

Decision No. 82279**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,  
(a) to increase its rates and charges  
for electric service and  
(b) to modify certain of its tariff  
schedules.

Application No. 53945

(Filed April 10, 1973)

In the Matter of the Application of  
SAN DIEGO GAS & ELECTRIC COMPANY for  
authority, among other things,  
(a) to increase its rates and charges  
for gas service;  
(b) to include in its tariffs a  
Purchased Gas Adjustment Clause or an  
expanded Advice Letter procedure for  
reflecting in its rates effects of  
changes in purchased gas costs; and  
(c) to modify certain of its tariff  
schedules.

Application No. 53946

(Filed April 10, 1973)

In the Matter of the Application of  
SAN DIEGO GAS & ELECTRIC COMPANY for  
authority, among other things, to  
increase its rates and charges for  
steam service.

Application No. 53970

(Filed April 17, 1973)

Chickering & Gregory, by C. Hayden Ames, Donald  
J. Richardson, Jr., and Allan J. Thompson,  
Attorneys at Law; Gordon Pearce, Attorney at  
Law; and John H. Woy, for applicant.

Colonel Frank J. Dorsey, U.S. Army, and Charles  
J. Mackres, Office of Judge Advocate, for  
Department of Defense and other Executive  
Agencies of the United States of America; John  
Witt, City Attorney, Robert Logan, Deputy City  
Attorney, and Manley W. Edwards, for City of San  
Diego; and Dave Johnson, for Conservation Com-  
mittee, Sierra Club, San Diego Chapter;  
interested parties.

Elinore C. Morgan, Attorney at Law, Robert C. Moeck,  
and Kenneth K. Chew, for the Commission staff.

INTERIM OPINION

By the above applications, San Diego Gas & Electric Company (SDG&E) seeks authority to increase electric and gas rates by \$17,858,100 and \$7,852,300 based on 1974 sales. On October 5, 1973 applicant filed a Petition for Interim Rate Relief requesting authority to increase electric and gas rates by \$5,668,700 and \$972,100 based on 1973 sales.

This interim decision relates solely to SDG&E's request for interim rate relief effective for meter readings on and after November 1, 1973.

Public Hearings

On November 7, 8, and 9, 1973 public hearings were held before Commissioner Thomas Moran and Examiner Charles E. Mattson. The customers of SDG&E were notified by bill inserts that they could appear and be heard at the public hearing. After hearing from members of the public, the hearings were devoted to receiving evidence on the petition for interim rate relief. The matter of interim rate relief was submitted on November 9, 1973, subject to the filing of statements on November 19, 1973. Statements have been received from the applicant, the Commission staff, the city of San Diego, and the Secretary of Defense of the United States.

SDG&E's Evidence

The applicant presented evidence which established that its interest coverage, calculated in accordance with the provisions of its debenture indenture, will approach 2.0 after issuance of \$50 million of bonds. If calculated coverage falls below 2.0, the new securities cannot be issued. Applicant intends to issue new Series "M" bonds in January 1974 in the amount of \$50 million at an anticipated interest rate of 8 percent. Applicant alleges that the shaky interest coverage establishes a financial emergency requiring interim rate relief.

Applicant's showing of financial emergency is based upon the interest coverage situation. The calculation of interest coverage as required by the debenture indenture is based upon a period of twelve consecutive months in the 15 months immediately preceding the date new debt is issued. The calculation of coverage, as set forth in applicant's Exhibit 18, includes the estimated annual interest on the new debt.

Applicant alleges that interim rate relief of approximately \$6,600,000 annually is justified by certain increased costs. Applicant's evidence of increased costs incurred since rates were established by Decision No. 80432 dated August 29, 1972 may be summarized as follows:

(1) Interest rates have increased for both long-term debt and preferred stock since 1972, and the dollar effect of capital cost increases is calculated as \$2,339,767 (projected 1973 year ending).

(2) Labor costs increased in 1973 and the effect (based on 1972 average number of employees) is \$1,407,682.

(3) 1973 expenditures for environmental improvements have increased capital costs by \$2,766,300 annually.

Applicant does not allege its rate of return has declined in the latter part of 1973. The applicant's rate of return, in the words of applicant, "hovers around 8%, the last authorized rate of return...."

#### The Staff Evidence and Position

The staff presented evidence that applicant's combined gas and electric departments will achieve an 8.03 percent rate of return for 1973 (Exhibit 25, Table 3). The staff witness adjusted applicant's results of operations to reflect expenses as allowed in Decision No. 80432. The applicant's evidence was that the 1973 rate of return for their combined departments would be 7.86 percent (Exhibit 14, page 3). The staff witness testified that neither rate of return would constitute an emergency situation.

A second staff witness testified regarding applicant's 1973 return on common equity. A witness on behalf of applicant testified that expected 1973 return on equity at present rates would be 10.57 percent. The staff witness testified that 1973 return on average common equity would be 11.88 percent. The staff witness used applicant's recorded net income figures for year ending September 30, 1973. Applicant argues that the staff witness failed to give full weight to recent issues of common stock in his calculations. Since the applicant's evidence fails to explain the basis of the 10.57 percent figure, the Commission cannot make a finding regarding the dispute. However, applicant's request for emergency rate relief is not based upon 1973 earnings on common equity.

The staff opposes the requested interim rate relief. The staff points out that there is no sharp drop in the applicant's authorized rate of return. The staff argues that the coverage problem is the result of a failure to maintain a reasonable percentage of common equity in its capital structure in prior years. The staff acknowledges that coverage is razor-thin, but points out that the company has failed to trim expenses disallowed by recent Commission decision. The staff concludes that a rate increase based on disallowed expenses would pass such costs on to ratepayers contrary to the Commission decision.

Evidence and Statement of  
the Secretary of Defense

The Secretary of Defense appears on behalf of the executive agencies of the United States of America. The position of the federal agencies is that if the test of an emergency situation requiring interim relief is whether coverage requirements will be met in January 1974, the record shows that applicant will meet the coverage requirement. The federal agencies argue that since no record exists regarding coverage requirements for late 1974 debt issues by applicant, no emergency situation has been demonstrated.

The evidence presented by the federal agencies related to the form and method of obtaining revenue relief, if rate relief is granted. The federal agencies contend that any dollar relief should be computed on forecasted 1974 sales of energy, not 1973 unnormalized sales. Secondly, the federal agencies urge that any rate increases should be on a uniform percentage basis, not on uniform increases per kwhr and per therm.

Statement of the City of San Diego

The city of San Diego (San Diego) opposes the petition for interim rate relief. San Diego points out that applicant's earnings appear sufficient to meet its annual interest and dividend costs. The City concludes that no financial emergency has been shown, and that earnings would be excessive at proposed rates. San Diego points out that the Commission has recently granted a fuel adjustment clause for electrical service and offset fuel cost increases for the gas service.

San Diego urges that any interim increase should be less than the amount requested, and that increases should not be spread on a commodity basis.

Discussion

The record clearly establishes that a serious interest coverage problem faces applicant. The applicant's problem is set forth by the calculations contained in Exhibit 18, pages 1 and 2. Before applicant can lawfully issue new bonds in January 1974, the net income for a past twelve consecutive month period must be twice the annual interest requirements of all funded debt, including the proposed new bonds. The twelve-month period used must be within the 15 months preceding the month of issuance of the new debt. Applicant assumes that a \$50 million new bond issue will cost 8 percent, with an annual interest cost of \$4 million. For the twelve months ending December 31, 1973 applicant's calculation is (Exhibit 18, page 2):

Net Income	\$50,156,000	
Annual Interest on Funded Debt	\$24,893,000	- 2.0149 Coverage

The emergency situation urged by applicant is based on the fact that a relatively small change in either the net income or interest figures could result in a coverage figure below the required 2.0. If the new debt issue of \$50 million were sold at an interest rate of 8.37 percent, the annual interest cost would be \$4,185,000 and the calculated coverage would be 2.0.

Increased costs of preferred stock and debt result in a decline in interest coverage at a constant rate of return. Moreover, when common equity is decreased in relation to debt, higher debt costs sharply reduce interest coverage.

The financial emergency urged by applicant is based on its financial position in January 1974. Applicant's contention is that the coverage is so close to 2.0 that immediate rate increases are required in order to assist in issuance of bonds. However, any rate increase benefit in January 1974 is limited to the actual revenue effect as calculated in accordance with the debenture indenture. At the time of the filing of applicant's petition, at least ten of the twelve months were locked in. It is apparent that the coverage requirement of January 1974 can be effected in only a minor fashion by rate changes in late 1973.

The coverage problem is one which may be improved by applicant's management. The applicant may, albeit over a long period of time, increase the amount of common equity in its capital structure. The applicant may, in the shorter term, heed this Commission's recent determinations and reduce certain advertising and marketing expenses.

Nevertheless, while it is not certain arithmetically whether applicant definitely needs or would benefit by interim relief insofar as the January 1974 bond issue is concerned, this Commission's affirmative obligation in respect to adequate utility service requires that we not engage in "brinkmanship". It is the aim of this Commission to do everything in its power at all times

to make sure that the California utilities are always in sufficiently sound financial condition so that they are able without question to raise all funds which may be needed from time to time for the maintenance of a high standard of service to their customers.

Findings

1. SDG&E has established a need for interim rate relief.
2. The evidence available at this time regarding SDG&E's 1974 interest coverage does justify interim rate relief.
3. The increase in rates and charges authorized by this decision are justified and reasonable; the present rates and charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.

INTERIM ORDER

IT IS ORDERED that San Diego Gas & Electric Company is authorized to file with this Commission on or after the effective date of this order, in conformity with the provisions of General Order No. 96-A, revised tariff schedules with rates increased from present levels by 0.711 mills per kwhr for all electric rate schedules, 0.107 cents per therm for Schedule No. G-54, and 0.109 cents per therm for other gas rate schedules. The effective date of the revised schedules shall be on not less than five days' notice to the public and to the Commission.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 18th  
day of DECEMBER, 1973.

I dissent:

*[Signature]*, Commissioner

*[Signature]*  
President  
*[Signature]*

*[Signature]*

Commissioners  
Commissioner J. P. Vukasin, Jr., being  
necessarily absent, did not participate  
in the disposition of this proceeding.