

Decision No.

90322

MAY 22 1979

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 SOUTHERN CALIFORNIA GAS COMPANY to
 increase revenues to offset changed
 gas costs under its approved PGA
 procedures resulting from adjustments
 in the price of natural gas purchased
 from TRANSWESTERN PIPELINE COMPANY,
 EL PASO NATURAL GAS COMPANY and PACIFIC
 INTERSTATE TRANSMISSION COMPANY; to
 adjust revenues under the supply
 adjustment mechanism to reflect greater
 than anticipated collection of revenues
 due to increases in natural gas supplies;
 to adjust revenue requirements as a
 result of the operation of the tax
 change adjustment clause; to revise
 Section H of its Preliminary Statement;
 and to implement an air conditioning
 lifeline allowance.

Application No. 58724
 (Filed March 2, 1979)

(Appearances are listed in Appendix A.)

INTERIM OPINION

Southern California Gas Company (SoCal) seeks authority to increase its rates to provide additional gross revenues of \$398,737,000 for the 12 months ending March 31, 1980 to offset the increased cost of purchased gas of \$598,537,000 under its approved Purchased Gas Adjustment (PGA) procedures, to reflect a Supply Adjustment Mechanism (SAM) reduction in the amount of \$201,658,000, and to utilize the Tax Change Adjustment Clause (TCAC) to recover revenue deficiencies of \$10,858,000. SoCal also seeks authority to revise Section H of its Preliminary Statement and to implement a lifeline allowance for certain air conditioning load.

The Commission staff's review of the application indicated that undercollections for the cost of gas are currently accruing at an average rate of \$31,000,000 a month. Undercollections of such magnitude necessitate, in the staff engineer's opinion, immediate interim rate relief. Consequently, early hearings in the interim portion of this matter were held before Administrative Law Judge N. R. Johnson at Los Angeles on April 26 and 27, 1979 and May 1 and 2, 1979, and the interim phase was submitted with further hearings on the case-in-chief scheduled for June 1979. Testimony was presented on behalf of SoCal by its manager of rates and tariffs, M. J. Douglas; by a research engineer in the regulatory affairs department, R. L. Fowler; by a revenue service systems coordinator, R. L. Ballew; and by Eric Redd, the manager of alternate fuel reporting of Lundberg Survey, Inc., a firm retained by SoCal. Testimony was presented on behalf of Valley Nitrogen Producers, Inc., and the Union Chemical Division of Union Oil Company (Ammonia Producers) by the Deputy Director of the California Department of Food and Agriculture, J. D. Scribner; by the president of Valley Nitrogen Producers, Inc., J. H. Lindley; and by the president of the Chemicals Division of the Union Oil Company of California, T. C. Henderson. Testimony was presented on behalf of the Commission staff by a senior utilities engineer, J. L. Fowler, Jr.

Position of SoCal

SoCal argues that it is undeniable that immediate rate relief is needed and fully justified and requests that this Commission act on the matter of interim relief no later than its May 8, 1979 conference.

SoCal notes that the staff's proposal will admittedly result in an undercollection of approximately \$10 million a month and that this undercollection situation is compounded by the fact that the rates were not effective as of April 1, 1979 as provided in the tariffs. ✓

SoCal interprets the staff's presentation as assigning some intrinsic worth to a uniform cents-per-therm increase to all classes of customers while at the same time failing to consider various critical factors that differentiate the classes of customers. SoCal urges adoption of its proposed interim rate proposal because it differentiates between classes of customers on the basis of whether or not they have the capacity to utilize alternate fuels, it will reduce the relative amount of under-collection, it will help to mitigate critical cash flow problems, and, especially if the interim is granted subject to refund, it will not adversely prejudice any class of customer.

El Paso Natural Gas Company (El Paso) and Transwestern Pipeline Company (Transwestern) filed revised PGA's resulting in a reduction in SoCal's requested revenue increase from \$394,271,000 down to \$350,740,000 (excluding the Gas Exploration and Development Adjustment (GEDA)), a reduction of \$43,531,000. According to the record, the translation of this reduced revenue requirement to the hoped for effective date of the new rates, May 15, 1979, would result in an average proposed increase of 4.762 cents per therm as compared to the 4.750 cents per therm originally requested for the period of April 1, 1979 to March 31, 1980. Under these circumstances, SoCal proposes that the interim increase be computed by the application of the original average proposed increase of 4.750 cents per therm to the residential, GN-1, GN-2, and wholesale rate schedules. For rate schedules GN-3, GN-4, and GN-5, where the customers have the ability to burn alternate fuels, SoCal proposes that the average increase be limited by the low end of the range of the cost of alternate fuels so that these customers will have no incentive to leave the system to burn such alternative fuel. SoCal computes the maximum allowable increase on this basis to be 3.075 cents per therm. SoCal estimates its proposed interim

increase would yield \$358,889,000 additional revenue were it to be in effect for the forecast year ending March 31, 1980.

Position of Commission Staff

The staff's proposal is that a uniform cents-per-therm increase equal to SoCal's proposed increase to schedules GN-3, GN-4, and GN-5, or 3.075 cents per therm, be granted for all classes of service. Such an increase would provide additional revenues of \$255,094,000 on the forecast year basis.

The staff argues that its recommended interim proposal is highly conservative and is reasonable for an interim increase.

The staff does not concur in the adequacy or accuracy of information presented by SoCal and believes that the record so far is definitely inexact as to many of the major issues before this Commission.

The staff further argues that this record contains no basis in economic and ratemaking terms that support preferential treatment for the ammonia producers' problems.

Position of Ammonia Producers

The Ammonia Producers note that increased and restructured gas rates have resulted in the closure of six of the eight ammonia plants in California. According to the testimony, California previously was able to produce approximately 110 percent of its ammonia requirements, but that with six of eight plants currently out of service, it is able to produce only about 40 percent of the California demand. According to the testimony presented by the Ammonia Producers, the facilities in this State are presently inadequate to service substantial increases of imported ammonia with the result that if the two remaining plants close there will be a shortage of ammonia resulting in a shortage of nitrogen fertilizer. A shortage of nitrogen fertilizer, according to the testimony of Mr. Scribner of the California Department of Food and

Agriculture, would result in substantial reduction in agricultural production of this State. Mr. Scribner notes that California is the largest agricultural state in the country and annually produces approximately ten billion dollars worth of agricultural products. The lessening of this State's agricultural output, according to the testimony, would have a very serious adverse impact on the economy of the State.

Testimony presented on behalf of the two remaining ammonia plants alleged that any increase in the price of the gas fuel stock would force the closing of these two plants. Eventually, the required ammonia might be acquired from Russia and Mexico. According to the record, however, the present price of Russian and Mexican ammonia is purposely held at a low level to capture the market. The witnesses believe that once this is accomplished, the price of ammonia will skyrocket, as has the price of OPEC oil.

The Ammonia Producers also note that the increase to the Priority 3, 4, and 5 users is limited to the cost of alternate fuel so that SoCal will be able to retain these customers. The Ammonia Producers argue that their retention on the SoCal system is just as necessary as the retention of the Priority 3, 4, and 5 customers. The record indicates that the price for gas paid by the Ammonia Producers exceeds the average price of gas paid by SoCal and, therefore, the retention on the system of the Ammonia Producers would be of benefit to SoCal's operations and the other SoCal customers. The producers contend the gas they receive could not be sold to other customers. The record indicates, however, that any excess supplies probably could be sold to Priority 5 customers for electric generation. ✓

The Ammonia Producers anticipate that as the effect of the short supply of ammonia begins to manifest itself, the price of ammonia will increase. As the price of ammonia increases, the Ammonia Producers would expect to pay increased gas rates

up to the full amount paid by the balance of the GN-2 customers. In this respect the Ammonia Producers recommend a quarterly or semiannual review of ammonia prices and costs so as to evaluate the amount of gas price increase to be applied to the Ammonia Producers.

Position of Tehachapi-Cummings County Water District

Tehachapi-Cummings County Water District (Tehachapi) argues that the objective of SoCal should be to minimize gas prices insofar as possible to all customers and operate on an efficient basis rather than to try to sell all the gas it can. On this basis Tehachapi argues that the possibility of decreasing the take of high-priced gas to the overall benefit of SoCal's operations should be carefully explored in setting the final rates.

Tehachapi recognizes SoCal's need for interim relief, but argues that any increase granted on other than a uniform cents-per-therm basis will prejudice the position of some customer groups. Tehachapi further argues that for the first time the price of gas is approaching the equivalency of oil prices and that the parties to the proceeding have a right to further test the situation before an imbalance is produced in the rate structure, particularly after it was so vehemently argued in the last general rate proceeding.

Position of California Manufacturers Association

California Manufacturers Association (CMA) argues that GN-3, GN-4, and GN-5 rates, based on the price of alternate fuels, do not, as implied by some parties to the proceeding, give these customers some sort of a subsidy, but rather are designed to exact every last cent from them before they exit the system. CMA objects to the use of alternate fuel costs in any situation other than the situation where

using cost of service information to set gas rates would result in loss of utility load. CMA notes that Priority 2, 3, 4, and 5 customers are paying in excess of fully allocated costs and argues that gas rates should be based on the cost incurred by the utility to provide the service. CMA stated its intention to submit evidence in the final phase of the proceeding proposing rates on such a basis.

CMA further states that the proposed three-cent increase to Priority 3, 4, and 5 customers is excessive based on the cost of service and that it is inappropriate to increase Priority 2 customers more than three cents in that they are providing greater than fully allocated costs at this time. CMA stated that it is sympathetic to SoCal's need to get its revenue increase in effect and supports the staff's proposal as more reasonable than SoCal's proposal.

Position of General Motors

General Motors (GM) feels that the instant case, one of the first to go forward under the newly adopted SAM procedure, is a classic example of the crunch that can develop between the need of the utility to recover its incurred costs and the legitimate aspirations of interested parties to question the requested increase and to exert some influence on the manner in which the increases will be spread to the various customer classes.

GM states it is unable to support SoCal's proffered interim increase on the basis that substantial issues not be prejudiced by the interim action. It recommends the Commission staff's proposal on the basis it balances the competing considerations in terms of dollars for both the utility and the interested parties.

GM further argues that value of service may be a valid ratemaking consideration but that cost of service is the single most important ratemaking criterion, and that this Commission's failure to recognize that fact is in itself largely responsible for the loss of utility load and the resulting revenue loss which has become a critical concern of the gas utilities.

Position of California Gas Producers

The goal of the California Gas Producers (CGP) is to maintain the maximum market for California gas and for natural gas in California. According to CGP this Commission's decision in July 1977 implemented restructured and inverted gas rates. CGP claims that SoCal's proposed Priority 3 and 4 increases to these restructured rates, resulting in rates of 23.988 cents per therm before GEDA, has pushed them to the "edge of the cliff" in many instances and "over the cliff" for the Ammonia Producers. CGP argues that such rates place this Commission in the same position that the Energy Commission was in when it killed the Sundesert plant, that the Air Resources Board was in when it practically killed the SOHIO project, and that the Department of Resources was in when it killed the DOW chemical plant. CGP suggests a "lifeline rate" to the Ammonia Producers as a first step in encouraging the development of an industrial market for natural gas in California. CGP notes that the Priority 5 market has been virtually lost, together with 55 billion cubic feet of the Priority 3 and 4 market. According to CGP, the remaining 67 billion cubic feet of the Priority 3 and 4 market is teetering.

Position of Southern California Edison Company

Southern California Edison Company (Edison) states that it has refrained from extensive cross-examination of the various witnesses during the interim portion of the proceeding to accommodate the resolution of SoCal's cash flow problems,

but does not wish its accommodation to be interpreted as a lack of concern. Edison believes it inappropriate to fix rates of a regulated utility by reference to alternative fuel oil prices controlled by the Arabs or others. Edison further states that even if rates are to be fixed on such a principle, it has not been properly applied by SoCal. Edison stated its intention to develop these matters in the main case and reserves all its rights to do so. Edison urges that all interim rates be made subject to refund and suggests that if such refunds result in a deficiency from a rate ultimately authorized in these proceedings, such an amount be accounted for in an appropriate balancing account.

Position of the City of Los Angeles

The City of Los Angeles (LA) does not agree with the concept of injecting interim rate relief in a PGA offset case. LA states that SoCal has not demonstrated it faces a financial crisis justifying the requested interim relief. LA recommends that should interim relief be granted, it should be done on a uniform cents-per-therm basis.

Position of the City of San Diego

The City of San Diego (SD) also does not agree with the concept of interim rate relief in a PGA proceeding. SD notes that the spread of the final revenue increase in rates will be hotly contested and, therefore, urges that any interim rates be made subject to refund.

Position of San Diego Gas & Electric Company

San Diego Gas & Electric Company (SDG&E) urges that any revenue increase allowed, whether for the interim phase or the final phase, be allocated to customer classes on a uniform cents-per-therm basis, consistent with past Commission practice.

SDG&E notes that SoCal's interim proposal would saddle SDG&E with more than the system average increase per therm with the result that SoCal will be prematurely overcharging wholesale customers at a rate of approximately \$4 million a year.

Position of the City of Long Beach

The City of Long Beach (LB) agrees with SDG&E that wholesale, as well as other rates, should be increased on a uniform cents-per-therm basis. LB stated its intention to participate vigorously in the second phase of this matter to amply demonstrate the needs of the wholesale customer.

Position of V. Edward Duncan

V. Edward Duncan (Duncan) stated his belief that at this time the record of the proceeding is inadequate. Duncan argues that the inverted rate structure has led to conservation and is in keeping with the national energy policy. He believes the ammonia manufacturers should not receive "lifeline" considerations and should be able to develop alternative proposals to cope with their problems.

Discussion

One of the primary purposes of implementing the PGA and SAM clauses is to adjust rates to reflect changes in the utility's net operating revenues, both upward and downward, on a timely basis when such changes are caused by price changes or operating conditions that cannot be accurately predicted and/or controlled by the utility. It would normally be expected that tariff changes resulting from such filings could be analyzed, heard, and decided in an expeditious manner so that such changes can be effected on or close to the tariff dates of April 1 and October 1 of each year. In this instant proceeding, however, the magnitude of the requested increase, the fact that this is SoCal's first SAM filing, the proposed deviation from a uniform

cents-per-therm increase to all schedules, and the unusually active participation of many parties to the proceeding have all combined to preclude early disposition of the matter. The record is quite clear that at this time SoCal is undercollecting in excess of \$30 million a month. It is axiomatic that undercollections of this magnitude will create a very serious cash flow problem. Such a serious cash flow problem, coupled with the compounding effect of the undercollection on the next PGA/SAM filing, fully justifies immediate interim rate relief. The 3.075 cents-per-therm increase, equal to SoCal's proposed increase for GN-3, GN-4, and GN-5 rate schedules, proposed for all schedules by the Commission staff, appears reasonable and will therefore be adopted. The participants to this proceeding are in almost unanimous agreement that at this time many complex issues remain to be resolved. To preclude the possibility that the authorized interim increase will be unjustifiably adverse to any customer class, the monies collected for the interim increase will be made subject to refund. Any SoCal revenue shortfall created by monies subsequently refunded as a result of any subsequent rate design changes in this proceeding will be reflected in the appropriate balancing account.

This Commission is well aware of the importance of a healthful agricultural industry on the economic welfare of the State. According to the testimony of the Deputy Director of the California Department of Food and Agriculture, the agricultural industry could be adversely affected by the decrease in the availability of nitrogen fertilizer that would result from the closure of the remaining two ammonia plants in California.

In addition, SoCal has proposed that the increase to its customers that have the capability of utilizing alternate fuel be limited to the low range of the cost of alternate fuel so as to maintain these customers' loads. According to the

record, the Ammonia Producers will continue operations only if their raw material gas costs are not increased until the cost of ammonia has risen sufficiently to support a gas rate increase. According to the record, the average revenue per therm received from the Ammonia Producers exceeds the average price per therm paid for gas by SoCal indicating a net benefit to SoCal of maintaining the Ammonia Producers' load. To maintain the Ammonia Producers' load and preclude potentially serious and widespread adverse effects to the California agricultural industry, we will not at this time authorize an increase in rates by this interim decision to the Ammonia Producers.

The extent to which the Ammonia Producers should be required to share in further gas rate increases which may be ordered in this proceeding will be carefully reviewed during further hearings to be held in June 1979 in this proceeding. The favorable treatment accorded the Ammonia Producers at this time is justified by the urgency of SoCal's need for interim rate relief and the consequent necessity to defer full consideration of final rates for the Ammonia Producers until a later date. This result should not be interpreted as any guarantee that the Ammonia Producers will be shielded from an increased gas rate upon issuance of the Commission's final order in this proceeding or in subsequent proceedings. Whether to grant special economic protection for a particular industry or customers within a customer class is a public policy question not normally within the competence of the Public Utilities Commission to determine. A decision to grant such long-term protection, which might require a subsidy of the ammonia industry by other customers in its class or by other customers of SoCal, should more appropriately be made by the Legislature.

Findings

1. The magnitude of the requested rate increase, the proposed deviation from a uniform cents-per-therm increase to all customer classes, and the increased level of participation in the proceeding by various parties have combined to preclude early final disposition of this matter.

2. At the present time SoCal is undercollecting revenues at a rate in excess of \$30 million a month.

3. Such undercollections, unless mitigated by immediate interim rate relief, will create serious cash flow problems.

4. Such undercollections would also compound the effect of increased gas costs at the next PGA filing.

5. An interim uniform increase of 3.075 cents per therm should be granted to all customers and customer groups except the Ammonia Producers.

6. If California's remaining ammonia producing plants close operation, the State would be totally dependent on foreign produced ammonia, for which existing distribution facilities are inadequate.

7. The interim increase herein authorized should be collected subject to refund and subject to increase for the Ammonia Producers.

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

9. The increase in rates and charges authorized by this decision is justified and is reasonable; the present rates and charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.

Conclusions

1. SoCal should be authorized to increase its rates to all customers, except the Ammonia Producers, 3.075 cents per therm.

2. All monies collected pursuant to this interim decision should be subject to refund and the Ammonia Producers should be subject to a rate increase from the date the revised rates authorized herein become effective if the Commission determines such increase is reasonable.

3. The effective date of this order should be the date hereof.

INTERIM ORDER

IT IS ORDERED that after the effective date of this order, 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; these revised rates shall be collected subject to refund. The Ammonia Producers served by Schedules GN-2 and GN-4, as set forth in Appendix B, are subject to increase from the date the rates in Appendix B become effective if the Commission determines such increase is reasonable. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be four days after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date thereof.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 22nd day of MAY, 1979.

John E. Byrne
President
Donald L. Stegman
Richard D. Hoyle
[Signature]
Commissioners

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

APPENDIX A

LIST OF APPEARANCES

Applicant: Les E. LoBaugh and Robert Keeler, Attorneys at Law.

Protestants: Herman Mulman, for Seniors for Political Action; Martin E. Whelan, Jr., Inc., by Martin E. Whelan, Jr., and Carl Faller, Jr., Attorneys at Law, for Tehachapi-Cummings County Water District; and Burt Wilson, for CAUSE.

Interested Parties: Brobeck, Phleger & Harrison, by Gordon E. Davis and William H. Booth, Attorneys at Law, for California Manufacturers Association; John R. Bury, H. Robert Barnes, Jr., Larry Cope, and R. E. Woodbury, Attorneys at Law, by R. E. Woodbury, for Southern California Edison Company; Stephen A. Edwards and Jeffrey Lee Guttero, Attorneys at Law, for San Diego Gas & Electric Company; William E. Emick, Jr., Vernon Cullum, and Steve Leslie, Attorneys at Law, for City of Long Beach Gas Department; Graham & James, by Boris H. Lakusta, David J. Marchant, and Thomas J. MacBride, Jr., Attorneys at Law, for Valley Nitrogen Producers, Inc. and Union Chemical Division of Union Oil Company; Henry F. Lippitt, 2nd, Attorney at Law, for California Gas Producers Association; Burt Pines, City Attorney, by Edward J. Perez, Deputy City Attorney, for City of Los Angeles; Downey, Brand, Seymour & Rohwer, by Philip A. Stohr, Attorney at Law, for General Motors Corporation, Otis M. Smith, General Counsel, and Julius Jay Hollis, Esq.; Warren L. Williams, Attorney at Law, for Valley Nitrogen Producers, Inc.; Harry K. Winters, for University of California; John W. Witt, City Attorney, by William S. Shaffran, Deputy City Attorney, for City of San Diego; and J. Edward Duncan, for himself.

Commission Staff: Patrick J. Power, Attorney at Law.

APPENDIX B
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Southern California Gas Company

Applicant's rates and charges are changed to the level or extent set forth in this appendix.

<u>Schedules GR and GS</u>	<u>Per Meter Per Month</u>
Customer Charge	\$3.10

Commodity Charge

Billing Code 1 (Space Heating Only)

	<u>Summer</u>	<u>Winter</u>				
	<u>All Zones</u>	<u>Zone 1</u>	<u>Zone 2</u>	<u>Zone 3</u>		
First	0	55	80	115	Therms. per therm . . .	19.719c
Next	100	100	100	100	Therms. per therm . . .	23.819
Over	100	155	180	215	Therms. per therm . . .	29.219

Billing Code 3 (Basic plus Space Heating)

First	26	81	106	141	Therms. per therm . . .	19.719c
Next	100	100	100	100	Therms. per therm . . .	23.819
Over	126	181	206	241	Therms. per therm . . .	29.219

Billing Code 2 (Basic Only)

Same as summer for Billing Code 3, except applicable all year.

Schedule GM

Same structure and rates as for Schedule GR except with appropriate modifications to reflect lifeline quantities.

Schedule G-30

Rates to be increased commensurately.

Schedule GN-1 through GN-5

	<u>Customer Charge Per Meter Per Month</u>	<u>All Deliveries Per Therm</u>
GN-1	\$ 5.00	25.357c
GN-2 ^{1/}	10.00	24.245
GN-3	15.00	24.245
GN-4 ^{1/}	15.00	24.245
GN-5	100.00	24.245

^{1/} Including the following:

"Temporary supplemental service to ammonia producers:

Notwithstanding anything elsewhere contained in this schedule, the commodity rate to ammonia producers shall be 21.170 cents per therm."

Wholesale Schedules, G-60 and G-61

Schedule G-60

Commodity charge, per therm 17.890 ¢

No change in regular or peaking demand charges.

Schedule G-61

Commodity charge, per million Btu 179.27¢

Peaking commodity charge, per million Btu 199.32

No change in regular or peaking demand charges.

Note: The above are effective tariff rates include the GEDA adjustment of 0.313 ¢/therm.