

Decision No. 89634 NOV 9 1978**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of McCLOUD GAS COMPANY
for a general rate increase in gas
rates. (Advice Letters Nos. 31,
32 & 33.)

Application No. 58366
(Filed September 19, 1978)

O P I N I O NApplicant's Request

By this application, McCloud Gas Company, Inc. (McCloud) seeks an order of the Public Utilities Commission (Commission) authorizing McCloud to revise its rates to cover increased operating expenses.

Description of Company

McCloud, a wholly owned subsidiary of Pargas, Inc. (Pargas), is a corporation duly organized and existing under the laws of the State of California. McCloud owns and operates a public utility propane gas distribution system serving the town of McCloud, California.

History of Filings

On June 22, 1978, McCloud filed Advice Letter No. 31 under Sections 451 and 454 of the Public Utilities Code seeking a general rate increase resulting in an annual revenue increase of \$12,947 to cover operating losses. The resultant reduction in income tax credits realized from operating losses bring the annual revenue increase realized by McCloud from this filing to \$10,792. On August 17, 1978, this filing was amended to reflect reduced expenses due to reduced ad valorem taxes due to the enactment of Article XIII-A of the Constitution of the State of California. McCloud's amended advice letter filing then reflected an annual revenue increase of \$11,226 based on the requested 4.7 cents per therm increase for residential sales and 0.7 cents per therm increase for commercial sales.

Agend Clerk
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11-8-78

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The advice letter was also filed under Section VI of General Order No. 96-A in anticipation of expected revisions to G.O. 96-A. Section VI of this order states in part: "Any utility with projected annual operating revenues at requested rate of \$150,000 or less may, however, request authority for a general rate increase by an advice letter filing which includes an adequate showing and justification." On August 8, 1978, by Resolution No. M-4701, the Commission amended G.O. 96-A, among other things, increasing the annual operating revenues from \$150,000 to \$750,000 by which a utility may qualify to file for a rate increase by advice letter procedure. Subsequent petitions for rehearing, however, had stayed the order temporarily.

McCloud's annual operating revenue as of its 1977 annual report is \$166,169. This revenue level would qualify the utility to file for an advice letter rate increase under the amended and temporarily stayed Section VI of G.O. 96-A, but not under the currently effective \$150,000 limit. Therefore, the Commission staff converted this filing into the subject application on September 19, 1978.

During the interim, on August 23, 1978, McCloud filed Advice Letter No. 32 under the provisions of the fuel escalation clauses of the utility's filed tariff schedules to reflect a rate decrease due to the reduced cost of liquefied petroleum gas (LPG) from the utility's supplier, Union Oil Company of California (Union), effective August 1, 1978. The decrease of one cent per gallon in the cost of LPG resulted in a rate decrease of 1.8 cents per therm for all non-lifeline sales with a resultant annual revenue reduction of \$4,810.

On September 15, 1978, McCloud filed a second rate decrease by Advice Letter No. 33 to reflect another fuel decrease by Union, effective September 6, 1978. The decrease of 1.25 cents per gallon in the cost of LPG resulted in a rate decrease of 2.3 cents per therm for all non-lifeline sales with a resultant annual revenue reduction of \$6,146.

The Commission staff included these two rate reduction filings with the initial rate increase request as revised by the ad valorem tax reduction, and thus converted all rate revision requests into the subject application. The net result was a 4.7 cent per therm increase for all lifeline sales, with a 0.6 cent per therm increase for all residential non-lifeline sales and a 3.4 cent per therm decrease for commercial sales. This was due to the fact that the two fuel cost rate decreases were applicable only to non-lifeline rates because past fuel cost increases had been applied only to non-lifeline rates. The net annual revenue effect is an increase of \$270 over present rates. McCloud will, however, realize a \$10,893 annual decrease in operating expenses due to the decreased purchased fuel cost.

Necessity for Rate Relief

McCloud's last general rate increase was granted by Decision No. 81014, dated February 6, 1973, in Application No. 53305. In that decision a rate of return of 8.0% was found to be reasonable. For the past few years McCloud has been earning a negative rate of return. A positive rate of return is achieved from federal income tax credits realized by Pargas due to McCloud's operating losses. The requested rate revisions would result in a rate of return of 4.65%, as derived on Tables 1, 2 and 3 following. McCloud is not in a position to request higher rates without coming in conflict with the maximum allowable selling price for LPG as established by the Federal Energy Administration (FEA).

Summary of Earnings

Table No. 1 develops the amount of the purchased gas cost decrease and the revised cost per therm sold.

Table No. 2 shows the development of the income tax credits realized by Pargas due to McCloud's operating losses.

Table No. 3 shows the summary of earnings and the net effect of the revised costs and the requested offset increase in revenues as per all three rate revisions.

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Table No. 1

Total decrease in cost of fuel (Advice Nos. 32 & 33) = \$0.0225 per gallon

Projected Sales (gallons)	456,268
Losses @ 3%	<u>13,688</u>
Projected gallons purchased	469,956

Decreased Cost of fuel (469,956 x \$0.0225)	\$10,574
Decreased County Franchise Fees 2% (10,574 x 35.75%)	76
Loss of first 2 therms, per month	
2th. x 410 cust. x 12 mo. = 9840th/yr x 1.091 = 10,735 gallons	
10,735 gallons x \$0.0225	<u>242</u>
Gross Cost Decrease	\$10,892

Total Sales = $\frac{469,956}{1.091}$ =	430,757 therms
Summer Lifeline (22th. x 6 Mo. x 354 cust.)	46,728
Winter Lifeline (55th. x 6 Mo. x 354 cust.)	<u>116,820</u>
Total Non-Lifeline Sales	267,209 therms

Decrease per Non-Lifeline therm = $\frac{\$10,893}{267,209}$ = \$0.04077 = \$0.041

Revenue Revision

267,209 therms x \$0.041	<\$10,956>
Rate Increase @ A.L. 31	<u>11,226</u>
Revised Revenue Increase	= \$ 270

< > = Negative Number

Table No. 2

<u>Item</u>	1977 <u>Recorded</u>	<u>At Proposed Rates</u>	
		<u>Increase</u>	<u>Total</u>
Operating Revenues	\$166,169	\$270	\$166,439
Operating Expenses			
(except income tax)	<u>\$184,703</u>	* <u><\$11,631></u>	<u>\$173,072</u>
Operating Gain (or Loss)	<u><\$ 18,534></u>		<u><\$ 6,633></u>
Interest Exp.	<u>< 10,753></u>		<u>< 10,753></u>
Loss on Sale of F/A	<u>< 223></u>		<u>< 223></u>
Tumble Income	<u><\$ 29,510></u>		<u><\$ 17,609></u>
Taxes (4.8%)	<u><\$ 14,165></u>		<u><\$ 8,452></u>
Previous Yr's Tax Credit	<u>< 8,479></u>		<u>< 8,479></u>
Total Taxes Due	<u><\$ 22,644></u>		<u><\$ 16,931></u>

*Revised expenses include \$96 increase in County Franchise Fee, \$834 decrease in Ad Valorem taxes and \$10,893 decrease in fuel costs.

< > = negative number

Table No. 3

<u>Item</u>	1977 <u>Recorded</u>	<u>At Proposed Rates</u>	
		<u>Increase</u>	<u>Total</u>
<u>Operating Revenue</u>	\$166,169	\$270	\$166,439
<u>Operating Expenses</u>			
All Expenses except Income Taxes	184,703	<11,631>	173,072
*Income Taxes	<u>< 22,643></u>	<u>5,712</u>	<u>< 16,931></u>
Total Expenses	\$162,060	<u><\$ 5,919></u>	\$156,141
Net Operating Revenue	\$ 4,109		\$ 10,298
Depreciated Rate Base	\$221,379		\$221,379
Rate of Return	1.86%		4.65%

< > = negative number

*Income tax credit from loss on operations of McCloud Gas Company applied to Pargas, Inc's federal income taxes

Customer's Views

The staff caused public notices of intent to seek a rate relief to be mailed to all residential customers of McCloud on August 14, 1978, and such notices to be published in the local newspaper. The customers and the public were invited to contact the Commission staff concerning complaints or objections to the proposed rate increase. One letter was received in response to the notice and it concerned a complaint about service rather than rates. This was not considered sufficient reason to conduct public hearings into the utility's operation. The letter was referred to McCloud for action and the problem was resolved to the satisfaction of the customer. No public hearings are required. This will save time and money of the public, the utility and the Commission staff.

Present and Proposed Rates

Table No. 4 compares the present utility rates with the final proposed rates reflecting the three requested rate revisions of Advice Letters Nos. 31, 32, and 33.

TABLE NO. 4Schedule No. G-80Commercial Service

		<u>Per Meter Per Month</u>	
		<u>Present Rates</u>	<u>Proposed Rates</u>
First	2 therms or less	\$3.15	\$3.15
Next	18 therms, per therm	.421	.387
Next	30 therms, per therm	.425	.391
Next	950 therms, per therm	.430	.396
Over 1,000	therms, per therm	.439	.405

Schedule No. G-81Residential ServiceSummer (May - October)

		<u>Per Meter Per Month</u>	
		<u>Present Rates</u>	<u>Proposed Rates</u>
*First	2 therms or less	\$3.15	\$3.15
*Next	20 therms, per therm	.380	.427
Next	28 therms, per therm	.420	.426
Next	950 therms, per therm	.429	.435
Over 1,000	therms, per therm	.435	.441

Winter (November - April)

		<u>Per Meter Per Month</u>	
		<u>Present Rates</u>	<u>Proposed Rates</u>
*First	2 therms or less	\$3.15	\$3.15
*Next	20 therms, per therm	.368	.415
*Next	33 therms, per therm	.374	.421
Next	945 therms, per therm	.415	.421
Over 1,000	therms, per therm	.425	.431

*Lifeline

Staff's Position and Recommendations

The Commission staff took this opportunity to redesign McCloud's rate schedules to bring them more in line with those of major utility companies. In doing so the staff segregated part of the minimum charge for the first 2 therms in both the G-80 and G-81 rate schedules into a customer charge and integrated the remainder into a commodity charge in the next commodity block.

For Schedule No. G-80, Commercial and Industrial Service, the commodity charge was then converted to one flat rate for all sales. For Schedule No. 81, Residential Service, both summer and winter lifeline rates were converted to one rate with all non-lifeline sales under the first 1,000 therms at another flat rate. The tailblock for all sales over 1,000 therms was left unchanged. Table No. 5 shows the rate schedules as revised by the staff.

TABLE NO. 5
Schedule No. G-80

	<u>Per Meter Per Month</u>
Customer Charge	\$2.40
Commodity Charge	
All Sales, Per Therm	0.395
<u>Schedule No. G-81</u>	
Customer Charge	2.30
Commodity Charge:	
<u>Summer (May - October)</u>	
*First 22 therms, per therm	0.427
Next 978 therms, per therm	0.435
Over 1,000 therms, per therm	0.441
<u>Winter (November - April)</u>	
*First 55 therms, per therm	0.419
Next 945 therms, per therm	0.421
Over 1,000 therms, per therm	0.431
*Lifeline	

We will adopt the staff rate proposal in order to implement a simplified rate structure that will continue to provide a conservation incentive to residential customers through inverted rates.

The net effect of these proposed revisions will increase McCloud's annual revenue by an additional \$286 or 0.13% for a net annual increase of \$556 including the \$270 requested increase. Table No. 6 following reflects the revised summary of earnings based upon the staff's proposed rate design.

TABLE NO. 6

Summary of Earnings

<u>Operating Revenue</u>	\$166,725
<u>Operating Expenses</u>	
All Expenses Except Income Taxes	173,072
*Income Taxes	<u><16,794></u>
Total Expenses	156,278
Net Operating Revenue	10,447
Depreciated Rate Base	221,379
Rate of Return	4.72%

< > = Negative Number.

* Income tax credit from loss on operations of McCloud Gas Company applied to Pargas, Inc's federal income tax.

Findings of Fact

1. McCloud is in need of additional revenues.
2. The rate relief requested and the two fuel cost decreases will almost balance out, leaving negligible rate impact on McCloud's customers.
3. Even if the Commission authorizes the rate relief requested, McCloud will not earn the rate of return last found reasonable by the Commission.
4. A greater rate of return is not possible at this time without coming in conflict with the maximum selling price of LPG as determined by the FEA.
5. Under the circumstances, the staff's revised rate design is found reasonable and should be adopted.
6. The revisions in rates, charges and conditions authorized herein are justified; under the above circumstances, the rates, charges and conditions authorized herein are reasonable; and the present rates, charges and conditions, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.
7. The rate of return of 8.0% last found reasonable by the Commission is again found reasonable and nothing in this order shall preclude McCloud from seeking additional rate relief insofar as it does not conflict with federal regulations.
8. A public hearing is not necessary.

Conclusions

The application should be granted ex parte.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order, McCloud Gas Company, Inc., is authorized to file revised tariff sheets with rates, charges and conditions substantially as set forth in Appendix A attached hereto.
2. Such filings shall comply with General Order No. 96-A.
3. Such filings shall be made effective on the date of filing.
4. The revised rate schedules shall apply only to service rendered on and after the effective date thereof.
5. The effective date of this order shall be thirty days after the date hereof.

Dated at San Francisco, California, this 9th day of NOVEMBER, 1978.

Roluf Bateman
President
William S. ...
Richard L. ...
Clifford P. ...
Clare L. ...
Commissioners

Appendix A

Schedule No. G-80

	<u>Per Meter Per Month</u>
<u>Customer Charge</u>	\$ 2.40
 <u>Commodity Charge</u>	
All Sales, per therm	0.395

The Minimum Charge per Month shall be the Customer Charge

Schedule No. G-81

	<u>Per Meter Per Month</u>
<u>Customer Charge</u>	\$ 2.30
 <u>Commodity Charge</u>	
Summer (May - Oct)	
First 22 therms, per therm (lifeline)	0.427
Next 978 therms, per therm	0.435
Over 1,000 therms, per therm	0.441
Winter (Nov - Apr)	
First 55 therms, per therm (lifeline)	0.419
Next 945 therms, per therm	0.421
Over 1,000 therms, per therm	0.431

The Minimum Charge per Month shall be the Customer Charge