

Decision 89 08 034 AUG 3 1989

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
SOUTHERN CALIFORNIA GAS COMPANY)
(U 904 G) for authorization to)
establish its cost of capital for)
1990.)
_____)

) Application 89-05-011
) (Filed May 8, 1989)

) Application 89-05-017
) (Filed May 8, 1989)

) Application 89-05-019
) (Filed May 8, 1989)

And Related Matters.)

) Application 89-05-021
) (Filed May 8, 1989)

) Application 89-05-023
) (Filed May 8, 1989)

) Application 89-05-037
) (Filed May 17, 1989)

) Application 89-06-015
) (Filed June 15, 1989)

(See Appendix A for appearances.)

OPINION

By Decision (D.) 89-01-040 dated January 27, 1989, we modified the rate case plan for energy and telecommunication utilities. As part of the modifications, we established a plan for an annual cost of capital (ACC) proceeding for seven designated

energy utilities.¹ Under the plan, each utility is required to file, by May 8 of each year, an application for rate adjustments to reflect changes in the utility's cost of capital. The plan provides that rate changes will be implemented on January 1 of the following year.

On May 8, 1989, PacifiCorp, doing business as Pacific Power & Light Company (PP&L), filed Application (A.) 89-05-017, seeking authorization to be exempted from full participation in the 1989 ACC proceeding. PP&L includes the following among its reasons for the request:

1. In establishing a schedule for the filing of general rate cases in D.89-01-040, the Commission required PP&L to delay its next general rate case by one year to a 1991 test year. The Commission did, however, authorize PP&L to make an attrition filing for 1990.
2. PP&L has an outstanding application to eliminate its Electric Revenue Adjustment Mechanism (ERAM). While suggesting that any allowable 1990 attrition adjustment could be used to offset any ERAM balance owed to its customers, PP&L states it will not request an overall rate increase in the authorized attrition filing.
3. PP&L's most recently authorized rates of return are 10.64% for test years 1987 and 1988 and 10.65% for 1989. The related authorized return on common equity is 13.9%.
4. For the 1990 attrition filing, PP&L intends to use the methodology approved by the Commission in Resolution E-3115, by which it authorized PP&L to implement its 1989

1 Pacific Gas and Electric Company, San Diego Gas & Electric Company, Southern California Edison Company, Southern California Gas Company, Southwest Gas Company, Sierra Pacific Power Company, and Pacific Power & Light Company.

attrition filing (Advice Letter 210-E). Based on present rates, and incorporating the ERAM tariff, the rate of return on rate base demonstrated in that advice letter was 9.24% for 1989. For 1990, this methodology results in a projected rate of return on rate base of 8.23% and the related return on common equity of 7.69% if a \$5.3 million addition to rate base for improvements in the Shastina area is included, or 8.57% and 8.55%, respectively, excluding the Shastina improvements.

5. Under the Rate Stabilization Plan approved for PP&L, the utility was eligible to file for a total increase of as much as \$2 million for 1989. PP&L assumes that a similar option would be available for its authorized 1990 filing. However, as noted, the company will not seek an overall rate increase for 1990, and the earned rate of return will continue to be well below levels currently authorized.

At the prehearing conference of June 19, 1989, the administrative law judge (ALJ) consolidated these applications, but left open the possibility that PP&L's application would be considered separately because of the request to be excused from full participation in the 1989 ACC proceeding. The Division of Ratepayer Advocates (DRA) stated that it was analyzing PP&L's request as well as its financial performance, and that it would report on the results of its analysis with a recommendation on the request, so that the request could be considered by the Commission before the hearings which are scheduled to begin August 23, 1989.

On July 5, 1989 DRA submitted its report, recommending that the application be granted. DRA notes that PP&L will file a test year 1991 general rate case and that the utility's rate of return and return on common equity will be reviewed in the ACC proceeding filed in 1990. According to DRA:

"The results of DRA's analysis indicate that Pacific's earned return on common equity at present rates for attrition year 1990 for its

California operations will be below 10%. The utility will not be requesting any rate increase for 1990. It is extremely unlikely that the Commission will authorize returns on common equity for energy utilities in 1990 of 10% or lower, even with the recent decline in interest rates.

It is possible that PP&L could, by full participation in this proceeding, show justification for rate increases because the 1990 earned return on common equity will be well below 10%. Since the utility is willing for independent reasons to forego such rate increases at this time, we find that the request is reasonable and will grant the application.

Findings of Fact

1. PP&L filed A.89-05-017 on May 8, 1989, which is the required filing date for ACC applications under the rate case plan modifications adopted by D.89-01-040.

2. A.89-05-017 was consolidated with the applications of each of the other energy utilities required to file an ACC application, and the consolidated proceeding is set for hearing beginning August 23, 1989.

3. D.89-01-040 required PP&L to delay its next general rate case filing to a 1991 test year, but authorized an attrition filing for 1990.

4. PP&L's most recently authorized rates of return are 10.64% for test years 1987 and 1988 and 10.65% for 1989. The related authorized return on common equity is 13.9%.

5. For 1990, PP&L projects an earned rate of return on rate base of 8.23% and a related return on common equity of 7.69% if a \$5.3 million addition to rate base for improvements in the Shastina area is included, or 8.57% and 8.55%, respectively, excluding the Shastina improvements.

6. PP&L does not intend to request an overall rate increase in its 1990 attrition filing.

7. PP&L will file a test year 1991 general rate case and the utility's rate of return and return on common equity will be reviewed in the ACC proceeding filed in 1990.

8. The results of DRA's analysis indicate that PP&L's earned return on common equity at present rates for attrition year 1990 for its California operations will be below 10%.

9. It is possible that PP&L could, by full participation in this proceeding, show that rate increases are justified because the 1990 earned return on common equity will be well below 10%.

10. DRA recommends that PP&L's application for exemption be granted.

11. There are no protests to the granting of relief sought in A.89-05-017.

Conclusions of Law

1. PP&L's application for authorization to be exempted from full participation in the 1989 ACC proceeding should be granted.

2. Proceedings in A.89-05-017 should be concluded.

3. Since hearings in the ACC proceeding are scheduled to begin August 23, 1989, this order should be made effective on the date it is signed.

ORDER

IT IS ORDERED that:

1. PacifiCorp, doing business as Pacific Power & Light Company, is exempted from full participation in the 1989 annual cost of capital proceeding established in accordance with Decision 89-01-040.

2. Application 89-05-017 is removed from calendar, severed from the remaining applications, and the matter is closed.

This order is effective today.

Dated AUG 3 1989, at San Francisco, California.

G. MITCHELL WILK
President
FREDERICK R. DUDA
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners

Commissioner Stanley W. Kulett,
being necessarily absent, did not
participate.

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



Victor Weisser, Executive Director

pc

APPENDIX A

List of Appearances

Applicants: David Follett, Peter N. Osborn, Jordana Singer, Mark A. Minich, Attorneys at Law, for Southern California Gas Company; John J. Gezelin, Attorney at Law, for Sierra Pacific Power Company; David Clark, Attorney at Law, and Bruce Williams, for San Diego Gas & Electric Company; Richard K. Durant, Carol B. Henningson, James M. Lehrer and Frank A. McNulty, Attorneys at Law, for Southern California Edison Company; Stoel, Rives, Boley, Jones & Gray, by James C. Paine, Attorney at Law, and William J. Stow, for Pacific Power & Light Company; Roger J. Peters, Kermit R. Kubitz and Richard H. Moss, Attorneys at Law, for Pacific Gas and Electric Company; and Thomas R. Sheets, Attorney at Law (Nevada), for Southwest Gas Corporation.

Interested Parties: Richard Baish, Michael Ferguson and Randolph Wu, Attorneys at Law, for El Paso Natural Gas Company; Norman Furuta, Attorney at Law, for Department of the Navy; Orrick, Herrington & Sutcliffe, by Robert J. Glostein, Attorney at Law, for Contel of California, Inc.; Manual Kroman, for the City of Los Angeles; John B. Legler, for Federal Executive Agencies; Preston A. Mike, for the City of Los Angeles, Office of the City Attorney; Andrew Safir, for Mock Resources, Inc./ Salmon Resources, Ltd.; John W. Witt, City Attorney, by William S. Shaffran and Leslie Girard, Deputy City Attorneys, for the City of San Diego; and Edward Duncan, for himself.

Division of Ratepayer Advocates: Alberto Guerrero, Attorney at Law.

(END OF APPENDIX A)