

Decision No. 84569

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of Advice Letter No. 916 }  
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 and }  
California Producers. }

Application No. 55676  
(Filed April 23, 1975;  
amended May 16, 1975)

(Appearances listed in Appendix A)

INTERIM OPINION

On April 23, 1975 Southern California Gas Company (SoCal) filed its Advice Letter No. 916 seeking a Purchased Gas Adjustment (PGA) for increased natural gas rates to be effective June 16, 1975. The Commission converted this filing into the subject application on May 7, 1975. SoCal's amended application, filed on May 16, 1975, sought a gross revenue increase of \$40,741,000 by reason of an increase of 7.21 cents per Mcf to be charged by El Paso Natural Gas Company (El Paso) as a result of Federal Power Commission (FPC) action in FPC Docket RP 75-39, El Paso's pending general rate increase.<sup>1/</sup> Subsequently, SoCal advised that on May 16, 1975 El Paso filed a revision to its proposed increase pending before the FPC by including an alternate proposal of 5.48 cents per Mcf, which now becomes El Paso's pending request. This would lower SoCal's gross revenue requirement under this offset to \$31,339,000. Since SoCal's witness testified that 5.48 cents per Mcf would most likely become

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<sup>1/</sup> The total gross revenue increase requested includes \$223,000 for prior underpayments for California producers.

effective on June 16, 1975, we shall treat this application as being a requested offset increase in the sum of \$31,339,000 based on the increased cost to SoCal of 5.48 cents per Mcf even though SoCal's clearly stated desire was to effect the larger increase, subject to future refund and rate reduction, if necessary. We view our alternative as more desirable to all concerned parties. Public hearings were held on May 28 and 29, 1975 before Examiner Phillip E. Blecher and this matter was submitted on the latter date. After the statements from several members of the public, testimony and exhibits were offered by applicant, the staff, and the city of San Diego. No other parties offered any evidence.

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 5). It further represents that test year 1974 results adjusted for updated gas supply and rates authorized to April 2, 1975 (less GEDA rates) with the subject gas cost increase included would reduce its rate of return to 6.70 percent (Exhibit 10), and that the pass through of this PGA will allow it to earn 8.47 percent (Exhibit 10). This computation does not account for the increase in the investment tax credit (ITC) available under the Tax Reduction Act of 1975 (TRA) retroactively to January 21, 1975, nor the optional repair allowance, which was not included in test year 1974 and which SoCal admits is completely unaccounted for in the year 1975.

SoCal represented that its estimated optional repair allowance for calendar 1975 is \$5,100,000 which is treated as a deduction from expenses.

SoCal also represented that it had determined that its election under TRA would be for ratable flow through. In 1975, this ratable portion was estimated to be \$53,000, which when flowed through, would have a revenue impact of \$114,000. If SoCal had opted for full flow through, the full ITC increase for 1975 would be \$2,060,000 with a revenue impact of \$4,426,000. The ITC increase in transmission related property for 1975 is \$225,000 and the revenue equivalent is roughly twice that sum, or \$450,000.

The staff has recommended a total revenue increase of \$30,892,000, which is \$447,000 less than the utility requests, based on the 5.48 cents Mcf increase. This amount was computed by the staff by altering two basic figures used by SoCal: (1) Computing the average border price for the quarter July 1 to October 1, 1975 (instead of commencing on June 16, 1975, the effective date of El Paso's increase), which has the effect of slightly lowering the weighted average price of gas (See Exhibits 8 and 13); (2) Using an average heating value of 1,053 Btu/cf instead of SoCal's assumed value of 1,050, which has the effect of reducing the rate increase per therm, and which accounts for the bulk of the difference (approximately \$420,000) between applicant's and staff's computations.

The staff accepted all other assumptions and computations made by SoCal, and recommended the increase be spread on a uniform cents per therm basis.

The city of San Diego presented an expert witness whose testimony and sponsored exhibit (Exhibit 18) viewed in the light most favorable to the city's position indicates that on the same basis the staff and SoCal used to compute the necessary items (Test year 1974 adjusted and updated for estimated gas supply and rates as of April 2, 1975) its results substantially corroborate the applicant's results. The city's projected test year July 1, 1975 to June 30, 1976 is not a basis consistent with the other presentations in this proceeding, or the PGA procedure approved for SoCal in Decision No. 83160. We cannot subscribe to the contentions, assumptions, and projections made by the city. No other parties made any affirmative showing, offer of proof, or production of evidence.

Discussion

This opinion and order are being made on an interim basis for two reasons:

1. In the event the FPC orders a rate change other than the 5.48 cents Mcf on which we base this decision, this matter may be set for further hearing without requiring the utility to formally file a new application, thus reducing costs and saving time and effort.

2. We are reserving the right to treat the ITC increase under the TRA at a time after the decision in Case No. 9915<sup>2/</sup> is rendered and our study of TRA is concluded. Thus, we shall not discuss ITC any further herein.

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<sup>2/</sup> Case No. 9915 is our investigation of the impact of TRA upon the utilities subject to our jurisdiction.

In Decision No. 84291 we adopted a 1,054 Btu/therm average heating content. The recorded value for the first four months of 1975 was so close to this adopted figure that we see no reason to now question its validity and we again adopt 1,054 Btu as the average heating value per therm. Adopting the staff's estimated annual cost (Exhibit 13) and the 1,054 Btu factor the potential PGA per therm or equivalent computed by the formula used in Exhibits 8 and 13 is 1.717 and the potential increase over the present PGA of 1.316 cents/TU or equivalent is .401 cents/TU.

Since there was no evidence proffered in the areas of conservation and growth, if any, there can be no consideration to these factors in this decision. Thus, based on the above matters, the total gross revenue impact of the computed PGA increase is \$30,768,000.

In Decision No. 84291 and other earlier decisions we have held that an offset matter is an extraordinary proceeding to consider one type of extraordinary matter. Because of the extraordinary facts and nature surrounding the optional repair allowance, estimated to be \$5,100,000 for calendar 1975, we shall consider this item on its merits. The company's witness testified that this tax deductible expense item has been in effect since 1971, but was not included in test year 1974, and testified that this large sum for 1975 had no direct impact in test year 1976 and has been given no impact in any other proceeding pending before us and is not reflected in current rates or, in other words, \$5,100,000 of expense for 1975 will not be accounted for by the company to the ratepayer in 1975. In our opinion, this is extraordinary and therefore must be considered in this extraordinary proceeding. Since the revenue impact of the optional repair allowance is on a dollar for dollar basis, and since the company's rates will nowhere account for this in 1975, we are deducting the sum of \$5,100,000 from the gross revenue impact computed above under the PGA, leaving a balance of \$25,668,000.

Finally, we arrive at the method of structuring the rate increase we are authorizing herein. Historically, rate increases were spread among the various classes of service on a percentage basis, which always kept the relationship between the classes constant, or these increases have been spread on a uniform cents per therm basis, having the effect of raising the lower priced classes proportionately more than the higher priced classes. To achieve additional parity between the various classes of service, and to attempt to make the lower priced classes compensatory to the utility (SoCal's witness testified that the interruptible and electric generation classes essentially do not make any money for the utility), we are spreading the newly authorized PGA as follows:

- (a) For the first 90 days after the effective date of this order, the PGA shall result in a 0.335 uniform cents per therm or equivalent of 0.335 applied equally to all classes of service.
- (b) After the expiration of the 90-day period set out in (a) above, the PGA increase authorized by this decision shall be applied to nonresidential schedules only.
- (c) Rates for resale customers will be set to allow similar exclusion of this increase from their residential schedules, without burdening their nonresidential customers in any greater degree than those of SoCal.

Though the short-term effect of this rate structure is beneficial to the residential consumer, it is noteworthy that the probable result in the final analysis will be to increase prices the residential consumer of gas will pay for other products which are made, sold or distributed (or a combination thereof) by the non-residential gas consumers, who will pass on their increased costs of

gas to the residential gas consumers in the form of higher prices for their products, and which will include a margin of profit added on the cost increase, thus essentially creating a greater end cost for the residential consumer. The fact that this cost is indirect and is hidden from the residential gas user appears to create a desirable form of "painless" energy cost which presumably makes the price of gas easier to bear.

Findings

1. The FPC will authorize a rate increase of not less than 5.48 cents per Mcf to El Paso effective June 16, 1975.
2. SoCal has requested a total revenue increase of \$40,741,000 under its existing PGA clause, subject to rate reduction or refunds ordered or required by the FPC. The staff recommended a total revenue increase of \$30,892,000.
3. The average heating value of gas for purposes of this proceeding is reasonably determined as 1,054 btu per cubic foot.
4. SoCal's authorized rate of return is 8.50 percent, based on test year 1974.
5. The offset authorized herein is reasonable and will not cause applicant's rate of return to exceed 8.50 percent.
6. The optional repair allowance, estimated by applicant to be \$5,100,000 for calendar year 1975, is not accounted for in test year 1974 or any other proceeding pending before the Commission and is properly offset against increased rates because of the extraordinary nature and magnitude of this item.

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7. The PGA authorized herein will result in an increased unit cost of .335 per therm or equivalent for the first 90 days hereafter, which equals an annualized gross revenue of \$25,668,000.

8. After the expiration of the 90 day period set out in Finding 7, the PGA increase authorized by this decision shall be applied to nonresidential schedules only. Rates for resale customers will be set to allow similar exclusion of this increase from their residential schedules, without burdening their nonresidential customers in any greater degree than those of SoCal.

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

10. There is no just reason for residential gas consumer to equally bear the burden of this rate increase, where such customers are already paying effectively higher rates.

#### Conclusions

SoCal should be granted a PGA increase totaling on an annualized basis, \$25,668,000, to be applied on a uniform cents per therm basis to all classes of service for 90 days hereafter, and commencing on September 16, 1975, to be applied to nonresidential classes of service subject to the terms and conditions in the ensuing order.



INTERIM ORDER

IT IS ORDERED that:

1. Southern California Gas Company is authorized to increase its rates to offset the increased cost of gas purchased from its suppliers, as follows:

- (a) From the effective date of this order through September 15, 1975, by not more than 0.335 cents per therm or equivalent in all classes of service.
- (b) Commencing September 16, 1975 and thereafter, pursuant to tariffs to be filed by Southern California Gas Company within 60 days after the effective date of this order, subject to our authorization, the total rate increase authorized by this decision shall be applied to nonresidential schedules only.
- (c) Rates for resale customers will be set to allow similar exclusion of this increase from their residential schedules, without burdening their nonresidential customers in any greater degree than those of SoCal.
- (d) This entire rate increase is subject to refund and or reduction in the event the Federal Power Commission finally grants an increase to El Paso Natural Gas Company of less than 5.48 cents per Mcf.

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. The revised tariff schedules shall be effective on the date of filing and shall apply only to service rendered on and after the effective date. The revised preliminary statement should eliminate all FPC Dockets which have been terminated, canceled or superseded, so as to simplify its tariff schedules.

3. Ordering Paragraph 3 of Decision No. 84291 dated April 2, 1975 shall apply to this offset proceeding and all future offset proceedings, on both an individual and cumulative basis.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 17th day of JUNE, 1975.

I will file a  
Concurrence  
Leonard Ross

I will file  
a Concurrence  
Robert Bateman

Vernon L. Sturgeon  
President  
William Sproul  
Leonard Ross  
Robert Bateman  
Commissioners

APPENDIX A

LIST OF APPEARANCES

Applicant: William M. Pfeiffer and David B. Follett, by David B. Follett, Attorney at Law.

Protestants: Herman Mulman, for Coalition for Economic Survival and Jules Kimmet, for Concerned Citizens of Burbank.

Interested Parties: Chickering & Gregory, by Donald J. Richardson, Jr., and David A. Lawson, Attorneys at Law, for San Diego Gas & Electric Company; Gordon Pearce, Esq., Attorney at Law, and John H. Woy, for San Diego Gas & Electric Company; Burt Pines, City Attorney, by Leonard L. Snaider, Deputy City Attorney, for the City of Los Angeles; John W. Witt, City Attorney, by William S. Shaffran, Deputy City Attorney, and M. W. Edwards, Utility Rate Consultant, for the City of San Diego; Rollin E. Woodbury, H. Robert Barnes, and Norman G. Kuch, by Norman G. Kuch, Attorney at Law, for Southern California Edison Company; Alexander Googolian, Attorney at Law, for the City of Bellflower; Henry F. Lippitt, 2nd, Attorney at Law, for California Gas Producers Association; Brobeck, Phleger & Harrison, by Gordon E. Davis and Thomas G. Wood, Attorneys at Law, for California Manufacturers Association; Robert Russell, for Department of Public Utilities and Transportation of City of Los Angeles.

Commission Staff: Janice Kerr, Attorney at Law, and G. L. Way.

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A. 55676  
A. 55677  
Decision No. 84569

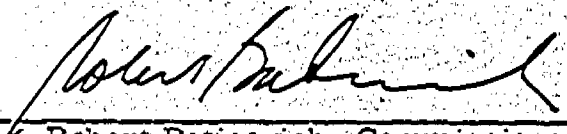
COMMISSIONERS BATINOVICH AND ROSS CONCURRING.

We concur in the result. We consider the rate spread adopted to represent the symbolic first significant step toward "lifeline", and we believe that the "lifeline" concept can contribute substantially to alleviating the problems of the poor and to conservation. But we must express our dissatisfaction with the language in the decision concerning the passing on to the residential consumer of the increased cost of gas. We do not believe that such "hidden" costs are painless, and in no way do we intend by our concurrence to suggest that this Commission ought to be "hiding" the cost increases. We find no support for the general proposition that non-residential gas consumers will pass on the increased cost and "a margin of profit added on the cost increase". And in the absence of any record evidence in support of that statement we must disassociate ourselves from the statement and its implications.

Dated: June 17, 1975

San Francisco, California

  
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Leonard Ross, Commissioner

  
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Robert Batinovich, Commissioner