



NEWS RELEASE – June 11, 2008

Contact: Clayton Tang, Project Coordinator
415-703-2728 (ckt@cpuc.ca.gov)

Mark Pocta, Program Manager
415-703-2871 (rmp@cpuc.ca.gov)

DRA TAKES A BITE OUT OF SOUTHWEST GAS CORPORATION'S PROPOSED RATE INCREASES FOR ITS CALIFORNIA CUSTOMERS

The Division of Ratepayer Advocates (DRA), an independent consumer advocacy division of the California Public Utilities Commission (CPUC or Commission), today issued its reports addressing Southwest Gas Corporation's (SWG) Test Year 2009 General Rate Case (GRC) in response to Application (A.) 07-12-022, which SWG filed with the CPUC in December 2007. SWG's rate request is proposed to take effect on January 1, 2009. This case addresses the component of total rates related to gas distribution, which represents about 40% of the total charges on a customer's bill.

For 2009, SWG seeks a \$7.10 million (12.9%) rate increase for the Southern California Division, a \$117,500 (0.7%) decrease for the Northern California Division, and a \$2.11 million (52.2%) increase for the South Lake Tahoe District. Based on its independent review of SWG's cost estimates, DRA recommends:

- \$1.82 million (3.3%) *decrease* in 2009 for the Southern California Division;
- \$2.12 million (14.0%) *decrease* in 2009 for the Northern California Division; and
- \$1.54 million (38.0%) *increase* for the South Lake Tahoe District, phased-in over a 5-year period, beginning with a \$614,500 (15.2%) increase in 2009.

If the Commission grants SWG's application, the utility's residential customers would experience the following changes to their 2009 total gas bills: (1) a 2.0% increase in the Southern California Division; (2) a 3.9% decrease in the Northern California Division; and (3) a 12.5% increase in the South Lake Tahoe District. In contrast, if the Commission adopts DRA's recommendations, those customers would experience about a 1.1% decrease in the Southern California Division, an 8.4% decrease in the Northern California Division, and, initially, a 3.0% increase in the South Lake Tahoe District.

In addition to its 2009 rate increase request, SWG proposes further revenue increases in four subsequent years—2010, 2011, 2012, and 2013. The tables below compare DRA's and SWG's proposals for GRC base revenues over the 5-year rate case cycle, from 2009-2013, for each of the utility's three California service territories.



**Table 1 – Southern California Division
DRA Recommends a Rate Decrease in 2009 and More Modest Rate Increases
from 2010-2013 Compared to SWG's Requests
(in Thousands of Dollars)**

Year	2008 Revenues	SWG's Proposals for 2009-2013 GRC Base Revenues			DRA's Recommendations for 2009-2013 GRC Base Revenues		
		Change over Prior Year	Current Year's Total	Percent Change	Change over Prior Year	Current Year's Total	Percent Change
2009	\$55,165.3	\$7,104.3	\$62,269.6	12.9%	-\$1,821.5	\$53,343.8	-3.3%
2010		\$3,907.8	\$66,177.4	6.3%	\$800.2	\$54,144.0	1.5%
2011		\$3,882.3	\$70,059.7	5.9%	\$974.6	\$55,118.5	1.8%
2012		\$3,896.7	\$73,956.4	5.6%	\$1,047.3	\$56,165.8	1.9%
2013		\$3,906.6	\$77,863.0	5.3%	\$1,011.0	\$57,176.8	1.8%

**Table 2 – Northern California Division
DRA Recommends a Larger Rate Decrease in 2009 and More Modest Rate Increases
from 2010-2013 Compared to SWG's Requests
(in Thousands of Dollars)**

Year	2008 Revenues	SWG's Proposals for 2009-2013 GRC Base Revenues			DRA's Recommendations for 2009-2013 GRC Base Revenues		
		Change over Prior Year	Current Year's Total	Percent Change	Change over Prior Year	Current Year's Total	Percent Change
2009	\$15,178.1	-\$117.5	\$15,060.6	-0.7%	-\$2,122.8	\$13,055.3	-14.0%
2010		\$725.1	\$15,785.7	4.8%	\$195.8	\$13,251.1	1.5%
2011		\$728.1	\$16,513.8	4.6%	\$238.5	\$13,489.6	1.8%
2012		\$730.3	\$17,244.1	4.4%	\$256.3	\$13,746.0	1.9%
2013		\$732.2	\$17,976.3	4.3%	\$247.4	\$13,993.4	1.8%

**Table 3 – South Lake Tahoe District
DRA Recommends Lower and More Level Rate Increases
from 2009-2013 Compared to SWG's Requests
(in Thousands of Dollars)**

Year	2008 Revenues	SWG's Proposals for 2009-2013 GRC Base Revenues			DRA's Recommendations for 2009-2013 GRC Base Revenues		
		Change over Prior Year	Current Year's Total	Percent Change	Change over Prior Year	Current Year's Total	Percent Change
2009	\$4,040.1	\$2,107.2	\$6,147.3	52.2%	\$614.5	\$4,654.6	15.2%
2010		\$103.4	\$6,250.7	1.7%	\$314.1	\$4,968.7	6.7%
2011		\$104.8	\$6,355.5	1.7%	\$332.4	\$5,301.1	6.7%
2012		\$105.9	\$6,461.4	1.7%	\$340.0	\$5,641.1	6.4%
2013		\$107.1	\$6,568.5	1.7%	\$336.2	\$5,977.3	6.0%

SWG has asked for additional revenues to cover higher costs associated with: the cost of capital (rate of return on infrastructure investment); pensions and benefits expenses; operating and maintaining its gas systems (e.g., associated with meters and pipes); customer-related expenses



(e.g., meter reading, customer records and collection, and responding to customer inquiries); administrative and general expenses (e.g., employee salaries, insurance, and outside contractors); and rate base (e.g., net infrastructure investment). SWG also indicates that it has been roughly two decades since the costs to operate the South Lake Tahoe system were last reviewed by the Commission for the purposes of setting base rates.

DRA's most significant recommendation is a \$4.7 million reduction associated with the cost of capital, or a reduction in SWG's targeted profit level, and which constitutes nearly 40% of DRA's adjustments to SWG's proposed level of 2009 revenues. DRA also recommends reductions totaling: (1) \$1.2 million in pensions and benefits expenses, including medical insurance costs and funding levels for executive compensation; (2) \$1.3 million in administrative and general expenses, including funding levels for management incentive plan and injuries & damages costs; (3) \$985,000 in operation and maintenance expenses; (4) \$1.4 million in customer-related expenses; and (5) \$20.5 million in rate base, which translates into a \$3.6 million reduction in revenues. In making its independent recommendations, DRA audited SWG's historical costs, and analyzed the utility's historical and projected future infrastructure investments, operating expenses, and administrative expenses.

DRA's project team consists of eleven regulatory experts, including analysts, auditors, engineers, and legal counsel. DRA conducted a thorough investigation, review, and audit of SWG's GRC application and 2009 estimates of projected revenues, expenses, capital expenditures, and depreciation. DRA developed its own independent forecasts of these costs.

On June 18, 2008, DRA will issue its Report on Revenue Allocation and Rate Design, which will divide SWG's costs among different customer classes (e.g., residential and industrial) and design the actual rates that customers pay. On July 11, 2008, the Commission will convene a public participation meeting in South Lake Tahoe. Evidentiary hearings are scheduled to begin on August 18, 2008, at the CPUC's headquarters in San Francisco. SWG requests a final Commission decision before the end of this year, but one may not be issued until sometime during the first quarter of 2009 given the procedural schedule set forth by the Assigned Commissioner.

DRA is an independent arm of the CPUC, created by the Legislature to represent the interests of all utility customers throughout the state to obtain the lowest possible rate for service consistent with reliable and safe service levels. DRA has a multi-disciplinary staff with expertise in economics, finance, accounting, and engineering. DRA's views do not necessarily reflect those of the Commission.

Electronic versions of the DRA reports addressing SWG's 2009 rate case, including a more detailed executive summary, are available by request or on DRA's website at www.dra.ca.gov.