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Decision No. 90105 1 MAR 27 1979

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of)	
SOUTHERN CALIFORNIA GAS COMPANY for)	Application No. 57639
authority to increase rates charged)	(Filed October 28, 1977)
by it for gas service.)	

INTERIM
ORDER MODIFYING DECISION NO. 89710

By petition for modification filed February 26, 1979, Southern California Gas Company (SoCal) requested correction of Decision No. 89710,^{1/} stating that the adopted test year allowance for income tax expense was incorrectly calculated. SoCal indicates the result is a \$12,411,000 shortfall in adopted test year revenue requirement.

SoCal served a copy of the petition for modification on all appearances in this proceeding. A protest and request for hearing was filed by Tehachapi-Cummings County Water District (Tehachapi), which is addressed below.

Our staff has reviewed SoCal's petition and concurs that Decision No. 89710 inadvertently contained an incorrect income tax calculation. This incorrect tax calculation resulted from the exclusion of short-term debt from SoCal's adopted capital structure without a similar exclusion of interest on short-term debt from the income deductions for income tax calculation purposes. The increase in revenue required to provide the authorized rate of return and return on equity is \$12,411,000 necessitating an increase in the final increase authorized by Decision No. 89710 from \$201,501,000 to \$213,912,000

^{1/} Issued December 12, 1978.

Position of Tehachapi

On March 1, 1979 Tehachapi, a party of record to this proceeding, filed a response to SoCal's petition stating that SoCal's petition for modification, as a substitute for a petition for rehearing, is not timely under Rule 85 of this Commission's Rules of Practice and Procedure, does not indicate how the claimed additional revenue is to be spread, and the exclusion of a particular debt from the capital structure does not necessarily cause an exclusion of the interest from the income tax calculation. On these bases, Tehachapi requests that the petition be denied or, in any event, be not granted ex parte.

SoCal's petition is not an application for rehearing in that it does not allege unlawful action or legal error in the issuance of Decision No. 89710. It is a petition for modification to correct an inadvertent calculation error.

Tehachapi's objection that SoCal's petition is defective because it did not contain a proposed rate design to spread the additional \$12.4 million in revenue requirement among customer classes is without merit. The apportionment of the increase was appropriately left to the discretion of this Commission and we elect to use substantially the same bases for apportionment set forth in Decision No. 89710. This produces the same overall result as to customer class increases that would have occurred if the additional \$12.4 million had been spread originally in Decision No. 89710.

Tehachapi's final objection is that the exclusion of debt from the adopted utility capital structure does not mean that necessarily the interest expense must be excluded from the calculation of ratemaking test year income tax expense. Tehachapi overlooks that test year ratemaking is accomplished by our adopting a test year of normal operation, comprised of various adopted revenue and expense components (including an adopted capital structure). Various expense or revenue amounts not adopted in the test year we compile for the purpose of determining the need for additional revenue requirement must, logically and equitably, not be considered when calculating revenue requirement based on the adopted test year. An overall examination of test year ratemaking and the determination of income tax expense when ratemaking is the subject of Order Instituting Investigation No. 24, which is about to go to hearing. However, the correction proposed by SoCal is on a consistent basis with the methodology adopted in Decision No. 89710 for determining revenue requirement; and had we discovered the mistake on our own, we would have proceeded to correct Decision No. 89710.

In order that Tehachapi may have full opportunity to be heard, we will issue this order on an interim basis with rates subject to refund, and we will allow Tehachapi to present its evidence in public hearing provided that an offer of proof establishes the need therefor.

Adopted Rates

The \$12.4 million rate increase is assigned to classes of customers in substantially the same manner as was the general rate increase in Decision No. 89710. A major share of the increase was allocated to the residential class with a smaller amount to lifeline usage. A small portion was assigned to the nonresidential GN-1 class. As in Decision No. 89710, no increase was given to other nonresidential customers as the rates were at the cost of alternate fuel. These details are shown in Table 1 which follows.

TABLE 1

Southern California Gas Company

ADOPTED RATES

Estimated Year 1979

Classification	Sales (Mth/M Bills)	Revenue at D-89710 Rates M\$	Authorized Increase Revenue M\$	Rate \$	Percent Incr. %	Tariff Rates (Includes GEDA & PGA) \$
<u>Residential</u>						
Customer Charge	41,726,45	129,352	-	-	-	3.10
Commodity - Tier I	1,995,335 ^{1/}	320,990	5,986	.003	1.8	.167
- Tier II	1,022,774	205,445	4,091	.004	2.0	.208
- Tier III	217,690	54,758	1,088	.005	2.0	.262
Total Residential	3,235,799	710,545	11,165	-	1.6	-
<u>Nonresidential</u>						
Customer Charge						
GN-1	2,279.2	11,412	-	-	-	5.00
GN-2	8.3	84	-	-	-	10.00
GN-3	10.5	156	-	-	-	15.00
GN-4	1.1	12	-	-	-	15.00
GN-5	0.25	24	-	-	-	100.00
Subtotal	-	11,688	-	-	-	-
Commodity Charge						
GN-1	1,049,690	220,571	1,239	.00118	0.5	.22338
GN-2	1,232,340	246,701	-	-	-	.21226
GN-3	231,660	46,376	-	-	-	.21226
GN-4	-	-	-	-	-	.21226
GN-5	32,102	6,426	-	-	-	.21226
Subtotal	2,545,792	520,074	1,239	-	0.2	-
Total Nonresidential	2,545,792	531,762	1,239	-	0.2	-
<u>Resale</u>						
G-60	123,740	19,890	-	-	-	-
G-61	510,195	77,655	-	-	-	-
Total Resale	633,935	97,545	-	-	-	-
Total Sales	6,415,526	1,339,852	12,404	-	0.9	-

^{1/} Tier I sales reflect GS lifeline adjustment of 3,294 Mth.

Findings

1. Decision No. 89710 adopted a capital structure that excluded short-term debt.

2. Income tax expense for ratemaking purposes was calculated in Decision No. 89710 including short-term interest expense as a deductible expense for tax purposes.

3. The generic questions of whether to include interest expense for construction work in progress or on debt that is not part of a utility's capital structure when calculating income tax expense for test year ratemaking purposes is, as pointed out in Decision No. 89710, the subject of Order Instituting Investigation No. ~~27. 24. 24~~

4. The methodology used in Decision No. 89710 to calculate revenue requirement necessitates that interest expense for debt which was not part of the utility's adopted capital structure be excluded when calculating adopted test year income tax expense.

5. The following order will be interim and subject to refund.

6. Tehachapi will be granted leave to file an offer of proof of facts supporting its objections within 30 days of this order.

7. A public hearing will be held on Tehachapi's objections should its offer of proof so require.

Conclusions

1. SoCal's rates should be increased by \$12,411,000, subject to refund, and that additional revenue requirement spread among customer classes on substantially the same percentage basis as originally applied in Decision No. 89710.

2. The increased gas rates which SoCal is authorized to file pursuant to the following order are just and reasonable.

IT IS ORDERED that:

1. After the effective date of this order, Southern California Gas Company (SoCal) is authorized to file the revised rate schedules attached to this order as Appendix A and concurrently to cancel or withdraw the presently effective schedules. Such filing shall comply with General Order No. 96-A, and the effective date of the revised schedules shall be not less than four days after the date of filing. The revised schedules shall apply only to service rendered on or after the effective date thereof.

2. These rates shall be collected subject to refund.

3. The request for a public hearing by the Tehachapi-Cummings County Water District ^{May 24 1979} is granted provided that an offer of proof is submitted within thirty days of the effective date of this order which ^{requires} such public hearing.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 27th day of MARCH, 1979.

John C. Gynn
President

Alvin J. Smith
Edward J. Ginn
Commissioners

Commissioner Vernon E. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.

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

APPENDIX A

Southern California Gas Company

Applicant's rates and charges are changed to the level or extent set forth in this appendix.^{2/}

<u>Schedules GR and GS</u>	<u>Per Meter Per Month</u>
Customer Charge	\$3.10

Commodity Charge

Billing Code 1 (Space Heating Only)

	<u>Summer</u>		<u>Winter</u>			
	<u>All Zones</u>	<u>Zone 1</u>	<u>Zone 2</u>	<u>Zone 3</u>		
First	0	55	80	115	Therms, per therm	\$0.167
Next	100	100	100	100	Therms, per therm	0.208
Over	100	155	180	215	Therms, per therm	0.262

Billing Code 3 (Basic plus Space Heating)

First	26	81	106	141	Therms, per therm	\$0.167
Next	100	100	100	100	Therms, per therm	0.208
Over	126	181	206	241	Therms, per therm	0.262

Billing Code 2 (Basic Only)

Same as summer for Billing Code 3, except applicable all year.

Schedule GM

Same structure and rates as for Schedule GR except with appropriate modifications to reflect lifeline quantities.

Schedule G-30

Rates to be increased commensurately.

Schedule GN-1

Customer Charge Per
Meter Per Month
\$ 5.00

All Deliveries
Per Therm
\$0.22338

^{2/} All other rates and charges unchanged.