

ORIGINAL

Decision No. 82042

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
SOUTHERN CALIFORNIA GAS COMPANY for
(a) A general Increase in Its Gas
Rates, and (b) For Authority to
Include a Purchased Gas Adjustment
Provision in Its Tariffs.

Application No. 53797
(Filed January 19, 1973)

In the Matter of the Application of
SOUTHERN CALIFORNIA GAS COMPANY for
authority to increase gas rates to
offset higher gas costs caused by an
increase in the price of natural gas
purchased from El Paso Natural Gas
Company; and a Motion for Consoli-
dation of this Application with
Pending General Rate Application
No. 53797.

Application No. 54065
(Filed May 29, 1973)

(List of Appearances in Appendix A)

OPINION IN APPLICATION NO. 54065

In Application No. 54065 Southern California Gas Company (SoCal) seeks authority to increase its gas rates by \$18,934,000 per year to offset higher costs which would result from an anticipated 3.40% per Mcf increase in the rates of its out-of-state supplier, El Paso Natural Gas Company (El Paso), based upon its 1974 estimated test year volumes. SoCal states that, on May 2, 1973, El Paso filed with the Federal Power Commission (FPC), in Docket No. RP73-104, proposed changes in its tariff which will increase its rates to SoCal effective June 2, 1973; that the FPC, pursuant to applicable provisions of the Natural Gas Act, can suspend the effective date of El Paso's proposed increased rates for a maximum period of five months, or until November 2, 1973.

(we take official notice that a suspension to November 2, 1973 was made by FPC letter order issued June 1, 1973); and on that date El Paso has the right to increase its rates, subject to refund until such time as an order of the FPC establishing just and reasonable rates for El Paso becomes effective and is not subject to judicial review.

The proposed changes in rates are as follows: an increase in the demand charge from \$1.505 to \$1.827 per month per Mcf of daily demand; the commodity rate increases from 36.31¢ to 39.65¢ per Mcf. A demand charge adjustment which will reduce demand charge payments by 6.01¢ per Mcf when El Paso deliveries are less than 100 percent of its contract demand. Based on test year 1974 in which the gas available from El Paso is estimated to be less than 100 percent of the contract demand quantity, the effective rate to SoCal will be increased by 3.40¢ per Mcf reflecting the demand charge adjustment as compared to 4.40¢ per Mcf over present rates at a 100 percent load factor.

The increased cost of El Paso gas directly affects the cost of California source gas purchased from producers under long-term contracts by SoCal's affiliate, Pacific Lighting Service Company (PLS). Under these contracts the price paid by PLS is determined by the average contract price paid by SoCal and PLS for out-of-state gas received at the California border. The price paid for California gas by PLS is one of the costs included in PLS's cost of service tariff whereby PLS recovers all of its allowable costs from SoCal.

SoCal alleges that the total gross revenue increase needed to offset the El Paso increase and the related increase in the cost of SoCal source gas amounts to \$18,934,000 based upon test year 1974 gas purchase and sales data shown in detail in Exhibits 1 and 2 of SoCal's pending general rate increase, Application No. 53797. SoCal proposes that the offset revenue increase be recovered

by adding a uniform unit rate increase to the regular commodity rate in all rate schedules, except Schedule G-30, of 2.4194 cents per Mcf consistent with the method authorized by the Commission in Decision No. 81050 dated February 14, 1973.

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 reduction contained in its tariffs.

SoCal's motion that Application No. 54065 be consolidated with Application No. 53797 for purposes of hearing was granted. After due notice, a consolidated hearing was held before Examiner Levander commencing on August 13, 1973. The proceeding was submitted on August 13, 1973 with respect to Application No. 54065. This decision deals with the relief sought in Application No. 54065. The evidence specifically relating to Application No. 54065 is incorporated with that in Application No. 53797 to avoid redundancy as to the same issues.

SoCal showed the derivation of the increase contained in its application at the August 13, 1973 hearing. The estimated increase amounts to 0.231 cents per thermal unit or therm.

Modifications in actual gas deliveries can result in applicant's recovering more or less net revenues resulting from authorization to offset the rate increase in FPC Docket No. RP73-104.

The Commission staff prepared a study in connection with Application No. 53797 and arrived at a slight difference in gas purchases and gas sales volumes which would not change the cents per thermal unit or therm offset rate increase requested by SoCal.

The staff supported the uniform cents per thermal unit or therm rate spread developed by the company. The staff stated that, based on their review, SoCal's estimated rate of return^{1/} at present rates is under the 8.0 percent authorized in Decision No. 80430 and therefore they did not oppose the offset authority requested by SoCal.

None of the other parties opposed the tracking on a uniform cents per thermal unit or therm basis for tracking gas costs and franchise fees. San Diego Gas and Electric Company (SDG&E) presented evidence to support its position that there should not be any allocation to it of unaccounted for gas expenses and uncollectible expenses.

Decision No. 80430 states that, "SDG&E ... would modify the proposed uniform cents-per-unit rate spread applicable to such adjustments because it reflects unaccounted for gas, franchise taxes, and uncollectibles on a system average basis. Such treatment of these comparatively minor items is neither unreasonable nor improper in fixing rates."

SDG&E did not renew its opposition regarding allocation of franchise taxes in this proceeding. SDG&E set out the estimated cumulative and annual impact of allocated uncollectible and unaccounted for gas expenses to it. The annual cost to SDG&E of such inclusion is estimated at \$488,300 including amounts authorized for prior offset and tracking increases plus the increases authorized in Decision No. 81900, the El Paso increase in RP73-104, and SoCal's requested increase in Application No. 53797. The cumulative effect of such treatment for the period March 20, 1969 through June 30, 1973 was \$1,622,800. SDG&E's current estimate

^{1/} Both on the original and revised staff estimates.

assumes that uncollectibles amount to 0.250 percent of their bills and unaccounted for gas equals 0.818 percent of their bills. These percentages vary from time to time.

A SoCal witness testified as to gas loss studies made by SoCal several years ago. He testified that the main cause of the transmission system unaccounted for gas is the difference in measurement of gas received from SoCal's suppliers and that which is billed; that another significant cause is due to the actual loss of gas, which is caused in part by operation of regulators, leakage around valves, punctures due to vandalism, line testing; that there are multiple points of delivery from transmission lines which are not measured; that unaccounted for gas on the transmission system is rolled into the distribution system unaccounted for gas; that the degree of accuracy of an orifice meter is in the range of up to one-half percent; and that a small residential meter has an accuracy of approximately two percent.

SDG&E pointed out that in Decision No. 81051, in Applications Nos. 53630 and 53631, the Commission did not assign franchise fee payments or uncollectible expenses to SDG&E's interdepartmental sales and sales to the federal Office of Saline Water (OSW). There are no franchise fee payments associated with these sales. Presumably there would be no uncollectibles associated with interdepartmental sales. The ratios of SDG&E's inter-departmental gas sales and requirements compared to its total gas sales and requirements are considerably greater than the ratio of SoCal's gas sales and requirements to SDG&E compared to SoCal's overall gas sales and requirements. As to OSW sales, these are exchanges of gas volumes between SDG&E and an agency of the federal government where no franchise fees or uncollectibles are appropriate.

SDG&E is not unique in receiving gas at transmission level delivery through orifice type meters. SoCal's G-58 customers and certain of its regular interruptible customers receive such deliveries. Based on this record, it is not possible to ascertain

what the actual level of the transmission loss is. In Application No. 53630 SDG&E did not propose that there be no allocation of unaccounted for gas to its interdepartmental or OSW sales. Decision No. 81051 did not exclude allocations of unaccounted for gas to interdepartmental or OSW sales.

We are not persuaded that SDG&E, a large wholesale customer, is unique compared to other large customers of SoCal in paying its bills on timely basis, or for that matter that there are not many other customers with a good record of paying their bills. We have encouraged SoCal to simplify and cut down on numbers of rate schedules. Special treatment relating to comparatively minor items could supply the undesirable precedent leading to a proliferation of special rate schedules. Other electric utilities and SoCal's other wholesale customers would pay and pass on increased offset charges to other customers on a basis similar to that of SDG&E.

We have not heretofore adopted any cost allocation basis as the determinative factor in setting rates for SoCal. No cost allocation method will be adopted in this order. We reaffirm that the methodology of spreading the increase on a proposed uniform cents per thermal unit or therm rate is neither unreasonable nor improper in fixing rates to offset increases. It is a reasonable method in this proceeding.

SoCal is in need of rate relief to offset the El Paso increase in RP73-104 subject to refund and adjustment in accordance with the procedures set forth in the preliminary statement, Section E.4.c and E.4.d., of its tariff providing that the offset will not result any net revenues to SoCal and that the offset does not result in a rate of return in excess of that last authorized by the Commission.

Findings

1. SoCal's current rates were authorized by Decision No. 81900 dated September 25, 1973.
2. SoCal's rate of return for estimated year 1974, at present rates, is below the 8.0 percent authorized in Decision No. 80430.
3. SoCal's estimates of additional gross revenue requirements of \$18,934,000 to offset the increase related to El Paso's November 2, 1973 increase is reasonable.
4. Modifications in actual gas deliveries from those contained in SoCal's estimates can result in SoCal's recovering more or less revenue than the increase in its expenses caused by the rate increase in FPC Docket No. RP73-104.
5. In the event that the increased charges authorized in this order exceed SoCal's costs SoCal should refund the net overcharges. This order will contain reporting requirements and provisions for making such refunds if necessary.
6. To the extent that SoCal's rate of return on a temperature adjusted basis exceeds that last found reasonable the increases authorized in this order should be reduced to adjust the rate of return to the authorized level, up to the amount of the offset relief granted.
7. SoCal's proposal to adjust rates for all classes of service on a uniform cents per thermal unit or therm, except for Schedule No. G-30, to offset the El Paso increase in FPC Docket No. RP73-104 is reasonable.

Conclusion

Based on the foregoing findings the Commission concludes that:

1. SoCal should be granted the authority sought in Application No. 54065, to the extent and under the conditions set

forth in the order which follows, providing that the offsets will not result in a rate of return in excess of that previously authorized and that the offsets will not result in an increase in SoCal's net revenues.

2. Modifications in actual gas deliveries can result in SoCal's recovering more or less revenue than the increase in its expenses caused by the rate increase to offset increased expenses relating to FPC Docket No. RP73-104.

3. The rate spread authorized in this order should be on a uniform cents per thermal unit or therm, except for Schedule No. G-30, of no more than 0.231 cents.

4. SoCal should file recorded and temperature adjusted results of operation reports to enable this Commission to ascertain that any offset increase authorized in this decision will not result in an excessive rate of return or in an increase in net revenues.

O R D E R

IT IS ORDERED that:

1. Southern California Gas Company is authorized to file with this Commission revised tariff schedules increasing the regular commodity rate in all rate schedules, except Schedule G-30, by no more than 0.231 cents per thermal unit or therm so as to offset the increase filed by its supplier, El Paso Natural Gas Company, in Federal Power Commission Docket No. RP73-104. Such filing should include in Section E.4.c. of the preliminary statement the amounts of increase in cents per thermal unit or therm as contingent offset charges in Federal Power Commission Docket No. RP73-104. 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, but no earlier than November 2, 1973. The revised schedules shall apply only to service rendered on and after the effective date thereof.

2. Southern California Gas Company shall pass on to its customers by the Advice Letter procedure any reduced rates, and refund to its customers any refunds from El Paso Natural Gas Company pursuant to order of the Federal Power Commission in Docket No. RP73-104.

3. Southern California Gas Company shall supply its calculations of increased revenues and increased expenses arising out of the rate increases authorized herein with its year ending File No. 074 report. Any excess of charges over increases in expenses arising out of these offset increases in Federal Power Commission Docket No. RP73-104 shall be accumulated and refunded on an annual basis. To the extent that the rate of return for the end of year temperature adjusted results of operation report exceeds the authorized rate(s) of return, refunds of gross revenues in excess of amounts required to realize the authorized rate(s) of return shall be made. The upper limit of such potential refunds shall not exceed the increases authorized herein.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this

24th day of OCTOBER, 1973.

William L. Johnson
President
William Johnson Jr.

[Signature]
Commissioners

Lobstman

[Signature], Commissioner

I abstain:

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[Signature], Commissioner

APPENDIX A

List of Appearances

Robert Salter and E. R. Island, Attorneys at Law, for applicant.
Arthur T. Devine, Deputy City Attorney, for Department of Water and Power, City of Los Angeles;
Burt Pines, City Attorney, by Charles W. Sullivan, Attorney at Law, for the City of Los Angeles;
Robert W. Russell, Chief Engineer and General Manager, by Kenneth E. Cude, for Department of Public Utilities and Transportation, City of Los Angeles; Rollin E. Woodbury, Robert J. Cahall, H. Robert Barnes, Attorneys at Law, for Southern California Edison Company; Renn C. Fowler, Attorney at Law, for Office of General Counsel, Regulatory Law Division, General Services Administration;
Chickering & Gregory, Sherman Chickering, C. Hayden Ames, Donald J. Richardson, Jr., by Donald J. Richardson, Jr., and Gordon Pearce, Attorneys at Law, for San Diego Gas & Electric Company; William L. Knecht, Attorney at Law, for California Farm Bureau Federation; Henry F. Lippitt, II, Attorney at Law, for California Gas Producers Association; Brobeck, Phleger & Harrison, by Robert N. Lowry, Attorney at Law, for California Manufacturers Association; John B. Brewer, for Hospital Council of Southern California; Roy A. Wehe, Consulting Engineer, Edward C. Wright, General Manager, Leonard L. Putnam, City Attorney, by Harold A. Lingle, Deputy City Attorney, for the City of Long Beach; C. H. Fuller, Jr., for California Coin Laundry and Dry Cleaning Owners; interested parties.
Janice E. Kerr, Attorney at Law, Colin Garrity and Kenneth K. Chew, for the Commission staff.