lmm

Decision No. 81014 **ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of McCLOUD GAS CO., INC., a California corporation, for authority to increase its rates for gas service.	Application No. 53305 (Filed May 2, 1972)
In the Matter of the Application of McCLOUD GAS CO., INC., a California corporation, for authority to increase rates for propane gas service to offset increases in the cost of gas purchased from Union Oil Company.	Application No. 53684 (Filed November 10, 1972; amended November 13, 1972)

Orrick, Herrington, Rowley & Sutcliffe, by James F. Crafts, Jr. and Thomas F. Tresselt, Attorneys at Law, for McCloud Gas Co., Inc., applicant.
Rufus G. Thayer, Jr., Attorney at Law, and Robert C. Moeck, for the Commission staff.

O P I N I O N

After due notice, hearing on Application No. 53305 was held on October 3, 1972 in McCloud, California. The matter was submitted for decision on October 25, 1972 upon the receipt of briefs.

By Application No. 53684, filed November 10, 1972, applicant requests ex parte authorization of increased rates to offset increased cost of gas effective October 5, 1972. Ex parte authorization for one year is also requested to file revised tariff schedules by advice letter procedure to offset the effect of future increases in the cost of gas and gas transportation.

Testimony was presented by the assistant to the vice-president of west coast operations of Pargas, Inc., the parent of applicant. A financial examiner and an engineer on the staff of the Commission presented the results of their field investigation of applicant's operation. There were no public protests to the proposed rate increases.

Rates

All of applicant's approximately 486 domestic, commercial, and industrial customers are served under a single general service rate schedule for propane gas for cooking, water heating, and space heating.

The following tabulation compares applicant's present rates and those proposed in Application No. 53305:

Rate Comparison

Rates	Per Meter Per Month	
	Present	Proposed
First 2 Therms[1/] or less	$ 3.00	$ 3.50
Next 18 Therms, per Therm	.19	.21
Next 30 Therms, per Therm	.18	.20
Next 950 Therms, per Therm	.17	.20
Over 1,000 Therms, per Therm	.13	.14
Minimum Charge	$ 3.00	$ 3.50

Application No. 53684 requests authorization of an additional rate increase of $.00529 per therm.

The staff recommends the retention of the existing billing blocks unless a showing is made that the change is proper.

Results of Operation

The following tabulation compares the results of operation estimates for the test year 1972.

1/ The word "Therm" means one hundred thousand British Thermal Units (100,000 BTU)

$$\text{Therms} = \frac{\text{Usage (Cubic Feet)} \times \text{BTU per cubic foot}}{100{,}000\ \text{BTU}}$$

COMPARISON OF SUMMARY OF EARNINGS
Test Year 1972

Item	Present Rates Staff	Present Rates Utility	Proposed Rates Staff	Proposed Rates Utility
Operating Revenue	$121,267	$115,377	$138,783	$131,161
Operating Expense				
Cost of Gas	62,300	60,710	62,300	60,710
Distribution - Operation	10,395	10,395	10,395	10,395
Maintenance	1,270	1,270	1,270	1,270
Administrative and General	6,285	6,685	6,285	6,685
Indirect Management	4,600	4,647	4,600	5,988
Depreciation	8,293	9,650	8,293	9,650
Taxes Other Than Income - Franchise Fees	7,870	7,825	7,992	7,938
Uncollectibles	100	250	114	250
Subtotal	101,113	101,432	101,249	102,886
Income Taxes - State	790	421	2,111	1,511
Federal	2,690	1,435	9,820	6,315
Total Operating Expense	104,593	103,288	113,180	110,712
Net Revenue	16,674	12,089	25,603	20,449
Rate Base	242,811	242,811	242,811	242,811
Rate of Return	6.87%	4.98%	10.54%	8.42%

The differences in revenue, depreciation on meters and regulators, writeoff of bad debts, charges to administration and general, and rate of return are issues to be considered herein.

Revenue

The staff estimates of revenue under present rates exceed applicant's by $5,890. Applicant maintains that the staff estimates are too high because the staff estimates do not take into account the lower-than-normal temperatures in 1971 and because the staff included commercial customers in its development of average use per customer.

Applicant estimated use per customer by adjusting downward the usage in the cold year 1971. From Exhibit No. 7, the staff concluded that there is no correlation between the usage per customer and the temperature degree-days for the period 1967 through 1971 on this system. The staff determined the consumption per customer from the trend of usage in the years 1967 through 1971. We note that in 1971 the average use for all customers was 1,422 gallons, while in 1969, a much warmer year, the average usage was higher, 1,441 gallons. We find the staff estimates reasonable.

Depreciation in Meters and Regulators

For meters, meter installations, and house regulators, applicant uses an average service life of 16, 16, and 16 years, respectively. The staff uses corresponding average service lives of 35, 35, and 30 years. Applicant based its estimate of service lives on the experience of Pargas. The staff considered the experience of a number of California gas utilities. Since applicant uses the straight-line remaining life method of determining the annual depreciation accrual, any errors in the estimates of average service life will not affect applicant's ultimate recovery of all of its depreciable capital. If the allowance for depreciation expense is set either too high or too low today, the depreciation expense in subsequent years will be respectively lower or higher in future years. We find the staff estimates of average service lives reasonable.

Administrative and General

Applicant estimated $400 more administrative and general expense than was estimated by the staff. This resulted from a $300 reduction based on actual expense in self-insurance adjustment, out of period charges, and elimination of interest and entertainment expenses. Applicant alleged that the staff did not include an allowance for electricity which was denied by the staff witness. We find the staff estimate of administrative and general expense to be reasonable.

Rate of Return

Applicant requests a rate of return of 8.42 percent on the rate base. The staff recommends a 7.3 percent rate of return to produce a return of 8.7 percent on common equity, which is the same earnings rate allowed applicant by Decision No. 77386 dated June 23, 1970.

The staff opposed the inclusion by applicant of $150,000 as common equity in applicant's determination of the required rate of return on the basis that applicant was capitalizing losses on the parent company's initial investment.

The staff comments in Exhibit 2:

> "Under normal circumstances, a rate of return in the range of 8 percent would be reasonable for McCloud Gas Co., Inc. In this proceeding, however, it is necessary also to recognize Federal Price Commission guidelines which provide, among other things, that 'the projected return on common equity capital may be no more than the projected return on common equity capital granted to the utility by the most recent decision of the regulatory agency applicable to that utility.'"

In making these comments the staff relied upon the wage and price control criteria set forth in Title 6, Economic Stabilization, Section 300.16(d)(3)(i) and (iv) which state the following:

> "(i) The projected rate of return on the rate base computed in the manner customarily used by the regulatory agency concerned is no more than the projected rate of return on the rate base granted to the utility by the last decision of the regulatory agency applicable to that utility."

> "(iv) The projected rate of return on common equity capital, after the price increase has gone into effect, will be no more than the projected rate of return on common equity capital which was granted to the utility by the last decision of the regulatory agency applicable to that utility or, if no such decision has been made since January 1, 1968, the projected rate of return on common equity capital which was granted by the regulatory agency to another utility under its jurisdiction which most nearly resembles the utility concerned, in the most recent decision of the regulatory agency applicable to that other utility. The basis for choosing the utility that most nearly resembles the utility concerned must be type of service, capital structure, growth factors, and other factors the regulatory agency considers applicable."

Section 300.16 has been deleted except for price increases authorized as effective before September 18, 1972. Utility increases after September 17, 1972 were governed by the criteria set forth in Section 300.303. Section 300.303(a)(3) changed the criteria regarding rate of return to read the following:

> "(3) The increase will achieve the minimum rate of return needed to attract capital at reasonable costs and will not impair the credit of the public utility."

The standards by which this Commission evaluates filings for rate increases in order to determine whether such rate increases are in conformance with the criteria established by the Economic Stabilization Act of 1970 are the standards set forth in Commission Rule 23.1.

We find reasonable the staff recommended rate of return of 8 percent on the rate base. This will yield earnings of 10 percent on common equity.

Adopted Results

For this proceeding we adopt the following summary of earnings as representative of the results of operation which reasonably can be expected under normalized conditions in the immediate future under the rates authorized herein.

Operating Revenue	$129,180
Operating Expenses	
Cost of Gas	65,630
Distribution - Operation	10,400
- Maintenance	1,270
Administrative and General	6,290
Indirect Management	4,600
Depreciation	8,290
Taxes Other Than Income and Franchise Fees	7,925
Uncollectibles	105
Subtotal	104,510
Income Taxes - State	1,130
- Federal	4,120
Total Operating Expense	109,760
Net Revenue	19,420
Rate Base	242,811
Rate of Return	8%

These adopted results include $3,272 in increased gas and franchise costs requested by applicant in Application No. 53684 due to the increased price of propane effective October 5, 1972.

Findings

1. Applicant is in need of additional revenues.

2. The staff estimates of operating revenues, operating expenses, and rate base for the test year 1972, adjusted for the increase in the price of propane on October 5, 1972, reasonably indicate the results of applicant's operations in the near future.

3. A rate of return of 8.0 percent on a rate base of $242,811 is reasonable. This will yield earnings of 10 percent on common equity.

4. It is inappropriate to authorize in an ex parte proceeding automatic rate increases based on anticipated increases in cost of gas and gas transportation where such increases are not previously reviewed by a utility regulatory agency.

5. The increases in rates and charges authorized herein are justified; the rates and charges authorized herein are reasonable; and the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.

6. In compliance with Rule 23.1 of this Commission's Rules of Practice and Procedure promulgated pursuant to the Economic Stabilization Act of 1970,

a. The rate increase is cost-justified. Since McCloud's last rate increase its fuel and distribution costs have increased substantially, and its operations have yielded a very low rate of return.

b. The rate increase does not reflect future inflationary expectations. It is based upon 1972 test year operations and all of the items of increases in expense considered herein are definite and have been measured with respect to their impact upon total operating costs.

c. The rate increase is the minimum required to assure continued, adequate, and safe service. Without the increased rates authorized herein McCloud's ability to continue to provide adequate, safe propane gas service would be impaired.

d. The rate increase does not reflect labor costs in excess of those allowed by Price Commission policies. The cost increases do not include any material increases in labor costs.

e. The rate increase takes into account expected and attainable productivity gains.

f. The rate increase will achieve the minimum rate of return needed to attract capital at reasonable costs and not impair the credit of McCloud. The record in this proceeding shows that without an increase in rate of return McCloud will continue to have an extremely low rate of return on investment.

Conclusion

The applications should be granted in part as hereafter ordered. Ex parte offset authority for an additional year will not be authorized.

ORDER

IT IS ORDERED that after the effective date of this order, McCloud Gas Co., Inc. is authorized to file revised tariff sheets with the rates, charges, and conditions substantially as set forth in Appendix A attached hereto. Such filing shall comply with General Order No. 96-A. The effective date of the revised rate schedule shall be four days after the date of filing. The revised rate schedules shall apply only to service rendered on and after the effective date thereof.

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

Dated at San Diego, California, this 6th day of FEB, 1973.

Vernon L. Sturgeon
President

William Symons Jr.

J. P. Vukasin Jr.

Thomas Moran

D. W. Holmes

Commissioners

A-53305 EL

APPENDIX A

RATES - McCLOUD GAS CO. INC.

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

Schedule No. G-80
GENERAL SERVICE

Rates		Per Meter Per Month
First	2 therms or less	$3.12
Next	18 therms, per therm	.203
Next	30 therms, per therm	.192
Next	950 therms, per therm	.181
Over	1,000 therms, per therm	.146

Minimum Charge: The charge for the first two therms.