



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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Application of West Coast Gas Company to Revise its
Gas Rates and Tariffs

Application No. 12-05-006
(Filed May 4, 2012)

(U 910 G)

JOINT MOTION FOR ADOPTION OF SETTLEMENT AGREEMENT

DIVISION OF RATEPAYER ADVOCATES
California Public Utilities Commission
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Dated: December 13, 2012

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I. INTRODUCTION

Pursuant to Article 12.1 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,” hereby submit their joint motion requesting Commission approval and adoption of a proposed settlement and resolution of all issues in Application No. (A.) 12-05-006.¹

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.

¹DRA and WCG, as the only active parties in A. 12-05-006, requested a waiver of the requirement of Rule 16.4(g) that settling parties, prior to execution of a settlement agreement, convene a settlement conference on no less than seven days’ notice. By e-mail dated December 13, 2012, the presiding administrative law judge granted the requested waiver.

III. PROCEDURAL HISTORY

On May 4, 2012, WCG filed a test year (TY) 2013 general rate case (GRC) application for its gas distribution operations under the Commission's jurisdiction. In A.12-05-006, as originally filed, WCG requested a \$146,806 increase—to go into effect on January 1, 2013—for gas distribution operations at the Mather and Castle service territories; this amounts to a 7.81% increase to overall rates, or 15.93% increase to base rates, currently authorized by the Commission.

On June 6, 2012, DRA filed a protest to WCG's application. A prehearing conference was held on September 10, 2012, and attended by WCG and DRA.

On October 23, 2012, DRA submitted its Report on the Results of Operations for West Coast Gas Company, General Rate Case, Test Year 2013 ("DRA Report") which, among other things, recommends an increase in revenue requirement for WCG totaling \$61,614, representing an 3.27% increase over rates currently authorized by the Commission.

On December 3, 2012 representatives from DRA and WCG agreed on a settlement which provides for a \$101,570 increase in WCG's base revenue requirement (5.39% increase to overall rates, or 10.98% increase to base rates) as presented below.² By ruling of the presiding administrative law judge, evidentiary hearings, scheduled for December 5, 2012, were removed from the Commission's calendar.

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

² The referenced Settlement Agreement is included as Attachment A hereto.

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. 12-05-006, WCG and DRA were in disagreement with respect to the following issues:

(1) WCG recommends using the average of four (4) years of recorded therm sales to determine test year 2013 therm sales; DRA recommends using the average of five (5) years of recorded therm sales to determine test year 2013 therm sales.

(2) WCG recommends use of WCG's actual recorded 2011 operating expenses as the basis for developing test year 2013 operating expenses; DRA recommends use of an imputed 5-year (2007-2011) average of operating expenses to arrive at its 2011 basis for developing 2013 test year operating expenses, with the exception of FERC Accounts 920 and 926, where DRA relies on recorded 2011 expenses but with modifications.

(3) WCG recommends that the forecast of test year health care benefits costs be based on a 5% escalation rate; the DRA recommends that test year health care benefits costs be based on Global Insight's forecasted health care benefits escalation rate of 3.4% in 2012 and 4.4% in 2013 (from the IHS Global Insight Cost Planner First-Quarter 2012).

(4) WCG recommends an uncollectible accounts rate of 0.2184%, based upon the average uncollectible accounts rate experienced in 2009, 2010 and 2011; DRA calculated its recommended uncollectible accounts rate of 0.1643% rate, using data for the years 2005, 2006, 2007, 2008, 2009, and 2010.

(5) WCG recommends an average 2013 rate base of \$1,054,953; in the DRA Report, DRA recommends an average test year rate base of \$1,005,277.

(6) WCG recommends a return on equity of 10.0%; DRA recommends a return on equity of 8.50%.

(7) WCG recommends an attrition year adjustment mechanism based on the test year 2013 adopted base rate revenue requirement adjusted by the change in Consumer Price Index for the attrition years 2014, 2015 and 2016; DRA recommends the same attrition year mechanism except that a 0.5% productivity adjustment be deducted from the change in the CPI for the attrition years 2014, 2015, 2016.

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

1. Adopt DRA's proposed test year 2013 therm sales forecast.
2. Adopt a compromise position of WCG's proposal and DRA's recommendation for test year 2013 operating expenses, as follows:
 - a. A 2013 forecast of \$363,383 for distribution operations expenses, which is equal to WCG's forecast of \$363,436 adjusted for a minor change in the allocation of expenses to non-jurisdictional operations;
 - b. A 2013 forecast of \$65,933 for distribution maintenance expenses, which is a compromise between WCG's forecast of \$76,380 and DRA's forecast of \$46,876;
 - c. DRA's 2013 forecast for customer accounting expenses, equal to \$105,705; and
 - d. A 2013 forecast of \$263,383 for administrative & general (A&G) expenses, which is equal to WCG's forecast of \$264,587 less DRA's \$1,204 adjustment for health care benefit costs (i.e., using Global Insight's health care-related escalation rates of 3.4% in 2012 and 4.4% in 2013).

3. Adopt DRA's proposed allowance for uncollectible account value of 0.1643% for test year 2013 and the three succeeding attrition years.
4. Adopt a test year rate base of \$1,019,759 (which corrects DRA's recommendation to remove \$49,676 in 2010 gas plant additions for the Federal Prison which is under CPUC jurisdiction and not FERC jurisdiction).
5. Adopt DRA's proposed 8.50% return on equity and 7.15% rate of return.

WCG Cost of Capital for 2013-2016

Description	DRA and WCG Agreement		
<i>Component (a)</i>	<i>Ratio (b)</i>	<i>Rate (c)</i>	<i>Wtd. Cost (d=b*c)</i>
Long-Term Debt	30.00%	4.00%	1.20%
Common Equity	70.00%	8.50%	5.95%
Total	100.00%		7.15%

6. Adopt a post test-year ratemaking mechanism for the attrition years 2014, 2015, and 2016. The attrition year adjustments to revenue requirements for years 2014, 2015, and 2016 will be calculated based on the simple average of the forecasts of changes in the Consumer Price Index ("CPI") as published by Value Line and Global Insight in the month and on the day closest to July 1 of the year before the attrition year, and will be reduced by DRA's recommended productivity adjustment factor of 0.50%. The attrition year adjustments will be effected by advice letter filing prior to commencement of each attrition year.

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. 12-05-006 with the revenue requirements recommended by DRA: (2) a comparison of Test Year 2013 Results of Operations as respectively recommended by WCG and

DRA; (3) Test Year 2013 Results of Operations, assuming that effect is given to the proposed settlement between WCG and DRA, resulting in a base revenue increase of \$101,570 and a return on equity of 8.50%; (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 5.39%.

WCG and DRA agree that the overall increase in rates should be allocated to all customers on an equal basis. That is, all customer charges and the per therm distribution changes would increase by 5.39% with the exception of CARE residential customers (4.31%). Attachment B hereto reflects the impact of a 5.39% rate increase upon WCG's residential rates, demonstrating an anticipated increase of \$2.36 in the average monthly residential bill.

ADDITIONAL TERMS AND CONDITIONS

- A. **Precedential Effect**: The Parties agree 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 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.

V. CONCLUSION

For all of the reasons set forth herein, DRA and WCG move the Commission to issue its order, as soon as is practicable, approving the subject Settlement Agreement and resolving all issues in A. 12-05-006.

Respectfully submitted December 13, 2012 at San Francisco, California.

/s/ Jonathan Bromson _____

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/s/ James D. Squeri _____

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Attorneys for West Coast Gas

ATTACHMENT A

**SETTLEMENT AGREEMENT
BETWEEN DRA AND WC**

SETTLEMENT AGREEMENT

The Division of Ratepayer Advocates (“DRA”) and West Coast Gas Corporation (“WCG”) (collectively the “Parties”), the two active parties in A. 12-05-006, WCG’s General Rate Case (“GRC”), have agreed to resolve the issues raised in the GRC, as set forth below. Each of the Parties supports the Settlement Agreement as resolving all outstanding issues in this proceeding. It is further understood and agreed to by the Parties hereto that this Settlement Agreement will also serve to expedite hearings and a decision 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.

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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. 12-05-006 with the revenue requirements recommended by DRA; (2) a comparison of Test Year 2013 Results of Operations as respectively recommended by WCG and DRA; (3) Test Year 2013 Results of Operations, assuming that effect is given to the proposed settlement between WCG and DRA, resulting in a base revenue increase of \$101,570 and a return on equity of 8.50%; (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 5.39%.

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ADDITIONAL TERMS AND CONDITIONS

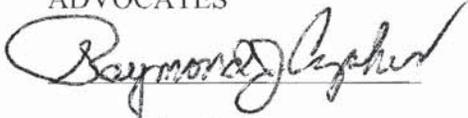
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- B. **Indivisibility of Settlement Agreement:** The Settlement Agreement represents a compromise of many positions and interests of the Parties hereto and no individual term is assented to by any Party except in consideration of the other Party's 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 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.

Dated this 2 day of December, 2012.

WEST COAST GAS CORPORATION
ADVOCATES



Raymond J. Czahar
Chief Financial Officer
West Coast Gas Corporation
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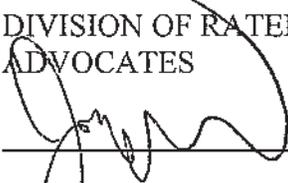
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Dated this 12th day of December, 2012.

WEST COAST GAS CORPORATION

Raymond J. Czahar
Chief Financial Officer
West Coast Gas Corporation
9203 Beatty Drive
Sacramento, California 95826

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ADVOCATES



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ATTACHMENT A
TO SETTLEMENT AGREEMENT

WCG – DRA Settlement: Application No. 12-05-006 Test Year 2013

Revenue Requirements

1. WCG as filed May 4, 2012:
 - a. Rate increase requested \$146,806
 - b. % Rate increase requested 7.81%
 - c. Test Year Rate Base \$1,054,953
 - d. Return on Rate Base 8.20%
 - e. Return on Equity 10.00%
 - f. Capital Ratios Debt 30.0%
Equity 70.0%

2. DRA as filed October 23, 2013:
 - a. Rate increase proposed \$ 61,614
 - b. % Rate increase proposed 3.27%
 - c. Test Year Rate Base \$1,005,277
 - d. Return on Rate Base 7.15%
 - e. Return on Equity 8.50%
 - f. Capital Ratios Debt 30.0%
Equity 70.0%

Test Year 2013 Results of Operations (RO) Comparison

	<u>WCG</u>	<u>DRA</u>	<u>Difference</u>
Total Revenue Requirements	\$2,035,497	\$1,956,711	\$ 78,786
Operating Expense ¹	1,898,210	1,843,703	54,507
Income Taxes	50,780	41,131	9,650
Net Operating Income	\$ 86,506	\$ 71,877	\$ 14,629
Test Year Rate Base	1,054,953	1,005,277	49,676
Return on Rate Base	8.50%	8.20%	

¹ Including Procurement Costs

Settlement

<u>Requirement</u> ¹	<u>WCG</u>	<u>DRA</u>	<u>Settlement</u>
1. Test Year Rate Base	\$1,054,953	\$1,005,277	\$1,019,759
2. Capital Structure (Debt/Equity)	30.0%/70.0%	30%/70%	30%/70%
3. Return on Equity	10.00%	8.50%	8.50%
4. Return on Rate Base	8.20%	7.15%	7.15%

West Coast Gas Company
Test Year 2013
Settlement Results of Operations

	<u>RO at Current Rates</u>	<u>Revenue Change</u>	<u>RO at Settlement Rates</u>
Base Rate Revenue	\$ 924,683	\$ 101,570	\$ 1,026,253
Procurement Revenue	960,531		960,531
Other Gas Revenue	<u>9,883</u>		<u>9,883</u>
Total Revenue	\$ 1,895,096		\$ 1,996,667
Operating Expenses	1,882,031		1,882,031
Income Taxes	<u>0</u>	<u>(41,724)</u>	<u>(41,724)</u>
Net Operating Income	\$ 13,066	\$ 59,847	\$ 72,913
Test Year 2013 Rate Base	\$ 1,019,759		\$ 1,019,759
%Return on Rate Base	1.28%		7.15%
Interest Expense	<u>\$ (12,237)</u>		<u>\$ (12,237)</u>
Earnings for Common	\$ 829		\$ 60,676
Common Equity	\$ 713,831		\$ 713,831
%Return on Common	0.12%		8.50%
% Rate Increase		5.39%	

% Rate Change by Rate Schedule		
<u>Rate Schedule</u>		<u>% Change</u>
1	Residential - Mather	5.39%
1A	Residential CARE - Mather	4.31%
2	Small Commercial - Mather	5.39%
3	Small Commercial - Mather	5.39%
C-G1	Small Commercial - Castle	5.39%
C-G1	Medium Commercial - Castle	5.39%
C-G1	Large Commercial - Castle	<u>5.39%</u>
	Total % Change	<u>5.39%</u>

Total Revenue Summary At Proposed Rates					
	<u>Residential</u>	Commercial Total All Schedules	Winter	Commercial Total	Total Jurisdictional
Customer Charge	\$ 53,801	\$ 20,026	\$ 14,304	\$ 34,331	\$ 88,132
Procurement	324,122	244,822	391,588	636,409	960,531
Base Rates	<u>300,020</u>	<u>216,399</u>	<u>421,711</u>	<u>638,110</u>	<u>938,130</u>
Total	\$ 677,943	\$ 481,247	\$ 827,603	\$ 1,308,850	\$1,986,793
Total Revenue at Current Rates					<u>\$ 1,885,222</u>
Revenue Change					<u>\$ 101,571</u>
% Change in Total Revenue					<u>5.39%</u>

ATTACHMENT B
TO SETTLEMENT AGREEMENT

Attachment B Page 1 of 1

West Coast Gas Company						
Test Year 2013						
Residential Rates						
<u>Residential Service</u>	<u>Current Rates</u>			<u>Settlement Rates</u>		
<u>Rate Change</u>	Mo.Cust.Chrg. =	\$	-	Mo.Cust.Chrg. =	\$	0.19
<u>Rate Change</u>	Volum. Rate =	\$	-	Volume. Rate =	\$	31,908.02
Monthly Customer Charge:	\$	3.47		\$	3.66	
<u>Volumetric Charges</u>	<u>Baseline</u>	<u>Excess</u>		<u>Baseline</u>	<u>Excess</u>	
Procurement - \$/Therm	\$ 0.58689	\$ 0.58689		\$ 0.58689	\$ 0.58689	
Distribution - \$/Therm	0.42754	0.66551		0.48219	0.73299	
Total Volumetric Rate	\$ 1.01443	\$ 1.25240		\$ 1.06908	\$ 1.31988	
<u>3. Base Line Allowance</u>						
Winter - Therms per Day	0.5			0.5		
Winter - Therms per Day	2.0			2.0		
	<u>Baseline</u>	<u>Excess</u>	<u>Total</u>	<u>Baseline</u>	<u>Excess</u>	<u>Total</u>
<u>Annual Therm Sales</u>	417,821	134,449	552,270	417,821	134,449	552,270
<u>Number of Customers</u>			1,226			1,226
<u>Annual Revenue:</u>						
Customer Charge			\$ 51,050.64			\$ 53,801.12
Procurement	245,214.83	78,906.73	324,121.56	245,214.83	78,906.73	324,121.56
Base Rates	178,635.19	89,477.15	268,112.34	201,471.13	98,549.24	300,020.36
Total	\$ 423,850.02	\$ 168,383.88	\$ 643,284.54	\$ 446,685.95	\$ 177,455.97	\$ 677,943.03
<u>Rate Increase:</u>						
\$			\$ -			\$ 34,658.50
%			0%			5.39%
<u>Average Monthly Bill</u>	<u>Baseline</u>	<u>Excess</u>	<u>Total</u>	<u>Baseline</u>	<u>Excess</u>	<u>Total</u>
Average Therm Usage	28	9	38	28	9	38
Customer Charge			\$ 3.47			\$ 3.66
Volumetric Charges			40.26			42.42
Total Monthly Bill			\$ 43.73			\$ 46.08
\$ Increase/Month						\$ 2.36
Proof of Revenue (Annual Bills x Monthly Bill)			\$ 643,284.54			\$ 677,943.03