

Decision 84 04 041

APR 18 1984

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 to increase its rates and
charges for electric, gas, and steam
service.

Application 82-12-57
(Filed December 24, 1982)

FINAL OPINION

By Decision (D.) 83-12-065 in this proceeding the Commission ordered further hearings on two issues it could not settle by D.83-12-065, gas rate design and ratemaking treatment of the Blythe Site. Further hearings on those two issues were held in San Diego January 26 and 27, 1984 before President Leonard M. Grimes, Jr., Commissioner Priscilla C. Grew, and Administrative Law Judge (ALJ) Albert C. Porter. This proceeding is now ready for a final decision.

Gas Rate Design

The further hearing on gas rate design was prompted by the gas rates authorized in D.83-12-065. The authorized rates set the lifeline rate at 104% of the system average rate. As discussed in D.83-12-065 the Sher Bill limits the baseline rates, which are to become effective May 16, 1984, to 85% of the system average rate unless industrial rates have to be lowered to prevent fuel switching and, conversely, high priority rates have to be increased to meet the revenue requirement. (Public Utilities (PU) Code § 739 (c).)

At the further hearings in this phase, witnesses for San Diego Gas & Electric Company (SDG&E) and the Commission staff (staff) recommended that the gas rates authorized by D.83-12-065 be allowed to stand until SDG&E's Spring 1984 Consolidated Adjustment Mechanism (CAM) proceeding.

The staff further recommends that if there is no decision on SDG&E's Spring CAM by May 16, 1984, the Tier I rate, which becomes

the baseline rate instead of lifeline rate on that date, should be reduced by 4.530¢/therm. This would put the baseline rate at 96.9% of the system average rate. The 4.530¢ reduction can be made with no change in revenue requirement because, the staff claims, when baseline is implemented on May 16, there will be an estimated shift of 30,175 Mth from Tier I to Tier II; this will create a \$9,741,000 revenue increase based on the sales adopted in D.83-12-065. The 96.9% relationship in lieu of the 85% relationship would be reasonable in order to prevent substantial fuel switching and, therefore, would satisfy the requirements of the Sher Bill.

The recommendations of the SDG&E and staff witnesses appear to be reasonable and will be adopted.

Blythe Site Phase

Five parties to the proceeding took part in the further hearing on the Blythe Site, SDG&E, staff, City of San Diego (San Diego), Welfare Rights Organization (WRO), and the Sierra Club. The Sierra Club took no position on how the Blythe Site should be treated for ratemaking purposes, but recommended that the Commission's decision be based on a consideration of equity in a comparison with other potential energy options.

There are five possible ratemaking treatments for the Blythe Site before the Commission. SDG&E recommends the \$45,035,000 presently in rate base be continued in rate base at the 12.82% rate of return authorized in D.83-12-065. The staff recommends deletion of the \$45,035,000 from rate base. The ALJ recommends continuation in rate base of \$19,476,000 which represents the investment in land and water rights, at the 12.82% return, and amortization over 10 years of \$25,559,000 in development costs. Commissioner Grew proposes an alternate (Grew Alternate) which removes the \$19,476,000 in land and water rights from the rate base, but allows SDG&E to accrue its carrying costs for possible future recovery when a plan for the site is made definite, and writes off the development costs over four years. As an interim measure pending final determination,

the Commission adopted the status quo which continues the \$45,035,000 in rate base but at the rate of return of 10.59% found reasonable for the site in D.93892.

The effect on SDG&E's revenue requirement of these five possibilities is shown on Table 1 which is taken from Exhibit 130, witness Ferraro.

SDG&E stated it is willing to accept the Grew Alternate in the absence of any other alternative acceptable to the Commission. However, SDG&E proposes that two conditions accompany the Grew Alternate. First, SDG&E requests authority to remove the rental income from the ranch lands from the miscellaneous revenue account and let that revenue¹ flow below the line to partially offset the burden on shareholders of no return on the \$19.5 million. Second, SDG&E would want the \$19.5 million accounted for by a memorandum account rather than shown on the company's books as a deferred account.

We note that under the adopted Uniform System of Accounts, there is no such thing as a memorandum account. The memorandum account term has been used by the Commission as a means of distinguishing a ratemaking treatment accorded certain items which is different from the way the items are classified for financial statement purposes. When the term memorandum account is used to denote a removal from rate base and not a change in the accounting requirements prescribed by the system of accounts, a memorandum record or subaccount can be created to identify the item that is excluded from rate base for ratemaking purposes.

On the other hand, a deferred debit account represents the correct accounting treatment for recorded items excluded from rate base. A deferred debit represents some measure of potential future

¹ For 1983, rental revenue from the Blythe Site was \$516,000.

value to the utility for plant not currently identified as used and useful plant or plant held for future use with a definite plan which does not warrant rate base treatment. The use of a deferred debit account avoids misrepresenting an item of plant or expense that is in dispute for ratemaking versus accounting purposes.

Staff continues to recommend that the Blythe Site be excluded from rate base until the criteria for its continuation in plant held for future use (PHFU) as set forth in D.93892 are met. However, if the Commission does not accept that recommendation then staff supports the Grew Alternate. San Diego takes the same position as the staff, having opposed continuation of the site in rate base throughout the proceeding. WRO supports the Grew Alternate.

We believe the Grew Alternate is the best course and it will be adopted. It puts SDG&E on notice that the site will not be reinstated in rate base until the criteria we set forth in D.93892 are met while the four-year write-off of the \$25.5 million gives SDG&E a reasonable cash flow. The deferred debit account will be adopted to keep track of the investment for PHFU purposes. The rate of return for interest purposes posted to the account will be whatever return is currently authorized SDG&E. The rental income will be moved below the line for cash flow purposes, but noted in the deferred debit account so that it is accounted for should the site ever be moved back into rate base.

For the sake of continuity, we will not order a reduction in SDG&E's rates at this time to account for the \$1,667,800 (\$8,201,300 - \$6,533,500, Table 1) reduction in revenue requirement. Although we do not want this to be a precedent, because of the small size of the adjustment and because it is a reduction, we will order SDG&E to adjust its ERAM margin to reflect the reduction. On a CPUC jurisdictional basis the reduction to margin is \$1,622,390. That reduction of less than 2/10 of 1% can be accounted for in SDG&E's next ECAC proceeding.

Table 1
 Summary of Ratemaking
 Treatment Proposals For SDG&E's Blythe Site

1984 Revenue Requirement
 (\$ Thousands)

ALJ Porter

Rate Base	19,476,000 (1) x 21.25% (2)	4,138,650	
Amortization	25,559,000 (3) ÷ 10 (4)	2,555,900	
Ad Valorem Taxes	220,000 (5)	220,000	
Franchise Fees & Uncollectibles	2.25% (6)	155,577	
		<u>7,070,127</u>	\$7,070.1

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Rate Base	45,035,000 (7) x 16.68% (8)	7,511,838	
Ad Valorem Taxes	509,000 (9)	509,000	
Franchise Fees & Uncollectibles	2.25% (6)	180,469	
		<u>8,201,307</u>	\$8,201.3

Commissioner Grew's Alternate

Amortization	25,559,000 ÷ 4 (10)	6,389,750	
Franchise Fees & Uncollectibles	2.25% (6)	143,769	
		<u>6,533,519</u>	\$6,533.5

REVENUE REQUIREMENTS DIVISION

\$0.0

SDG&E

Rate Base	45,035,000 x 21.25% (2)	9,569,938	
Ad Valorem Taxes	509,000 (10)	509,000	
Franchise Fees & Uncollectibles	2.25% (6)	226,776	
		<u>10,305,714</u>	\$10,305.7

- (1) \$19,476,000 - Land and water rights.
- (2) 21.25% - 12.82% Authorized Rate of Return x 1.6576 Rate Base net to gross multiplier w/o franchise and uncollectibles.
- (3) \$25,559,000 - Non-land and water rights expenses
- (4) 10 - Amortization period in years.
- (5) \$220,000 - Ad Valorem taxes associated with \$19,476,000 in rate base.
- (6) 2.25% - Franchise and uncollectible rate.
- (7) \$45,035,000 - Total of (1) and (3).
- (8) 16.68% - 10.59% Present rate of return for Blythe Site x 1.5751 Rate Base net to gross multiplier w/o franchise and uncollectibles.
- (9) 509,000 - Ad Valorem taxes associated with \$45,035,000 in rate base.
- (10) 4 - Amortization period in years.

Findings of Fact

1. The Commission ordered further hearings in this proceeding on the issues of gas rate design and ratemaking treatment of the Blythe Site.

2. The hearings noted in Finding 1 were properly noticed and held and all parties were given an opportunity to appear and be heard.

3. Baseline rates and rate relationships required by the Sher Bill will not become effective until May 16, 1984.

4. The recommendation of SDG&E and staff that the gas rates authorized by D.83-12-065 be continued until SDG&E's Spring 1984 CAM proceeding is reasonable.

5. If there is no decision on SDG&E's Spring 1984 CAM by May 16, 1984, the Tier I rate for gas service can be reduced by 4.530¢/therm as recommended by staff to account for the estimated shift in usage from Tier I to Tier II of 30,175 Mth.

6. Although the step taken in Finding 5 will not bring the relationship of baseline to system average rate to the 85% required by the Sher Bill, the resulting rate relationship is necessary to prevent substantial fuel switching.

7. SDG&E has not met the criteria set out in D.93892 for continuation of the Blythe Site in rate base.

8. The Grew Alternate for ratemaking treatment of the Blythe Site is the best alternative at this time.

9. A deferred debit account for the land and water rights portion of the Blythe Site accruing monthly compound interest at a nominal 12.82% per year is the proper accounting treatment.

10. It is fair to remove any Blythe Site rental income from an above-the-line account to a below-the-line account and also account for the rental income in the deferred debit account referred to in Finding 9.

11. Four years is a reasonable period to write off the portion of the Blythe Site investment not associated with the land and water rights.

12. The reduction in revenue requirement occasioned by the adoption of the Grew Alternate for the Blythe Site is best applied by an adjustment in SDG&E's ERAM with no change in rates at this time.

13. Because this decision provides for an eventual reduction in revenues which will be affected by the date the required accounting changes are made, this decision should be effective on the date signed.

14. There are no further issues before the Commission in this proceeding and, therefore, it can be concluded.

Conclusion of Law

Based on the foregoing Findings of Fact and under PU Code §§ 454 and 1708, the Commission may alter its D.83-12-065 as provided in the following order.

FINAL ORDER

IT IS ORDERED that:

1. San Diego Gas & Electric Company (SDG&E) gas rates authorized by D.83-12-065 shall continue in effect until a decision is issued on SDG&E's Spring 1984 CAM proceeding.

2. If there is no decision in SDG&E's Spring 1984 CAM proceeding prior to May 16, 1984, Tier I residential gas rates shall be reduced by 4.530¢/therm.

3. SDG&E shall remove the Blythe Site investment (approximately \$45 million) from rate base.

4. SDG&E shall write off the Blythe Site book investment not associated with land and water rights (approximately \$25.5 million) over a four-year period and include that write-off in its revenue requirement.

5. SDG&E shall establish a deferred debit account for the book value of the land and water rights associated with the Blythe Site (approximately \$19.5 million).

6. In the account established by Ordering Paragraph 5, SDG&E shall also accrue monthly compound interest at a nominal rate per year equal to its currently authorized rate of return, presently 12.82%, and, after removal from the appropriate above-the-line account, credit to the account any rentals received from the Blythe Site.

7. The reduction in revenue requirement resulting from this order shall be accounted for by an appropriate adjustment in SDG&E's Electric Revenue Adjustment Mechanism. The adjustment shall be made effective as of the date of this decision.

8. To the extent not granted by this decision or D.83-12-065, A.82-12-57 is denied.

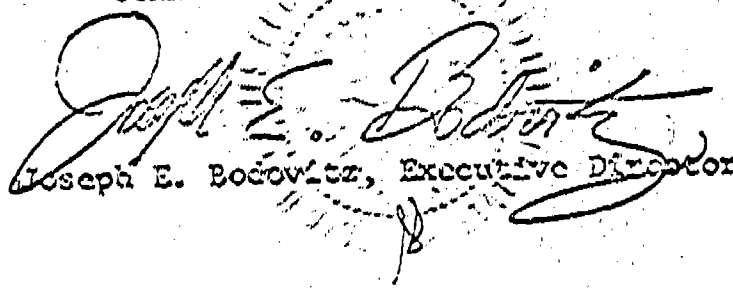
This order is effective today.

Dated APR 18 1984, at San Francisco, California.

LEONARD M. GRIMES, JR.
President

VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.


Joseph E. Bodovitz, Executive Director