

Decision No. 83881

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 Increase Revenues
to Offset the Effect of Certain
Increased Costs.

} Application No. 55117
(Filed August 16, 1974;
amended October 11, 1974)

(Appearances listed in Appendix A)

O P I N I O N

By this application, as amended, Southern California Gas Company (SoCal) seeks authority to increase its rates by \$19,339,000 annually on a test year 1974 basis. The \$19,339,000 represents a 2.7 percent revenue increase which is intended to offset increased costs of \$11,105,000 attributable to increased employee wages and benefits and to offset certain other cost increases amounting to \$8,234,000.

Public hearing in this matter was held before Commission President Sturgeon and Examiner Main at Los Angeles on November 12, 13, and 15, 1974. Notice of the hearing was provided to customers by bill inserts, publication in newspapers of general circulation in SoCal's service area, and posting in SoCal's business offices. With reference to the hearing notice to customers by bill insert, the identity of the several cost increases involved and the total amount of the offset rate increase before amendment were specified. By the amendment filed October 11, 1974, that amount increased from \$17,175,000 to \$19,339,000 and reflected a larger wage increase.

Representatives of certain consumer groups, as well as individual customers, opposed the application, primarily because the elderly and the poor do not have the ability to pay higher rates and because higher rates have an adverse inflationary effect. Various suggestions were made to restructure rates drastically in this offset rate proceeding.

SoCal, through its senior vice president, presented testimony and exhibits in support of its application. The Commission staff witness, while corroborating the cost increases for which SoCal seeks offset rate relief, and concurring with SoCal as to the appropriateness of a rate spread made on a uniform percentage of revenue basis, recommended a decrease of \$1,645,000 in the required revenue increase because of a tax credit resulting from SoCal's exercising an optional repair allowance, and recommended a rate spread using a lower uniform percentage increase applied to higher revenue levels.

The city of Los Angeles took the position that a legally sufficient showing has not been made to justify any increase and that the notice by bill insert must conform to Section 454 (a) of the Public Utilities Code.^{1/} The city assumes that the exception in Section 454 (a) to requiring notice of filing of an application pertains, in the case of a gas utility, only to offsets of purchased gas costs. We disagree.

^{1/} Section 454 "(a) No public utility shall raise any rate or so alter any classification, contract, practice, or rule as to result in any increase in any rate except upon a showing before the commission and a finding by the commission that such increase is justified. Whenever any electrical, gas, heat, telephone, water, or sewer system corporation files an application to increase any rate of charge, other than an increase reflecting and passing through to customers only increased costs to the corporation, for the services or commodities furnished by it, the corporation shall furnish to its customers affected by the proposed increase notice of its application to the commission for approval of such increase. The corporation may include such notice with the regular bill for charges transmitted to such customers within 45 days if the corporation operates on a 30-day billing cycle, or within 75 days if the corporation operates on a 60-day billing cycle. The notice shall state the amount of the proposed increase expressed in both dollar and percentage terms, a brief statement of the reasons the increase is required or sought, and the mailing address of the commission to which any customer inquiries relative to the proposed increase, including a request by the customer to receive notice of the date, time, and place of any hearing on the application, may be directed." (Emphasis added.)

The exception applies to this offset rate increase application. The notice of hearing given by bill insert, which can be more informative than a notice of filing of application, was required as a matter of good practice. A separate and further mailing, which would have updated only the amount of SoCal's rate increase request and cost perhaps over \$200,000, was considered unnecessary and accordingly not required.

In recent years, from about the time changes in the cost of purchased gas were expected to occur with increasing frequency and basic rates were being established from time to time on a fully analyzed current or future test year basis, offset rate proceedings, in the case of gas utilities, have been used to offset in rates increases in the cost of purchased gas.^{2/} Prior to that period, offset rate proceedings for some time had little application, because growth factors, such as increasing firm gas use per customer and increasing gas supplies, tended to offset cost increases, and generally there was not a very recent test year underlying the existing rates.

Now, changes in the cost of purchased gas flow into SoCal's rates pursuant to a purchased gas adjustment clause in its tariffs, available gas supplies are declining, firm gas use per customer is decreasing, and we have before us an application to increase rates to offset the effects of certain cost increases other than in the cost of purchased gas.

It is SoCal's position that a number of things have happened, or will happen shortly, that will cause its earnings to fall far below the level the Commission determined to be fair and reasonable in Decision No. 83160 dated July 16, 1974, in Application No. 53797. SoCal used the test year 1974 because it has been fully examined in hearings and was adopted in Decision No. 83160 as a basis

^{2/} The last of these offsets (Decision No. 83090 dated July 2, 1974 in Application No. 54780) increased revenues by \$67,734,000 annually on a 1974 test year basis.

for current rates. SoCal has included the effects of four specific cost changes to be offset in rates but not the effect of other factors such as general inflation, the impact of conservation practiced by firm customers, and a further decline in available gas supply, all of which cause a further deterioration in its earnings.

Wage Increase

In its recent general rate proceeding (Application No. 53797) SoCal calculated its operating costs on the basis of a 5½ percent wage increase and added related benefit increases in test year 1974. The actual increase granted was a 7 percent wage increase, effective April 1, 1974, plus associated benefits, which was negotiated after the hearing in Phase I of that proceeding concluded. The adopted operating results in Decision No. 83160 allowed a 5½ percent increase annualized for 1974.

On September 24, 1974, SoCal received an official request from the Joint Labor Committee of the UWUA-ICWU, which represent the majority of SoCal's employees, to open at an early date negotiations for a supplementary wage increase prior to the expiration on April 1, 1975, of the then current wage agreement. The joint committee cited the recent wage offer of Southern California Edison Company to increase wages by 6 percent on October 1, 1974 (three months early) and by an additional 6 percent on January 1, 1975. In addition, Southern California Edison Company proposed a cost of living provision effective July 1, 1975. As the result, SoCal reviewed this request and other labor negotiations and then made its offer. SoCal offered its employees a general wage increase of 11 percent to be effective on December 28, 1974. The union representatives accepted the offer and agreed to submit it to their members, who in turn accepted the offer. The amount necessary to recover the expenses associated with that level of wage increase is \$11,105,000, as shown in Table 1.

Ad Valorem Tax Credit Termination

Prior to 1970 SoCal and Pacific Lighting Service Company (PLS) employed a calendar year accrual basis to report ad valorem tax expense. In 1970 pursuant to our resolutions authorizing a modification of accounting procedure, SoCal and PLS abandoned the calendar year method in favor of a fiscal year basis for the accrual of ad valorem taxes.

As a result of this change in accounting procedures, SoCal recorded only six months of property taxes in 1970 and this Commission authorized SoCal and PLS to amortize the resultant reduction in tax expense over a five-year period commencing January 1, 1970. Accordingly, on December 31, 1974, the tax reduction effected from the change in accounting methods will be fully amortized. The rates adopted in Decision No. 83160 reflected this amortization which will soon be concluded.

SoCal will require \$5,710,000 in additional annual revenues beginning January 1, 1975, to offset the increase in the ratemaking treatment of ad valorem tax expense resulting from the completion of the amortization of the tax reductions from the 1970 accounting change. This amount includes the impact of additional ad valorem tax expense which automatically will flow through to SoCal from PLS as part of that company's cost of service tariff.

Annualization of Aliso Canyon Storage Facilities

This area of cost increase involves the completion of the development of the Aliso storage reservoir by the end of October 1974 to the level of its expected annual cycle volume. The expense level SoCal is proposing to have covered by increased rates is the difference between the costs during the buildup period during the year 1974 and the ongoing level of expense. This involves \$259,000 operating expense in SoCal and \$1,856,000 of expense in PLS. The PLS expense here again automatically flows through to SoCal under the cost of service tariff. The total increase related to the ongoing Aliso storage reservoir expense including franchise

requirements is \$2,148,000. Underground storage is not a facility to increase sale volumes and produce revenue in a direct sense, but is constructed for the purpose of equating seasonal and peak-day needs of customers.

Amortization of SNG Project Expense

During the past two years SoCal has been engaged in extensive engineering and planning efforts related to the production of synthetic natural gas (SNG) from naphtha to augment existing supplies of natural gas. These efforts have included general studies, process designs, and the initial preparation for an Environmental Data Statement. Expense incurred on the SNG Project totals \$1,346,877.39.

Since the spring of 1973, developments have occurred which have caused SoCal to determine that continuation of the SNG Project will no longer serve the best interests of its customers. Among the developments leading to this are the following: the price of naphtha, a derivative of crude oil, has more than tripled; the ability to obtain an adequate supply of naphtha is uncertain; and, in addition, allocation regulations promulgated by the federal government foreclose obtaining such supplies. Accordingly, the Project has been abandoned by SoCal.

By letter to the Commission dated June 17, 1974, SoCal sought authorization of the Commission to amortize the costs expended on the abandoned Project over a period of five years. The letter also recommended that the accounting for the abandoned Project be similar to that proposed by earlier correspondence from SoCal relative to other Research and Development activity as approved by Commission Resolution No. FA-543.

In Decision No. 83160, issued in Phase I of Application No. 53797, the Commission indicated that SoCal should request "authorization to amortize unsuccessful project expenditures." (Mimeo p. 35.) Accordingly, SoCal seeks authorization to amortize

the expense incurred relative to the now-abandoned SNG Project over a period of 60 months. The proposed amortization requires annual revenues of \$376,000 including an allowance for franchise requirements.

Results of Operation

In Exhibit 1 the results of operation for test year 1974, after the revenue increase authorized in Decision No. 83160, were adjusted to include the above-described four cost increases and the additional revenue required to restore the 8.5 percent rate of return was determined. Part of Exhibit 1 has been reproduced and is presented as Table 1 on the following page.

The staff examined the four items of cost increase in Table 1, determined that those expenses may be legitimately offset, and supported an additional revenue requirement of \$19,339,000 as being needed to offset their effects. The staff, however, would reduce the additional revenue requirement by \$1,645,000 to allow for the effect of a tax credit which became available by SoCal's taking the 1974 repair allowance. This repair allowance item benefits rate of return by 0.09 percent.

While concurring with the staff that the optional repair allowance indisputably benefits its earnings, SoCal pointed to a number of other factors which it is not requesting be offset but which are presently working and which will continue to work in 1975 to depress SoCal's rate of return below the 8.5 percent we recently allowed in Decision No. 83160. Within this frame of reference, SoCal presented evidence on three specific items of increased costs: One, increased social security taxes which reduces rate of return by 0.02 percent; two, further increased underground storage expense which reduces rate of return by 0.08 percent; and three, lower firm customer sales which reduces rate of return by 0.33 percent. The last item, lower firm customer use, is probably controversial as to the extent of ratemaking impact but not as to whether a significantly lower firm use has in fact taken place.

Table 1

Southern California Gas Company

RESULTS OF OPERATIONS

TEST YEAR 1974

(Thousands of Dollars)

	Decision No. 83160 (1)	Adjustments			Adjusted Results (6)	Proposed Rate Increase (7)	At Proposed Rates (8)	12/28/74 Wage Increase (9)	With 12/28/74 Wage Increase (10)	Proposed Rate Increase (11)	At Proposed Rates (12)
		At Valorem Tax Amortization (2)	Amortization of SNG Costs (3)	Annualization of Aliso (4)	PLSCo. (5)						
<u>Operating Revenues</u>	662,750				662,750	8,234	690,984		690,984	11,105	702,089
<u>Operation and Maintenance Expense</u>											
Production	358,439				360,900		360,900		360,900		360,900
Storage	5,631			259	5,890		5,890		5,890		5,890
Transmission	10,873				10,873		10,873		10,873		10,873
Distribution	54,992				54,992		54,992		54,992		54,992
Customer Accounts	31,626				31,626	27	31,653		31,653	36	31,689
Sales	8,746				8,746		8,746		8,746		8,746
Administrative & General	58,452		127		58,579	103	58,682		58,682	132	58,814
Subtotal O & M Expenses	528,759		127	259	531,606	130	531,736		531,736	175	531,911
Wage Increase Adjustment								10,930			
Sales Tax Increase	180				180		180		180		180
Adjusted O & M Expenses	529,233		127	259	532,086	130	532,216	10,930	543,146	175	543,321
<u>Taxes</u>											
Taxes Other Than Income	24,407	2,373			26,780		26,780		26,780		26,780
Federal Income	20,467			(113)	19,279	3,540	22,819	(4,774)	18,045	4,774	22,819
State Income	4,527			(23)	4,683	729	5,412	(924)	4,488	924	5,412
Total Taxes	49,801	2,373		(136)	50,742	4,269	55,011	(5,758)	49,253	5,758	55,011
Depreciation	33,695				33,695		33,695		33,695		33,695
Total Operating Expenses	612,735	2,373	127	123	616,523	4,399	620,922	5,172	626,094	5,933	632,027
<u>Affiliated Int. Adjustment</u>	25				25		25		25		25
<u>Return</u>	70,040	(2,373)	(127)	(123)	66,252	3,835	70,087	(5,172)	64,915	5,172	70,087
<u>Rate Base</u>											
Working Cash	9,301				9,301		9,301		9,301		9,301
Remainder	814,684		563		815,247		815,247		815,247		815,247
Total	823,985		563		824,548		824,548		824,548		824,548
<u>Rate of Return</u>	8.50%	-	-	-	8.03%	-	8.50%	-	7.87%	-	8.50%

(a) Adopted Results with Sales at 2/15/73 Rates less GEDA Rates of 0.0234/Therm plus Authorized Increase (Decision No. 83160 memo pages 10 and 68).

Findings

1. SoCal's operations were fully analyzed on a test year 1974 basis in Application No. 53797, filed January 19, 1973, which led to Decision No. 83160 issued July 16, 1974.

2. The cost increases sought to be offset by this application are known, correctly computed, and will commence on or before January 1, 1975. Such increases in cost are neither unreasonable nor imprudently incurred and are non-revenue producing changes, which should be reflected back into the test year to make it more indicative of probable future operations.

3. SoCal's declining gas supplies and the decrease in firm gas use per customer make it unlikely SoCal would have earned, on an average temperature basis, the allowed 8.5 percent rate of return established in Decision No. 83160, supra, had the cost increases sought to be offset by this application not occurred. It follows that it would remain unlikely for SoCal to earn the allowed rate of return if its proposed rates, designed to provide the additional revenues of \$19,339,000 necessary to offset the effects of the cost increases, are authorized.

4.a. SoCal is entitled to a reasonable opportunity to earn an 8.5 percent rate of return. Granting this application, while helping substantially, should provide something less than that opportunity. However, if the end-of-year 1975 rate of return on a temperature adjusted basis should, unlikely as that appears to be, exceed the allowed rate of return, refunds of gross revenues in excess of amounts required to realize the allowed rate of return should, as SoCal has offered, be made to customers. (The staff monitors and informs the Commission of the adjusted earnings level of SoCal (File 074 reports) on a continuing basis.) This refund provision should continue in effect after 1975, but on a 12-month ended review period basis, if new rates have not been established pursuant to a decision in Application No. 55345, filed November 26, 1974, and remain in

effect until such new rates are established or a pertinent further order of the Commission is issued, whichever occurs first.

b. An increase in rates to produce \$19,339,000 of additional annual gross revenue is justified.

5. The required revenue increase of \$19,339,000 should be spread to customer classes on a percentage-of-revenue basis. SoCal's proposed rate spread on that basis tends to maintain the rate relationships established in Decision No. 83160, supra, is reasonable, and should be adopted.

6. The increases in rates and charges with refund provisions as authorized by this decision are justified and are reasonable; and the present rates and charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.

The Commission concludes that the application should be granted to the extent set forth in the following order and the refund requirement prescribed in Finding 4.a. should be imposed.

O R D E R

IT IS ORDERED that Southern California Gas Company is authorized to file with this Commission, on or after the effective date of this order and in conformity with the provisions of General Order No. 96-A, revised tariff schedules with rates, charges, and conditions modified as set forth in Appendix C to amended Application No. 55117. The effective date of the revised tariff sheets shall be five days after the date of filing, or January 1, 1975, whichever is later. The revised tariff schedules shall apply only to service rendered on and after the effective date of the revised schedules.

A. 55117 IB

Once the revised tariff schedules become effective SoCal shall be bound by the refund requirement prescribed in Finding 4.a. of this decision.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 17th
day of DECEMBER, 1974.

Vernon L. Sturgeon
President
William J. Simon, Jr.
[Signature]
[Signature]
Robert E. McIsland
Commissioners

APPENDIX A

List of Appearances

William M. Pfeiffer, Attorney at Law,
for applicant.
Chickering & Gregory, by Donald J. Richardson, Jr., and David A. Lawson,
Attorneys at Law, and Gordon Pearce,
Attorney at Law, Vice President and
General Attorney for San Diego Gas &
Electric Company; Burt Pines, City
Attorney, by Leonard L. Snaider,
Deputy City Attorney, for the City
of Los Angeles; Robert W. Russell,
by Manuel Kroman, for Department of Public
Utilities and Transportation, City
of Los Angeles; Arthur T. Devine,
Deputy City Attorney, and John O. Russell, Fuel Oil Administrator, for
Department of Water and Power, City
of Los Angeles; Edward C. Wright,
General Manager, Long Beach Gas
Department, City of Long Beach; Brobeck, Phleger & Harrison, by Thomas G. Wood,
Attorney at Law, for California
Manufacturers Association; R. E. Woodbury,
and Robert Barnes, by Norman G. Kuch,
Attorney at Law, for Southern California
Edison Company; William Knecht, Attorney
at Law, and William H. Edwards, for
California Farm Bureau Federation; Henry F. Lippitt, 2nd., Attorney at Law, for
California Gas Producers Association;
and Irving Sarnoff, for Peoples Action
Union; interested parties.
Zahrini-Machadah, for Concerned Citizens
League; and Hyman Finkel, for Senior
Citizens of Southern California; protestants.
Janice E. Kerr, Attorney at Law, and Sesto F. Lucchi, for the Commission staff.