

BEFORE THE PUBLIC UTILITIES COMMISSION OF
THE STATE OF CALIFORNIA



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Application of Southwest Gas Corporation
(U 905 G) for Authority to Increase Rates
and Charges for Gas Service in California,
Effective January 1, 2014.

Application No. 12-12-024
(Filed December 20, 2012)

**LATE-FILED PROTEST
OF THE DIVISION OF RATEPAYER ADVOCATES**

1. INTRODUCTION

Pursuant to Rule 2.6 of the Commission's Rules of Practice and Procedure,¹ the Division of Ratepayer Advocates (DRA) protests the Application (A.) 12-02-024 of the Southwest Gas Co. (SWGC) as captioned above. DRA objects to the granting in whole or in part of the authorities sought by A.12-12-024, and requests an evidentiary hearing.

Stated below are the facts and the law constituting the grounds for DRA's Protest; the effect of A.12-12-024 on the ratepayers; and the reasons for DRA's Protest. DRA reserves the right to present at the hearing additional facts, law, and reasons supporting its Protest depending on its discovery and the parties' written or oral testimonies.

This Protest is timely filed. According to Rule 2.6, subdivision (a), a protest may be filed within thirty days after A.12-12-024 first appeared in the Commission Daily Calendar. On December 20, 2012, SWGC filed A.12-12-024, which first appeared in the Commission Daily Calendar on December 31, 2012. Thirty days afterwards would be January 31, 2013.

¹ The term "Rule" means a regulatory provision of the Commission's Rules of Practice and Procedure as codified at Calif. Code Regs., tit. 20, §§ 1-88, LEXIS current through Register 2013, No. 1, Jan. 4, 2013.

2. FACTS AND LAW CONSTITUTING GROUNDS OF PROTEST

In accordance with Public Utilities Code §§ 216, 221, and 222, SWGC distributes, transports, and sells at retail natural gas for domestic, commercial, agricultural, and industrial uses in California. In Southern California, SWGC serves ratepayers located in San Bernardino County; in Northern California, in the Counties of Placer and El Dorado and in the South Lake Tahoe area. SWGC's total number of customers in California is approximately 183,000 customers: 139,000 in Southern California; 25,000 in Northern California; and 19,000 in the South Lake Tahoe area.²

SWGC's Application consists of following:

- Volume I contains the Application, proposed notices, and the Summary of Changes.
- Volume II-A presents operating and financial data regarding the Southern California service area (San Bernardino County) for the recorded period January 1, 2007–December 31, 2011, and estimated data for 2012, 2013, and Test Year 2014.
- For the Northern California service areas, Placer and El Dorado Counties, Volume II-B presents operating and financial data for the recorded period January 1, 2007 – December 31, 2011, and estimated data for 2012, 2013, and Test Year 2014.
- For the South Lake Tahoe service area, Volume II-C presents operating and financial data for the recorded period January 1, 2007 – December 31, 2011, and estimated data for 2012, 2013, and Test Year 2014.
- Volume III consists of SWGC's supporting written testimonies.
- Volumes IV-A, IV-B, and IV-C present the supporting work papers regarding respectively volumes II-A, II-B, and II-C.

² SWGC Appl., vol. II-B at ch. 1, sheet 1. In Arizona, SWGC serves 994,000 customers and 669,000 in Nevada. *Id.*

3. ISSUES TO CONSIDER

Based on SWGC's Application as stated above, DRA presents the following preliminary issues to consider at an evidentiary hearing. DRA may add to, delete, revise, or supplement these stated issues depending on its discovery and the testimonies presented at the hearing.

3.1. Proposed Rate Increases

For Test Year 2014, SWGC proposes to raise rates over current levels by the following percentages and amounts in its California service areas, as follows:

- Southern California by 5.4% or \$5.6 million;
- Northern California by 10.7% or \$3.2 million; and
- South Lake Tahoe by 13.9% or \$2.8 million.³

Additional rate increases are proposed to become effective during the rate cycle 2015–2018.

The basic issue is whether these proposed rate increases are reasonable and justified, consistent with the law, and in the public interest.

3.2. Proposed Capital Structure and Rates of Return

SWGC seeks a capital structure of 43% long-term debt; 57% common equity; and 10.7% return on common equity (ROE). It proposes an overall rate of return of 7.32 % for the Southern California service area and 8.61% for both the Northern California and South Lake Tahoe service areas.⁴

The issue is whether SWGC's proposed capital structure and rates of return are reasonable and justified, consistent with the law, and in the public interest. DRA will analyze and may prepare forecasts of a reasonable level of return based on (but not limited to) market returns on investments having similar risks and/or financial analyses, e.g., the Capital Asset Pricing Model (CAPM) or Discounted Cash Flow (DCF).

³ SWGC Appl. at 3:25–28.

⁴ *Id.* at 4:24–28 and 5:1–2.

3.3. Post-Test Year Ratemaking Mechanism (PTYM)

In 2008, under D.08-11-048 the Commission authorized a PTYM for SWGC. SWGC proposes to continue its PTYM regarding annual changes in rates and charges for gas service, beginning on January 1 of each year during the period 2015–2018. Further, SWGC proposes a second PTYM for its South Lake Tahoe service area regarding revenue requirement caused by the proposed accelerated replacement of the “Aldyl-A main and service lines.”⁵

The issue is whether SWGC’s proposed PTYMs as stated above are reasonable and justified, consistent with the law, and in the public interest.⁶

3.4. Automatic Trigger Mechanism (ATM)

According to SWGC, the PTYM granted in D.08-11-048 includes an Automatic Trigger Mechanism (ATM) that adjusts SWGC’s authorized cost of capital if certain preset changes were to occur.⁷ SWGC seeks to modify its ATM to align it with the cost of capital established in D.08-05-035 for the major California energy utilities.⁸

The issue is whether SWGC’s proposed modification of the ATM is reasonable and justified, consistent with the law, and in the public interest.

3.5. Infrastructure Reliability and Replacement Adjustment Mechanism (IRRAM)

SWGC proposed to establish an IRRAM. This is to facilitate and complement projects involving the enhancement and replacement of gas infrastructure; and provide timely cost recovery for qualifying non-revenue producing capital expenditures. For example, the Application includes an initial budget projection for the IRRAM regarding work on the proposed Customer Owned Yard Line (COYL) program.⁹

⁵ *Id.* 5:11–13 (¶5.5)

⁶ *Id.*

⁷ *Id.* at 5:3–6 (¶5.3).

⁸ *Id.* at 5:8–10 (¶5.4).

⁹ Appl. at 5:16–27 (¶¶ 6.1–6.2).

The issue is whether the proposed IRRAM is reasonable and justified, consistent with the law, and in the public interest.

3.6. Conservation and Energy Efficiency Plan (CEE Plan)

SWGC requests approval of a CEE Plan, which is to encourage residential and commercial customers to reduce energy consumption and lower utility bills. According to SWGC, the CEE Plan would cost-effectively save energy and advance market transformation, thus reducing the need for future market interventions.

The issue is whether the proposed CEE Plan is reasonable and justified, consistent with the law, and in the public interest.

3.7. Proposed Depreciation Rates

On August 14, 2012, SWGC provided DRA with a study of depreciation rates and practices, based on 2011 year-end data for SWGC's natural gas properties (Depreciation Study) and on Commission Standard Practice U-4. In the Depreciation Study, SWGC proposes to apply a single set of depreciation rates to properties in the South Lake Tahoe and Northern California service areas. SWGC seeks to implement the proposed depreciation rates concurrently with approval of tariffs in this proceeding.

The issue is whether SWGC's proposed depreciation rates are reasonable and justified, consistent with the law, and in the public interest. For this issue, DRA may examine plant balances, reserves, service lives, survivor curves, net salvage rates, cost of removal, and/or net salvage values.

3.8. Summary of Earnings/Results of Operations

In the chapter 6 of volumes II-A, II-B, and II-C, SWGC presents its "Summary of the Overall Results of Operations" for each of its three California service areas. These data show SWGC's proposed revenues based on projections of revenues, expenses, net earnings, rate base, and rate of return. This data may be used in SWGC's computer model, Results of Operations (RO). The issue is whether SWGC's RO and its underlying costs, forecasts, and other supporting data are reasonable and justified, consistent with the law, and in the public interest.

3.9. Sales, Customers, and Revenues

In the chapter 20 of volumes II-A, II-B, and II-C, SWGC presents operating revenues based on estimated sales, customers, and billing factors including effective rates. This data show the amount of proposed gross revenues; the percentage of increase or decrease estimated to result from the proposed rates; SWGC's supporting sales and customer forecasts; and the proposed revenue increase or decrease in dollars and percentage increase over current levels for each rate classification. DRA will review and evaluate whether SWGC's costs, forecasts, and other relevant data are reasonable and justified, consistent with the law, and in the public interest. DRA may develop alternative forecasts.

3.10. Expenses and Audit

SWGC's Application also forecasts various types of expenses, e.g., Operations and Maintenance (O&M); Administrative and General (A&G); Pensions and Benefits; and Tax. The issue is whether SWGC's forecasts are reasonable and justified, consistent with the law, and in the public interest. DRA will investigate and analyze SWGC's forecasts and Test Year Expenses and may develop an independent forecast of expenses. DRA has already begun an audit of SWGC's historical expenses.

4. CATEGORIZATION OF PROCEEDING

DRA agrees that this proceeding should be categorized as ratesetting.

5. PREHEARING AND EVIDENTIARY HEARINGS REQUESTED

DRA requests that the Commission convene a prehearing conference (PHC) and hold an evidentiary hearing in this matter.

6. DRA PROPOSED SCHEDULE

SWGC's proposed schedule at pp. 8-9 of A.12-12-024 would not provide DRA sufficient time for discovery and to prepare and serve its testimonies. DRA proposes the following schedule:

EVENT	SWGC PROPOSED DATES	DRA PROPOSED DATES
Prehearing Conference	Feb. 1, 2013	Subject to Commission scheduling
DRA Testimony Served	April 26, 2013	May 24, 2013
Intervenor Testimony	May 10, 2013	June 7, 2013
Rebuttal Testimony Served	June 7, 2013	June 28, 2013
PPHs	July 9, 10, 11, 2013	Subject to Commission scheduling.
Discovery Closes	July 1, 2013	Open until docket closed
Evidentiary Hearings	Aug.12-16, 2013	Aug.12-16, 2013
Opening Brief	Sept. 3, 2013	Sept. 6, 2013
Reply Briefs	Sept. 18, 2013	Sept. 20, 2013

DRA's above-proposed schedule preserves SWGC's request for hearings in mid-August, with only minor adjustments to SWGC's other proposed dates. DRA opposes SWGC's proposal to close discovery on July 1, 2013, because as in many proceedings, DRA and other parties may have to conduct discovery after the hearings end.

7. CONCLUSION

DRA respectfully requests that the Commission adopt its proposed schedule stated above; issue a scoping memo; and schedule an evidentiary hearing at its earliest convenience in this ratesetting matter.

Respectfully submitted,

/s/ CLEVELAND W. LEE

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