APPENDIX

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of West Coast Gas Company to Revise its Gas Rates and Tariffs (U 910 G)	Application No. 08-04-007 (Filed April 1, 2008)

SETTLEMENT AGREEMENT

I. INTRODUCTION

Pursuant to Rule 51.1, 51.2, and 51.3 of the Rules of Practice and Procedure of the California Public Utilities Commission ("Commission"), West Coast Gas Corporation ("WCG") and the Division of Ratepayer Advocates ("DRA"), collectively referred to as "Parties," have entered into a settlement ("Settlement Agreement") for the purpose of providing to the Commission a recommended resolution of all issues in Application No. (A.) 08-04-007.

II. RECITALS

West Coast Gas is a corporation organized under the laws of the State of California. WCG is an operating public utility engaged, *inter alia*, in the business of furnishing gas services to Mather and Castle, which are located in the Sacramento area of California.

III. PROCEDURAL HISTORY

On April 1, 2008, WCG filed a test year (TY) 2008 general rate case (GRC) application for its gas distribution operations under the Commission's jurisdiction. In A.08-04-007, as originally filed, WCG requested a $234,127 increase—to go into effect on January 1, 2008—for gas distribution operations at the Mather and Castle service territories; this amounts to a 10.99% increase rates currently authorized by the Commission.

On May 9, 2008, DRA filed a protest to WCG's application. A prehearing conference was held on June 9, 2008, and attended by WCG and DRA. On June 17, 2008, WCG revised its request, seeking an increase of $228,040 representing a 10.70% increase over rates currently authorized by the Commission.

On July 18, 2008, DRA submitted its Report on the Results of Operations for West Coast Gas Company, General Rate Case, Test Year 2009 ("DRA Report") which, among other things, recommends a an increase in revenue requirement for WCG totaling $189,135, representing an 8.88% increase over rates currently authorized by the Commission.

On August 21, 2008, WCG served a "Notice of Settlement Conference" to all parties on the service list of this proceeding.[1] The Notice indicated that settlement talks would be held at the Commission's San Francisco office on August 27, 2008.

On August 27, 2008 representatives from DRA and WCG agreed on a settlement as presented below.

[1] By e-mail sent August 21, 2008, the presiding ALJ granted WCG's request to shorten the time period for noticing a settlement conference from the otherwise required 7 days to 6 days.

IV. SUMMARY OF SETTLEMENT CONDITIONS

As a compromise between their respective positions, the Parties agree that this Agreement resolves the issues raised in this General Rate Case application. It is understood and agreed to by the Parties hereto that the Settlement Agreement will also serve to expedite hearings and a decision in this proceeding. Each of the Parties, however, supports the Settlement Agreement as resolving all outstanding issues in this proceeding. The Parties further agree that the Settlement Agreement, either in whole or in part, shall have no express or implied precedential effect in any future proceeding.

Based upon WCG's and DRA's respective submittals in A. 08-04-007, WCG and DRA were in disagreement with respect to the following issues:

(1) WCG recommends use of WCG's actual equity-debt capital structure of 72%-28%; DRA recommends use of an imputed capital structure consisting of 60% equity-40% debt, consistent with the capital structure adopted in settlement of WCG's last general rate case filing.

(2) WCG recommends a return on equity of 10.6%; DRA recommends a return on equity of 9.40%.

(3) WCG requests that the Commission authorize implementation of a post test-year ratemaking mechanism for the attrition years 2010 and 2011, basing the attrition year rate increase on the Value Line forecast of the change in the Consumer Price Index as of the beginning of the attrition year; DRA recommend that the Commission adopt three post test-year attrition years (2010, 2011 and 2012), with the amount of revenue change for each of the three future attrition years based on the June 2008 forecast of changes in the CPI.

(4) WCG recommends an uncollectible accounts rate of 0.116%, based upon the average uncollectible accounts rate experienced in 2005, 2006 and 2007; DRA calculated its

recommended uncollectible accounts rate of 0.081% rate, using data for 2005, 2006, and 6 months of 2007.

Having engaged in settlement discussions, WCG and DRA have resolved the above-referenced contested issues as follows:

- The Commission is asked to adopt a 70%/30% equity-debt capital structure for WCG.
- The Commission is asked to adopt a return on equity for WCG of 9.40%.
- The Commission is asked to adopt a post test-year ratemaking mechanism for the attrition years 2010, 2011, and 2012, with the expectation that WCG's next general rate case filing will be based upon a 2013 test-year showing. The attrition year adjustments to revenue requirements for years 2010, 2011, and 2012 will be effected by advice letter filing prior to commencement of each attrition year and will be calculated based on the simple average of the forecasts of changes in the Consumer Price Index ("CPI") as published by Data Resources Inc. and Global Insight in the month and on the day closest to July 1 of the year before the attrition year. As an example, the forecasted change in the CPI for attrition year 2010, as the average of the inflation rate forecasted by the two published references on or near July 1, 2009, would be used to calculate the change in revenue requirement for the attrition year 2010.

Further, WCG and DRA have agreed that WCG should remove plant held for future use from WCG's test year 2009 rate base and ask that the Commission so order.

In recognition of the settlement reached between WCG and DRA, Attachment A hereto sets forth the following, further information: (1) a comparison of the revenue requirements requested by WCG in A. 08-04-007 with the revenue requirements recommended by DRA: (2) a comparison of Test Year 2009 Results of Operations as respectively recommended by WCG and

DRA; (3) Test Year 2009 Results of Operations, assuming that effect is given to the proposed settlement between WCG and DRA, resulting in a revenue increase of **$202,116** and a return on equity of 9.40%; (4) a table showing the impact of the proposed settlement on revenue requirement; and (5) a summary of total revenue, assuming effect is given to the settlement agreement, showing a uniform increase in all WCG's rate schedules of 9.49%.

WCG and DRA agree that the overall 9.49% increase in rates ($202,116) should be allocated to all customers on an equal basis. That is, all customer charges and the per therm distribution changes would increase by 9.49%. Attachment B hereto reflects the impact of a 9.49% rate increase upon WCG's residential rates, demonstrating an anticipated increase of $4.23 in the average monthly residential bill.

V. TERMS AND CONDITIONS

A. **Precedential Effect**: The Parties agree, as provided in Rule 51.8 of the Commission's Rules of Practice and Procedure, that adoption of the Settlement Agreement by the Commission shall not constitute approval of, or precedent regarding, any principle or issue in this proceeding or in any future proceeding.

B. **Indivisibility of Settlement Agreement**: The Settlement Agreement represents a compromise of many positions and interests of the Parties hereto and no individual term is assented to by any Party except in consideration of the other Party's assents to all of the other terms of the Settlement Agreement. The Settlement Agreement is indivisible and each part is interdependent on each and all of the other parts. Any Party may withdraw from the Settlement Agreement if the Commission modifies, deletes or adds any term.

C. **Evidentiary Effect of Settlement Agreement**: The Parties agree, as provided in Rule 51.9 of the Commission's Rules of Practice and Procedure, that no discussion, admission, concession, or offer to stipulate or settle, whether oral or written, made during any negotiation leading to the Settlement Agreement shall be subject to discovery, or admissible in any evidentiary hearing against any participant who objects to its admission. Furthermore, if the Settlement Agreement is not adopted by the Commission, then the Parties agree that no portion of the Settlement Agreement, or any of its terms or conditions, or any of the discussions leading to it, may be subject to discovery or used in hearings in support of or in opposition to any Party or position without the prior express written consent of the Parties hereto.

D. **Settlement Agreement in the Public Interest**: The Parties agree by executing and submitting the Settlement Agreement that the Commission's approval and adoption of the Settlement Agreement is in the public interest, consistent with the law, and reasonable in light of the record. Approval of the Settlement Agreement will result in a resolution of this proceeding that is fair and reasonable and will avoid unnecessary litigation that would otherwise result.

E. **Effectuation of Settlement Agreement**: The Parties agree to perform diligently and in good faith all actions required or implied hereunder, including, but not necessarily limited to, the execution of any other documents required to effectuate the terms of the Settlement Agreement, and the preparation of exhibits for, and presentation of witnesses at, any hearings which may be required in order to obtain the approval and adoption of the Settlement Agreement by the Commission.

F. **Entirety of Settlement Agreement**: The Settlement Agreement contains the entire agreement of the Parties hereto. The terms and conditions of the Settlement Agreement may only be modified by a writing subscribed by the Parties.

G. **Final Document:** A facsimile signature will have the same force and effect as the original.

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Dated this 27th day of August, 2008.

WEST COAST GAS CORPORATION

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Chief Financial Officer
West Coast Gas Corporation
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Sacramento, California 95826

DIVISION OF RATEPAYER ADVOCATES

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2464/001/X102368.v2

ATTACHMENT A

WCG – DRA Settlement: Application No. 08-04-007 Test Year 2009

Revenue Requirements

1. WCG as filed April 1, 2008:

a.	Rate increase requested	$234,127.33
b.	% Rate increase requested	10.99%
c.	Return on Rate Base	9.19%
d.	Return on Equity	10.60%
e.	Capital Ratios	Debt 26.8%
		Equity 73.2%

2. WCG Revised June 17, 2008:

a.	Rate increase requested	$ 228,040
b.	% Rate increase requested	10.70%
c.	Test Year Rate Base	$1,259,312
d.	Return on Rate Base	9.19%
e.	Return on Equity	10.60%
f.	Capital Ratios	Debt 26.8%
		Equity 73.2%

3. DRA as filed July 18, 2008:

a.	Rate increase proposed	$ 189,135
b.	% Rate increase proposed	8.88%
c.	Test Year Rate Base	$1,234,942
d.	Return on Rate Base	7.78%
e.	Return on Equity	9.40%
f.	Capital Ratios	Debt 40.0%
		Equity 60.0%

Test Year 2009 Results of Operations (RO) Comparison

	WCG[1]	DRA	Difference
Total Revenue Requirements	$2,366,539	$2,327,634	$ 38,905
Operating Expense	2,183,650	2,183,650	0
Income Taxes	67,146	47,895	19,251
Net Operating Income	$ 115,742	$ 96,089	$ 19,654
Test Year Rate Base	1,259,312	1,234,942	24,370
Return on Rate Base	9.19%	7.78%	

1. WCG Revised June 17, 2008.

West Coast Gas Company
Test Year 2009
Settlement Results of Operations

	RO at Current Rates [1]	Revenue Change	RO at Settlement Rates
Base Rate Revenue	$ 729,337.90	$ 202,116.66	$ 931,454.56
Procurement Revenue	1,401,123.03		1,401,123.03
Other Gas Revenue	8,038.02		8,038.02
Total Revenue	$ 2,138,498.95		$ 2,340,615.61
Operating Expenses	$ 2,183,650.95		$ 2,183,650.95
Income Taxes	0.00	(55,877.86)	(55,877.86)
Net Operating Income	$ (45,151.12)	$ 146,238.80	$ 101,087.69
Test Year 2009 Rate Base	$ 1,234,941.58		$ 1,234,941.58
%Return on Rate Base	(3.66%)		8.19%
Interest Expense	$ (19,828.53)		$ (19,828.53)
Earnings for Common	$ (64,979.65)		$ 81,259.16
Common Equity	$ 864,459.10		$ 864,459.10
%Return on Common	(7.52%)		9.40%
% Rate Increase		9.49%	

1. **WCG Revised June 17, 2008.**

Settlement Impact on Revenue Requirement

	WCG	DRA	Settlement	Change in WCG Revenue Requirement [1]
1. Test Year Rate Base At issue: Plant Held for Future Use	$24,370	$ 0	$ 0	($ 4,361)
2. Capital Structure (Debt/Equity)	26.8%/73.2%	40%/60%	30%/70%	($ 4,055)
3. Return on Equity	10.60%	9.40%	9.40%	($ 17,507)
4. Total Reduction in WCG's Proposed Test Year Revenue Requirement [1]				($ 25,923)
5. Return on Rate Base	9.19%	7.78%	8.19%	

1. **WCG Revised June 17, 2008.**

% Rate Change
by Rate Schedule

Rate Schedule		% Change
1	Residential - Mather	9.49%
1A	Residential CARE - Mather	7.59%
2	Small Commercial - Mather	9.49%
3	Small Commercial - Mather	9.49%
C-G1	Small Commercial - Castle	9.49%
C-G1	Medium Commercial - Castle	9.49%
C-G1	Large Commercial - Castle	9.49%
	Total % Change	9.49%

Total Revenue Summary
At Proposed Rates

	Commercial Total All Schedules			
Residential	Summer	Winter	Total	Total Jurisdictional
$ 50,096.87	$ 17,596.75	$ 12,569.11	$ 30,165.86	$ 80,262.72
445,039.21	363,581.54	592,502.54	956,084.08	1,401,123.29
249,206.76	201,959.54	400,025.64	601,985.18	851,191.93
$ 744,342.84	$ 583,137.84	$ 1,005,097.28	$ 1,588,235.12	$ 2,332,577.95
Total Revenue at Current Rates				$ 2,130,461.26
Revenue Change				$ 202,116.69
% Change in Total Revenue				9.49%

ATTACHMENT B

West Coast Gas Company, Inc.

Test-Year 2009

Residential Rates

Equal Percentage Increase

9.49%

				Settlement Rates		
				Mo.Cust. Chrg.	$ 3.28	
Residential Service				Vol. Rev. Inc. =	$ 64,496.93	
	Current Rates			Revenue Increase as % of Total Usage		
Monthly Customer						
Charge:	$ 3.00			$ 3.28		
Volumetric Charges	Baseline	Excess		Baseline	Excess	
Procurement - $/Therm	$ 0.81066	$ 0.81066		$ 0.81066	$ 0.81066	
Distribution - $/Therm	0.29896	0.50446		0.40423	0.62923	
Total Volumetric Rate	$ 1.10962	$ 1.31512		$ 1.21489	$ 1.43989	
3. Base Line Allowance						
Winter - Therms per Day	0.5			0.5		
Winter - Therms per Day	2.0			2.0		
	Baseline	Excess	Total	Baseline	Excess	Total
Annual Therm Sales	427,685	121,298	548,983	427,685	121,298	548,983
Annual Revenue:						
Customer Charges			$ 45,756.00			$ 50,096.87
Procurement	$ 346,707.63	$ 98,331.58	445,039.21	$ 346,707.63	$ 98,331.58	$ 445,039.21
Base Rates	127,860.71	61,189.99	189,050.70	172,882.97	76,323.79	249,206.76
Total	$ 474,568.34	$ 159,521.57	$ 679,845.91	$ 519,590.60	$ 174,655.37	$ 744,342.84
Rate Increase:						
$						$ 64,496.93
%						9.49%
Average Monthly Bill						
Customer Charge			$ 3.00			$ 3.28
Volumetric Charges - Avg Therm Use/Mo		36.0	41.57		36.0	45.52
Total Monthly Bill			$ 44.57			$ 48.80
$ Increase/Month						4.23
	Proof of Revenue		$ 679,845.91			$ 744,342.84

APPENDIX B

DIVISION OF RATEPAYER ADVOCATES REPORT ON THE RESULTS OF OPERATIONS FOR WEST COAST GAS

Docket:	:	A.08-04-007
Exhibit Number	:	DRA-1
Commissioner	:	T. Simon
Admin. Law Judge	:	R. Barnett
Witness	:	D. F. Bower

DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

Report on the Results of Operations For West Coast Gas Company General Rate Case Test Year 2009

San Francisco, California
July 18, 2008

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1. INTRODUCTION

On April 1, 2008, West Coast Gas Company (WCG) filed Application (A.) 08-04-006, for its test year 2009 general rate case (GRC). This application is for WCG gas distribution operations under the jurisdiction of the California Public Utilities Commission (Commission). This application seeks a $234,127 increase, to go into effect January 1, 2009, for gas distribution operations at the Mather and Castle service territories. This amounts to an overall 10.99% rate increase. This rate request does not include any costs associated with gas procurement, gas transportation or Public Purpose Programs. WCG seeks an authorized return on rate base of 9.19% and a 10.6% return on common equity. In addition, WCG is requesting that the Commission allow WCG to file attrition year adjustments via advice letter filings for attrition years 2010 and 2011. WCG was last granted an overall 8.5% rate increase by the Commission in Decision (D.) 06-01-041 on January 6, 2006 for test year 2006.

WCG's forecast for Test Year 2009 is based on recorded 2007 adjusted for known changes. The adjusted recorded 2007, at current rates, is used to forecast the Results of Operations for the year 2008 which then forms the basis for the forecasted test year 2009.

The Division of Ratepayer Advocates (DRA) submits its report in response to WCG's A. 08-04-006, for test year 2009 GRC.

2. SUMMARY OF RECOMMENDATIONS

DRA recommends an authorized base revenue increase of $189,135, which is an overall 8.88% increase, for test year 2009, and is $44,992 lower than WCG's test year 2009 request of $234,127. DRA's recommendations are based on the following:

a. That WCG's weighted rate of return should be 7.78 percent.
b. That WCG's capital structure should be consistent with the 2006 GRC Settlement adopted by the Commission which incorporated the imputed capital structure of 60% equity and 40% debt.
c. That WCG's equity cost rate should be 9.40 percent.

d. That WCG's Plant Held for Future Use (PHFU) of $24,371 should be removed from rate base as it does not meet the Guidelines for PHFFU.
e. That WCG's Uncollectible rate should be 0.081%.
f. DRA reflected two corrections totally approximately $6,000 in its estimates.

DRA recommends a slightly different attrition mechanism based on the forecasts for the Consumer Price Index (CPI) compared to WCG. DRA proposes three post test years of 2010-2012 rather than two proposed by WCG. DRA recommends that WCG be authorized attrition increases of $12,045 in 2010, $15,955 in 2011, and $16,227 in 2012 based on the current CPI forecasts. DRA proposes that WCG file its next GRC April 1, 2012 for a 2013 test year.

3. Discussion

A. Cost of Capital

WCG recommends a weighted cost of capital (rate of return) of 9.19 percent. This is based on a capital structure of 26.8 percent long-term debt and 73.2 percent equity coupled with a 5.35 percent cost rate for debt and a 10.60 percent return on equity. The recommendation of WCG is shown in Table 1.

Table 1
West Coast Gas Company
Weighted Cost of Capital

Category	Capital Structure	Cost Rate	Weighted Cost
Long-Term Debt	26.8 %	5.35 %	1.44 %
Common Equity	73.2 %	10.60 %	7.76 %
Total	100.00 %		9.19 %

DRA recommends a weighted cost of capital (rate of return) of 7.78 percent. DRA's recommendation results from the use of an imputed capital structure of 40 percent debt and 60 percent equity and a lower cost of equity. DRA recommends a rate of return on equity of 9.40 percent. DRA's results are summarized in Table 2.

Table 2
DRA Weighted Cost of Capital

Category	Capital Structure	Cost Rate	Weighted Cost
Long-Term Debt	40 %	5.35 %	2.14 %
Common Equity	60 %	9.40 %	5.64 %
Total	100 %		7.78 %

DRA's recommended capital structure in this case is consistent with the 2006 GRC Settlement between WCG and DRA adopted by the Commission in D.06-01-041. The imputed capital structure of 60% equity and 40% debt was proposed by WCG in its last 2006 GRC.[1] The settlement incorporated that same imputed capital structure. The use of an imputed capital structure has also been authorized in other utility general rate cases.[2]

DRA's recommended equity cost rate of 9.40 percent is taken from its June 2008 Cost of Capital testimony for Southwest Gas Corporation.[3] It is appropriate to use the same return on equity for WCG that DRA recently proposed for Southwest Gas because they are both gas corporations operating in California that do not provide electric services and the analysis is proposed for the 2009 test year.

The rate of return of 9.19% proposed by WCG is well in excess of the current rate of returns authorized for other California energy companies.[4] The rate of return of 7.78% proposed by DRA is comparable to the 7.72% rate of return proposed by WCG in its last GRC and reflected in the settlement agreement adopted in that case.[5]

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[1] See A. 05-04-014, sheet 19.

[2] See D. 03-12-039, page 21.

[3] Division of Ratepayer Advocates, Report on the Cost of Capital for Southwest Gas Corporation, General Rate Case, Test Year 2009, June 11, 2008, A.07-12-022, Exhibit DRA-13.

[4] See D. 07-12-049.

[5] See D. 06-01-041, Appendix A, page 23.

B. Plant Held for Future Use

WCG's average rate base includes $24,371 for Plant Held for Future Use (PHFU). WCG's PHFU consists of two transactions. The first transaction, at a cost of $19,973, was recorded December 31, 1997 for a joint trench installation of a 4" P.E. main located in the industrial area of Mather. In response to DRA-WCG-01-DFB, Question 7, WCG indicated that the "purpose of WCG participation in the joint trench was to give WCG the option of joining the industrial area of Mather to the residential area of Mather at some future date to provide enhanced system reliability and/or economic benefits if load growth occurred in the vacant land between the two separate systems or PG&E's transportation rates for distribution level service were to be applied to the residential area….At some point in the near future and probably before 2010, WCG will have to tie in the residential area to the industrial are in order to avoid a $100,000 annual increase in PG&E transportation charges to residential customers of WCG." This transaction has been in PHFU for well over ten years, and does not appear to have a firm plant in service date. DRA questioned WCG regarding the likelihood of WCG tying in its residential area to its industrial area in order to avoid the annual $100,000 increase in PG&E's transportation charges to residential customers. WCG's response was: "It is 100% likely that PG&E will increase it charges to WCG's residential customers. Considering that there is one alternative (a pressure upgrade in the exiting PG&E line that supplies the WCG residential housing area) we would guess that the probability is at least 50%."

The second transaction, for $4,397, was included in PHFU in September 2004. This property consists of a building and land. The building in its current state can not qualify for a use permit. "WCG acquired this property with the intent of eventually rehabilitating the building and using it as WCG's central office when funds for rehabbing become available either from internal cash flow or when WCG has access to outside capital." WCG has no firm plant in service date for this property. In fact, WCG indicates that it will not have engineering estimates of the costs to rehabilitate the building until 2010 and then based on these estimates will make its decision.

The Commission has long standing PHFU Guidelines that were adopted in D. 87-12-006, December 22, 1987, for Southern California Edison Company's 1988 Test Year A. 86-12-047. D. 87-12-006 states:

> "1. Distribution substations and transmission plant (not related to new power plants) could be held in PHFU and not placed in Edison's plant expenditure review committee (PERC) budget for five years. If by the end of five years, the property has not been included in the PERC budget, it would be removed from PHFU until it is included in a future PERC budget."

DRA recommends that the $24,371 in PHFU should be removed from rate base as neither transaction qualifies to be included in rate base at this time as there is no firm plant in service date.

C. Franchise Fees and Uncollectible (FF&U)

WCG is subject to 2.5% franchise fees paid to the County of Merced for all billings at its Castle operations. There are no franchise fees levied on billings at Mather. WCG is requesting an uncollectible rate of 0.116% based on a three year average of total billing for the three year 2005 through 2007. Therefore, for Mather, the FF&U rate would be 0.116% and for Castle, the FF&U rate would be 2.615%.

WCG had a higher write-off of uncollectibles in 2007 than in 2005 and 2006. In 2005 the uncollectible written off was 0.078%, in 2006 it was 0.066%, and 2007 it was 0.201%. Using a three-year average results an uncollectible rate of 0.116%. DRA believes that the three-year average should be modified as 2007 had an unusually high write-off as compared to 2005 and 2006. In 2005 WCG wrote off $1,480, in 2006 it wrote off $1,417, and in 2007 it wrote off $4,184. This was 195% above the 2006 write-offs. Therefore, DRA included only half of the 2007 uncollectibles written off. By using only half of the actual uncollectibles this results in a three-year modified average of 0.081%.

DRA recommends a FF&U rate of 0.081% for Mather and 2.581% FF&U rate for Castle for the test year 2009. WCG does not include franchise fees and uncollectable in its revenue requirement calculation.

D. Corrections to application

Since filing its application, WCG has made two corrections to its revenue requirement. The first correction was in response to DRA's first data request; WCG discovered that the test year property taxes were incorrectly calculated. The Allocation of Property Tax (workpaper Sheet 16) incorrectly applied the tax rate to the net depreciated plant instead of net rate base. The result of this correction is that test year property taxes were reduced by $5,556. The second correction was in response to DRA's second data request in which WCG stated that it made a small change ($400) in the revenue requirement.

4. Results of Operations

The Results of Operations are summarized in the tables shown at the end of this section. Table 3 contains DRA's recommended Commission jurisdictional revenue requirements at present and proposed rates. Table 4 displays the comparison of DRA and WCG revenue requirements at proposed rates.

Table 3

West Coast Gas Company, Inc.

Test Year 2009

Results of Operations

FERC Acct. No.		A DRA Revenues at Present Rates	B DRA Revenues at Proposed Rates	C DRA's Proposed Increase ($)
	Revenues			
480	Residential Sales of Gas	$ 234,807	$ 295,161	$ 60,354
481	Commercial and Industrial Sales of Gas:			
	Mather	$ 298,711	$ 360,432	$ 61,721
	Castle	$ 195,820	$ 262,880	$ 67,060
495	Other Gas Revenues	$ 8,038	$ 8,038	$ -
	Total Revenues	$ 737,376	$ 926,511	$ 189,135
401	Operations Expense - Distribution			
760	Supervision	$ 133,467	$ 133,467	$ -
761	Mains and Services Labor	$ 7,730	$ 7,730	$ -
762	Mains and Services Supply	$ 8,637	$ 8,637	$ -
763	Meters and House Regulators Expense	$ 4,770	$ 4,770	$ -
764	Customer Installations Expense	$ 11,733	$ 11,733	$ -
765	Misc. Distribution Expense	$ 63,430	$ 63,430	$ -
766	Rents	$ 52,259	$ 52,259	$ -
	Total Operations Expense	$ 282,026	$ 282,026	$ -
402	Maintenance Expense - Distribution			
767	Maintenance of Lines	$ 18,288	$ 18,288	$ -
768	Maintenance of Meters	$ 692	$ 692	$ -
887	Leak Repairs	$ 9,679	$ 9,679	$ -
	Total Maintenance Expense	$ 28,659	$ 28,659	$ -
402	Customer Accounting Expense			
901	Meter Reading Labor	$ 15,258	$ 15,258	$ -
902	Accounting and Collecting Labor	$ 66,262	$ 66,262	$ -
903	Supplies Expense	$ 11,647	$ 11,647	$ -
904	Uncollectable Accounts	$ -	$ -	$ -
	Total Customer Accounting Expense	$ 93,167	$ 93,167	$ -

Table 3 Continued
West Coast Gas Company, Inc.
Test Year 2009
Results of Operations

Acct. No.		A DRA Revenues at Present Rates	B DRA Revenues at Proposed Rates	C DRA's Proposed Increase
402	Administration and General Expense			
920	A&G Salaries	$ 111,905	$ 111,905	$ -
921	Office Supplies & Office Expenses	$ 31,699	$ 31,699	$ -
922	A&G Transferred (Cr)	$ (6,855)	$ (6,855)	$ -
923	Outside Services	$ 8,240	$ 8,240	$ -
924	Property & Liability & Work Comp Ins	$ 28,192	$ 28,192	$ -
926	Employee Benefits & Vacation	$ 72535	72,535	$
927	Franchise Requirements	$ -	$ -	$ -
928a	SBE Surcharge	$ -	$ -	$ -
928	Regulatory Commission Expense	$ -	$ -	$ -
930	Misc. General Expense	$ 3,168	$ 3,168	$ -
933	Transportation Expense	$ 2,471	$ 2,471	$ -
935	Maintenance of General Plant	$ 14,393	$ 14,393	$ -
	Total Administration & General Expense	$ 266,575	$ 265,575	$
403	Operating Expense - Depreciation	$ 98,119	$ 98,119	$ -
405	Operating Expense - Amort Expense			
408	Operating Expense - Taxes OTIT			
408.a	Payroll Taxes	$ -	$ -	$ -
408.b	Property Taxes	$ 14,809	$ 14,809	$ -
408.c	Franchise Taxes	$ -	$ -	$ -
408.d	Other Non-Income Taxes	$ -	$ -	$ -
	Total Taxes Other Than Income Tax	$ 14,809	$ 14,809	$
409	Income Tax Expense	$ 47,895	$ 47,895	$ -
410	Provision for Deferred Income Tax			
	Total Operating Expense	$ 782,527	$ 830,422	$ 47,895
	Net Operating Income	$ (45,151)	$ 96,089	$ 141.240
	Average Rate Base	$ 1,234,942	$ 1,234,942	$ -
	Average Return on Rate Base	**9.19%**	**7.78%**	

Table 4
Comparison between WCG and DRA

Acct. No.		A WCG 2009 Test Year at Proposed Rates	B DRA 2009 Test Year at Proposed Rates	C WCG Exceeds DRA 2009 Test Year at Proposed Rates
	Base Rate Revenue			
480	Residential Sales of Gas	$ 309,518	$ 295,166	$ 14,357
481	Commercial and Industrial Sales of Gas:			$ -
	Mather	$ 375,114	$ 360,3431	$ 14,683
	Castle	$ 278,833	$ 262,880	$ 15,953
495	Other Gas Revenues	$ 8,038	$ 8,038	$ -
	Total Base Rate Operating Revenue	$ 971,503	$ 926,511	$ 44,992
401	Operations Expense - Distribution			
760	Supervision	$ 133,467	$ 133,467	$ -
761	Mains and Services Labor	$ 7,730	$ 7,730	$ -
762	Mains and Services Supply	$ 8,637	$ 8,637	$ -
763	Meters and House Regulators Expense	$ 4,770	$ 4,770	$ -
764	Customer Installations Expense	$ 11,733	$ 11,733	$ -
765	Misc. Distribution Expense	$ 63,430	$ 63,430	$ -
766	Rents	$ 52,259	$ 52,259	$ -
	Total Operations Expense	$ 282,026	$ 282,026	$ -
402	Maintenance Expense - Distribution			
767	Maintenance of Lines	$ 18,288	$ 18,288	$ -
768	Maintenance of Meters	$ 692	$ 692	$ -
887	Leak Repairs	$ 9,679	$ 9,679	$ -
	Total Maintenance Expense	$ 28,659	$ 28,659	$ -
402	Customer Accounting Expense			
901	Meter Reading Labor	$ 15,258	$ 15,258	$ -
902	Accounting and Collecting Labor	$ 66,262	$ 66,262	$ -
903	Supplies Expense	$ 11,647	$ 11,647	$ -
904	Uncollectable Accounts	$ -	$ -	$ -
	Total Customer Accounting Expense	$ 93,167	$ 93,167	$ -

Table 4 Continued
Comparison between WCG and DRA

Acct. No.		A WCG 2009 Test Year at Proposed Rates G		B DRA 2009 Test Year at Proposed Rates		C WCG Exceeds DRA 2009 Test Year at Proposed Rates	
402	Administration and General Expense						
920	A&G Salaries	$	111,905	$	111,905	$	-
921	Office Supplies & Office Expenses	$	31,699	$	31,699	$	-
922	A&G Transferred (Cr)	$	(6,855)	$	(6,855)	$	-
923	Outside Services	$	8,240	$	8,240	$	-
924	Property & Liability & Work Comp Ins	$	28,192	$	28,192	$	-
926	Employee Benefits & Vacation	$	72,974		72,535	$	440
927	Franchise Requirements	$	-	$	-	$	-
928a	SBE Surcharge	$	-	$	-	$	-
928	Regulatory Commission Expense	$	-	$	-	$	-
930	Misc. General Expense	$	3,168	$	3,168	$	-
933	Transportation Expense	$	2,471	$	2,471	$	-
935	Maintenance of General Plant	$	14,393	$	14,393	$	-
	Total Administration & General Expense	$	266,187	$	265,747	$	440
403	Operating Expense - Depreciation	$	98,119	$	98,119	$	-
405	Operating Expense - Amort Expense						
408	Operating Expense - Taxes OTIT						
408.a	Payroll Taxes	$	-	$	-	$	-
408.b	Property Taxes	$	20,367	$	14,809	$	5,559
408.c	Franchise Taxes	$	-	$	-	$	-
408.d	Other Non-Income Taxes	$	-	$	-	$	-
	Total Taxes Other Than Income Tax	$	20,367	$	14,809	$	5,559
409	Income Tax Expense	$	67,182	$	47,895	$	19,288
410	Provision for Deferred Income Tax						
	Total Operating Expense	$	855,708	$	830,422	$	25,285
	Net Operating Income	$	115,795	$	96,088	$	19,708
	Average Rate Base	$	1,259,812	$	1,234,942	$	24,870
	Average Return on Rate Base		**9.19%**		**7.78%**		

5. Post Test Year

WCG is requesting that the Commission authorize the implementation of a post test year ratemaking mechanism for the attrition years 2010 and 2011 and additional attrition year(s) if WCG is not permitted to file a new general rate case on April 1, 2011 for a 2012 test year. WCG is proposing an attrition mechanism based on changes in operating costs from the test year. The attrition components included in WCG's attrition proposal are:

- Adjustments made to test year labor costs and non-labor costs (materials and services) to reflect forecast attrition year escalation rates
- Adjustments made to test year capital and rate base-related parameters using estimated plant additions

DRA recommends a more transparent and straightforward attrition mechanism based on the CPI. DRA also proposes an additional attrition year for 2012, resulting in three attrition years of 2010-2012. DRA proposes that the attrition be based on the most recent estimated CPI[6] of 1.3% for 2010, 1.7% for 2011, and 1.7% for 2012. This results in an attrition increase of $12,045 in 2010, $15,955 in 2011, and $16,227 in 2012. WCG would file an advice letter each year in order to implement these revenue increases on January 1 of each attrition year. WCG would file its next GRC on April 1, 2012 for a 2013 test year. Table 5 shows DRA's proposed attrition increases for 2010, 2011, and 2012:

[6] DRA used Global Insight US Economic Outlook, June 2008, page 71.

Table 5
DRA's Proposed Attrition Increases
For 2010, 2011, and 2012

Acct. No.	Description	A DRA 2009 Test Year at Proposed Rates	B DRA 2010 Attrition Increase	C DRA 2011 Attrition Increase	D DRA 2012 Attrition Increase
480	Residential Sales of Gas	$ 295,161	$ 3,837	$ 5,083	$ 5,169
481	Commercial and Industrial Sales of Gas:				
	Mather	$ 360,431	$ 4,686	$ 6,207	$ 6,313
	Castle	$ 262,880	$ 3,417	$ 4,527	$ 4,604
495	Other Gas Revenues	$ 8,038	$ 104	$ 138	$ 141
	Total Base Rate Operating Revenue	$ 926,511	$ 12,045	$ 15,955	$ 16,227

(END OF APPENDIX)