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Decision No. 90651 AUG 14 1979

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of CP NATIONAL CORPORATION, a California corporation, for authority to increase its rates for gas service in its Needles District.

Application No. 57953
(Filed March 30, 1978; amended October 10, 1978)

Orrick, Herrington, Rowley & Sutcliffe, by Robert J. Gloistein, Attorney at Law, for applicant.
Sara S. Myers, Attorney at Law, and Bertram Patrick, P.E., for the Commission staff.

OPINION

By this application, CP National Corporation (applicant) requests authority to establish rates for its Needles District Gas Department which were designed to increase annual revenue by $79,700 or 17.1 percent over the revenues produced by the authorized rate levels now in effect based on test year 1979 operations. In addition, applicant seeks to establish separate rates for test year 1980 which would be applicable until revised by a new showing of revenues, expenses, and rate base that would be applicable beyond that time.

Public hearing was held before Administrative Law Judge Gillanders in Needles, December 12, 1978, and the matter was submitted upon receipt of late-filed exhibits on February 15, 1979. Copies of the application were served and notice of hearing was published and posted in accordance with this Commission's Rules of Practice and Procedure.

Oral testimony on behalf of applicant was presented by one witness. The Commission staff presentation was made by an engineer.

General Information

Applicant is a corporation duly organized and existing under the laws of the State of California. It owns and operates public utility electric, gas, water, and telephone systems in California; electric, gas, and telephone systems in Oregon; electric, gas, water, and telephone systems in Nevada; and electric systems in Utah and Arizona. Its principal place of business is located in San Francisco, California.

Needles District Gas Department

Organization. For operating purposes the territory served is called the Needles District (District) which makes up a large portion of the Colorado River Division. The District is under the supervision of a District Manager who is also the Division Manager. The District includes the Electric Department, Gas Department, and Telephone Department. The Colorado Division Manager, Office manager, and clerks perform duties in the Electric and Gas Departments as well as in the Telephone Department. The main business office of the Colorado River Division is located at Needles, California. A business office is also maintained in Searchlight, Nevada, and an agent is stationed in Searchlight.

Territory Served. The Needles Gas Department provides gas service in Needles and adjacent territory in San Bernardino County. The population of Needles is estimated to be 4,000.

Source of Gas. Applicant purchases its gas requirements for the District from Pacific Gas and Electric Company (PG&E) on Rate Schedule G-62, Resale Natural Gas Service. The gas purchased from PG&E is received at the California border near Topock, Arizona, where it enters applicant's distribution system. The distribution system consists of approximately 45 miles of distribution mains and lines.

Results of Operation

During the course of hearings in this proceeding, the disputed issues between applicant and the staff were narrowed to (1) rate of return; (2) appropriate allowance for the cost of Stanford Research Institute's (SRI) management audit; and (3) appropriate allowance for the capitalized cost of applicant's customer information services system. Applicant's witnesses and witnesses for the Commission staff analyzed and estimated applicant's operating results for test year 1979.

At the conclusion of the hearing, applicant stated that, after a review of the staff showing which was based on later data, it was prepared to agree with the staff's estimate, except for rate of return and management audit, in order to expedite a decision. To this end a late-filed exhibit, jointly sponsored by applicant and the Commission staff, was filed showing an agreed summary of earnings at present rates. This exhibit also reflects reduced ad valorem property taxes due to the passage of Proposition 13, the new federal income tax rate of 46 percent, and a reduction in the working-cash allowance. The effect of the late-filed exhibit was to reduce applicant's rate increase request from $79,700 to $30,600.

Applicant hired SRI to conduct a management audit of its general office and top level management. SRI conducted its audit at a cost of $110,000 and submitted a report which covered applicant's strengths and weaknesses and proposed solutions to problems and changes in organization and business. The report also focused on problems with data systems, management practices and training, the need for development of a public relations program, and the role of the Board of Directors. Applicant considers the cost of the SRI study to be a proper charge to its ratepayers. Thus, it allocates the cost among its operating divisions. The staff recommends that the entire cost of the study be charged to the stockholders because the ratepayers have already paid for competent management in the rates charged and should not have to pay for correcting deficiencies, corporate acquisitions and divestments, and profitability improvement which, according to the staff, are clearly for the benefit of the stockholders. We agree with the staff and will adopt the staff's disallowance of the cost of the SRI study.

In Decision No. 90597, issued in OII No. 14, we found the expense for the management audit conducted for CP National by the Institute of Management Research should be disallowed when setting rates for CP National's districts. However, we directed CP National to develop an improved training program for its customer relations personnel and to provide better supervision over such personnel. We recognized the expense required for this undertaking to be $38,000 annually for CP National's total California operations. Accordingly, we will include $4,076 expense in the adopted test year to fund this activity (allocated to this CP National district by the four-factor methodology).

The following table sets forth the jointly sponsored summary of earnings at rates in effect on June 19, 1978 for test year 1979, the amount of additional revenue required to raise applicant's rate of return to that recommended by the Commission staff and the additional revenue required to raise applicant's rate of return to that recommended by applicant.

NEEDLES GAS DISTRICT
(Test Year 1979)

	At Present Rates	Staff Rate of Return at 9.50 Percent		Applicant Rate of Return At 11.03% & SRI Adjustment of $134	
		Adjust.	Result	Adjust.	Result
	(Dollars in Thousands)				
Operating Revenues					
Basic Rates	$279.0	$6.0	$285.0	$24.6	$309.6
Energy Rates	182.3	-	182.3	-	182.3
Miscellaneous	0.3	-	0.3	-	0.3
Total Operating Revenues	461.6	6.0	467.6	24.6	492.2
Operating Expenses					
Production	178.1	-	178.1	-	178.1
Storage	0.1	-	0.1	-	0.1
Distribution	42.2		42.2	-	42.2
Customer Serv.& Information	2.0	-	2.0	-	2.0
Sales	0.4	-	0.4	-	0.4
Cust.Acs.W/O Uncollect.	25.2	-	25.2	-	25.2
Uncollectibles	0.9	-	0.9	0.1	1.0
Administrative & General	67.0	0.1	67.1	0.6	67.7
CIS Amortization	3.4	-	3.4	-	3.4
Subtotal	319.3	0.1	319.4	.7	320.1
Book Depreciation	34.5	-	34.5	-	34.5
Taxes Other Than Income	27.4	-	27.4	-	27.4
State Corp.Franchise Tax	3.8	0.5	4.3	2.2	6.5
Federal Income Tax	7.0	2.5	9.5	10.0	19.5
Total Operating Expenses	392.0	3.1	395.1	12.9	408.0
Net Operating Revenues	69.6	2.9	72.5	11.7	84.2
Rate Base	763.3	-	763.3	-	763.3
Rate of Return	9.12%	-	9.50%	-	11.03%

Rate of Return

Any rate of return determination necessarily requires the weighing of a number of economic intangibles which are difficult to measure by statistical comparisons. It devolves upon the judgment of the Commission after weighing the evidence presented by all of the experts, to determine and set a fair and reasonable rate of return. (Pac. Tele. & Tel. Co. (1968) 69 CPUC 53.) It was the testimony of applicant's rate of return witness that an 11.03 percent rate of return on rate base or approximately 16 percent rate of return on common stock equity is needed to enable applicant to sell its shares at a price which would not be punitively dilutive to the present stockholders and destructive to the market for applicant's common stock.

The staff's original analysis of the results of operation shows estimated rate of return as follows:

ESTIMATED RATE OF RETURN

	Estimated Year 1978		Test Year 1979	
	Present Rates	Proposed Rates	Present Rates	Proposed Rates
Staff	7.48%	10.65%	8.81%	13.34%
Utility	6.42	10.71	5.21	11.05

The staff's financial witness recommended a rate of return of 9.50 percent on rate base, or approximately 12.21 percent return on common stock equity. We have considered the arguments advanced by applicant and staff and adopt as reasonable a rate of return of 9.50 percent on rate base. Such rate of return will provide a return on equity of approximately 12.21 percent, an after-tax interest coverage of 2.53 times, and a combined coverage of 2.00 times. This return on capital is reasonable and adequate to attract capital at a reasonable cost and to maintain the credit of applicant.

Rate Design

Applicant and the staff (with some minor differences) have proposed a new rate design for residential gas rates which will aid in reducing the effects of declining sales on revenue, promote conservation, and not disadvantage applicant's ratepayers.

Simply stated, applicant's revenue requirement is divided into two components: one, the energy rate revenue consisting of the cost of purchased energy and related uncollectibles and franchise fees; the other, basic rate revenue consisting of revenue required for a return on rate base and all other expenses. For applicant, which purchases its total energy requirement, the former component generally represents two-thirds of the total revenue requirement. Both applicant and the staff recommend that this component be collected subject to adjustment through the ECAC balancing account.

Applicant and the staff differ slightly with respect to the collection of basic rate revenue. First, applicant proposes higher monthly service charges than the staff. It is apparent that even the higher charge does not cover the fixed costs of service, and, in any event, the amount chosen will be reflected in an adjustment to the commodity charge portion of the basic rate.

For residential sales, applicant proposes that the commodity charge portion of the basic revenue be collected by a uniform price per therm through the lifeline usage block. Because of the effects of the gas supply adjustment mechanism, the staff suggested that the commodity charge portion of the basic rate be spread uniformly over all sales. For nonresidential sales, the basic rate is spread uniformly over all sales. The staff also recommended "...the utility should be consistent in its application of this concept throughout its California Divisions."[1/] We agree and will adopt the basic rate and energy rate format authorized for the South Tahoe Division. This will modify the staff's energy rate proposal by establishing two energy rates, one for lifeline sales and one for all other sales. This also is consistent with the energy rates by which the utility purchases its gas under PG&E Schedule G-62.

1/ Exhibit 13, page 7, paragraph 22A.

Even with an upward trend in rate of return of the magnitude shown above, the staff's position was that "No allowance is recommended for attrition in rate of return." Normally, we would consider such upward trend in our authorized rates. However, as we have only one agreed-upon test year, at the staff's recommended rate of return, which requires only a $6,000 gross revenue increase, we will not attempt to adjust rates for such an insignificant sum. We will spread it in accordance with our adopted rate design as shown in Table 1.

TABLE 1

CP National
Needles District - Gas Department
Adopted Sales
Estimated Year 1979

Classification (Sch.No.)	Volume (Therms)	Basic Rate ($/th)	Energy 1/ Rate ($/th)	Commodity Rate ($/th)	Sales 2/ Revenue $
Residential (210, 221, 224)					
Cust. Charge	12,312	3/	0	3/	18,492
Tier I	440,069	.19510	.14316	.33826	148,858
Tier II	139,838	.22953	.19887	.42840	59,907
Tier III	60,240	.31711	.19887	.51598	31,083
Total Residential	640,147	-	-	-	258,340
Non-residential (220)					
Cust. Charge	1,332	2.00	0	2.00	2,664
Commodity Charge	399,822	.31711	.19887	.51598	206,300
Total Non-residential	399,822	-	-	-	208,964
Total Sales	1,039,969	-	-	-	467,304
Sch.221 Lifeline Discount	2,673				
Sch.270 Discount	2,737				
Total Volume	1,045,379				

1/ Energy rates based on PG&E Schedule G-62, effective July 12, 1977

2/ Revenue at basic rates is $285,000 and at energy rates is $182,302

3/ Schedule 210: $1.50/Mo.
Schedules 211,224: $2.00/Mo.

Current Energy Rates based on PG&E Schedule G-62, effective Sept.11,1978

Sales	1,045,379th
Co. Use	9,200
Subtotal	1,054,579
Lost & Unacc. For @ 2.35%	24,783
Purchases	1,079,362th

Cost of Gas:	Units	Lifeline		Nonlifeline
First 38.8%	(therms)	418,792	Excess:	660,570
Price	($/therm)	0.1548		0.19569
Cost	($)	64,829		129,267
Fran. Fee & Uncol. @ 2.39% 4/	($)	1,549		3,089
Cost of Gas	($)	66,378		132,356
Sales	(therms)	440,069		599,900
Energy Rate	($/therm)	0.15084		0.22063

4/ $\frac{1}{1 - 0.0233} = 1.0239$

Findings of Fact

1. Applicant is in need of additional revenues, but the proposed rates set forth in the application are excessive.

2. The staff's estimates of operating expense and rate base for the test year 1979 reasonably indicate the results of applicant's operations for the future and are adopted.

3. A rate of return of 9.50 percent on the adopted rate base for the year 1979 will produce a return on common equity of approximately 12.21 percent. Such rate of return requires an increase in gross revenues of $6,000 which amount is reasonable.

4. The basic and energy rate formats should be consistent for the utility's California operations and it is reasonable to adopt the South Tahoe Division format for the Needles District.

5. The increases in rates and charges authorized herein are justified; the rates and charges authorized herein are reasonable; and the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.

6. The rate increase authorized herein is consistent with the President's Wage and Price Guidelines.

Conclusion of Law

The application should be granted to the extent set forth in the order which follows, which should be effective the date of signature because there is an immediate need for the rate increase authorized.

O R D E R

IT IS ORDERED that after the effective date of this order, CP National Corporation is authorized to file the revised rate schedule attached to this order as Appendix A, and concurrently to withdraw and cancel its presently effective schedules. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedule shall be five days after the date of filing.

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The revised schedule shall apply only to service rendered on and after the effective date thereof.

The effective date of this order is the date hereof.

Dated AUG 14 1979, at San Francisco, California.

John E. Bryson
President

Vernon L. Sturgeon

Claire T. Dedrick

Leonard M. Grimes, Jr.

Commissioners

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

APPENDIX A

CP National, Needles District -- Gas

1. Applicant's rates and charges are changed to the level or extent set forth in this appendix.

				Per Meter, Per Month
Customer Charge				
Schedule GN-210				$1.50
All other schedules				2.00
Commodity Charge				
Schedules GN-210, GSN-221 (Residential)				
	Basic & Summer	Winter		
First	26	81	therms per therm	$0.34594
Next	30	39	therms per therm	0.45016
Over	56	120	therms per therm	0.53774

1/ 10% discount for lifeline on Schedule GSN-221

Schedule GMN-224 (Residential)				
	Basic & Summer	Winter		
First	21	54	therms per therm	$0.34594
Next	24	26	therms per therm	0.45016
Over	45	80	therms per therm	0.53774
Schedule GN-220 (Commercial)				
All deliveries, per therm			. . . .	$0.53774

2. Applicant's tariff schedules are revised to the extent that they shall show the entire commodity rate in effect. The Purchased Gas Adjustment Clause Section shall be revised to reflect the energy rates authorized and note that they are included in the authorized commodity rates above.

3. The above commodity rates include energy rates of 15.084¢/therm for lifeline sales and 22.063¢/therm for non-lifeline sales based on PG&E Schedule G-62 effective Sept. 11, 1978.