

Decision No. 84765

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
CALIFORNIA-PACIFIC UTILITIES COMPANY,)
a California corporation, for)
authority to increase its rates for)
electric service in its Needles)
District.)

Application No. 54664
(Filed February 15, 1974)

In the Matter of the Application of)
CALIFORNIA-PACIFIC UTILITIES COMPANY,)
a California corporation, for)
authority to increase its rates for)
gas service in its Needles District.)

Application No. 54665
(Filed February 15, 1974)

SECOND INTERIM OPINION

We entered an interim decision in these applications on October 8, 1974 (Decision No. 83549) which awarded rate relief designed to produce a return of 7.91 percent for the electric department and 8.35 percent for the gas department pending final relief. Because of the delay in processing our final decision (which will issue shortly), applicant requests a second interim decision pending such final relief which will allow it to adopt a purchased power adjustment clause for its electric department and a fuel adjustment clause for its gas department. Such relief was originally requested in the applications and at the hearings.

In its Second Petition for Interim Relief filed on April 2, 1975, applicant points out that it has been unable to pass through certain substantial cost increases for power purchased from Nevada Power Company and for gas purchased from Pacific Gas and Electric Company.

Electric Department - Purchased Power Costs

To date, the increases in the cost of electric power result from Nevada Power Company rates which became effective November 1, 1974 in Federal Power Commission (FPC) Docket No. E-8721, increasing the cost of power by \$64,712. A fuel adjustment filing associated with the new rates also became effective on November 1, 1974 and resulted in an additional increase of \$71,644. Rates resulting from a new application filed by Nevada Power Company with the FPC (Docket No. E-9104) which requested an additional increase in the cost of purchased power of \$195,049 became effective May 20, 1975.

The rates filed by Nevada Power Company in the above FPC dockets are subject to refund upon conclusion of the proceedings, and any refund required will include 7 percent interest for Docket No. E-8721 and 9 percent for Docket No. E-9104 (Docket No. E-8721, Order Accepting for Filing and Suspending Proposed Rate Increase, issued May 31, 1974; Docket No. E-9104, Order Accepting for Filing, Suspending and Establishing Procedural Dates, issued January 17, 1975; and Docket No. RM74-18, Order No. 513; Order Amending Regulations under the Federal Power Act and the Natural Gas Act, issued October 10, 1974).

The total annual increase in purchased power costs for the Needles District based on the aforementioned increases equals \$331,405. In its petition, the company has, from this figure, made revenue deductions of \$9,719 for uncollectibles and franchise taxes and has thus calculated the annual increase required to offset purchased power costs and gross revenue deductions as \$341,124. Based upon sales for 1974 of 41,156,270 kwhr, the company's calculations show an increase per kwhr of sales of \$0.0829 and a purchased power adjustment factor for Nevada Power Company increases of 0.5875 (no purchased power adjustment relief is sought for power purchased from the U.S. Bureau of Reclamation).

The 1974 recorded rate of return for Needles electric operations was 2.92 percent. The interim increase authorized in Decision No. 83549 would have raised the rate of return to 7.41 percent, but the effect of the purchased power increases is to reduce the rate of return, according to the petition, to a negative 10.76 percent, with the interim rates in effect.

Gas Operations - Purchased Gas Costs

A similar depression in rate of return for the Needles District gas operations results from recent purchased gas cost increases. The 1974 recorded rate of return for Needles gas operations was a negative 12.28 percent. Although interim relief was granted to correct this situation in Decision No. 83549, the effect of recent purchased gas increases is to reduce the gas department rate of return to a negative 5.6 percent, according to the petition.

The Needles District buys all its gas from Pacific Gas and Electric Company (PG&E). The petition shows that increases in PG&E's Schedule G-62 commodity rate have resulted in a total annual increase in the cost of purchased gas amounting to \$42,333. From this amount, the company has made revenue deductions for uncollectibles and franchise taxes of \$1,061 and has calculated the annual increase to offset gas costs as \$43,394. Based upon sales for 1974 of 1,001,074 therms, the company calculates an increase per therm of sales of 4.33¢ per therm and a purchased gas adjustment factor of 1.06.

Discussion - Interim Relief

While our final decision, which was delayed by other matters, will issue shortly, we believe the company's petition for interim relief should be granted, with certain modifications to the proposed adjustment clauses, discussed below. The erosion of the earnings picture presented by the petition amply justifies an interim rate increase.

Certain adjustments must be made in the company's calculations accompanying the request for interim relief.

For both departments, we have used the uncollectible percentages developed at the hearings (0.25 percent for electric and 0.40 percent for gas) rather than the factors presented for the first time in the petition, and upon which no evidence was taken. We have adopted the recorded figure of 2.0 percent for franchise taxes.

Regarding the gas department, we agree with the comment on the second petition for interim relief contained in staff counsel's June 9, 1975 letter to the examiner. The staff, while not endorsing the requested interim relief, points out that changes to PG&E's commodity rate G-62 also include a reduction which was contained in PG&E's Advice Letter No. 703-G, filed April 1, 1975, from 8.791 cents per therm, to 8.77 cents per therm, and that any relief granted should take this reduction into account. For the gas department, the price changes in purchased gas should thus include a decrease of 0.014¢/therm, as follows:

Pacific Gas and Electric Company
Schedule No. 62 - Resale Natural Gas Service
Applicable Only to California-Pacific Utilities Company
And Southwest Gas Corporation

<u>Advice Letter No.</u>	<u>Tariff Sheet No.</u>	<u>Effective</u>	<u>Demand Charge Per McF</u>	<u>Commodity Charge Per Therm</u>	<u>Increase</u>
693-G	9382-G	Jan. 1, 1975	8.6¢	8.791¢	} (.014) .460
703-G	9480-G	Apr. 1, 1975	8.6	8.777	
700-G	9508-G	Apr. 2, 1975	8.6	9.237	

(Negative Figure)

With these adjustments, and using staff results of operations for interim purposes, the summaries of earnings with the interim relief requested are as shown in the tables which follow:

California-Pacific Utilities Company
Needles District, Electric Department

Summary of Earnings - Interim Relief - Second Petition
1974 Estimated or Recorded

<u>Item</u>	<u>Staff with First Interim Relief (Dec. No. 83549)</u>	<u>Interim Relief Second Petition*</u>	<u>Results with First and Second Interim Relief</u>
Operating Revenues	\$295,300	\$265,720	\$1,161,020
<u>Operating Expenses</u>			
Purchased Power	446,500	259,760	706,260
Transmission	3,600	-	3,600
Distribution	48,000	-	48,000
Customer	28,700	660	29,360
Sales	2,000	-	2,000
Admin. & General	45,700	-	45,750
Total Oper. Exp.	514,500	260,420	834,920
Depreciation	65,500	-	65,500
<u>Taxes</u>			
Other Taxes	76,200	5,300	81,500
State Franchise	8,700	-	8,700
Federal Income	29,600	-	29,600
Total Taxes	114,500	5,300	119,200
Total Revenue			
Deductions	754,500	265,720	1,020,220
Net Revenue	140,800		140,200
Rate Base	1,779,000		1,779,000
Rate of Return	7.91%		7.91%

*Based on uncollectibles of 0.25 percent, franchise taxes of 2.0 percent and excluding increase in purchased power resulting from Nevada Power Co.'s fuel cost adjustment clause.

California-Pacific Utilities Company
Needles District, Gas Department

Summary of Earnings for Interim Relief
1974 Estimated - Staff Basis

<u>Item</u>	<u>1974 Staff with First Interim Relief</u>	<u>Second Interim Relief</u>	<u>With Second Interim Relief</u>
Operating Revenue	\$326,100	\$43,220*	\$369,320
<u>Operating Expenses</u>			
Purchased Gas	95,400	42,190	137,590
Distribution	38,000	-	38,000
Customer	20,200	170	20,370
Sales	800	-	800
Admin. & General	<u>22,400</u>	<u>-</u>	<u>22,400</u>
Total Oper. Exp.	176,800	42,360	219,160
Depreciation	31,500	-	31,500
<u>Taxes</u>			
Other Taxes	39,100	860	39,960
State Franchise	4,100	-	4,100
Federal Income	<u>16,900</u>	<u>-</u>	<u>16,900</u>
Total Taxes	60,100	860	60,960
Total Revenue Deduction	268,400	43,220	311,620
Net Revenue	57,700		57,700
Rate Base	691,400		691,400
Rate of Return	8.35%		8.35%

*Based on recorded sale.

Our order will permit filing of tariffs for the electric department which will reflect price increases resulting from general rate relief granted by the FPC to Nevada Power Company (with proper refund protection should the FPC later determine that any rates are unreasonable) and will permit applicant to make a filing under its purchased power clause to reflect price increases resulting from the use of Nevada Power Company's fuel adjustment clause.

For the gas department, our order will allow filing of tariffs reflecting all of the above gas price changes (which result from offset relief and not from purchased gas clauses).

Discussion - Electric and Gas Adjustment Clauses

This company has already been awarded purchased power adjustment clauses and purchased gas adjustment clauses in other proceedings,^{1/} and no adequate reason has been presented why the Commission's policy regarding the Needles District should be at variance with its earlier decisions. We have repeatedly determined that the inclusion of such clauses in the tariffs of other companies

^{1/} Purchased power adjustment clauses were included in the relief awarded to California-Pacific Utilities Company for its Weaverville Division (Application No. 54223, Decision No. 83642 dated October 22, 1974) and its Lassen Division (Application No. 53884, Decision No. 82711 dated April 9, 1974). A purchased gas adjustment clause has been placed in this company's tariffs for its South Tahoe Division (Application No. 54803, Decision No. 84006 dated January 21, 1975).

is an appropriate form of relief in present economic circumstances.^{2/}

The purchased power and purchased gas adjustment clauses will contain the same features for protection of the public which we have required previously: (1) the clauses permit tracking of recorded increases only; (2) an advice letter filing is required, which permits Commission review before the increases become effective; (3) a refund provision is included, in case any supplier's price increase is later found unreasonable.

Proposed Purchased Power Adjustment Clause

The company suggests a purchased power adjustment clause which would encompass all increases or decreases, while the staff takes the position that the clause should be limited to tracking changes resulting solely from the use of Nevada Power Company's own fuel adjustment clause.

We agree with the company that it is pointless to force it to file a separate offset application for each price increase which results from anything other than the use of Nevada Power's fuel adjustment clause. Adequate safeguards exist in the Commission's rules concerning such clauses to prevent abuses, and it is only a burden to the ratepayers from a cost standpoint for a district of this size to bear the regulatory expense of continued offset applications.

^{2/} Purchased power clauses: Southern California Water Co., Application No. 54886, Decision No. 83290 dated August 6, 1974; Anza Electric Cooperative, Inc., Application No. 54870, Decision No. 83285 dated August 6, 1974; Bay Point Light & Power Co., Application No. 54512, Decision No. 82549 dated March 12, 1974. Fuel adjustment clauses: San Diego Gas & Electric Co., Application No. 52800, Decision No. 81517 dated June 26, 1973 (75 CPUC 267); Southern California Edison Co., Application No. 52987, Decision No. 79838 dated March 1, 1972 (73 CPUC 180); Pacific Gas and Electric Co., Application No. 53185, Decision No. 81077 dated February 21, 1973 (74 CPUC 781). The reasons for adopting fuel clauses were considered in detail in the Southern California Edison decision.

In order that we may determine whether this clause needs any modification in the future, we will order the company to provide annually results of operations reports on both a recorded and adjusted basis, and on an estimated basis for the ensuing year.

Purchased Gas Adjustment Clause

Regarding the proposed purchased gas adjustment clause, the staff concurred that such a clause is appropriate because of economic conditions and the fact that the utility has little control over the conditions affecting gas prices. The staff recommends the following modifications to the company's proposal (Exhibit 9, page 4-1):

- a. The utility will use advice letter procedures in order to file revised tariff schedules.
- b. Each purchased gas adjustment shall be filed with the California Public Utilities Commission 30 days before the proposed effective date.
- c. No change in rates under the purchased gas adjustment clause will become effective without Commission approval.
- d. Each rate schedule shall be changed to reflect changes in the purchased gas adjustment.
- e. Results of Operations Reports be filed by April 15 of each year providing estimated operations for the ensuing year and recorded and adjusted operations for the prior year.
- f. Offset increases should be authorized only to the extent that the last authorized rate of return is not exceeded.
- g. Any refund and rate reduction from a supplier with interest added to refunds shall be returned to utility customers.

In its brief (p. 14) the company stated that it had no objections to the staff's proposed modifications. They will be included in the clause authorized herein. We will require the company to provide annual results of operations reports on both a recorded and adjusted basis.

Findings

1. Applicant is in need of additional revenues for both its gas and electric departments and is in need of interim relief in addition to that already granted in an amount sufficient to assist it in obtaining necessary revenues pending the final decision in these matters.

2. The amount of additional annual revenue requested for the electric department amounting to \$265,720 is reasonable, and will produce a rate of return on rate base of 7.91 percent and a return on common equity of 9.19 percent.

3. The amount of additional revenues proposed for the gas department in the amount of \$43,220 is reasonable, and will produce a return on rate base of 8.35 percent and a return on common equity of 10.42 percent.

4. The total additional revenue found reasonable in Findings 2 and 3 will produce a combined return on rate base for the Needles District of 8.04 percent and a combined return on equity of 9.55 percent.

5. Percentages for uncollectibles of 0.25 percent for the electric department and 0.40 percent for the gas department are reasonable; the recorded figure of 2.0 percent for franchise taxes is reasonable. It is otherwise reasonable, for the purpose of determining the amount of interim relief to be awarded herein, to find the staff's estimates of operating revenues, expenses including taxes and depreciation, and the rate base are reasonable.

6. Applicant should be authorized a purchased power adjustment clause for its Needles District electric department, based upon the clause found reasonable for its Lassen and Weaverville Divisions.

7. Applicant should be authorized a purchased gas adjustment clause for its Needles District gas branch, with certain modifications as proposed by the staff.

8. Applicant should be ordered to file results of operations reports for both the gas and electric departments on both a recorded and adjusted basis, and, for the electric department, on an estimated basis for the ensuing year, as set forth in the order.

9. The increases in rates and charges authorized by this decision are, for interim purposes, just and reasonable, and the present rates and charges, insofar as they differ from those prescribed by this decision, are, for the future, unjust and unreasonable.

Conclusion

The second petition for interim relief should be granted to the extent set forth in the order which follows.

SECOND INTERIM ORDER

IT IS ORDERED that:

1. California-Pacific Utilities Company is authorized to file with this Commission, on or after the effective date of this order, in conformity with General Order No. 96-A, revised tariff schedules for its Needles District, to become effective five days after the date of filing, with rates increased as follows:

- a. For the electric department: tariff schedules with rates increased from present levels by 0.6457¢ per kilowatt-hour.
- b. For the gas department: tariff schedules with rates increased from present levels by 0.4317¢ per therm.

2. California-Pacific Utilities Company is authorized to file with this Commission, on or after the date of this order, in conformity with General Order No. 96-A, a purchased power adjustment clause for its Needles District as set forth in Appendix A. All electric service, including service rendered under the minimum charge, will be subject to the purchased power adjustment clause.

3. California-Pacific Utilities Company is authorized to file with this Commission, on or after the date of this order, in conformity with General Order No. 96-A, a purchased gas adjustment clause for its Needles District as set forth in Appendix B. All gas service, including service rendered under the minimum charge, will be subject to the purchased gas adjustment clause.

4. The company shall file a results of operations report on the previous year's recorded and adjusted operations for both the electric and gas departments of its Needles District by April 15 of each year.

5. The company shall file an additional results of operations report for the electric department of its Needles District, on the ensuing year's estimated operations, by October 15 of each year.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 5th
day of AUGUST, 1975.

William J. McGuire Jr. President
Vernon L. Stinson
Don
Walter J. Smith
Commissioners

Commissioner D. W. Holmes, being
necessarily absent, did not participate
in the disposition of this proceeding.

APPENDIX A
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The heading of paragraph D of the Preliminary Statement (Electric) is changed to read:

D. Lassen and Weaverville Refunds and Rate Reductions.

A new paragraph F is added to read:

F. Needles District Purchased Power Adjustments.

1. The company purchases electricity for its Needles District from Nevada Power Company. Each filed rate schedule and contract for electricity for the Needles District shall be subject to a purchased power adjustment (PPA) to reflect changes from the Nevada Power Company rates for power purchased by the Needles District in effect on May 20, 1975.
2. The adjustment per kilowatt-hour for Needles District rate schedules shall be computed by multiplying Nevada Power Company's fuel cost adjustment by a factor of 1.1041 times the ratio of power purchased from Nevada Power Company to the total power purchased for the district for the latest recorded calendar year.
3. A separate billing adjustment factor shall be computed and added to the adjustment in paragraph 2 for changes in costs of purchased power resulting from changes in the base rates of Nevada Power Company's resale schedules under which the Needles District purchases power. The adjustment per kilowatt-hour shall be computed by pricing the cost of purchased power at both the new base rates and the base rates made effective May 20, 1975 in FPC Docket No. E-9104, for the latest twelve months recorded purchases from Nevada Power Company, dividing the increase or decrease in costs by the Needles District's total sales during the same twelve-month period and multiplying the resulting adjustment per kilowatt-hour by a factor of 1.0230.
4. Effective for service rendered in the Needles District on or after _____, the adjustment related to Nevada Power Company's fuel cost adjustment factor is 0.178 cents per kilowatt-hour, and the adjustment pertaining to changes in the base rates of Nevada Power Company's resale

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schedules is 0.000 cents per kilowatt-hour. The purchased power adjustment amounts for Schedules LS-2, LS-3, and OL-152 are as follows:

<u>Type and Nominal Rating of Lamp</u>	<u>Added Amount Per Month</u>
Incandescent	
1,000 Lumen	\$0.055
2,500 Lumen	.116
4,000 Lumen	.180
6,000 Lumen	.246
Mercury Vapor	
7,000 Lumen	.116
11,000 Lumen	.166
20,000 Lumen	.260
35,000 Lumen	.454

5. Each adjustment per kilowatt-hour shall be filed by advice letter with the California Public Utilities Commission for approval on or before the first day of the month preceding the billing month during which such revised tariff schedule is to become effective. No increase in rates under the PPA clause shall be effective without Commission approval, and the earliest effective date for such schedule shall be 30 days after the date of filing, provided that the effective date shall not be sooner than the effective date for the increase in cost of electricity to the Needles District.

6. A PPA increase will be authorized only to the extent that the last authorized rate of return for the company is not exceeded.

7. The adjustment amount to be added or subtracted from each bill shall be the product of the total kilowatt-hours for which the service is rendered, multiplied by the total of the adjustments per kilowatt-hour under paragraphs 2 and 3.

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8. Any refund from Nevada Power Company shall be promptly refunded to the Needles District's customers. A refund plan shall be filed with the Commission when the refunds have accumulated to \$1,000 or more. If such monies are not refunded within 30 days after receipt, the company shall make the refund with 7 percent interest.

9. If there is a rate reduction by Nevada Power Company to the Needles District, the company will file revised gas rate schedules for the Needles District to become effective on the date of such reduction.

(Explanatory note: The blank in paragraph 4 should contain the date when the rates which include the interim relief awarded herein become effective.)

APPENDIX B
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Paragraph 5 of the Preliminary Statement (Gas) is changed to read as follows:

5. Purchased Gas Adjustments

The company purchases gas for its South Tahoe Division from Southwest Gas Corporation and for its Needles District from Pacific Gas and Electric Company. Each filed rate schedule and contract for gas shall be subject to a purchased gas adjustment (PGA) as follows:

(a) South Tahoe Division: To reflect a change from the base rates in effect on July 5, 1974 for the cost of gas purchased from Southwest Gas Corporation;

(b) Needles District: To reflect a change from the base rates in effect on _____ for the cost of gas purchased from Pacific Gas and Electric Company.

The adjustment shall be the product of the total therms for which each bill is rendered times the adjustment amount per therm.

The company shall file each revised tariff schedule reflecting a PGA by advice letter with the Commission for approval on or before the first day of the month preceding the billing month during which such revised tariff schedule is to become effective. No increase in rates under the PGA clause will become effective without Commission approval, and the earliest effective date for such schedule shall be 30 days after the date of filing, provided that the effective date shall not be sooner than the effective date for the increase in the cost of gas to the Needles District.

A PGA increase will be authorized only to the extent that the last authorized rate of return for the company is not exceeded.

Any refund from the company's gas supplier shall be promptly refunded to the customers of the company's appropriate division or district. A refund plan shall be filed with the Commission when the refunds have accumulated to \$1,000 or more. If such monies are not refunded within 30 days after receipt, the company shall make the refund with 7 percent interest.

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If there is a rate reduction by the company's gas supplier, the company will file revised gas rate schedules for the appropriate division or district to become effective on the date of such reduction.

(Explanatory note: The blank in paragraph 5(b) should contain the date when the rates which include the interim relief awarded herein become effective.)