

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-3098
DECEMBER 17, 1993

R E S O L U T I O N

RESOLUTION G-3098. SOUTHWEST GAS COMPANY REQUESTS APPROVAL OF TARIFF SHEETS TO REFLECT 1994 OPERATIONAL AND FINANCIAL ATTRITION, TO UPDATE ITS BALANCING ACCOUNT SURCHARGES, AND TO UPDATE ITS PARITY TRANSPORTATION RATE.

BY ADVICE LETTER 466, FILED ON NOVEMBER 12, 1993.

SUMMARY

1. On November 12, 1993, Southwest Gas Company (Southwest), in compliance with Decision (D.) 91-12-049, Ordering Paragraph 5, filed Advice Letter 466 requesting a revenue requirement decrease of \$1,029,460 for its Southern California Division and a decrease of \$39,104 for its Northern California Division. These revenue requirement decreases reflect 1994 operational and capital-related attrition rate adjustments and the amortization of the balances in Southwest's Purchase Gas Cost Adjustment (PGA), Supply Adjustment Mechanism (SAM) and Low Income Ratepayer Assistance (LIRA) accounts.
2. Southwest's operational attrition also reflects the change in federal income taxes from 34 to 35 percent resulting from the Omnibus Budget Reconciliation Act of 1993 and property tax savings resulting from the California Property Tax Settlement Agreement. The calculation of financial attrition is based on the cost of capital adopted in D.93-12-022.
3. The Division of Ratepayer Advocates protests Advice Letter 466 and requests that the Commission suspend Southwest's operational and ratebase attrition because economic conditions warrant actions that are expected to improve the California economy.
4. This Resolution approves the rates Southwest Gas has filed in Advice Letter 466 to implement the above mentioned changes.

BACKGROUND

1. In D.91-12-049 (Southwest's General Rate Case for the Test Year 1992), the Commission authorized Southwest to revise its base rates to offset 1994 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. Rate base attrition is a decrease in a utility's net income due to an increase in rate base between general rate case test years.
4. 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.
5. In D.93-12-022 (the Cost of Capital proceeding), the Commission adopted the 1994 capital structure and cost of capital for Southwest as shown in Attachment A.
6. Decision 92-02-046 (Ordering Paragraph 3) ordered Southwest to provide service to Needles' customers under Southwest's applicable Southern California Division rates, tariffs and conditions.
7. On November 12, 1993, Southwest filed Advice Letter 466 requesting a revenue requirement of \$62,908,192 and \$6,099,692 for its Southern and Northern California Divisions, respectively. These revised revenue requirements include the effects of capital related attrition and are calculated for the rates of return authorized for Southwest in D.93-12-022. These revenue requirements represent a 1994 revenue requirement decrease of \$1,029,460 for Southwest's Southern California Division and a decrease of \$39,104 for its Northern California Division to offset operational, rate base, and capital-related attrition.
8. In Advice Letter 466, Southwest includes a rate base increase of \$5,995,000 for its Southern California Division and a decrease of \$29,000 for its Northern California Division.
9. For the Southern California Division, Southwest requested increases of \$222,000 for labor related inflation, \$100,000 for labor loading inflation, \$81,000 for non-labor inflation and \$886,000 for depreciation and amortization, franchises and taxes. Southwest's total requested increase for operational attrition items is \$1,289,000 for the Southern California Division
10. For the Northern California Division, Southwest requested increases of \$14,000 for labor related inflation, \$7,000 for

labor loading inflation, \$8,000 for non-labor inflation and \$7,000 for depreciation and amortization, franchises and taxes. Southwest's has requested a total increase for operational attrition items of \$36,000 for the Northern California Division.

11. Southwest proposes to amortize in rates the balance of its' PGA account for its Southern California and Northern California Divisions. As of September 30, 1993, Southwest's PGA account in its Southern California division was over-collected by \$2,112,460 and its Northern California division was under-collected by \$154,779.

12. Southwest proposes to amortize in rates the balance of its' SAM account for its Southern California and Northern California Divisions. As of September 30, 1993, Southwest's SAM account in its Southern California division was under-collected by \$2,235,888 and its Northern California division was over-collected by \$31,638.

13. Southwest proposes to adjust its LIRA surcharge for its Northern and Southern California Divisions. Southwest requests a surcharge of \$0.01181/therm for the Southern California Division and a surcharge of \$0.00091/therm for the Northern California Division.

NOTICE

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

PROTESTS

1. The Division of Ratepayer Advocates (DRA) filed a protest to this advice letter on December 2, 1993. DRA urges the Commission to suspend Southwest's operational and ratebase attrition and to flow all savings in operating costs to customers for 1994. DRA contends that economic conditions in California warrant the suspension of attrition increases. This would force Southwest's management to absorb nominal inflation without a corresponding adjustment for operating cost changes. DRA asks that customers not be denied the rate reduction benefits of lower capital costs because of operational attrition increases.

2. On December 3, 1993, CACD received a late protest from Mr. William C. Thompson of Yermo, California. Mr. Thompson states that he has been overcharged for natural gas for the past 5 years.

PROTEST RESPONSE

1. Southwest responded to DRA's protest on December 7, 1993 and stated that DRA's protest is an inappropriate attack on the attrition process which is impermissible absent formal hearings. Southwest states that the current attrition process is objective in contrast to what Southwest believes is a subjective process proposed by DRA.

DISCUSSION

1. The Commission Advisory and Compliance Division (CACD) reviewed Advice Letter 466 for compliance with Commission Decisions (D) 85-12-076 (Attrition Rate Adjustment) and D.91-12-049 (Southwest's Test Year 1992 General Rate Case).
2. With regard to DRA's protest, CACD recommends that the protest be denied without prejudice because the advice letter process is not the proper forum for addressing this issue. If DRA wishes to pursue this matter, it may file a Petition for Modification of Southwest's last general rate case decision (D.91-12-049) that adopted an attrition mechanism.
3. CACD recommends that Mr. Thompson's protest be denied without prejudice because the issues raised in the protest would more properly be handled in a complaint. Furthermore, Mr. Thompson's protest does not provide any data regarding the amount he alleges he has been overcharged versus the approved tariff rate.
4. Southwest requests an increase for operational attrition items of \$1,289,000 for the 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 Southwest's request be granted.
5. Southwest requests an increase for operational attrition items of \$36,000 for the 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 Southwest's request be granted.
6. CACD has examined the rate base adjustments contained in Southwest's filing and finds that the rate base adjustments agree with the figures adopted in D.91-12-049. The rate base figure for Southwest's Southern California Division is higher than the figure in D.91-12-049 by \$1,305,391 because of an increase in rate base adopted in D.92-02-046 for Southwest's Needles acquisition.
7. CACD believes that Southwest's amortization of the PGA, SAM, and LIRA accounts is reasonable as filed in Advice Letter 466.

8. In order to earn the 9.47% Rate of Return allowed by D.93-12-022, Southwest has to decrease its revenue requirement in its Southern California Division by \$1,029,460. D.93-12-022 allows Southwest a 9.49% Rate of Return in its Northern California Division which means that the revenue requirement would need to be decreased by \$39,104. CACD has reviewed the revenue requirement calculations and finds them to be accurate.

9. CACD has reviewed this filing and has determined that the rate revisions are accurate and in accordance with D.91-12-049 and D.93-12-022 (cost of capital).

FINDINGS

1. On November 12, 1993 Southwest filed Advice Letter 466 requesting a revenue requirement decrease of \$1,029,460 in the Southern California Division and a revenue requirement decrease of \$39,104 in the Northern California Division. These revenue requirement decreases offset operational, rate base, and capital-related attrition and amortize Southwest's PGA, SAM and LIRA accounts. Southwest requested that Advice Letter 466 be effective January 1, 1994.

2. Southwest requests increases for operational-related items of \$1,289,000 in its Southern California Division and \$36,000 in its Northern California Division. These increases are within the limits authorized in D.91-12-049 and accurately reflect updated inflation estimates.

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

4. The revenue requirements requested in Advice Letter 466 are in conformance with the rate of return of 9.47% for Southwest's Southern California Division and 9.49% for the Northern California Division, as ordered by D.93-12-022.

5. The rates contained in this filing should be adopted.

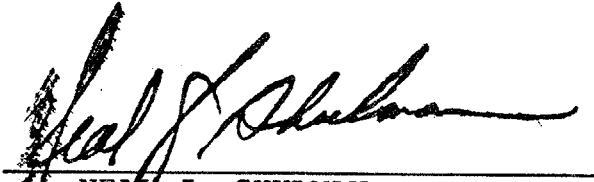
December 17, 1993

THEREFORE, IT IS ORDERED that:

1. Southwest Gas Company is authorized to decrease its revenue requirement in its Southern California Division by \$1,029,460 and to decrease its revenue requirement in its Northern California Division by \$39,104, effective January 1, 1994.
2. The rates contained in Southwest Gas Company's Advice Letter 466 shall be effective January 1, 1994.
3. The protests of the Division of Ratepayer Advocates and Mr. William C. Thompson are denied without prejudice.

This Resolution is effective today.

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



NEAL J. SHULMAN
Executive Director

DANIEL Wm. FESSLER
President
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
P. GREGORY CONLON
JESSIE J. KNIGHT, Jr.
Commissioners

Attachment A

Southwest Gas Company
Summary of Capital Structures
for Attrition Year 1994

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%

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%

Authorized Capital Structure 1994
(D.93-12-022)

<u>Component</u>	<u>Capital Ratio</u>	<u>Cost Factor</u>	<u>Weighted Cost</u>
Long-Term Debt	50.00%	8.16%	4.08% *
Preferred Stock	5.00	9.57	.48
Common Equity	45.00	10.90	4.91
Total	100.00%		9.47% *

* add two basis points for Southwest's Northern Division