STATE OF CALIFORNIA EDMUND , *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

FILED
04/06/18
09:44 AM

April 6, 2018

Agenda ID #16422
Ratesetting

TO PARTIES OF RECORD IN APPLICATION 16-07-017:

This is the proposed decision of Administrative Law Judge Haga. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's May 10, 2018, Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, ex parte communications are prohibited pursuant to Rule 8.3(c)(4)(B).

/s/ ANNE E. SIMON
Anne E. Simon
Acting Chief Administrative Law Judge

AES:jt2

Attachment

Decision **PROPOSED DECISION OF ALJ HAGA (Mailed 4/6/2018)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of West Coast Gas Company to Revise its Gas Rates and Tariffs (U910G).	Application 16-07-017

DECISION APPROVING THE 2017 TEST YEAR GENERAL RATE CASE

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Attachment A - West Coast Gas Company, Inc., Test Year 2017 Results of Operations

DECISION APPROVING THE 2017 TEST YEAR GENERAL RATE CASE

Summary

This decision authorizes a revenue requirement for West Coast Gas Company as discussed in greater detail in this decision and in Attachment A. The decision concludes that a revenue requirement increase of $289,606.02 is reasonable and establishes a total base rate operating revenue of $1,242,972.49 and a total operating expense of $1,177,775.74 for the 2017 test year.

The decision also adopts a weighted average cost of capital of 7.45% for West Coast Gas Company based on portions of recommendations from West Coast Gas Company and the Office of Ratepayer Advocates. The decision requires West Coast Gas Company to allocate equally to all customer classes the $289,606.02 revenue requirement increase, while maintaining the current $4 residential customer charge as recommended by the Office of Ratepayer Advocates. The decision also adopts the recommendation of the Office of Ratepayer Advocates to have West Coast Gas Company apply an attrition rate for 2018, 2019, and 2020 based on the Consumer Price Index less a productivity adjustment of 0.5%.

Application 16-07-017 is closed.

1. Factual Background

West Coast Gas Company (WCG) is a public utility furnishing gas services to the Mather and Castle service areas, which are located in the Sacramento area

of California and include the areas that formerly comprised Mather Field Air Force Base in Sacramento County, and Castle Air Force Base in Merced County.[1]

WCG began operations in the Mather service territory in 1997, has grown to serve approximately 80 commercial and almost 1,300 residential customers with approximately 860,000 therm sales in 2016.[2] WCG has had similar growth in the Castle service area with therm sales increasing from 175,000 in 1998 to almost 609,000 in 2016.[3]

On July 29, 2016, WCG filed an Application to increase revenue requirements associated with utility functions that WCG must perform to provide safe and reliable gas service to its customers at reasonable rates. WCG has shown that annual therm sales were lower than projected during the WCG test year 2013 general rate case cycle primarily due to the loss of several large customers, warmer weather, and energy conservation.[4] The test year 2017 projections reflect these changed circumstances. In its Application WCG requested a $341,673 increase for gas distribution operations at the Mather and Castle service territories; a 19.29% increase to overall rates. The Office of Ratepayer Advocates (ORA) filed a protest to the application on August 25, 2016.

A Prehearing Conference (PHC) was set by ruling dated August 25, 2016. On September 27, 2016, the PHC was held to determine parties, discuss the

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[1] WCG also provides service to the Herlong Federal Correctional Institution within the boundary of the Sierra Army Depot which is a Federal enclave in Lassen County. While accounted for in the application, WCG does not seek Commission approval for any changes to that service contract. (WCG-1, p.4.)

[2] WCG-1, p.3, WCG-3, Tab 5a, 2016 Recorded Data.

[3] *Id.*

[4] WCG-1, p.4-5, WCG-4, p.3.

scope, the schedule, and other procedural matters. A Scoping Memo was issued on November 10, 2016.

On December 28, 2016, WCG submitted supplemental testimony to update the recorded therm sales and base rate revenue data and provide recorded heating degree data.[5] WCG submitted additional supplemental testimony on January 11, 2017 to include completed 2016 figures.[6] These changes reduced the requested revenue requirement increase to $314,791, a 17.16% increase to overall rates.

ORA submitted opening testimony on January 27, 2017 recommending a $221,186 increase in WCG's revenue requirement for test year 2017, a 12.06% increase. WCG submitted rebuttal testimony on February 17, 2017. Evidentiary hearings were held on March 13, 2017. Opening briefs were filed on April 24, 2017, and reply briefs were filed on May 12, 2017. The matter was submitted on February 9, 2018.

2. Jurisdiction

The Commission is responsible for fixing rates for all public utilities in operating in California.[7] Applicants are public utilities subject to the jurisdiction of this Commission as defined in California Public Utilities Code Section 222.[8] Public utilities may demand and receive only just and reasonable charges, and must provide "adequate, efficient, just and reasonable service" in a way that promotes the "safety, health, comfort, and convenience of [their] patrons,

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[5] *See*, WCG-2.

[6] WCG-3, p.1.

[7] Cal. Const. Article XII, § 6.

[8] All statutory references are to the Public Utilities Code unless otherwise stated.

employees, and the public."[9] The Commission is required to review proposed rate changes, make a finding that they are justified, and authorize the proposed rate changes before they can take effect.[10]

Responsibility for fixing rates is placed with the Commission, as "the primary purpose of the Public Utilities Act [] is to insure the public adequate service at [just and] reasonable rates without discrimination…."[11] Further, California has long recognized "the commission has the power to prevent a utility from passing on to the ratepayers unreasonable costs for materials and services by disallowing expenditures that the commission finds unreasonable."[12] Thus, "[i]t is settled that commissions have power to prevent a utility from passing on to the ratepayers unreasonable costs for materials and services."[13] Accordingly, our task is to determine what is just and reasonable, and disallow costs that are found to be unjust or unreasonable.

The instant proceeding is categorized as ratesetting. The Commission is charged with the responsibility of ensuring that all rates demanded or received by a public utility are just and reasonable; "no public utility shall change any rate ... except upon a showing before the Commission, and a finding by the

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[9] Cal. Pub. Util. Code § 451.

[10] Cal. Pub. Util. Code § 454.

[11] Pacific Tel. & Tel. Co. v. Public Utilities Com. (1950) 34 Cal.2d 822,826 [215P.2d 441] (citations omitted).

[12] Pacific Tel. & Tel. Co. v. Public Utilities Com. (1965) 62 Cal. 2d 634, 647 [401 P.2d 353, 361]. *See*, Pub. Util. Code § 728.

[13] Pacific Tel. & Tel. Co. v. Public Utilities Com. (1950) 34 Cal.2d 822,826 [215P.2d 441] (citations omitted).

Commission that the new rate is justified."[14] Thus, in ratemaking applications, the burden of proof is on the applicant utility.[15]

In reviewing the application of WCG, the Commission has considered all relevant information necessary to determine whether the applicant's proposed revenue requirement and other requests are just and reasonable, and permit the utility to fulfill its Constitutional and statutory duties.

3. Issues Before the Commission

The Commission is asked to review and rule on the following issues: (1) the methodology used to determine the rate increase; (2) the reasonableness of the requested rate increase; (3) the estimate of sales and revenue; (4) operating expenses; (5) safety concerns and considerations; (6) the amount of uncollectibles; (7) cost of capital; (8) post test year ratemaking – attrition; and (9) rate design.

While ORA and WCG agreed on many of the issues, there were seven primary areas of disagreement: (1) the level of operating expenses allowed for employee training, annual safety-related compliance filings, and safety audit compliance; (2) the appropriate level of salary allowed for WCG's chief operating officer; (3) the appropriate level of legal services included in test year 2017; (4) the uncollectible rate; (5) the cost of capital; (6) the purchase or continued rental of an excavator; and (7) the attrition year adjustment. The differences can be numerically represented in the following chart:

[14] *Application of Pacific Gas and Electric Company* (2000) D. 00-02-046, p. 36, 2000 Cal. PUC LEXIS 239.

[15] *Re Energy Cost Adjustment Clauses* (1980) 4 CPUC 2d 693, 701; D.92496.

Issue	**WCG's Position**	**ORA's Position**
Total Revenue Requirement Increase	**$314,793.93**	**$221,186.35**
Account 768: Safety, Audits, OQ Training, Field Training	$77,320.04	$51,122.46
Account 920 A&G Salaries	$64,805.05	$43,243.15
Account 923 Outside Services Non-Labor	$43,774.23	$34,203.33
Capital Structure	70% equity 30% debt	60% equity 40% debt
Return on Equity	10%	8.50%
Cost of Debt	5.0%	4.0%
Capital structure: Weighted Cost of Capital	8.5%	6.7%
Capital Additions	$181,966.31	$128,676.31
Uncollectibles	0.1643%	0.0882%
Attrition Year Adjustment	CPI	CPI minus 0.50%

The Parties also differ on how to apply these changes in the rate design. In addition, late in the proceeding,[16] WCG requested the Commission authorize WCG to establish a two-way balancing account for the purpose of decoupling WCG's gas sales from its annual revenues. ORA disputes whether the issue of decoupling gas rates from gas consumption is within the scope of the proceeding.

[16] WCG-2, p.3, WCG-4, pp.19-20.

3.1. Summary of the Positions of the Parties' Areas of Disagreement

First, ORA and WCG disagree on a number of issues related to employee training, CEO salary, and legal services. WCG contends that the forecast of $77,320.02 for Federal Energy Regulatory Commission (FERC) Account 768 employee hours allocated to safety audits, Operating Qualification training, and field training is appropriate. ORA states that it used the lower of the two figures provided by WCG as the lower figure was consistent with prior years. Further, ORA disputes WCG's showing that the higher costs are reasonable as WCG did not provide detailed information regarding the scope and purpose of FERC Account 768 and that it did not check with its covered employees[17] to obtain assistance in preparing the FERC Account 768 forecast. WCG responds that ORA did not provide a reasonable justification for the $26,197.58 reduction from WCG's request.

WCG states that between 2012 and 2015 its Chief Executive Officer (CEO) did not receive a salary because the company's revenues decreased sharply for that period, and that it is reasonable to include a salary for the CEO going forward. ORA took a five-year constant dollar average of the amounts recorded to forecast 2017 salaries, and noted that the CEO is receiving $10,500 in monthly rents from WCG that is reflected in the company's operations and maintenance (O&M) account. WCG contends that the five-year average unfairly punishes its management for deciding to not take a salary when revenues fell.

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17 *See* federal Pipeline and Hazardous Material Safety Administration Rules; Reporter's Transcript (RT) at 13 ln. 26 – 14 ln. 1.

WCG proposes $43,774.23 in outside legal services, which is the same amount it spent in 2015. In 2015 WCG spent $9,570.90 for outside legal services related to a Commission Safety and Enforcement Division (SED) citation. While WCG does not expect another citation, it believes including this amount is reasonable to address increased regulatory compliance related legal costs. WCG further contends that the cost is only a couple of hours per month of typical legal costs. ORA contends that legal fees associated with validly issued citations for regulatory violations should not be borne by ratepayers, and that allowing WCG to include costs associated with regulatory violations in rate base provides a disincentive to prevent such errors from reoccurring. In addition, ORA argues that non-reoccurring expenses should not be included as a normal test year expense. WCG counters that ORA has not analyzed the additional regulatory burdens that it faces including the filing of an annual safety audit pursuant to Decision (D.) 12-12-009, and WCG's mandatory inclusion in the leak abatement proceeding, Rulemaking (R.) 15-01-008.

Second, the parties disagree on captial structure issues. WCG has a 100% equity capital structure. WCG and ORA agree that for regulatory purposes the Commission should impute a hypothetical capital structure, but differ as to what the structure should be. WCG proposed a 70% equity to 30% debt hypothetical capital structure, while ORA proposed a 60% equity to 40% debt hypothetical capital structure.

WCG states that the imputed capital structure is aspirational and that in a few years it will be able to demonstrate to lenders that WCG is a reliable investment risk. ORA argues that since the rate increase it recommends is larger

than what has been granted to other utilities,[18] a 40/60 debt-equity ratio is appropriate to mitigate the rate increase. ORA also argues that the 40/60 debt-equity ratio compares favorably to the large investor owned utilities in California, including PacifiCorp and Liberty Utilities (Liberty). WCG counters that it is less than one-third the size of PacifiCorp and Liberty and that both of those companies have access to borrowing power from their parent companies that WCG does not have.

WCG proposes a 10% return on common equity (cost of equity) and a 5% debt rate (cost of debt). ORA proposes an 8.5% cost of equity and a 4% cost of debt. ORA's weighted cost of equity return would be $42,172.23,[19] which is $19,142.29 less than the weighted return WCG recommends. WCG contends that the resulting 7% weighted equity return is a relatively small amount, $61,314.52, and would be a building block to a more robust financial future and ensure WCG customers receive reliable and safe gas service. Further, WCG contends that the current 8.5% return on equity yielded a negative 22.62% return and that an increase is needed to help WCG earn a positive return in the future. ORA states that its proposed 8.5% return on equity is consistent with the 8.5% figure adopted in WCG's last general rate case and is unlike the reductions in the return on equity made recently to other utilities. ORA claims that not reducing its return on equity is fair compared to other utilities, but WCG contends that such a comparison ignores the fact that the other utilities all started at a higher return on equity than WCG. WCG further argues that ORA's reliance on Aa Utility

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[18] *See*, D.15-11-021 at p.2 (8% decrease in test year revenue requirement); D.16-06-054 at p.4 (7% increase for 2016). *See also*, WCG-8, p.2, WCG-9, p.2.

[19] WCG-10.

bond rates in 2012, 2013, and 2016 is not reasonable given its small size and financial structure.

ORA's proposes to keep the cost of debt for WCG at its current 4% level. ORA stated that it looked at the cost of debt for PacifiCorp and Liberty as proxies to make its recommendation.[20] PacifiCorp's cost of debt is 5.94%,[21] and Liberty's cost of debt is 4.92%.[22] The larger California utilities have costs of debt between those two figures.[23]

The use of their respective inputs results in WCG proposing a weighted cost of capital of 8.5%, which would be $74,453.34 in its calculation.[24] ORA proposes a 6.7% weighted cost of capital, or $55,402.94 in its calculation.[25]

Third, the parties disagree on general plant additions. WCG forecasts approximately $113,547.72 in total general plant additions to pay for a new truck, an excavator, regulating and metering equipment, meters, and tools. ORA forecasts $53,290 less than WCG for the cost of general plant additions, or $60,257.72. ORA's forecast differs from WCG because it did not include the cost to purchase the excavator that was included in WCG's forecast. WCG contends that over a 14-year period purchasing an excavator will save ratepayers $43,791.25, and that it would pay for itself in avoided costs savings within the first two years. ORA contends that the continued renting of an excavator is more

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[20] RT p.62:11-21-64:13-19.

[21] *Id.*

[22] RT p.65:1-5.

[23] D.12-12-034 p.17, ORA-4 p.5.

[24] WCG-3, Tab 31.

[25] ORA-2, p.13; *see also,* WCG-10.

cost effective. ORA's states that its analysis shows that there is no benefit to ratepayers until 2020, which falls within WCG's next rate case.[26] WCG also contends that purchasing an excavator will provide it with an important piece of equipment in a gas emergency.[27] ORA disputes this claim by pointing out that the single excavator would have to be transported to the Castle location if the emergency were in that location.[28] WCG states ORA did not increase operating costs by $4,097.38 to account for the continued rental cost of an excavator, if ORA's recommendation that the purchase of an excavator is not allowed.[29] ORA agrees that this was an error, but that WCG was not clear in indicating it had reduced 2015 recorded operating costs in its R/O model, and thus ORA had no basis upon which to make such an adjustment.[30]

Fourth, parties disagree on the uncollectibles rate. WCG proposes to continue its currently authorized 0.1643% uncollectibles rate. WCG states that the five year average of its uncollectible accounts is 0.1740%.[31] WCG argues that since the level of uncollectibles has decreased overall since 2009 – though it has fluctuated year-to-year – the currently authorized 0.1643% fairly captures that trend. ORA proposes a 0.0882% uncollectibles rate based on a three year average and comparable to the 2015 rate of 0.0865%.[32] WCG counters that the significant

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[26] ORA-3, p.7.

[27] WCG-1, p.12, WCG-4, p.18.

[28] RT p.14:2-21.

[29] WCG-4, pp.18-19.

[30] *Opening Brief of the Office of Ratepayer Advocates, p.*9.

[31] WCG-1, p.15.

[32] ORA-2, p.11.

year-to-year fluctuations, even over the last three years, means that ORA's proposed three year average is not representative of WCG's general uncollectibles level, and not reasonable given the abnormally low levels in 2013 and 2015.

Finally, parties disagree on attrition year adjustments and cost allocation. WCG proposes an attrition year adjustment mechanism for this general rate case cycle be an annual Consumer Price Index (CPI) adjustment with no corresponding productivity adjustment. ORA proposes to continue the 0.50% productivity adjustment from the last general rate case. WCG states that its proposal will allow WCG to receive sufficient revenue during the attrition years to cover its cost of service and provide a fair return. ORA contends that this same productivity adjustment has been in place since at least 2005 for PacifiCorp[33] and since 2008 for Liberty,[34] and that it provides an incentive to the utility to achieve all possible efficiencies and control costs.

WCG proposes to allocate its forecasted revenue requirement equally to all customer classes with a 17.16% increase.[35] This would result in a monthly customer charge increase of $1.31 for residential customers and average monthly bill increases of between $6.05 and $71.57 depending on the customer's service schedule.[36] WCG contends that the majority of the revenue requirement increase should be borne by WCG's residential customers, as 80% of the forecast therm

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[33] ORA-2, p.14 (*citing*, D.06-12-011 at p.7, and D.10-09-010 at p.10).

[34] ORA-2, p.14 (*citing*, D.09-10-041 at p.8).

[35] WCG-1, p.14-15, WCG-3, Tab 38.

[36] WCG-3, Tab 38.

usage for test year 2017 is at baseline rates.[37] However, WCG proposes to allocate the revenue requirement equally, which results in residential customers bearing approximately one-third of the rate increase.[38] ORA contends that increasing the residential monthly charge will serve as a disincentive to WCG's customers to conserve and be more energy efficient and thus proposes that the rate increase be applied to distribution rates and the residential customer charge remain at $4.00, and that a rate design that increases residential monthly customer charges by more than 32% should be rejected.[39]

4. Discussion and Analysis

Both parties agree about the methodology for calculating WCG's test year 2017 general rate case. WCG calculated its recommended rate increase for test year 2017 through its cost of services study, or Results of Operations (RO) model.[40] WCG asserts that the RO model is a comprehensive examination of every cost and expense that comprises WCG's ultimate revenue requirement for recorded years 2015 and 2016, and test year 2017.[41] Operating revenues and expenses do not include procurement costs, franchise fees, uncollectible accounts, or public purpose program costs; only the rate base components are included in WCG's RO model.[42] WCG began with 2015 recorded data and made adjustments to eliminate any non-recurring operating costs to produce a

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[37] WCG-1, p.14-15.

[38] *Id.*, p.15.

[39] ORA-3, p.9.

[40] WCG-1, p.7.

[41] *See*, WCG-3, Tab 1.

[42] WCG-1, p.7.

normalized RO 2015 at WCG's current rates.[43] WCG then created a pro forma 2016 from the normalized RO 2015 by adding cost increases due to inflation, cost elements for safety-related employee and consultant hours, legal costs associated with future Commission proceedings, costs related to employee benefits, and insurance and workers compensation costs, among other changes.[44] The RO model was updated to reflect recorded 2016 data to create a pro forma RO 2016.[45] Certain common costs were then allocated to non-jurisdictional operations.[46] WCG then added forecasted capital additions and associated depreciation to create its proposed test year 2017 rate base.[47] This process resulted in a forecast of $1,013,670 in operating expenses for test year 2017, which require a total revenue increase of $314,790.96, or 17.16%, for test year 2017.

ORA used different inputs to the model to arrive at a different forecasted revenue requirement for test year 2017.[48] ORA recommends a test year 2017 increase of $221,186, or 12.06%, for WCG. ORA arrives at its smaller proposed increase largely through the disallowance of some operational and capital expenditures as well as through the use of a smaller cost of capital for WCG.

There is no dispute that that the standard for evaluating the fair rate of return is set forth in the three U.S. Supreme Court cases of *Bluefield*,[49] *Hope*,[50] and

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[43] WCG-1, p.7.

[44] WCG-1, p.6, 8.

[45] *See*, WCG-3.

[46] WCG-1, p.8.

[47] WCG-1, p.8.

[48] *See*, ORA-2.

[49] Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923) (Bluefield).

Duquesne.[51] The Commission need not use a particular methodology in applying the Constitutional standard, as long as the Commission allows the utility a reasonable opportunity to earn a fair return on investments. The weighted average cost of capital (WACC) formula has been used by the Commission for decades and the parties agreed to its use in WCG's RO model in this case.[52]

Accordingly, we find it reasonable to use WCG's RO model and methodology to calculate the revenue requirement for test year 2017. We discuss differences the parties have for the inputs to the model and ultimate outputs, including the revenue requirement further below. Attachment A to this decision sets forth a table showing adopted test year 2017 results of operation.

4.1. Operating Expenses

WCG proposes the Commission authorize $1,193,704 for Operating Expenses for test year 2017. ORA proposes the Commission authorize $1,100,096 for test year 2017 Operating Expenses for WCG. The differences between the recommendations are explained below. After fully reviewing the record we determine that $1,190,858 should be authorized for WCG's test year 2017 Operating Expenses as explained below.

4.1.1. Distribution Operating Expenses

WCG proposed $391,178.28 for Distribution Operations for test year 2017. This includes costs to maintain and service the gas distribution mains, associated employee labor and supervision costs, customer installation expenses, metering

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[50] Federal Power Commission v. Hope Natural Gas Company, 320 U.S. 591 (1944) (Hope).

[51] Duquesne Light Company v. Barasch, 488 U.S. 299 (1989) (Duquesne).

[52] WCG-3, Tab 31; ORA-2, p.13.

and home regulator costs, rents, and miscellaneous expenses.[53] ORA did not recommend any adjustments to WCG's proposed forecast in this area.[54]

4.1.2. Distribution Maintenance Expenses

WCG proposed $158,288.51 for Distribution Maintenance Expenses for test year 2017. A portion of that request was comprised of $77,320.04 for employee training and safety audit hours. ORA objected to this latter amount, reducing it by $26,197 as the $51,123.04 figure was the lower of two number WCG provided for audits and training.[55]

ORA contends that WCG created FERC Account 768 to separate out administrative functions of other FERC accounts related to maintenance, and thus, any amounts in that account should correspond to decreases in FERC Accounts 767 and 887.[56] ORA contends no such reallocation occurred.[57] Further, ORA argues that since WCG provided it with two different sets of data on the amount of hours and dollars recorded in these distribution operations and maintenance accounts, and that WCG did not check with covered employees to obtain assistance in preparing the FERC Account 768 forecast, that the lower figure was the more reasonable figure to use for this account.

WCG states that the full $77,320.04 for Account 768 employee training and safety audit hours is reasonable for its four "covered" employees.[58] WCG states

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[53] WCG-3, Tab 1, Results of Operations.

[54] ORA-2, p.5.

[55] ORA-6 pp.3-4, ORA-11 pp.2, 6, ORA-12 pp.2-10.

[56] RT p.22:1-8.

[57] *See*, ORA-12.

[58] WCG-4, p.8, *citing* 49 C.F.R. Part 199.

that it is important for its covered employees to be able to adequately prepare for and participate in SED, state, and federal safety audits, prepare a Senate Bill 705 annual safety report, perform an annual review of its operations, maintenance, and emergency procedure manual pursuant to 49 C.F.R. Part 192, prepare an annual Assembly Bill (AB) 1371/R.15-01-008 methane leakage report, prepare an annual U.S. Department of Transportation, Pipeline and Hazardous Materials Safety Administration (PHMSA) gas distribution report and PHMSA drug testing report, perform an annual update and revision to its operator qualifications plan, and perform an annual review and update of its gas distribution integrity management program, including covered employee testing.

WCG argues that ORA's contention that the test year 2017 forecast includes the same number of hours that were expended in response to the 2015 safety audit as WCG made no representation that its projected 335 hours for SED safety audits would be on par with the seven months of work of a full time employee.[59] In addition, WCG contends ORA misread the hours allocated to this account in two different data responses,[60] and did not account for the explanation WCG provided that between the data responses WCG's manager of field operations had reallocated the hours across three categories to show that more time would be spent on training and less would be spent on audits.[61]

Accordingly, WCG contends that the forecasted values in Account 768 are costs that would otherwise be charged to other operations and maintenance

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[59] *Cf.*, ORA-2, p.8.

[60] *See*, ORA-2, p.8, fn. 9, WCG-6.

[61] WCG-7.

accounts, but were allocated to Account 768 beginning in 2015 to capture all labor costs related to training, audit preparation, annual report preparation, responding to the SED data requests, and preparing SED reports.

We agree with ORA that WCG should not forecast a similar level of costs and hours related to document preparation for future Safety and Enforcement Division audits,[62] however, ORA has not shown that WCG's forecast includes a similar level, and we agree with WCG that it does not.[63] WCG should be updating the required information as part of its normal operations,[64] and their forecast indicates it is. Accordingly, WCG's requested $77,320.04 for Account 768 expenses should be approved.

4.1.3. Administrative and General Salary Expenses

WCG requested approval of $64,805.05 for regulated activities in Account 920 Adminsitrative & General salaries.[65] ORA recommended that request be reduced by $21,562.[66] ORA arrived at its recommendation after examining the large variances in salaries over the past five years. ORA took a five-year constant dollar average of the amounts recorded to develop its recommendation.[67] WCG claims the use of an average is inappropriate in this case as WCG's CEO stopped taking a salary in 2012 when the company was facing a substantial financial

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[62] ORA-2, p.8; *see also*, Citation ALJ 274 15-01-005 issued on January 30, 2015 by the Commission's SED.

[63] *See* RT p.52:9-23.

[64] ORA-2, p.8.

[65] WCG-4, p.14.

[66] ORA-2, p.9.

[67] *Id.*

shortfall, and started taking a salary again in 2015 when the revenue situation improved.[68] Accordingly, WCG included the full annual salary in the test year 2017 revenue requirement. WCG argues that it is illogical to use a five year average in this case as it would signal to utilities that the Commission will punish utilities in future rate cases if they cut costs when unexpected revenue shortfalls occur. ORA disputes this characterization and notes that the CEO received another $10,500 per month in rent from WCG, an amount not reflected in his salary but shown elsewhere in O&M.[69]

Under normal circumstances a five-year average of salaries in this category would be a valid approach to determining a reasonable forecast. In this case it is not given the financial shortfall and subsequent revenue improvement. WCG's request for $64,805.05 in Account 920 Administrative & General salaries is reasonable and should be approved.

4.1.4. Outside Services

WCG proposes $43,774.23 for test year 2017 outsider services which include legal services, an answering service, payroll services, banking services, accounting services, and consulting services.[70] ORA challenges $9,571 of that forecast by removing costs for a non-recurring event related to legal services that WCG incurred in 2015. WCG incurred $13,382 for legal services in 2015; $9,614 of which was for defense against an SED citation.[71] WCG admits it used the 2015

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[68] *See*, RT, p.54.

[69] RT pp.23:26 – 24:4, ORA-13, pp.8-10.

[70] WCG-3, Tab 15.

[71] WCG-3, Tab 15, ORA-6, Response to Question 8.

legal costs to derive its test year 2017 forecast.[72] WCG claims that it included those costs in this rate case as it is facing new requirements such as the participation in greenhouse gas proceedings, the filing of annual reports related to greenhouse gas emissions, AB 1371,California Air Resources Board, and annual gas safety filings pursuant to D.12-12-009, as well as other potential Commission regulatory requirements.[73] WCG claims that including the $9,571 is reasonable as it represents only a couple of hours of legal work per month at standard rates. ORA argues that these costs represent non-reoccurring expenses that should not be included in normal test year expenses, and that legal fees associated with validly issued citations for regulatory violations should not be borne by ratepayers.[74]

WCG has not met its burden in this instance to show that the inclusion of the additional $9,571 is reasonable. WCG used the actual 2015 costs without any independent analysis or evaluation. Further complicating the analysis is that the testimony and workbooks are inconsistent in their reference to FERC Account 923, and the components thereof. It is clear is that there is no showing that the activities listed by WCG are new and would require additional costs, nor any analysis of how much outside legal service is needed for those activities. Providing a list of regulatory requirements and saying that the costs we had for a one-time event in 2015 is equal to those activities is not proof that those costs should be allowed. WCG failed to provide any evidence to show that outside legal services are necessary to comply with these requirements. Accordingly,

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72 ORA-6, Response to Question 8.

73 ORA-6, Response to Question 8, WCG-4, pp.16-17.

74 RT, pp.23:26–24:4, ORA-13, pp.8-10.

WCG's request for $43,774.23 for test year 2017 should be reduced by $9,571. WCG's test year 2017 outside services in FERC Account 923 should be approved in the amount of $34,203.23.

4.1.5. Customer Accounting

WCG recommends a total of $121,775.25 for FERC Accounts 901-904 which are used to track expenses for meter reading labor, accounting, and collecting labor, supply expenses, and uncollectible amounts.[75] ORA did not recommend any adjustments for these accounts.[76] WCG's request for its test year 2017 customer accounting in FERC Accounts 901-904 should be approved in the amount of $121,775.25.

4.1.6. Employee Benefits and Vacation

WCG proposed to contribute $15,000 to its employee pension fund each year going forward.[77] ORA did not oppose this contribution.[78] WCG's request for its test year 2017 employee benefits and vacation in FERC Account 926 should be approved in the amount of $15,000.

4.2. Plant Addition

WCG requests $113,547.72 in total general plant additions for test year 2017 to pay for a new truck, an excavator, regulating and metering equipment,

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[75] WCG-3, Tab 9.

[76] *See*, ORA-2.

[77] WCG-1, Tab 1, RO; WCG-4, pp.16-17.

[78] *See*, ORA-2, p.10.

meters, and tools.[79] ORA challenges $53,290 of that request by removing the cost to purchase an excavator.[80]

WCG states that it hopes to purchase the excavator to help it repair underground gas leaks and install new or replacement gas lines. When WCG needs to perform these tasks today it costs $2,717.83 to rent the excavator and associated equipment (trailer and trench plates).[81] WCG estimates it will have to use an excavator at least twice each month.[82] Such use would cost more than $65,000 per year. WCG contends that even if there only five leaks per year that required the excavator its cost-benefit analysis showed the purchase would produce a net ratepayer benefit of at least $43,791 over a 14-year period, with benefits beginning to accrue in 2020, the fourth year of ownership.[83]

ORA disagrees with WCG's request as it was unclear to them that purchasing an excavator would be beneficial to ratepayers. ORA states that the cost to rent an excavator is built into existing O&M costs,[84] and that any benefit to ratepayers wouldn't be realized until 2020, which falls within WCG's next rate case.[85] ORA also argues that WCG did not purchase an excavator in 2016[86] and

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[79] WCG-3, Tab 24.

[80] ORA-3, pp.6-7.

[81] WCG-11.

[82] ORA-3, p.6, *citing* ORA-15, Response to Question 8.

[83] WCG-11, ORA-15, Response to Question 8.

[84] ORA admits it did not remove an additional $4,097.28 from the RO model as it did not know that WCG had reduced operating costs by that amount based on the purchase of an excavator. RT pp.33:9 –35:5.

[85] ORA-3, p.7.

[86] RT p.15:3-8.

that the purchase of a single excavator would still require the rental of a second one if an emergency arose at a location where the purchased excavator was not located.[87]

WCG has shown that the purchase of an excavator will produce a net benefit to ratepayers. Ideally we would have a record that would show how many times WCG has rented an excavator over the past 3-5 years, the cost of each rental, and the purpose for each rental. That would allow a simple comparison for calculating the forward looking cost and benefits to ratepayers. Instead, we are left to analyze the speculative and changing nature of the request – WCG's original workpapers would use an excavator five times per year,[88] WCG's response to ORA claimed it would have occasion to use the excavator at least twice each month,[89] and ORA argues that it is not cost effective as it is a piece of equipment not likely to be used on a daily basis.[90] Further, the avoided cost actually removed from WCG's recorded 2015 operating costs was $4,097,[91] less than projected cost of renting an excavator twice per year, at a cost of $2,718 each time.[92]

After careful review of the record, we agree with ORA that given that the communities served by WCG are only 12 to 14 years old, there should be limited need to use an excavator. However, we find the five times per year estimate

[87] RT p.14:2-21.

[88] WCG-11.

[89] ORA-15, Response to Question 8.

[90] ORA-3, p.7.

[91] WCG-4, pp.18-19.

[92] WCG-11.

used by WCG in its cost-benefit analysis to be reasonable. It is reasonable to expect that the low costs shown in 2015 operating expenses associated with excavator rental will increase over time, and estimating five times per year for the 14-year cost-benefit analysis done by WCG is reasonable. Accordingly, we agree with WCG that ratepayer costs will ultimately be lower by allowing the purchase of an excavator, and associated equipment.

In analyzing what period of time is appropriate for utility plant to produce ratepayer benefits, the Commission evaluates each request on its own merits. Some plant additions do produce ratepayer benefits within the first year of ownership, others take a number of years, often longer than a single rate case cycle. In this case, the analysis shows ratepayers nearly breaking even (a $1.23 cost) in the third year of ownership, and a positive return to ratepayers in the fourth year of ownership. That is a reasonable amount of time given the proposed plant will be used and useful for many years.

WCG's request for $113,547.72 in total general plant additions for test year 2017 to pay for a new truck, an excavator, regulating and metering equipment, meters, and tools should be approved.

4.3. Depreciation Expense and Reserve

WCG forecasts a test year 2017 depreciation expense for its total gas plant in service of $120,640.73, and a year-end reserve balance of $1,876,139.97.[93] ORA did not oppose WCG's methodology for calculating depreciation expenses and reserve for test year 2017.[94] WCG's request for its test year 2017 depreciation

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[93] WCG-3, Tab 25.

[94] ORA-3, p.3.

expense for its total gas plant in service of $120,640.73, and a year-end reserve balance of $1,876,139.97 should be approved.

4.4. Tax Expenses

WCG used a normalized income tax methodology to calculate income taxes for test year 2017, the same methodology it has used for the past five years. ORA did not oppose WCG's income tax methodology because of WCG's small size, but did recommend that WCG implement a memorandum account for tax expenses if any changes to federal tax rates occur during this general rate case cycle. WCG's request to use a normalized income tax methodology to calculate income taxes for test year 2017 should be approved.

We agree with ORA that WCG should implement a memorandum account for tax purposes to account for any tax changes that occur during the general rate case cycle. As Public Law No. 115-97, H.R.1, was enacted at the end of 2017 with tax changes effective January 1, 2018,[95] it is necessary to reflect the change to the income tax rate as a matter of policy. Thus, while WCG is authorized to use its current income tax rate for purposes of this Order, it shall file a Tier 2 Advice Letter within 30 days of this decision with revised revenue requirement reflecting changes to the income tax rate made at the end of 2017. WCG shall submit a revised RO updating all items in Attachment A with the Advice Letter. In the same advice letter, WCG shall also implement a memorandum account for tax expenses effective January 1, 2018.

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[95] *See*, Public Law No. 115-97, H.R.1 - An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018.

4.5. Uncollectible Rate

WCG proposed an uncollectible rate of 0.1643%. ORA proposed an uncollectible rate of 0.0882%. WCG's proposal would continue the rate that was adopted in its last general rate case cycle in D.13-03-014, as that figure is lower than the most recent five year average, 0.1740%, and reflects the decreasing trend in that figure. ORA argues that the rate should be lower as WCG's 2015 recorded uncollectible rate was 0.0865% and the lower number it proposes better reflects the downward trend in uncollectibles for WCG.[96] ORA used the most recent three year average to calculate its 0.0882% uncollectible rate recommendation.

WCG contends that the last three years had two abnormally low years, and that a five-year average more accurately reflects what it expects going forward.[97] The 2013 rate was 0.0608%. The uncollectible rate rose to 0.1173% in 2014, and fell to 0.0865% in 2015. Those were down from the 0.3480% rate in 2011 and the 0.2484% rate in 2012.[98]

We find compelling the arguments made by ORA that the uncollectible rate has been trending lower in recent years, but agree with WCG that the fluctuations that have occurred should be taken into account when adopting a new rate. WCG argues that two of the last three years should be excluded because they had abnormally low rates compared to the rest of the years on the record, however, the same argument can be made against including the 2011 and 2012 rates as being abnormally high. While ORA cites the improved economic

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[96] WCG-1, pp.15-16, ORA-2, p.11.

[97] WCG-1, pp.15-16.

[98] ORA-2, p.11, WCG-3, Tab 36. ORA also provided uncollectible rates for 2010 (0.1818%) and 2009 (0.1592%) in ORA-2, Table 2-7.

conditions of recent years,[99] WCG contends the significant year-to-year fluctuations favor using a wide range to calculate the rate going forward.[100] Based on all of these considerations and the information in the record we will adopt a three-year average to calculate the uncollectible rate in this case. However, that three year average will be calculated from the rates from the past five years and exclude the years with the lowest and highest rates. This methodology produces an uncollectible rate of 0.1495%, which is the uncollectible rate that should be approved by the Commission.

4.6. Cost of Capital

As noted above, there is no dispute that that the standard for evaluating the fair rate of return is set forth in the three U.S. Supreme Court cases of *Bluefield*,[101] *Hope*,[102] and *Duquesne*.[103] WCG proposed a capital structure and costs of equity and debt, while ORA proposed an alternative capital structure and costs of equity and debt. Both proposals are designed to provide a fair rate of return to WCG.

4.6.1. Capital Structure

WCG recommends an imputed capital structure of 70% equity and 30% long-term debt.[104] WCG bases its proposal on the fact that WCG has no debt

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[99] ORA Opening Brief, p.10.

[100] WCG Reply Brief, p.15.

[101] Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923) (Bluefield).

[102] Federal Power Commission v. Hope Natural Gas Company, 320 U.S. 591 (1944) (Hope).

[103] Duquesne Light Company v. Barasch, 488 U.S. 299 (1989) (Duquesne).

[104] WCG-4, ORA-5.

capital and no prospects of obtaining any.[105] As WCG has no debt capital, we must impute a capital structure in order to fashion a fair cost of capital.[106] WCG states that it hopes that after several years of steady and consistent earnings it will be able to demonstrate to lenders that it is a reliable investment risk.[107]

ORA recommends an imputed capital structure of 60% equity and 40% long-term debt.[108] ORA argues that the imputed capital structure would still have WCG have less debt than other utilities in California,[109] and that since its recommended rate increase is larger than what has been granted to other utilities,[110] a debt to equity ratio of 40% to 60% mitigates the significant rate increase. ORA also argues that the 40/60 debt-equity ratio compares favorably to the large investor owned utilities in California, including PacifiCorp and Liberty. WCG counters that it is more three times smaller than PacifiCorp and Liberty and that both of those companies have access to borrowing power from their parent companies that WCG does not have.

The Commission has long recognized that there will be deviations between a capital structure adopted for ratemaking purposes and a company's actual capital structure.[111] In this case the applicant has proposed a 70/30 ratio. ORA's argument that a 60/40 ratio is more appropriate because it mitigates the 12.06%

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105 WCG-4, pp.2-3.

106 *See* D.13-03-014 at p.4.

107 WCG-4, pp.2-3, *see also* RT pp.68:26 –70:1.

108 ORA-2, p.12.

109 RT p.73:14-17.

110 *See*, D.15-11-021 (adopting 8% decrease in test year revenue requirement), D.16-06-054 (adopting a 7% increase for 2016), WCG-8, WCG-9.

111 *See, e.g.*, D.16-12-035.

rate increase it recommended is not persuasive, as we see no reason to link the amount of a rate increase to the adoption of a hypothetical capital structure. ORA's comparison of WCG's hypothetical capital structure to larger utilities in California is also not persuasive in this case. Accordingly, we adopt ratio of 70% equity to 30% debt as a reasonable hypothetical capital structure in this proceeding for use in the calculation of the cost of capital for WCG.

4.6.2. Return on Equity

WCG proposed it receive a 10% return on equity. WCG justifies its proposal by arguing that such a return is necessary to ensure its financial stability, attract debt financing in the future, and provide a significant building block to a more robust financial future. ORA proposed an 8.5% return on equity stating that is consistent with WCG's last general rate case (GRC) and with other utilities' return on equity. WCG argues that ORA's proposal contains no analysis specific to what is reasonable for WCG and the comparisons ORA makes to the larger utilities are so attenuated from WCG's finances to be meaningless. ORA counters that WCG has provided no evidence to support a 10% return on equity.

WCG bears the burden to show that its proposed 10% return on equity is reasonable. WCG has not met its burden of proof on this issue. WCG did not provide evidence showing how similarly situated companies have achieved a 10% return on equity or why such an award is meritted. While WCG may be smaller than the companies ORA showed have lower returns on equity, WCG did not provide an analysis as to why it should be treated differently than those companies, or what economic factors or risks separate it from those companies. While ORA may have attempted to countered those arguments were they

made,[112] they did not have to as WCG did not present a case that would justify a 10% return on equity. Given the lack of evidence to justify increasing the return on equity to 10%, we can determine that it is reasonable to continue the existing return on equity adopted for WCG in D.13-03-014. Accordingly, we determine that an 8.5% return on equity is reasonable in this case.

4.6.3. Cost of Long-Term Debt

WCG proposed a 5% cost of long-term debt, an increase of 1% from its current authorized cost of debt. WCG argues that the increase will contribute to a more robust cost of capital for WCG and is consistent with WCG's actual risk profile. ORA recommends keeping WCG's cost of debt at its currently authorized 4% as it is a reasonable proxy for WCG's cost of debt based on recent costs of debt for utilities. WCG counters that PacifiCorp's current cost of debt is 5.94%,[113] Liberty's cost of debt is 4.92%,[114] Southern California Edison's (SCE) is 5.49%,[115] San Diego Gas & Electric Company's (SDG&E) is 5%,[116] Southern California Gas Company's (SoCalGas) is 5.77%,[117] and Pacific Gas and Electric Company's (PG&E) is 5.52%.[118] WCG argues that all of those are close to or above the 5% figure it proposes and cannot be used to justify maintaining the current 4% cost of debt used by WCG.

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[112] *Cf., e.g.*, D.16-12-035 at pp. 19, 21, 23, 30-34.

[113] RT p.64:13-19.

[114] RT p.65:1-5.

[115] D.12-12-034 at p.17, ORA-4, p.5.

[116] *Id.*

[117] *Id.*

[118] *Id.*

WCG bears the burden to show that its proposed 5% cost of debt is reasonable, and the record supports WCG's 5% proposed cost of debt. ORA's arguments to maintain the current 4% cost of debt rate are not persuasive and the proxies it provides are persuasive to show that WCG's cost of debt should increase to 5%. Accordingly, we determine that a 5% cost of debt is reasonable in this case.

4.6.4. Weighted Average Cost of Capital

The weighted average cost of capital (WACC) sums the costs of debt and equity, each weighted by its proportion in the real or hypothetical capital structure of the subject company. Parties disagree as to the inputs, and whether any adjustments should be made to those inputs, but they do agree on the basic formula:[119]

WACC = ((% of capital that is equity) * (cost of equity)) +
((% of capital that is debt) * (cost of debt))

WCG proposed an 8.5% weighted cost of capital based on its inputs, yielding an after-tax return of $74,453.34.[120] ORA proposed a 6.7% weighted cost of capital based on its inputs, yielding an after-tax return of $55,402.94.[121] The inputs the Commission finds reasonable above result in a 7.45% weighted average cost of capital, yielding an after-tax return of $65,196.74, based on the authorized test year inputs.[122]

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[119] WCG-3 at Tab 31; ORA-2, p.13.

[120] WCG-3, Tab 31.

[121] ORA-2, p.13, WCG-10.

[122] *See* Attachment A.

4.7. Post Test Year Ratemaking – Attrition

WCG proposed a four-year general rate case cycle. ORA did not oppose that request. We agree that a four-year general ratecase cycleis reasonable. Accordingly, WCG's request for three attrition years should be adopted. WCG may file its next GRC application after April 1, 2020 with a 2021 test year.

WCG proposed a post-test year adjustment based on the CPI.[123] ORA proposed an attrition adjustment based on the CPI less a productivity adjustment of 0.5%.[124] Neither WCG nor ORA presented evidentiary support for their proposals.[125] ORA states that the current attrition adjustment of CPI less 0.5% was approved in D.13-03-014, and was also adopted in the Liberty and PacifiCorp GRCs. WCG counters that the settlement that led to D.13-03-014 contained language that no part should have express or implied precedential effect. WCG also argues that it is much smaller than PacifiCorp and Liberty, and that ORA failed to explain how WCG could reduce its operating costs below the CPI in attrition years. Conversely, ORA cites D.93-12-016 to support its argument that it is long standing Commission policy to include productivity adjustments as part of the attrition rate mechanism.

WCG bears the burden to show that its proposed CPI attrition rate is reasonable. WCG has not met its burden of proof on this issue. We agree with ORA that the Commission includes productivity adjustments to incent applicants to achieve all possible efficiencies and control costs. Accordingly we will adopt an attrition rate for 2018, 2019, and 2020 based on the CPI less a productivity

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[123] WCG-1, p.16.

[124] ORA-2, p.14.

[125] *See*, WCG-1, p.16, ORA-2, p.14, WCG-4, p.17.

adjustment of 0.5%. If WCG does not file its next General Rate Case Application before December 31, 2020, the productivity adjustment shall continue each year after 2020.

4.8. Rate Design

4.8.1. Allocation of Revenue Requirement

WCG proposed to allocate its forecasted revenue requirement equally to all customer classes with a 17.16% increase, or $314,790.96.[126] This would result in a monthly customer charge increase of $1.31 for residential customers (from $4 to $5.31) and average monthly bill increases of between $6.05 and $71.57 depending on the customer's service schedule. WCG proposed to allocate the revenue requirement equally, which results in residential customers bearing approximately one-third of the rate increase.[127]

ORA did not oppose equal allocation of the revenue requirement, however, ORA recommended that for residential customers, the rate increase be applied to distribution rates and the residential customer charge remains $4. ORA argues that increasing the monthly charge will only serve as a disincentive to WCG's customers to conserve and be more energy efficient.[128] ORA states that based on this principle the Commission has rejected requests from both PG&E

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[126] WCG-1, pp.14-15, WCG-3, Tab 38.

[127] *Id.*

[128] *See e.g.*, *Decision Regarding Residential Rate Design for PG&E* (D.11-05-047), June 2, 2011, Finding of Fact 13, *Decision Implementing a Safety Enhancement Plan and Approval Process for SDG&E and SoCalGas* (D.14-06-007), June 20, 2014, Findings of Fact 21-22.

and SDG&E to institute a fixed residential customer charge and has not increased SoCalGas' fixed residential customer charge since 1994.[129]

We agree with ORA that the monthly customer charge should not increase from its current $4 amount. We agree with WCG that the revenue requirement should be allocated equally. Thus, the residential customer charge should remain $4, and the $289,606.02 revenue requirement increase should be allocated equally to all customer classes.

4.8.2. Decoupling Gas Rates from Gas Usage

On December 28, 2016, WCG served WCG-2 to the service list for this proceeding. In that document, for the first time in the proceeding, "WCG requests that the Commission adopt a simplified de-coupling mechanism that would "true-up" recorded therm sales and base rate revenues each year based on the Commission's adopted GRCase Test Year therm sales and base rate revenue and allow WCG to file for a change in rates for the "true-up" via an advice letter filing within 60 days of the close of the year." ORA's Opening Testimony did not address WCG's request.[130]

At the conclusion of the Evidentiary Hearing the parties were asked to brief the issue and include references to Commission precedent on decoupling rates from usage. WCG stated that the "Commission adopted a decoupling policy for the natural gas industry in 1978,"[131] and then it proceeded to discuss

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[129] *See id.*, *Decision Increasing Gross Revenue of SoCalGas (*D.94-12-052, 58 CPUC2d 306) Findings of Fact 39.

[130] *See also*, RT pp.74:7 – 76:21.

[131] WCG Opening Brief, p.34, *citing* Decision No. 89711, Application No. 57602 (*Application of SCE for a general rate increase*), 84 CPUC 733 at 829 (December 12, 1978).

the need for a two-way balancing account and its view that Commission policy favors establishing a decoupling balancing account for WCG.[132] Similarly ORA did not include any helpful references or precedent in its brief, arguing instead that the Commission should dismiss WCG's decoupling request as being outside the scope of this proceeding.[133] ORA argues that since the decoupling issues was not raised in the Application, it was not included in the Scoping Memo. Further, ORA states "the first mention of [the decoupling] request came as an attachment to WCG's workpapers and supplemental testimony on December 28, 2016."[134] ORA also argues the Commission should dismiss consideration of decoupling issue given the brief mention in the supplemental workpapers without including any proposed process to plan or implement decoupling.[135]

ORA is incorrect when it argues that decoupling of gas rates from gas usage is outside the scope of this proceeding. Rate design is specifically enumerated as one of the issues within the scope of this proceeding and the concept of decoupling of gas rates from gas usage is an aspect of rate design.

WCG bears the burden to show that its proposal to decouple gas rates from gas usage is reasonable. WCG has not met its burden of proof on this issue. ORA is correct in pointing out that WCG failed to include any process, plan or methodology to decouple rates from usage. Decoupling rates and usage is more complicated than just adopting a balancing account.[136] WCG's only cite to

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[132] WCG Opening Brief, p.34.

[133] ORA Opening Brief, p.14.

[134] *Id.*, *citing* WCG-2, p.3.

[135] ORA Opening Brief, p.14.

[136] WCG-2, p.3.

Commission precedence is to a 1978 case that states the Commission has adopted a method "for gas utilities to insure that declining sales do not erode earnings."[137] However, that decision just contains a basic recitation of a policy that existed in 1978, and does not provide the Commission with any information upon which it can act in this case. WCG did not provide the Commission with a comprehensive proposal that can be reviewed and considered. As such, it is not in the public interest to approve the decoupling concept at this time. WCG has not explained how the Commission could decouple rates from usage in this proceeding. The Commission hopes WCG will develop a proposal to decouple gas usage from gas rates as part of its next general rate case. Such a proposal should include, at a minimum, a process to forecast supply and sales, a process to address any imbalances between forecast and actual supply and demand, such as trigger mechanisms, and a means to provide for a compliance review for each period forecasted.[138]

4.9. Sales and Revenues Forecast for WCG

WCG proposed to use a test year 2017 total therm sales forecast of 1,410,744 which was comprised of residential therm sales at 493,325 therms, based on 1,249 customers and an average per-customer usage of 395 therms, and commercial sales of 364,622 therms at Mather and 552,797 therms at Castle.[139] At current rates, such sales would produce $926,483.61. ORA did not dispute the

[137] 84 CPUC 733, at p.829.

[138] As we find WCG did not meet its burden of proof on this issue we do not need to address the issue of whether ORA was prejudiced in its review of the application by introduction of this issue shortly before its intervenor testimony was due.

[139] WCG-3, Tab 4, Revenue.

forecast of sales and revenues proposed by WCG. Accordingly, we approve WCG's forecast of sales and revenues for test year 2017.

Based on the decisions above to the inputs to the RO model, the total base rate operating revenue of $1,242,972.49 for West Coast Gas Company is reasonable, and a total operating expense of $1,177,775.74 for WCG is reasonable. Accordingly, we determine that a total revenue requirement increase of $289,606.02, or 15.79%, is reasonable. Attachment A provides the Results of Operations for the test year for WCG.

Finally, given that this decision addressing WCG's GRC is not effective on January 1, 2018, and recognizing that the revenue requirement is based on a full year of data, we anticipate a revenue shortfall could result in WCG not being able to recover its full revenue requirement. In light of this fact, we authorize WCG to submit a Tier 2 Advice Letter within 30 days of this decision to request the revenue differential between January 1, 2018 and the first day of the next month following the adoption of this decision (effective date). The Advice Letter should provide a calculation to "true-up" the revenue differential.

5. Conclusion

We conclude that WCG's GRC application should be approved, subject to the terms and conditions set forth in the Ordering Paragraphs below, including a total base rate operating revenue of $1,242,972.49, a total operating expense of $1,177,775.74, and a weighted cost of capital of 7.45%. This would increase the revenue requirement by $289,606.02 which will be allocated equally to all customer classes. The total the residential customer charge will remain $4.

WCG will apply an attrition rate for 2018, 2019, and 2020 based on the CPI less a productivity adjustment of 0.5%, and file its next GRC application after April 1, 2020 with a 2021 test year.

The revenue requirement adopted herein, will enable WCG to fulfill its obligations as a utility in its service territory; afford WCG a fair opportunity to earn a reasonable return on its investments, attract capital for investment on reasonable terms, and ensure the financial integrity of WCG; and assist WCG in meeting the Commission's minimum safety goals and expectations pursuant to Pub. Util. Code § 451.

6. Categorization and Need for Hearing

In Resolution ALJ 176-3382, the Commission preliminary categorized this application as ratesetting, and preliminary determined that hearings were necessary. The Scoping Memo confirmed these designations. An Evidentiary Hearing was held on March 13, 2017.

7. Comments on Proposed Decision

The proposed decision of Administrative Law Judge (ALJ) Haga in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on _______, and reply comments were filed on ______________ by ________________.

8. Assignment of Proceeding

Carla J. Peterman is the assigned Commissioner and Robert W. Haga is the assigned ALJ in this proceeding.

Findings of Fact

1. On July 29, 2016, WCG filed an Application to increase revenue requirements associated with utility functions that WCG must perform to provide safe and reliable gas service to its customers at reasonable rates.

2. Annual therm sales were lower than projected during the WCG test year 2013 general rate case cycle primarily due to the loss of several large customers, warmer weather, and energy conservation.

3. It is reasonable to use WCG's RO model and methodology to calculate the revenue requirement for test year 2017.

4. WCG's requested $77,320.04 for Account 768 expenses should be approved.

5. WCG's request for $64,805.05 in Account 920 Administrative & General salaries is reasonable and should be approved.

6. WCG's request for its test year 2017 outside services in FERC Account 923 should be approved in the amount of $34,203.23.

7. WCG's request for its test year 2017 customer accounting in FERC Accounts 901-904 should be approved in the amount of $121,775.25.

8. WCG's request for its test year 2017 employee benefits and vacation in FERC Account 926 should be approved in the amount of $15,000.

9. There should be limited need to use an excavator, given that the communities served by WCG are only 12-14 years old.

10. It is reasonable to expect that the low costs shown in 2015 operating expenses associated with excavator rental will increase over time.

11. The estimated use of an excavator of five times per year to conduct a cost-benefit analysis is reasonable.

12. Ratepayer costs will ultimately be lower by allowing the purchase of an excavator, and associated equipment.

13. WCG's request for $113,547.72 in total general plant additions for test year 2017 to pay for a new truck, an excavator, regulating and metering equipment, meters, and tools should be approved.

14. WCG's request for its test year 2017 depreciation expense for its total gas plant in service of $120,640.73, and a year-end reserve balance of $1,876,139.97 should be approved.

15. WCG's request to use a normalized income tax methodology to calculate income taxes for test year 2017 should be approved.

16. WCG should be required to file an advice letter to implement a memorandum account for changes to tax expenses effective January 1, 2018.

17. A three-year average uncollectible rate should be calculated from the uncollectible rates from the past five years, excluding the years with lowest and highest rates.

18. An uncollectible rate of 0.1495% is adopted for WCG to use going forward.

19. A ratio of 70% equity to 30% debt is a reasonable hypothetical capital structure for use in the calculation of the cost of capital for WCG.

20. An 8.5% return on equity is reasonable for WCG.

21. A 5% cost of debt is reasonable for WCG.

22. A 7.45% weighted average cost of capital is reasonable for WCG.

23. WCG's request for three attrition years should be adopted.

24. An attrition rate for 2018, 2019, and 2020 based on the CPI less a productivity adjustment of 0.5% is reasonable for WCG.

25. A total base rate operating revenue of $1,242,972.49 for WCG is reasonable.

26. A total operating expense of $1,177,775.74 for WCG is reasonable.

27. A total revenue requirement increase of $289,606.05, or 15.79%, is reasonable.

28. The residential customer charge should remain $4, and the $289,606.05 revenue requirement increase should be allocated equally to all customer classes.

29. The RO for the test year for WCG is reflected in Attachment A.

30. WCG's forecast of sales and revenues for test year 2017 should be approved.

31. Given that this decision addressing WCG's GRC is not effective on January 1, 2018, and recognizing that the revenue requirement is based on a full year of data, we anticipate a revenue shortfall could result in WCG not being able to recover its full revenue requirement.

32. WCG should be authorized to submit a Tier 2 Advice Letter within 30 days of this decision to request the revenue differential. The Advice Letter should provide a calculation to "true up" the revenue differential.

Conclusions of Law

1. The Commission is responsible for fixing rates for all public utilities in operating in California.

2. Applicant is a public utility subject to the jurisdiction of this Commission as defined in California Public Utilities Code Section 222.

3. The Commission is charged in the Public Utilities Act with determining what is just and reasonable, and disallowing costs that are found to be unjust or unreasonable.

4. The legal standard for setting the fair cost of capital has been established by the United States Supreme Court in the *Bluefield* and *Hope* cases.

5. The burden of proof is on the applicant utility.

6. In reviewing the application of WCG, the Commission has considered all relevant information necessary to determine whether the applicant's proposed revenue requirement and other requests are just and reasonable, and permit the utility to fulfill its statutory duties.

7. WCG has not met its burden in this case to show that the inclusion of the additional $9,571 for outside legal services is reasonable.

8. WCG has not met its burden to show that its proposed 10% return on equity is reasonable.

9. The proxies ORA provides are persuasive to show that WCG's cost of debt should increase to 5%.

10. WCG has shown that a four-year GRC schedule should be adopted for its next rate case and three attrition years should be adopted.

11. WCG has not met its burden to show that its proposed CPI attrition rate is reasonable.

12. WCG has not met its burden to show that its proposal to decouple gas rates from gas usage is reasonable.

13. It is not in the public interest to approve the decoupling concept put forth by WCG at this time.

14. WCG should be required to file a Tier 2 Advice Letter within 30 days of this decision with revised revenue requirement reflecting changes to the income tax rate made at the end of 2017 and effective January 1, 2018, and that Advice Letter should include a revised RO updating all items in Attachment A and implementation of a tax memorandum account.

15. All pending motions in this proceeding not specifically addressed in this decision, or previously addressed, should be denied as moot.

O R D E R

IT IS ORDERED that:

1. West Coast Gas Company's application to Revise its Gas Rates and Tariffs is granted as set forth below and the accompanying Attachment A:
    a) A revenue requirement increase of $289,606.02;
    b) A total base rate operating revenue of $1,242,972.49;
    c) A total operating expense of $1,177,775.74; and
    d) West Coast Gas Company's weighted average cost of capital shall be 7.45%.
2. West Coast Gas Company shall allocate the $289,606.02 revenue requirement increase equally to all customer classes, and the monthly customer charge should not increase from its current $4 amount.
3. The revision of West Coat Gas Company rates as set forth is approved effective the first day of the next month following the adoption of this decision. Within 30 days of the issuance of this decision, West Coast Gas Company shall file a Tier 2 Advice Letter with revised tariffs setting forth the revised rates, effective January 1, 2018. Within seven days of the effective date of the advice letter, West Coast Gas shall notify its customers of the revised tariffs and rates.
4. The Results of Operations (Attachment A) is adopted for West Coast Gas Company for all purposes consistent with established and historical General Rate Case processes practiced by all Commission Industry Divisions.

5. West Coast Gas Company (WCG) shall apply an attrition rate for 2018, 2019, and 2020 based on the Consumer Price Index less a productivity adjustment of 0.5%. If WCG does not file its next General Rate Case Application before December 31, 2020, the productivity adjustment shall continue each year after 2020.
6. West Coast Gas Company (WCG) is authorized to use its current income tax rate for purposes of this Order, but it shall file a Tier 2 Advice Letter within 30 days of this decision with revised revenue requirement reflecting changes to the income tax rate made at the end of 2017. In the Advice Letter, WCG shall submit a revised Results of Operation updating all items in Attachment A with the Advice Letter, implement a memorandum account for tax expenses effective January 1, 2018.
7. West Coast Gas Company is authorized to submit a Tier 2 Advice Letter to the Energy Division within 30 days of this decision to request any revenue shortfall resulting from this decision not being approved as of January 1, 2018. The Advice Letter should provide a calculation to "true up" the revenue differential for the period after January 1, 2018 and the first day of the next month following the adoption of this decision (effective date).
8. West Coast Gas should file its next General Rate Case application after April 1, 2020 with a 2021 test year.
9. All pending motions in this proceeding that are not specifically addressed in this decision, or previously addressed in this proceeding, are denied.
10. Application 16-07-017 is closed.

This order is effective today.

Dated _____________________________, at Fontana, California.

ATTACHMENT A

West Coast Gas Company, Inc.

Test Year 2017

Results of Operations

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Ferc Acct. No.		I Results of Operations 2017 Test Year at Current Rates	K Allocation of Expenses to Non-Jurisdictional Operations	L Results of Operations 2017 Test Year at Current Rates Jurisdictional	M Proposed Rate Change	N Results of Operations 2017 Test Year at Approved Rates Jurisdictional
	Base Rate Revenue					
480	Residential Sales of Gas	$ 319,189.01		$ 319,189.01	**$ 96,532.54**	$ 415,721.55
481	Commercial and Industrial Sales of Gas:					
	Mather	348,912.52		348,912.52	**90,983.93**	439,896.45
	Castle	279,217.94		279,217.94	**102,089.55**	381,307.49
495	Other Gas Revenues	$6,047.00		6,047.00	-	6,047.00
	Total Base Rate Operating Revenue	$ 953,366.47		$ 953,366.47	**$ 289,606.02**	$ 1,242,972.49
401	Operations Expense - Distribution					
760	Supervision	$ 154,538.24	$ 13,221.94	$ 141,316.30		$ 141,316.30
761	Mains and Services Labor	24,362.58	526.50	23,836.09		23,836.09
762	Mains and Services Supply	5,489.19	118.63	5,370.56		5,370.56
763	Meters and House Regulators Expense	6,129.52	132.46	5,997.05		5,997.05
764	Customer Installations Expense	26,875.39	580.80	26,294.59		26,294.59
765	Misc. Distribution Expense	98,925.99	2,137.88	96,788.11		96,788.11
766	Rents	100,143.65	8,568.06	91,575.59		91,575.59
	Total Operations Expense	$ 416,464.55	$ 25,286.27	$ 391,178.28		$ 391,178.28
402	Maintenance Expense - Distribution					
767	Maintenance of Lines	$ 39,294.48	$ 849.19	$ 38,445.29		$ 38,445.29
768	Safety Audits, OC Training, Field Training	79,027.91	1,707.87	77,320.04		77,320.04
887	Leak Repairs	43,462.45	939.26	42,523.19		42,523.19
	Total Maintenance Expense	$ 161,784.83	$ 3,496.32	$ 158,288.51		$ 158,288.51
402	Customer Accounting Expense					
901	Meter Reading Labor	$ 21,861.14	$ 16.64	$ 21,844.50		$ 21,844.50
902	Accounting and Collecting Labor	85,076.99	64.77	85,012.23		85,012.23
903	Supplies Expense	14,929.89	11.37	14,918.53		14,918.53
904	Uncollectable Accounts	-	-	-		-
	Total Customer Accounting Expense	$ 121,868.03	$ 92.78	$ 121,775.25		$ 121,775.25

West Coast Gas Company, Inc.

Test Year 2017

Results of Operations

Page 2 of 2

Acct. No.		I Results of Operations 2017 Test Year at Current Rates	K Allocation of Expenses to Non-Jurisdictional Operations	L Results of Operations 2017 Test Year at Current Rates Jurisdictional	M Proposed Rate Change	N Results of Operations 2017 Test Year at Proposed Rates
402	Administration and General Expense					
920	A&G Salaries	$ 67,726.83	$ 2,921.77	$ 64,805.05		$ 64,805.05
921	Office Supplies & Office Expenses	14,376.00	620.19	13,755.81		13,755.81
922	A&G Transferred (Cr)	-	-	-		-
923	Outside Services	35,745.06	1,542.06	34,202.99		34,202.99
924	Property & Liability & Work Comp Ins	81,490.34	8,343.25	73,147.09		73,147.09
926	Employee Benefits & Vacation	94,407.71	4,072.80	90,334.91		90,334.91
927	Franchise Requirements	-	-	-		-
928	Regulatory Commission Expense	885.11		885.11		885.11
930	Misc. General Expense	5,492.05	236.93	5,255.12		5,255.12
931	Office Rent	33,381.21	1,440.08	31,941.13		31,941.13
933	Transportation Expense	-	-	-		-
935	Maintenance of General Plant	19,364.57	835.40	18,529.17		18,529.17
	Total Administration & General Expense	$ 352,868.87	$ 20,012.49	$ 332,856.39		$ 332,856.39
403	Operating Expense - Depreciation	$ 120,640.73	$ -	$ 120,640.73		$ 120,640.73
405	Operating Expense - Amort Expense	$ 4,994.16		4,994.16		$ 4,994.16
408	Operating Expense - Taxes OTIT					
408.a	Payroll Taxes- Temps	$ -		$ -		-
408.b	Property Taxes	12,236.57		12,236.57		12,236.57
408.c	Franchise Taxes	-		-		-
408.e	User Utiliity Tax	-		-		-
	Total Taxes Other Than Income Tax	$ 12,236.57		$ 12,236.57		$ 12,236.57
409	Income Tax Expense			$ -	$ 35,805.85	$ 35,805.85
410	Provision for Deferred Income Tax					
	Total Operating Expense	$ 1,190,857.74	$ 48,887.85	$ 1,141,969.89	$ 35,805.85	$ 1,177,775.74
	Net Operating Income	$ (237,491.27)	$ (48,887.85)	$ (188,603.42)	253,800.16	$ 65,196.74
	Average Rate Base (Tab 2)			$ 875,124.08		$ 875,124.08
	Average Return on Rate Base			**-21.55%**		**7.45%**

(End of Attachment A)