

ORIGINALDecision No. 57630

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 SOUTHWEST GAS CORPORATION for author-)
 ity to increase its present rates) Application No. 40443
 and charges for natural gas service)
 by such amounts that is necessary to)
 offset its increased cost of gas.)

C. H. McCrea and J. L. Holleran, for applicant.
W. D. MacKay (Commercial Utilities Service), for
 Montecito Manufacturing Co. (Mission Linen
 Supply Co.); John R. Lutz for California
 Electric Power Company; and Robert H. Antibus,
 in propria persona; interested parties.
Louis W. Mendonsa, for the Commission staff.

O P I N I O NApplicant's Request

Southwest Gas Corporation, an operating public utility engaged in the distribution of natural gas for general use in San Bernardino County, filed the above-entitled application on September 19, 1958, seeking an increase in gas rates of approximately \$22,800 annually, or two per cent, to offset increased rates charged by its supplier, Pacific Gas and Electric Company (hereinafter sometimes referred to as Pacific) which result from an increase granted Pacific by the Commission in Decision No. 56967.

Public Hearing

After due notice, public hearing was held upon this application before Examiner Manley W. Edwards on October 21, 1958, in Victorville. Applicant submitted one exhibit and testimony by one witness in support of its 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 request. A customer's representative, while not particularly opposing a small increase, suggested that the applicant

should take steps to have its cost of gas reduced by its supplier, Pacific Gas and Electric Company, because of the reduction of 35 cents per barrel in the posted price of fuel oil on October 1, 1958; also a customer questioned as to whether the applicant had contracted for more gas than it could sell. The matter was submitted for Commission consideration at the close of the 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 August 1, 1958, and thereafter from Pacific under a revised tariff Schedule No. G-62 which Pacific filed by Advice No. 359-G pursuant to Decision No. 56967 and which became effective August 1, 1958. Applicant does not seek to increase its rate of return in this proceeding but mentions that it is preparing a general rate increase application which it expects to file before the end of the year. The increase requested herein is simply for the purpose of offsetting the increase in cost of gas. The former resale rate of Pacific, Schedule No. G-64, provided a single commodity charge of 40.62 cents per Mcf per month for all gas purchased by Southwest. The new rate specifies a commodity charge of 34.8 cents per Mcf per month plus a demand charge of 4.5 cents per Mcf of firm service in maximum month based on maximum billing month consumption over any twelve months' period. The interruptible portion of the rate specifies the same commodity charge, but only a 2.3 cent per Mcf demand charge.

Applicant estimates that it will purchase 1,746,117 Mcf of gas in the fiscal year commencing October 1, 1958, and that the increase derived from pricing this volume at the increased rates of Pacific provides an increased cost of \$22,525, or an average increase

of 1.29 cents per Mcf. Applicant also estimates an annual increase of \$234 in annual franchise payments caused directly by the resulting increase in revenue and thus will require a total additional annual revenue equal to approximately \$22,759 based on estimated sales.

Earning Position

Applicant estimates that for the twelve months' period ended July 31, 1958, it earned a rate of return of 4.00 per cent on its California operations and that the rate of return for this same period would have been 3.56 per cent with the present cost of gas. Applicant states the increase proposed herein will hold the indicated rate of return for the twelve-month period ended July 31, 1958, at 4.00 per cent. Applicant's computed results of operation on its California system for the period ended July 31, 1958, in more detail, as set forth in Exhibit C to the application, follows:

<u>Item</u>	<u>Actual 12 Months Ended July 31, 1958</u>		
	<u>With Prior Gas Costs and Present Rates</u>	<u>Adjustment for Increased Cost of Gas</u>	<u>With Increased Gas Cost and Proposed Rates</u>
Operating Revenues:			
Firm Sales	\$1,088,752	\$22,759	\$1,111,511
Interruptible Sales	116,150	-	116,150
Total Operating Revenues	\$1,204,902	\$22,759	\$1,227,661
Operating Expenses:			
Natural Gas Purchased	\$ 615,234	\$22,525	\$ 637,759
Distribution and Transmission	90,331	-	90,331
Customers' Acctg. & Collecting	92,132	-	92,132
Sales Promotion	28,479	-	28,479
General and Administrative	82,237	-	82,237
Depreciation and Amortization	100,088	-	100,088
Taxes other than Federal Income	85,810	234	86,044
Federal Income Taxes	16,904	-	16,904
Total Expenses	\$1,111,215	\$22,759	\$1,133,974
Net Utility Revenue	\$ 93,687	\$ -	\$ 93,687
Rate Base (Depreciated)	\$2,339,888	\$ -	\$2,339,888
Rate of Return	4.00%	-	4.00%

From the above table it will be noted that applicant proposes in this proceeding to increase only its firm rates. Increases or decreases in rates for interruptible sales are covered by Special Condition No. 1 of Schedule No. G-30 which provides for the increasing or decreasing of applicant's interruptible rates proportionately to any increase or decrease in Pacific's schedules for gas purchased by applicant for interruptible resale.

Advice No. 44 of applicant, filed September 8, 1958, which applicant incorporates in this application by reference, provides for a reframing of the special conditions of Schedule No. G-30 so as to accommodate this rate to the new form of Pacific's rate. In thus accommodating its rates for interruptible service to the revised rates of Pacific, applicant has made no change in the effective rate charged its interruptible customers. The relation of this action to the proposed increase in firm rates will be discussed later.

On page 2 of Exhibit C attached to the application is a summary of earnings for applicant's entire system, including its Nevada and Arizona business, which shows a rate of return of 7.38 per cent at prior gas costs and present rates; a reduction to 7.25 per cent at present rates and increased Pacific gas costs; and 7.38 per cent at proposed rates and increased Pacific gas costs. Applicant represents that its over-all rate of return, while high by California standards, results from an irregular irrigation load in Arizona, that its cost of capital is above the 7.25 per cent level shown, and that it cannot afford to absorb this increase with the low rate of return shown for its California operations without an offset.

Applicant proposes to obtain the additional revenue by means of a uniform increase of 1.57 cents per Mcf applied to all firm sales. The basis upon which applicant has computed the amount of this increase is set forth in Exhibit G attached to the application.

Effect of Pacific Increase

As developed in Exhibit E, attached to the application, applicant states that the average effect of the increased rates of Pacific is equal to an increase of 1.29 cents per Mcf on all gas to be purchased during the fiscal year ending September 30, 1959. Using applicant's estimated volumes to compare the rates set forth in Pacific's present and former resale schedule this estimated amount may be computed as follows:

Comparison of Gas Costs to Applicant under Former
Pacific Schedule G-64 and Present Schedule G-62 -
Estimated Fiscal Year Ending September 30, 1959

	<u>Volume Mcf</u>	<u>Unit Cost Mcf</u>	<u>Dollars</u>
Interruptible Service:			
Current Schedule G-62			
Demand Charge			\$ 8,664
Commodity Charge	249,355	34.8	86,776
Total			<u>95,440</u>
Former Schedule G-64			
Commodity Charge	249,355	40.62	<u>101,288</u>
Increase over Former Schedule	249,355	<u>(2.35)</u>	<u>(5,848)</u>
Firm Service:			
Current Schedule G-62			
Demand Charge			115,461
Commodity Charge	1,496,762	34.8	520,873
Total			<u>636,334</u>
Former Schedule G-62	1,496,762	40.62	<u>607,985</u>
Increase over Former Schedule	1,496,762	1.89	28,349
Total Increase over Former Schedule	1,746,117	1.29	22,501

(Red Figure)

The above tabulation shows that, for the estimated test period, the revised rates of Pacific actually provide a reduction to applicant in cost of gas purchased for interruptible service of approximately \$6,000 and an increase for firm service gas purchased of approximately \$28,000.

Under the demand-commodity form of rate now provided in Pacific's tariffs the cost of gas as between classes of service may vary with the variation in the maximum demand month's usage. The actual effect of the change as between firm and interruptible in applicant's estimated cost of gas may therefore vary depending on the accuracy of the estimated sales in the peak month. The over-all net effect, however, is believed reliable and is appropriate for the purpose of this proceeding.

Rate Spread

Applicant has in Advice No. 44 retained the current level of interruptible rates. In view of the above indicated result by classes we will not disturb the rates for this class of service at this time. The net estimated increased cost of gas of \$22,501 plus the related local franchise effect of \$234, may reasonably be assessed against the firm service and the order will so provide.

Findings and Conclusions:

After considering the evidence of record the Commission finds and concludes:

1. That applicant's cost of gas is not affected by the level of the posted price of fuel oil because there is no escalator clause in Schedule G-62 of Pacific Gas and Electric Company. When inquiry was made of applicant as to whether or not it would initiate a complaint or attempt to obtain a lower price for purchased gas it questioned if the saving would offset the expense, but is willing to refund any overcharges the Commission may find and order in the future;
2. That applicant's cost of gas is based upon estimated demands during the maximum month of use and the use during the full year, and there is no evidence that applicant has contracted for more gas than it can sell;
3. That when applicant files for a general rate increase in the near future, opportunity will be afforded the Commission to review in detail the level of the rate of return, spread of rates and related matters, and to correct the offset rate to be authorized if it produces any unreasonable rate distortions;

4. That the increase proposed in this application is for the limited purpose of offsetting the increase cost of gas and related franchise fees;
5. That applicant's proposal to increase only firm service rates by 1.57 cents per Mcf is reasonable and should be authorized;
6. That the increases in rates and charges authorized are justified;
7. That the existing rates in so far as they differ from the rates authorized herein, are for the future unjust and unreasonable.


O R D E R


Southwest Gas Corporation having applied to this Commission for an order authorizing increases in rates, a public hearing having been held, the matter having been submitted and now being ready for decision; therefore,


IT IS ORDERED that applicant is authorized to file in quadruplicate with this Commission, in conformity with General Order No. 96, revised firm schedules increased by 1.57 cents per Mcf, or 0.157 cents per 100 cubic feet, and on not less than five days' notice to this Commission and to the public to make such revised rates effective for service rendered on and after December 20, 1958.

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

Dated at San Francisco, California, this 25th day of November, 1958.



President




Commissioners