

Decision No. 86681

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
SOUTHERN CALIFORNIA GAS COMPANY for)	Application No. 55345
a General Increase in its Gas Rates.)	(Filed November 26, 1974)
_____)	

ORDER DENYING REHEARING

By Decision No. 85354, dated January 30, 1976, we granted Southern California Gas Company (SoCal) a partial general rate increase subject to refund. The amount of the increase was based on the assumption that the previously authorized 8.50 percent rate of return was appropriate and should be maintained pending a final order in this matter. Subsequently, however, the Commission issued Decision No. 85627, affirmed by Decision No. 86117, which reduced SoCal's rate of return at the time of issuance of Decision No. 85354 from 8.50 percent to 8.25 percent. The reduction was to reflect SoCal's reduced risk because of the tax savings made available by the Tax Reduction Act of 1975 (TRA).

In order that the assumptions in Decision No. 85354 would continue to be valid, on July 13, 1976 we issued Decision No. 86118 which reduced the partial general rate increase authorized in Decision No. 85354 by an amount equivalent to a .25 percent rate of return reduction.

SoCal filed a petition for rehearing of Decision No. 86118 claiming that by reducing SoCal's return by .25 percent we were in essence making a double adjustment for the tax savings resulting

from the TRA in test year 1976. This occurs, claims SoCal, because the Commission adopted the staff's results of operations for purposes of the partial general rate increase in Decision No. 85354 which already included an adjustment in tax expense for the tax savings.

Responses to SoCal's petition for rehearing were received from City of Los Angeles (LA) and City of San Diego (SD).*/ On August 3, 1976 the Commission issued Decision No. 86219 suspending Decision No. 86118 pending a determination on the petition for rehearing.

On November 2, 1976 we issued a final opinion in this proceeding, Decision No. 86595. In said decision we adopted SoCal's rather than the staff's method of computing tax savings resulting from the TRA in test year 1976. Transmission plant was treated on a five-year average flow-through basis and distribution plant was treated on a ratable flow-through basis.

In adopting a fair rate of return of 8.8 percent in Decision No. 86595, we recognized the reduction in SoCal's embedded debt cost as well as the reduced risk flowing from SoCal's retention of tax savings.

Having reviewed the record in this proceeding, including the final decision, and mindful of the purposes of the partial general rate increase, we are satisfied that Decision No. 86118 was fair and reasonable and rehearing should be denied.

*/ On August 4, 1976 SoCal filed a supplemental statement in reply to the responses of LA and SD.

SoCal is essentially arguing that the Commission should have reflected in its rate of return determination in Decision No. 86118 the fact that test year 1976 taxes were computed in a manner different from 1975. In granting the partial general rate increase in Decision No. 85354, however, we did not attempt to make such a sophisticated analysis. Rather, we adopted the staff results of operations and the last authorized rate of return. Indeed, the same argument could be made regarding items such as reduced gas supplies or conservation; i.e. the last authorized rate of return should be adjusted to reflect same. This type of analysis we assiduously avoided in adopting the last authorized rate of return. It was contemplated they would be more comprehensively analyzed and balanced in the final opinion. As we stated in Decision No. 85354,

"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." (Mimeo, page 23.)

Further, we found,

"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." (Mimeo, page 26.)

In finding that Decision No. 86118 was fair and reasonable under the circumstances, we are mindful of the fact that the staff's results of operations adopted in Decision No. 85354 did not

reflect an immediate flow through of the tax savings at issue, as SoCal initially argued in its petition for rehearing. Nor were they computed on a "five year average flow through," as we have traditionally done over the last several years, as SoCal argued in its supplemental filing. Rather, the increased tax savings were, in practical effect, amortized over five years.

We are also aware of the fact that further analysis of late-filed exhibits indicated the gas supplies adopted in the partial general rate decision (D.85354) were too low. Thus, the final order which adopted higher gas supplies, noted that the annualized effect of the partial general rate increase of \$39,323,000 effectively becomes \$51,597,000 when related to the higher gas volumes, an amount substantially greater than reflected in the staff results of operations adopted in Decision No. 85354.

Having considered each and every allegation of the petition for rehearing filed by Southern California Gas Company and the responses of the City of Los Angeles and City of San Diego,

IT IS ORDERED that rehearing of Decision No. 86118 is denied.

IT IS FURTHER ORDERED that Southern California Gas Company should refund an amount equivalent to .25 percent rate of return reduction on the rate base adopted in Decision No. 85354, with interest, from the effective date of Decision No. 85354 to the effective date of Decision No. 86595.

Ex-8



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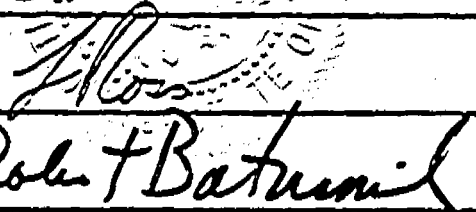
The effective date of this order is the date hereof.

Dated at San Francisco, California, this 23rd
day of NOVEMBER, 1976.

I dissent
William Squares Jr.

I dissent
Gerron L. Sturgeon


 _____ President



 _____ Robert Bateman
 _____ Commissioners