

ALJ/BDP/sid

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Decision 98-09-030 September 3, 1998

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southwest Gas Corporation in compliance with the provisions of Decision 94-12-022, concerning whether the rate of return authorized in that proceeding should be modified. (U 905 G)

Application 98-05-003
(Filed May 1, 1998)

OPINION

Summary

Southwest Gas Corporation (SWG) requests that its authorized rate of return adopted in Decision (D.) 94-12-022 be maintained, and further review of its rate of return and cost of capital be integrated into its next general rate case (GRC) filing.

The request is granted.

The Application

On April 30, 1998, SWG filed Application (A.) 98-05-003 pursuant to the provisions of D.94-12-022, concerning whether its authorized rate of return adopted in D.94-12-022 should be modified. SWG recommends that its authorized rate of return be maintained and that further review of its rate of return be integrated into its next GRC filing. SWG seeks Commission approval of its Application on an *ex parte* basis. Notice of the Application first appeared in the Daily Calendar on May 6, 1998.

Background

In D.94-12-022, the Commission adopted an alternative ratemaking methodology for SWG. Part of this alternative methodology required the rate

case cycle be extended from three to four years, and that SWG be exempted from the generic cost of capital proceeding for 1996, 1997, and 1998. However, to ensure that the authorized rate of return did not materially deviate from the rates of return in the marketplace, the Commission also devised and adopted a Rate of Return (ROR) Adjustment Mechanism. This mechanism tied the movement in the average 30-year Treasury Bond rate to a "bench-mark" rate of 7.49%, and required that SWG file an application concerning whether or not its rate of return should be modified if the average 30-year Treasury Bond rate deviated from the bench-mark by 150 basis points or more for three consecutive months. In other words, SWG would be required to file an application if the average 30-year Treasury Bond rate was at or above 8.99% or at or below 5.99% for three consecutive months. Such an event occurred at the end of February 1998, when the average 30-year Treasury Bond rates for December 1997, January 1998 and February 1998 were 5.99%, 5.81% and 5.89%, respectively.

SWG, in the instant Application requests that its authorized rate of return on common equity of 11.35% be maintained, and that further review of its rate of return be integrated into its next GRC filing.

Position of Office of Ratepayer Advocates (ORA)

ORA believes that the public interest requires Commission consideration of this application, but does not oppose SWG's request.

ORA also believes that interest rates are at an abnormally low level at this time, which ORA recognizes as a reflection of the relatively more favorable investment climate in the U.S. compared with the global economic and financial markets. Regardless, of the reasons for the currently lower interest rates in the U.S., ORA believes that interest rates in the U.S. are not expected to decrease much lower.

Primarily for these reasons, ORA does not object to SWG's request for *ex parte* approval maintaining its current rate of return and for an order that any further review be integrated into its next GRC.

ORA notes that the lower interest rates in the financial market only slightly increase the probability that SWG will attain its authorized return on equity of 11.35%. Lower interest rates do not mean, however, that SWG will be necessarily successful in its efforts to earn its authorized rate of return, nor does it mean that more money will indeed flow into shareholder pockets.

ORA is also aware that, back in 1994, in the consolidated cost of capital proceeding when SWG settled its last return on equity with ORA at 11.35%, the Commission granted returns on equity of around 12% and greater to the four major energy utilities. Since then, the trend of Commission authorized returns on equity has been downward. For 1998, PG&E's return on equity was lowered to 11.20%, while SWG's return has stayed at 11.35%, pursuant to the settlement in A.94-05-010, a difference of 15 basis points. ORA states that by advancing this comparison, ORA is in no way suggesting or advocating the presence or absence of a spread between the returns on equity of SWG and the large utilities. Rather, the only point that ORA seeks to advance is that it sees no compelling reason to object to the maintaining of SWG's return on equity so long as the give-and-takes, from ORA's point of view, balance out over the long-run.

ORA also recognizes that the Commission is currently exploring the restructuring of the gas industry. ORA expects this effort to go on for possibly a year or two. When completed, ORA can be expected to review the risk-reward structure under the new framework for all the gas utilities. In SWG's case, it is quite possible that the establishment of the new gas industry framework will coincide with rates that will result from SWG's 1999 GRC filing. ORA, therefore, believes that reviewing SWG's current risk-reward structure, which may be soon

rendered obsolete, would be an inefficient use of Commission resources at this time.

ORA, therefore, has no objections to SWG's request that its rate of return be maintained without modification and that further review of its rate of return and cost of capital be integrated into its next GRC.

Discussion

For the reasons set forth by ORA, we agree that SWG's request that its authorized rate of return be maintained and that further review of its rate of return be integrated into its next GRC filing, should be granted.

SB 960 Procedures

In Resolution ALJ 176-2992 dated May 7, 1998, the Commission preliminarily categorized this application as ratesetting, and preliminarily determined that evidentiary hearing was required.

The ratesetting categorization still stands. However, since no protests have been filed and this matter is addressed *ex parte*, the preliminary determination that evidentiary hearing was required, should be changed.

In light of the complete disposition of the application by this decision, there is no need to issue a separate order changing the preliminary determination that evidentiary hearing was required (see Rules 6.5 and 6.6).

Finding of Fact

Current economic conditions and pending regulatory changes support SWG's request for maintaining its authorized rate of return and deferring further review to SWG's next GRC filing.

Conclusion of Law

Since no protests have been filed to SWG's application, it should be granted *ex parte*.

O R D E R

IT IS ORDERED that:

1. The request of Southwest Gas Corporation (SWG) that its rate of return adopted in Decision 94-12-022 be maintained without modification, is granted.
2. Further review of SWG's rate of return and cost of capital shall be integrated into SWG's next general rate case filing.
3. Application 98-05-003 is closed.

This order is effective today.

Dated September 3, 1998, at San Francisco, California.

RICHARD A. BILAS
Président
P. GREGORY CONLON
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners