

Decision No. 42862

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application  
of SOUTHWEST GAS CORPORATION, LTD.,  
for an Order Increasing Rates.

Application No. 29941

ORIGINAL

Derthick, Cusack & Canahl, by William J. Cusack  
for applicant.

O P I N I O N

Southwest Gas Corporation, Ltd., a California corporation, owns and operates a liquefied petroleum gas system, serving domestic and commercial customers in and about the city of Barstow and the unincorporated community of Victorville, San Bernardino County, California, and filed the above-entitled application on December 4, 1948, seeking authority to establish an increased schedule of rates.

A public hearing was held before Examiner Warner, in Barstow, on April 7, 1949.

Applicant engages in both utility and non-utility operations. These operations consist of the distribution of a propane-butane gas, hereinafter referred to as butane, to approximately 1,146 utility customers through mains, on the one hand, and to approximately 726 metered tank, bottled gas, and vaporization plant non-utility customers, on the other hand. The application for increased rates, herein, applies only to the utility operations of the applicant.

The utility-classified butane gas distribution system includes two identical gas plants, one each in Barstow and in Victorville, consisting of an original installation which includes two 4,000-gallon tanks capable of a maximum pressure of 150 pounds per square inch, a water heater, a gas vaporizer, piping and controls, plus a 4,300-gallon tank installed in 1937, and an 11,000-gallon propane tank installed in 1946. The combined storage capacity of the two plants is now 46,600 gallons.

The non-utility butane gas plant includes tanks owned by the applicant serving the piping systems within the government reservation at the Victorville Airport and at Camp Irwin about 30 miles from Barstow; the distribution piping systems being owned by the federal government. Applicant also sells bottled gas to individual customers on a non-utility basis.

In order to qualify itself for the wholesale rates offered by General Petroleum Corporation, from whom it purchases liquefied petroleum gas in bulk, applicant owns and operates Southwest Butane Company which was organized in 1942 and which operates at no profit, but acts as an incorporated purchasing agent for the applicant. This intermediary company owns tank delivery trucks for bottled gas service, but salaries of the truck drivers are paid by the applicant. In the Commission staff estimate, which appears elsewhere in this opinion, a portion, only, of these salaries, however, have been allocated to utility operations.

Applicant's present rates are filed in five schedules, three for general service, primarily domestic, and two for commercial service. They range from the general service rate of a minimum charge of \$1 per meter per month, including ten pounds of gas or less, with the next 90 pounds at five cents per pound per month, and all over 500 pounds per meter per month at three cents per pound, to the large commercial rate which includes a minimum charge of \$27.50 per meter per month for 1,000 pounds of gas and all over 2,000 pounds per meter per month at two cents per pound. The present general domestic and commercial rate became effective June 30, 1934; the present combination rate, and small and large commercial rates became effective April 27, 1940. The domestic heat rate became effective October 1, 1948.

The simplified rate schedule proposed in the application, and as amended at the hearing, provides for a minimum charge under Rate "A" of \$1.50 per meter per month for the first ten pounds or less, with the next 40 pounds at five cents per pound, and all over

1,600 pounds at three cents per pound; and under Rate "B" for a minimum charge of \$4.50 for the first 90 pounds or less, with the next ten pounds at 3.5 cents per pound, up to 500 pounds at three cents per pound, and all over 1,600 pounds at 2.6 cents per pound.

The proposed rates, as amended at the hearing, provide for the classification under Rate "A" or Rate "B," according to use of combinations of cooking, water heating, refrigeration, space heating, or gas use in other appliances, which are approximately equivalent to any three combined uses.

An escalator clause was included in the Proposed Schedule No. 1 attached to the application. This tariff proposal was amended at the hearing by eliminating the escalator clause provisions. However such a clause provides for automatic adjustment of liquefied petroleum gas rates for fluctuations in costs of a major expense item that will result in revenues in balance with costs in the event of fluctuations in the cost of gas. The rate schedule provided herein will contain an escalator clause of the type initially proposed by the applicant.

No evidence was adduced at the hearing by the applicant showing the segregation of utility and non-utility expenses and fixed capital. Revenues, however, were so segregated.

Mr. E. L. Gates, a Commission staff engineer, introduced a report of the utility operations for the year 1948, and for the estimated year 1949. In each case, over-all company expenses were allocated to utility operations where direct charges were not ascertainable. The following is a summary of earnings as shown in Mr. Gates' Exhibit No. 14:

SOUTHWEST GAS CORP.  
SUMMARY OF EARNINGS - (UTILITY ONLY)  
YEAR 1948 AND ESTIMATE FOR 1949

	1948 6% S.F.	1949 Estimated		
		Present Rates Str.Line Deprec.	Present Rates 6% S.F.	Proposed Rates 6% S.F.
<u>Operating Revenues</u>	\$115,476	\$130,660	\$130,660	\$143,303
<u>Operating Expenses</u>				
Production	62,436	86,000	86,000	86,000
Distribution	19,847	21,050	21,050	21,050
Cust. Actg. & Coll.	7,031	7,050	7,050	7,050
Sales Promotion	6,655	6,000	6,000	6,000
Admin. & General	9,697	10,300	10,300	10,300
Uncollectible Bills	1,163	1,200	1,200	1,200
Subtotal	\$106,829	\$131,600	\$131,600	\$131,600
Taxes	4,121	1,852	1,852	4,956
Depreciation	2,900	4,640	3,170	3,170
Total Operating Exp.	\$113,850	\$138,092	\$136,622	\$139,726
Net Revenue	1,626	(7,432)	(5,962)	3,577
Rate Base	\$152,700	\$115,600	\$164,600	\$164,600
Rate of Return	1.06%	(6.45)%	(3.63)%	2.17%

(Red Figure)

In explaining his report, Mr. Gates testified that the average price of butane to the applicant has increased from approximately 7.56 cents per gallon to 8.8 cents per gallon, delivered to the company's tanks, since December, 1948. In this connection, applicant's witness testified that the cost had increased from three cents per gallon in October, 1945, to 7.8 cents per gallon in December, 1948, and that one gallon of butane contains approximately 4.5 pounds of liquefied petroleum gas.

The evidence shows that the use of the 5% sinking fund would increase depreciation expense by \$152 annually.

For its over-all operations, utility and non-utility, Mr. H. G. Laub, president of applicant company, testified that a forecast of revenue for the year 1949 from all sources at the proposed

rates would produce approximately \$277,000; that expenses including straight line depreciation, and before income taxes, would be approximately \$269,000; leaving a net income, before income taxes, of approximately \$8,000. This, applied against a straight line depreciated rate base of approximately \$150,000 would provide a rate of return, after income taxes, of 4.03%, for the estimated year 1949, for the company as a whole.

Mr. Laub further testified that applicant had not proposed rates which would yield a maximum return because of the competitive nature of non-utility bottled gas service available throughout the area. He also indicated that the proposed rate level was influenced by the possibility of obtaining natural gas from Pacific Gas and Electric Company upon completion of its 36-inch transmission line from the California border near Topock to the San Francisco Bay area. Construction of this line may be completed within the next two or three years, and natural gas service might become available to the applicant thereupon.

It is concluded that the rates proposed by the applicant will not yield an excessive return and that the applicant is entitled to certain relief. However, the record shows that in order to establish Rates "A" and "B," considerable policing of appliances would be involved. Our order herein will, therefore, authorize a new schedule of rates. This schedule of rates will, to the same degree as the rates proposed by the applicant, increase revenues approximately \$28,000 annually.

O R D E R

Southwest Gas Corporation, Ltd., a corporation, having applied to the Commission for an order authorizing increase in liquefied petroleum gas rates and charges, a public hearing having been held, and the matter having been submitted for decision,

IT IS HEREBY FOUND AS A FACT that the increase in rates authorized herein is justified; therefore,

IT IS HEREBY ORDERED that applicant is authorized to file in quadruplicate with this Commission after the effective date of this order, in conformity with this Commission's General Order No. 96, the schedule of rates shown in Exhibit A attached hereto, and, after not less than five (5) days' notice to the Commission and to the public, to make said rates effective by billing periods for service rendered on and after May 31, 1949.

The effective date of this order shall be twenty (20) days from and after the date hereof.

Dated at San Francisco, California, this 10<sup>th</sup> day of

May, 1949.

R. Z. Innes  
Justice F. Cooney  
Chas. Powell  
Harold P. Kula  
Samuel P. Latta  
Commissioner

Schedule No. 1

GENERAL SERVICE

APPLICABILITY

This rate shall be applicable to domestic and commercial service for lighting, cooking, refrigeration, water heating, space heating, including restaurants, hotels, business buildings of all kinds, and other establishments wherein gas as a fuel is used, subject to the conditions mentioned herein.

TERRITORY

Within the incorporated limits of Barstow, in the community of Victorville, and adjacent territory in San Bernardino County.

RATES:

	<u>Per Meter</u> <u>Base</u> <u>Rates</u>	<u>Per Month</u> <u>Effective</u> <u>Rates</u>
<u>RATE A</u>		
First 10 pounds or less . . . . .	\$1.50	\$1.50
Next 90 pounds, per pound . . . . .	5.0¢	5.0¢
Over 100 pounds, per pound . . . . .	3.0¢	3.0¢
<u>RATE B</u>		
First 90 pounds or less . . . . .	\$4.50	\$4.50
Next 10 pounds, per pound . . . . .	3.5¢	3.5¢
Next 500 pounds, per pound . . . . .	3.0¢	3.0¢
Next 1000 pounds, per pound . . . . .	2.8¢	2.8¢
Over 1600 pounds, per pound . . . . .	2.6¢	2.6¢

The above effective rates are based on the following fuel clause and an average cost of liquefied petroleum gas of 2.1¢ per pound delivered to Barstow and Victorville:

Minimum Charge:

The minimum charge under Rate A shall be \$1.50 per meter per month.  
 The minimum charge under Rate B shall be \$4.50 per meter per month.

SPECIAL CONDITIONS:

1. Rate A shall apply to all consumers except those who qualify for Rate B.
2. Rate B shall apply to all consumers who upon application to the Southwest Gas Corporation will agree to use gas service continuously throughout the year. Provided, however, that a consumer who has qualified under Rate B and who shall request discontinuance of gas service during a service year of 12 consecutive months shall not thereafter qualify under Rate B at the same service address within a 12-month period following the date of the request for discontinuance unless such consumer pays the month-minimum required under Rate B for each month that service was discontinued.

(Continued)

Schedule No. 1GENERAL SERVICE  
(Continued)SPECIAL CONDITIONS: (Continued)

3. For gas used in excess of ten pounds per month under Rate A and in excess of 90 pounds per month under Rate B, the rates in effect at any time vary with the average cost of liquefied petroleum gas delivered to the plants generating gas served under this schedule and shall be determined from the above base rates by adding to or deducting therefrom, respectively 0.1¢ per pound for each 0.1¢ per pound that such cost of liquefied petroleum gas is above or below 2.1¢ per pound computed on the basis of 4.5 pounds per gallon and to the nearest 0.01¢ per pound.

When a change in cost of liquefied petroleum gas occurs, the company shall submit to the Public Utilities Commission of the State of California, within a period of fifteen (15) days, an Advice Letter and appropriate tariff schedules setting forth the new effective rates and accompanied by an affidavit of such change in the cost of liquefied petroleum gas. The new rates shall be effective beginning with the bill based on the first regular monthly meter reading, for billing purposes, which is taken on and after the thirtieth (30) day following such change in the cost of liquefied petroleum gas.