

ORIGINAL

Decision No. 84291

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of Advice Letter
No. 911 of SOUTHERN CALIFORNIA
GAS COMPANY to Increase Revenues
to Offset Higher Gas Costs
Resulting from Increases in the
Price of Natural Gas Purchased
from El Paso Natural Gas Company,
Transwestern Pipeline Company and
California Producers.

Application No. 55544
(Filed March 6, 1975;
amended March 13, 1975)

(Appearances listed in Appendix A)

O P I N I O N

On February 28, 1975 Southern California Gas Company (SoCal) filed its Advice Letter 911 seeking a Purchased Gas Adjustment (PGA) for increased natural gas rates to go into effect April 1, 1975^{1/}. The Commission converted this filing into the subject application on March 6, 1975. SoCal's amended application was filed March 13, 1975, seeking a gross revenue increase of \$80,221,000, effective April 1, 1975 because of an increase of 12.06 cents per Mcf to be charged by El Paso Natural Gas Company (El Paso) under its PGA with the Federal Power Commission; a PGA increase of 3.96 cents per Mcf by Transwestern Pipeline Company (Transwestern), a major natural gas supplier of SoCal, and a concomitant increase by the California suppliers, whose price to SoCal is based on the border price of gas. At the public hearings held on March 19 and 20, 1975 before Commissioner Vernon L. Sturgeon and Examiner Phillip E. Blecher, SoCal amended its request by decreasing the total revenue

^{1/} 1.39 cents per Mcf surcharge of El Paso Natural Gas Company will be effective April 2, 1975. All figures used herein have been adjusted to reflect this one day differential.

requested to \$78,270,000, a decrease of \$1,951,000, due to a reduction in El Paso's increase from 12.06 cents per Mcf to 11.71 cents per Mcf. Thus, SoCal's revised PGA request is 1.003 cents per therm or equivalent. SoCal proposes appropriate reduction and refund action to its customers in the event the FPC alters the filings made by SoCal's suppliers. SoCal also proposes to offset the increases on a uniform cents per therm basis, which procedure has Commission approval. The revenue increase sought here is approximately \$200,000 per day. The requested increase includes a proportional increase in franchises and uncollectibles of \$1,318,000.

The Evidence

Decision No. 83160 dated July 16, 1974 authorized rates based on an 8.50 percent rate of return based on test year 1974, and authorized a PGA procedure for SoCal, which is the basis for this proceeding. SoCal represents its adjusted recorded rate of return for 1974 as 7.55 percent (Exhibit P). It further represents that its test year 1974 results adjusted for updated gas supply and rates authorized up to January 1, 1975 (less GEDA rates) with the subject gas cost increase included would reduce its rate of return to 3.98 percent (Exhibit O), and that the pass through of the requested PGA will return its test year results to the authorized rate of return. These representations were not challenged or disputed. The staff challenged only certain estimated annual costs (and correlative prices), and the average heating value of the system gas supply per cubic foot (Exhibit Q of SoCal; Exhibit S of staff). The company accepted the staff changes in the estimated annual costs and average prices, shown in Columns B and C of Exhibit S. The staff, after verifying the projections of gas volumes, recommended a total PGA increase of \$77,379,000 based on Exhibit S. The company used

TABLE 1

1. New weighted average unit cost, 72.94¢/Mcf (based on estimated annual volume and cost of Exhibit S)
2. Weighted average unit cost reflected in current PGA, 62.99¢/Mcf
3. Change in weighed average unit cost, (1) - (2), 9.95¢/Mcf
4. Base weighted average unit cost of system gas supply, 59.73¢/Mcf
5. Excess of new unit cost over base unit cost, (1) - (4), 13.21¢/Mcf
6. Revised PGA for thermal unit or therm rates = (5) x R_1 x R_2 x R_3 ¢/TU
or ¢/therm = 13.21¢/Mcf x 1.03227 x 1.01709 x .074877 = 1.3159¢/TU or
¢/therm (Use 1.316¢)

Wherein:

$$R_1 = \frac{\text{MMcf Purchases for resale and Company - use}}{\text{MMcf Sales}} = \frac{766,458.0}{742,497.0} = 1.03227$$

$$R_2 = \frac{100}{100 - (\text{Franchise reqmts.} + \text{uncol. in \% of gas sales revenue})} =$$

$$\frac{100}{100 - 1.68} = 1.01709$$

$$R_3 = \frac{100}{\text{Average heating value of system gas supply per cu. ft.}} = \frac{100}{1054} = .094877$$

7. Revised PGA for commodity rates of Schedules G-58 and G-61, (6) x 10 = 13.16¢/MMBtu

| Equivalent PGA for Various Rate Schedules | New PGA | Present PGA | Increase (Decrease) in PPGA |
|--|--------------|-------------|-----------------------------------|
| Schedules with therm rates | 1.316¢/therm | .326¢/therm | 0.990¢/therm |
| Schedules with thermal unit rates | 1.316¢/TU | .326¢/TU | 0.990¢/TU |
| G-58, G-61 | 13.16¢/MMBtu | 3.26¢/MMBtu | 9.90¢/MMBtu |

Schedule G-30 shall be increased based upon the average monthly consumption of each lamp rating times the Ccf equivalent of item 4 above.

Counsel for the city of Los Angeles orally indicated a desire to introduce evidence as to several items of alleged cost decreases which he indicated should be deducted from any PGA authorized. Three items were specifically enumerated: (1) decrease in the optional repair tax allowance; (2) increase in the investment tax credit from 4 to 10 percent, now being discussed in Congress; (3) decrease in the prime interest rate from about 10 percent during test year 1974 to about 7 1/2 percent presently. No specific amounts were alleged, though they were represented to be multi-million dollars in the aggregate, nor was any firm, definite, or documented offer of proof made, nor were these items shown to be related in any way to the PGA increase sought by SoCal. It was admitted some of the items were out of the test period and were offered to possibly reduce the reasonable rate of return (T 136), but it was never asserted that the authorized rate of return would be exceeded if the requested increase was allowed, or if the alleged items of cost decrease were not allowed. SoCal's counsel pointed out they have not included any other alleged cost increases, implying that other increases could be introduced to offset any decreased costs. This would obviously produce a perpetual cycle of addition and subtraction, charge and countercharge. All costs, in either direction, are matters properly considered in a general rate case, but this is not a general rate case -- only an extraordinary proceeding to consider one type of extraordinary matter; i.e., an increase in the cost of natural gas to the utility by its suppliers, who themselves are regulated on the federal level. To allow evidence not directly related to the specific matters considered in a PGA proceeding would have the effect of converting the PGA into what would essentially be a general rate case, and would completely nullify the intent and

purpose of the PGA, as would any discussion of reasonable rate of return. In Decision No. 83127, supra, we discussed at some length the theory of this type of proceeding, and therein limited its scope. Since we see no viable alternative to the PGA at this time, and because it is our duty to maintain the delicate balance necessary to regulate the utility to enable it to render the level of service desired by the consumer at reasonable rates, we affirm our previous ruling, which was upheld by the examiner presiding at this hearing.

Various parties at the hearing voiced objection to the comparatively short time between the advice letter filing and the hearing dates. Under our adopted procedures, an advice letter need not be set for hearing, but the Commission, in an effort to allow additional objective examination of this large offset request, converted the advice letter filing into an application. This had the effect of requiring broader service of notice, and an opportunity for public hearing. To be fair, the hearing was scheduled at the earliest possible time to allow the utility the opportunity to obtain relief, if any, with a minimum loss of revenue. The original advice letter was filed February 28, 1975. There was more than ample opportunity for a meaningful examination of the requested increase, and the Commission provided the public a greater opportunity to be heard than its existing rules presently provide. To extend this opportunity, we are herein ordering that notice of all future advice letter filings that effectively increase rates be served upon all entities who appeared at the utility's last general rate proceeding, as well as all entities who have requested, in writing, notice of all such filings.

Findings

1. El Paso has filed a purchased gas adjustment with the Federal Power Commission (FPC) which provides for a net increase in the unit cost of natural gas of 10.32 cents per Mcf on April 1, 1975, and an additional increase of 1.39 cents per Mcf effective April 2, 1975, pursuant to FPC Order Nos. 452 and 452-A.

2. Transwestern has filed a purchased gas adjustment with the FPC which provides for a net increase in the unit cost of natural gas of 3.96 cents per Mcf effective April 1, 1975.

3. The PGA of El Paso and Transwestern described in Findings 1 and 2 result in concomitant increases in cost by the California producers, as SoCal's price to them is based on the border price of gas coming into the state.

4. Under its PGA authorized in Decision 83160, SoCal has requested a revised total revenue increase of \$78,270,000 effective April 1, 1975, subject to any reductions or refunds ordered or required by the FPC. The staff recommended a total revenue increase of \$77,379,000.

5. The average heating value of gas for purposes of this proceeding is reasonably determined as 1,054 btu per cubic foot.

6. Decision No. 83160 authorized an 8.50 percent rate of return, based on test year 1974, adopted by the Commission after being fully analyzed and tested.

7. SoCal's rate of return for adjusted test year 1974 (Exhibit O) does not exceed the authorized rate of return, and the requested increase will not increase the rate of return for test year 1974.

8. The PGA increase authorized herein will result in an increased unit cost of .990 cents per therm or equivalent, which is to be spread on a uniform cents per therm or equivalent basis to all classes and schedules of service.

9. The rate of return and rates authorized by Decision No. 83160 were found to be reasonable, and only offset increases have been added to those rates, all of which offset increases have been found to be reasonable.

10. The offset authorized herein is reasonable and will not increase the rate of return above the last authorized rate of 8.50 percent.

11. The increased cost of gas purchased by SoCal from its suppliers, if not offset, will reduce SoCal's rate of return for adjusted test year 1974 to 3.98 percent, which rate of return would be unreasonable.

12. The increase in uniform cents per therm to each class and schedule of service of .990 cents is reasonable, and the new rates authorized herein, including said offset, are therefore found to be reasonable and justified. The total annualized gross revenue is \$77,477,000.

13. There was no evidence offered to dispute or contradict the statements, computations, and conclusions of SoCal or the staff.

14. The increase in gas costs is an extraordinary expenditure, both in nature and magnitude, and is the proper subject of an offset proceeding limited in issue to specific items directly related to the increased commodity charge.

15. SoCal has filed a PGA clause in its tariffs, as authorized by Decision No. 83160, but did not incorporate therein the provisions required on page 74 of Decision No. 83160 requiring a refund if there was any excess of charges over increases in expenses, or if the end of the year temperature adjusted rate of return exceeded the authorized rate(s) of return up to the amount of the authorized increase.

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Conclusions

1. SoCal should be granted a PGA increase in all classes and schedules of service of not more than .990 cents per therm or equivalent, to be applied on a uniform cents per therm basis, subject to the conditions in the ensuing order.

2. The increased rates authorized herein are justified and reasonable within the meaning of the Public Utilities Code.

3. The Tax Reduction Act of 1975 has made changes in the applicability of the investment credit to utilities under our jurisdiction. Because of our uncertainty about the effects of those changes we will make our order in this proceeding an interim order subject to refund. This will permit us to act promptly, if the utility elects to flow through the benefits of the investment credit to the ratepayers, to offset, by reduced rates, the investment credit and to refund that portion of the credit accruing since the effective date of this order.

INTERIM ORDER

IT IS ORDERED that:

1. Southern California Gas Company is authorized to increase its rates in all classes of service by not more than .990 cents per therm or equivalent to offset the increased cost of gas purchased from its suppliers. The effective date of the authorized increase shall be the last to occur of either (a) April 2, 1975, or (b) the latest effective date of the increases of El Paso and Transwestern, or (c) the date of the tariff filings hereinafter required.

2. Southern California Gas Company is authorized to file revised tariff schedules to reflect the authorized increase in rates. Such schedules shall comply with General Order No. 96-A, and shall include the provision required by Decision No. 83160 and set out in Finding 15 herein, as well as a provision that any refund or reduction of these offset increases ordered or required by an FPC action shall be refunded to its customers on a like basis, and a provision for a refund because of changes in the investment credit. The revised tariff schedules required herein shall apply only to service rendered on and after the effective date thereof.

3. Simultaneously with any future filing by Southern California Gas Company for an offset increase, it shall file a statement indicating the recorded results of this offset increase, including, but not limited to, the following items:

- a. Total gross revenue increase, by class of service.
- b. Total commodity cost increase, by supplier schedule.
- c. Total franchise increase.
- d. Total uncollectibles increase.
- e. Total federal income tax increase.
- f. Total state income tax increase.
- g. Total other taxes increase.
- h. Results of operation with indicated rate of return with and without the offset increase authorized herein.
- i. Changes in any other items of income and expense attributed by the company to this offset increase.

4. Notice of all future filings for offset increases shall be served upon all persons or entities having filed appearances in its last general rate increase proceeding, whether pending or not, together with the notice required by General Order No. 96-A. These notice requirements shall apply to advice letter filings and applications.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 1st day of APRIL, 1975.

I will file a dissent.
William J. Quous, Jr.

I will file a
written concurrence
Vernon L. Sturgeon

Vernon L. Sturgeon
President

Leonard Ross
Commissioners

APPENDIX A

List of Appearances

Malcolm H. Furbush, Robert Ohlbach, Joseph S. Englert, Jr., by Joseph S. Englert, Jr., Attorney at Law, for Pacific Gas and Electric Company; David B. Follett, Attorney at Law, for Southern California Gas Company; Chickering and Gregory, by Sherman Chickering, Donald Richardson, C. Hayden Ames, and David A. Lawson, II, Attorneys at Law, for San Diego Gas & Electric Company; Gordon Pearce, Attorney at Law, Vice President and General Manager, for San Diego Gas & Electric Company; John H. Woy, for San Diego Gas & Electric Company; for all applicants at consolidated hearing.

Burt Pines, City Attorney, by Leonard L. Snaider, Deputy City Attorney, for the City of Los Angeles; Leonard Putnam, City Attorney, by William E. Emick, Jr., Deputy City Attorney, for the City of Long Beach; Rollin E. Woodbury, William Marx, H. Robert Barnes, Jr., and Dennis G. Monge, Attorneys at Law, for Southern California Edison Company; Edward C. Wright, General Manager, Long Beach Gas Department, for the City of Long Beach; Roy A. Wehe, Consulting Engineer, for the City of Long Beach; Manley W. Edwards, for the City of San Diego; Ronald L. Johnson, Attorney at Law, for the City of San Diego; William S. Shaffran, Attorney at Law, for the City of San Diego; Brobeck, Phleger & Harrison, by Thomas G. Wood and Gordon E. Davis, Attorneys at Law, for California Manufacturers Association; William Knecht and William Edwards Attorneys at Law, for California Farm Bureau Federation; Robert W. Russell and Manuel Kroman, Department of Public Utilities and Transportation, City of Los Angeles; Overton, Lyman & Prince, by Donald H. Ford, Attorney at Law, for Southwestern Portland Cement Co.; A. Barry Cappello, City Attorney, for the City of Santa Barbara; interested parties.

Herman Mulman, for The Coalition for Economic Survival; and Alex Googooian, City Attorney, for the City of Bellflower; protestants.

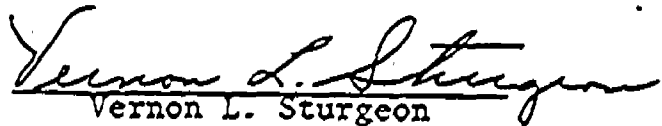
Janice E. Kerr, Attorney at Law, and Edmund J. Texeira, for the Commission staff.

A. 55542, D. 84289
A. 55543, D. 84290
A. 55544, D. 84291

COMMISSIONER VERNON L. STURGEON, concurring in part, dissenting in part

I concur in part, and I dissent in part. I dissent strongly to making an offset order of this type subject to refund. It has the effect of putting a cloud on the companies' ability to attract new financing, both equity and debt, to the detriment of the companies and their customers at a time when it is difficult and costly for utilities to finance even under the most favorable of circumstances.

I concur to avoid a stalemate which would deprive the utilities of revenue which the record clearly demonstrates is warranted. This order should have been final and the matter of investment tax credit should have considered in a general rate case in public hearings.


Vernon L. Sturgeon
Commissioner

San Francisco, California
April 2, 1975

A. 55542 - D.84289
A. 55543 - D.84290
A. 55544 - D.84291

COMMISSIONER WILLIAM SYMONS, JR., DISSENTING

Although I support the authorization for the increase to cover the cost of increased price of gas as fully justified by the evidence, my conscience forces me to dissent from the condition relating to the Investment Tax Credit. I may have an old-fashioned approach but I still believe there is a right way and a wrong way of doing things. It is not right to attach a condition for the purpose of extracting a concession from the utilities as the price of getting what they need and are entitled to.

It is especially bad in this situation where the new Investment Tax Credit law has not been the subject of hearings in which the purpose of the credit, its effect on the utility's cash flow, the financial needs of the utility and the long run interest of the consumers have been evaluated. In the absence of a record made in such proceedings I must object to the hasty decision that has been made today and I believe that the condition on the authorization is simply totally improper.

The Investment Tax Credit of 1975 is not an issue properly before us in this purchase gas adjustment application and can be handled adequately by the Commission in either a general rate case or special proceedings. Conditioning the rate approval here upon conjectured possible future action with regard to the Investment Tax Credit has the harmful effect of unnecessarily clouding the quality of utility earnings to the ultimate detriment of both the utility and the ratepayer.

San Francisco, California
April 1, 1975

William Symons, Jr.
WILLIAM SYMONS, JR.
Commissioner