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Decision 89-04-051 APRIL 12, 1989

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of Southern California Edison)
Company (U-338-E) for authority)
to (i) increase its authorized)
rate of return on common equity,)
(ii) adjust its authorized)
capital structure, (iii) adjust)
cost factors for imbedded debt)
and preferred stock, and (iv))
related substantive and proced-)
dural relief.)

Application No. 88-07-023
(Filed July 25, 1988)

Application of Pacific Gas and)
Electric Company for adoption)
of authorized rate of return for)
1989 pursuant to attrition rate)
adjustment mechanism. (U-39-M))

Application No. 88-07-037
(Filed July 20, 1988)

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. (Cost of)
Capital Phase) (U-902-M))

Application No. 87-12-003
(Filed December 1, 1987)

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

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

In the Matter of the Application)
of Sierra Pacific Power Company)
to authorize a return on equity)
for calendar year 1989 pursuant)
to attrition rate adjustment)
mechanism. (U-903-E))

Application No. 88-07-052
(Filed July 28, 1988)

In the Matter of the Application)
of Southern California Gas)
Company (U-904-G) to implement)
its attrition allowance and to)
establish a return on equity)
for 1989.)

Application No. 88-08-001
(Filed August 1, 1988)

ORDER MODIFYING DECISION 88-12-094
AND DENYING REHEARING

San Diego Gas & Electric Co. has filed an application for rehearing of Decision (D.) 88-12-094. We have carefully considered all the allegations of error in the application and are of the opinion that good cause for rehearing has not been demonstrated. However, the decision should be modified to clarify the reasoning behind the Commission's judgment in establishing the common equity ratio at 48.00% and the return on equity at 13.00%. Therefore,

IT IS HEREBY ORDERED:

Decision 88-12-094 is modified as follows:

1. The entire third paragraph, following the first sentence on page 25, is modified to read:

We feel comfortable in evaluating the utilities on a ratemaking basis and, as such, SDG&E is out of line with the other utilities. We are satisfied with our treatment of SDG&E's non-nuclear leases by excluding them from debt in the capital structure. This is consistent with what we have done in the past. With this adjustment, SDG&E's equity ratio will be brought into line with other California energy utilities. We will therefore adopt a 48.00% common equity ratio for San Diego's 1989 attrition year. This imputed common equity ratio is the result of our reasoned judgment in considering the economic climate of the region, the capital ratios of comparable California energy utilities, and the risks specific to San Diego, with input from various financial models. A 48.00% common equity ratio is just and reasonable, given

the adopted capital structure and the 13.00% return on common equity. If the proposed common equity ratio of 51.00% were adopted, a corresponding downward adjustment of the return on common equity would be required. Return on equity is a function of risk. The higher the risk, the greater the return on equity. We do not view San Diego as being subject to great risk. The return on common equity reflects that assessment. This evaluation is further borne out in San Diego's Annual Shareholders' Report. To round out the capital structure, we will adopt San Diego's requested 6.25% preferred stock ratio and impute a 45.75% long-term debt ratio.

2. Conclusion of Law #18 on p.47 is modified to state:

Given the capital structure as adopted by the Commission, a 13.00% return on a common equity ratio of 48.00%, resulting in an overall 10.90% return on rate base, is just, and reasonable for San Diego's 1989 attrition year, considering the economic climate, the capital ratios of comparable California energy utilities, San Diego's specific risks, and all the relevant evidence considered in this proceeding.

IT IS FURTHER ORDERED:

Rehearing of Decision 88-12-094, as modified herein, is denied.

This order is effective today.

Dated April 12, 1989, at San Francisco, California.

G. MITCHELL WILK
President
STANLEY W. HULETT
JOHN B. OHANIAN
Commissioners

Commissioner Frederick R. Duda, being necessarily absent, did not participate.

Commissioner Patricia M. Eckert present but not participating.

the adopted capital structure and the 13.00% return on common equity. If the proposed common equity ratio of 51.00% were adopted, a corresponding downward adjustment of the return on common equity would be required. Return on equity is a function of risk. The higher the risk, the greater the return on equity. We do not view San Diego as being subject to great risk. The return on common equity reflects that assessment. This evaluation is further borne out in San Diego's Annual Shareholders' Report. To round out the capital structure, we will adopt San Diego's requested 6.25% preferred stock ratio and impute a 45.75% long-term debt ratio.

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IT IS FURTHER ORDERED:


Rehearing of Decision 88-12-094, as modified herein, is denied.

This order is effective today.

Dated April 12, 1989, at San Francisco, California.

G. MITCHELL WILK
President
STANLEY W. HULETT
JOHN B. OHANIAN
Commissioners

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


Victor Weisser, Executive Director

Commissioner Frederick R. Duda
being necessarily absent, did
not participate.

Commissioner Patricia M. Eckert
present but not participating.

Decision 89 04 051 APR 12 1989

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