

Mailed

SEP 26 1991

Decision 91-09-068 September 25, 1991

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the joint)
 Application of CP NATIONAL)
 CORPORATION (U 11 M), a California)
 corporation, and SOUTHWEST GAS)
 CORPORATION (U 905 G), a California)
 corporation, for an order authorizing)
 the acquisition of the Needles,)
 California public utility gas)
 operations of CP NATIONAL)
 CORPORATION by SOUTHWEST GAS)
 CORPORATION.)

ORIGINAL

Application 91-06-046
(Filed June 24, 1991)

Messrs. Orrick, Herrington & Sutcliffe, by
Ronald G. Aronovsky, Attorney at Law, for
 CP National Corporation and Thomas R.
Sheets, Attorney at Law, for Southwest Gas
 Corporation, applicants.
Judy Lamson, Attorney at Law, and Ramesh S.
Ramchandani, for the Division of Ratepayer
 Advocates.

INTERIM OPINION

Introduction

CP National Corporation (CP National) owns and operates natural gas and telephone systems in various parts of California, Oregon and Nevada.

CP National seeks authority to sell and Southwest Gas Corporation (Southwest) seeks authority to acquire CP National's public utility natural gas distribution system in Needles.

Background

CP National entered into an agreement with Washington Water Power Company (WWP) which provided for the aquisition of CP National's gas operations in California, Oregon and Nevada for a total sale price of \$85,000,000.

CP National and WWP filed Application (A.) 91-01-006 seeking approval of the agreement insofar as it pertained to CP National's California gas operations, which are located at Needles and South Lake Tahoe. A.91-01-006 was protested by Southwest.

Subsequent to the submission of A.91-01-006, applicants amended their original agreement to provide for the purchase of the Oregon and South Lake Tahoe gas systems only, and filed an amendment to A.91-01-006 seeking approval of the agreement with respect to the South Lake Tahoe gas system. As a result of the filing of the amendment, Southwest withdrew its protest to A.91-01-006.

CP National and Southwest entered into an agreement, dated June 13, 1991, wherein Southwest agreed to purchase the Nevada and Needles gas operations of CP National. This application seeks approval of that agreement insofar as it pertains to CP National's gas operations at Needles, California.

Decision (D.) 88-12-038 in A.88-09-005 authorized the acquisition of CP National by Alltel Corporation (Alltel). By that acquisition, CP National retained its corporate identity but became a wholly owned subsidiary of Alltel.

Hearing Process

Public participation hearings for the receipt of evidence and/or statements from the public were held before Administrative Law Judge (ALJ) O'Leary at Needles in the afternoon and evening of August 5, 1991. Notice of the public participation hearings was included as an insert with customers' bills. In addition, notice of the public participation hearings was published in the Desert Star and notices were posted at CP National's offices located at Needles. At the public participation hearings CP National and Southwest gave detailed explanations concerning the proposed acquisition.

Four members of the public attended the afternoon session, three of whom made statements and one of whom provided sworn testimony. Among the issues addressed during this session was the effect of the proposed transfer on the 50% discount for residential natural gas service authorized for active employees and retirees of CP National Needles gas system under CP National tariff schedule G-270. One member of the public attended and provided sworn testimony at the evening session.

Evidentiary hearings was held before ALJ O'Leary at San Francisco on August 9, 1991.

Evidence on behalf of applicants was presented through the testimony of one witness, a vice president of CP National and one exhibit (Exhibit 3). DRA presented evidence through one witness and three exhibits (Exhibits 1, 2 and 4).

At the hearing, all parties waived the 30-day period under Public Utilities Code Section 311(d) and agreed to a comment period of seven days from the filing of the proposed decision by the ALJ.

Needles District

This district is comprised of primarily residential and small commercial customers, with a total customer base as of September 30, 1990 of 1,540 customers.

CP National is currently purchasing gas supply for its Needles District from Pacific Gas and Electric Company (PG&E) under its Core Election Option. Under the Core Election Option, the customer buys from PG&E core supply portfolio and has PG&E transport the gas to the customers' city gate.

The original cost and net book cost of the Needles District properties involved in the sale are as follows as of September 30, 1990:

Plant in Service	\$2,064,450
CWIP	<u>0</u>
Gross Plant	\$2,064,450
Accumulated Depreciation	(<u>884,277</u>)
Net Plant	<u>\$1,180,173</u>

Southwest is a California corporation engaged in the business of distributing, transporting and selling natural gas at retail for domestic, commercial, agricultural and industrial uses to California customers in San Bernardino and Placer Counties, including the communities of Adelanto, Apple Valley, Barstow, Big Bear Lake, Hesperia and Victorville, and to customers in certain parts of Arizona and Nevada.

Southwest's southern California, southern Nevada and Bullhead City, Arizona service territories are located near the Needles system. Southwest's northern and southern California distribution systems currently provide natural gas service to approximately 92,000 customers of all types, its Nevada distribution systems provides natural gas service to approximately 210,000 customers of all types, and its combined distribution operations in the tri-state area of California, Nevada and Arizona directly serve over 825,000 customers.

Southwest also provides natural gas service through a wholly owned subsidiary, Paiute Pipeline Company (Paiute), which is a Nevada corporation and is engaged in the sale for resale, transportation and storage of natural gas in interstate commerce. Paiute is a "natural gas company" within the meaning of the Natural Gas Act, and its operations are subject to the jurisdiction of the Federal Energy Regulatory Commission (FERC). Paiute presently provides sales and transportation services to Sierra Pacific Power Company, Southwest, certain northern Nevada industrial customers, and CP National's South Lake Tahoe gas system. Paiute's interstate

natural gas pipeline extends from Owyhee, Idaho, on the Idaho-Nevada border, to the California-Nevada state line in the vicinity of Lake Tahoe. In addition to its natural gas transmission pipeline, Paiute operates the H. G. Laub Liquefied Natural Gas Plant in Lovelock, Nevada, and the Joseph H. Gray Liquefied Petroleum Gas Plant in Reno, Nevada. Paiute sells or transports natural gas for ultimate use by over 125,000 northern Nevada and California customers.

Southwest's California utility plant dedicated to natural gas service is valued in excess of \$62,000,000 as of March 31, 1991. Total company utility plant dedicated to natural gas service, inclusive of FERC regulated pipelines and state regulated distribution facilities, is valued in excess of \$805,000,000 as of March 31, 1991. For the calendar year 1990, Southwest had system-wide natural gas revenues of approximately \$518,000,000 (or approximately 1.4 billion therms of natural gas throughput sales and transportation). For California, Southwest had calendar year 1991 revenues of approximately \$57,000,000, based on approximately 97 million therms of natural gas throughput. Southwest employs approximately 155 persons in California and 2,300 persons in total.

Southwest has been authorized by the Commission to construct, maintain and operate its distribution facilities in and across the state of California. Southwest currently obtains natural gas for its northern California service area, from Paiute, which in turn obtains its gas from various producers and marketers and has such gas transported to it by Northwest Pipeline Corporation. Southwest currently obtains natural gas for its southern California service area through PG&E at interconnection points located in the California high desert.

DRA Position

DRA conducted a detailed study of the application and prepared a report which was received in evidence as Exhibit 1. In its report, DRA recommends that the acquisition by Southwest be

approved subject to the following conditions: (a) the Commission not allow an acquisition premium for ratemaking purposes; (b) Southwest provide service to Needles customers through the end of 1991 under the existing terms and conditions applicable to Southwest's Southern California Division, except that (1) Southwest would bill Needles customers at CP National's present rates, (2) Southwest retain the existing lifeline program for Needles customers; (3) at present Southwest maintain the existing balancing accounts for the Needles district and not merge them with its existing balancing accounts for its Southern California Division until January 1, 1993, after which Southwest would refund by billing credit to Needles customers in February 1993 any credit in the Needles balancing accounts existing as of December 31, 1992, and (4) Southwest retain the existing five dollar return check charge and "no late payment" charge for Needles customers; and (5) Southwest terminate the employee discount for Needles system employees.

Southwest has agreed to the recommendations contained in DRA's report.

Ratemaking Issues

A. Phase I

DRA and Southwest also have agreed that Phase I will be operative for three (3) months, commencing October 1, 1991. In this phase, natural gas service will be provided by Southwest to the Needles customers under the existing general terms and conditions applicable to Southwest's Southern California Division, except as follows:

1. Southwest will bill Needles customers at CPN's presently effective rates, including balancing account surcharges,
2. Southwest will retain the existing Lifeline program for Needles customers,

3. Southwest will retain the existing balancing accounts applicable to Needles district and not merge them with its existing balancing accounts for the Southern California Division,
4. Southwest will retain the existing return check charge of \$5 for Needles customers,
5. Southwest will retain the existing "no late payment charge" policy for Needles customers.

B. Phase II

DRA and Southwest have agreed that Phase II will be operative for one (1) year, commencing January 1, 1992. Both parties have agreed that, between August 1, 1991 and September 30, 1991, DRA will conduct a review of Needles operations for the purpose of revising sales volumes, balancing account rates, and the authorized Base Cost Amount. DRA plans to issue a report discussing these specific ratemaking elements (DRA Report) by September 30, 1991. The information contained in the September report would be applicable to the Phase II period and post-Phase II period. Southwest has indicated that while the Needles customers will continue to be billed at the same base rates during Phase II as in Phase I, the authorized Base Cost Amount will be revised upward from \$508,220 to \$602,293, an increase of \$94,073. DRA intends to address the level of Base Cost Amount in the DRA report. With regard to the levelized billing of base rates in Phases I and II, DRA notes that base rates in the Phase II period could be lower than those in the Phase I period, depending upon the adopted level of the Base Cost Amount. However, in no event will the base rates during the Phase II period be higher than those in the Phase I period. DRA intends to elaborate on these and other ratemaking elements in the DRA report.

Some of the other ratemaking elements that DRA intends to discuss in the DRA report includes:

1. The transition from a Lifeline to a Baseline Program for residential customers, and
2. The level of commercial rates and total commercial revenues.

C. Post-Phase II

DRA and Southwest have agreed that the authorized Base Cost Amount, sales volumes, and customer growth rates for the post-Phase II period starting January 1, 1993 will also be addressed in DRA's September report. As part of Southwest's 1993 attrition filing for its Southern California Division, DRA and Southwest have agreed that:

1. the rates for Needles customers be realigned with rates in the Southern California Division,
2. the authorized Base Cost Amount, volumes, and customer growth rates developed in Phase II be reflected in rates for 1993,
3. the balancing accounts for Needles be merged with the balancing accounts for the Southern California Division, and
4. the Lifeline program be replaced by the Baseline program.

In summary, the post-Phase II agreement amounts to the complete absorption of the Needles District into Southwest's Southern California Division and DRA will address the ratemaking elements in greater detail in its September report.

Discussion

The Commission is satisfied that the proposed transfer of the Needles system by CP National to Southwest will not be adverse to the public interest. Southwest is a well-capitalized, experienced operator of natural gas distribution systems in

California as well as in other states. Operational support for the Needles system has been provided by CP National's Henderson, Nevada system, which Southwest will also acquire. The Nevada Public Service Commission already has approved the transfer of the Henderson system from CP National to Southwest. Maintaining the efficiencies resulting from the operational support provided to the Needles system by the Henderson office is in the public interest. Additional support to the Needles system will be provided by Southwest's nearby Bullhead City, Arizona, service center and its division and corporate operations headquarters in Las Vegas. We do not wish to delay a decision on the proposed transfer awaiting DRA's report. We will authorize the transfer by issuing an Interim Order and keep the proceeding open to consider the ratemaking issues to be set forth in DRA's report, at a later time.

The ALJ's proposed decision was mailed to the parties on September 10, 1991. Comments on the proposed decision were filed by Southwest and DRA.

The comments request that the issue of CP National's retirees' discounts be addressed and that the proposal set forth in Exhibit 3 be adopted. That proposal provides for a continuation of the 50% residential gas service discount on natural gas service for CP National pensioners presently residing in Needles, presently eligible for or receiving such a discount as it has been delineated in CP National's tariffs.

The comments of Southwest also request that Ordering Paragraph 3 be amended to provide that the seller rather than the buyer file the annual report on seller's operations for the current year through the effective date of the transfer.

Reply comments were filed by CP National wherein it agreed to file the report required by Ordering Paragraph 3.

This decision modifies the proposed decision to clarify the pensioner discount program and require the annual report to be prepared by the seller.

Findings of Fact

1. CP National is a public utility which operates gas and telephone systems in various parts of California, Oregon and Nevada.

2. Southwest Gas has entered into an agreement with CP National to purchase CP National's Needles, California and Henderson, Nevada natural gas distribution systems, for a combined purchase price of \$16,290,490, subject to certain adjustments as set forth in the purchase agreement.

3. By this application, as amended, CP National seeks authority to sell and Southwest seeks authority to acquire the public utility gas operations of CP National located at Needles.

4. Notices concerning the acquisition application and the public hearing were sent to CP National's customers.

5. No protests to the application have been received.

6. DRA recommends approval of the application subject to the following conditions:

- a. the Commission not allow an acquisition premium for ratemaking purposes;
- b. Southwest provide service to Needles customers through the end of 1991 under the existing terms and conditions applicable to Southwest's Southern California Division, except that
 - (1) Southwest bill Needles customers at CP National's present rates,
 - (2) Southwest retain the existing lifeline program for Needles customers;
 - (3) At present Southwest maintain the existing balancing accounts for the Needles district and not merge them with its existing balancing accounts for its Southern California Division until January 1, 1993, after which Southwest refund by billing credit to Needles customers in February 1993 any credit in the Needles balancing

accounts existing as of December 31, 1992, and

(4) Southwest retain the existing five dollar return check charge and "no late payment" charge for Needles customers; and

c. Southwest terminate the employee discount for Needles system employees.

7. Applicants and DRA have agreed to waive the 30-day requirement contained in PU Code § 311(d).

8. The acquisition of CP National's public utility gas operations at Needles by Southwest Gas would not be adverse to the public interest.

Conclusions of Law

1. The application should be granted as set forth in the following order.

2. This order should be effective on the date signed because the parties are desirous of consummating the acquisition as soon as possible.

INTERIM ORDER

IT IS ORDERED that:

1. Southwest Gas Corporation may acquire the public utility gas operations of CP National Corporation located at Needles subject to the terms of the agreement attached to the application and the following conditions:

- a. No acquisition premium shall be allowed for ratemaking purposes either now or in the future;
- b. All existing tariff provisions presently set forth in CP National's tariffs shall remain in full force and effect until authorized to be changed by the Commission with the exception of the Employee Discount Program which shall be cancelled.

- c. The discount program for eligible retirees of CP National shall be continued under the terms specified in Exhibit 3.
- d. Within 90 days after transfer, Southwest Gas Corporation shall file revised forms by advice letter to replace the forms contained in CP National's tariffs and used in dealings with ratepayers, in accordance with General Order Series 96.

2. When the authorized transfer is complete and the conditions of this order are fulfilled CP National Corporation shall be relieved of its public utility obligations for the transferred system.

3. Within 90 days after transfer, seller shall file with the Commission, in the prescribed form, an annual report on seller's operations from the 1st day of the current year through the effective date of the transfer.

4. This proceeding shall remain open for the purpose of considering the ratemaking issues to be covered in the forthcoming DRA report, which shall be submitted to the ALJ and parties of record, no later than October 15, 1991.

This order is effective today.

Dated September 25, 1991, at San Francisco, California.

PATRICIA M. ECKERT
President
JOHN B. OHANIAN
DANIEL Wm. FESSLER
NORMAN D. SHUMWAY
Commissioners

I abstain.

G. MITCHELL WILK
Commissioner

**I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY**


NEAL J. SHULMAN, Executive Director