

ORIGINAL

Decision No. 61253

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
SOUTHWEST GAS CORPORATION for an)
increase in natural gas rates.)

Application No. 42755

C. H. McCrae, for Southwest Gas Corporation,
applicant.
George A. Brudnak, for George Air Force Base,
interested party.
J. Calvin Simpson, John R. Gillanders, and
Richard R. Entwistle, for the Commission
staff.

INTERIM OPINION

Applicant's Request

Southwest Gas Corporation ^{1/} filed the above-entitled application on October 14, 1960, seeking an immediate interim increase in gas rates of approximately \$35,400 annually, or two percent, to offset increased rates charged by its supplier, Pacific Gas and Electric Company, ^{2/} which result from an increase granted Pacific in Decision No. 60587, effective August 25, 1960 in Application No. 42225. The requested immediate increase in rates, according to applicant, would add approximately 15 cents a month to the average domestic customer's bill. In addition, Southwest seeks authority to

1/ Southwest Gas Corporation, sometimes referred to herein as Southwest, is engaged in the business of purchasing and distributing natural gas to domestic, commercial, industrial, military and agricultural customers in parts of Arizona, California and Nevada. In California, Southwest serves approximately 11,200 customers all located in San Bernardino County.

2/ Sometimes referred to herein as Pacific.

increase its rates, effective as of the effective date of any general increase in rates authorized Pacific under its Application No. 42225, by an amount sufficient to offset any resulting increase in cost of gas to Southwest, with related increases in costs for franchises and unaccounted for gas.

Public Hearing

After due notice, public hearing was held before Examiner William W. Dunlop on November 17, 1960 at Victorville. Applicant presented four exhibits and testimony through two witnesses in support of its request. The Commission staff cross-examined applicant's witnesses and presented a preliminary financial report and testimony through one witness. No protests were entered on the record to applicant's request to offset the 1.9 cents per Mcf increase in cost of gas Southwest has been paying Pacific Gas and Electric Company since August 25, 1960.

The matter was taken under submission at the conclusion of the day's hearing. This interim opinion and order relates solely to applicant's request to offset the 1.9 cents per Mcf increase in cost of gas.

Applicant's Position

Applicant states that its presently effective rates for natural gas service were authorized by the Commission in its Decision No. 59032, dated September 22, 1959, in Application No. 40743; and that such presently effective rates were based on estimated cost of gas to Southwest at Pacific's effective rates prior to August 25, 1960. In its 1959 decision, the Commission found a rate of return of 7 percent to be fair and reasonable for Southwest's operations.

Applicant further states that although it appeared as a protestant in Pacific's Application No. 42225, presented evidence, and took the position that the amount of the increases proposed by Pacific applicable to Southwest were excessive; nevertheless, the Commission by its interim order (Decision No. 60587) dated August 18, 1960, authorized Pacific to increase its rates to Southwest by approximately 1.9 cents per thousand cubic feet (Mcf) on the commodity cost of all gas sold to Southwest on and after August 25, 1960. The requested immediate increase of approximately \$35,400, according to Southwest, is simply for the purpose of offsetting the approximate 1.9 cents per Mcf increase in cost of natural gas Southwest has been paying Pacific since August 25, 1960 and related additional franchise payments on gross sales of gas.

If and when the Commission fixes final rates in Pacific's Application No. 42225, Southwest urges the Commission to authorize, effective on the same date as Pacific's final rates, increases in Southwest's rates sufficient to offset the cost effects on Southwest's operations. By this interim opinion and order we are not passing on this latter request of Southwest.

The resale rate of Pacific, Schedule No. G-62, in effect prior to August 25, 1960, provided a commodity charge of 34.8 cents

per Mcf per month plus a monthly demand charge of 7.3 cents per Mcf of firm service in maximum month based on the maximum billing month consumption over the twelve months' period ending with the current month. The interruptible portion of the rate specified the same commodity charge (34.8 cents), but only a 2.3 cent per Mcf demand charge. Pacific's Schedule No. G-62, effective on and after August 25, 1960, provides a commodity charge of 36.7 cents per Mcf per month with no change in the demand charge.

Southwest estimates that for the adjusted year ended April 30, 1960 it purchased 1,242,153 Mcf of gas, and that the increase derived from pricing this volume at the increased rates of Pacific provides an increased cost of \$35,001, or an average increase of approximately 1.9 cents per Mcf. Southwest also estimates an annual increase of \$425 in franchise payments caused directly by the resulting increase in revenue. The total additional annual revenue thus derived by Southwest approximates \$35,426 based on its adjusted sales for the year ended April 30, 1960.

Earning Position

Applicant presented summaries of its earning position for the twelve months ended April 30, 1960 as recorded and as adjusted to a normal temperature basis at present and proposed rates which may be summarized as follows:

	12 Months Ended April 30, 1960	
	Rate of Return	
	Complete System	California Only
Recorded	6.29%	5.22%
Adjusted at Present Rates:		
Excluding PG&E 8-25-60 Offset	6.17	4.86
Including PG&E 8-25-60 Offset	6.01	4.41
Adjusted at Proposed Rates:		
Including PG&E 8-25-60 Offset	6.16	4.85

Applicant's computed results of operation on its California System for the 12 months ended April 30, 1960, in more detail, as set forth in Exhibits 1 and 4, follows:

SOUTHWEST GAS CORPORATION - CALIFORNIA DIVISION
SUMMARY OF EARNINGS FOR 12 MONTHS ENDED 4/30/60

Item	Recorded	Adjusted at Present Rates		Adjusted at Co. Proposed Rates
		Excluding PG&E 8-25-60 Offset	Including PG&E 8-25-60 Offset	Including PG&E 8-25-60 Offset
Operating Revenues	\$1,669,187	\$1,777,137	\$1,777,137	\$1,812,563
Operating Expenses:				
Nat. Gas Purchased	832,965	894,904	929,906	929,906
Distr. & Maint.	114,526	114,526	114,526	114,526
Cust. Acc. & Coll.	95,514	95,514	95,514	95,514
Sales Promotion	50,828	50,828	50,828	50,828
Adm. & General	83,274	127,674	127,674	128,540
Depr. & Amort.	119,216	119,216	119,216	119,216
General Taxes	118,744	145,629	143,704	145,605
Fed. Income Tax	66,547	53,588	36,654	53,373
Total Expenses	1,481,614	1,601,879	1,618,022	1,637,508
Net Revenue	187,573	175,258	159,115	175,055
Avg. Rate Base (Depr.)	3,592,245	3,602,956	3,605,873	3,605,873
Rate of Return	5.22%	4.86%	4.41%	4.85%

Principal adjustments made by applicant to its operations for the twelve months ended April 30, 1960 include the following:

1. Revenues were adjusted for average temperature conditions and for the full year's effect of the rate increase which became effective on October 19, 1959.

2. Cost of purchased gas was adjusted for normal temperature, the recorded month of January 1960 being used as the maximum demand charge month during the year.
3. Payroll was adjusted for wage increases through September 30, 1960.
4. Ad valorem taxes were adjusted for the 1960 increase in property valuation computed at the 1959 tax rates.

A number of lesser adjustments were made by applicant to reflect average year conditions.^{3/}

Staff's Analysis

The analysis of the Commission staff showed that at gas purchase costs effective August 25, 1960, applicant's gross revenues for the year ended April 30, 1960 were approximately \$140,000 less than required to yield a 7 percent rate of return on applicant's computed rate base. As previously indicated the Commission in its 1959 Decision No. 59032 found a 7 percent rate of return to be fair and reasonable for Southwest. The staff's analysis further showed that if the Commission should follow the recommendation of Southwest in fixing the final rates in Application No. 42225 of Pacific Gas and Electric Company, the cost of gas to Southwest would be reduced to approximately 40 cents per Mcf and Southwest's rate of return under such circumstances would approximate 7.19 percent.

Rates - Present and Proposed

A comparison of present and company proposed offset rates by schedules follows:

<u>Schedule G-1-A</u>		<u>Present</u> <u>Rate</u>	<u>Co. Proposed</u> <u>Offset</u> <u>Rate</u>	<u>Increase</u>
First	200 cubic feet or less	\$2.60	\$2.60	\$ -
Next	2,800 cubic feet per 100 cf.	.108	.110	.002
Next	7,000 cubic feet per 100 cf.	.094	.096	.002
Next	40,000 cubic feet per 100 cf.	.089	.091	.002
Next	50,000 cubic feet per 100 cf.	.085	.087	.002
Next	200,000 cubic feet per 100 cf.	.080	.082	.002
Next	700,000 cubic feet per 100 cf.	.074	.076	.002
Next	4,000,000 cubic feet per 100 cf.	.070	.072	.002
Over	5,000,000 cubic feet per 100 cf.			
	November - April, Inclusive	.060	.062	.002
	May -October, Inclusive	.050	.052	.002

^{3/} Exhibit 1, pages 18-3 and 18-4.

<u>Schedule No. G-1-H</u>	<u>Present Rate</u>	<u>Co. Proposed Offset Rate</u>	<u>Increase</u>
First 200 cubic feet or less:			
October - May	\$3.50	\$3.50	\$ -
June - September	.40	.40	-
Next 2,800 cubic feet per 100 cf.	.130	.132	.002
Next 7,000 cubic feet per 100 cf.	.105	.107	.002
Next 40,000 cubic feet per 100 cf.	.095	.097	.002
Next 50,000 cubic feet per 100 cf.	.087	.089	.002
Next 200,000 cubic feet per 100 cf.	.083	.085	.002
Next 700,000 cubic feet per 100 cf.	.080	.082	.002
Next 4,000,000 cubic feet per 100 cf.	.070	.072	.002
Over 5,000,000 cubic feet per 100 cf.			
November - April, Inclusive	.060	.062	.002
May - October, Inclusive	.050	.052	.002
<u>Schedule G-45</u>			
First 100 Mcf per 1,000 cf.	\$.700	\$.720	\$.020
Next 300 Mcf per 1,000 cf.	.650	.670	.020
Over 400 Mcf per 1,000 cf.	.600	.620	.020
<u>Schedule G-50</u>			
First 1,000 Mcf per 1,000 cf.	\$.550	\$.570	\$.020
Next 9,000 Mcf per 1,000 cf.	.530	.550	.020
Next 10,000 Mcf per 1,000 cf.	.510	.530	.020
Next 30,000 Mcf per 1,000 cf.	.480	.500	.020
Over 50,000 Mcf per 1,000 cf.	.465	.485	.020

No increases are proposed by applicant in Schedule G-15 and G-91.

Desert Pipeline Construction Company

The testimony of applicant's witness shows that in the past Southwest has built portions of its plant through Desert Pipeline Construction Company; that certain officers of Southwest are also officers of Desert Pipeline; but that recently Southwest's management decided not to use Desert Pipeline Construction Company in the future and has dropped said company from Southwest's bidding list. Applicant's witness did state, however, that in an emergency situation, such as a break in a gas main, and where no other means for emergency repair were available, Desert Pipeline Construction Company might be used in such an emergency situation in the future.

Findings and Conclusions

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

1. That while we may not necessarily agree with all of applicant's figures supporting its computation of rate of return, it is abundantly clear that the amount of the offset increase herein requested, if authorized, will not result in applicant's earning an excessively high rate of return.
2. That the immediate increase proposed in this application is for the limited purpose of offsetting the increase in cost of gas and related franchise fees, which Southwest has been paying since August 25, 1960.
3. That applicant's proposed uniform increase in rates is reasonable and should be authorized.
4. That only an interim order should be issued authorizing the increases in rates and charges as provided by the order herein, pending final Federal Power Commission action on El Paso Natural Gas Company's increased rates for gas which are being passed on to applicant by applicant's supplier, Pacific Gas and Electric Company.
5. That the increases in rates and charges herein authorized are justified and that existing rates in so far as they differ from the rates authorized herein, are for the future unjust and unreasonable.

INTERIM ORDER

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 the request for an immediate offset increase being ready for decision; therefore,

IT IS ORDERED as follows:

1. Applicant is authorized to file in quadruplicate with this Commission, in conformity with General Order No. 96, revised tariff schedules increased to the level set forth on Exhibit C of the

application under the column headed "P.G. & E. Offset", and on not less than five days' notice to the public and to this Commission to make said revised rates effective for service furnished on and after January 1, 1961.

2. In the event that applicant places such offset rates into effect,

- a. Applicant shall keep 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. When the final decision by the Federal Power Commission in Docket No. RP60-3 shall have become final, applicant shall file an application 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 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 monthly period, setting forth:
 - (1) The increase in revenues realized under the offset rates authorized herein, segregated by firm and interruptible classes of service, and
 - (2) The increase in cost of gas purchases from Pacific above the rate level in effect immediately prior to the date on which the offset rates went into effect.

f. Applicant shall continue to show in its tariffs the amounts of offset charges included in the several rates that may be subject to refund, and shall augment the statement to show the offset increases being placed into effect on the effective date of the new rates filed under ordering paragraph 1 hereof.

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

Dated at San Francisco, California, this 28th day of DECEMBER, 1960.

[Signature]
 President

[Signature]

[Signature]

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 Commissioners