

Decision No. 85354

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of }
SOUTHERN CALIFORNIA GAS COMPANY for }
A General Increase In Its Gas Rates. }

Application No. 55345
(Filed November 26, 1974)

(Appearances listed in Appendix A)

OPINION ON MOTION FOR PARTIAL GENERAL RATE INCREASE

Southern California Gas Company, a California corporation, (SoCal) filed a motion for a "partial general rate increase, effective immediately, and in the least amount shown by the record to be justified using for this purpose only the Commission staff's estimates of revenues, expenses, rate base and the lowest rate of return recommended by any party to the case". This motion was filed on November 19, 1975 after the completion of 61 of the 70 days of the hearing in this matter. Arguments on the motion were made on December 2, 1975, the 67th day of hearing in this matter and the disposition of the motion is the subject of this decision.

This proceeding was submitted on December 9, 1975 subject to the receipt of late filed exhibits and concurrent opening briefs on January 22, 1976 and concurrent closing briefs on February 5, 1976.^{1/}

SoCal contends that the relief requested was urgently needed because of its need to earn additional revenues in 1976 equal to the estimated revenue deficiency for the test year and that though it had earlier desired to have the opportunity to do so beginning

^{1/} Transcript corrections changing the date of closing briefs from February 25, 1976 to February 5, 1976 have been made on the official copies of the transcripts (TR 5767 lines 12 and 18).

January 1, 1976 that that is not possible and therefore it was requesting a partial general rate increase of \$50,052,000 based upon the staff's estimates and the lowest recommended rate of return since this amount is not subject to reasonable dispute. SoCal maintains that it is entitled to the total rate relief which it has requested, which was reduced from \$151,450,000 to \$129,470,000 on September 4, 1975 based upon its revised estimates of revenues expenses, rate base, cost of capital, and a reasonable rate of return for test year 1976. The lowest rate of return recommendation supported by an evidentiary showing was that prepared by a witness for the city of Los Angeles (LA).

SoCal's total rate relief includes \$18,077,000 authorized by D.83881 dated December 17, 1974 in A.55117 as adjusted for test year 1976.

SoCal states that the increase over the rates in effect as of October 1, 1974, excluding the GEDA charges then contained in its tariffs, and revised to reflect rate changes ordered by D.84512 dated June 10, 1975 in A.53797 would result in a system average increase of 6.25 percent and, that if authorized the partial general rate increase requested in its motion would add 3.99 percent to the increase authorized by D.83881.

SoCal contends that the relief requested will improve its ability to raise the large additions to capital it requires to insure the continuation of service to its southern California customers; that improved market acceptance of its securities will result from improved earnings on common equity and increased coverage of debt interest, thus reducing the risk of further derating and permitting the issuance of new securities at less cost to the ratepayers; and that such relief would do much to ameliorate the general concern with

regulatory lag. SoCal's motion requested that, if necessary, oral argument be held on the merits of its motion.

SoCal's oral argument in support of its proposal mentioned the implementation of Assembly Bill (AB) 167, the Miller - Warren Energy Lifeline Act, and the implementation of the Commission's new rate design policy in D.84902 dated September 16, 1975 in Pacific Gas and Electric Company's (PG&E) A.54279, A.54280, and A.54281. SoCal admits that it is not faced with a financial emergency. SoCal proposes that the rate relief granted pursuant to its motion should be subject to refund in the event that the Commission's final determination is less than the rate relief authorized pursuant to this motion.

SoCal points out that its Rule 2(n) appears to be an effective ceiling on its rate of return since it requires the refund of purchased gas adjustment clause (PGA) amounts to the extent that earnings exceed the authorized level. SoCal does not anticipate being able to earn the authorized rate relief for test year 1976 since whatever return the Commission ultimately authorized would not be in effect for the full test year and that its motion for interim relief only covered the lowest estimates which are evidence of record, but that the granting of its motion would give SoCal a far better chance of resisting a deterioration of its earnings in test year 1976.

Commission Staff Rate Design Evidence

The staff rate design gave consideration to the lifeline concept. It contains an inverted rate structure in which consumption above the lifeline quantity is priced at higher unit commodity charges than for consumption below the lifeline quantity. The staff recommends an ultimate rate design which would equalize the commodity rates for all retail service classes with the commodity rate under the general service schedules for consumption in excess of the lifeline quantity. However, the staff did not give consideration to the interim offset relief granted in D.83881 in preparing a rate spread to implement SoCal's motion for interim relief, and it was not possible to equalize the commodity rate for firm general service consumption above the lifeline quantity and for all other retail quantity rates without reducing the rates for certain general service consumption levels. Consequently a two step commodity rate above the lifeline quantity and different commodity rates for other schedules is recommended by the staff if the Commission should authorize the interim increase. The staff proposed consolidation of the five general service rate zones into two zones for simplification purposes. The staff originally recommended a 75 thermal unit (TU) lifeline quantity equal to the lifeline quantity in PG&E's rates authorized in D.84902. When the validity of using the same 75 TU lifeline quantity for the two utilities was tested the following information was elicited: (1) The PG&E service area generally has a higher residential heating requirement than the SoCal service area. The number of degree days which are a measure of potential space heating load is higher in the PG&E service area than in SoCal's service area, 4,173 degree days vs. 1,701 degree days. (2) The average residential usage in PG&E's service area is 95 TU per month compared to an average residential usage of 75 TU per month in SoCal's service area and 67.1 TU in San Diego Gas & Electric

Company's (SDG&E) service area. (3) A bill distribution analysis shows that 44.0 percent of PG&E's general service bills are 60 TU or less and 48.5 percent are 75 TU or less. A similar comparison of SoCal's bills shows that 51.2 percent are 60 TU or less, and 57.2 percent are 70 TU or less, and 67.5 percent are 80 TU or less.

The staff rate design witnesses testified that if 75 TU were reasonable for PG&E that 60 TU would be reasonable for SoCal.

A staff witness testified that utilizing more recently recorded data his trend of heating values of the gas supplied to SoCal should be increased from an average heating value of 1,053 Btu per cubic foot to 1,055 Btu per cubic foot. He testified that these Btu values were greater than the estimates of SoCal's suppliers but that these suppliers' estimates had been below actual heating values in the time span utilized for this proceeding. The effect of using the higher heating values would be to reduce the interim revenue requirement from \$50,052,000 to \$44,470,000.

SoCal is proposing a change from billing in 10 Btu bands to a single Btu band. The computer program utilized in preparing the earlier staff estimates rounded down the 1,053 heating value to 1,050 Btu in estimating sales at present rates. At 1,055 Btu the heating values were rounded up to 1,060 Btu for estimating sales. SoCal serves a multiplicity of areas whose heating values are continuously monitored. These values are used for billing purposes. While the average heating value within SoCal's service area is at a given Btu value customers would be billed at different billing factors depending upon the Btu of gas supplied in that area. Billing based upon heating values measured to the nearest Btu per cubic foot will result in more equitable billing since there is a lesser rounding effect, nor would revenue estimates fluctuate as sharply due to the billing factor rounding.

SoCal has five general service rate zones. The primary factor in establishing different rate zones is the density of meters per mile. There are several categories of expense which are affected by the density of meters in the service area, e.g., meter reading, meter maintenance, and distribution system maintenance. The staff proposal to reduce the number of rate zones to two zones to simplify rates and to reduce the staff administrative burden in monitoring changes in rate zones does not give adequate recognition to the real differences in cost to SoCal to provide service in the several zones. Certain customer costs have increased faster than commodity costs.

The differential between the staff's two rate zones would be approximately 23 cents per month if the full increase requested was authorized. This would result in a subsidy of rural customers by metropolitan customers. The staff rate design to implement this proposal would result in a substantial number of customers receiving reduced bills in order to arrive at overall bills within the lifeline quantity which would not result in a rate increase. The existing five zone structure should be continued pending a more definitive record justifying zone changes.

The staff modified its original proposed continuation of the 2 TU quantity allowance as part of the existing minimum charge in SoCal's general service rates to a service charge with no consumption being included in the minimum rate and a single lifeline quantity rate. The staff recommended preservation of the G-10 optional schedule for small residential users, which provides for a one dollar reduction at a usage of .2 TU or less compared to the applicable general service schedule and a higher commodity charge with a break-even point at 30 TU.

The staff recommended elimination of all special rates for air conditioning usage, stating that such rates are inconsistent with the present circumstances of diminishing gas supply. This recommendation will be adopted.

AB 167 provides for the establishment of a lifeline volume of gas meeting certain criteria. Adoption of the staff recommendation increases the lifeline quantity and extends its applicability to all residential customers. Preservation of the G-10 Schedule would represent establishment of two lifeline quantities. This duplication is not warranted. There is a substantial administrative burden to SoCal in implementing the G-10 Schedule. Elimination of Schedule G-10 would increase SoCal's revenues by \$271,000 from approximately 65,000 customers.

Other Staff Changes

The staff increased its estimate of operating expenses by \$187,000, increased SoCal's rate base by \$1,942,000, increased SoCal's JDIC income tax deduction by \$266,000 and decreased revenues by \$165,000 to reflect changes in estimated igniter gas deliveries.

Alternate Lifeline Rate Spreads

SoCal and the staff presented several exhibits showing the revenue effects of implementation of lifeline quantities at 75 TU and of 60 TU per month, of two rate zones and of five rate zones, and of heating values of 1,053 Btu per cubic foot and 1,055 Btu per cubic foot. SoCal supported a 1,053 Btu, five zone 60 TU lifeline rate design but concluded that one of the other rate alternatives would satisfactorily implement the Commission's rate design policy.

Long Beach (LB) Evidence

LB established a disparity between the demand-commodity relationships under which it purchased gas at wholesale vis-a-vis these relationships in SoCal's schedule for its other wholesale customer, SDG&E. LB supplies a much greater proportion of its total gas deliveries with its own supplies compared to SDG&E. These supplies of LB lessen the total and peaking demands on SoCal compared to SDG&E yet LB pays higher demand and total costs per Mcf than does SDG&E. LB witnesses testified that an analysis either on a cost of service basis or on a comparative basis with SDG&E shows that it is entitled to a

lesser increase in rates. A LB witness recommended either a restructuring of rates reducing the G-60 demand component or a rate simplification with a single regular commodity and demand charge and a peaking demand and commodity charge. The evidence supports the need for simplifying LB's rate structure at this time. Other issues raised by LB - requesting a lesser increase for LB and questioning whether SoCal honored its G-60 contract - will be dealt with in a subsequent order. -

Western Mobile Home Association (WMHA) Evidence

WMHA witnesses testified for mobile home park owners or managers providing resale gas service. WMHA demonstrated that for five mobile home parks the institution of lifeline rates would reduce the margin of revenue compared to gas costs used for defraying the expenses of operating and maintaining the mobile home park's gas resale systems and for profit. WMHA requested a reduction in their rates to partially restore this differential. WMHA could provide no reliable estimate of the revenue impact of their proposal on SoCal. If lifeline is extended to trailer parks there is a question of whether trailer parks should have the same lifeline quantity per space as units in conventional residences which cannot be answered on this record. A similar problem faces us in the question of extending lifeline to other types of multiple residential buildings. These basic lifeline determinations should first be made in C.9988, our general lifeline investigation.

LA Evidence

LA's witness recommends an 8.75 percent rate of return if the Commission adopts his proposal that embedded debt costs be adjusted for gains realized from reacquired securities, i.e. SoCal or Pacific Lighting Service Company^{2/} (PLS) bonds repurchased at a discount used

^{2/} SoCal's affiliate PLS supplies gas to SoCal on a cost-of-service basis.

for meeting sinking fund obligations at par and an 8.90 percent rate of return using unadjusted embedded debt costs. He makes these recommendations with the proviso that if the Commission adopts SoCal's proposed treatment of the investment tax credit (ITC) under the 1975 Tax Act, i.e. Option 2, that the Commission should reduce the allowed rate of return in recognition of the increased cash flow, decreased outside financing, and increased interest coverage resulting from the election of Option 2.

Argument of the Utilities Division Staff

The Utilities Division staff reviewed the recorded and temperature adjusted rates of return filed with the Commission which showed a decline from July 1975 to September 1975. For the 12 month period ending September 1975 the rates of return were 8.21 percent on a recorded basis and 7.85 percent on a temperature adjusted basis, the latter being 0.90 percent below that requested in the motion under consideration and 0.65 percent below the last authorized rate of return.

The Utilities Division staff contends that its results of operations showing which had been tested at some length should provide a reasonable basis for measuring SoCal's 1976 operations and that the staff estimate shows SoCal's earnings at present rates would be 6.26 percent for test year 1976.

The Utilities Division does not oppose the granting of SoCal's motion subject to the following:

1. That the amount of the partial increase should be limited to the 8.75 percent rate of return based on the recommendation of LA's witness;

2. That the rate design follows that of the staff's rate design principals set forth in Exhibits 45 and 45-2;
3. That the Utilities Division had no objection to including a 60 TU lifeline feature for general service as testified to by its rate design witnesses, in lieu of their initial 75 TU lifeline proposal, modified to establish a service charge with no consumption and to incorporate a single commodity rate for the entire lifeline quantity and to eliminate the two TU allowance contained in the present minimum general service charge. The staff recommended reducing the number of rate zones from five to two and preservation of the optional G-10 Schedule;
4. That any increase authorized should be made subject to refund.

Argument of Staff Counsel

The Commission staff counsel argues that the Public Utilities Code requires a showing of need to justify a rate increase; that the Commission has interpreted this section to require that in order to grant relief prior to the conclusion of a general rate increase there should be a finding of financial emergency and that SoCal had conceded that its motion was not based on any allegation of financial emergency; that past decisions found that existence of a present emergency was a lawful condition precedent to the granting of interim relief; and that the Commission found that the additional burden imposed upon it in the preparation of a preliminary order as well as a final order in a rate proceeding could result in greater rather than less regulatory lag; that SoCal had not shown that it was unable to

attract capital, meet its financial obligations, meet its service obligations, or that it would face irreparable harm prior to issuance of a final decision; and that an interim increase would not be in the public interest when a final decision should be forthcoming in a reasonable time. Staff counsel also noted that in recent years the Commission authorized interim increases where there was not a finding of financial emergency only under extraordinary circumstances which were cited in detail in the decision.

Staff counsel states while SoCal expressed concern about regulatory lag because its application was filed November 26, 1974, its filing was deficient because there were no exhibits filed with the application and the exhibits were not filed until December 23, 1974.

Staff counsel contends that SoCal has also been a heavy contributor to regulatory lag in the following respects:

1. SoCal raised issues which were litigated in recent proceedings in which the decision was adverse to its position (e.g. the disallowance of dues and donations, pro forma treatment for a storage reservoir).
2. SoCal imprudently changed its accounting method which has required litigation of the ITC issue.
3. SoCal's parent, Pacific Lighting Corporation (PLC), has assessed unreasonable charges to SoCal.
4. SoCal's estimates include an inflation factor and SoCal's witnesses were unable to initially explain the inflation factor.

5. The deficient earnings of nonutility businesses of PLC have apparently led to SoCal's need for a 15 percent return on equity and SoCal's introduction of rebuttal testimony on rate of return has precipitated additional surrebuttal testimony.
6. There was a major change in SoCal's showing in September in which the company's revenue requirements were reduced. The staff had to prepare essentially one and one-half results of operations studies in this proceeding.
7. The staff time required to analyze the motion and prepare for argument and the hearing time to address the motion results in additional staff work which is taken away from other utility rate cases and winds up contributing to the lag in another case. This process can result in a vicious circle increasing overall regulatory lag.

Staff counsel further contends that the decision on the motion represents an extraordinary proceeding and that the treatment of the issues might be different in the final disposition of this matter; and that the Commission might be in a tenuous legal position in authorizing the relief requested by SoCal because several parties disagree with both SoCal's and the staff's treatment of several phases of the results of operation and other parties disagree with the rate spread proposed herein.

Staff counsel argues that if the Commission decides on a different rate design in the final decision then there will have to be a disposition as to whether there should be a refund, and, if so, who gets that refund; that if the Commission were to adopt the practice of giving partial general rate increases then parties in other proceedings could immediately ask for a reduction in rates if the staff's results of operations shows a return above the presently authorized rate of

return. Staff counsel also pointed out the difference between the SoCal and the recent Southern California Edison motion for interim relief: Edison's rate of return is presently 2 percent below last authorized as compared to SoCal's, whose rate of return is 0.65 percent below that last authorized. Finally, staff counsel contends that recent adjusted results of operations exhibits reflect a greater optional repair allowance estimate for income tax purposes than was warranted and that later information on gas supply being furnished by SoCal's suppliers would have an impact on the revenues of SoCal.^{3/}

Argument of LA

LA supports the position of the Commission staff counsel's recommending denial of the motion. LA argues that if the increase is authorized the California Supreme Court will reverse the Commission, as it did in City of Los Angeles vs. Public Utilities Commission (1972) 7 C 3d 331; that SoCal will lose ITC if the staff recommendation is adopted for ratemaking purposes; that SoCal contradicts itself in stating that the "relief requested herein will improve SoCal's ability to raise the large additions to capital it requires...", whereas in two purchase gas adjustment proceedings SoCal sent letters to the Commission saying that because these rates were subject to refund their earnings were somehow suspect and their financing ability was somehow impaired.

LA contends that there is no legal precedent for this type of motion because the financial emergency criteria is lacking; that while LA did not put in evidence on results of operations it is able to make recommendations based upon the evidence and the Commission has to make its own determination based on the evidence which may not be any of the

^{3/} Late-filed exhibits by SoCal and the staff will show the estimated revenue impact of the increased gas supplies. Some of these supplies may be purchased at premium rates, as emergency gas supplies.

recommendations of the parties, e.g. in A.53797 the Commission staff agreed with SoCal as to a pro forma adjustment for the Aliso storage field which was rejected by the Commission; and that the Finance and Accounts Division witnesses recommended greater adjustments than did Utilities Division witnesses.

LA objects to (a) the allowances for some of the charges from PLC to SoCal, (b) the five year averaging method of the ITC being utilized by the staff, (c) the different gas heating values which have been used in different SoCal proceedings, (d) the massive expenditures for the advertising and public relation departments, and (e) the estimates of depreciation expense.

LA argues that in FPC proceedings there is an absolute liability if interim relief is granted and the final relief is lower than authorized in the interim proceeding for a given customer(s) and in that circumstance parties paying unreasonably high rates in the interim period are entitled to refunds; that findings and conclusions are necessary for each issue; and that it would be premature to issue a decision with findings and conclusions because the parties final arguments have not been received.

LA further contends that if this relief is authorized the Commission should reduce rates where the staff showing indicates a company is earning more than its authorized rate of return.

Other Parties in Opposition to Granting the Motion

The city of San Diego (SD) opposed authorizing the relief sought citing many points referred to by staff counsel and by LA, especially the lack of either an emergency or a precedent. SD states that this is not an offset type of proceeding and attacked SoCal for asking for a higher rate of return in its motion. SD contends that if the Commission gets

involved in granting this type of relief they will end up having two rate cases instead of one in every general rate case that is filed. SD urged that if interim rate relief was authorized that no increase in rate of return be included.

The Cities of Bellflower, La Mirada, and Santa Barbara also oppose the granting of the motion.

Argument of SDG&E

SDG&E states that as SoCal's largest customer it does not like to see a larger gas bill coming in every month because this necessitates an increase in rates to SDG&E's customers, but that they supported authorization of partial rate relief to SoCal because the Commission has to take the appropriate and innovative steps necessary to insure adequate, efficient service by SoCal in the future particularly to meet peak demands and to assure that adequate gas supplies are available. SDG&E wants to avoid a situation where it may find itself, shortly down the line, without adequate and sufficient service.

SDG&E argues that lack of precedence does not prevent the granting of the particular motion; that the key question was whether the rates were just and reasonable; that the just and reasonable standard for setting rates must be explicitly stated and used in determining the findings contained in the decision; that just and reasonable rates will help protect service to the customers of SoCal and are in the public interest; that the Commission stated that it has great latitude in its approach to ratemaking orders and that the results it reaches will be determined by what is in the public interest; that the Commission is not strictly bound by technical definitions of offset or emergency rate decisions which have been utilized in the past; that the Commissioners have expressed their desires to see

innovative and workable solutions to the complex problems facing the utilities and the Commission today; that these problems are caused by numerous factors not the least of which is the inflation which continues to affect SoCal as well as every other utility and every customer of every utility in the state but also by the increasing complexity of utility operations and utility regulation; that gas supplies are no longer obtained by simply drilling a well, putting a pipe on the end and buying gas on the other end, but that billions of dollars are involved in getting sufficient significant quantities of gas which involve significant lag in terms of planning and implementation of the project; and that operation of the Honor Rancho gas storage project, which benefits all of SoCal's customers, has increased SoCal's expenses.

SDG&E supports authorization of all of the increased expenses in which the staff concurred with SoCal but opposes SoCal's request for an increase in its rate of return. SDG&E argues that it would be in everyone's best interest to disregard the proposed increase in rate of return from 8.50 to 8.75 percent so that the issue of expenses would be the only remaining one and in that case this proceeding would then be in the nature of an offset and the necessary findings could be made to substantiate the interim relief granted; that if in its final order the Commission found the staff has been too generous SoCal's statement that they were willing to make the rate increase refundable would cover that contingency; and that if the final order contained a different rate design than the interim order and refunds have to be made to certain customers there would be no question of retroactive ratemaking.

SDG&E argues that LA's contention that the ITC could be lost if the Commission adopted the staff position on an interim basis was incorrect because the portion of Section 46 amended by the 1975 Tax Reduction Act states that upon a "first final determination" the additional credit will no longer be permitted and will be retroactively lost and that Commission action on SoCal's motion is not a final determination. Consequently, SoCal has not put itself in a bind by asking for the adoption of the staff's ITC treatment in this interim proceeding.

Argument of LB

The Long Beach Gas Department is the second largest customer of SoCal. LB spoke in favor of granting the interim increase because the financial integrity of SoCal is a matter of concern that affects not only the people of Long Beach and San Diego but the people of the entire Southern California area and that LB did not believe that an institution should be brought to its knees before it could be granted financial relief. LB contends that many of the cases cited by counsel were in the 1960's; that those arguments were not applicable to today's chaotic economic times; and that the Commission should take a fresh look at SoCal's requirements for interim rate relief in light of the current economic situation. LB stated that its witnesses were going to present a showing on rate design which would call for a readjustment in the rates applicable to LB under SoCal's G-60 Schedule.

Argument of the California Manufacturer's Association (CMA)

CMA objects to SoCal's proposal to adopt the staff rate design, which the staff admits is an attempt to implement lifeline on an interim or tentative basis. CMA argues that if lifeline rates and the staff rate design are used for this interim increase the impact will not be temporary nor tentative; that if the interim decision

comes out prior to January 1, 1976 and the rates are in effect prior to January 1, 1976 that adopted rates will in effect be frozen; that its evidence will show the disparity between any of the various methods of cost allocation and the revenues generated by either the company's rate design or the staff rate design and that if this disparity exists on January 1, 1976, the Commission has created tremendous problems for itself, for SoCal, and for SoCal's customers; that SoCal's Base and Load Equation Method shows a differential between allocated costs and SoCal's proposed rates of nearly \$50,000,000 for firm general service and that the disparity using the staff rate design would be nearly twice as great; that Exhibit 74 shows that the cost of serving a general service customer using 75 TU per month, on any of the cost allocation bases used by SoCal's witness in Exhibit 5-1, exceeds the bill proposed by the staff for 75 TU even if all return and certain taxes were removed from the cost of service; and that this revenue disparity must be made up by other classes of service, predominantly by the regular interruptible class.

The CMA position is that this type of rate design at this time is short-sighted, is unlawfully discriminatory, and is illegal; that a 60 TU lifeline would lessen the degree but not the nature of the impact on other classes; that in a few years SoCal's interruptible sales will be but a small fraction of their 1976 level; and that by increasing the percentage of total revenues which would be attributable to interruptible sales, the Commission will assure revenue instability to the company requiring further rate increase filings which is not healthy for the utility, for the staff, or for the firm general service customers who will finally bear all the costs when interruptible service is completely curtailed; that the Commission may vary from cost of service in setting rates but that it should be used as a

place for the Commission to start, as full cost of service figures provide a rational basis for the policy determinations that are within the Commission's province; that in past proceedings the Commission has stated that each class should bear a reasonable share of its cost of service; that in some of the older decisions the Commission has held that interim rate changes should not include rate design changes; and that if the Commission were to decide that no rate design changes would be appropriate in an interim increase that CMA would recommend a uniform percentage of revenue increase.

Regulatory Lag

Several of the above-mentioned arguments concerning SoCal's own contributions to regulatory lag are valid. The following discussion sets forth additional detail as to factors delaying final resolution of this matter.

SoCal's case-in-chief, consisting of results of operation reports on SoCal and on PLS, together with ten other exhibits and the prepared testimony of 15 witnesses introduced as exhibits, was not filed with the Commission until December 23, 1974, 27 days after the application was filed and was not mailed to the other parties until December 30, 1974. We are putting SoCal on notice that its entire case-in-chief should accompany a rate increase filing.

Subsequent auxiliary exhibits and revisions to reflect changed circumstances would normally be expected during the course of a proceeding. In this case after certain substantial changes were elicited through cross-examination SD requested and the examiner directed SoCal to supply exhibits explaining changed circumstances justifying modification in its request in advance of cross-examination. SoCal offered 33 exhibits modifying its

results of operations reports, ten revised prepared testimony exhibits, and eight other revised exhibits modifying its case-in-chief. There were further changes concerning the proposed issuance of debt and securities outlined by the last SoCal witness testifying in its case-in-chief.

Seven days of hearings were scheduled in this proceeding for the testimony of public witnesses, including a night hearing, as compared to two days of public witness testimony in A.53797, SoCal's last general rate increase application.

A disproportionate amount of time was devoted toward the resolution of the igniter requirements of SoCal's G-58 and G-61 customers.

Need for Partial Increase

Notwithstanding the various causes of delay in this proceeding there is convincing evidence that at present rates SoCal will not earn its last authorized rate of return during test year 1976. SoCal is requesting a total increase of \$129,470,000 for test year 1976. Obviously delays in effecting the increase ultimately determined as reasonable beyond January 1, 1976 will reduce SoCal's opportunities to earn the authorized increase during the test year.

The ever increasing cost of goods and services, the current high level of the cost of money, the imposition of environmentally related regulatory requirements, and the substantial increase in the need for capital have combined to necessitate frequent formal filings by many utilities resulting in a backlog of formal proceedings unprecedented in this Commission's history. In addition, participation in these proceedings by heretofore nonexistent or relatively inactive consumer groups has rapidly accelerated. The unavoidable effect of the increase in both the number of formal filings and the number of

participants at the hearings on these matters coupled with a flood of utility related legislative acts has been a substantial increase in the period between the filing of an application and the issuance of a decision on the matter. Such conditions exist throughout the country as well as in California. No correlation has ever been established between the extension of regulatory processing time and the numerous deratings of utility financial offerings but it is axiomatic that delays in providing financial rate relief do nothing to mitigate the earnings attrition of a utility or the possibility of a derating of its securities. It is obvious that measures must be taken to counteract the deleterious effect of prolonged formal matter regulatory processing periods on both the investor and ratepayer.

SoCal and PLS have and will continue to require outside financing for a large proportion of their capital needs and the potential of achieving a reasonable rate of return is necessary to attract this capital at reasonable costs. In addition, the inability of SoCal's traditional suppliers to meet their contractual obligations for gas deliveries, let alone to meet increased demands, has made it necessary for SoCal's parent and certain affiliates to seek out, procure, and deliver additional supplies. The terms and conditions under which SoCal's parent and affiliates can secure new gas supplies for SoCal is dependent to some degree upon the financial health of SoCal.^{4/} PLC looks to SoCal to support its gas supply activities.

^{4/} Poor earnings by PLC's nonutility related subsidiaries adversely affect PLC's ability to secure investment capital to meet its utility related needs. SoCal's ratepayers should not have to make up for the revenue deficiencies of PLC's nonutility related operations.

The condition attached to IA's lowest recommended rate of return relates to the appropriate treatment of SoCal's ITC, which is one of the major unresolved issues in this proceeding, and weighs heavily in our determination that an interim increase in rate of return is not warranted. The record would not support a reduction of SoCal's rate of return below 8.5 percent.

The evidence shows that a continuing downtrend in gas supplies has necessitated costly investments in storage fields, pipelines, and equipment to meet seasonal and peak loads. Absent any other change the lower gas sales volumes would erode SoCal's return and would lead to further rate filings requesting higher unit sales prices. The augmented supply estimates of SoCal's pipeline suppliers would slow but not arrest the decline in SoCal's gas supply.

All other conditions are not static. Factors leading to lower costs of operation are few and far between. Domestic pipeline and producer gas prices are increasing and the unit cost of potential Alaskan gas, coal gas, or of LNG supplies will be several times greater than that of present supplies when and if they reach SoCal's system.

In evaluating this request for partial rate relief we note that the staff has assumed no increases in wages and benefits and no increase in postage expense for the test year. Consideration of the multimillion dollar impact of these expenses will be considered in a subsequent order in this proceeding.

The evidence presented on this record, except for the abovementioned late-filed exhibits, has been tested on the record and our review indicates that there is a reasonable basis for authorizing partial rate relief in the light of the current economic situation.

We should not be straightjacketed by precedents established under radically different economic, social, and legislative conditions.

After receipt of the late-filed exhibits and briefs the specific issues raised on the appropriate level of rate relief and on rate design will be analyzed in detail in a subsequent order. This analysis is a time consuming process. Our review of the multiplicity of issues raised in this proceeding will require a considerable period of time. The circumstances relating to the posture of this proceeding, which may not be present in other proceedings, lead us to conclude that partial rate relief should be authorized at this time.

The authorized general service rates are based upon establishment of a service charge with no minimum allowance and a monthly residential lifeline quantity of 75 TU. We have previously exempted the first 75 TU per month of residential usage from certain rate increases. The comparison of SoCal's residential requirements with that of PG&E would tend to support establishment of a 60 TU lifeline. However, we anticipate setting lifeline quantities for SoCal meeting criteria set forth in C.9988 in the near future. Fewer changes of the lifeline quantities would minimize public confusion on this subject.

The rate design criteria set forth in D.84902, which was incorporated in the staff's rate design exhibits, was a primary determinant in the staff's proposed rate design. It is reasonable to adopt the staff rate criteria, modified as described above, to establish increased rates to implement the partial general rate increase authorized herein. The briefs of the several parties will be considered in establishing the rate spread related to the total rate relief which will be authorized by subsequent order.

The rate relief authorized herein which has been incorporated in Appendix B attached hereto, should be subject to refund with interest at seven percent to the extent that the final total relief authorized is less than \$39,323,000 or if a restructuring of rates results in some of SoCal's customers paying more on an interim basis than with the rates implementing the total relief authorized.

The rate increase authorized herein of \$39,323,000 is the net of SoCal's requested increase of \$50,052,000 reduced to reflect (a) a 1,055 Btu average heating value for gas, (b) an 8.50 percent rather than the requested 8.75 percent rate of return on rate base, (c) the switch from a 10 Btu band to one Btu in computing the billing factor, (d) a \$271,000 increase in revenues related to the termination of Schedule G-10, (e) the restructuring of LB rates to yield the same dollar amount of increase to LB, and (f) incorporation of the other staff changes described on mimeo Page 7.

The annualized effect of authorizing partial rate relief of \$39,323,000 would increase SoCal's rate of return, on the staff basis, from 6.49 percent to 8.50 percent on rate base.

The \$39,323,000 is a 4.90 percent increase over the October 1, 1974 rates, excluding GEDA charges, and revised to reflect rate changes ordered by D.84512. The increase is \$21,246,000 (2.59 percent) above the rates authorized by D.83881.

Reopening Proceeding

The adoption of lifeline quantities in C.9988 will result in a shift of revenue requirements between SoCal's customer classes and/or within the firm class. The adoption of end-use priorities in D.85189 dated December 2, 1975 in C.9642 will shift the pattern

of interruptible deliveries to SoCal's regular interruptible and wholesale customers. SoCal indicated that it would take several months to estimate delivery patterns under the new priority system. This proceeding was submitted subject to possible reopening on the rate spread issue. The timing of decisions in C.9988, C.9642, and in this proceeding will dictate which proceeding is the appropriate vehicle for expeditiously determining rate design based upon end-use and lifeline quantities.

Findings

1. SoCal's testimony and evidence in this proceeding reflects test year 1976 results in anticipation that any authorized increases would be in effect for all of the test year.

2. Since a decision in this matter will not be issued in time to provide the test year 1976 revenues found reasonable, a partial general increase in rates, to be construed as an initial phase in this proceeding, is reasonable and justified to arrest SoCal's continuing erosion of earnings and to materially improve its financial performance, to enhance its ability to raise additional capital required for financing its continuing construction programs, (which are required to provide its peaking and seasonal load requirements), to provide better investor acceptance of SoCal's securities, and to reduce the risk of derating of its securities.

3. SoCal faces continuing attrition in realizing its authorized rate of return because of declining gas supplies.

4. The granting of a partial general rate increase which would increase the authorized rate of return on SoCal's and on PLS's rate bases from 8.50 percent to 8.75 percent is not justified for purposes of this order.

5. The amount of increase, based on the staff showing at this time, to produce an 8.50 percent rate of return is \$39,323,000 (4.90 percent) above the October 1, 1974 rates, excluding GEDA charges, and revised to reflect rate changes ordered by D.84512. The increase is \$21,246,000 (2.59 percent) above the rates authorized in D.83881.

6. Our adoption of the Commission staff results of operations, modified as described in the opinion, and the authorization of rates designed to produce our last authorized rate of return on rate base is just and reasonable for the resolution of the initial phase of this matter in the light of the current economic situation and of the posture of this proceeding.

7. The increases in rates and charges authorized herein are reasonable for purposes of granting a partial general rate increase and the present rates and charges insofar as they differ from those prescribed herein are for the immediate future unjust and unreasonable.

8. Our adoption of the staff rate design criteria, modified as described in the opinion is just and reasonable. The general service rates authorized herein provide no increase in the 0 to 75 TU per month consumption blocks and should be considered as a preliminary step in the establishment of lifeline rates for SoCal as required by AB167. Schedule G-10 which provides for a different lifeline quantity should be terminated. There is a need for simplifying LB's rates at this time. All special rates for air conditioning usage should be terminated.

9. The increase should be subject to refund, with seven percent interest, to the extent that our subsequent order authorizes a rate increase of less than \$39,363,000 above present rates as defined herein.

10. The increase should be subject to refund, with seven percent interest, to the extent that a customer's rate is reduced in the subsequent order establishing the total authorized rate relief in this proceeding.

11. The determination of further extending lifeline quantities per trailer park unit or to each unit of different types of multiple residential buildings should first be made in C.9988.

12. SoCal's proposal to shift the billing factor from a 10 Btu band, expressed as TU, to a one Btu band is reasonable. Since the new billing factor will be based upon the heating value of gas measured to the nearest Btu per cubic foot the designation of all commodity billing units should be expressed in therms rather than in therms and thermal units. SoCal's Rule 2 should be revised to incorporate this change.

The Commission concludes that SoCal's motion for a partial general rate increase should be granted to the extent set forth in the order which follows.

ORDER ON MOTION FOR PARTIAL GENERAL RATE INCREASE

IT IS ORDERED that:

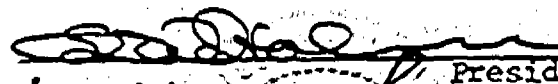
1. Southern California Gas Company is authorized to file a revised preliminary statement, a revised Rule 2, and revised rate schedules, with changes in rates, charges, and conditions as set forth in Appendix B attached hereto, and concurrently to cancel and withdraw presently effective schedules for gas service. Such filing shall comply with General Order No. 96-A. The effective date of the new and revised schedules shall not be earlier than seven days after the effective date of this order. The new and revised schedules shall apply only to service rendered on and after the effective date.

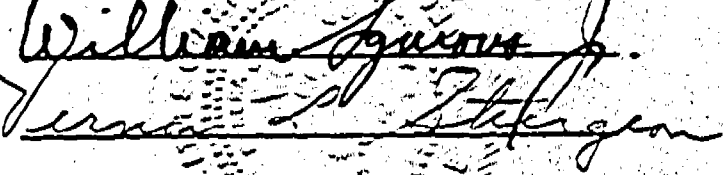
2. The increase authorized herein is subject to refund, with seven percent interest, to the extent that our subsequent order authorizes a rate increase of less than \$39,363,000 above present rates as defined herein.

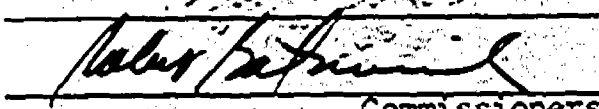
3. The increase authorized herein is subject to refund, with seven percent interest, to the extent that a customer's rate is reduced in the subsequent order establishing the total authorized rate relief in this proceeding.

The effective date of this order shall be seven days after the date hereof.

Dated at San Francisco, California, this 20th
day of JANUARY, 1976.



President




Commissioners

Commissioner Leonard Ross, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
Page 1 of 2

LIST OF APPEARANCES

Applicant: William M. Pfeiffer and David B. Follett, Attorneys at Law, for Southern California Gas Company.

Protestants: Frederick A. Gage, for Progress Association of Los Angeles County; Herman Mulman and Larry Gross, for Coalition for Economic Survival; Hyman Finkel, for Seniors for Legislative Issues; Royal M. Sorensen, Attorney at Law, for City of Camarillo; and Alexander Googoolian, City Attorney, for Cities of Bellflower and La Mirada.

Interested Parties: Burt Pines, City Attorney of Los Angeles, by Leonard L. Snaider, Attorney at Law, for City of Los Angeles; Robert Russell and Manuel Kroman, for Department of Public Utilities and Transportation, City of Los Angeles; John W. Witt, City Attorney of San Diego, by William S. Shaffran, Attorney at Law, for City of San Diego; Leonard Putnam, City Attorney, by William E. Emick, Jr., Deputy City Attorney, Attorney at Law, Edward C. Wright, General Manager, Long Beach Gas Department, Gerald D. Herman, Administrative Assistant, Long Beach Gas Department, and Roy A. Wehe, Consulting Engineer, for City of Long Beach; Frederick H. Kranz, Jr., Attorney at Law, and John O. Russell, for Los Angeles Department of Water and Power; Chickering and Gregory, by Sherman Chickering, Donald J. Richardson, Jr., David A. Lawson, III, and David R. Pigott, Attorneys at Law, and Gordon Pearce, Attorney at Law, for San Diego Gas & Electric Company; Brobeck, Phleger & Harrison, by Gordon E. Davis, Thomas G. Wood, William H. Booth and Robert N. Lowry, Attorneys at Law, and Robert E. Burt, for California Manufacturers Association; Roy A. Wehe, Consultant, and Robert F. Carter, General Manager, for Imperial Irrigation District; Rollin E. Woodbury, William Marx, Robert Barnes and Richard Durant, Attorneys at Law, for Southern California Edison Company; Henry F. Lippitt 2nd, Attorney at Law, for California Gas Producers Association; Boris H. Lakusta, Attorney at Law, and John J. Clarke, for Union/Collier; Sidney Maleck, Attorney at Law, and Warren D. Hinchee, by Frank A. Miller, for City of Burbank; A. Barry Cappello, City Attorney, Attorney at Law, for City of Santa Barbara; Norman Elliott, Attorney at Law, for Committee to Protect California Economy; Donald Young, General Counsel, Maurice J. Street, Assistant General Counsel, by Renn C. Fowler, Attorney at Law, for the General Services

APPENDIX A
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LIST OF APPEARANCES

Interested Parties: Administration, Office of the General Counsel, Regulatory Law Division, U. S. Government; R. M. Shillito, for California Retailers Association; and Graham & James, by Boris H. Lakusta and David J. Marchant, Attorneys at Law, for Western Mobilehome Association.

Commission Staff: Janice E. Kerr, Attorney at Law, Kenneth K. Chew, Sesto F. Lucchi, and Edmund J. Texeira.

PRELIMINARY STATEMENTE.5. Refunds of Interim Rate Increases

Interim increases in rates shall be subject to refund to the customers on a like basis plus 7% interest, to the extent that:

- (1) The subsequent total relief authorized is less than \$M 39,323, or
- (2) If subsequent restructuring of rates results in some customers' interim rates being higher than subsequent rates.

RATES

All special rates for air conditioning usage are eliminated.

GENERAL NATURAL GAS SERVICE

<u>Regular Usage</u>	<u>: G-1</u>	<u>: G-2</u>	<u>: G-3</u>	<u>: G-4</u>	<u>: G-5</u>
Monthly Customer Charge	\$3.13226	\$3.17870	\$3.21949	\$3.30431	\$4.19873
First 75 therms					
per therm	12.169¢	12.516¢	12.986¢	13.652¢	14.565¢
Next 925 therms					
per therm	11.760	12.172	12.599	13.112	13.596
Over 1,000 therms					
per therm	11.138	11.138	11.138	11.138	11.138

SCHEDULE NO. G-10 IS TERMINATEDGAS ENGINE NATURAL GAS SERVICE (SCHEDULE G-45)

<u>Commodity Charge:</u>	<u>Per Meter</u> <u>Per Month</u>
All usage, per therm	10.755¢
Minimum charge: \$7 per meter per month, cumulative to \$84 per year.	

INTERRUPTIBLE NATURAL GAS SERVICE (SCHEDULE G-50)

<u>Commodity Charge:</u>	<u>Per Meter</u> <u>Per Month</u>
All usage, per therm	10.755¢
Minimum Charge: \$100 per meter per month, cumulative to \$1,200 per year.	

OPTIONAL INTERRUPTIBLE NATURAL GAS SERVICE (SCHEDULES G-50T, G-53T)

<u>Commodity Charge:</u>	<u>Per Meter Per Month</u>	
	<u>G-50T</u>	<u>G-53T</u>
All usage, per therm	10.755¢	10.755¢
Minimum Charge: \$16,000 per meter per month.		

NATURAL GAS FUEL FOR UTILITY ELECTRIC GENERATION (SCHEDULE G-58)

All gas, per million Btu	107.55¢
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SCHEDULE G-60
(Long Beach Gas Department)

Monthly Demand Charge

Per Mcf of Daily Contract Demand	\$2.7624
Commodity Charge, per therm	7.821¢
Minimum Annual Charge for additional peaking demand	\$190,000

SCHEDULE G-61
(San Diego Gas & Electric Company)

Monthly Demand Charge

Per Mcf of Contract Daily Maximum Demand	\$2.0591
Commodity Charge, per million Btu of monthly delivery	78.64¢
Additional Peaking Demand Gas:	
Annual Charge for Peaking Demand	\$294,000
Commodity Charge, per million Btu	98.10¢