

Decision No. 89208 AUG 8 - 1978

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ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
SOUTHERN CALIFORNIA GAS COMPANY for )  
authority to increase rates charged }  
by it for gas service. }

Application No. 57639  
(Filed October 28, 1977)

(Appearances are listed in Appendix A)

INTERIM ORDER GRANTING MOTION FOR PARTIAL  
GENERAL RATE INCREASE

Southern California Gas Company (SoCal) has made a motion that this Commission grant a partial general rate increase based on test year 1978 summary of earnings to become effective no later than August 31, 1978. SoCal alleges that because of the magnitude of its revenue deficiency for test year 1978 at present rates it is clearly necessary that it be afforded the opportunity to increase revenues to at least partially reduce the erosion of its earnings in 1978. SoCal further alleges that the requested relief would partially and equitably resolve the practical conflict between SoCal's need for timely rate relief and the obvious public necessity for full and complete proceedings prior to a final order to be based on results of operation for the test year 1979.

The specific amount of the partial rate increase sought is \$118,598,000 on an annualized basis. Such a sum represents, according to SoCal, the additional revenue required to raise SoCal's 1978 annualized rate of return to its last authorized rate of return of 8.8 percent computed on the Commission staff's 1978 test year summary of earnings. The staff's estimates are based on assumptions and procedures with

which SoCal does not agree, but the urgent need for partial rate relief without needless disputes requires that in the instant motion SoCal request that rates be established on the currently authorized rate of return and the staff's 1978 test year summary of earnings.

On May 11, 1978 Administrative Law Judge (ALJ) N. R. Johnson ruled inadmissible as evidence certain updated gas supply data offered by Commission staff counsel as an exhibit of counsel. On May 24, 1978 the city of San Diego (San Diego), an appearance of record in this proceeding, submitted a petition to set aside submission and reopen this proceeding for the limited purpose of receiving as additional evidence from the staff of the Public Utilities Commission this updated gas supply data.

#### I - BACKGROUND INFORMATION

This Commission's Resolution No. A-4693 adopted July 6, 1977 established a regulatory lag plan for major utility general rate cases which sets forth this Commission's policy for processing such rate cases within one year of the filing of the application.

In accordance with this regulatory lag plan, SoCal filed a Notice of Intent (NOI) on July 29, 1977 indicating its intention to file a general rate increase application for additional revenues of \$259,500,000 based on test year 1978.

By letter dated August 17, 1977 this Commission directed SoCal to supplement the impending test year 1978 application with all necessary documentation to support a test year 1979 application for general rate relief. The application requesting an increase of \$259,500,000 for the test year 1978 and \$334,100,000 for the test year 1979 was filed on October 28, 1977. In accordance with the regulatory lag plan goal the final decision on this application should issue on or before October 28, 1978.

After notice, 46 days of hearing were held before ALJ N. R. Johnson during the period December 7, 1977 through May 12, 1978 and the matter was submitted subject to receipt of concurrent opening briefs due on or before June 12, 1978 and concurrent closing briefs due on or before June 27, 1978. Such dates are as established by the regulatory lag plan.

Complete showings on all issues were presented by SoCal and the Commission staff. In addition, testimony and exhibits on rate of return were presented by the city of Los Angeles (Los Angeles); on rate design by the California Manufacturers Association (CMA), city of Long Beach (Long Beach), San Diego Gas & Electric Company (SDG&E), Southern California Edison Company (Edison), and Tehachapi-Cummings Water District (Tehachapi); and on conservation by the California State Energy Resources Conservation and Development Commission (ERCDC). Other parties to the proceedings participated through extensive cross-examination of the various witnesses.

## II - POSITIONS OF PARTIES ON PARTIAL GENERAL INCREASE

### General

Time was provided at the hearing on May 12, 1978 to permit appearances to make statements setting forth their position as to the granting of the requested general partial rate increase. Statements of position were presented by SoCal, the Commission staff, CMA, Los Angeles, SDG&E, Tehachapi, Long Beach, Campaign Against Utility Service Exploitation (CAUSE), Edison, San Diego, Virgil E. Duncan (Duncan), and General Motors (GM).

### Opening Statement of SoCal

SoCal stated that as shown on the staff's own exhibits it will experience a substantial revenue deficiency in 1978 beyond its control which can be mitigated only by partial rate relief.

The effects of financial ill health caused by deficient earnings must be borne in a large measure by the ratepayers in the form of higher financing costs or the inability of the utility to finance needed projects. SoCal noted that even if the requested partial increase is granted, it would collect additional revenues for only approximately four months of the year. This, according to SoCal, has a practical effect of denying it as much as two-thirds of revenue deficiency as computed by the Commission staff.

It is SoCal's belief that higher revenues in the last four months of the year 1978 would go a long way toward protecting SoCal's financial integrity. According to SoCal such a rate increase grant would have the additional beneficial effect of being perceived by the financial community as a strong signal that California regulators are not going to ignore the precarious financial condition of California public utilities, particularly during times of debilitating inflation.

SoCal alleges that it has made every effort to develop a revenue requirement figure which would be as free from controversy as possible. It is its belief that the computed 1978 revenue deficiency could not be more conservative than it is, being based on the staff's 1978 summary of earnings and SoCal's last authorized rate of return. SoCal contends that the calculated amount is a 'bare bones' figure not subject to reasonable dispute which should serve to expedite the Commission's decision.

SoCal further alleges that two years of granted wage increases, two years of inflation, and two years of declining gas supply have all contributed to the present situation where SoCal is faced with the untenable prospect of earning substantially less than the authorized level of earnings for the test year 1978.

Should the partial general rate increase be granted, SoCal proposes it be spread to all classes of service on a uniform percentage basis or, as an alternative, to provide a system average increase to its wholesale customers with the remainder of the increase being spread to the commodity rates of all other customers excluding lifeline volumes on a uniform percentage basis. In both cases the proposed alternative rates are based on presently effective rates established by Decision No. 87587 in SoCal's July 1977 purchased gas adjustment (PGA) proceeding. SoCal contends that its two alternative proposals are quite reasonable pending this Commission's final order on the matter where possibly a modified rate design might be ordered.

SoCal notes that Tehachapi made a filing in response to the motion for a partial general increase indicating that there should be no increases granted pending the California Supreme Court's disposition on an appeal of the rate design established in the above-mentioned July 1977 PGA decision. SoCal believes that Tehachapi's suggestion that all things must stop in anticipation of some possible court action sometime in the future is unreasonable in this instance where a serious financial need has been demonstrated and where the Commission has continuing jurisdiction over rates which will be established in partial mitigation of that need. SoCal therefore contends Tehachapi's filing should properly be ignored.

Position of the Commission Staff

The staff recommends that SoCal's motion for partial general rate relief be denied.

The staff states that the allowance of the partial general rate increase at a time when the regulatory lag program deadlines are being met would tend to erode the motivation required to make the regulatory plan work. The staff further contends that the staff figures adopted by SoCal computing the partial

general increase do not, because of time constraints, reflect staff's recommended income tax proposal which would show a deficiency below the authorized 8.8 percent return of \$92,000,000 instead of the \$118,600,000 included in SoCal's motion.

In further support of the staff's position to deny the motion for a partial general rate increase, the Commission staff alleges that SoCal's own witness admits that 60 to 70 percent of the effects of inflation are offset by PGA proceedings; that El Paso's most recent FPC Form 16, ruled inadmissible to this proceeding as an exhibit of counsel by the presiding ALJ, reflects significant upward revisions of gas supply and that even higher amounts of gas were estimated to be available by El Paso at its May 9, 1978 settlement meeting held in Phoenix, Arizona; and that a decision on Case No. 10261, our investigation into a supply adjustment clause mechanism (SAM) could have a pronounced effect on SoCal's need for partial general rate relief.

Position of CMA

CMA argues that in the past offsets were granted only on showings of financial emergency but that recent partial general increases have been granted those utilities experiencing severe regulatory lag problems. CMA notes that neither financial emergency nor severe regulatory lag problems exist in the instant proceeding.

Under these circumstances, it is CMA's belief that the proper procedure is to deny the motion for a partial general increase and to expedite the final decision on this matter as much as possible. On this basis, if rate relief is found necessary in 1978, such relief could be granted to be immediately effective and different rates could be established for the period commencing January 1, 1979.

CMA also noted that current sales revenues are much higher than anticipated by either the Commission staff or SoCal and such increases offset to some extent the need for immediate rate relief.

CMA also stated that it, as well as SoCal's wholesale customers, presented showings in this matter on cost-of-service-based rate designs and takes the position that any partial increase granted in this matter applied to these classes of customers would violate somebody's notion of what his class is entitled to on rate design and would make the job of designing fair and reasonable rates that much more difficult. According to CMA the residential rates are seriously underpriced at this time. To avoid jeopardizing equitable and reasonable rates for all classes of customers in the final decision and to offset the subsidization of residential customers, CMA believes that any partial general rate increase granted at this time should be applied only to the residential class of customer. Should the Commission decide that a partial general increase be applied to all classes of customers, CMA believes the most equitable way of spreading such an increase would be a percentage relationship to all classes based on the noncommodity cost-of-service amounts.

Position of Los Angeles

Los Angeles objects to the granting of any partial general increase on the same bases as CMA and the Commission staff. Los Angeles also objects to the presiding ALJ's ruling precluding the entering into evidence of the updated supply figures as indicated by El Paso's most recent FPC Form 16 filing.

Should a partial general increase be granted, Los Angeles believes it should be spread to the various revenue classes as a uniform increase across the board with the

possible exception of lifeline rates which could be held at their present level.

Position of SDG&E

SDG&E states that its rate design showing is presented primarily on behalf of its retail customers who are paying substantially more than SoCal's retail customers. According to SDG&E such a substantial cost differential is due solely to the differential in cost that SDG&E is paying SoCal for gas purchased as contrasted to the cost SoCal is paying its suppliers for gas. On this basis it is SDG&E's belief that if any partial general increase is granted it be allocated to classes other than the wholesale customers.

Position of Tehachapi

Tehachapi opposes the granting of any partial general increase on the basis that such a grant would be premature when the final decision can be expected in one or two months after the effective date of the partial increase of August 31, 1978 requested in SoCal's motion.

Tehachapi notes that the presently effective rates are to be reviewed by the California Supreme Court and any partial increase granted at this time could prejudice efforts to restructure rates in the future.

Tehachapi also argues that no increase be granted until after the elections so that the effect of the Jarvis-Gann initiative can be included in the consideration of the amount of the partial general increase to be granted and that the Commission should give careful consideration to the consolidated income tax picture.

Position of Long Beach

Long Beach opposes the allocation of any portion of any partial increase granted SoCal to its wholesale customers on the basis that these wholesale customers are presently being charged excessive rates and further increases would aggravate the situation.



Position of CAUSE

CAUSE opposes the granting of a partial general rate increase on the basis that consumers cannot pay such an increase because of the erosion of earnings caused by inflation. Under these circumstances, according to CAUSE, a partial general rate increase would lower the standard of living for consumers and raise the standard of living for SoCal.

CAUSE also quoted from an opinion of the Legislative Counsel of California indicating that the Legislature has the authority to require a subsidiary public utility corporation, owned and controlled by the same interests which own and control other organizations, to file a separate income tax return to reflect the proper income attributable to such a corporation and stated that this Commission should consider the quoted opinion when determining the amount of any partial general increase to grant SoCal.

Position of Edison

Edison noted that when GN-5 deliveries exceed adopted test year estimates, the proposed GN-5 tariff schedule grossly overcollects customers' fixed charges. In addition, according to Edison, GN-5, as proposed for the partial general rate increase, is not the intended conservation-oriented rate design specified in recent Commission decisions and should not be granted.

Edison further states that continuing pressure by public and regulatory agencies requesting it to burn natural gas rather than alternate fuels indicates the inapplicability of the concept of conservation as a basis for rate design for electric generation utilities.

Position of San Diego

San Diego is opposed to the granting of partial general rate relief on the basis that the Commission has repeatedly held that interim relief, which San Diego alleges is what SoCal is

asking for, is an extraordinary remedy which should be employed only if the Commission is persuaded from the evidence before it that the time involved in the usual disposition of the case would cause irreparable financial harm. San Diego notes that this proceeding is meeting the scheduled dates set forth in the regulatory lag plan and that the plan provides that at a certain point in time "the Executive Director and appropriate division directors shall recommend to the assigned commissioner whether to consider granting a partial general rate increase or decrease". According to San Diego this specific point in time (Day 225) has not yet been reached and therefore San Diego argues that the pending motion for a partial increase is untimely and procedurally deficient.

San Diego further argues that one of its primary concerns in this matter is the issue of the proper spread of any authorized increase to the various revenue groups. This issue was addressed by SoCal, the Commission staff, CMA, Edison, SDG&E, and Long Beach, with both SDG&E and Long Beach, according to San Diego, emphasizing the disparity presently existing in the cost of gas to their retail customers as compared to the cost of gas to SoCal's retail customers.

Under these circumstances, granting the requested partial general increase would aggravate the situation, particularly if the wholesale rates are increased by the system average percentage increase as proposed in SoCal's alternative rates.

In addition, San Diego does not agree with the assertion contained in SoCal's motion that the staff-estimated revenue deficiency is not subject to reasonable dispute and cites alleged deficiencies in the staff's showing on conservation and research and development expenses and the omission of the probable effect of the staff's proposed income tax treatment from the 1978 test year estimated summary of earnings adopted by SoCal for the purpose of computing the amount of the partial general rate increase.

As previously stated, San Diego filed a petition to set aside submission and reopen this proceeding for the limited purpose of receiving additional evidence from the Commission staff. This additional evidence consists of a document offered into evidence as an exhibit of one of the staff's counsels indicating that the 1978 test year gas supply from El Paso Natural Gas Company should be increased from 497,860 M<sup>2</sup>cf to 533,995 M<sup>2</sup>cf, an increase of 36,135 M<sup>2</sup>cf.

San Diego argues that these increased supplies would have a multimillion-dollar effect on SoCal's revenues for the test year 1978 and that the document (FPC Form 16) shows increased gas supplies for at least the first quarter of test year 1979. San Diego alleges that if the Commission refuses to consider the additional gas supply available to SoCal from El Paso any rates found by the Commission, in this proceeding, to be compensatory will, in fact, be confiscatory to the ratepayers and a denial of due process under both the federal and state constitutions.

Position of Duncan

Mr. Duncan opposes the granting of the partial general increase on the basis that the PGA procedure and the SAM decision, coupled with the short interval between the decision on the partial general increase and the final general increase, obviate the necessity of a partial general increase at this time.

He further argues that the rate design is one of the major issues in this proceeding and the design of equitable rates should not be jeopardized by the granting of a partial increase at this time.

According to Mr. Duncan, millions of dollars are spent on conservation which only results in the transfer of gas from high priority to low priority customers and, therefore, the conservation expense amounts should not be considered in either the partial or final rate matters. In addition, it is his belief

that the effect of the Commission staff's proposed income tax treatment should be included in the summary of earnings adopted by SoCal for the purpose of computing the revenue requirement for a partial general rate increase.

Position of GM

GM stated that it has no quarrel with SoCal's right to partial rate relief to the extent necessary to keep it economically healthy. Because of its limited participation in the proceeding, GM feels that it is not in a position to know whether or not the requested partial increase is justified. It did, however, express concern that any partial increase could have an adverse effect on the final design of reasonable rates. It was alleged that it is seldom, if ever, that interim rates, once established, are decreased in the final decision.

GM also argued that a partial general increase is not warranted because of the short period of time between the requested effective date of the partial increase of August 31, 1978 and the anticipated effective date of the final decision.

Closing Statement of SoCal

SoCal argues that all the opposition to the granting of the partial general increase is based on procedural issues rather than on any denial that the earnings of SoCal do not warrant such an increase. It notes that even if the partial general increase is granted as requested, the increased earnings will apply for approximately one-third of the year with the result that SoCal's 1978 earnings will still be deficient.

SoCal alleges there is a difference between a partial general increase and interim rate relief and that it has never claimed rate relief is necessary in 1978 because of dire financial emergency, but rather to partially reduce the erosion of its 1978 earnings.

SoCal further argues that the presiding ALJ's ruling precluding the admission of El Paso's updated supply estimates from the evidence of record on the bases that it was a major updating of data precluded by the regulatory lag plan and that revenue excesses or deficiencies caused by gas supply over or under estimates would be resolved by a forthcoming SAM decision was fully justified not only because of the stated reasons but also because the anticipated additional supplies do not reflect average test year conditions. According to SoCal these additional supplies were created in part by abnormally warm temperature conditions and in part by Pacific Gas and Electric Company's (PG&E) refusal of some offered available gas. Neither of these two conditions would obtain for average test year conditions to be used for ratemaking purposes.

SoCal also states that the effect of the staff's income tax proposal on the revenue requirement computations for the partial increase were not included in its adopted summary of earnings because it excluded all controversial matters in an attempt to obtain an expeditious decision on its motion. ✓

According to SoCal the presently effective rates resulting from the July 1977 PGA decision reflect this Commission's latest thinking on proper rate design and there is no basis for believing the Supreme Court will modify such design criteria even though it has agreed to review the matter. SoCal argues that under these conditions the Supreme Court's review of the existing rate structures is no basis for denial of the partial rate increase request. ✓

SoCal notes that the Commission staff urged that the partial general increase be denied on the bases that the regulatory lag plan has eliminated the need for partial relief and that the procedure has precluded the introduction of data the staff would like in the record and argues that the staff cannot have it both ways.

In response to allegations of some of the parties that the cost of the energy crisis should be shared by the utility as well as the consumers, SoCal notes that it is already participating in the sharing of such costs by its non-GEDA investments and the maintenance of low lifeline rates.

### III - DISCUSSION

#### General

The bases utilized by the various parties in formulating their opposition to the granting of a partial general rate increase may be generally summarized as follows:

1. The scheduling of the regulatory lag plan is being met thereby obviating the necessity of granting a partial general rate increase.
2. The summary of earnings utilized by SoCal for the computation of the revenue requirement excludes the effect of the Commission staff's proposed income tax treatment and includes other deficiencies.
3. The presiding ALJ's ruling precluding the inclusion into evidence of El Paso's updated supply estimates prevents an adequate evaluation of SoCal's expected 1978 test year earnings.
4. No partial general rate increase should be granted until an evaluation can be made of the effect of the Jarvis-Gann initiative on the utility's operations.
5. There has been extensive evidence on rate design formulation introduced into this proceeding. A partial increase could prejudice efforts to restructure rates if found necessary as a result of such evidence and/or a rejection of the end-use priority inverted rate structure adopted by the Commission in the July 1977 PGA proceeding by the California Supreme Court.

Petition to Reopen Proceedings

Staff counsel requested that El Paso's recently filed FPC Form 16 filing, indicating that a greater supply of gas would be available for the test year 1978 than was anticipated by either SoCal or the Commission staff, be admitted into evidence as an exhibit of counsel. SoCal objected to the receipt of such evidence and the presiding ALJ sustained the objection on the bases that (1) such data was a major updating amendment precluded by the regulatory lag plan, and (2) Case No. 10261, our investigation into the natural gas supply adjustment mechanism, was ordered specifically to provide, if warranted, a vehicle for adjusting revenues to accommodate deliveries of gas and associated revenues differing from the revenues and sales adopted for the test year for ratemaking purposes.

Several of the parties, including the Commission staff, argue that this information is essential to accurately evaluate SoCal's 1978 operations and, therefore, the Commission should issue no decision on the partial, or for that matter, the full rate increase until such information has been received into the record.

In its petition to set aside submission to permit the receipt in the record of the above-described updated supply data, San Diego argues that (a) knowing that evidence concerning an increased gas supply to SoCal is available from the Commission's staff, failure to deal with the issue of additional gas supplies will be an abdication of its statutory authority and mandate; (b) the California Supreme Court has held that it is mandatory for a state regulatory agency to consider significant elements of operating revenues, and the updated gas supply is such an element; and (c) the receipt of matter which would be deemed improper under the rules of evidence applicable to judicial proceedings does not invalidate a Commission decision.

It should be noted that such data was offered only as an exhibit of staff counsel. There was no witness available to cross-examine as to the relevance or significance of such material for ratemaking purposes. The weight to be given such material under these circumstances must of necessity be somewhat limited. In any event, Decision No. 88835 dated May 16, 1978 in Case No. 10261, our investigation into the necessity of establishing an SAM, did in fact establish such an SAM. It provides a balancing account for accumulating revenue excesses or deficiencies caused by deviations of supplies from those adopted at intervals for ratemaking purposes in general rate proceedings. The balances in this account are to be reflected in semiannual rate changes that will insure that the gas utilities will recover their authorized gas margin<sup>1/</sup> and return overcollections to the rate-payers. Under these circumstances, the updated supply data prepared by staff counsel, even if it were offered by a witness subject to cross-examination, is not needed for this proceeding.

Even if Decision No. 88835 had not been issued, the updated supply estimate was not properly includable in the record within the parameters of the regulatory lag plan. One of the major contributors to regulatory lag was the continual and constant updating of summary of earnings estimates by applicants, the Commission staff, and other parties to the proceedings. To permit the inclusion of continued updated material into the record would make it impossible to meet the scheduling established by the regulatory lag plan.

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1/ Gas margin is defined as gross revenues less cost of gas at the test year level adopted in the last general rate proceeding.



Regulatory Lag Plan

As noted by several parties to the proceeding, the regulatory lag plan scheduling is being met. Several key dates are worth noting as follows:

- (1) Day 195: At this time the hearings shall be completed. Day 195 was May 12, 1978 and the hearings were completed on schedule.
- (2) Day 225: Concurrent briefs may be filed. Such a date is June 12, 1978, the due date of concurrent opening briefs.
- (3) Day 240: Reply briefs may be filed. This date is June 27, 1978, the scheduled date for the receipt of concurrent reply briefs.
- (4) Day 285: The draft decision shall be in the Chief Administrative Law Judge's office. This date is August 9, 1978.

The regulatory lag plan specifies at paragraph b of Day 225 the following: "The Executive Director, after consultation with the appropriate division directors, shall give a status report of the proceeding to the assigned commissioner together with a joint opinion as to when a draft decision is expected. If the draft decision appears not to be available prior to ten months from the date of filing the application, the Executive Director and the appropriate division directors shall recommend to the assigned commissioner whether to consider granting a partial general rate increase or decrease." It is anticipated that the draft of the final decision (based on a 1979 test year) will be forthcoming on the due date of August 9, 1978 within the ten-month period in the above-quoted reference. ✓

Commission Staff's Proposed Income Tax Treatment

As previously discussed, it is the position of the Commission staff and several of the parties to the proceedings that the requested partial increase of \$118.6 million should not be granted because the effect of the staff's income tax proposal has not been included in the data utilized by SoCal in computing its revenue requirements for the partial general rate increase. With SoCal's requested partial rate relief based on the Commission staff's estimated summary of earnings and the last authorized rate of return (0.6 percent below the lowest recommended rate of return included in the record of this proceeding), we conclude that the earnings level and rate of return authorized herein will not exceed that which will be found reasonable in our forthcoming final decision, even assuming adoption of the staff's recommended effective income tax rate.

Partial Increase Necessity

As noted, the regulatory lag plan established a time schedule whereby a decision on a major utility rate increase application would be issued approximately one year after the filing of the application and the scheduled dates have been met.

The additional revenue required to raise SoCal's 1978 annualized rate of return to its last authorized rate of return of 8.8 percent computed on the Commission staff's 1978 test year summary of earnings appears to us to be a reasonable basis for the establishment of the amount of the partial general increase to be granted and will be adopted. As noted by several parties, there are indications that SoCal's recorded 1978 earnings will exceed the staff's estimated 1978 test year earnings. However, such increased earnings, if they do materialize, will be caused by unanticipated additional supplies of gas and the effects therefrom will be mitigated by the operation of SAM.

It will be noted that we plan to have the final rates for test year 1979 placed into effect by January 1, 1979. This partial increase is being authorized because the record shows that the applicant requires rate relief for 1978, based on the 1978 test year showing, and such relief should not be delayed. If we waited until late 1978 and issued one decision, based on a 1979 test year, the applicant would never realize any of the additional revenues shown to be required during 1978. Granting SoCal interim rate relief in 1978, based on a 1978 test year, provides us time to prepare and issue a final decision (on a 1979 test year) that fully addresses the multitude of complex issues in this proceeding.

#### Rate Design Considerations

As was argued by several of the parties to this proceeding, the California Supreme Court has accepted for review this Commission's Decision No. 87587 dated July 12, 1977 establishing the rate design parameters for the presently effective rates. These rates serve as a base to which the modifications proposed by some of the parties to this proceeding would be applied to derive the final rates. In addition, evidence has been adduced in this hearing setting forth the parties' positions

that the presently effective structures are unreasonable, discriminatory, and excessive. These parties argue that the granting of a partial general rate increase under either of the alternative rate structures proposed by SoCal would adversely affect any restructuring that the evidence of record would indicate is warranted.

The decision of the California Supreme Court on the structure of the 1977 rates approved by this Commission will probably issue sometime subsequent to the final decision on this matter. There is no way to forecast what rate structure changes, if any, will evolve from such a decision. Consequently, the fact that the Court has agreed to review the situation should have no effect on the issuance of a decision on either the partial general rate increase or the total general rate increase.

Several parties expressed concern that the granting of a partial general rate increase would prejudice any rate restructuring warranted by the evidence of record. The final decision to be issued before the end of 1978 will address the numerous rate design proposals made in this proceeding. It is reasonable for purposes of this interim partial general rate increase to authorize rates to be increased on a uniform cents per therm basis. We increase rates on this basis without prejudice to proposals to increase or decrease rates, which will be addressed in the forthcoming final decision.

Ad Valorem Taxes and Article XIII A

SoCal by Advice Letter No. 1143 filed July 28, 1978 in response to OII 19, has requested that any rate reduction required by the Commission for property tax reductions due to Constitutional Article XIII A be implemented through a reduction in the amount of the partial general rate relief to be granted herein. SoCal's July 15, 1978 filing in response to Ordering Paragraph 3 of OII 19 indicates a reduction in ad valorem taxes of \$19,957,000 between the actual fiscal year 1977-78 and the estimated fiscal year 1978-79.

Our base rates authorized herein are based on the staff's estimated ad valorem taxes before the enactment of Article XIII A. However, because of the use of the "lien-year" method in calculating the income taxes effect of ad valorem taxes, no net tax savings (after income taxes) will result in modifying the staff showing to reflect a half-year effect of the lower 1978-79 fiscal year ad valorem tax in the adopted results. In fact, the calculation results in a small increase in net taxes. However, significant net tax savings will be generated in the year 1979.

We will order SoCal to establish a tax initiative account as required by Ordering Paragraph 4 in OII 19. On issuing our final decision in this application for the test year 1979, we shall adjust the adopted results to reflect the balance remaining of the 1979 estimate of ad valorem net tax savings.

Consistent with our treatment of other utilities utilizing the lien-year ad valorem tax procedure in filing state and federal income taxes, we will authorize a reduction in rates for the year 1978 to reflect over a 16-month period the tax savings that will accrue in 1979. We will direct SoCal to reduce the rates granted herein on or before September 1, 1978 on a cents-per-therm basis for all nonlifeline sales.

#### Findings

1. SoCal's general rate increase application was filed in accordance with the provisions of this Commission's regulatory lag plan for major utility general rate cases.

2. The final day of hearing was May 12, 1978 and the matter was submitted on concurrent opening briefs due June 12, 1978 and concurrent reply briefs due June 27, 1978, all in accordance with the scheduling of the regulatory lag plan.

3. SoCal has demonstrated that it needs \$118.5 million annually to have an opportunity to realize its last authorized rate of return, based on a 1978 test year. Given this demonstrated need for rate relief in 1978, it is reasonable to grant SoCal's petition for partial general rate relief rather than delay rate relief while preparing a final decision, which would, due to the complexity of issues, not issue until later in 1978.

4. The granting of a partial general increase of \$118,598,000 on an annualized basis to provide the additional revenue required to raise SoCal's 1978 annualized rate of return to its last authorized rate of return of 8.8 percent computed on the Commission staff's 1978 test year summary of earnings is reasonable.

5. The increases in rates and charges authorized herein are reasonable as an initial phase of this proceeding, and the present rates and charges, insofar as they differ from those prescribed herein, are for the immediate future unjust and unreasonable.

6. The presiding ALJ's ruling precluding the admission into evidence of information on updated supply estimates, as set forth in El Paso's recent FPC Form 16 filing, was proper.

7. It is reasonable to authorize SoCal to increase all gas rates on a uniform cents per therm basis for purposes of this interim partial general increase. Rate design, and possible rate restructuring, should be extensively explored and addressed in the forthcoming final decision.

8. The petition of San Diego to set aside submission and reopen this proceeding for the limited purpose of receiving additional evidence from the Commission staff should not be granted.

9. A partial general rate increase should go into effect only after SoCal establishes an SAM balancing account (as authorized by Decision No. 88835, Case No. 10261). This condition is reasonable to insure that SoCal will not realize a windfall should available gas supplies exceed estimated quantities adopted for purposes of this partial general rate increase.

10. Because there is an immediate need for the rate relief authorized during 1978, the following order should be made effective the date hereof.

11. It is reasonable to order SoCal to reduce rates on or before September 1, 1978 for the reduction in ad valorem taxes brought about by Article XIII A. The reduction should total \$19,957,000 and relate to the 16-month period from September 1, 1978 to December 31, 1979. The reduction should be on a cents-per-therm basis for all nonlifeline sales. Consistent with the rate reduction, a tax initiative account, as required by Ordering Paragraph 4 of our OII 19, should be established.

#### Conclusions

1. SoCal's motion for a partial general rate increase based on a 1978 test year should be granted subject to the establishment of an SAM balancing account.

2. San Diego's petition to set aside submission and reopen this proceeding for the limited purpose of receiving additional evidence from the Commission staff should be denied.

3. SoCal should reduce rates on or before September 1, 1978 for the reduction in ad valorem taxes brought about by Article XIII A. A tax initiative account should also be established.

#### INTERIM ORDER

IT IS ORDERED that:

1. After the effective date of this order, and upon establishing a Supply Adjustment Mechanism balancing account pursuant to Decision No. 88835, Southern California Gas Company is authorized to file the revised rate schedules attached to this order as Appendix B, and concurrently to withdraw and cancel its presently effective schedules. Such filing shall comply with General Order No. 96-A. The effective

date of the revised schedule shall be four days after the date of filing. The revised schedule shall apply only to service rendered on and after the effective date thereof.

2. On or before September 1, 1978, Southern California Gas Company is directed to file tariffs reducing rates from those authorized in Appendix B on an equal cents-per-therm basis for all nonlifeline sales. The reduction should be in the amount of \$19,957,000 and relate to the period September 1, 1978 through December 31, 1979. Southern California Gas Company is also directed to establish a tax initiative account as required by Ordering Paragraph 4 of OII 19.

3. The city of San Diego's petition to set aside submission and reopen this proceeding for the limited purpose of receiving additional evidence from the Commission staff is denied.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 8th  
day of AUGUST, 1978.

Robert Bateman  
President

Vernon L. Spurgeon  
Michael R. Howell

Commissioners

Commissioner William Symons, Jr., being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner Claire T. Dodrick, being necessarily absent, did not participate in the disposition of this proceeding.



APPENDIX A  
(Page 1 of 2)

LIST OF APPEARANCES

Applicant: K. R. Edsall, Thomas D. Clarke, and David B. Follett,  
Attorneys at Law.

Protestants: Hank Barnard, for Campaign for Economic Democracy;  
Virgil Edward Duncan, for himself; Hy Finkel, Attorney at Law,  
for Seniors for Legislative Issues; Larry Gross, for Coalition  
for Economic Survival; Herman Mulman and Ed Novikoff, for  
Citizens for Political Action; and Burt Wilson, for Campaign  
Against Utility Service Exploitation (CAUSE).

Interested Parties: Jonathan Blees and Christopher Ellison,  
Attorneys at Law, for California State Energy Resources  
Conservation and Development Commission; Brobeck, Phleger &  
Harrison, by Gordon E. Davis, William H. Booth, and James M.  
Addams, Attorneys at Law, for California Manufacturers  
Association; Chickering & Gregory, by C. Hayden Ames, Edward P.  
Nelsen, and Allan J. Thompson, Attorneys at Law, for San Diego  
Gas & Electric Company; Paul Chitlik, for himself; Downey,  
Brand, Seymour & Rohwer, by Richard R. Gray, Attorney at Law,  
for General Motors Corporation; W. E. Emick, Deputy City Attorney,  
and Vernon E. Cullum, for City of Long Beach; Graham & James,  
Boris H. Lakusta, David J. Marchant, and Jerome J. Suich, by  
Clifford Brown, Attorney at Law, for California Hotel & Motel  
Association, Western Mobilehome Association, and Collier Carbon  
& Chemical Corporation; Henry F. Lippitt, II, Attorney at Law,  
for California Gas Producers Association; William L. Knecht,  
Attorney at Law, for California Association of Utility Share-  
holders; Robert T. Kyle, for Kyle Associates, Inc.; Allie G.  
Latimer, General Counsel, and Spence W. Perry, Assistant General  
Counsel, by John L. Mathews, Attorney at Law, for United States  
Administration of General Services on behalf of the Federal  
Executive Agencies; Julius H. Lubin, for National Association  
of Retired Federal Employees; Gregory C. O'Brien, Jr., Attorney  
at Law, and John O. Russell, for the Los Angeles Department of  
Water and Power; James M. Phillippi, for himself; Burt Pines,  
City Attorney, by Ed Perez, Deputy City Attorney, for City of  
Los Angeles; Robert W. Russell, by Mamuel Kroman, for Department  
of Public Utilities & Transportation, City of Los Angeles;

APPENDIX A  
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LIST OF APPEARANCES

Interested Parties: (Continued)

Howard Ryan, for Alliance for Survival; Allen B. Wagner, Attorney at Law, for University of California; Whelan & Markman, by Martin E. Whelan and James L. Markman, Attorneys at Law, for Tehachapi-Cummings County Water District; John W. Witt, City Attorney, by William S. Shaffran, Deputy City Attorney, for City of San Diego; and Rollin E. Woodbury, Robert J. Cahall, William E. Marx, and H. Robert Barnes, by Carol B. Henningson, Attorneys at Law, for Southern California Edison Company.

Commission Staff: Maxine C. Dremann and James T. Quinn, Attorneys at Law, and Bertram Patrick.

APPENDIX B  
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Southern California Gas Company

<u>General Natural Gas Service</u>	<u>GR</u>	<u>GM*</u>	<u>GS*</u>	<u>GNR</u>
Monthly Customer Charge.....	\$ 3.10	\$ 3.10	\$ 3.10	\$ 3.10
Lifeline Rates:				
First 21 therms, per therm.....	-	14.391¢	-	-
First 26 therms, per therm.....	14.391¢	-	14.391¢	-
Non-Lifeline Rates:				
First 21 therms, per therm.....	-	15.561	-	-
First 26 therms, per therm.....	15.561	-	15.561	-
Next 54 therms, per therm.....	15.561	-	15.561	-
Next 59 therms, per therm.....	-	15.561	-	-
Next 50 therms, per therm.....	17.061	17.061	17.061	-
Next 170 therms, per therm.....	18.561	18.561	18.561	-
Over 300 therms, per therm.....	19.511	19.511	19.511	-
All usage, per therm.....	-	-	-	19.511¢

\* The number of therms in each block shall be multiplied by the number of qualified multi-family dwelling residential units. A 10% discount applies to all usage billed at lifeline rates on Schedule GS only.

Street and Outdoor Lighting Natural Gas Service, Schedule G-30

	1.99	2.00	2.50	3.00	4.00	5.00	7.50	Over
Hourly Lamp Rating--	or	to	to	to	to	to	to	10.00
Cu.Ft. per Hour	<u>Less</u>	<u>2.50</u>	<u>3.00</u>	<u>4.00</u>	<u>5.00</u>	<u>7.50</u>	<u>10.00</u>	<u>CF/HR</u>
Per Lamp, Per Month	\$2.48	\$3.02	\$3.58	\$4.25	\$5.05	\$6.15	\$7.74	\$0.94

APPENDIX B  
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Southern California Gas Company

Gas Engine Service, Schedule G-45

All usage per therm, per meter per month..... ~~20.511¢~~ <sup>19.511¢</sup> *tht*

Commercial and Industrial Schedules, G-50, G-50T and G-53T

All usage per therm, per meter per month..... 20.511¢

	<u>G-45</u>	<u>G-50</u>	<u>G-50T</u>	<u>G-53T</u>
Minimum Charge, per meter per month...	\$ 7.00	\$ 100.00	\$16,000.00	\$16,000.00
Cumulative Annual Minimum Charge.....	\$84.00	\$1,200.00	-	-

Utility Electric Generation, Schedule G-58

Per Million Btu..... 205.11¢

Wholesale Natural Gas Service

<u>Schedule G-60</u>	
Monthly Demand Charge <i>tht</i>	
per Mcf of Daily	<i>no change</i>
Contract Demand.....	<del>\$0.00</del>
Commodity Charge, per therm..	14.467¢
Minimum Annual Charge for	<i>no change</i>
Additional Peaking Demand..	<del>\$22,000</del>

<u>Schedule G-61</u>	
Monthly Demand Charge per Mcf	<i>tht</i>
of Contract Daily Maximum	<i>no change</i>
Demand.....	<del>\$0.00</del>
Commodity Charge, per million	
Btu of Monthly Delivery.....	145.04¢ <i>tht</i>
Additional Peaking Demand Gas:	<i>no change</i>
Annual Peaking Demand Charge..	<del>\$22,000</del>
Commodity Charge, per million	
Btu of Monthly Delivery.....	165.09¢