

Decision No. 80431

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
SOUTHERN CALIFORNIA GAS COMPANY for)
Authority to Include in Its Tariff)
Schedules a Provision to Relate)
Charges for Firm General Service to)
Deviations of Recorded Temperatures)
from Average Temperatures)

Application No. 52445
(Filed February 11, 1971)

(List of Appearances in Appendix A)

O P I N I O N

By the above-entitled application, Southern California Gas Company (SoCal) seeks authority to incorporate into its tariffs a procedure under which its monthly billings for natural gas service to its firm general service customers, except those on Schedule G-10, would be adjusted to reflect deviations from average temperatures. The procedure is intended to reduce substantially the swings in its net revenues attributable to departures from an average temperature year.

As background to these swings in net revenues, the Commission in a gas utility rate proceeding establishes revenue requirements on the basis of a test year, giving consideration to long-term average degree days in estimating the utility's firm gas sales volumes. The test year revenue requirement or total cost of service, including net revenue consistent with the allowed rate of return, provides the revenue level which rates in the aggregate are designed to yield assuming the average temperature conditions used in the test period.

However, the types of temperature years which may actually be experienced can range from cold to hot, being typically categorized as cold, cool, average, warm or hot. When the quantities of gas sold for firm space heating requirements declines because of warmer than average weather, much of this gas is available to meet a greater proportion of the requirements of SoCal's interruptible customers. This substitution of interruptible sales for firm general service sales results in a loss of revenue and a decline in rate of return to SoCal because the price of a unit of gas sold is substantially higher for firm general service than for interruptible service. The opposite effect occurs when firm space heating requirements are higher than average, i.e., revenues and rate of return increase. Applicant then buys, if required, a limited additional amount of gas at premium prices and increases the curtailment of gas supplies to interruptible customers to meet the increased firm general service requirements.

Put a little differently, firm general service rates have been designed historically so as to recover a substantial portion of fixed costs through commodity block charges. When temperature conditions are not average and temperature sensitive sales, such as space heating, therefore vary from normal, the fixed costs recovered and the total revenues produced do not correspond to those for which the rates were designed. In warmer than average years, space heating requirements are less and the fixed cost recovered through commodity block rates are too low. Conversely, in colder than average years, space heating requirements and usage are greater and the commodity block rates therefore recover more than that designed for fixed and variable costs. From a more controversial point of view, but a pertinent one, there could also very well be to some extent an undercollection of fixed costs from interruptible customers in a warm year and an overcollection of fixed costs from such customers in a cold year.

Under SoCal's proposed rates in Application No. 52696 (infra), based on an 8.5 percent rate of return and exclusive of the proposed temperature-related charge or credit, rate of return could vary from 6.99 percent in a hot year to 9.97 percent in a cold year, or by almost 3 percent. In 12 out of the last 15 years, the weather has been warmer than average.

An initial series of public hearings in this matter was held before Examiner Main on July 13, 14 and 15, 1971, in Los Angeles. Prior to hearing, the Commission received over 800 protest letters, and the first two days of hearing were primarily devoted to public witnesses who opposed the proposal. As indicated by the protest letters and the testimony of public witnesses at these hearings there was widespread misunderstanding of the SoCal proposal. Contrary to the interpretation of some customers, meters would continue to be read under this rate proposal and billings would continue to be based on usage. The main thrust of the proposal is to dampen billing variations between years and not between summer and winter as certain customers erroneously understood. Clearly, the proposed tariff is somewhat complex and involves concepts which may be difficult for the public to assess properly.

In this series of hearings applicant presented its case through four witnesses and the Commission's staff presented its opposing case through one witness. Further evidence was adduced on this matter after consolidation of this application for further hearing with Application No. 52696. Hearings on Application No. 52696 and further hearings on Application No. 52445 began on October 27, 1971, and continued over a period extending through February 23, 1972, during which a total of 31 days of public hearings

were held in Los Angeles before Commissioner Sturgeon and Examiner Main. Opening briefs were filed on April 5, 1972, and reply briefs were filed on April 20, 1972. Application No. 52445 stands submitted for decision as of the latter date.

The evidence establishes and the Commission finds as follows:

1. Rates are designed on basis of the revenue requirement in a test year assuming average temperature conditions.
2. All other things being equal, fixed costs are undercollected in a warmer than average year and overcollected in a cooler than average year.
3. In the long run the undercollections and overcollections tend to offset each other, but in the short run either type of year may predominate causing the imbalance.
4. A desired characteristic for investment in equity securities of a public utility is assured dividend income and stability of earnings.
5. In the last 15 years, 12 years have been warmer than normal. During that span of years all regular dividends have been paid and an extraordinary dividend was paid in 1969 in order to decrease the equity ratio of SoCal's capital structure. In most of those years, however, earnings were below the allowed rate of return.
6. SoCal's basic proposal consists of adjusting each customer's monthly bill, within the billing cycle, for firm general service by the same amount. The amount is determined by the degree day deviation from average applicable to the billing cycle. In the aggregate, i.e., the number of customers times the amount, it represents approximately 90 percent of the revenue deficiency or excess, as the case may be, in relation to the revenue which would

be expected under normal or average temperature conditions during the billing cycle. Specifically, the tariff provision proposed is: "The total charge shall be increased or decreased by 1.2 cents for each degree day by which the degree days developed for the billing period are less or more, respectively, than the average days in an average year for that period as specified in Rule No. 2(n)."

7. Among the questionable aspects of SoCal's proposal are the following points:

(a) Systemwide average temperature based on readings at eight weather stations is applied to individual geographical areas which may deviate markedly from the systemwide average temperature.

(b) No distinction is drawn between temperature-sensitive and nontemperature-sensitive loads.

(c) Only firm general service is affected.

(d) The validity of data for making adjustments from the extremes of a cold year or of a hot year to an average year may be questionable.

(e) Another variable is introduced into the computation of billings and may result in inequities which would not otherwise occur.

8. Other alternatives evaluated on this record include:

(1) an increase in the initial block charge with compensating reductions in commodity block rates; (2) a temperature-related charge or credit applicable on a volumetric basis; and (3) a temperature-related charge or credit applicable on a percentage basis.

9. SoCal's basic proposal or the alternates, if adopted, would serve to reduce the swings in earnings which applicant experiences as between cold and hot years.

However, we are not convinced that a sufficiently equitable and appropriate method of stabilizing earnings has been advanced on this record to warrant its adoption. In the circumstances the Commission concludes that the course to follow, as we have done in our concurrent decision in Application No. 52696, is to adjust upward the initial block charge by a larger percentage than other block rates and to continue to allow a rate of return for the Pacific Lighting utility system which encompasses its needs and strikes a desired balance of the interests of the ratepayer and the investor. Application No. 52445 will be denied.

O R D E R

IT IS ORDERED that the application of Southern California Gas Company, for authority to establish charges related to temperature deviations for firm general service, be and it is denied.


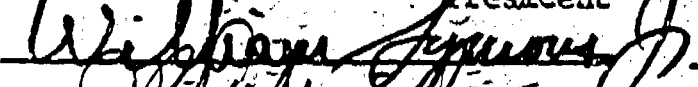

All motions consistent with the findings and conclusion set forth above in this decision are granted and those inconsistent therewith are denied.

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

Dated at San Francisco, California, this 29th day of AUGUST, 1972.

I abstain:

 Commissioner

 President



Commissioners

APPENDIX A

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List of Appearances

Rufus W. McKinney, Frederick A. Peasley,
K. R. Edsall, and Jack D. Janofsky,
Attorneys at Law, for applicant.
Chickering & Gregory, by Sherman Chickering,
C. Hayden Ames, Donald J. Richardson, Jr.,
and Edward P. Nelsen, Attorneys at Law,
for San Diego Gas & Electric Company;
Roger Arnebergh, City Attorney, by Charles
E. Mattson, Deputy City Attorney, for City
of Los Angeles; Rollin E. Woodbury, Harry
W. Sturges, Jr., William E. Marx, William
Seaman, James Trecarten, Dennis Monge and
Robert J. Cahall, Attorneys at Law, and
C. L. Hunter, for Southern California
Edison Company; William L. Knecht and
R. O. Hubbard, Attorneys at Law, for
California Farm Bureau Federation; L. L.
Bendinger, General Manager, by Edward C.
Wright, Leonard Putnam, City Attorney, by
Harold A. Lingle, Deputy City Attorney, for
City of Long Beach Gas Department; Louis
Possner, for the City of Long Beach; Roy
A. Wehe, for the City of Long Beach and
Imperial Irrigation District; Robert W.
Russell and Manuel Kroman, for Department
of Public Utilities & Transportation, City
of Los Angeles; Arthur T. Devine, Deputy
City Attorney, and John O. Russell, City of
Los Angeles Department of Water & Power;

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(List of Appearances Continued)

Thomas G. Burns, Sr. and Edward Hall, for Utility Workers Union of America AFL-CIO, Local 132; Alex Googooian, City Attorney, for City of Bellflower; Robert F. Smith, Walter C. Leist, and P. M. Ahlstrand, for Union Carbide, Linde Division; Renn C. Fowler and Maurice J. Street, Attorneys at Law, for Office of General Counsel, General Services Administration, Washington, D.C.; Hugh M. Flanagan, Attorney at Law, for California Portland Cement Company; Alan Watts, Attorney at Law, for City of Anaheim; O'Melveny & Myers by Patrick A. Randolph and Donn B. Miller, for Cities of Burbank, Glendale and Pasadena; Kenton L. Parker, for City of Glendale, Public Service Department; Lynn McArthur, for City of Burbank, Public Service Department; Brobeck, Phleger & Harrison, by Gordon E. Davis, Attorney at Law, for California Manufacturers Association; Curtis M. Fitzpatrick, Chief Deputy City Attorney, for City of San Diego; J. A. Witt, City Attorney, by William H. Kronberger, Jr., Attorney at Law, for City of San Diego; Wendell R. Thompson, City Attorney, for Department of Water & Power, City of Pasadena, interested parties.
Elinore C. Morgan and Leonard L. Snalder, Attorneys at Law, and Melvin Mezek, for the Commission staff.