	Per Meter Per Month	
	G-40 1100 Btu	G-41 1100 Btu
<u>Six Winter Mos. - November-April Incl.</u>		
First 100 Mcf, per Mcf	75.21¢	80.13¢
Next 200 Mcf, per Mcf	68.41	73.33
Next 1,700 Mcf, per Mcf	63.91	68.93
Over 2,000 Mcf, per Mcf	61.81	66.83
<u>Six Summer Mos., May-October Incl.</u>		
First 100 Mcf, per Mcf	66.31¢	71.13¢
Next 200 Mcf, per Mcf	59.21	64.23
Next 1,700 Mcf, per Mcf	55.91	60.93
Over 2,000 Mcf, per Mcf	53.71	58.83

Contingent Offset Charge Clause:

The above base rates include the following offset charges which, in accordance with Decisions Nos. 47991, 51361, 55999, 58793, and \_\_\_\_\_ of the California Public Utilities Commission are contingent upon the price of gas purchased from El Paso Natural Gas Company:

- An offset charge of 0.95 cents per Mcf, effective 4-15-55.
- An offset charge of 2.77 cents per Mcf, effective 5-10-55.
- An offset charge of 1.88 cents per Mcf, effective 1-1-58.
- An offset charge of 3.17 cents per Mcf of the first 100 Mcf and 2.11 cents per Mcf for excess over 100 Mcf, effective 8-1-59.
- An offset charge of 1.78 cents per Mcf, effective 8-25-60.

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5. Gas Engine Natural Gas Service Schedule G-45  
Increase base rates for Schedule G-45 as follows:

		<u>Per Meter Per Month</u> <u>1100 Btu</u>
<u>Rate "X"</u>		
<u>Winter (December - March)</u>		
First	100 Mcf, per Mcf	62.42¢
Next	400 Mcf, per Mcf	57.42
Next	500 Mcf, per Mcf	53.42
Over	1,000 Mcf, per Mcf	51.42
<u>Summer (April - November)</u>		
First	100 Mcf, per Mcf	60.82¢
Next	400 Mcf, per Mcf	55.82
Next	500 Mcf, per Mcf	51.82
Over	1,000 Mcf, per Mcf	49.82
		<u>Per Meter Per Month</u> <u>1100 Btu</u>
<u>Optional Rate "Z"</u>		
<u>(Effective April 1 to November 30, Incl.)</u>		
First	100 Mcf, per Mcf	59.92¢
Next	400 Mcf, per Mcf	54.92
Next	500 Mcf, per Mcf	49.92
Over	1,000 Mcf, per Mcf	45.92

Contingent Offset Charge Clause:

The above base rates include the following offset charges which, in accordance with Decisions Nos. 47991, 51361, 55999, 58793, and \_\_\_\_\_ of the California Public Utilities Commission, are contingent upon the price of gas purchased from El Paso Natural Gas Company:

- A. An offset charge of 0.95 cent per Mcf effective 4-15-55.
- B. An offset charge of 2.77 cents per Mcf effective 5-10-55.
- C. An offset charge of 1.88 cents per Mcf effective 1-1-58.
- D. An offset charge of 3.17 cents per Mcf, December - March, and 1.76 cents per Mcf, April - November, effective 8-1-59.
- E. An offset charge of 1.78 cents per Mcf, effective 8-25-60.



6. Interruptible Natural Gas Service

- a.
- Interruptible Natural Gas Service Schedule G-50
- 
- Increase base rates as follows:

	1100 Btu Base Rate
First 200 Mcf, per Mcf	55.10¢
Next 800 Mcf, per Mcf	49.10
Next 2,000 Mcf, per Mcf	47.90
Next 3,000 Mcf, per Mcf	46.80
Next 4,000 Mcf, per Mcf	45.70
Next 10,000 Mcf, per Mcf	43.30
Over 20,000 Mcf, per Mcf	42.40

Contingent Offset Charge Clause:

The above base rates include the following offset charges which, in accordance with Decisions Nos. 47991, 51361, 55999, 58793, and \_\_\_\_\_ of the California Public Utilities Commission, are contingent upon the price of gas purchased from El Paso Natural Gas Company:

- An offset charge of 0.95 cent per Mcf, effective 4-15-55.
- An offset charge of 1.44 cents per Mcf, for the first 20,000 Mcf, and 1.11 cents per Mcf, over 20,000 Mcf, effective 5-19-55.
- An offset charge of 1.88 cents per Mcf, effective 1-1-58.
- An offset charge of 2.99 cents per Mcf on the first 10,000 Mcf and 1.93 cents for excess over 10,000 Mcf, effective 8-1-59.
- An offset charge of 1.78 cents per Mcf, effective 8-25-60.

- b.
- Utility Steam Electric Generating Station and Cement Plant
- 
- Retail Natural Gas Service Schedule G-54

1. Withdraw the present Schedule G-54 and replace with Schedule G-54, excepting the rate proposal, and contingent offset charges as shown in Exhibit No. 21, sheets 1 through 6. Change the base and adjusted rates as follows:

1100 Btu  
Base Rate  
Winter Summer

Commodity Charge:

Per Mcf	38.60
First 10 Mcf per month, per Mcf of contract volumetric rate	41.1¢
Next 10 Mcf per month, per Mcf of contract volumetric rate	38.1
Next 10 Mcf per month, per Mcf of contract volumetric rate	35.1
Excess per Mcf	37.6

Winter period: November 1 through April 30  
Summer period: May 1 through October 31

2. Under special condition No. 1 Cal. P.U.C. Sheet No. 3049, Sheet 2 of 3, line 3, change "purchased from El Paso Natural Gas Company" to "purchased from out-of-state sources".

APPENDIX A  
Page 6 of 7Contingent Offset Charges

The present base rates include offset charges of 1.15 cents per Mcf effective 2-4-56 by Resolution No. G-1019 and authorized by Decision No. 54831, 1.88 cents per Mcf effective 1-1-58 authorized by Decision No. 55999, 1.32 cents per Mcf effective 8-1-59 by Decision No. 58793, and 1.78 cents per Mcf effective 8-25-60 by Decision No. \_\_\_\_\_, and are subject to possible refund in accordance with said decisions in the event of a reduction in the cost of gas purchased from El Paso Natural Gas Company.

7. Wholesale Natural Gas Service Schedule G-60

Change monthly facility charge, monthly demand charge, and commodity charge as follows:

Deliveries Up to Contract Demand

	<u>1100 Btu</u> <u>Effective Rates</u>
Monthly Facility Charge	\$97,500
Monthly Demand Charge	
Per Mcf of Contract Daily	
Maximum Demand	\$2.40
Commodity Charge	
Per Mcf of Monthly Delivery	30.63¢

Contingent Offset Charge Clause :

The commodity charge includes an offset charge of 1.65 cents per Mcf based on the increase in charges to Southern Counties Gas Company of California and Southern California Gas Company by El Paso Natural Gas Company, which went into effect January 1, 1953, subject to final determination by the Federal Power Commission, and the following offset charges, in accordance with Decisions Nos. 51361, 55999, 58793 and \_\_\_\_\_, respectively, of the California Public Utilities Commission, subject to possible refund in the event of a reduction in the cost of gas purchased from El Paso Natural Gas Company:

- A. An offset charge of 2.77 cents per Mcf, effective 5-10-55.
- B. An offset charge of 1.88 cents per Mcf, effective 1-1-58.
- C. An offset charge of 2.59 cents per Mcf, effective 8-1-59.
- D. An offset charge of 1.78 cents per Mcf of commodity charge, effective 8-25-60.

8. Special Air Conditioning Rate General Service Schedules G-1 through G-7, G-20, G-25 and G-26; Firm Industrial Schedules G-40 and G-41

Withdraw present special rate for air conditioning and insert new paragraph as shown on page 9 of Exhibit 56. Change base rates as follows:

		<u>Per Meter Per Month</u> <u>Base Rates - 1100 Btu</u>	
		<u>General Service</u>	<u>Firm Industrial</u>
		<u>Per 100 cu. Ft.</u>	<u>Per Mcf</u>
First	10,000 cu. ft.	6.0¢	60.0¢
Next	15,000 cu. ft.	5.2	52.0
Next	25,000 cu. ft.	4.7	47.0
Next	150,000 cu. ft.	4.3	43.0
Next	800,000 cu. ft.	4.0	40.0
Over	1,000,000 cu. ft.	3.9	39.0

APPENDIX A  
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9. Special Air Conditioning Rate Interruptible Industrial Schedule G-50  
Withdraw present special rate for air conditioning and insert new paragraph as shown on page 9 of Exhibit 56. Change base rates as follows:

	<u>Per Meter Per Month</u> <u>Base Rates - 1100 Btu</u> <u>Per Mcf</u>
First 200 Mcf, per Mcf	42.5¢
Next 800 Mcf, per Mcf	38.5
Over 1,000 Mcf, per Mcf	37.5

10. Rate Zone and Rate Area Boundary Revisions  
File rate zone and rate area boundary revisions for schedule numbers shown in Exhibit C, pages 2 and 3, except for the consolidation of Rate Areas 17 and 18.1 in the Northern Division.

APPENDIX B

LIST OF APPEARANCES

FOR APPLICANT:

Milford Springer and Robert N. Olson, Jr.

INTERESTED PARTIES:

Rollin E. Woodbury and Harry W. Sturges, Jr.  
by Rollin E. Woodbury, for Southern California  
Edison Company; Brobeck, Phleger & Harrison,  
by Robert N. Lowry, for California Manufacturers  
Association; Reuben Lozner, Harold Gold and  
Stuart R. Foutz, for Department of Defense and  
Executive Agencies of U. S. of America; Ben W.  
Porterfield, for Standard Oil Company of  
California; Enright, Elliott & Betz, by Norman  
Elliott and Waldo O. Gillette, for Monolith  
Portland Cement Company; Chickering & Gregory,  
by Sherman Chickering and C. Hayden Ames and  
H. G. Dillin, for San Diego Gas & Electric  
Company; T. M. Chubb, R. W. Russell, M. Kroman,  
for City of Los Angeles; Alfred H. Driscoll, for  
City of Los Angeles and Department of Water &  
Power, City of Los Angeles; William L. Knecht,  
for California Farm Bureau Federation; Henry E.  
Jordan, for City of Long Beach; Walbfred  
Jacobson, for City of Long Beach; W. D. MacKay  
(Commercial Utility Service) for Challenge  
Cream & Butter Association; Karl K. Roos, for  
Humble Oil & Refining Company; Frederick B.  
Holoboff and Stanley M. Lanham, for the City of  
San Diego; Harry P. Letton, Jr., for Southern  
California Gas Company; L. M. Windle, for  
himself.

COMMISSION STAFF:

Martin J. Porter, William L. Cole and  
John R. Gillanders.