

Decision No. 92507      DEC 16 1980

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHWEST GAS  
CORPORATION for Authority to  
Increase Natural Gas Rates  
in San Bernardino County,  
California.

Application No. 59359  
(Filed December 31, 1979)

(Appearances are listed in Appendix C.)

O P I N I O N

By this application Southwest Gas Corporation (Southwest) requests increases in its natural gas rates for service in San Bernardino County, California. Southwest, a California corporation subject to the jurisdiction of this Commission, distributes and sells natural gas in portions of San Bernardino and Placer Counties. Southwest also operates intrastate in parts of Nevada and Arizona and is subject to the jurisdiction of the Federal Energy Regulatory Commission (FERC) with respect to interstate transmission facilities and sales of natural gas for resale on its northern Nevada system.

This proceeding is being processed under the Commission's Regulatory Lag Plan procedure. Southwest filed its Notice of Intention (NOI) November 1, 1979 and this application on December 31, 1979. Under the NOI procedure increases authorized by this decision will take effect January 1, 1981.

Southwest was last authorized a general rate increase on December 12, 1978 by Decision No. 89706 in Application No. 57246. The rates in that decision were designed to produce a 10.12 percent overall rate of return and a 13.3 percent return on common equity. Southwest contends that without the rate relief it requests it would earn a rate of return of 9.32 percent on its southern California operations for the test year ending December 31, 1981.

Southwest's estimate of the annual effect of the proposed increase based on the test year 1981, is shown in Table 1 by rate classification, the total being \$1,183,300, a 6.4 percent overall increase. This would produce an overall return of 12.09 percent and a return on equity of 15.7 percent. Southwest maintains the increase requested is consistent with the intent of the voluntary federal wage-price guidelines.

Properly noticed public hearings were held before Administrative Law Judge Albert C. Porter as follows: prehearing conferences were held on January 7 and March 14 in San Francisco; public witness testimony was heard in Victorville on February 5 and 6; and evidentiary hearings were held March 18 and 19 in San Francisco. The matter was submitted on receipt of concurrent briefs due June 30. Only five persons appeared to make statements at the public witness hearings in Victorville; all objected to the proposed increase. The only other party to participate in the proceeding besides applicant was the staff and it also made a complete showing.

A summary of operating results and rate of return as estimated by Southwest for 1981 under present rates is shown in Table 2.

In support of its application Southwest called three witnesses who sponsored four exhibits; the staff called four witnesses who sponsored eight exhibits. As a result of the hearings there are only four issues to be resolved: rate of return, rate design, pension costs associated with administrative and general expense, and conservation.

#### Rate of Return

Southwest proposes a return on equity of 15.7 percent and the staff proposes 13.5 percent. A summary of Southwest's requested and the staff's recommended rate of return and capitalization ratios is shown in Table 3.

TABLE 1

Southwest Gas Corporation  
SOUTHERN CALIFORNIA  
DEVELOPMENT OF THE PROPOSED RATES  
For the Test Year 1981

Description (1)	Annual No. of Bills (b)	Commodity Sales Volumes Test Year 1981 (c)	July 3 Rates By Tier (d)	Present Revenues (e)	Proposed Rates (f)	Proposed Revenues (g)
G-1 Residential Gas Service	394,752		\$ 3.50	\$ 1,381,632	\$3.80	\$ 1,500,058
Tier I		21,652,622	27.07c	5,861,361	.2877	6,229,459
Tier II		7,576,011	36.31c	2,750,850	.3859	2,923,583
Tier III		<u>3,875,893</u>	39.59c	1,536,466	.4207	1,630,588
Total G-1		<u>33,104,526</u>		<u>\$11,528,309</u>		<u>\$12,283,688</u>
G-3 General Gas Service	101,118		\$ 3.50	\$ 353,913	\$3.80	\$ 384,248
Tier II		<u>17,380,566</u>	36.31c	6,310,884	.3859	6,707,160
Total G-3		<u>17,380,566</u>		<u>\$ 6,664,797</u>		<u>\$ 7,091,408</u>
G-5 Street and Outdoor Lighting Gas Service		<u>11,640</u>	30.70c	\$ 3,574	\$ .3859	\$ 4,492
Sub-total		50,496,732		\$18,196,680		\$19,379,588
Under Recovery		-		-		392
Other Operating Revenues		-		171,528		171,528
Total		<u>50,496,732</u>		<u>\$18,368,208</u>		<u>\$19,551,508</u>

Source: Exhibit 1, Chapter 15, Page 16.

TABLE 2  
Southwest Gas Corporation  
SOUTHERN CALIFORNIA

TEST YEAR 1981  
AT PROPOSED RATES

Operating Revenues	<u>\$19,551.5</u>
<u>Operating Expenses</u>	
Cost of Purchased Gas	\$10,473.8
Operation and Maintenance Expenses	3,660.9
Depreciation and Amortization Expense	1,093.5
Taxes Other than Income	448.9
State Income Taxes	101.4
Federal Income Taxes	<u>1,029.9</u>
Total Operating Expenses	<u>\$16,808.4</u>
Net Income	<u>\$ 2,743.1</u>
Rate Base	<u>\$22,689.0</u>
Rate of Return	<u>12.09%</u>

Source: Exhibit 1, Part A.

TABLE 3

Southwest's Requested Rate of Return

Component	Capitalization Ratios		Weighted
	(a)	(b)	Cost
Long-Term Debt	46.34%	9.50%	4.41%
Short-Term Debt	3.18	11.01	.35
Preferred Stock	10.70	9.77	1.05
Common Equity	<u>39.78</u>	15.70	<u>6.25</u>
Total	<u>100.00%</u>		<u>12.06%</u>

Staff's Recommended Rate of Return

Long-Term Debt	46.56%	9.83%	4.58%
Short-Term Debt	3.17	13.53	.43
Preferred Stock	10.96	9.94	1.09
Common Equity	<u>39.31</u>	13.50	<u>5.31</u>
Total	<u>100.00%</u>		<u>11.41%</u>

We must say at the outset of this discussion that the 15.7 percent on equity requested by Southwest seems too high compared to what we have authorized Southwest in the past and other gas companies recently. Likewise, the staff's recommendation of 13.5 percent, which is only .2 percentage points above what the Commission authorized Southwest to earn in a previous case over two years ago in a relatively stable economic and financial period, seems unduly low considering the volatile interest rates characterizing today's money market.

Exhibit 9 by Edwin Quan, the rate of return witness for the staff, shows that the Class Baa bond market distributed monthly average interest rate during 1978 was approaching 10 percent, whereas by late 1979 and January and February 1980 it was between 12.5 and 13 percent. (See Appendix A). Also, as can be noted in Table 3, the staff's estimate for short-term debt cost of money is 13.53 percent and its common equity estimate is 13.50 percent, an unusual situation. Witness Quan stated that his estimates for common equity and short-term debt costs are based partly on his estimate that the prime rate in 1981 will settle at 11 percent.

Southwest presented an exhibit which compared return on common equity of Southwest for the five years 1974 through 1978 with 29 other gas companies. (See Appendix B). The staff claims that the 29 companies do not have operations comparable to Southwest's. Witness Maffie for Southwest conceded he was not familiar with the specific activities of the 29 companies. He said he tried to select companies that Southwest competes with in the capital market. The staff further claims that Southwest's recommendation is erroneously based on comparisons with financially stronger gas companies. If they are financially stronger, then their rates of return should correspondingly be lower than Southwest's; this is not evident from Appendix B.

Staff claims its rate of return study is superior to Southwest's because staff matched Southwest's financial profile with data drawn from similar gas companies whose operations involve equivalent risks and uncertainties. Appendix A (Witness Quan) shows the prime interest rates which were in effect during 1978, the last year for which rates were set. These varied from 7.75 to 11.75 percent. For January and February 1980 the range is 15.25 to 16.50 percent.

We cannot accept the staff's estimate of 13.5 percent nor the Southwest estimate of 15.70 percent in view of the above discussion and rates of return we have recently granted other gas utilities. We recently authorized Pacific Gas and Electric Company,<sup>1/</sup> an A-rated company, 14.1 percent and San Diego Gas & Electric Company, a Baa-rated company, 14.5 percent. Earlier this month we authorized a 14.6 percent return on equity for Southern California Gas Company, based in part on the risks associated with that utility's large-scale ongoing projects intended to augment its gas supply. The record does not show that Southwest is engaged in gas supply projects of comparable risk, even taking account of the lesser scale of its operations. Accordingly, we will adopt a rate of return on common equity of 14.30 percent and use the staff's recommended capitalization ratios and cost for other debt and stock. The adopted rate of return detail is shown in Table 4.

TABLE 4  
Adopted Rate of Return

Component	Capitalization Ratios	Cost	Weighted Cost
Long-Term Debt	46.56%	9.83%	4.58%
Short-Term Debt	3.17	13.53	.43
Preferred Stock	10.96	9.94	1.09
Common Equity	<u>39.31</u>	14.30	<u>5.62</u>
Total	<u>100.00%</u>		<u>11.72%</u>

<sup>1/</sup> Decision No. 91107 (p.9, mimeo) dated December 19, 1979, authorizing a 14.1% return on common equity for the test year 1980, includes a 50 basis point attrition allowance.

Rate Design

Southwest proposes to retain about the same rate design and tariff schedules as recommended by the staff and adopted by the Commission in Southwest's Application No. 57246, Decision No. 89706, supra.

Southwest proposes an increase in the customer charge from \$3.50 to \$3.80 a month. Southwest believes certain costs are totally customer-related and not part of demand or commodity expenses and should be recovered through a monthly customer charge. The Southwest rate design witness presented detailed calculations used to develop the proposed customer charge of \$3.80. The witness used FERC account numbers and estimates for the rate year 1981 for the accounts Southwest maintains are necessary to serve a customer regardless of the amount of gas used. The accounts comprise such things as customer meter and house regulator expenses, installation expenses, meter reading, billing, and accounting, and customer service and informational expenses. The total estimated cost per customer for such accounts, amounted to \$3.77 for 1981 which Southwest rounded to \$3.80.

The staff recommends no increase in the \$3.50 customer charge. It made this recommendation primarily because an increase in the customer charge affects the lifeline user more than customers using above the lifeline allowance. Staff maintains that one purpose of the rate is to protect customers from high prices for minimum essential lifeline/energy use and believes retention of the current customer charge is preferable because it would keep lifeline rates as low as reasonably possible. The staff further contends that if the customer charge is increased, a higher percentage of lifeline charges becomes fixed and lifeline users will have less incentive to conserve. The final point made by the staff is that the intent of an inverted rate structure is to price consumption of larger above-lifeline volumes of gas at higher rates. An increase in fixed charges such as the customer charge has the opposite effect, allocating a larger percentage



increase to small consumers compared to large consumers. The comparison on Table 5 also shows the rate design proposed by Southwest and, for comparative purposes, the staff's rates which would produce revenue equivalent to that requested by Southwest of approximately \$19,552,000. We agree with the staff position on the customer charge and will adopt its recommendation of no increase.

In addition to the customer charge there is one major exception in the staff proposal; that involves a shifting within the tiers of maximum usage. This proposal is shown in Table 6 which is reproduced from staff Exhibit 4. The present Tier II block for winter is equal to the Tier I (lifeline) usage block for winter. However, the present Tier II usage block for summer is almost four times as large as the Tier I usage block. The staff proposes reducing the Tier II usage block for summer to the size of the Tier I usage block. Staff claims this proposal has the following advantages: (1) it would be consistent with the winter usage block,

TABLE 5  
 Southwest Gas Corporation  
Present and Proposed Rates

	At Southwest Proposed Rates (1)			
	Present: Rates:	Southwest (2)	Staff: (3)	Southwest at Customer Charge of \$3.50 (4)
Customer Charge	\$ 3.50	\$ 3.80	\$ 3.50	
G-1 Residential				
Tier I	.2702	.2877	.2878	
Tier II	.3631	.3859	.3838	
Tier III	.3959	.4207	.4425	
G-3 General Service	.3631	.3859	.3838	
G-5 Street & Outdoor Lighting Service	.3070	.3859	.3838	
Tier I Cost For 66 Therms (2)	\$21.33	\$22.79	\$22.49	\$22.49
% increase		6.8	5.54	5.4
¢ per Therm	.3232	.3453	.3408	.3408
Tier II Cost for 169 Therms (3)	\$58.73	\$62.54	\$62.02	\$62.24
% increase		6.5	5.6	6.0
¢ per Therm	.3475	.3701	.3670	.3683

- (1) Cents Per Therm Except for Customer Charge.  
 (2) Average for maximum lifeline allowance residential service for summer (26 therms) and winter (106 therms) for Victorville.  
 (3) Average for maximum Tier II allowance for summer (126 therms) and winter (212 therms) for Victorville.

TABLE 6

Southwest Gas Corporation  
STAFF PROPOSED RESIDENTIAL BLOCKS<sup>1/</sup>

Item	Summer		Winter		
	(All)		Barstow	Victorville	Eig Bear
<u>Schedules G-1, G3</u>					
<u>General Service</u>					
Tier I First	26	81	106		141
Tier II Next	26 (100)	81	106		141
Tier III Over	52 (126)	162	212		282
<u>Space Heating Only</u>					
Tier I First	-	55	80		115
Tier II Next	52 (126)	55	80		115
Tier III Over	52 (126)	110	160		230
<u>Secondary Homes (Schedule G-1N)<sup>2/</sup></u>					
Tier II First	52	162 (All)	212 (All)		282 (All)
Tier III Over	52	162	212		282
<u>Schedule GM</u>					
Tier I First	21	54	69		90
Tier II Next	21 (100)	54	69		90
Tier III Over	42 (121)	108	138		180

<sup>1/</sup> Present usage blocks are shown in parentheses only where they differ from staff proposed blocks.

<sup>2/</sup> Staff is proposing a new residential Schedule G-1N for secondary homes to be included within Schedule G-1; presently, secondary homes are included in nonresidential Schedule G-3.

(2) it would shift about 2.1 million therms from the Tier II usage block to the Tier III usage block resulting in about 15 percent of residential usage being subject to Tier III, the highest rate in the system, thereby promoting conservation, and (3) Tier II usage thus trimmed could be properly considered an essential block to take care of the requirements of nonaverage conditions such as colder than normal weather, large families, and the increased heating needs of the elderly. Southwest does not oppose the staff proposal; we will adopt it.

We are concerned, however, about such a drastic reduction in the entry level of Tier III usage during the summer season, which this year's experience has demonstrated to be a time of very burdensome bills for electric air-conditioning for many residents of Southwest's desert service area. Therefore we will limit the summer Tier II allowance only to twice the lifeline allowance, or 52 therms per month. Tier III therefore will begin at 78 therms during summer months.

The staff had one other recommendation on rate design, and this involves secondary homes. By Commission Decision No. 89706 in Southwest's general rate increase Application No. 57246, we eliminated lifeline allowances for second homes. Presently, all secondary home usage is included in nonresidential schedule G-3 and is charged the single rate applicable to that schedule. The staff maintains that secondary home usage is strictly residential and should be included with other residential customers. The staff also believes that secondary home usage should be divided into two levels, corresponding to Tiers II and III on the same basis as primary homes. The staff claims this proposal has the following advantages: (1) it is consistent with the staff rate design proposal based on residential and nonresidential priorities, (2) it differentiates more essential use (Tier II) from luxury and non-essential use (Tier III), and (3) it can exploit conservation potential of Tier III usage which is charged the highest rate in the system. Southwest does not oppose this proposal; we will adopt it.

The staff has other proposals which we will adopt such as three different rate schedules GN-1, GN-2, and GN-3 for non-residential priorities P-1, P-2, and P-2, respectively. See Table 7.

TABLE 7

Southwest Gas Corporation  
 COMPARISON OF PRESENT AND STAFF PROPOSED SCHEDULES

Category	CPUC Priority	Presently Applicable Schedule	Corresponding Proposed Schedule
Single-Family, Primary Residence	P1	G-1	G-1
Multi-Family, Master Metered	P1	GM	GM
Multi-Family, Submetered	P1	GS	GS
Single-Family, Secondary Homes	P1	G-3	G-1N
Commercial and Industrial	P1	G-3	GN-1
	P2	G-3	GN-2
	P3	G-3	GN-3
Street and Outdoor Lighting Gas Service	P1	G-5	G-5

Residential customers would be served under G-1, GM, and GS schedules as before but a new schedule G-1N would be added to G-1 to serve secondary homes. The staff believes the proposed schedules are consistent with other gas utilities and would allow more flexibility in setting rates based on various rate design considerations. We will adopt the proposal.

In summary, we are adopting most elements of the staff rate design. Table 8 shows the end result based on present rates, Southwest proposed rates, and the June 19, 1979 cost of gas. This table is included for comparative purposes only and does not represent the rates which we will be adopting herein as a result of certain expense adjustments discussed later.

#### Revenue Estimates

The revenue estimates by Southwest and the staff measured on the basis of the effective increase from present to proposed rates, are very similar. On the basis of absolute revenues, the staff estimate is greater than Southwest's because it had the use of more recent data. A comparison of the estimates is shown in Table 9.

#### Expense Estimates

Table 10 is a comparison of the expense estimates made by Southwest and the staff for their summary of earnings at the rates proposed by Southwest in this application. It will be noted there are few differences.

The difference in the cost of gas<sup>2/</sup> reflects the difference in the estimates of volume to be sold during the rate year as reflected in and offset by the estimates of revenues, the staff estimate being approximately \$253,000 greater than Southwest.

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<sup>2/</sup> Pacific Gas and Electric Company is Southwest's sole source of supply for its Southern California Division.

TABLE

Southwest Gas Corporation  
Staff RATE DESIGN AT 6-19-79 COST OF GAS

A-59359./AJJ/rr/mh

Class/Schedule	Sales (Therms) (A)	Present Rates		Proposed Rates			
		Rate (B)	Revenue (C)	Rate (D)	Revenue (E)	Increase	
						\$ (F)	% (G)
<b>Residential</b>							
<u>Customer Months</u>							
GS	576	\$3.50	\$ 2,016	\$3.50	\$ 2,016	\$ -	-%
GM, G-1	394,176	3.50	1,379,616	3.50	1,379,616	-	-
G-1N	67,854	3.50	237,489	3.50	237,489	-	-
Subtotal	462,606	-	1,619,121	-	1,619,121	-	-
<u>Commodity</u>							
<u>Tier I (Lifeline)</u>							
GS	1,000,346	.2436	243,684	.2590	259,090	15,406	6.3
GM, G-1	20,598,286	.2707	5,575,956	.2878	5,928,187	352,231	6.3
Tier II	9,870,900	.3631	3,584,124	.3838	3,788,451	204,327	5.7
Tier III	5,926,823	.3959	2,346,429	.4425	2,622,619	276,190	11.8
Subtotal	37,396,355	.3142	11,750,193	.3369	12,598,347	848,154	7.2
<u>Nonresidential</u>							
<u>Customer Months</u>							
GN-1	33,180	3.50	116,130	3.50	116,130	-	-
GN-2	72	3.50	252	3.50	252	-	-
GN-3	12	3.50	42	3.50	42	-	-
Subtotal	33,264	-	116,424	-	116,424	-	-
<u>Commodity</u>							
GN-1	11,045,076	.3631	4,010,467	.3838	4,239,100	228,633	5.7
GN-2	925,302	.3631	335,977	.3838	355,131	19,154	5.7
GN-3	1,129,986	.3631	410,298	.4000	451,994	41,696	10.2
Subtotal	13,100,364	.3631	4,756,742	.3852	5,046,225	289,483	6.1
Total Sales	50,496,719	.3613	18,242,480	.3838	19,380,117	1,137,637	6.2
Other Operating Revenue	-	-	171,528	-	171,528	-	-
Total Operating Revenue	-	-	18,414,008	-	19,551,645	1,137,637	-

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TABLE 9

Southwest Gas Corporation  
 Estimated Total Revenue in Thousands of Dollars

Item	Staff	Utility	Utility Exceeds Staff	
			Amount	Percent
Present Rates	\$18,791	\$18,368	\$(423)	(2.3)%
Proposed Rates	<u>20,002</u>	<u>19,552</u>	<u>(450)</u>	<u>(2.2)</u>
Increase in Revenues	\$ 1,211	\$ 1,184	\$ <u>(27)</u>	<u>(2.2)</u> %

(Red Figure)



TABLE 10

## SOUTHWEST GAS CORPORATION

Summary of Earnings  
Summary of Earnings at Proposed Rates

<u>Item</u>	<u>Staff</u>	<u>Utility</u>	<u>Util. Exceeds Staff</u>	
			<u>Amount</u>	<u>Pct.</u>
	(Thousands of Dollars)			
Operating Revenues	\$20,002	\$19,552	\$(450)	(2.2)%
<u>Operating Expenses</u>				
Cost of Gas	10,720	10,467	(253)	(2.4)
Trans./Distb.	1,439	1,439	-	-
Cust. Accts.	849	849	-	-
Uncollectibles	35	30	(5)	(14.3)
Cust. Service	456	456	-	-
A and G	681	894	213	31.3
Franchises	187	183	(4)	(2.1)
Subtotal	14,367	14,318	(49)	(0.3)
Deprec. and Amort.	1,165	1,094	(71)	(6.1)
Taxes Other Than on Income	265	265	-	-
Cal. Corp. Fran. Tax	108	101	(7)	(6.5)
Fed. Corp. Income Tax	1,167	1,030	(137)	(11.8)
Total Operating Exp.	17,072	16,808	(264)	(1.6)
Net Operating Rev. Adjusted	2,929	2,744	(185)	(6.3)
Rate Base	22,423	22,689	266	1.2
Rate of Return	13.06%	12.09%	(0.97)%	

(Red Figure)

The staff's lesser estimate for administrative and general expenses results from the staff opinion that Southwest used an incorrect method for estimating the total cost of insurance and pensions for administrative and general expense. The staff believes Southwest double counted because the expense was included in other estimates for operations, maintenance, and customer accounts expense. Southwest made no reply to the staff position.

The difference between the staff and Southwest depreciation estimates is due to different plant estimates by the staff and the utility. The higher plant estimate by the staff are offset by a lower working cash allowance resulting in a lower rate base.

The difference in taxes on income are due to the different taxable income resulting from the differences in estimates for expenses, revenues, and deductions.

We will adopt the staff estimates for revenues and expenses.

#### Other Staff Recommendations

A financial examiner for the staff made four recommendations which we will adopt for this proceeding. They are:

1. Charges for social and charitable purposes should be deleted from utility-related operating expenses and be classified as nonutility.

2. Dues and donations for nonutility purposes should be classified as nonutility.

3. All future California filings by Southwest should adjust the expense totals for subsidiary operations through either a direct or an allocation method. (No expenses were allocated to subsidiary operations in the results presented in this proceeding.)

4. Southwest should change its accounting procedures beginning in 1980 to capitalize administrative and general expenses in compliance with the Uniform System of Accounts. A study should be made by Southwest to determine the appropriate amount of administrative and general expenses to be capitalized and should be submitted to the financial analysis staff of the Commission for approval.

Conservation

An analysis of Southwest's proposed 1981 conservation programs was provided Southwest personnel by the staff's Energy Conservation Branch during meetings with Southwest on this application. Out of these meetings came specific comments and recommendations from the staff regarding Southwest's 1981 conservation program. Southwest, through a late-filed exhibit, provided information in response to requests from the staff during further meetings with staff. By its own late-filed exhibit in response to Southwest's revised conservation plan, the staff accepted Southwest's proposals as substantially meeting the requirements set forth by the staff. The staff recommended that \$228,017 related to the residential conservation service program be adopted for the purpose of this proceeding and be included in the expenses used for estimated results of operations.

As a result of the cooperation of Southwest in planning for a conservation program for 1981, in which it has essentially committed itself to meet the recommendations of the Energy Conservation Branch staff, the staff recommends that no rate of return adjustment either positive or negative, be made for conservation issues in this proceeding. We will adopt the conservation plans and measures contemplated and agreed to as shown in Exhibits 8, 10, and 11 and the \$228,017 noted above.

Final Results of Operations

Based on the foregoing discussion and estimates presented by Southwest and the staff, Table 11 contains the estimated results of operations and rate design for the year 1981 for purposes of this proceeding.

TABLE 11  
Page 1 of 3

Summary Of Earnings At Adopted 11.72% Rate of Return

<u>Item</u>	<u>Amount</u>
Operating Revenues	\$19,440
<u>Operating Expenses</u>	
Cost of Gas	10,720
Trans./Distb.	1,439
Cust. Accts.	849
Uncollectibles	34
Cust. Service	456
A and G	681
Franchises	182
Subtotal	14,361
Deprec. and Amort.	1,165
Taxes Other Than on Income	265
Cal. Corp. Fran. Tax	101
Fed. Corp. Income Tax	919
Total Operating Expenses	16,811
Net Operating Revenues Adjusted	2,628
Rate Base	22,423
Rate of Return	11.72%

Southwest Gas Corporation  
AUTHORIZED RATE DESIGN

Line:	Classification	Sales	Present Rates <sup>1/</sup>	Authorized Rates	Increase			
No.:		(Mth)	Rate (\$/th)	Revenue (M\$)	Rate (\$/th)	Revenue (M\$)	Amount (M\$)	% (G)
		(A)	(B)	(C)	(D)	(E)	(F)	(G)
<u>Residential</u>								
1	Customer Months (1,000's)	480.9	\$3.50	\$ 1,683	\$3.50	\$ 1,683	\$ -	-
2	Tier I (Lifeline) <sup>2/</sup>	22,473.6	.2707	6,084	.2780	6,248	164	2.7
3	Tier II	10,337.4	.3631	3,754	.3725	3,851	97	2.6
4	Tier III	5,708.1	.3959	2,260	.4325	2,469	209	9.2
5	Subtotal	38,519.1	.3578	13,781	.3700	14,251	470	3.4
<u>Nonresidential</u>								
6	Customer Months (1,000's)	33.3	3.50	117	3.50	117	-	-
7	GN-1	11,045.1	.3631	4,010	.3725	4,114	104	2.6
8	GN-2	925.3	.3631	336	.3725	345	9	2.7
9	GN-3	1,130.0	.3631	410	.3900	441	31	7.6
10	Subtotal	13,100.4	.3720	4,873	---	5,017	144	3.0
11	GS Lifeline Discount	100.0	-	-	-	-	-	-
12	Total Sales	51,719.5		18,654	.3725	19,268	614	3.3
13	Other Operating Revenue	-	-	172		172	-	-
14	Total Revenue			18,826		19,440	614	3.3

<sup>1/</sup> Present rates effective June 19, 1979 with revised residential blocking.

<sup>2/</sup> 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.

TABLE 11  
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So there will be no misunderstanding of the appropriate gas margin for the test year, the following summary sets forth our adopted results:

Southwest Gas Corporation  
Southern California Operations  
SUMMARY OF ESTIMATES GAS MARGIN  
Test Year 1981

:Line:		: Gas Margin :
: No.:	Item	: (\$000) :
1	Authorized Revenue	\$19,440
2	Less Miscellaneous Revenue	<u>172</u>
3	Revenue from Sales	19,268
4	Cost of Gas	10,720
5	Plus Franchise Requirements and Uncollectibles at 1.124%	<u>120</u>
6	Total (L4 + L5)	10,840
7	Gas Margin (L3 - L6)	8,428

Findings of Fact

1. By this application Southwest requests rate increases of 6.4 percent or \$1,183,300 for gas service in San Bernardino County.

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

3. A rate of return on common equity of 14.3 percent, and an overall rate of return of 11.72 percent for the test year 1981, is reasonable.

4. Based on the rates of return found to be reasonable in Finding 3, an increase in rates of 3.3 percent or \$607,000 for the rate year 1981 is required.

5. The present customer charge of \$3.50 is reasonable and should be continued.

6. The staff proposal for changing the Tier II and Tier III usages for the summer period, as modified herein is reasonable and should be adopted.

7. The staff proposal involving secondary homes being applicable to Tiers II and III is reasonable and should be adopted.

8. The overall rate design proposed by the staff is reasonable and should be adopted.

9. The rate design adopted herein will contribute to conservation and reflects policies adopted by this Commission.

10. The rates and rate designs shown on Table II will produce estimated additional annual revenues of \$607,000 over present rates for the test year 1981.

11. The four recommendations of a staff financial examiner, as set out in this opinion, are reasonable and should be adopted.

12. The conservation program worked out between Southwest and the Commission staff and embodied in Exhibits 8, 10, and 11, is reasonable.

13. The results of operations contained in Table 11 reasonably reflect estimates for the 1981 operations of Southwest for purposes of this proceeding.

14. The rate increases authorized by this decision comply with the voluntary wage-price guidelines as issued by the Federal Council on Wage and Price Stability.

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.

16. Because this application has been processed under the Commission's NOI procedure based on a test year 1981, the rate relief authorized should be effective January 1, 1981 with this decision effective the date of signature.

Conclusion of Law

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

ORDER

IT IS ORDERED that:

1. After the effective date of this order Southwest 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 No. 96-A.



2. The effective date of the revised schedules authorized by Ordering Paragraph 1 shall not be earlier than January 1, 1981. The revised schedules shall apply only to service rendered on and after such effective date.

3. Southwest shall change its accounting procedures at an appropriate date to accomplish the following:

- (a) Delete charges for social and charitable purposes from utility-related expenses and classify those charges as nonutility.
- (b) Classify as nonutility expenses, dues and donations for nonutility purposes.
- (c) Beginning in 1980, capitalize administrative and general expenses in compliance with the Uniform System of Accounts.

4. Southwest shall perform a study to determine the appropriate amount of administrative and general expenses to be capitalized and submit such study to the financial analysis staff of the Commission for approval.

4a. Southwest shall implement the conservation program set out in Exhibits 8, 10, and 11 received in this proceeding. If expense allowed for the program is not spent each year the unspent portion shall be carried forward. Southwest shall give an accounting of how allowed conservation funds were spent, and when, in its next general rate proceeding. Any unspent funds will be considered and a disposition made in the next general rate proceeding.

5. All future California filings by Southwest shall adjust the expense totals for subsidiary operations through either a direct or an allocation method.

The effective date of this order is the date hereof.

Dated DEC 16 1980, at San Francisco, California.

John E. Byron  
President

Richard A. Hovell

Clair T. Smith

Commissioners

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

Commissioner Leonard M. Crimes, Jr., being necessarily absent, did not participate.

## APPENDIX A

## SOUTHWEST GAS CORPORATION

Prime Interest Rate-Banks - Discount Rate-Federal Reserve  
Yield on Newly Issued vs. Distributed Public Utility Class Baa Bonds

Year	Month	Prime Interest Rate	Discount Rate	Class Baa Bonds		
				Newly-Issued	Distributed	
		(a)	(b)	(c)	(d)	
1977	January	6-1/4	%	5-1/4%	- %	9.17%
	February				-	9.19
	March				8.85	9.20
	April				8.85	9.17
	May	6-1/2 - 6-3/4			8.94	9.13
	June	6-3/4			8.78	9.02
	July				-	8.97
	August	6-3/4 - 7			8.59	8.91
	September	7-1/4		5-3/4	-	8.85
	October	7-1/2 - 7-3/4		6	8.98	9.01
	November				9.15	9.06
	December				9.08	9.08
1978	January	7-3/4 - 8		6-1/2	9.35	9.27
	February				9.45	9.29
	March				9.53	9.37
	April				9.42	9.54
	May	8-1/4 - 8-1/2		7	9.69	9.70
	June	8-3/4 - 9			10.00	9.78
	July			7-1/4 - 7-3/4	9.88	9.73
	August			7-3/4 - 8	-	9.53
	September	9-1/4 - 9-1/2 - 9-3/4		8-1/2	-	9.47
	October	9-3/4 - 10 - 10-1/4		9-1/2	9.75	9.69
	November	10-1/2 - 10-3/4 - 11 - 11-1/2			-	9.99
	December	11-1/2 - 11-3/4			-	10.08
1979	January	11-3/4			10.15	10.29
	February				10.50	10.27
	March				10.47	10.53
	April				10.70	10.56
	May				10.65	10.70
	June	11-3/4 - 11-1/2			-	10.56
	July	11-1/2 - 11-3/4		9-1/2 - 10	-	10.48
	August	11-3/4 - 12 - 12-1/4		10 - 10-1/2	-	10.50
	September	12-1/4 - 12-3/4 - 13			10.99	10.78
		- 13-1/4 - 13-1/2		10-1/2 - 11		
	October	13-1/2 - 14-1/2 - 15		11 - 12	-	11.89
	November	15-1/4 - 15-1/2 - 15-3/4		12	13.08	12.48
December	15-1/2 - 15-1/4			12.45	12.51	
1980	January	15-1/4			-	12.92
	February	15-1/2 - 15-3/4 - 16-1/4 - 16-1/2		12 - 13		

SOURCE: Irving Trust Company Weekly Interest Rates Listings.  
Moody's Bond Survey.

Southwest Gas CorporationCOST OF COMMON EQUITYCOMPARISON OF SELECTED FINANCIAL STATISTICS

<u>Description</u> (a)	<u>Southwest Gas Corporation</u> (b)	<u>Composite 29 Gas Companies</u> (c)
Moody's Debt Rating	Baa	Primarily A or better
Normalized (N) vs. Flow-through (F) - Depreciation	F	Substantially N
Tax Credits	N	Substantially N
Common Equity as a % of Total Capital		
1978	40.2	45.2
1977	37.1	43.6
1976	30.5	41.7
1975	33.7	40.5
1974	33.3	41.5
Average 1974 - 1978	35.0	42.5
Five-year earnings per share growth (1973 - 1978)	( 1.8%)	9.8%
1973 - 12 months 9-30-79	5.2%	
Five-year dividends per share growth (1973 - 1978)	0.6%	7.0%
1973 - 12 months 9-30-79	1.2%	
Interest Coverage before Taxes		
1978 (Times)	2.8	3.8
1977	3.2	3.9
1976	2.2	3.7
1975	2.3	3.3
1974	2.0	3.1
Average 1974 - 1978	2.5	3.6
Return on Common Equity -		
1978	10.1	14.9
1977	13.7	15.6
1976	8.1	15.9
1975	11.8	14.9
1974	12.6	14.9
Market Value to Book Value Ratio -		
1978 (year-end)	102.1%	103.1%
1977	99.0	119.0
1976	105.7	127.2
1975	95.5	115.6
1974	65.9	101.3
Average (1974 - 1978)	93.6%	113.2%

COMPOSITE 29 GAS COMPANIES

Alabama Gas  
Arkansas Louisiana Gas  
Atlanta Gas Light Co.

Bay State Gas Co.  
Brooklyn Union Gas

Columbia Gas System  
Consolidated Natural Gas

Enserch Corp.  
Entex  
Equitable Gas Co.

Gas Service Co.

Houston Natural Gas Corp.

Indiana Gas Co.

Minnesota Gas Co.  
Mountain Fuel Supply

National Fuel Gas Co.  
New Jersey Natural Gas Co.  
Northwest Natural Gas Co.

Oklahoma Natural Gas Co.

Pacific Lighting Corp.  
Piedmont Natural Gas Co.

Southern Union Co.  
Southwest Gas Corp.

UGI Corp.

Washington Gas Light Co.  
Washington Energy Co.  
Wisconsin Gas Co.

APPENDIX C

LIST OF APPEARANCES

Applicant: William A. Claerhout and Rochelle Levine Berkley,  
Attorneys at Law (Nevada), for Southwest Gas Corporation.

Commission Staff: Randolph L. Wu, Attorney at Law, Francis S. Ferraro,  
and Robert Weissman.