

ORIGINALDecision No. 56061

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 SOUTHWEST GAS CORPORATION for authority) Application No. 39621
 to increase its present rates and)
 charges for natural gas service by such) amounts as may be necessary to offset)
 proposed increases in the cost of gas.)

W. M. Laub and C. H. McCrea, for applicant.
Robert O. Randall, for the Commission staff.

SECOND INTERIM OPINION

Southwest Gas Corporation, an operating public utility engaged in the distribution of natural gas in a portion of San Bernardino County, filed the above-entitled application on December 6, 1957 seeking an increase in gas rates of approximately \$26,500 annually to offset increased gas rates to be charged by its supplier, Pacific Gas and Electric Company, which result from increased costs of out-of-state gas.

Public Hearing

After due notice, public hearing on this application was held before Examiner Manley W. Edwards on December 18, 1957, in Victorville. One exhibit, in addition to Exhibits A through H attached to the application, and testimony by one witness, were offered in support of the application. The Commission staff, represented by a gas engineer, cross-examined applicant's witness for the purpose of developing a full record to aid the Commission in deciding this matter. The matter was submitted for the Commission's

consideration at the close of the day's hearing and now is ready for decision.

Applicant's Position

Applicant states this increase is for the purpose of compensating it for the unreimbursed increased cost of natural gas and additional franchise payments on gross sales of gas to be purchased commencing January 1, 1958, and thereafter, from Pacific Gas and Electric Company under a revised tariff Schedule No. G-64 which Pacific has proposed in Application No. 38668 (First Amendment) to become effective January 1, 1958. Applicant estimates that it will purchase 1,345,246 Mcf of gas in 1958, and the increase at 1.96 cents per Mcf computes to \$26,367. Applicant mentions that its earnings have been such in the past as to enable it to absorb previous offset increases but at this time its earnings are such that it needs to offset this latest proposed increase.

Earning Position

Applicant estimates that for the fiscal year, October 1, 1956 to September 30, 1957, it earned a rate of return of 5.77 per cent on its California operations and that for fiscal year 1958 its rate of return will drop to 5.03 per cent and will drop further to 4.55 per cent unless this increased cost of gas is offset. The offset proposed will bring the indicated rate of return for fiscal year 1958 back up to 5.03 per cent. Applicant's final 1958 estimates in more detail, as set forth in Exhibit D, follow:

<u>Item</u>	<u>Estimated Fiscal Year 1958</u>		
	<u>With Present Gas Costs and Present Rates</u>	<u>Adjustments for Increased Cost of Gas and Offset</u>	<u>With Increased Gas Cost and Offset Rates</u>
Operating Revenues:			
Firm Sales	\$1,150,371	\$26,641	\$1,177,012
Interruptible Sales	<u>115,976</u>	<u>4,947</u>	<u>120,923</u>
Total Revenue	1,266,347	31,588	1,297,935
Operating Expenses:			
Natural Gas Purchased	619,600	31,413	651,013
Distrib. and Transmission	69,185	-	69,185
Customers Acctg. and Collecting	79,111	-	79,111
Sales Promotion	35,505	-	35,505
General and Administrative	79,975	-	79,975
Depreciation and Amortization	120,078	-	120,078
Taxes other than Federal Income	88,368	316	88,684
Federal Income Taxes	<u>45,982</u>	<u>(99)</u>	<u>45,883</u>
Total Expenses	1,137,804	31,630	1,169,434
Net Utility Revenue	128,543	(42)	128,501
Rate Base (Depreciated)	2,555,309	-	2,555,309
Rate of Return	5.03%	-	5.03%

(Decrease)

In the above table it will be noted that the offset requested in this application covers only the firm sales. The increase shown for the interruptible sales is covered by Special Condition No. 1 of Schedule No. G-30 which grants applicant authority to increase the rate by the amount of Pacific's proposed increase. Applicant states that upon learning of any increase in Pacific's rate, it will forthwith increase Schedule G-30 under the procedure specified in the rate tariff.

Applicant's earning position shown above is based on straight-line depreciation and if accelerated depreciation and the

"flow-through" method of income tax computation is used the rates of return would be increased from 5.03 per cent to 6.01 per cent.

Applicant's Exhibit No. 1 as revised December 30, 1957 shows that its earnings for its complete system, including Nevada and Arizona business, are estimated at 7.54 per cent for fiscal year 1958 and that its rate of return will drop to 7.39 per cent unless this increased cost of gas is offset. While the rate of return for the system as a whole appears at a level that could absorb this increased gas cost, applicant points out that the Arizona load is dependent on irrigation and earnings are high due to the somewhat speculative character of the business.

Proposed Offset Rates and Refunds

Applicant proposes to establish, as an offset rate for firm service, a uniform increase of 2.02 cents per Mcf (or 0.202 cents per 100 cubic feet) to the base rate for each firm rate schedule authorized to be in effect at the date hereof. Applicant computes this charge as follows:

1. Total firm cost of gas increase.....	\$26,367
2. Additional local franchise fees, based on 1.03% of gross revenue.....	274
3. Total requested increase in firm sales...	26,641
4. Estimated firm sales in Mcf.....	1,318,869
5. Offset rate on firm sales per Mcf.....	2.02¢

No specific refund plan was proposed by applicant in case the Federal Power Commission eventually does not allow the full increase filed for by El Paso Natural Gas Company; however, applicant states it is willing to collect the offset charges subject to refund in whole or in part under a refunding plan satisfactory to the Commission.

Effect of the 'Memphis' Decision

As pointed out in our Interim Order No. 55945, issued December 13, 1957, the applicability of the procedures provided for in Sections 4(d) and 4(e) of the Natural Gas Act to El Paso's petition in F. P. C. Docket No. G-12948 has been made questionable by a recent decision in the United States Court of Appeals for the District of Columbia Circuit.^{1/} It appears to this Commission that the applicant herein is in substantially the same position with respect to El Paso Natural Gas Company as that of the petitioners in the 'Memphis' case with respect to their supplier, and has substantially the same legal rights as those petitioners. Our Interim Decisions Nos. 55902 and 55945 were issued to require this and similar California applicants to diligently pursue such rights as they may have before the Federal Power Commission and the courts, and to file with this Commission verified statements of the action taken pursuant to such interim decisions.

Applicant has filed a verified copy of its petition before the Federal Power Commission, dated December 27, 1957, and it is apparent that applicant has complied with the requirements of Interim Decision No. 55945, has taken such initial steps as are available to it, and intends in good faith to pursue its legal remedies, as required by such interim decision, to final determination.

1/ Memphis Light, Gas and Water Division, City of Memphis, Tennessee, and Mississippi Valley Gas Company, petitioners, v. Federal Power Commission, respondent; United Gas Pipeline Company, Texas Gas Transmission Corporation, and Southern Natural Gas Company, intervenors, No. 13666.

Findings and Conclusions

After considering the facts and exhibits attached to the application and the additional exhibit and testimony presented at the public hearing, the Commission finds and concludes that applicant's proposal is reasonable and should be authorized, and that the increases in rates and charges authorized are justified, and that the existing rates, insofar as they differ from the rates being filed by applicant, are for the future unjust and unreasonable.

SECOND INTERIM ORDER

The above-entitled application having been filed, a public hearing having been held, the matter having been submitted and now being ready for decision, therefore,

IT IS ORDERED AS FOLLOWS:

1. The Federal Power Commission having granted the motion ✓
filed by El Paso Natural Gas Company on or about November 19, 1957
requesting that an order be entered by the Federal Power Commission
putting into effect the change of rate, charge, classification or
service set forth in, among others, rate Schedules G and G-X, and
El Paso Natural Gas Company having indicated that it will assess to ✓
applicant's supplier charges for gas sold and delivered to applicant
computed by use of the new rates specified in Schedules G and G-X
of El Paso Natural Gas Company, and Pacific Gas and Electric Company
having placed into effect revised rates under its Schedule No. G-64, ✓
therefore applicant is hereby authorized to file, in quadruplicate, ✓
with this Commission, in conformity with General Order No. 96, revised
firm schedules increased by 2.02 cents per Mcf, or 0.202 cents per

100 cubic feet, and on not less than five days' notice to this Commission and to the public to make said revised rates effective for service rendered on and after February 10, 1958. ✓

2. In the event that applicant places such rate increases in effect:

- a. Applicant shall keep such records of sales to customers during the effective period of this cost of gas offset rate as will enable it to determine readily the total offset charge and the total refund, if any, that may be due each customer.
- b. Applicant's plan for determining refunds shall be submitted to this Commission prior to making any refunds, and specific Commission approval shall be obtained of the plan at that time.
- c. Upon the final determination of the rates of Pacific Gas and Electric Company under Application No. 38668, First Amendment, applicant shall file a supplemental application herein containing its proposed permanent rate plan for final determination and authorization by this Commission.
- d. Upon final determination of the actual cost of refunding not recovered from Pacific Gas and Electric Company and the amount of any balance created by applicant's inability to deliver checks and by checks uncashed after one year, applicant shall file a plan acceptable to the Commission for the equitable disposition of the resultant net balance.
- e. Applicant shall file with the Commission monthly reports within sixty days following the close of each period setting forth:
 - (1) The increase in revenues realized under the offset rates authorized herein, and
 - (2) The increase in cost of out-of-state gas above the rate level in effect immediately prior to the date on which the proposed Pacific Gas and Electric Company rates go into effect.

f. Applicant shall insert in each firm schedule the following clause:

Contingent Offset Clause

The above base rates include an offset charge of 2.02 cents per Mcf, or 0.202 cents per 100 cubic feet, in accordance with Decision No. _____ of the California Public Utilities Commission, which is contingent upon the price of gas purchased from Pacific Gas and Electric Company and are subject to possible refund in the event of a reduction in the cost of gas purchased from Pacific Gas and Electric Company.

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

Dated at San Francisco, California, this 14th day of January, 1958.

[Signature]
President

[Signature]

[Signature]

[Signature]

[Signature]
Commissioners