

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-3004
FEBRUARY 17, 1993

R E S O L U T I O N

RESOLUTION G-3004. SOUTHWEST GAS COMPANY REQUEST TO REFLECT THE EFFECTS OF ITS 1993 OPERATIONAL AND FINANCIAL ATTRITION.

BY ADVICE LETTER 455-G, FILED ON NOVEMBER 18, 1992.

SUMMARY

1. On November 18, 1992, Southwest Gas (SoWest), in compliance with Decision (D.) 91-12-049, Ordering Paragraph 5, filed Advice Letter 455-G requesting a revenue requirement decrease of \$1,216,588 in its Southern California Division and an increase of \$21,442 in its Northern California Division to reflect operational and capital-related attrition rate adjustment (ARA), the amortization of the balances of Southwest Gas' Purchase Gas Cost Adjustment (PGA), Supply Adjustment Mechanism (SAM) and Low Income Ratepayer Assistance (LIRA) accounts, and the incorporation of the Needles service area into Southwest's Southern California Division for ratemaking purposes.
2. Southwest Gas' operational attrition, also, reflects the effect of the change in property taxes as a result of the California Property Tax Settlement Agreement (CPTSA) reached by the utilities, county governments and the State Board of Equalization on May 29, 1992.
3. This Resolution conditionally approves the rates Southwest Gas has filed in AL 455 to implement the above mentioned changes provided that Southwest Gas place in a balancing account the \$27,257 related to the California Property Tax Settlement Agreement.

BACKGROUND

1. In D.91-12-049 (SoWest's General Rate Case for the Test Year 1992), the Commission authorized SoWest to revise its base rates to offset 1993 operational and capital-related attrition.
2. Operational attrition is a decrease in a utility's net operating income caused by an increase in operation and

maintenance expenses related to inflation between general rate case test years.

3. Capital-related attrition is a change in a utility's net operating income because of rate base and cost of capital changes between general rate case test years.

4. In D.92-11-047 (the Cost of Capital proceeding), the Commission adopted the 1993 capital structure and cost of capital for SoWest as shown in Attachment A.

5. Decision 92-02-046 (Ordering paragraph 5) ordered SoWest to provide service to Needles' customers under SoWest's applicable Southern California Division rates, tariffs and conditions.

6. On November 18, 1992, SoWest filed Advice Letter 455-G requesting a 1993 revenue requirement decrease of \$1,216,588 in its Southern California Division and an increase of \$21,444 in its Northern California Division to offset operational and capital-related attrition.

7. For Southern California Division, SoWest requested increases of \$207,000 for labor related inflation, \$98,000 for labor loading inflation, \$114,000 for non-labor inflation and \$834,000 for depreciation and amortization, franchises and taxes. SoWest's total increase for operational attrition items of is \$1,251,000 for Southern California Division

8. For Northern California Division, SoWest requested increases of \$14,000 for labor related inflation, \$7,000 for labor loading inflation, \$10,000 for non-labor inflation and \$15,000 for depreciation and amortization, franchises and taxes. SoWest's request amounts to a total increase for operational attrition items of \$46,000 for Northern California Division

9. SoWest proposes to amortize in rates the balance of its' PGA account for its Southern California and Northern California Divisions. As of September 30, 1992, SoWest's PGA account in its Southern California division was over-collected by \$1,179,248 and its Northern California division was under-collected by \$32,098.

10. SoWest proposes to amortize in rates the balance of its' SAM account for its Southern California and Northern California Divisions. As of September 30, 1992, SoWest's SAM account in its Southern California division was under-collected by \$1,993,530 and its Northern California division was over-collected by \$300,924.

11. SoWest's requested revenue requirement for Southern California is \$64,207,875 and for Northern California of \$5,062,818 include the effects of capital related attrition. The revenue requirements requested are calculated for the rates of return authorized for SoWest in D.92-11-047. Tab A, Schedule 1, of AL 455-G show that a decrease of revenue of \$1,216,588 is

required for the Southern California Division. Tab B, Schedule 1, of SoWest's AL 455-G show that an increase of revenue of \$21,442 is required for the Northern California Division.

12. CACD staff has been advised that SoWest had implemented the rates filed with Advice Letter 455-G effective January 1, 1993. This may be permitted for the rates in the Southern California Division because they have been reduced. However, a rate increase for the Northern California Division will only be authorized as of the date of this resolution. The utility has been charging higher rates in its Northern California Division which have not been authorized. Therefore we shall direct SoWest to refund the overcollected amounts to its customers.

NOTICE

1. Public notice of this advice letter was made by publication in the Commission calendar, and by SoWest's mailing copies to other utilities, governmental agencies, and all interested parties who requested notification.

PROTESTS

1. No protests to this Advice Letter were received by the Commission Advisory and Compliance Division.

DISCUSSION

1. The Commission Advisory and Compliance Division (CACD) reviewed Advice Letter 455-G for compliance with Commission Decisions (D) 85-12-076 (Attrition Rate Adjustment) and D.91-12-049 (SoWest's Test Year 1992 General Rate Case).

2. SoWest's requests an increase for operational attrition items of \$1,251,000 for Southern California Division. CACD has verified that this amount is within the limits authorized in D.91-12-049 and that the dollar amounts accurately reflect updated inflation estimates. CACD recommends that SoWest's request be granted.

3. SoWest's requests an increase for operational attrition items of \$46,000 for Northern California Division. CACD has verified that this amount is within the limits authorized in D.91-12-049 and that the dollar amounts accurately reflect updated inflation estimates. CACD recommends that SoWest's request be granted.

4. CACD believes that SoWest's amortization of the PGA, SAM, and LIRA accounts is reasonable to include in this attrition filing.

5. In order to earn the 10.11% Rate of Return allowed by D. 92-11-047, SoWest has to decrease its revenue requirement in its

Southern California Division by \$1,216,588 but it has to increase its revenue requirement by \$21,444 in its Northern California Division. CACD has reviewed the revenue requirement calculations and finds them to be accurate.

6. CACD has reviewed this filing and has determined that the rate revisions are accurate and in accordance with D. 91-12-049 and D. 92-11-047.

7. Although the rates in this filing are affected by the inclusion of the \$27,257 decrease determined by the California Property Tax Settlement Agreement, SoWest can proceed charging the requested rates from the date of this resolution on. However, SoWest has to make an accounting entry to reverse the effect of including the \$27,257 in the SAM account. The Commission has yet to rule on the disposition of the amount resulting from the CPTSA. SoWest has agreed to make the accounting entry.

FINDINGS

1. On November 18, 1992 SoWest filed Advice Letter 455-G requesting a revenue requirement decrease of \$1,216,588 in Southern California Division and a revenue requirement increase of \$21,442 in Northern California Division to offset operational and capital-related attrition, to amortize its PGA, SAM and LIRA accounts, and to incorporate its Needles service area into SoWest's Southern California Division for ratemaking purposes. SoWest requested that Advice Letter 455-G be made effective January 1, 1993.

2. SoWest requests increases for operational-related items of \$1,251,000 in Southern California Division and \$46,000 in Northern California Division. These items are in compliance with D.91-12-049.

3. The amortization of PGA, SAM, and LIRA accounts is in this attrition filing is reasonable.

4. The revenue requirements requested in AL 455-G are in conformance with the rate of return of 10.11% ordered by D.92-11-047

5. The rates contained in this filing are necessary, reasonable and should be adopted.

6. The effect of including the CPTSA in rates should be reversed by an accounting entry.

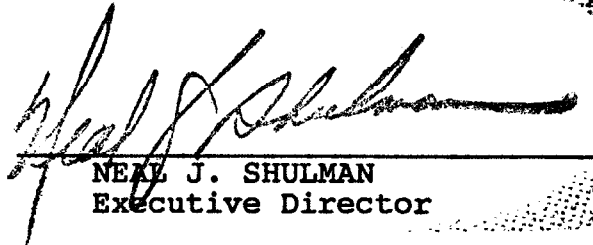
7. SoWest has not been authorized to charge the increased rates filed with this Advice Letter for its Northern California Division from January 1, 1993.

8. SoWest should refund the overcollected amounts to its customers in the Northern Division of California.

THEREFORE, IT IS ORDERED that:

1. Southwest Gas Company is authorized to decrease its revenue requirement in its Southern California Division by \$1,216,588 effective January 1, 1993 and to increase its revenue requirement in its Northern California Division by \$21,442, effective on the date of this Resolution.
2. Southwest Gas Company shall make an accounting entry to reverse the effect of including the California Property Tax Settlement Agreement in the amortization of its Supply Adjustment Mechanism Account.
3. Southwest Gas shall file a refund plan for returning the overcharges to its customers in the Northern California Division. This plan shall be filed no later than March 19, 1993 and shall provide for the refunds to be paid with interest no later than June 30, 1993.
4. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on February 17, 1993. The following Commissioners approved it:



NEAL J. SHULMAN
Executive Director

DANIEL WM. FESSLER
President
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
Commissioners

COMMISSIONER P. GREGORY CONLON,
present but not participating.

Attachment A

Southwest Gas Company
Summary of Capital Structures
for Attrition Year 1993

Authorized Capital Structure 1992
(D.91-11-059)

<u>Component</u>	<u>Capital Ratio</u>	<u>Cost Factor</u>	<u>Weighted Cost</u>
Long-Term Debt	50.00%	10.08%	5.04%
Preferred Stock	5.00	9.57	0.48
Common Equity	45.00	12.75	5.74
Total	100.00%		11.26%

Requested Capital Structure 1993
(D.92-11-047)

<u>Component</u>	<u>Capital Ratio</u>	<u>Cost Factor</u>	<u>Weighted Cost</u>
Long-Term Debt	50.00%	8.49%	4.25%
Preferred Stock	5.00	9.57	0.48
Common Equity	45.00	12.75	5.74
Total	100.00%		10.47%

Authorized Capital Structure 1993
(D.92-11-047)

<u>Component</u>	<u>Capital Ratio</u>	<u>Cost Factor</u>	<u>Weighted Cost</u>
Long-Term Debt	50.00%	8.49%	4.25%
Preferred Stock	5.00	9.57	0.48
Common Equity	45.00	11.95	5.38
Total	100.00%		10.11%