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Decision No. 81051

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
SAN DIEGO GAS & ELECTRIC COMPANY for
authority, among other things, to
increase its natural gas rates and
charges for gas service to offset
higher gas costs occasioned by gas
rate increases or proposed gas rate
increases by its supplier authorized
by or pending before this Commission.

Application No. 53630
(Filed October 10, 1972)

In the Matter of the Application of
SAN DIEGO GAS & ELECTRIC COMPANY for
authority, among other things, to
revise its electric service tariff
by increasing its rates and charges
for electric service to offset the
effect of cost-of-gas increases for
natural gas used to generate elec-
tricity authorized by or pending
before this Commission.

Application No. 53631
(Filed October 10, 1972)

Chickering & Gregory, by Sherman Chickering,
C. Hayden Ames, Donald Richardson, Jr.,
Attorneys at Law, and Gordon Pearce,
Attorney at Law, for applicant.
John Witt, City Attorney, by Robert Logan,
Deputy City Attorney, and Manley W. Edwards,
Utility Rate Consultant, for the City of
San Diego; Robert M. Butler, for the
University of California, San Diego,
Interested parties.
Mrs. Kay Bryne, for herself, protestant.
Timothy E. Treacy, Attorney at Law, and
R. C. Moeck, for the Commission staff.

O P I N I O N

San Diego Gas & Electric Company (SDG&E) seeks authority to increase its gas rates, in Application No. 53630, by \$267,000 annually per year and to increase its electric rates, in Application

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No. 53631, by \$100,600 annually, both increases subject to reduction and refund.

SDG&E requests these increases to offset the effect of higher gas costs to it, assuming the Commission would authorize the offset gas rate increase sought by Southern California Gas Company (SoCal) in Application No. 53624. Application No. 53624 was filed to offset the increased cost to SoCal caused by an increase requested by one of SoCal's suppliers, El Paso Natural Gas Co. (El Paso), in Federal Power Commission (FPC) Docket No. RP72-150.

We take official notice of FPC letter order dated December 29, 1972 in FPC Docket Nos. RP72-150 and RP72-155 authorizing El Paso's rate proposal in RP72-150 dated November 28, 1972 and tendered for filing on November 30, 1972. El Paso's increased rates chargeable to SoCal were placed in effect on January 1, 1973 subject to hearing and refund.

In the setting of rates for gas and electric service by SDG&E we take official notice of Decision No. 81050 dated FEB 14 1973 in Application No. 53624 which, among other things, authorized an increase in the commodity rate of SoCal's Schedule No. G-61 of 0.29 cents per million Btu (0.029 cents per therm or equivalent). SDG&E states that this increase was not considered when the Commission fixed rates in SDG&E's most recent rate case (Decision No. 80432) and that the authorizations sought herein are to offset the higher cost of gas occasioned by the

increased rates of its supplier; it is necessary for the authorization to be granted if SDG&E is to be able to earn at the 8.0 percent rate of return level found reasonable by this Commission in Decision No. 80432. SDG&E requests that it be permitted to make these offset rates effective on January 1, 1973 or simultaneously with any offset charge in SoCal's Wholesale Schedule No. G-61 to avoid a revenue loss by reason of any delay in granting the requested offset.

The \$267,000 gas offset is designed to recover \$165,900 from SDG&E's retail gas customers and the balance from SDG&E's electric department (\$100,600) and steam department (\$500).

SDG&E proposes that the gas offset be on a basis of an increase of 0.031 cents per therm (including price-outs of all consumption in certain schedules' initial rate blocks or commensurate flat rate increases for gas lighting or minimum charges) for its general service, firm industrial, and regular interruptible classes including Special Contracts Nos. 176, 186, and 202.

SDG&E further proposes an increase of 0.29 cents per million Btu (0.029 cents per therm) related to interdepartmental sales, namely, to its electric and steam departments, and to the Office of Saline Water (OSW). The lesser increases proposed for interdepartmental sales and sales to OSW do not attribute any expenses related to franchise fees or uncollectibles to these sales. In Decision No. 80430 involving SoCal we did not modify the uniform cents per therm rate spread applicable to the advice letter procedure to exclude unaccounted for gas, franchise taxes, and uncollectibles on a system average basis. We stated "Such treatment

of these comparatively minor items is neither unreasonable nor improper in fixing rates." We authorized a uniform cents per therm or equivalent increase in Application No. 53624 in permitting SoCal to offset the El Paso increase in FPC Docket No. RP72-150.

In Decision No. 80432 we stated "In applying the extended tracking authority as provided herein, SDG&E should spread the increased cost of gas plus associated taxes and uncollectibles on a uniform cents per therm basis...." There is no change in that requirement insofar as it applies to rate spread of SDG&E's tracking increases. However, the evidence in this proceeding supports SDG&E's contention that a differential in unit offset rate increases caused by not assigning franchise fee payments or uncollectible expenses to interdepartmental sales and sales to OSW is appropriate.

SDG&E also requests 1973 authorization to offset by advice letter procedure any rate increases in SoCal's Wholesale Schedule No. G-61 resulting from general rate increases by SoCal's out-of-state gas suppliers, or that may be authorized with respect to SoCal Schedule No. G-61 for any other reason. The evidence in this record does not justify canceling the requirement that SDG&E file an application to offset such increases.

The \$100,600 increase in electric rates was designed to offset the increased costs to the electric department occasioned by the increase in interdepartmental sales to the electric department by the gas department. The increase was proposed to be spread on a uniform 0.0014 cents per kilowatt hour basis including price-outs of all consumption in certain schedules' initial rate blocks or commensurate flat rate increases including those for lighting schedules and excluding increases for resale or other sales to public authorities.

After due notice, consolidated hearings of these applications were held before Examiner Levander in San Diego on December 8 and 18, 1972. These matters were submitted on December 18, 1972.

The earnings level for SDG&E's gas department on a temperature adjusted basis exceeded 8.0 percent for the year ending October 1972. Subsequent to September 22, 1972 there was a decline in gas deliveries to SDG&E's electric plants. These reduced deliveries were based on a revised curtailment classification applied by SoCal which reduced relative deliveries by SoCal to SDG&E's steam plants vis-a-vis SoCal's other steam plant customers. The rate of return of SDG&E's gas department on a 12-month ended basis subsequently declined. SDG&E estimates a gas department rate of return of 7.88 percent for the year ending December 1972 based upon recorded data for 10 to 11 months and an estimated normal year for the balance of the estimated year.

SDG&E's witness testified that SoCal is going to provide a new estimate of curtailed gas deliveries to SDG&E which will show an increase in curtailment over that reflected in SDG&E's exhibits and which will further depress the earnings of both the gas and electric departments.

SDG&E proposes increases in an amount of 0.37 percent of gas revenues, .07 percent of electric revenues, and 0.17 percent of combined departmental revenues based on the 1972 test year adopted in Decision No. 80432. SDG&E's evidence was that the proposed increase to the average domestic customer amounts to 1 cent a month for electric service and 2 cents a month for gas service.

SDG&E's test year 1973 estimated rates of return for gas, electric, and combined departments are 7.33 percent, 7.46 percent, and 7.44 percent, respectively, all of which are below the 8.0 percent authorized in Decision No. 80432. SDG&E's estimates for 1973 were adjusted to eliminate certain anticipated increases in expenses not yet in effect, namely, a fuel oil price increase and a wage and benefit increase. Another adjustment substituting fuel oil for 1973 special contract Pacific Gas and Electric Company (PG&E) source gas deliveries^{1/} reduces departmental rates of return as follows:

Gas .02 percent, electric .03 percent, combined departmental .03 percent. SDG&E's estimated rates of return for 1973^{2/}, adjusted to eliminate the above-mentioned anticipated increase in

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- ^{1/} PG&E source gas was not used in the Decision No. 80432 test year because PG&E had indicated that gas would not be available for deliveries to SoCal's steam electric customers and to SDG&E's steam electric plants after 1972. SDG&E required that a portion of its contracted for 1972 PG&E source gas deliveries be deferred to 1973. SDG&E is paying a surcharge for the increased expenses arising out of the deferred deliveries.
- ^{2/} The Commission will review the earnings and rate of return effect on SDG&E caused by the new State tax law, Senate Bill 90.

expenses not yet in effect and to give effect to the substitution of fuel oil for PG&E source gas, increase to 7.66 percent for gas, 7.67 percent for electric, and 7.67 percent for combined departmental. The gas, electric, and combined departments' 1973 rates of return would remain under 8.0 percent if the PG&E source gas adjustment was not made.

The staff witness revised his initial estimate that the 1973 earnings of SDG&E's gas division would be over 8.0 percent and withdrew his opposition to the granting of the increases requested, provided they are subject to reduction if the full El Paso related increase in FPC Docket No. RP72-150 does not go into effect. The staff opposed any offset authority being granted to SDG&E over and above that related to the tracking authority presently in effect.

San Diego prepared 1973 gas division summaries of earnings based on applicant's estimates, and assuming additional curtailments of steam plant gas of 17 and 34 percent. The summaries show rates of return in excess of 8.0 percent for portions of 1973 and under 8.0 percent at the end of 1973. San Diego contends that in view of the past low estimates of SDG&E's rate of return and the confused state of the record in the SoCal proceeding (Application No. 53624) concerning gas curtailment, the Commission should wait until the rate of return actually drops below 8 percent on an adjusted basis before granting an offset. At that time San Diego would have no objection to granting the offset. San Diego cites Decision No. 80234 as precedent for such a procedure.

Decision No. 77879 authorized SDG&E to insert a franchise tax surcharge clause in all rate schedules applicable within the city of San Diego of 1.9 percent for electric service and 1 percent for gas service subject to refund with 7 percent interest if after hearing the Commission determined that the rates, the rate spread, or the surcharge are unreasonable or discriminatory. After further hearing, Decision No. 80234 ordered a refund of the 1.9 percent surcharge for electric service within the city of San Diego prior to April 1, 1971 because that date was the point in time at which the rate of return fell below the last authorized rate of return.

The approach taken by SDG&E in estimating its rate of return for the year ending December 31, 1972 is reasonable. If the straight line monthly interpolation method used by San Diego utilized SDG&E's year ending December 31, 1972 results rather than the year ending October 31, 1972 as a point of beginning, the rate of return for all of 1973 would be under 8.0 percent under any of the assumptions of San Diego's witness.

Two public witnesses raised questions as to the advertising practices and level of expenses associated therewith as being nonbeneficial to applicant's customers. One of the public witnesses also objected to the level of SDG&E's allowable rate of return and practices of SDG&E regarding service calls and charges for service calls.

A further review of SDG&E's allowable rate of return is not justified in this proceeding after the recent comprehensive review reflected in Decision No. 80432. The witness for SDG&E stated that the Commission had reduced SDG&E's sales expenses by 20 percent and its institutional advertising expenses by 50 percent for rate-fixing purposes in Decision No. 80432. He explained that SDG&E feels it is necessary to advertise to inform customers that:

service calls to repair facilities on the customer's side of the meter are, according to the company's gas and electric tariffs, the responsibility of the customer, but that SDG&E will do some electric servicing to ovens and water heaters, and in that connection no service charge is required for calls during normal working hours of up to one-half hour for labor, but the company does charge for parts installed; a minimum service charge of \$25 is made for service calls outside of regular working hours to pay employees; SDG&E tries to have servicemen who are not only well qualified to do their work but are well accepted by the public; the installation, ownership, and maintenance of equipment on the customer's side of the meter is the responsibility of the customer. He said that at the time the above-mentioned customer's meter housing was in operating order the utility installed its meter without charge. There is a dispute as to whether or not a charge was levied by SDG&E to the customer for the electric meter and/or the connection from SDG&E's system to the electric meter. If the customer produces a bill from SDG&E for the meter and/or the connection of the meter to its system and evidence of payment thereof SDG&E should refund such payment.

Findings

1. Prior to this proceeding the operations of SDG&E were last analyzed by the Commission in Decision No. 80432 dated August 29, 1972 in Applications Nos. 52800, 52801, and 52802. The test year used was 1972.

2. The rates authorized by Decision No. 80432 became effective on September 22, 1972. These rates plus authorized adjustments to reflect tracking changes are now in effect.

3. A rate of return of 8.0 percent was found to be reasonable for SDG&E's gas, electric, and combined department operations in Decision No. 80432.

4. SoCal was authorized to file an offset rate increase increasing SDG&E's commodity rate by 0.29 cents per million Btu (0.029 cents per therm) in Decision No. 81050 dated FER 14 1973. This increase was not considered in establishing the gas and electric rates authorized in Decision No. 80432.

5. SDG&E's use of gas, electric, and combined departmental summaries of earnings for test year 1972, supporting the rates adopted in Decision No. 80432, as a basis for projecting the required increase to offset its increased revenue requirements arising from the SoCal offset rate increase is reasonable providing that the increase only offsets increased expenses and does not result in a rate of return in excess of the 8.0 percent authorized in Decision No. 80432.

6. SDG&E's projected rate of return is 7.88 percent for the year ending December 31, 1972 for its gas department.

7. The end of year 1973 estimated gas department rates of return prepared by SDG&E and San Diego are each under 8.0 percent.

8. Further curtailment from SDG&E's gas supplier, SoCal, would result in a further decline in the rate of return of SDG&E's gas, electric, and combined departmental operations.

9. SDG&E's proposed rates for gas and electric service are solely to offset increased costs resulting from a proposed increase in cost of gas from SoCal which has been authorized by Decision No. 81050.

10. A differential in unit gas offset rate increases caused by not assigning franchise fee payments or uncollectible expenses as requested by SDG&E in Application No. 53630 is reasonable.

11. The rate of return of SDG&E's electric department for the year ending December 31, 1972 and the year ending December 31, 1973 are at or below the 8.0 percent rate of return authorized in Decision No. 80432.

12. Granting the increases requested in Applications Nos. 53630 and 53631 would not result in increasing the gas, electric, or combined departmental rates of return of SDG&E above 8.0 percent.

13. SDG&E's proposal to increase its gas charges subject to reduction and refund as shown in Exhibit D to Application No. 53630 is just and reasonable, providing that a 0.031 cents per therm contingent offset charge applicable to the increase in Special Contract No. 202 is included.

14. SDG&E's proposal to increase its electric charges subject to reduction and refund as shown in Appendix D to Application No. 53631 is just and reasonable.

15. The requirement that SDG&E file an application to offset a general rate increase or an offset rate increase authorized to its supplier, SoCal, is necessary.

16. The rate of return of SDG&E's gas or electric departments will not exceed 8.0 percent during any portion of 1973.

17. The exemption provided for in Rule 23.1(E)(1)(c) of this Commission's Rules of Practice and Procedure applies to these rate increase applications.

Conclusions of Law

Based on the foregoing findings the Commission concludes that:

1. The authority sought by SDG&E should be granted to the extent, and under the conditions, set forth in the order which follows.

2. Rule 23.1(E)(1)(c) of this Commission's Rules of Practice and Procedure applies to these rate increase applications.

O R D E R

IT IS ORDERED that:

1. Applicant, San Diego Gas & Electric Company, is authorized to file with this Commission on or after the effective date of this order revised gas tariff schedules with changes in rates, charges, and conditions as set forth in Exhibit D of Application No. 53630 and adding thereto in Section 7 of the Preliminary Statement the contingent offset charge of 0.031 cents per therm applicable to Special Contract No. 202. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be one day after the date of filing or on the effective date of Southern California Gas Company's filing authorized by Decision No. 81050, whichever is later. The revised schedules shall apply only to service rendered on or after the effective date thereof.

2. Applicant, San Diego Gas & Electric Company, is authorized to file with this Commission on and after the effective date of this order revised electric tariff schedules with changes in rates, charges, and conditions as set forth in Exhibit D to Application No. 53631 in this proceeding. Such filings shall comply with General Order No. 96-A. The effective date of the revised schedules shall be one day after the date of filing or on the effective date of Southern California Gas Company's filing authorized by Decision No. 81050, whichever is later. The revised schedules shall apply only to service rendered on and after the effective date thereof.

3. Applicant, San Diego Gas & Electric Company, shall pass on to its gas customers any reduced rates by advice letter procedures, and refund to its gas customers any refund from Southern California Gas Company arising out of refunds and rate reductions in FPC Docket No. RP72-150.

4. Applicant, San Diego Gas & Electric Company, shall pass on to its electric customers any reduced rates by advice letter procedure, and refund to its electric customers any refund received from its gas department which the gas department received from Southern California Gas Company relating to FPC Docket No. RP72-150 and shall reduce its electric rates to reflect any rate reduction in Schedule No. G-54 of its gas department relating to FPC Docket No. RP72-150.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 14th day of FEBRUARY, 1973.

Vernon L. Sturgeon
President

William J. ...

[Signature]

[Signature]
Commissioners

I abstain

[Signature], Commissioner.