

ORIGINAL

Decision No. 81050

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 caused by an increase
in the rates of its supplier,
El Paso Natural Gas Company.

Application No. 53624
(Filed October 6, 1972)

(List of Appearances in Appendix A)

O P I N I O N

Southern California Gas Company (SoCal) seeks authority to increase its gas rates by \$3,008,000 to offset higher costs which would result from an anticipated 0.45 cents per Mcf increase in the rates of its out-of-state supplier, El Paso Natural Gas Company (El Paso).

SoCal states that: On June 30, 1972, El Paso filed with the Federal Power Commission (FPC), in FPC Docket No. RP72-150, proposed changes in its FPC Gas Tariff which would increase its basic commodity rates by 0.45 cents per Mcf for service to its Southern Division customers, including SoCal; the FPC, pursuant to applicable provisions of the Natural Gas Act, has suspended the effective date of El Paso's proposed increases until January 1, 1973, and on that date El Paso has the right to increase its rates, subject to refund, above the then effective level by 0.45 cents per Mcf; increased costs for El Paso gas cause an increase in the cost of California source gas purchased by SoCal's affiliate, Pacific Lighting Service Company (PLS) under long-term border price^{1/}

^{1/} Prices paid are related to the average price paid by SoCal and PLS for out-of-state gas received at the California border.

contracts and the increases are passed on to SoCal in accordance with PLS's cost of service tariff.

SoCal proposes that any rate reduction resulting from final just and reasonable rates determined by the FPC or the courts will be spread to its customer classes in proportion to the amount that rates for each class are increased in this proceeding and that any refunds relating to such reduction would follow the contingent offset charge provision contained in its tariffs.

SoCal contends that: it is reasonable to utilize test year 1972 to develop the required revenue increase to offset El Paso's increased cost of gas; the rate increase would equal its increased costs and would not change its present 7.98 percent rate of return which is under the authorized 8.0 percent found just and reasonable on August 29, 1972, and that its rate of return would drop to 7.79 percent if the increase was not granted; while El Paso's filing in Docket RP72-150 is a general increase for it rather than an increase in producer gas costs its impact and form is the same as a tracking increase as far as SoCal and its customers are concerned and that its proposed rate increases should be and are consistent with the Commission's discussion related to tracking increases.

The proposed \$3,008,000 rate increase is predicated upon the Summary of Revenue Changes Required by 0.1¢/Mcf Changes in Rates of Various Gas Suppliers, for Test Year 1972, contained in Appendix C of Decision No. 80430 dated August 29, 1972. This summary sets forth the basis for advice letter filings for spreading tracking-type increases to customer classes on a uniform cents per therm/thermal unit applicable to all rate schedules except Schedule No. G-30. Decision No. 80430 extended the authority for such tracking-type increases to and including December 31, 1973, based upon adopted total gas purchases of 1,000,805 M²cf and total sales of 979,086 M²cf for test year 1972.

SoCal requested that action with respect to its application be without hearing.

The Commission staff made an examination of the representations contained in the application and subsequently caused a Secretary's letter, dated November 8, 1972, to be sent out to the parties in prior proceedings involving the Southern California Gas Company. The letter stated that in view of the fact that the current filings are solely to offset the increased cost of purchased gas, the staff is considering recommending that the offset increase be authorized on an ex parte basis and requested comments or objections to this procedure.

Upon receipt of objections to this procedure from the cities of Los Angeles and San Diego, the staff notified the Commission of the objections and prepared for a hearing.

After due notice, hearings were held before Examiner Levander on December 7, 1972, and December 12, 1972. The matter was submitted on December 12, 1972, subject to the filing of a late-filed exhibit, which has been received.

The increased charges proposed by SoCal are equal to 0.029 cents per therm/thermal unit or equivalent, whichever is applicable, to the regular commodity rate in all rate schedules, except G-30. The charges for the first two thermal units, or less under Schedules G-1 to G-5, inclusive, and G-10 would be increased by 0.058 cents. SoCal further proposes that the increases related to wholesale service be additive to the changed rates filed pursuant to Advice Letters 857 and 859 rather than to the rates shown on page 3 of Exhibit B attached to the application and that decreases relating to all classes of service caused by reductions in Transwestern Pipeline Company's (Transwestern) charges in FPC Docket RP72-128 effective January 1, 1973, be netted against the El Paso increase.

We find that the offset reducing charges to SoCal's customers by \$86,000 per year related to the Transwestern offset in FPC Docket RP72-128 is in effect pursuant to SoCal's Advice Letter 860 filing and conclude that no further reduction in charges related to the Transwestern filing need be considered herein.

SoCal's witness testified that on November 28, 1972 El Paso filed a motion in FPC Docket No. RP72-150 revising the demand and commodity rates chargeable to SoCal but that the average rate under either of El Paso's proposed rates would be 0.45¢/Mcf higher, based on contract volumes, than the then existing rates. Curtailment of El Paso gas deliveries had begun and SoCal's in-house guess was that the 1972 test year El Paso deliveries of 638 or 639 billion cubic feet would drop to 596 billion cubic feet in 1973, a decline of approximately seven percent. SoCal estimated that at deliveries of 596 billion cubic feet its gas cost would be reduced by approximately \$3,000,000 by substituting El Paso's proposal of November 28, 1972 for its June 30, 1972 filing. SoCal anticipates reduced deliveries, to it, of California source gas. SoCal's witness said that the 1973 rate of return projected appears to be quite a bit lower than the allowed rate of return in the last decision.

We take official note of the FPC's letter order dated December 29, 1972 in RP72-150 and RP72-155 authorizing El Paso's rate proposal in RP72-150 dated November 28, 1972 and tendered for filing on November 30, 1972^{2/} to be placed in effect on January 1, 1973. These increased rates chargeable to SoCal are subject to hearing and refund. The average cost of El Paso gas

^{2/} Demand rate of \$1.505 per month per Mcf of daily contract demand and commodity rate 35.20¢/Mcf.

determined from the El Paso filing is 40.13¢/Mcf without curtailment. At a delivery level of 93 percent of the contracted supply the average cost increases to 40.51¢/Mcf. It would have been 41.01¢/Mcf at this level of curtailment based upon the June 30, 1972 filing.

The staff investigation in this matter was focused on determining whether or not the requested increase would result in an increase of applicant's rate of return above the authorized 8 percent level on the basis followed by applicant, on the basis of a recent period, and for estimated year 1973.

The staff testimony was that SoCal's rate of return for the 12 months ended September 1972 was below the level authorized both on a temperature adjusted basis, and on a temperature adjusted basis giving consideration to the incremental effect caused by rolling back for the full year ended September 1972 the rate increase granted in Decision No. 80430, the April 1972 wage and benefit increase, the addition of \$2,969,000, the estimated increase in SoCal's production expense related to the El Paso filing, California corporation franchise taxes at a 7.6 percent rate, federal income taxes at a 48 percent rate, and uncollectibles.

The staff stated that its rough estimate of the 1973 rate of return of 8.02 percent was optimistic (high) because it was based on the same growth in firm sales as had been in effect recently. This estimate anticipated a 10 percent drop in total sales primarily reflected as decreased steam electric sales. A reduction in production costs from the 1972 test year was based upon the ratio of 1973 sales to 1972 test year sales and utilized ratios of tax to taxable income in the computation of income taxes.

The staff's methodology used in reducing 1973 production costs understates these expenses where there is a reduction in deliveries below contract volumes from El Paso or Transwestern, whose demand charges are based on contract volumes. If SoCal's estimate of a 7 percent reduction in El Paso deliveries is correct, this understatement amounts to \$2.2 million. There is a lesser understatement of production expenses in using ratios of sales rather than purchases of gas.

The staff's methodology used in computing 1973 income taxes understates these taxes by \$3.8 million on the increment of pretaxable income between \$89,259,000 and \$72,715,000 using a 7.6 percent^{3/} state corporation franchise tax rate and a 48 percent federal income tax rate.

The effect of recalculating the staff's 1973 production expenses as described above and calculating the state corporation franchise tax at a 7.6 percent rate and federal income taxes at present rates would be to reduce the rate of return to less than 8 percent.

The staff supported the granting of the application, up to the amount of increase in El Paso's filing, (the entire 0.45 cent per Mcf increase is contained in the El Paso filing), because it was satisfied that SoCal's earnings would be within the limits authorized by the Commission and that the increases would restore applicant's earnings position to what it was had the changes in cost of gas not occurred.

^{3/} The Commission will review the earnings and rate of return effect on SoCal caused by the Property Tax Relief Act of 1972, Statutes 1972, Chap. 1406. SoCal's witness did not know the net effect of that then pending tax bill.

Southern California Edison Company's position was that it did not object to the procedure adopted by applicant except that it was inappropriate to apply demand costs to classes of customers with no demand rights.

Los Angeles interpreted the record to show that there would be no true cost of gas impact on SoCal in 1973. Los Angeles wanted an examination of the necessity of a 1973 increase to be justified by a 1973 study. Los Angeles criticized present offset and tracking procedures as not properly protecting the consumer and stated that the staff review was cursory, inadequate, and did not evaluate regulated utilities' financial requirements.

The city of San Diego's (San Diego) witness objected to certain rate-making adjustments in Decision No. 80430 including rolling back certain expenses for the full test year and exclusion of Pacific Gas and Electric Source Gas. That decision is no longer subject to appeal. San Diego's witness advocated use of a 1973 test year.

San Diego generally concurred with the position of Los Angeles. San Diego felt that the staff's estimate of 10 percent less gas was too high, that the staff did not make the rate-making adjustments reflected in Decision No. 80430, and that the staff's revenue estimates were too low and expenses were too high. San Diego requested that SoCal's authority to track increases in 1973 be cancelled and that should the Commission grant the increase it should at least withhold the increase until it was clear that the 12 months ending results were below eight percent on an adjusted basis.

Discussion

The main and interrelated issues posed in these proceedings are:

- A. Should the procedures set forth for tracking increases in Decision No. 80430 be reasonably utilized by the Commission in evaluating SoCal's offset rate request to recover the El Paso increase in FPC Docket No. RP72-150?
- B. Is it necessary to require SoCal to make a 1973 test year showing to justify its proposed increase? If so, is a comprehensive general rate increase presentation required or should the showing reflect anticipated adjustments, including adopted test year adjustments?
- C. Is the consumer adequately protected by staff review of tracking increase proposals and of the offset increase requested herein?
- D. Is a procedure necessary to insure that the additional revenue derived from the proposed offset increases does not exceed the increase in expenses to SoCal?

Evidence in this record, including the staff's 1973 test year modified per our prior discussion, shows that SoCal's proposed rates will not result in a rate of return level higher than that which was recently authorized. The increase would restore SoCal's earnings position to what it was had the changes in cost of gas not occurred if there was no curtailment of gas deliveries. With curtailment of El Paso deliveries the average cost of El Paso gas would increase and the relief sought would not fully compensate for the increase in purchased gas expenses. The full 0.45¢/Mcf El Paso increase in cost of gas has been in effect since January 1, 1973. The increase should be granted subject to refund.

Decision No. 80430 states in part:

"SoCal is now required to respond to basic gas cost increases by filing formal applications with this Commission for authority to offset such increases in its costs. One of the reasons for this is that before such basic gas cost increases can be put into effect by the out-of-state gas supplier a suspension period of up to six months is normally invoked. With respect to supplier tracking rate increases which become effective on short notice, this Commission has permitted applicant to be time-responsive to such increases by authorizing offset rate increase through the use of the Advice Letter Procedure."

The evidence in this record does not justify cancelling SoCal's tracking authority.

In view of the recent comprehensive review and testing of all aspects of SoCal's operations, the setting of rates for the future based on such review, another such showing for test year 1973 is unjustified. In this instance, under the circumstances and timing of this offset rate case, it is not necessary to require SoCal to make a 1973 test year showing reflecting anticipated adjustments including adopted test year adjustments.

The staff monitors and informs the Commission of the adjusted earnings level of SoCal on a continuing basis. The staff originally tested and did not take exception to applicant's proposal utilizing a tracking type approach and test year 1972. Upon receipt of objections to ex parte disposition of this application, the staff made additional studies testing the rate of return which would be realized if the increase was granted. We find that the approach taken by the staff, subject to the modifications previously discussed, was reasonable and adequate.

The magnitude of tracking increases which became effective under prior tracking authorization between the filing of the April 9, 1971 level of rates incorporated as present rates in Application No. 52696 and the effective date of the order in Decision No. 80430 was \$17,030,000 per year in sales revenues and \$55,000 in other operating revenues. The magnitude of the proposed offset is not disproportionate compared to the tracking increases previously authorized or sufficient to warrant a further review of rate relationships between the several classes of service provided by SoCal. We note in connection therewith that El Paso made the alternate filing to avoid the risk of a revenue loss and reserved the right to propose an alternate rate design. The increase of the uniform cents per therm proposed by SoCal is consistent with our discussion in Decision No. 80430 as related to tracking increases.

Any reduction in rates or refunds ordered in FPC Docket No. RP72-150 would be returned to SoCal's customers in proportion to the amount that rates for each class are increased as a result of our granting this application, in accordance with the contingent offset provision in SoCal's tariffs.

It is reasonable to adopt SoCal's offer to refund any excess of charges over increases in expenses arising out of the offset increase in FPC Docket No. RP72-150.

Findings

1. SoCal's current rates were authorized by Decision No. 80430 dated August 29, 1972 plus authorized adjustments to reflect tracking changes and contractual changes.

2. SoCal's rates were designed to offset increased costs resulting from El Paso's filing in FPC Docket No. RP72-150 with no curtailment of deliveries. This rate increase would not be fully compensatory for increased expenses related to the El Paso filing if El Paso curtails its deliveries to SoCal.

3. The rate of return at proposed rates on the basis calculated by SoCal is below the rate of return of 8.0 percent most recently found just and reasonable on August 29, 1972.

4. It is not necessary to require SoCal to make a 1973 test year showing.

5. SoCal's adjusted rate of return for the 12 months ending September 1972 was below the 8.0 percent authorized in Decision No. 80430.

6. The staff's methods used in testing SoCal's rate of return, which result in rates of return under 8.0 percent subject to the modifications as to gas cost and tax rates discussed in the opinion, are reasonable and adequate.

7. SoCal's estimates of additional gross revenue requirements of \$3,008,000 to offset the increase related to El Paso's January 1, 1973 increase is reasonable.

8. It is not appropriate to modify the rate relationships between the several classes of service provided by SoCal herein.

9. SoCal's proposal to increase the regular commodity rate in all rate schedules, except G-30, by 0.029 cents per therm or equivalent including an increase of 0.058 cents for the first two thermal units or less applicable to Schedules G-1 to G-5, inclusive, and G-10 is reasonable.

10. The El Paso increase of 0.45¢/Mcf, effective January 1, 1973, in FPC Docket No. RP72-150 is subject to possible rate reduction and refund and it is reasonable to authorize SoCal to file the offsetting increase proposed by it subject to rate reduction and refund to offset the effect of any rate reduction and refunds ordered in that docket.

11. Changes in cost for California source gas purchased by PLS are passed on to SoCal under PLS's cost of service tariff. Costs for California source gas purchased by PLS under long term border price contracts have increased as of February 1, 1973 in response to the El Paso increase in FPC Docket No. RP72-150. ✓

12. Any rate reduction and/or refund of California source gas charges to PLS resulting from rate reductions and refunds paid by El Paso to SoCal will be flowed through to SoCal's customers in accordance with the contingent offset provisions of SoCal's tariffs. ✓

13. The \$86,000 per year offset reducing charges to SoCal's customers relating to the Transwestern offset in FPC Docket No. RP72-128 is in effect pursuant to SoCal's Advice Letter 860 filing. ✓

14. The evidence in this record does not justify cancelling present procedures authorizing supplier tracking rate changes to be offset through use of the Advice Letter Procedure. ✓

15. The exemption provided for in Rule 23.1(E)(1)(c) of this Commission's Rules of Practice and Procedure applies to these rate increase applications.

16. It is reasonable to require SoCal to refund to its customers any excess of charges over increases in expenses arising out of the offset increase in FPC Docket No. RP72-150. ✓

Conclusions of Law

Based on the foregoing findings, the Commission concludes that:

1. The authority sought by SoCal should be granted to the extent, and under the conditions, set forth in the order which follows.

2. No further action in FPC Docket No. RP72-128 is required in the order which follows.

O R D E R

IT IS ORDERED that:

1. Applicant, Southern California Gas Company, is authorized to file with this Commission on or after the effective date of this order revised tariff schedules increasing the regular commodity rate in all rate schedules, except G-30, by 0.029 cents per therm or equivalent including an increase of 0.058 cents for the first two thermal units or less applicable to Schedules G-1 to G-5, inclusive, and G-10. Such filing should include in Section E.4.c. of the Preliminary Statement the 0.029 cents per therm or equivalent contingent offset charge in FPC Docket No. RP72-150. Such filings shall comply with General Order No. 96-A. The effective date of the revised schedules shall be one day after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date thereof.

2. Applicant, Southern California Gas Company, shall pass on to its customers by the Advice Letter procedure any reduced rates, and refund to its customers any refund from El Paso Natural Gas Company pursuant to order of the Federal Power Commission in Docket No. RP72-150.

3. Applicant, Southern California Gas Company, shall supply its calculations of increased revenues and increased expenses arising out of the rate increase authorized herein with its year ending

File No. 074 report. Any excess of charges over increases in expenses arising out of this offset increase in FPC Docket No. RP72-150 shall be accumulated and refunded on an annual basis.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 14th
day of FEBRUARY, 1973.

William L. Sturgeon
President
William S. Squire, Jr.
[Signature]
[Signature]
Commissioners

I abstain

J. P. [Signature], Commissioner

Appendix A

List of Appearances

Robert Salter, Attorney at Law, for applicant.
Rollin E. Woodbury, Robert J. Cahall and
Robert Barnes, Attorneys at Law, and James L.
Cope, Engineer, for Southern California
Edison Company; Chickering & Gregory, by
Sherman Chickering, C. Hayden Ames and Donald J.
Richardson, Jr., Attorneys at Law, and Gordon
Pearce, Vice President, Attorney at Law, for
San Diego Gas & Electric Company; William L.
Knecht, Attorney at Law, for California Farm
Bureau Federation; Roger Arnebergh, City Attorney,
by Charles E. Mattson, Deputy City Attorney,
Attorney at Law, for City of Los Angeles;
Robert W. Russell and Manuel Kroman, for Depart-
ment of Public Utilities and Transportation,
City of Los Angeles; A. T. Devine, Deputy City
Attorney, and John O. Russell, for Department
of Water and Power, City of Los Angeles;
Louis Possner; Edward C. Wright, General
Manager, Long Beach Gas Department; Leonard
Putnam, City Attorney, by Harold A. Lingle,
Deputy City Attorney; and Roy A. Wehe,
Consulting Engineer, for the City of Long
Beach; John Witt, City Attorney, and Robert
Logan, Deputy City Attorney, by Manley W.
Edwards, for the City of San Diego; and
Frank Miller, for the City of Burbank,
interested parties.
Timothy E. Treacy, Attorney at Law, and R. C.
Moeck, for the Commission staff.

(End of Appendix A)