

Decision No. 83458

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHWEST
GAS CORPORATION for authority
to increase natural gas rates
in San Bernardino County,
California

Application No. 54807
(Filed April, 16, 1974)

Darrell Lincoln Clark, Attorney at Law,
for Southwest Gas Corporation, applicant.
Janice S. Kerr, Attorney at Law, E. J.
Texeira, and K. K. Chew, for the Commission
staff.

INTERIM OPINION

Southwest Gas Corporation (SW) seeks authority to increase its rates and charges for natural gas service in its San Bernardino County District (SBCD) approximately \$727,000 (9.85 percent) annually over the SBCD rates which became effective April 2, 1974. In addition, on April 22, 1974, SW petitioned for interim emergency rate relief alleging that SW is presently facing a financial emergency and that if existing rates are unchanged prior to the normal hearing schedule, SW will suffer irreparable harm.

SW, a California corporation, renders public utility natural gas service in certain portions of San Bernardino and Placer Counties, California. It is also engaged in the intra-state transmission, sale, and distribution of natural gas as a public utility in portions of Nevada and Arizona, and is subject to the jurisdiction of the Federal Power Commission with respect to interstate transmission and sales of natural gas for resale on its northern Nevada system.

SBCD serves approximately 23 percent of SW's total customers, and includes service areas in and around the cities of Barstow and Victorville and the community of Big Bear, all in San Bernardino County.

After notice, public hearing was held on the matter before Examiner Johnson on June 27 and 28, 1974, in Victorville and the interim portion of the matter was submitted on the filing of briefs which have been received. Testimony was presented on behalf of SW by its executive vice president and general counsel, a vice president, its assistant controller, its tax manager, its rate engineer, and an employee from its rates and special studies department. The Commission staff presented testimony on the interim rate relief matter through an engineer and a financial examiner. The staff presentation on the general rate case will be made at further hearings scheduled for October, 1974. Testimony alleging failure to refund a main extension deposit and describing various service problems, was given by one of SW's customers.

SW's presently effective rates were authorized by this Commission's Decision No. 82417 dated February 5, 1974 on Application No. 53727. These rates were intended to provide a rate of return of 8.75 percent, which under the adopted adjusted capital structure would return 12.57 percent on common equity, and were based on adopted 1973 test year summary of earnings. The estimated summary of earnings placed into evidence by SW was prepared from projections of recorded data through September 30, 1972, and the Commission staff showing was based on projections of recorded data through December 31, 1972. Recorded 1973 data became available shortly after Decision No. 82417 was issued on February 5, 1974. These data indicated that the newly effective rates would not produce sufficient revenues to earn the

authorized 8.75 percent rate of return. Consequently, on February 21, 1974, SW, seeking authority to increase its SBCD rates \$250,445 to earn the authorized 8.75 percent return for the modified test year 1973, petitioned to reopen the proceeding.

The Commission staff opposed the granting of the petition on the basis that a financial emergency did not exist and that it would require as much time for it to prepare another showing with an updated test year 1973 as to prepare for a later test year. Decision No. 82785 dated April 23, 1974 denied SW's petition to reopen Application No. 53727. In that decision we stated our concurrence with the staff's position that a new application would be an appropriate vehicle for developing the record on changed conditions and that such an application could include an updated *prima facie* showing of financial emergency as a basis for requesting partial *ex parte* rate relief pending final disposition of the proceeding.

As previously stated, SW has completed its showing on its general rate increase request as well as the requested interim relief and the Commission staff has presented testimony and exhibits on the petition for immediate interim emergency rate relief. In addition, briefs on interim petition have been received from both SW and the Commission staff.

SW Position on Interim Relief

SW presented testimony and exhibits showing that the rates established by Decision No. 82417 would produce a 1973 test year rate of return of 7.69 percent rather than the authorized 8.75 percent found reasonable by that decision. SW states, however, that it does not base its request for interim emergency relief on the deficiency in the 1973 test year rate of return but, because of the anticipated low times interest coverage, on the fact that it is legally ineligible in the absence of substantial rate relief to issue any long-

term debt or senior equity securities and that it is precluded from selling common equity because of the detrimental effect on the interests of its common stock holders. The record shows the basis for this allegation is that as of April 30, 1974, SW's actual interest coverage on outstanding funded debt was two times interest earned, the minimum specified in its indentures, so that at this time it can issue no funded debt. The record further shows that as of the same date, SW's eligibility to issue additional preferred stock was limited to zero by the dividend coverage formula for such stock which requires dividend coverage equal to the annualized interest charges on funded and short-term debt, plus 1.5 times the preferred stock dividend requirements, computed after the issuance of any proposed new shares and that SW's earnings do not meet this requisite minimum.

The record further shows that SW has a line of credit limited to \$12 million which expires in April, 1975, and that this amount will all be used prior to the end of 1974. SW must repay all or at least a substantial portion of the borrowings under this line of credit at the time of its expiration. SW alleges that immediate rate relief would not result in immediate concurrent eligibility to undertake any type of permanent financing as it has to show net earnings, in 12 consecutive months out of a 15-month period immediately preceding the issuance of such funded debt or preferred stock, adequate to satisfy the respective issuance requirements. SW alleges that the date relief is granted is critical and that immediate interim emergency relief is required to establish eligibility for permanent financing.

Staff Position on Interim Relief

The Commission staff does not dispute that we have granted interim relief on the basis that interest coverage was approaching indenture limitations. The staff alleges, however, that in the present instance, as shown by exhibits and testimony presented by the staff financial examiner, the interest coverage for SW's San Bernardino operations is 2.48 times, far in excess of the indenture limitation of two times interest coverage. In support of this position, the staff contends that this Commission has control only over SW's California operations, and, consequently, the deficiency in interest coverage resulting from other jurisdictions cannot be compensated for by granting increases to California rate-payers who already are contributing at least their fair share of SW's interest coverage. On this basis the staff contends that no financial emergency exists for SW's San Bernardino operations, and, absent such an emergency, no interim relief should be granted.

A Commission staff engineer presented testimony and an exhibit updating the summary of earnings adopted in Decision No. 82417 for known changes. This evidence shows that an increase of \$260,900 would be required to raise the 1973 test year rate of return from the presently estimated 7.69 percent to the authorized 8.75 percent rate of return. The staff recommends that should an interim increase be granted, the maximum amount granted would be this \$260,900.

Discussion

This Commission has a long history of establishing rates based on appropriate allocations of costs between jurisdictions (Sierra Pacific Power Company (1964) 63 CPUC 208; California-Oregon Power Company (1953) 53 CPUC 65; Pacific Tel. & Tel. Co. (1958) CPUC 277). Such allocations are necessary so as to permit each regulatory agency to assert jurisdiction over only those portions of a utility's operations within the jurisdictional limits of each regulatory agency. Consequently, the staff position that this Commission establish rates to yield earnings to provide adequate times interest coverage for the California operations irrespective of the overall company operations is well taken. However, the fact that the existing rates provide times interest coverage for California jurisdictional operations in excess of the indenture limitations does not resolve the issue of whether or not to grant interim relief.

Generally speaking, the granting of interim rate relief should be preceded by a showing that an emergency situation or other undue hardship obtains with respect to a utility's operations. (Saunby v Railroad Commission (1923) 191 Cal 226, 230; Dyke Water Company v Public Utilities Commission (1961) 56 Cal 2d 105, 110; Pacific Tel. & Tel. Co. (1949) 48 CPUC 487). However, requests for such relief are usually made during a prolonged proceeding to provide partial rate relief pending final determination by the Commission of a reasonable rate of return. In the instant matter, we found, on February 5, 1974, that a rate of return of 8.75 percent for SW's San Bernardino County operations is reasonable. To make such a

finding without establishing rates that would generate revenues to provide such a return for a reasonable future period would be an idle act. The record shows that SW did not realize the authorized rate of return for its San Bernardino operations on an adjusted 1973 test year basis primarily because of changes that were unanticipated at the issuance of Decision No. 82417. The record clearly provides the basis for establishing rates to yield the 1973 test year rate of return of 8.75 percent intended by Decision No. 82417 and the order which follows will provide such relief on an interim basis.

Findings

1. This Commission's regulatory authority for the establishment of just and reasonable rates relates solely to those operations of Southwest Gas Corporation within the confines of this Commission's jurisdiction.
2. Adjusted 1973 test year operations at rates authorized by Decision No. 82417 provided a 7.69 percent rate of return rather than the authorized 8.75 percent.
3. It was intended for SW to earn an 8.75 percent rate of return for the immediate future.
4. An interim increase of \$260,900 to raise the 1973 test year rate of return to the authorized 8.75 percent level is justified.
5. The interim increase should be spread on a uniform cents per therm basis.

It is concluded that the petition for interim relief be granted to the extent set forth in the order which follows.

INTERIM ORDER

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

The effective date of this order is the date hereof.

Dated at Los Angeles, California, this 17th
day of SEPTEMBER, 1974.

Vernon L. Steegen
President
William J. Johnson
John W. Johnson
Robert W. Johnson
Robert W. Johnson
Commissioners

Southwest Gas Corporation
Southern California Districts

Tariff schedules include tracking increases totaling 1.765¢/therm from April 19, 1974 to July 10, 1974 as authorized by the Commission.

<u>Description</u>	<u>Per Meter Per Month</u>	
	<u>Rate A</u>	<u>Rate H</u>
<u>GENERAL NATURAL GAS SERVICE</u>		
<u>Rates</u>	<u>G-1</u>	
First 2 therms or less		
October-May, inclusive	\$3.671	\$4.736
June-September, inclusive	3.671	1.106
Next 30 therms, per therm	.16037	.18372
Next 72 therms, per therm	.14958	.16172
Next 414 therms, per therm	.14085	.14731
Next 518 therms, per therm	.13654	.13858
Next 2,073 therms, per therm	.12973	.13291
Next 7,256 therms, per therm	.12180	.12803
Next 41,464 therms, per therm	.11385	.11669
Over 51,829 therms, per therm	.10852	.11113
<u>Rates</u>	<u>G-2</u>	
First 2 therms or less		
October-May, inclusive	\$3.955	\$5.126
June-September, inclusive	3.955	1.168
Next 30 therms, per therm	.17544	.20187
Next 72 therms, per therm	.16319	.17692
Next 414 therms, per therm	.15333	.16059
Next 518 therms, per therm	.14845	.15083
Next 2,073 therms, per therm	.14074	.14436
Next 7,256 therms, per therm	.13178	.13881
Next 41,464 therms, per therm	.12281	.12599
Over 51,829 therms, per therm	.11680	.11975

Southwest Gas Corporation
Southern California Districts

<u>Description</u>	<u>Per Lamp</u>	<u>Per Month</u>
<u>STREET AND OUTDOOR LIGHTING NATURAL GAS SERVICE</u>		
<u>Rates</u>	<u>G-15</u>	
1.99 cu.ft./hr. or less	\$1.73	
2.00 - 2.49 cu.ft./hr.	2.47	
2.50 - 2.99 cu.ft./hr.	2.79	
3.00 - 3.99 cu.ft./hr.	3.33	
4.00 - 4.99 cu.ft./hr.	3.86	
5.00 - 7.49 cu.ft./hr.	5.19	
<u>GAS ENGINE NATURAL GAS SERVICE</u>		
<u>Rates</u>	<u>Per Meter Per Month</u>	<u>Per Meter Per Month</u>
	<u>G-45</u>	<u>G-46</u>
First 1,037 therms, per therm	\$0.12495	\$0.13547
Next 3,110 therms, per therm	.11604	.12578
Over 4,147 therms, per therm	.11061	.11967
<u>INTERRUPTIBLE NATURAL GAS SERVICE</u>		
<u>Rates</u>	<u>Per Meter Per Month</u>	<u>Per Meter Per Month</u>
	<u>G-50</u>	<u>G-51</u>
First 10,930 therms, per therm	\$0.10819	\$0.11577
Next 98,370 therms, per therm	.10134	.10870
Next 109,300 therms, per therm	.09931	.10632
Next 327,900 therms, per therm	.09614	.10270
Over 546,500 therms, per therm	.09455	.10089