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Decision 84 68 125 AUG 7 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 include)
 the Southwest Powerlink as a)
 specified major addition under)
 its Major Additions Adjustment)
 Clause (MAAC) and to increase its)
 Major Additions Adjustment Billing)
 Factor (MAABF) and decrease its)
 Annual Major Additions Rate (AMAR))
 upon operation of the Southwest)
 Powerlink.)

Application 83-12-01
 (Filed December 1, 1983)

Manning W. Puette and Jeffrey Lee Guttero,
 Attorneys at Law, for applicant.
John W. Witt, City Attorney, for City of
 San Diego, by William S. Shaffran,
 Deputy City Attorney, interested party.
Patrick L. Gileau, Attorney at Law, for
 the Commission staff.

O P I N I O N

I- SUMMARY

This decision grants San Diego Gas & Electric Company (SDG&E) a \$44,045,000 increase for the period beginning June 19, 1984, the date of commercial operation, to December 31, 1985, to cover the costs of operating its Southwest Powerlink (Powerlink). The matter is treated as a Rate Base Offset Proceeding.

SDG&E's computed Allowance for Funds Used During Construction (AFUDC) was decreased by \$883,000 to reflect an arbitrage adjustment to the earnings on the trust fund account created to reflect the proceeds from the sale of Industrial Development Bonds.

The revenue requirement of \$44,045,000 annually, was allocated to the Residential, Commercial/Industrial, and Agricultural Power Classes in proportion to the total rates adopted by Decision (D.83-12-06) dated December 20, 1983, in SDG&E's Application (A.83-12-57) for general rate increases. Allocation between classes were by the system percentage change.

SDG&E is instructed to specifically address the fuel savings associated with the commercial operation of the Powerlink in their current ECAC filing, A.84-07-027.

II - BACKGROUND

SDG&E seeks authority to include the Powerlink as a Specified Major Addition under its MAAC and to (1) accrue to its MAAC balancing account, effective February 1, 1984, amounts attributable to the operation of Phase I of the Powerlink; (2) increase its Major Additions Adjustment Billing Factor, effective as of the commercial operation date of the Powerlink, by 0.485¢ per kilowatt-hour (kWh); and (3) to decrease its rates to account for adjustments to its Average Non-Investment Related Expense Rate (ANRER) of 0.105¢ per kWh on June 1, 1984.

After due notice four days of public hearings were held on this matter in Los Angeles before Administrative Law Judge N.R. Johnson from May 8 through May 11, 1984. Concurrent briefs were received from SDG&E, the Commission staff (staff), and the City of San Diego (San Diego). Testimony was presented on behalf of SDG&E by its manager of the Powerlink, Terry M. Winter, by its manager of the corporate tax department, Christian P. Fonss, by one of its valuation supervisors, Arlyn L. Jespersen, by its acting manager-rates department, Douglas P. Hanson, and by its supervisor of real property acquisition, Don Grove; on behalf of herself, by Sally Anderson-Monahan (Anderson); and on behalf of the staff by financial examiner III, J. Archie Johnson.

On the first day of hearing SDG&E filed a "Motion for an Interim Decision Authorizing Deferred Debit Treatment from Commercial Operation of the Southwest Powerlink Until a Ratemaking Decision is Reached in Application 83-12-01". SDG&E filed the motion because of its concern that a final decision would not precede the commercial operation of the Powerlink and result in a decline in earnings in that it would neither be accruing an AFUDC nor receiving rate relief. Because several complex issues were raised during the course of the hearing necessitating deliberate and careful consideration of each such issue, it became obvious that our decision would be delayed beyond the commercial operating date of the Powerlink. Consequently, by D.84-06-089 dated June 6, 1984, we granted SDG&E's motion authorizing it to accrue in a deferred debit account Powerlink-related income tax, property tax, and depreciation expenses and an amount equivalent to an allowance for funds used during construction from the date of commercial operation of the Powerlink until the effective date of the final decision on this matter.

The Powerlink consists of a 230-kilovolt (kV) double circuit transmission line 24 miles in length connecting SDG&E's Mission Substation and Escondido Substation to its Miguel Substation (the company refers to this portion of the line as Phase 1), and single circuit 500-kV line 278 miles in length extending from the San Miguel Substation eastward to the California-Arizona border and then northeast to the Palo Verde Nuclear Generating Station switchyard in Arizona with substations in Imperial Valley, California and Yuma, Arizona (the company's Phase 2). The original cost estimates for this project were \$326 million. The current total projected SDG&E cost is estimated to be \$207,457,000. The 230-kV line is presently being operated to provide an alternate transmission path while existing circuits are modified at various substations to accommodate the full operation of the Powerlink. Upon commercial operation of the entire Powerlink the double circuit 230-kV line is used to transmit power from the 500-kV line to SDG&E's load centers.

A certificate of public convenience and necessity (CPC&N) was granted by D.93785 dated December 1, 1981 in Application (A.)59575, as modified by D.82-03-108 and D.82-12-100, and construction of the Powerlink was commenced in September, 1982. The CPC&N granted by this Commission did not divide the project into two phases. We are of the opinion that the 230-kV line is an integral portion of the entire Powerlink therefore we do not recognize any separation by the company of this project into Phase 1 and Phase 2. Because we do not recognize a two-phase operation we did not rule on that portion of SDG&E's application which sought to accrue amounts attributable to "Phase 1" in its MAAC as of February 1, 1984. The issue is now moot.

III - DISCUSSION

There are several issues that require resolution in this matter. These include:

1. Whether MAAC treatment or Rate Base Offset treatment is applicable.
2. The amount of litigation and relocation costs that should be included in rate base.
3. The proper treatment of Industrial Development Bond trust fund interest income (arbitrage).
4. The proper rate base allowance for contingencies.
5. The proper allowance for O&M expenses.
6. The revenue requirement of the Powerlink project.
7. The allocation of the increased revenues to customer groups.
8. Deferred debit account balance disposition.
9. Commission authorization for the sale of a portion of the line to the Imperial Irrigation District.

MAAC Treatment

SDG&E originally filed this application seeking authority to include the Powerlink as an addition under its MAAC. It did so in part because our staff advised them to do so. In its brief, the company now states that it is "indifferent as to whether MAAC or Rate Base Offset Proceeding is used for ratemaking treatment so long as SDG&E receives full ratemaking recognition of the project on or before the date of commercial operation of the Powerlink". (SDG&E brief p.3). Staff in this proceeding had argued that the Rate Base

Offset was the appropriate treatment of this plant. As the company is now indifferent we do not need to determine here when and under what circumstances MAAC is preferable to a Rate Base Offset.

On June 6, 1984, in D.84-06-089 we granted SDG&E's motion to establish a deferred debit account as of the commercial operation date of the Powerlink, which was June 19, 1984. We are thus able to recognize all of the revenues and expenses associated with the Powerlink from that date forward, using the Rate Base Offset.

Relocation Costs in Rate Base

The record is quite clear that the route crossing the Anderson/Monahan pig-raising facilities adopted by SDG&E was an alternative route proposed by the County of San Diego on behalf of the residents in the Dulzura-Barrett Junction area, as a substitute for the original preferred route north of Highway 94 and the alternate southerly route along the California-Mexico border. Both were included in SDG&E's application. It is equally obvious that from the outset Ms. Anderson strenuously and consistently objected to the lines crossing over her pig breeding and farrowing facilities. On several occasions SDG&E was informed that only through litigation would it obtain its desired right-of-way. It is equally clear on the record that SDG&E firmly believed its maximum exposure for the original route, in the context of both time and added expense, was less than the cost of relocating the transmission line route to the Anderson/Monahan northern property line. On this basis SDG&E filed condemnation proceedings, obtained a right of possession order, and commenced construction.

The Superior Court found that SDG&E's proposed route was not located in the manner that will be most compatible with the greatest public good and the least private injury, and ordered it moved to the northern property line of the pig ranch. The additional cost of such relocation, including the removal of facilities already installed when the court order was issued, is stated to be approximately \$864,000 excluding the costs of litigation. It is SDG&E's position that the entire relocation costs plus the as yet undetermined litigation costs be included in the cost of the project and reflected in rate base.

The City of San Diego, however, notes that the court found the additional cost of the relocation of the line was \$52,661, as testified to by Ms. Anderson at both the condemnation proceeding and this proceeding. On this basis the City of San Diego recommends that the amount allowed in rate base for the segment of line under dispute be limited to the cost of the original route of \$442,000 plus \$52,661 or approximately \$495,000 and not \$1,306,000 plus litigation costs, as advocated by SDG&E.

Staff argues that the appropriate amount to include in rate base for the Anderson/Monahan portion of the project is not the full \$1.3 million expended to complete this portion, including an additional \$104,000 to remove construction work already completed, but what it would have actually cost to build along the northerly route if SDG&E had initially agreed to this route as an appropriate mitigation measure. This would eliminate both the higher cost of steel and higher labor costs attributable to SDG&E's "refusal" to negotiate. It would also eliminate the costs of building and tearing down the line along the initial route. According to the staff, the amount which should be allowed is, therefore, approximately \$600,000 computed as the cost of completion of the reroute assuming the same per unit steel and labor costs as the original route.

We do not agree that the company was unreasonable in its actions regarding the Anderson/Monahan property. From the record it would appear that the owners of the property themselves refused to negotiate even after the company offered to relocate and rebuild certain farrowing pens located near the right-of-way. At the outset Ms. Anderson made it clear that the alignment chosen by SDG&E was not negotiable and that the matter would go to litigation. SDG&E chose the alignment as an alternative at the request of the County of San Diego to accommodate the residents of Dulzura-Barrett Junction.

Further, the company's evaluation of the situation was that the incremental cost of an alternative alignment around the northerly portion of the Anderson/Monahan property was much in excess of the appraised value of the right-of-way, along the original alignment, estimated to be \$44,300.

In April, 1983, the company estimated the cost of rerouting the line along the northerly portion of the Anderson/Monahan property at \$383,000. Ms. Anderson estimated the cost to be \$52,661. The actual cost of rerouting, not including removal from the original route has been shown to be \$864,492. The company began construction over the original route in September, 1983.

The company's position in this matter is that to hold up construction or to stop construction from September until after the trial in December would have cost \$3 million per month as well as lengthen the total time to complete the project. The cost to go forward and then to dismantle and reroute this portion of the line (2.2 miles) was \$1.3 million, not including litigation costs. The cost of relocation alone has been shown to be \$864,000.

Management's duty is to pursue what it believes is a correct course; it does not have to be absolutely accurate when viewed by hindsight. Our duty is to assess whether management's belief and consequent actions were reasonable.

Responding to community objections and mindful of possible county government involvement, SDG&E acceded to the objections to their original route and adopted an alternate route through the Anderson/Monahan property. The record shows that SDG&E firmly believed that there was greater cost exposure, both in expense and in time delay if the line were to angle around the Anderson/Monahan property. The company thus chose to pursue the cross-farm route and filed a condemnation action to obtain the right-of-way. Without retrying the Superior Court case and without deciding with hindsight what was "right" or "wrong", we do determine that it was reasonable at the time for SDG&E to pursue the alternate route through the Anderson/Monahan property. The expense of moving the line and removing partially constructed facilities, done pursuant to court order were, and are reasonable expenditures made to complete construction. We shall order their inclusion, \$1.3 million, as well as the litigation costs when they are known, as reasonable additional costs to be put in rate base.

Arbitrage

Approximately thirty-nine percent of the financing of the Powerlink came from the sale of Industrial Development Bonds (IDBs). Proceeds from the sale of IDBs are deposited in a trust fund. As the construction goes forward, the trustee "draws down" the fund to pay the cost of the construction. Funds held prior to "draw down" are to be invested in low-risk instruments and such funds are used to reduce the cost of the project. The increment by which the invested fund's income exceeds the costs of the interest on the bonds is called "arbitrage income".

FERC Order 561 sets forth specific formulae for the computation of the AFUDC rate. They include recognition of the embedded long-term debt interest rate including restricted debt issues, the last authorized return on equity, the preferred stock cost rate, the short-term debt interest rate, and the average balance of CWIP. This Commission has generally accepted the FERC formulae except that the AFUDC rate for the debt portion is computed net-of-income taxes to reflect the effect of the debt interest on income tax. AR 13 provides that the trust fund balances for restricted debt are to be included in the computation of the average balance of CWIP.

In computing the AFUDC to be added to the plant balance of the plant under construction, SDG&E applies the above-described AFUDC rate to the trust fund balance as well as the actual construction. The income from the trust fund, net-of-taxes, is deducted from AFUDC or plant balance of the CWIP. The net-of-tax figure is obtained by multiplying the gross interest income by 0.48816 (1 minus the composite income tax rate of 0.51184).

The staff accountant takes the issue with SDG&E's method, asserting that the gross income from the trust fund should be deducted from the AFUDC because no equity money is included in the trust fund and the inclusion of trust fund balances in the base for AFUDC is not a typical CWIP financing situation.

Furthermore, according to this witness, the application of the net-of-tax concept to short-term interest income, benefits only the utility and not the ratepayer which is contrary to the intended result of applying income from the trust fund to the benefit of the ratepayers by reducing rate base. While he believes that applying the gross trust fund income as a credit against CWIP is the proper interpretation of AR 13 and is fair and reasonable, he does not recommend the adoption of this procedure. Instead, he recommends an accounting procedure

that requires that related interest/expense income net-of-tax that are funded by restrictive debt be capitalized as a component of construction costs during the construction phase of projects. The staff proposal is neither illogical nor unreasonable. It does not, however, conform to the basic concept underlying the AFUDC rate formulae providing a return on investment based on the utility's capital structure similar to the overall rate of return derivation.

The cost savings of the relatively low interest rates of IDBs redound to the ratepayer's benefit, both in the computations of the cost of capital used in deriving the allowable rate of return and in the AFUDC computations. In this respect, IDBs are no different than any other bond issue albeit the interest rate is relatively lower. The only difference is the establishment of a trust fund pending disposition of the funds. Since the trust fund balances are not available for normal company operations, it is reasonable that the cost of holding such funds for a specific project be charged to that project. It is equally reasonable that income from such trust fund balances be credited to the project.

We agree with SDG&E that the AFUDC rate and interest income on the trust fund should reflect similar income tax treatment, i.e., net-of-income taxes. However, SDG&E's procedure is inconsistent. The AFUDC rate is computed with the income tax deduction applied only to the debt component of the AFUDC calculation whereas the credit to the project cost is computed with the income tax deduction applied to the entire amount of interest income. Under these circumstances, the credit to the project is almost always less than the charge to the project even though it is possible that the interest rate applied to the trust fund balance could exceed the AFUDC rate. At the present time the net-of-income tax rate applied

to the trust fund rate balance in the AFUDC calculations for SDG&E equals 78.04% of the gross AFUDC rate. It appears reasonable to apply the same income tax factor to both the income AFUDC charge and the trust fund balance interest income. Consequently, for the purposes of this proceeding, we will adopt as reasonable the application of a factor of .7804 both in computing the AFUDC and the trust fund interest income adjustment to the AFUDC. Table 1 compares SDG&E's method, SDG&E's method with the staff's interpretation of AR 13, the staff's proposal, and our adopted method. It will be noted that our adopted method results in an AFUDC charge \$883,000 less than the method used by SDG&E. Consequently, the order that follows provides for a downward adjustment in the AFUDC balance of the above \$883,000.

Table 1

SAN DIEGO GAS & ELECTRIC COMPANY

Comparison of Charges to CWIP
July 1, 1983 through May 31, 1984

Item	: Staff's : : Interpretation : :SDG&E's: tation :Recommen-: CPUC : :Method :of AR-13 : dation :Adopted:			
	(Thousands of Dollars)			
Work Order Balance (Funded)	\$57,700	\$57,700	\$ 0 ^{a/}	\$57,700
Trust Fund Balance	31,500	31,500	87,500 ^{a/}	31,500
AFUDC Rate	.0973	.0973	.0973 ^{b/}	.0973
Average Bond Rate	.1055	.1055	.1055	.1055
Interest Income Trust Fund Balance	.1045	.1045	.1045	.1045
<u>Accounting for Tax Purposes</u>				
Bond Interest Cost	3,046	3,046	3,046	3,046
Interest Income	3,020	3,020	3,020	3,020
Net Bond Expense	26	26	26	26
Tax Benefit Available (.5184)	13	13	13	13
Net Cost to Utility	13	13	13	13
<u>Accounting for Ratemaking Purposes</u>				
AFUDC-Trust Fund Balance	2,810	2,810	8,461	2,810
AFUDC-CWIP Balance	5,146	5,146	-	5,146
Interest Chg. CWIP	7,956	7,956	8,461	7,956
Interest Income Credit	1,474	3,020	3,020	2,357
Net Amount Chg. CWIP	6,482	4,936	5,441	5,599

a/ Staff-recommended method is applied to amount of IDBs allocated to the project and does not relate specifically to the trust fund balance.

b/ Not applied to project financed by restricted bonds.

Contingency Allowance

The staff accountant recommends that the current contingency amount of \$4.02 million to be reduced to \$2.01 million to provide for a sharing of risk between the ratepayer and shareholder. He admits he has reviewed the rationale in support of the computation and cannot find any imprudence in its development, but notes an estimate cannot be expected to be "exactly on target". He further testified that he gave no consideration to the recent \$3 million reduction in the contingency fund in SDG&E's latest cost estimate revision. SDG&E's witness Winter testified that even though the project is near closing, there are numerous unknown costs, such as condemnation costs for land, and several million dollars in construction contracts that are closing with the possibility of being billed for necessary work not covered in the bid document that would have to be paid out of the contingency fund.

We will adopt the company's figure. In this respect we note that, as pointed out by staff, the rate base will be adjusted to reflect the actual costs during the next general rate case proceeding.

O&M Expenses

According to staff witness Johnson, SDG&E has no operating experience on 500-kV lines similar to the Powerlink. Consequently, it was forced to rely on raw data to derive its estimates of expected O&M expenses. He further testified that since recorded expenses for the next one to three years will be used as a basis for future projections, it is paramount that there is some incentive to keep the initial expense as low as possible and recommended a 15% reduction in SDG&E's estimated expenses as the allowable ratemaking amount. SDG&E's witness Winter testified that in developing the O&M costs SDG&E not only relied on its own experience with 230-kV lines, but also consulted with both Southern California Edison Company (Edison)

and APS who have considerable experience in the operations of 500-kV lines. Such consultations included discussion of such items as the number of aerial patrols that would be required in a year, how many emergency call-outs could be expected, the percent of towers that should be climbed each year, and how much maintenance could be expected on gas circuit breakers. SDG&E's estimate of O&M expenses appears reasonable and will be adopted.

Revenue Requirement

Both the staff's and SDG&E's estimated revenue requirements are based on SDG&E's last authorized rate of return of 12.82%. The primary differences in revenue requirements between the two estimates reflect staff recommendations noted above. Staff further recommends that the authorized rates be for a 19-month average to eliminate the necessity of any adjustment for the Powerlink for the 1985 SDG&E attrition year. This position is well-taken and will be adopted. Table 2 shows the revenue requirement computations as estimated by staff and SDG&E, together with our adopted results for the period June 1 through December 31, 1984 and the revenue requirements as estimated by SDG&E and with our adopted results for the period June 1, 1984 through December 31, 1985. The bases for our results have been previously set forth in the preceding portions of this decision.

Rate Design

SDG&E is proposing, and staff concurs, that the revenue requirement be allocated to the Residential, Commercial/Industrial and Agricultural Power Classes in proportion to the total rates adopted by D.83-12-065 in its general rate increase A.83-12-57. Within these three classes SDG&E proposes an allocation on a uniform cents-per-kilowatt-hour basis consistent with Ordering Paragraph 12 of D.83-12-065 which ordered that future

changes to SDG&E's rates should be by the system percentage change method except for lighting schedules, which are not to be adjusted until marginal cost studies are made. We will continue this method of apportioning rate increases in this matter. Table 3 sets forth the development of change to total rates by the system percentage method for an annual increase of \$44,045,000 using the D.83-12-065 adopted data as a bases.

Table 2

SAN DIEGO GAS & ELECTRIC COMPANY

Revenue Requirement

Item	: Staff : <u>SDG&E</u> : <u>Adopted</u> :				
	: 7 Months:	7 Months:	19 Months:	7 Months:	19 Months:
(Thousands of Dollars)					
Total Revenue Requirement	\$ 21,322	\$ 22,995	\$ 64,520	\$ 22,923	\$ 64,393
<u>Operating Expenses</u>					
Production	(1,593)	(1,593)	(3,186)	(1,593)	(3,186)
Transmission	(4,699)	(4,640)	(2,700)	(4,640)	(12,700)
Admin. & General	25	25	75	25	75
Depreciation & Amort.	3,687	3,715	10,107	3,710	10,092
Ad Valorem Taxes	1,123	1,057	3,563	1,057	3,563
Income Taxes	8,241	9,605	26,897	9,556	26,844
Franchise & Uncoll.	512	508	1,426	508	1,426
Total	7,926	8,677	26,182	8,623	26,114
Operating Income	14,026	14,318	38,338	14,300	38,279
Weighted Avg. Rate Base	109,401	111,688	187,839	111,543	187,555
Rate of Return	12.82%	12.82%	20.41% ^{2/}	12.82%	20.41% ^{2/}
Annualized Revenue Req.	36,552	38,991	40,632	38,869	40,309

(Red Figure)

$$2/ \quad \sqrt[12]{12.82 (7/19) + 12.93 (\frac{12}{19})} \times (\frac{19}{12}) = 20.41$$

Table 3

SAN DIEGO GAS & ELECTRIC COMPANY

Development of Change to Total Rates by System
Percentage Change Method

Classification	Decision 83-12-065			System Percentage Change Method			
	Adopted Data			Allocated	Total	Uniform	Proposed
	Total	Average	Total	Average	Percent	Changes to	Total Rate
	Sales	Revenue	Rate	Revenue	Rate	Change	Total Rate
	(M ² kWh)	(M\$)	(¢/kWh)	(M\$)	(¢/kWh)	(%)	(¢/kWh)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
Residential	3,466.10	\$ 395,150	11.400¢	\$ 409,645	11.818	3.67%	0.418¢
Commercial/Industrial	6,558.90	785,007	11.969	813,810	12.408	3.67	0.439
Agricultural Power	178.95	20,512	11.462	21,259	11.882	3.67	0.420
Subtotal	10,203.95	1,200,669	11.767	1,244,714	12.198	3.67	0.432
Lighting	100.96	16,506	16.349				
Total Retail	10,304.91	1,217,175	11.812				

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Deferred Debit Account
Balance Disposition

According to the testimony of SDG&E's witness Jespersen, the plant cost for the 230-kV Miguel substation to the Mission substation tap was included in the cost of the project receiving the AFUDC treatment just like any other component of the project. It has been operating continuously since March 7, 1984. Since that time, SDG&E has been accruing the AFUDC for this portion of the project in a deferred debit account. The company sought the Commission recognition of this portion of the Powerlink as Phase 1 and the establishment of a deferred debit account or MAAC treatment of the revenues associated with this portion of the line until such time as the entire Powerlink became commercially operable and received full ratemaking treatment. We did not and do not now recognize "Phase 1", nor its commercial operation. In our opinion AFUDC ceased accruing on June 19, 1984, the date of commercial operation of the entire Powerlink. For ratemaking purposes we will authorize the company to capitalize its AFUDC for the entire project.

By interim D.84-06-089 dated June 6, 1984, on this matter, we permitted SDG&E to accrue in a deferred debit account the Powerlink costs, consisting of income taxes, property taxes, depreciation expense, and an amount equivalent to an allowance for funds used during construction from the date of commercial operation of the Powerlink until the effective date of the final decision on this matter. This amounts to \$5,933,000 which is to be allocated to the various rates by the system percentage change method used to allocate the previously discussed Powerlink revenue requirement. The \$5,933,000 is part of the total revenue requirement of the \$64,393,000 reflected in Table 2 and will be recovered over the period of the effective date of this order to December 31, 1985. The annualized amount of the \$5,933,000 is \$3,736,000.

Authorization for Sale to IID

It is clear from the record that SDG&E neither discussed the proposed sale of a portion of the Powerlink to the Imperial Irrigation District (IID) with the Commission's legal division nor sought formal Commission approval of the transaction. As previously stated, SDG&E argues that Section 851 is inapplicable because the Powerlink is not necessary or useful until it is placed in rate base and, further, that such a position is consistent with both case law and prior decisions of the Commission interpreting Section 851. In support of this argument, SDG&E cites D.82-12-121 dated December 30, 1982 in OII 82-05-01, our investigation into the sale by Pacific Gas and Electric Company (PG&E) of certain real property in Carbon County, Utah, and City of Oakland v Eldorado Terminal Co. (9140) 41 Cal App 2d 320, 328.

In D.82-12-121 we stated:

"We construe § 851 to require only that the utility obtain authorization to dispose of property that is presently necessary or useful in the performance of its duties. Property that is neither necessary nor useful may be sold without Commission authorization. We find that these coal properties were not necessary or useful for purpose of § 851 at the time of the sale." (Mimeo. p.15.)

The coal properties in question were located in another state and were purchased to supply coal to a steam plant planned for construction at the time of acquisition of the coal properties. When it became apparent that the generating plant might never be built, PG&E opted to sell the property. In this case, the property was not only neither necessary nor useful for PG&E's operations, but it was doubtful that it would every be useful or necessary.

Obviously Section 851 was inapplicable. SDG&E further quoted the City of Oakland case holding that Section 851 refers only to property dedicated to public use. The applicable footnote states, at page 328:

"10/ Appellant contends that a public utility may not abandon or cease its operations except with the consent of or at the order of the Railroad Commission. The rule is that a public utility cannot convey 'its railroad, street railroad, line, plant, system, or other property necessary or useful in the performance of its duties to the public' without an order from the Railroad Commission. (Stats. 1927, p. 78.) The section refers to property dedicated to public use. (Crum v. Mt. Shasta Power Corp., 220 Cal. 295 /30 Pac. (2d) 30/.)"

In this case, a wharf was being operated illegally. The provision prohibiting public utilities from conveying rights, property, or accessories presupposes legal title thereto which was not the case above cited. A grant of a CPC&N encompasses both a need for the certificated facilities and a dedication of the facilities to public use. Consequently, neither of the citations set forth above is appropriate for this matter.

Even were one to assume that plant under construction was not necessary or useful or dedicated to the public use, Section 851 would still be applicable because of the provision that a utility cannot dispose of "any franchise or permit or any right thereunder" without prior Commission approval. In this case, SDG&E, as noted by staff, gave up a portion of its right to build and operate 100% of the line between Yuma, Arizona, and the Imperial Valley, and is now entitled to use only 86% of that portion of the line. Clearly, Section 851 is applicable in this matter and SDG&E should have obtained prior Commission approval before selling an interest in the line to IID.

As noted in its brief, staff did not raise the issues of the applicability of Section 851 to the IID transaction because there has been a technical violation of the Public Utilities Code but rather to ensure that the public would benefit from the line to the extent contemplated by this Commission in the granting of the CPC&N. Staff argues that, at a minimum, SDG&E is obligated to making a showing as to why the sale of a 14% interest of the line and its related capacity is in the public interest. We agree, and the order that follows will require SDG&E to file for approval of the sale to IID and to make a showing as discussed above.

IV - FINDINGS AND CONCLUSIONS

Findings of Fact

1. The Powerlink consists of a 230-kV double circuit transmission line 24 miles in length connecting SDG&E's Mission Substation and Escondido Substation to its Miguel Substation and a single circuit 500-kV line 278 miles in length extending from the Miguel Substation eastward to the California-Arizona border and then northeast to the Palo Verde Nuclear Generating Station Switchyard in Arizona with substations in Imperial Valley, California, and Yuma, Arizona.
2. The Powerlink became commercially operable June 19, 1984.
3. SDG&E's proposed route across the swine breeding and farrowing facilities on the Anderson/Monahan property was an alternative route proposed on behalf of the residents in the Dulzura-Barrett Junction area as a substitute for the original preferred route north of Highway 94 and the alternate southerly route along the California-Mexico border.
4. From the outset, Ms. Anderson made it clear that the route crossing over her pig breeding and farrowing facilities would be the subject of litigation.

5. The Superior Court found that SDG&E's proposed route was not located in the manner that will be most compatible with the greatest public good and the least private injury, and ordered it moved to the northerly property line of the Anderson/Monahan property.

6. AR 13 provides that trust fund balances for restricted debt be included in the computation of the average balance of CWIP.

7. The cost savings of the relatively low interest rates of IDBs redound to the ratepayers' benefit, both in the cost of capital used in deriving the allowable rate of return and in the AFUDC computations.

8. It is reasonable to apply the same income tax factor to both the AFUDC charges and IDB trust fund balance interest income.

9. The net-to-gross income tax factor to be applied to both SDG&E's AFUDC charges and IDB trust fund balance interest income should be .7804.

10. SDG&E's rate base contingency allowance of \$4.02 million is reasonable.

11. SDG&E's estimate of transmission O&M expenses is reasonable.

12. The authorized rate adjustments should be based on a 19-month average to eliminate the necessity of any adjustment for the Powerlink for the 1985 SDG&E attrition year.

13. The total revenue requirement for the Powerlink is \$64,393,000 based on the 19-month period, June 1, 1984 to December 31, 1985. The total revenue requirement will be recovered from the effective date of this order through December 31, 1985. The annualized revenue requirement is \$44,045,000.

14. The above revenue requirement should be allocated to the Residential, Commercial/Industrial, and Agricultural Power Classes in proportion to the total rates adopted by D.83-12-065. Within these classes the changes to the rates should be by the system percentage change method except for lighting schedules, which are not to be adjusted until marginal cost studies are made.

15. The balance of the Powerlink costs included in the deferred debit account authorized by Interim D.84-06-089 dated June 6, 1984 should be allocated to the various rates by the system percentage method.

16. SDG&E sold a 14% share of a portion of the Powerlink to IID without the prior approval of this Commission.

17. SDG&E should make a showing as to why the sale of a 14% interest in the line and its related capacity is in the public interest.

Conclusions of Law

1. Rate Base Offset treatment of this matter is appropriate.

2. The recorded plant account amount for the portion of the Powerlink crossing the Anderson/Monahan property should be \$1.3 million plus litigation costs when known.

3. SDG&E's computed AFUDC for the Powerlink should be reduced by \$883,000.

4. A revenue increase of \$44,045,000 on an annual basis equal to the sum of the \$40,309,000 revenue increase for the Powerlink offset proceeding and \$3,736,000, the annualized balance in the deferred debit account authorized by D.84-06-089 is reasonable. The total amount of revenue requirements to be recovered through ERAM will be \$64,393,000.

5. The application should be granted to the extent provided in the following order.

6. Because of the immediate need for additional revenue the order should be effective today.

7. A grant of a CPC&N encompasses both a need for the certificated facilities and a dedication of the facilities to public use. Consequently, Section 851 is applicable from the issuance of the CPC&N irrespective of whether or not the line is in actual use or included in rate base.

8. SDG&E should file an application for approval of the sale of a portion of the Powerlink to IID as required by Section 851.

O R D E R

IT IS ORDERED that:

1. San Diego Gas & Electric Company (SDG&E) is authorized to file with this Commission revised tariff schedules for electric rates in accordance with this decision on or after the effective date of this order, and to concurrently cancel its present schedules for such service. This filing shall comply with General Order Series 96. The effective date of the revised schedules shall be the date of filing. The revised schedules shall apply only to service rendered on or after their effective date.

2. Within 30 days of the effective date of this order SDG&E shall adjust its accounting records to reflect a downward adjustment of \$883,000 to the Powerlink Allowance for Funds Used During Construction charges.

3. Within 45 days of the effective date of this order SDG&E shall file an application for approval of the sale of an interest in the Powerlink to the Imperial Irrigation District. Such filing shall include a showing as to why the sale of 14% interest in the line and its related capacity is in the public interest.

4. SDG&E is instructed to specifically address the fuel savings associated with the commercial operation of the Powerlink in their current ECAC filing, A.84-07-027.

This order is effective today.

Dated AUG 7 1984, at San Francisco, California.

I dissent.

VICTOR CALVO, Commissioner

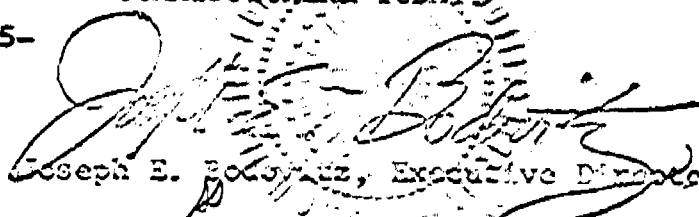
ROBERT N. CRINES, JR.
President

DONALD WALL
WILLIAM T. BAGLEY
Commissioners

Commissioner Priscilla C. Grew,
being necessarily absent, did
not participate

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

-25-


Joseph E. Boley, Executive Director

Offset was the appropriate treatment of this plant. As the company is now indifferent we do not need to determine here when and under what circumstances MAAC is preferable to a Rate Base Offset.

On June 6, 1984, in D.84-06-089 we granted SDG&E's motion to establish a deferred debit account as of the commercial operation date of the Powerlink, which was June 19, 1984. We are thus able to recognize all of the revenues and expenses associated with the Powerlink from that date forward, using the Rate Base Offset.

Relocation Costs in Rate Base

The record is quite clear that the route crossing the Anderson/Monahan pig-raising facilities adopted by SDG&E was an alternative route proposed by the County of San Diego on behalf of the residents in the Dulzura-Barrett Junction area, as a substitute for the original preferred route north of Highway 94 and the alternate southerly route along the California-Mexico border. Both were included in SDG&E's application. It is equally obvious that from the outset Ms. Anderson strenuously and consistently objected to the lines crossing over her pig breeding and farrowing facilities. On several occasions SDG&E was informed that only through litigation would it obtain its desired right-of-way. It is equally clear on the record that SDG&E firmly believed its maximum exposure for the original route, in the context of both time and added expense, was less than the cost of relocating the transmission line route to the Anderson/Monahan northern property line. On this basis SDG&E filed condemnation proceedings, obtained a right of possession order, and commenced construction.

Table 2

SAN DIEGO GAS & ELECTRIC COMPANY

Revenue Requirement

Item	: Staff :		SDG&E / :		: Adopted :	
	: 7 Months:	7 Months:	19 Months:	7 Months:	19 Months:	19 Months:
(Thousands of Dollars)						
Total Revenue Requirement	\$ 21,322	\$ 22,995	\$ 64,520	\$ 22,923	\$ 64,393	
<u>Operating Expenses</u>						
Production	(1,593)	(1,593)	(3,186)	(1,593)	(3,186)	
Transmission	(4,699)	(4,640)	(2,700)	(4,640)	(12,700)	
Admin. & General	25	25	75	25	75	
Depreciation & Amort.	3,687	3,715	10,107	3,710	10,092	
Ad Valorem Taxes	1,123	1,057	3,563	1,057	3,563	
Income Taxes	8,241	9,605	26,897	9,556	16,844	
Franchise & Uncoll.	512	508	1,426	508	1,426	
Total	7,926	8,677	26,182	8,623	26,114	
Operating Income	14,026	14,318	38,338	14,300	38,279	
Weighted Avg. Rate Base	109,401	111,688	187,839	111,543	187,555	
Rate of Return	12.82%	12.82%	20.41% ^{a/}	12.82%	20.41% ^{a/}	
Annualized Revenue Req.	36,552	38,991	40,632	38,869	40,309	

(Red Figure)

$$a/ \sqrt{12.82 (7/19) + 12.93 (\frac{12}{19})} \times (\frac{19}{12}) = 20.41$$

Table 3

SAN DIEGO GAS & ELECTRIC COMPANY

Development of Change to Total Rates by System
Percentage Change Method

Classification	Decision 83-12-065			System Percentage Change Method			
	Adopted Data			Total	Allocated	Total	Uniform
	Total	Average	Total	Average	Total	Average	Percent
	Sales	Revenue	Rate	Revenue	Rate	Change	Changes to
	(M ² kWh)	(M\$)	(¢/kWh)	(M\$)	(¢/kWh)	(%)	(¢/kWh)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
Residential	3,466.10	\$ 395,150	11.400¢	\$ 408,307	11.780¢	3.33%	0.380¢
Commercial/Industrial	6,558.90	785,007	11.969	811,146	12.367	3.33	0.398
Agricultural Power	178.95	20,512	11.462	21,195	11.844	3.33	0.382
Subtotal	10,203.95	1,200,669	11.767	1,240,648	12.159	3.33	0.392
Lighting	100.96	16,506	16.349				
Total Retail	10,304.91	1,217,175	11.812				

Deferred Debit Account
Balance Disposition

According to the testimony of SDG&E's witness Jespersen, the plant cost for the 230-kV Miguel substation to the Mission substation tap was included in the cost of the project receiving the AFUDC treatment just like any other component of the project. It has been operating continuously since March 7, 1984. Since that time, SDG&E has been accruing the AFUDC for this portion of the project in a deferred debit account. The company sought the Commission recognition of this portion of the Powerlink as Phase 1 and the establishment of a deferred debit account or MAAC treatment of the revenues associated with this portion of the line until such time as the entire Powerlink became commercially operable and received full ratemaking treatment. We did not and do not now recognize "Phase 1", nor its commercial operation. In our opinion AFUDC ceased accruing on June 19, 1984, the date of commercial operation of the entire Powerlink. For ratemaking purposes we will authorize the company to capitalize its AFUDC for the entire project.

By interim D.84-06-089 dated June 6, 1984, on this matter, we permitted SDG&E to accrue in a deferred debit account the Powerlink costs, consisting of income taxes, property taxes, depreciation expense, and an amount equivalent to an allowance for funds used during construction from the date of commercial operation of the Powerlink until the effective date of the final decision on this matter. This amounts to \$5,933,000 which is to be allocated to the various rates by the system percentage change method used to allocate the previously discussed Powerlink revenue requirement.

5. The Superior Court found that SDG&E's proposed route was not located in the manner that will be most compatible with the greatest public good and the least private injury, and ordered it moved to the northerly property line of the Anderson/Monahan property.

6. AR 13 provides that trust fund balances for restricted debt be included in the computation of the average balance of CNIP.

7. The cost savings of the relatively low interest rates of IDBs redound to the ratepayers' benefit, both in the cost of capital used in deriving the allowable rate of return and in the AFUDC computations.

8. It is reasonable to apply the same income tax factor to both the AFUDC charges and IDB trust fund balance interest income.

9. The net-to-gross income tax factor to be applied to both SDG&E's AFUDC charges and IDB trust fund balance interest income should be .7804.

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11. SDG&E's estimate of transmission O&M expenses is reasonable.

12. The authorized rate adjustments should be based on a 19-month average to eliminate the necessity of any adjustment for the Powerlink for the 1985 SDG&E attrition year.

13. The total revenue requirement for the rate base offset for the Powerlink is \$64,393,000 for the 19-month period, June 1, 1984 to December 31, 1985, or an annual amount of additional revenue of \$40,309,000.

14. The above revenue requirement should be allocated to the Residential, Commercial/Industrial, and Agricultural Power Classes in proportion to the total rates adopted by D.83-12-065. Within these classes the changes to the rates should be by the system percentage change method except for lighting schedules, which are not to be adjusted until marginal cost studies are made.

15. The balance of the Powerlink costs included in the deferred debit account authorized by Interim D.84-06-089 dated June 6, 1984 should be allocated to the various rates by the system percentage method.

16. SDG&E sold a 14% share of a portion of the Powerlink to IID without the prior approval of this Commission.

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4. SDG&E is instructed to specifically address the fuel savings associated with the commercial operation of the Powerlink in their current ECAC filing, A.84-07-027.

This order is effective today.

Dated AUG 7 1984, at San Francisco, California.

I dissent.

VICTOR CALVO, Commissioner

Commissioner Priscilla C. Grew,
being necessarily absent, did
not participate

LEONARD M. GRIMES, JR.
President

DONALD VIAL
WILLIAM T. BAGLEY
Commissioners