

SW/ltc

ORIGINAL

Decision No. 84575

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;  
amended March 5, 1974)

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;  
amended March 5, 1974)

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;  
amended March 5, 1974)

(Appearances listed in Appendix A)

O P I N I O N

PHASE II

By Decision No. 83675 dated October 29, 1974 we authorized rate increases based upon the three applications above. That decision resolved the issues raised by the applications as originally filed and heard as Phase I of these proceedings. The issues raised

A. 53945, 53946, 53970 - SW

by the amendments filed March 5, 1974 in these three applications have been heard as Phase II.

The procedural history of these matters is set forth in our Decision No. 83675 dated October 29, 1974. That decision granted rate increases based on the evidence in the Phase I proceedings. The ten days of public hearings held before Commissioner Moran and Examiner Mattson from April 5, 1974 to August 13, 1974 were devoted to the issues involved in Phase II (the amended applications). The final reply brief of applicant was submitted October 11, 1974.

#### Phase II - The Amended Applications

The amendments alleged that the applicants were entitled to additional rate relief in the amount of gross revenue increases of \$15,208,300 (electric department); \$5,135,300 (gas department); and \$31,000 (steam department). These amounts would increase electric department gross revenues by 8.61 percent, gas department gross revenues by 6.56 percent, and steam department gross revenues by 7.41 percent. In the course of the hearings the applicant reduced its revenue increase requests to \$11,051,400 (electric department); \$3,208,600 (gas department); \$21,000 (steam department). This reduced the total increase requested from \$20,374,600 to \$14,311,000.

In Phase I we authorized rate levels for utility service by applicant based upon a test year 1974. The position of the applicant is that these Phase II proceedings present relatively simple issues. Applicant's claim is that revenue increases should promptly be authorized (1) to offset the decline in net revenues which result from compliance with conservation levels ordered by this Commission, and (2) to authorize an increase in rate of return from 8.77 percent to 8.95 percent to reflect a 13 percent allowance for common equity.

Applicant states that the revenue increase request based on the rate of return increase is \$2,830,700. The balance of the increase requested (\$11,480,300) is based on the alleged results of compliance with conservation orders of the Commission.

The Rate of Return Request

The gross revenue increase applicant attributes to increasing the rate of return from a requested 8.77 percent to 8.95 percent is \$2,830,700. Applicant's showing in Phase II in support of this requested 8.95 percent rate of return is summarized by an updated cost of capital table set forth in Exhibit 78, page 9. An inspection of that table establishes that applicant has updated capital costs of long-term debt and preferred stock in addition to assuming an allowance for common equity of 13.04 percent.

Our Decision No. 33675 in these proceedings authorized a rate of return of 8.75 percent. In Decision No. 83675, at page 9, we set forth our conclusions on the costs of long-term debt and preferred stock which we found supported the rate of return authorized. An examination of those capital costs establishes that they are slightly in excess of the Phase II figures presented by applicant as composite costs for 1974, and both the capital costs assumed and the weighted costs are in excess of the figures now presented by applicant (by a total weighted cost of 0.12). We conclude that our adopted rate of return of 8.75 percent in Decision No. 83675 recognized the increased costs of long-term debt and preferred stock relied on by applicant in these Phase II proceedings.

A. 53945, 53946, 53970 - SW

Applicant's showing on equity return in Phase II was not based upon new evidence which requires further reconsideration of our rate of return allowance. For the reasons set forth in our decision in Phase I regarding the rate of return issue, we conclude that the return allowance of 8.75 percent is reasonable for applicant at this time.

The problem is not that the rate of return allowance is too low. The problem we must resolve is whether the rates authorized by this Commission afford applicant a reasonable opportunity to achieve the authorized rate of return.

Applicant's Contentions Regarding Conservation

As set forth above, when applicant reduced its revenue increase request to a total of \$14,311,000 it included \$2,830,700 for the requested rate of return increase. Excluding the rate of return increase requested, applicant's remaining request totals \$11,480,300.

The major claim presented by applicant in support of this remaining increase is that estimated gross revenues in test year 1974 are overstated because they failed to reflect reduced sales resulting from compliance with conservation levels ordered by this Commission. Applicant contends that revenue increases should be authorized as offsets to the decline in gross revenues based upon our adopted results in Phase I. This "offset" approach reduces gross revenues, related fuel costs, and all other associated expenses. Applicant's Exhibits 83 and 97 set forth the gross revenue required to offset the net revenue loss after taking the expense reductions into account.

A. 53945, 53946, 53970 ltc \*

The amended applications filed March 5, 1974 assumed a 15 percent reduction of estimated sales for the electric, gas, and steam departments. Applicant relied upon our Decision No. 82305 dated January 3, 1974 in Case No. 9581 involving curtailment of electrical service. Moreover, our order instituting investigation in Case No. 9642 ordered gas utilities to place into operation plans for voluntary consumer conservation and curtailment of the use of gas.

Applicant did not merely adopt and adjust its Phase I estimates. Applicant's exhibits include increased marketing expenses in its Phase II presentation of \$293,500. Applicant contends that it was necessary to continue to increase advertising and other approaches to obtain necessary or desired levels of curtailment on use of energy. The contention is that energy curtailment involved compliance with our Decision No. 82305 dated January 3, 1974, the second interim order in Case No. 9581, which directed applicant to inform all of its customers of the urgent necessity of achieving a 15 percent cutback of usage of energy.

#### The Staff Position

The initial staff response was presented by the testimony of a staff engineer who reviewed the applicant's Phase II request. The observations of the staff witness may be summarized as follows:

1. The objective of 15 percent conservation has been modified. Commission Decision No. 82881 dated May 15, 1974 in Case No. 9581 established a conservation goal for electric utilities of not less than 10 percent from normal usage. In Case No. 9642 the order instituting investigation relative to natural gas supply does not specify any level of achievement.

2. Gas supply to applicant has not been reduced 15 percent, contrary to applicant's assumption. The gas department would obtain revenue by selling any conserved gas to its electric department. The electric department would substitute the less expensive gas for high cost fuel oil.

3. Applicant's assumption that it could not reduce operation and maintenance expenses (in addition to fuel and other expenses directly related to sales) should be rejected. The president of SDG&E stated at the annual shareholders' meeting on April 23, 1974 that SDG&E department heads had been directed to cut their operating budgets by 10 to 15 percent.

4. SDG&E's earnings level in 1974 has hovered near 8 percent, the authorized rate of return prior to rate increases authorized in Phase I.

The staff witness recommended that no offset be granted at this time and that SDG&E should be required to submit studies of its expense budget and proposed capital expenditures.

SDG&E subsequently presented Exhibit 97 (setting forth the revenue requirements at 5 percent and 10 percent conservation levels). Applicant reduced its estimated conservation to 10 percent. The staff presented its review of the applicant's Exhibit 97 by prepared testimony (Exhibit 106 read into the record at Tr. 3019-3025).

The applicant had reduced expenses to reflect the reduced fuel costs, franchise fees, customer accounting and collection expenses and income tax changes associated with reduced sales. The staff witness contended that the applicant's failure to reflect any reduction in other controllable expenses ignores the president's directive to department heads. The staff applied a 15 percent expense reduction to controllable expenses in order to reflect the directive.

The staff noted that the applicant had also failed to reflect the fact that gas supply would not be reduced. The gas department would have additional revenues and the electric department would have lower fuel costs as a result of increased interdepartmental gas sales.

The staff again urged that conservation be viewed as an unusual situation and that consideration should be given to conditions as they exist as well as average year conditions. The staff contended that SDG&E's earnings did not indicate a need for Phase II rate increases.

The Position of the Interested Parties

A. The Department of Defense

The Secretary of Defense of the United States (DOD), appearing on behalf of the customer interest of the Executive Agencies of the United States, generally supports the staff position that the Commission should not grant the requested revenue increases on an offset basis. In addition, the Secretary of Defense presented direct evidence that as to customers of the electric department on A-5 and A-6 schedules the assumption of a 10 percent across-the-board reduction in kilowatt-hours sales was improper. Based on 1974 experience the assumption of a 10 percent across-the-board reduction in kilowatt demand appeared incorrect and the Phase II revenue reduction shown by applicant was overstated. DOD concluded that the applicant has not met its burden of proving that its rate proposals are just and reasonable.

B. The City of San Diego

A witness for the city of San Diego adopted the staff view that the Commission should examine actual 1974 results in evaluating SDG&E's Phase II rate increase request. The city presented detailed evidence of SDG&E's 1974 operations, based on available 1974 experience combined with estimated results. The estimated 1974 results presented by the city differed from those presented by the applicant and the staff.

The city's estimates are set forth in Exhibits 99 and 105. The city accepted the applicant's assumption that the estimated sales in Phase I were overstated. The city's witness estimated gas sales for general service and firm industrial customers at a 10 percent conservation level and increased the interdepartmental sales. Sales and revenue reductions estimated for the electrical department varied by customer classes, but the reductions estimated for domestic service and general service were in excess of 10 percent. The steam department sales estimates were reduced 37 percent based on 1974 experience.

The city's exhibits presented substantial changes in estimated expenses. The estimated rates of return for 1974 (prior to Phase I rate increases) were 6.82 percent (gas department), 7.59 percent (electric department), and 2.27 percent (steam department). The city recommended that the Phase II request of SDG&E be denied.

The city found that in 1974 SDG&E had a favorable year due to available low cost purchased power and steam plant gas. Under 1974 conditions the fuel clause overcompensated SDG&E in April, May, and June by an estimated \$5.4 million.



The city's witness based this estimate on a comparison of revenue per kilowatt-hour and average cost of fuel per kilowatt-hour after the April 1, 1974 fuel clause increase of SDG&E.

Subsequent to the submission of its reply brief, the city of San Diego filed a petition to set aside the submission of Phase II and to reopen Phase II proceedings (petition dated February 3, 1975).

### Discussion

For the reasons set forth above, our recently authorized rate of return of 3.75 percent for SDG&E will not be changed by our decision in this proceeding. Moreover, the claim for increased expenses for the marketing division of SDG&E is inconsistent with our conclusions regarding such expenses in Phase I and such increased expenditures will not be authorized in this decision. However, applicant's claim to revenue requirements based upon conservation from the estimated 1974 sales figures cannot be lightly dismissed.

The basic argument of applicant is that as a result of the Phase I proceedings, revenue requirements for applicant, based upon test year 1974, have incorporated levels of sales for the electric, gas, and steam departments which are overstated when compared with normalized sales for 1974.

By January of 1974 a severe fuel shortage faced the major electric utilities in the State of California and shortage of energy supplies was a matter of national concern. It was under such circumstances that this Commission ordered all electric utilities to curtail usage of electric power by 15 percent below normal. By May of 1974 conditions had improved and this Commission modified its orders, urging a reduction in usage below normal of not less than 10 percent as a conservation effort.

Applicant argues that an offset procedure is appropriate and that reduced sales constitute a single identifiable change in applicant's net revenues which results in a lowering of applicant's earnings. Of course it is recognized by applicant and all parties that a reduction in sales will also reduce certain expense estimates. Expenses for fuel and purchased power, gas storage, gas transmission, customer accounting and collecting, administrative and general expenses, state franchise taxes, and federal income taxes were adjusted in applicant's exhibits in order to reflect expense savings as sales estimates were reduced.

The applicant contends that conservation should be treated as an "offset" matter. As applied to the 1974 test year, applicant computed the reduced revenues and expenses to determine the net revenue shortfall. The staff and city urge that conservation should not be treated as an offset matter and that the Commission should deny any rate increases in view of the actual 1974 results of operations of SDG&E.

We agree with the staff position that the effect of conservation by SDG&E customers should be evaluated in the light of actual conditions in 1974 as well as average year conditions. Our evaluation of SDG&E's revenue requirements includes a review of the actual results of applicant's 1974 operations.

Electric Department Operations - 1974

We take official notice of the actual results of operations of SDG&E for 1974. SDG&E has filed reports pursuant to our General Order No. 65-A and our orders in Case No. 9531.

The sales levels of SDG&E in 1974 were substantially lower than the estimated sales. Moreover, the sales to customers reflect continuing conservation. Not only the well-publicized need for conservation, but the sharply increased charges to customers indicate that reduced energy usage in 1974 is not a transitory occurrence. In short, the estimates of reduced sales of 10 percent by the applicant are correct.

However, applicant's exhibits suffer from obvious infirmities. The assumption that gas conservation results in lower total quantity of gas available to applicant for the test year is without support. Conservation of natural gas sales by applicant's gas department customers results in an increase of gas available for interdepartmental use and a decrease in the use of higher cost fuel oil.

The effect of the reduced sales on the adopted results of operations for the electric department is set forth in Table 1. As reflected in Table 1, the reduced sales result in a gross revenue decline of approximately \$16 million. Related expenses and associated tax changes reduce total operating expenses by approximately \$10,336,000.

The staff and city have pointed out that the reduced sales experienced in 1974 did not result in sharply reduced earnings levels. The actual earnings level of the electric department was in excess of 8 percent, as the staff evidence established. Net operating revenues for the electric department did not decline, but held very nearly at the figure anticipated before we authorized Phase I rate increases.

Table 1

Summary of EarningsElectric Department

(Year 1974 Estimated)

Item	: Adopted Results :		: Adopted :	
	: at 8.75%	: Revenue at 10%	: Phase II	:
	: Rate of Return	: Conservation	: Results	:
(Dollars in Thousands)				
<u>Operating Revenues</u>				
Sales to Customers	\$195,526.5	\$179,542.2	\$189,100.2	
Miscellaneous	1,037.7	1,037.7	1,037.7	
Total Operating Revenues	\$196,564.2	\$180,579.9	\$190,137.9	
<u>Operating Expenses</u>				
Fuel & Purchased Power	\$ 63,208.3	\$ 56,929.8	\$ 56,929.8	
Production	8,303.0	8,303.0	8,303.0	
Transmission	3,648.0	3,648.0	3,648.0	
Distribution	9,613.6	9,613.6	9,613.6	
Customer Accounting & Coll.	4,936.7	4,907.6	4,925.0	
Marketing	922.5	922.5	922.5	
Administrative & General	13,747.5	13,423.0	13,617.0	
Subtotal Expenses	\$104,379.6	\$ 97,747.5	\$ 97,958.9	
Depreciation & Amortization	\$ 21,385.6	\$ 21,385.6	\$ 21,385.6	
Ad Valorem Tax	11,535.7	11,535.7	11,535.7	
Payroll Tax & Miscellaneous	1,032.4	1,032.4	1,032.4	
State Franchise Tax	2,039.3	1,197.6	2,038.8	
Federal Income Tax	4,751.0	1,888.6	4,749.5	
Wage & Productivity Adjustment	108.8	108.8	108.8	
Total Operating Expenses	\$145,232.4	\$134,896.2	\$138,809.7	
Net Operating Revenues	\$ 51,331.8	\$ 45,683.7	\$ 51,328.2	
Depreciated Rate Base	\$586,642.6	\$586,642.6	\$586,642.6	
Rate of Return	8.75%	7.79%	8.75%	

In reviewing the 1974 results of operations of SDG&E's electrical department it is apparent that the operation of the fuel cost adjustment in 1974 resulted in a substantial windfall to SDG&E. The overcompensation from the fuel adjustment is related to abnormally large quantities of relatively cheaper purchased power which became available in 1974. Without the additional net revenues resulting from overcompensation from the fuel clause, SDG&E would have faced a fiscal emergency in 1974. The windfall resulted in an earnings level near 3 percent in the year 1974, a year in which we found the reasonable return required by SDG&E to be 3.75 percent.

The overcompensation of the fuel clause is a matter requiring our attention. We have required public hearings on the current fuel cost offset request of SDG&E (Application No. 55506 filed February 21, 1975). Moreover, we instituted an investigation into the fuel cost adjustment provisions and procedures by Case No. 9886 dated March 13, 1975. We noted in that order that it appears that certain electrical corporations have been able to acquire significant revenues over fuel cost expenses actually incurred. We have acted and will act to avoid such overcompensation in the future.

Our Phase I determinations were based upon a complete review of SDG&E's 1974 operations. Those adopted results, modified to reflect decreased sales and related expense reductions, establish that SDG&E requires additional revenue in order to continue to provide public utility service. We cannot assume that the abnormal quantity of purchased power available in 1974 will continue to be available in the future.

A. 53945, 53946, 53970 - SW/ltc \*

Gas Department Operations - 1974

The effect of a 10 percent reduction in gas department sales to gas customers (other than interdepartmental) is set forth in Table 2. The reduced sales to customers results in increased gas sales to SDG&E's electric department. Based upon the assumption that gas supply remains constant, the impact upon our Phase I adopted results is a decline in net revenues of approximately \$1,658,000.

A review of the actual gas sales to customers in 1974 establishes that the assumption of 10 percent level of conservation is reasonable. The return achieved on a recorded basis was below 3 percent. Without further rate increases SDG&E will be unable to achieve the 8.75 percent earnings level we have found reasonable.

Table 2

Summary of Earnings

Gas Department

(Year 1974 Estimated)

Item	: Adopted Results: : at 8.75% : Rate of Return :	: Revenue at 10% : Conservation :	: Adopted : Phase II : Results :
(Dollars in Thousands)			
<u>Operating Revenues</u>			
Sales to Customers	\$ 69,339.6	\$ 63,594.8	\$ 65,391.2
Interdepartmental Sales	10,558.3	13,509.7	14,400.1
Miscellaneous	294.8	294.8	297.6
Total Operating Revenues	\$ 80,192.7	\$ 77,399.3	\$ 80,088.9
<u>Operating Expenses</u>			
Gas Supply	\$ 41,530.8	\$ 41,530.8	\$ 41,530.8
Storage	557.2	557.2	557.2
Transmission	769.8	769.8	769.8
Distribution	6,089.1	6,089.1	6,089.1
Customer Accounting & Coll.	3,084.7	3,075.0	3,078.0
Marketing	495.8	495.8	495.8
Administrative & General	6,746.0	6,604.7	6,648.9
Subtotal Expenses	\$ 59,273.4	\$ 59,122.4	\$ 59,169.6
Depreciation & Amortization	\$ 5,358.9	\$ 5,358.9	\$ 5,358.9
Ad Valorem Tax	2,788.1	2,788.1	2,788.1
Payroll Tax & Miscellaneous	560.3	560.3	560.3
State Franchise Tax	415.6	177.8	415.6
Federal Income Tax	1,080.1	333.9	1,080.1
Wage & Productivity Adjustment	52.5	52.5	52.5
Total Operating Expenses	\$ 69,528.9	\$ 68,393.9	\$ 69,425.1
Net Operating Revenues	\$ 10,663.8	\$ 9,005.4	\$ 10,663.8
Depreciated Rate Base	\$121,871.5	\$121,871.5	\$121,871.5
Rate of Return	8.75%	7.39%	8.75%

A. 53945, 53946, 53970 - SW/ltc \*

Steam Department Operations - 1974

The direct evidence of the city established that the steam department sales of SDG&E had decreased 37 percent in 1974. The 10 percent conservation estimate of the utility is clearly conservative. The estimated impact on the steam department earnings, based on our Phase I adopted results, is set forth in Table 3. The requested rate increases for the steam department are reasonable.



Table 3

Summary of Earnings

Steam Department

(Year 1974 Estimated)

	: Adopted Results :	: Adopted :	
	: at 8.75%	: Revenue at 10%	: Phase II :
Item	: Rate of Return	: Conservation	: Results :
(Dollars in Thousands)			
<u>Operating Revenues</u>			
Sales to Customers	\$485.6	\$438.5	\$460.1
Total Operating Revenues	\$485.6	\$438.5	\$460.1
<u>Operating Expenses</u>			
Fuel	\$251.4	\$226.3	\$226.3
Production	57.6	57.6	57.6
Distribution	41.8	41.8	41.8
Customer Accounting & Coll.	1.6	1.6	1.6
Administrative & General	60.7	59.8	60.2
Subtotal Expenses	\$413.1	\$387.1	\$387.5
Depreciation & Amortization	\$ 26.4	\$ 26.4	\$ 26.4
Ad Valorem Tax	18.2	18.2	18.2
Payroll Tax & Miscellaneous	8.0	8.0	8.0
State Franchise Tax	(1.2)	(3.1)	(1.2)
Federal Income Tax	(7.4)	(16.6)	(7.3)
Wage & Productivity Adjustment	-	-	-
Total Operating Expenses	\$457.1	\$420.0	\$431.6
Net Operating Revenues	\$ 28.5	\$ 18.5	\$ 28.5
Depreciated Rate Base	\$325.7	\$325.7	\$325.7
Rate of Return	8.75%	5.68%	8.75%

( ) Red Figure

Conclusion

Based on our review of the operations of SDG&E, we conclude that further rate increases are necessary. We are aware that such further increases are a further burden on SDG&E ratepayers who have experienced rapidly increasing rates in recent years. Hundreds of SDG&E customers have written to this Commission protesting further rate increases.

We cannot comply with the requests we have received from the SDG&E customers. To pretend that further rate increases are not required could only temporarily postpone such increases. We have reviewed the recorded operations of SDG&E operations which included substantial windfall gains due to favorable hydroelectric conditions in 1974. Moreover, we are also aware of the sale of fuel oil by SDG&E to Southern California Edison Company and others in 1974. SDG&E sold excess fuel oil at a gain of approximately \$9 million in 1974. The recorded return for SDG&E in 1974 would increase to approximately 8.35 percent if such fuel oil sales were incorporated in SDG&E utility revenues. This result is obtained in 1974 when abnormal hydroelectric power and gains on fuel oil sales in excess of \$20 million are included in SDG&E's revenues. We cannot reasonably assume that such windfall gains will be repeated in 1975.

An 8.75 percent rate of return was authorized in Phase I in order to enable SDG&E to obtain additional capital in today's financial markets. SDG&E must pay in excess of 9 percent interest on current debt issues. We have stated our intention to retain the 8.75 percent return in these proceedings. We must recognize that rates must be established

A. 53945, 53946, 53970 ltc \*

which will afford SDG&E an opportunity to achieve such return. If we do not do so now, we can anticipate repeated requests for interim rate relief.

We cannot ignore the obvious implication of our decision: the necessary short-term consequence of conservation is higher rates. Indeed, the greater the level of conservation, the higher the rates, and the higher the rates, the greater the level of conservation, if for no reason other than price elasticity.

So we have a dilemma. We have an apparent conflict between two of our most important priorities: the lowest prices possible and conservation. This conflict is the inevitable result of the application of traditional ratemaking principles, developed during decades of increasing demand, to an unprecedented, unforeseen set of circumstances. To the extent that these circumstances will or should be repeated, we must be prepared to depart from the traditional principles.

We have only limited options. In this case, when anticipated gross gas and electric revenues decreased by over \$18 million, related fuel expenses decreased by a lesser amount. The difference is the amount of revenue increase required by SDG&E in order to achieve the level of earnings found to be reasonable. To simply deprive the utility of that revenue is no solution.

In the long run, there may be no problem. To the extent that conservation can be foreseen, the utility can plan its capital plant and operating expenditures to minimize the gap between revenues required and revenues anticipated.

But the immediate problem is to provide incentives to conserve in the face of the threat of resulting rate increases. We believe that there may be ways to restructure the rates that will reward the persons, businesses, and industries who do conserve by placing the burden of the increases on persons, businesses, and industries who do not conserve. We cannot attempt this restructure in this proceeding because of the lack of a record, but we consider conservation to be so urgent that we will consider its ramifications in future rate proceedings, including the interim general rate increase application now pending for this utility. We hope that interested parties will participate and become part of the solution. We expect that the company will present testimony and exhibits discussing some of the alternative ways these conflicts can be reconciled, as well as offering in some detail the short-term efficiencies that the utility can (or did) implement in the spirit of conservation.

Findings

1. A reasonable rate of return to be applied to SDG&E's jurisdictional rate base is 8.75 percent.
2. For the test year 1974, it is reasonable to estimate that sales to electric department customers are 10 percent below the levels assumed in the results of operations adopted by our Decision No. 83675. Table 1 sets forth a reasonable estimate of the effect of such reduced sales.
3. For the test year 1974, it is reasonable to estimate that sales to gas department customers (other than interdepartmental sales) are 10 percent below the levels assumed in the results of operations adopted by our Decision No. 83675. Table 2 sets forth a reasonable estimate of the effect of such reduced sales, including the increased sales of interdepartmental gas to the electric department.

A. 53945, 53946, 53970 - SW

4. The operation of the fuel cost adjustment will reflect the increased availability of interdepartmental gas. The fuel cost adjustment proceedings in SDG&E's Application No. 55506 will incorporate the additional gas available to the electric department.

5. For the test year 1974, a reasonable estimate of SDG&E's steam department sales and results of operations are set forth in Table 3.

6. Based upon the adopted estimates, SDG&E's electric department revenues should be increased by \$9,558,000 annually, an increase of 5.3 percent in gross revenues.

7. Based upon the adopted estimates, SDG&E's gas department revenues should be increased by \$2,689,600 annually, an increase of 3.5 percent in gross revenues.

8. Based upon the adopted estimates, SDG&E's steam department revenues should be increased by \$21,600 annually, an increase of 5 percent in gross revenues.

9. The rate increases authorized by this decision will be allocated on a uniform cents per unit basis and will result in lower percentage increases to smaller domestic users. Larger users of energy will experience higher percentage increases in the lower-priced tail block rates.

10. Electric, gas, and steam rates should be increased as set forth in the following order. The rates of SDG&E, increased as set forth, are just and reasonable. The present rates and charges which differ from those prescribed by this decision are for the future unjust and unreasonable.

11. The evidence does not establish that SDG&E's earnings at rates authorized by our Decision No. 83675 are excessive. SDG&E's pending Applications Nos. 55627, 55628, and 55629 will afford the city of San Diego a reasonable opportunity in the near future to present further evidence on 1975 earnings levels. Those cases include a petition for interim rate relief based on 1975 results of operations of SDG&E. Under such circumstances, the petition of the city of San Diego to reopen these Phase II proceedings is denied.

Conclusion

The three amended applications should be granted to the extent set forth in the following order, and the amended applications are in all other respects denied.

The effect of the investment credit provision of the Tax Reduction Act of 1975, as applicable to SDG&E, will be considered in other proceedings.

O R D E R

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-Series, revised tariff schedules with rates increased from present levels by 0.120 cents per kilowatt-hour for all electric rate schedules, 0.318 cents per therm for Schedule No. G-54, 0.326 cents per therm for other gas rate schedules, a 3.5 percent increase

A. 53945, 53946, 53970 ltc \*

in Contracts Nos. 129, 146, 176, 185, 186, and 202, and \$0.0653 per thousand pounds for steam rate schedules. The effective date of the revised schedules shall be on not less than five days' notice to the Commission and the public.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 24th day of JUNE, 1975.

Vernon L. Sturgeon  
President

Donald Ross  
Leonard Ross

John P. Baker  
Commissioners

Commissioner William Symons, Jr., being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A:

APPEARANCES

APPLICANT:

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

INTERESTED PARTIES:

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; Dave Johnson,  
for Conservation Committee, Sierra  
Club, San Diego Chapter; and David B.  
Follett, Attorney at Law, for Southern  
California Gas Company.

COMMISSION STAFF:

Elinore C. Morgan, Attorney at Law;  
Robert C. Moeck, and Kenneth K. Chew.