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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-2767
December 17, 1987.

R E S O L U T I O N

RESOLUTION G-2767, SOUTHWEST GAS CORPORATION REQUESTING REVIEW AND REVISION OF RETURN ON EQUITY AND RATE OF RETURN AND TO ADJUST GAS BASE RATE REVENUES AND GAS TARIFF RATES TO OFFSET 1988 OPERATIONAL AND FINANCIAL ATTRITION AND CERTAIN EXPENSE ADJUSTMENTS EFFECTIVE JANUARY 1, 1988, CONCURRENT WITH OTHER PENDING RATE ADJUSTMENTS; BY ADVICE LETTER 390, FILED OCTOBER 16, 1987.

SUMMARY

By Advice Letter No. 390, filed October 16, 1987, and Supplemental Advice Letter No. 390-A filed December 10, 1987 Southwest Gas Corporation (SWG) requests authorization to revise gas rates in Mojave and Sierra Divisions to compensate for operational and financial attrition. SWG requests an increase of \$641,648 for Mojave Division and a decrease of \$17,316 for Sierra Division.

Ordering Paragraph 9 of Decision (D.)87-12-068 requires that the adopted cost of capital from Ordering Paragraph 7 be used in conjunction with SWG's advice letter filing. By this Resolution, SWG is authorized an increase of \$388,030 for Mojave Division and a decrease of \$76,984 for Sierra Division.

SWG's request also includes estimates for decreases in 1988 revenue requirements as a consequence of the Tax Reform Act of 1986 (TRA). These amount to decreases of \$926,230 for the Mojave Division and \$193,330 for the Sierra Division. The adopted decreases are \$938,705 for the Mojave Division and \$174,708 for the Sierra Division. The 1987 effects of the TRA are not considered in SWG's request.

BACKGROUND

1. SWG, a California corporation subject to the jurisdiction of this Commission, distributes and sells natural gas in portions of San Bernardino County (Mojave Division) and Placer County (Sierra Division). SWG 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 in its northern Nevada system.

2. By this advice letter filing, SWG requests review and revision of its return on equity and overall rate of return as recognized for ratemaking purposes in connection with conduct of public utility business in its Mojave and Sierra Divisions.

3. Operational attrition is a decrease in a utility's net operating income due to increases in operation and maintenance expenses attributable to inflation between general rate case test years.

4. Financial attrition is a change in a utility's net operating income due to changes in plant in service and cost of capital between general rate case test years.

5. In D.85-12-103 the Commission adopted the test year 1986 capital structures and rates of return as shown in Attachment A to this Resolution. SWG did not file for attrition in 1987.

6. In Application 87-08-025 SWG filed proposed operational and financial attrition schedules using a 14% return on common equity and 12.29% rate of return (See Attachment A). In Advice Letter No. 390, SWG seeks to adjust its Preliminary Statement and rate schedules to reflect the reduction of the corporate Federal income tax rate from 46% to 34% for 1988, in accordance with the Tax Reform Act of 1986 (TRA). SWG's calculations are based on the old State tax rate of 9.6%.

7. Advice Letter No. 390 requested a net revenue increase for the Mojave Division of \$641,648 and a net decrease for the Sierra Division of \$17,316. This filing also includes expected revenue reductions of \$926,230 for the Mojave Division and \$193,330 for the Sierra Division due to the TRA.

8. By this filing, SWG also requests authority to eliminate the current Purchased Gas Cost Adjustment Provision (PGA), Supply Adjustment Mechanism (SAM) and Conservation Financing

Adjustment (CFA) surcharges and to establish new surcharges to amortize its PGA, SAM and CFA account balances as of August 31, 1987.

DISCUSSION

1. On December 10, 1987 the original attrition requests were amended by Advice Letter 390-A. SWG now requests net revenue reductions of \$284,582 for the Mojave Division and \$210,646 for the Sierra Division:

	<u>Mojave Division</u>	<u>Sierra Division</u>
Operations & Maintenance	\$ 285,609	\$ 45,652
Capital Related Items	<u>356,039</u>	<u>(62,968)</u>
SUBTOTAL	\$ 641,648	\$ (17,316)
Tax OII-Estimate	<u>(926,230)</u>	<u>(193,330)</u>
TOTAL REQUEST	\$(284,582)	\$(210,646)

2. In the amended filing, SWG uses 3.94% escalation for Labor Expenses and 3.9% escalation for Non-Labor Expenses, as forecast by the Division of Ratepayer Advocates (DRA) for 1988.

3. The Commission Advisory and Compliance Division (CACD) has reviewed the SWG request and associated workpapers, and has calculated the revenues based on D. 87-12-068 accordingly.

4. SWG's revised request incorporates the new Federal tax rate of 34% and the old State tax rate of 9.6%. SWG has estimated the impact of the TRA to be a revenue reduction of \$926,230 for Mojave Division and \$193,330 for Sierra Division. In order to be consistent with treatment of other utility attrition requests, CACD has recalculated the revenue reduction estimates based on the old federal tax rate of 46% and the old State tax rate of 9.6%. These are \$938,705 for Mojave Division and \$174,708 for Sierra Division.

5. Attachment A summarizes the capital structures adopted in D.85-12-103 and D.87-12-068. Attachment B outlines the impact of Decision 87-12-068 and staff's revision of the Federal tax rate from 34% to 46% on Capital Related Items. As a consequence, the SWG attrition request is reduced by \$266,093 for the Mojave Division and by \$41,046 for the Sierra Division. The adopted revenue changes are shown below:

	<u>Mojave Division</u>	<u>Sierra Division</u>
Operations & Maintenance	\$285,609	\$ 45,652
Capital Related Items	<u>102,421</u>	<u>(122,636)</u>
SUBTOTAL	\$388,030	\$ (76,984)
Tax OII Estimate	<u>(938,705)</u>	<u>(174,708)</u>
 ADOPTED TOTALS	 \$(550,675)	 \$(251,692)

6. Per Decision 87-12-068 and the terms of this Resolution, SWG should reduce its Base Cost Amount for the Mojave Division by \$550,675 and correspondingly reduce base rates by \$550,675. SWG should true up these amounts following Commission decision in I.86-11-019 on the TRA, including retroactive adjustment to the SAM account for the period from January 1, 1988 to the effective date of rates ordered by that decision.

7. Per Decision 87-12-068 and the terms of this Resolution, SWG should reduce its Base Cost Amount for the Sierra Division by \$251,692 and correspondingly reduce base rates by \$251,692. SWG should true up these amounts following Commission decision in I.86-11-019 on the TRA, including retroactive adjustment to the SAM account for the period from January 1, 1988 to the effective date of rates ordered by that decision.

8. SWG has requested a change in the amortization rates for PGA, SAM and CFA account balances as of August 31, 1987. The request is denied. Such changes should be considered by a separate application.

9. Public notification of these filings has been made by mailing copies of the advice letters to other utilities, governmental agencies, and to all interested parties who requested them. The Commission has received no protests in this matter.

THEREFORE, IT IS ORDERED THAT:

1. Southwest Gas Corporation shall file revised tariff schedules reducing the Base Cost Amount and base rates by \$550,675 for the Mojave Division and by \$251,692 for the Sierra Division to compensate for operational and financial attrition for 1988 and estimated reduction of 1988 taxes, as outlined in Attachment B of this Resolution.

2. Rates shall be calculated on a System Average Percent Change (SAPC) basis.

3. Final consideration of the impacts of the Tax Reform Act of 1986 is deferred to Investigation 86-11-019, including 1987 effects of the act, true up of the estimated 1988 tax reduction adopted herein and adjustments for the period from January 1, 1988 to the effective date of rate revisions ordered by the decision in that investigation.

4. Southwest Gas Corporation's request to eliminate the current PGA, SAM, and CFA surcharges, and to establish new surcharges to amortize those account balances, is denied.


5. Within seven (7) days of the effective date of this Resolution, Southwest Gas Corporation shall file a revised Preliminary Statement and tariff schedules reflecting the revenues and rates adopted by this Resolution.

6. The filed tariff sheets shall be marked to show that they were authorized for filing by Commission Resolution G-2767, and that the rates are effective January 1, 1988.

7. This Resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at the December 22, 1987 continuation of its regular meeting of December 17, 1987. The following Commissioners approved it:

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners


Executive Director

Southwest Gas Corporation
1988 Attrition Allowance

Current Authorized Capital Structure
(Test Year 1986)

<u>Component</u>	<u>Capital Ratio</u>	<u>Cost Factor</u>	<u>Weighted Cost</u>
Long Term Debt	50.00%	11.36%	5.68%
Preferred Stock	5.00	10.21	0.51
Common Equity	<u>45.00</u>	15.25	<u>6.86</u>
Total	100.00%		
Rate of Return			13.05%

Requested Capital Structure
(Attrition Year 1988)

<u>Component</u>	<u>Capital Ratio</u>	<u>Cost Factor</u>	<u>Weighted Cost</u>
Long Term Debt	50.00%	11.00%	5.50%
Preferred Stock	5.00	9.78	0.49
Common Equity	<u>45.00</u>	14.00	<u>6.30</u>
TOTAL	100.00%		
Rate of Return			12.29%

Adopted Capital Structure
(Attrition Year 1988)

<u>Component</u>	<u>Capital Ratio</u>	<u>Cost Factor</u>	<u>Weighted Cost</u>
Long Term Debt	50.00%	11.16%	5.58%
Preferred Stock	5.00	9.78	0.49
Common Equity	<u>45.00</u>	12.90	<u>5.81</u>
TOTAL	100.00%		
Rate of Return			11.88%

Southwest Gas Corporation
1988 Attrition Allowance

Attrition Allowance Summary

Mojave District

	<u>Requested</u>	<u>Adopted</u>
Operations & Maintenance		
Labor Escalated	\$ 200,375	\$ 200,375
Non-Labor Escalated	85,234	85,234
Capital Related Items (including Financial Attrition)	<u>356,039</u>	<u>102,421</u>
SUBTOTAL	641,648	388,030
1986 TRA (estimate)	<u>(926,230)</u>	<u>(938,705)</u>
TOTAL CHANGE	(284,582)	(550,675)
Rate Base	\$34,910,651	\$34,910,651

Sierra District

	<u>Requested</u>	<u>Adopted</u>
Operations & Maintenance		
Labor Escalated	\$ 29,346	\$ 29,346
Non-Labor Escalated	16,306	16,306
Capital Related Items (including Financial Attrition)	<u>(62,968)</u>	<u>(122,636)</u>
SUBTOTAL	(17,316)	(76,984)
1986 TRA (estimate)	<u>(193,330)</u>	<u>(174,708)</u>
TOTAL CHANGE	(210,646)	(251,692)
Rate Base	\$5,395,164	\$5,395,164