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ORIGINAL

Decision No. 84976

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of Advice Letter No. 946 of SOUTHERN CALIFORNIA GAS COMPANY to Increase Revenues to Offset Higher Gas Costs Resulting from Changes in the Price of Natural Gas Purchased from El Paso Natural Gas Company, Transwestern Pipeline Company and California Producers.	Application No. 55900 (Filed September 3, 1975; amended September 10, 1975)

(Appearances are listed in Appendix A.)

O P I N I O N

Duly noticed public hearing was held in this matter on September 17 and 18, 1975 before Examiner Thompson at Los Angeles and was submitted.1/

By this application, as amended, Southern California Gas Company (SoCal) seeks authority to adjust its rates for natural gas service by amounts sufficient to offset changes in the price of natural gas purchased from El Paso Natural Gas Company (El Paso), Transwestern Pipeline Company (Transwestern), and California producers.2/ SoCal contends that the changes in prices will result

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1/ This application and Application No. 55899 of SoCal were scheduled for hearing September 17, 1975. The presiding officer received opening statements in both applications on a consolidated record but evidence in each proceeding was taken on separate records.

2/ On August 29, 1975 SoCal filed its Advice Letter No. 946 proposing to increase natural gas rates for all classes of customers by 0.081 cents per therm effective October 1, 1975. On September 3, 1975 the Commission converted the advice letter to an application and scheduled the matter for hearing. On September 10, 1975 SoCal filed an amended application pursuant to the Commission's Rules of Practice and Procedure.

in an increased cost to it for purchased gas amounting to $5,960,000 or 0.081 cents per therm. It proposes to recover that amount by increasing rates for all classes of customers by 0.081 cents per therm or equivalent unit.

By letter dated August 15, 1975, El Paso submitted its purchased gas cost adjustment to the Federal Power Commission (FPC) in Docket No. RP72-155 (PGA 76-1), to become effective October 1, 1975, amounting to a decrease of 5.31 cents per Mcf in El Paso's currently effective commodity rates. Similarly, by letter dated August 15, 1975, Transwestern submitted its purchased gas cost adjustment filing with the FPC in Docket No. RP74-52 (PGA 76-1) to become effective October 1, 1975 providing for an increase of 2.25 cents per Mcf in its currently effective commodity rates. In addition, Transwestern notified the FPC that it proposes to put into effect its basic increase submitted in Docket No. RP75-74 on March 14, 1975, and suspended by the FPC until October 1, 1975, equivalent to approximately 12.29 cents per Mcf above the rates provided with the 2.25 cents increase. The changes in the prices of gas from El Paso and Transwestern directly affect 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.

At the hearing SoCal stated that it has been informed by Transwestern that the latter is considering filing a motion with the FPC this month providing for a reduction in the 12.29 cents increase proposed in Docket No. RP75-74 to become effective October 1, 1975. At the time of the hearing the motion had not been filed and the amount of the reduction was not established.

The Commission has now been informed that on September 30, 1975 Transwestern filed its motion with the FPC requesting that the 12.29 cents per Mcf be reduced by 4.85 cents per Mcf on either October 1 or October 2, 1975, depending upon the need for an additional day of suspension.

As matters currently stand, unless the FPC delays, modifies, or rejects the rate changes proposed by the suppliers, Transwestern's basic price of gas will increase 7.44 cents per Mcf and its commodity rate will increase 2.25 cents per Mcf, El Paso's commodity rate will decrease 5.31 cents per Mcf, and the prices of California producers will be revised to reflect the change in the average border price of gas resulting from the aforementioned adjustments. The net impact to SoCal depends upon the amounts of gas it will receive from its respective suppliers.

Both SoCal and the staff estimated that the annual volume of gas to be purchased by SoCal will be 742,677 MMcf, of which approximately 71 percent will be from El Paso, 25 percent from Transwestern, and the remainder from California producers. SoCal and staff disagree concerning the method in which the cost per therm of all gas purchased should be computed. SoCal based its cost estimates on a full year period in accordance with procedures prescribed by the Commission. The staff made its estimates based upon a six-month period, October 1, 1975 to April 1, 1975, because it assumes that there will be another adjustment in SoCal's cost of purchased gas on or about April 1. The difference in procedure affects two cost factors. The gas deliveries of Transwestern are steadily declining so that more than half of the annual volume received from that supplier will be taken during the period, October to April. Since Transwestern has a fixed demand charge with no adjustment for volume of gas delivered, the higher volume reduces the average price of gas for that period by spreading the demand charges over a larger volume of purchased gas. The second effect is in the estimated Btu content per cubic foot of the purchased gas. The heating value of gas purchased by SoCal varies with each source and among the various sources. SoCal estimated a weighted average heating value of 1,053 Btu per cubic foot. The staff's estimate is 1,056 Btu per cubic foot.

While the procedure heretofore approved by the Commission in connection with PGA calculations considers a base period of one year, recent experience has shown us that anticipation of stability in natural gas rates for a period of one year is fallacious. It is virtually a certainty that on or before April 1, 1976 there will be changes in rates to SoCal's customers. It is reasonable to consider the cost factors that will be involved during the period we can reasonably anticipate that the rates to be established will be in effect. Accordingly, we adopt the staff's methodology for the purposes of this proceeding.

Based upon the estimates of record and the staff's methodology, we estimate that the impact of the changes in the rates of SoCal's suppliers, including the 4.85 cents-per-Mcf reduction by Transwestern, is a net reduction in SoCal's cost of purchased gas. The reduction is caused by the fact that SoCal will take approximately 71 percent of its purchased gas from El Paso. The net reduction in revenue requirement for purchased gas, uncollectibles, and franchise requirements is $5,239,000. The average decrease in SoCal's rates which will reflect a $5,239,000 decrease in revenue is 0.071 cents per therm.

At the time of hearing the fact that Transwestern would file for a reduction in its proposed increase in its basic price of natural gas was uncertain, and the amount of any such reduction was not known. As a result much of the argument offered in this proceeding concerned the manner in which the burden of increases in

SoCal's revenue requirement should be spread among the various classes of customers. SoCal and many interested parties suggested that the rates for all classes of service be increased uniformly in cents per therm. The Commission staff recommended that the burden of the increase be assigned to the lowest tailblock of interruptible customers until the rates in that block are raised to the rates in the next lowest block and then raise both to the rates in the next block, and so on, until the revenue requirement is met. In their arguments the parties indicated that if the net impact is a reduction in cost any decrease in rates should be apportioned in the same manner as they suggest the increases be apportioned.

The net reduction in cost results from the decrease in the El Paso purchased gas cost adjustment which reflects, in part, the reduction of surcharges for gas. On April 1, 1975 the cost of those surcharges was spread among all classes of SoCal's customers on a uniform cents-per-therm basis. Under the circumstances, the net decrease in cost should also be spread among all classes of customers on a uniform cents-per-therm basis.

Findings

1. El Paso has filed a purchased gas cost adjustment with the FPC amounting to a decrease of 5.31 cents per Mcf in its currently effective commodity rates to become effective October 1, 1975.

2. Transwestern has filed a purchased gas cost adjustment with the FPC amounting to an increase of 2.25 cents per Mcf in its currently effective commodity rates to become effective October 1, 1975.

3. In March 1975 Transwestern filed with the FPC a basic increase in gas price equivalent to approximately 12.29 cents per Mcf which was suspended by the FPC until October 1, 1975. On September 30, 1975, Transwestern filed a motion with the FPC to reduce its proposed 12.29 cent increase by 4.85 cents per Mcf.

4. SoCal receives gas from California producers through its affilliate PLS under long-term contracts which provide that the price of such gas shall be determined by the average price paid by SoCal and PLS for out-of-state gas received at the California border.

5. Approximately 71 percent of the natural gas purchased by SoCal is from El Paso, about 25 percent from Transwestern, and the remainder from California producers.

6. A reasonable estimate of the annual volume of gas to be purchased by SoCal is 742,677 million cubic feet.

7. For the six months commencing October 1, 1975 the average heating value of gas to be purchased by SoCal is 1,056 Btu per cubic foot.

8. The net effect of the aforementioned changes in the price of gas is a decrease in the cost to SoCal of purchased gas. The reduction in revenue requirement resulting from the decreased cost of purchased gas and other costs incidental to a change in rates, such as for uncollectibles and for franchise requirements is $5,239,000 annually, which is equivalent to 0.071 cents per therm.

Conclusions

1. The decrease in purchased gas cost caused by the reduction of surcharges paid by SoCal to El Paso, the cost of which has been borne by all classes of SoCal's customers on a uniform cents-per-therm basis, should be reflected by a decrease in revenue requirement spread among all classes of service on a uniform cents-per-therm basis.

2. SoCal should be ordered to file with the Commission, to become effective one day after the date of the order herein, revised tariff schedules providing for a uniform decrease in rates of 0.071 cents per therm, or equivalent, to all rate schedules.

O R D E R

IT IS ORDERED that Southern California Gas Company shall file with this Commission, to become effective one day after the date hereof, revised tariff schedules providing for a decrease in rates of 0.071 cents per therm, or equivalent, to all rate schedules.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 7th day of OCTOBER, 1975.

President

William Symons Jr.

Vernon L. Sturgeon

Leonard Ross

Robert Batinovich

Commissioners

APPENDIX A

LIST OF APPEARANCES

Applicant: William M. Pfeiffer, Jeffrey A. Meith, and Priscilla M. Martin, Attorneys at Law, for Southern California Gas Company.

Protestants: Hyman Finkel and Edward B. Novikoff, for Seniors for Political Action and CAUSE; Herman Mulman, Attorney at Law, and Burt Wilson, for CAUSE; Robert J. Henry, for V.F.W. and other old-age pensioners; Tim Brick, Attorney at Law, for Peoples Action Union; and Charles J. Salinas, for himself.

Interested Parties: Leonard L. Snaider, Attorney at Law, for Burt Pines, City Attorney, City of Los Angeles; Chickering & Gregory, by Sherman Chickering, Donald J. Richardson, Jr., and David Lawson, Attorneys at Law, Gordon Pearce, Attorney at Law, and John H. Woy, for San Diego Gas & Electric Company; John W. Witt, City Attorney, by William S. Shaffran, Deputy City Attorney, for City of San Diego; George R. Gilmour, Attorney at Law, for TURN; Brobeck, Phleger & Harrison, by Gordon E. Davis and Thomas G. Wood, Attorneys at Law, for California Manufacturers Association; Rollin E. Woodbury, Robert J. Cahall, William E. Marx, and H. Robert Barnes, Attorneys at Law, for Southern California Edison Company; Leonard Putnam, City Attorney, by William E. Emich, Deputy City Attorney, Edward C. Wright, and Roy A. Wehe, for City of Long Beach; Robert W. Russell and Manuel Kroman, for Department of Public Utilities & Transportation, City of Los Angeles; Richard M. Glick, for Los Angeles Department of Water and Power; and Henry F. Lippitt 2d, Attorney at Law, for California Gas Producers Association.

Commission Staff: Walter H. Kessenick, Attorney at Law, and Edward Texeira.