

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298**FILED**10/15/21
03:57 PM

October 15, 2021

Agenda ID #19998
Ratesetting

TO PARTIES OF RECORD IN APPLICATION 20-09-002:

This is the proposed decision of Administrative Law Judge John Larsen. 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 November 18, 2021 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 8.2(c)(4).

/s/ ANNE E. SIMON

Anne E. Simon

Chief Administrative Law Judge

AES:sgu

Attachment

Decision **PROPOSED DECISION OF ALJ LARSEN** (Mailed 10/15/2021)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of West Coast Gas
Company, Inc. (U910G) to Revise its
Gas Rates and Tariffs

Application 20-09-002

**DECISION APPROVING THE 2021 TEST YEAR
GENERAL RATE CASE**

TABLE OF CONTENTS

Title	Page
DECISION APPROVING THE 2021 TEST YEAR GENERAL RATE CASE.....	1
Summary	2
1. Background	2
2. Jurisdiction	4
3. Issues Before the Commission	5
4. Officers Compensation Memorandum Account	6
5. Conclusion	15
6. Comments on Proposed Decision	16
7. Assignment of Proceeding.....	16
Findings of Fact.....	16
Conclusions of Law	18
ORDER	20

Appendix A – Stipulations

.

**DECISION APPROVING THE 2021 TEST YEAR
GENERAL RATE CASE****Summary**

This decision approves a decrease in the revenue requirement for West Coast Gas Company, Inc. (WCG) of \$45,132.96 along with other stipulations in Appendix A, including total operating costs of \$1,237,504 for Test Year 2021. The parties stipulated to the revenue requirement and all other issues except the disposition of the amount held in the Officer Compensation Memorandum Account (OCMA) established under Public Utilities Code Section 706.

This decision allows WCG to retain the amount held in the OCMA for the annual salary of the Chief Financial Officer as a permitted cost because he has not served in an officer position of vice-president or above and performs other necessary non-officer functions. The Chief Financial Officer of this small utility is one of six employees. He manages regulatory affairs and commodity supply. This decision requires the balance of the funds in the OCMA for the salary for WCG's President and Chief Executive Officer to be credited to ratepayers over a period of 20 years or less. This will enable West Coast Gas Company, Inc. to continue to fund activities necessary to maintain safe and reliable gas service to customers in the Mather and Castle communities of Northern California.

Application 20-09-002 is closed.

1. Background

West Coast Gas Company, Inc. (WCG) is a gas utility furnishing gas services to the Mather and Castle service areas near Sacramento, California. These communities are situated in areas formerly occupied by 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 and has grown to serve approximately 80 commercial and almost 1,300 residential customers.

On September 8, 2020, WCG filed Application (A.) 20-09-002 for approval of its 2021 revenue requirements associated with providing safe and reliable gas service to its customers. The Public Advocates Office (Cal Advocates) filed a protest to the application on October 22, 2020.

On November 19, 2020, the assigned Administrative Law Judge (ALJ) held a prehearing conference (PHC) to address the issues, schedule, and other procedural matters relevant to managing the proceeding. On December 22, 2020, the assigned Commissioner issued a Scoping Memo and Ruling.

On March 23, 2021, the ALJ held a public participation hearing during which no public comments were submitted.

On May 10, 2021, the parties filed a joint statement of stipulations and issues resolving all issues except disposition of the amount held in the Officer Compensation Memorandum Account (OCMA) established under Public Utilities Code § 706. The parties' stipulations include a revenue requirement reduction of \$45,132.96 for Test Year 2021 allocated to volumetric rates that would maintain other customer charges at their current level.² The stipulations also include a total operating cost of \$1,237,504 for Test Year 2021.

On June 8, 2021, the ALJ conducted an evidentiary hearing (EH) regarding the OCMA issue.

¹ WCG also provides service to the Herlong Federal Correctional Institution within the boundary of the Sierra Army Depot which is a federal military facility in Lassen County.

² Exhibit F, at 13-14, attached as Appendix A.

On June 14, 2021, the ALJ ordered the parties to develop and serve additional proposals for distributing funds held in the OCMA.

On July 20, 2021, WCG and Cal Advocates filed opening briefs. Attached to WCG's opening brief, WCG included supplemental evidence forming its additional proposals, which are marked as Exhibit F. On August 3, 2021, the parties filed reply briefs upon which the matter stands submitted.

2. Jurisdiction

The California Public Utilities Commission (Commission) is responsible for setting rates for all public utilities operating in California.³ The applicant is a public utility subject to the jurisdiction of the Commission as defined in California Public Utilities Code (Pub. Util. Code) Section 222.8.⁴ Public utilities may collect only just and reasonable rates, and must provide "adequate, efficient, just and reasonable service" in a way that promotes the "safety, health, comfort, and convenience of [their] patrons, employees, and the public."⁵ 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.⁶

Responsibility for setting 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...."⁷ Further, California has long recognized "the commission has the power to prevent a

³ Cal. Const. Article XII, § 6.

⁴ All statutory references are to the Public Utilities Code unless otherwise stated.

⁵ Cal. Pub. Util. Code § 451.

⁶ Cal. Pub. Util. Code § 454.

⁷ *Pacific Tel. & Tel. Co. v. Public Utilities Com.* (1950) 34 Cal.2d 822, 826 [215 P.2d 441] (citations omitted).

utility from passing on to the ratepayers unreasonable costs for materials and services by disallowing expenditures that the commission finds unreasonable.”⁸ 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.”⁹ Accordingly, the Commission’s 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 Commission that the new rate is justified.”¹⁰ Thus, in ratemaking applications, the burden of proof is on the applicant utility.¹¹

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 whether they are sufficient to permit the utility to fulfill its statutory duties.

3. Issues Before the Commission

In a January 5, 2021 Ruling the ALJ identified the following issues as being within the scope of this proceeding:¹²

⁸ *Pacific Tel. & Tel. Co. v. Public Utilities Com.* (1965) 62 Cal. 2d 634, 647 [401 P.2d 353, 361] *See*, Pub. Util. Code § 728.

⁹ *Pacific Tel. & Tel. Co. v. Public Utilities Com.* (1950) 34 Cal.2d 822, 826 [215P.2d 441] (citations omitted).

¹⁰ Application of Pacific Gas and Electric Company (2000) Decision (D.) 00-02-046 at 36, 2000 Cal. PUC LEXIS 239.

¹¹ Re Energy Cost Adjustment Clauses (1980) 4 CPUC 2d 693, 701; D.92-04-096.

¹² Scoping Memo and Ruling dated January 5, 2021.

- 1) the methodology used to determine the rate decrease;
- 2) the reasonableness of the requested rate decrease;
- 3) the estimate of sales and revenue;
- 4) operating expenses, including the officer salaries disallowed by Pub. Util. Code Section 706;
- 5) safety concerns and considerations;
- 6) the amount of uncollectibles;
- 7) cost of capital;
- 8) post test year ratemaking – attrition;
- 9) rate design; and
- 10) Environmental and Social Justice Considerations.¹³

Prior to the hearing, the parties narrowed the issues in dispute to the issue of the disposition of funds held in the Officer Compensation Memorandum Account pursuant to Pub. Util. § 706.

4. Officers Compensation Memorandum Account

Pub. Util. § 706 – which went into effect January 1, 2019 - mandates that salaries and other compensation of officers of energy utilities cannot be recovered from ratepayers.¹⁴

¹³ The nine goals of the Commission’s Environmental and Social Justice Action Plan were considered during the review of this application, which is found to not have an impact on environmental and social justice communities.

¹⁴ Section 706 provides as follows:

a. For purposes of this section, “compensation” means any annual salary, bonus, benefits, or other consideration of any value, paid to an officer of an electrical corporation or gas corporation.

b. An electrical corporation or gas corporation shall not recover expenses for compensation from ratepayers. Compensation shall be paid solely by shareholders of the electrical corporation or gas corporation.

From 2019 to the present, West Coast Gas Company, Inc. has had only seven employees: President and Chief Executive Officer (CEO), Bob Williams (who resigned at the end of 2020); Raymond Czahar who functions as a Chief Financial Officer (CFO), Regulatory Affairs Manager, and Commodity Supply Manager; an Operations Manager; a Field Operations Supervisor; two technicians; and an administrative executive.¹⁵ The salaries of WCG's CEO and CFO were collected in rates and have been tracked in the Officer Compensation Memorandum Account (OCMA).¹⁶ The parties do not dispute that the salary of CEO Bob Williams is subject to disallowance pursuant to Pub. Util. § 706. He served as President of WCG until he retired on December 31, 2020.

Mr. Czahar has not served as an officer in the position of vice-president or above. Mr. Czahar manages WCG's participation in Commission proceedings, supervises the filing of annual reports, manages the procurement of gas and negotiates contracts, and audits accounts.¹⁷ The OCMA contains \$47,533.45 compensating Mr. Czahar for these functions in 2019 and 2020.¹⁸ The OCMA also includes the salary of Mr. Williams, WCG's sole shareholder, from the beginning of 2019 through the end of 2020 when he resigned from his positions of President and CEO.

The rate of return of WCG for Test Year 2021 is calculated by computing the net income and dividing it by the rate base.¹⁹ WCG's revenue comes from the

¹⁵ Exhibit C, Tab 36, Employee Profiles.

¹⁶ D.92-03-094, 43 CPUC 2d 596 (1992), 1992 Cal PUC LEXIS 236, at 7; *see also* 1999 Cal PUC LEXIS 906, at 15.

¹⁷ Exhibit C, Tab 36, Employee Profiles.

¹⁸ Exhibit F, at 8.

¹⁹ Exhibit F, at 2.

sale of gas.²⁰ WCG does not attract outside capital or fund its operations with debt.²¹ The parties' estimate of a fair rate of return for WCG is imputed or based on stipulations regarding WCG's capital structure.²²

In 2018, California enacted Senate Bill (SB) 901 for the purpose of addressing issues concerning wildfire prevention, response and recovery, including funding for mutual aid, fuel reduction and forestry policies, wildfire mitigation plans by electric utilities, and cost recovery by electric corporations of wildfire-related damages.²³ Among other provision, SB 901 prohibits an electrical corporation or gas corporation from recovering from ratepayers any annual salary, bonus, benefits, or other consideration of any value, paid to an officer of the electrical corporation or gas corporation, and requires that officer compensation be funded solely by shareholders instead.²⁴ This aspect of SB 901 was codified in Pub. Util. Code Section 706 and implemented by the Commission through Resolution E-4963.

The Commission implemented Section 706 through Resolution E-4963. Section 706 requires compensation for certain officers to be paid by shareholders, not ratepayers. To implement this provision, Resolution E-4963 required WCG to establish a memorandum account to track officer compensation, so that the compensation could be reviewed for compliance with Section 706 in this general rate case. Any compensation for a WCG officer that Section 706 requires to be

²⁰ Exhibit C, at 5, Results of Operations.

²¹ Exhibit C, at 52-54, Revenue at Current Rates, Tab 33.

²² Application, at 4.

²³ Senate Rules Committee, Office of Senate Floor Analyses, analysis of SB 901, August 31, 2018, at 1.

²⁴ *Id.*, at 9.

paid by shareholders will be disallowed from being a cost paid by ratepayers and will be removed from the annual revenue requirement funded by ratepayers.²⁵ If a disallowed cost has already been included in rates, WCG will need to return those funds to ratepayer accounts over time. The term disallowance is used in this decision to be consistent with the arguments made by the parties. Resolution (Res.) E-4963 defines officers as those employees in positions of vice-president or above, consistent with Rule 240.3b-7 of the Securities Exchange Act.

Also relevant to this issue, Pub. Util. Code Section 959 requires revenue requirements to be sufficient to enable the gas corporation to fund activities necessary to maintain safe and reliable service.²⁶

The California constitution confers broad authority on the Commission to regulate utilities, including to establish rules.²⁷ The Commission's interpretation of the Public Utilities Code must bear a reasonable relationship to statutory purposes and language.²⁸ In this case, those statutory purposes include prohibiting officer salaries from being paid by ratepayers pursuant to Section 706; requiring revenues to be sufficient to enable WCG to fund activities necessary to maintain safe and reliable service pursuant to Section 959; and

²⁵ Resolution E-4963, at 1.

²⁶ "Each gas corporation shall demonstrate to the satisfaction of the commission, in its general rate case proceeding, that the requested revenue requirements will be sufficient to enable the gas corporation to fund those projects and activities necessary to maintain safe and reliable service and to meet federal and state safety requirements applicable to its gas plant, in a cost-effective manner." Pub. Util. Code § 959.

²⁷ Cal. Const., Art. XII, § 6; *BullsEye Telecom, Inc. v. Public Utilities Com.* (2021) 66 Cal. App. 5th 301 (2021).

²⁸ *BullsEye Telecom, Inc. v. Public Utilities Com.* (2021) 66 Cal. App. 5th 301, 309 (2021).

doing all things, “necessary and convenient in the exercise of its jurisdiction” pursuant to Section 701.

WCG contends that, if some or all of the costs in the OCMA are disallowed and WCG is required to return them to ratepayers it will experience a negative rate of return.²⁹ After the Evidentiary hearing, the administrative law judge ordered the parties to submit additional proposals for distributing any potential disallowances from the OCMA.³⁰ Cal Advocates initially proposed a strict interpretation of Section 706 without discussion of Res. E-4963 (scenario A) and proposed a full disallowance of all costs in the OCMA. Cal Advocates then modified its proposal to include an amortization period of 20-25 years (scenario G).³¹ WCG initially proposed disallowing some OCMA costs in proportion to that of large utilities (scenario D) and added scenarios B, C, E, and F after the hearing. These scenarios are summarized as follows:³²

- a. Disallow the entire OCMA balance, amortized over 4 years;³³
- b. Allow the salary of the CFO while disallowing the salary of the CEO through March 2021;
- c. Allow the salary of the CFO while disallowing the salary of the CEO through December 2020. Scenarios B and C differ by three months of the CEO’s salary. Scenario C does not include any of the CEO’s salary in Test Year 2021;
- d. Disallow the OCMA balance in proportion to that of large California utilities;

²⁹ West Coast Gas Company Opening Brief, at 9.

³⁰ E-mail Ruling Requesting Additional Evidence and Revising Schedule dated June 14, 2021.

³¹ Cal Advocates Reply Brief.

³² West Coast Gas Company, Inc. Opening Brief.

³³ This proposal would return the entire OCMA balance to ratepayers accounts over four years.

- e. Limit disallowance of the OCMA to 20% of WCG's equity rate base, amortized over 4 years;
- f. Limit disallowance of the OCMA to 20% of WCG's equity rate base, amortized over 8 years;
- g. Disallow the entire OCMA balance, amortized over 20 to 25 years.

Cal Advocates proposes a complete return of the funds in the OCMA by arguing that no legal authority exists to allow any other scenario. Cal Advocates explains its position by contending that the Commission's discretion is limited by well-established principles of statutory construction.³⁴ However, Cal Advocates does not address potential ambiguity in the definition of officer, or the implications of the Commission's prior interpretation of this term in Resolution E-4963, nor does it address the implications of Section 959, which requires that a utility be granted sufficient funds to maintain safe and reliable service.

WCG argues that the Commission must give consideration to Pub. Util. Code Section 3292, which places a 20% cap on disallowances for safety-related, utility conduct,³⁵ proposed as scenarios E and F. The Commission does not consider Section 3292 because, as WCG acknowledges, Section 3292 only applies to electrical corporations faced with wildfire safety-related issues.³⁶ Section 3292 also does not apply to officer compensation.

The Commission does not consider scenario D because WCG provides no authority for it.

³⁴ Cal Advocates Opening Brief, at 5-6.

³⁵ West Coast Gas Company, Inc. Opening Brief, at 5-6.

³⁶ *Ibid.*

WCG argues that scenarios A, B, and C would provide WCG with such a low rate of return that they would render WCG insolvent and violate the utility's constitutional right to a fair rate of return established in United States Supreme Court precedents.³⁷ The Commission does not accept this argument for several reasons. First, the California Constitution prohibits the Commission from refusing to enforce a statute on constitutional grounds.³⁸ Second, although the Commission appreciates the impact of Section 706 on WCG, the record does not indicate that scenario C would lead to WCG's insolvency or impact its credit.³⁹ Third, if the Commission could resolve this issue on a constitutional basis, it is not clear that the cited Supreme Court holdings apply to a utility that does not attract capital or that earns a rate of return based on an estimated value of capital.⁴⁰

Scenario A is not considered because it would produce a large negative net income and a large negative rate of return. The above considerations taken together eliminate scenarios D, E, and F as scenarios the Commission can consider as just and reasonable dispositions of the OCMA within the Commission's discretion.

WCG argues that Mr. Czahar's salary, which is included in scenarios B and C is allowed by Section 706 and the definition of officer in Resolution E-4963

³⁷ *The Federal Power Commission v. Hope Natural Gas Company*, 320 U.S. 591 (1944) and *Bluefield Water Works & Improvement Company v. Public Service Commission of the State of Virginia*, 262 U.S. 679 (1923).

³⁸ Cal. Const., Art. III, § 3.5.

³⁹ Scenarios A and B would produce a negative operating income and low rate of return. Scenario C would produce a positive net operating income and a low rate of return. Exhibit F, page 2.

⁴⁰ D.19-12-056, at 16.

because Mr. Czahar has never served WCG as an officer in the role of vice-president and above.⁴¹ Cal Advocates does not refute this argument. In addition, Mr. Czahar's functions of managing WCG's participation in Commission proceedings, supervising the filing of annual reports, managing and auditing gas procurement and contracts are not the type of duties typically performed by officers of gas corporations or officers as defined by Resolution E-4963.⁴² Accordingly, the Commission finds that Mr. Czahar's salary compensates functions that do not fit within the meaning of the term "officer" as defined by Resolution E-4963 to define officer compensation that shall be only paid by shareholders. Therefore, allowing Mr. Czahar's salary to be paid from ratepayer funds pursuant to Section 706 is reasonable. WCG has included an amount of compensation for Mr. Czahar's functions for the 2022-2025 rate cycle.⁴³ The Commission accepts this amount as reasonable.

Additionally, Pub. Util. Code § 959 requires revenue requirements in a general rate case proceeding to be sufficient to enable the gas corporation to fund activities necessary to maintain safe and reliable service.⁴⁴ As a commodity supply manager, Mr. Czahar manages the procurement of gas, which is a core function of WCG's service. Mr. Czahar also manages WCG's participation in

⁴¹ West Coast Gas Company, Inc. Opening Brief, at 4-5.

⁴² Resolution E-4963 defines the term "officer" to mean "those employees in positions with titles of Vice President or above, consistent with Rule 240.3b-7 of the Securities Exchange Act."

⁴³ EH Transcript (Transcript) at 37-39.

⁴⁴ Pub. Util. Code § 959 provides that "each gas corporation shall demonstrate to the satisfaction of the commission, in its general rate case proceeding, that the requested revenue requirements will be sufficient to enable the gas corporation to fund those projects and activities necessary to maintain safe and reliable service and to meet federal and state safety requirements applicable to its gas plant, in a cost-effective manner."

Commission proceedings, including this one. Consequently, without funding his position, WCG could not maintain safe and reliable service.

Scenarios B and C include a salary for Mr. Czahar's three functions. However, scenario B would not fully fund all necessary activities pursuant to Section 959 because it produces a marginally negative rate of return for WCG; whereas, the rate of return of scenario C is marginally positive.⁴⁵ Accordingly, to fully fund the necessary activities performed by Mr. Czahar, the Commission finds the most reasonable disposition of the funds held in the OCMA to be scenario C, as modified below.

Mr. Williams resigned from his position as President of WCG at the end of 2020. After 2020, WCG will not be paying him a salary subject to Section 706. WCG will not have a president and Mr. Czahar's salary will not be subject to Section 706. The impact these changes will have on WCG's financial accounting in this rate cycle is that WCG will have lower expenses and a higher net income. And as a result, WCG's higher net income divided by WCG's rate base will yield a higher rate of return to its shareholder.⁴⁶

WCG has been meeting its statutory obligations. If WCG returns the disallowed CEO salary to ratepayers over a four-year amortization period, it will obtain a 0.7% rate of return.

The payment of the disallowed portion of the OCMA shows up on the balance sheet as a reduction in revenue. The payment which decreases WCG's net income, and lowers its rate of return as WCG's annual net income divided by WCG's rate base equals WCG's rate of return.⁴⁷ Consequently, WCG's effective

⁴⁵ Exhibit F, at 2 and 8.

⁴⁶ Transcript, at 39-41.

⁴⁷ Exhibit F, at 2.

rate of return can be increased by decreasing the annual payment of disallowed officer expenses to ratepayer funds by increasing the period over which the disallowance is paid. WCG can obtain a rate of return of approximately 7.45% by allowing WCG to pay to ratepayer funds the amount in the OCMA that is disallowed over a period of 20 years or less.

Considered together, Pub. Util. Code Sections 701, 706, and 959 and Resolution E-4963 require the Commission to harmonize potentially conflicting statutory provisions by interpreting them to reconcile their respective elements so as to carry out the overriding legislative purposes of the statutory scheme as a whole.⁴⁸ The overriding purposes in this case include 1) prohibiting gas corporations from retaining funds in the OCMA for the salary of officers performing functions fitting the definition of officer provided by Resolution E-4963 and 2) enabling the gas corporation to fund activities necessary to maintain safe and reliable service. These purposes are fulfilled by disallowing the CEO salary tracked in the OCMA and allowing the salary of Mr. Czahar that was also tracked in the OCMA because he is performing non-officer functions. Resolution E-4963 requires the amounts reported in the memorandum accounts that are disallowed to be refunded to ratepayers.

5. Conclusion

The stipulations attached in Appendix A are reasonable and should be approved, subject to the terms and conditions set forth in the Ordering Paragraphs below. They include a revenue requirement reduction of \$45,132.96 for Test Year 2021 allocated to volumetric rates while other customer charges are

⁴⁸ *Russell v. Stanford Univ. Hosp.* (1997) 15 Cal. 4th 783, 789.

maintained at their current level. The stipulations include a total operating cost of \$1,237,504 for Test Year 2021.

In accordance with Pub. Util. Code §§ 701, 706, and 959 and Resolution E-4963, the funds tracked in WCG's OCMA shall be returned to ratepayers except for an annual salary in the amount of \$47,533 to compensate WCG's Chief Financial Officer for non-officer duties. Allowing this compensation will enable West Coast Gas Company, Inc. to continue to fund activities necessary to maintain safe and reliable gas service to customers.

6. Comments on Proposed Decision

The proposed decision of ALJ John H. Larsen 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 _____.

7. Assignment of Proceeding

Commissioner Clifford Rechtschaffen is the assigned Commissioner and John H. Larsen is the assigned ALJ in this proceeding.

Findings of Fact

1. The parties agree to a proposed revenue requirement reduction of \$45,132.96 for West Coast Gas Company, Inc. for Test Year 2021.
2. The parties agree to test year operating costs of \$1,237,504.
3. The parties agree to a rate base of \$573,396.
4. The parties agree to an imputed capital structure of 70% equity and 30% debt with a cost of equity of 8.5% and cost of debt of 5.0% resulting in a rate of return of 7.45%.

5. The parties agree to maintain the customer charge at its current level, while allocating any changes to volumetric rates.

6. The parties agree to a residential customer base line allowance of 70% of usage during the winter period of November through March and 60% of usage during the summer period.

7. The parties agree to the establishment of a Base Rate Revenue Balancing Account.

8. The parties used a 5-year average of therm sales for the period from 2016 through 2020 to forecast therm sales in the Mather and Castle communities. The parties agree that post-test year increases will be based on the consumer price index (CPI) less a productivity factor of 0.5% for 2022 and 2023 and 0.25% for 2024.

9. WCG agrees that it will file an affidavit with its 2022 post-test year advice letter verifying that it has filled the position of assistant to the Administrator. If the position has not been filled, WCG will remove the costs associated with this position from its revenues.

10. The parties agree that the account balance of WCG's 2017 income tax rate differentials from its 2017 general rate case reflects the reduction in the federal corporate income tax rate from 35% to 25% and WCG agrees to amortize the reduction as a credit to the test year 2021 amortization expense over a 36-month period with interest on the unamortized balance using the 30-day commercial paper rate as published by the U.S. Federal Reserve.

11. The parties agree to WCG's test year legal expense of \$11,350.

12. Since 2019, WCG has had seven employees, including Raymond Czahar who functions as a Chief Financial Officer, Regulatory Affairs Manager, and Commodity Supply Manager for which he is being compensated \$47,533

annually. He manages WCG's participation in Commission proceedings, supervises the filing of annual reports, manages the procurement of gas, negotiates contracts, and audits accounts.

13. The salaries of two of WCG's officers for years 2019 and 2020 have been included in the OCMA, former Chief Executive Officer and President Bob Williams and Chief Financial Officer Raymond Czahar.

14. Mr. Czahar has not served WCG in the capacity of an officer in the position of vice-president or above.

15. Income in excess of expenses divided by the rate base equals the rate of return.

16. WCG's revenue comes from the sale of gas. As such, WCG does not attract outside capital or fund its operations from equity or debt and receives an imputed rate of return.

17. Any rate of return earned by WCG on debt and equity is imputed.

18. 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 to permit the utility to fulfill its statutory duties.

19. West Coast Gas Company, Inc. attached to its opening brief without opposition the following: Attachment A identified as Scenarios A-F Return Analysis and Attachment B identified as Statement of Stipulations and submitted both as Exhibit F.

Conclusions of Law

1. WCG's Application to Revise its Gas Rates and Tariffs requests are set forth below and in Appendix A; they are reasonable and should be approved:

- a. For test year 2021, a revenue requirement decrease of \$45,132.96;
 - b. For test year 2021, total operating costs of \$1,237,504;
 - c. WCG will maintain the customer charge at its current level, while allocating any changes to volumetric rates;
2. In view of Pub. Util. Code Sections 701, 706, and 959 and Resolution E-4963, it is reasonable to prohibit gas corporations from retaining funds in the OCMA for the salary of officers performing functions fitting the definition of officer provided by Resolution E-4963.
3. In order to enable WCG to fund activities necessary to maintain safe and reliable service, it is reasonable to allow an annual salary of \$47,533.45 to fund Raymond Czahar's performance of non-officer functions consistent with Pub. Util. Code Sections 701, 706, and 959 and Resolution E-4963.
4. The Commission should approve a smaller annual payment of the amount in the OCMA over a period of time of 20 years or less to permit WCG to obtain a reasonable rate of return to approximately 7.45%.
5. The salary of WCG CEO tracked in the OCMA should be disallowed pursuant to Pub. Util. Code Section 701.
6. The disallowed expenses tracked in WCG's OCMA should be returned to ratepayers, over a period of twenty years or less. WCG should be required to file a Tier 2 Advice Letter within 30 days of the issuance of this decision with the revised revenue requirement and other changes set forth in Appendix A.
7. WCG's Exhibit F comprising its proposed scenarios and stipulations should be admitted into evidence.

O R D E R**IT IS ORDERED** that:

1. West Coast Gas Company, Inc.'s requests in its Application to Revise its Gas Rates and Tariffs are granted as set forth below and in Appendix A:
 - a. For test year 2021, a revenue requirement decrease of \$45,132.96;
 - b. For test-year 2021, total operating costs of \$1,237,504;
 - c. West Coast Gas Company, Inc. shall maintain the customer charge at its current level, while allocating any changes to volumetric rates; and
 - d. Except for the annual amount of \$47,533.45 to fund the annual salary of Raymond Czahar, the balance of the Officer Compensation Memorandum Account shall be returned to ratepayers, over a period of twenty years or less.
2. The revision of West Coast Gas Company, Inc.'s rates as set forth above 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, Inc. shall file a Tier 2 Advice Letter with revised rates. Within seven days of the effective date of the advice letter, West Coast Gas Company, Inc. shall notify its customers of the revised volumetric rates. The Results of Operations (Exhibit C-5 to C-8) as modified by the parties' stipulations (Appendix A) is adopted for West Coast Gas Company, Inc. for all purposes consistent with established and historical General Rate Case processes practiced by all Commission Industry Divisions.
3. West Coast Gas Company, Inc. is authorized to submit a Tier 2 Advice Letter to the Energy Division within 30 days of this decision to request any revenue differential between the date of issuance of this decision and first day of the next month following the adoption of this decision. The Advice Letter

should provide a calculation to “true up” the revenue differential for the period after the issuance of this decision and the first day of the next month following the adoption of this decision (effective date).

4. West Coast Gas Company, Inc. is directed to file its next General Rate Case application after April 1, 2024, with a 2025 test year.

5. The documents attached to the opening brief of West Coast Gas Company, Inc. marked as Exhibit F and identified as Attachment A: Scenarios A-F Return Analysis and Attachment B: Statement of Stipulations are admitted into evidence.

6. Application 20-09-002 is closed.

This order is effective today.

Dated _____, at San Francisco, California