JR */ek

Decision No. 82714

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHWEST GAS CORPORATION for authority to increase natural gas rates in Placer County, California.	Application No. 53747 (Filed December 13, 1972; amended July 2, 1973 and July 5, 1973)

Leonard L. Snaider, Attorney at Law, for applicant.
Elinore C. Morgan, Attorney at Law, Edmund J. Texeira, and John J. Gibbons, for the Commission staff.

O P I N I O N

Southwest Gas Corporation (SW) seeks authority to increase gas rates in its North Lake Tahoe District (Tahoe) to produce additional annual revenues of $318,289, a 28.85 percent increase, which were designed to yield a rate of return of 7.4 percent. SW estimates that revenues at present rates for test year 1973 total $1,103,293 and that 1973 revenues would increase to $1,421,582 at proposed rates. SW requests a lower rate of return than the 9.3 percent requested in Application No. 53727 for its San Bernardino County District (SBCD). SW states that the rates it proposes are limited due to considerations of the costs of alternate fuels for its customers. SW requests that its revenue requirements rather than the lower rate of return it requests should govern the Commission's determination.

SW, a California corporation, distributes and sells natural gas in portions of San Bernardino County and Placer County as a public utility subject to this Commission's jurisdiction. It is also engaged in intrastate transmission, sale, and distribution of natural gas as a public utility in portions of Nevada and Arizona, and is a natural gas company subject to the jurisdiction of the Federal Power Commission with respect to interstate transmission facilities and sales of natural gas for resale.

SW's principal office is in Las Vegas, Nevada, where centralized administrative and office functions are performed. The staff end-of-year 1973 estimate of customers served in Tahoe is 4,343 (approximately 3 percent of SW's customers). The Tahoe service area is located in unincorporated portions of Placer County, north and west of Lake Tahoe, adjacent to its Northstar district (Northstar).

After notice, public hearings were held before Examiner Levander on July 10 and 11, 1973 in Tahoe City. Certain exhibits or portions of exhibits prepared by SW or the Commission staff were applicable to both SBCD and Tahoe and were put in evidence in both proceedings. The testimony regarding these exhibits which was presented in Application No. 53727 and certain related arguments were incorporated in this proceeding by reference. The matter was submitted on closing arguments on July 11, 1973 subject to the receipt of late-filed exhibits which have been received.

Decision No. 82417 in Application No. 53727 dated February 5, 1974 sets forth in detail certain arguments which were raised in both proceedings and our disposition of the disputed points.

A customer testified that SW's present rates were unreasonable on a per therm basis as compared to those of Pacific Gas and Electric Company in the Bay area. The revenue requirements of each utility are affected by factors peculiar to it. These factors include differences in customer density, reasonable allowances for operating expenses and taxes, plant and investment necessary for the customers served, debt requirements, and return on capital.

The latest general rate increase for the Placer district was authorized in Decision No. 77349 dated June 9, 1970 in Application No. 49704. SW's rates have been subsequently changed to reflect changes in the cost of gas.

Decision No. 82124 dated November 13, 1973 authorized gas rate changes designed to offset changes in the operational costs for SW's Placer district attributable to Federal Power Commission (FPC) authorized revisions in rates in FPC Dockets Nos. RP 73-99 and RP 73-109. Decision No. 82124 authorized alternate relief to that sought in the first and second amendments to the subject application. Therefore, there is no need to give further consideration to the relief sought in these amendments in this decision.

Results of Operation

The tabulation on the following page compares SW and Commission staff estimated summaries of earnings for test year 1973 at April 17, 1972[1/] rates and at proposed rates, and sets forth the adopted summary of earnings at the April 17, 1972 rates for test year 1973. The bases for the adopted results are discussed in the following paragraphs.

1/ The tabulation excludes the effect of changes in rate schedules to track gas cost modifications after April 17, 1972.

Summary of Earnings
(Estimated Year 1973)

Item	Southwest Estimated: April 17, 1972 Rates	Southwest Estimated: Company Proposed Rates	Staff Estimated: April 17, 1972 Rates	Staff Estimated: Company Proposed Rates	April 17, 1972 Rates Adopted Results
	(Dollars in Thousands)				
Operating Revenues	$1,103.3	$1,421.6	$1,164.2	$1,499.6	$1,164.2
Operating Expenses					
Oper. & Maint. a/	646.6	648.2	641.9	643.5	653.2
Adm. & Gen. & Misc. a/	70.6	70.6	66.6	66.6	71.7
Taxes Excl. Inc. b/	108.9	112.2	109.2	112.4	109.2
Income Taxes	-	3.4	(150.9)	23.2	(159.7)
Depr. & Amortz.	205.2	205.2	208.1	208.1	207.4
Total Oper. Exp.	1,031.3	1,039.6	874.9	1,053.8	881.8
Associated Co. Adj.	-	-	(5.3)	(5.3)	(5.3)
Adjusted Oper. Exp.	1,031.3	1,039.6	869.6	1,048.5	876.5
Net Revenues	72.0	382.0	294.6	451.1	287.7
Depreciated Rate Base	5,166.2	5,166.2	5,346.7	5,346.7	5,286.7
Associated Co. Adj.	-	-	(273.3)	(273.3)	(273.3)
Adjusted Rate Base	5,166.2	5,166.2	5,073.4	5,073.4	5,013.4
Rate of Return	1.39%	7.39%	5.81%	8.89%	5.74%

(Inverse Item)

a/ Includes payroll taxes.

b/ Excludes payroll taxes.

Operating Revenues

The differences in estimates for gas sales are due primarily to the period used in developing the average usage per customer in the firm categories and to differences in estimated numbers of customers in the heating only subclass of general service. SW stipulated to the staff estimate of the number of customers taking heating service.

The methods used for trending usage per customer prepared by SW and the staff are similar to the methodology used in A-53727. We adopt the staff's firm usage and revenue estimates which are based on trending over a longer time period and a longer temperature base period than the corresponding SW estimates.

In regard to interruptible service the staff testified that the usage of two lodges was more dependent on occupancy than on temperature variations; that this usage should be averaged unless these customers added units or heating loads; that the temperature adjusted data used by SW was not closely tied to sales; and that there was not a good temperature sales correlation for three customers. (A fourth interruptible customer switched to a firm schedule after SW's estimate was prepared.)

We adopt the staff's interruptible revenue estimates based on one year's recorded data for a new school and the three-year average by months, for the two lodges.

The staff estimate for other revenues, service establishment charges, is based upon a higher level of activity than the SW estimate. We adopt the staff's higher estimated number of customers for the test year and the staff estimate of other revenues.

Operation and Maintenance Expenses

Both SW and the staff estimated production expenses (the cost of purchased gas) upon rate Schedule G-1, Wholesale Firm Service, filed with the FPC effective April 17, 1972. This rate schedule is SW's FPC jurisdictional schedule applicable to sale to California-Pacific Utilities Company (Cal-Pac) for resale at South Lake Tahoe, California, and to Sierra Pacific Power Company (Sierra) for resale in the Reno-Sparks, Nevada, area.

SW purchases gas from El Paso Natural Gas Company (El Paso) at the Idaho-Nevada border under FPC jurisdictional Rate Schedules PL-4, Firm, and PL-5, Interruptible Large Industrial Service. SW transports the gas to its own distribution systems across north Nevada to its two wholesale customers and to its Northstar and Tahoe service areas in California. In prior rate proceedings before this Commission both staff and utility production expense estimates were based on the PL-4 rate and did not assign any of the northern Nevada transmission costs to Tahoe. SW and the staff used the four-step G-1 gas rate schedule so that the production cost chargeable to Tahoe would include El Paso's charges plus the costs incurred in transmitting gas across Nevada. The cost considerations are similar for supplying Tahoe and Northstar as compared to Cal-Pac and Sierra. The Commission staff participated in the G-1 settlement. Approximately two-thirds of the rate increase request is attributable to the new basis for calculating the cost of purchased gas.

The difference between SW and the staff's estimates are due to the differences in estimated sales requirements plus unaccounted for gas, and by the differences in billing for gas purchased for the Tahoe and Northstar areas. The staff estimate is based upon combining the estimated gas requirements for Tahoe and Northstar and allocating the billing cost to Tahoe and to Northstar on a volumetric ratio. SW's estimate for the FPC determination of G-1 rates separately bills the volumetric requirements for Tahoe and Northstar. We adopt the staff estimate of 0.61 percent for unaccounted for gas based upon past experience. All of the gas for Tahoe and Northstar passes through a common meter. We adopt the staff billing treatment and purchased gas volumes.

SW adjusted its recorded expenses for the 12 months ended July 31, 1972 by using then current wage levels to derive its estimates of the other operating and maintenance accounts for the year ended December 31, 1972. SW's 1973 test year estimates were derived by annualizing a 5.5 percent wage increase estimated to take effect on April 1, 1973. The actual wage increase granted and included in staff estimates was 6.0 percent. The Cost of Living Council did not modify this increase.

The staff reviewed recorded transmission and distribution expenses for the five years ending December 31, 1972. The staff concurred with SW's transmission and distribution estimates except for a $4,900 difference in Accounts 887 and 892, maintenance of mains and services. The staff contends that SW's estimate was inconsistent with the trend of past expense levels for these accounts. SW's base period, which was used to develop its estimate, does not include allowances for new corrosion protection requirements contained in General Order No. 112-C. The adopted test year amounts for transmission and distribution expenses are $300 and $59,200, respectively.

The only difference between SW and the staff in the customer accounts expenses related to uncollectible accounts. Consistent with our adoption of the staff's revenue estimates we adopt the staff customer account estimates.

There is a $13,900 difference between SW and staff estimates in Accounts 911, 912, and 913. Approximately 96 percent of the expenses in these accounts are service related and approximately 1 percent are promotional. The sales activities are primarily directed to new customers and the staff's estimates are made on a cost per customer added basis. The staff adjusted five years of recorded data to 1973 wage levels and derived an average cost per customer added. The staff's estimate of $29,200 is the product of its per customer added cost and the estimated number of new customers. The labor adjusted per customer added averages for the five years are $17.86 for 1968, $46.49 for 1969, $79.51 for 1970, $90.42 for 1971, and $78.06 for 1972. The adopted sales expense of $38,000 applies the staff methodology to 1970 to 1972 data.

The operations and maintenance expenses as estimated by SW and the staff, and as adopted, are as follows:

Item	SW	Staff	Adopted
Production Expenses	$479.0	$492.0	$492.0
Transmission Expenses	.3	.3	.3
Distribution Expenses	61.4	56.7	59.2
Customer Accounts Expenses	63.2	63.7	63.7
Sales Expenses	42.8	29.2	38.0
	$646.7	$641.9	$653.2

Administrative and General Expenses

The staff estimates of allocated central office expenses trended certain expenses, calculated administrative and general salaries on a recorded-adjusted basis, and used a five-year average for injuries and damages which did not consider a premium rate change or the hiring of a safety manager.

SW and the staff both included $12,000 for amortizing expenses of the prior rate proceeding. The staff was of the opinion that the magnitude of the prior amortization precluded an allowance for amortizing expenses incurred in this proceeding. SW amortized an estimated $9,000 over three years for this proceeding. Late-filed Exhibit 10 shows actual expenses recorded through June 30, 1973 were $1,381.

The adopted amount of administrative and general expenses is $71,700. It consists of the staff's estimates with the following exceptions: $5,300 for injuries and damages; $14,800 for regulatory commission expense, including a $1,000 per year allowance (over three years) for this proceeding; and an additional $3,600 four-factor allocation to Tahoe of 3.22 percent (staff allocation basis adopted) of the central office rental.[2/]

Rate Base

The staff's estimate of utility plant is based upon later information than SW's. The staff's estimate differed from SW's by the addition of $100,000 to upgrade pressure regulating stations to meet the requirements for over-pressure protection set forth in General Order No. 112-C and by the deletion of $13,800 for mains which are not used and useful. SW and the staff both included an allocation for the new office building which will not be completed until 1974. The staff depreciation reserve is based upon estimated 1973 accruals and recorded end of year 1972 data. SW used an end of year 1972 estimate in deriving the reserve for depreciation. The staff used revised and Commission approved depreciation rates for 1972 to 1974 as compared to SW's use of previously authorized depreciation rates. Both estimates reflect anticipated test year changes in utility plant and previously ordered deletions from utility plant and the related reserve adjustment. We adopt the staff utility plant and depreciation reserve estimates less the new central office building allocation.

The adopted working cash allowance of $77,900 is based upon adopted operating expenses. We adopt SW's estimates of contributions in aid of construction, materials and supplies, and its modified estimate of $234,500 for advances for construction (Exhibit 9, which is based upon later data).

2/ This allocation is consistent with the rental allocation in lieu of including the uncompleted central office building in rate base discussed in Decision No. 82417.

The staff showing in Application No. 49704 (SW's prior general rate increase request for the Tahoe District) contained adjustments to rate base for construction work performed by then associated companies. The downward adjustment to SW's plant was $335,000. In this proceeding the staff associated company rate base adjustment is $273,300. The adjustment is based upon a 7 percent rate of return for the work performed for SW by the then associated companies. In addition, the staff computed a negative expense adjustment of $5,300. This expense adjustment, which eliminated depreciation expense and ad valorem tax associated with the plant adjustment, was reduced by the additional state corporation franchise tax and federal income tax liabilities related to the depreciation and ad valorem expense adjustments and to the excess liberalized tax depreciation related to the excluded plant.

SW did not cross-examine the staff's witness on these adjustments. SW argued that the Commission did not make any findings in Decision No. 77349 as to that type of adjustment; and that its findings were that the companies were associated with SW during construction of the North Tahoe system and that SW's management was imprudent in authorizing the use of these companies in the construction of North Tahoe system.

Decision No. 77349 states in part: "Applicant's amended level of rates does not exceed the value of service. These rates related to the expenses and rate base shown in the proposed report, modified to reflect rate case costs and conversion costs as set forth in Exhibit 48, show an estimated rate of return of 3.1 percent." This 3.1 percent rate of return ties back to the summary of earnings contained on page 23 of the examiner's proposed report issued in Application No. 49704 which includes the associated companies' adjustments. Therefore, we adopt the staff's associated companies' rate base and operating expenses adjustments. The adopted rate base is $5,013,400.

Other Income Deductions

The other deductions on income are based upon the following modifications to staff estimates which were based on more current information than that used by SW:

a. City and county franchise taxes have been adjusted to reflect the adopted revenues;

b. Depreciation expense has been modified for the exclusion of the Las Vegas office, furniture, and equipment;

c. Income taxes have been based on upon current tax rates (at present rates a calculation resulting in negative income taxes is appropriate), adopted revenues and operating expenses, liberalized depreciation on a flow-through basis, investment tax credit based upon the average of 1971 to 1973 plant additions, and anticipated interest expense;

d. Adjustments to depreciation expense, ad valorem tax, and the excess liberalized tax depreciation, all related to the associated companies plant adjustments; and

e. The interest deduction reflects the capitalization set forth in Decision No. 82417.

Summary of Earnings

We have previously adopted operating revenues at the April 17, 1972 rates, operating expenses, depreciation expense, taxes, net revenues, and rate base for the Tahoe district for test year 1973. These net revenues yield a rate of return on rate base of 5.74 percent. The corresponding rate of return at proposed rates (exclusive of tracking changes subsequent to April 17, 1972) is 8.86 percent. The rates we will authorize will yield a rate of return on rate base of 8.75 percent which will result in an increase in revenues of approximately $324,000, a 28 percent increase. This increase is approximately $6,000 higher than the dollar amount requested by SW but it is approximately $11,000 below the amount which the proposed rates would have yielded.

Rate of Return

The issues pertaining to rate of return were extensively discussed in Decision No. 82417. The allowable rate of return for the Tahoe district should be the same as the rate of return for SBCD.

Rate Design

SW stipulated to the staff's methodology in spreading rates. The staff's proposal would:

a. Provide for different service establishment changes for regular hours and for after hours service based upon average time and labor costs to perform the service.

b. Close Schedule G-16, street and lighting natural gas service, to new service and would apply the system average increase to each block of the present rate schedule.

c. Increase each block of Schedule G-60 by 71.2 percent at 100 percent of SW's requested increase. Service to these customers, which are large motels and a school, has not been interrupted. The usage of the interruptible customers usage is too small to obtain gas from El Paso on an interruptible basis. Consequently, the staff recommended a differential for these customers of not more than 15 to 20 percent from the general service schedule.

d. Apply all remaining increases to each block of Schedule G-10, General Natural Gas Service, as an equal percentage.

When SW changed from cubic foot blockings to a therm basis the therm blockings were calculated by multiplying the numbers of cubic feet by the Btu value of the gas for each block. SW should give consideration to rounding and simplifying its rate schedules in a future proceeding. A bill frequency analysis should be provided prior to SW's general rate increase proceeding to permit consideration of alternate rate blockings.

We will adopt the basic approach of staff in allocating revenues between customer classes except that the residual increases assigned to Schedule G-10 is higher than average for the minimum blocking rather than spread uniformly in order to mitigate the effect of possible declines in sales volumes caused by compliance requested by public officials to conserve energy at this time of shortage, and to thus enable SW to recoup more of its fixed charges in the minimum block. The closing of Schedule G-16 to new customers to eliminate growth in this ornamental type of usage and the increases in the interruptible schedule should tend to promote gas conservation.

Findings

1. A reasonable estimate of SW's Tahoe district results of operation for test year 1973 at April 17, 1972 rates is:

ADOPTED 1973 SUMMARY OF EARNINGS
AT APRIL 17, 1972 RATES

Item	North Lake Tahoe District
	(Dollars in Thousands)
Operating Revenues	$1,164.2
Operating Expenses	
Operation & Maintenance a/	653.2
Adm. & Gen. & Misc. a/	71.7
Taxes Excluding Income b/	109.2
Income Taxes	(159.7)
Depreciation & Amortization	207.4
Total Operating Expenses	881.8
Associated Company Adjustment	(5.3)
Adjusted Operating Expenses	876.5
Net Revenues	287.7
Depreciated Rate Base	5,286.7
Associated Company Adjustment	(273.3)
Adjusted Rate Base	5,013.4
Rate of Return (Inverse Item)	5.74%

a/ Includes payroll taxes.

b/ Excludes payroll taxes

2. A rate of return of 8.75 percent for SW's Tahoe district is reasonable. The corresponding return on common equity under the adjusted capital structure adopted would be 12.57 percent. This rate of return would be achieved with operating revenues of approximately $1,488,000 which would be an increase of approximately $324,000 or 28 percent.

3. The staff's methodology for apportioning the rate increase is reasonable except that the residual portion of the increase which the staff proposes to be spread on a uniform percentage basis in each class should, for Schedule G-10, be higher than average for the minimum blocking rather than spread uniformly in order to mitigate the effects of possible declines in sales volumes caused by compliance with requested energy conservation requests. This rate design will enable SW to recoup more of its fixed charges in the minimum block. Schedule No. G-16 should be closed in the interest of energy conservation.

4. SW was authorized to increase its rates to offset increases in the cost of its gas in Decision No. 82124 as alternate relief to that sought in the first and second amendments to this application. There is no need to consider further relief relating to these amendments in this decision.

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

6. SW should prepare meter density statistics and bill frequency analysis studies as rate design tools for use in a future general rate increase proceeding.

The application should be granted to the extent set forth in the order which follows.

O R D E R

IT IS ORDERED that after the effective date of this order, applicant Southwest Gas Corporation is authorized to file the revised rate schedules attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be one day after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date of the revised schedules.

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

Dated at San Francisco, California, this 9th day of APRIL, 1974.

President

Commissioners

I abstain:

, Commissioner

A.53747 SN

APPENDIX A

Southwest Gas Corporation

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

Rates listed below include tracking increases totalling 2.487¢/Therm from April 17, 1972 to January 1, 1974 as authorized by the Commission.

Description	Per Meter Per Month
GENERAL NATURAL GAS SERVICE	
Rates	G-10
First 2 therms or less	$ 4.80
Next 26 therms per therm	27.725¢
Next 64 therms per therm	20.487
Next 274 therm per therm	20.119
Next 548 therm per therm	19.506
Next 1828 therm per therm	19.015
Next 6398 therm per therm	18.647
Over 9140 therm per therm	18.033
INTERRUPTIBLE NATURAL GAS SERVICE	
Rates	G-60
First 525 therms per therm	22.107¢
Next 525 therms per therm	18.484
Next 1050 therms per therm	16.758
Next 8400 therms per therm	14.861
Over 10,500 therms per therm	13.394
STREET AND OUTDOOR LIGHTING NATURAL GAS SERVICE	Per Lamp Per Month
Rates	G-16
1.99 cu. ft./hr. or less	$2.52
2.00 - 2.49 cu. ft./hr.	3.38
2.50 - 2.99 cu. ft./hr.	3.74
3.00 - 3.99 cu. ft./hr.	4.46
4.00 - 4.99 cu. ft./hr	5.06
5.00 - 7.49 cu. ft./hr	6.74

This schedule is closed to new service as of the effective date of this decision.