

**ORIGINAL**

Decision No. 75803

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHERN CALIFORNIA GAS COMPANY for an increase in gas rates to offset higher costs occasioned by an increase in the rates of its supplier El Paso Natural Gas Company, to utilize certain gas cost reductions, and for other revisions in its tariffs.

Application No. 50713  
(Filed November 29, 1968)

In the Matter of the Application of SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA for an increase in gas rates to offset higher costs occasioned by an increase in the rates of its supplier El Paso Natural Gas Company, to utilize certain gas cost reductions, and for other revisions in its tariffs.

Application No. 50714  
(Filed November 29, 1968)

In the Matter of the Application of PACIFIC LIGHTING SERVICE AND SUPPLY COMPANY for an increase in gas rates to offset higher costs occasioned by an increase in the rates of El Paso Natural Gas Company, to utilize certain gas cost reductions, and to change its tariff to a cost-of-service basis.

Application No. 50715  
(Filed November 29, 1968)

(Appearances are listed in Appendix A)

OPINION ON REQUEST TO RETAIN CERTAIN GAS COST REDUCTIONS

In its decisions <sup>1/</sup> issued thus far in these applications, the Commission indicated that the request of applicants to retain a portion of certain gas cost reductions as an offset to the

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<sup>1/</sup> Decision No. 75429 dated March 18, 1969 in Application No. 50713  
Decision No. 75428 dated March 18, 1969 in Application No. 50714

10 percent federal income tax surcharge (Surtax) prior to March 7, 1969, would be dealt with by subsequent decision.

Specifically, Southern California Gas Company (SoCal), Southern Counties Gas Company of California (SoCounties) and Pacific Lighting Service and Supply Company (PLServ)<sup>2/</sup> request authority to apply for the period between October 1, 1968 and March 7, 1969 approximately \$1,900,000 of about \$2,650,000 in gas cost reductions as an offset to increased revenue requirements occasioned by the Surtax and to accumulate in a reserve the approximately \$750,000 not applied to offset the Surtax, with interest at the rate of 7 percent per annum, for refund to customers as the Commission may subsequently direct.

The preliminary statements of the tariff schedules of these utilities contain the following provisions pertinent to the proposed utilization of such gas cost reductions:

Contingent Refunds and Rate Reductions

SoCal and SoCounties

"From El Paso Natural Gas Company (El Paso):  
The agreements dated as of November 1, 1963 and January 1, 1967 provided in Articles IV and V for contingent refunds and rate reductions. The Company will refund to its customers such refunds received from El Paso pursuant to Article IV of the agreements. The Company will reduce its rates by an aggregate amount equal to any rate reduction relating to Article V, except that possible offsetting increases in cost of gas and increases in tax based on income will be subject to review between the Company and the Commission, and disposition by the Commission at the time such rate reductions occur.

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<sup>2/</sup> Name changed to Pacific Lighting Service Company as of March 1, 1969.

"From Pacific Lighting Service and Supply Company (Pacific):  
The stipulation and agreement of Transwestern Pipeline Company (Transwestern), dated as of May 1, 1967, in FPC Docket No. RP67-8 provided in Articles III and IV for contingent refunds and rate reductions to Pacific. The Company will refund to its customers any refunds received from Pacific which have been received by Pacific from Transwestern pursuant to Article III of the agreement. The Company will reduce its rates by an aggregate amount equal to any rate reduction received from Pacific which has been received by Pacific from Transwestern relating to Article IV, except that possible offsetting increases in cost of gas and increases in tax based on income will be subject to review between the Company and the Commission, and disposition by the Commission."

PL Serv

"From Transwestern Pipeline Company (Transwestern):  
The Stipulation and Agreement, dated as of May 1, 1967, in FPC Docket No. RP67-8 provided in Articles III and IV for contingent refunds and rate reductions. The Company will refund to its customers such refunds received from Transwestern pursuant to Article III of the Agreement. The Company will reduce its rates by an aggregate amount equal to any rate reduction from Transwestern relating to Article IV, except that possible offsetting increases in cost of gas and increases in tax based on income will be subject to review between the Company and the Commission, and disposition by the Commission."

(Underlining Added)

The gas cost reductions before us for disposition commenced October 1, 1968 and resulted from Federal Power Commission (FPC) action in the Permian Basin Area Rate Case, Docket No. AR61-1. Earlier, rate reductions, which had emanated from settlement of FPC Docket Nos. RP67-8 and RP67-9 and which for year 1968 represented an estimated reduction of \$1,020,000 in the cost of gas supplies purchased from Transwestern Pipeline Company and El Paso Natural Gas Company, were considered by the Commission pursuant to the above quoted tariff provisions. Applicants then had sought <sup>3/</sup> to apply the estimated reduction to offset partially, i.e., by about one-fifth, <sup>4/</sup> the effect of Surtax for 1968 and in response the Commission informed applicants there was no objection to such application. This determination took into account the earnings level of applicants and, relatedly, applicants' need to seek rate relief, if the gas cost reductions were flowed through into reduced rates for their gas service.

While applicants' present proposal is consistent with their tariff provisions and their earlier proposal relative to FPC Docket Nos. RP67-8 and RP67-9, the circumstances, except for the special tariff provisions, are comparable to those in which utilities under our jurisdiction generally are in upon filing an application for rate relief which includes Surtax as one of the elements of an increased cost of service. SoCounties and SoCal were granted such relief prospectively in Decisions Nos. 75428 and 75429, wherein the Commission found increases were justified based on all necessary findings including the reasonableness of resulting rates of return.

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<sup>3/</sup> By letter dated July 6, 1968 to the Commission.

<sup>4/</sup> By letter dated July 9, 1968 to applicants.

We recognize that offsetting Surtax as proposed for the October 1, 1968 - March 7, 1969 period would not have had the effect of increasing applicants' then existing level of rates, but nonetheless it would result in a higher level of earnings. The results of operation on a basis adjusted for ratefixing as submitted by applicants for 1968 yielded rates of return as follows:

	With Company Proposal For Offset of Surtax <u>Oct. 1 - Dec. 31</u>	With Full Flow Thru of Permian <u>Reduction</u>
Pacific Lighting Service and Supply Co.	6.94%	6.94%
Southern California Gas Company	6.76%	6.68%
Southern Counties Gas Company	<u>6.73%</u>	<u>6.67%</u>
System	6.77%	6.71%

The results under "Full Flow Thru" indicate earning positions within the zone of reasonableness. This is not a narrow zone and a more precise determination might disclose a minor deficiency in earnings. But without specific rates of return found reasonable for applicants which apply, there is not a proper basis for such refinements.

The tariff provisions provide for review and disposition by the Commission of possible offsetting cost increases at the time gas cost reductions occur. In arriving at our disposition of applicants' request, we observe that these provisions do not lessen the need for a showing adequate to justify rate relief prospectively and are not to be turned into a device to justify rate relief in a past period by a belated determination of a reasonable rate of return. In the circumstances applicants should be treated similarly to other utilities seeking rate relief with reference to Surtax.

In fairness it should be observed that applicants' cost of gas supplies increased substantially on March 7, 1969 (El Paso increase - FPC Docket No. RP69-6) while the increased rates for gas service rendered by SoCal and SoCounties, which reflect both that increase and surtax, did not become effective until March 20, 1969. Also, there is little room for doubt that the added gas costs amounting to about \$640,000<sup>5/</sup>, or nearly \$50,000 per day, should be considered for offset; such higher level of gas costs caused applicants to apply for rate increases which have been authorized for SoCal and SoCounties.

The tariff provisions under consideration can be applied, if we so authorize, to utilizing a portion of the Permian gas cost reductions to offset the El Paso increase during the indicated 13-day gap. A fair judgement, and one compatible with the tariff provisions and with our not objecting to applicants' earlier proposal concerning the disposition of rate reductions which had emanated from settlement of FPC Docket Nos. RP67-8 and RP67-9, is that such offset is warranted.

The remainder of the Permian gas cost reductions through March 19, 1969, exclusive of related cost reductions in California-source gas, approximate \$1,900,000 and should be refunded to customers served by SoCal and SoCounties. In our treatment the Permian reductions are accumulable for the March 7, 1969 - March 19, 1969 period because the rates for gas service of SoCal and SoCounties then in effect did not reflect the flow through of such reductions.

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5/ Demand Component Increase:

(13) (1,395.9 M<sup>2</sup>cf) (\$3.171/Mcf - \$2.055/Mcf) = M\$653  
 (31)

Commodity Component Decrease:

(13 days) (1,395.9 M<sup>2</sup>cf) (\$0.0005/Mcf) = M\$9

Total M\$ 644

Findings

1. Applicants' tariffs provide for rate reductions in the event certain reductions in gas costs to applicants occur. They further provide for disposition by the Commission of possible offsetting increases in cost of gas and increases in tax based on income. The reductions in gas costs to applicants emanating from the Permian Area Rate Case (FPC Docket No. AR61-1) are subject to such tariff provisions.

2. For the period between October 1, 1968 and March 7, 1969, applicants propose to utilize a portion of Permian gas cost reductions to offset the increased revenue requirement occasioned by Surtax.

3. Applicants' earning positions with full flow through of Permian reductions are within the zone of reasonableness for that period, since they produce a 6.71 percent rate of return under 1968 System operational results adjusted for rate fixing. In providing for offsets subject to our approval, the tariffs are not intended to lead to a belated determination of a reasonable rate of return for application to a past period. Otherwise, a departure from fixing rates prospectively would result.

4. Insufficient justification and the equitable and consistent treatment of utilities under our jurisdiction require us not to allow the requested offset.

5. During the period March 7, 1969 through March 19, 1969, the rates for gas service of SoCal and SoCounties did not reflect the El Paso rate increase (FPC Docket No. RP69-6). The increase in cost of gas supplies purchased from El Paso Natural Gas Company during that period amounted to approximately \$640,000. A reasonable judgement is that applicants' earning positions obviously became deficient under the sum of the effects of Surtax and El Paso increase.

6. Retention by applicants of a portion of the Permian gas cost reductions applicable to the period October 1, 1968 through March 19, 1969, inclusive, to offset said increase in gas costs for the period March 7, 1969 through March 19, 1969 is consonant with the tariff provisions for contingent rate reductions and would not conflict with treatment accorded other utilities. In the circumstances such retention would be fair and proper and is warranted.

7. The remainder of the Permian gas cost reductions for the period October 1, 1968 through March 19, 1969, inclusive, amounting to approximately \$1,900,000 should be refunded to customers served by SoCal and SoCounties with interest, which is to be applied at the rate of seven percent per annum.

#### Conclusion

Based upon the foregoing findings the Commission concludes that the request of applicants to utilize Permian gas cost reductions to offset partially Surtax prior to March 7, 1969 should be denied; that applicants should be authorized to apply a portion of such



reductions to offset the increased cost of gas supplies purchased from El Paso Natural Gas Company within the period March 7, 1969 through March 19, 1969; and that the remainder of the Permian gas reductions applicable to the October 1, 1968 through March 19, 1969, inclusive, period should be refunded to customers.

O R D E R

IT IS ORDERED that:

1. Applicants' request to apply Permian gas cost reductions to offset Surtax prior to March 7, 1969 is denied.
2. Applicants are authorized to retain the portion of Permian gas cost reductions, which have accumulated through March 19, 1969, necessary to offset the increase in cost of gas supplies purchased from El Paso Natural Gas Company within the period March 7, 1969 - March 19, 1969, resulting from the rate increase in FPC Docket No. RP69-6.
3. Within thirty days after the effective date of this order, applicants shall file with the Commission:
  - (a) Statement developing by months and suppliers the Permian Area gas cost reductions applicable to applicants' gas purchases during the period October 1, 1968 through March 19, 1969.
  - (b) Statement developing increase in cost of gas supplies purchased from El Paso Natural Gas Company within the period March 7, 1969 - March 19, 1969 as result of El Paso rate increase (RP69-6).

- (c) Proposed plan for refunding to customers the gas cost reductions of paragraph 3 (a) of this order remaining after offsetting increase in gas costs as authorized in paragraph 2 of this order. Refunds shall include interest computed at the rate of seven percent per annum.

4. Applicants shall place in a reserve the refund amount resulting under paragraph 3 (c) of this order, with interest continuing at the rate of seven percent per annum, for distribution to customers as the Commission may subsequently direct.

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

Dated at San Francisco, California, this 17th day of JUNE, 1969.

William Symons Jr.  
President  
Augustin  
Stella Morosini  
(F. J. Martin)  
John A. ...  
Commissioners

APPENDIX A

LIST OF APPEARANCES

FOR APPLICANT

K. R. Edsall and Harvey L. Goth.

FOR PROTESTANT

Roy M. Rick, appearing on his own behalf.

FOR INTERESTED PARTIES

Rollin E. Woodbury, Harry W. Sturges, Jr., William E. Marx, by Rollin E. Woodbury, for Southern California Edison Company; Stanley Jewell, and Chickering & Gregory, by Sherman Chickering, C. Hayden Ames and Donald J. Richardson, Jr., for San Diego Gas & Electric Company; C. H. McCrea, for Southwest Gas Corporation; Brobeck, Phleger & Harrison by Robert N. Lowry and Gordon E. Davis, for California Manufacturers Association; Robert E. Burt, for California Manufacturers Association; Roger Arnebergh by Charles E. Mattson, Deputy City Attorney, for City of Los Angeles; Robert W. Russell, for Department of Public Utilities and Transportation, City of Los Angeles; Louis Possner, for Bureau of Franchises and Public Utilities, City of Long Beach; Leonard L. Bendinger, Roy A. Wehe and Edward C. Wright, for Municipal Gas Department, City of Long Beach; Alfred H. Driscoll, John O. Russell and Lloyd B. Adams, for Los Angeles Department of Water and Power; W. L. Knecht and Ralph Hubbard, for California Farm Bureau Federation; Lt. Col. Jack C. Dixon, U.S. Air Force HQ AF Contract Management Division, for Department of Defense and all other agencies of Federal Government; Henry F. Lippitt, II, for California Gas Producers Association; Edward T. Butler, City Attorney, and John W. Witt, Chief Deputy City Attorney, for City of San Diego; Leonard Putnam, City Attorney, Harold A. Lingle, Deputy City Attorney, and Robert W. Parkin, Deputy City Attorney, for City of Long Beach; John A. Van Ryn, City Attorney, for City of Santa Maria.

FOR THE COMMISSION STAFF

Sergius M. Boikan, Counsel, and Park Boneysteele.