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Decision 82 01 63 JAN 19 1982

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 60714 (Filed July 6, 1981)

William A. Claerhout and Rochelle Levine Berkley, Attorneys at Law, for Southwest Gas Corporation, applicant.
James S. Rood, Attorney at Law, and Jay Johnson, for the Commission staff.

O P I N I O N

Southwest Gas Corporation (SW) seeks authority to increase its rates and charges for natural gas service in its Placer County District. As originally filed, the application which is based on a 1982 test year requested an increase of approximately $180,000 for 1982 and an additional $192,000 for 1983. The application alleges that these are the amounts necessary to earn a rate of return of 12.73% and an opportunity to earn a return on common equity of 16.0%.

Duly noticed public hearings were held before Administrative Law Judge O'Leary (ALJ) at Tahoe City on August 27, 1981 and at San Francisco on September 22, 1981. The matter was submitted on October 6, 1981 with the filing of late-filed Exhibits 21, 22, and 23.

The hearing which was held on August 27, 1981 was for the purpose of receiving public witness testimony concerning the requested increase. Only one person appeared at the hearing to protest the proposed increase. A letter was also received from one customer protesting the increase. Evidence was presented by SW that notice of the hearing was:

Process
H-6

1. Posted at its business office and collection agency locations;
2. Published July 22, 1981 in the "Lake Tahoe News," South Lake Tahoe, and in "The Tahoe World," Tahoe City; and
3. Mailed to its customers with customer billing between July 20 and August 18, 1981.

At the September 22, 1981 hearing testimony was presented by two witnesses for SW and four witnesses from the Commission staff. The prepared testimony of an additional four witnesses of SW and six witnesses of the Commission staff was received in evidence without cross-examination under stipulations entered into by counsel for SW and the Commission staff.

The staff's examination of SW's showing prior to the September 22, 1981 hearing resulted in various adjustments by the staff which SW agreed to.

Exhibit 14 prepared by SW, entitled "Stipulation and Agreement Summary," contains three tables showing adopted amounts with respect to revenue and expenses, rate base, and income taxes under present rates based upon a 1982 test year.

The figures agreed upon by Southwest and the staff are based upon tax law prior to the enactment of the Economic Recovery Tax Act of 1981 (ERTA). SW also excluded in the exhibit its calculations of Deferred Investment Tax Credit and Federal Income Tax based on ERTA.

The Commission staff did not present any evidence concerning ERTA because at the time of the hearing, the Commission was reviewing various ratemaking procedures that should be adopted to conform with the provisions of ERTA in Order Instituting Investigation (OII) 24.

On December 15 we issued Decision (D.) 93848 in OII 24. This decision gives effect to ERTA by adopting the conventional normalization method for treating depreciation and investment tax credit.

For the purposes of this decision we will utilize SW's calculations based on ERTA for Deferred Investment Tax Credit and Federal Income Tax, based on the assumption that said figures meet the requirements of ERTA with respect to full normalization of depreciation and investment tax credit. The alternative would be to reopen this proceeding for the taking of further evidence by the staff with respect to the effects of ERTA. A comparison of the post-ERTA calculations with pre-ERTA calculations discloses the differences to be minor when considering the application overall. It is apparent that evidence which would be presented by the staff would have little or no effect on our final calculations since the staff agrees with all calculations not affected by ERTA.

Although SW's presentation is based on Option II for normalizing Investment Tax Credit on Accelerated Cost Recovery System (ACRS) property, this decision does not prohibit SW, in future rate proceedings, from utilizing Option I or any other option that may be available or required by federal regulations.

Tables 1 and 2 following disclose summary of revenues and expenses (Table 1) and summary of earnings (Table 2) giving the effect of ERTA.

TABLE 1

Revenues and Expenses (000)

Description	Amounts[1]
Operating Revenues	$5,797.1
Operating Expenses	
Gas Supply	3,353.0
Transmission and Distribution Expenses	216.7
Customer Accounts	319.3
Customer Service and Info. Expenses	104.9
Sales Expense	7.9
Administrative and General	192.4
Subtotal	4,194.2
Depreciation and Amortization Expense	335.2
Taxes Other Than Income	87.5
Calif. Franchise Tax	29.8
Federal Income Tax	315.2
Total Operating Expenses	4,961.9
Net Income	835.2

1/ SW and the Commission staff are in agreement with all amounts, except that the Federal Income Tax expense is the figure SW computed based on ERTA.

TABLE 2

Rate Base
(000)

Description	Amounts
District Plant in Service	$ 9,862.5
Alloc. General Office Plant	295.1
Total Utility Plant	10,157.6
Working Capital	
Materials and Supplies	57.3
Prepayments	9.3
Working Cash Allowance	40.8
Total Working Capital	107.4
Adjustments	
Customer Advances for Construction	(189.8)
Deferred Investment Tax Credit (ITC)	(20.9)
Total Adjustments	(210.7)
Subtotal Before Deduct.	10,054.3
Depreciation and Amortization Reserve	
District Reserve	3,133.0
Alloc. Gen. Off. Reserve	36.2
Total Reserve	3,169.2
Adjustment	
ACRS Deferred Taxes	(12.7)
Average Depreciated Rate Base	6,872.4

(Red Figure)

1/ SW and staff are in agreement with all calculations, except that ITC and ACRS deferred taxes are SW's figures based on ERTA.

Rate of Return

As stated earlier SW originally requested a rate of return of 12.73% for 1982 and 12.97% for 1983 which is an opportunity to earn a return on common equity of 16.0% for both years.

Based upon the staff adjustments which SW agreed to as set forth in Tables 1 and 2, SW is requesting a rate of return of 13.01% for 1982 and 13.19% for 1983 which results in a return on common stock equity of 16.0% which is based upon the staff's average capital structure which SW used in its late-filed Exhibit 21 for both years as follows:

Component	1982 Capitalization Ratios	1982 Cost	1982 Weighted Cost	1983 Capitalization Ratios	1983 Cost	1983 Weighted Cost
Long-Term Debt	45.00%	10.94%	4.92%	45.00%	11.45%	5.15%
Intermediate-Term Debt	8.00	13.00	1.04	8.00	12.00	.96
Preferred Stock	11.50	11.91	1.37	11.50	12.21	1.40
Common Equity	35.50	16.00	5.68	35.50	16.00	5.68
Total	100.00%		13.01%	100.00%		13.19%

In order to earn its requested rates of return for 1982 SW requires additional gross revenues of $93,200 for 1982. Table sets forth SW's calculations for 1982 including the effects of ERTA.

TABLE 3

SW's Proposed Summary of Earnings
For Test Year 1982
(000)

Description (a)	Amounts Exhibit 14 (b)	Adjustment[1/] (c)	Total (d)
Operating Revenues	$5,797.1	$111.8	$5,908.9
Operating Expenses			
Cost of Purchased Gas	3,353.0	-	3,353.0
Transmission & Distribution Expenses	216.7	-	216.7
Customer Accounts	319.3	1.1	320.4
Customer Service and Informational	104.9	-	104.9
Sales Expense	7.0	-	7.9
Administration & General	192.4	-	192.4
Subtotal	$4,194.2	$ 1.1	$4,195.3
Depreciation & Amortization Expense	335.2	-	335.2
Taxes Other Than Income	87.5	1.0	88.5
State Income Taxes	29.8	0.6	30.4
Federal Income Taxes	315.2	50.2	365.4
Total Operating Exp.	$4,961.9	$ 52.9	$5,014.8
Net Operating Revenues	835.2	58.9	894.1
Rate Base	6,872.4	-	6,872.4
Rate of Return	12.15%		13.01%

1/ Net Operating Revenues = $6,872.4 x 13.01% = $894.1

Additional Net Operating Revenues = $894.1 - $835.2 = $58.9

Additional Operating Revenues = $58.9 x 1.8976 = $111.8

The Commission staff recommends a rate of return of between 12.74% to 12.92%, an opportunity for a return on common equity of between 15.25% to 15.75%. The staff did not prepare a summary of earnings as did SW. However, since SW used the staff's net-to-gross multiplier the staff computations needed additional net revenue and gross revenue would be as follows based upon the mid-range of the staff recommendation (12.83% rate of return, 15.50% return on common equity).

Net operating revenues - $6,872.4 x 12.83% = $881.7

Additional net operating revenues - $ 881.7 - 835.2 = $ 46.5

Additional operating revenues - $ 46.5 x 1.8976 = $ 88.2

The request of SW and the recommendation of the staff with respect to return on common equity are within 3/4% at the low end of the staff recommendation and within 1/4% at the high end of the staff recommendation. We believe a 15.5% return on equity is reasonable at this time. We will therefore adopt the mid-range of the staff recommendation and base it upon the staff's capitalization ratios as shown in Table 4.

TABLE 4

Adopted Rate of Return

Component	Capitalization Ratios	Cost	Weighted Cost
Long-Term Debt	45.00%	10.94%	4.92%
Intermediate-Term Debt	8.00	13.00	1.04
Preferred Stock	11.50	11.91	1.37
Common Equity	35.50	15.50	5.50
Total	100.00%		12.83%

Rate Design

SW's present residential service rate design consists of a service charge plus a 3-tier usage structure as follows:

			Rate (In Dollars)
Placer County Service Area Customer Charge per month			$4.25
	Therm Usage		
	Summer 1/	Winter 2/	Rate per therm (In Dollars)
Tier 1 (Lifeline)	0-26	0-166	$.5442
Tier 2	27-126	167-332	.6057
Tier 3	Over 126	Over 332	.6558

1/ Summer season - May through October.

2/ Winter season - November through April.

The Commission staff recommends that the residential rate structure be redeigned to a 2-tier structure by eliminating the third tier for the following reasons:

The difference between the Tier I and the Tier II rates is relatively small under the present three-tier rate design (only 6.15¢).

Under a three-tier rate design, most of the usage is estimated to terminate in the second tier (about 99% according to SW).

SW in its original proposal on rate design did not propose altering the existing 3-tier structure. It did propose a reduction in the second tier to 27 from 52 therms for summer usage. However, its late-filed Exhibit 21 which is its proposed rate design based upon the stipulation and agreement summary as set forth in Table 1, 2, and 3 previously are also proposing a two-tier residential rate structure. The proposed rate designs of SW and the staff are set forth in Tables 5 and 6, respectively.

TABLE 5

SW Proposed Rate Design

For The Test Year 1982

Description (a)	Annual Number Of Bills (b)	Staff Sales Volumes (c)	Present Rates (10-1-80) (d)	Revenues At Present Rates (e)	Proposed Rates 1/ (f)	Revenue at Proposed Rates (g)
G-10 Residential	33,144		$ 4.25	$ 140,862	$ 4.25	$ 140,862
Tier I		2,064,980	.5856	1,209,252	.5856	1,209,252
Tier II		692,569	.6471	448,161	.6620	458,481
Tier III		86,583	.6972	60,366	.6620	57,318
		2,844,132		1,858,641		1,865,913
G-10N Residential	47,946		4.25	203,771	4.25	203,771
Tier II		3,854,694	.6471	2,494,372	.6620	2,551,807
				2,698,143		2,755,578
GN-10 Commercial	5,226		4.25	22,211	4.25	22,211
Tier II		1,801,803	.6471	1,165,947	.6620	1,192,794
				1,188,158		1,215,005
G-16 Street and Outdoor Lighting	24		-		-	-
Tier II		28,932	-	18,938	.6620	19,153
Subtotal	86,340	8,529,561		5,763,880		5,855,649
Other Operating Revenue	-	-		33,200		33,200
Total	86,340	8,529,561		5,797,080		5,888,849

1/ Based on Rate of Return of 13.01%.

TABLE 6

Staff Proposed Rate Design

For The Test Year 1982

Description (a)	Annual Number Of Bills (b)	Staff Sales Volumes (c)	Present Rates (10-1-80) (d)	Revenues At Present Rates (e)	Proposed Rates 1/ (f)	Revenue at Proposed Rates (g)
G-10 Residential	33,144		$ 4.25	$ 140,862	$ 4.25	$ 140,862
Tier I		2,064,980	.5856	1,209,252	.5856	1,209,252
Tier II		692,569	.6471	448,161	.661451	458,100
Tier III		86,583	.6972	60,366	.661451	57,270
		2,844,132		1,858,641		1,865,484
G-10N Residential	47,946		4.25	203,771	4.25	203,771
Tier II		3,854,694	.6471	2,494,372	.661451	2,549,691
				2,698,143		2,753,462
GN-10 Commercial	5,226		4.25	22,211	4.25	22,211
Tier II		1,801,803	.6471	1,165,947	.661451	1,191,804
				1,188,158		1,214,015
G-16 Street and Outdoor Lighting	24		-		-	-
Tier II		28,932	-	18,938	.661451	19,137
Subtotal	86,340	8,529,561		5,763,880		5,852,098
Other Operating Revenue	-	-		33,200		33,200
Total	86,340	8,529,561		5,797,080		5,885,298

1/ Based on Rate of Return of 12.83%.

The proposed rate designs submitted by SW and the staff do not include the effects of ERTA and have the following similarities:

1. There is no increase in the customer charge or the Tier I (lifeline) residential rates.
2. The Tier III residential rate is eliminated and moved to the Tier II level.
3. All other rates are at the Tier II level.

We believe it proper not to increase the customer charge or the Tier I rates at this time. However, we do not believe that the Tier III rate should be eliminated. While it is true as the staff reasons that approximately only 1% of residential usage is in Tier III, it may be that the reason is that users are conserving energy because of the additional cost. Table 2 of Exhibit 16 which is the staff report on rate design discloses that during 1980 the average residential customer uses 47 therms in summer (21 over the Tier I amount) and 134 therms in winter (32 below the Tier I allowable amount). The proposed rate design shows that anticipated sales (Tables 5 and 6) disclose that under the G-10 schedule, Tier II and III sales will account for 27.4% $\left(\frac{779,152}{2,844,132}\right)$ of the sales of this 27.4%, 11.1% $\left(\frac{86,583}{779,152}\right)$ will be in Tier III. The area served is a recreational area where there are many residences that are occupied on a temporary, rather than a permanent, basis. Such a fact usually distorts the average and it appears such may be the case here.

We therefore will not adopt the two-tier rate design. Our adopted rate design is set forth in Table 7 and the effects of ERTA have been recognized therein.

TABLE 7

Staff Adopted Rate Design

For The Test Year 1982

Description (a)		Annual Number Of Bills (b)	Staff Sales Volumes (c)	Present Rates (10-1-80) (d)	Revenues At Present Rates (e)	Adopted Rates (f)	Revenue at Proposed Rates (g)
G-10	Residential	33,144		$ 4.25	$ 140,862	$ 4.25	$ 140,862
	Tier I		2,064,980	.5856	1,209,252	.5856	1,209,252
	Tier II		692,569	.6471	448,161	.6607	457,580
	Tier III		86,583	.6972	60,366	.7168	62,063
			2,844,132		1,858,641		1,869,757
G-10N	Residential	47,946		4.25	203,771	4.25	203,771
	Tier II		3,854,694	.6471	2,494,372	.6607	2,546,796
					2,698,143		2,750,567
GN-10	Commercial	5,226		4.25	22,211	4.25	22,211
	Tier II		1,801,803	.6471	1,165,947	.6607	1,190,451
					1,188,158		1,212,662
G-16	Street and Outdoor Lighting	24		-		-	
	Tier II		28,932	-	18,938	.6607	19,115
	Subtotal	86,340	8,529,561		5,763,880		5,852,101
	Other Operating Revenue	-	-		33,200		33,200
	Total	86,340	8,529,561		5,797,080		5,885,301

The present rates set forth in Tables 5, 6, and 7 are the October 1, 1980 rates without the purchased gas adjustment (PGA) and supply adjustment mechanism (SAM) balancing accounts' amortization rates of $-.0071 and $-.0343 per therm, respectively. The effective total rates in effect as of October 1, 1980 and the present rates are set forth in Table 8.

TABLE 8

Description (a)	Present: Base Rates (10-1-80) (b)	Present: PGA/SAM Rates (c)	Present: Effective Rates (d)	Adopted: Base Rates (e)	Adopted: PGA/SAM Rates (f)	Adopted: Effective Rates (g)
G-10 Residential						
Tier I	.5856	.0558	.6414	.5856	.0558	.6414
Tier II	.6471	.0695	.7166	.6607	.0695	.7302
Tier III	.6972	.0695	.7667	.7168	.0695	.7863
G-10N Residential						
Tier II	.6471	.0695	.7166	.6607	.0695	.7302
GN-10 Commercial						
Tier II	.6471	.0695	.7166	.6607	.0695	.7302
G-16 Street and Outdoor Lighting						
Tier II	.6471	.0695	.7166 1/	.6607	.0695	.7302

1/ Actual rate is on a different basis (per lamp per month) but approximates this rate and is shown for illustrative purposes only.

SW's present tariff format does not show the breakdown of its rates as set forth in Table 8 but rather shows the total rate. Supply and cost of gas is normally not an element considered in a general rate proceeding. Those elements are considered in PGA and SAM rate proceedings. Major California gas utilities' (Pacific Gas and Electric Company and Southern California Gas Company) rates are published in a format similar to that set forth in Table 8. We believe it would simplify matters in future proceedings if SW's tariffs were in a similar format and it will be so ordered in the order which follows.

Attrition

Based on its original request SW sought an additional $192,000 for 1983 because of attrition. Based upon the stipulated figures set forth in Exhibit 14, the staff recommends that $60,200 be granted to SW in 1983 to cover financial and operational attrition. Because of ERTA, the staff's attrition recommendation would be increased to $65,000.

The staff's computations include an estimate of additional sales in 1983 of 217,688 therms because of the anticipated addition of 220 additional customers, mostly residential.

SW did not submit any revised attrition figures based upon the stipulated revised figures set forth in Exhibit 14. The attrition figure developed by the staff, as adjusted because of ERTA, is reasonable

Conservation

The staff report on conservation (Exhibit 18) recommends the adoption of the requested total amount of $104,900 by SW. Appendix B of Exhibit 18 contains a breakdown by program of how the $104,900 is to be expended during 1982 as follows:

I. Conservation Programs		
General	$6,000	
New Construction	1,500	
Appliance	1,500	
Conservation Devices	2,000	
Solar	4,000	
Total		$ 15,000
II. Conservation Balance Accounts		
Energy Audits		$ 36,400
Zero Interest Program (including Big 6)		53,500
Total		$104,900

The staff recommends that the $36,400 allocated to energy audits be placed in a Residential Conservation Service (RCS) balancing account and the $53,500 allocated to Zero Interest Program (ZIP) be placed in a ZIP balancing account due to the fact that no one knows how many customers will participate in these programs.

SW's application for ZIP is presently pending (A.60555). Until such time that A.60555 is approved the monies allocated to ZIP will be expended for the Big 6 program which provides 8% loans to customers for purchase of attic insulation, duct wraps, caulking, weatherstripping, low-flow shower heads, and water heater wraps.

It therefore would not be appropriate to establish a ZIP balancing account at this time. The proper proceeding to consider such an account is A.60555. We do not believe the establishment of a balancing account for RCS funds is required at this time; however, we will require that SW include any unexpended conservation funds authorized herein in its next general rate case.

Proration of Customers' Bills

Prorating of customers' bills is necessary when the period of service covered by a customer's bill is partly in the summer period and partly in the winter period (a seasonal change).

Pacific Gas and Electric Company (PG&E) publishes the following rule concerning seasonal changes:

> "Seasonal Changes: When the period of service covered by a customer's bill is partly in the summer period and partly in the winter period, the billing will be computed by prorating the total therm usage, the rate blocks, and lifeline allowances applicable thereto, between the two seasonal periods according to the ratio of the number of days in each seasonal period to the total number of days in the billing period."

Other major utilities in California have an identical or similar rule in their tariffs. The Commission staff recommends that SW include a similar rule in its tariff, which recommendation will be adopted.

Interest on Customer Deposits

The Commission staff alleges that SW will generally pay interest on deposits at the rate of 4% per annum provided the deposit is on file for 12 months or more. No interest is paid if service is discontinued for any reason within 12 months from the date of the deposit. By D.91269 PG&E, Southern California Edison Company, and San Diego Gas & Electric Company have been directed that interest rates applied to a deferred cost of supply balancing account should be uniformly applied to other ratepayer deferred accounts. Thus the interest rate applied to a cost-balancing account would also be applied to a customer's deposit upon refund. The staff recommends that SW use the interest rate it applies to balancing accounts for customer deposits and that interest be paid on all deposit refunds from the date of deposit to the date of refund. SW did not refute the allegation as an objection to this suggestion and it will be so ordered.

Findings of Fact

1. By this application SW requests rate increases for its Placer County District, which would give it an opportunity to earn a return on equity of 16.0%.

2. Properly noticed public hearings in this application were held at which all interested parties had an opportunity to be heard.

3. A return on common equity of 15.5% and a rate of return of 12.83% for the test year 1982 are reasonable.

4. The rate design set forth in Table 7 is reasonable and should be adopted.

5. The rate design adopted will contribute to conservation and reflect policies adopted by this Commission.

6. The rates and rate designs shown in Table 7 will produce estimated annual revenues of approximately $88,200 over present rates for the test year 1982.

7. The attrition figure of $65,000 is reasonable.

8. The appropriate basis for the 1983 attrition increase and 1983 PGA and SAM proceedings is estimated sales of 8,747,549 therms and 89.016 billings.

9. SW's present tariff format does not show a breakdown of its rates but rather shows only the total effective rate.

10. SW's proposed conservation program is reasonable.

11. SW's tariff does not contain a rule concerning proration of covering periods of billing falling partly in the summer and partly in winter.

12. SW does not pay interest on customer deposits, which are on file, for less than 12 months.

13. For deposits on file 12 months or more SW pays interest at the rate of 4% per annum.

14. The staff recommendation that SW pay interest on all deposits at the rate applied to a cost-balancing account is reasonable.

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

Conclusions of Law

1. SW should be authorized to place into effect the increased rates found to be reasonable in the findings set forth above.

2. SW should be ordered to revise its tariffs so that its rate schedules are published in a format similar to that set forth in Table 9.

3. SW should be ordered to incorporate a seasonal change proration rule in its tariff.

4. SW should be ordered to pay interest on all customer deposits at the rate of interest applied to a deferred cost of supply balancing account.

5. Because this application has been processed under the Commission's Notice of Intention procedure based on a test year 1982, the rate relief authorized should be the date of signature.

ORDER

IT IS ORDERED that:

1. After the effective date of this order Southwest Gas Corporation is authorized to file revised rate schedules reflecting the rates and rate increases set forth in this decision and concurrently withdraw and cancel its presently effective schedules. Such filings shall comply with General Order 96-A.

2. Southwest Gas Corporation shall revise its tariffs so that:

a. The rates authorized by Ordering Paragraph 1 of this order and all future rates shall be published in the format set out in Table 9.

b. The following rule shall be incorporated:

"Seasonal Changes: When the period of service covered by a customer's bill is partly in the summer period and partly in the winter period, the billing will be computed by prorating the total therm

> usage, the rate blocks, and lifeline allowances applicable thereto, between the two seasonal periods according to the ratio of the number of days in each seasonal period to the total number of days in the billing period."

3. Southwest Gas Corporation shall pay interest on all customer deposits at the rate of interest applied to deferred cost of supply balancing account.

4. Southwest Gas Corporation is authorized an attrition allowance of $65,000 for 1983 based on estimates sales and billings set forth in Finding 8 and is authorized to file revised gas rates reflecting this allowance to be effective January 1, 1983. All base rates except residential Tier I will be increased across the board by an equal cents per therm basis.

5. Southwest Gas Corporation shall report the status of its conservation funds annually in its "Recorded Conservation Results Reports for the Prior Year" due March 31, 1982 and 1983, and submit any unexpended conservation fund balances authorized for 1982-1983 for appropriate rate treatment in the next general rate case.

This order is effective today.

Dated JAN 19 1982, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. GREW
Commissioners

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

Joseph E. Bodovitz, Executive Director