SW /NB

ORIGINAL

Decision No. 77581

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of

SAN DIEGO GAS & ELECTRIC COMPANY for authority: (a) to increase its natural gas rates to offset higher gas costs occasioned by gas rate increases or proposed increases by its supplier authorized by or pending before this Commission; and (b) to include in its gas tariff schedules a limited rate adjustment provision to offset future changes in purchased gas costs by instituting an Advice Letter Procedure for tracking such changes in Southern Counties Gas Company's Wholesale Service Schedule No. G-60 as are approved by this Commission.

Application No. 51674

(Filed February 3, 1970)

Chickering & Gregory, by Sherman Chickering, C. Hayden Ames and Donald J. Richardson, Jr.; and Stanley Jewell and T. M. Sagar, for applicant.
Mrs. Wm. Courval, Mrs. Robert J. Dashiell, Mrs. Barbara K. Bierle, and Harry C. Steinmetz, in propria personae, protestants.
John W. Witt, Kenneth H. Lounsbery and Curtis M. Fitzpatrick, for San Diego City Attorney's Office; John Ormasa and W. H. Owens, for Southern Counties Gas Company of California; Brobeck, Phleger & Harrison, by Gordon E. Davis and Robert N. Lowry, for California Manufacturers Association; Caryl C. Carson, for 7-Oaks Homeowners Association, Rancho Bernardo; Abe Kalatsky, for Del Mar Hills-Del Mar Terrace; and C. P. Burman, in propria persona, interested parties.
Leonard L. Snaider, Counsel, Donald B. Steger and John J. Gibbons, for the Commission staff.

O P I N I O N

San Diego Gas & Electric Company seeks authority to increase its rates for gas service by an estimated amount of $6,986,400, or 11.8 percent (Ex. 1), according to its estimates of revenue requirements for the test year 1970, to offset the increased cost of gas purchased from its supplier, Southern Counties Gas Company of California. Commission staff engineers estimated such requirement to be $7,286,000, or also 11.8 percent (Ex. 7) over the staff estimate of revenues which would be produced by the present rates. The company also seeks provisions in the Preliminary Statement of its tariffs for "tracking" (flow through) of any further increases granted Southern Counties which, together with Southern California Gas Company, as part of the Pacific Lighting group, has a rate increase application, decision on which is pending.

Public hearings were held before Examiner Warner on March 2, April 13, June 15, 16 and 17 in San Diego, and Oral Argument June 24, 1970, in Los Angeles. The matter was submitted on the last-named date upon the withdrawal by applicant of its request to file briefs.

At the outset, staff counsel argued that the application constituted a request for a general increase because the proposed rates would raise the resultant rate of return on the company-estimated rate base for the test year 1970 to 7.16 percent (staff estimate 9.36 percent), according to their estimates of revenues and expenses related to the rate bases for the test year 1970, as set forth in Exhibits 1 and 7, respectively.

Although notices of the April 13 hearing were sent to all gas customers (approximately 360,000), only seven appeared as public witnesses, of whom one supported the application and the others protested. The main protests dealt with the inflationary aspects of any utility price increase and three customers objected to the use of advertising to urge customers to buy more gas.

Because the company utilized major operating expenses, including wage increases, maintenance expenses and regulatory expenses and included in its estimated rate base for the test year 1970 the total plant investment for Liquid Natural Gas Plant No. 2 on a full-year basis, when such expenses and plant costs would be in effect for only part of the test year period, it became quickly evident that the application was not for a simple offset and that a request for a general rate increase was involved.

The company presented 13 witnesses and the staff six witnesses. The record comprises 681 pages of transcript and 28 exhibits.

If the application were granted, the average annual increase would be about $11.15 per general service customer. The authorized increase will be about $8.60 per customer.

The following tabulation summarizes the earnings data contained in Exhibits 1 and 7:

Summary of Earnings

Item	Year 1970 Estimated			
	Present Rates		Proposed Rates	
	Per Co. Ex. 1	Per PUC Ex. 7	Per Co. Ex. 1	Per PUC Ex. 7
	(Dollars in Thousands)			
Operating Revenues	$59,117	$61,633	$66,103	$68,919
Operating Expenses	49,706	50,202	49,770	50,267
Depreciation	4,117	3,855	4,117	3,855
Taxes	1,958	2,901	5,558	6,603
Subtotal	55,781	56,958	59,445	60,725
Net Revenue	3,336	4,675	6,658	8,194
Rate Base	92,964	87,544	92,964	87,544
Rate of Return	3.59%	5.34%	7.16%	9.36%

The $2,500,000 difference in estimate of revenues at the present rates for the test year 1970 between the company and staff, and the $2,800,000 difference at the proposed rates, is caused by differences in the statistical period covered in the utilization of degree-day-deficiency weather bureau data: staff 30 years, applicant 10 years; staff consistent with past and current Pacific Gas & Electric and Pacific Lighting methods, but inconsistent with staff technique in the San Diego Gas & Electric Company's 1961 rate case -- company consistent with staff technique in 1961, but inconsistent with company's advocacy in 1961, and past and current other statewide gas utilities.

Chart 4-A of Exhibit 7 shows adjusted sales per domestic general service customer, sum of 12 monthly figures for the years 1965 through 1970. The staff estimated 81.3 Mcf sales per domestic customer for the test year 1970 based on a 5-year least square trend. The company estimate was 75.3 Mcf per customer, approximately the mid-point between the company 5-year least square trend and a 12-year least square trend. Exhibit 18 contains a summary of gas purchases and contract demand for the calendar years 1962 through 1969, recorded, and for the test year 1970, estimated by the company and the staff.

The company estimated advertising and sales promotion expense to be $532,900, or a 36 percent increase over 1969 recorded. The staff estimate was $384,400 based on a historical trend.

The company estimated the amortized cost of the current and other rate proceedings to be $82,000 annual amount for the test year 1970. The staff utilized a 5-year amortization period and a lower estimated normal amount resulting in an annual difference of $42,500.

The company advocated the inclusion of a wage increase, which became effective March 1, 1970, on an annual basis in the estimated amount of 6-1/2 percent. The staff included wage increases for their actual 10-month effective period of 7-1/2 percent.

The company included the $7,400,000 cost of the LNG Plant No. 2, to become operative July 15, 1970, in its estimated rate base for the test year 1970 on a full-year basis. The staff included the weighted average operative portion, or about $3,390,000, in its estimated rate base for the test year 1970.

The company estimated the life of the LNG Plant No. 2 to be 26 years for depreciation purposes. The staff placed a 35-year life on such plant.

The correction of some minor errors and the making of some minor adjustments to ad valorem tax on materials and supplies, fuel and construction work in progress and depreciation expense, investment tax credit and preferred stock dividend credit for income tax purposes was stipulated.

The Commission finds that:

1. The rate of return of 3.59 percent estimated to be produced by the present rates for the test year 1970, as shown in Exhibit 1, is deficient and applicant is in need of financial relief.

2. Estimates of average annual sales which are between the company estimates and the staff estimates are adopted for the purpose of this proceeding. The use of a 30-year period for temperature data as recommended by the staff and used by the other major California utilities is reasonable. On the other hand, the company's contention that the most recent temperature experience should be considered is meritorious. It would appear that the staff and utility could agree on a future method on a basis reasonably consistent with that used by other major utilities.

3. For rate-making purposes in this proceeding the full-year effect of LNG Plant No. 2 and wage increases will be included. In future proceedings test year revenue projections should be consistent with expenses and rate base levels. A rate base of $91,462,100 is adopted for this proceeding.

4. The staff estimate of advertising and sales promotion expenses of $384,400 is reasonable, and any improper use of advertising is unreasonable.

5. A range of 7.4 to 7.6 percent in rate of return for the future is reasonable, and a rate of return of 7.5 percent is reasonable for the test year 1970. Such rate of return on rate base will produce estimated yield on common equity of 10.75 percent.

6. All other staff estimates of summary of earnings components for the test year 1970, as shown in Exhibit 7, as corrected by stipulation, are reasonable.

7. Applicant purchases its gas supplies from Southern Counties Gas Company of California. The rates authorized in this proceeding include charges related to increases and decreases in cost of gas from Southern Counties whose rates include offset charges as a result of FPC Dockets Nos. RP 69-6, RP 69-20, RP 69-27, RP 70-11, and RP 70-19. To the extent that Southern Counties' rates are reduced or refunds paid in these dockets, applicant's charges will be reduced in relation to the reduction in cost of gas and refunds will be paid to various customer classes in proportion to the contingent offset charges applicable during the periods to which the refunds apply.

8. If Southern Counties further increases its rates as provided for in the above referred to FPC dockets or as authorized by this Commission in Applications Nos. 51567 and 51568, applicant will need additional revenues to offset the effect of the resulting increases in the cost of purchased gas. To make available to applicant timely rate relief in relation to these increases, authority is warranted for applicant's accomplishing by filings, under the Advice Letter procedure set forth in Decision No. 77100, in Application No. 51568, of rate increases to offset the effect of such increases filed by Southern Counties on or before December 31, 1970. The apportionment to each customer class of the balance of the tracking increases in FPC dockets referred to in Finding 7 is to be as set forth in Appendix A. Any increase in applicant's cost authorized by this Commission in Southern Counties' Applications Nos. 51567 and 51568 shall be apportioned to each customer class at the same percentage as the increase is to applicant's gross revenues.

9. The tariff changes proposed by applicant in Exhibit 1, Chapter 17, Paragraphs 5, 6, and 7 are proper, fair and reasonable.

10. The following tabulation summarizes the earnings data hereinbefore found to be reasonable at the rates authorized herein:

Adopted Summary of Earnings
for the
Test Year 1970[1]

Item	Amount (Dollars in Thousands)
Operating Revenues	$65,287.6
Operation Expenses	49,000.1
Depreciation	3,952.0
Taxes	5,475.7
Subtotal	58,427.8
Net Revenue	6,859.8
Rate Base	91,462.1
Rate of Return	7.5%

1 The adopted results and rates set forth hereinafter in Appendix A are based on Southern Counties' costs in effect on July 2, 1970.

We conclude, therefore, that this application should be granted in part and denied in part, and applicant should be authorized to file the schedules of rates which will produce the results of operation for the test year 1970 set forth in the preceding tabulation. The gross annual increase in revenues to be produced by the authorized rates will amount to $4,652,700, or 7.67 percent increase. This compares with the revised gross annual increase in revenues of $5,922,600 or 10.0 percent requested by applicant as shown in Exhibit 20.

We further conclude that applicant's Preliminary Statement of its tariffs should include provisions for "tracking", either upward or downward, costs of purchased gas.

ORDER

IT IS ORDERED that:

1. Application No. 51674 of San Diego Gas & Electric Company is granted in part and denied in part, and applicant is authorized to file, after the effective date of this order, revised contracts and tariff schedules with changes in rates, charges and conditions as set forth in Appendix A attached hereto. Said contracts and tariff schedules shall be effective four days after the date of filing and shall apply only to service rendered on and after said effective date. Such filing shall comply with General Order No. 96-A.

2.a. Applicant is also authorized to file with this Commission such revised tariff schedules with changes in rates, charges and conditions as result through applicant's following the Advice Letter procedure, referred to in Ordering Paragraph 2.c., to offset the effect of "tracking" increases of Southern Counties Gas Company in its Schedule G-60, up to 1.0694¢ per Mcf, as authorized in its Decision No. 77100, for the period July 2, 1970 to December 31, 1970.

b. Applicant is also authorized to file with this Commission, under the Advice Letter procedure, such revised tariff schedules with changes in rates, charges and conditions to offset the effect of Southern Counties Gas Company's Schedule G-60 rate increase filings for any increase authorized by the Commission in Phase II of Southern Counties Gas Company's Application No. 51568.

c. The Advice Letter procedure to be made available to applicant for this purpose must conform to the following requirements:

(1) Compliance with General Order No. 96-A except Section VI, Procedure in Filing Increased Rates.

(2) Advice Letter filings not to be made more frequently than at 15-day intervals.

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(3) Notice period for each Advice Letter filing not to be less than 15 days. (If any filing is technically defective, a new filing should be made and be subject to a new notice period of not less than 15 days.)

(4) Advice Letter filings to be served on all appearances in this proceeding except applicant and the Commission staff.

d. If applicant places revised tariff schedules in effect:

(1) Revised rates resulting from adjustments under the Advice Letter procedure referred to in Ordering Paragraph 2.c. are to become effective for service on and after the date the change in Southern Counties' rate becomes effective or 15 days after filing, whichever is later.

(2) Applicant's plan for determining refunds shall be consistent with its pertinent tariff provision authorized herein, shall be submitted to this Commission prior to making refunds, and specific Commission approval shall be obtained for the plan at that time.

(3) If rates are reduced under applicable Federal Power Commission Dockets, applicant shall file its proposed plan for rate reduction consistent with its pertinent tariff provision, for final determination and authorization by this Commission.

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

Dated at San Francisco, California, this 4th day of AUGUST, 1970.

J. P. Vukasin Jr.

Chairman

William Symons Jr.

Thomas Moran

I will file a dissent
Sturgeon

Commissioners

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.

RATES - SAN DIEGO GAS & ELECTRIC COMPANY
GAS DEPARTMENT

Applicant's rates, charges and conditions are changed to the level or extent as set forth in this appendix.

PRELIMINARY STATEMENT

Add to text of the present Preliminary Statement under "7. Contingent Refunds and Rate Reductions", the following:

Contingent Offset Charges Related to FPC Dockets
RP 69-6, RP 69-20, RP 69-27, RP 70-11, RP 70-19

The commodity rates include charges, as shown below, related to increases and decreases in cost of gas from Southern Counties Gas Company of California whose rates include offset charges as a result of FPC Dockets Nos. RP 69-6, RP 69-20, RP 69-27, RP 70-11 and RP 70-19. To the extent that Southern Counties Gas Company of California's rates are reduced as the result of the FPC, in these dockets, ordering reductions in rates for El Paso or Transwestern gas, the charges will be reduced in relation to the reduction in cost of gas.

The offset charges[1] and related FPC dockets are as follows:

FPC Docket	(a) G-1, G-2, G-3, G-4, G-11 ¢/Mcf	(b) G-40 ¢/Mcf	(c) G-50, G-51 ¢/Mcf	(d) G-54 ¢/Mcf	(e) Special Contracts 176 $/Light/Mo.	(f) Special Contracts 186 ¢/Mcf
RP 69-6	3.209	1.877	1.213	1.068	.06	3.209
RP 69-20	1.563	.911	.590	.520	.03	1.563
RP 69-27	1.400	.822	.529	.466	.02	1.400
RP 70-11	3.190	1.866	1.204	1.061	.06	3.190
RP 70-19	3.229	1.887	1.220	1.074	.06	3.229
Potential Incr.[2]	1.784	1.044	.674	.593	.03	1.784

1 Based on change in cost of gas purchased from Southern Counties Gas Company of California reflecting El Paso or Transwestern increases effective as of July 2, 1970. Unit changes in rates are as follows: For each $.10 per Mcf of Contract Daily Maximum Demand ($269,400 revenue effect); (a) 0.495¢/Mcf, (b) 0.289¢/Mcf, (c) 0.186¢/Mcf, (d) 0.165¢/Mcf, (e) $.0087/Light/Month, (f) 0.495¢/Mcf.

For each .10¢/Mcf of Monthly Delivery ($90,700 revenue effect): (a) 0.167¢/Mcf, (b) 0.097¢/Mcf, (c) 0.063¢/Mcf, (d) 0.055¢/Mcf, (e) $.0029/Light/Month, (f) 0.167¢/Mcf.

2 Company shall file contingent offset amounts as changes in rates for tracking increases are made for each .10¢/Mcf change in the Southern Counties Gas Company of California rate. For the full effect of the maximum potential increase of 1.0694¢/Mcf, the authorized offset changes are as shown. The change for .10¢/Mcf would be (a) 0.167¢/Mcf, (b) 0.097¢/Mcf, (c) 0.063¢/Mcf, (d) 0.055¢/Mcf, (e) $.0029/Light/Month and (f) 0.167¢/Mcf.

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PRELIMINARY STATEMENT--Contd.

Refunds of Charges Related to Contingent Offset Charges of Southern Counties Related to FPC Dockets Nos. RP 69-6, RP 69-20, RP 69-27, RP 70-11 and RP 70-19

Refunds received from Southern Counties Gas Company of California as related to FPC Dockets Nos. RP 69-6, RP 69-20, RP 69-27, RP 70-11 and RP 70-19 will be made to various customer classes in proportion to the contingent offset charges applicable during the periods to which the refunds apply.

CHANGES TO RULES AND CONDITIONS

Schedules G-1, G-11, G-40, G-50, G-90, G-91

Delete reference to Rules.

Schedule GL-1

Delete Special Condition 6.

Schedules G-1, G-2, G-3, G-4

Delete the special condition.

Schedules G-50, G-51

Replace the second sentence of Special Condition 7 with the following:

"The Company will not renew or increase the size of its transmission or distribution facilities for the purpose of furnishing or maintaining capacity necessary to supply service under this schedule, except in accordance with the gas main extension rule."

GENERAL NATURAL GAS SERVICE (Schedules G-1 to G-4)

	Per Meter Per Month			
	Schedule No.			
Commodity Charge	G-1	G-2	G-3	G-4 Rate (A)
First 200 cu.ft. or less	$1.50202	$1.55202	$1.65202	$1.75202
Next 2,800 cu.ft., per 100 cu.ft.	.12901	.13401	.13901	.14401
Next 7,000 cu.ft., per 100 cu.ft.	.10301	.10501	.10701	.11001
Next 10,000 cu.ft., per 100 cu.ft.	.08801	.08801	.08801	.08801
Over 20,000 cu.ft., per 100 cu.ft.	.08201	.08201	.08201	.08201

Commodity Charge	G-4 Rate (B)
First 200 cu.ft. or less	$1.75202
Next 2,800 cu.ft., per 100 cu.ft.	.14401
Over 3,000 cu.ft., per 100 cu.ft.	.11001

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SPACE HEATING NATURAL GAS SERVICE (Schedule G-11)

Commodity Charge	Per Meter Per Month
First 400 cu.ft. or less	
Winter Months, December - May	$3.02404
Summer Months, June - November, per 100 cu.ft.	.15101
Next 2,600 cu.ft., per 100 cu.ft.	.15101
Next 7,000 cu.ft., per 100 cu.ft.	.12601
Next 10,000 cu.ft., per 100 cu.ft.	.10301
Over 20,000 cu.ft., per 100 cu.ft.	.09501

Minimum Charge:

$3.02 per meter per month - Winter Months, December - May.
No minimum - Summer Months, June - November.

FIRM INDUSTRIAL NATURAL GAS SERVICE (Schedule G-40)

Commodity Charge	Per Meter Per Month
First 150 Mcf or less	$125.645
Next 150 Mcf, per Mcf	.7143
Next 700 Mcf, per Mcf	.6943
Over 1,000 Mcf, per Mcf	.6643
Minimum Charge	$125.65

INTERRUPTIBLE NATURAL GAS SERVICE (Schedule G-50)

Commodity Charge (To be added to Service Charge)	Per Meter Per Month
First 200 Mcf, per Mcf	$.5536
Next 500 Mcf, per Mcf	.4996
Next 2,300 Mcf, per Mcf	.4696
Next 3,000 Mcf, per Mcf	.4506
Next 4,000 Mcf, per Mcf	.4346
Over 10,000 Mcf, per Mcf	.4126

Minimum Charge:

For billing months March through November	$78.00
For billing months December through February	None

For the purpose of computing charges, the months named in the rates above are the regular monthly meter reading periods ending in each named month. Minimum charge to be paid monthly and to be made cumulative for the nine minimum charge months of the contract year when the total charges for those nine months exceed $702 per meter. No credit against minimum charges shall accrue during the billing months of December, January and February in the contract year.

RATES - SAN DIEGO GAS & ELECTRIC COMPANY
GAS DEPARTMENT

INTERRUPTIBLE NATURAL GAS SERVICE (Schedule G-51)

Commodity Charge (To be added to Service Charge)	Per Meter Per Month
First 200 Mcf, per Mcf	$ .5286
Next 500 Mcf, per Mcf	.4846
Next 2,300 Mcf, per Mcf	.4476
Next 7,000 Mcf, per Mcf	.4286
Over 10,000 Mcf, per Mcf	.4076

Minimum Charge:

For billing months March through November	$1,884.00
For billing months December through February	None

For the purpose of computing charges, the months named in the rates above are the regular monthly meter reading periods ending in each named month. Minimum charge to be paid monthly and to be made cumulative for the nine minimum charge months of the contract year when the total charges for those nine months exceed $16,956 per meter. No credit against minimum charges shall accrue during the billing months of December, January and February in the contract year.

INTERRUPTIBLE SERVICE TO UTILITY ELECTRIC GENERATING STATIONS (Schedule G-54)

	$/Mcf		
		Effective Rates	
Commodity Charge	Base Rate	Winter	Summer
Per Mcf per month	0.3980	0.3980	-
First 10 Mcf per month, per Mcf of contract volumetric rate	-	-	0.4240
Next 10 Mcf per month, per Mcf of contract volumetric rate	-	-	0.3940
Next 10 Mcf per month, per Mcf of contract volumetric rate	-	-	0.3640
Excess, per Mcf per month	-	-	0.3890

SPECIAL CONTRACT 176

The monthly charge for each of the 116 unmetered gas lamps is $5.15.

SPECIAL CONTRACT 186

The commodity charge for natural gas service is $0.6461 per Mcf.

A. W. GATOV, COMMISSIONER, Dissenting:

I dissent.

The majority did not issue a reasoned, quality decision. I agree with the Hearing Examiner who heard the case (but did not endorse the decision) that the decision is not supported by the record. Though the adopted rate base is less than proposed by the applicant and more than that recommended by the Commission staff, the majority's decision is totally devoid of any explanation of how it determined it.

As to the adopted rate of return, it is less than applied for and less than that recommended by the Commission staff. The decision, nevertheless, contains not the slightest clue as to how the majority determined that a rate of return of 7.5 percent is reasonable.

The public and this applicant are entitled to know the logic used by the Commission in its decision making.

Commissioner

Dated at San Francisco, California,
August 4, 1970.