

ORIGINAL

Decision No. 83090

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
SOUTHERN CALIFORNIA GAS COMPANY for )  
authority to increase gas rates to )  
offset higher gas costs resulting )  
from increases in the price of )  
natural gas purchased from El Paso )  
Natural Gas Company and )  
Transwestern Pipeline Company. )

Application No. 54780  
(Filed April 3, 1974)

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for Southern California Gas Company, applicant.  
Chickering and Gregory, by Donald Richardson and  
David Lawson, Attorneys at Law, and Gordon  
Pearce, Attorney at Law, for San Diego Gas  
and Electric Company; R. E. Woodbury,  
William E. Marx, and H. Robert Barnes, Jr.,  
Attorneys at Law, for Southern California  
Edison Company; Robert W. Russell, by Manuel  
Kroman, for Department of Public Utilities &  
Transportation, City of Los Angeles; Leonard  
Putnam, City Attorney, by Harold A. Lingle,  
Deputy City Attorney, Edward C. Wright, and  
Roy A. Wehe, for City of Long Beach; Arthur  
T. Devine, Attorney at Law, and John O. Russell  
for the Los Angeles Department of Water and  
Power; and Eugene R. Rhodes for Monolith  
Portland Cement Co.; Interested parties .  
Walter H. Kessenick, Attorney at Law, and Eugene S.  
Jones, for the Commission staff.

### O P I N I O N

Southern California Gas Company (SoCal) seeks authority to increase its gas rates by an amount sufficient to offset higher gas costs which will result from increases in the price of natural gas from El Paso Natural Gas Company (El Paso) to become effective not later than July 10, 1974, and from Transwestern Pipeline Company (Transwestern) to become effective not later than July 11, 1974.

After notice, public hearing was held before Examiner Johnson on June 10, 1974 in Los Angeles, and the matter was submitted.

Testimony on behalf of SoCal was presented by its assistant vice president, Regulatory Affairs Department, and by its manager of revenue requirements, Regulatory Affairs Department. The Commission staff presentation was made by one of its engineers. Other parties to the proceeding did not present any testimony but participated through cross-examination of the witnesses.

El Paso Gas Cost Increases

On January 10, 1974 El Paso filed with the Federal Power Commission (FPC) in Docket No. RP 74-57 proposed increases to SoCal averaging 7.09 cents per Mcf at 100 percent load factor. On February 15, 1974 El Paso filed a motion in Docket No. RP 74-22 to increase rates, also effective July 10, 1974, an additional 2.12 cents per Mcf to recover costs which may be due and payable to owners of special overriding royalty interests. On February 8, 1974 the FPC issued an order in Docket No. RP 74-57 suspending the effective date of these tariffs the maximum five-month period permitted by the Natural Gas Act. The suspension period expires July 10, 1974 and at that time, upon motion by El Paso, the tariffs proposed in Docket No. RP 74-57 will be permitted to become effective, subject to refund and reduction until such time as the final rates become effective. The FPC set Docket No. RP 74-22 for hearing and further disposition which precludes the requested increase of 2.12 cents per Mcf from becoming effective July 10, 1974. Consequently, SoCal reduced its requested increase from \$79,560,000 to \$67,734,000 to reflect this FPC action.

The record shows that included in El Paso's requested increase of 7.09 cents per Mcf in Docket No. R.P. 74-57 is approximately 1.93 cents per Mcf attributable to increased overriding

royalties in advance of court determination of the liability of El Paso for these amounts. On May 10, 1974 the People of the State of California and the Public Utilities Commission of the State of California moved<sup>1/</sup> that the FPC amend its February 8, 1974 order in Docket No. RP 74-57 by ordering El Paso, prior to July 10, 1974, to not collect this 1.93 cents per Mcf overriding royalty payments pending disposition of the proceedings in Docket No. RP 74-22, or, alternatively, if El Paso is permitted to collect such amounts subject to refund, subsequent refunds should be dependent on the resolution of the issues in Docket No. RP 74-22.

The record shows that SoCal was informed that El Paso has prepared an appropriate motion to be filed on a timely basis to effect the increases requested in Docket No. R.P. 74-57 on July 10, 1974. Consequently, unless the FPC grants the motion to withhold the overriding royalties portion of the requested increase, the full increase of 7.09 cents per Mcf at 100 percent load factor will become effective at that time.

Transwestern Gas Cost Increases

Pacific Lighting Service Company (PLS), an affiliate of SoCal, purchases gas from Transwestern and resells it to SoCal pursuant to a cost-of-service tariff which reflects changes in Transwestern's rates. On December 28, 1973 Transwestern filed with the FPC in Docket No. RP 74-52 proposed increased rates to PLS which averaged 10.29 cents per Mcf at 100 percent load factor. The FPC suspended the effective date of the proposed rates the maximum five-month period until July 11, 1974 at which time, upon motion by Transwestern, they will be permitted to become

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<sup>1/</sup> Official notice was taken of the "Motion of the People of the State of California and the Public Utilities Commission of the State of California For Clarification and For Rejection of Certain Proposed Charges" and El Paso's answer thereto.

effective, subject to refund and reduction until the final rates are established.

California Source Gas Cost Increases

SoCal's manager of revenue requirements testified that all of the California gas that comes into SoCal's system is purchased by PLS and resold to SoCal in accordance with the provisions of contracts reflecting the average price of El Paso and Transwestern gas received at the California border. He further testified that there are contracts which reflect annual changes in the border price of out-of-state gas for the preceding year, contracts which reflect changes equal to 60 percent of the change in average out-of-state price to become effective the first day of the succeeding month, and contracts for peaking gas, the principal one of which reflects 120 percent of the change in the price of California source gas. The computations showing the effect of the El Paso and Transwestern proposed increases on the cost of California source gas are set forth in Exhibit 4.

Results of Operation

Both SoCal and the Commission staff presented exhibits and testimony reflecting 1974 test year summaries of earning utilizing the sales estimates set forth in the "Presiding Officer's Rulings on Phase II Proceedings" issued in connection with SoCal's pending Application No. 53797 for a general rate increase.

SoCal's manager of revenues testified that the 1974 test year gross revenues, including additional uncollectible accounts expense, franchise fees, and California source gas increases, required to offset the El Paso increase effective July 10, 1974 is \$39,223,000, and to offset the Transwestern increase effective July 11, 1974 is \$28,511,000, a total of \$67,734,000. He further testified that based on test year 1974

and allowing for tracking and offset charges through January 1, 1974, SoCal would earn a rate of return of 5.86 percent absent any increase in the cost of gas; that the July 10, 1974 El Paso increase would reduce this 2.20 percent if an offset were not allowed; that the July 11, 1974 Transwestern increase would reduce it 1.60 percent if no offset were allowed; that granting the full requested amount of \$67,734,000 would only preserve the 5.86 percent rate of return that would be experienced absent a gas cost increase; and that such a return is well below the 8.0 percent rate of return authorized by Decision No. 80430 dated August 29, 1972 on Application No. 52696 for a general rate increase.

The summary of earnings submitted into evidence by the Commission staff engineer indicated a total offset revenue requirement of \$57,059,000 as compared to SoCal's offset revenue requirement of \$67,734,000. The difference derives from the deletion by the Commission staff engineer of \$10,523,000 of the El Paso increase to eliminate amounts related to increased overriding royalty payments. The basis of this deletion is the motion pending before the FPC to modify its order issued in Docket No. RP 74-57 on February 8, 1974 to eliminate such amounts pending disposition of RP 74-22. As previously stated, absent the FPC modifying its February 8, 1974 order, the full amount of the requested increase will become effective July 10, 1974. Consequently, we will adopt SoCal's computed offset requirement of \$67,734,000. The Commission staff summary of earnings indicates a rate of return of 6.90 percent absent any gas cost increase and a rate of return of 3.67 percent if the offset increases become effective without the authorization of offsetting revenue increases.

Rates

SoCal proposes to offset the effect of the increased purchased gas costs by the application of a uniform increase of

0.478 cents per therm for the El Paso increase and 0.348 cents per therm for the Transwestern increase applied to the commodity rates of schedules, except Schedule G-30. The increased rates to be collected by El Paso and Transwestern are subject to reduction and refund to the extent they exceed the finally authorized rates. Such refunds and reductions will be granted SoCal who proposes to flow them through to its customers on the same basis proposed for the increases requested by the application. SoCal further proposes that if the requested offsets are authorized, the contingent refund provision in the Preliminary Statement of its tariffs will be revised to add the contingent offsets for Dockets Nos. RP 74-57 and RP 74-52.

SoCal's assistant to the vice president testified that Schedule G-30 is a gas light schedule that has few customers and very limited usage, and that the revenues at proposed rates are computed as though the requested increase were applied to Schedule G-30. Consequently SoCal's election to not propose an increase for Schedule G-30 will not burden other ratepayers.

#### Findings

1. Effective July 10, 1974 El Paso will, upon its motion in accordance with FPC filing in Docket No. 74-57, increase its rates for service to SoCal an average of 7.09 cents per Mcf at a 100 percent load factor subject to refund and reduction to the extent they exceed the finally authorized rates.

2. Effective July 11, 1974 Transwestern will, upon its motion, in accordance with FPC filing in Docket No. 74-52, increase its rates for service to SoCal through PLS, an average of 10.29 cents per Mcf at 100 percent load factor, subject to refund and reduction to the extent they exceed the finally authorized rates.

3. The increased cost of gas from El Paso and Transwestern will increase the cost of California source gas purchased by SoCal through PLS as the price of such gas is contractually tied to the average contract price paid by SoCal and PLS for out-of-state gas received at the California border.

4. The total annual gross revenues increase necessary to offset the El Paso, Transwestern, and California source gas increases, together with related increased franchise fees and uncollectible accounts expense is \$67,734,000 for the test year 1974.

5. The effect of permitting SoCal to increase its rates to offset the \$67,734,000 of increased costs is to maintain the same rate of return that SoCal would experience absent the increase in purchased gas costs and will not increase the rate of return to be experienced by SoCal.

6. SoCal's proposal to apply the rate increases, decreases, and refunds to the rate schedules, except Schedule G-30, on a uniform cents per thermal unit basis is consistent with past Commission practice.

7. Any rate reduction and/or refund paid by El Paso, Transwestern, and California producers to SoCal will be flowed through to its customers.

The Commission concludes that the application should be granted to the extent set forth in the order which follows.

#### O R D E R

IT IS ORDERED that:

1. 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 rates in all rate schedules, except G-30, by 0.478 cents per therm or equivalent

for the El Paso increase in Docket No. R.P. 74-57 and by 0.348 cents per therm or equivalent for the Transwestern increase in Docket No. R.P. 74-52. Such filing shall include in Section E.4.c. of the Preliminary Statement the 0.478 and 0.348 cents per therm or equivalent contingent offset charges in FPC Dockets Nos. R.P. 74-57 and R.P. 74-52. Such filings shall comply with General Order No. 96-A. The effective date of the revised schedules shall be four days after the date of filing but not earlier than July 10, 1974 for the El Paso increase, and July 11, 1974 for the Transwestern increase. The revised schedules shall apply only to service rendered on and after the effective date.

2. Southern California Gas Company shall pass on to its customers by the Advice Letter procedure any reduced rates, and shall refund to its customers any refund from El Paso Natural Gas Company or Transwestern Pipeline Company pursuant to order of the Federal Power Commission in Dockets Nos. R.P. 74-57 and R.P. 74-52.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 2nd day of JULY, 1974.

William L. Sturgeon  
President  
William Sturgeon Jr.  
[Signature]  
[Signature]  
Commissioners

Commissioner J. P. Vukasin, Jr., being necessarily absent, did not participate in the disposition of this proceeding.