ALJ/FSF/pc

Decision 88 09 063 SEP 28 1988 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 Decrease its Rates and Charges for Electric, and to Increase its Rates and Charges for Gas and Steam Service. (U 902-M)	Application 87-12-003 (Filed December 1, 1987)
Order Instituting Investigation into the rates, charges, and practices of the San Diego Gas & Electric Company.	Mailed SEP 30 1988 I.88-01-006 (Filed January 13, 1988)

(See Decision 88-07-023 for appearances.)

INTERIM OPINION

Summary

A settlement document is adopted for San Diego Gas & Electric Company's (SDG&E) test year 1989 general rate case. This document, together with agreements for demand-side management and research, development, and demonstration (RD&D), resolve all of the issues in this proceeding except depreciation, cost of capital, attrition, rate design, women and minority business enterprises (W/MBE), and the studies required by SDG&E's last energy cost adjustment clause (ECAC) decision. Subsequent decisions will address these remaining issues.

For test year 1989, the Stipulation and Agreement results in a decrease in electric rates of $60.3 million or 4.5%, and an increase in gas and steam rates of $13.4 million or 3.0% and $0.5 million or 32.3%, respectively.

Introduction

This decision addresses the Stipulation and Agreement among SDG&E, Division of Ratepayer Advocates (DRA), Federal Executive Agencies (FEA), City of San Diego, and Utility Consumers Action Network (UCAN) on most cost and noncost issues in SDG&E's general rate case for test year 1989. These parties have reached agreement on all issues in SDG&E's general rate case except depreciation, cost of capital, attrition, rate design, and two studies required to comply with Decision (D.) 87-12-069, SDG&E's latest ECAC decision. These issues will be addressed in subsequent orders. Additionally, there are three areas which are included in the Stipulation and Agreement that were either contested or a separate agreement was reached.

The first of these is W/MBE. While this issue was litigated by the American G.I. Forum, League of United Latin American Citizens, and Filipino American Political Association (Public Advocates) no specific recommendation was made with respect to the funding level for this program proposed in the Stipulation and Agreement. Because no recommendation has been made to adjust the proposed funding for SDG&E's W/MBE program, we will defer the resolution of this matter until all other contested issues are addressed.

The remaining two areas, demand-side management and RD&D, are part of the Stipulation and Agreement, but separate agreements were reached. These two additional agreements will be discussed below.

Procedural Background

On December 1, 1987 SDG&E filed Application (A.) 87-12-003 requesting authority to reduce revenues for its electric department by $36.0 million or 2.6%, and increase revenues for its gas and steam departments by $22.4 million or 5.0% and $0.4 million or 26.0%, respectively. SDG&E's application requested that these changes be made for test year 1989 and that it be authorized attrition increases for 1990 and 1991.

On January 7, 1988, a prehearing conference was held in San Diego to discuss procedural matters. At the prehearing conference SDG&E and DRA expressed a joint intent to explore the settlement of some or all of the issues in this proceeding. On March 7, 1988 SDG&E, DRA, the City of San Diego, and FEA entered into a Stipulation and Agreement resolving most of the revenue requirement issues for SDG&E's general rate case. Ultimately UCAN entered into the settlement as well. Hearings were held on May 11 and 12, 1988 during which testimony was taken concerning the Stipulation and Agreement and RD&D, W/MBE, and demand-side management issues. On June 14, 1988 a comparison exhibit was submitted which detailed the revenue requirement associated with the Stipulation and Agreement.

Comments

In accordance with Public Utilities Code § 311, the proposed decision of Administrative Law Judge Ferraro was mailed on August 19, 1988. Comments on the proposed decision were filed by SDG&E and DRA.

Except for the discussion that detailed results of operations tables should accompany future revenue requirement settlements, SDG&E and DRA support the proposed decision. Both argue that it is unlikely that the parties could agree on an appropriate expense level for each account and that this requirement will make future settlements nearly impossible.

Additionally, DRA states that a challenging party should have the burden to demonstrate that the overall revenue requirement should be different from that contained in the settlement. We feel this places interested parties, which usually have limited resources, at a disadvantage and would effectively exclude their participation. Until a proposal is presented that addresses our concern, we will expect detailed summary of earnings to accompany revenue requirement settlements. Finally, we note that this is consistent with D.87-11-053, Opinion Proposing Rules Governing Settlements and Stipulations. D.87-11-053 states:

> "When a settlement pertains to a proceeding under the Rate Case Plan, we have provided that the settlement be supported by a comparison exhibit which shows the impact of the proposal in relation to the utility application. If the participating Staff supports the settlement, it shall prepare a similar exhibit indicating the impact of the proposal in relation to the issues it contested or would have contested at the hearings. This requirement should provide the Commission and other parties with an elemental framework within which to evaluate the settlement." (P. 3 & 4, D.87-11-053.)

Stipulation and Agreement

The Stipulation and Agreement, including two addendums, is attached as Appendix A. It explains the process by which the agreement was reached, the background which led up to the agreement, and the specifics of the agreement. In summary, the settlement process was a lengthy one in which all parties to SDG&E's most recent ECAC and general rate proceedings were invited to an introductory meeting held after SDG&E's NOI was accepted for filing and prior to the filing of A.87-12-003. At that meeting it was determined that settlement discussion would not begin until after DRA's reports were released.

After its reports were issued, DRA invited all parties who entered appearances at the prehearing conference in A.87-12-003 to a second meeting. At this meeting, which was held at the State Building in San Diego on February 16 and 17, the parties agreed to maintain the confidentiality of their discussions. Additional meetings were conducted until a settlement was reached. However, the Stipulation and Agreement was not finalized and executed until all parties participating in the settlement meetings were provided an opportunity to offer their views.

For test year 1989 the Stipulation and Agreement results in a decrease in electric rates of $60.3 million or 4.5% and an increase in gas and steam rates of $13.4 million or 3.0% and $0.5 million or 32.3%, respectively. This assumes no change in SDG&E's last authorized return on rate base and that SDG&E's quantifying added uncertainty (QAU) methodology for calculating depreciation expense is retained. Both of these will be resolved in orders prior to January 1, 1989.

While return on equity and QAU are not part of the settlement, there are a number of items included in the Stipulation and Agreement that are subject to change in accordance with the agreement. These are listed below:

> Labor and nonlabor expenses are subject to revision based on Data Resources Incorporated's third quarter 1988 forecasts.
>
> Electric Power Research Institute (EPRI) dues and Nuclear Regulatory Commission (NRC) fees will be updated to reflect the actual amount which SDG&E is assessed for 1989.
>
> Working cash allowance is subject to change based on the outcome of the State income tax timing issue in A.85-12-050.
>
> 1988 postal rate increases may be reflected. The 1988 postal increase was included in the June comparison exhibit and is reflected in the attached summary of earnings.
>
> W/MBE program costs can be increased up to $200,000 to reflect additional activities that are required.

In addition to the quantified effect the Stipulation and Agreement has on rates, the agreement provides for the following:

> The transfer of $2.4 million in RD&D expenses for the Heber Binary Geothermal Plant from the general rate case to SDG&E's annual advice letter filing for the Heber project.
>
> A one-way balancing account for SDG&E's RD&D program consistent with what was adopted for

Pacific Gas and Electric Company and Southern California Edison Company (Edison).

SDG&E's filing of an application to seek the establishment of a memorandum account to accumulate certain hazardous waste expenditures.

The application of the plant held for future use guidelines adopted in D.87-12-066, Edison's general rate case decision, to SDG&E with three qualifications: (1) a five-year planning horizon for general plant instead of three years, (2) an effective date for the guidelines of January 1, 1989, and (3) justification for each new item in SDG&E's next general rate case.

A preapproval of certain interutility purchase power contracts if the following conditions are met: (1) preapproval requirements apply equally to all California electric utilities, (2) the guidelines do not place California utilities at a competitive disadvantage, and (3) the guidelines provide for a practical and expeditious review.

Finally, the Stipulation and Agreement contains the following key terms and conditions:

No part of the Stipulation and Agreement shall have any precedential value in any proceeding.

Any party may withdraw from the Stipulation and Agreement if modified by the Commission, however, parties agree to negotiate with regard to any Commission-ordered changes in good faith to restore the balance of benefits and burdens.

No portion of the Stipulation and Agreement, its terms, conditions, or any of the discussion leading to it, may be used in hearings without prior express written consent by all the parties.

All parties agree that the Commission's approval and adoption of the Stipulation and Agreement is in the public interest, provides

> just and reasonable compensation to SDG&E for test year 1989 expenses, and avoids lengthy litigation.

Demand-Side Management Agreement

Although the Stipulation and Agreement provides funds for SDG&E's demand-side management program, the California Energy Commission (CEC) recommends that an appliance incentive test and a residential conservation service (RCS)/ENERGRAF study be funded by $300,000 in carryover funds from SDG&E's conservation/load management adjustment clause (CLMAC) balancing account. Additionally, CEC recommends that an air conditioning marketing and program design study be completed with the funding specified in the Stipulation and Agreement. Finally, SDG&E, DRA, and CEC submitted a joint exhibit recommending end-use metering/recording for residential and commercial customers and a penalty/reward mechanism be adopted based on SDG&E's performance with its demand-side management program. None of the parties to the Stipulation and Agreement have voiced opposition to these recommendations.

The details of the recommendations and the penalty/reward mechanism are contained in Exhibits 102, and 116-118. These exhibits are attached as Appendix B.

RD&D Agreement

The California Institute for Energy Efficiency (CIEE) was the only party to contest the proposed RD&D funding level shown in the Stipulation and Agreement. However, DRA, SDG&E, and CIEE, subsequent to the hearings on RD&D, entered into an Agreement Regarding CIEE Funding and Procedures. The agreement which modifies the RD&D funding level shown in the Stipulation and Agreement is attached as Appendix C.

In a motion dated July 12, 1988 DRA requests on behalf of itself, SDG&E, and CIEE that their agreement be adopted as a revision to the RD&D funding level shown in the Stipulation and Agreement. In its motion DRA states that other signatories to the

Stipulation and Agreement have been contacted and do not consider the agreement for RD&D to be inconsistent with the terms of the Stipulation and Agreement.

In summary the agreement provides for the following:

> Funding by SDG&E of CIEE at nominal dollar levels of $100,000 in test year 1989, $225,000 in attrition year 1990, and $350,000 in attrition year 1991.
>
> CIEE funding on a demonstration basis, to determine if CIEE can sufficiently improve the coordination of end-use efficiency to justify utility funding.
>
> CIEE's role to be that of coordination as defined in the agreement.
>
> CIEE's activities, including the determination of which projects are to be funded, the level of funding and which institutions will undertake the research, to be under the direction of a Program Board comprised of representatives of each utility contributing to CIEE, as well as other entities (including the Public Utilities Commission and CEC) that may choose to participate.

__Discussion__

Before passing on any settlement as proposed in the Stipulation and Agreement, we must consider whether it is in the public interest and ensure that all parties were given adequate notice and opportunity to address and explore their concerns.

As we stated in the Opinion Proposing Rules Governing Settlements and Stipulations, D.87-11-053:

> "Stipulations and settlements can provide useful methods for resolving public utility proceedings, and these methods can achieve mutually acceptable solutions, reduce uncertainty, expedite regulatory review and conserve public and private resources. Stipulations have been an integral part of the Rate Case Plan since its inception, with specific areas of agreement placed on the record together with the original position of

> the agreeing parties and the effect of the agreement on the rate request."

The parties which have signed the Stipulation and Agreement state that it: (1) is in the public interest, (2) will result in revenues to SDG&E to compensate it for a level of expenses in the 1989 test year that is just and reasonable, (3) resolves in a fair manner the alternative expense estimates submitted in this proceeding, and (4) avoids lengthy litigation. Hearings were held at which all parties to this proceeding were provided an opportunity to express their views and concerns with the Stipulation and Agreement. While some parties expressed concerns over demand-side management and RD&D program expenditures, these were resolved in agreements subsequent to the Stipulation and Agreement. With the submittal of the additional agreements, no party is opposed to or has expressed any concerns with the Stipulation and Agreement.

We note that the Stipulation and Agreement was executed after all parties were invited to the settlement meetings and provided an opportunity to comment on the proposed settlement. Additionally, hearings were conducted which provided parties an opportunity to question proponents of and argue objections to the settlement. Finally, with the additional agreements for demand-side management and RD&D, no party voiced opposition to the Stipulation and Agreement. Therefore, we believe that the Stipulation and Agreement process was open and accessible and is an acceptable approach for resolving many of the issues in SDG&E's general rate case.

Not only do we consider the manner in which the Stipulation and Agreement was executed to be fair and reasonable, but also the results which yield a net $46.4 million reduction in rates for the gas, electric, and steam departments. Besides the direct savings to ratepayers, there has been considerable savings in litigation expenses for public and private parties and our regulatory process has been expedited.

While this is not the first settlement we have considered, it is the first in a general rate proceeding since we proposed rules to govern settlements and stipulations. The process which led to the Stipulation and Agreement in all respects meets or exceeds the requirements proposed in the rules.

Although the Stipulation and Agreement provides sufficient information for determining SDG&E's revenue requirement, it is not accompanied by complete, account-by-account results of operations. While we generally need not know the history and details of settlement negotiations, there is value to having more complete results of operations on the record. Without this documentation to resolve disputed revenue requirement issues, it may be difficult to approve a settlement. Further detail would also assist in processing attrition filings and could be used in analyses of innovative ratemaking proposals such as performance based pricing, or of utility mergers.

Accordingly, we put the parties to the Stipulation and Agreement as well as to other major rate proceedings on notice that in the future, we expect detailed results of operations tables to accompany revenue requirement settlements.

Finally, the Stipulation and Agreement provides SDG&E with an opportunity to establish a memorandum account to accumulate certain hazardous waste expenditures by filing an application. As stated in the Stipulation and Agreement, SDG&E's application should contain the same evidentiary showing required of Pacific Gas & Electric Company (PG&E) in D.86-12-095. This procedure was also adopted for Southern California Gas Company (SoCal Gas) in D.87-05-027 and Edison in D.87-12-066.

We recently revisited the procedure for filing an application to establish a memorandum account for hazardous waste expenditures in D.88-07-059 for SoCal Gas and D.88-09-020 for PG&E.

These decisions concluded that the procedure first adopted in D.86-12-095 should be modified so that hazardous waste cleanup measures can be initiated promptly. As a result, D.88-07-059 and D.88-09-020 authorized the filing of an advice letter, in lieu of an application and established specific requirements and processing procedures for these advice letters. The requirements and procedures for these advice letters are shown below:

A. For projects that have been ordered by a government agency, the advice letter shall include:

- o A copy of the order(s) <u>or directive(s)</u> to undertake site work.
- o A detailed work plan and schedule.
- o A detailed budget.

B. For site investigation or cleanup projects that have not been ordered, the advice letter shall include:

- o A comprehensive site history and site description (to include chain-of-ownership, current and past land use, dates of operation, hydrogeology, and other physical characteristics of site).
- o A statement explaining the potential liability for site remediation.
- o A preliminary risk analysis (demonstration of environmental and/or health hazard at the site).
- o A detailed work plan and schedule.
- o A detailed budget.
- o Records of all communications with third parties regarding site contamination.

DRA should review the advice letter and provide comments to the Director of the Commission Advisory and Compliance Division (CACD) within 30 days. Based on DRA's comments and further

> review, if CACD concludes that the advice letter is satisfactory, authorization to book expenses in a memorandum account would be granted through a Commission resolution. If CACD rejects the advice letter or portions of the advice letter, those disputed items may be set for hearing.

We believe that the justification for the advice letter procedure contained in D.88-07-059 and D.88-09-020 is equally applicable to SDG&E. Therefore, we will modify the Stipulation and Agreement to reflect the advice letter procedure and requirements from D.88-07-059 and D.88-09-020. Although these decisions were issued after the Stipulation and Agreement was executed, the modification appears to be consistent with its intent.

The adopted revenue requirement is based on the June 14, 1988 comparison exhibit which reflects the Stipulation and Agreement. It was adjusted to reflect the agreement for RD&D, SDG&E's last authorized rate of return, and some minor computational errors discovered by our Advisory and Compliance Division. Attached as Appendix D is the adopted summary of earnings for each department. As specified in the Stipulation and Agreement the adopted revenue requirement is subject to revision to reflect changes in cost of capital, labor and nonlabor escalation factors, EPRI dues, NRC fees, working cash allowance, and W/MBE program costs. These costs will be established in a second discussion prior to January 1, 1989.

Findings of Fact

1. On December 1, 1987 SDG&E filed Application (A.) 87-12-003 requesting authority to reduce revenues for its electric department by $36.0 million or 2.6%, and increase revenues for its gas and steam departments by $22.4 million or 5.0% and $0.4 million or 26.0%, respectively.

2. On March 7, 1988 SDG&E, DRA, the City of San Diego, and FEA entered into a Stipulation and Agreement resolving most of the

revenue requirement issues for this general rate case. UCAN ultimately signed the Stipulation and Agreement.

3. Hearings were held on May 11 and 12, 1988 during which testimony was taken concerning the Stipulation and Agreement and RD&D, W/MBE, and demand-side management issues.

4. A comparison exhibit which details the revenue requirement associated with the Stipulation and Agreement was submitted on June 14, 1988.

5. All parties to A.87-12-003 were invited to participate in settlement meetings concerning SDG&E's general rate case filing for test year 1989.

6. Settlement discussions did not commence until DRA's reports had been issued.

7. The Stipulation and Agreement was not finalized and executed until all parties participating in the settlement meetings were provided an opportunity to offer their views.

8. For test year 1989 the Stipulation and Agreement results in a decrease in electric rates of $60.3 million or 4.5% and an increase in gas and steam rates of $13.4 million or 3.0% and $0.5 million or 32.3%, respectively.

9. The Stipulation and Agreement provides for revisions in the agreed upon revenue requirement to reflect changes in cost of capital, labor and nonlabor escalation factors, EPRI dues, NRC fees, working cash allowance, and W/MBE program costs.

10. The Stipulation and Agreement allows for: (1) the transfer of $2.4 million in Heber related expenses to SDG&E's advice letter filing for the Heber project, (2) a one-way balancing account for the RD&D program, (3) the filing of an application to establish a memorandum account for hazardous waste expenditures, (4) the implementation of guidelines for plant held for future use, and (5) preapproval of interutility purchase power contracts under certain conditions.

11. CEC recommended that: (1) an appliance incentive test and a RCS/ENERGRAF study be funded by $300,000 in carryover funds from SDG&E's CLMAC balancing account and (2) an air conditioning marketing and program design study be completed with the funding specified in the Stipulation and Agreement.

12. SDG&E, DRA, and CEC submitted a joint exhibit recommending end-use metering/recording for residential and commercial customers and a penalty/reward mechanism be adopted based on SDG&E's performance with its demand-side management program.

13. None of the parties to the Stipulation and Agreement have voiced opposition to the recommendations for demand-side management.

14. On July 12, 1988 DRA filed a motion on behalf of DRA, SDG&E, and CIEE requesting that an agreement, which modifies the RD&D funding level contained in the Stipulation and Agreement, be adopted.

15. The RD&D agreement provides funding by SDG&E of CIEE on a demonstration basis under the direction of a Program Board in the amount of $100,000 in 1989, $225,000 in 1990, and $350,000 in 1991.

16. In DRA's motion to modify the Stipulation and Agreement, it states that other signatories to the Stipulation and Agreement have been contacted and do not consider the agreement with CIEE to be inconsistent with the terms of the settlement.

17. D.86-12-095 established a special procedure for PG&E to request a memorandum account for hazardous waste expenditures by filing an application. This procedure was also adopted for SoCal Gas in D.87-05-027 and Edison in D.87-12-066.

18. To assure that hazardous waste cleanup measures can be initiated promptly, D.88-07-059 modified D.87-05-027 by allowing SoCal Gas to file an advice letter to request the establishment of a memorandum account for hazardous waste expenditures.

19. To assure that hazardous waste cleanup measures can be initiated promptly, D.88-09-020 modified D.86-12-095 by allowing PG&E to file an advice letter to request the establishment of a memorandum account for hazardous waste expenditures.

20. D.88-07-059 and D.88-09-020 established specific filing requirements and processing procedures for advice letters that request a memorandum account for hazardous waste expenditures.

21. The requirement in the Stipulation and Agreement that SDG&E establish a memorandum account for hazardous waste expenditures by filing an application was based on D.86-12-095.

22. The Stipulation and Agreement was executed prior to D.88-07-059 and D.88-09-020.

Conclusions of Law

1. Depreciation, cost of capital, attrition, rate design, W/MBE, and the studies required by D.87-12-069 should be addressed in subsequent orders.

2. All parties were given adequate notice and opportunity to address and explore their concerns with the Stipulation and Agreement.

3. With CEC's recommendations and the agreements on demand-side management and RD&D, no party is opposed to the Stipulation and Agreement.

4. The Stipulation and Agreement should be revised to reflect changes in cost of capital, labor and nonlabor escalation factors, EPRI dues, NRC fees, working cash allowance, and W/MBE program costs prior to January 1, 1989.

5. The Stipulation and Agreement, CEC's recommendations, and the agreements for demand-side management and RD&D should be adopted as being in the public interest.

6. The Stipulation and Agreement should be modified to allow SDG&E to file an advice letter to establish a memorandum account for hazardous waste expenditures.

7. SDG&E's advice letter filings which request the establishment of a memorandum account for hazardous waste should contain the information and be processed in the manner described in the discussion portion of this decision.

INTERIM ORDER

IT IS ORDERED that:

1. The Stipulation and Agreement, CEC's recommendations, and the agreements for demand-side management and RD&D shall be adopted as resolution of all of the issues in San Diego Gas & Electric Company's test year 1989 general rate proceeding except depreciation, cost of capital, attrition, rate design, W/MBE, and the studies required by D.87-12-069.

2. The Stipulation and Agreement shall be revised by a subsequent decision to reflect changes in cost of capital, labor and nonlabor escalation factors, EPRI dues, NRC fees, working cash allowance, and W/MBE program costs prior to January 1, 1989.

3. The Stipulation and Agreement shall be modified to allow SDG&E to request the establishment of a memorandum account for hazardous waste expenditures by filing an advice letter.

4. SDG&E's advice letter filings which request the establishment of a memorandum account for hazardous waste shall contain the information and be processed in the manner described in the discussion portion of this decision.

This order becomes effective 30 days from today.

Dated SEP 28 1988, at San Francisco, California.

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

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

Victor Weisser

Victor Weisser, Executive Director

APPENDIX A

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 Decrease its Rates and Charges for Electric, and to Increase its Rates and Charges for Gas and Steam Service. (U 902-M)	A. 87-12-003
Order Instituting Investigation into the rates, charges, and practices of the San Diego Gas & Electric Company.	I. 88-01-006

STIPULATION AND AGREEMENT

I

INTRODUCTION

San Diego Gas and Electric Company (SDG&E) and the Division of Ratepayer Advocates (DRA) have entered into this stipulation for the purpose of providing to the Commission a recommended resolution of most cost and non-cost issues in these proceedings. Certain topics are not resolved by this Stipulation and will be litigated unless resolved by subsequent stipulation. These unresolved matters include cost of capital, cost of service, revenue allocation and rate design. In addition, some issues are partly resolved and will be further addressed as indicated.

Except as to issues remaining to be litigated, the parties urge the Commission to find that the costs and non-cost elements contained in this Stipulation are just and reasonable for SDG&E's operations for Test Year 1989.

APPENDIX A

II

BACKGROUND

On August, 7, 1987, pursuant to the Rate Case Plan adopted by the Commission, (Res. ALJ-149, as amended) SDG&E tendered its Notice of Intent (NOI) to file an application for general rate relief for the 1989 Test Year. SDG&E's filing was transmitted to the Commission and to all parties in SDG&E's last General Rate Case and ECAC with a cover letter stating that SDG&E planned to pursue settlement discussions with DRA and interested parties, and that once the NOI was accepted, a meeting would be scheduled for this purpose. All parties to SDG&E's last GRC and ECAC were invited to participate. This meeting took place on October 29, 1987 at the State Building in San Francisco. In addition to SDG&E and DRA, many other parties attended and participated in discussions. It was determined at that time that settlement discussion would not begin until after the Application was filed and DRA's reports were compiled and released.

The NOI filing was accompanied by a full set of workpapers supporting SDG&E's estimates of expenses. The NOI gave notice of SDG&E's intent to request authority to recover the revenue requirement resulting from SDG&E's costs of owning and operating facilities for the provision of electric, gas and steam services. These costs included SDG&E's estimates for all non-fuel related operation and maintenance expenses, depreciation, taxes, and a fair return on rate base. SDG&E's NOI filing also included estimates for levels of electric, gas and steam sales, and proposed rates designed to enable the company to recover its estimated costs given those sales levels.

On October 2, 1987, the Executive Director of the Commission accepted SDG&E's NOI. On December 1, 1987, SDG&E filed its general rate case Application, making essentially the same requests included in its NOI but reflecting, with the approval of DRA, more recent information. SDG&E's transmittal letter repeated its goal of pursuing settlement of its general rate case. This Application was accompanied by a new set of complete workpapers. A prehearing conference was held January 7, 1988, and the assigned Administrative Law Judge, Francis S. Ferraro, set the case for hearings, commencing on March 7, 1988.

Starting before SDG&E filed its NOI, and continuing through February of 1988, DRA propounded over 250 data requests to SDG&E covering all aspects of SDG&E's Application, amounting to over 4000 separate questions. The DRA also assigned six auditors for a period exceeding four months to review the financial, accounting and operating records of SDG&E in San Diego. The parties to this Stipulation believe the DRA's review of SDG&E's Application and supporting materials was both extensive and complete.

On February 5, 1988, the DRA distributed proposed exhibits, consisting of its reports analyzing SDG&E's 1989 Test Year GRC filing. Overall, DRA's cost and resulting revenue requirement estimates were below, and its sales level estimates differed from those of SDG&E.

At the prehearing conference held on January 7, 1988, the company and DRA expressed their joint intent to explore the settlement of some or all of the issues in this matter once DRA's exhibits and reports had been completed.

SDG&E and DRA made a commitment that settlement discussions would be structured to ensure the opportunity for active and effective participation by all parties entering appearances to the extent reasonably feasible. That commitment was honored.

On February 2, 1988 the DRA invited all parties who entered appearances at the prehearing conference to a two day settlement meeting held at the State Building in San Diego on February 16 and 17. To ensure the opportunity for full, open and frank discussion, the parties agreed to maintain the confidentiality of the meetings. Attendees are listed in Attachment "A" hereto. At that and subsequent meetings, the terms of this Stipulation were negotiated. This Stipulation was not finally completed and executed until opportunity was provided for all parties participating in the settlement meetings to offer their views.

The parties hereto urge that this Stipulation be adopted by the Commission. The parties believe it to be clearly in the public interest. The Stipulation represents a resolution that is fair and reasonable for both SDG&E and its customers. It does so in a manner that alleviates the need for the major commitment of time and resources that would otherwise be devoted to litigating the case in full. The process that led to the Stipulation as well as the opportunities that will be made available to scrutinize the Stipulation through public hearings ensure that there has been and will be adequate opportunity to assess its reasonableness.

III

STIPULATION

It is understood and agreed by all the parties hereto that this Stipulation is made for the purpose of expediting hearings and a decision in this case. Neither DRA nor SDG&E expressly concede the validity of the other's proposed test year estimates where those estimates differ, and all parties agree that this stipulation, either in whole or in part, shall have no express or implied precedential effect in any future proceeding, unless specifically agreed to by the parties.

(All costs and revenues are expressed in 1986 Dollars unless otherwise specified.)

A. OPERATION AND MAINTENANCE EXPENSES.

1. Authorized O&M Expenses. The parties agree that the amount of Operations and Maintenance expenses that SDG&E should be allowed to recover in rates for the 1989 Test Year, exclusive of franchise fees and uncollectibles, is $273,422,100. The precise calculation of franchise fees and uncollectibles requires a final determination of

depreciation expense, the timing effect of SDG&E's payment of state income taxes on the calculation of working cash and the cost of capital, none of which issues are determined in this Stipulation. Of this amount, $223,847,000 is allocable to electric, $48,393,200 is allocable to gas and $1,181,900 is allocable to steam service.

2. Heber Binary Geothermal Plant. The expenses SDG&E requested for research, development and demonstration of the Heber Binary Geothermal Demonstration Plant of $2,376,000, are removed from SDG&E's Application and this Stipulation, and will be submitted by SDG&E in its annual advice letter filing for the Heber project. This advice letter will be served on all parties to this proceeding.

3. NRC Fees. SDG&E's Application estimate of approximately $1.1 million in additional revenue for an expected increase in Nuclear Regulatory Commission (NRC) fees related to SDG&E's share of the San Onofre Nuclear Generating Station (SONGS) is reduced to $276,000. The amount authorized for ratemaking purposes shall be the amount actually billed by the NRC. SDG&E shall be authorized and required to reflect such actual billing in its revenue requirement.

B. DEMAND SIDE MANAGEMENT

The parties agree to the programs, budget allocations and conditions which are set forth in Attachment "B" hereto. In addition, SDG&E, DRA and other parties interested in this issue agree to negotiate a mechanism which will provide SDG&E with penalties and rewards based on its performance in meeting DRA recommended goals set out in its exhibit. If these parties are unable, after diligent and good faith effort, to reach agreement on such a mechanism by the first day of evidentiary hearings, SDG&E agrees that its DSM budget will be subject to balancing account treatment.

C. RESEARCH, DEVELOPMENT AND DEMONSTRATION

The parties agree that the budget for research, development and demonstration shall be $4,374,000, which excludes any expenses for the Heber Binary Geothermal demonstration project. The parties also agree that DRA's proposal for a balancing account, as described in Exhibit 57, shall be adopted. Accordingly, SDG&E agrees to establish a one-way balancing account consistent with the balancing accounts which the Commission has ordered for Pacific Gas and Electric Company (D. 87-07-021) and Southern California Edison Company (D. 87-12-066). It is also agreed that this expense number, which includes dues to EPRI, shall be updated by SDG&E later in 1988 to reflect the actual amount which EPRI assesses SDG&E for 1989 dues.

D. UNCOLLECTIBLE RATE

The parties agree that the adopted uncollectible rate shall be established at .211%.

E. HAZARDOUS WASTE

The parties agree that SDG&E shall be allowed to file an application with the Commission to seek the establishment of a memorandum account in which to accumulate hazardous waste expenditures if the following conditions are met:

1. The project is one which is expected to require SDG&E to expend $250,000 or more to adequately address;

2. The project is not one for which SDG&E is seeking funding in this Application; and

3. The project for which SDG&E seeks such treatment is not to cure hazardous conditions known by SDG&E to require clean-up prior to the date of this Stipulation.

SDG&E will be required to make the same evidentiary showing the Commission has required of PGandE in Decision 86-12-095 [(A. 85-12-050) see discussion at pp. 61a-65d] in order to obtain approval for this special ratemaking treatment, and the expenses accumulated will be authorized for inclusion in SDG&E's rates only after the Commission has reviewed and approved the reasonableness thereof in an SDG&E Energy Cost Adjustment Clause (ECAC) proceeding or such other proceeding as specified by the Commission.

F. COST ESCALATION

SDG&E agrees to use DRA's proposed escalation methodology set forth in Exhibit 51 for both labor and non-labor O&M expenses. SDG&E and DRA agree that this methodology will be applied to the agreed upon O&M costs as set forth in paragraph A.1 above using third quarter 1988 DRI indices for final determination of the allowed level of these expenses for escalation to 1989 dollars. The labor, non-labor and other expense allocations for purposes of escalation from 1986 dollars to 1989 dollars for electric, gas and steam are set forth in Attachment "C" hereto.

G. DEPRECIATION

DRA has proposed to allow SDG&E $174,298,000 in depreciation expenses for 1989. SDG&E is seeking $182,778,000 in depreciation expense for that period. The majority of the difference between SDG&E and DRA is due to DRA's rejection of the Quantifying Added Uncertainty (QAU) methodology proposed by SDG&E. SDG&E and DRA agree to litigate the full difference between their two expense estimates, including the applicability of the QAU methodology to SDG&E's depreciation expense level.

H. AD VALOREM TAXES

With the exception of ad valorem taxes associated with SDG&E's ownership interest in the Heber Binary Geothermal Plant, the parties agree that all differences between DRA and SDG&E in ad valorem taxes are solely due to differences in rate base. These differences are resolved by paragraph I below. SDG&E agrees to adjust its ad valorem tax expense level by reducing it $1.074 million to adjust for the removal of Heber from its revenue request in this Application. Ad valorem taxes associated with the Heber plant will be addressed in the annual Heber advice letter referenced above.

I. RATE BASE

1. State Income Tax Timing Effect. The parties agree that the difference between SDG&E and DRA concerning the timing effect of SDG&E's payment of state taxes on the calculation of working cash should be litigated and

determined in the PGandE general rate case proceeding (A. 85-12-050) addressing this issue, and all parties shall be bound by the final decision on that issue in that case. The amount by which SDG&E agrees to reduce its working cash request hereunder is $12,072,000, but the parties understand that the final figure will be the product of many factors which are, as yet, undetermined.

2. Plant Held for Future Use. SDG&E's proposal to include $641,000 for plant held for future use (PHFU) in rate base shall be excluded from the calculation of weighted average rate base for Test Year 1989. SDG&E agrees to the Plant Held For Future Use Guidelines attached as Appendix B to Southern California Edison's last general rate case decision (D. 87-12-066) with the qualifications that the period for General Plant shall be five years instead of three years; that the effective date for these guidelines be January 1, 1989; and that paragraph 2b be revised to read as follows: The need for each new item in PHFU must be justified in the next general rate proceeding.

3. Remaining Rate Base. The parties agree that the total rate base which the Commission should adopt for SDG&E's 1989 Test Year is $2,452,931,000, subject to adjustment for the results of A. 85-12-050 on the calculation of working cash referenced in paragraph I.1 above.

APPENDIX A

J. JURISDICTIONAL ALLOCATION OF REVENUES

SDG&E and the parties agree to accept DRA's non-jurisdictional allocation of revenues of $1,445,000, which shall be subtracted from SDG&E's total revenue requirement.

K. SALES LEVELS

The parties agree that the Commission should adopt the forecasts for electric, gas and steam sales as set forth in Attachment "D" hereto.

L. RESOURCE PLAN

The DRA has recommended that, until the issue of how to better incorporate interutility contracts into the Commission's resource plan proceedings is settled (hopefully no later than the next Standard Offer update proceedings in OIR-2), as an interim policy SDG&E be required to seek the Commission's prior approval of all interutility purchase power contracts for capacity of over a year's duration. SDG&E agrees in principle with DRA's recommendation for contract preapproval, but reserves the right to propose additional limitations on the definition of those contracts which should be subject to preapproval. In resolution of this issue the parties agree that the following conditions should be satisfied before the Commission adopts a contract preapproval procedure:

1. Any and all preapproval requirements should apply equally to all California electric utilities. This should be accomplished through a generic or on-going proceeding in which all electric utilities are respondents, all parties

are given the opportunity to comment, uniform guidelines are adopted and the Commission defines the contracts to which the guidelines should apply. SDG&E and DRA jointly urge the Commission to address contract preapproval guidelines at an early time.

2. The guidelines should not place California utilities at a competitive disadvantage with respect to other utilities with whom they compete for such capacity.

3. Such guidelines shall provide for a practical and expeditious review so as not to unduly delay or imperil the contracting process.

The parties will work diligently between the time this Stipulation is made and the time hearings on resource issues are to be heard to resolve as many of the remaining issues in this area as possible. Should any issues remain unresolved at the time hearings commence, they shall be litigated.

M. MISCELLANEOUS

1. Postage. The parties agree that SDG&E may increase the agreed O&M revenue level set forth in paragraph A.1 above by the amount of increased postage expense it will incur in Test Year 1989 if the U.S. postage rate is raised during 1988. Attachment "E" hereto shows the manner in which this adjustment shall be made.

2. Cost Studies - The parties agree that they will not propose any change to this Stipulation based on testimony concerning the interutility cost and rate comparisons

which SDG&E and DRA plan to submit in August of 1988 pursuant to the Commission's order in SDG&E's Fall 1987 ECAC decision (D. 87-12-069).

3. Electric Production/Attrition - The parties agree that the 1990 and 1991 attrition adjustments should include an annualized expense estimate to reflect a full year's operation of Silver Gate units 1, 2, 3 and 4 as recommended at page 4-5 of DRA's Exhibit 51 on Electric Production, and at page 16-7 of DRA's same exhibit on Attrition herein. SDG&E has forecasted that Silver Gate will operate during the last seven months of 1989 and the agreed Test Year operation expenses of $233,600 per month have been determined on that basis. For each month Silver Gate operates in addition to or less than forecasted, that amount shall be added to or subtracted from the 1990 attrition year operations expense forecast. To the extent SDG&E and DRA are unable to resolve their remaining differences on attrition by the commencement of hearings, those issues will be litigated.

4. Female/Minority Business Enterprises. The parties acknowledge that the Commission's statewide investigation of F/MBE activities has not yet resulted in a final decision. Moreover, many of the parties to that proceeding have entered into a stipulation sponsored by State Assemblywoman Gwen Moore. The stipulation contemplates substantially greater administrative and reporting requirements than presently exist and would require SDG&E to undertake

additional activities in the F/MBE area. Should the Commission's final decision incorporate the stipulation or adopt similar requirements, SDG&E shall be authorized to increase the revenue requirement stated in paragraph A.1 above by the amount sufficient to cover the additional activities, up to $200,000.

5. Miscellaneous Revenues. The parties agree that miscellaneous revenues shall be projected to be $20,157,000 for the 1989 Test Year, to be credited to SDG&E's revenue requirement, thus reducing it by that amount. The allocation of this amount among services is $17,005,000 for electric, $3,152,000 for gas, and $0 for steam.

6. Limitation on Update of Costs. SDG&E understands that it shall not be allowed to update its revenue requirement for any item this Stipulation allows, excepting hazardous waste, unless the update is sought in 1988.

IV

TERMS AND CONDITIONS

A. PRECEDENTIAL EFFECT

Except as specifically noted above, no agreement by SDG&E or DRA or any other party to stipulate to any level of cost recovery for SDG&E herein shall imply any agreement by any party to any principle, methodology, or fact, and no part of this Stipulation shall have any precedential value in any proceeding.

APPENDIX A

B. INDIVISIBILITY OF STIPULATION

This Stipulation represents a compromise of many positions and interests of the parties hereto, and no individual term is assented to by any party except in consideration of other parties' assent to all of the other terms of this Stipulation. The Stipulation is accordingly indivisible, and each part is interdependent on each and all of the other parts. Any party may withdraw from this stipulation if the Commission modifies, deletes or adds any term. Parties agree, however, to negotiate with regard to any Commission-ordered changes in good faith to restore the balance of benefits and burdens, and to exercise the right to withdraw only if such negotiations are unsuccessful.

C. EVIDENTIARY EFFECT OF STIPULATION

No portion of this Stipulation, or any of its terms or conditions, or any of the discussions leading to it, may be used in hearings in support of or in opposition to any party or position without the prior express written consent of all parties hereto.

D. STIPULATION IN THE PUBLIC INTEREST

The DRA and intervenors who have subscribed to this Stipulation agree that the Commission's approval and adoption of the Stipulation is in the public interest and will result in revenues to SDG&E to compensate it for a level of expenses in the 1989 Test Year that is just and reasonable; that it resolves in a fair manner the alternative expense estimates submitted in this case; and that it will avoid much of the lengthy litigation that would otherwise result.

E. EFFECTUATION OF STIPULATION

The parties agree to take all actions and perform all agreements required or implied hereunder diligently and in good faith, including, but not necessarily limited to, the execution of any other documents required to effectuate the terms of this Stipulation, and the preparation of exhibits for and presentation of witnesses at hearings to obtain the approval and adoption of this Stipulation by the Commission. It is understood by all parties that time is of the essence in obtaining the Commission's approval as a full presentation by SDG&E, the DRA and other parties will be necessary if that approval is not forthcoming. Therefore, the parties agree to urge the Commission to act as quickly as possible, consistent with the proposed Rules for Settlement as set forth in D. 87-11-053, to approve this Stipulation.

F. ENTIRETY OF STIPULATION

This Stipulation contains the entire agreement of the parties hereto. The terms and conditions of the Stipulation may only be modified by a writing subscribed by all parties.

G. ATTACHMENTS

The Attachments A through E attached to this Stipulation are a part of this Stipulation and are incorporated herein by reference.

APPENDIX A

H. MODIFICATION

The parties agree that they shall not file any application to modify any term of this Stipulation which would take effect during the 1989 Test Year without the prior agreement of all parties hereto.

Entered this 7th day of March, 1988, at San Francisco ~~Diego,~~ California.

SAN DIEGO GAS & ELECTRIC COMPANY

By_______________________
Senior V.P. and General Counsel

DIVISION OF RATEPAYER ADVOCATES

By_______________________

CITY OF SAN DIEGO

By_______________________ 3/8/88

FEDERAL EXECUTIVE AGENCIES

By_______________________

UTILITY CONSUMERS' ACTION NETWORK

By_______________________ 5/6/85

CALIFORNIA ENERGY COMMISSION

By_______________________

PROFESSOR EDWARD NEUNER, individually

By_______________________

APPENDIX A

ATTENDANCE LIST FOR SETTLEMENT MEETING
OF FEBRUARY 15 AND 16, 1988

Barton M. Myerson	SDG&E	Attorney
Philip Scott Weismehl	DRA	Attorney
Edmund J. Texeira	DRA	Dep. Director
Karen Griffin	CEC	Staff
Antonia D. Radillo	CEC	Attorney
Norman J. Furuta	FEA	Attorney
Philip E. Miller	FEA	Consultant
Michael Shames	UCAN	Attorney
William J. Shaffran	City of San Diego	Attorney
Edward J. Neuner	Ratepayer	Economist
John R. Fallon	SoCal Gas	Accountant
Mark Wallenrud	SCE	Proj.Mgr.GRC
Leslie J. Girard	City of San Diego	Attorney
Bruce J. Williams	SDG&E	Asst.Proj.Mgr.GRC
Lee Schavrien	SDG&E	Proj.Mgr.GRC
Jeffrey Harris	UC-LBL	Ogr.Comm.for CIEE
Thomas G. Hankley	SDG&E	Attorney
David Fukutome	DRA	Proj.Mgr.GRC

CEC = California Energy Commission

DRA = Division of Ratepayer Advocates

FEA = Federal Executive Agencies

SCE = Southern California Edison

UC-LBL = University of California - Lawrence Berkeley Labs

UCAN = Utility Consumers Action Network

APPENDIX A

DSM PROGRAMS AND BUDGETS
($ 1986)

PROGRAM	BUDGET
CONSERVATION[1]	
Residential:	
Information (Special Needs)[2]	260,000
Information (Brochures)[2]	274,200
Information (Energy Inf Center)[2]	106,000
Energy Management Services (Energy Serv)[2]	1,000,000
Energy Management Service (EELI)[2]	375,000
Weatherization Incentives (8% Fin.)	100,000
Res Conservation Subtotal	2,115,200
Nonresidential	
Comm/Ind Energy Mgmt Services[2]	1,500,000
Agricultural Energy Management Services[2]	76,300
Commercial Energy Management Incentives	1,000,000
NonRes Conservation Subtotal	2,576,300
CONSERVATION TOTAL	4,691,500
LOAD MANAGEMENT[1]	
Residential A/C Cycling (Peakshift)	150,000
Residential TOU	78,000
Nonres A/C Cycling	36,000
Thermal Storage (TES)	1,916,000
Interruptible/Curtailable (Group)	211,000
Interruptible/Curtailable (Individual)	78,826
LOAD MANAGEMENT TOTAL	2,469,826
FUEL SUBSTITUTION[1]	
Residential Gas (Gas Heat Pump)	94,000
Nonresidential Gas (Gas A/C)	100,000
FUEL SUBSTITUTION TOTAL	194,000
MEASUREMENT AND EVALUATION[5]	2,751,408
OTHER DSM	1,917,200
TOTAL DSM (SDG&E Marketing)	7,630,234
TOTAL DSM (SDG&E CACS)[1,2]	3,591,500
TOTAL DSM (capitalized)[3]	0
TOTAL DSM (A&G)[4]	802,200
DSM GRAND TOTAL	12,023,934

1 The programs identified under these classifications are more fully described in DRA Exhibit 59, except Nonres A/C cycling which the parties agree shall be terminated. With that exception the program descriptions in Exhibit 59 are incorporated herein by reference.

2 Programs/funding requested by SDG&E in the Customer Accounting and Collections

3 Capitalized items, not included in SDG&E Application

4 Funding requested in A&G

5 Includes $802,200 requested in A&G for load research.

APPENDIX A

ADDITIONAL DEMAND SIDE MANAGEMENT

PROGRAM REQUIREMENTS

In addition to the penalty/reward mechanism which is yet to be negotiated (or, failing agreement, balancing account treatment) the following requirements shall apply to the operation of the agreed upon programs.

(1) Nonresidential Energy Management Services: The program design and implementation features of the program shall include: (a) an improved basis (data and methodology) for making energy efficiency recommendations, including a focus on measure and end use specific recommendations; (b) the ability to provide a range of services, including a stream-lined and less costly service and a more detailed and comprehensive service, depending on customer needs; (c) a proactive approach which actively promotes the service to all nonresidential customers; and (d) a program cost accounting procedure which will permit reasonable accounting of costs which are directly related to supporting the on-site recommendations and the Energy Management Incentives. Any significant deviations from authorized funding shall be explained in terms of the preceding program design characteristics.

(2) Thermal Energy Storage: Future filings which identify program cost-effectiveness shall include estimates for the following inputs: annual O&M costs, kw impacts during non-peak periods, and (after development -- see Measurement and Evaluation) a CEF adjustment.

(3) Interruptible/Curtailable: Cost-effectiveness analysis of both the group load and individual program elements shall be included in all future DSM filings which contain such analyses.

(4) Residential Gas Fuel Substitution: The authorized funding is for the gas heat pump only, and does not include funding for the "Gas Service Extension" (propane retrofit) element.

(5) Electric Fuel Substitution and Electric Load Building: It is agreed that the Electric Fuel Substitution and Electric Load Building programs included in SDG&E's application (Residential Electric Builder, Security Lighting and Economic Development) shall not be funded under the DSM budget described herein. If any authorized DSM program causes an electric customer to reject or defer gas-fired cogeneration, the impacts and costs shall be reported and evaluated as elements of an electric fuel substitution program.

(6) Measurement and Evaluation: "Load Research", including a separate line-item for Class Load Research, shall be included as part of Measurement and Evaluation for budgetary and reporting purposes. The following projects shall be implemented at the level necessary to satisfy the reporting requirements of the CEC and the CPUC: End-use metering, Class Load metering, saturation surveys, and CPUC reporting (i.e. Annual and Semi-Annual reports). If the SDG&E-estimated funding for these activities proves insufficient, other Measurement and Evaluation projects will be reduced in scope or eliminated to permit adequate implementation of the CEC and CPUC requirements.

(7) DSM Program Customer Eligibility and Special Contracts: The parties agree that the issue of the eligibility of special contracts customers for DSM incentives shall be litigated in the Electric Ratemaking Mechanism OII, I. 86-10-001.

(8) All DSM Programs: The parties agree that, for this Test Year and succeeding Attrition years, filing and evaluations for DSM programs shall be in conformance with the CPUC/CEC Standard Practice Manual for the Economic Evaluation of Demand Side Management Programs, November 1987, and the CPUC Demand Side Management Reporting Requirement Manual, February 1988, or any

subsequent revisions to these manuals. The parties agree that the current reporting requirements for PG&E and Edison shall be applied to SDG&E in the future (one annual and two semi-annual reports instead of the current quarterly and annual reports).

(9) Program Incentives: The parties agree that SDG&E shall pay no customer incentive where the customers' payback is determined to be less than two years. Additionally, the amount of incentive payments to customers shall be solely in the discretion of SDG&E, consistent with achievement of program goals.

APPENDIX A

LABOR, NON-LABOR AND OTHER

OPERATING AND MAINTENANCE EXPENSE ALLOCATION

		ELECTRIC DEPARTMENT (1986$)
Labor		$ 104,597,400
Non-Labor		84,896,600
Other		51,347,400
	Total	$ 240,841,400

		GAS DEPARTMENT (1986$)
Labor		$ 26,461,100
Non-labor		15,534,500
Other		9,545,400
	Total	$ 51,541,000

		STEAM DEPARTMENT (1986$)
Labor		$ 644,900
Non-labor		480,400
Other		84,800
	Total	$ 1,210,100

APPENDIX A

AGREED SALES LEVELS

1. Electric Sales The parties agree the Commission should adopt the following forecast of electric sales in total and by class:

Class	Millions of Kwhrs
Residential	5,138.0
Commercial	4,633.0
Industrial	2,924.6
Agricultural Power	182.9
Streetlighting	68.9
Resale	.2
Total	12,947.2

2. Gas Sales The parties agree that the Commission should adopt the following forecast of gas sales in total and by class:

Class	M Therms
Residential	320,815
Non-Residential	230,889
Sub-total	551,704
Interdepartmental	504,117
Total	1,055,821

3. Steam Sales The parties agree that the Commission should adopt the following forecast of steam sales:

Schedule 1	50,214 Mlbs
Schedule 2	6,626 Mlbs
Total	56,840 Mlbs

APPENDIX A

POSTAGE CALCULATION

The agreed upon O&M revenue level set forth in paragraph A.1 contained in this Stipulation includes the following postage figures based on 64% of the Company's mailing at the current carrier route rate of 17¢ and 36% of the Company's mailing at the current presort first class rate of 18¢.

Electric Department	$1,567,000
Gas Department	870,800
Steam Department	300

APPENDIX A

ADDENDUM "1" TO STIPULATION AND AGREEMENT

OF MARCH 7, 1988

SDG&E and DRA have reviewed the contents of UCAN's Report on Demand Side Management (DSM) Programs filed in the 1989 TY General Rate Proceeding.

The report discusses the relationship between technology costs and potential energy savings of emerging technologies in lighting, appliances, space cooling and water heating. It presents summaries of programs conducted by other utilities and governments to promote DSM, specifically in the areas of residential and commercial lighting.

The parties agree that these emerging technologies, with an emphasis on lighting, present potential means of lowering demand levels and energy consumption, and improving customer efficiencies. SDG&E will carefully consider the technical information and proposed programs presented by UCAN. SDG&E will aggressively pursue the proposed programs that are consistent with program descriptions and funding levels outlined in the March 7, 1988 Stipulation and Agreement (including the Penalty/Reward Mechanism) and underlying cost-effectiveness criteria as described in the Standard Practice Manual for Economic Evaluation of DSM Programs.

The parties also agree that commercial lighting recommendations are important elements of the Commercial Energy Management Services and Commercial Energy Management Incentives programs included in Compliance Group 2 of the DSM Penalty/Reward Mechanism. Residential lighting recommendations are included in the

APPENDIX A

Residential Energy Management Services program (Compliance Group 1) identified in the DSM Penalty/Reward Mechanism.

SDG&E agrees to provide UCAN a timely copy of SDG&E's Annual Summary for DSM Activities filed annually on March 31 with the Commission. The DRA agrees that the CPUC CAC Division should review and consider any timely comments by UCAN on SDG&E's compliance.

Finally, SDG&E will endeavor to provide UCAN notice of any proposed modifications to the stipulated Penalty/Reward Mechanism formula, Compliance guidelines, deadband ranges, residential A/C Cycling and Residential TOU programs at least 15 days prior to implementation of such modifications. The parties agree to consider any timely comments submitted by UCAN on the proposed modifications.

Entered this 6th day of May, 1988.

SAN DIEGO GAS & ELECTRIC COMPANY

By ____________________

DIVISION OF RATEPAYER ADVOCATES

By ____________________

CITY OF SAN DIEGO

By ____________________

UTILITY CONSUMERS' ACTION NETWO[RK]

By ____________________

FEDERAL EXECUTIVE AGENCIES

By ____________________

CALIFORNIA ENERGY COMMISSION

By ____________________

APPENDIX A

ADDENDUM "2" TO STIPULATION AND AGREEMENT OF MARCH 7, 1988

Among other matters, the Stipulation and Agreement of March 7, 1988 (Stipulation) established a level of operating expenses and other costs deemed necessary to return Silver Gate Units 1, 2, 3 and 4 (Silver Gate) to service during test year 1989. These costs reflected a three year amortization of the startup costs for Silver Gate of $2,611,000 (all costs are in 1986 dollars). They also reflected monthly operation and maintenance (O&M) expenses of $233,600 utilizing a balancing account to reflect O&M expenses tied directly to the date at which Silver Gate actually returned to service. (Stipulation at 13.)

Subsequent to the execution of the Stipulation, SDG&E engaged in negotiations for a purchase power agreement that if successfully concluded had the potential to provide a more cost effective alternative to the restart of Silver Gate.

In Exhibit 43, SDG&E and DRA jointly sponsored testimony discussing this pending agreement, noting that if the agreement were to be completed under terms that had been represented by SDG&E to DRA, the agreement would be a more cost effective means of obtaining the same capacity as represented by the restart of Silver Gate.

On May 5, 1988, SDG&E entered into the purchase power agreement with Arizona Public Service. As a result of this, SDG&E withdraws its request for expenses associated with the startup and O&M costs associated with Silver Gate. However, SDG&E does request expenses necessary to maintain Silver Gate in long term storage so that startup in a future year will remain possible.

SDG&E has noted that the deferral of Silver Gate should also cause an adjustment to rate base. However, if the adjustment were made, rate base would be increased since the weighted salvage reserve ($1.4 million) is greater than the weighted capital plant addition ($0.6 million) required to return Silver Gate to service. SDG&E proposes not to alter the rate base amount identified in the Stipulation.

The requested adjustments are summarized as follows:

	LABOR	NON-LABOR	TOTAL
	(Thousands of $1986)		
Avoided Restart Expense	(413.6)	(456.7)	(870.3)
Avoided O&M Expense	(769.0)	(866.0)	(1,635.0)
Storage Expense	53.0	100.0	153.0
Net Reduction	(1,129.6)	(1,222.7)	(2,352.3)

APPENDIX A

The DRA and other signatories to the Stipulation have reviewed SDG&E's proposal and find it reasonable. Therefore, the Stipulation is modified in the following respects:

1. At page 5 of the Stipulation, Section III, A, 1, the amount of authorized O&M expenses that SDG&E should be allowed to recover in rates for the 1989 Test Year, exclusive of franchise fees and uncollectables, is reduced from $273,422,100 to $271,069,800.

2. At page 6 of the Stipulation, Section III, A, 1, the amount of these expenses allocable to electric service is reduced from $223,847,000 to $221,494,700.

3. At page 13 of the Stipulation, Section III, M, 3, this section will no longer be effective.

4. Attachment C of the Stipulation should be modified to reflect changes in Electric Department Labor and Non-Labor Expenses as follows:

   a. Labor: change $104,597,400 to $103,467,800.

   b. Non-Labor: change $84,896,600 to $83,673,900.

Entered this 10th day of Nov, 1988

SAN DIEGO GAS & ELECTRIC COMPANY

BY ______________________

DIVISION OF RATEPAYER ADVOCATES

BY ______________________

CITY OF SAN DIEGO

BY ______________________

UTILITY CONSUMERS' ACTION NETWORK

BY ______________________

FEDERAL EXECUTIVE AGENCIES

BY Norman Furuta 11 Nov 1988

CALIFORNIA ENERGY COMMISSION

BY ______________________

(END OF APPENDIX A)

A.87-12-003, I.88-01-006

APPENDIX B
Page 1

Exhibit	102
CPUC Proceeding	A 87-12-003
Sponsor/Witness	L. Schoyrieo
Date Iden. 5/11/88	Recd. 5/11/88
Francis S. Ferraro Administrative Law Judge	

Date: April 28, 1988

To: All Parties of Record

Re: DSM Penalty/Reward Mechanism (A. 87-12-003)

The Stipulation and Agreement of March 7, 1988 between the Division of Ratepayer Advocates ("DRA"), City of San Diego, Federal Executive Agencies ("FEA") and San Diego Gas & Electric Company ("SDG&E") refers to efforts to be undertaken to develop a penalty/reward mechanism (Stipulation, p. 6-7) to replace the current use of a balancing account for DSM program funds. This mechanism is intended to apply to certain aspects of SDG&E's demand side management programs.

The referenced mechanism has been agreed upon between DRA and SDG&E. It is attached to this letter and will be jointly sponsored by DRA witness Don Schultz and SDG&E witness Greg Haddow during the hearings schedule for addressing the Stipulation.

Philip Scott Weismehl
Philip Scott Weismehl
Counsel for the
Division of Ratepayer Advocates

David R. Clark
David R. Clark
Principal Attorney
San Diego Gas & Electric
Company

cc: ALJ Francis S. Ferraro

Joint Exhibit on Penalty/Reward
Mechanism for Demand-Side Programs

INTRODUCTION

This joint exhibit describes the Penalty/Reward Mechanism agreed upon by DRA and SDG&E pursuant to the Stipulation and Agreement between parties dated March 9, 1988. It was produced through negotiations between the Division of Ratepayer Advocates and SDG&E. This Penalty/Reward Mechanism is established to provide SDG&E with penalties and rewards based upon its performance in meeting Demand-Side Management (DSM) goals specified in the Compliance Guidelines (Table 1). The Penalty/Reward Mechanism described herein replaces the balancing account treatment currently placed on these activities and is intended to operate for the 1989-1991 rate case cycle.

The Penalty/Rewards described herein will not be assessed if SDG&E annual goal achievements are within the Deadband Ranges specified on Table 1. If the minimum value of the Deadband Range is not met, a penalty in the form of a revenue requirement reduction will be assessed. If the maximum deadband range value is exceeded, a reward in the form of a revenue requirement increase will be authorized by the Commission. The Penalty/Reward Mechanism only applies to the activities and programs included in Compliance Group 2 on Table 1.

SDG&E has unlimited discretion to move funds between programs in order to achieve the goals outlined in the Compliance Guidelines. However, any deviation from the Compliance Guidelines for Compliance Group 1 must be by mutual agreement between SDG&E and staff. Deviations from Compliance Group 1 guidelines without mutual agreement will make SDG&E ineligible for the Reward/Penalty Mechanism outlined for Compliance Group 2.

Modifications to this Mechanism, Compliance Guidelines, or Deadband Ranges may be made by mutual agreement between SDG&E and CPUC CAC and DRA.

Modifications to Residential A/C Cycling, Residential TOU, or Data Collection Requirements may be made by mutual agreement by CEC, CPUC DRA, and SDG&E.

All load impacts shall be measured and reported using consistent methodology for all regulatory proceedings, with the exception of gross to net adjustments. For purposes of these Compliance Guidelines, load impacts will be measured and reported on a gross impact basis.

APPENDIX B
Page 4

TABLE 1
PROGRAM GOALS AND COMPLIANCE GUIDELINES

	Authorized Annual Expenditures (86 $000)	Deadband Range (86 $000)	Penalty/Reward Goal Value (86$)
CONSERVATION			
Res EM Information(1)	1015	$750 - $1250 expenditures	NA
Res EM Services(1)	1000	$750 - $1250 expenditures	NA
Combined Nres EM Serv & Incent(2)	2576	PLF of 25-50 (3) and 13.5-16.0 GWH(4)	$175/MWH
LOAD MANAGEMENT			
Thermal Energy Storage(2)	1916	Maximum increase of 4000 MWH(5) and 7-10 MW	$237/Kw
Combined Indiv & Grp Interr/Curtailable(2)	290	1.8 - 2.2 MW (6)	$145/Kw
FUEL SUBSTITUTION			
Res Gas Fuel Substitution(1)	94	$50 - $150 expenditures	NA
Nonres Gas Fuel Substitution(2)	100	combined with Thermal Energy Storage	see TES
MEASUREMENT AND EVALUATION(1)	2751	$2000 - $3400 expenditures	NA
OTHER DSM(1)	1917	maximum of $2000 expenditures	NA

---

(1) Compliance Group 1
(2) Compliance Group 2
(3) A net 25-50 Program Load Factor (PLF) must be achieved for the aggregate MW and MWH installed in order to
qualify for penalty/reward mechanism. When implementation results from multiple years are under
consideration, the aggregate MW and MWH for all years should be used for the PLF calculation. PLF =
((MWH/8760)/MW) * 100. Penalty/reward is calculated on under/over achievement of GWH deadband, only after PLF
deadband is met.
(4) Gas therm conservation may be substituted, on a BTU conversion basis, for the GWHs in the deadband range, to
comprise up to 33% of the achieved GWHs.
(5) Net non-summer peak MWH load increase per summer peak MW decrease must be < 4000 in order to qualify for
penalty/reward mechanism. Total of net =
((Winter Peak, Semi Peak and Off Peak MWH) + (Summer Semi Peak and Off Peak MWH)) / Summer Peak period MW
reduction. Penalty/reward is calculated on under/over achievement of MW deadband, only if the MWH increase
does not exceed 4000.
(6) Deadband Range assumes no changes to the 1988 Interruptable/Curtailable Rate Schedule. In the event of
changes to these rates, this deadband will be adjusted by mutual agreement.

DETERMINATION OF COMPLIANCE

The CPUC CAC Division shall be responsible for the compliance review. Results of the compliance review shall be forwarded to SDG&E and the DRA.

All penalty/rewards will be based on actual data reported in SDG&E's Annual Summary for DSM Activities filed annually on March 31, subject to conventional verification. Determination of compliance will be made by the CAC Division no later than ~~June 1~~ July 1, 1990 for recorded activity in 1989, ~~June 1~~ July 1, 1991 for recorded activity in 1990, and ~~June 1~~ July 1, 1992 for recorded activity in 1991. Penalty/rewards calculated for year ending 1989 will either be reflected in the 1991 attrition year adjustment, or held over and combined with the penalty/reward for 1990 where it will be reflected in the 1992 General Rate Case Application, at SDG&E's option. Penalty/rewards calculated for 1991 will be reflected in the 1993 attrition year adjustment.

Expenditure deadbands are set forth for the categories listed below (Compliance Group 1 on Table 1):

- Residential Energy Management Information
- Residential Energy Management Services
- Residential Gas Fuel Substitution (Residential Gas Heat Pumps)
- Measurement and Evaluation
- Other DSM (Support)

Expenditures outside of the above expenditure deadbands must be mutually agreed upon by SDG&E and CAC and DRA. Failure to comply with these expenditure deadband guidelines without mutual agreement results in ineligibilty for any penalty/reward in Compliance Group 2.

The Penalty/Reward Mechanism will only apply to the categories listed below (Compliance Group 2 on Table 1):

- Commercial Energy Management Services and Commercial Energy Management Incentives combined
- Thermal Energy Storage and Nonresidential Gas Fuel Substitution (Gas Air Conditioning) combined
- Interruptible/Curtailable Rates - Group and Individual combined

As noted above, application of the Penalty/Reward Mechanism in Compliance Group 2 are contingent upon meeting the expenditure deadbands in Compliance Group 1.

Goal and expenditure compliance guidelines are not established for the categories listed below:

- Weatherization & Retrofit Incentives
- Residential A/C Cycling
- Residential TOU
- Non-residential Cycling

SDG&E has sole discretion in these areas to use the funds as they deem appropriate. Any savings achieved in these categories may be used in other programs or as otherwise determined by SDG&E.

CALCULATION OF PENALTY/REWARD

In the event that SDG&E's goal achievement falls below or above the deadband ranges, a penalty/reward will be calculated by multiplying the "Penalty/Reward Goal Value" on Table 1 by the kW or MWH difference between the achievement attained and the nearest boundary of the deadband range. A dollar value shall be calculated individually for each of the three elements in Compliance Group 2, then added together to achieve a net dollar value for the total penalty/reward. There shall be no goal penalty/reward for any other programs.

In addition, budgetary savings may be retained by SDG&E or shifted into other areas contingent upon meeting these guidelines.

All penalty/rewards will be calculated in 1986 dollars, then adjusted, with interest (using the most current adopted and appropriate escalation rates), to the current year dollars.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing "Joint Exhibit on Penalty/Reward Mechanism for Demand-Side Management" for A. 87-12-003 upon the following named appearances in San Diego Gas & Electric Company's 1989 Test Year General Rate Case by mailing them a copy thereof, properly stamped and addressed.

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Dated: May 2, 1988 By: Colleen Bell

Exhibit	116
CPUC Proceeding	A 87-12-003
Sponsor/Witness	M. Messenger
Date Ident. 5/11/88	Recd. 5/11/88
Francis S. Ferraro Administrative Law Judge	

ADDITIONAL TESTIMONY OF MICHAEL MESSENGER
5/11/88

As an alternative proposal to the recommendations contained in my testimony of April 15, 1988, I would like to recommend the following:

In addition to the programs specified in the March 7, 1988 Stipulation, I recommend that two other programs be funded:

1. Appliance Incentives - A pilot test of the effectiveness of customer incentives and point of purchase information to encourage the purchase of more efficient refrigerators. This test will identify the costs and benefits of giving customers incentives for buying more efficient refrigerators. In addition, the test will identify the costs, benefits, and energy savings resulting from a point of purchase information campaign to attractively label high efficiency refrigerators to encourage consumers to buy more efficient models. Effectiveness will be measured both in terms of the relative energy savings achieved by the customer incentive approach versus the energy savings achieved using the point of purchase information. SDG&E will also investigate the use of cooperative advertising to promote the availability of efficiency labels in participating dealerships. This study should include collection of data on the sales of refrigerators (subject to dealer cooperation) by efficiency level from a set of experimental and control dealerships or show rooms. Attempts will be taken to control for the different types of customers that shop at different types of retail outlets to make sure the changes in efficiency observed for each group are comparable and free of a preselection bias from participating dealers.

2. RCS/ENERGRAF Study - SDG&E will perform an evaluation of the relative effectiveness of RCS and ENERGRAF residential energy services. Effectiveness should be measured in terms of energy savings per service and per dollar expended by the company and the level of customer satisfaction with each service form.

A funding level of $300 K will be necessary to complete these two studies. This funding should come from carryover of SDG&E's CLM balancing account as of 12/31/88.

The company should complete these two studies by Jan 1, 1990 and then meet with the CEC and DRA staffs to discuss the potential need to expand or modify existing programs, create new programs, or alter program marketing techniques based on the results of these studies.

Air Conditioning Marketing and Program Design Study - SDG&E agrees to complete a study that will provide the basis for determining the need for air conditioner programs in its next rate case. The study will first identify the size and location of the targeted customer groups of "high usage" customers with air conditioners and homes more than 8 years old. After scoping out the size of this market, SDG&E will propose a rebate program design to encourage these customers to replace their old air conditioners with models 15% more efficient than the applicable efficiency standard. Based on this design, SDG&E should analyze the cost effectivenfss of the proposed program and include these findings with its 1992 Test Year GRC Application. This activity will be funded through the funding specified in the Stipulation Agreement.

Exhibit	117
CPUC Proceeding	A 87-12-003
Sponsor/Witness	M. Messenger
Date Ident. 5/11/88	Recd. 5/11/88
Francis S. Ferraro Administrative Law Judge	

REVISION TO EXHIBIT 102 - PENALTY/REWARD MECHANISM

SDG&E, DRA, and the CEC agree to the following changes to the DSM Penalty/Reward Mechanism on page of the agreement.

1. The deadband range for Residential Energy Management Services should be changed to delete all references to a funding range (for RES EMS) and include the following changes in their place:

<u>Deadband Range</u>

Minimum - 12,500 in-house services
Maximum - 24,500 in-house services

These services must have the following characteristics to meet the minimum and qualify SDG&E for rewards for performance in other areas.

1. Each service must include the decomposition of the customer's bill into the estimated contributions from each of the major applicances in the household, and

2. A Bar chart representation of the decreases in energy bills that could be obtained as a result of buying more efficient air conditioners, water heaters, refrigerators, and other major appliances appropriate for each customers appliance holdings and household members or

3. A reference or guide to where the customers can obtain more information on the cost and availability of specific efficiency improvements for each major appliance.

In all cases the auditor shall visit the home and determine the customer's preferences for the style and type of service. To insure all households can benefit from these services, the company agrees to make its customers aware of the full range of services that are available at least two times a year through bill inserts or some other type of media.

Application No. 87-12-003
Exhibit No. --
Witnesses GW Haddow, M Jaske, D Schultz

Exhibit	118
CPUC Proceeding	A 87-12-003
Sponsor/Witness	Joint Exhibit
Date Ident. 5/11/88	Recd. 5/11/88
Francis S. Ferraro Administrative Law Judge	

CALIFORNIA PUBLIC UTILITIES COMMISSION
Division of Ratepayer Advocates

AND

CALIFORNIA ENERGY COMMISSION

AND

SAN DIEGO GAS & ELECTRIC COMPANY (U 902-M)

JOINT EXHIBIT ON DEMAND-SIDE MANAGEMENT

for

SAN DIEGO GAS & ELECTRIC COMPANY GENERAL RATE CASE

Test Year 1989

Before the

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

San Francisco, California
May 1988

SUPPLEMENTAL JOINT TESTIMONY OF
Dr. Michael Jaske, Don Schultz and Greg Haddow

As an element of San Diego Gas & Electric's (SDG&E) General Rate Case Application, SDG&E prepared and distributed the testimony of G. W. Haddow (Exhibit 13) which discusses SDG&E's Demand-Side Management (DSM) Measurement and Evaluation activities. The Division of Ratepayer Advocates (DRA) and California Energy Commission (CEC) reviewed SDG&E's Application and prepared detailed reports on these activities (Don Schultz (DRA) and Dr. Michael Jaske (CEC)). Discussions which have occurred between the parties since the distribution of these documents have resulted in agreement on the central issues raised in the reports. The terms of this agreement are expressed in the joint testimony set forth below. This supplemental testimony augments the discussion of these issues found in the reports.

The March 7, 1988 Stipulation and Agreement entered into by Division of Ratepayer Advocates, City of San Diego, the Federal Executive Agencies, and SDG&E in part describes the parties agreement to DSM programs and funding levels. The proposed budget level for measurement and evaluation activities identified in the Stipulation is $2.751 million.

Since executing the Stipulation, DRA and SDG&E have agreed upon the Penalty/Reward Mechanism alluded to in the Stipulation to apply to SDG&E's DSM programs in lieu of balancing account treatment. The mechanism specifies a range of authorized annual expenditures for the measurement and evaluation activities described in the Stipulation of $2 million to $3.4 million. Under the terms of the mechanism, SDG&E's measurement and evaluation expenditures may not fall outside of that deadband range without mutual agreement between SDG&E and the CPUC staff as specified in the Penalty/Reward Mechanism. DRA, the CEC staff and SDG&E agree that this approach will adequately ensure the continued availability of funding for necessary measurement and evaluation data.

Attachment 1 defines the scope of data collection activities of interest to the CEC. These activities will be conducted as part of the measurement and evaluation program identified in the Penalty/Reward Mechanism. SDG&E will not substantially modify the funding for measurement and evaluation activities as specified in the Penalty/Reward Mechanism without first seeking the comments and advice of the CEC. Therefore, the CEC withdraws its recommendations for limitations on management discretion found on pages 19 and 20 of Dr. Jaske's previously-distributed report.

The CEC staff, DRA and SDG&E also agree that end-use metering/recording for residential and commercial customers should be expanded and that this will occur within the funding guidelines referred to above. The specific scope of metering/recording which SDG&E will conduct during the ensuing rate case cycle is provided in Attachment 1 to this testimony. The DRA, CEC staff and SDG&E are in agreement that all other measurement and evaluation activities, e.g. those not referenced in Dr. Jaske's report, will be conducted as provided for in the Stipulation and Penalty/Reward Mechanism.

ATTACHMENT 1

San Diego Gas & Electric

Data Collection Activities of Interest to the CEC

LOAD METERING

a. Class Load
   1. Operations
   2. Meter Conversion

b. End Use
   1. Residential
   2. Commercial

c. Special Projects

CUSTOMER SURVEYS

a. Residential
   1. MIRACLE
   2. Other

b. Commercial
   1. CEUS
   2. Nonresidential Audits
   3. Other

c. Industrial
   1. Industry Studies
   2. Nonresidential Audits

ATTACHMENT 2

SAN DIEGO GAS & ELECTRIC
LOAD RESEARCH PLAN

(NUMBER OF RECORDING DEVICES)

Load Metering		SDG&E/CEC Agreement			
End Use	Year	1989	1990	1991	Total
Residential		30	30	40	100
Commercial		160	25	25	210
Total		190	55	65	310

Note:

These changes are to supersede the CEC Recommendations associated with End Use metering from the Table 2 Notes in the CEC Testimony of Michael Jaske on page 9.

With the exception of the Decision Maker Criteria Study in 1989-1991 and the Marketing Segmentation Study in 1990-1991, the Measurement and Evaluation Budget remains unchanged. This is consistent with paragraph 6, page 3 of CEC Testimony of Michael R. Jaske, April 14, 1988, which states that "...other Measurement and Evaluation projects will be downscoped or eliminated in order to supply the funds necessary to support the increased level of expenditures recommended by the CEC."

(END OF APPENDIX B)

APPENDIX C

AGREEMENT REGARDING CIEE FUNDING AND PROCEDURES

1. The parties acknowledge that enhanced funding and effort in the area of medium- and long-term research and development for end-use efficiency has the potential for ultimately benefitting SDG&E's ratepayers.

2. CIEE believes SDG&E should increase its research and development budget by increasing the amount spent on end-use efficiency projects. SDG&E believes its commitment to end-use efficiency research and development is more than adequate and, therefore, these increases are unnecessary.

3. The parties understand that SDG&E is not the sole contributor to CIEE funding. CIEE believes that utility funding should be done on an equitable basis.

4. The parties agree that effective coordination of end-use efficiency research and development can avoid duplication and wasted effort.

5. CIEE contends it can improve coordination of end-use efficiency research and development.

6. The parties agree that the best way to determine if CIEE can improve the coordination of this area of research and development is by demonstration. Therefore,

APPENDIX C

CIEE should be given an opportunity on a test basis to demonstrate that it can sufficiently improve the coordination of this area of research and development to justify continuing funding by SDG&E.

7. The role of CIEE will be one of coordination of the end-use research and analysis efforts, which includes:

A. Bringing together the utilities and other interested organizations to determine the projects to be pursued, the organizations to undertake the research and the level of funding to be committed to each project.

B. Serving as a clearinghouse for information among the utilities and other interested organizations as to research efforts in end-use efficiency.

C. Administering the placement and oversight of research efforts done with CIEE funding.

8. The portion of utility funding devoted to overhead costs (for both CIEE and the research institution) for any particular project shall not exceed usual overhead levels. The Program Board shall consider overhead costs in reviewing and approving CIEE funded research. CIEE and the Program Board shall aggressively pursue funding of CIEE overhead costs from non-utility sources.

APPENDIX C

9. An objective of CIEE will be for CIEE-funded projects to be undertaken by experienced, knowledgeable, and qualified California institutions. Selection of research projects shall be consistent with CIEE's multi-year research plan and shall be based on the quality of the proposed research (including such factors as quality of on-going research, potential benefits, available facilities, technical expertise, and enhancement of long-term research capability.)

10. CIEE shall have a Program Board. The Program Board will be comprised of, at a minimum, the Director of CIEE, representatives (one each) from UC and each utility contributing to CIEE, and (at their discretion) the CPUC, CEC, EPRI, and GRI. Each organization shall designate its own representative. The Program Board shall establish rules and procedures that provide for: (1) participating utilities to collectively have at least 50% of the vote on issues before the Program Board; and (2) each privately owned utility contributing to CIEE research to have an equal vote on the Program Board.

11. The Program Board shall establish policies to be used by the Director of CIEE in preparing a multi-year research plan, including guidelines and procedures for allocating CIEE research and development funding. The plan shall be submitted to the Program Board for its review and

APPENDIX C

approval. The Director of CIEE, with the advice and consent of the Program Board, has the responsibility of implementing the multi-year research plan and, in the context of that plan, determining appropriate pooling of utility funds, research projects, project funding levels, and the institutions that will carry out the projects. This responsibility will be exercised with the intent of having true coordination among the utilities so as to ensure that the people of the State of California receive the maximum value for these research efforts. All expenditures of utility funds through CIEE shall be subject to the following constraints:

A. such funds shall be used for research and analysis related to medium-and long-term end-use efficiency; and

B. all utility funds available to CIEE shall be committed each year to appropriate projects.

12. The utility shall have the right to select the projects it will fund, consistent with paragraph 11 above. If a utility disagrees with a decision of the CIEE Director and Program Board (made pursuant to paragraph 11, above) it will have the right to refuse to fund a particular project or projects.

APPENDIX C

13. The utilities are to cooperate with CIEE in coordinating end-use efficiency research. CIEE and funding utilities shall jointly have the obligation to develop sufficient energy end-use efficiency project ideas so that all utility contributed dollars are committed to projects acceptable to the utility. The parties understand that a failure to cooperate in good faith may result in further action by the CPUC to carry out the purposes of this agreement.

14. CIEE will aggressively pursue recovery of income from patents or other intellectual property rights developed as a result of CIEE research and this income shall benefit CIEE research sponsors. The extent to which this income is used to offset future contribution to CIEE or to otherwise benefit ratepayers is to be determined by the CPUC in its periodic consideration of RD&D funding.

15. CIEE and its activities are being funded on a test basis. In order to provide an opportunity to evaluate the CIEE coordination role, it is understood that CIEE will prepare a publicly available annual report for each calendar year covering both CIEE's coordination activities and research projects funded, and commenting on the manner in which CIEE is meeting its purposes. The report shall be reviewed and approved by the Program Board before its release. All Program Board members shall be given a

reasonable opportunity to include within the report a section either indicating their concurrence or disagreement with the report. This annual report shall be issued on March 1 of each year commencing in 1990 so that it can be considered in evaluating CIEE's coordination role and in analyzing future funding.

16. SDG&E shall contribute $100,000 in 1989, $225,000 in 1990, and $350,000 in 1991 to CIEE. These dollar amounts represent nominal dollars and are <u>not</u> to be escalated. CIEE shall use these contributed dollars to fund end-use efficiency research subject to the terms and conditions herein. These dollar amounts should be added to the RD&D budget of the stipulation which is Exhibit 98 in SDG&E's 1989 general rate case proceeding, Application No. 87-12-003.

17. This agreement may be introduced as evidence in SDG&E's 1989 general rate case proceeding, but only for the purpose of recommending a compromise settlement regarding

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APPENDIX C

SDG&E funding of CIEE. This agreement shall not be used as evidence, precedent or an admission by any person in any CPUC or judicial proceeding that SDG&E funding is appropriate.

Entered this 8th day of July, 1988, between the following:

SAN DIEGO GAS & ELECTRIC COMPANY

By: Thomas A. Hadley

DIVISION OF RATEPAYER ADVOCATES

By: [illegible signature]

CALIFORNIA INSTITUTE FOR ENERGY EFFICIENCY

By: Art Rosenfeld

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all known parties of record in this proceeding by mailing by first-class mail a copy thereof properly addressed to each such party.

Dated at San Francisco, California, this 12th day of July, 1988.

/s/ LAURA K. WALLACE

Laura K. Wallace

(END OF APPENDIX C)

SAN DIEGO GAS & ELECTRIC COMPANY
Electric Department
SUMMARY OF EARNINGS AT ADOPTED REVENUES AND EXPENSES
(Thousands Of 1989 Dollars Unless Otherwise Indicated)
Test Year 1989

Description	Adopted
Operating Revenues	
Sales to customers	$795,761
Non-Jurisdictional	1,445
Miscellaneous	17,005
Total Operating Revenues	$814,211
Operating Expenses	
Operation & Maintenance	221,836
Uncollectibles	15,573
Franchise Requirements	1,679
Subtotal (1986 Dollars)	$239,088
Labor Escalation Amount	12,583
Non-Labor Escalation Amount	9,134
Subtotal (1989 Dollars)	$260,805
Depreciation & Amortization	153,484
Taxes Other Than On Income	37,666
CA Corporation Franchise Tax	26,215
Federal Income Tax	94,461
Total Operating Expenses	$577,631
Net Operating Income	$236,580
Weighted Average Rate Base	2,178,451
AUTHORIZED RATE OF RETURN	10.86%

Adopted Revenues at Adopted Rates	$814,211
Stipulated Revenues at Present Rates	$874,487
AUTHORIZED INCREASE IN REVENUES	($60,276)

SAN DIEGO GAS & ELECTRIC COMPANY
Gas Department
SUMMARY OF EARNINGS AT ADOPTED REVENUES AND EXPENSES
(Thousands Of 1989 Dollars Unless Otherwise Indicated)
Test Year 1989

Description	Adopted
Operating Revenues	
Sales to customers	$114,109
Interdepartmental	14,460
Miscellaneous	3,152
Total Operating Revenues	$131,721
Operating Expenses	
Operation & Maintenance	48,527
Uncollectibles	2,532
Franchise Requirements	241
Subtotal (1986 Dollars)	$51,300
Labor Escalation Amount	3,218
Non-Labor Escalation Amount	1,696
Subtotal (1989 Dollars)	$56,214
Depreciation & Amortization	23,056
Taxes Other Than On Income	5,516
CA Corporation Franchise Tax	4,015
Federal Income Tax	13,137
Total Operating Expenses	$101,938
Net Operating Income	$29,783
Weighted Average Rate Base	274,248
AUTHORIZED RATE OF RETURN	10.86%

Adopted Revenues at Adopted Rates	$131,721
Stipulated Revenues at Present Rates	$118,324
AUTHORIZED INCREASE IN REVENUES	$13,397

SAN DIEGO GAS & ELECTRIC COMPANY
Steam Department
SUMMARY OF EARNINGS AT ADOPTED REVENUES AND EXPENSES
(Thousands Of 1989 Dollars Unless Otherwise Indicated)
Test Year 1989

Description	Adopted
Operating Revenues	
Sales to customers	$1,444
Miscellaneous	0
Total Operating Revenues	$1,444
Operating Expenses	
Operation & Maintenance	1,182
Uncollectibles	28
Franchise Requirements	0
Subtotal (1986 Dollars)	$1,210
Labor Escalation Amount	78
Non-Labor Escalation Amount	52
Subtotal (1989 Dollars)	$1,341
Depreciation & Amortization	39
Taxes Other Than On Income	46
CA Corporation Franchise Tax	(3)
Federal Income Tax	(5)
Total Operating Expenses	$1,418
Net Operating Income	$25
Weighted Average Rate Base	233
AUTHORIZED RATE OF RETURN	10.86%
Adopted Revenues at Adopted Rates	$1,444
Stipulated Revenues at Present Rates	$950
AUTHORIZED INCREASE IN REVENUES	$494

Decision ____________

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 Decrease its Rates and Charges for Electric, and to Increase its Rates and Charges for Gas and Steam Service. (U 902-M)

Application 87-12-003
(Filed December 1, 1987)

Order Instituting Investigation into the rates, charges, and practices of the San Diego Gas & Electric Company.

I.88-01-006
(Filed January 13, 1988)

(See Decision 88-07-023 for appearances.)

INTERIM OPINION

Summary

A settlement document is adopted for San Diego Gas & Electric Company's (SDG&E) test year 1989 general rate case. This document, together with agreements for demand-side management and research, development, and demonstration (RD&D), resolve all of the issues in this proceeding except depreciation, cost of capital, attrition, rate design, women and minority business enterprises (W/MBE), and the studies required by SDG&E's last energy cost adjustment clause (ECAC) decision. Subsequent decisions will address these remaining issues.

For test year 1989, the Stipulation and Agreement results in a decrease in electric rates of $60.3 million or 4.5%, and an increase in gas and steam rates of $13.4 million or 3.0% and $0.5 million or 32.3%, respectively.

Introduction

This decision addresses the Stipulation and Agreement among SDG&E, Division of Ratepayer Advocates (DRA), Federal Executive Agencies (FEA), City of San Diego, and Utility Consumers Action Network (UCAN) on most cost and noncost issues in SDG&E's general rate case for test year 1989. These parties have reached agreement on all issues in SDG&E's general rate case except depreciation, cost of capital, attrition, rate design, and two studies required to comply with Decision (D.) 87-12-069, SDG&E's latest ECAC decision. These issues will be addressed in subsequent orders. Additionally, there are three areas which are included in the Stipulation and Agreement that were either contested or a separate agreement was reached.

The first of these is W/MBE. While this issue was litigated by the American G.I. Forum, League of United Latin American Citizens, and Filipino American Political Association (Public Advocates) no specific recommendation was made with respect to the funding level for this program proposed in the Stipulation and Agreement. Because no recommendation has been made to adjust the proposed funding for SDG&E's W/MBE program, we will defer the resolution of this matter until all other contested issues are addressed.

The remaining two areas, demand-side management and RD&D, are part of the Stipulation and Agreement, but separate agreements were reached. These two additional agreements will be discussed below.

Procedural Background

On December 1, 1987 SDG&E filed Application (A.) 87-12-003 requesting authority to reduce revenues for its electric department by $36.0 million or 2.6%, and increase revenues for its gas and steam departments by $22.4 million or 5.0% and $0.4 million or 26.0%, respectively. SDG&E's application requested that these changes be made for test year 1989 and that it be authorized attrition increases for 1990 and 1991.

On January 7, 1988, a prehearing conference was held in San Diego to discuss procedural matters. At the prehearing conference SDG&E and DRA expressed a joint intent to explore the settlement of some or all of the issues in this proceeding. On March 7, 1988 SDG&E, DRA, the City of San Diego, and FEA entered into a Stipulation and Agreement resolving most of the revenue requirement issues for SDG&E's general rate case. Ultimately UCAN entered into the settlement as well. Hearings were held on May 11 and 12, 1988 during which testimony was taken concerning the Stipulation and Agreement and RD&D, W/MBE, and demand-side management issues. On June 14, 1988 a comparison exhibit was submitted which detailed the revenue requirement associated with the Stipulation and Agreement.

Stipulation and Agreement

The Stipulation and Agreement, including two addendums, is attached as Appendix A. It explains the process by which the agreement was reached, the background which led up to the agreement, and the specifics of the agreement. In summary, the settlement process was a lengthy one in which all parties to SDG&E's most recent ECAC and general rate proceedings were invited to an introductory meeting held after SDG&E's NOI was accepted for filing and prior to the filing of A.87-12-003. At that meeting it was determined that settlement discussion would not begin until after DRA's reports were released.

After its reports were issued, DRA invited all parties who entered appearances at the prehearing conference in A.87-12-003 to a second meeting. At this meeting, which was held at the State Building in San Diego on February 16 and 17, the parties agreed to maintain the confidentiality of their discussions. Additional meetings were conducted until a settlement was reached. However, the Stipulation and Agreement was not finalized and executed until all parties participating in the settlement meetings were provided an opportunity to offer their views.

For test year 1989 the Stipulation and Agreement results in a decrease in electric rates of $60.3 million or 4.5% and an increase in gas and steam rates of $13.4 million or 3.0% and $0.5 million or 32.3%, respectively. This assumes no change in SDG&E's last authorized return on rate base and that SDG&E's quantifying added uncertainty (QAU) methodology for calculating depreciation expense is retained. Both of these will be resolved in orders prior to January 1, 1989.

While return on equity and QAU are not part of the settlement, there are a number of items included in the Stipulation and Agreement that are subject to change in accordance with the agreement. These are listed below:

> Labor and nonlabor expenses are subject to revision based on Data Resources Incorporated's third quarter 1988 forecasts.
>
> Electric Power Research Institute (EPRI) dues and Nuclear Regulatory Commission (NRC) fees will be updated to reflect the actual amount which SDG&E is assessed for 1989.
>
> Working cash allowance is subject to change based on the outcome of the State income tax timing issue in A.85-12-050.
>
> 1988 postal rate increases may be reflected. The 1988 postal increase was included in the June comparison exhibit and is reflected in the attached summary of earnings.
>
> W/MBE program costs can be increased up to $200,000 to reflect additional activities that are required.

In addition to the quantified effect the Stipulation and Agreement has on rates, the agreement provides for the following:

> The transfer of $2.4 million in RD&D expenses for the Heber Binary Geothermal Plant from the

general rate case to SDG&E's annual advice letter filing for the Heber project.

A one-way balancing account for SDG&E's RD&D program consistent with what was adopted for Pacific Gas and Electric Company and Southern California Edison Company (Edison).

SDG&E's filing of an application to seek the establishment of a memorandum account to accumulate certain hazardous waste expenditures.

The application of the plant held for future use guidelines adopted in D.87-12-066, Edison's general rate case decision, to SDG&E with three qualifications: (1) a five-year planning horizon for general plant instead of three years, (2) an effective date for the guidelines of January 1, 1989, and (3) justification for each new item in SDG&E's next general rate case.

A preapproval of certain interutility purchase power contracts if the following conditions are met: (1) preapproval requirements apply equally to all California electric utilities, (2) the guidelines do not place California utilities at a competitive disadvantage, and (3) the guidelines provide for a practical and expeditious review.

Finally, the Stipulation and Agreement contains the following key terms and conditions:

No part of the Stipulation and Agreement shall have any precedential value in any proceeding.

Any party may withdraw from the Stipulation and Agreement if modified by the Commission, however, parties agree to negotiate with regard to any Commission-ordered changes in good faith to restore the balance of benefits and burdens.

No portion of the Stipulation and Agreement, its terms, conditions, or any of the discussion leading to it, may be used in hearings without prior express written consent by all the parties.

> All parties agree that the Commission's approval and adoption of the Stipulation and Agreement is in the public interest, provides just and reasonable compensation to SDG&E for test year 1989 expenses, and avoids lengthy litigation.

<u>Demand-Side Management Agreement</u>

Although the Stipulation and Agreement provides funds for SDG&E's demand-side management program, the California Energy Commission (CEC) recommends that an appliance incentive test and a residential conservation service (RCS)/ENERGRAF study be funded by $300,000 in carryover funds from SDG&E's conservation/load management adjustment clause (CLMAC) balancing account. Additionally, CEC recommends that an air conditioning marketing and program design study be completed with the funding specified in the Stipulation and Agreement. Finally, SDG&E, DRA, and CEC submitted a joint exhibit recommending end-use metering/recording for residential and commercial customers and a penalty/reward mechanism be adopted based on SDG&E's performance with its demand-side management program. None of the parties to the Stipulation and Agreement have voiced opposition to these recommendations.

The details of the recommendations and the penalty/reward mechanism are contained in Exhibits 102, and 116-118. These exhibits are attached as Appendix B.

<u>RD&D Agreement</u>

The California Institute for Energy Efficiency (CIEE) was the only party to contest the proposed RD&D funding level shown in the Stipulation and Agreement. However, DRA, SDG&E, and CIEE, subsequent to the hearings on RD&D, entered into an Agreement Regarding CIEE Funding and Procedures. The agreement which modifies the RD&D funding level shown in the Stipulation and Agreement is attached as Appendix C.

In a motion dated July 12, 1988 DRA requests on behalf of itself, SDG&E, and CIEE that their agreement be adopted as a revision to the RD&D funding level shown in the Stipulation and Agreement. In its motion DRA states that other signatories to the Stipulation and Agreement have been contacted and do not consider the agreement for RD&D to be inconsistent with the terms of the Stipulation and Agreement.

In summary the agreement provides for the following:

> Funding by SDG&E of CIEE at nominal dollar levels of $100,000 in test year 1989, $225,000 in attrition year 1990, and $350,000 in attrition year 1991.
>
> CIEE funding on a demonstration basis, to determine if CIEE can sufficiently improve the coordination of end-use efficiency to justify utility funding.
>
> CIEE's role to be that of coordination as defined in the agreement.
>
> CIEE's activities, including the determination of which projects are to be funded, the level of funding and which institutions will undertake the research, to be under the direction of a Program Board comprised of representatives of each utility contributing to CIEE, as well as other entities (including the Public Utilities Commission and CEC) that may choose to participate.

Discussion

Before passing on any settlement as proposed in the Stipulation and Agreement, we must consider whether it is in the public interest and ensure that all parties were given adequate notice and opportunity to address and explore their concerns.

As we stated in the Opinion Proposing Rules Governing Settlements and Stipulations, D.87-11-053:

> "Stipulations and settlements can provide useful methods for resolving public utility proceedings, and these methods can achieve mutually acceptable solutions, reduce uncertainty, expedite regulatory review and conserve public and private resources.

> Stipulations have been an integral part of the Rate Case Plan since its inception, with specific areas of agreement placed on the record together with the original position of the agreeing parties and the effect of the agreement on the rate request."

The parties which have signed the Stipulation and Agreement state that it: (1) is in the public interest, (2) will result in revenues to SDG&E to compensate it for a level of expenses in the 1989 test year that is just and reasonable, (3) resolves in a fair manner the alternative expense estimates submitted in this proceeding, and (4) avoids lengthy litigation. Hearings were held at which all parties to this proceeding were provided an opportunity to express their views and concerns with the Stipulation and Agreement. While some parties expressed concerns over demand-side management and RD&D program expenditures, these were resolved in agreements subsequent to the Stipulation and Agreement. With the submittal of the additional agreements, no party is opposed to or has expressed any concerns with the Stipulation and Agreement.

We note that the Stipulation and Agreement was executed after all parties were invited to the settlement meetings and provided an opportunity to comment on the proposed settlement. Additionally, hearings were conducted which provided parties an opportunity to question proponents of and argue objections to the settlement. Finally, with the additional agreements for demand-side management and RD&D, no party voiced opposition to the Stipulation and Agreement. Therefore, we believe that the Stipulation and Agreement process was open and accessible and is an acceptable approach for resolving many of the issues in SDG&E's general rate case.

Not only do we consider the manner in which the Stipulation and Agreement was executed to be fair and reasonable, but also the results which yield a net $46.4 million reduction in rates for the gas, electric, and steam departments. Besides the direct savings to ratepayers, there has been considerable savings in litigation expenses for public and private parties and our regulatory process has been expedited.

While this is not the first settlement we have considered, it is the first since we undertook the proposal of formal rules to govern settlements and stipulations. The process which led to the Stipulation and Agreement in all respects meets or exceeds the requirements which were proposed in the formal rules.

Although the Stipulation and Agreement provides sufficient information for determining SDG&E's revenue requirement, it is not accompanied by complete, account-by-account results of operations. While we generally need not know the history and details of settlement negotiations, there is value to having more complete results of operations on the record. Without this documentation to resolve disputed revenue requirement issues, it may be difficult to approve a settlement. Further detail would also assist in processing attrition filings and could be used in analyses of innovative ratemaking proposals such as performance based pricing, or of utility mergers.

Accordingly, we put the parties to the Stipulation and Agreement as well as to other major rate proceedings on notice that in the future, we expect detailed results of operations tables to accompany revenue requirement settlements.

The adopted revenue requirement is based on the June 14, 1988 comparison exhibit which reflects the Stipulation and Agreement. It was adjusted to reflect the agreement for RD&D, SDG&E's last authorized rate of return, and some minor computational errors discovered by our Advisory and Compliance Division. Attached as Appendix D is the adopted summary of earnings for each department. As specified in the Stipulation and Agreement the adopted revenue requirement is subject to revision to reflect changes in cost of capital, labor and nonlabor escalation factors, EPRI dues, NRC fees, working cash allowance, and W/MBE program costs. These costs will be established in a second discussion prior to January 1, 1989.

Findings of Fact

1. On December 1, 1987 SDG&E filed Application (A.) 87-12-003 requesting authority to reduce revenues for its electric department by $36.0 million or 2.6%, and increase revenues for its gas and steam departments by $22.4 million or 5.0% and $0.4 million or 26.0%, respectively.

2. On March 7, 1988 SDG&E, DRA, the City of San Diego, and FEA entered into a Stipulation and Agreement resolving most of the revenue requirement issues for this general rate case. UCAN ultimately signed the Stipulation and Agreement.

3. Hearings were held on May 11 and 12, 1988 during which testimony was taken concerning the Stipulation and Agreement and RD&D, W/MBE, and demand-side management issues.

4. A comparison exhibit which details the revenue requirement associated with the Stipulation and Agreement was submitted on June 14, 1988.

5. All parties to A.87-12-003 were invited to participate in settlement meetings concerning SDG&E's general rate case filing for test year 1989.

6. Settlement discussions did not commence until DRA's reports had been issued.

7. The Stipulation and Agreement was not finalized and executed until all parties participating in the settlement meetings were provided an opportunity to offer their views.

8. For test year 1989 the Stipulation and Agreement results in a decrease in electric rates of $60.3 million or 4.5% and an increase in gas and steam rates of $13.4 million or 3.0% and $0.5 million or 32.3%, respectively.

9. The Stipulation and Agreement provides for revisions in the agreed upon revenue requirement to reflect changes in cost of

capital, labor and nonlabor escalation factors, EPRI dues, NRC fees, working cash allowance, and W/MBE program costs.

10. The Stipulation and Agreement allows for: (1) the transfer of $2.4 million in Heber related expenses to SDG&E's advice letter filing for the Heber project, (2) a one-way balancing account for the RD&D program, (3) the filing of an application to establish a memorandum account for hazardous waste expenditures, (4) the implementation of guidelines for plant held for future use, and (5) preapproval of interutility purchase power contracts under certain conditions.

11. CEC recommended that: (1) an appliance incentive test and a RCS/ENERGRAF study be funded by $300,000 in carryover funds from SDG&E's CLMAC balancing account and (2) an air conditioning marketing and program design study be completed with the funding specified in the Stipulation and Agreement.

12. SDG&E, DRA, and CEC submitted a joint exhibit recommending end-use metering/recording for residential and commercial customers and a penalty/reward mechanism be adopted based on SDG&E's performance with its demand-side management program.

13. None of the parties to the Stipulation and Agreement have voiced opposition to the recommendations for demand-side management.

14. On July 12, 1988 DRA filed a motion on behalf of DRA, SDG&E, and CIEE requesting that an agreement, which modifies the RD&D funding level contained in the Stipulation and Agreement, be adopted.

15. The RD&D agreement provides funding by SDG&E of CIEE on a demonstration basis under the direction of a Program Board in the amount of $100,000 in 1989, $225,000 in 1990, and $350,000 in 1991.

16. In DRA's motion to modify the Stipulation and Agreement, it states that other signatories to the Stipulation and Agreement have been contacted and do not consider the agreement with CIEE to be inconsistent with the terms of the settlement.

Conclusions of Law

1. Depreciation, cost of capital, attrition, rate design, W/MBE, and the studies required by D.87-12-069 should be addressed in subsequent orders.

2. All parties were given adequate notice and opportunity to address and explore their concerns with the Stipulation and Agreement.

3. With CEC's recommendations and the agreements on demand-side management and RD&D, no party is opposed to the Stipulation and Agreement.

4. The Stipulation and Agreement should be revised to reflect changes in cost of capital, labor and nonlabor escalation factors, EPRI dues, NRC fees, working cash allowance, and W/MBE program costs prior to January 1, 1989.

5. The Stipulation and Agreement, CEC's recommendations, and the agreements for demand-side management and RD&D should be adopted as being in the public interest.

INTERIM ORDER

IT IS ORDERED that:

1. The Stipulation and Agreement, CEC's recommendations, and the agreements for demand-side management and RD&D shall be adopted as resolution of all of the issues in San Diego Gas & Electric Company's test year 1989 general rate proceeding except depreciation, cost of capital, attrition, rate design, W/MBE, and the studies required by D.87-12-069.

2. The Stipulation and Agreement shall be revised by a subsequent decision to reflect changes in cost of capital, labor

and nonlabor escalation factors, EPRI dues, NRC fees, working cash allowance, and W/MBE program costs prior to January 1, 1989.

This order becomes effective 30 days from today.

Dated ____________________, at San Francisco, California.

in litigation expenses for public and private parties and our regulatory process has been expedited.

While this is not the first settlement we have considered, it is the first since we undertook the proposal of formal rules to govern settlements and stipulations. The process which led to the Stipulation and Agreement in all respects meets or exceeds the requirements which were proposed in the formal rules.

Although the Stipulation and Agreement provides sufficient information for determining SDG&E's revenue requirement, it is not accompanied by complete, account-by-account results of operations. While we generally need not know the history and details of settlement negotiations, there is value to having more complete results of operations on the record. Without this documentation to resolve disputed revenue requirement issues, it may be difficult to approve a settlement. Further detail would also assist in processing attrition filings and could be used in analyses of innovative ratemaking proposals such as performance based pricing, or of utility mergers.

Accordingly, we put the parties to the Stipulation and Agreement as well as to other major rate proceedings on notice that in the future, we expect detailed results of operations tables to accompany revenue requirement settlements.

Finally, the Stipulation and Agreement provides SDG&E with an opportunity to establish a memorandum account to accumulate certain hazardous waste expenditures by filing an application. As stated in the Stipulation and Agreement, SDG&E's application should contain the same evidentiary showing required of Pacific Gas & Electric Company (PG&E) in D.86-12-095. This procedure was also adopted for Southern California Gas Company (SoCal Gas) in D.87-05-027 and Edison in D.87-12-066.

We recently revisited the procedure for filing an application to establish a memorandum account for hazardous waste expenditures in D.88-07-059 for SoCal Gas and D.88-09-020 for PG&E.