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ORIGINAL

Decision 82 02 061 FEB 17 1982

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southwest Gas Corporation for authority to increase natural gas rates in San Bernardino County, California.	Application 60743 (Filed July 20, 1981)

Rochelle Levine Berkley, Attorney at Law, for applicant.
Timothy E. Treacy, Attorney at Law, and K. C. Chew, for the Commission staff.

OPINION

Southwest Gas Corporation (SW) seeks authority to increase the gas rates in its Southern California service area because of its capital investment and associated operational expenses in constructing 12 miles of reinforcement pipeline to serve Big Bear City in San Bernardino County.

Duly noticed public hearing was held before Administrative Law Judge O'Leary at Los Angeles on November 2, 1981; the matter was submitted on November 6, 1981 with the filing of late-filed Item B by the applicant.

SW has constructed approximately 12 miles of 8-5/8-inch gas pipeline from a tap on a line of Pacific Gas and Electric Company (PG&E), SW's suppliers, located at Lucerne Valley along the mountainous ascent of California State Highway 18 to Big Bear City. The line is now in service.

SW's last general rate increase Application (A.) 59359 filed December 31, 1979 and decided by Decision (D.) 92507 which authorized a rate of return of 11.72% on December 16, 1980, did not include the cost of the new pipeline, because, at the time of filing A.59359, SW anticipated that the pipeline would not be put in service until the 1982-1983 heating season. The Commission notes that 1981 was the test year and no attrition allowance was authorized for 1982.

Due to the continuing customer growth on the system's capacity and the uncertainties of a cold winter in the Big Bear service area, SW constructed the reinforcement pipeline before the 1981-1982 heating season. The weather during the 1980-1981 heating season was 14.3% warmer than the 20-year average for the Big Bear area. If an extremely cold day had been experienced during last winter, widespread outages would have resulted among all customers in the Big Bear distribution system. The line is needed and it's a significant addition to SW's Southern California area rate base.

Cost of the Pipeline and
Rate Base Calculations

SW originally estimated the construction cost of the pipeline at $2,777,835. SW requests that $2,738,000 be added to rate base which is arrived at by calculating 15 months depreciation of $80,215 to reach year's end 1982 average rate base for the pipeline of $2,737,727 as of December 31, 1982. SW's applicable rate base for 1981 is approximately $22.4 million.

Based on the above SW calculates its incremental revenue requirement deficiency as a result of its capital expenditures using the authorized rate of return of 11.72% as follows:

Table 1

Description (a)	Amounts Per D.92507 (b)	Revenue Deficiency (c)	Total as Adjusted (d)
	(000's)		
Operating Revenues	$19,440	$ 569	$20,009
Operating Expenses			
Cost of Purchased Gas	$10,720	$ -	$10,720
Operation & Maintenance Expenses	3,459	182	3,641
Depreciation & Amortization Expense	1,165	64	1,229
Taxes Other Than Income	447	3	450
State Income Taxes	101	-	101
Federal Income Taxes (FIT)	919	-	919
Total Operating Expenses	$16,811	$ 249	$17,060
Net Income	$ 2,629	$ 320	$ 2,949

A financial examiner from the Commission's staff presented a report (Exhibit 9) which sets forth the results of his audit with respect to the cost of the pipelines and his recommendations. Based on the audit of recorded actual costs and discussion with SW's management, the staff recommends that $2,647,864 be used as the gross plant addition costs rather than the $2,777,835 estimated by SW. The staff recommends that $2,492,479 be added to rate base rather than the $2,738,000 requested by SW. The difference on average rate base estimates between SW and the staff are based on the difference in gross plant cost and the following two adjustments:

1. The staff used a 12-month average of the net investment in the Big Bear lateral in 1982, while SW used a 15-month average from October 1, 1981 to December 31, 1982.
2. The staff used the average FIT deferred tax adjustment resulting from the excess Accelerated Cost Recovery System (ACRS) tax depreciation being normalized as a rate base adjustment. SW did not reflect any adjustment in the original application for FIT deferred taxes.

Table 2 sets forth a summary of SW's and the staff's figures with respect to the increased earnings required, because of the capital expenditure, using the authorized rate of return of 11.72%.

Table 2

SUMMARY OF INCREASED EARNINGS REQUIRED
(000)

Item	SW	Staff	SW Exceeds Staff
Operating Revenues	$569	$506	$ 63
Operating Expenses			
Trans./Distribution	181	15	166
Franchise	3	5	(2)
Uncollectibles	1	1	-
Depreciation	64	62	2
Total Operating Expenses	249	83	166
Net Income Before Taxes	320	423	(103)
Federal Income Tax 1/	-	128	(128)
State Income Tax 2/	-	3	(3)
Net Operating Revenues	$320	$292	$ 28

(Red Figure)

1/ Federal Income Tax Computation:

Net Income Before Taxes	$320	$423
Less: Interest @ 5.01% of Rate Base	137	125
Excess Tax Depreciation	242	-
State Income Taxes	-	3
Taxable Income	-	295
Federal Income Tax @ 46%	-	136
Investment Tax Credit (ITC)	-	(8)
Federal Income Tax	$ -	$128

2/ State income taxes are based on an average tax percentage of .5143% on total California revenues.

Federal Income Tax

The Economic Recovery Tax Act of 1981 (ERTA) requires that a normalization method of accounting be used by a utility in maintaining its books of account and for ratemaking purposes if the utility is to qualify for the benefits of the ACRS and Investment Tax Credit (ITC).

The staff computed the income tax expense allowance in this proceeding using full normalization of the benefits of ACRS and ITC.

At the time of filing the application SW's calculations were based on the tax laws prior to ERTA. SW's tax witness testified that SW is using Option Two under Section 46(f)(2).

The staff when computing the impact of ERTA used the information supplied by SW, based on the premise that Option Two will be available. SW's tax witness further testified that if Option Two is not available to it, SW reserves the right to compute taxes using Option One. Exhibit 8 prepared by SW shows the effects of Option One treatment. The difference between Option One and Option Two is de minimis and need not be discussed further.

Rate Design

SW and the staff propose no increase in the monthly service charge. SW proposes increases in the commodity rate to all classes. The staff proposes increases in the commodity rate to all classes except Tier I (lifeline). A comparison of the proposed increases together with the revenue to be realized under each proposal is set forth in Table 3.

Table 3

	Sales (Mth)	SW Rate Increase	SW Revenue Increase (M$)	Staff Rate Increase	Staff Revenue Increase (M$)
Tier I	22,473.6	$.0083	$187	$ -	$ -
Tier II, GN-1, GN-2	22,307.8	.0110	258	.00803	179
GN-3	1,130.0	.0110		.04763	54
Tier III	5,708.1	.0218	124	.0476	272
Total Revenue			$569		$505 1/

1/ Exhibit 12 shows $506,000 difference is due to rounding.

Based on the evidence of SW and the staff concerning the revenue requirement, we concur with the staff that the revenue requirement is $506,000 since the staff's calculations were based on recorded actual costs and consideration of ERTA whereas SW's calculations were based on estimates and did not take ERTA into account.

Other than the amount of revenue sought, the basic difference between the rate designs proposed by SW and the staff is that SW proposes an increase in lifeline rates while the staff does not. The staff points out that the present lifeline rate is more than 75% of the present system average and the average rate in the staff's proposal.

We will adopt the staff's proposal which is set forth in Table 4. The $1,000 difference between Table 3 and Table 4 is due to the combining of Tier II, GN-1, and GN-2 in Table 3 and rounding of figures.

TABLE 4

Southwest Gas Corporation

PROPOSED RATE DESIGN

Line No.	Classification	Sales (Mth) (A)	Present Rates1/ Rate ($/th) (B)	Present Rates1/ Revenue (M$) (C)	Proposed Rates Rate ($/th) (D)	Proposed Rates Revenue (M$) (E)	Increase Amount (M$) (F)	Increase % (G)
	Residential							
1	Customer Months (1,000's)	480.9	$3.50	$ 1,683	$3.50	$ 1,683	$ -	-%
2	Tier I (Lifeline)2/	22,473.6	.4284	9,628	.4284	9,628	-	-
3	Tier II	10,337.4	.5396	5,578	.54763	5,661	83	1.5
4	Tier III	5,708.1	.6635	3,787	.7111	4,059	272	7.2
5	Subtotal	38,519.1		20,676		21,031	355	1.7
	Nonresidential							
6	Customer Months (1,000's)	33.3	3.50	117	3.50	117	-	-
7	GN-1	11,045.1	.5396	5,960	.54763	6,049	89	1.5
8	GN-2	925.3	.5396	499	.54763	507	8	1.6
9	GN-3	1,130.0	.5000	565	.54763	619	54	9.6
10	Subtotal	13,100.4		7,141		7,292	151	2.1
11	GS Lifeline Discount	100.0	-	-	-	-	-	-
12	Total Sales	51,719.5	-	27,817	.54763	28,323	506	1.8
13	Other Operating Revenue	-	-	172	-	172	-	-
14	Total Revenue			27,989		28,495	506	1.8

1/ Present rates effective July 22, 1981.

2/ GS lifeline sales reduced by 100Mth for GS discount. A summer lifeline allowance for gas air conditioning is included in volume per Advice Letter No. 243.

Findings of Fact

1. SW has constructed 12 miles of reinforcement pipeline to serve Big Bear City.

2. At the time of filing A.59359, it was anticipated that the pipeline would not be put in service until the 1982-1983 heating season.

3. The pipeline is now in service because of continuing customer growth.

4. SW estimates the gross plant addition at $2,777,835 and requests that $2,738,000 be added to rate base.

5. The staff estimates the gross plant addition at $2,647,864 and recommends that $2,192,479 be added to rate base.

6. SW's figures set forth in Finding 4 are based on estimates.

7. The staff's figures set forth in Finding 5 are based on actual costs.

8. The revenue requirement on an annual basis is $506,000, based upon SW's authorized rate of return of 11.72%.

9. The gross plant addition which is about 10% of SW's applicable $22,400,000 rate base is a significant addition.

Conclusions of Law

1. SW should be granted additional annual operating revenues of $506,000.

2. The increase should be spread as set forth in Table 4.

3. In order that the relief be granted as soon as possible, the effective date of this order should be the date of signature.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, Southwest Gas Corporation may file with this Commission rates and tariffs which increase its California jurisdictional revenue by $506,000 based upon the adopted test year and rate of return found reasonable in A.59359. Its filing shall comply with General Order Series 96.

2. The rate increases shall be spread as set forth in Table 4 hereto.

3. The effective date of the rates authorized in Ordering Paragraph 1 shall be 4 days after the date of filing. The revised schedules shall apply only to service rendered on and after their effective date.

This order is effective today.

Dated FEB 17 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

Joseph E. Bodovitz, Executive Director