

Decision 89 12 052 DEC 18 1989.

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 SCEcorp and its public utility )  
 subsidiary SOUTHERN CALIFORNIA EDISON )  
 COMPANY (U 338-E) and SAN DIEGO GAS & )  
 ELECTRIC COMPANY (U 902-M) for )  
 Authority to Merge SAN DIEGO GAS & )  
 ELECTRIC COMPANY into SOUTHERN )  
 CALIFORNIA EDISON COMPANY. )

**ORIGINAL**

Application 88-12-035  
 (Filed December 16, 1988;  
 amended April 17, 1989)

OPINIONI. Summary

This decision authorizes Southern California Edison Company (Edison or applicant) to file a Test Year (TY) 1992 general rate case (GRC) in accordance with the provisions of the existing Rate Case Plan. It also requires San Diego Gas & Electric Company (SDG&E or applicant) to defer its regularly scheduled TY 1992 GRC and to file instead an application seeking a modified 1992 operational attrition allowance, consistent with the proposal made by the applicants. The Commission also resolves issues raised in connection with future review of SDG&E's rate schedules DT and GT. Finally, the Commission declines to modify the existing Rate Case Plan placement of Pacific Gas and Electric Company (PG&E) and Southern California Gas Company (SoCalGas) in this proceeding, or to specify post TY 1992 GRC requirements for either of the merger applicants at this time.

II. Procedural Background

In Decision (D.) 89-08-036 the Commission granted the Division of Ratepayer Advocates' (DRA) motion seeking deferral of Edison's TY 1991 GRC and authorized Edison to file an application

for a modified attrition allowance for 1991 in lieu of its regularly scheduled GRC. In taking this action, the Commission's goal was to avoid problems associated with processing this merger proceeding and Edison's TY 1991 GRC during the same time period.

While deferring Edison's TY 1991 GRC, the Commission refrained from addressing that portion of DRA's motion which requested that both Edison and SDG&E be placed on a TY 1992 GRC cycle. Because it questioned the feasibility of this request, the Commission directed DRA and the applicants to confer to develop alternatives to such a scenario and to make recommendations to the Commission on or before March 1, 1990.

DRA and applicants opted not to wait until March 1, 1990 and, in written comments filed October 6, 1989, requested that the Commission address the parties' scheduling and workload concerns prior to year-end 1989. In accordance with the ALJ's Ruling of October 13, 1989, the Western Mobilehome Association (WMA), SoCalGas, and PG&E filed responses to these comments, and DRA and applicants subsequently filed replies to these responses.

### III. Test Year 1992 Proposals

There is agreement among the conferring parties that Edison should file a TY 1992 GRC, based on recorded data through 1988<sup>1</sup> and assuming that Edison is a stand-alone company (i.e., that it has not merged with SDG&E). However, DRA still argues that

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1 The parties agree that recorded data for 1988 should be used as the base year for TY 1992 because recorded data for 1989 (which would ordinarily be used as the basis for TY 1992) will contain a variety of merger-related elements. If this data is used, the existence of merger-related anomalies in the 1989 recorded data would distort trends and projections of the operating requirements of each company on a stand-alone basis (DRA Comments, p. 5; applicants' Comments, pp. 2, 6).

the Commission should require SDG&E to file a TY 1992 GRC (thus placing Edison and SDG&E on the same GRC cycle), while applicants urge the Commission to authorize SDG&E to use a modified attrition procedure in lieu of filing a TY 1992 GRC.

DRA maintains that its proposal is not burdensome, since the Commission frequently considers two GRCs in one year. It notes that since 1985 four major utilities (Edison, SDG&E, SoCalGas, and PG&E) have been on a three-year cycle which results in one GRC in the first and second years of the cycle and two GRCs in the third year.<sup>2</sup>

DRA states that putting both Edison and SDG&E on the same GRC cycle (beginning with TY 1992) will free TY 1994 (the TY Edison would use under the established Rate Case Plan) and allow the Commission to move the PG&E and SoCalGas GRCs to separate years (TY 1993 and TY 1994), which DRA asserts would "...bring a significantly better balance to the current workload demands upon both DRA staff and the Commission." (DRA Comments, p. 3.) Implicit in DRA's suggestion is the notion that Edison and SDG&E represent a better "pairing" for GRC purposes than do PG&E and SoCalGas. Thus, DRA contemplates that if the merger is approved, TY 1995 would be reserved for "merged Edison/SDG&E," and that if the merger is denied, TY 1995 would be used by Edison and SDG&E.<sup>3</sup>

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<sup>2</sup> Both PG&E and SoCalGas are on a TY 1990 GRC cycle, and pursuant to D.89-01-040, which contains the current Rate Case Plan, these two utilities are scheduled to file next on a TY 1993 GRC cycle.

<sup>3</sup> If the merger is approved, and consummated in 1991, DRA believes that TY 1995 is the first feasible year to undertake a GRC for the merged entity, since a test year 1995 GRC Notice of Intent (NOI) would be tendered in mid-August 1993 based on data through year-end 1992.

DRA's two scenarios are illustrated below:

1. If the merger is approved:

1992 TY for Edison and SDG&E  
1993 TY for PG&E or SoCalGas  
1994 TY for SoCalGas or PG&E  
1995 TY for the merged Edison/SDG&E

2. If the merger is denied:

1992 TY for Edison and SDG&E  
1993 TY for PG&E or SoCalGas  
1994 TY for SoCalGas or PG&E  
1995 TY for Edison and SDG&E.

Applicants recommend avoiding a TY 1992 GRC for both Edison and SDG&E because of overlap of key personnel and issues with the merger proceeding. Edison and SDG&E must begin preparation for TY 1992 at the beginning of 1990, at the height of their preparation for hearings in the merger proceeding. Edison believes that it can proceed with its TY 1992 GRC and the merger proceeding at the same time, but SDG&E believes it cannot undertake both tasks at the same time. In contrast, because attrition proceedings are generally narrower in scope and require fewer resources than GRCs, SDG&E believes it could meet the burden of preparing a modified attrition proceeding in late 1990, after completion of the merger hearings, for filing in March 1991.

Thus the applicants request that the Commission authorize SDG&E to file a modified attrition application in lieu of a TY 1992 GRC, consistent with the relief afforded Edison in D.89-08-036 in connection with TY 1991.

#### IV. Rate Case Plan Impacts

As discussed above, DRA has proposed that placing Edison and SDG&E on the same GRC cycle is also desirable because it will allow the Commission to revise the rate case schedule which

currently requires that PG&E and SoCalGas share the same TY, and thereby achieve a better workload balance.

The applicants do not take a position at this time on the merits of DRA's proposal, but assert that this issue should not be litigated in this docket since it does not impact the merger proposal. In addition, the applicants are concerned that DRA's proposal requires the Commission to provide notice and opportunity to be heard to other affected utilities, and that resolution of the issue in this proceeding will sidetrack the merger schedule.

Both PG&E and SoCalGas, which are directly impacted by DRA's proposal, filed responses detailing their opposition arguments. SoCalGas asserts that this is neither the time nor the proper proceeding to consider DRA's proposal. SoCalGas also states that there is no record to support DRA's proposal, and that before the Commission considers delaying either the PG&E or SoCalGas GRC by one year, it must impose safeguards similar to those it adopted in D.89-08-036 and provide for an additional attrition adjustment in the year of delay. SoCalGas indicates that it is currently discussing with DRA the scheduling of the next GRC and that it is possible that an agreement will be reached with DRA to provide for a year other than 1993. Thus, SoCalGas urges the Commission not to take any action at this time on DRA's proposal, keeping open the possibility that some agreement may be reached by the parties in the future.

PG&E asserts that the Commission need not decide the 1993-1994 issue raised by DRA at this time and should more carefully consider the issue, if it chooses to do so, after it has acted on the currently pending TY 1990 GRCs. PG&E also notes that it did not file its TY 1990 GRC with an attrition proposal for a year beyond 1992 and would have to carefully consider the impacts of an additional 1993 attrition year and bring its concerns to the Commission. Finally, PG&E maintains that it is premature to consider changes to the Commission's Rate Case Plan adopted in

January 1989, and that the Commission should consider here only changes necessary as a result of the merger proceeding and directly affecting Edison and SDG&E.

In its formal reply, DRA submits that examination of the balance and imbalance in the present four-utility, three-year GRC cycle is timely, since the Commission has before it an opportunity to reassess the GRC schedule for Edison and SDG&E. While it strongly recommends that future GRC review of PG&E and SoCalGas be conducted in separate years, it states that the Commission need not decide this question until the end of 1990. In recognition of the fact that PG&E and SoCalGas may need additional time to respond to these suggested changes, DRA proposes that the Commission allow the parties to meet over the next year and attempt to reach informal resolution of the issue.

#### V. Rate Design Impacts

The applicants, DRA, and WMA have also addressed certain rate design impacts of the current issue. WMA is a state-wide association of mobilehome park owners, many of whose members are served on SDG&E's Submetered Multi-Family Service-Mobilehome Park Schedules DT and GT. Schedules DT and GT provide the mobilehome park owner a monthly, per space discount to offset against the costs of submetering. The current DT and GT discounts were presented to the Commission in SDG&E's 1989 TY proceeding on an agreed basis, with the understanding that each would apply for three years and that new discount rates would be considered in SDG&E's 1992 TY GRC. If SDG&E's TY 1992 GRC is deferred, WMA wishes to ensure that the submetering discount will be considered in either a modified attrition request for 1992 or in the appropriate rate design window proceeding established in D.89-01-040. In the event of deferral, WMA believes the proper forum for considering revisions to Schedule DT is the November 1991

rate design window proceeding, and for Schedule GT, the correct forum is the March 1992 annual cost allocation proceeding (ACAP). DRA and the applicants do not oppose WMA's suggestions.

#### VI. Discussion

Our decision will be limited to addressing the TY 1992 issue, because we need not decide the broader revisions to the adopted Rate Case Plan suggested by DRA in order to complete our review of the proposed merger. Indeed, we are concerned that consideration of DRA's proposed revisions in this docket would result in significant delays due to the need to provide a forum to PG&E and SoCalGas on issues unrelated to the proposed merger. Furthermore, DRA has provided no detailed justification for its requested revisions to the Rate Case Plan, and its argument that "decoupling" PG&E and SoCalGas will result in a better workload balance is not buttressed by specific information that would allow us to assess the merits of the proposal, even assuming that this were the appropriate forum to do so. In its formal reply, DRA acknowledges that PG&E and SoCalGas may need more time to fully assess the impacts of a one-year deferral and proposes that the Commission allow the affected parties to meet over the next year to reach some sort of accommodation. This merely underscores the problems associated with addressing the proposal at this time and in this proceeding and confirms our desire to limit today's decision to near term GRC/merger impacts on the two applicants.

We conclude that the applicants' arguments that it is unduly burdensome to prosecute two TY 1992 GRCs simultaneously with their merger application are more persuasive than DRA's counter argument. While it is true, as DRA states, that this Commission has often processed two GRCs in the same time frame, DRA's argument disregards the fact that processing the merger application in addition to two GRCs is not a task to which the Commission is

accustomed. In addition, we accept applicants' statements that, while Edison is capable of undertaking both tasks during the same time frame, the burden on SDG&E is too great to do both tasks.

Therefore, we will adopt the applicants' proposal that Edison undertake a TY 1992 GRC under the time frames outlined in the adopted Rate Case Plan, but that SDG&E be permitted to substitute a modified attrition mechanism in the place of its regularly scheduled TY 1992 GRC filing. Edison's TY 1992 filing will be based on recorded data through 1988 and will assume that Edison and SDG&E have not merged.

The details of SDG&E's modified attrition filing were proposed in the applicants' comments and are very similar to the mechanism approved for use by Edison in lieu of its TY 1991 GRC in D.89-08-036. The applicants propose a March 1, 1991 filing date, no more than 5 hearing days, and a January 1, 1992 effective date for new rates based on the attrition allowance.

Like the proposal considered and adopted in D.89-08-036, SDG&E's proposed modified attrition mechanism would allow the utility to present testimony proposing specific modifications to the normal attrition mechanism. In the case of SDG&E, these involve: (1) a fixed component (rate base modifications); (2) a variable component (growth in selected operation and maintenance (O&M) areas, medical growth, pension costs, and demand side management); and (3) productivity. DRA did not express any opposition to the details of the modified attrition proposal in its formal reply. The proposal, as recommended and adopted, is attached to this decision as Appendix A. As required in the case of Edison, SDG&E must carry its burden of proof that the revenue requirement changes it proposes in the 1992 modified attrition proceeding should be adopted by this Commission. (D.89-08-036, Conclusion of Law 4.)

Deferral of SDG&E's TY 1992 GRC requires that we specify those forums where revisions to SDG&E rate schedules DT and GT



(which would have been considered in the GRC) will now be considered. All parties agree that Schedule DT should be considered in the November 1991 rate design window proceeding, and that Schedule GT should be considered in the March 1992 ACAP. We will adopt this recommendation.

Replacement of SDG&E's TY 1992 GRC with a modified attrition mechanism raises the question when SDG&E's next GRC will take place. The answer must await completion of our consideration of the merger proposal, including the testimony of the parties interested in this issue. At the time we issue our decision in the proposed merger, we expect to have a record sufficiently developed on this issue.

If we approve the proposed merger, we expect to be able to decide the timing of the first GRC for the merged entity. If we do not approve the proposed merger, we may be faced with the choice of scheduling three TY 1993 GRCs (PG&E, SoCalGas, and SDG&E) or two 1993 GRCs (PG&E and SoCalGas), a 1994 GRC for SDG&E, and a 1995 GRC for Edison, which represents a reversal of the established order for the two applicants. Undoubtedly, there are other scenarios as well, with varying degrees of acceptability depending upon the length of time between TYs for SDG&E, and, to a lesser extent, Edison.<sup>4</sup> Any party is free to present testimony recommending a preferred course of action to deal with this eventuality, subject to the proviso that any modifications for TY 1993 and beyond, emanating from the record developed in the merger proceeding, will impact only the merger applicants. As discussed above,

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<sup>4</sup> The problem is less critical for Edison, which will have a 1992 TY in lieu of its regularly scheduled 1991 TY. This means we could schedule another GRC for Edison in TY 1994 or 1995 and still allow only two or three years between GRCs. However, SDG&E's last TY was 1989 and deferral to 1993, 1994, or 1995 means allowing four, five, or six years, respectively, between GRCs.

modifications involving the Rate Case Plan placement of PG&E and SoCalGas will not be considered in this docket.

Findings of Fact

1. There is agreement among the applicants and DRA, who have conferred on the 1992 TY issue as required by D.89-08-036, that Edison should file a TY 1992 GRC based on recorded data through 1988 and assuming Edison is a stand-alone company; however, DRA maintains that SDG&E should also file a TY 1992 GRC, while applicants urge the Commission to authorize SDG&E to use a modified attrition procedure in lieu of its TY 1992 GRC.

2. The burdens on the parties and this Commission of processing TY 1992 GRCs for both Edison and SDG&E and the merger proceeding at the same time are too great; the applicants' proposal to process Edison's TY 1992 GRC and the merger simultaneously, but to defer SDG&E's TY 1992 GRC and replace it with a modified attrition filing in March 1991 is a more realistic option, because it allows one of the merger applicants (SDG&E) to prepare its modified attrition filing after the hearings on the proposed merger have concluded.

3. The use of recorded data for 1988 (versus 1989) as the base year for Edison's TY 1992 GRC is appropriate because 1989 will contain a variety of merger-related elements and anomalies that will distort trends and projections of the operating requirements of Edison on a stand-alone basis.

4. SDG&E seeks to raise additional factors in the 1992 modified attrition review, beyond those factors normally recognized in attrition proceedings, including a fixed component (rate base modifications), a variable component (growth in selected O&M areas, medical growth, pension costs, and demand side management), and productivity. DRA has expressed no opposition to the scope of this request, which is very similar to that made by Edison for its 1991 modified attrition proceeding and approved in D.89-08-036.

5. As WMA notes, the deferral of SDG&E's TY 1992 GRC requires the Commission to specify the alternative forum(s) where SDG&E's current rate schedules DT and GT will be considered.

6. The applicants, DRA, and WMA agree that revisions to SDG&E's rate schedule DT should be considered in the November 1991 rate design window proceeding, and that revisions to SDG&E's rate schedule GT should be considered in the March 1992 ACAP.

7. The relief specified in this decision is confined to addressing the TY 1992 time frame for Edison and SDG&E. Future GRC scenarios for these two utilities will be addressed as necessary in the decision on their proposed merger, based on the record developed in this proceeding.

8. It is inappropriate to consider in this docket DRA's proposed revisions to the existing Rate Case Plan placement of PG&E and SoCalGas because this exercise is not necessary to decide the issues presented by the merger application; furthermore, injecting the issue into the merger proceeding may result in unacceptable delays due to the requirement of providing PG&E and SoCalGas a full opportunity to be heard on these issues.

#### Conclusions of Law

1. Edison should file a TY 1992 GRC based on recorded data through 1988 and assuming that Edison and SDG&E have not merged.

2. SDG&E should file a modified attrition application for 1992, in lieu of its regularly scheduled TY 1992 GRC; the scope, format, and schedule of this modified attrition proceeding, as reflected in Appendix A hereto, should be adopted.

3. SDG&E must carry its burden of proof that the revenue requirement changes it proposes in the 1992 modified attrition proceeding should be adopted by this Commission.

4. Due to the deferral of SDG&E's TY 1992 GRC, revisions to its rate schedule DT should be considered in the November 1991 rate design window proceeding, and revisions to its rate schedule GT should be considered in the March 1992 ACAP.

5. GRC scheduling alternatives for PG&E and SoCalGas should not be considered in this docket.

6. GRC scheduling changes for Edison and SDG&E beyond TY 1992, which may be required as a result of the Commission's decision on the proposed merger, should be addressed in that decision based on the evidentiary record developed.

ORDER

IT IS ORDERED that:

1. Southern California Edison Company (Edison) shall file a TY 1992 GRC consistent with the provisions of the Rate Case Plan, and with the preceding Findings of Fact and Conclusions of Law.

2. On or before March 1, 1991, and in accordance with the preceding Findings of Fact and Conclusions of Law, San Diego Gas & Electric Company (SDG&E) shall file its formal application for a modified 1992 operational attrition allowance, with supporting exhibits, testimony, and workpapers. SDG&E shall serve copies of this filing on all parties to A.88-12-035 and its last GRC proceeding (A.87-12-003). The procedural schedule outlined in Appendix A hereto is hereby adopted, subject to any future modifications that the assigned ALJ may deem necessary or appropriate.

3. The Executive Director shall serve copies of this decision on all parties on the official service lists for A.86-12-047, R.87-11-012, and A.87-12-003.

This order is effective today.

Dated DEC 1 9 1980, at San Francisco, California.

G. MITCHELL MILK  
President  
FREDERICK R. DUDA  
STANLEY W. BULETT  
JOHN B. O'HANIAN  
PATRICIA M. ECKERT  
Commissioners

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

*Wesley Franklin*  
WESLEY FRANKLIN, Acting Executive Director

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APPENDIX A  
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SAN DIEGO GAS & ELECTRIC COMPANY  
1992 MODIFIED ATTRITION ALLOWANCE  
FORMAT OF 1992 ATTRITION APPLICATION

- Application
  - Request authority to revise rates for operational attrition in 1992.
  
- Testimony/Exhibits/Workpapers
  - 1. Testimony on Normal Operational Attrition
    - Fixed Component
    - Variable Component
    - Changes in taxes, fees, and postage rates, etc.
    - SONGS Refueling Outage
  - 2. Testimony on Modifications to Normal Operational Attrition
    - Fixed Component
      - Rate base modifications
    - Variable Component
      - Growth in selected O&M areas
      - Medical growth
      - Pension costs
      - Demand-Side Management programs
    - Productivity

APPENDIX A  
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SAN DIEGO GAS & ELECTRIC COMPANY  
1992 MODIFIED ATTRITION ALLOWANCE  
PROCEDURAL SCHEDULE

<u>Date</u>	<u>Event</u>
<u>1991</u>	
March 1	SDG&E files Application for Modified 1992 Operational Attrition Allowance with supporting exhibits, testimony, and work papers.
March 4	Two-week DRA audit commences.
July 1	DRA files Report on Attrition Application
August 1	Intervenors file Testimony on Attrition Application
August 19-23	Hearings on Attrition issues (five days)
September 13	Opening briefs.
September 27	Closing briefs.
November 1	ALJ draft decision.
December 18	Final decision on Attrition Application.
<u>1992</u>	
January 1	New rates effective based on Attrition Allowance.