

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY  
AND COMPLIANCE DIVISION  
Energy Branch

RESOLUTION G-2853  
December 19, 1988

R E S O L U T I O N

RESOLUTION G-2853. CP NATIONAL CORPORATION (CPN) AUTHORIZED TO REVISE ITS CAPITAL STRUCTURE AND RETURN ON EQUITY AND TO ADJUST GAS BASE RATE REVENUES AND GAS TARIFF RATES TO OFFSET 1989 OPERATIONAL AND FINANCIAL ATTRITION FOR ITS SOUTH LAKE TAHOE DISTRICT EFFECTIVE JANUARY 1, 1989.

(Advice Letter C-256-G, filed November 3, 1988.)

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SUMMARY

1. By Advice Letter C-256-G, filed November 3, 1988, CP National Corporation (CPN) requests authorization to revise gas rates in its South Lake Tahoe District to compensate for operational and financial attrition. CPN's filing results in a decrease of \$51,390 for South Lake Tahoe.
2. By Advice Letter C-256-G, CPN also requests authorization to make changes to its current capital structure and return on equity which were last authorized by the Commission in 1985.
3. CPN's request also includes an estimated \$32,214 decrease in 1989 revenue requirement as a consequence of the Tax Reform Act of 1986 (TRA).
4. This Resolution grants this request.

BACKGROUND

1. CPN furnishes natural gas to customers in the city of South Lake Tahoe and its vicinity (South Lake Tahoe District). In Decision (D.) 85-04-069, CPN's last General Rate Case for the South Lake Tahoe District, the Commission adopted the test year 1985 capital structure and rate of return as shown in Attachment A to this Resolution.

2. By this advice letter filing, CPN requests revision of its current return on equity and overall rate of return for its South Lake Tahoe District.

3. The Commission, in D. 85-04-069, authorized CPN to file for an operational attrition allowance in 1986. By Advice Letter C-238-G, CPN filed for this attrition allowance conforming to the procedures specified in the Decision.

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. CPN's operational attrition adjustment is an increase of \$153,056 due to inflation of operating expenses. The calculation of this amount is consistent with the attrition allowance granted to CPN in D. 85-04-069.

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 Advice Letter C-256-G, CPN filed proposed operational and financial attrition schedules for 1989 using a 12.50% return on equity and an 11.27% rate of return (see Attachment A). This proposed change results in a reduction of \$51,390 in rates for its South Lake Tahoe District.

PROTESTS

1. No protests have been received by the Commission Advisory and Compliance Division (CACD).

DISCUSSION

1. CPN's request for a net revenue reduction of \$51,390 is as follows:

<u>South Lake Tahoe District</u>	
Operational Attrition	\$ 153,056
Capital Related Items (Financial Attrition)	(236,760)
SUBTOTAL	<u>\$( 83,704)</u>
Interest Expense	\$ 99
TRA Undercollection	32,214
TOTAL REQUEST	<u>\$ (51,390)</u>

2. CACD Staff has analyzed CPN's request and accompanying workpapers. CACD also has calculated the associated attrition allowance and net revenue reduction resulting from the new capital structure and return on equity and finds them to be identical with the results obtained by CPN.
3. CPN has estimated the impact of the TRA to be a revenue undercollection of \$32,214. This amount has been applied to the attrition allowance and is subject to refund. Resolution E-3105 specifies that any over- or undercollections due to the TRA are to be adjusted through an appropriate balancing account (i.e., Supply Adjustment Mechanism).
4. Attachment A summarizes the capital structure and return on equity adopted by the Commission in D.85-04-069 and the structure adopted by this Resolution for CPN's South Lake Tahoe District.
6. Public Notification of this filing has been made by mailing copies of this advice letter to other utilities, governmental agencies, and to all interested parties.

FINDINGS

1. We find CPN's request by Advice Letter C-256-G to reduce its rates for South Lake Tahoe District to be just and reasonable.

THEREFORE, IT IS ORDERED that:

1. CP National Corporation as requested by Advice Letter C-256-G is authorized to reduce the base cost amount and base rates by \$51,390 for South Lake Tahoe District to compensate for operational and financial attrition for 1989.
2. Per Resolution E-3105, any over- or undercollections of rates due to the Tax Reform Act shall be adjusted through an appropriate balancing account.
3. CP National Corporation shall adopt the capital structure and return on equity as specified in Attachment A.
4. Advice Letter C-256-G and accompanying tariff sheets(\*) shall be marked to show that they were authorized by Resolution G-2853, and that the new rates for South Lake Tahoe District are to be effective January 1, 1989.
5. This Resolution is effective today.

(\*) As corrected to properly reflect Baseline.

Resolution G-2853  
Page 4

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 19, 1988. The following Commissioners approved it:

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



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Executive Director

ATTACHMENT A  
Resolution G-2853

Current Authorized Capital Structure  
(Test Year 1985)

<u>Component</u>	<u>Capital Ratio</u>	<u>Cost Factor</u>	<u>Weighted Cost</u>
Long Term Debt	49.00%	11.67%	5.718%
Preferred Stock	3.50	9.74	0.341
Common Equity	47.50	15.50	7.363
Total	<u>100.00%</u>		
Rate of Return			13.422%

Adopted Capital Structure  
(Attrition Year 1989)

<u>Component</u>	<u>Capital Ratio</u>	<u>Cost Factor</u>	<u>Weighted Cost</u>
Long Term Debt	49.00%	9.99%	4.895%
Preferred Stock	0.00	n.a.	n.a.
Common Equity	51.00	12.50	6.375
Total	<u>100.00%</u>		
Rate of Return			11.270%